# Quantitative/Technical Package

## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 23, 2019</td>
<td>NEW</td>
<td>2</td>
</tr>
</tbody>
</table>

## Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 24, 2019</td>
<td>Run, Forest, Run!</td>
<td>9</td>
</tr>
<tr>
<td>October 23, 2019</td>
<td>Technology Breadth Reading Hits Zero</td>
<td>10</td>
</tr>
<tr>
<td>October 22, 2019</td>
<td>Step Right Up</td>
<td>11</td>
</tr>
<tr>
<td>October 21, 2019</td>
<td>European Policy War</td>
<td>12</td>
</tr>
<tr>
<td>October 18, 2019</td>
<td>Systematic Capitalmarketology</td>
<td>13</td>
</tr>
<tr>
<td>October 17, 2019</td>
<td>Autos</td>
<td>14</td>
</tr>
<tr>
<td>October 16, 2019</td>
<td>The Best Defense...</td>
<td>15</td>
</tr>
<tr>
<td>October 15, 2019</td>
<td>Technology is Breaking Out</td>
<td>16</td>
</tr>
<tr>
<td>October 11, 2019</td>
<td>Train Wrecks Found</td>
<td>17</td>
</tr>
<tr>
<td>October 10, 2019</td>
<td>Trainspotting – TIPs Edition</td>
<td>18</td>
</tr>
<tr>
<td>October 9, 2019</td>
<td>No Deal</td>
<td>19</td>
</tr>
<tr>
<td>October 8, 2019</td>
<td>Q : What’s Driving Growth vs Value?</td>
<td>20</td>
</tr>
<tr>
<td>October 7, 2019</td>
<td>To Zero, and Beyond</td>
<td>21</td>
</tr>
<tr>
<td>October 4, 2019</td>
<td>Footballs, Legs, Turtles, and Moles</td>
<td>22</td>
</tr>
<tr>
<td>October 3, 2019</td>
<td>Sticky Leads to Stuck</td>
<td>23</td>
</tr>
<tr>
<td>October 2, 2019</td>
<td>Emerging Market Inflection Point</td>
<td>24</td>
</tr>
<tr>
<td>October 1, 2019</td>
<td>Imagine</td>
<td>25</td>
</tr>
<tr>
<td>September 30, 2019</td>
<td>Take Another Look at Bank Opportunity</td>
<td>26</td>
</tr>
<tr>
<td>September 27, 2019</td>
<td>Downtrends</td>
<td>27</td>
</tr>
<tr>
<td>September 26, 2019</td>
<td>Small Talk</td>
<td>28</td>
</tr>
<tr>
<td>September 25, 2019</td>
<td>NASDAQ 100 With Bank CDS on the Move</td>
<td>29</td>
</tr>
<tr>
<td>September 24, 2019</td>
<td>Here, Here, and Here</td>
<td>30</td>
</tr>
<tr>
<td>September 23, 2019</td>
<td>Bank Risk and Bullion</td>
<td>31</td>
</tr>
<tr>
<td>September 20, 2019</td>
<td>Welcome Back</td>
<td>32</td>
</tr>
<tr>
<td>September 19, 2019</td>
<td>Global Small Cap Technology</td>
<td>33</td>
</tr>
<tr>
<td>September 18, 2019</td>
<td>I’m Able to Carry On</td>
<td>34</td>
</tr>
<tr>
<td>September 17, 2019</td>
<td>Energy Is Overbought</td>
<td>35</td>
</tr>
</tbody>
</table>

## Focal Points

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 10, 2019</td>
<td>Trainspotting</td>
<td>36</td>
</tr>
<tr>
<td>August 20, 2019</td>
<td>Blue Drag</td>
<td>37</td>
</tr>
</tbody>
</table>

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 38 to 41.
Market Elements

- **Chinese shares fell; the Hang Seng pulled back to a 5d low:** Japan’s Topix narrowed in on a 10m high; European bourses and U.S. indices continued to be mixed and little changed; the TSX fell 30bps to a 10d low; resources rose 60-70bps leading most global sectors modestly higher.

- **Core European 10y yields fell 2-3bps from recent highs for a second day; North American long and short rates ended little changed; European inflation expectations gauges eased from 1m highs; corporate default risk held at recent narrows.**

- **All major crosses save the BRL (+120bps to a 2m high) posted slight moves (+30bps)** against the U.S. dollar; sterling rose 30bps and remained just below its best level since May; the loonie held at a 3m high; gold continued to trade sideways.

- **Brent and WTI extended early strength to 230-250bps on inventories,** breaking out of recent ranges and crossing above 50d MAs to 3w highs; platinum jumped 3% to a 3w high.

### 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>*</td>
<td>1.197</td>
<td>-0.0%</td>
</tr>
<tr>
<td>EUR</td>
<td>*</td>
<td>1.1131</td>
<td>0.1%</td>
</tr>
<tr>
<td>GBP</td>
<td>*</td>
<td>1.0903</td>
<td>-0.1%</td>
</tr>
<tr>
<td>JPYx10</td>
<td>*</td>
<td>0.0920</td>
<td>-0.2%</td>
</tr>
<tr>
<td>CAD</td>
<td>*</td>
<td>0.7649</td>
<td>0.1%</td>
</tr>
<tr>
<td>AUD</td>
<td>*</td>
<td>0.6853</td>
<td>-0.0%</td>
</tr>
<tr>
<td>NZD</td>
<td>*</td>
<td>0.6423</td>
<td>0.3%</td>
</tr>
<tr>
<td>BRL</td>
<td>*</td>
<td>0.2478</td>
<td>1.2%</td>
</tr>
<tr>
<td>MXNx10</td>
<td>*</td>
<td>0.5232</td>
<td>0.2%</td>
</tr>
<tr>
<td>ZAR</td>
<td>*</td>
<td>0.0684</td>
<td>-0.2%</td>
</tr>
<tr>
<td>CNH</td>
<td>*</td>
<td>0.8543</td>
<td>0.1%</td>
</tr>
<tr>
<td>CHF</td>
<td>*</td>
<td>0.1416</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

- **Commodities**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBDXY</td>
<td>*</td>
<td>1.917</td>
<td>-0.0%</td>
</tr>
<tr>
<td>WTIOil</td>
<td>*</td>
<td>55.83</td>
<td>2.5%</td>
</tr>
<tr>
<td>NMXGas</td>
<td>*</td>
<td>2.29</td>
<td>0.6%</td>
</tr>
<tr>
<td>Gold</td>
<td>*</td>
<td>1,491.5</td>
<td>0.3%</td>
</tr>
<tr>
<td>Silver</td>
<td>*</td>
<td>17.54</td>
<td>0.1%</td>
</tr>
<tr>
<td>Palladium</td>
<td>*</td>
<td>519.65</td>
<td>2.7%</td>
</tr>
<tr>
<td>LME Al3m</td>
<td>*</td>
<td>0.78</td>
<td>0.6%</td>
</tr>
<tr>
<td>LME Ni3m</td>
<td>*</td>
<td>7.53</td>
<td>0.5%</td>
</tr>
<tr>
<td>LME Zn3m</td>
<td>*</td>
<td>1.12</td>
<td>0.0%</td>
</tr>
<tr>
<td>LME Cu</td>
<td>*</td>
<td>266.85</td>
<td>1.3%</td>
</tr>
<tr>
<td>Corn</td>
<td>*</td>
<td>387.75</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Cotton</td>
<td>*</td>
<td>1,197</td>
<td>-0.0%</td>
</tr>
</tbody>
</table>

- **Government 10-Yr Benchmark**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>*</td>
<td>1.77</td>
<td>0.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>*</td>
<td>1.52</td>
<td>0.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>*</td>
<td>0.39</td>
<td>0.0%</td>
</tr>
<tr>
<td>France</td>
<td>*</td>
<td>0.09</td>
<td>0.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>*</td>
<td>0.60</td>
<td>0.0%</td>
</tr>
<tr>
<td>Australia</td>
<td>*</td>
<td>1.10</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>*</td>
<td>1.56</td>
<td>0.0%</td>
</tr>
<tr>
<td>China</td>
<td>*</td>
<td>3.21</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>*</td>
<td>0.14</td>
<td>-0.0%</td>
</tr>
</tbody>
</table>

- **Equity Indices & Sentiment**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE100</td>
<td>*</td>
<td>7,261</td>
<td>0.7%</td>
</tr>
<tr>
<td>Hang Seng</td>
<td>*</td>
<td>26,567</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Topix</td>
<td>*</td>
<td>1,638</td>
<td>0.6%</td>
</tr>
<tr>
<td>S&amp;P/ASX</td>
<td>*</td>
<td>6,673</td>
<td>0.0%</td>
</tr>
<tr>
<td>CSI 300</td>
<td>*</td>
<td>3,871</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

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
Daily Sector Charts (U.S., Canadian, European)
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
### S&P Global 1200 ex U.S. & CDA

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Energy</strong></td>
<td><strong>Materials</strong></td>
</tr>
<tr>
<td>Neste Oy</td>
<td>NESTE.FH</td>
<td>5.8%</td>
</tr>
<tr>
<td>Exxaro SA</td>
<td>EC US</td>
<td>3.0%</td>
</tr>
<tr>
<td>Petrobras Brasileiro</td>
<td>PBR US</td>
<td>2.1%</td>
</tr>
<tr>
<td>Calix Australia</td>
<td>CTX.AU</td>
<td>-0.5%</td>
</tr>
<tr>
<td>JKTG Holdings Inc</td>
<td>5020.CI</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Empresas COPC</td>
<td>COPC.CI</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Sumitomo Chemical</td>
<td>4005 JS</td>
<td>-3.2%</td>
</tr>
</tbody>
</table>

### S&P 500

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Energy</strong></td>
<td><strong>Materials</strong></td>
</tr>
<tr>
<td>EOG Resources</td>
<td>EOG</td>
<td>3.4%</td>
</tr>
<tr>
<td>Devon Energy</td>
<td>DVN</td>
<td>3.0%</td>
</tr>
<tr>
<td>Cheniere Energy</td>
<td>CEE</td>
<td>3.1%</td>
</tr>
<tr>
<td>Baytex Energy</td>
<td>BTE</td>
<td>2.9%</td>
</tr>
<tr>
<td>TOU</td>
<td>TOU</td>
<td>0.1%</td>
</tr>
<tr>
<td>FVIC</td>
<td>FVIC</td>
<td>0.7%</td>
</tr>
<tr>
<td>FIC</td>
<td>FIC</td>
<td>0.7%</td>
</tr>
<tr>
<td></td>
<td><strong>Energy</strong></td>
<td><strong>Materials</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Utilities</strong></td>
<td><strong>Health Care</strong></td>
</tr>
</tbody>
</table>

### S&P/TSX Composite

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Energy</strong></td>
<td><strong>Materials</strong></td>
</tr>
<tr>
<td>EOG Energy</td>
<td>EOG</td>
<td>3.4%</td>
</tr>
<tr>
<td>Geen-Tienn Energy</td>
<td>GTE</td>
<td>4.3%</td>
</tr>
<tr>
<td>Baytex Energy</td>
<td>BTE</td>
<td>3.9%</td>
</tr>
<tr>
<td>TOU</td>
<td>TOU</td>
<td>0.1%</td>
</tr>
<tr>
<td></td>
<td><strong>Energy</strong></td>
<td><strong>Materials</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Utilities</strong></td>
<td><strong>Health Care</strong></td>
</tr>
</tbody>
</table>

### Market Elements | Page 5

**Bold** = move of more than 5%
<table>
<thead>
<tr>
<th>Industry</th>
<th>Symbol</th>
<th>H/L</th>
<th>Last %Chg</th>
<th>Last %Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>Symbol</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last %Chg</td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>Symbol</td>
<td>H/L</td>
<td>Last %Chg</td>
<td>Last %Chg</td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Energy**
- H/L: Not applicable
- last %Chg: Not applicable

**Industrials**
- H/L: Not applicable
- last %Chg: Not applicable

**Consumer Discretionary**
- H/L: Not applicable
- last %Chg: Not applicable

**Consumer Staples**
- H/L: Not applicable
- last %Chg: Not applicable

**Technology**
- H/L: Not applicable
- last %Chg: Not applicable
## Canadian Market Movers

### Energy
- **Symbol**: PM
- **Last %Chg**: -2.0%
- **High/Low**: 13.8 - 11.8

### Materials
- **Symbol**: PD
- **Last %Chg**: 3.9%
- **High/Low**: 14.13 - 13.8

### Industrials
- **Symbol**: PCL
- **Last %Chg**: 2.0%
- **High/Low**: 19.97 - 19.23

### Consumer Staples
- **Symbol**: CL
- **Last %Chg**: 2.0%
- **High/Low**: 9.19 - 9.02

### Financials
- **Symbol**: BRK/A
- **Last %Chg**: 2.5%
- **High/Low**: 36.91 - 36.06

### Utilities
- **Symbol**: EDF
- **Last %Chg**: 2.0%
- **High/Low**: 31.19 - 30.97

### Market Elements | Page 7 October 23, 2019

**SubIndustry (grey lines) and market capitalization**

**L/L** = at a new closing 52-wk High/Low; **w/w** = within 10% of the 52-wk High/Low; **Blue** = S&P/TSX 60 member, **Italics** = ETF; **Bold** = move of 5% or more; stocks are sorted by GICS Subindustry (grey lines) and market capitalization
**Run, Forest, Run!**

- We were in the materials space, peaking at our gold decile reading as our key correlation of that commodity continues to consolidate gains, when we saw forest products with a 2nd decile reading, and we exclaimed, what are you kidding? – Exhibit 1.

- Forest products is a minor group, in aggregate only $22bn. Paper products, is much larger, at $100bn and it’s lagging with a 8th decile reading, but a few months ago, it was without pulse at 10th decile, so it’s improving. Homebuilders have been without a pulse as well, only it garners a 1st decile reading.

- We will target a stock in each of the Forest Products, and Paper Products groups, in each case looking at the bottoming inflection points.
  - **West Forest Timber** forms a first set of higher highs and lows after being held in a downtrend for almost two years – Exhibit 3.
  - **Domtar** has not yet formed a set of higher highs and lows, but is just breaking out of a tight pennant – Exhibit 4.

---

**Exhibit 1: Forest Products Relative Strength Z-Score**

**Exhibit 2: S&P Global Timber & Forestry Index**

**Exhibit 3: West Fraser Timber (WFT CN) DVD Adjusted Price Trend**

**Exhibit 4: Domtar Corp (UFS CN) Dividend Adjusted Price Trend**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Technology Breadth Reading Hits Zero

• We’ve seen the improvement in industrials, discretionary, and even financials, and have allocated a few buy ideas in those directions. As we pointed out yesterday, and the day before that, the flipside of that strength is not primarily weakness in interest sensitive sectors, it is weakness in technology, which yesterday hit the zero mark for the first time since early this year – Exhibit 1.

• As our equal weighted breadth gauge is small cap driven, we’ll go there to look at the absolute and relative trends in the widest basket of IT small caps. Overall, what we see is a consolidation in price performance, which (while investors are looking for bottom fishing opportunities) has led to a relative strength breakdown (which is what our breadth report measures) – Exhibit 2.

• Taking it down to the stock level, and caring more about absolute instead of relative performance, 20% of technology related stocks in uptrends, have severed these trends, and these are the inflection points to consider “buy the dip” or “stop loss” signaling – Exhibit 3.

• If we look for where optimism is not at all dented, we tuned our momentum buy list, to look at stocks that also had just positive one and five day rates of change – Exhibit 4.

Exhibit 1: Global Technology Relative Strength Breadth Z-Score

Exhibit 2: Global IT Small Cap Price Trend & Relative Strength in Insert

Exhibit 3: 20% of IT Stocks in Uptrends, Have Severed Their Trends

Exhibit 4: IT Momentum Buys With Positive 1 & 5d ROCs

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

Step Right Up

• With yesterday’s call on rates, where we consider the inflection points as more of a reset to a less Draconian ECB policy future under Lagarde than a signal of a rebound in global growth, as the trends in commodities do not afford that optimism, yet within an environment where only European bonds are oversold, and thus a call to load up on more interest sensitives may be premature, we still feel obliged to ferret out the continued strength in interest sensitive real estate breadth, which is small cap driven, yet all the while being cognizant that the large cap driven index is not only strong, it’s potentially a bit dangerously strong from the perspective of an entry level with new cash – Exhibit 1.

• Retail REITs, which were punished down to a 9th decile position in our relative strength breadth work back in the summer, have rebounded to a 2nd decile position now, and in yesterday’s session US Retail REITs broke above an underperforming trend vs. the S&P 1500, so we look to add here in Exhibit 2, not back there in Exhibit 1.

• The 2nd decile breadth reading is a composite score of both the outperformers (the trends) and the stocks breaking in that direction (the inflection points). The 2nd decile breadth reading represents rotation in, which is where the opportunity lays – Exhibit 3.

Fifty percent off original retail price, skip the middle man

Tom Waits, Step Right Up

Exhibit 1: EPRA/NAREIT Global Index (Other Real Estate Indices Here)

Exhibit 2: S&P 1500 Retail REITs vs S&P 1500

Exhibit 3: Retail REITs vs ACWI (vs S&P 500 Here, vs TSX Here, Dividend Adjusted Price Trends Here)

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

Note: BMO Capital Markets is Restricted on REI.UN
On Friday, our key barometer to gauge the efficacy of ECB policy, at the helm of Mario Draghi, broke above a downtrend. Again. It’s one of those “made you look” moments that you know matters, yet you also know it’s been making lower lows and highs for over a year, with no indication that this inflection point is different – Exhibit 1.

Yet something is different. Draghi is on his way out and an absolute war at the ECB has spilled out into the press, and thus the markets, over the future of negative interest rates and QE (which as we highlighted in our last deck is abusive). This shift, we will argue, is at the fore in leading interest rates higher, as the move is being led by core European rates. In Germany, France, and Sweden, we observe, and thus must respect, a series of higher highs and lows, which is the definition of an uptrend, nascent as it may be – Exhibit 2.

- Getting back to that abusive situation, which reveals itself in negative real rates. Technically speaking, we’d need to see something closer to -100bps in Germany to have any hope of getting out of the hole, which has held “world ex US real rates” in negative territory for the past five years – Exhibit 3.
- Since we do not anticipate this happening, and see the rate move as second tier driver driven (policy makers), and not global growth (reality is the primary driver of policy) driven, we do not feel obliged to make any radical move in our recommendations. Rather, we will make targeted forays (Autos on Thursday, Rails on Friday) into this new era – Exhibit 4.
Trends & Inflection Points

Systematic Capitalmarketology

- It looks nothing more than a blip, but the rebound in the CRB Raw Industrials was enough for it to break above its steep downtrend in yesterday’s session. What is also notable is that its performance has lagged other commodity buckets, which, while still in downtrends, have moved above rising 50d MAs. If that strength continues, we would see more breakages of these downtrends – Exhibit 1.

- We might not have brought this to your attention, were it not that we have lined up the CRB Raw Industrials with the shipping of US goods, and low and behold, our system also gave us a positive reversal in US rails in yesterday’s session as well – Exhibit 2.
  - When we peer amongst the rail peers, we see that it’s Norfolk Southern which gave the index its positive reversal. We anticipate that the relative leads the absolute, so we present the pre-breakout view on NSC – Exhibit 3.
  - Finally, we’ll let our system ask the question on CP Rail (Exhibit 4), or otherwise put…

  …Can you tell a green field from a cold steel rail?

Pink Floyd

Exhibit 1: CRB Raw Industrials (Other Commodity Baskets in Insert)

Exhibit 2: US Rails vs S&P 1500

Exhibit 3: Norfolk Southern (NSC US) DVD Adj Price Trend

Exhibit 4: CP Rail vs S&P 500

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

Autos

- Our breadth reading for the discretionary sector is just about to reach a positive reading for the first time since Q1 2018. Since it’s such a disparate grouping, we never pay the aggregate reading much mind, but still we feel compelled to look at the opportunities, which lay before us. Breaking the global sector down by industry, you see that there are some stellar outperforming parts, but that’s not the opportunity. Then you have autos and auto parts, breaking above underperforming trends, above rising 50d RS moving averages, and priced at 5.5m highs – Exhibit 1.

- When you think autos and auto parts, think credit risk. When you look at credit risk, what you see is that the vast majority of the auto-related CDS are “risky (high CDS level) and derisking (CDS level moving lower),” and priced at 1m narrows – Exhibit 2.

- The spectrum of auto-related stocks is heavily tilted towards underperforming trends, yet there are a torrent of stocks breaking above these trends, which is a long way of saying that there is rotation into the group – Exhibit #don’t have space, but you should really look.

  - At the stock picking level, consider Tesla, whose CDS has broken to a new narrow, yet the stock lags far behind – Exhibit 3.

  - We looked at the equity charts of the largest 20, and note that Ferrari NV is just breaking out of a time-out period – Exhibit 4.

  
  If the illusion is real let them give you a ride

  The Cars

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

The Best Defense…

- ...is a good offence, which is why when technology mints new relative strength highs (and in Europe a new absolute high), the defensive staples sector internals wane – Exhibit 1.
  - The backdrop is that corporate CDS indices are starting (US IG, European Sub Financials) to hit new all-time narrows, and equity volatility gauges are reaching 1-3m lows.

- For the short-seller;
  - We ponder: has Hershey reached its Wile E. Coyote moment – Exhibit 2?
  - There are a number of momentum sells for the trend followers – Exhibit 3.

Exhibit 1: Staples vs MSCI World (Industries vs MSCI World in Insert)

Exhibit 2: Hershey Co (HSY US) DVD Adjusted Price Trend

Exhibit 3: Largest Consumer Staples Momentum Sells vs ACWI (Full List Here)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Technology is Breaking Out

- With rates and inflation expectations lifting off of their lows (albeit counter-trend maneuvers only), and with counterparty risk pulling back, the formerly weakest side (as of a week ago) of our long duration (Utilities, Real Estate, Gold) & Technology barbell garners strength, and indeed breaks out to a new relative strength high – Exhibits 1, 2.

- As we highlight in the insert to Exhibit 1, technology relative strength is market cap and, for the most part, geographically agnostic.
  - There are some global industries, however, that are not participating, and for those who are looking for details on the negative side, here are the momentum sells in the weakest subindustries.
  - For the larger list, and as we continue to marry the micro with the macro, we highlight the top of the IT momentum buy list below with the full list available here – Exhibit 3.

Exhibit 1: Technology vs. MSCI World (vs. Local Benchmarks in Insert)
Exhibit 2: Sector Heat Map From Our Group Selection Report
Exhibit 3: Top of Technology Momentum Buy List – Full List Here, Largest 15 Here, 52w High List Here

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

Train Wrecks Found

- Yesterday, in both our Focal Points piece, and our Trends & Inflection Points note, we pointed out the potential for future train wrecks. These are important considerations for the future, but we always have to balance this with the opportunity set that is upon us today. Our suite of capitulation filters does just this. They are designed for a value manager, always looking for down and out stocks which are punished to the extreme, or a long/short trader, looking to fade the extremes.

- We tweaked our oversold with wide Bollinger band filters to tune for RSI below 30, and below the bottom end of the price trend, to narrow the list down to fit the page. Some will be buys, some will be pending bankruptcies. Our job is to filter for the opportunity set, your job is to separate the wheat from the chaff – Exhibit 1.

Exhibit 1: Train Wrecks

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Group</th>
<th>Sub Industry</th>
<th>Name</th>
<th>LT Price</th>
<th>Price Trend</th>
<th>H/L</th>
<th>1-Day Equity Chg (%)</th>
<th>5-Day Equity Chg (%)</th>
<th>Flg</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Low (%)</th>
<th>%Chg wrt S&amp;P 500</th>
<th>Chg wrt S&amp;P 500</th>
<th>Boll Band</th>
<th>Boll Band Width</th>
<th>RSI Dvy</th>
<th>Bar Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>DHL IN</td>
<td>107</td>
<td>ThermoMeq</td>
<td>Indiabulls Housing Finance</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>-10.5%</td>
<td>-27.0%</td>
<td>V</td>
<td>1,177</td>
<td>-46%</td>
<td>48.0%</td>
<td>-56%</td>
<td>Below Falling</td>
<td>SOLO</td>
<td>200%</td>
<td>19</td>
<td>OUTSIDE DAY NEGATIVE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARRB IN</td>
<td>10</td>
<td>Pharma</td>
<td>Aurobindo Pharma</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>-1.0%</td>
<td>-19.3%</td>
<td>V</td>
<td>3,841</td>
<td>-32%</td>
<td>-21%</td>
<td>Below Falling</td>
<td>272%</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEP US</td>
<td>10</td>
<td>OG STr</td>
<td>Holly Energy Partners LP</td>
<td>10</td>
<td>10</td>
<td>6</td>
<td>-1.0%</td>
<td>-10.1%</td>
<td>V</td>
<td>2,376</td>
<td>-5%</td>
<td>43.3%</td>
<td>-14%</td>
<td>Below Falling</td>
<td>246%</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FZEL IN</td>
<td>20</td>
<td>Pharma</td>
<td>Pharma</td>
<td>20</td>
<td>20</td>
<td>5</td>
<td>-1.7%</td>
<td>-17.8%</td>
<td>V</td>
<td>3,049</td>
<td>-15%</td>
<td>22.0%</td>
<td>-23%</td>
<td>Below Falling</td>
<td>222%</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SCC-R TB</td>
<td>40</td>
<td>Siam Cement PCL</td>
<td>CstrMat</td>
<td>40</td>
<td>40</td>
<td>10</td>
<td>-3.0%</td>
<td>-6.0%</td>
<td>V</td>
<td>14,676</td>
<td>-24%</td>
<td>44.0%</td>
<td>-10%</td>
<td>Below Falling</td>
<td>211%</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOSS GR</td>
<td>8</td>
<td>AptsGt</td>
<td>MUXO BOSS AG</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>-4.3%</td>
<td>-9.1%</td>
<td>V</td>
<td>3,317</td>
<td>-27%</td>
<td>36.5%</td>
<td>-15%</td>
<td>Below Falling</td>
<td>203%</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEO US</td>
<td>2</td>
<td>Geo Group</td>
<td>SpecREIT</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>-2.5%</td>
<td>-5.0%</td>
<td>V</td>
<td>1,792</td>
<td>-20%</td>
<td>35.0%</td>
<td>-14%</td>
<td>Below Falling</td>
<td>196%</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2308 TT</td>
<td>10</td>
<td>ElcComp</td>
<td>Delta Electronics</td>
<td>10</td>
<td>10</td>
<td>6</td>
<td>-5.6%</td>
<td>-10.7%</td>
<td>V</td>
<td>10,754</td>
<td>-6%</td>
<td>9.0%</td>
<td>-12%</td>
<td>Below Falling</td>
<td>195%</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAA US</td>
<td>2</td>
<td>OG STr</td>
<td>Plains All American Pipeline LP</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>0.1%</td>
<td>-5.4%</td>
<td>V</td>
<td>13,956</td>
<td>-22%</td>
<td>-10%</td>
<td>Below Falling</td>
<td>183%</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGNT L</td>
<td>40</td>
<td>FdRetail</td>
<td>Magnit RSC</td>
<td>40</td>
<td>40</td>
<td>7</td>
<td>-0.5%</td>
<td>-5.4%</td>
<td>V</td>
<td>5,952</td>
<td>-13%</td>
<td>11.5%</td>
<td>-11%</td>
<td>Below Falling</td>
<td>174%</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UBS FP</td>
<td>1</td>
<td>IntimeEnt</td>
<td>UBSOFST Entertainment</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>-2.3%</td>
<td>-9.0%</td>
<td>V</td>
<td>7,256</td>
<td>-28%</td>
<td>24.5%</td>
<td>-18%</td>
<td>Below Falling</td>
<td>172%</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSCT US</td>
<td>10</td>
<td>SystmSrv</td>
<td>ForeScout Technologies</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>-37.2%</td>
<td>-36.8%</td>
<td>V</td>
<td>1,135</td>
<td>-22%</td>
<td>9.0%</td>
<td>-32%</td>
<td>Below Falling</td>
<td>171%</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EDIT US</td>
<td>9</td>
<td>BioTech</td>
<td>Editas Healthcare</td>
<td>9</td>
<td>9</td>
<td>4</td>
<td>-2.1%</td>
<td>-9.9%</td>
<td>V</td>
<td>965</td>
<td>-4%</td>
<td>8.0%</td>
<td>-10%</td>
<td>Below Falling</td>
<td>160%</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFB US</td>
<td>40</td>
<td>PharmSft</td>
<td>Associated British Foods</td>
<td>40</td>
<td>40</td>
<td>10</td>
<td>-0.6%</td>
<td>-4.1%</td>
<td>V</td>
<td>20,744</td>
<td>-23%</td>
<td>9.0%</td>
<td>-8%</td>
<td>Below Falling</td>
<td>157%</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENBL US</td>
<td>4</td>
<td>OG STr</td>
<td>Enable Hilesstrand Partners LP</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>-1.3%</td>
<td>-5.5%</td>
<td>V</td>
<td>4,743</td>
<td>-20%</td>
<td>37.5%</td>
<td>-11%</td>
<td>Below Falling</td>
<td>155%</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MDP US</td>
<td>1</td>
<td>Publishing</td>
<td>Maradith Corp</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>-0.6%</td>
<td>-8.3%</td>
<td>V</td>
<td>1,304</td>
<td>-4%</td>
<td>44.5%</td>
<td>-20%</td>
<td>Below Falling</td>
<td>141%</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEXO CN</td>
<td>20</td>
<td>Pharma</td>
<td>Hexo Corp</td>
<td>20</td>
<td>20</td>
<td>18</td>
<td>-23.0%</td>
<td>-28.2%</td>
<td>V</td>
<td>727</td>
<td>-79%</td>
<td>18.0%</td>
<td>-32%</td>
<td>Below Falling</td>
<td>141%</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HPQ US</td>
<td>8</td>
<td>MdwrSft</td>
<td>HP Inc</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>-2.3%</td>
<td>-12.9%</td>
<td>V</td>
<td>23,755</td>
<td>-18%</td>
<td>30.3%</td>
<td>-13%</td>
<td>Below Falling</td>
<td>130%</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TLY US</td>
<td>10</td>
<td>Pharma</td>
<td>Tilrey</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>-13.5%</td>
<td>-17.0%</td>
<td>V</td>
<td>1,672</td>
<td>-78%</td>
<td>15.0%</td>
<td>-33%</td>
<td>Below Falling</td>
<td>127%</td>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KRA US</td>
<td>5</td>
<td>SpecChm</td>
<td>Kraken</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>-32.1%</td>
<td>-35.7%</td>
<td>V</td>
<td>647</td>
<td>-22%</td>
<td>9.5%</td>
<td>-31%</td>
<td>Below Falling</td>
<td>112%</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 HK</td>
<td>3</td>
<td>RESOOpCo</td>
<td>Hyian Development</td>
<td>3</td>
<td>3</td>
<td>8</td>
<td>-2.4%</td>
<td>-9.8%</td>
<td>V</td>
<td>3,803</td>
<td>-54%</td>
<td>40.5%</td>
<td>-12%</td>
<td>Below Falling</td>
<td>108%</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Trainspotting – TIPs Edition

- Our “Blue Drag” focal points piece from August was a negative call on banks, related to falling inflation expectations. Today’s focal points piece “Trainspotting” is more of an elevated concern on banks, based on counterparty risk. We see the seeds being sown of a potential train wreck – see link.
- Moving from banks to stocks that can do much worse in a weakening credit environment...high credit risk cyclicals look bad, but we remember very well when things were much worse.
  - The shift we see is in that direction – Exhibits 1-3.

Exhibit 1: Global Steel 5Y CDS Average

Exhibit 2: Global Base Metal 5Y CDS Average

Exhibit 3: Dividend Adjusted Price Spectrum of Largest 50 Base Metals and Steel Stocks

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

I been hurting since I bought the gimmick

Lust for Life, Iggy Pop

October 10, 2019

BMO Capital Markets

Quantitative/Technical

Mark Steele
mark.steele@bmo.com
(416) 359-4641
Tiberiu Stoichita
tiberiu.stoichita@bmo.com
(416) 359-4684
David Cheng
david.cheng@bmo.com
(416) 359-7383

Legal Entity: BMO Nesbitt Burns Inc.

Quantitative/Technical Research Website
Quantitative/Technical

Mark Steele
mark.steele@bmo.com
(416) 359-4641

Tiberiu Stoichita
tiberiu.stoichita@bmo.com
(416) 359-4684

David Cheng
david.cheng@bmo.com
(416) 359-7383

Legal Entity: BMO Nesbitt Burns Inc.

No Deal

– So many equity indices are nearing the bottom of the channel, at the “pre-breakdown point.” The global capital markets index is one step ahead, at the breakdown point – Exhibit 1.
  o Our trend identification system is ignorant. It does not know if that’s a buy the dip opportunity, or a stop-loss point.
  ▪ We see it as a stop-loss point, but that’s because we see prime broker credit risk at the pre-breakout level, and expect an upwards breakout (the US segment is already there) – Exhibit 2.

– So we zero in on the weakest two segments of capital markets, as our relative strength breadth heat map points out are diversified capital markets and investment banks and brokers. They are all short-sale candidates. Some are in uptrends at the pre-breakdown point. More are trending lower – Exhibit 3.

I’m gonna tune right in on you

The Who

Exhibit 1: MSCI World Capital Markets

Exhibit 2: Average Prime Broker 5Y CDS (GS, MS, JPM, UBS, BNP, CS)

Exhibit 3: Dividend Adjusted Price Trends on Largest 15 Capital Markets and Investment Bank & Broker Stocks

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Q: What’s Driving Growth vs Value?

- **A: Treasuries.**
  - Initially, it’s just what we seem to observe in pixel time, but as we muck about in many a time series, and focus in on real rates (the namesake of *To Zero, and Beyond*) by looking at the math via correlation of returns, we move from seem to declare – Exhibit 1.

- Before we move on, we will declare that growth vs value is not a universal concept, which is why we left it out of the marketing deck. It’s slightly different in different markets. The differences grow as you move from large to small caps. And finally, different sectors have different growth/value profiles.

- So we will focus in on what is most important (in size and relative performance): US large cap technology growth vs value – Exhibit 2.

- The weekly and daily correlation of returns of our long-term inflation linked bond price series, to US large cap growth/value relative performance are shown in Exhibits 3 and 4. The current correlations are clearly better than what has been observed in the past, which is to say that bonds are clearly driving the growth/value leaning more than it ever has in the past. With both exhibits 1, and 2 in up-trends, above rising moving averages, and in the middle of their channels, we continue to recommend both, which are really the same trade.

**Exhibit 1: US Inflation Linked >15Y Bond TR Price Index (BCIT77)**

**Exhibit 2: Russell 1000 Technology Growth vs Value**

**Exhibit 3: Rolling 30w Correlation of Returns**

**Exhibit 4: Rolling 30d Correlation of Returns**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
To Zero, and Beyond

Our latest marketing deck is [here](#). Zero, is where US and CDN real yields fell to [in Q3](#). Beyond zero is where the rest of the world (ex EM) is. What beyond will be for the US really depends on [central bank policy](#), for we are all just mere players on their stage, as they are the only ones acting on the stage to combat the lower global growth profile, which we observe in market elements – Exhibits 1, 2.

- If you don’t think that the negative rate central bank experiment is having a serious reconsider, you are not listening to the recent voices (all last week) of: a pension fund boss, current European bank bosses, a former European bank boss, a European insurance boss, a member of the ECB, former members of the ECB, and a member of the BOJ.

- With the abysmal readings on inflation expectations, which are what negative rates were supposed to cure, and the tremors in the credit market, observed, first for EM, and then for the HY market, last week after a temporary backup in rates, owing to US real rates backing at the zero bound, you really have to wonder if the world has checked into a suite at the Hotel California. If you are positioned right, not defensively, but rather aggressively towards long duration (risk) with the balancing barbell of (a) technology (picking up finally late last week as US bank credit risk eased a bit) with (b) Real Estate and Utilities, it’s a lovely place, such a lovely place – Exhibits 3-4.

We are all just prisoners here, of our own device

Don Henley, Don Felder & Glenn Frey

---

**Exhibit 1: CRB Raw Industrials, 12M ROC of Cass Shipments Index**

Monthly aggregate deliveries of U.S. freight. It encompasses over 1,200 divisions of more than 400 unique companies and manufacturers.

**Exhibit 2: European 5y5y Forward Inflation Gauge**

**Exhibit 3: US Aggregate Treasury Price Index**

Pre-Breakout View as Short-Term Bonds Broke out Thursday, 3-7Y Bonds Broke out Friday, and US Real Yields Started to Aggressively Head Back Towards Zero...

**Exhibit 4: Global Relative Strength Breadth Heat Map**

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

**Footballs, Legs, Turtles, and Moles**

- On the macro front, the European 5y5y inflation expectation gauge, one month before the Draghi-Lagarde transition, was unable to hold on to any sort of largesse that the ECB would be able to fulfill its mandate of price stability. Better luck next term – Exhibit 1.
- On the micro front, we wanted to provide more granularity on yesterday’s theme, of higher risk (CDS > 100bps) trends breaking bad, and a few more cases where there are some mind-the-gap divergences (which as recent bank performance shows, have started to unwind the last opportunity set);
  - A new high in AK Steel CDS should beget a new low for equity – Exhibit 2.
  - McKesson has legs; equity investors should know how to use them – Exhibit 3.
- We’ve spent a great deal of time looking at real rates this week, and we’ll use them once again, with what we see as a key opportunity for macro investors. Given the recent pop in the US 10-2 curve, the dive in US inflation expectations, the recent counter-trend swing in US real rates, and the turtling of said move, is this not a great time to put on a 10-2 flattener – Exhibit 4?

Ah, you may leave here, for four days in space, but when your return, it’s the same old place

Eve of Destruction, The Turtles

---

**Exhibit 1: European 5y5y Inflation Expectation Gauge**

![Exhibit 1](source)

**Exhibit 2: AK Steel Price Trend (5y CDS in Insert, Overlay Here)**

![Exhibit 2](source)

**Exhibit 3: McKesson Equity With CDS, and Overlay in Inserts**

![Exhibit 3](source)


![Exhibit 4](source)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Sticky Leads to Stuck

- Too many words...but the road map is that we start with oil, consider the stickiness of the US real rate at the zero bound as the fly in the ointment, and reflect on how that disturbs the credit hornets’ nest.

- Oil continues to trend lower. We expect that the trade support will soon be broken, and then the early year spike low becomes the next target. This is why you continue to avoid energy – Exhibit 1.

- Other than MLPs, the go anywhere bond funds opportunity set has been a sea of green. That seems to have been tainted somewhat, as US real rates have balked at ground zero. We think that could be temporary, but we must respect that German real rates just minted their first higher high, and are priced at a 2m high, and we can’t ignore this evidence that sovereign bund returns may not be as stellar as has been the case for the past year. That being written, we note that European 5y5y inflation expectation measure breaks to a new all-time low of 1.125 at pixel time. So our main thesis remains the same. It’s just how much of that thesis the market wants to price in, with the trends in global real rates being the answer to that. Yesterday we highlighted emerging market bonds as breaking down out of the sea of green bond club. The next breakdown victim would be high yield bonds, first for the ex-US (already below 50 and 150d MAs), then for the US, which just broke below its 50d MA yesterday – Exhibit 2.

- Going back to energy, we note yesterday’s breakout in HY Energy OAS to a 3y high, and that moves in this time series are highly correlated to junk bond pricing, which have been riding on the coat tails (yet underperforming) the sea of green treasury market. If oil continues lower (expected), and if real rates dampen the trajectory of sovereign bonds, then junk prices break lower – Exhibit 3, then 2.

- For equity investors who have the luxury of seeing what the CDS market thinks of higher credit risk (junk) stocks, it’s this – Exhibit 4.

I guess you will know the tune, oh Lord, stuck in Lodi again

Creedence Clearwater Revival

Exhibit 1: 12M WTI (Gbl RS Sector Heat Map in Insert)

Exhibit 2: VLI High Yield Bond Index (Underlying Index for JNK US)

Exhibit 3: HY Bond Indx, USD HY Energy OAS, Rolling 30d Fit of Returns

Exhibit 4: CDS Trends of Corps with CDS>100bps & Decent Fit to Equity

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

Emerging Market Inflection Point

- The inflection point is for emerging market bonds. The index is at a key inflection point, after breaking below its 50d MA yesterday. For the go anywhere bond fund, this is also the time to ask whether EM has just formed a major double top against the aggregate – Exhibit 1.

- Bringing in yesterday’s theme on real yields, the spectacular EM bond rally over the past year has extracted over 100bps of real yield out of the market, leaving 290bps above ground zero, where the US traded last month. This is still much higher than the punitive global aggregate level of -80bps - Exhibit 2.

- So is this a call to switch to equities? Absolutely not. The ratio of EM sovereign bonds to equities peaked with Europe in 2018, and has been trending lower since. Less severe, albeit directionally, equivalent equity/bond downtrends in US, Canadian, and global markets started forming this year – Exhibit 3.

- We can’t leave EM without looking at currency. For slight outperformance vs. the greenback (albeit note the threatening signals of “below a falling 50d MA”), look to Turkey and Russia. For downside leadership, look at Columbia – Exhibit 4.

Every day above ground is a good day

Bernstein

- **Exhibit 1:** JPM EMBI Global Core Bond Index (8 vs US Agg in Insert)
- **Exhibit 2:** BBG Barclays EM Real Yield (Global Real Yields in Insert)
- **Exhibit 3:** EM Bonds vs EM Equities (More Equity/Bond Ratios in Insert)
- **Exhibit 4:** EM Crosses vs USD (see links for vs EUR, and vs JPY)

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

- **US inflation expectations hit new lows, but yields do not**. Bond prices balk at the move. So does gold. Gold is merely a bond proxy (Exhibit 1). It does very well when bond markets are priced to destroy capital. Gold just sits there in a vault. It continues to be atomic number 79.

- It’s an unforgettable moment when your math teacher tells you that to solve an equation with a negative symbol, one needs to use not real, but imaginary numbers. Within the spectrum of US real yields, the US 10y inflation adjusted yield traded in negative territory for 11 days last quarter. US dollars, adjusted for inflation, were priced to be destroyed. Both ten- and five-year real rates have broken above these trends, and that’s a warning shot indicating a potential time out, or pullback in bullion (which had been sharply outperforming bonds) – Exhibit 2.

- While respecting the importance of US treasuries, one also must respect the fact that it’s other central banks, whom deem that negative rates are seen as the solution to a lack of inflation, which are a major factor driving US yields down. When you look at global 10y real rates, you see that Japanese and European real rates have been in sheol for some time now. The Australian real yield went negative last quarter, and is the outlier, failing, like the other global barometers to pivot back from its most capital destroying levels – Exhibit 3.

- Besides the technicalities of pullbacks and retracements, if central banks continue to employ capital destroying strategies, and (and being the key word) there is still no pulse, economically speaking, then Australia will lead the rest of the world down under.

*In the land of China, people got nothing at all (Forrest Gump). No possessions (John Lennon)?*
Trends & Inflection Points

Take Another Look at Bank Opportunity

• One of our key market barometers that we use for sector allocation, the US 5y5y inflation expectation gauge, edged to a new 3y closing low on Friday, and continues lower this morning – Exhibit 1.
• We use this for long, but also for short positioning, and in this case, the recent divergence (inflation lower, banks outperforming) runs contrary to the correlation, providing the opportunity… – Exhibit 2.
• …which credit risk points out as well – Exhibits 3, 4.

Exhibit 1: **US 5y5y Inflation Expectation Gauge** (Other US Gauges [Here](#))

Exhibit 2: **US 5y5y, Global Banks vs MSCI World & Fit of Returns**

Exhibit 3: **JPMorgan (JPM US) Equity/CDS Overlay**

Exhibit 4: **Citigroup (C US) Equity/CDS Overlay**

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

Take another look, tell me baby
Who’s Zoomin’ Who, Aretha Franklin

September 30, 2019
Downtrends

- It’s pretty much a steady state on the macro front, so we have the luxury of delving into some micro details. We also know that the sell side generally does a poor job at detailing the sell candidates, yet when you look under the covers (the stock market, being a market of stocks), one finds that one third of stocks are trending lower. So we highlight the technicals on a selection of the largest stocks in downtrends in North America, Europe, and Pacific regions. Since the trend in emerging markets is down, we just used the ETF – Exhibits 1-4.

Exhibit 1: Amazon.com (AMZN US)

Exhibit 2: Total SA (TOT FP)

Exhibit 3: Tencent Holdings (700 HK)

Exhibit 4: MSCI Emerging Markets ETF (EEM US)

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

- Our Relative Strength Breadth report is always one of our first daily reports to scrutinize. It details, from an equal stock-weighted perspective, which sectors and subindustries are being rewarded or rejected. All of our recent long, short, or cautionary notes are, in part, predicated on this analysis.
- What’s new is the recent weakness in communication services, from a neutral position, which has been in place for a year (which is why we never wrote about it), to a negative reading this week – Exhibit 1.
- The key weakness we see is in small caps, where there is both a downtrend and a counter-trend rebound opportunity to sell into – Exhibit 2.
  - For short sellers, or for long only managers to ask “why do I own this,” we offer up the SMID momentum sell list – Exhibit 3.
  - The other key list to scrutinize is the “severed uptrends,” where our system raises the question, is this a buy the dip opportunity, or a stop-loss signal – Exhibit 4?

Exhibit 1: Comm. Serv. RS Breadth Z-Score (Sector Heat Map in Insert)

Exhibit 2: MSCI World Small Cap Communication Services

Exhibit 3: Largest 15 Comm. Services Momentum Sells

Exhibit 4: Communication Services Stocks Severing Uptrends

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

**NASDAQ 100 With Bank CDS on the Move**

- At the most basic fundamental level, US Bank credit risk up/down = NASDAQ 100 down/up. Finessing that, with some technicals:
  - NASDAQ did not “confirm” the new credit risk low that bank CDS tried to bestow upon the high beta grouping.
  - Both gauges have broken their 50d MAs. And now US bank risk is on the verge of breaking out to a wider wide (this morning it just breaks out to a wider wide, up 1.1% at pixel time).

- So we highlight the support zone, which should be considered the target zone if bank credit risk continues to escalate – Exhibit 1.
  - This fleshes out why we snubbed Technology yesterday (Here, Here, and Here).

Exhibit 1: **NASDAQ 100, Average US Bank CDS** (at 8am This Morning), Rolling 30d Correlation of Moves

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

We’ve given you macro view after macro view. It’s time to go micro under the guidance of said macro. Real Estate and Utilities are the top sectors in our Group Selection report. Technology is the third, but we are holding off here, as we are perturbed by the widening in bank CDS, which typically dovetails with an unfriendly environment for high beta. The weakness in IT shows up in the relative, with the NASDAQ losing some momentum vs. the S&P 500, and momentum-minded investors care about momentum. The third “here” is gold, which we covered macro wise yesterday.

Unwritten by these selections is the economic suffering expressed here, here, and here.

Exhibit 1: Top of Real Estate Momentum Buy List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg w/ 50d MA</th>
<th>%Chg w/ 50d MA Trend</th>
<th>Chg w/ 50 Day MA Trend</th>
<th>Chg w/ 200 Day MA Trend</th>
<th>RSI Dvy</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIF CN</td>
<td>Altus Group</td>
<td>1,147</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>57</td>
</tr>
<tr>
<td>REKR US</td>
<td>Redford Industrial Realty</td>
<td>4,877</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>58</td>
</tr>
<tr>
<td>IRT US</td>
<td>Independence Realty Trust</td>
<td>1,301</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>CHCT US</td>
<td>Community Healthcare Trust</td>
<td>838</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>MAAM US</td>
<td>Mid-America Apartment Communities</td>
<td>14,728</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>SBAC US</td>
<td>SBA Communications</td>
<td>28,906</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>53</td>
</tr>
<tr>
<td>SUI US</td>
<td>Sun Communities</td>
<td>13,525</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>MEQ CN</td>
<td>Mainstreet Equity</td>
<td>449</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>COL SM</td>
<td>Inmobiliaria Colonial</td>
<td>5,993</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>SGRD LN</td>
<td>Segro PLC</td>
<td>10,749</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
</tbody>
</table>

Exhibit 2: Top of Utility Momentum Buy List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg w/ 50d MA</th>
<th>%Chg w/ 50d MA Trend</th>
<th>Chg w/ 50 Day MA Trend</th>
<th>Chg w/ 200 Day MA Trend</th>
<th>RSI Dvy</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEV FP</td>
<td>Suez</td>
<td>9,723</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>61</td>
</tr>
<tr>
<td>HCN</td>
<td>Hydro One</td>
<td>11,020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>EMA CN</td>
<td>Emera Inc</td>
<td>10,385</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>BEP-U CN</td>
<td>Brookfield Renewable Partners</td>
<td>6,774</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>CEN NZ</td>
<td>Contact Energy</td>
<td>3,799</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>59</td>
</tr>
<tr>
<td>MEL NZ</td>
<td>Meridian Energy</td>
<td>8,290</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>52</td>
</tr>
<tr>
<td>IGY GR</td>
<td>Ingogy SE</td>
<td>24,622</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>49</td>
</tr>
<tr>
<td>ETR US</td>
<td>Entergy Corp</td>
<td>22,091</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>69</td>
</tr>
</tbody>
</table>

Exhibit 3: Top of Gold Momentum Buy List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg w/ 50d MA</th>
<th>%Chg w/ 50d MA Trend</th>
<th>Chg w/ 50 Day MA Trend</th>
<th>Chg w/ 200 Day MA Trend</th>
<th>RSI Dvy</th>
</tr>
</thead>
<tbody>
<tr>
<td>WGX AU</td>
<td>Westgold Resources</td>
<td>676</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>KOZAL TI</td>
<td>Koza Altin Isletmeleri</td>
<td>1,759</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>LUG CN</td>
<td>Lundin Gold</td>
<td>1,493</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>66</td>
</tr>
<tr>
<td>KL CN</td>
<td>Kirkland Lake Gold</td>
<td>10,421</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>61</td>
</tr>
<tr>
<td>PLZL LI</td>
<td>Polysius PJSC</td>
<td>15,947</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>68</td>
</tr>
</tbody>
</table>

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

Note: BMO Capital Markets is Restricted on PLZL
Bank Risk and Bullion

- **Bank risk** started to surge, when the FED started to do repo operations **last Tuesday**. It was led by US banks, but they were coming off such a low level, that the move had not hit our TIPS note yet. But now we are in **severed trend territory**, where it needs to occupy Exhibit 1.

- It’s not US banks, however, which we want to really key in on.
  - Instead, there is the credit risk for HSBC, where one can argue that the trend going forward is towards widening – Exhibit 2.
  - It’s also **core European banks** that should be in focus. Despite QE infinity driving European IG to new narrow, and despite bank friendly tiering, core European bank credit risk breaks above a downtrend after making a higher low – Exhibit 3.

- On Friday, we welcomed back the positive trends towards **treasuries**, the drivers of this trend (here and here), and utilities at the fore in equity relative strength readings. All this is very copacetic with Exhibits 1-3. We will round that out, by adding **bullion** to the mix, which relative to the S&P 500 offers a great buying opportunity now – Exhibit 4.

One more thing that I can’t take, one more thing and I’m gonna break

---

**Exhibit 1:** Average Prime Broker 5y CDS (Members in Insert)

**Exhibit 2:** HSBC 5y CDS

**Exhibit 3:** Core European Bank 5y CDS Average

**Exhibit 4:** Gold vs S&P 500

---

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

- Treasuries are back in the steep uptrend, above rising moving averages, and not overbought: our definition of a momentum buy – Exhibit 1.
- Inflation expectations are back in a downtrend, below falling moving averages, and not oversold: our definition of a momentum sell – Exhibit 2.
- Our key commodity basket, which is leading economic indicator, is poised to break down, so we offer the preview of this – Exhibit 3.
- Our equity relative strength breadth report is back with the long duration trio at the front – Exhibit 4.

Exhibit 1: Barclays US Treasury Index

Trend / Width: 12% / 3%
Trend Length: 12 mo

Exhibit 2: US 5y5y Inflation Expectations

Trend / Width: -15% / 16%
Trend Length: 17 mo

Exhibit 3: CRB Raw Industrials

Trend / Width: -22% / 4%
Trend Length: 6 mo

Exhibit 4: Relative Strength Breadth Sector Heat Map

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

But those dreams have remained and they’ve turned around

Welcome Back (Kotter), John Sebastian
Global Small Cap Technology

- One last style tilt, which is decidedly negative, received a burst of energy at the start of the month and is now fading back, is the performance of small caps versus large caps. So this note does not advocate clients add to small caps. Rather, it presents what we see as the opportunity for the small cap manager at the present.

- The Global Small Cap index, unsurprisingly, looks a lot like the Russell 2000 index. Both are just slightly fading from overbought positions at the top of slightly negative trade channels. We therefore shift to absolute price trends to show where the uptrends continue to reside, and herein lay the trio, which is the focus of our “one love” and updated “I’m Able to Carry On” thesis: Utilities, Real Estate, and IT – Exhibit 1.

- Utilities did not pull back, real estate is at a new high, but IT is in the mid-point of a rising channel, and would have also suffered from the pullback in growth vs value, which as we highlighted yesterday, is an opportunity that extends to small caps as well – Exhibit 2.
  - We highlight the top of an extensive global small cap technology momentum buy list below – Exhibit 3.

Exhibit 1: Price Trends on Global Small Cap Sectors (R2k Sectors Here)

Exhibit 2: MSCI World Small Cap Growth vs Value

Exhibit 3: Price Trends on Global Small Cap Technology Momentum Buys – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
I’m Able to Carry On

Today’s title comes from the 1964 Sam Cooke classic “A Change Is Gonna Come,” which is the title of our latest market overview package. It reflects the tension of owning the “long duration thesis” at a time (very much unlike our “One Love” package, priced 5w ago, when the theme was very much overbought, and we presented it as such) when it appears to many: “look at all the changes going on!”

So we delve into what underpins that premise; why we, and indeed the market over the past two days, have faded the past two weeks of sharp countertrend maneuvering.

We know our clients will point out that we are missing some charts, which define both the long-duration trade and the trend/severed trend inflection points/countertrend positioning. So before we hit the beautiful cobblestone streets of Old Montréal, we offer up the third of our overbought & oversold opportunity sets. Growth is oversold vs value – Exhibit 1.

There have been times that I thought I couldn’t last for long but now I think I’m able to carry on

Sam Cooke

Exhibit 1: MSCI USA Growth vs Value (Other Growth vs Value Ratios Here)

Based on What we are Seeing in Rates and Commodities, the Foreshadowing of Large Chinese Stimulus (which Underpinned Countertrend Maneuvers), and the (So Far) Lack of Significant Follow Through (Other than the RRR cut), We Expect This, Not This
Energy Is Overbought

- We follow yesterday’s KISS title, “Treasuries are Oversold”, with another, “Energy is Overbought”. In both cases, our goal is to highlight what we see as the best opportunities to either dedicate or extract a unit of your currency from capital markets. You should not care about the drone-attack impacted near-month contracts on oil, unless you need prompt delivery. For an equity investor, that’s not at all the case. Regarding 12m WTI, lest we remind you, you are here – Exhibit 1.
  - The largest positive we see on reversing that trend, if it were to happen (war?), would be to break the credit risk uptrend in HY energy, which we still contend is a potential underlying threat to this ultra-safe world – Exhibit 2.
- At the start of the month when we were looking at short-sale candidates, we decidedly avoided financials and energy, as there was not much of a bid to sell into. Yesterday, we highlighted the bid on financials to sell into, and today, we target energy – Exhibits 3, 4.
- We’re done, but since since we have this space, we should highlight that all the market elements, both yesterday and this morning, perceive the bump in oil for prompt delivery to be a tax on the global economy. So the only major changes to our investment thesis, would be to be on guard for more cowbell from China, and its impact to change this woeful barometer of global economic growth.

Really explore the studio space this time

The Bruce Dickinson

Exhibit 1: 12m WTI (Other Oil Related Benchmarks Here)

Exhibit 2: HY Energy OAS (See Links for full Spectrum of HY and IG)

Exhibit 3: ACWI Energy (Other Energy Equity Benchmarks Here)

Exhibit 4: Overbought Underperforming Energy Stocks in Downtrends

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

Trainspotting

- It’s the question that drives us. Once the answer is fully known we expect asset prices could be rather different. One pays for answers with performance.

- US bank CDS hit a low on Friday September 13, and started pivoting higher (and remains near a 7w wide) when the US O/N repo rate surged, causing the FED to start to open up a spigot of liquidity to fix some sort of “plumbing problem”.

- We’ve always pointed to the 2017-2018 transition from low to high volatility (which is intimately related to counterparty risk), as a new era. In hindsight, we now expect that the transition was related to the reduction of the FED balance sheet, which has now been forced to expand quite aggressively. We might as well label the start of FED balance sheet expansion, as the second leg of this train ride, where volatility and bank risk are passengers.

- The questions are: (1) What is the counterparty, whose lust for life is causing such an expansion in US central bank reserves? (2) Is this inducing the largest spike in counterparty risk since the December-January period? (3) Will it end in a train wreck?

All on a Government Loan
Lust for Life, Iggy Pop

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

Source: All charts/tables BMO Capital Markets, Bloomberg
Blue Drag

- We had a tough time deciding on the lyrics to this note, but came up with a cool depression era tune, Blue Drag. It’s a note about yield curves, and central banks, and inflation, and globalization, and all the mystery about how economies in North America, being so good, can dish out recession signals seeming to indicate that it’s really so bad. The “seeming” bit is incorrect, yet it will become important.
- The US yield curve inverted last week (a few months behind Canada), and will continue to trend towards inversion. Why? Because the US economy is so strong. Say what??
  - Think like a chemist, and break the yield curve into its two market elements, (1) where the FED will be in two years, and (2) why own the 10-year bond?
    - The FED rate will be lower in two years. That’s what the market tells the FED. But the FED is sticky, because things are so good, and, importantly, the FED does not want to fight an asset bubble (a great president resides here). Very true.
    - The long end rallies and this is the key part, which is how the yield curve inverts, because there is not enough global economic growth to sustain the pricing of basic commodities, and thus inflation expectations. Inflation expectations fall, and so does the fear of owning the long end of the curve, so it’s bought because that’s where the leverage is.
  - Oh yeah, and banks do poorly in this environment. That blue line drags the black one down. That’s been the case since the last great recession – Exhibit 1.
    - Why? Because the inversion will induce a bank profitability recession. Ultimately, this could tighten up conditions as banks tighten credit to remain profitable.
      - Or central banks can just continue to ease and not fight this holy Armageddon.

Oh, the rhythm, the rhythm has got me into this mysterious craze

Blue Drag, Josef Myrow 1932

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

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

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the FINRA Rule 2241 and 2242 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Company Specific Disclosures

For Important Disclosures on the stocks discussed in this report, please go to https://researchglobal0.bmocapitalmarkets.com/public-disclosure/.

ETF Related Disclosures

As an authorized participant or otherwise, BMO Capital Markets acquires securities from the issuers for the purposes of resale. BMO Capital Markets and its affiliates seek to provide brokerage services to, and do other business with, ETFs covered by this report. BMO Capital Markets and its affiliates seek to enter into securities and other transactions on a principal basis with, and may borrow securities from, ETFs covered by this report. BMO Capital Markets makes a market in this security.

The BMO ETFs issue, or will issue, Units directly to Designated Brokers and Underwriters. The initial issuance of Units of a BMO ETF will not occur until it has received, in aggregate, subscriptions sufficient to satisfy the TSX’s original listing requirements. BMO Nesbitt Burns Inc., an affiliate of the Manager, will act as a Designated Broker for the BMO ETFs. Units of each of the BMO ETFs are issued and sold on a continuous basis and there is no maximum number of units that may be issued. BMO Asset Management is the trustee, manager, portfolio manager, promoter and valuation agent of the BMO ETFs and is responsible for the administration of the BMO ETFs. Unitholders may redeem Units for cash, subject to a redemption discount. Unitholders may also exchange a Prescribed Number of Units (or integral multiple thereof) for Baskets of Securities of the Constituent Issuers held by each BMO ETF and cash, or, with respect to certain BMO ETFs, cash only.

Securities legislation in certain Canadian provinces prohibits registrants from recommending, or cooperating with any other person in recommending, in any circular, pamphlet or similar publication that is distributed with reasonable regularity in the ordinary course of its business, that securities of the registrant or a related issuer, or in the case of a distribution, that securities of a connected issuer, be purchased, sold or held unless such publication contains a statement of the relationship or connection between the registrant and the issuer. BMO Nesbitt Burns Inc. is an indirect wholly-owned subsidiary of Bank of Montreal. Accordingly, Bank of Montreal is a related and connected issuer of BMO Nesbitt Burns Inc. TO U.S. RESIDENTS: This publication, to the extent it refers to Bank of Montreal securities, has not been approved or distributed by BMO Capital Markets Corp. or BMO Nesbitt Burns Securities Ltd. and affiliates of BMO Nesbitt Burns Inc. It is intended for distribution in the U.S. by BMO Nesbitt Burns Inc. only to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6 under the Securities Exchange Act of 1934, as amended). Investors should consider the investment objectives, risks, and charges and expenses of the investment company carefully before investing. The prospectus for the ETF contains this and other information about the investment company and should be read carefully before investing. Clients may obtain prospectuses for the ETFs mentioned in this report from the ETF distributor or the exchange upon which it is listed. This report is not a prospectus or an offer to buy or sell any security, or to participate in any trading strategy.

For a complete list of ETFs mentioned in this report, please contact the research analyst directly.

Investors in ETFs with international securities may assume currency and political risk. Sector and commodity specific ETFs are not diversified and may focus their investments entirely in a single sector, commodity, or basket of commodities. As a result, the ETFs will involve a greater degree of risk than an investment in other diversified fund types. ETFs designed to track an index or asset may experience a discrepancy between the ETF’s performance and the performance of its target index known as tracking error. A variety of factors can create a performance gap between ETF and its target index such as the impact of transaction fees and expenses incurred by the ETF, changes in composition of the underlying index/assets, the ETF portfolio manager’s replication strategy and sampling techniques, and the timing of purchases and redemptions of ETF’s shares. Inverse and Leveraged ETFs: Most leveraged ETFs seek to provide a multiple of the investment returns of a given index or benchmark on a daily basis. Inverse ETFs seek to provide the opposite of the investment returns, also daily, of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect.
## Distribution of Ratings (October 23, 2019)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>46.3 %</td>
<td>21.5 %</td>
<td>54.6 %</td>
<td>48.1 %</td>
<td>57.7 %</td>
<td>57.7 %</td>
</tr>
<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>49.5 %</td>
<td>15.9 %</td>
<td>43.3 %</td>
<td>48.3 %</td>
<td>41.1 %</td>
<td>37.5 %</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>4.1 %</td>
<td>9.1 %</td>
<td>2.1 %</td>
<td>3.4 %</td>
<td>1.2 %</td>
<td>4.8 %</td>
</tr>
</tbody>
</table>

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.
~ As of April 1, 2019.

### Ratings Key (as of October 2016)

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;
- **(S)** = Speculative investment;
- **Spd** = Suspended - Coverage and rating suspended until coverage is reinstated;
- **NR** = No Rated - No rating at this time; and
- **R** = Restricted - Dissemination of research is currently restricted.

BMO Capital Markets’ seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

### Prior BMO Capital Markets Rating System

- **(April 2013 - October 2016)**

- **(January 2010 - April 2013)**

### Other Important Disclosures

For Important Disclosures on the stocks discussed in this report, please go to [https://researchglobal0.bmocapitalmarkets.com/public-disclosure/](https://researchglobal0.bmocapitalmarkets.com/public-disclosure/) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### Dissemination of Research

Dissemination of BMO Capital Markets Equity Research is available via our website [https://researchglobal0.bmocapitalmarkets.com/](https://researchglobal0.bmocapitalmarkets.com/). Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients. Research coverage of licensed cannabis producers and other cannabis-related companies is made available only to eligible approved North American, Australian, and EU-based BMO Nesbitt Burns Inc., BMO Capital Markets Limited, and BMO Capital Markets Corp. clients via email, our website and select third party platforms.

~ Research distribution and approval times are provided on the cover of each report. Times are approximations as system and distribution processes are not exact and can vary based on the sender and recipients’ services. Unless otherwise noted, times are Eastern Standard and when two times are provided, the approval time precedes the distribution time.

BMO Capital Markets may use proprietary models in the preparation of reports. Material information about such models may be obtained by contacting the research analyst directly. There is no planned frequency of updates to this report.

For recommendations disseminated during the preceding 12-month period, please visit [https://researchglobal0.bmocapitalmarkets.com/public-disclosure/](https://researchglobal0.bmocapitalmarkets.com/public-disclosure/).

### General Disclaimer
"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K., Bank of Montreal Europe Plc in Ireland and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited, Bank of Montreal Europe Plc and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. Nothing herein constitutes any investment, legal, tax or other advice nor is it to be relied on in any investment or decision. If you are in doubt about any of the contents of this document, the reader should obtain independent professional advice. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Additional Matters

This report is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Its contents have not been reviewed by any regulatory authority. BMO Capital Markets does not represent that this report may be lawfully distributed or that any financial products may be lawfully offered or dealt with, in compliance with regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder.

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Colin Hamilton, Alexander Pearce, David Round or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and distributed by BMO Capital Markets Limited or Bank of Montreal Europe Plc and is subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom and the Central Bank of Ireland (CBI) in Ireland. FCA and CBI regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore each of BMO Capital Markets Limited and Bank of Montreal Europe Plc will disclose its and its affiliates’ ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To E.U. Residents: In an E.U. Member State this document is issued and distributed by Bank of Montreal Europe Plc which is authorised and regulated in Ireland and operates in the E.U. on a passported basis. This document is only intended for Eligible Counterparties or Professional Clients, as defined in Annex II to “Markets in Financial Instruments Directive” 2014/65/EU (“MiFID II”).

To Australian residents: BMO Capital Markets Limited is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and is regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. This document is only intended for wholesale clients (as defined in the Corporations Act 2001) and Eligible Counterparties or Professional Clients (as defined in Annex II to MiFID II).

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

To Israeli residents: BMO Capital Markets is not licensed under the Israeli Law for the Regulation of Investment Advice, Investment Marketing and Portfolio Management of 1995 (the “Advice Law”) nor does it carry insurance as required thereunder. This document is to be distributed.