Views from the Desk

Updates in the ETF Market

Chris McHaney and Chris Heakes

BMO ETF Portfolio Managers

Flows into ETFs in April

The rapid global response to the economic shutdown both by monetary and fiscal stimulus was a huge tail wind for equities and in April we witnessed substantial flows into equities and out of fixed income. The massive equity sell-off left many large portfolios (think institutions) underweight equities and overweight fixed income. As these plans began rebalancing, we saw the buying of equities and the selling of fixed income. And with the rebound in the equity market, this would have worked out well for anyone buying equities in early April. We also saw notable flows into commodities, namely gold ETFs as investors look to add noncorrelated assets to their portfolios. BMO ETFs saw $800 million net flows in April with the top asset gatherer the **BMO MSCI EAFE Index ETF (ticker: ZEA)**.

Regionally, where are the flows headed?

There is a trend of money going to International and European equities right now. **ZEA** got a whopping $460 million flows in April, and the **BMO MSCI High Quality Europe Hedged to CAD Index ETF (ticker: ZEQ)** saw $70 million in flows over the last few weeks. These regions (Asia, Europe) were hit early on by COVID, and have thus recovered earlier than North America. Europe is going a better job than North America to contain the virus and flatten the curve. ZEQ holds 8/11 "GRANOLAS" which are large cap blue chip European equities from defensive sectors such as Health Care and Consumer Discretionary. These defensive sectors have been the place to be and are positioned well to survive and thrive in a post-COVID world. European Financials are in dire shape, and ZEQ is very underweight Financials. Also, as North American investors, we generally don't need to be adding Financials as this sector is very overweight in Canada and the US, so ZEQ is a great way to add the best European equities to your portfolio and sector diversification too.

Gold

Gold makes sense going forward and will probably have upside potential in the coming months. Gold is a great portfolio diversifier as investors look for non-correlated assets to add to their portfolios to hedge their equities and the US dollar. We are witnessing the largest global monetary expansion that we have ever seen. The amount of money being injected into the system is astronomical. If we look back to the last economic crisis in 08/09, gold had a very strong run from 09-11, hitting its all-time high of $1900/oz, and the economic conditions right now are very similar to then. You can play gold two ways: either buying the physical gold or buying the gold companies, and there are ETFs that offer both. Gold bullion ETFs offer physical gold exposure. Investors should do their due diligence on this type of ETF to understand who is the custodian that is holding onto the gold bars for them. Some of these ETFs use custodians with very low credit ratings, so this can carry significant counterparty risk. The benefit of investing in gold equities is that these companies are levered so as gold rallies these have the potential to rally at several multiples to the movement of gold which adds a tail wind as the price of gold rises. Junior gold companies are often more levered than senior companies so they offer an even higher potential payoff but could face into liquidity concerns. We prefer the more senior gold producers right now such as the **BMO Equal Weight Global Gold Index ETF (ticker: ZGD)** which holds the most established gold companies. We think senior gold producers might be the best way to play a gold rally.

Tech Exposure

Tech has had a big tail wind as we move towards a new remote environment. When taking advantage of this trend, investors should keep in mind that it's not just the pure Information Technology sector which is benefitting. Companies such as Google and Facebook are in the Communication Services sector. And Amazon- which has seen a huge rally during the crisis- is a Consumer Discretionary stock. The S&P 500 has a 26% weight to the Information Technology Sector, and a heavy weight in Amazon, Facebook and Google. **The BMO NASDAQ 100 Index ETF (ticker: ZNQ, Hedged to CAD ticker: ZQQ)** has a very strong weight to Tech: 50% IT and 20% Communication Services. This ETF would give you a very concentrated exposure to these sectors. **The BMO MSCI USA High Quality Index ETF (ticker: ZUQ)** also has a heavy weight in IT. This is a great long term buy and hold strategy, because it will rotate out of its Tech overweight if this sector cools off in the coming years. For Tech exposure outside of the US we really like the **BMO China Equity Index ETF (ticker: ZCH)** which offers several Chinese Tech stocks that are taking advantage of this new environment as well.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. The statistics in this update are based on information believed to be reliable but not guaranteed. This communication is intended for informational purposes only.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. ("MSCI"), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Commissions, management fees and expenses (if any) all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs and ETF series trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.