Investors in Canada: 2 “Safe” ETFs on the Rise to Buy or Watch

Description

If you’ve yet to put your latest $6,000 annual TFSA (Tax-Free Savings Account) contribution to work, don’t fret. Many investors in Canada are a bit rattled, given the magnitude of uncertainties that lie ahead. Indeed, 2022 is shaping up to be the year that central banks finally raise the bar on interest rates. With runaway inflation driving up prices across the board, it’s about time. Just because rates rise does not mean investors need to forget about inflation or assume the inflation genie is going to be put back in the bottle by year’s end.

You see, it’s hard to get the genie back in when it’s out. Could it be that four rate hikes are not enough to curb inflation? It’s possible. And for savers, it’s a scary thought to hear of yet another year of inflation running hot. How can you prepare? Equities are the best place to be, especially those with industry tailwinds (like higher rates) riding behind them. Of course, valuation and dividends are important for those looking to step a step or two ahead of the game in what will surely be a rocky road.

Looking back on 2021, the year was quite smooth if you were a passive investor. Under the hood, though, many stocks were in a world of pain. No correction for the S&P 500 last year, but many names crumbled 10%, 20%, even 50%, as investors rotated from sector to sector. Most notably, high-multiple tech suffered, while value and cyclicals were made great again. Could the theme reverse in 2022? It could, but I wouldn’t position my portfolio in a way that expects it. You don’t need to be a hero to make money in 2022. What you do need is an eye for value and the ability to tune out the noise that may inspire you to take drastic action with a portfolio that’s already on the right track.

Consider stashing **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB) or **BMO Covered Call Canadian Banks ETF** (TSX:ZWB), two intriguing ETFs on the rise that are worth buying or watching in 2022.

BMO Low Volatility Canadian Equity ETF

The ZLB is a basket of low-beta Canadian stocks that don’t tend to follow in the footsteps of broader markets. Indeed, you’ll have many unloved value plays, like utilities, pipelines, and all the sort. Many such names tend to move under their own footing, rather than overreacting to what’s really troubling broader markets. Unlike the TSX, the ZLB has a better allocation across sectors. While ZLB does a better job of representing unrepresented industries, investors should view the ZLB as more of a supplement to a portfolio that seeks to reduce volatility.

The ZLB is a decent ETF, but it may not be the best option for those seeking maximum upside in a risk-on year. For those looking to take risk off the table without feeling too much pain from inflation, the ZLB is nothing short of intriguing.

BMO Covered Call Canadian Banks

The ZWB is a “safer” way to play the Canadian banks. With rates on the rise, the banks have been blasting off of late. Some may think that rate hikes and a more favourable environment are already baked into their share prices and that further appreciation for 2022 is less likely. If that is the case, the ZWB may prove to be a better way to bet on the banks. The covered-call part of the ETF trades a bit of upside potential in favour of premium income. The result? Less choppiness and a slightly higher yield (currently 5.2%) than that of your garden-variety Canadian bank ETF.

Indeed, covered call ETFs are for the conservative. They may not be the best performers versus their non-covered-call counterparts. That said, the extra income makes the ETF far better than cash in an inflationary environment. Know the risks and stash the name on your radar.

CATEGORY

1. Investing

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1. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)
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