

BMO Trade Opportunity

BMO Canadian MBS Index ETF: Tactical Opportunity to Add Defensive Income to Portfolios

The BMO Canadian MBS Index ETF: (ticker ZMBS) is the first ETF to provide exposure to the Canadian Mortgage Backed Securities (MBS) market. The ETF holds AAA-rated, Canadian Mortgage & Housing Corporation (CMHC) backed mortgage pools, so it is a defensive fixed income investment while offering a unique fixed income exposure to diversify portfolios.

Yield Advantage & NAV Stability

- In a low rate environment finding yield, especially in the highest quality assets, is difficult. Currently, a 2-year government of Canada bond is yielding 0.27%.
- The Canadian MBS market offers a 30-40 bps yield pick-up over short federal bonds. ZMBS's yield-to-maturity is 0.70% and duration is 2 years.
- The high-quality, CMHC backing, and short duration, all contribute to lower volatility than corporate bonds. During the March volatility, ZMBS's NAV only declined to \$30.41, from its previous high of \$30.61 on March 11.

A Tactical Time for the Canadian MBS Asset Class

- Part of Canada's COVID-19 economic response plan is the IMPP (Insured Mortgages Purchase Program), a bond-buying program launched by the Bank of Canada to purchase NHA-MBS pools from banks. The purpose of the program is to help banks fund Insured Mortgages.
- This program will remove a lot of supply from the market and this will most likely result in narrowing NHA spreads.
- The IMPP program has put aside \$150 billion (equivalent to 1-years' worth of NHA-MBS supply). In 2008 during the mortgage-related crisis, a similar bond-buying program only used \$68 billion.
- New loan originations are down given the decrease in home sales (most are mortgage renewals right now) so we can expect secondary MBS issuance to be light this summer. This should be positive for spreads given the lack of supply.

Access the Canadian MBS Market with All the Benefits of an ETF

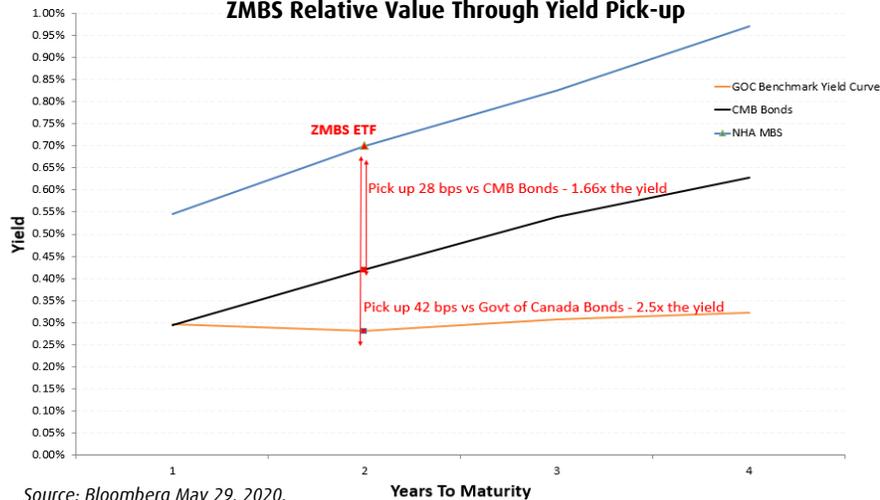
- Traditionally MBS's were an asset class only accessible in OTC markets by institutional investors. The mortgage pools were traded in large lots, with little transparency.
- Now investors can access this unique asset class on the secondary market with all the benefits of an ETF: liquid and transparent trading on the exchange, tight bid ask spreads (10-15bps) to keep trades cost efficient, and trades can be executed with smaller order sizes.
- Institutional pricing: the MER for ZMBS is 0.17%

Implementation:

To add defensive income to your portfolio, consider buying the **BMO Canadian MBS Index ETF (ticker: ZMBS)**.

To learn more about ZMBS & the Canadian mortgage market, [listen to our BMO ETFs ZMBS Deep Dive Podcast](#) or [read our ZMBS Q&A](#).

**Yield Curves of AAA-rated bonds:
ZMBS Relative Value Through Yield Pick-up**



Source: BMO Global Asset Management June 11, 2020.

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