# Quantitative/Technical Package

## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
</tr>
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<tbody>
<tr>
<td>February 21, 2018</td>
<td>NEW Market Elements</td>
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## Trends & Inflection Points

<table>
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<tr>
<th>Date</th>
<th>Title</th>
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<tbody>
<tr>
<td>February 22, 2018</td>
<td>NEW Where is High Yield &amp; Low Volatility Still Working?</td>
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<tr>
<td>February 21, 2018</td>
<td>US SmallCap Technology</td>
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<tr>
<td>February 20, 2018</td>
<td>Best of What’s Not Working</td>
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<tr>
<td>February 16, 2018</td>
<td>Best of What’s Working</td>
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<tr>
<td>February 15, 2018</td>
<td>Financials as Volatility Subsides</td>
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<td>February 14, 2018</td>
<td>The Fly That Bit the Tail of the Dog</td>
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<td>February 13, 2018</td>
<td>EM via the Miners</td>
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<tr>
<td>February 12, 2018</td>
<td>The Non-Capitulation Buy List</td>
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<tr>
<td>February 9, 2018</td>
<td>Volatility Tail is Wagging the Dog</td>
</tr>
<tr>
<td>February 8, 2018</td>
<td>The Call of Cash</td>
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<tr>
<td>February 7, 2018</td>
<td>It’s Still Growth</td>
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<tr>
<td>February 6, 2018</td>
<td>After the Melt-Down</td>
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<tr>
<td>February 5, 2018</td>
<td>Treasuries &amp; Credit Risk</td>
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<tr>
<td>February 2, 2018</td>
<td>The Start of Credit Risk Signalling</td>
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<tr>
<td>February 1, 2018</td>
<td>4bps Up = Down</td>
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<tr>
<td>January 31, 2018</td>
<td>Swaping Yer Canadian Stetson for Tin</td>
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<tr>
<td>January 30, 2018</td>
<td>NASDAQ Panic?</td>
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<tr>
<td>January 29, 2018</td>
<td>Say Goodbye To That Secular Decline in Long Rates</td>
</tr>
<tr>
<td>January 26, 2018</td>
<td>Short Rates Matter</td>
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<tr>
<td>January 25, 2018</td>
<td>Financial Subindustry Heat Map</td>
</tr>
<tr>
<td>January 24, 2018</td>
<td>Exploring the Space: Energy Equipment &amp; Services</td>
</tr>
<tr>
<td>January 23, 2018</td>
<td>Parsing European Banks</td>
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<tr>
<td>January 22, 2018</td>
<td>Inflation Matters</td>
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<tr>
<td>January 19, 2018</td>
<td>King CanUTe and the Tide</td>
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<td>January 18, 2018</td>
<td>Off the Canadian Rails</td>
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<td>January 17, 2018</td>
<td>After the Melt-Up</td>
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## Focal Points

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<tr>
<td>February 8, 2018</td>
<td>One Shoe Blues</td>
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<td>May 7, 2017</td>
<td>Quiet</td>
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<tr>
<td>April 23, 2017</td>
<td>Tut-Tut, it Looks Like Rein</td>
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<tr>
<td>April 16, 2017</td>
<td>The Wisdom of Sweet Brown</td>
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This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 39 to 41.
Market Elements

- Equities churned, hit their high after the fed minutes, then fell sharply when the long end of the U.S. curve broke out; all global sectors fell, with Energy, Utilities, and Real Estate losing more than 1% apiece; VIX rose to a 4d high, while VIX edged lower.
- U.S. 30y treasury yield surged 7bps, breaking out of a 9d holding pattern to close at a 2.5y high, the selloff turned to a churn as the S&P 500 fell 1.7% from its intraday high; the U.S. 2y continued its march higher; U.S. corp credit yield and yield curves rose.
- The BBG USD index added another 40bps, advancing against all majors, and pushing the 4d rally to a gain of 1.6%.
- Commodities were mixed to lower; WTI broke back below its 50d MA; gold continued to fall on USD strength; base metals and bulks were mixed; lumber continued to soar.

Levels*  
Currencies (USD per)  
Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg
BBDXY  • 1,131  0.4%  EUR  • 1.2291  -0.4%  CHF  • 1.0657  -0.2%  GBP  • 1.3923  -0.5%
CAD  • 0.7881  -0.3%  AUD  • 0.7807  -1.0%  NZD  • 0.7324  -0.3%  BRL  • 0.3059  -0.6%
MXN  • 0.5312  -0.6%  AUD  • 0.9290  -0.1%  CNH  • 0.1577  0.0%
KRW  • 1,020.4  -1.6%  KRW  • 1,020.4  -1.6%  KRW  • 1,020.4  -1.6%

Levels*  
Currencies (spot)  
Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg
JPTk10  • 0.0929  -0.3%  JPW  • 0.9290  -0.1%  KRW  • 0.1577  0.0%

Moves

Currencies (spot)  
Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg
LME Ni 3m  • 9,700  1.8%  LME Zn 3m  • 1,610  0.3%

Equity Indices & Sentiment  
Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg  Symbol  H/L  Level  %Chg
MSCI World  • 2,117  -0.5%  MSCI EM  • 1,208  1.1%
S&P 500  • 2,701  -0.5%  S&P/TSX  • 15,524  0.5%
STOXX 50  • 3,430  -0.1%  FTSE 100  • 7,282  0.5%
Hang Seng  • 31,432  1.8%  Topix  • 1,762  -0.0%
S&P/ASX  • 5,944  0.0%  CSI 300  • 3,967  0.0%

Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson

* H/L = at a new closing 52-wk High/Low; •/• = within 10% of the 52-week High/Low; Colour codes are inverted for bond and sentiment indications
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
# Intra Day Charts

## 2-Day 1-Minute View

## Currencies
- Bloomberg Dollar Spot Index
- Euro
- Yen
- Chinese Yuan (CNY)
- Canadian Dollar
- Australian Dollar

## Commodities
- Gold (Spot)
- Crude Oil (Brent)
- Crude Oil (WTI)
- Natural Gas (HMX)
- Copper (CMA)
- Nickel (LME 3Ma)

## Bonds
- U.S. 2-Yr Bond
- U.S. 10-Yr Breakeven
- Canadian 10-Yr Bond
- German 10-Yr Bund
- Italian 10-Yr Bond

## Equities
- MSCI World Index
- S&P 500
- S&P/TSX Composite
- iBOXX North American Inv. Grade Index
- Ave. Prime Broker 5yr CDS
Daily Sector Charts (U.S., Canadian, European)

3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

- S&P 500
- U.S. Energy
- U.S. Materials
- U.S. Industrials
- U.S. Consumer Discretionary
- U.S. Consumer Staples
- U.S. Health Care
- U.S. Financial Services
- U.S. Technology
- U.S. Telecom Services
- U.S. Utilities
- U.S. Real Estate
- S&P/TSX Composite
- CDN Energy
- CDN Materials
- CDN Industrials
- CDN Consumer Discretionary
- CDN Consumer Staples
- CDN Health Care
- CDN Financial Services
- CDN Technology
- CDN Telecom Services
- CDN Utilities
- CDN Real Estate
- S&P Europe 350
- European Energy
- European Materials
- European Industrials
- European Consumer Discretionary
- European Consumer Staples
- European Health Care
- European Financial Services
- European Technology
- European Telecom Services
- European Utilities
- European Real Estate
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<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
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<td>China Petroleum &amp; Chemical</td>
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<td>Sinopec 7 SA</td>
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<tr>
<td>Formosa Chemicals &amp; Fibre</td>
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**S&P 500**

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<td>Baker Hughes a GE Co</td>
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<td>Noble Energy</td>
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<td>Chesapeake Energy</td>
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<td>CF Industries</td>
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<td>Freeport-McMoRan</td>
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<td>Ecolab Inc</td>
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<tr>
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<td>Yenik Analytics</td>
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<td>CarMax Inc</td>
<td>KMX</td>
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<td>Garmin Ltd</td>
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<td>TransDigm Group</td>
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<td>Cons Disc</td>
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<td>Mattel Inc</td>
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<td>Siegwerk Integert</td>
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<td>Shimano Ltd</td>
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<td>Quebecor Inc</td>
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<td>-3.7%</td>
</tr>
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<td>Oceaneering Inc</td>
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<td>Guernsey Supply Co Ltd</td>
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<td>-2.4%</td>
</tr>
<tr>
<td>Financials</td>
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<tr>
<td>3mns Bancorporation</td>
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<tr>
<td>PNC Financial Services Group Inc</td>
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<td>Comerica Inc</td>
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<td>Mitsubishi UFJ Financial Group</td>
<td>8306 JP</td>
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<tr>
<td>Wells Fargo Bank</td>
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<td>Everest IE Group</td>
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<tr>
<td>SNS</td>
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**S&P/TSX Composite**

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**Index**

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<td>S&amp;P/TSX Composite</td>
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**Largest Daily Percentage Moves**

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<tr>
<td>Real Estate</td>
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### Market Movers

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- **BHG**
  - Last: 91.09
  - % Chg: +0.5%
- **BIO**
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- **BID**
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- **BAX**
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- **BBJ**
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- **BBM**
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  - % Chg: +0.1%
- **BBA**
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- **BBP**
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</table>

**Market Elements | Page 7**
**Where is High Yield & Low Volatility Still Working?**

- Yesterday, the US 30y yield broke out of a holding pattern, and stocks sold off sharply, so that link begs the question, where is that marketing stunt of “high yield & low volatility” still working?
- We know that a US equity portfolio manager, benchmarked off of the S&P 500 can’t touch that theme, but that’s been the case for almost two years now – Exhibit 1.
- More importantly, and we expect that this is where some of the pressure comes from, we know that a US go-anywhere bond portfolio manager that eyes the Barclays Agg as a benchmark sees equity outperformance as a broken trend, and that trend broke specifically on February 2nd, with the first signal of higher credit risk – Exhibit 2.
- If we load up the 50 stocks held by the High Yield, Low Volatility ETF (SPHD US) into our system, we find only two of the batch are in consistently outperforming trends against the market and sector: Valero Energy and Cisco Systems – Exhibit 3.
- If you take that thesis to Canada, you find the only stocks in outperforming trends are the banks – Exhibit 4.

**Exhibit 1: S&P 500 High Dividend Low Volatility vs S&P 500**

**Exhibit 2: S&P 500 High Dividend Low Volatility vs Barclays Agg**

**Exhibit 3: Consistent Outperformers of S&P High Yield, Low Volatility Fund Holdings: Just Valero and Cisco**

**Exhibit 4: Consistent Outperformers of A Canadian High Yield, Low Volatility Fund Holdings: Just Banks**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
This morning, equities continue to be soft as the US 2y continues to march higher, the USD rallies for the 4th day, and bank credit risk moves higher, which is never a good sign for equity markets.

In the relative realm, the disdain for yield was made far before it became front page news. Relative ultimately begat absolute losses.

On the opposite side of the spectrum, the market continues to reward technology. Yesterday’s positive reversal in US SmallCap technology relative strength is a “rotate in” signal that dovetails nicely with our relative strength breadth reading which is equal weighted, so is more representative of SmallCaps than the MegaCaps – Exhibits 1, 2.

If markets are soft, we suggest you use that to rotate into relative strength. For SMID technology at the stock level, you see the tilt towards outperformance, and the higher number of breakouts than breakdowns – Exhibit 3.

Exhibit 1: Technology vs Russell 2000 Index (Other Sectors in Insert)

Exhibit 2: Global Relative Strength Z-Score

Exhibit 3: Largest 100 Technology Stocks vs Russell 2000 Index (See Link for All North American Listed IT Stocks in $200-$5,000mm Range)

More Stocks Lauded Above Channels, Than Breaking Below

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Best of What’s Not Working

- Markets are on the soft side this morning, and you get the feeling like the spring, massively stretched to the upside when optimism reigned, then hugely stretched to the downside when pessimism took over, has reached its upward limit as a consolidation pattern emerges before markets find new momentum. Bank credit risk is higher for the first day in five, led by the European banks. Overall, we are more optimistic, so we will show the best of the worst in the market's currently least favoured sector. That would be service stocks within Real Estate – Exhibits 1, 2.

- Before drilling down to the stock level, i.e. to make individual investment decisions, it’s always important to point out if your market is covered by the global thesis, from which our first two exhibits derive their information. The outlier in this case is Canada, where real estate is breaking above an 8m flattish underperforming trend, and is above a rising 50d Relative Strength moving average – Exhibit 3.

  o Back to the best of the worst: dividend adjusted price trends on real estate service stocks are largely positive and above rising moving averages – Exhibit 4.

Exhibit 1: Global Real Estate Relative Strength Heat Map (GICS L4)

Exhibit 2: Global Sector Relative Strength Heap Map (GICS L1)

Exhibit 3: Real Estate vs Local Benchmarks

Exhibit 4: DVD Adj Price Trends on Real Estate Service Stocks

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Best of What’s Working

- The best correlation that is working, or the most important thing we learned over the past few weeks, is how important it was to see the credit, volatility, and bank risk reaction to how long duration treasuries sold off and then rebounded relative to the belly of the curve. That was the focus of our “One Shoe Blues” comment. We update the key fit, and the trend on the curve in Exhibits 1 & 2.

- The best of what’s working in bond-land is senior loans (like watching paint dry based on the slope, but it’s working), converts, global high yield, and TIPS. In commodity land, it’s that steep uptrend in oil, and less steep and less volatile move in base metals. Finally, for the global PM benchmarked against ACWI, it’s financials, miners, and AMZN.

Exhibit 1: Fit of Returns Markit HY 5Y CDS, US30-5 Curve

Exhibit 2: US 30-5 Yield Curve

Exhibit 3: Bond ETF Momentum Buys

Exhibit 4: Commodity ETF Momentum Buys

Exhibit 5: Equity Industry & Style ETF Momentum Buys vs ACWI

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Financials as Volatility Subsidies

Since the meltdown, we've put out a technology buy list, a material buy list, but not yet a financial buy list. With SIFI credit risk pausing, as volatility retreats sharply (and that's key for any financial buy list - see Exhibit 3 here), it's time to put that list out.

Financials are breaking to the upside against the market, and our posted 6% outperformance is likely understated. There is also good breadth here, with all global industries but insurance in outperforming trends (see links for granular US, CDN, and European views) – Exhibit 1.

- Beyond the insurance caveat, we'll also point out that financial outperformance does not ring true if you are a US SMID manager (your sector view is different) – Exhibit 2.

- For the global manager, financials in outperforming trends vs ACWI and the global financial sector are highlighted in Exhibit 3 (full list here). We ran the same list (showing stocks in micro view) using the MSCI North American universe in Exhibit 4. Similar lists of market and sector outperformance are found at these links: S&P 500, TSX, EAFE, Europe.

Exhibit 1: Financials vs MSCI World (Industries vs Market in Insert)

Exhibit 2: Financials vs Local Benchmarks

Exhibit 3: Financials Outperforming ACWI & Sector – Full List Here

Exhibit 4: Financials Outperforming MSCI North America & Sector

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Fly That Bit the Tail of the Dog

- The dog in this case would be equities, and the tail as we pointed out last week is equity volatility (see Volatility Tail is Wagging the Dog). What caused the volatility tail to swing is most definitely the bond market, and based on the patterns and correlations that are showing up, the most useful gauge of the bond market, or the fly that bit the tail of the dog, is the US 30-5 yield curve, which went from spiraling lower to pivoting higher after the February 2nd U.S. wage data print – Exhibit 1.

- Prime broker corporate credit risk continues to rise, this morning included, though equity markets are mostly higher. Why is bank credit insurance being bid up?
  - We will point out another “if scenario”, which could cause the second shoe to drop. If the bond market took on another negative shock, like an aggressive CPI print today for example, then we would expect that the yield curve would steepen, and corporate credit risk would be shocked to the upside – Exhibit 2.
  - Equity volatility would also follow the curve higher – Exhibit 4.
  - Technically, the VIX could reach 100 – Exhibit 3.
    - Of course, there are lots of ifs here. But they are based on the current and adaptive math of the market.
EM via the Miners

• We start again with the USD, as it’s moving lower, which is what we expect in our bullish thesis. Still US futures are lower, and Europe is trading in the red. We will sidestep this and go towards where currency matters:
  - The emerging markets currency basket is rising at 10%/year. Miners are trending higher at more than 5x that rate. The two time series are related – Exhibit 1.
• It was not quite a month ago, when miners were egregiously overbought. That’s not the case anymore, and while many equity indices have broken trends, that’s not true for this group – Exhibit 2.
• Credit risk for base metals and steel is still in check. We are thus justified in pointing out a momentum buy list where momentum is harder to find – Exhibit 3.
The Non-Capitulation Buy List

- This morning the US dollar rolls over, if only just a bit, which we see as a slight positive but corporate credit risk remains elevated, and credit default swaps on six of seven prime brokers continue to widen, which defies the green on the screen viewed in equity land.

- Since selling last week was largely indiscriminate, and our capitulation filters are full, we continue to point our clients there to look for opportunities – see link.

- We also find it useful to consider the stocks that have held in well: the low volatility momentum buys with good yield and dividend growth – Exhibit 1.

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<th>Name</th>
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<th>Gpr</th>
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<th>Vol (%)</th>
<th>Trend Slope</th>
<th>%Chg w/ 50D MA</th>
<th>Chg w/ 150D MA</th>
<th>RSI</th>
<th>Div</th>
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<th>DVD Growth 3y</th>
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<td>3%</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>55</td>
<td>2.43%</td>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
This morning, prime broker credit risk, while very low, rises another 4%, is above a rising 50d MA, and is up against the falling 150d MA. It’s never about the level of credit risk. It’s always about the direction. It’s also always about the reason for the uptick. We tackled that in yesterday’s One Shoe Blues. To reiterate, there are a lot of assets in funds that don’t behave well when volatility rises. We present the volatility in stocks, bonds, commodities and currency below. It’s rising everywhere. Stocks, bonds, and commodities are all under pressure this week.

We are always a buyer of panic. Capitulation filters are here. We also respect the fact that this is becoming a “power of one” market, where uncorrelated assets become correlated, portfolio effects of diversity are lost, and knife catching skills become useful.

You gotta keep one eye looking over your shoulder

Pink Floyd, Dogs
The Call of Cash

- If you are an asset allocator, you have seen the outperforming trends of stocks vs bonds break to the downside – Exhibit 1.
- You have also seen the outperformance of the most cash-like treasuries against the treasuries index – Exhibit 2.
- You have also seen many sectors and indices break to the downside, where the implicit denominator is cash – Exhibit 3.

And you are also grappling with the downside risk if volatility continues to rise from here. That’s the focus of today’s Focal Points – please see “One Shoe Blues”.

I ain’t no psychiatrist, I ain’t no doctor with degrees, it don’t take too much high IQ’s to see what you’re doing to me

Aretha Franklin, Think

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
It’s Still Growth

• It’s still a bit of a nervous calm tape this morning. Oversold stocks are rebounding. Some oversold bonds are rebounding. The US dollar continues to enjoy some counter-trend strength, which keeps gold on a back foot, and gold stocks (i.e. the Canadian Materials sector) themselves look worse. Brent, which broke a steep uptrend on Monday, holds at a 1m low. But with capitulation filters full, and equity indices at, or below the bottom ends of channels, we want to focus on what to own in this post melt-down phase of the market, not what to sell.

• Own growth, as it continues to trump value – Exhibit 1.

• Own technology, as the outperforming trend looks more secular than cyclical – Exhibit 2.

• Filter for earnings growth, as it continues to be favoured over yield or value – Exhibit 3.

Exhibit 1: MSCI World Growth vs Value (See links for R1k & R2K)

Exhibit 2: IT vs ACWI (vs Other Benchmarks Here, Breadth Insert Here)

Exhibit 3: Stocks vs ACWI Technology Index with an Earnings Growth Filter Applied (Price Trends Here)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

After the Melt-Down

- This is the other bookend to our “After the Melt-Up” (stocks melted up 2% more after that piece...then the melt-down began).
- Stocks and futures are lower again, and MSCI World, and the Topix, and EAFE, and the STOXX 50, and the FTSE 100, which broke trend during yesterday’s session, continue to explore space below the channel. If markets get punished to the same extent that they were lauded during the melt-up phase, the downside risk is just ~2% away from here – Exhibit 1.
- Meanwhile in volatility land, the fear of fear is a signaling a buy point and we channel John Candy for our quote of the day as short volatility product collapses – Exhibit 2.
- In credit land, here is your inflection point - Exhibit 3. We expect churn, not a V-Bottom, and as such we are looking to buy equity. We will continue to direct clients toward our capitulation filters (available daily in the TIPS suite), which are rather full.
- Finally, while we are not economists, from our vantage point we are not convinced that we will get significant wage inflation. Certainly on this trading desk, twas the bots that were doing all the work yesterday. The bots are also at a key inflection point – Exhibit 4.

Blowed up good, blowed up real good

Big Jim McBob (Flaherty) & Billy Sol Hurok (Candy), SCTV Farm Film Report

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Treasuries & Credit Risk

- If you didn’t know it before, you now know it: inflation matters, and especially so given the low rate environment (thanks central banks), which begat the melt-up priced equity environment, albeit that melt up started to melt down last week. That environment is changing.
- Let’s look at the treasury market in terms of price, to look at where we see it going technically (removes bias of targeting some sort of yield). Treasury pricing has formed a major lower high, is trending lower, below all moving averages, and we expect to see a major lower low this year – Exhibit 1.
- As we pointed out on Friday, we are just getting a smattering of signaling that this move in yields is impacting the credit risk market. We should start to see more, which will ultimately give us a decent panic buy signal, but so far the signaling is weak. Still, let’s define it for the record, this time from the perspective of bank credit risk (your ultimate source of contagion) – Exhibit 2.
- In terms of equity price indices, many are just coming off of melt-up labeling, and few have broken trend – Exhibit 3.
- In terms of individual stocks, our capitulation filters are filling up, so you should at least start considering the victims – Exhibit 4.

Come gather ‘round people wherever you roam and admit that the waters around you have grown

Bob Dylan

Exhibit 1: Barclays US Treasury Index

Exhibit 2: CDS on HSBC & Other SIFI’s Where Level Is Above Channel

Exhibit 3: The Few Equity Indices Which Have Broken Price Uptrends

Exhibit 4: Stocks Oversold by Bollinger Bands, Where Bands Are 3X the Width of the 1y Average – See Broader List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Start of Credit Risk Signalling

- There are lots of inflection points to consider here, so there is no room for charts, but they are all linked in, as per usual.
- US and Canadian bonds have been brutalized all week, and equities are just starting to feel the pain, but the credit risk pain, which would ultimately lead to a flight to quality bid for bonds just started to show up. We had to go across the pond to see it, but it’s there – Exhibit 1.
  - And of course the reason for this uncomfortable season – Exhibit 3.
- Finally, for Canadians, it took two days for the parts to follow the composite and break below uptrends, but that happened yesterday – Exhibit 5. For the Midcap manager there were a number of REITs which joined the club and broke trend yesterday. There is also a pharma stock that severed a trend that clocks in just shy of 2,500%/year (as 3 of 10 have). Yesterday’s SmallCap severed trends are here.

Exhibit 1: Markit iTraxx Europe Crossover 5Y CDS Severing a Narrowing Trend – Full List of CDS Indices Here

Exhibit 2: Price Trends on US Treasury Indices

Exhibit 3: US Inflation Expectation Indices

Exhibit 4: S&P High Dividend Low Volatility High Dividend Index

Exhibit 5: Canadian Equity Indices – The Parts Followed the Whole to Break Trend Yesterday

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
4bps Up = Down

- Watching the intraday is incredibly important to us. It’s where we see relationships start to form. In this regard, treasury yields across the curve and inflation expectations continue to push higher. At pixel time, the US 10y is up 4bps and S&P 500 futures, while still positive, are starting to wane – Exhibit 1.

- Equities had a fantastic January. Bonds had a very poor one. If you are an asset allocator, just paying attention to the trends for your performance, you are overweight stocks, but should realize that that relationship looks stretched – Exhibit 2.

- That’s not to say that we see a rotation into bonds. It’s hard to argue for this given that big ole nasty pattern in inflation expectations, which if you didn’t look at it a week ago, you really should look at now – Exhibit 3.

- So, given the pressure on bond pricing – which stems from rising inflation expectations (Exhibit 3), the aggressive pricing of stocks vs bonds (Exhibit 2), the relationship that is just starting to form (once again) between bonds and stocks (Exhibit 1), and the melt-up pricing of stocks – we’ll just quantify the risk to trend for the S&P 500 is 7% - Exhibit 4.

Come back to reality, Dom. Please Miles, Inception

Exhibit 1: US 10y Bond Price & S&P Equity Futures at 6:45am

Exhibit 2: S&P 500 vs Barclays US Treasury Index

Exhibit 3: US 5y5y Inflation Expectations

Exhibit 4: S&P 500 Index

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Swaping Yer Canadian Stetson for Tin

While we can write about US and global indices pulling back from a melt-up condition, we in the North have a distinctly different picture, where that equity pullback is enough to break many an uptrend. That’s true of the composite, interest sensitive sectors, staples and energy – Exhibit 1. Our Subindustry view is shown in Exhibit 2.

The best place to hide is the banks. You’ve done that – Exhibit 3.

The largest downside risk driver is energy, and we’ve harped on how Canadian energy is different, and not in a good way before, only now it’s worse – Exhibit 4.

Exhibit 1: S&P/TSX TR Index, With Sector TR Index Trends in Insert

Exhibit 2: Total Return Price Trends on CDN Subindustries

Exhibit 3: Banks vs TSX: Index and Members Below

Exhibit 4: S&P/TSX Energy (Top) & Western Crude Oil Differential

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
NASDAQ Panic?

We follow up our note on some bond market implied volatility panic signals, with the same for the equity market signaling, which came to the fore yesterday – Exhibit 1. The reality is that while bond market implied volatility may be due to fear of rising rates, what panic can you possibly subscribe to the NASDAQ, where volatility is at a 15m high? Panic hedging by FOMO investors we suppose– Exhibit 2.

We continue to expect that rates will rise, and that technology may have to share the road with banks, and in this regard we see a mind-the-gap opportunity – Exhibit 3.

Our subscription for technology investors still facing melt-up pricing? Same as always, screen the stocks breaking above underperforming trends for buy candidates – Exhibit 4.

Exhibit 1: Implied Volatility Gauges Surging Above Top Ends of Channels Yesterday

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<th>Name</th>
<th>Symbol</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>% Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>% Chg wrt 200d MA</th>
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<td>↑</td>
<td>↑</td>
<td>14%</td>
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<td>25.4%</td>
<td>17.6%</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>-40%</td>
<td>1.5</td>
<td>21% Above Falling</td>
<td>16% Above Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEM IV</td>
<td>.EEMIV</td>
<td>15.7%</td>
<td>20.7%</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>-6%</td>
<td>5.5</td>
<td>27% Above Rising</td>
<td>29% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NASDAQ Biotech</td>
<td>.BBBV</td>
<td>9.1%</td>
<td>22.5%</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>-16%</td>
<td>5.5</td>
<td>20% Above Rising</td>
<td>18% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIX</td>
<td>VIX</td>
<td>24.9%</td>
<td>25.5%</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>-16%</td>
<td>5.5</td>
<td>31% Above Rising</td>
<td>28% Above Falling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 2: NASDAQ Composite

Exhibit 3: US 10y Bond Yield and Ratio of Global IT / Global Banks

Exhibit 4: Technology Stocks Breaking Above and Underperforming Trend vs ACWI Technology Yesterday

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Say Goodbye To That Secular Decline in Long Rates

- Here’s the updated chart from our “Inflation Matters” chart deck, where the US 10y breaks above the 30 year secular downtrend – Exhibit 1.
- Here is the sense of unease priced into the implied volatility in bond markets, where volatility was trending lower, but is just now breaking above those downtrends – Exhibit 2.
- Here is cost to protect corp credit debt against default, sleeping like a baby – Exhibit 3.
  - That last point is important to us. The mean reversion observed in the US 10y yield needs a reason to revert towards the mean. That’s what we are always looking for, but at this point in time we are not finding. We continue to recommend you underweight your utilities, telecom, and real estate.

Exhibit 1: US 10 Year Bond Yield With ±1, 2 Standard Deviation Markers

![Exhibit 1: US 10 Year Bond Yield With ±1, 2 Standard Deviation Markers](chart1.png)

Exhibit 2: German Bund Futures (RX1) And Other Bond IV Indices

![Exhibit 2: German Bund Futures (RX1) And Other Bond IV Indices](chart2.png)

Exhibit 3: North American HY 5Y CDS (Other Corp CDS in Insert)

![Exhibit 3: North American HY 5Y CDS (Other Corp CDS in Insert)](chart3.png)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Short Rates Matter

- From a Tactical Asset Allocation view, technology heavy North America is outperforming MSCI World, but broke down for the second time this week, and now stands below a (slightly) falling 50d MA. On the flipside, EAFE and Europe are both in underperforming trends, yet broke above said trends this week – Exhibit 1.

- From a sector relative strength view, technology broke below an outperforming trend yesterday, from the perspective of US large and small caps, and indeed global small caps – Exhibit 2. From that same perspective, notice financials in outperforming trends, severing underperforming trends, or at a 5.5m high, threatening to do so in global, US, EAFE, and European markets – Exhibit 3.

- From a global relative strength breadth perspective, and considering the backup in European short rates over the past few days, with the notable move in the German 2y bund breaking to the upside, and realizing how the backup in North American short rates have spurred North American financials higher, we make the observation that financials just nudged ahead of technology in the derby – Exhibit 4.

- Short rates matter. They are shifting the sector, and thus regional relative strength landscape. See our note on banks? Nuff said.

Exhibit 1: Regions vs MSCI World in USD – Severed Trends View

<table>
<thead>
<tr>
<th>Name</th>
<th>1d RS Chg (%)</th>
<th>5d RS Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>0.0%</td>
<td>-0.2%</td>
<td></td>
<td></td>
<td>3%</td>
<td></td>
<td></td>
<td>0% Below Falling</td>
<td>0% Above Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td>0.1%</td>
<td>0.4%</td>
<td></td>
<td></td>
<td>-5%</td>
<td>-2.0</td>
<td>1%</td>
<td>Above Rising</td>
<td>0% Below Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>0.3%</td>
<td>0.4%</td>
<td></td>
<td></td>
<td>-10%</td>
<td></td>
<td></td>
<td>1% Above Rising</td>
<td>-1% Below Rising</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 2: Technology Severing Outperforming Trends Yesterday

<table>
<thead>
<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>1-Day RS Chg(%)</th>
<th>5-Day RS Chg(%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA Trend</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200d MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology vs. S&amp;P 500</td>
<td></td>
<td></td>
<td>14%</td>
<td>1.0</td>
<td></td>
<td>-8.2%</td>
<td>-1.2%</td>
<td>-0.6% Below Falling</td>
<td>2.0% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology vs. MSCI World Small Cap</td>
<td></td>
<td></td>
<td>10%</td>
<td>1.0</td>
<td></td>
<td>-8.2%</td>
<td>-1.2%</td>
<td>-0.5% Below Falling</td>
<td>1.0% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology vs. Russell MidCap</td>
<td></td>
<td></td>
<td>19%</td>
<td>1.0</td>
<td></td>
<td>-8.4%</td>
<td>-1.5%</td>
<td>-0.1% Below Falling</td>
<td>2.9% Above Rising</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 3: Financials vs MSCI World

<table>
<thead>
<tr>
<th>Name</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>1-Day RS Chg(%)</th>
<th>5-Day RS Chg(%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA Trend</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200d MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials vs. MSCI World</td>
<td></td>
<td>1%</td>
<td></td>
<td></td>
<td>0.0%</td>
<td>0.3%</td>
<td>1.1%</td>
<td>Above Rising</td>
<td>1.0% Above Rising</td>
<td></td>
</tr>
<tr>
<td>Financials vs. S&amp;P 500</td>
<td></td>
<td>8%</td>
<td></td>
<td></td>
<td>-0.2%</td>
<td>0.5%</td>
<td>1.3%</td>
<td>Above Rising</td>
<td>3.4% Above Rising</td>
<td></td>
</tr>
<tr>
<td>Financials vs. MSCI Europe</td>
<td></td>
<td>-4%</td>
<td>5.5</td>
<td></td>
<td>0.3%</td>
<td>0.6%</td>
<td>2.3%</td>
<td>Above Rising</td>
<td>2.4% Above Rising</td>
<td></td>
</tr>
<tr>
<td>Financials vs. MSCI EAFE</td>
<td></td>
<td>0%</td>
<td>5.5</td>
<td></td>
<td>0.1%</td>
<td>0.2%</td>
<td>1.5%</td>
<td>Above Rising</td>
<td>1.2% Above Rising</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 4: Global Relative Strength Breadth

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Marketwatch
Global Financials broke out to a one-year high on a relative basis yesterday, and for most benchmarks, financials are in an outperforming trend, or is breaking above an underperforming trend (See our note on European banks, and check out the surge in EM!). Meanwhile, for the Global SmallCap or US SMID manager, the opposite is true. A top down view, using our Global Relative Strength heat map helps to uncover the why, as it details the best - investment banks, the positive - diversified banks, and the weaker membership, which includes small cap regional banks - Exhibit 1.

Leading with strength, we highlight dividend-adjusted price trends on all investment banks and brokers. The current reality is that half of the stocks are overbought, and thus do not offer great entry points. We paired down the list to show the non-overbought stocks in the insert – Exhibit 2.

Exhibit 1: Global Financial Relative Strength Heat Map

Exhibit 2: DVD Adj Price Trends on Investment Bank & Brokerage Stocks (Insert Shows the Stocks Trending Higher Which are Not Overbought)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit.
Exploring the Space: Energy Equipment & Services

- Atta boy Mnuchin, let’s exacerbate the weak USD trend – Exhibit 1.
- Of course that trend is a key cornerstone to our recent package “Inflation Matters”: The USD continues to trend lower, and commodities continue to trend higher. Go ahead and take a look at the spectrum of commodities, and what do you see has the highest torque? Yep it’s oil. Let’s go with that.
- The leveraged play on oil are energy equipment and services stocks, which are V-bottoming, and importantly, it’s still early in the V – Exhibit 2.
- For the energy specialist, there are some service stocks which are now momentum buys in outperforming trends, but the vast majority of stocks are still in, or are severing underperforming trends. We expect that this shift to green will continue – Exhibit 3.
- From the perspective of the energy services ETF (Exhibit 4), yes it’s priced at the top end of the channel, and your ideal entry point came earlier, but we see this as a major double bottom, so just like our mantra for USD weakness, we see energy services strength...

...I mean, really.. explore the space. I like what I’m hearing. Roll it.

The Bruce Dickinson

Exhibit 1: BBG USD Index at 6am or Noon Mnuchin (Davos) Time

Exhibit 2: Energy Services vs MSCI World

Exhibit 3: Energy Services vs MSCI ACWI Energy (Price Trends Here)

Exhibit 4 – Oil Services ETF (OIH US) DVD Adjusted Price Trend
Trends & Inflection Points

Parsing European Banks

• Banks are signaling across the pond, and that signal made it to the other side of the Atlantic – Exhibits 1, 2.

• To be clear, these are relative strength signals, against benchmarks that are melting higher, or at least trying to in the case of Europe, so don’t expect to find too many absolute bargains. Almost half of European banks sport an RSI north of 70. Still, besides the melt-up stocks, there are ones breaking out of short-term downtrends, and a small handful of these that are not overbought. There is fare for both the momentum minded and bottom fishing types. You know what end of the spectrum you invest in – Exhibit 3.

• While we touched on the key theme yesterday, our updated marketing deck, “Inflation Matters” is found here.

Exhibit 1: European Banks vs MSCI Europe

Exhibit 2: European Bank ETF (BNK FP) vs S&P 500 (Price Here)

Exhibit 3: Spectrum of Dividend Adjusted Price Trends of European Banks (vs STOXX 50 Here, vs MSCI World in Local Currency Here)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Inflation Matters

- **The pattern** most disconcerting to bond bulls – Exhibit 1.
- How it’s playing out as **Treasury manager’s shift** – Exhibit 2.
- For equities, **it’s what you don’t own** – Exhibit 3.
- That large head and shoulders bottom for inflation expectations (Exhibit 1) would take a year to play out. The caveat that could be the fly in the ointment which kills the global growth needed to give us rising inflation is **systemic risk**. Here we continue to monitor China, **as instructed by the China Banking Regulatory Commission** and the **unwind** that could very well be a headwind – Exhibit 4.

Exhibit 1: **US 5y5y Inflation Expectation (Other 5y5s Here)**

Friday’s 7bps Pop was a Change in the Bond Used To Calculate the 5y5y, Still it Forces Us to Consider

Exhibit 2: **TIPS vs. Barclays Treasury Index (Other Slices in Insert)**

At Risk: Long-Term Treasuries
The Shift: Cash

Exhibit 3: **Global Sector Relative Strength Breadth Heat Map**

It’s About What You Don’t Own

Exhibit 4: **Bonds of CBRC’s “Systemic Risk” Companies**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

King CanUTe and the Tide

- Trend – Exhibit 1.
- Tide – Exhibit 2.
- Impact – Exhibit 3.
- Lost causes – Exhibit 4.

“By our command, waters retreat
Show my po
er, halt at my feet”
Genesis

Exhibit 1: US Trade Weighted Broad Dollar Index

Trend / Width -7% / 4%
Trend Length 14 mo

Exhibit 2: USD, Rogers Commodity Index, Rolling Fit of Returns

Yes, It Can Be Chopp
y At Times, But A Falling / Rising US Dollar, Is
Positive / Negative For Commodities

Exhibit 3: MSCI World Utilities (Other Utility Benchmarks in Insert)

Topping & Breaking Lower

Exhibit 4 – Utility Momentum Sells, DVD Adjusted Price Trends

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Off the Canadian Rails

- Here's the inflection point on the 6th largest Canadian stock, Canadian National Railway...it just broke trend yesterday – Exhibit 1.
- That just so happens to be the North American railway with the weakest technicals, in that it’s below a falling 50d MA, with the flattest slope in the bunch. The next weakest member is CP Rail, which weakened to a 1.5m low, and is poised just at its 50d MA, with the 2nd flattest slope in the group – Exhibit 2.
- We show technical supports and downside risk for CNR and CP in Exhibits 3 & 4.
- For the global industrials manager, there is no question that the group is heterogeneous, with outperformers and underperformers, with the outperformers being US and Japanese.
- That same tool we provided a link to above “vs Peers” can also be used to cycle through the rest of global industries, or US and Canadian subindustries. Some examples: Global Chemicals, North American Airlines vs the US Airline Index, North American Banks vs the TSX Diversified Bank Index. That tool is available daily in our TIPS Suite – see the Click Here to the top left.

She caught the Katy and left me a mule to ride

Taj Mahal

Exhibit 1: Dividend-Adjusted Price Trends on Largest 10 CDN Stocks

- CM CN
- SU CN
- RY CN
- CN
- TD CN
- BNS CN
- MFC CN
- BMO CN
- CNR CN
- ENB CN

Exhibit 2: Dividend-Adjusted Price Trends North American Rails

- UNP US
- NSC US
- CSX US
- KCS US
- CP Ch
- CNR CN

Exhibit 3: Dividend-Adjusted Price Trend on CDN National Rail in C$

Exhibit 4 – Dividend-Adjusted Price Trend on CDN Pacific Rail in C$

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit

Taj Mahal
After the Melt-Up

- Yesterday we picked on miners for being overbought, using the nervous tape of base metal pricing to highlight the excuse that would take stocks out of that state. The reality is that while miners were the most egregiously overbought grouping, they are not alone. While you have North American credit widening from overnarrowed positioning, you really don’t see the same natural pullback in North American equity indices, which have melted up beyond the top ends of rising channels. This is also the positioning in global benchmarks – Exhibits 1-2.

- In regional & style as well as industry ETF terms, the most egregiously overbought ETFs based on RSI are highlighted in Exhibit 3. At the stock level, see link.

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Our somewhat tempered, yet still bullish equity thesis says the US dollar should be falling, yet for the last few days it’s been rising. Anyone with experience with significant market dislocations, as what was witnessed with the demise of low volatility ETNs on Tuesday, is always on the lookout for the potential for another shoe to drop. If it were to drop, here’s what it would look like: Volatility of all types would rise and risk parity, worth ~$1tn would continue to suffer (Exhibit 1), this breakdown would be a stop loss signal, not a buy-the-dip opportunity (Exhibit 2), you would care, because those ~$1tn of assets adjust to the environment, and we are in a new environment. It also just so happens that prime broker creditworthiness is positively correlated with implied volatility (Exhibit 3) and one must always pay attention when bank credit risk is at an inflection point (Exhibit 4). This is an “if” not a “will” scenario. But we do know that higher bank risk = lower equity markets. We will continue to watch multi-asset volatility (rising this morning), and bank credit risk (rising this morning). Our buy the dip “after the melt-down” thesis requires credit risk to fall, not rise from here. The unexamined life is not worth living (Socrates).

I say: Mama, I can’t find one of my shoes! And she says, Oh no. Not again.

B.B. King, One Shoe Blues

---

Source: All charts/tables BMO Capital Markets, Bloomberg
Quiet

- Technically, the Renminbi is at the apex of a pennant, which we expect will break to the weakening side, in the direction that the Hong Kong dollar has recently been moving since early January – Exhibit 1.

- Quantitatively, the expected break may be the signalling, which brings to light an upcoming slowdown (see references to the leading indication of credit impulse below) in Chinese demand for raw materials, which may compound the supply problem in oil, which may lead to lower oil prices, which may lead to lower inflation expectations, which may lead to lower long duration treasury yields, which may continue to lead the yield curve lower, which may continue to pressure the relative performance of U.S. banks, which may continue to pressure the performance of the S&P 500 against the world, which was foreshadowed by the state of resource heavy Canadian equity market against the world.

- Enjoy the rest of your weekend. We do offer up some interesting reading material, given the damp chilly weather out there...

References for “Credit Impulse”
1. Credit and economic recovery; Michael Biggs, Thomas Mayer, Andreas Pick; DNB Working Paper No. 218 July 2009
2. China’s Continuing Credit Boom; Jeff Dawson, Alex Etra and Aaron Rosenblum; Liberty Street Economics; February 27, 2017
3. China’s Credit Slowdown Poses a Threat to Global Growth; WSJ May 1, 2017
5. World Bank warns of China debt risk from backdoor local borrowing, FT May 6, 2017

“There’s zero correlation between being the best talker and having the best ideas.”

Susan Cain, Quiet

Exhibit 1: Chinese Renminbi

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
On Friday, treasury volatility reached the point where we can quantify it as being panicked, or above the top end of its range – Exhibit 1. Our system now begs the question, “Is this extreme to be faded, or is this the sign of a regime change?”

- This is not panic selling of treasuries; it is panic buying, which is by far the more common affliction witnessed over the past several years – Exhibit 2.
- This escalation of treasury volatility, which has culminated in Friday’s signal, has been going on for a month now, and as such, appears to be “episodic,” like those of the past few years. The last time we had a bond panic buying “regime” was in 2014-15. During that period of considerable duration, bond folk were panic buyers for quite some time before turning into panic sellers.

Importantly, the buying phase was also coupled with a dive in oil prices, which ultimately led to OPEC production cuts.

- We are in the OPEC production cut era now, and really in the second chapter of this era;
- Chapter 1 narrative entailed belief that OPEC cuts could make a difference in U.S. production.
- In March, and again last week as WTI cracked back below $50, we have been reading the market as being in chapter 2, where the reality of shale staying power sets in. But there is more to this story.

- To bring in other Market Elements, alongside the panic buying of treasuries, observed as higher volatility with yields rolling over, we observe industrial metals rolling over, oil rolling over, and finally inflation expectations rolling over. This roll has also been aligned with Chinese monetary conditions rolling over, or perhaps better put, being reined in - Exhibit 3. If this rein/roll continues, and we expect that it will, our bond panic buying inflection point signals the regime change, which can be backdated one month prior.

I’m just a little black rain cloud
Robert & Richard Sherman, 1966
The Wisdom of Sweet Brown

- We can give you the knowledge that on Friday the MSCI All Country World Index broke an uptrend, and that the NASDAQ did too, and that the cost to protect a basket of Life & Health Insurers broke to the upside that very day, and finally that the US 30y yield just broke yield support and has entered its “thinking fast” air pocket (Exhibits 1-4), but that would not impart wisdom.
- Wisdom would come from realizing how these seemingly disparate events are related as markets head back towards the zero bound in rates.
- We view these equity breakdowns as stop loss considerations, rather than buy the dip opportunities and continue to recommend being long duration.

- Here’s some Sunday night reading for you; new stuff from Ben and old stuff from BIS.

“Well, I woke up to get me a cold pop and then I thought somebody was barbecuing. I said, ‘Oh Lord Jesus, it’s a fire.’ Then I ran out, I didn’t grab no shoes or nothing, Jesus. I ran for my life and then the smoke got me, I got bronchitis! Ain’t nobody got time for that.”

Sweet Brown

Exhibit 1: MSCI All Country World Index (MXWD)

Exhibit 2: NASDAQ Composite (CCMP)

Exhibit 3: Global Life & Health Insurance Ave 5y CDS

Exhibit 4: US 30y Bond Yield

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
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Inverse ETFs seek to provide the opposite of the investment returns, also daily, of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect.
Distribution of Ratings (February 15, 2018)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>47.0%</td>
<td>24.7%</td>
<td>56.0%</td>
<td>49.2%</td>
<td>56.9%</td>
<td>55.3%</td>
</tr>
<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>49.8%</td>
<td>17.7%</td>
<td>42.4%</td>
<td>47.6%</td>
<td>41.7%</td>
<td>39.7%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>3.2%</td>
<td>10.5%</td>
<td>1.6%</td>
<td>3.1%</td>
<td>1.4%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings Key (as of October 2016)

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- OP = Outperform - Forecast to outperform the analyst’s coverage universe on a total return basis;
- Mkt = Market Perform - Forecast to perform roughly in line with the analyst’s coverage universe on a total return basis;
- Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis;
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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)

(January 2010 - April 2013)

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