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# BMO Global Asset Management

## Inflation

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# Inflation - BMO ETFs

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# Tools & Resources- Inflation Calculator



Statistics  
Canada

Statistique  
Canada

## Personal Inflation Calculator



This [Personal Inflation Calculator](#) is an interactive tool that allows you to estimate your personal inflation rate based on your household expenses.

### Personal Inflation Calculator

How to use Feedback More information

Data

Calculate your personal inflation rate

Geography Reset  
Canada

Monthly expenses

- Groceries \$0
- Eating out \$0
- Rent \$0
- Mortgage interest payment \$0
- Home and mortgage insurance \$0
- Utilities \$0
- Communications \$0
- Child care and housekeeping \$0
- Other household expenses \$0
- Clothing and footwear \$0
- Gasoline for personal use \$0
- Public transportation and ride sharing \$0
- Health care \$0
- Personal care \$0
- Entertainment and recreation \$0
- Alcohol, tobacco and recreational cannabis \$0

Annual expenses

- Home maintenance and repairs \$0
- Home property taxes \$0

12-month % change 1-month % change Index

Personal inflation rate

Download

12-month % change 1-month % change Index

Personal inflation rate

Date	Personal inflation rate	Official inflation rate
September 2021	0.0	4.4
August 2021	0.0	4.1
July 2021	0.0	3.7
June 2021	0.0	3.1
May 2021	0.0	3.6

### Consumer Price Index

(January 2022)

5.1% ↑

(12-month change)

### Annual Average CPI

(2021)

141.6

3.4% ↑

(annual change)

# How is Inflation Measured? CPI

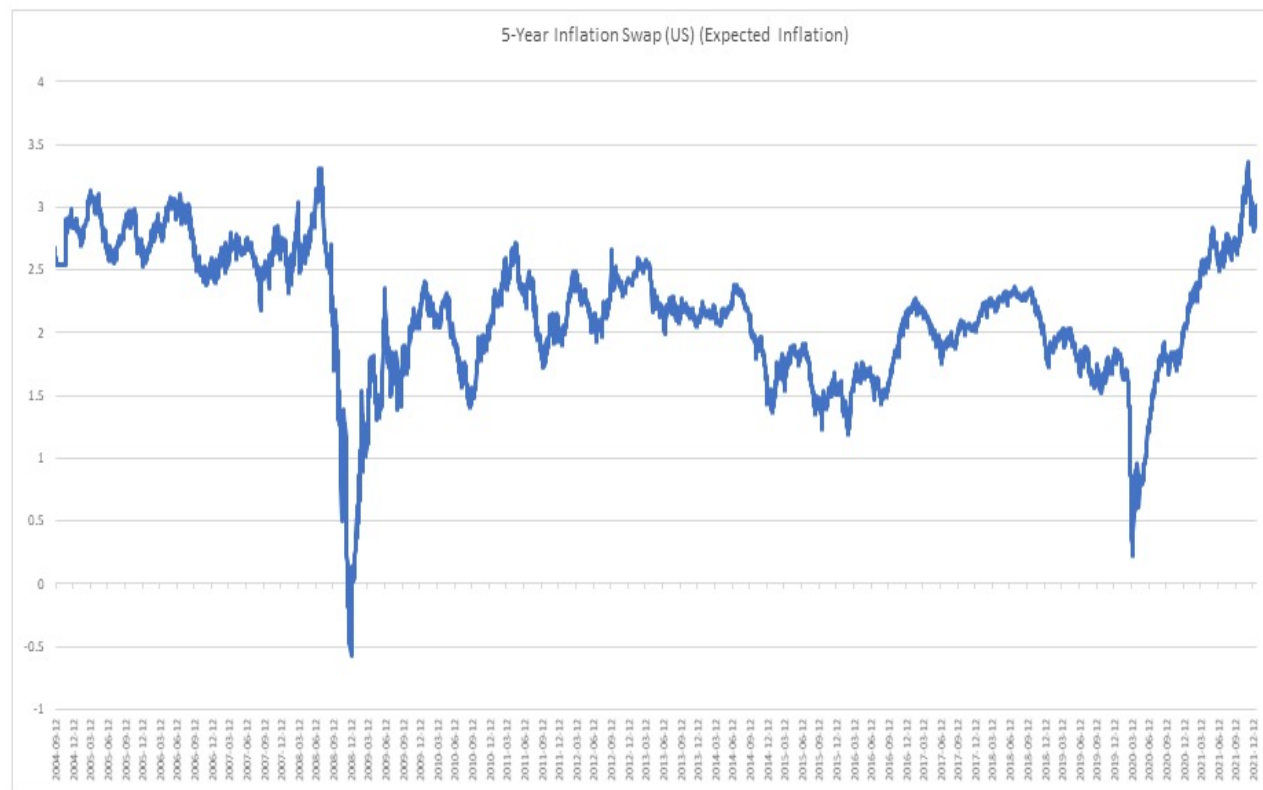
- In Canada, we use the Consumer Price Index (CPI) to calculate inflation
- This number looks at the year over year change in a basket of **goods and services** used by Canadians
- The basket is weighted by relevance (for example, the weight of energy prices is heavier than the price of milk)



Source: Investopedia - For illustrative purposes only.

# How is Inflation Measured? Breakeven Rates

- The “Breakeven rate” is another measure of inflation which is used more by market analysts
- Breakeven rates show the difference in yield between a nominal bond and Treasury Inflation Protected Security (TIPS)
- Breakeven rates can be seen as the market’s interpretation of inflation, which can be more accurate than CPI
- It is not uncommon to see the wide difference between the 10-year U.S. Breakeven rate and the CPI, especially coming out of recessions (or economic slowdowns)



Source: Bloomberg – January 2022.

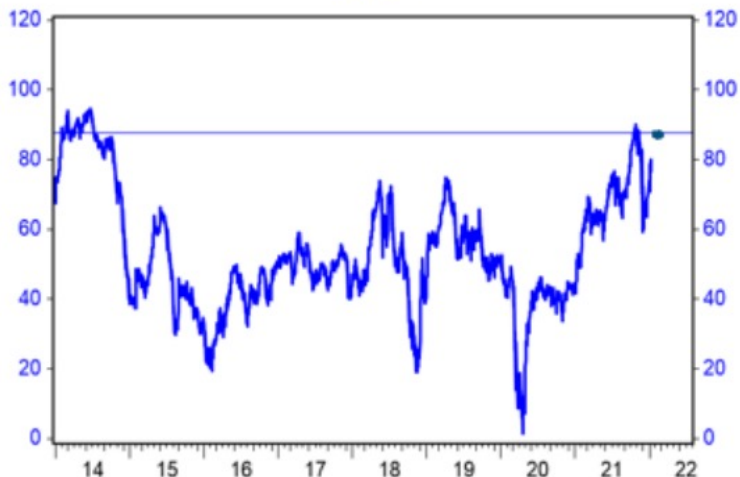
# What is Causing Inflation Today?

- Monetary Stimulus- historic levels
- Low interest rates
- Loose fiscal policy
- Energy prices rising
- Supply chain disruptions and demand imbalances
- Labour shortage



# Inflation in the Real World

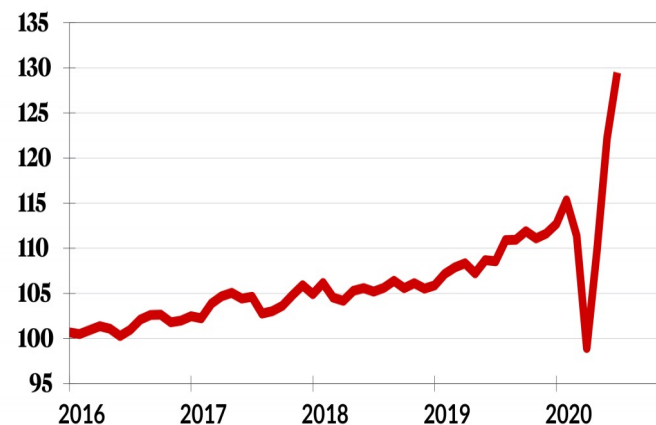
Crude Oil Prices: Western Canada Select  
C\$/Bbl



Source: Kalibrate Canada Inc/Haver Analytics

## Used vehicle prices are at an all-time high

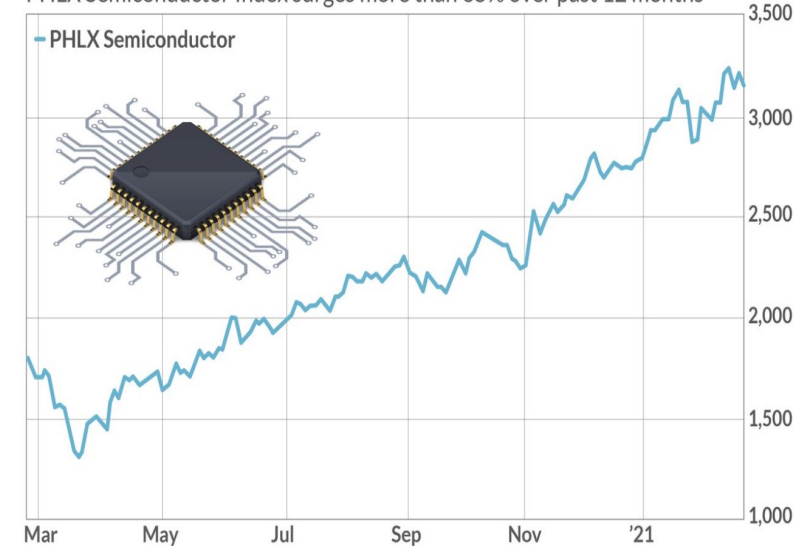
100 = average car price in 2010, seasonally adjusted



Source: Datium Insights - Moody's Analytics Price Index

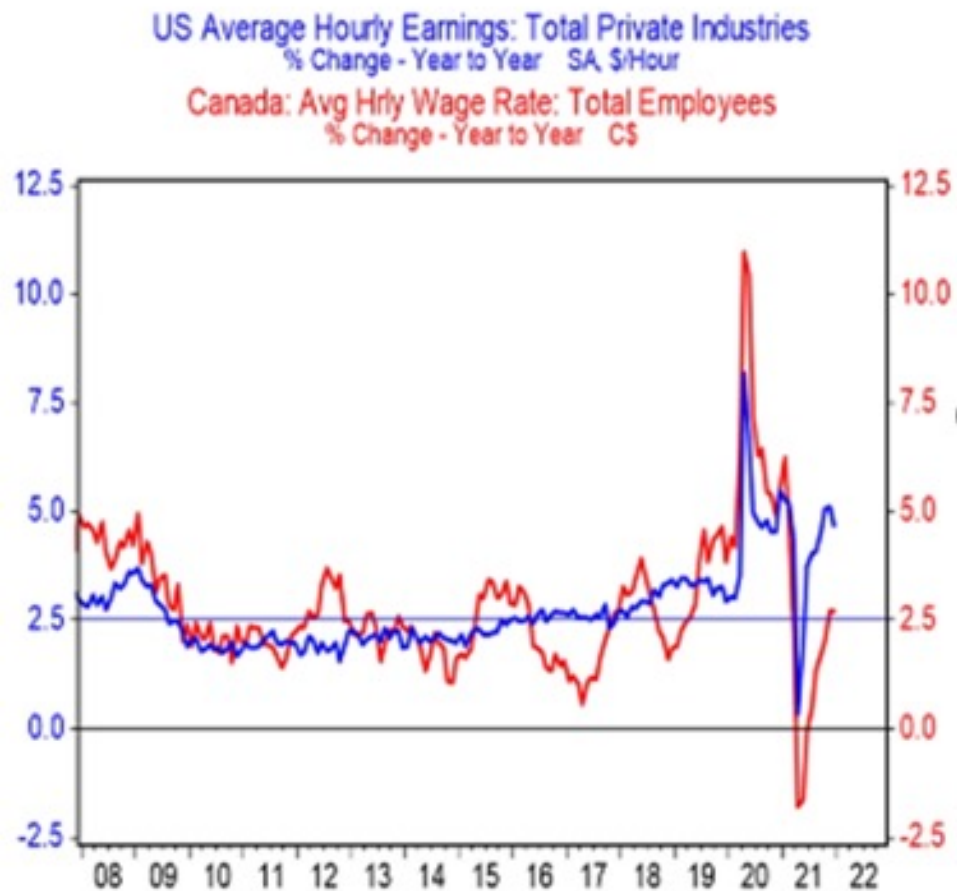
## Chip stocks trade at record levels amid component shortage

PHLX Semiconductor Index surges more than 65% over past 12 months



Source: MarketWatch

# Inflation in the Real World



Sources: Bureau of Labor Statistics, Statistics Canada



Sources: Bureau of Labor Statistics, Statistics Canada

# How Does Inflation Impact Fixed Income?

- 5-year Government of Canada bond is yielding 1.7%. This presents a problem for investors who are facing 2%-3% per year inflation (or more): if their portfolio is yielding less than inflation, this will erode capital.
- Even subtle inflation can have a large impact on bonds in this environment, which are challenged with very low rates.

Source: Bloomberg – January 19, 2022



Source: Bloomberg – January 19, 2022

# How Does Inflation Impact Equities?

- Equities generally do a better job at protecting against inflation than fixed income

Daily Move in 10-Year Breakeven	Count	FTSE/TMX				
		S&P 500 Composite	S&P/TSX Composite	Canada Bond Universe	CRB Commodity Index	Spot Gold
From -0.40% to -0.31%"	2	-3.36%	-4.51%	0.25%	-1.15%	0.82%
From -0.30% to -0.21%"	2	-5.52%	-5.33%	0.26%	-0.21%	1.12%
From -0.20% to -0.11%"	20	-3.16%	-2.83%	0.17%	-0.79%	0.11%
From -0.10% to -0.01%"	1238	-0.41%	-0.36%	0.13%	-0.07%	-0.11%
From 0.00% to 0.09%"	1955	0.34%	0.29%	-0.06%	0.07%	0.11%
From 0.10% to 0.19%"	29	2.27%	1.80%	-0.22%	0.42%	0.64%

Source: Bloomberg – January 19, 2022

# Using ETFs to Hedge Inflation- Fixed Income

## U.S.TIPS

- U.S. Treasury Inflation Protected Securities (TIPS) are bonds backed by the U.S. treasury and their par value adjusts to inflation.

## Real Return Bonds

- These are government of Canada bonds where the par value is adjusted for inflation.
- Tend to be longer duration means these are exposed to duration risk



Source: Bloomberg, January 2022.

# Using ETFs to Hedge Inflation- Equities, Broad Market

## Quality Equities

- Provides exposure to high-quality, blue-chip companies which can weather rising inflation relative to their peers
- These companies are more resilient to inflation because they tend to have better pricing power, an easier time passing on input costs to end consumers, and their low debt profile means there will be less burden on interest rate payments when rates rise

## What is a High Quality Company?



### 3 Quality Variables

**High ROE** - Indicates a business with a sustainable competitive advantage, efficient operations and profitability.

**Stable Earnings Growth** - Demonstrates durability and stability of a company's business model.

**Low Financial Leverage** - Identifies companies with low debt-to-equity ratios, providing greater stability in declining markets.

# Using ETFs to Hedge Inflation- Equities, Sectors

## Sector Equities

- Energy
- Infrastructure
- Real Estate (REITs)
- Banks





P R E S E N T S

E T F

# MARKET **INSIGHTS**

W E B I N A R



**THANK YOU FOR ATTENDING  
JOIN US FOR OUR NEXT WEBINAR:**

Friday, February 25<sup>th</sup>, 2022 • 1:00pm (EST)