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BMO Global Asset Management

Smoothing Out the Ride: ETFs to Mitigate Volatility

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ONE MINUTE ETF UPDATE

- Canadian ETF inflows slowed in April with \$1.5 billion created, bringing the year-to-date figure to \$15 billion, or 4% of assets from the start of the year
- In total, Equities took in \$917 million in April, and thanks to some specific institutional allocations, ESG equity ETFs took up 70% of this figure with inflows of \$642 million
- Fixed Income received \$645 million, driven by creations in Canadian aggregate bond and foreign bond ETFs. Preferred share ETFs, Canadian government bond ETFs and Canadian corporate bond ETFs all lost assets in April

Table 1 - ETF Flows by Category - YTD April 2022						
	AUM (\$M)	Mkt Shr (%)	April 2022		YTD April 2022	
			Flow \$M	Flow/AUM	Flow \$M	Flow/AUM
Equity	\$203,641		\$917	0.4%	\$10,931	4.9%
Canada	\$81,236	26%	\$792	0.9%	\$5,519	6.9%
United States	\$67,639	22%	\$79	0.1%	\$2,843	3.5%
International	\$54,766	18%	\$46	0.1%	\$2,569	4.0%
Fixed Income	\$83,568	27%	\$645	0.8%	\$2,479	2.6%
Commodities	\$1,744	1%	\$34	2.0%	-\$250	-13.1%
Multi-Asset	\$15,665	5%	\$177	1.1%	\$1,168	7.4%
Inverse / Levered	\$2,189	1%	\$102	4.6%	\$541	30.8%
Crypto-Asset	\$4,943	2%	-\$338	-5.5%	\$190	3.2%
Total	\$311,751	100%	\$1,536	0.5%	\$15,060	4.3%

*Equity Flows include option strategies;

Source: National Bank of Canada, Bloomberg

Source: National Bank ETF Research, Bloomberg. Data as of May 3, 2022

What is Causing Market Volatility Today?

- Central Banks planning on increasing interest rates this spring
- Inflation higher than its been in decades
- Geopolitical concerns in Eastern Europe

 Reuters

Bank of Canada signals hikes coming soon, leaves key interest rate unchanged

The Bank of Canada will soon starting hiking interest rates from record lows to combat inflation, Governor Tiff Macklem announced on...



 CBC

U.S. inflation rate soars to another 40-year high of 7.5%

The U.S. inflation rate rose to the eye popping level of 7.5 per cent in January, its highest level since 1982.



 CTV News

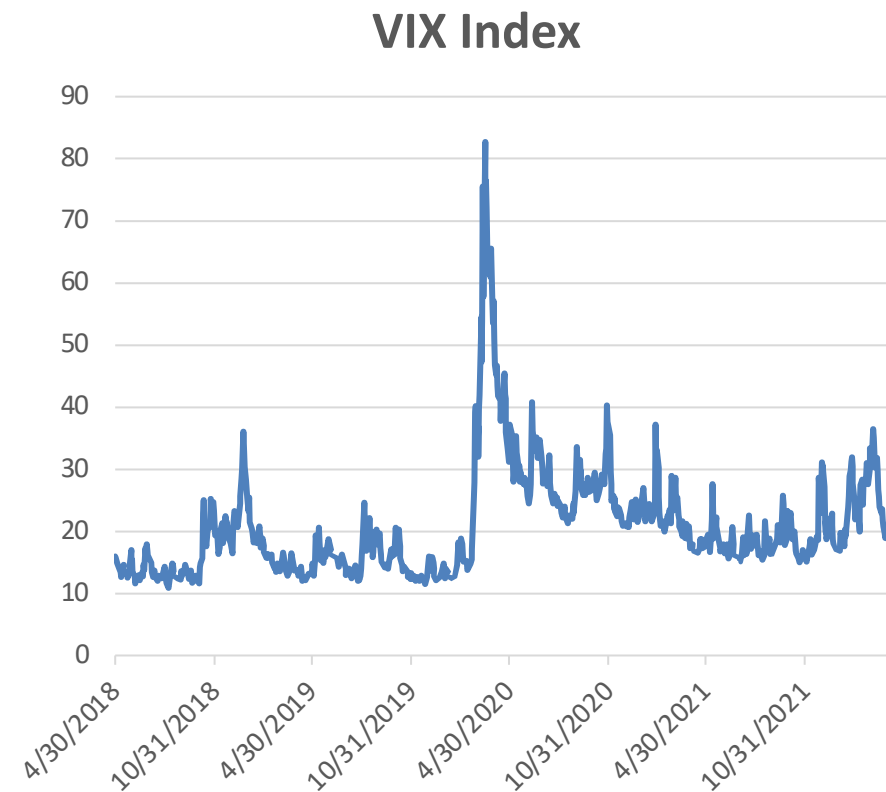
Russia has surrounded Ukraine on three sides. Here's where an invasion could be launched

Russia has amassed more than 100000 troops near Ukraine's border in recent weeks, according to U.S. estimates, raising fears from Western...



The VIX

- The VIX is the CBOE Volatility Index, which is a measure of the volatility in the S&P 500
- Higher values in the VIX indicate greater volatility which means investors are feeling more uncertain about the market
- Pre-Covid VIX levels were in the low teens, and in March 2020 it hit over 80



Source: Bloomberg, May 2022.

MARKET VOLATILITY & UNCERTAINTY

Decision Framework:

1. What is your outlook on the economy?

- Are you bullish or bearish?
- What are your thoughts on the shape economic recovery and the ability to control future virus waves?
- How effective will monetary and fiscal stimulus be in the near and long-term?
- How concerned are you about inflation?

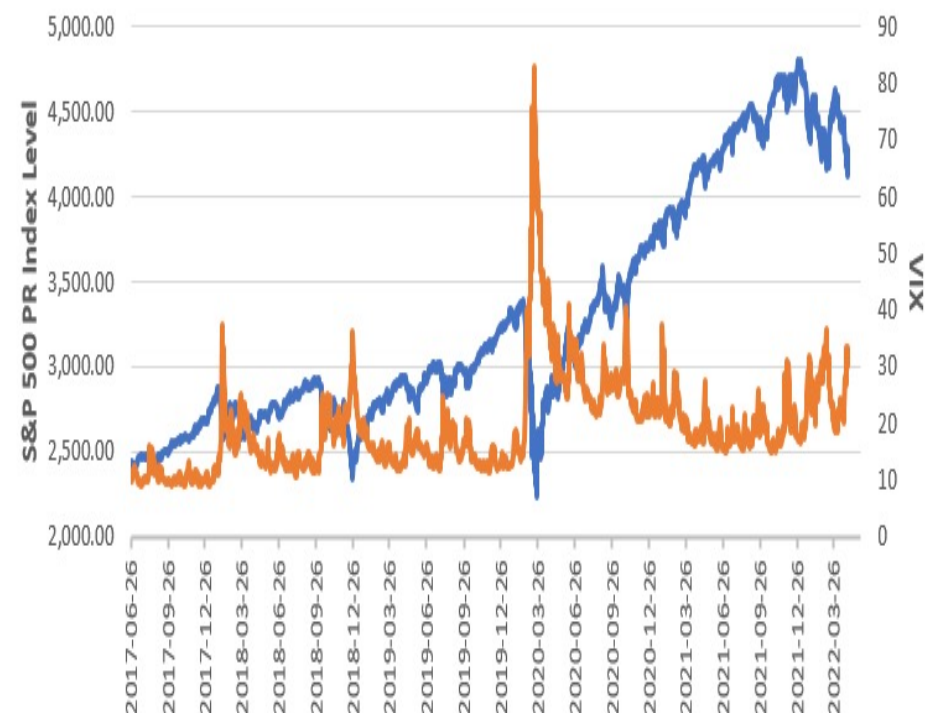
2. What is your view of market valuations?

- Will stimulus continue to re-inflate markets or will confidence in markets decline?
- Do you view the recent pull back in high growth sectors (IT, healthcare) as attractive entry points to play on long term trends or do you want to add cyclical exposures (value, dividends, small cap) to take advantage of the reopening trade?

3. What is your time horizon?

- Do you want to add tactical exposures so you can quickly react to market events as they unfold?
- Are you looking for core long-term growth positions, with less concern about short term market volatility?

S&P 500 AND VOLATILITY



Past performance is not necessarily indicative of future results.

Source: Morningstar Direct May 2022

Key Terms To Describe Volatility in a Stock or ETF

Beta

- Beta is a risk metric that measures a stock's sensitivity to fluctuations in the broad market.
- The broad market has a beta of 1.0 therefore a stock with a beta less than 1.0 indicates it is less risky relative to the broad market.
- Low beta investments are less volatile than the broad market and can be considered defensive investments.

Standard Deviation

- The lower the standard deviation of a stock or ETF, the less volatile it is.
- The standard deviation of a stock is calculated not only by looking at how extreme its downturns have been, but also considers the up swings as well.

How Can ETFs Help Mitigate Portfolio Volatility?

- Using an ETF over a single stock is one way to manage overall portfolio volatility.
- An ETF holds a basket of stocks, so it's broadly diversified which typically provides less volatile returns relative to a single stock.

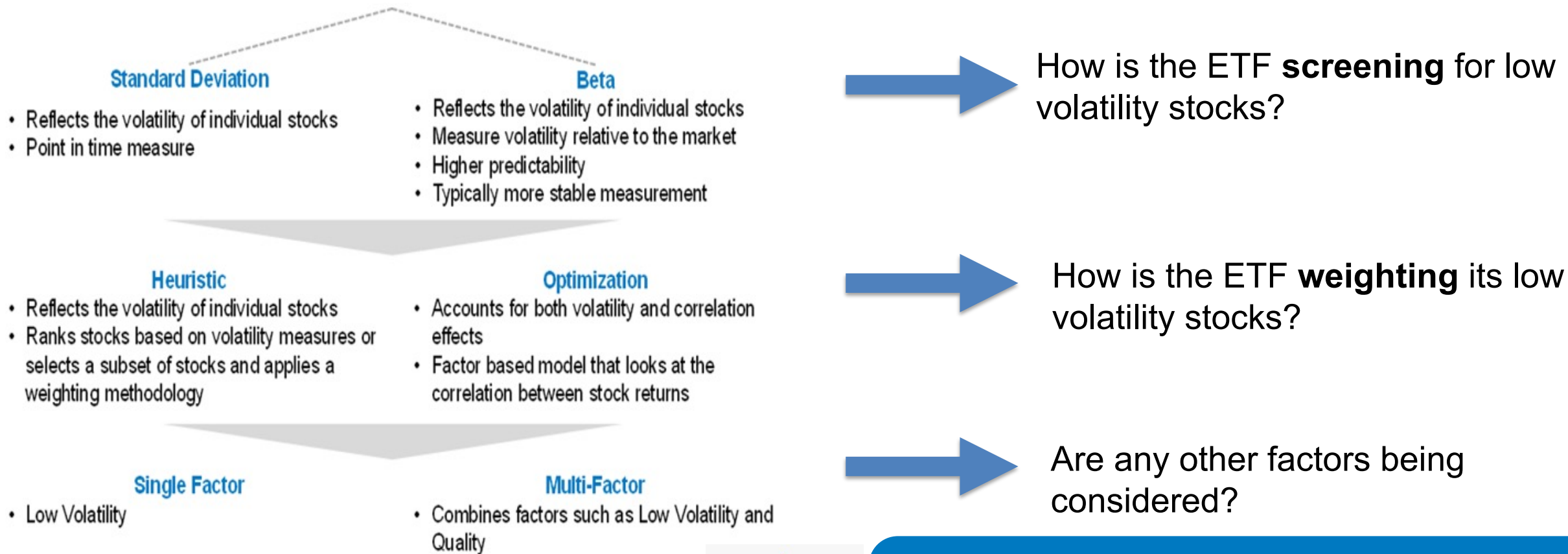
January 2022 Stock Returns, the Largest Companies in Canada

Stock/ETF	One Month Return January 2022
Royal Bank	8.9%
Toronto Dominion Bank	5.5%
Bank of Nova Scotia	2.3%
Shopify	-29.3%
Enbridge	8.8%
Brookfield Asset Mgmt	-8.4%

How Can Factor ETFs Help Mitigate Volatility?

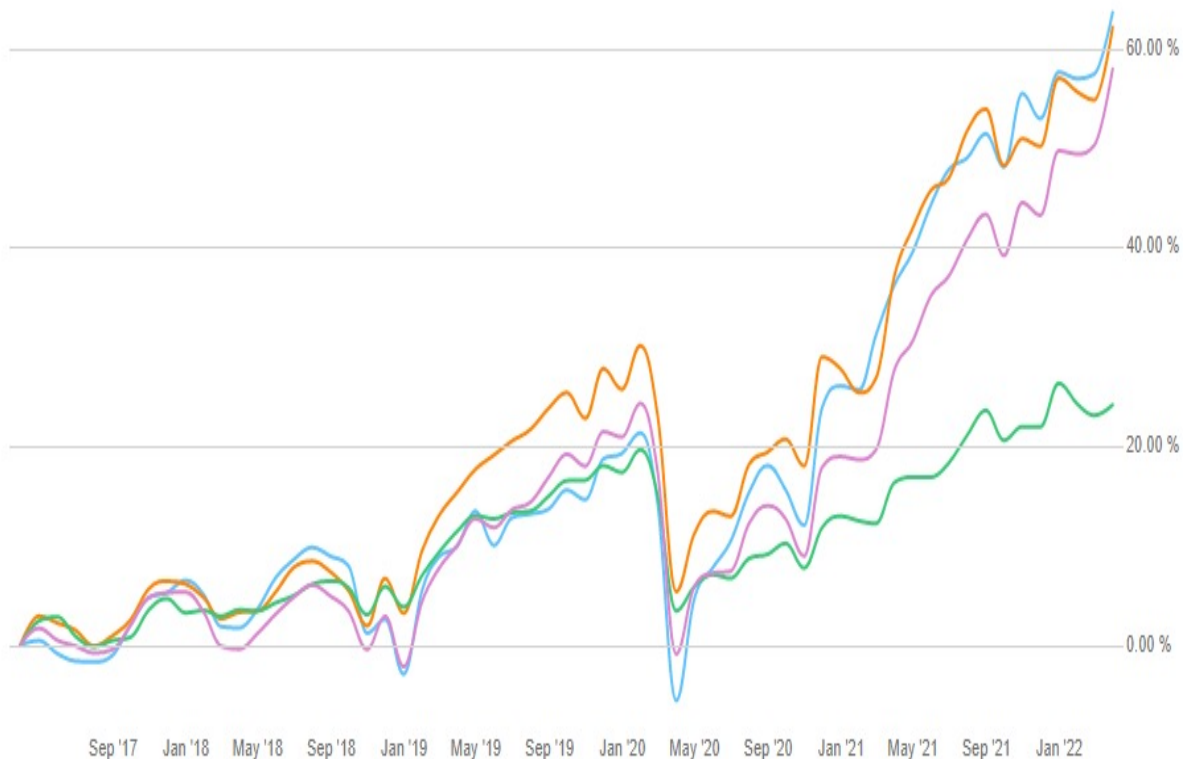


Low Volatility Methodologies- Look Under the Hood!



How long has the stock been analyzed? Typically, data points which capture longer periods of time create a better understanding of the stock's true long-term volatility and create a more sustainable low volatility strategy.

Example of Low Volatility Performance



	Broad Canadian Market ETF	Low Volatility ETF A	Low Volatility ETF B	Low Volatility ETF C
Return - YTD	+3.80%	+3.24%	-1.72%	+5.48%
Return - 1M	+3.94%	+4.71%	+0.85%	+5.11%
Return - 3M	+3.80%	+3.24%	-1.72%	+5.48%
Return - 6M	+10.49%	+9.36%	+2.96%	+13.47%
Return - 1Y	+20.10%	+18.20%	+6.71%	+23.70%
Return - 3Y**	+14.16%	+11.99%	+3.66%	+12.79%
Return - 5Y**	+10.34%	+10.14%	+4.42%	+9.56%
Return - Since Inception**	+8.37%	+13.10%	+5.08%	+10.23%

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Dividend ETFs- Look Under the Hood!

Considerations when comparing Dividend Strategies:

- 1) Are the dividends sustainable?
- 2) Are the dividends growing over time?
- 3) How long have dividend growth and payments been analyzed? (longer time periods lead to more sustainable data)
- 4) How is the ETF weighting each dividend stock?

Example- BMO ETFs Dividend Methodology screens dividend stocks for:

- Positive 3-year dividend growth rate
- High 5-year dividend payout sustainability
- Greater equity weight is given to stocks which score highly on growth rate and sustainability

Example of Dividend Growth Rate

Dividend Amount by Year

Company	3 years ago	2 years ago	1 year ago	This year	3 year growth	Fund eligibility
A	\$0.10	\$0.12	\$0.11	\$0.12	20%	IN
B	\$0.10	\$0.12	\$0.08	\$0.09	-10%	OUT
C	\$0.10	\$0.10	\$0.10	\$0.10	0%	IN



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