Views from the Desk

Updates in the Equity and Fixed Income Market

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Vaccine News & its Impact on Markets

Pfizer thinks they have a vaccine that is 90% effective in terms of preventing exposure to the virus. There are still some questions, we don't know how long this vaccine is effective for, but equity markets responded favorably to the news. There are currently two catalysts for equity markets: 1) Resolution of US president (almost there, market feels clear in the outcome here) and 2) Vaccine. Monday was an historic day for factor reversal, momentum and growth had their worst one-day return in over 10 years. Value and Dividends significantly outperformed. The NASDAQ 100 is down 4% this week. BMO Quality ETFs which have an overweight to Tech are still outperforming, so this thesis has continued to play out. The **BMO MSCI USA High Quality Index ETF (ticker ZUQ)** is still performing well even though the market dynamics have shifted, and so we still see a case for this defensive growth trade. There is still uncertainty going forward, but we think staying invested is important; you don't know when the markets will rally and good news will come, so investors may want to stay invested, and so BMO Quality ETFs are still an effective approach.

Canadian Equity Markets

We saw the large factor reversal in Canadian markets as well with value and dividends outperforming so far this month. Sectors which have been under pressure from COVID lows have recently popped, such as banks, energy and REITs. The Canadian banks trade idea, using the **BMO Equal Weight Banks Index ETF (ticker: ZEB)** or with a covered call overlay (ticker: **ZWB**) have been a good investment recently, with the pure play ETF ZEB up around 8.5% since the beginning of November. The Canadian banks are still underperforming the broad Canadian index YTD, and their dividend yield is around 5%. Canadian banks have proven themselves historically. Expect banks to prevail over the next 12-18 months as we navigate this environment.

Update in Fixed Income Markets

In Canada we have seen an overall curve steepening. Credit spreads continue to tighten, (have come in 10bps since the election and vaccine results). Government bonds have underperformed corporates. The **BMO Aggregate Bond Index ETF (ticker: ZAG)** has been close to flat during this time due to these counteracting moves. Duration is underperforming. The aggregate exposure provides a steady return for fixed income. The **BMO High Quality Corporate Bond Index ETF (ticker: ZQB)** is a great way to get exposure to high quality corporate bonds and take advantage of spread tightening as the economy recovers. ZQB cans still protect on the downside with the higher quality names. Consistent with our views on equities while providing stability against equity market volatility.

Equity Sector Ideas

There are still some unanswered questions. The Senate is still uncertain. Overall, regardless of president, there will be stimulus coming, and the Democrats especially are pushing for more stimulus. This is good for equity markets. Republicans are currently favoured to maintain control of the Senate; this isn't a bad thing for markets, because it keeps Biden's pledge to raise corporate taxes at bay. If this plays out- traditional energy will be under pressure (Biden is pushing a green deal and rejoining the Paris climate accord). Pharmaceuticals: Democrats will put pressure on this industry. The **BMO Equal Weight US Health Care Index ETF (ticker: ZUH)** is a great way to play the Health Care sector right now because it is underweight pharma. ZUH has bio tech and health care supplies and services which are good themes to play out.

Rotation Back to Value & Dividends

Dividends and Value- door Is open. Not overnight, will be a bumpy road. Showed investors perspective on where we are going. 12-18 months. A lot of room here to recover. Value- **The BMO MSCI Canada Value Index ETFF ticker: ZVC** and the **BMO MSCI USA Value Index ETF (ticker: ZVU)** are ETFs where investors can look to for a tilt to value. Companies with higher dividend yields have more depressed share prices, so usually when div outperforms, so does value.

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