Views from the Desk

Updates in the Equity and Fixed Income Market

Chris Heakes and Alfred Lee, BMO ETF Portfolio Managers

Defensive Growth Strategy in a Heightened Vol Environment

We still think defensive growth is a prudent positioning, warranted by all the uncertainty in the market. The two major concerns which are driving markets right now are increasing covid cases globally (causing economic pressure with lock downs, and increased credit risk) and the U.S. election. We have seen the election volatility pick up this week. As Biden becomes the more likely candidate, the prospect of higher corporate tax rates is affecting the market, and the VIX is climbing (we got up to 37 yesterday). With this backdrop in equities, a defensive tilt is certainly warranted. We believe that achieving defensive growth through the Quality factor is compelling. Click here to read about our quality methodology. The Quality factor has been outperforming in both bull and bear markets this year. The **BMO MSCI USA High Quality Index ETF (ticker: ZUQ)** is providing a 5% outperformance YTD vs the S&P 500 Index. With the heightened volatility through September until now, the Low Volatility factor outperformed as the vol picked up and the market began to wobble, so Low Vol strategies are still a valuable part of the portfolio and offer more of the defensive side of a defensive growth strategy. We think the mix of quality (**ZUQ, ZEQ, ZGQ**)* and Low Vol (**ZLB, ZLU, ZLI**)* is a prudent approach to these markets.

Alfred's Q4 Guided Portfolio

We believe a 60/40 portfolio is inadequate today. We need non correlated or hybrid assets that don't fit under the traditional equity or bond buckets for extra diversification. The guided portfolio suggests a more dynamic breakdown: 55% (equities), 35% (bonds) 10% (hybrid, alts). The portfolio is constructed with three tenets in mind: generate yield, defensive growth, stability. This portfolio is constructed using a top down approach. On the fixed income side, the core allocation is to aggregate bond, using the **BMO Aggregate Bond Index ETF (ticker: ZAG)**. Over the long term it's difficult to beat the aggregate bond index so we like this as a core position. On the equity side, the portfolio is overweight to the U.S. as we believe the U.S. will continue to outperform all other regions in the long term. The S&P 500 Index has outperformed the S&P/TSX Capped Composite Index since 2009. The U.S. economy is more robust and diversified, so over the long term the U.S. economy is sustainable. The portfolio also has a position in Canadian banks using the **BMO Equal Weight Banks Index ETF (ticker ZEB)** as a tactical position. Canadian banks are currently trading at around 11-12x earnings vs the S&P/TSX Capped Composite Index which is 25x earnings, so the banks are attractively valued right now. We are using preferred shares within our hybrid bucket, as they offer a low correlation to equity and fixed income markets.

**BMO MSCI Europe High Quality Index ETF (ticker: ZEQ), BMO ACWI High Quality Index ETF (ticker: ZGQ), BMO Low Volatility Canadian Equity ETF (ticker: ZLB), BMO Low Volatility US Equity ETF (ticker: ZLU), BMO Low Volatility International Equity Index ETF (ticker: ZLI)*

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.