Views from the Desk

Update on BMO ETFs and Trade Ideas: ZEB, ZWK and ZGD

Chris McHaney and Chris Heakes, BMO ETF Portfolio Managers

Investing in Canadian Banks

Canadian banks' quarterly earnings are being reported this week and this will be the first look at how the banks have done since COVID-19 wreaked havoc on equity markets. Provisions for credit losses have increased substantially: 7-8x more than in previous quarters. Financials have not participated in the recovery like Info Tech and Health Care sectors have since March 23. The Canadian banks are yielding 6% today. Once bank earnings recover to pre-crisis levels, this will be very constructive for Canadian banks. **The BMO Equal Weight Canadian Banks Index ETF's (ticker: ZEB)** all-time high was $30 and today it's trading around $22, so there is a lot of upside potential. We will see some rough numbers reported this quarter, but this is still an attractive buying opportunity for the long-term.

How do US Banks Differ?

US banks tend to be more aggressive lenders, better capitalized, and have a more volatile return stream than Canadian banks. They still have the same drivers of returns as Canadian banks. US banks reported earnings last month, and loan losses were up about 5x pre-crisis levels. US banks as a satellite position could be productive long-term. **The BMO US Banks Covered Call ETF (ticker: ZWK)** offers a covered call overlay on US banks, so investors can harness the volatility of US banks to earn extra income very efficiently.

ZWG Update

The BMO Global High Dividend Covered Call ETF (ticker: ZWG) has performed very well through the market draw-down and the rebound. This global portfolio it is tilted to large caps and is more focused on dividend growth vs dividend yield. There is also a layer of ESG screening. This extra lens has been beneficial as ESG has outperformed plain vanilla equities through the drawdown, attributed to the stronger governance and better management teams which can navigate the economic slowdown. Overall dividend strategies in general did not fare well during the draw down as dividends were put under pressure. Because ZWG is focused on stronger companies it has done very well during this period. The stocks are about 60% US and include blue chip stocks such as Microsoft, Johnson & Johnson and Roche. The option overlay is adding incremental yield on top of dividends and the opportunity for growth is as high as ever; writing options around 10% .

Heightened ETF Trading Volume

ETF Dollar Volume went from less than $2 billion per day to a peak of $5billion per day in mid-March. ETFs tend to trade more in periods of turmoil. They offer investors tools to gain or remove exposures quickly. In 2008 we started to notice this trend in the data, especially in the US. This shows that ETFs are a great tool to access exposures on an intra-day basis and demonstrates the benefits of liquidity of ETFs.

The Gold Rally and How to Play It

We have seen physical gold cool off in recent days, but a gold rally could just be getting started. We have witnessed significant global monetary expansion on an unprecedented level that we have never seen before. This amount of liquidity entering the market can debase currencies over time. Looking back to 2008/09, the monetary expansion then was the largest ever. When QE was ramping up the first time, gold doubles from $900 to $1800 as QE phased into the global economy. The level of QE today is actually dwarfing 2008's levels. $8 trillion has been pumped into the system already, and we could see more. Recently, some analysts are predicting $3000 gold but more broadly current base targets are $2000. Gold has already had a strong rally to $1700 and there is still a lot of upside potential. To get exposure to gold you can buy physical bouillon as a pure-play. Another way to get exposure is through the gold miners, such as the **BMO Global Gold Equal Weight Index ETF (ticker: ZGD)**. The miners have operating leverage to the price of gold, so this is a leveraged play on gold. The downside risk is exposure to operational risk.

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