

THIS WEEK WITH SADIQ



December 6 to 10, 2021

U.S. Jobs, Omicron and Volatility

Weekly Commentary

US Payrolls

Markets slid on Friday after the U.S. announced the addition of 215,000 jobs in November, despite the unemployment rate falling to a new pandemic low. The growth rate was below markets' expectations and the slowest gains of the year, but our big concern was on the supply side, where there's a lack of suitable candidates for the sheer volume of openings. There are simply too many jobs and not enough qualified people. This gap threatens to push wages higher, though we believe the trend will start to shift in 2022 as people go back to the office more frequently. While future reports are not expected to be outstanding, job growth should be sufficient to carry the market forward given that U.S. unemployment rate is now at 4.2%.

Bottom Line: Next year may not be the end of COVID-19, but it could bring an end to the "pandemic economy."

Omicron (and Inflation)

With all the headlines about Omicron, it's important to remember that we have seen this playbook before. Markets get nervous when a new variant emerges, especially if the virus spreads to North America. However, we have not yet seen full studies on the impact to hospital capacity, death rates, vaccine resiliency – the data is inconclusive. Moderna and Pfizer had mixed results from their initial tests, which suggests that while protection against the new strain may not be as strong as against the original, *it will be above 0% effectiveness.*¹

Unfortunately, Omicron could undo some of the progress made on supply chains. A return to stricter COVID-19 protocols would mean we have fewer people showing up to work in manufacturing sectors, and that could cause some strain. Adding to this, the U.S. Federal Reserve stopped referring to inflation as "transitory," and indicated that tapering of asset purchases could happen faster than planned. Combined, these two headlines have spooked markets in the short term. That said, if we do see a spike in cases, our belief is that the resulting shutdown will be shorter than those from last year.

Bottom line: Expect some short-term drag on markets, but likely no significant lasting damage.

Positioning

Technology companies benefitted enormously in the early months of the pandemic when the population shifted into a work-from-home environment. Naturally, if the variant continues to pick up steam and force us back indoors, those WFH names could gain a second wind. However, we believe any interruption to the economy will be short lived and the best place to be is in quality companies that would benefit from the continuing of the reopening of the economy.. How do you access both possibilities in a single trade?

One idea would be to use the [BMO Covered Call Canadian Banks ETF Fund](#) to gain exposure to high-quality dividend growers and reduce your market risk with an options layer. If you're worried about inflation or the Omicron variant, this solution protects your downside by writing call options against the portfolio and collecting premiums to effectively monetize the volatility. Our [BMO ETF Portfolios](#) are also perfect for this environment because they're willing to be tactical to take advantage of opportunities that exist within extreme market movements.

Bottom line: Take gains where possible, but do not allow near-term headwinds to derail your long-term strategy.

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

- The S&P 500 finished down 1.2%, but managed a solid rally later in the week as sentiment stabilized.
- The TSX was down 2.3% on the week, despite a strong showing in the bank sector.
- U.S. November payrolls report came in below expectations with a 210k job increase in the month.

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.



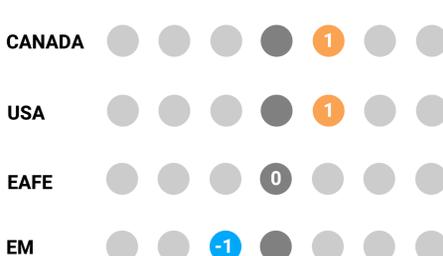
Asset Mix

- COVID-19 uncertainty is improving.
- Global growth is normalizing but expected to remain above trend pace into 2022, supported by business investment and cash-rich consumers.
- Highly accommodative U.S. Federal Reserve (Fed) seeking quick return to full employment.



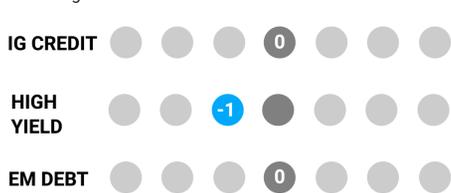
Equity

- Canadian equities better positioned for commodity shortages.
- EAFE and Emerging Markets (EM) economies are most negatively exposed to global supply shortages, notably on energy.
- EM equities to continue facing cooling economic growth largely because of headwinds from China.



Fixed Income

- Central banks slowly signaling policy tightening.
- Government bonds remain unattractive with low yields and above-trend economic outlook.
- Investment grade corporates preferred to federals.
- EM debt looks more attractive to increase portfolio yield on slowing



Style/factor

- Small-Caps have highest beta to economic cycle.
- U.S. Small-Caps to benefit the most from U.S. President Biden's massive fiscal boost.



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! Each week, Sadiq offers insight into market forces, emerging trends and tactical positioning.

¹ [Ewen Callaway & Heidi Ledford, "How bad is Omicron? What scientists know so far," Nature, December 2, 2021.](#)

Disclosures:

BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc., BMO Investments Inc. and BMO Asset Management Corp.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

This article is for informational purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

Commissions, management fees and expenses (if applicable) all may be associated with investments in mutual funds. Trailing commissions may be associated with investments in certain series of securities of mutual funds. Please read the fund facts, ETF facts or prospectus of the relevant mutual fund before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Distributions are not guaranteed and are subject to change and/or elimination.

^{®/TM} Registered trade-marks/trade-mark of Bank of Montreal, used under licence.

BMO Global Asset Management is the brand name for various affiliated entities of BMO Asset Management Group that provide investment management, and trust and custody services. BMO Global Asset Management comprises BMO Asset Management Inc., BMO Investments Inc., and BMO Asset Management Corp. Certain of the products and services offered under the brand name, BMO Global Asset Management are designed specifically for various categories of investors in a number of different countries and regions and may not be available to all investors. Products and services are only offered to such investors in those countries and regions in accordance with applicable laws and regulations. BMO Financial Group is a service mark of Bank of Montreal (BMO).

BMO ETFs are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from Bank of Montreal. Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the prospectus before investing.

Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

BMO Mutual Funds are managed by BMO Investments Inc., which is an investment fund manager and a separate legal entity from Bank of Montreal.

Commissions, trailing commissions (if applicable), management fees and expenses all may be associated with mutual fund investments. Please read the ETF facts, fund facts or prospectus of the relevant mutual fund before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in the BMO Mutual Funds, please see the specific risks set out in the prospectus. ETF Series of the BMO Mutual Funds trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO Life Assurance Company is the issuer of the BMO Segregated Funds individual variable insurance contract referred to in the Information Folder and the guarantor of any guarantee provisions therein. The BMO GIF Information Folder and Policy Provisions provide full details and govern in all cases. BMO GIF products are offered through BMO Life Assurance, a separate legal entity than BMO Global Asset Management and wholly owned by BMO Financial Group. Segregated funds are only available for sale by individuals with appropriate insurance licences and are not considered a mutual fund. Segregated fund fees are higher than mutual funds as they include insurance fees to provide for the guarantees on deposits at maturity or on death.