Views from the Desk

Equity Income Strategies in These Markets

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The extreme price decline in equity markets has created the unintended benefit of higher yields. Equity income-oriented strategies have become attractive opportunities for investors to enter the market while getting paid as they wait for markets to rebound.

Canadian Banks

Banks present a compelling opportunity. In 2008 the Canadian banks never cut dividends. They have a long-term track record of dividend payment and growth. Today, the banks are yielding 6.6%. The last time the yield was this high was in 2008 and 1999, so on a historical basis this is a once in a decade opportunity. Valuations are also attractive. The average P/E is 7.6 and P/B is around 1. The banks have underperformed the index this year which seems unfair given there is so much Energy in the index. *ETFs- ZEB, ZWB. Mutual Fund- Covered Call Canadian Banks Fund.*

Canadian Dividends

The added cash flow of dividends may alleviate portfolio stress as investors wait for a market rebound. BMO's approach to sustainable dividends is timely and important to emphasize. In a strained market, cash flow can be a problem for some companies. BMO's dividend methodology identifies stocks which generate enough cash to pay dividends on a regular basis (the "sustainability test"), avoiding companies which could cut dividends in times like today. The methodology is also diversified, this is a benefit as some sectors have been hit harder than others. *ETFs- ZDV (more holdings), ZWC (more concentrated but covered call overlay for higher yield). Mutual Fund- BMO Covered Call Canada High Dividend Fund.*

Canadian REITs

This is the largest drawback in Canadian REITs we have ever seen. It is an interesting opportunity for yield-oriented investors; the average yield is 7%. However, this is a sector which is highly correlated to economic activity. Rents are not being paid when businesses are forced to be closed. Do these companies have the capital and liquidity to withstand this? Will they benefit from government relief packages? Having a diversified portfolio of REITs is important, such as ZRE which holds Residential, Retail, Industrial, and Health Care REITs. *ETFs- ZRE.*

Income Opportunities Outside of Canada

The U.S. can probably weather this storm better than other regions. They have an accommodative central bank and aggressive fiscal stimulus. Additionally, USD has been very strong which is helping unhedged strategies right now. Therefore, BMO's US dividend strategies are in a good position to bounce back given the strength and quality of many of the companies in the portfolio. *ETF- ZDY, ZWH, ZWS. Mutual Fund- BMO Covered Call US High Dividend Fund.*

Europe is down 25% YTD as it faces more challenges: the outbreak has been worse, central banks have less ammo and there has been considerably less fiscal policy. We see this as a higher risk area and as such a higher opportunity area. The covered call overlay here is adding an extra 4-5% in current market conditions. *ETFs- ZWE, ZWP. Mutual Fund- BMO Covered Call Europe High Dividend Fund.*

BMO's Covered Call Mechanics in Volatile Environments

The call writing has been dynamic and is adapting to the changing market landscape. We have been shifting the call overlay, where we want to add a meaningful amount of yield without being greedy. Volatile markets allow us to write further out of the money, so we have more room to participate in a recovery. Today we are writing around 15% OTM with one month to expiry, so if stocks rally, we will maintain the first 15% of the recovery. After that, the portfolio is 50% uncovered meaning half the portfolio will have full upside participation.

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