

# THIS WEEK WITH SADIQ



January 10 to 14, 2022

## Treasuries, Lockdowns, Supply Chains

### Weekly Commentary

#### Treasuries

Yields on the 10-year U.S. Treasury note surged last week, driven by headlines that the Federal Reserve will raise interest rates faster than expected. There are now four potential rate hikes in 2022, most of which were not fully priced in. While some investors may be concerned, we are actually surprised it took this long for yields to break 170 bps. Our belief is that yields will continue to rise as long as the economy remains strong, overshooting the 2% mark before coming slightly back down. The Fed has clearly acknowledged that the employment picture cannot be improved through monetary policy, and it's time to tilt their focus back toward the inflation side of their dual mandate.

**Bottom Line:** Expect more upward pressure on rates as the Fed brings inflation under control.

#### Lockdowns

Will the return of COVID restrictions slow down the economy? We could see a minor lag in January, but the economy should not be severely impacted throughout the year. In general, people have been going out more often, and while they may pull back a little, they have gotten a taste of normalcy and will not go back to zero again.<sup>1</sup> If we hit peak COVID cases at the end of January as forecasted, and booster shots have been distributed to the majority of the people who want them, we could start to see broad improvement in economic activity. Moreover, the appetite for fiscal stimulus is waning.<sup>2</sup> Governments appear keen to remove spending programs rather than extend them, so we expect the restrictions to be temporary. Add to this, in many places, they have shortened the number of isolation days from 10 to five.<sup>3</sup>

**Bottom line:** A shorter, less harmful shutdown appears to be in everyone's best interest.

#### Supply Chains

Recent data showed positive signs that supply chain bottlenecks were starting to ease. And while Omicron has put a damper on that news, the evidence suggests that some constraints are easing.<sup>4</sup> The problem will not vanish overnight, of course. Global supply networks have become incredibly complex and are currently booming,<sup>5</sup> despite the rise in geopolitical tensions. However, we expect to see gradual change over the next six months as markets slowly correct supply-demand imbalances and move toward normalization.

**Bottom line:** Though supply chains remain important, they may not be the main story of 2022.

#### Positioning

The **BMO Covered Call Canadian Banks ETF Fund** continues to be a strong play, based on the expectation of higher yields and continued volatility. Not only does this allow you to capture substantial dividends and secondary income from the options premium, but your capital is protected from an equity drawdown as well. Another promising area is the airline industry. We have exposure within our **BMO ETF Portfolios**, as it's one of the last spaces trading at a discount to its pre-COVID value. This is a high beta investment. Looking out over the next one or two years, though, the upside opportunity is clear. Most likely, the first thing people may want to do once restrictions lift is take their postponed vacations. And business travel will also be back on the table, not perhaps internationally but certainly within the U.S. and Canada, which provides a nice opportunity for us to capitalize on the rebound.

**Bottom line:** For a late reopening trade, look at Financials for yield and Airlines for value.

#### Expert

##### Sadiq S. Adatia

Chief Investment Officer BMO  
Asset Management

Mr. Adatia joins BMO AM from Sun Life Global Investments, where he most recently held the role of Chief Investment Officer. Prior to that, he held investment roles at Russell Investments Canada and Mercer Canada. He holds an Honours Bachelor of Mathematics degree in Actuarial Science & Statistics from the University of Waterloo. He is also a CFA Charterholder and is a Fellow, both of the Society of Actuaries (Investment Specialty Track) and the Canadian Institute of Actuaries.



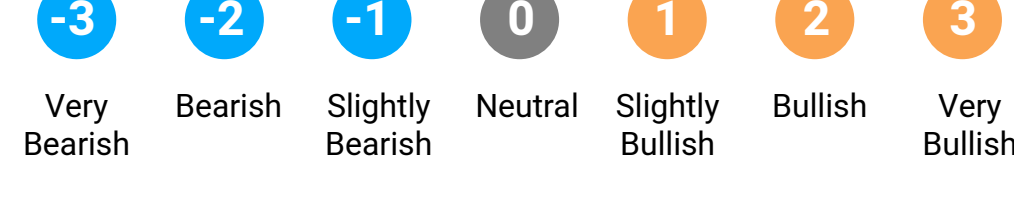
### Market Update

- Equity markets were tripped up this week by a more hawkish Federal Reserve, while economic data continue to point to strong growth and a tightening job market.
- The S&P 500 slipped 1.8% by late Friday, but the high-flying Nasdaq was crunched a harder 4.1%.
- The TSX fell a more modest 1%, as strength in energy and banks provided support.

### Asset class views

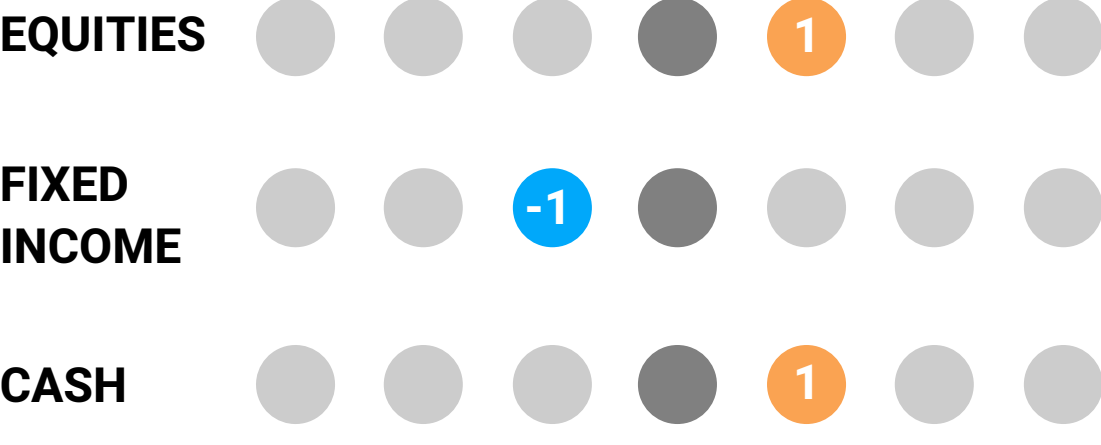
#### Monthly Perspectives

At BMO Global Asset Management, we recognize that asset allocation is the primary driver of long-term portfolio performance. That's why our Multi-Asset Solutions Team (MAST) has developed a simplified "Five Lenses" view to help explain what is driving their asset allocation decisions.



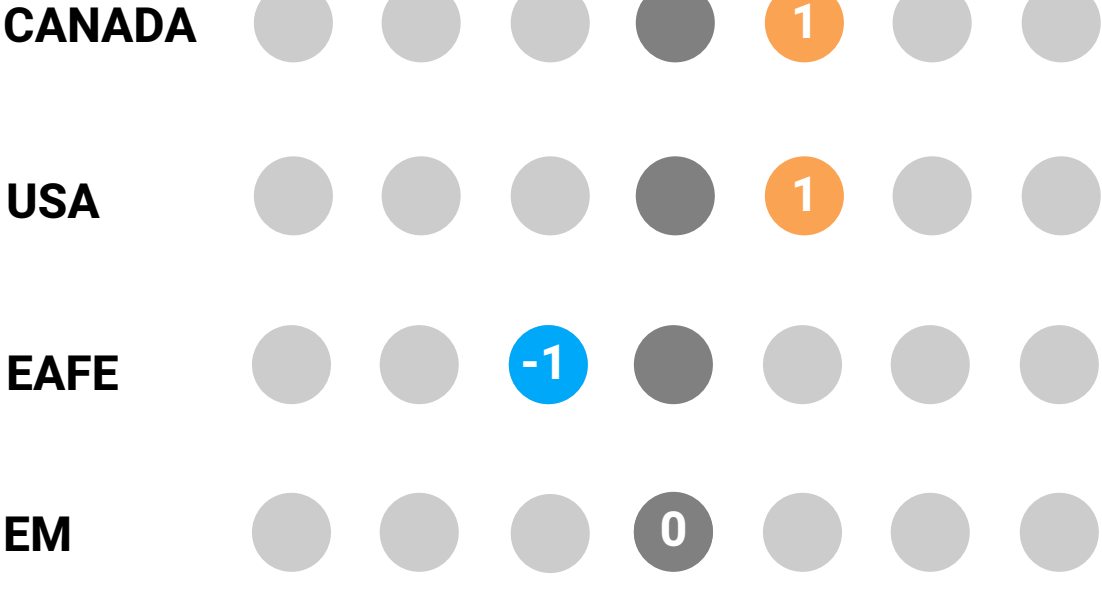
#### Asset Mix

- COVID-19 is back to the fore, this should cause short term disruptions but unlikely to have much in the way of market setbacks, specifically in the U.S.
- Global growth is normalizing but expected to remain above trend in 2022, supported by business investment and cash-rich consumers.
- Monetary policy is slowly normalizing, not posing an immediate threat to equity valuations.



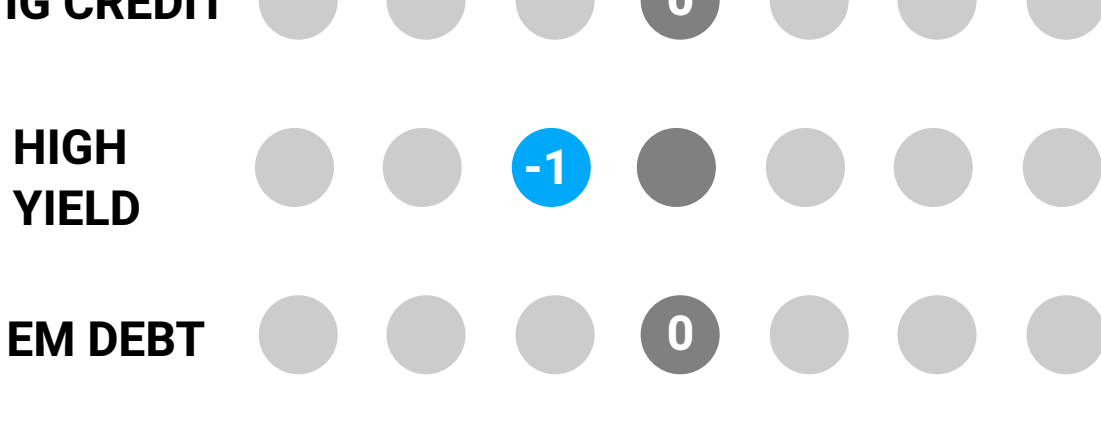
#### Equity

- North American equities are better positioned for COVID-19 uncertainty at a mid-cycle phase of the market, with lingering supply disruptions.
- EAFE economies remain most negatively exposed to global supply shortages, notably on energy.
- Emerging Market equities to continue facing cooling economic growth and a strong U.S. Dollar, but valuations look attractive.



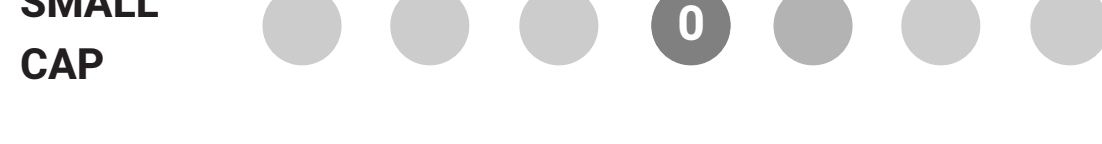
#### Fixed Income

- The timeline to interest rates liftoff is compressing as central banks are slowly signaling policy tightening.
- Government bonds remain unattractive with low yields and above-trend economic outlook.
- High-yield debt looks less attractive as spreads have tightened and market volatility could increase in 2022.



#### Style/factor

- At present, we are neutral on Style/Factor and we currently favour beta one.



#### Implementation

- Bank of Canada might hike interest rates sooner than market expects which would support the currency, versus heavy commodity-importing currencies such as the Euro and Japanese Yen.

Thank you for reading!

- ["Omicron Suddenly Upends the World's Return to the Office," Bloomberg, December 19, 2021.](#)
- [United Nations, World Economic Situation and Prospects 2021.](#)
- [William Booth, "Real-world data from U.K. suggests omicron is less likely than delta to send people to the hospital," The Washington Post, December 22, 2021.](#)
- [The Canadian Press, "Bank of Canada sees no clear end to supply chain issues, Global News, December 9, 2021.](#)
- [Anjani Trivedi, David Fickling, Brooke Sutherland, Daniel Moss and Tom Orlik, "Here's everything you need to know about the global supply chain crisis," BNN Bloomberg, December 7, 2021.](#)

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