# Quantitative/Technical Package

## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
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<th>Page</th>
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<tbody>
<tr>
<td>December 19, 2019</td>
<td>NEW Market Elements</td>
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## Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>December 20, 2019</td>
<td>NEW Christmas Shopping Dos</td>
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<tr>
<td>December 19, 2019</td>
<td>Christmas Shopping Don’ts</td>
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<td>December 18, 2019</td>
<td>Commodities in 2020</td>
<td>11</td>
</tr>
<tr>
<td>December 17, 2019</td>
<td>Christmas Card From the SMID Energy Sector</td>
<td>12</td>
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<td>December 16, 2019</td>
<td>Chinese Inflection Points</td>
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<tr>
<td>December 13, 2019</td>
<td>New Best Sector?</td>
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<td>December 12, 2019</td>
<td>Communication Shorts</td>
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<tr>
<td>December 11, 2019</td>
<td>New Best Underweight</td>
<td>16</td>
</tr>
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<td>December 10, 2019</td>
<td>Three, Sir</td>
<td>17</td>
</tr>
<tr>
<td>December 9, 2019</td>
<td>Semi-Annual Energy: Made You Look</td>
<td>18</td>
</tr>
<tr>
<td>December 6, 2019</td>
<td>The Technical Sage View on Biotech</td>
<td>19</td>
</tr>
<tr>
<td>December 5, 2019</td>
<td>Biotech Blues or Breakout?</td>
<td>20</td>
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<tr>
<td>December 4, 2019</td>
<td>Immunity?</td>
<td>21</td>
</tr>
<tr>
<td>December 3, 2019</td>
<td>Why Not Cash?</td>
<td>22</td>
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<td>December 2, 2019</td>
<td>Charge</td>
<td>23</td>
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<tr>
<td>November 29, 2019</td>
<td>Holiday Shopping Simplified</td>
<td>24</td>
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<tr>
<td>November 28, 2019</td>
<td>Canadian Thanksgiving Desert</td>
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<td>November 27, 2019</td>
<td>Alice’s Restaurant</td>
<td>26</td>
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<td>November 26, 2019</td>
<td>Reality, Let It Slide</td>
<td>27</td>
</tr>
<tr>
<td>November 25, 2019</td>
<td>The Expurgated Capitulation Filter</td>
<td>28</td>
</tr>
<tr>
<td>November 22, 2019</td>
<td>The Outperforming Financials</td>
<td>29</td>
</tr>
<tr>
<td>November 21, 2019</td>
<td>Trimming Candidates</td>
<td>30</td>
</tr>
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<td>November 20, 2019</td>
<td>Canadian Opportunities</td>
<td>31</td>
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<tr>
<td>November 19, 2019</td>
<td>The Weak Side</td>
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<td>November 18, 2019</td>
<td>North American Growth Momentum Buys</td>
<td>33</td>
</tr>
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<td>November 15, 2019</td>
<td>The Picture of Health Care</td>
<td>34</td>
</tr>
<tr>
<td>November 14, 2019</td>
<td>The Overextended Set</td>
<td>35</td>
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## Focal Points

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<tr>
<td>October 10, 2019</td>
<td>Trainspotting</td>
<td>36</td>
</tr>
<tr>
<td>August 20, 2019</td>
<td>Blue Drag</td>
<td>37</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 38 to 41.
Asian markets edged lower; European bourses were mixed and little changed (+30bps); North American indices pushed 20-70bps higher with the S&P 500 and NASDAQ minting new records; real estate led most global sectors 20-70bps higher; utilities and financials churned.

North American yields were little changed to lower across the curves; all other global 10y yields rose 1-6bps, while the 2y yields were mixed and little changed; the 10-2 U.S. yield curve reached a 14m high; U.S. inflation expectations were mixed, while the German and Japanese gauges continued to push higher; Sweden ended negative rates regime; corporate default indices continued to narrow.

Gold traded sideways for a fourth day; the BBG USD index edged lower and traded an inside day; most majors rose modestly against the greenback; the yen rebounded from a 7m weak; the pound extended its pullback for a third day, paring most of its gains for the month.

Crude oil benchmarks continued to edge up and minted new 3m highs; nickel led all base metals 0.5-2% higher; most precious minerals posted minor gains; lumber advanced 2% and narrowed in on an 11m high.

Levels

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<tr>
<td>EUR</td>
<td>1.1123</td>
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<tr>
<td>CHF</td>
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<tr>
<td>CAD</td>
<td>0.9975</td>
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<tr>
<td>MXNx10</td>
<td>0.5281</td>
<td>0.2%</td>
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<tr>
<td>NZD</td>
<td>0.6607</td>
<td>-0.3%</td>
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<tr>
<td>BRL</td>
<td>0.2458</td>
<td>-0.1%</td>
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<tr>
<td>CAD</td>
<td>0.7619</td>
<td>-0.1%</td>
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<tr>
<td>AUD</td>
<td>0.6886</td>
<td>0.5%</td>
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<tr>
<td>NZD</td>
<td>0.6607</td>
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<tr>
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<td>0.2458</td>
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<tr>
<td>MXNx10</td>
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<tr>
<td>ZAR</td>
<td>0.7003</td>
<td>0.6%</td>
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<tr>
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<tr>
<td>CHN</td>
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Moves

Currencies (spot)

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<td>AUD</td>
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<td>NZD</td>
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<td>BRL</td>
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<td>0.7619</td>
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<td>CHN</td>
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 Commodities

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<th>Level</th>
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<td>Lumber</td>
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<tr>
<td>Corn</td>
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<tr>
<td>Silver</td>
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<tr>
<td>Palladium</td>
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<tr>
<td>Palladium</td>
<td>1,937.5</td>
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<td>CME Cu</td>
<td>282.40</td>
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<tr>
<td>LME Al 3m</td>
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</tr>
<tr>
<td>LME Ni 3m</td>
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<tr>
<td>LME Zn 3m</td>
<td>1.05</td>
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Sectors

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<tr>
<td>Info Tech</td>
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<tr>
<td>Comm Srv</td>
<td>0.02</td>
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<tr>
<td>Cons Disc</td>
<td>0.02</td>
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<tr>
<td>Cons Stap</td>
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</tr>
<tr>
<td>Energy</td>
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</tr>
<tr>
<td>Materials</td>
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<tr>
<td>Industrials</td>
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<tr>
<td>Commodities</td>
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<tr>
<td>Utilities</td>
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<tr>
<td>Financials</td>
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Equity Indices

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<th>Level</th>
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<tbody>
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<td>S&amp;P 500</td>
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</tr>
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<td>FTSE 100</td>
<td>7,574</td>
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<td>S&amp;P 500</td>
<td>2,341</td>
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<tr>
<td>MSCI World</td>
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<td>STOXX 50</td>
<td>3,739</td>
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<tr>
<td>HS Index</td>
<td>415.70</td>
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<tr>
<td>Topix</td>
<td>1,107</td>
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<tr>
<td>CDX IG 5Yr</td>
<td>45.7</td>
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<td>S&amp;P/ASX</td>
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<tr>
<td>CSI 300</td>
<td>4,027</td>
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<td>STOXX 50</td>
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<tr>
<td>S&amp;P 500</td>
<td>2,341</td>
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<tr>
<td>MSCI World</td>
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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

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

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<th>Currency</th>
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<th>Dec 19</th>
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<tr>
<td>Bloomberg Dollar Spot Index</td>
<td>1.107</td>
<td>1.105</td>
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<tr>
<td>Euro</td>
<td>1.114</td>
<td>1.113</td>
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<tr>
<td>Yen</td>
<td>109.4</td>
<td>109.2</td>
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<tr>
<td>Chinese Yuan (CNH)</td>
<td>6.495</td>
<td>7.010</td>
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<tr>
<td>Canadian Dollar</td>
<td>0.762</td>
<td>0.762</td>
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<tr>
<td>Australian Dollar</td>
<td>0.688</td>
<td>0.687</td>
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<th>Commodity</th>
<th>Dec 18</th>
<th>Dec 19</th>
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<tbody>
<tr>
<td>Crude Oil (Brent)</td>
<td>69.8</td>
<td>69.8</td>
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<td>Crude Oil (WTI)</td>
<td>61.6</td>
<td>61.6</td>
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<tr>
<td>Natural Gas (HMX)</td>
<td>2.32</td>
<td>2.32</td>
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<tr>
<td>Copper (COMX)</td>
<td>281</td>
<td>282</td>
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<tr>
<td>Nickel (LME 3Mo)</td>
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<td>U.S. 10-Yr Breakeven</td>
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<td>U.S. 10-Yr Bond</td>
<td>1.90</td>
<td>1.88</td>
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<td>Canadian 10-Yr Bond</td>
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<td>German 10-Yr Bund</td>
<td>0.20</td>
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<td>Italian 10-Yr Bond</td>
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<th>Equity Index</th>
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<th>Dec 19</th>
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<tr>
<td>S&amp;P 500</td>
<td>3,211</td>
<td>3,214</td>
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<tr>
<td>S&amp;P/TSX Composite</td>
<td>17,080</td>
<td>17,080</td>
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<tr>
<td>VIX</td>
<td>11.5</td>
<td>11.5</td>
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<tr>
<td>CDX North American Inv. Grade Index</td>
<td>45.5</td>
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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. Communication 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 Communication 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 Communication Services
European Utilities
European Real Estate
## Market Movers – Largest Daily Percentage Moves

<table>
<thead>
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<tr>
<td><strong>Energy</strong></td>
<td></td>
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<tr>
<td>Ultrapa Participacoes</td>
<td>UGPA3.BZ</td>
<td>2.8%</td>
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<tr>
<td>Ecopetrol SA</td>
<td>EC.US</td>
<td>1.6%</td>
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<tr>
<td>Royal Dutch Shell</td>
<td>RDAS.LN</td>
<td>1.1%</td>
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<tr>
<td>Origin Energy</td>
<td>ORG.AU</td>
<td>-0.9%</td>
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<tr>
<td>Santos Ltd</td>
<td>STO.AU</td>
<td>-0.9%</td>
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<tr>
<td>Oil Search</td>
<td>OSH.AU</td>
<td>-1.5%</td>
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<tr>
<td><strong>Materials</strong></td>
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<tr>
<td>Glenore PLC</td>
<td>GLEN</td>
<td>2.3%</td>
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<tr>
<td>Gerdau SA</td>
<td>GGB.BS</td>
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<td>Glencore AG</td>
<td>GCEO.SW</td>
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<td>HeidelbergCement</td>
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<td>-2.2%</td>
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<tr>
<td>Sumitomo Metal Mining</td>
<td>SMJS.JP</td>
<td>-2.5%</td>
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<tr>
<td>Oj Holdings</td>
<td>3861.JP</td>
<td>-3.8%</td>
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<td><strong>Industrials</strong></td>
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<td>CCR SA</td>
<td>CCOR3.BZ</td>
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<td>Makita Corp</td>
<td>6586.JP</td>
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<td>FRY.IM</td>
<td>1.6%</td>
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<td>Aena Sme SA</td>
<td>AENA.M</td>
<td>-1.8%</td>
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<tr>
<td>Ericsson AB</td>
<td>EPRA.SS</td>
<td>-1.8%</td>
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<tr>
<td>Yamato Holdings</td>
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<tr>
<td><strong>Cons Disc</strong></td>
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<tr>
<td>Kerry Group</td>
<td>KYG.ID</td>
<td>1.8%</td>
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<tr>
<td>WM Morrison Supermarkets</td>
<td>MRW.LN</td>
<td>1.6%</td>
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<tr>
<td>Associated British Foods</td>
<td>ABF.LN</td>
<td>1.5%</td>
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<tr>
<td>Fomento Economico Mexicano SAB</td>
<td>FEMSAID.MF</td>
<td>-1.6%</td>
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<tr>
<td>FamilyMart</td>
<td>8028.JP</td>
<td>-2.2%</td>
</tr>
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<td>Wal-Mart de Mexico SAB de CV</td>
<td>WALMEX.MF</td>
<td>-2.3%</td>
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<tr>
<td><strong>Cons Stap</strong></td>
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<td>Conagra Brands</td>
<td>CAG</td>
<td>15.9%</td>
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<td><strong>Health Care</strong></td>
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<tr>
<td>AstraZeneca</td>
<td>AZLN</td>
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<tr>
<td>Celltrion Inc</td>
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<td>Shinogi</td>
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<td>CSL Ltd</td>
<td>CSL</td>
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<tr>
<td>Olympus Corp</td>
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<td><strong>Financials</strong></td>
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<td>DNB ASA</td>
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<td>Macronix Group</td>
<td>MDO.AU</td>
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<td>Banco de Sabadell</td>
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<td>Norma Holdings Inc</td>
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<td>Hargreaves Lansdown</td>
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**Market Elements** | **Page 7** | **December 19, 2019** | **Canadian Market Movers**
**Trends & Inflection Points**

Christmas Shopping Dos

- Starting broad, then narrowing in:
  - Large Cap technology – Exhibit 2.
  - At the aggregate level, it’s a bit pricy, with an RSI at 70, and at the top of the channel – Exhibit 3.
- But at the stock level, we can tune out the overbought stocks to come up with a pretty good shopping list for the portfolio – Exhibit 4.

---

**Exhibit 1: MSCI North America vs. MSCI World**

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**Exhibit 2: Technology vs. S&P 500**

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**Exhibit 3: US Technology ETF (XLK US) Price Trend**

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**Exhibit 4: North American Technology Momentum Buys**

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<th>Share Trend</th>
<th>Trend Stag</th>
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<th>Lev (20%)</th>
<th>%Chg net 36M</th>
<th>%Chg net 12M</th>
<th>%Chg net 24M</th>
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<td>Kintan Corp</td>
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</table>

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

Christmas Shopping Don’ts

• In line with our call to bottom fish in energy, and take the capital from staples, we focus on the later today. Staples, breaking down in our system, has really been underperforming at a rate of 23%/year over the past 17w. There are better places to invest – Exhibit 1.

• We can twin the energy/staples call nicely using our relative strength breadth work. When energy rises/falls, staples are the counterbalance of this move, falling/rising in tandem – Exhibit 2.

• So no soap on-a-rope under the tree this Christmas – Exhibit 3.
  - And any more household products you can think of are off the list as well – Exhibit 4.

Exhibit 1: Staples vs. MSCI World (Short-Term Trend in Insert)

Exhibit 2: Energy & Staples Breadth Relative Strength Z-Score

Exhibit 3: Procter & Gamble Co (PG US) vs. ACWI

Exhibit 4: Largest (10th Decile) Household Products Stocks vs. ACWI

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

And any more household products you can think of are off the list as well – Exhibit 4.
**Commodities in 2020**

- **Commodities** in 2020 will be just like commodities in 2019, and 2018, and...they will continue to be intimately related to Asia, the growth engine of the world. The best real-time indication of Asian growth optimism/pessimism is found in currency markets – Exhibit 1.

- So what do we do with yesterday’s inflection point – Exhibit 2?

- The key to the Asia dollar index is China, where the currency underwent a positive inflection point on December 12, and started to retrace that on December 13 – Exhibit 3.

- We were going to leave you with the chart of basic materials vs ACWI to highlight how much capital we we think you should allocate there, but the answer is pretty simple, so we will let the chart speak for itself.

  - Instead, as we’ve handled energy quite a bit recently, we’ll cover the other basic resources sector, with the declaration that tis not the season to be thinking about material things, at least relative to the broader equity opportunity set – Exhibit 4.

---

**Exhibit 1:** Asia Dollar, BBG Commodity, Rolling 30d Fit of Returns

*Commodity Performance Remains Intimately Related to Asian Currency Performance*

**Exhibit 2:** Bloomberg Commodity Index

**Exhibit 3:** Offshore Chinese Renminbi (CNYUSDx10)

This positive inflection point, and the high, came on the US announcement of the phase 1 deal (12/12). The start of retrenchment came upon the Chinese announcement of the phase one deal (12/13).

**Exhibit 4:** Materials vs MSCI World (same Trend Elsewhere, Except in Canada and US SmallCaps)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Christmas Card From the SMID Energy Sector

- **One week ago**, Canada (being closer to the North Pole) received the relative strength Santa Claus call to buy energy. Yesterday, that signal reached south of the border, for US Small Caps. We suggest that you use funds from staples for the purchase – Exhibits 1, 2.

- This same messaging can be seen elsewhere, including Russell MidCaps, and Global SmallCaps, but not for Europe or EAFE.

- **Not a lot of light has shone upon the energy space this year. It’s been absolutely horrible, which has been fantastic for the “underweight energy” call that has played itself out beautifully. But alas, winter solstice is at hand, and we see (selected) evidence of the birth of new optimism – Exhibit 3.
  
  - For the stock picker, the choices are here or [here for the global SmallCap manager](#) – Exhibit 4.

  Hey Charley I think I’m happy for the first time since my accident

  Tom Waits

---

**Exhibit 1: Global Relative Strength Breadth Heat Map**

**Exhibit 2: Sectors vs Russell 2000 (Sectors vs Global SmallCaps Here)**

**Exhibit 3: Energy vs Russell 2000 (Energy vs Global SmallCaps Here)**

**Exhibit 4: Severed Underperformers vs. R2k (vs Global SmlCaps Here)**

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

Chinese Inflection Points

• On Friday, MSCI China was lauded above the top end of a rising channel, but more important for us technically, is that it broke a two-year downtrend. When Chinese stocks rally, they can rally very hard, so it’s the inflection point which matters, and it’s here – Exhibit 1.

• For a tactical asset allocation fund, the Hang Seng has been the absolute worst place to allocate funds. That inflection point also arrived on Friday – Exhibit 2.

• We never look at China, without looking at bank credit risk. That signals here are all bright green – Exhibit 3.

• We highlight price trends on the largest 15 Chinese stocks, to detail – Exhibit 4:
  - A number of stocks appear overbought, but in every case, this is in a “low volatility environment (circled),” so it’s more of a breakout signal, than an overbought “time out” signal.
  - With Tencent breaking out, China Mobile (Telecom, our new least favourite sector), is the only decent mega-cap short.

Exhibit 1: MSCI China (Other Chinese & EM Indices in Insert)

Exhibit 2: Hang Seng vs MSCI World (Other Global Markets in Insert)

Exhibit 3: Chinese Bank CDS Average (939, 1398, 3988)

Exhibit 4: Price Trends on Largest 15 Stocks – Full Spectrum Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
New Best Sector?

- New best sector? We are always on the lookout, but in a similar fashion to the US-China phase 1 trade deal at pixel time, we don’t have one. For many regions, it’s still technology – Exhibit 1.

- We’ve noted the bifurcation of the sector a month ago, and that’s still the case today (Exhibit 2), and the longer that exists, the more we see it as labeled (bifurcated), and not the one set of subindustries leading the other set down. With health care pulling back, technology continues to lead in our global relative strength breadth reading. So in total, the highest concentration of outperformance (for momentum managers), or severed underperformers (for bottom fishing managers) continues to be found in technology.

  - Taking the cue from the bifurcation, investors should look to the best subindustries for buy candidates, and the weak side for their avoids, or shorts if you do that – Exhibits 3, 4.

Exhibit 1: Technology vs MSCI World (IT vs Local Markets in Insert)

Exhibit 2: Technology SubIndustry Relative Strength Breadth Heat Map

Exhibit 3: Largest 10 Technology (in Strong SubIndustries) Momentum Buy List – Full List Here

Exhibit 4: Largest 5 Technology (in Weak SubIndustries) Momentum Sell List – Full List Here

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

Today we follow up our call on communication services as “New Best Underweight” with more granularity. First, by country – Exhibit 1.

- The only place where the sector is outperforming (at an extremely modest pace), above rising moving averages, is in the US. Here, there is a short momentum buy list, and a larger collective, wrapped up in an ETF, which one can consider as a funding short – Exhibit 2.

- From a timing perspective, we note:
  - Canadian TELUS (T CN) has been trending higher at a dividend-included rate of 9%/year, with a band width that is wider than that. The market is doing better. As TELUS is near the top of a channel, it’s a good time to move to an underweighted position vs the TSX – Exhibit 3.
  - When we tune the RSI up in our communication services momentum sell list to hunt out the stocks where one has a decent bid to sell into, we spot Television Francaise 1 SA (TFI FP) – Exhibit 4.

But if you want to take the short cut I know the way

Exhibit 1: Communication Services vs Local Benchmarks

<table>
<thead>
<tr>
<th>Name</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>Rs Lo (%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50-d RS HA Trend</th>
<th>%Chg wrt 200d RS HA</th>
<th>Chg wrt 200-d RS HA Trend</th>
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<tr>
<td>vs. S&amp;P 500</td>
<td>-2%</td>
<td>0.1%</td>
<td>Above Rising</td>
<td>0.2%</td>
<td>Above Rising</td>
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<td>vs. MSCI World</td>
<td>-1%</td>
<td>-0.2%</td>
<td>Below Falling</td>
<td>-0.3%</td>
<td>Above Rising</td>
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<td>vs. MSCI Switzerland</td>
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<td>Above Falling</td>
<td>0.6%</td>
<td>Above Rising</td>
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<td>vs. MSCI EAFE</td>
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<td>Below Falling</td>
<td>-2.9%</td>
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<td>vs. S&amp;P/TSX Composites</td>
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<td>Above Falling</td>
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<td>vs. MSCI World Small Cap</td>
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Exhibit 2: US Telecom ETF (IYZ US) Price Trend – Funding Short

Exhibit 3: TELUS Corp (T CN) vs TSX – Underweight

Exhibit 4: Television Francaise 1 SA (TFI FP) – Timing Short

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

- We've put out two positive notes on energy in the past two days (here and here), and we have seen energy's relative strength breadth reading move from horrible to just bad over the very short term (it has the highest positive “short-term” momentum in our Group Selection report). We trust you get the picture. Now...
- ...at the polar opposite end of our relative strength breadth momentum scale, we find communication services, which has just been crowned worst sector by our RS breadth z-Score reading – Exhibit 1.
- When you look down at the more granular GICS level 4 level, you see why our reading at the sector (level 1) basis looks so bad – Exhibit 2.
  - For clients who need to have some weight in communication, we detail the few – Exhibit 3.
  - For clients who should be doing a year-end clean-up, we detail the many – Exhibit 4.

But maybe it's fair to say it was a lack of communication

Enid, Barenaked Ladies

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
We have to update the picture on oil. Not prompt, which does not really matter unless you need to take delivery, but 12m oil, which is more important for stocks with long duration plans. In that regard, we were not stirred when this year’s attack on Saudi facilities failed to impress long-dated oil. Strangely enough, however, the subsequent slightly upward sloping meander was enough to take out the downtrend. Oil continues to fall at 20%/year = energy stocks continue to be the world’s most liquid short. Change that pattern, and energy deserves a fresh look – Exhibit 1.

- For corporations that need such a pullout in oil’s downtrend to survive, and for whose credit survival is in question, this provides great leverage. We highlight a key inflection point on the count of three – Exhibit 2.
  - Which leads to this equity inflection point – Exhibit 3.
  - Which is repeated here – Exhibit 4.

- High leverage is not for the faint of heart. Get it wrong, and these are widow maker trades. But get it right and your portfolio thanks you.

Four shalt thou not count, neither count thou two, excepting that thou then proceed to three.

Brother, Monty Python and the Holy Grail

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

Semi-Annual Energy: Made You Look

- OK, perhaps our title is too caustic, but energy continues to have the weakest relative strength breadth score, and it took a pretty sharp weekly rally in oil (curiously lined up by OPEC and the Saudi Aramco IPO) to cause the positive severed trends we are seeing on an absolute level, and in Canada (with weak banks) from a relative perspective as well – Exhibit 1.
- In Canada, there is some pretty good “rotation in” signaling – Exhibit 2.
- So we highlight the technicals on a large cap and SMID player – Exhibits 3, 4.

Exhibit 1: S&P/TSX Energy vs. TSX Composite

Exhibit 2: Energy Stocks vs S&P/TSX Composite

Heavily Stacked to the Negative, With Decent Rotation In Signaling

Exhibit 3: Suncor (SU CN) Dividend Adjusted Price Trend

Exhibit 4: ARC Resources (ARX CN) Dividend Adjusted Price Trend

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

Note: BMO Capital Markets is Restricted on PPL.
Trends & Inflection Points

The Technical Sage View on Biotech

- This is our **third and final look** at the technicals on biotech.
  - The last of the macro charts is here – Exhibit 1.
  - The reason we don’t run technicals on SMID biotech stocks is there – Exhibit 2.
  - We add value when investors combine our math with their **fundamental perspective** by asking these questions – Exhibit 3.
- So do the fundamentals, then...

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Dear, when thou has finished thy task (parsley, sage, rosemary and thyme), come to me, my hand for to ask

Scarbrough Fair; Simon & Garfunkel

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**Exhibit 1: Global Biotechnology vs. Health Care**

**Exhibit 2: Sage Therapeutics Price Trend**

**Exhibit 3: Who Else Can Give You a Technical Perspective on Price Trends on 121 Biotechnology Stocks in Such a Compressed View?**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Biotech Blues or Breakout?

- We feel obligated to go back to health care, as it has improved to take second place in our relative strength breadth heat map. We provide context within the other sector opportunities in our updated view below – Exhibit 1.

- In our coverage of the overbought state of biotechnology yesterday, we missed a very impressive chart. You will find very few four-year trends in our work, yet that’s our upper limit. Biotechnology has reached the limit in terms of duration, and also the limit in terms of being at the top of the channel. From this technical perspective, there is no question, it’s a sell. If you look at the preceding four years, that perspective does a 180. Was the past four years just a retracement of the preceding fantastic run, and is this the breakout? Our system asks the right questions at the right time. This is it – Exhibit 2.

- Then there is the perspective of pharmaceuticals from both a relative and absolute perspective – Exhibits 3, 4.

- So it all comes down to the biotechnology call. Get it right.

Exhibit 1: Global Relative Strength Breadth Heat Map

Exhibit 2: Biotechnology vs MSCI World (Longer Term Trend in Insert)

Exhibit 3: Global Pharmaceuticals vs MSCI World

Exhibit 4: Global Pharmaceuticals Absolute Price Trend

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

- We’re very used to the on/off trade rhetoric which ends up slamming stocks one day, and lifting them another depending on which way the message winds blow. This morning we looked for a group which was largely immune from this in the current round, and we found US biotechnology.

- On a market cap weighted basis, the run has been fantastic. So fantastic, that the only prescription we have is to find trim candidates – Exhibit 1.

- From an equal weighted breadth perspective, we know that the group is typically a heterogeneous bunch of stocks, somewhat randomly pivoting from a high to low decile, and beneath this, always exhibiting a bell shape curve of trends – Exhibit 2.

- At the ETF level, the group has never been so overbought. Never – Exhibit 3.

- At the stock level, when we look at the list of large cap overbought stocks (less immune to individual drug outlook pops/dumps), we point out the pre-MACD sell chart on Amgen – Exhibit 4.

Exhibit 1: S&P 1500 Biotechnology Total Return Index

- Trend / Width: -6% / 18%
- Trend Length: 27 mo

Exhibit 2: Biotechnology Relative Strength Breadth Z-Score

- It’s a Heterogeneous Group, With Limits

Exhibit 3: NASDAQ Biotechnology ETF (IBB US) DVD Adj Price Trend

- Trend / Width: -6% / 19%
- Trend Length: 11 mo

Exhibit 4: Amgen (AMGN US) Dividend Adjusted Price Trend

- Trend / Width: 10% / 15%
- Trend Length: 7 mo

The Gift That Gives Back

Commercial from a product which eludes us right now.
Trends & Inflection Points

Why Not Cash?

- **US short-term paper offers a juicy 1.6%ish yield**, which is 1) quite generous relative to most of the past decade, and 2) **while stalled out as of late, has fallen, making the total return of owning said instrument a 5% annualized rate of total return over the past 15m**. Further, when compared with equities, which have been on top (the top performance, yet also, as we have noted, at the top of the channel) lately, **cash looks ominously positioned at the bottom of a channel**, which has spiked higher on a semi-regular basis over the past two years – Exhibit 1.

- In a **treasury portfolio**, cash has made relative strength higher highs and lows for more than a quarter now, and one can argue that a trend of outperformance has been established – Exhibit 2.
  - Yet, **we see** the largest component of this outperformance to be related to the longer duration of the denominator, and the major factor here has not been a detrimental rise of inflation, but rather the **barking dog of real rates**. Importantly, the barks are **quieting down** – Exhibit 3.

- So when cash comes knocking and long duration gets knocked down, as were **yesterday’s key inflection points in bondland**, we see it as an opportunity to own long duration as we expect performance to come both via the trend, and the volatility – Exhibit 4.

---

**Exhibit 1: US Short-Term Bond TRI vs S&P 500 TRI**

**Exhibit 2: US Short-Term Bond TRI vs. Barclays US Treasury Index**

**Exhibit 3: US Inflation Linked Bond Yield (All Maturities)**

**Exhibit 4: Long Duration vs Barclays US Treasuries (Spectrum in Insert)**

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

Charge

- We are keeping with Friday’s shopping theme, yet moving to the micro level. A subindustry, which has been positive and at worst neutral for years, is Data Processing & Outsourced Services, the home of bellwethers Visa & MasterCard. These two large stocks dominate the market-cap weighted trends: 1) the relative is just exiting a correction phase, and 2) the absolute price chart is exiting a consolidation pattern – Exhibits 1, 2.
  - Our positive relative strength breadth reading is more a function of the SMID stocks in the group, which provide opportunity for the momentum investor and the bottom fisher alike – Exhibit 3.

Exhibit 1: Data Processing & …(in Reality, V & MA) vs S&P 1500

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

Exhibit 2: S&P 1500 Data Processing Outsourced Services Price Trend

Exhibit 3: Data Processing Outsourced Services Stocks vs ACWI (vs S&P 500 Here, Price Trends Here)

Core Set of Outperformers
Many Underperformers Breaking Above These Trends

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

Holiday Shopping Simplified

- Simple message, eh? – Exhibits 1, 2.
- You’re welcome 😊.

Exhibit 1: MSCI North America vs MSCI World

Exhibit 2: MSCI Regions vs MSCI World (in USD)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Once again, serving humble pie – Exhibits 1, 2.

- This is why Canadians need to invest capital abroad, in different countries, and sectors – Exhibits 3, 4.

### Exhibit 1: S&P/TSX 60 vs MSCI World (in USD)

Trend / Width: -2% / 3%
Trend Length: 11 mo

### Exhibit 2: S&P/TSX 60 vs S&P 500 (in USD)

Trend / Width: -5% / 3%
Trend Length: 11 mo

### Exhibit 3: Outperforming Regional & Style Indices vs S&P/TSX

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<th>Name</th>
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<th>Trend</th>
<th>Slope</th>
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<th>RS Lo (Mo)</th>
<th>% Chg wt 50 M</th>
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<td>Nasdaq 100 ETF</td>
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<th>Chg wt 50 M A</th>
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<td>US Consumer Staples ETF</td>
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<tr>
<td>INTR LN</td>
<td>International Partnerships</td>
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</table>

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

**Alice’s Restaurant**

- As you step up to your Thanksgiving capital markets menu, are you more likely to choose THIS at the top of a channel, expecting acceleration, or a consolidation in time, not price? – Exhibit 1
- Or would you rather choose THAT consolidation pattern, willing to bide time before a, hopefully (looking here & there for the signaling), upside breakout in the direction of the major trend? – Exhibit 2

- If you prefer THAT, which is the Barclays US Treasury Index, over THIS, which is the S&P 500, then you are more likely to bottom fish amongst stocks HERE (real estate and utility stocks in outperforming trends, many of which are at lows), and trim/sell THERE (financials in underperforming trends, many of which are at highs) – Exhibits 3, 4.

*Or you may be in a similar situation, and if you’re in a situation like that, there’s only one thing you can do*

Arlo Guthrie

Exhibit 1: **THIS**

Would You Buy This Here, At the Top of a Channel, Perhaps Expecting a Steeper Trend, or Consolidation in Time, and Not Price?...

Exhibit 2: **THAT**

...Or This, Here, At the Mid-Point of a Consolidation Range?

Exhibit 3: **HERE**

WY US 32%

PLD US 21%

MAA US 28%

EQIX US 32%

NRG US 23%

ETR US 27%

EVRG US 12%

AMT US 20%

CTI US 17%

Equity US 11%

WELL US 14%

PFU US 21%

FL US 12%

ORE US 10%

LNT US 12%

ESS US 14%

CMS US 12%

Exhibit 4: **THERE**

BLK US -1%

CFG US -1%

MSCI US -3%

MSH US -5%

RE US -3%

FITB US -5%

MMC US -3%

RJF US -8%

L US -8%

MS US -12%

NTRS US -15%

PRU US -15%

LNC US -14%

MTB US -13%

PBCT US -15%

AIG US -6%

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

Reality, Let It Slide

• This is why we create tables and tables of time series! Most US real rates series are at 4-6w lows, and below falling 50d MAs. All are in messy downtrends and are below falling 200d MAs. US real rates are fading away – Exhibit 1.
  o And yes, in a disinflationary environment, this fade from the threat of rising real rates, which was the key market element forcing the pullback in "long duration" assets such as real estate, utilities, and gold, is a call to end the pause/pullback – Exhibit 2.
  o Gold stocks too – Exhibit 3.
    • We believe these signals (Exhibit 1) and the edge that they seem to have on bullion (Exhibit 2), make it an opportune good time to focus on gold outperformers, and add – Exhibit 4.

It comes down to reality and it’s fine with me ‘cause I’ve let it slide

Billy Joel

Exhibit 1: US 10y Real Rate (Other US Real Rates in Insert)

Exhibit 2: US 10y Real Rate, Gold, Rolling 30d Correlation of Returns

Exhibit 3: Gold Stocks vs ACWI

Exhibit 4: Gold Momentum Buys vs ACWI & ACWI Materials

Note: BMO Capital Markets is Restricted on DGC.
Trends & Inflection Points

The Expurgated Capitulation Filter

- With many equity indices still near the tops of channels (Exhibit 1), and with implied volatility (a gauge we use for counterparty risk) very depressed (Exhibit 2), it’s hard to look for fresh, opportune buying opportunities at the macro level.
  - So it’s a good time to delve into the micro details to find opportunity. Our capitulation filters do just that.
  - Our favourite of this set is “oversold with wide Bollinger bands), as volatility is mean reverting. With resources still in the weakest strength and momentum quadrant, we give you the expurgated version – Exhibit 3.

Exhibit 1: MSCI World

Extended At The Top of a Rising Channel. Not Necessarily a Sell But...

Exhibit 2: Average Stock, Bond and Commodity Implied Volatility

...With Macro Volatility Very Depressed, We Need to Look at Where Micro Volatility Has Expanded to Look for Buying Opportunities

Exhibit 3: Largest 15 Global Oversold, Non-Resource Stocks with Wide Bollinger Bands (Full List Here, North American Listed Stocks Here)

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

- Going to our equal-breadth relative strength report to see what the market is rewarding or rejecting, we note that technology, healthcare, and industrials are most favored, energy continues to be most disregarded, while the remaining sectors are grouped in the neutral zone.
  
  - We covered a few times the current best and worst sectors of the relative strength spectrum, so we’ll have a closer look at Financials which stands right in the middle. After spending most of the past year on the negative side of neutral or worse, the group started to recover from a low in early September to just above the zero mark – Exhibit 1.

- To find out the distribution of outperformers and underperformers, we descend to the subindustry level where there are five groups garnering top 3 deciles and four groups bottom 3 deciles – Exhibit 2.

- Since we already wrote about banks, the largest group on the weak side, we’ll look at the outperformers and select for your consideration the financial stocks in the best groups that are outperforming both the market and sector – Exhibit 3

Exhibit 1: Global Relative Strength Sector Heat Map (FN in Insert)

Exhibit 2: Financials Subindustry Relative Strength Breadth Heat Map

Exhibit 3: Largest 15 Global Financial Stocks in Strong Subindustry Outperforming ACWI & Financials With RSI < 70 (Full List)

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

Yesterday, major indices paused the fantastic string of gains that started in early October. Looking at the macro picture, we see that the conditions of the current “rental” regime haven’t changed much since we last detailed them:

- Our preferred gauge of inflation expectations remains depressed – Exhibit 1
- Most real rates continue to consolidate at the same level as when we penned our “Readjustment Blues” – Exhibit 2.
- The CRB raw industrials has failed to break above its downtrend and remains near a multi-year low – Exhibit 3.

- Going to the micro level, with the number of overbought stocks in our entire universe (more than 5000) outnumbering almost 4:1 the oversold names, we realize that certain names would be excessively overbought and therefore could make good trimming candidates. We selected those that were lauded above consistent uptrends and RSI level above 70 - Exhibit 4.

Exhibit 1: US 5y5y Forward Breakeven Rate (Inflation Expectation)

Trend / Width: -15% / 18%
Trend Length: 19 mo

Exhibit 2: Universal Infl. Linked Bond Yield (Real Rate) All Maturities

Trend / Width: -150% / 88%
Trend Length: 14 mo

Exhibit 3: CRB Raw Industrials

Trend / Width: -12% / 4%
Trend Length: 6 mo

Exhibit 4: Largest 15 Global Stocks Above Consistent Uptrends and Overbought on RSI (Full List)

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

- As the **Canadian market** has continued to mint new highs, we turn our attention to the Canadian manager who needs to surpass the S&P/TSX.

- For trend-following opportunities, we selected the most consistent outperformers that are not overbought. Our filters identified **28 momentum buys** - Exhibit 1.

- For bottom-fishing opportunities, we highlight the **18 names that severed their underperforming trends** with the caveat that about half of them are overbought – Exhibit 2.

**Exhibit 1: Largest 15 Momentum Buys vs. S&P/TSX (Full List)**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>LT RS</th>
<th>RS</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPTSX</th>
<th>Trend</th>
<th>Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA</th>
<th>RSI Dfly</th>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit

**Exhibit 2: Largest 15 Severed Market Underperformers (Full List)**

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<th>Name</th>
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<th>Grp RS</th>
<th>LT RS</th>
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<th>MktCap (CAD)</th>
<th>Vol (%)</th>
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<th>Trend</th>
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<th>%Chg wrt 50d MA</th>
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<td>1</td>
<td>6</td>
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<td>-17%</td>
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<tr>
<td>QBR/B CN</td>
<td>Quebecor CabiSat</td>
<td></td>
<td>4</td>
<td>2</td>
<td>7</td>
<td>5,916</td>
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<td>-</td>
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<td>LNR CN</td>
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<td>2,953</td>
<td>2.01</td>
<td>-</td>
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<td>6%</td>
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<td>60</td>
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<td>-</td>
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<td>Above Rising</td>
<td>60</td>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit

Note: BMO Capital Markets is Restricted on AC, TSGI
Quantitative/Technical

The Weak Side

- With many major indices at or near record or multi-year highs, we decided to turn to our collection of long/short filters, take a look at the weak side and highlight some of the stocks that are not participating in the current rally. We settled upon the collection of names in weak subindustries that sport consistent negative trends of at least six months in duration, which are below falling short-term and long-term moving averages and not oversold. We show the largest global such stocks (North American stocks here) in Exhibit 1.

Exhibit 1: Largest 25 Global Momentum Sells in Weak Subindustries (Full List)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gpr RS</th>
<th>LT Price Trend</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>HI (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA</th>
<th>RSI</th>
<th>Div</th>
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<tr>
<td>EDF FP</td>
<td>Electricite de France</td>
<td>ElectUti</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>31,990</td>
<td>1.70</td>
<td>-</td>
<td>-44%</td>
<td>1.0</td>
<td>-3%</td>
<td>Below Falling</td>
<td>50</td>
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<td>HMFSP J</td>
<td>Hanlava Mandala Sampoerna</td>
<td>Tobac</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>16,999</td>
<td>2.14</td>
<td>-</td>
<td>-67%</td>
<td>-9%</td>
<td>Below Falling</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 HK</td>
<td>Hong Kong &amp; China Gas</td>
<td>GasUtil</td>
<td>10</td>
<td>3</td>
<td>10</td>
<td>32,435</td>
<td>1.02</td>
<td>-</td>
<td>-30%</td>
<td>-2%</td>
<td>Below Falling</td>
<td>41</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCI/BN</td>
<td>Rogers Communications</td>
<td>WsTelSrv</td>
<td>8</td>
<td>3</td>
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<tr>
<td>3328 HK</td>
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<td>9</td>
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<td>23,394</td>
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<td>-35%</td>
<td>-4%</td>
<td>Below Falling</td>
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<tr>
<td>ET US</td>
<td>Energy Transfer Equity LP</td>
<td>OG STr</td>
<td>9</td>
<td>8</td>
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<td>29,764</td>
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<td>10</td>
<td>13,339</td>
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<td>Williams Cos</td>
<td>OG STr</td>
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<td>10</td>
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<td>8</td>
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<td>40,428</td>
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<td>Trip.com Group</td>
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<td>Cisco Systems</td>
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<tr>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

North American Growth Momentum Buys

- On Friday, all major growth vs value ratios that we track rose and finished at their highest levels in 1-2.5 months. In addition, we note that all crossed above their 50d moving averages, which turned negative after the sharp pullbacks of late August/early September – Exhibit 1

- Going beyond the last month of consolidation, we notice that major trends remain positive and that recent performances have started to rebound from the lower end of channels – Exhibit 2.

- Last month, we looked at index levels and highlighted the outperformance potential of Russell 1000 technology growth against value, then remarked favorably on the positive breakout of Russell 2000 Growth. We now move to the micro level and give you the list of North American momentum buys with an earnings growth filter applied – Exhibit 3.

Exhibit 1: Global Growth vs. Value Indices

Exhibit 2: ACWI Growth vs. Value

Exhibit 3: Largest 15 North American Momentum Buys vs ACWI, with an Earnings Growth Filter Applied (Full List)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Picture of Health Care

- After spending most of the preceding year in positive territory our breadth reading for health care started to pull back and turned to the negative side of neutral or worse in January as the most numerous groups in the space, pharma, and biotech, weakened to the lowest deciles. Lately, though, the sector started to rebound after minting a nine-year low in October and is now approaching zero again – Exhibit 1.

- Going to the subindustry level, we see a mixed picture with equipment and services leading the upside side, biotech improving towards neutral yet still weak and pharma leading the downside – Exhibit 2.

- We’ll follow the mixed picture and offer for your consideration two lists:
  - Top 3 decile stocks outperforming ACWI and Health Care – Exhibit 3
  - Pharma and Biotech stocks underperforming ACWI and Health Care – Exhibit 4

Exhibit 1: Health Care Relative Strength Breadth Z-Score

Exhibit 2: Health Care Subindustry Relative Strength Breadth Map

Exhibit 3: Largest 15 Top Health Care Subindustries Outperforming ACWI and Sector (Full List)

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

November 15, 2019
Trends & Inflection Points

The Overextended Set

- Many world equity indices have minted record or multi year highs – Exhibit 1.
- The recent strength has lifted many stocks in weak subindustries, so we think there could be some profit-taking opportunities among the overextended names in these groups. To get the set we parsed our universe for stocks sporting a negative trend and an RSI above 60 – Exhibit 2.

Exhibit 1: World Equity Benchmarks

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>Chg Last Day</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>Hi</th>
<th>Chg w/50 Day MA</th>
<th>Chg w/200 Day MA</th>
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</thead>
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<tr>
<td>Russell 1000 G</td>
<td>RU10GCTR</td>
<td>16%</td>
<td>40.0</td>
<td>3%</td>
<td>Above Rising</td>
<td>8%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>SPX</td>
<td>14%</td>
<td>40.0</td>
<td>3%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>S&amp;P 100</td>
<td>SPX100</td>
<td>15%</td>
<td>-</td>
<td>4%</td>
<td>Above Rising</td>
<td>8%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Russell 2000 G</td>
<td>RUI0GRTR</td>
<td>15%</td>
<td>-</td>
<td>3%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>MSCI NAMER</td>
<td>NDLMA</td>
<td>12%</td>
<td>-</td>
<td>2%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
</tr>
</tbody>
</table>

Exhibit 2: Largest 25 Global Listed Downtrends With RSI > 60 (Full List)

- MNST US: Monster Beverage: SoftDrinks. 31.69% 
- FOG US: Fox Corp: BroadCast. 12.14% 
- VIX US: Visa.com: InsSolutions. 6.94% 
- CDX US: Caesars Entertainment: InsBPI. 14.45% 
- VOD US: LG Corp: InsCongl. 10.32% 
- BRP US: Bombardier: Flying. 9.08% 
- WPL AU: Woodside Petroleum: InsBPI. 21.77% 
- UNR CL: United Tractors: CoalMin. 6.33% 
- OIIZ US: Samsung C&T Corp: InsCongl. 16.29% 
- JAZZ US: Jazz Pharmaceuticals: Pharma. 7.54% 
- PMH US: Pfizer: Apptech. 7.17% 
- HMM US: Harborside: InsBPI. 4.60% 
- SQUAL US: Charles Schwab Corp: InsBPI. 5.08% 
- TATA JS: Tata Steel: Steel. 5.28% 
- RL US: Ralph Lauren: Apptech. 5.04% 
- TSMY NA: Telkom.com: InsBPI. 5.24% 
- 4530 JP: Astellas Pharma: Pharma. 31.12% 
- WONG HK: Want.Holdings: BroadCast. 10.49% 
- SEDUS US: StrykerCorp: PhysTech. 26.31% 
- LVS US: LouisBanking Group: InsCongl. 5.22% 
- 35 CM: Dalpak SpA: GasI. 5.32% 
- RIT US: BritishAmerican Tobacco: Tobacco. 83.13% 
- CVT US: Citi Corp: FinFirm. 9.22% 
- CNQ EN: CanadianNatural Resources: OIl&Gas. 32.87% 

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

- **It’s the question that drives us.** Once the answer is fully known we expect asset prices could be rather different. One pays for answers with performance.
- US bank CDS hit a low on Friday September 13, and started pivoting higher (and remains near a 7w wide) when the US O/N repo rate surged, causing the FED to start to open up a spigot of liquidity to fix some sort of “plumbing problem.”
- We’ve always pointed to the 2017-2018 transition from low to high volatility (which is intimately related to counterparty risk), as a new era. In hindsight, we now expect that the transition was related to the reduction of the FED balance sheet, which has now **been forced to expand quite aggressively.** We might as well label the start of FED balance sheet expansion, as the second leg of this train ride, where volatility and bank risk are passengers.
- The questions are: (1) What is the counterparty, whose lust for life is causing such an expansion in US central bank reserves? (2) Is this inducing the largest spike in counterparty risk since the December-January period? (3) Will it end in a train wreck?

*All on a Government Loan
Lust for Life, Iggy Pop*

Exhibit 1: US Bank CDS; US Overnight Repo Rate; US Federal Reserve Balance Sheet; Average Stocks, Bond and Commodity Volatility
Quantitative/Technical

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David Cheng
david.cheng@bmo.com  (416) 359-7383
Legal Entity: BMO Nesbitt Burns Inc.

Blue Drag

- We had a tough time deciding on the lyrics to this note, but came up with a cool depression era tune, Blue Drag. It’s a note about yield curves, and central banks, and inflation, and globalization, and all the mystery about how economies in North America, being so good, can dish out recession signals seeming to indicate that it’s really so bad. The “seeming” bit is incorrect, yet it will become important.

- The US yield curve inverted last week (a few months behind Canada), and will continue to trend towards inversion. Why? Because the US economy is so strong. Say what??
  - Think like a chemist, and break the yield curve into its two market elements, (1) where the FED will be in two years, and (2) why own the 10-year bond?
    - The FED rate will be lower in two years. That’s what the market tells the FED. But the FED is sticky, because things are so good, and, importantly, the FED does not want to fight an asset bubble (a great president resides here). Very true.
    - The long end rallies and this is the key part, which is how the yield curve inverts, because there is not enough global economic growth to sustain the pricing of basic commodities, and thus inflation expectations. Inflation expectations fall, and so does the fear of owning the long end of the curve, so it’s bought because that’s where the leverage is.
  - Oh yeah, and banks do poorly in this environment. That blue line drags the black one down. That’s been the case since the last great recession – Exhibit 1.
    - Why? Because the inversion will induce a bank profitability recession. Ultimately, this could tighten up conditions as banks tighten credit to remain profitable.
    - Or central banks can just continue to ease and not fight this holy Armageddon.

*Oh, the rhythm, the rhythm has got me into this mysterious craze*
Blue Drag, Josef Myrow 1932

Exhibit 1: Relative Strength of Global Banks vs. MSCI World, US 5y5y Inflation Expectations, Rolling 30w Correlation of Returns

Source: All charts/tables BMO Capital Markets, Bloomberg
ORDINARILY EXPECT.
Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect.

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and sampling techniques, and the timing of purchases and redemptions of ETF's shares. Inverse and Leveraged ETFs: Most leveraged ETFs seek

fees and expenses incurred by the ETF, changes in composition of the underlying index/assets, the ETF portfolio manager’s replication strategy

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<td>45.4 %</td>
<td>24.4 %</td>
<td>56.7 %</td>
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<td>9.1 %</td>
<td>1.9 %</td>
<td>3.2 %</td>
<td>0.8 %</td>
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