Canadian ETFs to Buy if You Fear a Recession

Description

The Canadian stock market has finally begun to catch up to the U.S. indices, sinking into correction territory. Undoubtedly, the recent rise in 10-year note yields has been a big burden on the high-multiple growth trade. In Canada, there's a lot of value out there, so there was a strong case for why Canadian stocks may have deserved to steer clear of all the damage we've witnessed of late.

Strength in commodities and materials has helped the TSX remain relatively resilient. However, the broader basket is starting to show signs of weakness. While I do see the TSX outperforming the S&P 500 for 2022, there's a real chance that Canadian investors may still have to deal with a considerable amount of pain relative to other years.

In this piece, we'll check out two passive investments that Canadians that provide a cautiously optimistic way to bet on the equity markets, as they transition through this brutal period of time. The broader basket of Canadian stocks has held relatively steady to date, but not even they're immune from falling in the hands of a market correction. It's likely going to be an increasingly bumpy ride, and investors need to be prepared with shocks (in the form of portfolio hedges) at the core of their portfolios.

Bank of Montreal's ETFs look quite intriguing at a time like this

There are a growing range of ETFs in Canada. Many passive investors have likely lost track of the options available to them. **Bank of Montreal** has an extensive roster of intriguing products, some of which are well geared to thrive in market environments like the one we're currently in.

From lower-beta ETFs to specialty-income equity funds, BMO's passive-investment portfolio is more than worth looking into for those looking to combat volatility without holding onto too much cash and succumbing to the high rate of inflation.

Undoubtedly, BMO has had "covered call" ETFs in its arsenal for quite some time. In short, they use options to trade off potential upside in stocks in return for a bit of premium income. This premium income sweetens the pot for ETF investors in the form of a higher yield.

BMO Canadian High Dividend Covered Call ETF

BMO Canadian High Dividend Covered Call ETF (TSX:ZWC) is arguably one of the most enticing “covered call” ETFs in the BMO roster, because it tends to sport the highest distribution yield at any given time.

ZWC holds many high-yield Canadian dividend stocks that we’re all familiar with, with a significant weighting in the financials, energy, and telecoms. These three yield-heavy sectors have also been incredibly resilient amid the recent market correction. Undoubtedly, the ZWC looks like a great way to double down on your portfolio’s defences if you fear a bumpy landing into a recession.

At writing, ZWC yields just shy of 6.4%. That’s pretty much in line with inflation in Canada!

The biggest knock against the ETF is the high 0.72% MER. It’s a hefty price to pay. However, if you’re looking for big passive income and are quite gloomy about markets, I’d argue the price is worth paying. Over the long run, stocks tend to go up, so under a more normal environment, investors would probably be better off with a non-covered call ETF.

These days, though, things are anything but normal, making ZWC and ETFs like it interesting picks.

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