Wednesday, February 5, 2014

Market Elements

February 4, 2014  NEW  Market Elements  2

Relative Strength Filter

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Market Elements

- Asian shares slid; European indices ended mixed; the S&P 500 retracted a third of Monday’s slide; VIX retreated back below 20.
- Safe-haven 10y yields backed up 1–5bps; the U.S. 4w auction was retracted a third of Monday's slide; VIX retreated back below 20.
- Grains and natural gas (back above $5) pushed the DJUBS basket to a 3.5m high; oil and metals contracts were mixed and little changed.

### Levels*

<table>
<thead>
<tr>
<th>Currencies (USD per)</th>
<th>Commodities</th>
<th>Government 10- Yr Benchmark</th>
<th>Equity Indices &amp; Sentiment</th>
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<tr>
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<td>AUD</td>
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<tr>
<td>SGD</td>
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**Moves**

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<th>Equity Indices</th>
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<td>CAD</td>
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### Sectors

**MSCI World**
- Energy
- Financials
- HliHCare
- InfoTech
- ConsStap
- Telecom
- ConSDisc
- Materials
- Industrials
- HliHCare

**S&P Europe 350**
- Financials
- Energy
- Industrials
- ConsDisc
- InfoTech
- ConsStap
- Telecom
- HliHCare

**S&P 500**
- Financials
- InfoTech
- HliHCare
- ConsDisc
- Materials
- Industrials
- ConsStap
- Telecom
- HliHCare

**S&P/TSX Composite**
- Financials
- Industrials
- Telecom

### Source

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

- Our key barometers continue to be the yen (24hrs) and the basket of Prime Broker CDS (available from us as a BB CIX).
  - Both moved to favour risk assets on Tuesday, yet both moves were slight.
- We note the **RBA-induced Aussie dollar strength**, and will see if it has staying power this time.
  - Other central bank guidance: S. Africa gives us “EM Selloff ‘Next Mutation of Crisis’”, Philippines – hikes can do more harm than good
- Breaking to the upside in commodity land are the grains (the strength of the DJUBS basket) and **Natural Gas** (brrr continues).

Currencies

- U.S. Dollar Index

Commodities

- **DJI-UBS Commodity Price Index**
  - **Ag (& Nat Gas)**
  - **Driving This Breakout**

Bonds

- U.S. 10-Yr Bond

Equities

- MSCI World Index

Euro

- Dec 13 Jan 14 Feb

Gold (Spot)

- Dec 13 Jan 14 Feb

U.S. 5Yr 5Yr Forward Breakeven

- Dec 13 Jan 14 Feb

S&P 500

- Dec 13 Jan 14 Feb

Crude Oil (WTI)

- Dec 13 Jan 14 Feb

Japanese 10-Yr Bond

- Dec 13 Jan 14 Feb

S&P/TSX Composite

- Dec 13 Jan 14 Feb

Yen

- Dec 13 Jan 14 Feb

MSCI EM Currency Index

- **Natural Gas (NMX)**
  - **Flying to Boston with 10" of snow on the way**, brrr

- Dec 13 Jan 14 Feb

Canadian Dollar

- Dec 13 Jan 14 Feb

Canadian 10-Yr Bond

- Dec 13 Jan 14 Feb

CDX North American Inv. Grade Index

- Dec 13 Jan 14 Feb

Canadian Dollar

- Dec 13 Jan 14 Feb

Copper (CMX)

- Dec 13 Jan 14 Feb

VIX

- Dec 13 Jan 14 Feb

German 10-Yr Bund

- Dec 13 Jan 14 Feb

Ave. Prime Broker 5yr CDS

- **Retreated...yet still higher intraday highs**

- Dec 13 Jan 14 Feb

Australian Dollar

- **Will This Pump Be Dumped Again?**

- Dec 13 Jan 14 Feb

Nickel (LME 3Mo)

- Dec 13 Jan 14 Feb

Italian 10-Yr Bond

- Dec 13 Jan 14 Feb

- February 4, 2014
Intra Day Charts
2-Day 1-Minute View

Currencies
U.S. Dollar Index

Commodities
D.J.-UBS Commodity Price Index

Bonds
U.S. 10-Yr Bond

Equities
MSCI World Index

Euro

Gold (Spot)

U.S. 5Yr 5Yr Forward Breakeven

S&P 500

Yen

Crude Oil (WTI)

Japanese 10-Yr Bond

S&P/TSX Composite

MSCI EM Currency Index

Natural Gas (NMX)

Canadian 10-Yr Bond

CDX North American Inv. Grade Index

Canadian Dollar

Copper (CMX)

German 10-Yr Bund

VIX

Australian Dollar

Nickel (LME 3Mo)

Italian 10-Yr Bond

Ave. Prime Broker 5yr CDS
Daily Sector Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

S&P 500

S&P/TSX Composite

S&P Europe 350
### Market Movers – Largest Daily Percentage Moves

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Energy</strong></td>
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<tr>
<td>Empresas COPEC SA</td>
<td>COPEC CC</td>
<td>3.0%</td>
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<tr>
<td>BG Group PLC</td>
<td>BG’L/N</td>
<td>2.6%</td>
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<tr>
<td>Petroleos Brasilero SA</td>
<td>PBRA/UN</td>
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<tr>
<td>JX Holdings Inc</td>
<td>5020 JT</td>
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<td>CNOCOG Ltd</td>
<td>883 HK</td>
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<td>Inpex Corp</td>
<td>1605 JP</td>
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<td><strong>Materials</strong></td>
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<td>Newcrest Mining Ltd</td>
<td>NCMAT</td>
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<td>Cia Siderurgica Nacional SA</td>
<td>SID UN</td>
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<td>Vale SA</td>
<td>VALE/P</td>
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<td>Sumitomo Metal Mining Co Ltd</td>
<td>5713 JT</td>
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<tr>
<td>Kobe Steel Ltd</td>
<td>5406 JT</td>
<td>-6.6%</td>
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<tr>
<td>Mitsubishi Materials Corp</td>
<td>5711 JT</td>
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<tr>
<td><strong>Industrials</strong></td>
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<tr>
<td>ONSRAM Licht AG</td>
<td>OSR GY</td>
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<td>Embraco SA</td>
<td>ERJ UN</td>
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<tr>
<td>CCR SA</td>
<td>CCR03 BS</td>
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<td>Taisei Corp</td>
<td>1801 JT</td>
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<tr>
<td>Shinzui Corp</td>
<td>1803 JT</td>
<td>-9.0%</td>
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<tr>
<td>Makita Corp</td>
<td>6596 JT</td>
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<td><strong>Cons Disc</strong></td>
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<td>Fiat SpA</td>
<td>FM</td>
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<td>Burberry Group PLC</td>
<td>BRBY LN</td>
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<td>Adidas AG</td>
<td>ADS GY</td>
<td>1.3%</td>
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<td>Honda Motor Co Ltd</td>
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<td>Panasonic Corp</td>
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<td>Sharp Corp/Japan</td>
<td>6753 JT</td>
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<td><strong>Health Care</strong></td>
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<td>Actelion Ltd</td>
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<td>Nobel Biocare Holding AG</td>
<td>NOBN SE</td>
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<tr>
<td>QIAGEN NV</td>
<td>QIA GY</td>
<td>0.2%</td>
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<tr>
<td>Astellas Pharma Inc</td>
<td>4503 JT</td>
<td>-3.3%</td>
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<td>Chugai Pharmaceutical Co Ltd</td>
<td>4519 JT</td>
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<td>Terumo Corp</td>
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<td>Itau Unibanco Holding SA</td>
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<td>Itaua - Investimentos Itau SA</td>
<td>ITSM BS</td>
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<tr>
<td>UBS AG</td>
<td>UBSN VX</td>
<td>5.4%</td>
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<tr>
<td>Dai-Ichi Life Insurance Co Ltd</td>
<td>8750 JT</td>
<td>-6.6%</td>
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<tr>
<td>Daiwa House Industry Co Ltd</td>
<td>1925 JT</td>
<td>-6.9%</td>
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<td>Sumitomo Mitsui Trust Holdings</td>
<td>8389 JT</td>
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<tr>
<td><strong>Technology</strong></td>
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<td>Alcatel-Lucent</td>
<td>ALUF P</td>
<td>4.8%</td>
</tr>
<tr>
<td>Sage Group PLC/The</td>
<td>SGN E</td>
<td>1.3%</td>
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<td>STMicroelectronics NV</td>
<td>STM M</td>
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<tr>
<td>Murata Manufacturing Co Ltd</td>
<td>6891 JT</td>
<td>-7.3%</td>
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<td>Konica Minolta Inc</td>
<td>4002 JT</td>
<td>-7.8%</td>
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<td>FUJIFILM Holdings Corp</td>
<td>4001 JT</td>
<td>-8.7%</td>
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<td><strong>Telecom</strong></td>
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<td>SoftBank Corp</td>
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<td>Portugal Telecom SGPS SA</td>
<td>PTC PL</td>
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<td>Nippon Telegraph &amp; Telephone C</td>
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<td>NTT DOCOMO Inc</td>
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<tr>
<td>Tokyo Electric Power Co Inc</td>
<td>9501 JT</td>
<td>-6.6%</td>
</tr>
</tbody>
</table>

**Bold** = move of more than 5%
## U.S. Market Movers

### Energy
- **Symbol**: ALB, IFF, ASH
- **Last %Chg**: 89.46%, 0.4%
- **Last Price**: 11.11, 12.47
- **Next Day**:
  - **Symbol**: GM
  - **Last %Chg**: 35.82%
  - **Last Price**: 14.87
  - **Next Day**:
    - **Symbol**: MKH
    - **Last %Chg**: 140.22%
    - **Last Price**: 19.87
    - **Next Day**:
      - **Symbol**: NVR
      - **Last %Chg**: H/L 1.64
      - **Last Price**: TAP 19.87
      - **Next Day**:
        - **Symbol**: WMR
        - **Last %Chg**: 300.00
        - **Last Price**: TAF 148.75
        - **Next Day**:
          - **Symbol**: HR
          - **Last %Chg**: 300.00
          - **Last Price**: TAF 148.75
          - **Next Day**:
            - **Symbol**: ASH
            - **Last %Chg**: 0.4%
            - **Last Price**: BSX
            - **Next Day**:
              - **Symbol**: ALB
              - **Last %Chg**: 89.46%
              - **Last Price**: 11.11
              - **Next Day**:
                - **Symbol**: IFF
                - **Last %Chg**: 0.4%
                - **Last Price**: ASH
        - **Next Day**:
          - **Symbol**: WMR
          - **Last %Chg**: 300.00
          - **Last Price**: TAF 148.75
          - **Next Day**:
            - **Symbol**: HR
            - **Last %Chg**: 300.00
            - **Last Price**: TAF 148.75
            - **Next Day**:
              - **Symbol**: ASH
              - **Last %Chg**: 0.4%
              - **Last Price**: BSX

### Industrials
- **Symbol**: DOW, SPY, FDX
- **Last %Chg**: -2.17%, 1.96%
- **Last Price**: 113.25, 363.92
- **Next Day**:
  - **Symbol**: DOW
  - **Last %Chg**: -2.17%
  - **Last Price**: SPY
  - **Next Day**:
    - **Symbol**: FDX
    - **Last %Chg**: 1.96%
    - **Last Price**: DOW

### Consumer Discretionary
- **Symbol**: TEF, CMCSA, GTW
- **Last %Chg**: 20.00%, 15.00%
- **Last Price**: 70.65, 70.65
- **Next Day**:
  - **Symbol**: TEF
  - **Last %Chg**: 20.00%
  - **Last Price**: CMCSA
  - **Next Day**:
    - **Symbol**: GTW
    - **Last %Chg**: 15.00%
    - **Last Price**: TEF

### Consumer Staples
- **Symbol**: JNJ, AMZN, JPM
- **Last %Chg**: -0.3%, -10.6%
- **Last Price**: 51.19, 34.92
- **Next Day**:
  - **Symbol**: JNJ
  - **Last %Chg**: -0.3%
  - **Last Price**: AMZN
  - **Next Day**:
    - **Symbol**: JPM
    - **Last %Chg**: 10.6%
    - **Last Price**: JNJ

### Technology
- **Symbol**: MSFT, IBM, AAPL
- **Last %Chg**: 30.00%, 10.50%
- **Last Price**: 235.80, 105.56
- **Next Day**:
  - **Symbol**: MSFT
  - **Last %Chg**: 30.00%
  - **Last Price**: IBM
  - **Next Day**:
    - **Symbol**: AAPL
    - **Last %Chg**: 10.50%
    - **Last Price**: MSFT

### Materials
- **Symbol**: BHP, CVX, OXY
- **Last %Chg**: -0.7%, 2.8%
- **Last Price**: 85.11, 57.87
- **Next Day**:
  - **Symbol**: BHP
  - **Last %Chg**: -0.7%
  - **Last Price**: CVX
  - **Next Day**:
    - **Symbol**: OXY
    - **Last %Chg**: 2.8%
    - **Last Price**: BHP

### Health Care
- **Symbol**: MQC, MRQ, MRQ
- **Last %Chg**: 2.25%, -0.6%
- **Last Price**: 36.95, 38.82
- **Next Day**:
  - **Symbol**: MQC
  - **Last %Chg**: 2.25%
  - **Last Price**: MRQ
  - **Next Day**:
    - **Symbol**: MRQ
    - **Last %Chg**: -0.6%
    - **Last Price**: MQC

### Utilities
- **Symbol**: DTE, SJW, CRB
- **Last %Chg**: 1.38%, -0.2%
- **Last Price**: 68.11, 70.65
- **Next Day**:
  - **Symbol**: DTE
  - **Last %Chg**: 1.38%
  - **Last Price**: SJW
  - **Next Day**:
    - **Symbol**: CRB
    - **Last %Chg**: -0.2%
    - **Last Price**: DTE

### Financials
- **Symbol**: WFC, JPM, CMA
- **Last %Chg**: 2.00%, 1.98%
- **Last Price**: 40.39, 44.83
- **Next Day**:
  - **Symbol**: WFC
  - **Last %Chg**: 2.00%
  - **Last Price**: JPM
  - **Next Day**:
    - **Symbol**: CMA
    - **Last %Chg**: 1.98%
    - **Last Price**: WFC

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### Market Elements

**Market Elements**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Last %Chg</th>
<th>Last Price</th>
<th>Next Day</th>
<th>Symbol</th>
<th>H/L</th>
<th>Last %Chg</th>
<th>Last Price</th>
<th>Next Day</th>
</tr>
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<tbody>
<tr>
<td>ES</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last Price</td>
<td>Next Day</td>
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<td>Last Price</td>
<td>Next Day</td>
</tr>
<tr>
<td>DJ</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last Price</td>
<td>Next Day</td>
<td>Symbol</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last Price</td>
<td>Next Day</td>
</tr>
<tr>
<td>DJ</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last Price</td>
<td>Next Day</td>
<td>Symbol</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last Price</td>
<td>Next Day</td>
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**Note:** The table above represents a snapshot of market movements, including various sectors such as Energy, Industrials, Consumer Discretionary, Consumer Staples, Technology, Materials, Health Care, and Utilities. The Last %Chg column indicates the percentage change in the stock prices, and the Last Price column shows the closing price for each symbol. The Next Day column indicates the stock's performance in the subsequent trading day.
### Canadian Market Movers

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### Market Elements

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<td>57.20%</td>
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<td>57.20%</td>
<td>57.20%</td>
<td>57.20%</td>
</tr>
</tbody>
</table>

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**Note:** The table above lists Canadian market movers based on various metrics such as market elements, energy, materials, industries, consumer discretionary, technology, and financials. The symbols and industries are indicated, along with percentage changes and other relevant data.
Relative Strength Filter

Yield-Focused Momentum Buys

- This morning stocks are flat to down and the yen continues to strengthen, yet risk measures such as the cost to protect banks from default cases to a 3-day low, as does the 5yr CDS on China.
- We continue to focus on yield stocks, not so much as a defence tactic, but more as a nod to interest rates (both long and short) and inflation expectation gauges in most developed markets, which are trending or breaking lower. It is the direction that commodity currencies have been portraying for some time. It’s a slow world.

Yesterday, we highlighted oversold yield stocks (indicated dividend yield in excess of 2% and good dividend growth) in price uptrends. Today we cover a few momentum buy (outperforming market and sector, above rising moving averages, and not overbought) lists across different markets. If we did not reach your market, you can surf this link to find it (then check yield and mo buy buttons).

Figure 1: Yield-Focused Momentum Buys vs. S&P 500

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp</th>
<th>RS</th>
<th>DVD</th>
<th>1-Day Equity Chg (%)</th>
<th>5-Day Equity Chg (%)</th>
<th>MktCap (USD)</th>
<th>Chg Last Day</th>
<th>SPX</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>Yield %</th>
<th>DVD Growth 1y</th>
<th>DVD Growth 3y</th>
<th>DVD Growth 5y</th>
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<tr>
<td>HP US</td>
<td>Helmerich &amp; Payne Inc</td>
<td>Drilling</td>
<td>10</td>
<td>1</td>
<td>1.4%</td>
<td>-1.5%</td>
<td>9,173</td>
<td>41%</td>
<td>2.94%</td>
<td>411%</td>
<td>111%</td>
<td>61%</td>
<td></td>
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<tr>
<td>LMT US</td>
<td>Lockheed Martin Corp</td>
<td>Aérospatiale</td>
<td>3</td>
<td>1</td>
<td>0.3%</td>
<td>-0.1%</td>
<td>47,463</td>
<td>41%</td>
<td>3.59%</td>
<td>16%</td>
<td>21%</td>
<td>19%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>NSC US</td>
<td>Norfolk Southern Corp</td>
<td>Railroads</td>
<td>10</td>
<td>2</td>
<td>2.5%</td>
<td>0.6%</td>
<td>28,352</td>
<td>31%</td>
<td>17.5%</td>
<td>2.35%</td>
<td>6%</td>
<td>12%</td>
<td>10%</td>
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<td>Raytheon Co</td>
<td>Aérospatiale</td>
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<td>2</td>
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<td>2.0%</td>
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<td>35%</td>
<td>2.42%</td>
<td>9%</td>
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<td>14%</td>
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<tr>
<td>OMC US</td>
<td>Omnicom Group</td>
<td>Advert</td>
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<td>2</td>
<td>2.6%</td>
<td>-1.4%</td>
<td>18,571</td>
<td>19%</td>
<td>2.22%</td>
<td>23%</td>
<td>23%</td>
<td>22%</td>
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<td>3</td>
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<td>3.7%</td>
<td>9,601</td>
<td>16%</td>
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<td>10%</td>
<td>11%</td>
<td>12%</td>
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<td>OG SrTr</td>
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<td>8%</td>
<td>25%</td>
<td>4%</td>
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Figure 2: Yield-Focused Momentum Buys vs. S&P/TSX Composite

Figure 3: Yield-Focused Momentum Buys vs. MSCI Europe

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Tantrum 2

We remember the June 2013 Taper Tantrum correction well: rates and volatility on those rates were surging, the odds of a 2014 Fed rate hike broke through 50%, the SHIBOR curve was inverted, and too-interconnected-to-fail banks were stressed.

- The correction ended with a concerted central bank jawboning to ease tightening fears; first with the Fed (24th) and then the PBOC, BoE, & ECB (25th).
- The cost to protect the banking system against default peaked, and stocks pivoted higher – Figures 1, 2.

This time around, it is the banking system again flashing a warning and that warning has roots in China, where the curve has yet to invert. Bond volatility is once again spiking, except this time it is with rates falling, not rising. We have yet to hear from the central banks. We have yet to see stress on the banking system ease (currently more of a slow burn than a spike – Figure 2, top). We don’t think the bottom is in (yet we did not see the central banks coming when we penned “Tighten Up” last June), but we know oversold lists will now be sought, so here is ours. In the spirit of rates heading lower, we narrow in on yield stocks (good yield and dvd growth) and as the correction is global, we highlight a global list of stocks which had been trending higher yet sport an RSI below 30. Watch bank stress, and listen for central bankers.

Figure 1: MSCI World Total Return Gross Index

Figure 2: Ave Prime Broker CDS and MSCI World

Fig 3: Price (Up)Trends on The Largest 20 Global “Yield Stocks” (Good Yield and Dvd Growth) With OSold RSI – Full List Here

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Markets vs. S&P 500 – Then There Was None

- We will start with our focus for over two weeks now: the too-interconnected-to-fail banking system is stressed; the cost to protect the core prime brokers continues to hover around an elevated level of 90 bps and the safehaven yen remains well bid with a break below 102 this morning. Position your portfolios with downside risk in mind.

- There was only one of our globe-trotting ETFs that was able to sport an outperforming trend against the S&P 500: the DAX, Figure 1. On Friday, the DAX broke down, and so did the euro, and so did the EUR supporting spread of German – US 2y bond yields – Figures 2, 3.

- Remain overweight the U.S. equity market, and tilt the portfolio toward yield.

**Figure 1: Globe Trotting ETF Relative Strength Trends vs. S&P 500**

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1d RS</th>
<th>5d RS</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA Trend</th>
</tr>
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<td>EWUS</td>
<td>-1.2%</td>
<td>-1.9%</td>
<td>Red</td>
<td>15%</td>
<td>1.5</td>
<td>-1%</td>
<td>Below Rising</td>
<td>2%</td>
<td>Above Rising</td>
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<td>Europe 350</td>
<td>ESV US</td>
<td>-0.7%</td>
<td>-1.4%</td>
<td></td>
<td>-2%</td>
<td>1.0</td>
<td>0%</td>
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<td>0%</td>
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<td>-1.8%</td>
<td></td>
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<td>-10%</td>
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<td>-4%</td>
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<td>-6%</td>
<td>Below Falling</td>
<td></td>
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<tr>
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<td>XU1 CN</td>
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<td>-0.1%</td>
<td></td>
<td>-9%</td>
<td>0%</td>
<td>Below Falling</td>
<td>-4%</td>
<td>Below Falling</td>
<td></td>
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<td>-1.3%</td>
<td></td>
<td>-14%</td>
<td>-3%</td>
<td>Below Falling</td>
<td>-8%</td>
<td>Below Falling</td>
<td></td>
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<td>EWH US</td>
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<td></td>
<td>-13%</td>
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<td>-3%</td>
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<td>-7%</td>
<td>Below Falling</td>
</tr>
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<td>0.9%</td>
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<td>-3%</td>
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<td>-8%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
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<td>EWS US</td>
<td>-0.4%</td>
<td>0.2%</td>
<td></td>
<td>-20%</td>
<td>-3%</td>
<td>Below Falling</td>
<td>-10%</td>
<td>Below Falling</td>
<td></td>
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</table>

**Figure 2: Euro**

**Figure 3: Spread: German – US 2yr Bond Yield**

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Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Ex U.S. Breaks Down & Bonds, Yes, Bonds

Yesterday, we highlighted the breakdown in the MSCI United States Equity Index (we are treating it as a stop loss, as opposed to a buy the dip opportunity), and in Thursday’s session the World ex U.S. broke down as well – Figure 1.

- MSCI Europe broke down
- MSCI Pacific broke down

Our CDS baskets highlight the key stress; Chinese banks and real estate are amongst the top negative movers yesterday - Figure 2.

- There are two Chinese banks in the FSA’s basket of Systematically Important Financial Institutions (SIFI), and now the whole basket is now flashing red.

When banks are stressed, your portfolio is stressed.

- The MSCI World Banks index is falling today for the fifth of the past six days and is now below a falling 50d MA.

The Treasury market is also begging to be paid attention to:

- Treasuries are breaking above a horrible underperforming trend (the trend is why you don’t want to listen, but the reversal is why you must) against the S&P 500 – Figure 3.
- Treasury prices (IEF US) have made a higher low, and are above 50d, 150d and 200d MAs.
- If you look beyond Treasuries, you will note that the vast majority of bond ETFs are trending higher. At stellar rates, no, but trending higher, yes.
  - It’s no wonder we are looking at REITS and other yield stocks once again.

Ex U.S. Breaks Down & Bonds, Yes, Bonds

TOOLKIT

CLICK HERE

Figure 1: MSCI World ex US Equity Index

Figure 2: Custom CDS Baskets – Sorted by Yesterday’s Move

Figure 3: U.S. 7-10Yr Bond ETF vs. S&P 500

Figure 4: Price Trends on Bond ETFs

2013 Was a Horrible Year For Bonds; 2014 is Very Much Less So

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
The MSCI United States Equity Index broke its uptrend yesterday – Figure 1.

- It’s either a buy the bottom of the trend or stop loss point, and we are treating it as a stop loss point.
- How did we get to this inflection point?
  - Emerging market stress, best viewed via the currency market, has overwhelmed the pricing of developed market stocks – Fig 2.

- Why?
  - Contagion – Figures 2, 3; and
  - via the banking system – Fig 4.

- The MSCI United States Equity Index broke its uptrend yesterday – Figure 1.

- We can trace the root of contagion to Chinese banks (see link), which are stressed as trust product comes due, and the bailout debate is punctuated by the economic slowdown. Yesterday’s shock was that rate hikes (harder to short the currency, yet slows economic growth) caused more EM currency downside than stabilization.
  - The early week (Monday-Tuesday) ease of stress in China is being unwound, and this morning the cost to protect a basket of prime brokers (the core of the systemically important banking system) edges to an 11-week high and equities are breaking to the downside – Figure 4.
- The buy/sell inflection point (Figure 1, and we note that stress IS priced in, Figure 2) is very much dependent on the escalation/de-escalation of these stresses. If bank stress (Figure 4 middle) eases, contagion eases.
  - Behind the scenes, the equity market is rewarding more yield-focused stocks (such as REITS) as long rates fall.

- On our screens are such tickers as CCHIN1U5 (Fig. 4, top), PrimeTime (Fig. 4, middle – available on request), MXEF0CX0 (Fig. 2, blue) and JPY.
The Return of REITs

- Embraced pre-taper, when rates held artificially low, shunned when rates started to rise last year, and now with major 10yr yields breaking back below 50d MAs, the vast majority of REITs are either in outperforming trends, or are breaking above underperforming trends, with the latter being more prevalent – Fig 1

- U.K. and European REITs are where one finds outperformance, but U.S. REITs are rebounding and are at a 5mo high against a global benchmark.

- The top of our momentum buy list of Real Estate against the FTSE Gbl REIT index is shown in Fig 2.

Figure 1: MSCI World REITs vs MSCI World

Figure 2: Momentum Buy List of Real Estate vs FTSE EPRA/NAREIT Global Index – see Link for Full List

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Best of EM

- It’s easier to write about selling Emerging Markets as the MSCI EM index is underperforming MSCI World at a rate of almost 25%/yr – Figure 1.
- Still, if your job is to be an EM manager, you have one eye on Chinese CDS (narrowing for the 2nd day) and the Shibor curve (O/N rates still heading higher), and the other on implied volatility gauges in EM currency, debt, and equity, which suggest there is an elevated level of stress (albeit not panic) that can be bought into – Figure 2.

- Rather than look at bottom fishing EM ideas, we will narrow in on stocks standing proud and tall, high above it all (Pete Seeger, RIP, 1945 – 2014) – the momentum buy list Fig 3.
- Those looking for shorts will find a reduced EM momentum sell list as so many stocks are currently oversold.

Figure 1: MSCI Emerging Markets vs MSCI World

Figure 2: Emerging Markets Equity Implied Volatility

Figure 3: Top of Emerging Markets Momentum Buy List (Dvd Adj Price Trends) – See Link for Full List

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
The Oversold CDS Bucket

- Last week the cost to protect the FSA’s too interconnected to fail list of financials broke above a narrowing trend to rise 17% on the week.
  - When the financial system is troubled, all is troubled – on Friday, every major CDS index had broken its narrowing trends – Figure 1.
  - The stress last week was able to break the price uptrends on MSCI Hong Kong, Canada and Australia.

- The key source of stress, the failure of a troubled Chinese trust, is averted (till the next showdown) as ICBC offers to bail its clients out.

- On that stress relief, this morning we note:
  - the yen moves back towards weakening;
  - the safe haven bid toward treasuries and bunds eases; and
  - US Bank CDS narrow back toward their falling 50d MAs – Figure 2.

- Since it was a credit panic, we will look in the credit bucket of oversolds, or in this case over-widened, to look for a stock to buy into. It is not difficult to find candidates:
  - 60% of our basket of high risk liquid CDS contracts are at least two standard deviations over-widened.
    - Near the top of the list, weighing in with a 4.4% standard deviation overwidthed CDS close on Friday, is Morgan Stanley, which is still in a price uptrend.
    - We recommend buying the pullback – Figure 3.

Figure 1: CDS Trends on Markit Indices

<table>
<thead>
<tr>
<th>Name</th>
<th>H/L</th>
<th>Chg Last Day</th>
<th>CDS Reward/Risk</th>
<th>Trend Slope</th>
<th>Trend Length</th>
<th>CDS Hi (Mo)</th>
<th>CDS Low (Mo)</th>
<th>1-day Chg(%)</th>
<th>5-day Chg(%)</th>
<th>3-mo Chg (%)</th>
<th>9-mo Chg (%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA 1G</td>
<td>↑</td>
<td>↑</td>
<td>-53%</td>
<td></td>
<td></td>
<td>8</td>
<td>2.0</td>
<td>7.0%</td>
<td>11.3%</td>
<td>-0.6%</td>
<td>-21.0%</td>
<td>9%</td>
<td>Above Rising</td>
<td>-11%</td>
<td>Below Failing</td>
</tr>
<tr>
<td>NA Hi Yld</td>
<td>↑</td>
<td>↑</td>
<td>-53%</td>
<td></td>
<td></td>
<td>6</td>
<td>2.0</td>
<td>6.7%</td>
<td>10.7%</td>
<td>-0.7%</td>
<td>-19.7%</td>
<td>7%</td>
<td>Above Rising</td>
<td>-10%</td>
<td>Below Failing</td>
</tr>
<tr>
<td>Eur XOver</td>
<td>↑</td>
<td>↑</td>
<td>-66%</td>
<td></td>
<td></td>
<td>7</td>
<td>1.5</td>
<td>9.3%</td>
<td>14.1%</td>
<td>-8.9%</td>
<td>-30.9%</td>
<td>5%</td>
<td>Above Falling</td>
<td>-20%</td>
<td>Below Failing</td>
</tr>
<tr>
<td>Eur Main</td>
<td>↑</td>
<td>↑</td>
<td>-57%</td>
<td></td>
<td></td>
<td>7</td>
<td>2.3</td>
<td>11.4%</td>
<td>19.4%</td>
<td>-2.2%</td>
<td>-26.7%</td>
<td>13%</td>
<td>Above Rising</td>
<td>-13%</td>
<td>Below Failing</td>
</tr>
<tr>
<td>Eur Sub Fin</td>
<td>↑</td>
<td>↑</td>
<td>-78%</td>
<td></td>
<td></td>
<td>7</td>
<td>2.0</td>
<td>10.5%</td>
<td>18.0%</td>
<td>-17.2%</td>
<td>-42.8%</td>
<td>12%</td>
<td>Above Falling</td>
<td>-25%</td>
<td>Below Failing</td>
</tr>
<tr>
<td>Eur Sr Fin</td>
<td>↑</td>
<td>↑</td>
<td>-77%</td>
<td></td>
<td></td>
<td>7</td>
<td>2.0</td>
<td>11.0%</td>
<td>21.8%</td>
<td>-15.2%</td>
<td>-38.3%</td>
<td>13%</td>
<td>Above Falling</td>
<td>-24%</td>
<td>Below Failing</td>
</tr>
</tbody>
</table>

Figure 2: US Bank 5Yr CDS as of 7:30am This Morning

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

Figure 3: Morgan Stanley Dividend-Adjusted Price Trend

Buy This Pullback
Relative Strength Filter

Bank Stress Turns Relative Strength Losses Absolute

- It started with Chinese banks a few weeks ago, spread to a few European banks on Wednesday, and now almost half of the FSAs list of too interconnected to fail banks have broken their credit improvement trends – Figure 1. As a group the basket looks like Figure 2.

- When the banking system becomes stressed, relative strength losses turn into absolute losses.
  - Relative strength trends of major regions vs MSCI World in Fig 3.
  - Price trends of MSCI Pacific ex Japan and EM Latin America broke down yesterday. With the banking system under stress, treat these as stop loss points – Figures 4, 5.

Figure 1: Almost Half of Credit Improvement (CDS) Trends on Too Interconnected to Fail Banks Have Been Broken

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Chg Last Day</th>
<th>CDS Trend</th>
<th>CDS Hi (Mo)</th>
<th>CDS Low (Mo)</th>
<th>CDS Last Date</th>
<th>Liquidity</th>
<th>CDS Curve 1/3Y</th>
<th>CDS 1-day Chg (%)</th>
<th>CDS 3-day Chg (%)</th>
<th>CDS %Chg wrt 50 MA Trend</th>
<th>CDS Bid Band Width</th>
<th>StdDev from 26-day</th>
</tr>
</thead>
<tbody>
<tr>
<td>3988 HK</td>
<td>Bank of China Ltd</td>
<td>↑ -59%</td>
<td>5.0</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
<td>0.35</td>
<td>2%</td>
<td>12%</td>
<td>24%</td>
<td>193%</td>
</tr>
<tr>
<td>SAN US</td>
<td>Banco Santander SA</td>
<td>↑ -63%</td>
<td>1.5</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>3</td>
<td>1</td>
<td>0.34</td>
<td>8%</td>
<td>12%</td>
<td>4%</td>
<td>45%</td>
</tr>
<tr>
<td>DB US</td>
<td>Deutsche Bank AG</td>
<td>↑ -60%</td>
<td>2.0</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>0.20</td>
<td>3%</td>
<td>7%</td>
<td>7%</td>
<td>91%</td>
</tr>
<tr>
<td>HSBC</td>
<td>HSBC Holdings PLC</td>
<td>↑ -66%</td>
<td>1.5</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>3</td>
<td>5</td>
<td>0.22</td>
<td>1%</td>
<td>9%</td>
<td>5%</td>
<td>73%</td>
</tr>
<tr>
<td>RBS US</td>
<td>Royal Bank of Scotland</td>
<td>↑ -57%</td>
<td>1.0</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>1</td>
<td>5</td>
<td>0.25</td>
<td>9%</td>
<td>6%</td>
<td>1%</td>
<td>35%</td>
</tr>
<tr>
<td>GLE FP</td>
<td>Societe Generale</td>
<td>↑ -72%</td>
<td>1.3</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>0.33</td>
<td>4%</td>
<td>6%</td>
<td>1%</td>
<td>34%</td>
</tr>
<tr>
<td>UBS US</td>
<td>UBS AG</td>
<td>↑ -66%</td>
<td>1.5</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>0.22</td>
<td>5%</td>
<td>8%</td>
<td>4%</td>
<td>48%</td>
</tr>
<tr>
<td>CS US</td>
<td>Credit Suisse Group</td>
<td>↑ -60%</td>
<td>1.5</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
<td>0.22</td>
<td>7%</td>
<td>10%</td>
<td>4%</td>
<td>47%</td>
</tr>
<tr>
<td>BNP FP</td>
<td>BNP Paribas</td>
<td>↑ -69%</td>
<td>1.5</td>
<td>Jan 23</td>
<td></td>
<td></td>
<td>1</td>
<td>3</td>
<td>0.21</td>
<td>5%</td>
<td>7%</td>
<td>2%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Figure 2: Global SIFI CDS Basket

Figure 3: MSCI Regions vs. MSCI World

Figure 4: MSCI Pacific ex Japan Price Trend

Figure 5: MSCI EM Latin America

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Credit Bump in the Road

- Of the banks that the FSA deems too interconnected to fail, the Bank of China broke a narrowing trend weeks ago. We called that a "fly in the ointment." Yesterday, Santander and Deutsche Bank joined in. That’s more of a bump, and one to pay attention to – Figure 1.
- One-fifth of the narrowing CDS trends we categorize high risk and liquid have broken to the widening side – Figure 2.
  - We targeted steel stocks as shorts based on this, and yesterday our steel CDS basket broke to the widening side.
  - We will broaden that call today.
- With a CDS priced under 2k in 2012, Alcatel Lucent was the key tech giant that avoided bankruptcy. Shares are now clocked at rising at over 500%/yr, yet now both the narrowing CDS trend and price uptrend have been broken. It’s time to reduce – Figure 3.
- Anglo American PLC is near the top end of a sloppy downtrend, and its CDS just broke a narrowing trend. It’s time to sell into strength – Figure 4.
Steel Shorts

- We are downgrading our recommendation on steel stocks from last week’s Leave them. Exit. Sell. To short them as the credit market turns negative.
- As a basket, global steel CDS widened to a 1mo high yesterday and is about to break the narrowing trend. If we look at the granularity, many are already breaking these narrowing trends – Figure 1.
- Of the steel companies where we track their CDS, we note that yesterday CSN S.A., ArcelorMittal, Nucor, Gerdau S.A. and POSCO broke their price uprends.

- We liked US Steel last September as its CDS was risking and derisking, and so we ought to do a stop and reverse when the derisking trend ends, as it has now – Figure 2.
- Higher on the risk scale, trending higher at over 400%/year and expected to break this trend is AK Steel – Figure 3.
- Also high on the risk scale and breaking an uprend tracked at over 400%/year is Brazilian CSN SA – Figure 4.

Figure 1: CDS Trends on Global Steel Companies

Figure 2: US Steel 5Yr CDS

Figure 3: AK Steel Share Price (see equity/CDS Overlay)

Figure 4: CSN SA (SID US) Price Trend
European Momentum

- Under the backdrop of European peripheral yields continuing to trend lower, European shares have trended higher at a rate equivalent to the NASDAQ, or U.S. Small cap stocks – Figure 1.
- Breaking it down by sector, Telecom, Financials and Industrials are the key three outperformers – Figure 2.
- At the granular level, the momentum buys (outperforming market and sector, above rising moving averages, and not overbought) within these best sectors are shown in Figure 3.
- The avoids, or momentum sells, within the weakest two sectors, Energy and Staples, are found at this link.
Gold – If There Is a Bull Case

TOOLKIT

• We will preface this with a few facts that pull us away from our base case of not wanting to recommend gold stocks (we need to quantify and address the barking dogs, which improved to 7th decile on Friday):
  o Jr. Gold ETFs (GDXJ US, ZIG CN) and a silver miners ETF (SIL US) broke above underperforming trends against the S&P 500 last Friday.
  o Gold equity indices for themselves were breaking above price downtrends - Figure 1.
  o The cost to protect gold companies (AU, NEM, ABX) against default, while high at 266 bps, is now trending lower at 38%/yr and fell to a 7m low on Friday.

• If there is a bull case currently on our doorstep, we believe that it is insurance against things that go bump in the night. There is only one bump in the night currently on our radar screen, and that is China:
  o The cost to protect Chinese banks against default broke a downtrend early this year, and it remains elevated – Figure 2.
  o Chinese interbank lending rates spiked higher in December and have done so again over the past three days. Today, the O/N rate kicked in as well.

• For the generalist, we note that just over 10% of gold shares have pivoted toward outperforming trends against the ACWI and materials sector – Figure 3.

• For the specialist, trends of gold shares against bullion and the GDX are found in this link – Aurum.

---

Figure 1: Gold Index Price Trends

Breaking Above Steep Downtrends

Figure 2: Chinese Bank 5Yr CDS Basket

Figure 3: Gold Shares in Outperforming Trends Against ACWI and ACWI Materials

Source: BMO Capital Markets, Bloomberg, Thomson, Markit   BMO Capital Markets is Restricted on Brigus Gold Corp. (BRD), Osisko Mining Corp. (OSK)
**Materials – Leave the Gun, Take the Cannoli**

- **That is our best advice** for the materials specialist – Figure 1.
- The gun in this case is steel stocks. We want to leave them. Exit. Sell – Fig 2.
  - The positive turn for steel came back in September (see our Sept 20 RSF note), leadership was really starting to establish itself in November, and we were even buyers of the pullback in December.
  - But now there are enough breakdows to knock our steel ranking down to a 4-5th decile – Figure 2.
  - While the v-bottom for LME Steel Billets has yet to recede, Iron Ore is breaking a flat trend, and the break is to the downside.
  - The CDS trend on a basket of steel companies is still positive, but this H&S CDS top (Figure 3) is largely priced in.

- Some material Cannoli worth taking?
- Aluminum stocks continue to improve. The Subindustry is also ranked 5th decile, but the trajectory is higher, and the blend of stocks is outperforming, or breaking above underperforming, trends.
- While U.S. forest products look weak, their Canadian counterparts look great (there must be some advantage to that graceful Loonie dive).

---

**Figure 1: US Materials Subindustries vs. S&P 1500 Materials Sector**

**Figure 2: Global Steel Stocks vs. ACWI Materials**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Top & Bottom 10 U.S. Subindustries

- **Our sector report** details the trends and inflection points of global sectors and local industries. It also incorporates active tooltips that show the granularity behind the index trends.

- **For U.S. subindustries:**
  1. The most consistently outperforming (solid green wedge in the table below) subindustries are highlighted in Figure 1.
     - The winning circle includes Aerospace and Auto Parts, Data Processors and Biotech. The highest torque is found in Airlines.
  2. The most consistently underperforming (solid red wedge in the table below) subindustries are highlighted in Figure 2.
     - The avoids include Utilities, REITs, staples like Soft Drinks and Tobacco. The steepest underperformance is found in REITs and Target within stores.

---

### Figure 1: Most Consistently Outperforming U.S. Subindustries

<table>
<thead>
<tr>
<th>Name</th>
<th>Wgt (%)</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>1-day RS Chg(%)</th>
<th>5-day RS Chg(%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50-d RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet Retail vs. S&amp;P 1500</td>
<td>1.5%</td>
<td></td>
<td>-7</td>
<td>1.5</td>
<td>-0.4%</td>
<td>-0.9%</td>
<td>-0.2%</td>
<td>Above Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Data Processing &amp; Outsourced Services vs. S&amp;P 1500</td>
<td>1.9%</td>
<td></td>
<td>-7</td>
<td>1.0</td>
<td>-0.2%</td>
<td>-0.8%</td>
<td>-1.3%</td>
<td>Above Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Health Care Distributors vs. S&amp;P 1500</td>
<td>0.5%</td>
<td></td>
<td>-7</td>
<td>0.5%</td>
<td>-0.5%</td>
<td>-0.8%</td>
<td>-0.3%</td>
<td>Above Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Aerospace &amp; Defense vs. S&amp;P 1500</td>
<td>2.8%</td>
<td></td>
<td>-7</td>
<td>0.1%</td>
<td>0.2%</td>
<td>1.4%</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Auto Parts &amp; Equipment vs. S&amp;P 1500</td>
<td>0.4%</td>
<td></td>
<td>-7</td>
<td>-0.8%</td>
<td>0.1%</td>
<td>1.2%</td>
<td>4.7%</td>
<td>Below Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Airlines vs. S&amp;P 1500</td>
<td>0.3%</td>
<td></td>
<td>-7</td>
<td>-1.2%</td>
<td>2.6%</td>
<td>4.7%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Drug Retail vs. S&amp;P 1500</td>
<td>0.7%</td>
<td></td>
<td>-7</td>
<td>-0.8%</td>
<td>-1.4%</td>
<td>-0.8%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Industrial Machinery vs. S&amp;P 1500</td>
<td>1.2%</td>
<td></td>
<td>-7</td>
<td>0.3%</td>
<td>0.9%</td>
<td>1.6%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Insurance Brokers vs. S&amp;P 1500</td>
<td>0.3%</td>
<td></td>
<td>-7</td>
<td>-0.4%</td>
<td>0.8%</td>
<td>0.0%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
</tr>
<tr>
<td>Biotechnology vs. S&amp;P 1500</td>
<td>2.2%</td>
<td></td>
<td>-7</td>
<td>-0.4%</td>
<td>0.8%</td>
<td>1.6%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
</tr>
</tbody>
</table>

### Figure 2: Most Consistently Underperforming U.S. Subindustries

<table>
<thead>
<tr>
<th>Name</th>
<th>Wgt (%)</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>1-day RS Chg(%)</th>
<th>5-day RS Chg(%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50-d RS MA Trend</th>
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</thead>
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<tr>
<td>General Merchandise Stores vs. S&amp;P 1500</td>
<td>0.4%</td>
<td>-25%</td>
<td>32.5</td>
<td>-7.0%</td>
<td>-1.6%</td>
<td>-4.1%</td>
<td>Below Falling</td>
<td>-9.9%</td>
</tr>
<tr>
<td>Multi-Sector Holdings vs. S&amp;P 1500</td>
<td>0.8%</td>
<td>-27%</td>
<td>-32%</td>
<td>3.6%</td>
<td>-0.2%</td>
<td>-2.4%</td>
<td>Below Falling</td>
<td>-11.4%</td>
</tr>
<tr>
<td>Electric Utilities vs. S&amp;P 1500</td>
<td>1.5%</td>
<td>-29%</td>
<td>48.5</td>
<td>-0.8%</td>
<td>0.0%</td>
<td>-3.5%</td>
<td>Below Falling</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Retail REITs vs. S&amp;P 1500</td>
<td>0.7%</td>
<td>-35%</td>
<td>48.5</td>
<td>0.0%</td>
<td>1.3%</td>
<td>0.8%</td>
<td>Below Falling</td>
<td>-10.3%</td>
</tr>
<tr>
<td>Office REITs vs. S&amp;P 1500</td>
<td>0.3%</td>
<td>-32%</td>
<td>-32%</td>
<td>0.1%</td>
<td>0.7%</td>
<td>0.1%</td>
<td>Above Falling</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Soft Drinks vs. S&amp;P 1500</td>
<td>1.7%</td>
<td>-21%</td>
<td>48.5</td>
<td>-0.2%</td>
<td>-0.9%</td>
<td>-2.6%</td>
<td>Below Falling</td>
<td>-7.6%</td>
</tr>
<tr>
<td>Residential REITs vs. S&amp;P 1500</td>
<td>0.4%</td>
<td>-35%</td>
<td>-35%</td>
<td>0.0%</td>
<td>0.9%</td>
<td>-0.1%</td>
<td>Below Falling</td>
<td>-10.6%</td>
</tr>
<tr>
<td>Integrated Telecommunication Services vs. S&amp;P 1500</td>
<td>1.8%</td>
<td>-27%</td>
<td>48.5</td>
<td>-1.6%</td>
<td>-4.6%</td>
<td>-11.3%</td>
<td>Below Falling</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Multi-Utilities vs. S&amp;P 1500</td>
<td>1.0%</td>
<td>-20%</td>
<td>-20%</td>
<td>-0.7%</td>
<td>-0.9%</td>
<td>-2.3%</td>
<td>Below Falling</td>
<td>-7.5%</td>
</tr>
<tr>
<td>Tobacco vs. S&amp;P 1500</td>
<td>1.3%</td>
<td>-23%</td>
<td>48.5</td>
<td>-0.1%</td>
<td>-0.8%</td>
<td>-4.9%</td>
<td>Below Falling</td>
<td>-9.7%</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
TOOLKIT

- Yesterday’s note on momentum buys (and our note the day before) was specifically heavily slated toward the U.S., and this is for good reason. If you stack a basket of globe-trotting ETFs against the S&P 500, you see a sea of red, with the exception of Germany, and to a lesser extent France – Figure 1.

- This is not driven by a few stocks; the spectrum of relative performance is very much tilted toward consistent outperformance. We loaded MSCI Germany members as a portfolio against our MSCI World benchmark, and narrowed in on the top 20 momentum buys by size to come up with Figure 2.

Figure 1: Globe-Trotting ETFs vs. S&P 500

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1d RS Chg (%)</th>
<th>5d RS Chg (%)</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>EWG US</td>
<td>0.4%</td>
<td>1.2%</td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAC 40</td>
<td>CAC FP</td>
<td>-0.6%</td>
<td>0.6%</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe 350</td>
<td>IEV US</td>
<td>0.2%</td>
<td>1.2%</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>RSX US</td>
<td>0.0%</td>
<td>0.2%</td>
<td>-4%</td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerg. Asia</td>
<td>XMAS IM</td>
<td>-1.2%</td>
<td>0.8%</td>
<td>-4%</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>EWA US</td>
<td>-2.4%</td>
<td>-1.7%</td>
<td>-8%</td>
<td>-3%</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>EWU US</td>
<td>0.3%</td>
<td>0.6%</td>
<td>-3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>EWY US</td>
<td>-0.5%</td>
<td>-0.3%</td>
<td>-15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td>EFA US</td>
<td>-0.3%</td>
<td>0.6%</td>
<td>-5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China 25</td>
<td>FXI US</td>
<td>0.5%</td>
<td>0.6%</td>
<td>-17%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>CSMI SW</td>
<td>-1.4%</td>
<td>1.3%</td>
<td>-5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>EEM US</td>
<td>0.0%</td>
<td>0.2%</td>
<td>-16%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>ILM US</td>
<td>-0.2%</td>
<td>-0.5%</td>
<td>-22%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>EWZ US</td>
<td>-0.1%</td>
<td>-0.7%</td>
<td>-28%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI</td>
<td>ACWI US</td>
<td>-0.2%</td>
<td>0.3%</td>
<td>-5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>XIU CN</td>
<td>-1.6%</td>
<td>-0.7%</td>
<td>-8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>EWT US</td>
<td>-0.1%</td>
<td>0.6%</td>
<td>-15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>EWH US</td>
<td>0.1%</td>
<td>0.3%</td>
<td>-17%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>EWJ US</td>
<td>-1.3%</td>
<td>-0.5%</td>
<td>-13%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>EWX US</td>
<td>-0.7%</td>
<td>0.7%</td>
<td>-21%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>EWS US</td>
<td>-1.2%</td>
<td>-0.3%</td>
<td>-25%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
U.S. Shopping Lists

- The U.S. Equity market is at a one-month low – Figure 1.
  - If you look at it against the global equity market it’s at a two-month low – Figure 2.
    - We don’t see any of these changes breaking (macro environment looks benign, credit is still solid), so it’s really just about how much of a discount you can get before the positive momentum kicks in.
  - This is a momentum market, so you buy momentum. Momentum buys in the S&P 100 are shown in Figure 2. S&P 500 momentum buys are here, Russell 2000 momentum buys are here, Europe is here.

Figure 1: MSCI United States Price Trend

Figure 2: MSCI US vs MSCI World

Figure 3: S&P 100 Momentum Buys

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Friday’s job shocker acted as a balm to most volatility gauges, but no more so than for bond volatility – Figure 1.

- The May-June taper tantrum for North American high yield bonds became completely unwound last week – Figure 2.
- Emerging markets still have a way to go with Brazil yet to catch a bid, and China currently being a fly in the ointment. So we will focus on developed markets in North America and Europe, which are in outperforming trends against global markets.

- In the high-risk category for those that target outperforming trends: the cost to protect a basket of global airlines hit a new multi-year low, and many airline stocks are breaking, or are close to breaking, to new highs. Alaska Air (ALK US) is just one such stock. It is sufficiently large and liquid enough for many portfolios and sports a little less volatility than some of its larger counterparts – Figure 3.
  - In Europe, IAG and EasyJet are in outperforming trends, while Lufthansa and Ryanair severed underperforming trends last week.

- In the high-risk category, for those looking for emerging leadership: we update our December home for the holidays note, as both DR Horton and Toll Brothers broke above underperforming trends on Friday (so did auxiliary plays Home Depot and Sherwin Williams). For golden cross aficionados, consider the leader PulteGroup – Figure 4.
  - For a U.K. homebuilder, look at Persimmon.
Want Yield?

- **Draghi says the crisis is not over.**
- The **U.S. jobs report** says Yellen’s job will be challenging.
- The December back-up in global rates, which started to unwind on January 1, unquiets a bit more this morning. The pressure on “yield stocks” ought to subside, but before you load up on utilities and REITS, which have yet to show much signs of a relative strength bid, you should consider the yield that the market is rewarding.
- “Is rewarding” which are buyable today are our momentum buy lists: entities that are trending consistently higher, above rising moving averages, yet are not overbought. We regard positive yield as above 2%, with a good dividend growth record. If one combines momentum and yield:
  - Amongst ETFs, shown against the MSCI ACWI, Germany stands out on top – Figure 1.
  - The largest 20 global stocks that our yield and momentum filter nets are shown in Figure 2.

### Figure 1: ETFs With Yield > 2% and Positive Dividend Growth on Our Momentum Buy List Against the ACWI

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>LT RS</th>
<th>DVD y</th>
<th>Close 6-1 Jan</th>
<th>ACWI Trend Slope</th>
<th>RS Hi (%)</th>
<th>Chg wtr 150 Day MA Trend</th>
<th>Chg wtr 150 Day MA</th>
<th>DVD Growth %</th>
<th>DVD Growth $y</th>
</tr>
</thead>
<tbody>
<tr>
<td>EWS US</td>
<td>MSCI Germany ETF</td>
<td>3</td>
<td>1</td>
<td>38.75</td>
<td>10%</td>
<td>2% Above Rising</td>
<td>19% Above Rising</td>
<td>ABOVE 138%</td>
<td>57%</td>
<td>85%</td>
</tr>
<tr>
<td>JYM US</td>
<td>US Basic Materials ETF</td>
<td>3</td>
<td>2</td>
<td>86.13</td>
<td>9%</td>
<td>2% Above Rising</td>
<td>9% Above Rising</td>
<td>ABOVE 88%</td>
<td>57%</td>
<td>11%</td>
</tr>
<tr>
<td>POP US</td>
<td>GBL Private Equity ETF</td>
<td>3</td>
<td>1</td>
<td>12.04</td>
<td>10%</td>
<td>3% Above Rising</td>
<td>3% Above Rising</td>
<td>ABOVE 80%</td>
<td>63%</td>
<td>20%</td>
</tr>
<tr>
<td>VTI US</td>
<td>Vanguard Total Stock Market ETF</td>
<td>3</td>
<td>1</td>
<td>95.57</td>
<td>7%</td>
<td>48.0</td>
<td>3%</td>
<td>Above Rising</td>
<td>Above 89%</td>
<td>64</td>
</tr>
<tr>
<td>IWV US</td>
<td>Russell 2000 Value ETF</td>
<td>3</td>
<td>2</td>
<td>69.21</td>
<td>0%</td>
<td>2% Above Rising</td>
<td>9% Above Rising</td>
<td>ABOVE 100%</td>
<td>55%</td>
<td>2%</td>
</tr>
<tr>
<td>SPY US</td>
<td>S&amp;P 500 ETF</td>
<td>4</td>
<td>2</td>
<td>183.64</td>
<td>5%</td>
<td>2% Above Rising</td>
<td>7% Above Rising</td>
<td>Above 81%</td>
<td>83%</td>
<td>14%</td>
</tr>
</tbody>
</table>

### Figure 2: Largest 20 Stocks With Yield > 2% and Positive Dividend Growth on Our Momentum Buy List – See Link for Full List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>LT RS</th>
<th>DVD y</th>
<th>MidCap ($US)</th>
<th>ACWI Trend Slope</th>
<th>RS Hi (%)</th>
<th>Chg wtr 150 Day MA Trend</th>
<th>Chg wtr 150 Day MA</th>
<th>DVD Growth %</th>
<th>DVD Growth $y</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST US</td>
<td>Siemens AG IndCongl</td>
<td>7</td>
<td>5</td>
<td>117,669</td>
<td>32%</td>
<td>2% Above Rising</td>
<td>3.04%</td>
<td>50%</td>
<td>16%</td>
<td>22%</td>
</tr>
<tr>
<td>LMT US</td>
<td>Lockheed Martin Corp AeronDef</td>
<td>1</td>
<td>2</td>
<td>47,639</td>
<td>46%</td>
<td>48.0</td>
<td>0%</td>
<td>Above Rising</td>
<td>3.58%</td>
<td>15%</td>
</tr>
<tr>
<td>VOD US</td>
<td>Vodafone Group PLC WkdTelSv</td>
<td>7</td>
<td>4</td>
<td>2,188,242</td>
<td>41%</td>
<td>4%</td>
<td>Above Rising</td>
<td>2.69%</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>RTN US</td>
<td>Raytheon Co  AeronDef</td>
<td>1</td>
<td>2</td>
<td>28,752</td>
<td>45%</td>
<td>4%</td>
<td>Above Rising</td>
<td>2.44%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>SAF FP</td>
<td>Safran SA AeronDef</td>
<td>1</td>
<td>1</td>
<td>28,993</td>
<td>25%</td>
<td>6% Above Rising</td>
<td>2.21%</td>
<td>20%</td>
<td>32%</td>
<td>36%</td>
</tr>
<tr>
<td>MMC US</td>
<td>Marsh &amp; McLennan Cos InsurBd</td>
<td>1</td>
<td>2</td>
<td>26,643</td>
<td>18%</td>
<td>3%</td>
<td>Above Rising</td>
<td>2.06%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>EMR US</td>
<td>Emerson Electric Co ElecComp</td>
<td>1</td>
<td>4</td>
<td>48,198</td>
<td>19%</td>
<td>1%</td>
<td>Above Rising</td>
<td>2.52%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>NSC US</td>
<td>Norfolk Southern Corp Railroads</td>
<td>9</td>
<td>4</td>
<td>28,267</td>
<td>32%</td>
<td>3%</td>
<td>Above Rising</td>
<td>2.28%</td>
<td>5%</td>
<td>12%</td>
</tr>
<tr>
<td>DDAIF US</td>
<td>Daimler AG AutoMfg</td>
<td>8</td>
<td>3</td>
<td>90,763</td>
<td>22%</td>
<td>3% Above Rising</td>
<td>3.40%</td>
<td>0%</td>
<td>6%</td>
<td>38%</td>
</tr>
<tr>
<td>AXAH US AXA SA Multi-LnIns</td>
<td>2</td>
<td>4</td>
<td>166,131</td>
<td>26%</td>
<td>7%</td>
<td>Above Rising</td>
<td>3.37%</td>
<td>42%</td>
<td>9%</td>
<td>19%</td>
</tr>
<tr>
<td>BMW GR</td>
<td>Bayerische Motoren Werke AutoMfg</td>
<td>8</td>
<td>3</td>
<td>68,977</td>
<td>26%</td>
<td>2%</td>
<td>Above Rising</td>
<td>2.97%</td>
<td>8%</td>
<td>28%</td>
</tr>
<tr>
<td>SCMN VX</td>
<td>Swisscom AG IntTelSv</td>
<td>5</td>
<td>4</td>
<td>27,045</td>
<td>14%</td>
<td>2%</td>
<td>Above Rising</td>
<td>4.65%</td>
<td>0%</td>
<td>22%</td>
</tr>
<tr>
<td>MMM US</td>
<td>3M Co IndCongl</td>
<td>7</td>
<td>3</td>
<td>90,772</td>
<td>16%</td>
<td>4%</td>
<td>Above Rising</td>
<td>2.51%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>BAG.SG</td>
<td>BASF SE DiversChm</td>
<td>6</td>
<td>1</td>
<td>96,581</td>
<td>20%</td>
<td>1%</td>
<td>Above Rising</td>
<td>3.37%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>13 HK</td>
<td>Hutchison Whampoa LtdIndCongl</td>
<td>7</td>
<td>4</td>
<td>57,565</td>
<td>19%</td>
<td>5%</td>
<td>Above Rising</td>
<td>2.03%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>ADM US</td>
<td>Archer-Daniels-Midland AgriProd</td>
<td>9</td>
<td>6</td>
<td>27,740</td>
<td>19%</td>
<td>1%</td>
<td>Above Rising</td>
<td>2.28%</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>HMB SS</td>
<td>Hennes &amp; Mauritz GB ApparRl</td>
<td>10</td>
<td>4</td>
<td>63,936</td>
<td>24%</td>
<td>2%</td>
<td>Above Rising</td>
<td>3.31%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>ALV GR</td>
<td>Allianz SE Multi-LnIns</td>
<td>2</td>
<td>3</td>
<td>79,828</td>
<td>12%</td>
<td>2%</td>
<td>Above Rising</td>
<td>3.80%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>DD US</td>
<td>E. Du Pont de Nemours DiversChm</td>
<td>2</td>
<td>1</td>
<td>59,215</td>
<td>9%</td>
<td>3%</td>
<td>Above Rising</td>
<td>2.82%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>SAMAS PH</td>
<td>Sampo Oyj Multi-LnIns</td>
<td>2</td>
<td>1</td>
<td>27,004</td>
<td>9%</td>
<td>3%</td>
<td>Above Rising</td>
<td>3.80%</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

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Assoc: Tiberiu Stoichita/Jin Li
Not Too Late to Underweight Energy

- When a sector falls to a multi-year relative strength low like Energy did yesterday (Figure 1), the propensity for some is to ask if there is “value” down there. The answer is undoubtedly ‘yes’, but it is this type of value that ends in the word “trap.”
  - We peg the relative strength trend at negative 4-7% depending on the region, but the trend is universal, and it is negative – Figure 2.
  - Further, the underperforming trend over the past few years is at least double that rate, so expect some accelerated underperformance from time to time. Judging from yesterday’s 4 to 1 ratio of energy stocks breaking to the downside vs. upside, the time is now upon us – Figure 3.

- The “go to” place in Energy continues to be most U.S. Refiners.
- Our best U.S. short-sale candidate continues to be Diamond Offshore Drilling.
- Our best EM short-sale candidate is Petrobras.
- The Canadian large cap avoid is Ensign Energy Services.

Figure 1: MSCI World Energy vs MSCI World

Figure 2: Energy Sectors Trends vs Local Markets

Figure 3: Underperforming at Only 5% is just a “Holding Pattern” Which is Breaking to the Downside

Figure 4:
Surfing Pacific Shorts

Yesterday, we mentioned the 10% underperformance of Pacific stocks against MSCI World. Today we delve into the details of what not to own, or underweight, or if you can sport Pacific shorts, here are the ones to don.

The largest 10 momentum sells (trending lower, below falling moving averages, yet not oversold) are shown in Figure 1, and the full list is shown at this link.

- Henderson Land Development (12 HK) deserves highlighting owing to the recent backup in CDS levels for Real Estate (and Banks) – Figure 3.

- The largest 10 severed (broken) price uptrends are shown in Figure 2 (full list here).

- KORS is one of the best names in retail, yet its momentum is fading – Fig 4.

Figure 1: Largest 10 Pacific Momentum Sells (Price Trends) – Click Here for Full List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Domicile</th>
<th>Sub Industry</th>
<th>Prop</th>
<th>RS</th>
<th>LT Price</th>
<th>Close 07-Jan</th>
<th>1-day Equity Chg (%)</th>
<th>3-day Equity Chg (%)</th>
<th>MinCas (US$)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Hit (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK</td>
<td>Power Assets Holdings Ltd</td>
<td>Hong Kong</td>
<td>Metals</td>
<td>9</td>
<td>5</td>
<td>9</td>
<td>59.10</td>
<td>-1.3%</td>
<td>-4.1%</td>
<td>16,260</td>
<td>-27%</td>
<td>Below Falling</td>
<td>1.0</td>
<td>-5%</td>
<td>-5%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>NISSAN US</td>
<td>Nissan Motor Co Ltd</td>
<td>Japan</td>
<td>AutoMfg</td>
<td>9</td>
<td>7</td>
<td>10</td>
<td>17.33</td>
<td>0.8%</td>
<td>3.3%</td>
<td>39,172</td>
<td>-41%</td>
<td>Below Falling</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>ADVANCETB</td>
<td>Advanced Info Service PCL</td>
<td>Thailand</td>
<td>Telecom</td>
<td>6</td>
<td>2</td>
<td>9</td>
<td>210.00</td>
<td>-4.5%</td>
<td>2.9%</td>
<td>19,882</td>
<td>-45%</td>
<td>Below Falling</td>
<td>-7%</td>
<td>-7%</td>
<td>-7%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>PTT TB</td>
<td>PTT PCL</td>
<td>Thailand</td>
<td>Int. Oil &amp; Gas</td>
<td>8</td>
<td>6</td>
<td>9</td>
<td>281.00</td>
<td>-6.4%</td>
<td>-1.4%</td>
<td>24,273</td>
<td>-26%</td>
<td>Below Falling</td>
<td>-6%</td>
<td>-6%</td>
<td>-6%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>12 HK</td>
<td>Henderson Land Development</td>
<td>Hong Kong</td>
<td>Real Estate</td>
<td>10</td>
<td>8</td>
<td>10</td>
<td>43.35</td>
<td>-0.3%</td>
<td>-1.8%</td>
<td>15,089</td>
<td>-10%</td>
<td>Below Falling</td>
<td>9.4</td>
<td>-5%</td>
<td>-5%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>SNE US</td>
<td>Sony Corp</td>
<td>Japan</td>
<td>ElecMfg</td>
<td>4</td>
<td>10</td>
<td>10</td>
<td>17.23</td>
<td>0.1%</td>
<td>-8.5%</td>
<td>17,889</td>
<td>-39%</td>
<td>Below Falling</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>WDCL AU</td>
<td>Westfield Group</td>
<td>Australia</td>
<td>Retail</td>
<td>10</td>
<td>8</td>
<td>9</td>
<td>10.32</td>
<td>0.5%</td>
<td>-3.4%</td>
<td>18,944</td>
<td>-12%</td>
<td>Below Falling</td>
<td>-2%</td>
<td>-2%</td>
<td>-2%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>TLK US</td>
<td>Telekomunikasi Indonesia</td>
<td>Indonesia</td>
<td>Telecom</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td>34.12</td>
<td>0.5%</td>
<td>-4.1%</td>
<td>17,190</td>
<td>-22%</td>
<td>Below Falling</td>
<td>-7%</td>
<td>-7%</td>
<td>-7%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>HULVA IN</td>
<td>Hindustan Unilever Ltd</td>
<td>India</td>
<td>Consumer Pack</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>888.58</td>
<td>-0.8%</td>
<td>-2.1%</td>
<td>19,480</td>
<td>-23%</td>
<td>Below Falling</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>032330 KS</td>
<td>Samsung Life Insurance Co Ltd</td>
<td>South Korea</td>
<td>LifeIns</td>
<td>3</td>
<td>6</td>
<td>6</td>
<td>1,161,500.00</td>
<td>0.6%</td>
<td>-1.5%</td>
<td>18,987</td>
<td>-9%</td>
<td>Below Falling</td>
<td>-9%</td>
<td>-9%</td>
<td>-9%</td>
<td>Below Falling</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Largest 10 Pacific Stocks Breaking Below Price Uptrends – Click Here for Full List

Figure 3: Henderson Land Development (12 HK) Price Trend

Figure 4: Michael Kors (KORS US) Price Trend

Great Momentum... ...Subsiding

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Regional Investing

- The outperformance is marginal and the trend not the most consistent, but from a globe-trotting perspective, Europe and North America (Figures 1, 2) stand out in outperforming trends against MSCI World, while the rest sport underperforming trends.
- Sometimes it is what you do not own that makes the difference. The broad MSCI Pacific is underperforming at 10%/year – Figure 3. Our -6% trend on EM is really just a holding pattern that started breaking to the downside in December – Figure 4.
- For those looking for a more granular perspective;
  - In developed markets, German shares offer the most consistent outperformance, and Irish eyes are back to smiling. Singapore sports a steep underperforming trend and for those long Japan, and not short the depreciating currency, the breakout to new highs is not visible.
  - In Emerging markets, we find it disconcerting that two of the most consistent outperformers, China and Korea, are breaking below price uptrends.

Figure 1: MSCI Europe vs. MSCI World
Figure 2: MSCI North America vs MSCI World
Figure 3: MSCI Pacific vs MSCI World
Figure 4: MSCI Emerging Markets vs MSCI World

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
**Financial Focus**

- On Friday, both Diversified Financials (home of JPM, BAC, C) and Capital Markets (home of GS, UBS, MS) broke above underperforming trends, and Insurance broke below an outperforming trend – Figures 1-3.

- Insurance has benefited from both higher rates and stronger capital markets. The shift is the markets leaning toward stronger capital markets, but perhaps the higher rates call might not make it all the way through 2014.

- At the most granular level (Figure 4), the call is to reduce holdings of the likes of Great-West Lifeco, and add to the likes of Citigroup, which has been lagging its narrowing CDS.

**Figure 1: MSCI World Industries vs. MSCI World**

- Insurance vs. MSCI World: Broken above a trend with a 9% rise.
- Consumer Finance vs. MSCI World: Risen 4%.
- Commercial Banks vs. MSCI World: Broken below with a 1% drop.
- Capital Markets vs. MSCI World: Broken below with a 1% drop.
- Diversified Financial Services vs. MSCI World: Broken below with a 2% drop.

**Figure 2: Diversified Financial Services vs. MSCI World**

- Expecting a leg up in large weights JPM, BAC, C.

**Figure 3: Capital Markets vs. MSCI World**

- Expecting a leg up in large weights GS, UBS, MS.

**Figure 4: MSCI World Financials Severing (Breaking) Relative Strength Trends Last Friday**

- Symbol: HK
  - Name: Cheung Kong Holdings Ltd
  - Sub Industry: REStDev
  - Gpi RS: 10
  - 1-day Equity Chg (%): -1.9%
  - 5-day Equity Chg (%): -0.7%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -7.7%
  - %Chg wrt 200d RS MA: -1%

- Symbol: GWO CN
  - Name: Great-West Lifeco Inc
  - Sub Industry: LifeIns
  - Gpi RS: 3
  - 1-day Equity Chg (%): -0.9%
  - 5-day Equity Chg (%): -0.9%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -11%
  - %Chg wrt 200d RS MA: 0%

- Symbol: AGZ US
  - Name: Arch Capital Group Ltd
  - Sub Industry: P&C Insur
  - Gpi RS: 8
  - 1-day Equity Chg (%): -1.9%
  - 5-day Equity Chg (%): -4.0%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -3%
  - %Chg wrt 200d RS MA: -3%

- Symbol: WSH US
  - Name: Willis Group Holdings Ltd
  - Sub Industry: InsurEhrks
  - Gpi RS: 4
  - 1-day Equity Chg (%): -0.9%
  - 5-day Equity Chg (%): -1.5%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -4%
  - %Chg wrt 200d RS MA: -2%

- Symbol: GLP SP
  - Name: Global Logistic Properties Ltd
  - Sub Industry: REStCoCo
  - Gpi RS: 10
  - 1-day Equity Chg (%): -1.7%
  - 5-day Equity Chg (%): -0.3%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: 0%
  - %Chg wrt 200d RS MA: -3%

- Symbol: STT US
  - Name: State Street Corp
  - Sub Industry: AssmMgmt
  - Gpi RS: 3
  - 1-day Equity Chg (%): 2.1%
  - 5-day Equity Chg (%): 3.1%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -3%
  - %Chg wrt 200d RS MA: 5%

- Symbol: SL/ LN
  - Name: Standard Life PLC
  - Sub Industry: LifeIns
  - Gpi RS: 3
  - 1-day Equity Chg (%): 2.0%
  - 5-day Equity Chg (%): 1.4%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -13%
  - %Chg wrt 200d RS MA: 4%

- Symbol: C US
  - Name: Citigroup Inc
  - Sub Industry: CbrDivFS
  - Gpi RS: 6
  - 1-day Equity Chg (%): 2.2%
  - 5-day Equity Chg (%): 2.0%
  - 200-d RS MA Trend: Down
  - 50-d RS MA Trend: Down
  - %Chg wrt 50d RS MA: -12%
  - %Chg wrt 200d RS MA: 5%

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Overbought Lists

• With major equity indices near record or multi-year highs, it is worth paying attention to some lists of overbought stocks, that is, candidates for consolidation or perhaps correction in price.

• We highlight S&P500 and MSCI World ex USA members that have climbed above the top ends of their outperforming relative strength channels and whose daily and weekly share price RSI exceeds 70 (overbought) – Figures 1, 2.

Figure 1: S&P 500 Members Above Top End Of Outperforming RS Channel, Daily & Weekly RSI Greater Than 70

Figure 2: MSCI World ex US Members Above Top End Of Outperforming RS Channel, Daily & Weekly RSI Greater Than 70

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Focal Points

Investment & Trading Ideas

Tighten Up

- In May and June, markets started a new dance called the Tighten Up.
  - 1st tighten up on the long end of the U.S. treasury curve – Figure 1.
  - 2nd tighten up the Chinese interbank lending curve – Figure 2.
  - 3rd tighten up on the short end of the U.S. treasury curve – Figure 3.

  Sock it to me now
  Tighten it up
  Archie Bell & The Drells

- A tipping point has been reached. The central bankers’ bank (BIS) now deems that (1) there has been enough stimulus provided to the global economy, (2) more cannot be done without compounding risks that central banks have already created, and (3) easing has led to the delay of structural reforms (BIS Annual Report June 23, 2013).

- After a period of unprecedented central bank easing, and ultra low interest rate volatility, markets are adjusting to now rather rapid tightening and escalating volatility.
  - The known unknown is that when interest rates move from low and highly certain, to high and highly uncertain, that carry trades blow up. This was Long-Term Capital Management, this was Carlyle Capital Corporation, and this is the known unknown that markets are routing out now.

- Our goal over the next few pages is to detail these stresses, which we believe are still at very early stages. We expect global equity weakness to persist over the near term.

Figure 1: U.S., German, and Japanese 10-Year Bond Yields (Top) and Implied Volatility (Bottom)

Figure 2: Chinese Interbank Lending Rates

Figure 3: Odds of a ’14 Fed Rate Hike From Fed Funds Futures

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
FOMC: Early Withdrawal? Really?

- President Bullard also felt that the Committee's decision to authorize the Chairman to lay out a more elaborate plan for reducing the pace of asset purchases was inappropriately timed.

FRB of St. Louis June 21

- There has been a change in the calculus of the FED this year. In BIS terms, “Delivering further extraordinary monetary stimulus is becoming increasingly perilous”.
  - U.S. inflation expectations just started to ease leading into the FOMC minutes release in February.
  - On February 20 we learned that the FED was concerned about its open ended QE policy.
    - This was also the start of the market's fascination with the term “tapering” which has been written about 150 times per day, on average, in the month of June (“NT Tapering” on Bloomberg).
  - Inflation expectations really started falling after Cypriot debt resolution uncertainty came to bear on March 18.
    - One month later, inflation expectations were breaking down globally.
  - While inflation expectations were falling, asset price inflation was picking up. This is obviously not the inflation that the fed targets, but it was the destination that the market was targeting for QE related flows.
  - Would outgoing Bernanke go down as the FED who stoked asset price inflation? – Figure 4.
    - On May 22 Bernanke and the FOMC told the market that QE could be stepped down as early as June.
    - On June 19 Bernanke delivered the withdrawal schedule verbally.
    - Asset price inflation is no longer a problem.
  - Asset price deflation in our clients’ portfolios is our key interest now.

Figure 4: US Inflation Expectations (10-Year Breakeven Rate) Top; FTSE Global REIT Index (TENHGU) Bottom
PBOC: Money Not in the Right Places

- While it may seem to be a stretch to jump from looking at inflation expectations at the long end of the U.S. curve, to the stresses at the ultra short end of the Chinese credit curve, it is not.
  - The combination of low U.S. interest rates, and interest rate volatility encouraged flows into emerging markets with higher-yielding assets.
  - The FOMC, whose policy underpins the world’s largest and most liquid bond market becomes the central banker to the world via the carry trade.
    - $3.9 trillion had flowed into emerging markets over the past four years.
- It is a mistake to apply market western policy thinking to policy action of the new People's Republic of China government, and the PBOC.
  - Rather than releasing stimulus in response to weak economic figures, which was the point where the Chinese sovereign CDS broke to the upside (Figure 5), China has done the opposite, has withheld stimulus, and has allowed banking stress to build – Figure 2.
  - China is getting it’s plumbing in order by reigning in the shadow banking system, which it needs to get under control such that it can have a handle on its financial system. During this plumbing exercise,
    - Chinese bank CDS levels are soaring – Figure 6.
    - Chinese Real Estate CDS levels are soaring – Figure 7.
- We are sure that the Minsky Moment for many shadowy players in the Chinese financial system is upon them now, but to call this the Lehman moment for China as a whole is premature. Possible, but premature – Figure 8.
  - China has breathing room to tighten up, and so it is.
  - Global growth oriented resource countries such as Canada should continue to be underweighted.
**BIS: Borrowed Time**

- The tone of the BIS annual report released Sunday shows central banking thinking turning from carrot to stick:

  *What central bank accommodation has done during the recovery is to borrow time...But the time has not been well used*

- The short end of the U.S. curve is tightening up.
  - The FED's assessment, disclosed last Wednesday, was to bring the time of a rate hike forward by two months.
  - Fed funds futures on Friday signaled a greater than 50% probability of a FED rate hike next year – Figure 3.

- Nowhere does time seem to be more borrowed than in the European periphery where bonds received a massive ECB (Draghi) induced grace period. It seems that European policy makers could use the stick to un-jam the process that calm has created.
  - The stick is coming:
    - The Spanish sovereign CDS, like many others, has broken to the upside – Figure 9.
    - A peripheral European banks CDS basket is basing and should soon mint a higher high – Figure 10.
    - Italian-German and Spanish-German stress and spreads are just now starting to turn up again – Figure 11.
    - The Italian bank UniCredit remains the SIFI with the most inverted curve – Figures 12, 13.
**SIFI: Stresses Rising**

- The cost to protect systemically important financial institutions (SIFI) is rising – Figure 13.
  - Where the trends were showing improvement in creditworthiness (green wedges), the trends have broken (red arrows).
  - Our systems’ best fit for most European SIFI CDS trends is towards widening (red wedges).
- Debt protection costs at the short end of the curve (1yr) debt is rising faster than the long end of the curve (5yr).
  - Our SIFI CDS trend list below is sorted by this ratio (CDS Curve 1/5Yr).
  - No curve is even close to being over 100% (LEH-like), but it is interesting (and unflattering) to see Asia-centric HSBC line up close to UniCredit (top two lines in Figure 13).

**Figure 13: CDS Trends on Too-Interconnected to Fail Banks**

<table>
<thead>
<tr>
<th>Name</th>
<th>1-day Equity Chg (%)</th>
<th>5-day Equity Chg (%)</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>CDS Trend Slope</th>
<th>CDS Hi (Mo)</th>
<th>CDS Low (Mo)</th>
<th>CDS Curve 1/5Yr</th>
<th>CDS %Chg wrt 50 DMA</th>
<th>Chg wrt 50 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>UniCredit SpA</td>
<td>-4.1%</td>
<td>-7.2%</td>
<td>27,666</td>
<td>↑</td>
<td>-13%</td>
<td>2.5</td>
<td>0.58</td>
<td>22%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>HSBC Holdings PLC</td>
<td>-0.1%</td>
<td>-3.6%</td>
<td>191,403</td>
<td>↑</td>
<td>-30%</td>
<td>7.5</td>
<td>0.51</td>
<td>32%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>ING Groep NV</td>
<td>-2.1%</td>
<td>-3.1%</td>
<td>33,909</td>
<td>↑</td>
<td>-45%</td>
<td>2.0</td>
<td>0.49</td>
<td>9%</td>
<td>Above Falling</td>
<td></td>
</tr>
<tr>
<td>Banco Santander SA</td>
<td>-1.2%</td>
<td>-6.9%</td>
<td>69,239</td>
<td>↑</td>
<td>-42%</td>
<td>2.5</td>
<td>0.47</td>
<td>24%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>-1.0%</td>
<td>-3.6%</td>
<td>48,825</td>
<td>↑</td>
<td>-60%</td>
<td>5.5</td>
<td>0.46</td>
<td>35%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Royal Bank of Scotland Group Plc</td>
<td>-5.1%</td>
<td>-10.3%</td>
<td>27,112</td>
<td>↑</td>
<td>-10%</td>
<td>9.5</td>
<td>0.46</td>
<td>43%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>-0.8%</td>
<td>-5.3%</td>
<td>56,350</td>
<td>↑</td>
<td>3%</td>
<td>7.0</td>
<td>0.44</td>
<td>22%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>-0.7%</td>
<td>-5.3%</td>
<td>70,724</td>
<td>↑</td>
<td>-49%</td>
<td>6.5</td>
<td>0.42</td>
<td>39%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>-1.2%</td>
<td>-5.3%</td>
<td>42,253</td>
<td>↑</td>
<td>50%</td>
<td>7.0</td>
<td>0.38</td>
<td>20%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Bank of America Corp</td>
<td>-1.6%</td>
<td>-2.9%</td>
<td>136,803</td>
<td>↑</td>
<td>-47%</td>
<td>6.5</td>
<td>0.36</td>
<td>28%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Commerzbank AG</td>
<td>-2.3%</td>
<td>-1.8%</td>
<td>10,873</td>
<td>↑</td>
<td>35%</td>
<td>3.0</td>
<td>0.36</td>
<td>14%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Credit Agricole SA</td>
<td>-2.4%</td>
<td>-6.0%</td>
<td>21,255</td>
<td>↑</td>
<td>6%</td>
<td>2.0</td>
<td>0.35</td>
<td>15%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>UBS AG</td>
<td>-1.5%</td>
<td>-4.7%</td>
<td>64,921</td>
<td>↑</td>
<td>11%</td>
<td>6.5</td>
<td>0.35</td>
<td>23%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>0.6%</td>
<td>-4.2%</td>
<td>44,674</td>
<td>↑</td>
<td>27%</td>
<td>2.5</td>
<td>0.35</td>
<td>19%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>-2.6%</td>
<td>-5.9%</td>
<td>66,362</td>
<td>↑</td>
<td>-25%</td>
<td>2.5</td>
<td>0.35</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co</td>
<td>-1.0%</td>
<td>-2.2%</td>
<td>196,392</td>
<td>↑</td>
<td>-2%</td>
<td>6.5</td>
<td>0.34</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>-2.2%</td>
<td>-4.8%</td>
<td>142,620</td>
<td>↑</td>
<td>-55%</td>
<td>5.5</td>
<td>0.33</td>
<td>31%</td>
<td>Above Rising</td>
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<td>Societe Generale</td>
<td>-2.1%</td>
<td>-5.6%</td>
<td>27,619</td>
<td>↑</td>
<td>-15%</td>
<td>2.0</td>
<td>0.32</td>
<td>13%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>2.2%</td>
<td>2.8%</td>
<td>216,940</td>
<td>↑</td>
<td>-29%</td>
<td>0.29</td>
<td>0.29</td>
<td>12%</td>
<td>Above Rising</td>
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US Equities: Last Dot Finally Connected, Picture Now Emerging

- The stress in the banking system is just starting to be felt in the U.S. equity market – Figure 14.
  - The breakout in the cost to protect the US Banks against default last Thursday coincided with the breakdown in the S&P 500.
- The U.S. 2-year swap spread, a gauge of counterparty risk, has just started to get in the game – Figure 15.
  - It is still incredibly low – Figure 16, but will move higher with continued stress in the banking system.
  - When stresses are high enough, one can watch this counterparty risk move with S&P futures tick for tick.
  - We have not seen this yet, but are expecting it. When we see it, we will be closer to an equity bottom.
- The known unknown is that when interest rates move from low and highly certain to high and highly uncertain that carry trades blow up.
  - This is the precursor to LTCM, to CCC, and to the known unknown of 2013.
  - When this unknown is known, we believe equities will be lining up for a bottom.

Figure 14: US Bank CDS and the S&P 500
Average Cost To Protect US Banks Against Default

Both Broke Last Thursday

Figure 15: U.S. 2-year Swap Spread
Just Barely Starting to Get in the Game

Figure 16: U.S. 2-year Swap Spread – Long Term Perspective
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<th>Rating Category</th>
<th>BMO Rating</th>
<th>BMOCM US Universe*</th>
<th>BMOCM US IB Clients**</th>
<th>BMOCM US IB Clients***</th>
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<th>BMOCM IB Clients*****</th>
<th>Starmine Universe</th>
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<td>20.4%</td>
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<td>7.2%</td>
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