2 Safe ETFs That Yield over 3.5% to Buy in Case of a Bear Market or Correction

Description

2022 has been an interesting year to start investing. Most stocks (aside from those in the energy sector) are down heavily from all-time highs, with growth and technology stocks losing hard in particular. The bond market is down, too, with longer-term bonds in particular suffering.

The culprit? A rare combination of persistently high inflation coupled with aggressive interest rate hikes. With both stocks and bonds falling in tandem, even the most balanced of portfolios suffered heavier than usual losses. Few assets, asides from some commodities stayed in the green.

At the end of the day, the only risk-free asset is cash. There are some exchange-traded funds, or ETFs out there that invest your cash in high-interest savings accounts (HISA), which is as low-risk as it gets. With the recent Bank of Canada interest rate hike of 0.75%, both of these ETFs now yield over 3% each.

CI High Interest Savings ETF

CI High Interest Savings ETF (TSX:CSAV) is a great way to hold cash in an Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) while still earning regular interest income. When you buy shares of CSAV, the fund manager invests your capital in HISAs with Schedule 1 Canadian banks, which is as safe as it gets.

Every month, investors who hold CSAV earn interest income. Currently, the gross yield of the fund stands at 3.72% annually thanks to rising interest rates. This is a fantastic return considering how low risk the fund is. CSAV is virtually immune to equity risk and will keep its value intact during market crashes.

The ETF currently costs a management expense ratio (MER) of 0.16%, or $16 annually for a $10,000 investment. Keeping this low is crucial, as it is deducted from your overall gross yield. The net yield of the fund can be approximated by gross yield minus MER, which comes out to around 3.56%.

Horizons Cash Maximizer ETF

Horizons Cash Maximizer ETF (TSX:HSAV) works similarly to CSAV — the ETF also deposits investor capital into HISAs with Schedule 1 Canadian banks. However, the ETF does not make distributions. Rather, the interest payments are automatically reinvested back into the price of the ETF.

This structure makes HSAV easy to manage (you don't need to reinvest anything) and can offer tax-efficiency benefits outside a TFSA/RRSP. The gross yield is slightly higher at 3.75%. The ETF also comes in a ".U" version for investors holding U.S. dollars.

In terms of fees, the ETF normally charges a management fee of 0.18%, but Horizons has waived some fees so that the current management expense ratio is just 0.12%. This reduces the net yield of HSAV down to just 3.63%, which is always a plus for low-yielding ETFs.

The Foolish takeaway

If you're worried about a market crash, either CSAV or HSAV can be a great way to hold cash for a buying opportunity while earning interest. If you're worried about further interest rate hikes, both ETFs can be great substitutes for some portion of a bond allocation.

CATEGORY

1. Investing

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2. TSX:HSAV (Horizons Cash Maximizer ETF)

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