## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 20, 2016</td>
<td>NEW Market Elements</td>
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</table>

## Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 23, 2016</td>
<td>NEW Oil Bottom Confirmation</td>
</tr>
<tr>
<td>September 22, 2016</td>
<td>We Expect a Bond Breakdown</td>
</tr>
<tr>
<td>September 21, 2016</td>
<td>Another Pre-Breakout Chart With Big Implications</td>
</tr>
<tr>
<td>September 20, 2016</td>
<td>The Bank Risk Outlier Which Bears Watching</td>
</tr>
<tr>
<td>September 19, 2016</td>
<td>Technology &amp; Health Care</td>
</tr>
<tr>
<td>September 16, 2016</td>
<td>Chicago FED : 25bps or Deep 6</td>
</tr>
<tr>
<td>September 15, 2016</td>
<td>Twisted Sister</td>
</tr>
<tr>
<td>September 14, 2016</td>
<td>No Twisting Fool</td>
</tr>
<tr>
<td>September 13, 2016</td>
<td>Tinker Tailor Soldier On</td>
</tr>
<tr>
<td>September 12, 2016</td>
<td>Doubling Up on Mining Shorts</td>
</tr>
<tr>
<td>September 9, 2016</td>
<td>Yes, the Classic Sells Still Exist, Too</td>
</tr>
<tr>
<td>September 8, 2016</td>
<td>The Relative Short</td>
</tr>
<tr>
<td>September 7, 2016</td>
<td>The Art of the Pullback – Low Volatility</td>
</tr>
<tr>
<td>September 6, 2016</td>
<td>The Art of the Pullback - Utilities</td>
</tr>
<tr>
<td>September 2, 2016</td>
<td>Energy Outperformers With a Sub 50 RSI</td>
</tr>
<tr>
<td>September 1, 2016</td>
<td>2nd Largest Financial Bucket Is 1st Decile Regional Banks</td>
</tr>
<tr>
<td>August 31, 2016</td>
<td>Fill That Momentum Bucket With Some Financials</td>
</tr>
<tr>
<td>August 30, 2016</td>
<td>The Real Estate Pullback</td>
</tr>
<tr>
<td>August 29, 2016</td>
<td>Financial Breadth Reading After Removing Real Estate</td>
</tr>
<tr>
<td>August 26, 2016</td>
<td>U.S. SmallCaps – From a Loonie Perspective? Alright</td>
</tr>
<tr>
<td>August 25, 2016</td>
<td>Canadian SmallCaps – Yes, That’s a Breakdown</td>
</tr>
<tr>
<td>August 24, 2016</td>
<td>Looking For Trouble...How About Copper?</td>
</tr>
<tr>
<td>August 23, 2016</td>
<td>NASDAQ Biotech Index – That’s a Nice Chart!</td>
</tr>
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## Focal Points

<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>March 11, 2016</td>
<td>Gold Dances to the Tune of The Dollar Wine</td>
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<tr>
<td>October 5, 2015</td>
<td>Bank Risk Priced at a 2-Year High</td>
</tr>
<tr>
<td>September 3, 2015</td>
<td>Not Enough Puff</td>
</tr>
</tbody>
</table>
Market Elements

- **Stocks extended strong gains**: S&P 500 crossed above its 50d MA and came close to an all-time high intraday; Nasdaq minted another new high; S&P/TSX neared a 14m high; European bourses surged as they caught up to NA strength; All 11 gbl sectors rose.

- **Major European 10y yields dove 10bps to end at 2w lows**: the other major 10y yields also shed 3-9bps; Corporate default risk retreated for a 2nd day.

- Most majors rose modestly against the U.S. dollar; the Euro ended with a small gain after earlier rising 60bps to a 1w high; the yen held just above 100; the NOK jumped 1.5% to a 3m high after rate decision; the CAD rebounded to its falling 50d MA.

- The BBg commodity index gapped up to a 1m high; Base metals led the rally; Al surged 2.0% to a 3m high after earlier rising 60bps to a 1w high; the yen held just above 100; the NOK jumped 1.5% to a 3m high after rate decision; the CAD rebounded to its falling 50d MA.

- The BBg commodity index gapped up to a 1m high; Base metals led the rally; Al surged 2.0% to a 3m high and broke above its 50d MA; Cu and Ni reached their highest levels since mid Aug; Oil extended its rebound; NMX gas pulled back; Lumber surged 3%.

### Levels

#### Currencies (USD per)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBDXY</td>
<td>1.183</td>
<td>-0.1%</td>
<td></td>
</tr>
<tr>
<td>XBT</td>
<td>596</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>EUR</td>
<td>1.1204</td>
<td>0.3%</td>
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</tr>
<tr>
<td>CHF</td>
<td>1.0313</td>
<td>0.4%</td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td>1.3075</td>
<td>0.3%</td>
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<tr>
<td>JPYX10</td>
<td>0.0992</td>
<td>-0.5%</td>
<td></td>
</tr>
<tr>
<td>CAD</td>
<td>0.7662</td>
<td>0.4%</td>
<td></td>
</tr>
<tr>
<td>AUD</td>
<td>0.7640</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>BRL</td>
<td>0.3104</td>
<td>-0.4%</td>
<td></td>
</tr>
<tr>
<td>MXN</td>
<td>0.5088</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>ZAR</td>
<td>0.0734</td>
<td>-0.4%</td>
<td></td>
</tr>
<tr>
<td>KRWX10</td>
<td>0.9058</td>
<td>-0.0%</td>
<td></td>
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<tr>
<td>CNH</td>
<td>0.1497</td>
<td>-0.1%</td>
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#### Commodity Indexes

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<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
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<tbody>
<tr>
<td>BB Cmdty</td>
<td>85.51</td>
<td>0.7%</td>
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<tr>
<td>WTI Oil</td>
<td>46.12</td>
<td>1.7%</td>
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<tr>
<td>Silver</td>
<td>19.90</td>
<td>0.3%</td>
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<tr>
<td>Palladium</td>
<td>105.55</td>
<td>0.4%</td>
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<tr>
<td>LME Cu</td>
<td>219.10</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td>LME Ni</td>
<td>4.84</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>LME Zn</td>
<td>1.04</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td>LME Gas</td>
<td>324.80</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>LME Gas</td>
<td>336.75</td>
<td>-1.0%</td>
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#### Government 10-Yr Benchmark

<table>
<thead>
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<th>Symbol</th>
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<tr>
<td>U.S. 10y</td>
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<td>-0.03</td>
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<tr>
<td>Canada</td>
<td>1.10</td>
<td>-0.05</td>
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<tr>
<td>Germany</td>
<td>0.10</td>
<td>-0.10</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>0.20</td>
<td>-0.10</td>
<td></td>
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<tr>
<td>Italy</td>
<td>1.19</td>
<td>-0.09</td>
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<tr>
<td>Spain</td>
<td>0.92</td>
<td>-0.08</td>
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<tr>
<td>Switzerland</td>
<td>0.46</td>
<td>-0.05</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1.19</td>
<td>-0.09</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>0.85</td>
<td>-0.04</td>
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</tr>
<tr>
<td>Australia</td>
<td>2.03</td>
<td>-0.09</td>
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</tr>
<tr>
<td>U.S.</td>
<td>1.06</td>
<td>0.00</td>
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<tr>
<td>Hong Kong</td>
<td>0.81</td>
<td>-0.04</td>
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<tr>
<td>Japan</td>
<td>(0.03)</td>
<td>0.00</td>
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#### Equity Indices & Sentiment

<table>
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<tr>
<td>MSCI World</td>
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<tr>
<td>MSCI EM</td>
<td>921</td>
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<tr>
<td>S&amp;P 500</td>
<td>2,717</td>
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<tr>
<td>S&amp;P/TSX</td>
<td>14,797</td>
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<tr>
<td>STOXX 50</td>
<td>3,052</td>
<td>2.3%</td>
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<tr>
<td>FTSE 100</td>
<td>6,911</td>
<td>1.1%</td>
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</tr>
<tr>
<td>Hang Seng</td>
<td>23,760</td>
<td>0.4%</td>
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</tr>
<tr>
<td>Topix</td>
<td>1,353</td>
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<tr>
<td>S&amp;P/ASX</td>
<td>5,374</td>
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<tr>
<td>CSI 300</td>
<td>3,291</td>
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<tr>
<td>EDX IG SYT</td>
<td>76.0</td>
<td>-4.2%</td>
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<tr>
<td>ARMS</td>
<td>1.4</td>
<td>121.9%</td>
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<tr>
<td>VIX</td>
<td>12.0</td>
<td>-9.6%</td>
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### Moves

#### Currencies (spot)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>MXN</td>
<td>0.1497</td>
<td>-0.1%</td>
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<tr>
<td>CHF</td>
<td>0.1497</td>
<td>-0.1%</td>
<td></td>
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<td>0.7640</td>
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<td>0.9058</td>
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<td></td>
</tr>
<tr>
<td>CNH</td>
<td>0.1497</td>
<td>-0.1%</td>
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#### Commodities

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
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<th>%Chg</th>
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<tbody>
<tr>
<td>LME Al 3m</td>
<td>0.74</td>
<td>3.1%</td>
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<tr>
<td>LME Ni 3m</td>
<td>4.84</td>
<td>3.0%</td>
<td></td>
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<tr>
<td>LME Zn 3m</td>
<td>1.04</td>
<td>0.9%</td>
<td></td>
</tr>
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<td>324.80</td>
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</tr>
<tr>
<td>LME Gas</td>
<td>336.75</td>
<td>-1.0%</td>
<td></td>
</tr>
</tbody>
</table>

#### Sectors

- **MSCI World**
  - Materials
  - Real Estate
  - Telecom
  - Cons Disc
  - Utilities
  - Energy
  - Industrials
  - Cons Disc
  - Financials
  - Hlth Care
  - Info Tech

- **S&P Europe 350**
  - Materials
  - Real Estate
  - Utilities
  - Energy
  - Cons Disc
  - Industrials
  - Cons Disc
  - Financials
  - Hlth Care
  - Info Tech

- **S&P 500**
  - Financials
  - Energy
  - Cons Disc
  - Financials
  - Hlth Care
  - Info Tech
  - Telecom
  - Cons Disc

- **S&P/TSX Composite**
  - Materials
  - Real Estate
  - Utilities
  - Energy
  - Cons Disc
  - Financials
  - Hlth Care

### 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-wk High/Low; Colour codes are inverted for bond and sentiment indications.
The News That Drives Markets in a Slow Growth World

SIFIs

- Deutsche Bank Woes Sparks Concern Among German Lawmakers - BB
- Stumpf resigns from Fed panel as Wells scandal deepens - FT
  - Liability for Wells Fargo Mess Could Seep Into Boardroom - WSI
- Standard Chartered financial markets chief quits - FT
- Commercial paper market dips to lowest level since ’12 as new regulations curtail the size of their investor base - FT

Central Station

- Draghi: “There are too many banks in Europe (complaining about me)” - FT
  - ECB fears legal action will rein in scope for QE - FT
- Doves ascendant in Janet Yellen’s Federal Reserve - FT
  - Here’s What Janet Yellen Has Wrong About the Job Market - BB
  - US existing home sales fall for second-straight month - FT

Crude Realities

- Saudi-Iran Oil Talks in Vienna Said to Not Yet Reach Agreement - BB
- Giant Maersk to Split Into Two Separate Divisions amid one of the worst shipping down-cycles and a historic oil-price rout - WSI
- CaixaBank Plans Share Sale of About $1.6 Billion to Fund BPI - BB
- Former finance minister arrested in Brazil - FT
- Venezuela Is a Total Mess But There’s a Bigger Problem Than That - BB
- Looming credit crunch adds to Africa’s woes - FT
- SEC’s pursuit of Leon Cooperman rattles hedge fund industry - FT

Other Voices

- Greenspan Warns Bond Rally Untenable as Bill Gross Says Go Long - BB
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

Euro
Crude Oil (Brent)

U.S. 10-Year Breakeven

S&P 500

Yen
Crude Oil (WTI)

U.S. 10-Year Bond

S&P/TSX Composite

Chinese Yuan (CNH)
Natural Gas (Henry Hub)

Canadian 10-Year Bond

VIX

Canadian Dollar
Copper (COMEX)

German 10-Year Bund

CDX North American Inv. Grade Index

Australian Dollar
Nickel (LME 3Mo)

Italian 10-Year Bond

Ave. Prime Broker 5yr CDS
Daily Sector Charts (U.S., Canadian, European)
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
<table>
<thead>
<tr>
<th>SECURITY_NAME</th>
<th>TICKER</th>
<th>Chg</th>
<th>SECURITY_NAME</th>
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<th>SECURITY_NAME</th>
<th>TICKER</th>
<th>Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saipem Spa</td>
<td>SPM IM</td>
<td>5.1%</td>
<td>Transocean</td>
<td>RIG</td>
<td>5.6%</td>
<td>CDM Energy Services &amp; Technology</td>
<td>CEU</td>
<td>5.6%</td>
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<tr>
<td>Diron Energy</td>
<td>ORG AU</td>
<td>3.7%</td>
<td>Murphy Oil</td>
<td>MUR</td>
<td>4.3%</td>
<td>CEP Energy Services</td>
<td>SES</td>
<td>5.5%</td>
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<tr>
<td>TOTAL SA</td>
<td>FP FP</td>
<td>3.7%</td>
<td>Diamond Offshore Drilling</td>
<td>DO</td>
<td>2.7%</td>
<td>Bantera Energy</td>
<td>BNE</td>
<td>4.8%</td>
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<td>Inpex Corp</td>
<td>1665 JP</td>
<td>0.0%</td>
<td>Marathon Petroleum</td>
<td>MPC</td>
<td>-1.2%</td>
<td>Advantage Oil &amp; Gas</td>
<td>AAV</td>
<td>-1.3%</td>
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<tr>
<td>Caltex Australia</td>
<td>CTA AU</td>
<td>-0.2%</td>
<td>Pioneer Natural Resources</td>
<td>PXD</td>
<td>-1.8%</td>
<td>Crew Energy</td>
<td>CR</td>
<td>-1.7%</td>
</tr>
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<td>Ultrapar Participacoes</td>
<td>USPA3 BZ</td>
<td>-0.4%</td>
<td>Southwest Energy</td>
<td>SWN</td>
<td>-2.3%</td>
<td>Crescent Point Energy</td>
<td>CPG</td>
<td>-1.9%</td>
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<td>Materials</td>
<td>NCM AU</td>
<td>6.9%</td>
<td>Freeport-McMoRan</td>
<td>FCK</td>
<td>4.2%</td>
<td>Lundin Mining</td>
<td>LUN</td>
<td>5.2%</td>
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<tr>
<td>Glencore PLC</td>
<td>IGLE LN</td>
<td>5.5%</td>
<td>Vulcan Materials</td>
<td>VMC</td>
<td>2.6%</td>
<td>First Quantum Minerals</td>
<td>FM</td>
<td>4.9%</td>
</tr>
<tr>
<td>Gerdau SA</td>
<td>GGB US</td>
<td>-1.5%</td>
<td>Air Products &amp; Chemicals</td>
<td>APD</td>
<td>-0.4%</td>
<td>Interfor Corp</td>
<td>IFP</td>
<td>3.9%</td>
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<td>Yara International</td>
<td>YAR NO</td>
<td>-1.6%</td>
<td>Newmont Mining</td>
<td>NEM</td>
<td>-0.6%</td>
<td>Sandstorm Gold</td>
<td>SGL</td>
<td>-4.9%</td>
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<tr>
<td>Smurfit Kappa Group</td>
<td>SKG ID</td>
<td>-2.4%</td>
<td>International Paper</td>
<td>IP</td>
<td>-1.2%</td>
<td>First Majestic Silver</td>
<td>FMS</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Industrials</td>
<td>ACS Actividades de Construccion</td>
<td>ACS SM</td>
<td>4.9%</td>
<td>Pentair PLC</td>
<td>PNR</td>
<td>2.9%</td>
<td>Air Canada</td>
<td>AC</td>
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<tr>
<td>Schneider Electric</td>
<td>SU SP</td>
<td>3.5%</td>
<td>Roger Technologies</td>
<td>RDP</td>
<td>2.3%</td>
<td>Westshore Terminals Investment</td>
<td>TWT</td>
<td>4.2%</td>
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<td>Aurizon Holdings</td>
<td>ADJ AU</td>
<td>-0.9%</td>
<td>CSX Corp</td>
<td>CSX</td>
<td>-0.5%</td>
<td>Bombardier</td>
<td>BRBD</td>
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<td>Embraer SA</td>
<td>ERJ US</td>
<td>-1.2%</td>
<td>Alaska Air Group</td>
<td>ALK</td>
<td>1.0%</td>
<td>Boyd Group Income Fund</td>
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<td>Jardine Matheson Holdings</td>
<td>JIM SP</td>
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<td>JB Hunt Transport Services</td>
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**U.S. Market Movers**

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<td>H/L</td>
<td>%Chg</td>
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Note: H/L - at a new closing
- High, Low - at a new closing
- %Chg: move of % for more; stocks are sorted by GICS Subindustry (grey lines) and market capitalization

**Canmore Canadian Market Movers**

**Energy**
- Symbol
- H/L
- Last
- %Chg
- Materials
- Symbol
- H/L
- Last
- %Chg
- Industrials
- Symbol
- H/L
- Last
- %Chg
- Consumer Discretionary
- Symbol
- M
- Last
- %Chg
- Financials
- Symbol
- H/L
- Last
- %Chg
- Utilities
- Symbol
- H/L
- Last
- %Chg
- Health Care
- Symbol
- H/L
- Last
- %Chg
- Technology
- Symbol
- H/L
- Last
- %Chg
- Real Estate
- Symbol
- H/L
- Last
- %Chg
- Telecom Services
- Symbol
- H/L
- Last
- %Chg

**Market Elements | Page 8**

**September 22, 2016**
While we say, because it’s true, that the programs of the "active" central banks (the ECB and BOJ) ain’t doing nothin’ to solve their inflation dilemmas when we are out seeing clients, we do look at U.S. inflation expectations a bit differently. They are basing, and at a not-too-horrid level. Then we couple that chart with the oil price (p13), explaining that if the head and shoulders bottom on oil comes to fruition, then that will give inflation expectations a lift out of its malaise. The U.S. 10y breakeven rate exhibits a similar bottoming pattern that oil shows and this week it finally gives that oil bottom call (more of a fret over the past month, as oil has churned), some confirmation with its 2nd break of its disinflationary downtrend yesterday and it’s pricing at a 4m high – Exhibit 1. Compare that to oil, which needs a few more upside dollars to take us beyond the current “fret zone” and break above the neckline – Exhibit 2.

Energy stocks are certainly not paying up for this bottoming pattern on a relative basis. This is a good time to add – Exhibit 3. On a relative strength breadth basis, Energy is just above the zero mark, about as neutral as you get – see link.

We update our “best of energy producers” list in Exhibit 4. And a link to all things energy here.
We Expect a Bond Breakdown

- It’s a messy chart, but that has not stopped us before. It’s inspired by the new Japanese experiment with price fixing, which we presume was inspired by the British observational economist Mark Knopfler who scribed “money for nothin’, and your chicks for free.” The former part of the statement is a nod to Japanese fiscal authorities to stimulate for free. We don’t know about the baby poultry part, but we have not read all of the BOJ footnotes yet. A bond with a price floor, but no price cap, is very nice instrument indeed. And anyone with a bond portfolio will know that there is a Japanese influence on treasuries and European bonds. So it’s not too much of a stretch to look at US treasury volatility, as it nears the one-year support, and expect it to break to the downside in this new regime of price fixing - Exhibit 1.

- A bond portfolio manager ought not to fear inflation, but rather asset price inflation across the spectrum of bond and bond-like instruments that she may be underweight in. We sorted these by the slope of the trend, and show those where portfolio asset price inflation exceeds 20%/year in Exhibit 2.

- A happy bond market in this world where happiness is central bank induced, is a happy equity market. We show the equity benchmarks where asset price inflation is running at more 20% or more in Exhibit 3.

Exhibit 1: US 10y Treasury Bond Future Implied Volatility

Exhibit 2: Bond and Bond-Like Instruments, Sorted by Trend Slope

Exhibit 3: Benchmark Price Trends With Slopes ≥ 20%

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Another Pre-Breakout Chart With Big Implications

Yesterday we highlighted the pre-breakout chart of the five-year CDS of Deutsche bank, as if and when this chart does break to the upside; we will have been too late to bring it to your attention.

Today, we highlight another very important pre-breakout chart, the Trump vs Clinton polling – Exhibit 1.

Note how that picture looks a lot like our relative strength breadth (equal weighted) reading for Biotechnology, which was just lauded to 1st decile this week – Exhibit 2.

This is to say, that there is good breadth behind the breakout in the (market cap weighted) relative strength chart of the Biotech ETF – Exhibit 3.

And both of these sure look to be anticipating that the current Clinton edge gets Trumped. Just sayin...

...I’m all ’bout that base, ’bout that base;  Meghan Trainor

Exhibit 1: Trump vs Clinton Real Clear Politics 2016 Presidential Poll Average

Exhibit 2: Biotechnology Relative Strength Breadth Reading

Exhibit 3: NASDAQ Biotech ETF (IBB) vs S&P 500

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Bank Risk Outlier Which Bears Watching

- Bank risk is poking its head up again this morning. By now, we’d be hard pressed to find a client of ours that would not be able to pin that on Deutsche Bank. So while it’s not a risk that comes totally out of the blue, it is a risk that technically speaking has lay dormant for the past eight months. That’s called a consolidation pattern. Technical risk on an upside breakout in risk means you have one of the largest banking balance sheets in the world with cost to protect its debt around the 500bps mark.

Nobody loves me, but my mother, And she could me jivin’ too. BB King

Exhibit 1: Deutsche Bank 5Yr CDS this Morning

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

Technology & Health Care

- We will dispense of FED and BOJ stuff this week, *after covering it last week*. Instead, we will focus on two sectors, but not because they are oversold, or otherwise traumatized by a shift in the macro landscape. No, we’ll focus on *health care* and *technology* because our breath work shows these moving to the fore of what the market is rewarding – Exhibits 1-3.

- The scores here are more a reflection of SMID, as they are equal weighted, but we would be remiss to point out the *high flying NASDAQ 100 relative strength* as it traverses between positive reversal and breakout – Exhibit 4.

- Within the large cap *S&P 500*, if we merely apply an earnings growth filter to the health care and technology names, we find we don’t have to do much more filtering, most shares here are in outperforming trends, or are breaking above neutral trends – Exhibit 5.

- Amongst the *Russell 2000*, where there are so many more names to choose from, we further filtered for stocks being in an outperforming trend vs the market and sector, to hone in on what the market is rewarding – Exhibit 6.

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

Exhibit 2: **Technology Relative Strength Breadth Z-Score**

Exhibit 3: **Health Care Relative Strength Breadth Z-Score**

Exhibit 4: **NASDAQ 100 vs S&P 500**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
### Exhibit 5: S&P 500 Health Care and Technology Stocks With an Earnings Growth Filter Applied

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</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>
<th>Roll Band</th>
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<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
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<td>Below</td>
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<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below</td>
<td>BELOW</td>
<td>32</td>
<td>54</td>
</tr>
</tbody>
</table>

### Exhibit 6: Russell 2000 Technology and Health Care Stocks in Outperforming Trends With an Earnings Growth Filter Applied

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>R2k Trend</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</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>
<th>Roll Band</th>
<th>Roll Band Width</th>
<th>RSI Dlv</th>
</tr>
</thead>
<tbody>
<tr>
<td>RTEC US</td>
<td>Rudolph Technologies</td>
<td>39%</td>
<td>3%</td>
<td>Above Rising</td>
<td>21%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below</td>
<td>Above Rising</td>
<td>BELOW</td>
<td>54</td>
</tr>
<tr>
<td>DTIS US</td>
<td>DTS</td>
<td>76%</td>
<td>10%</td>
<td>Above Rising</td>
<td>36%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>63</td>
</tr>
<tr>
<td>LCI US</td>
<td>Lannett Co</td>
<td>116%</td>
<td>4%</td>
<td>Above Rising</td>
<td>19%</td>
<td>Above Falling</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>79</td>
</tr>
<tr>
<td>VASC US</td>
<td>Vascular Solutions</td>
<td>-64%</td>
<td>48.0</td>
<td>7%</td>
<td>Above Rising</td>
<td>35%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>GRUB US</td>
<td>GrubHub Inc</td>
<td>99%</td>
<td>12%</td>
<td>Above Rising</td>
<td>50%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>89</td>
</tr>
<tr>
<td>NUVA US</td>
<td>NuVasive Inc</td>
<td>-42%</td>
<td>4%</td>
<td>Above Rising</td>
<td>23%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>69</td>
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<td>HMSY US</td>
<td>HMS Holdings</td>
<td>74%</td>
<td>3%</td>
<td>Above Rising</td>
<td>30%</td>
<td>Above Rising</td>
<td>Below</td>
<td>Above</td>
<td>Above Rising</td>
<td>BELOW</td>
<td>50</td>
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<tr>
<td>SSTK US</td>
<td>Shutterstock</td>
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<td>0%</td>
<td>Above Rising</td>
<td>40%</td>
<td>Above Rising</td>
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<td>Above Rising</td>
<td>ABOVE</td>
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<td>SUPN US</td>
<td>Supernus Pharmaceuticals</td>
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<td>48.0</td>
<td>13%</td>
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<td>47%</td>
<td>Above Rising</td>
<td>CBOT</td>
<td>Above Rising</td>
<td>CBOT</td>
<td>58</td>
</tr>
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<td>Aspen Technology</td>
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<td>3%</td>
<td>Above Rising</td>
<td>18%</td>
<td>Above Rising</td>
<td>Below</td>
<td>Above</td>
<td>Above Rising</td>
<td>BELOW</td>
<td>49</td>
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<td>LOGM US</td>
<td>LogMeln Inc</td>
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<td>14%</td>
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<td>46%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
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<td>48.0</td>
<td>8%</td>
<td>Above Rising</td>
<td>29%</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>39</td>
</tr>
<tr>
<td>OMCL US</td>
<td>Omnicell Inc</td>
<td>47%</td>
<td>2%</td>
<td>Above Rising</td>
<td>20%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>78</td>
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<td>AEIS US</td>
<td>Advanced Energy Industries</td>
<td>36%</td>
<td>6%</td>
<td>Above Rising</td>
<td>20%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>71</td>
</tr>
<tr>
<td>CEVA US</td>
<td>CEVA Inc</td>
<td>59%</td>
<td>4%</td>
<td>Above Rising</td>
<td>26%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>40</td>
</tr>
<tr>
<td>GIMO US</td>
<td>Glimon Inc</td>
<td>70%</td>
<td>39.0</td>
<td>17%</td>
<td>Above Rising</td>
<td>59%</td>
<td>Above Rising</td>
<td>CBOT</td>
<td>Above Rising</td>
<td>CBOT</td>
<td>72</td>
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<td>AMBA US</td>
<td>Ambarella Inc</td>
<td>91%</td>
<td>9%</td>
<td>0%</td>
<td>Above Rising</td>
<td>38%</td>
<td>Above Rising</td>
<td>Above</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>71</td>
</tr>
<tr>
<td>RP US</td>
<td>RealPage Inc</td>
<td>24%</td>
<td>1%</td>
<td>Above Rising</td>
<td>14%</td>
<td>Above Rising</td>
<td>Below</td>
<td>Above</td>
<td>Above Rising</td>
<td>BELOW</td>
<td>48</td>
</tr>
</tbody>
</table>

Trends and Inflection Points | Page 2

September 19, 2016
The market (the US 2y yield, or where the market expects the FED to be in two years’ time) told the FED to unleash its first hike years before the hike, and it made that calling louder and louder until the FED hiked. That’s the up arrow in Exhibit 1. Now, as we sit and wait and wait and wait (Casablanca) for number two, that calling gets fainter, and fainter. That’s the down arrow in Exhibit 1. It could be “two and through” at some point, but that sentiment is fading at a rate of 30%/year (Exhibit 2), and “three” just does not seem like this generation. So we’re more intrigued about the BoJ next week, and perhaps Yellen’s theoretical negative yielding Auto FED Funds target the next time we need stimulus, than listening to Tighten Up.

The world is just not growing fast enough, or at least that’s the message from the US 2y yield. How about the other 2y yields out there? They are either flat or being deep sixed, each and every one of them – Exhibit 3.

Kinda hard to segue into equities from here unless we go out the curve, so we will. See the trend on the U.S. 30y yield, and see the current outlier Exhibit 4? If one believes like we do that the outlier is caused by fear of BOJ tinkering, then that’s a buy point, as is the case with interest sensitive equities in outperforming trends.

Here’s a list of momentum buy outperformers (vs MSCI World) with an indicated yield above 3%.

Wanting just to stay awake; Wondering how much I can take 25 or 6 to 4, Chicago
Twisted Sister

Yesterday, we highlighted the shellacking that long duration was taking as a prelude to a BOJ operation twist, to note the oversold buy candidates. Those going out the duration curve have been smacked, both on their own, and against a broader aggregate bond market by this tantrum. But what about the sister trade, those going out the curve in risk, or high yield? There has hardly been a dent – Exhibit 1.

Excuse us for being a Canuck here, but the high yield market we care on most is energy. With the sharp pullback in oil, being enough of a concern for the market to ask, "is the bottoming pattern in oil still intact?" the answer of which is 'yes', as long as WTI holds above support at $39, we take a boo at the high yield energy bonds and see that they have "what me worry?" written all over them – Exhibits 2, 3. Why? Er, supply (fear) vs demand (greed) conditions say even the most dire situations can still access the credit market. So when the Oil & Gas producers pull back to the bottom of the trend (Exhibit 4), and despite the fact that moves here are currently 85% correlated to WTI, we take some solace that they are also 60% correlated to high yield bonds, which are rather sanguine. So, just as we highlighted oversold Real Estate shares (50% of universe) in uptrends yesterday, we can provide the same list for energy shares (30% of universe) today. Since there is still uncertainty about the right shoulder, we narrowed in on just the outperforming set – Exhibit 5.

Exhibit 1: High Yield Bond Index vs US Aggregate Bond Index

Exhibit 2: WTI

Exhibit 3: Bloomberg High Yield Energy Corporate Bond Index

Exhibit 4: S&P Global Oil & Gas Producers

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
### Exhibit 5: Oversold E&P Outperformers vs ACWI Energy

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>%Chg wrt 150d MA</th>
<th>Chg wrt 50d MA Trend</th>
<th>Chg wrt 150d MA Trend</th>
<th>Bull Band Width</th>
<th>RSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSPP US</td>
<td>RSP Permian</td>
<td>3,722</td>
<td>3.30</td>
<td>-1%</td>
<td>48%</td>
<td>1.5</td>
<td>-1%</td>
<td>Below Rising</td>
<td>13%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>37%</td>
<td>40</td>
</tr>
<tr>
<td>PE US</td>
<td>Parsley Energy</td>
<td>5,727</td>
<td>2.86</td>
<td>3%</td>
<td>65%</td>
<td>1.0</td>
<td>3%</td>
<td>Above Rising</td>
<td>25%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>66%</td>
<td>43</td>
</tr>
<tr>
<td>CIX US</td>
<td>Concho Resources</td>
<td>17,300</td>
<td>2.96</td>
<td>-3%</td>
<td>30%</td>
<td>1.0</td>
<td>-3%</td>
<td>Below Rising</td>
<td>7%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>56%</td>
<td>37</td>
</tr>
<tr>
<td>XEC US</td>
<td>Clarenex Energy</td>
<td>11,890</td>
<td>2.70</td>
<td>0%</td>
<td>35%</td>
<td>1.0</td>
<td>0%</td>
<td>Below Rising</td>
<td>12%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>61%</td>
<td>40</td>
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<tr>
<td>ECR US</td>
<td>Eclipse Resources</td>
<td>829</td>
<td>8.06</td>
<td>0%</td>
<td>172%</td>
<td>1.5</td>
<td>0%</td>
<td>Below Rising</td>
<td>27%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>19%</td>
<td>43</td>
</tr>
<tr>
<td>PTTR-R T</td>
<td>PTI Exploration &amp; Production</td>
<td>8,708</td>
<td>2.83</td>
<td>19%</td>
<td>19%</td>
<td>1.5</td>
<td>1%</td>
<td>Above Rising</td>
<td>11%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>58%</td>
<td>41</td>
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<tr>
<td>FANG US</td>
<td>Diamondback Energy</td>
<td>6,911</td>
<td>2.46</td>
<td>-4%</td>
<td>18%</td>
<td>1.5</td>
<td>-4%</td>
<td>Below Falling</td>
<td>3%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>68%</td>
<td>33</td>
</tr>
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<td>VET CN</td>
<td>Vermillion Energy</td>
<td>4,061</td>
<td>2.59</td>
<td>1%</td>
<td>25%</td>
<td>1.5</td>
<td>1%</td>
<td>Above Rising</td>
<td>11%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>58%</td>
<td>41</td>
</tr>
<tr>
<td>DNO NO</td>
<td>DNO ASA</td>
<td>1,059</td>
<td>3.69</td>
<td>-9%</td>
<td>38%</td>
<td>1.5</td>
<td>-9%</td>
<td>Below Falling</td>
<td>-2%</td>
<td>Below Rising</td>
<td>OSOLO</td>
<td>92%</td>
<td>31</td>
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<td>RRIX CN</td>
<td>Raging River Exploration</td>
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<td>2.28</td>
<td>6%</td>
<td>6%</td>
<td>1.5</td>
<td>6%</td>
<td>Below Rising</td>
<td>3%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>44%</td>
<td>41</td>
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<tr>
<td>CRIQ US</td>
<td>Carrizo Oil &amp; Gas</td>
<td>1,003</td>
<td>4.59</td>
<td>-6%</td>
<td>10%</td>
<td>1.5</td>
<td>-6%</td>
<td>Below Rising</td>
<td>0%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>67%</td>
<td>37</td>
</tr>
<tr>
<td>NTDR US</td>
<td>Matador Resources</td>
<td>1,953</td>
<td>3.04</td>
<td>-5%</td>
<td>5%</td>
<td>1.5</td>
<td>-5%</td>
<td>Below Rising</td>
<td>0%</td>
<td>Above Rising</td>
<td>OSOLO</td>
<td>65%</td>
<td>36</td>
</tr>
</tbody>
</table>
Trends & Inflection Points

No Twisting Fool

• Ask us what are the fundamentals of the market, and we will tell you fear (coming to the fore) and greed (soo August). The next level of fundamentals in a slow growth world? Inflation/disinflation/deflation and what’s being done about it. The other fundamentals? Not our job.

• Bonds are between oversold (2/3 of our bond ETFs) and panicked (implied volatility at a 2.5m high, but so far non-spectacular) with a week to go between the BOJ operation twist trial balloon shock-and-awe and the real thing, but with much damage, or healing to global yield curves (depending on your positioning/point of view) already done.

  • The trend in the U.S., despite recent churn, remains towards disinflation – Exhibit 1.

  o The trend on long duration bonds has been severed, not because of a threat here; rather, because of fears of a BoJ, and potentially leading to an ECB, operation twist, which favours the short and as opposed to the long end of the curve. If we look at the technicals on the index underlying the long duration bond ETF (TLT US), we see a move from overbought to oversold, nearing major support, and with the lowest RSI in over a year – Exhibit 2.

• The trend on the FTSE EPRA/NAREIT Global (Real Estate) Index, well, just repeat the stuff in the previous bullet and look at Exhibit 3.

• Over half of the real estate universe is oversold; we highlight the largest 15 that are trending higher below, and the full list at this link.

Exhibit 1: U.S. 5yr 5yr Forward Breakeven Rate

Exhibit 2: BBG Barclays U.S. Treasury: 20+ Year Total Return Index

Exhibit 3: FTSE EPRA/NAREIT Global Index

Exhibit 4: Largest 15 Oversold Real Estate Stocks Trending Higher

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

I’m a twisting fool; Just twisting, yeah twisting; Twisting by the pool     Dire Straits
Tinker Tailor Soldier On

Yep, we start with bonds again, only this time we dare reveal the chart of darkness, the Japanese yield curve, which apparently requires some tinkering from the Japanese central tailors. It’s really a chart that does not trend well, i.e., has more noise than signal, but it does have the tendency to meander sideways to down, and has bouts of steep declines, which beget sharp rebounds. See the rebound now? - Exhibit 1. That’s long duration taking a beating. Putting a technical target on the chart, we can see risk of a recovery to the 100-120 bps zone; or seeing that this is mostly influenced by the Japanese 30y bond, that would mean a Japanese 30y bond yielding over 1%, and yes the major trend, as little as it has been used this year, would still be a bullish one with yields trending lower - Exhibit 2. But despite this threat...

...notice that while Japan considers tinkering with the curve to help out the banks, insurance companies, and pension funds, mind the breakdown in Japanese inflation expectations – Exhibit 3. Surely, a breakdown here would help long duration assets catch a bid.

So despite the near-term central bank induced volatility, we remain bullish on long duration assets, like Real Estate, which, while we quantify it as losing momentum relative to other equity sectors, we regard that weakness to be temporary – Exhibit 4.

Now that ain’t workin’ that’s the way you do it; Lemme tell ya them guys ain’t dumb
Money for Nothing, Dire Straits

Exhibit 1: Japanese Yield Curve (50-5)

Exhibit 2: Japanese 30y Government Bond Yield

Exhibit 3: Japanese Inflation Expectations (9y BE Rate)

Exhibit 4: Global Equity Relative Strength Breadth Heat Map
Doubling Up on Mining Shorts

- We will focus on the epicenter of capital markets pain, the bond selloff once again, as it is in a precarious position of just being started, yet with no pain observable in bond land implied volatility that might be suggestive of it ending. Beyond that, the key notable is that this selloff is driven off of fears of policy exhaustion as opposed to yields rising as bonds fear economic growth. So we will focus, in the short term, on yields rising which tend to tighten up capital markets, and base metals are certainly feeling the pinch. Copper (our first mining short), which had been in a holding pattern for the past two weeks, eased below that base this morning. Aluminum, where we are doubling up on the short ideas broke a one-year uptrend last week – Exhibit 1.

- It should be pointed out that while aluminum stocks are a relatively heterogeneous bunch, all North American and European aluminum stocks are in underperforming trends against a basket of non-precious metal miners - Exhibit 2. Picking on the weakest two stocks from a relative strength perspective, with our expectation that relative weakness will become apparent in the absolute, we highlight downside risks for both Alcoa and Century Aluminum in Exhibits 3 and 4.
Trends & Inflection Points

Yes, the Classic Sells Still Exist, Too

With the whiff of a Japanese and European policy freeze unsettling the bond market (yet bond volatility is nowhere near panic), and it’s unsettling since inflation expectations there (Japan, Germany) signal stimulus has not at all reached anything close to firming, so their task at hand seems not at all done, it’s a good time to follow yesterday’s relative sells with some classic sell candidates in the vein that some taper tantrum sentiment may help to drive these shares lower still – Exhibit 1.

I say row Jimmy row, gonna get there, I don’t know

Grateful Dead

Exhibit 1: Price Trends on Momentum Sell Candidates in Weak SubIndustries

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gp</th>
<th>LT Price Trend</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Price Trend</th>
<th>Trend</th>
<th>HI (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wt 50d MA</th>
<th>Chg wnt 50</th>
<th>%Chg wt 150d MA</th>
<th>RSI</th>
<th>Div</th>
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</thead>
<tbody>
<tr>
<td>NE US</td>
<td>Noble Corp plc</td>
<td>O&amp;G Drill</td>
<td>10</td>
<td>10</td>
<td>1,569</td>
<td>4.25</td>
<td>-72%</td>
<td>-9%</td>
<td>Below Falling</td>
<td>-20%</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>Fastenal Co</td>
<td>TrdgSlt</td>
<td>8</td>
<td>7</td>
<td>12,186</td>
<td>1.53</td>
<td>-20%</td>
<td>1.0</td>
<td>-2%</td>
<td>Below Falling</td>
<td>-9%</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>Norwegian Cruise Line Holdings</td>
<td>HbkSrv</td>
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<td>5</td>
<td>7,813</td>
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<td>-56%</td>
<td>22.5</td>
<td>-13%</td>
<td>Below Falling</td>
<td>-24%</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMCK US</td>
<td>AMC Networks</td>
<td>Cable&amp;Sat</td>
<td>8</td>
<td>5</td>
<td>3,181</td>
<td>1.99</td>
<td>-38%</td>
<td>-5%</td>
<td>Below Falling</td>
<td>-14%</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
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<td>Torkell</td>
<td>WstrSrv</td>
<td>9</td>
<td>9</td>
<td>7,366</td>
<td>1.97</td>
<td>-35%</td>
<td>-4%</td>
<td>Below Falling</td>
<td>-10%</td>
<td>44</td>
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<td>SpecStors</td>
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<td>8</td>
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<td>-3%</td>
<td>Below Falling</td>
<td>-6%</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
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<td>MRNO US</td>
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<td>3</td>
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<td>55</td>
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<tr>
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<td>9</td>
<td>6</td>
<td>41,071</td>
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<td>9</td>
<td>7</td>
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<td>O&amp;G Drill</td>
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<td>9</td>
<td>4</td>
<td>774</td>
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<td>TrdgDist</td>
<td>8</td>
<td>10</td>
<td>503</td>
<td>4.60</td>
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<td>8</td>
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<td>-18%</td>
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<td>FdRetail</td>
<td>10</td>
<td>8</td>
<td>957</td>
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<td>Restaurant</td>
<td>10</td>
<td>3</td>
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<td>-4%</td>
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<td>Spirit Airlines</td>
<td>Airline</td>
<td>8</td>
<td>1</td>
<td>2,282</td>
<td>2.91</td>
<td>-29%</td>
<td>-4%</td>
<td>Below Falling</td>
<td>-9%</td>
<td>48</td>
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<tr>
<td>ARM US</td>
<td>Air Methods</td>
<td>HCServices</td>
<td>9</td>
<td>8</td>
<td>1,199</td>
<td>2.50</td>
<td>-23%</td>
<td>0%</td>
<td>Below Falling</td>
<td>-13%</td>
<td>35</td>
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<tr>
<td>SKX US</td>
<td>Skechers U.S.A.</td>
<td>Footwear</td>
<td>8</td>
<td>10</td>
<td>3,214</td>
<td>3.40</td>
<td>-36%</td>
<td>1.0</td>
<td>-9%</td>
<td>Below Falling</td>
<td>-18%</td>
<td>38</td>
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<td>BKE US</td>
<td>Buckle Inc</td>
<td>ApparRU</td>
<td>10</td>
<td>8</td>
<td>1,185</td>
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<td>-35%</td>
<td>-7%</td>
<td>Below Falling</td>
<td>-12%</td>
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<td>Broadcast</td>
<td>10</td>
<td>3</td>
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<td>-1%</td>
<td>Below Falling</td>
<td>-4%</td>
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<td></td>
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<td>HRB US</td>
<td>H&amp;R Block Inc</td>
<td>SpCmSrv</td>
<td>8</td>
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<td>4,857</td>
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<td>-16%</td>
<td>47</td>
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<tr>
<td>GCI US</td>
<td>Gannett Co</td>
<td>Publishing</td>
<td>9</td>
<td>10</td>
<td>1,997</td>
<td>2.21</td>
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<td>-16%</td>
<td>47</td>
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<tr>
<td>GNC US</td>
<td>GNC Holdings Inc</td>
<td>SpecStors</td>
<td>10</td>
<td>8</td>
<td>1,444</td>
<td>2.04</td>
<td>-43%</td>
<td>-5%</td>
<td>Below Falling</td>
<td>-19%</td>
<td>52</td>
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<tr>
<td>DDS US</td>
<td>Dillard’s Inc</td>
<td>DeptStrs</td>
<td>9</td>
<td>9</td>
<td>1,763</td>
<td>2.27</td>
<td>-36%</td>
<td>2.0</td>
<td>-7%</td>
<td>Below Falling</td>
<td>-14%</td>
<td>36</td>
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<td></td>
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</tr>
</tbody>
</table>

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

- Buy this, momentum buy that, buy the pullback in the other thing.
  - Our readers looking for short ideas are starving. Then again, they are not getting whipsawed as formerly good short ideas like, say, Airlines lift off.

- Times are good. Bank risk continues to crater, Volatility is low or moving in that direction. Currency carry trades are minting money.

- Times like this demand one focus on the relative short, like the currency carry trade. Don’t own this, or underweight that, because you can get much more from the higher torque stocks. Of course that can get you in trouble when owning a group, like the golds becomes a crowded trade, but then again there is lots that is working in the market, and this note is about relative shorts...

- ...so here they are, liquid, low volatility stocks with a price trend slope of 10%/or less (most equity indices are beating that). The largest 20 are shown in Exhibit 1, the rest are found at this link.

Exhibit 1: Largest 20 Relative Short Candidates – See Link for Full List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</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 50 MA</th>
<th>50 Day MA Trend</th>
<th>RSI Dvy</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRK/B US</td>
<td>Berkshire Hathaway</td>
<td>MktSecHld</td>
<td>191,828</td>
<td>1.05</td>
<td></td>
<td>10%</td>
<td>2%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PM US</td>
<td>Phillip Morris</td>
<td>Tobacco</td>
<td>158,375</td>
<td>1.01</td>
<td></td>
<td>9%</td>
<td>2%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRCL US</td>
<td>Oracle Corp</td>
<td>SystmSwr</td>
<td>170,603</td>
<td>1.34</td>
<td></td>
<td>8%</td>
<td>0%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GE US</td>
<td>General Electric</td>
<td>IndCongl</td>
<td>278,336</td>
<td>1.22</td>
<td></td>
<td>9%</td>
<td>-1%</td>
<td>Below Rising</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEIA NA</td>
<td>Heineken NV</td>
<td>Brewers</td>
<td>52,262</td>
<td>1.38</td>
<td></td>
<td>8%</td>
<td>-1%</td>
<td>Below Falling</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>TLS AU</td>
<td>Telstra Corp Ltd</td>
<td>IntgTelSrv</td>
<td>48,198</td>
<td>1.22</td>
<td></td>
<td>10%</td>
<td>-5%</td>
<td>Below Falling</td>
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<td></td>
<td></td>
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<tr>
<td>HD US</td>
<td>Home Depot Inc</td>
<td>HmImpRlt</td>
<td>164,072</td>
<td>1.19</td>
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<td>7%</td>
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<td>Below Falling</td>
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<tr>
<td>RAI US</td>
<td>Reynolds American</td>
<td>Tobacco</td>
<td>72,595</td>
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<td>Below Rising</td>
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<tr>
<td>CNR CN</td>
<td>Canadian National Railway</td>
<td>Railroads</td>
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<td>1.30</td>
<td></td>
<td>8%</td>
<td>3%</td>
<td>Above Rising</td>
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<tr>
<td>CBA AU</td>
<td>Commonwealth Bank of Australia</td>
<td>DiversBnk</td>
<td>96,454</td>
<td>1.41</td>
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<td>3%</td>
<td>-1%</td>
<td>Below Rising</td>
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<td>WFC US</td>
<td>Wells Fargo</td>
<td>DiversBnk</td>
<td>251,117</td>
<td>1.40</td>
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<td>2%</td>
<td>3%</td>
<td>Above Rising</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>MA US</td>
<td>MasterCard</td>
<td>DataProc</td>
<td>107,282</td>
<td>1.36</td>
<td></td>
<td>3%</td>
<td>10.0</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOOGL US</td>
<td>Alphabet Inc</td>
<td>IntSftSrv</td>
<td>238,231</td>
<td>1.37</td>
<td></td>
<td>2%</td>
<td>5%</td>
<td>Above Rising</td>
<td></td>
<td></td>
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<tr>
<td>ROG VX</td>
<td>Roche Holding Ag</td>
<td>Pharma</td>
<td>175,909</td>
<td>1.30</td>
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<td>DIS US</td>
<td>Walt Disney Co</td>
<td>MovEnt</td>
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<td>-7%</td>
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<tr>
<td>1 HK</td>
<td>CK Hutchison</td>
<td>IndCongl</td>
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<td>-15%</td>
<td>11%</td>
<td>Above Rising</td>
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<td>Restaurnt</td>
<td>82,599</td>
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<td></td>
<td>-9%</td>
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<td>Below Rising</td>
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<td>MCD US</td>
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<td>+4%</td>
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<td>KO US</td>
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<td>SoftDrinks</td>
<td>188,352</td>
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<td>CVS US</td>
<td>CVS Health</td>
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<td>99,808</td>
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<td>-2%</td>
<td>Below Rising</td>
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</table>

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Art of the Pullback – Low Volatility

• This is a bit of an esoteric follow-up to yesterday’s note on buying the pullback in utilities. Buying into stocks with low volatility relative to their history should be a tool in your portfolio management style, as low volatility begets high volatility; volatility being mean reverting. In technical terms, it’s the Bollinger band breakout that one seeks.

• Globally, we’ve got 160 stocks in this Bollinger breakout realm, where the volatility, or bandwidth, is less than 50% of the median, and the stock is breaking out of this pattern. We highlight the largest 10 in Exhibit 1.
  
  o The largest stock, Amazon (AMZN US), is trending higher at 99%/year (5x the torque of the S&P 500) and is at the bottom of its channel – Exhibit 2.
  
  o One of the tightest bands is found in Air Canada (AC CN), which broke a downtrend to go nowhere, and likewise broke an uptrend to go nowhere. With direction uncertain, and with both stock and option implied volatility very tight, volatility is to be bought here for a breakout either way – Exhibit 3.

  • Then again, an Airline that is also breaking out of a holding pattern with its long-term uptrend intact is Hawaiian (HA US) – Exhibit 4.

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Art of the Pullback - Utilities

- Credit risk is falling, long rates are churning within a downtrend, most commodities are dipping and bouncing, and it’s pretty green out there in equity land. Look at your global sector of choice; they are all trending higher. Then pick your slope, and compare it to the benchmark, which in this case is MSCI World rising at 17%/year. Pick the sectors that are beating that, and then look for the pullbacks, which in our notation are those little hooks describing the positioning at the bottom end of the channel – Exhibit 1. That’s where you find utilities, trending higher at 23%/year, and at the bottom end of the channel and incidentally at support – Exhibit 2.

- Now let’s filter on the utilities in outperforming trends vs. the market and sector. Similarly to our energy note last Friday, most can be bought with a 40-50ish RSI – Exhibit 3.

  - When long rates edge lower, as they are this morning, the pullbacks are bought, not sold.

### Exhibit 1: Price Trends on Global Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>Price Hi (%)</th>
<th>%Chg 50-d Price Hi</th>
<th>%Chg 200-d Price Hi</th>
<th>Trend Weight</th>
<th>Price Hi</th>
<th>Trend Weight</th>
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<tr>
<td>Consumer Staples</td>
<td>15%</td>
<td>1.0%</td>
<td>6.0%</td>
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<td></td>
<td>Above Rising</td>
<td></td>
<td></td>
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<tr>
<td>Materials</td>
<td>34%</td>
<td>3.3%</td>
<td>12.9%</td>
<td></td>
<td></td>
<td>Above Rising</td>
<td></td>
<td></td>
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<tr>
<td>MSCI World</td>
<td>17%</td>
<td>2.2%</td>
<td>Above Rising</td>
<td></td>
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<td>Above Rising</td>
<td></td>
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<tr>
<td>Energy</td>
<td>29%</td>
<td>0.5%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td>Above Rising</td>
<td></td>
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<tr>
<td>Health Care</td>
<td>23%</td>
<td>-1.7%</td>
<td>2.6%</td>
<td></td>
<td></td>
<td>Below Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>23%</td>
<td>-1.6%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td>Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>10%</td>
<td>2.3%</td>
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<td></td>
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</tr>
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<td>Telecommunications Services</td>
<td>11%</td>
<td>-1.0%</td>
<td>Below Rising</td>
<td>4.1%</td>
<td>Above Rising</td>
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<td>Consumer Discretionary</td>
<td>9%</td>
<td>2.2%</td>
<td>Above Rising</td>
<td></td>
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<td>Above Rising</td>
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<tr>
<td>Financiers</td>
<td>9%</td>
<td>2.2%</td>
<td>Above Rising</td>
<td></td>
<td></td>
<td>Above Rising</td>
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</table>

### Exhibit 2: MSCI World Utilities

Support and Bottom End of Channel

### Exhibit 3: Largest 20 Utilities in Outperforming Trends vs. MSCI World & MSCI World Utilities

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS HI (%)</th>
<th>Trend Weight</th>
<th>%Chg 50-d Price Hi</th>
<th>%Chg 200-d Price Hi</th>
<th>Trend Weight</th>
<th>%Chg 200-d Price Hi</th>
<th>Trend Weight</th>
<th>RSI</th>
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</thead>
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<tr>
<td>2 HK</td>
<td>CLP Holdings</td>
<td>26,061</td>
<td>30%</td>
<td>1%</td>
<td>Above Rising</td>
<td>14%</td>
<td>Above Rising</td>
<td>ABOVE 51%</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 HK</td>
<td>Hong Kong &amp; China Gas</td>
<td>23,907</td>
<td>20%</td>
<td>2%</td>
<td>Above Rising</td>
<td>9%</td>
<td>Above Rising</td>
<td>ABOVE 48%</td>
<td>54</td>
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</tr>
<tr>
<td>FUMIVF</td>
<td>Fortum Oy</td>
<td>14,083</td>
<td>15%</td>
<td>-1%</td>
<td>Below Rising</td>
<td>9%</td>
<td>Above Rising</td>
<td>BELOW 82%</td>
<td>72</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>ELE SM</td>
<td>Endesa SA</td>
<td>22,005</td>
<td>11%</td>
<td>2%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Falling</td>
<td>47%</td>
<td>47</td>
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<tr>
<td>GAS SM</td>
<td>Gas Natural SDG</td>
<td>21,764</td>
<td>10%</td>
<td>-2%</td>
<td>Below Rising</td>
<td>7%</td>
<td>Above Falling</td>
<td>7%</td>
<td>47</td>
<td></td>
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</tr>
<tr>
<td>EDF FP</td>
<td>Electrique de France</td>
<td>26,379</td>
<td>20%</td>
<td>2%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Falling</td>
<td>43%</td>
<td>59</td>
<td></td>
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<tr>
<td>H CN</td>
<td>Hydro One</td>
<td>12,029</td>
<td></td>
<td>2%</td>
<td>Above Rising</td>
<td>11%</td>
<td>Above Falling</td>
<td>ABOVE 83%</td>
<td>62</td>
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<tr>
<td>2638 H</td>
<td>HK Electric Investments</td>
<td>64,769</td>
<td>0%</td>
<td>-1%</td>
<td>Below Rising</td>
<td>9%</td>
<td>Above Rising</td>
<td>BELOW 89%</td>
<td>72</td>
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<td>ETX US</td>
<td>Edison International</td>
<td>24,912</td>
<td>10%</td>
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<td>Below Rising</td>
<td>8%</td>
<td>Above Rising</td>
<td>BELOW 93%</td>
<td>57</td>
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<td>ENEL1M</td>
<td>Enel SpA</td>
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<td>7%</td>
<td>Above Falling</td>
<td>99%</td>
<td>44</td>
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<td>NEE US</td>
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<td></td>
<td>-2%</td>
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<td>7%</td>
<td>Above Falling</td>
<td>94%</td>
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<td>Red Electrica Corp</td>
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<td>-3%</td>
<td>Below Rising</td>
<td>7%</td>
<td>Above Falling</td>
<td>99%</td>
<td>51</td>
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<td>CMS Energy</td>
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<td>-4%</td>
<td>Below Falling</td>
<td>5%</td>
<td>Above Falling</td>
<td>BELOW 104%</td>
<td>43</td>
<td></td>
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<tr>
<td>ED US</td>
<td>Consolidated Edison</td>
<td>22,999</td>
<td>2%</td>
<td>-3%</td>
<td>Below Rising</td>
<td>5%</td>
<td>Below Falling</td>
<td>92%</td>
<td>44</td>
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<td>XEL US</td>
<td>Xcel Energy</td>
<td>21,187</td>
<td>1%</td>
<td>-4%</td>
<td>Below Falling</td>
<td>6%</td>
<td>Below Falling</td>
<td>93%</td>
<td>43</td>
<td></td>
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<tr>
<td>ETR US</td>
<td>Entergy Corp</td>
<td>14,134</td>
<td>1%</td>
<td>-4%</td>
<td>Below Falling</td>
<td>6%</td>
<td>Below Falling</td>
<td>80%</td>
<td>50</td>
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<tr>
<td>SO US</td>
<td>Southern Co</td>
<td>50,697</td>
<td>0%</td>
<td>0%</td>
<td>Below Rising</td>
<td>6%</td>
<td>Below Falling</td>
<td>68%</td>
<td>52</td>
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<tr>
<td>D US</td>
<td>Dominion Resources</td>
<td>46,775</td>
<td>0%</td>
<td>0%</td>
<td>Below Rising</td>
<td>6%</td>
<td>Below Falling</td>
<td>68%</td>
<td>48</td>
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</table>

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

**Energy Outperformers With a Sub 50 RSI**

- There is a reason that our Group Selection Report, which details where stocks in the market are moving towards and away from, has a rotational icon. It’s our job to detail where the market is rotating into, which is why this week’s notes have been focused on financials, the key “rotation in” sector (one-fifth of banks are now overbought based on a 14d RSI). When there is a structural change in the macro environment, which happens rarely, a sector may cycle from positive to negative. More often, however, the positive groups that lose momentum get recycled and gain it back.

  - This is where we see energy fitting in (only 4% of energy stocks are overbought, hardly the case a week ago) – Exhibits 1, 2.

  - We’d call the pullback in oil this week as quite impressive, but the bottoming pattern, is still intact. There is a whole host of energy outperformers with sub 50 RSIs worth looking at on this pullback - Exhibit 3.

Exhibit 1: **Global Sector Breadth Heat Map**

Exhibit 2: **Energy Equity Breadth Relative Strength Z-Score**

Exhibit 3: **Top of Energy Outperformers (vs ACWI Energy) List With an RSI Below 50** – See Link for Full List

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
2nd Largest Financial Bucket Is 1st Decile Regional Banks

- Sometimes a picture is all you need – Exhibit 1.
- Yesterday we pointed to diversified banks as moving back to neutral in our breadth driven group selection report, and yesterday the Russell 2000 financial index broke above an underperforming trend. This last move was not driven by diversified banks; it was driven by first decile regional banks, the second-largest largest (by number) bucket that is driving the resurgence in financial sector strength.

Tilted Towards Underperformance But Breaking Towards Outperformance

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Fill That Momentum Bucket With Some Financials

- One must always be on the lookout for positive momentum, when the old momentum, suffering from a driver (aka the gold stocks on yen weakness), dictates one must look at what’s new that the market is rewarding. At the sector level, that is found in financials, which just tipped into the positive side of neutral this week, and continues to improve – Exhibit 1

- That score is equal stock weighted, and the group with the most members is diversified banks. Here again, the score is just neutral, but it has not been neutral for almost two years. That’s notable don’t you think – Exhibit 2?
  - Even the European bank ETF (BNK), with copious volume at the Brexit spike low, broke above an underperforming trend vs ACWI yesterday.

- Of the over 700 financial stocks in our system, there are almost two dozen that are in outperforming trends against ACWI and the ACWI sector, which score well on earnings (positive earnings yield, good earnings growth expectations, positive earnings estimate revisions), which we’d suggest are a good place to look at to fill that momentum bucket in the portfolio – Exhibit 3.

Every Day Above Ground is a Good Day; Mel Bernstein, Scarface

Exhibit 1: Financials Relative Strength Breadth Z-Score

Exhibit 2: Diversified Banks Relative Strength Z-Score

Exhibit 3: Outperforming Financials Scoring Well on an Earnings Growth Filter – See Link For Full List

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Real Estate Pullback

Yesterday, we highlighted how financials look ex the real estate component, which becomes its own sector next month. Today we zero in on real estate, which currently ranks as the sector with the most outperforming entities, yet there has been a pullback in the strength of the sector (Exhibit 1) as a bit of rate uncertainty kicked in. Stocks actually performed worse than bonds over the near term. We see that as a buying opportunity, as we continue to witness the key trend on yields as down, we like the look of the long duration asset called treasuries (Exhibit 2), and our system likes US real estate even more (Exhibit 3). Heck, there is even a buying opportunity of real estate vs US banks (Exhibit 4) if you want to make the assumption that the mini taper tantrum subsides, and that yield curves will continue to trend lower.

Exhibit 1: Real Estate Relative Strength Breadth Score

Exhibit 2: U.S. Long Term Bond ETF (TLT US) Price Trend

Exhibit 3: U.S. Real Estate ETF (ICF) vs 7-10y Treasury Bond ETF (IEF)

Exhibit 4: U.S. Real Estate ETF (ICF) vs US Bank ETF (KBE)

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

Financial Breadth Reading After Removing Real Estate

• OK, our Financial Sector reading, which is a measure of (a) how many stocks are in out vs underperforming trends, and (b) how many stocks are being lauded above their channels vs being punished below their channels, is a rather boring neutral. But that's a huge step up from where it stood a few months back which was the worst recording it in years – Exhibit 1. It’s possible that investors that have been hiding out in real estate, which becomes its own sector at the end of this week, may need to buy some real financials. And if you missed it, the positive inflection point, where financials sever and underperforming trend against the market in the spring (and are glad that you did), here comes that inflection point again – Exhibit 2.

• If you need to take that step up on a North American portfolio, we highlight the largest 10 North American listed financials in outperforming trends against both the market and the financial sector for both S&P 500 and S&P/TSX benchmarks in Exhibits 3 and 4.

Exhibit 1: Financial (ex Real Estate) Relative Strength Breadth Score

Neutral, Which is a Huge Step Up From...

Rather Ugly

Exhibit 2: Financials vs MSCI World

Another Inflection Point

Exhibit 3: Largest 10 Financials in Outperforming Trends vs S&P 500 and S&P 500 Financials

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

Exhibit 4: Largest 10 Financials in Outperforming Trends vs S&P/TSX and S&P/TSX Financials

Note: BMO Capital Markets is restricted on Bank of Montreal.
Trends & Inflection Points

U.S. SmallCaps – From a Loonie Perspective? Alright

• **Yesterday**, we described the funk that [Canadian SmallCaps](#) were in. If you were [running a small cap fund](#), with the torment of [loonie dynamics in mind](#), how would U.S. SmallCaps look? Quite alright – Exhibit 1.

• The issue here is torque, or slope of trend. There is no relative performance breakdown in the U.S., where outperformance is more modest. Globally, SmallCaps are actually at a 2m relative strength high – Exhibit 2.

• A [North American-listed SmallCap momentum buy list](#) would be a diet richer in a broader spectrum of sectors, as opposed to the resource-focused Canadian fare, where only 99 bottles remain on this wall. Nothing wrong with [CDN fare](#) when it’s working, but when it’s being issued a speeding ticket, you can pick up pieces elsewhere, eh? – Exhibit 3.

Exhibit 1: **Russell 2000 in Canadian Dollars**

Exhibit 2: **Global SmallCaps vs Broad Benchmarks**

Exhibit 3: Top of North American Listed SmallCap Momentum Buys, Price Trend in Local Currency – See Link for Full List

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

Canadian SmallCaps – Yes, That’s a Breakdown

- See trend run, see trend break – Exhibit 1.
- If you are momentum minded, it’s as simple as that, and you are using this technical cue to ask fundamental questions such as, “Is there still value up here, did momentum get carried too far, can we project this trend, with an annualized slope of 86%/year further for a week, a month, a year?” Or perhaps not. Just askin’.

- At the individual stock level, we highlight the breakdowns, or more appropriately, “severed uptrends” (as some will surely pick up and chive on) on Canadian SmallCaps in Exhibit 2. It’s quite a list, but then again, those slopes are, or in some cases were, pretty impressive.
- We might as well show the large cap breakdowns as well – Exhibit 3.

Exhibit 1: S&P/TSX SmallCap Index

Exhibit 2: Canadian SmallCaps Severing Price Uptrends

Exhibit 3: Canadian LargeCaps Severing Price Uptrends

The Large Cap Breakdowns (Market Cap > $3bn)

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

These are the Breakdowns
These are the Stocks Where You Ask...Do We Still Want To Own This Stuff?
Looking for Trouble...How About Copper?

- One of our favourite lines from a client was “don’t tell me it’s broken down, tell me when it’s about to break down”. Another is “you have to pay for proof in one’s performance.” It is in this spirit that we bring you the chart of Dr. Copper, which just fell to a 2m low, and broke below its still falling 200d moving average. If we are looking for trouble, we’d say that if copper breaks to the downside, the risk on the commodity would be to the $1.80 level – Exhibit 1.

- If you run a mining portfolio, you have done well to avoid most copper names. Just a few have outperformed, and the one that has outperformed the most, First Quantum, has a fingerprint of massive volatility, hardly a stock to short when base metals are basing – Exhibit 2. But if copper were to break down...
  - Then that MACD sell signal on First Quantum (FM CN), and RSI non-confirm may be nice precursors to downside, as opposed to upside volatility. Instead of being in resistance, FM would move back towards support, some 30-50% lower – Exhibit 3.  
  - And yesterday’s breakdown of Turquoise Hill Resources (TRQ CN) might not find a bid for some time – Exhibit 4.

Exhibit 1: CMX Copper

Just Fell to 2m Low, and Broke Back Below Falling 200d MA

Exhibit 2: Copper Stocks vs ACWI Metals & Mining ex Gold & Silver

Just a Few Outperformers, and the Best has the Fingerprint of Massive Volatility

Exhibit 3: First Quantum Minerals (FM CN) Price Trend

Exhibit 4: Turquoise Hill Resources (TRQ CN) Price Trend

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
NASDAQ Biotech Index – That’s a Nice Chart!

- Take a look at the NASDAQ biotechnology index. It’s been basing for eight months, broken out above major resistance, consolidated gains for a month, and surged 2% yesterday in a pre-breakout move just to say “look at me.” So we look, and so should you – Figure 1.
- If you have avoided biotech over the past year, we congratulate you. But we also ask you to consider the inflection point – Figure 2.
- Three weeks ago, we highlighted the positive reversals in biotechnology. They keep on coming, and as they do so, the spectrum shifts toward outperformance - Figure 3.

Trends & Inflection Points

Shift is Towards Outperformance

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Gold Dances to the Tune of The Dollar Wine

- If you looked at the currency market yesterday, you would think that the market loves euros (1.7%), and that’s why gold rose 1.4%. The overlay looks good, but gold bottomed a bit earlier, and that was timed with the 5y EUR-USD cross currency swap rate (that cryptic chart we published Thursday). Yes that swap is liquidity challenged, but we present Exhibit 1.
- If you look at the cross currency swap market (remember Eurodoom?), you will see that the market penalizes euro holders, and yen holders even more so, for obtaining USD (the penalty rate for EUR holders rose yesterday) - Exhibits 2 & 3.
- The yen has a better fit to gold than does the euro, but based on the yen relationship, gold should be flat over the past month and gold makes new highs almost daily lately. If you create a basket of NIRPy country 5y cross currency swap rates (USDWine if you Soca), you see that this index, a measure of the cost, or stress to obtain USD from a NIRPy currency base has a fit to gold which now rivals the fit of yen and gold. The overlay is better – Exhibit 4.
- We wouldn’t bother with this if gold, that "barbarous relic" (Canadian standpoint) wasn’t just killing paper, but it is - Exhibit 5.
Bank Risk Priced at a 2-Year High

**U.S. bank credit risk rose to a 2-yr high on Friday.** How did it get there? In 2014, as the FEDs quantitative easing program tailed off, international central bank reserve assets peaked and started to decline. Tightening replaced easing. Corporate bonds peaked with central bank reserves. Stocks have subsequently peaked. Central bank easing reduced corporate bank risk, but did not inspire enough global growth to pull commodities out of a bear market. The dollar surge at the end of U.S. QE, sent commodities into a sharp decline. With global growth scarce, growth stocks surged versus value. At tightening has replaced easing, credit risk is rising once again. Stocks trending lower outnumber stocks trending higher. Treasuries are resuming a bull trend. Portfolio emphasis should remain on growth and income, which are not hampered by a weakening credit environment.

The QE-driven Fed balance sheet flattened out in 2014. International reserve assets peaked in August of 2014, and have fallen 6% from the peak. **Notable sellers have been China and Russia.**

The global investment grade bond market topped out with international reserves in August of 2014. This index of bond prices has been losing value at a rate of 6%/year since. It has stabilized recently with the strength of Treasuries (Figure 2).

Since 2011, when credit risk in the world's too-interconnected-to-fail banks peaked at over 300 bps (many banks had sported inverted CDS curves), bank risk fell 80% to 55 bps in 2014. That risk bottomed, based, and is now breaking out to form higher highs and lows. U.S. bank risk is priced at a 2-yr high (Figure 3).

While QE worked wonderfully to reduce credit risk, it did nothing to spur commodities, the barometer of global growth, higher.

The broad U.S. dollar index started to soar with the end of QE and the decline in central bank reserves. This sharpened the rate of commodity decline (Figure 4).

Equities started decelerating in 2014 and started reacting to a negative backdrop of credit in 2015 (Figure 7).

The tilt of growth over value really took off in 2014, coincident with the peak in central bank reserves and the sharp rise in the dollar (Figure 5).
**Focal Points**

**Investment & Trading Ideas**

**Not Enough Puff**

- This morning, Draghi adjusts QE to continue to puff up the ECB balance sheet. That’s helpful for global risk markets, but it’s not enough. Globally, the net figure shows central banks are blowing out their reserves:
  - That puff peaked last August – Figure 1 top.
  - Pricing on investment grade corporate credit debt peaked and started to turn lower that same month – Figure 1 middle, and Figure 2.
  - Then finally equities took the blow - Figure 1 bottom.

- When mama's credit market ain’t happy, eventually ain’t nobody happy;
  - That global corporate bond index in Figure 1 is trending lower at an annual rate of 6%/year – Figure 2.
  - Commodities, which didn’t really make it onto central bank balance sheets, have been in a bear market since 2011. They are falling at an annualized rate of 17%/year, and that’s ex everyone’s (yes ours too) focus on crude oil – Figure 3.

So, unless we see a turn in the synchronized bear trends in credit and commodities (and we are always looking), we’ll continue to frame many of our buy ideas in the relative and short-sale ideas in the absolute.

---

**Fig 1: Central Bank Reserves; Corp Bonds & Stocks**

**Figure 2: BBg Global IG Corporate Bond Price Index**

**Figure 3: CRB Non-Energy Commodity Index**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Figure 2: BBG USD Global Investment Grade Bond Index

Pulling Out of Downtrend With Strong Treasuries (Corps Underperforming)

Figure 3: U.S. Bank Risk—5Y CDS Ave of C, BAC, JPM

US Bank Risk Breaking Out of a Base Still Low Yet Trending Higher and Priced at a 2 Year High (C 107bps, BAC 96bps, JPM 91bps)

Figure 4: Bloomberg Commodity Price Index

Bull Market

Bear Market

Figure 5: U.S. Trade Weighted Broad Dollar Index

Figure 6: U.S. 10-Year Bond Yield

Transitioning Back to a Bull Trend

Figure 7: MSCI World in USD

This Rebound Was Not Confirmed By Credit Improvement
IMPORTANT DISCLOSURES

Analyst's Certification

I, Mark Steele, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (September 08, 2016)

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<td>1.8%</td>
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* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key (as of April 5, 2013)

We use the following ratings system definitions:
OP = Outperform - Forecast to outperform the analyst’s coverage universe on a total return basis;
Mkt = Market Perform - Forecast to perform roughly in line with the analyst’s coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis;
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