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.
Most equity markets posted gains, led by US SMID which rose over 1.5%; all global sectors rose, with real estate leading and financials lagging; NASDAQ implied volatility (VXN) broke below its 50d MA on a retreat from the Dec 24th 3y high level.

The US 2y yield continued to v-bottom, rising 5bps and retracing 30% of the Nov-Dec slide; 10y yields edged 1-3bps higher; most HY and IG sector OAS continued their sharp 3d narrowing spree; HYG broke above 150 & 200d MAs; US inflation expectations continued to v-bottom, while US yield curves retreated to 1-2w flats.

The USD gained against all majors, save the Brazilian real which held at a 2m high, and the loonie which has not had a down day yet this year; the Euro pulled back from a 2.5m high; the yen edged higher after a 2d pullback from an 8m high.

WTI continued to edge higher; base metals and bulks were mixed and little changed; palladium continued to soar, gold churned just off of a 6m high.

Levels®
Currencies (USD per)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
</tr>
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Commodities

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<td>Silver</td>
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<td>Platinum</td>
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Government 10-Yr Benchmark

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Equity Indices

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Moves
Currencies (spot)

Sectors

MSCI World

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<tr>
<td>Cons Disc</td>
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</tr>
<tr>
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<tr>
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<tr>
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<td></td>
</tr>
<tr>
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S&P Europe 350

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<td>Info Tech</td>
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<tr>
<td>Health Care</td>
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<tr>
<td>Materials</td>
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<tr>
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S&P 500

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<td>Info Tech</td>
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<tr>
<td>Health Care</td>
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<tr>
<td>Energy</td>
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S&P/TSX Composite

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<tr>
<td>Utilities</td>
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<tr>
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<tr>
<td>Materials</td>
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<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cons Disc</td>
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<tr>
<td>Real Estate</td>
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<tr>
<td>Health Care</td>
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Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson

For a new closing 52- wk: High/Low; * / **: within 10% of the 52- week High/Low; Colour codes are inverted for bond and sentiment indications

January 8, 2019
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

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-Yr Breakeven

Yen

Crude Oil (WTI)

U.S. 10-Yr Bond

Chinese Yuan (CNY)

Natural Gas (NMX)

Canadian 10-Yr Bond

Canadian Dollar

Copper (CMX)

German 10-Yr Bond

Australian Dollar

Nickel (LME 3Mo)

Italian 10-Yr Bond

Ave. Prime Broker Syf CDS
Daily Sector Charts (U.S., Canadian, European)
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
## Market Movers – Largest Daily Percentage Moves

### S&P Global 1200 ex U.S. & CDA

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<th>Name</th>
<th>Symbol</th>
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<td>Ecopetrol SA</td>
<td>EC US</td>
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<td>Origin Energy</td>
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<tr>
<td>OMV AG</td>
<td>OMV AV</td>
<td>-1.4%</td>
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<tr>
<td>Ultrapar Participacoes</td>
<td>USPAB BZ</td>
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<td>DS Smith PLC</td>
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<tr>
<td>Soledad/Guamar y Minería de Chile</td>
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<td>Amcor</td>
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<td>Sika AG</td>
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<table>
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<th>Symbol</th>
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<td>Epoc AB</td>
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<tr>
<td>Geely Automobile Holdings</td>
<td>175 HK</td>
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<td>Bandai Namco</td>
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<td>Geely Automotive Holdings</td>
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<td>AZN LN</td>
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</tr>
<tr>
<td>Sysmex Corp</td>
<td>8689 SW</td>
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<tr>
<td>Fresenius SE &amp; Co KgaA</td>
<td>FRES SE</td>
<td>-1.6%</td>
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<tr>
<td>Astrazeneca</td>
<td>AZN LN</td>
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<tr>
<td>Sysmex Corp</td>
<td>8689 SW</td>
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<th>Symbol</th>
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<td>Bank of Ireland Group PLC</td>
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### S&P 500

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**Bold** = move of more than 5%
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| Materials Energy Industrials Consumer Discretionary Consumer Staples Technology Communication Services

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H/L - at a new closing 52-wk High/low; = within 10% of the 52-wk High/low; Gold - move of 5% or more; stocks are sorted by GICS SubIndustry (grey lines) and market capitalization.
## Canadian Market Movers

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Note: This summary includes the top 10 gainers and losers in the Canadian stock market for January 8, 2019. The %Chg column represents the percentage change from the previous day's closing price. Stocks are sorted by GICS (Global Industry Classification Standard) category.
**Trends & Inflection Points**

**Dig Your Treasures Here**

- Stocks breaking above downtrends yesterday? The list of positive inflection points is so large with so many prominent names that we have to fight our urge to show unfiltered lists. We filter, however, because while many of our bank credit risk gauges are coming off the boil, we don’t see credit risk or spreads breaking on through to the other, more positive, side yet. So the positive inflection points lists are filtered by stocks in outperforming trends vs the market and sector. Your ACWI list is shown in Exhibit 1.

- Other lists for more narrow portfolios: North American listed vs the S&P 500, EAFE, STOXX 50, EM, Russell 2000. The Canadian list was bare, but if we loosen the sector outperformance restriction, we pick up a few.

Exhibit 1: Stocks in Outperforming Trends vs ACWI and Sector, Breaking Above Price Downtrends Yesterday

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<th>Vol (%)</th>
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<th>Trend Slope</th>
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<th>Low (No)</th>
<th>% Chg wrt S&amp;P 50</th>
<th>Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day MA</th>
<th>Boll Band</th>
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<td>↑</td>
<td>-14%</td>
<td>4.0</td>
<td>8%</td>
<td>5%</td>
<td>Above Rising</td>
<td>85%</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACM IN</td>
<td>Ambuja Cements</td>
<td>CemMat</td>
<td>9</td>
<td>6</td>
<td>6</td>
<td>6,190</td>
<td>1.93</td>
<td>↑</td>
<td>-21%</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>Above Rising</td>
<td>76%</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WES US</td>
<td>Western Gas Partners LP</td>
<td>OG STr</td>
<td>1</td>
<td>9</td>
<td>6</td>
<td>7,337</td>
<td>1.99</td>
<td>↑</td>
<td>-19%</td>
<td>4.0</td>
<td>9%</td>
<td>9%</td>
<td>Above Rising</td>
<td>92%</td>
<td>64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OI US</td>
<td>Owens-Illinois</td>
<td>MtcGrcr</td>
<td>2</td>
<td>9</td>
<td>7</td>
<td>2,861</td>
<td>2.13</td>
<td>↑</td>
<td>-26%</td>
<td>1.0</td>
<td>5%</td>
<td>5%</td>
<td>Above Rising</td>
<td>101%</td>
<td>59</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IIA AV</td>
<td>IMMOFINANZ</td>
<td>ResOpCo</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>2,831</td>
<td>1.30</td>
<td>↑</td>
<td>-17%</td>
<td>3.0</td>
<td>5%</td>
<td>5%</td>
<td>Above Rising</td>
<td>86%</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPF-R TB</td>
<td>Charoen Pokphand Foods</td>
<td>PkgFdmr</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>6,854</td>
<td>1.49</td>
<td>↑</td>
<td>-11%</td>
<td>1.0</td>
<td>2%</td>
<td>2%</td>
<td>Above Rising</td>
<td>71%</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FABG SS</td>
<td>Fabeg AB</td>
<td>ResOpCo</td>
<td>1</td>
<td>2</td>
<td>8</td>
<td>4,506</td>
<td>1.57</td>
<td>↑</td>
<td>-18%</td>
<td>2.5</td>
<td>8%</td>
<td>8%</td>
<td>Above Rising</td>
<td>131%</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KML US</td>
<td>Kinder Morgan</td>
<td>OG STr</td>
<td>1</td>
<td>10</td>
<td>8</td>
<td>37,828</td>
<td>1.54</td>
<td>↑</td>
<td>-19%</td>
<td>1.0</td>
<td>4%</td>
<td>4%</td>
<td>Above Rising</td>
<td>136%</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STC US</td>
<td>Stewart Information Services</td>
<td>P&amp;C Insur</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>1,025</td>
<td>1.14</td>
<td>↑</td>
<td>-18%</td>
<td>3.0</td>
<td>5%</td>
<td>5%</td>
<td>Above Rising</td>
<td>100%</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HMC US</td>
<td>Honda Motor</td>
<td>AutoMfg</td>
<td>8</td>
<td>5</td>
<td>9</td>
<td>51,589</td>
<td>1.36</td>
<td>↑</td>
<td>-26%</td>
<td>1.0</td>
<td>4%</td>
<td>4%</td>
<td>Above Rising</td>
<td>150%</td>
<td>64</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

• The breakdown of this leveraged loan basket was a key negative signal for us in November, so we’re watching the Lazarus type rebounds here, and in high yield, for signs of either positive reversal, or rollover like we saw back in 2015 – Exhibits 1, 2.

• Technically, we always prefer sleeping charts that awaken (and we’ve got filters for that), like that seen in VMware – Exhibit 3.

• One of the key equity barometers which is between the two (weaker than sleeping, but clearly not dead yet), is Amazon, whose key reversal point is 2% away – Exhibit 4.

I've got drama, can't be stolen. Everybody knows me now

Lazarus, David Bowie

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

More Offensive EM Sectors

- Our [last note of 2018](#) highlighted the positive reversals in the most defensive EM sectors. As the new year starts, we see more signs of positivity in EM; emerging currency strength against both USD and EUR, on Friday we saw both a positive reversal in EM sovereign bonds, and the EM ETF (EEM US) severed its downtrend again but this time, there is substantial volume at the most recent low, and finally this morning, the MSCI EM index (MXEF) breaks above a now rising 50d MA.
  - **Energy** is the only EM sector continuing to make higher highs and lows, just treading water in reality, but better than many alternatives – Exhibit 1.
    - We highlight the [largest 10 Energy stocks in uptrends](#) in Exhibit 3.
  - **Financials** is more of a bottom fishing call, but there is a bottoming pattern in place – Exhibit 2.
    - For financials, we show the [momentum buy list](#), as our “positive trend” list contains many overbought Brazilian financials, which our definition of momentum excludes – Exhibit 4.

---

Exhibit 1: MSCI EM Energy Price Trend

<table>
<thead>
<tr>
<th>Trend / Width</th>
<th>2% / 13%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend Length</td>
<td>12 mo</td>
</tr>
</tbody>
</table>

Exhibit 2: MSCI EM Financials Price Trend

- **Worst Negative Trend was Reversed in Q4**
- **Key Trend is Still Down, But Only Marginally, and a Bottoming Pattern Appears to be Forming**

Exhibit 3: Largest 10 EM Energy Stocks in Uptrends

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>LT Price</th>
<th>Trend</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>HI</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYMK</td>
<td>NOVATEK OAO</td>
<td>52,923</td>
<td>49%</td>
<td>1.0</td>
<td>Above Rising</td>
<td>2%</td>
<td>2%</td>
<td>Above Rising</td>
<td>NYMK</td>
</tr>
<tr>
<td>LKOD</td>
<td>Lukoil PSC</td>
<td>55,665</td>
<td>21%</td>
<td></td>
<td>Above Rising</td>
<td>0%</td>
<td>0%</td>
<td>Above Rising</td>
<td>LKOD</td>
</tr>
<tr>
<td>ATAD</td>
<td>Tatneft PAO</td>
<td>23,385</td>
<td>23%</td>
<td></td>
<td>Below Falling</td>
<td>-4%</td>
<td>-4%</td>
<td>Below Falling</td>
<td>ATAD</td>
</tr>
<tr>
<td>CEOS</td>
<td>CNOC Ltd</td>
<td>69,334</td>
<td>39%</td>
<td></td>
<td>Below Falling</td>
<td>-5%</td>
<td>-5%</td>
<td>Below Falling</td>
<td>CEOS</td>
</tr>
<tr>
<td>ROSN</td>
<td>Rosneft OAO</td>
<td>66,663</td>
<td>24%</td>
<td></td>
<td>Below Falling</td>
<td>-3%</td>
<td>-3%</td>
<td>Below Falling</td>
<td>ROSN</td>
</tr>
<tr>
<td>RSOL</td>
<td>Reliance Industries</td>
<td>100,149</td>
<td>20%</td>
<td></td>
<td>Above Rising</td>
<td>2%</td>
<td>2%</td>
<td>Above Rising</td>
<td>RSOL</td>
</tr>
<tr>
<td>GAZL</td>
<td>Gazprom Neft</td>
<td>24,228</td>
<td>16%</td>
<td></td>
<td>Below Falling</td>
<td>-7%</td>
<td>-7%</td>
<td>Below Falling</td>
<td>GAZL</td>
</tr>
<tr>
<td>PBRJ</td>
<td>Petrobras Brasil</td>
<td>54,925</td>
<td>32%</td>
<td>1.0</td>
<td>Above Falling</td>
<td>3%</td>
<td>3%</td>
<td>Above Falling</td>
<td>PBRJ</td>
</tr>
<tr>
<td>ECUS</td>
<td>Gazprom sa</td>
<td>35,998</td>
<td>21%</td>
<td></td>
<td>Below Falling</td>
<td>-11%</td>
<td>-11%</td>
<td>Below Falling</td>
<td>ECUS</td>
</tr>
<tr>
<td>OGZD</td>
<td>Gazprom PAO</td>
<td>55,207</td>
<td>5%</td>
<td></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>OGZD</td>
</tr>
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</table>

Exhibit 4: Largest 10 EM Financial Momentum Buys

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>LT Price</th>
<th>Trend</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>HI</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELEKTA</td>
<td>Grupo Elektra SAB DE CV</td>
<td>11,460</td>
<td>25%</td>
<td></td>
<td>Above Rising</td>
<td>15%</td>
<td>15%</td>
<td>Above Rising</td>
<td>ELEKTA</td>
</tr>
<tr>
<td>BOKSA</td>
<td>BOKSA Bv</td>
<td>15,493</td>
<td>21%</td>
<td></td>
<td>Above Rising</td>
<td>9%</td>
<td>9%</td>
<td>Above Rising</td>
<td>BOKSA</td>
</tr>
<tr>
<td>3228</td>
<td>Bank of Communications</td>
<td>27,035</td>
<td>10%</td>
<td></td>
<td>Above Rising</td>
<td>4%</td>
<td>4%</td>
<td>Above Rising</td>
<td>3228</td>
</tr>
<tr>
<td>BRI</td>
<td>Bank Maylak Indonesia PDI</td>
<td>31,758</td>
<td>49%</td>
<td></td>
<td>Below Falling</td>
<td>-4%</td>
<td>-4%</td>
<td>Below Falling</td>
<td>BRI</td>
</tr>
<tr>
<td>OTP</td>
<td>OTP Bank PLC</td>
<td>11,650</td>
<td>27%</td>
<td></td>
<td>Above Rising</td>
<td>5%</td>
<td>5%</td>
<td>Above Rising</td>
<td>OTP</td>
</tr>
<tr>
<td>BHR</td>
<td>Bank Handels Pardes</td>
<td>24,467</td>
<td>32%</td>
<td></td>
<td>Above Rising</td>
<td>13%</td>
<td>13%</td>
<td>Above Rising</td>
<td>BHR</td>
</tr>
<tr>
<td>BAF</td>
<td>Baf Financial</td>
<td>21,427</td>
<td>51%</td>
<td></td>
<td>Above Rising</td>
<td>5%</td>
<td>5%</td>
<td>Above Rising</td>
<td>BAF</td>
</tr>
<tr>
<td>IMDB</td>
<td>ICICI Bank</td>
<td>33,814</td>
<td>25%</td>
<td>11.0</td>
<td>Above Rising</td>
<td>7%</td>
<td>7%</td>
<td>Above Rising</td>
<td>IMDB</td>
</tr>
<tr>
<td>BCB</td>
<td>Bank Central Asia</td>
<td>45,138</td>
<td>17%</td>
<td></td>
<td>Above Rising</td>
<td>4%</td>
<td>4%</td>
<td>Above Rising</td>
<td>BCB</td>
</tr>
<tr>
<td>SBI</td>
<td>State Bank of India</td>
<td>38,196</td>
<td>21%</td>
<td></td>
<td>Above Rising</td>
<td>5%</td>
<td>5%</td>
<td>Above Rising</td>
<td>SBI</td>
</tr>
</tbody>
</table>

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

Tim the Enchanter

- This morning it’s almost universally “risk on”: stocks up, yen down, commodities up, dollar down. Lacking is credit risk. US bank CDS continue to widen. *Cue Monty Python and the Holy Grail, Scene 34.*
  - Tim the Enchanter is being played out by the credit market.
  - King Arthur and the Knights of the Round Table are being played out by the equity market, cheered last week by Treasury Secretary Mnuchin, yesterday by FDIC Chairman McWilliams, overnight by a cut in China’s RRR ratio and this morning by oil benchmarks rebounding to 10d highs.
- All US Prime Brokers sport large Equity/CDS gaps, led by Goldman Sachs.
  - Mind them – Exhibits 1, 4.

*That is not an ordinary rabbit ... 'tis the most foul cruel and bad-tempered thing you ever set eyes on*

Tim the Enchanter

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**Exhibit 1: GS Equity/CDS Overlay (29% Divergence over Past 5d)**

**Exhibit 2: C Equity/CDS Overlay (18% Divergence over Past 5d)**

**Exhibit 3: BAC Equity/CDS Overlay (18% Divergence over Past 5d)**

**Exhibit 4: MS Equity/CDS Overlay (17% Divergence over Past 5d)**

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

The Dark Side of the Moon

• China landed on the dark side of the moon, and, alas, found no AAPL there. Our bullishness for Treasuries and Treasury-like instruments stems from our readings from China. Pictorially …
  o The CRB Raw Industrials (leading economic indicator) just broke to a 2y Low – Exhibit 1.
  o The Chinese 10y bond, whose yield peaked about a quarter before major global 10y yields, is the place to get capital appreciation in China – Exhibit 2.
  o The Chinese credit risk market is much the same as what we see elsewhere, which continues to be a key focus for us – Exhibit 3.
  o The Chinese equity market is similar to Chinese bonds, except in this case down is depreciation instead of appreciation and brings its own risks – Exhibit 4.

• So it may seem late to own Treasuries, because no one told you when to run, you missed the starting gun, but we see it otherwise.

Exhibit 1: CRB Raw Industrials

Exhibit 2: Chinese 10y Bond Yield

Exhibit 3: Chinese Real Estate 5Y CDS Ave (Other Baskets in Insert)

Exhibit 4: CSI 300

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Bunds Away, but We’re OK

- The most dramatic move on the first semi-liquid day of the year is the 8bps plunge in the German 10y bund at pixel time, which has set the tone for global long rates. As we’ve stated many times last year, the plunge in inflation expectations has set the tone for this yield action for months now. As we pointed out on the last day of the year, no change is strategy is needed (bunds away, but we’re OK). If we are tweaking, as per market opportunities, we are fading the relative strength rebounds in materials and financials, embracing the pullbacks in utilities and real estate, and viewing the strength in staples as a pre-breakout condition – Exhibits 1, 2.
  - The small list of staple buys and much larger list of financial & material sells are shown in Exhibits 3, 4.

Exhibit 1: Global Sector Relative Strength Heat Map

Exhibit 2: Global Staples Relative Strength Z-Score

Exhibit 3: Top of Staples Momentum Buy List – Full List of 22 Here

Exhibit 4: Top of Financial & Material Momentum Sells in MSCI World

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

Where Markets Show Positive Inflection Points

- Take a look at sector price trends in World, EAFE, World SmallCaps, S&P 500, Russell 2000, Europe, Canada, Australia, and Asia. What you see is a torrent of breakdowns with the vast majority of sectors below falling 50d MAs, and just three positive reversals, all of which are defensive, one in Canada in materials (AKA golds) and on Friday we saw positive inflection points in EM Staples & Utilities – Exhibit 1.
  - So on the one hand, markets don’t see a change in sector strategy; but on the other, its optimistic to see that the early leader to the downside (EM) is selectively (at this point) pulling out of downtrends, with those sectors, staples and utilities, also notably above rising 50d MAs. We highlight the largest, most favoured EM staples and utilities in Exhibit 2.
    - Most favoured golds, because we heard you asking, are shown here.

Welcome to 1975

Goldmember

Exhibit 1: Absolute Price Trends for MSCI World (Just for Contrast) and MSCI EM (Our Focus)

Global Large Caps Continue to Break or Trend Lower

EM, Already Trending Lower, Sees Signs of Positive Reversals in Defensives

Exhibit 2: Largest 10 EM Utility and Staples Momentum Buys

Symbol  Name               Country  Sub Industry  Grp RS  LT Price  Price Trend  HitCap (US$)  Price Trend  Trend Slope  Hi (Mo)  Low (Mo)  %Chg wrt 50d MA  Chg wrt 50d MA  %Chg wrt 150d MA  Chg wrt 150d MA  RSI  Div

CPIN IJ  Charoen Pokphand Thailand  AgriProd  3  3  1  8,161  190%  48.0  21%  Above Rising  47%  Above Rising  65
270 HK  Guangdong Investment Hong Kong  WaterUtil  1  6  1  12,725  37%  5%  Above Rising  12%  Above Rising  60
GGRM IJ  Guangdong Garam Indonesia  Tobacco  5  6  1  11,083  42%  5%  Above Rising  14%  Above Rising  58
HUVR IN  Hindustan Unilever India  HldPrdct  1  1  1  56,574  40%  6%  Above Rising  9%  Above Rising  57
BRIT IN  Britannia Industries India  PkgFdMt  5  1  1  10,681  50%  5%  Above Rising  2%  Above Rising  54
NEST IN  Nestle India India  PkgFdMt  5  3  1  15,570  40%  4%  Above Rising  9%  Above Rising  64
3 HK  Hong Kong & China Gas Hong Kong  GasUtil  2  3  3  31,794  17%  5%  Above Rising  5%  Above Rising  66
2 HK  CLP Holdings Hong Kong  ElectUtil  1  2  2  25,700  19%  2%  Above Rising  2%  Above Rising  54
PTG HK  Petronas Gas Malaysia  GasUtil  2  9  2  9,053  12%  2%  Above Rising  4%  Above Rising  52
DABUR IN  Dabur India India  PersPrdct  4  1  2  10,977  31%  7%  Above Rising  5%  Above Rising  56

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

- If there were serious problems with SIFIs, they would be sporting CDS curves much closer to inversion, and that’s not the case (yet most curves are grinding in that direction). The fact that US banks are all trading at 2y wides, and that all SIFI CDS trends are wider tells you that their clients are in a difficult credit position. Banks are just the victims of collateral damage, but victims they are, and despite the equity markets bounce from states of capitulation, it’s hard to see a sustained rally with bank risk looking like this – Exhibit 1.

  - We continue to see that credit position being unwound, as evidenced by the aggressive bid for treasuries, MBS, and CMBS, and the massive spike in IG and HY OAS, which is spread amongst all IG and HY sectors.

- In equity land, our group selection report is steadfast, rewarding utilities, real estate, and staples in that order.

**Exhibit 1: Trends on 5Y CDS for the FSAs SIFI List**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>LT CDS</th>
<th>CDS Level</th>
<th>MktCap (US$)</th>
<th>CDS Trend</th>
<th>CDS Hi</th>
<th>CDS Low</th>
<th>CDS Curve 1/5Yr</th>
<th>CDS 1-day Chg (%)</th>
<th>CDS 5-day chg (%)</th>
<th>CDS %Chg wrt 5D DMA</th>
<th>Chg wrt 50 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB US</td>
<td>Deutsche Bank</td>
<td>Germany</td>
<td>9</td>
<td>9</td>
<td>16,141</td>
<td>97%</td>
<td>0.70</td>
<td>2%</td>
<td>4%</td>
<td>15%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>UCG IM</td>
<td>UniCredit Spa</td>
<td>Italy</td>
<td>8</td>
<td>8</td>
<td>24,472</td>
<td>119%</td>
<td>0.57</td>
<td>0%</td>
<td>3%</td>
<td>-7%</td>
<td>10%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>BCS US</td>
<td>Barclays PLC</td>
<td>U.K.</td>
<td>9</td>
<td>6</td>
<td>31,821</td>
<td>104%</td>
<td>0.54</td>
<td>-2%</td>
<td>2%</td>
<td>-10%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>GLE FP</td>
<td>Societe Generale</td>
<td>France</td>
<td>2</td>
<td>4</td>
<td>25,143</td>
<td>167%</td>
<td>0.52</td>
<td>-2%</td>
<td>3%</td>
<td>18%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>BNP FP</td>
<td>BNP Paribas</td>
<td>France</td>
<td>5</td>
<td>5</td>
<td>55,086</td>
<td>194%</td>
<td>20.0</td>
<td>1%</td>
<td>6%</td>
<td>23%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>ACA FP</td>
<td>Credit Agricole</td>
<td>France</td>
<td>2</td>
<td>3</td>
<td>30,067</td>
<td>181%</td>
<td>0.47</td>
<td>-1%</td>
<td>3%</td>
<td>17%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>HSBA LN</td>
<td>HSBC Holdings</td>
<td>U.K.</td>
<td>4</td>
<td>2</td>
<td>161,690</td>
<td>110%</td>
<td>0.46</td>
<td>-2%</td>
<td>3%</td>
<td>19%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>BAC US</td>
<td>Bank of America</td>
<td>U.S.</td>
<td>5</td>
<td>4</td>
<td>239,172</td>
<td>22%</td>
<td>23.5</td>
<td>1%</td>
<td>5%</td>
<td>23%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>JPM US</td>
<td>JPMorgan Chase</td>
<td>U.S.</td>
<td>5</td>
<td>4</td>
<td>322,698</td>
<td>1%</td>
<td>30.0</td>
<td>2%</td>
<td>6%</td>
<td>25%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>C US</td>
<td>Citigroup</td>
<td>U.S.</td>
<td>5</td>
<td>5</td>
<td>126,429</td>
<td>19%</td>
<td>26.5</td>
<td>1%</td>
<td>7%</td>
<td>28%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>CS US</td>
<td>Credit Suisse Group</td>
<td>Switzerland</td>
<td>9</td>
<td>7</td>
<td>27,273</td>
<td>71%</td>
<td>21.0</td>
<td>1%</td>
<td>6%</td>
<td>25%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>GS US</td>
<td>Goldman Sachs Group</td>
<td>U.S.</td>
<td>5</td>
<td>6</td>
<td>61,528</td>
<td>43%</td>
<td>27.0</td>
<td>0%</td>
<td>2%</td>
<td>20%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>UBSG SV</td>
<td>UBS Group AG</td>
<td>Switzerland</td>
<td>6</td>
<td>3</td>
<td>45,873</td>
<td>5%</td>
<td>20.0</td>
<td>2%</td>
<td>4%</td>
<td>15%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>MS US</td>
<td>Morgan Stanley</td>
<td>U.S.</td>
<td>5</td>
<td>6</td>
<td>68,221</td>
<td>25%</td>
<td>0.40</td>
<td>-1%</td>
<td>2%</td>
<td>22%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>WFC US</td>
<td>Wells Fargo</td>
<td>U.S.</td>
<td>7</td>
<td>4</td>
<td>214,321</td>
<td>12%</td>
<td>0.37</td>
<td>-1%</td>
<td>4%</td>
<td>27%</td>
<td>Above Rising</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>ING US</td>
<td>ING Groep NV</td>
<td>Netherlands</td>
<td>9</td>
<td>6</td>
<td>41,212</td>
<td>124%</td>
<td>30.0</td>
<td>0.37</td>
<td>1%</td>
<td>5%</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>STAN LN</td>
<td>Standard Chartered</td>
<td>U.K.</td>
<td>2</td>
<td>4</td>
<td>24,342</td>
<td>58%</td>
<td>0.36</td>
<td>-1%</td>
<td>1%</td>
<td>9%</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>SAN US</td>
<td>Banco Santander</td>
<td>Spain</td>
<td>4</td>
<td>5</td>
<td>71,603</td>
<td>10%</td>
<td>0.34</td>
<td>0%</td>
<td>7%</td>
<td>9%</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>939 HK</td>
<td>China Construction Bank</td>
<td>China</td>
<td>2</td>
<td>5</td>
<td>194,370</td>
<td>19%</td>
<td>0.23</td>
<td>-2%</td>
<td>4%</td>
<td>-2%</td>
<td>Below Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3988 HK</td>
<td>Bank of China</td>
<td>China</td>
<td>1</td>
<td>5</td>
<td>35,565</td>
<td>19%</td>
<td>0.19</td>
<td>-3%</td>
<td>4%</td>
<td>-1%</td>
<td>Below Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1288 HK</td>
<td>Agricultural Bank of China</td>
<td>China</td>
<td>2</td>
<td>5</td>
<td>13,388</td>
<td>24%</td>
<td>0.19</td>
<td>-1%</td>
<td>4%</td>
<td>0%</td>
<td>Below Rising</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Oil rebounded sharply yesterday, but high-yield energy bonds did not participate – Exhibit 1.
  - Investment grade bonds just continued to sell off to 2-3y wides, and that was across all sectors – Exhibit 2.
US banks rebounded sharply yesterday, but CDS did not participate, and instead climbed to 2y wides – Exhibit 3.

The equity market is full of oversold stocks and has a dearth of overbought situations – Exhibit 4. That can lead to wild days like yesterday. In the end, its credit that matters, and credit failed to participate. We are not making changes to our defensive stance.

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**Exhibit 1: USD HY Energy OAS (All Sectors Here)**

<table>
<thead>
<tr>
<th>Trend</th>
<th>Width</th>
<th>Trend Length</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>22 mo</td>
</tr>
</tbody>
</table>

**Exhibit 2: USD IG Sector OAS**

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>3-Day Chg (%)</th>
<th>Average Trend</th>
<th>Trend Stop</th>
<th>M (%)</th>
<th>Low (%)</th>
<th>Long wgt 3y MA</th>
<th>Short wgt 200D MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>0.9%</td>
<td>2.6%</td>
<td>Up</td>
<td>45%</td>
<td>19%</td>
<td>Above Ranging</td>
<td>32%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>CPI</td>
<td>0.7%</td>
<td>0.3%</td>
<td>Down</td>
<td>54%</td>
<td>32.5</td>
<td>Above Ranging</td>
<td>22%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.6%</td>
<td>2.8%</td>
<td>Down</td>
<td>38%</td>
<td>25.0</td>
<td>Above Ranging</td>
<td>17%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Financials Sub</td>
<td>0.5%</td>
<td>4.2%</td>
<td>Up</td>
<td>34%</td>
<td>25.0</td>
<td>Above Ranging</td>
<td>20%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Industrials</td>
<td>1.3%</td>
<td>5.6%</td>
<td>Down</td>
<td>41%</td>
<td>23.0</td>
<td>Above Ranging</td>
<td>22%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>CPI</td>
<td>1.3%</td>
<td>8.4%</td>
<td>Up</td>
<td>41%</td>
<td>34.0</td>
<td>Above Ranging</td>
<td>28%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Financials Sr</td>
<td>0.3%</td>
<td>3.6%</td>
<td>Down</td>
<td>37%</td>
<td>29.5</td>
<td>Above Ranging</td>
<td>25%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Energy</td>
<td>0.1%</td>
<td>5.5%</td>
<td>Up</td>
<td>30%</td>
<td>25.0</td>
<td>Above Ranging</td>
<td>22%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Comm Sr</td>
<td>1.0%</td>
<td>4.0%</td>
<td>Down</td>
<td>21%</td>
<td>24.5</td>
<td>Above Ranging</td>
<td>15%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Tech</td>
<td>1.0%</td>
<td>6.7%</td>
<td>Up</td>
<td>36%</td>
<td>24.5</td>
<td>Above Ranging</td>
<td>26%</td>
<td>Above Ranging</td>
</tr>
<tr>
<td>Health Care</td>
<td>0.7%</td>
<td>5.4%</td>
<td>Down</td>
<td>18%</td>
<td>23.0</td>
<td>Above Ranging</td>
<td>21%</td>
<td>Above Ranging</td>
</tr>
</tbody>
</table>

**Exhibit 3: US Bank CDS Average (Global SIFI List Here)**

<table>
<thead>
<tr>
<th>Trend</th>
<th>Width</th>
<th>Trend Length</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>13 mo</td>
</tr>
</tbody>
</table>

---

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

Ms Market suggests that the Treasury Secretary got the right call, but the wrong number. Half of the most liquid CDS priced over 100bps are “over-widened.” That’s a nasty number. We sorted the list by CDS curve below. Heck, we wouldn’t even call a US bank before making a few international calls to some non-banks – Exhibit 1.

Here’s a list of what still looks good: Treasuries, MBS, CMBS, and Palladium. Not one member of our North American safe-haven Otis Redding collection (low volatility momentum buys with indicated yield above 2% and positive dividend growth) was unscathed last week. Our Global Otis collection contains seven stocks out of 60 that managed to hold their own.

Exhibit 1: 5Y CDS Over 100bps and Over-Widened

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>Sub Industry</th>
<th>LT CDS</th>
<th>Close 21-Dec</th>
<th>1-Day Equity (%)</th>
<th>5-Day Equity (%)</th>
<th>MktCap (US$)</th>
<th>CDS Trend Stdev</th>
<th>CDS HI (%)</th>
<th>CDS LO (%)</th>
<th>Liquidity</th>
<th>Rt to Equity</th>
<th>CDS 1-Day Curve</th>
<th>CDS 5-Day Curve</th>
<th>CDS 5-Day vol (%)</th>
<th>CDS 20-Day NA</th>
<th>Vol vol %</th>
</tr>
</thead>
<tbody>
<tr>
<td>DMO US</td>
<td>Intercontinental Hotel Group PLC</td>
<td>U.K.</td>
<td>Hospitality</td>
<td>8 10</td>
<td>51.98</td>
<td>-1.7%</td>
<td>0.7%</td>
<td>9.739</td>
<td>2%</td>
<td>13.15</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>WPT US</td>
<td>Weatherford International</td>
<td>Switzerland</td>
<td>Oil Equip</td>
<td>10 10</td>
<td>20.7</td>
<td>-2.7%</td>
<td>-5.8%</td>
<td>270</td>
<td>74%</td>
<td>13.15</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>RAL FR</td>
<td>Raiffeisen</td>
<td>France</td>
<td>FitRetail</td>
<td>10 10</td>
<td>9.9</td>
<td>-2.3%</td>
<td>-4.1%</td>
<td>522</td>
<td>26%</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>UMB US</td>
<td>UMB Group</td>
<td>U.S.</td>
<td>Diversified</td>
<td>10 10</td>
<td>15.72</td>
<td>-0.8%</td>
<td>-0.8%</td>
<td>2.814</td>
<td>8%</td>
<td>10.5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>CBC GR</td>
<td>Commerzbank</td>
<td>Germany</td>
<td>Diversified</td>
<td>8 7</td>
<td>6.64</td>
<td>0.8%</td>
<td>-12.5%</td>
<td>8.193</td>
<td>5%</td>
<td>24.5</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>GS US</td>
<td>Goldman Sachs Group</td>
<td>U.S.</td>
<td>Diversified</td>
<td>5 5</td>
<td>16.05</td>
<td>-5.0%</td>
<td>-7.4%</td>
<td>19.534</td>
<td>40%</td>
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<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>DP US</td>
<td>Doven Woods</td>
<td>U.S.</td>
<td>Automobiles</td>
<td>10 10</td>
<td>3.89</td>
<td>0.2%</td>
<td>-11.8%</td>
<td>382</td>
<td>39%</td>
<td>13.15</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>CHK US</td>
<td>Chesapeake Energy</td>
<td>U.S.</td>
<td>Oil &amp; Gas</td>
<td>10 10</td>
<td>1.09</td>
<td>3.2%</td>
<td>-15.5%</td>
<td>1.736</td>
<td>10%</td>
<td>15.5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>BGS US</td>
<td>Bank of America</td>
<td>Switzerland</td>
<td>Oil &amp; Gas</td>
<td>10 8</td>
<td>4.9</td>
<td>-2.3%</td>
<td>-14.2%</td>
<td>3.95</td>
<td>-21%</td>
<td>23.3</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>HTZ US</td>
<td>Hertz Global</td>
<td>U.S.</td>
<td>Trucking</td>
<td>10 10</td>
<td>13.4</td>
<td>-9.9%</td>
<td>-6.8%</td>
<td>1.159</td>
<td>14%</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>Move Higher</td>
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<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>RAO US</td>
<td>Rite Aid</td>
<td>U.S.</td>
<td>Drugstore</td>
<td>10 10</td>
<td>0.71</td>
<td>-2.9%</td>
<td>-26.6%</td>
<td>0.75</td>
<td>200%</td>
<td>88.8</td>
<td>4</td>
<td>4</td>
<td>3</td>
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<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
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<tr>
<td>RRO US</td>
<td>RR Donnelley &amp; Sons</td>
<td>U.S.</td>
<td>Conglomerate</td>
<td>10 10</td>
<td>3.82</td>
<td>-7.5%</td>
<td>-20.7%</td>
<td>269</td>
<td>4%</td>
<td>10.0</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
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<td>Move Higher</td>
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<tr>
<td>CME US</td>
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<td>U.S.</td>
<td>Healthcare</td>
<td>10 10</td>
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<td>-1.0%</td>
<td>3.153</td>
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<td>3</td>
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<td>Move Higher</td>
<td>Move Higher</td>
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<td>Move Higher</td>
</tr>
<tr>
<td>T US</td>
<td>AT&amp;T Inc</td>
<td>U.S.</td>
<td>Telecommunications</td>
<td>9 8</td>
<td>28.23</td>
<td>-1.9%</td>
<td>2.9%</td>
<td>208.04</td>
<td>6%</td>
<td>117.3</td>
<td>3</td>
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<td>0</td>
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<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
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<td>Oil &amp; Gas</td>
<td>9 10</td>
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<td>1.264</td>
<td>6%</td>
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<td>Move Higher</td>
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<td>Move Higher</td>
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<tr>
<td>SBRY US</td>
<td>S. Bancorp</td>
<td>U.S.</td>
<td>FitRetail</td>
<td>7 6</td>
<td>3.4</td>
<td>1.3%</td>
<td>-1.7%</td>
<td>7.932</td>
<td>10%</td>
<td>20.0</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
<tr>
<td>CAD US</td>
<td>Cardinal Health</td>
<td>U.S.</td>
<td>HCS</td>
<td>10 10</td>
<td>44.44</td>
<td>-1.9%</td>
<td>-15.2%</td>
<td>13.241</td>
<td>18%</td>
<td>8.0</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>Move Higher</td>
<td>Move Higher</td>
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</tr>
<tr>
<td>MUX US</td>
<td>McKesson Corp</td>
<td>U.S.</td>
<td>HCS</td>
<td>9 10</td>
<td>106.34</td>
<td>-1.6%</td>
<td>-7.1%</td>
<td>2.085</td>
<td>1%</td>
<td>12.0</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
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<tr>
<td>AVT US</td>
<td>Avnet Inc</td>
<td>U.S.</td>
<td>TechRetail</td>
<td>7 7</td>
<td>34.94</td>
<td>-1.7%</td>
<td>-9.9%</td>
<td>3.888</td>
<td>2%</td>
<td>15.0</td>
<td>1</td>
<td>0</td>
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<td>Move Higher</td>
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<td>Avon Products</td>
<td>U.S.</td>
<td>Conglomerate</td>
<td>8 9</td>
<td>1.5</td>
<td>6.3%</td>
<td>-15.3%</td>
<td>664</td>
<td>-5%</td>
<td>0.0</td>
<td>5</td>
<td>1</td>
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<td>Ford Motor</td>
<td>U.S.</td>
<td>Automotive</td>
<td>10 8</td>
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<td>KR US</td>
<td>Kroger Co</td>
<td>U.S.</td>
<td>FitRetail</td>
<td>10 9</td>
<td>27.48</td>
<td>-1.0%</td>
<td>-2.7%</td>
<td>21.988</td>
<td>16%</td>
<td>6.5</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>Move Higher</td>
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<td>-6.0%</td>
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<td>NGM Resolute</td>
<td>U.S.</td>
<td>Textiles</td>
<td>10 10</td>
<td>22.8</td>
<td>-4.8%</td>
<td>15.4%</td>
<td>11.799</td>
<td>10%</td>
<td>14.0</td>
<td>4</td>
<td>3</td>
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<td>Move Higher</td>
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<td>Move Higher</td>
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<tr>
<td>WMB US</td>
<td>Williams Cos</td>
<td>U.S.</td>
<td>Oil &amp; Gas</td>
<td>1 7</td>
<td>21.91</td>
<td>-3.3%</td>
<td>-7.1%</td>
<td>26.346</td>
<td>1%</td>
<td>15.5</td>
<td>3</td>
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<td>Oil &amp; Gas</td>
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<td>U.S.</td>
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<td>-3.1%</td>
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<td>8%</td>
<td>25.0</td>
<td>2</td>
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<td>Move Higher</td>
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<td>U.S.</td>
<td>TelCo</td>
<td>9 9</td>
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<td>-7.0%</td>
<td>-12.4%</td>
<td>16.152</td>
<td>12%</td>
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<td>Move Higher</td>
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<td>EMI US</td>
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<td>U.S.</td>
<td>DiverseChm</td>
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<td>7.59</td>
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<td>-3.1%</td>
<td>9.685</td>
<td>13%</td>
<td>12.4</td>
<td>1</td>
<td>0</td>
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<td>0</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
<td>Move Higher</td>
</tr>
</tbody>
</table>

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Market
Learn How to Get Along

We listened to Gloria Gaynor on the way in. She’s still kickin’ at 69! Yes, segments of the credit market are turtling and indeed train wrecking, and as the tide goes out, prime brokers will undoubtedly be connected to the ones swimming al fresco, and yes that is the mechanism that destabilizes equity markets. It’s always the same, which is why we focus on credit signaling so much. But our job is twofold: one, to quantify and clarify these risks, and two, to show what’s being rewarded so that you learn how to get along.

- At first I was afraid, I was petrified – Exhibit 1.
- Kept thinking I could never live without you by my side – Exhibit 2.
- Did you think I’d lay down and die? Oh no, not I, I will survive – Exhibit 3.

Exhibit 1: No It’s Not SCTV Farm Film Celebrity Blow-up, Its HY OIS

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>HI (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day MA</th>
</tr>
</thead>
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<tr>
<td>Financials Sub</td>
<td>-0.3%</td>
<td>2.3%</td>
<td>↑</td>
<td>76%</td>
<td>13%</td>
<td>Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tech</td>
<td>4.0%</td>
<td>15.3%</td>
<td>↑</td>
<td>50%</td>
<td>24.5%</td>
<td>28% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRH Disc</td>
<td>3.4%</td>
<td>13.8%</td>
<td>↑</td>
<td>35%</td>
<td>27.0%</td>
<td>22% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>3.9%</td>
<td>14.0%</td>
<td>↑</td>
<td>50%</td>
<td>25.5%</td>
<td>28% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRH Stap</td>
<td>2.7%</td>
<td>11.3%</td>
<td>↑</td>
<td>23%</td>
<td>33.5%</td>
<td>19% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>3.5%</td>
<td>13.4%</td>
<td>↑</td>
<td>24%</td>
<td>24.5%</td>
<td>25% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>1.2%</td>
<td>13.2%</td>
<td>↑</td>
<td>13%</td>
<td>18.0%</td>
<td>22% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financials Smr</td>
<td>5.8%</td>
<td>18.7%</td>
<td>↑</td>
<td>15%</td>
<td>25.0%</td>
<td>31% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comm Srv</td>
<td>4.6%</td>
<td>15.4%</td>
<td>↑</td>
<td>-1%</td>
<td>24.5%</td>
<td>22% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>3.7%</td>
<td>15.8%</td>
<td>↑</td>
<td>-11%</td>
<td>26.5%</td>
<td>33% Above Rising</td>
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<tr>
<td>Hlth Care</td>
<td>7.0%</td>
<td>22.9%</td>
<td>↑</td>
<td>-15%</td>
<td>23.0%</td>
<td>31% Above Rising</td>
<td></td>
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</tr>
</tbody>
</table>

Exhibit 2: Average US Prime Broker 5Y CDS (GS, MS, JPM)

Exhibit 3: Largest 20 Global Momentum Buys in Top Deciled SubIndustries – Full List Here, North American Listed List Here

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

- It’s an amazing luxury being a passenger, in the car that our clients are driving with their investment decisions. Through the vast variety of tools that we have created to inform our wide spectrum of client needs, there is a lot that we can see and relay back to the driver.

- Bonds were clearly Queen yesterday, so let’s look there;
  - A go anywhere bond fund, benchmarked off of the aggregate, saw 10-20y bonds reach a 12m relative strength (RS) high, long-term bonds reach a four-month RS high, and IG bonds reach a 1m high. The first two were expected. The latter is the most interesting. Those would be IG corporate bonds surging. That’s a great signal. See Iggy Pop? – Exhibit 1.
  - For that go anywhere bond fund, we’d;
    - Continue to shift out in duration, given the structural shift in inflation expectations - Exhibit 2.
    - Be a buyer of long duration with a physical address – Exhibit 3.
    - Dip one toe into IG (Exhibit 1), and take that toe out of HY (hot water) – Exhibit 4.

Oh, let’s ride and ride and ride and ride

Exhibit 1: US IG Corp Bond Index (IGG / US) Popping

Exhibit 2: US 30y BE Rate With Treasuries vs Treasuries in Insert

Exhibit 3: C&G Realty Majors Index (RMP)

Exhibit 4: iBoxx USD Liquid High Yield Index (HY Sector OIS in Insert)

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

Who’s That?

- We can, and indeed should, continue to detail the market narrative, where CDN and US 30y rates broke to the downside yesterday, following the rest of their curves. Commodities continue to look sick. Credit signaling is problematic. Most equity markets are trending lower, and defensive sectors are in favour. Walking back, there are no SIFIs anywhere close to sporting inverted curves, which means that markets are not swarming. Skew says it best, it’s just off of a multi-year low, which sez that stocks are all individuals.

- In US SMID sector relative performance details the classic defense is great, resources are fate, but there is an outlier popping out of the closet. Technology just broke out of a 10m churn, and indeed is at a new high in the relative realm – Exhibits 1, 2.
  - The most favoured North American-listed Small and MidCap technology stocks are highlighted in Exhibits 3, 4.

> Hope of a new life, a new world, a better future!
> Judith, Life of Brian

Exhibit 1: Sectors vs Russell 2000 (Price Trends Here)

Classic Defensive Positioning

| Sector vs Russell 2000 | Chg Last Day | Reward/Risk | Trend Slope | Trend | Trend Length | % | 5m Trailing
<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Utilities vs Russell 2000</td>
<td>60%</td>
<td>4.9%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
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</tr>
<tr>
<td>Staples vs Russell 2000</td>
<td>11%</td>
<td>4.0%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary vs Russell 2000</td>
<td>3%</td>
<td>1.1%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Producer Durables vs Russell 2000</td>
<td>2%</td>
<td>-0.4%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
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</tr>
<tr>
<td>Health Care vs Russell 2000</td>
<td>5%</td>
<td>1.3%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
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<td></td>
</tr>
<tr>
<td>Technology vs Russell 2000</td>
<td>-1%</td>
<td>-2%</td>
<td>Below Falling</td>
<td>Below Falling</td>
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<tr>
<td>Financials vs Russell 2000</td>
<td>4%</td>
<td>-14%</td>
<td>Below Falling</td>
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<tr>
<td>Energy vs Russell 2000</td>
<td>6%</td>
<td>-2.6%</td>
<td>Below Falling</td>
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<td>Below Falling</td>
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<tr>
<td>Materials vs Russell 2000</td>
<td>7%</td>
<td>-19%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
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</tbody>
</table>

And Technology

Exhibit 2: Technology vs Russell 2000 (Price Trend Here)

10m Trend = Churn & Signaling = Another Breakout From Boring

4Y Trend = Outperformance of 6%/Year

Exhibit 3: North Amer Listed IT SCap Momentum Buys (Gbl List Here)

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

Exhibit 4: North Amer Listed IT MCap Momentum Buys

Note: BMO Capital Markets is restricted on Dell Technologies
Trends & Inflection Points

Treasury Technicals

- Our relative strength breadth work, which violently shifted to a “then there was one” - that one being utilities (bond proxy) - in the sweet spot, tells us to outline the course for treasuries.
- Sometimes, and for broader perspective than our four-year windows, with typical trend lengths in the 6-12m range, one has to go old school. Treasuries are breaking out of a 2.5y consolidation pattern of diminishing volatility. The minimum upside target on this breakout is the amplitude of the wedge. We are looking at a 6% upside move in price over the next year – Exhibit 1.

Exhibit 1: BBG Barclays US Treasury Total Return Index (LUATTRUU)

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

- It’s our various “severed trend” lists that we key in on most. The positive severed trends to highlight from Friday’s session were on the US and Canadian rate front (of course that’s positive if you are a treasury bull, keying off of sliding global inflation expectations). The negative severed trends were the torrent of equity groups breaking to the downside on both the US and Global fronts.

- Stepping back, we highlight the technicals on the best 10 global industries from a technical perspective. Just five remain in uptrades, just three remain above rising 50d MAs, just one rose on Friday – Exhibit 1.
  - An important breakdown from a market cap stance was the classic defensive group, Pharmaceuticals, and this weakness was partially induced by the 10% haircut to INJ shareholders.
  - From a chart perspective on the market cap weighted group, we see more value in considering the messy consolidation pattern as the key theme, rather than the 22%/year uptrend, which just broke – Exhibit 2.
  - From an equal-weighted perspective, the semi-permanence of a neutral rating tells us that this is always a sector one should screen for both outperformers and underperformers. Given that one can’t buy seasonal presents with relative dollars, we’ll tune our lists towards absolute performance – Exhibits 3, 4.

It’s another situation for a nervous boy

Doctor, Doctor Iron Maiden

Exhibit 1: Top of Global Industry Price Trends - Full List Here

Exhibit 2: Global Pharmaceuticals DVD Adjusted Price Trend

The Messy, Divergent Consolidation Pattern is a Better Reflection of Expected Price Action, Rather than the 22%/Year Slope

Exhibit 3: Pharmaceutical Momentum Buys

Exhibit 4: Pharmaceutical Momentum Sells

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

Twas a Golden Tbird

- This morning the BBG USD index breaks out of a 6 week consolidation, and that’s with U.S. short rates rolling over mind you. It’s a cleanest dirty shirt market – Exhibit 1.
- When we look at major currency crosses, we add gold to the mix, as it’s been considered a currency ever since clam shells went out of fashion. When we look at the list, what we see in gold is an outlier, or a sell into strength opportunity – Exhibit 2.
- For gold shares, the opportunity seems even greater. While the USD was churning, gold stocks were able to rise from 10th decile, to 3rd decile. The bottom line is that they would have helped your portfolio over the past two months – Exhibit 3.
  - That help, is often temporary, and with commodity stocks, all the more so. With the breakout in USD strength, you should consider that Daddy, just took the golden T-Bird away, and if you cash in, at these elevated levels – Exhibit 4.
    - you can deploy that those proceeds to continue to...

Have Fun Fun Fun Now That Daddy Took the T-Bird Away

The Beach Boys

Exhibit 1: BBG USD Index at 7:30am

Exhibit 2: Major Currency Crosses vs the USD

Exhibit 3: Gold Equity Relative Strength Decile

Exhibit 4: CDN Gold ETF (XGD CN) Dvd Adjusted Price Trend

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
This morning, as the ECB updates its inflation forecast, and Draghi goes to the podium, the German 10y Breakeven rate drops within 1bps of a new low. Previous pivots in inflation expectations have been classic V-bottoms. This looks more like a consolidation, with the threat to break lower – Exhibit 1.

- This jives with oil, which this morning leaning towards the bottom end of a three-week holding pattern – Exhibit 2.
- A break, in breakevens and oil, would merely be trend following as far as sector performance is lined up, leading the market to fade the relative performance rebound in energy (at least at the relative strength breadth level, market cap wise, there has been continued disdain), and take advantage of the pullbacks in real estate and utilities – Exhibits 3, 4.
Quite frankly, when we were surfing the SMID space, and saw this hero to zero chart, we figured the global small cap manager may just need a hug – Exhibit 1.

So we decided that amongst the Nero Caesar amount of positive price trends, we would carve out the momentum buys, a much more manageable list – Exhibit 2.

A few other lists to consider for portfolio stocking stuffers: 52w highs, n-month highs, market and sector outperformers in top deciled subindustries.

Exhibit 1: ACWI Small Caps vs ACWI World

Exhibit 2: Largest 15 Global SMID Momentum Buys (Market Cap Cut-off of $5bn) (US List Here, CDN List Here)
Trends & Inflection Points

Cover Me

• The times are tough now, just getting tougher. This whole world is rough, it's just getting rougher. Cover me – Exhibits 1, 2.
• US Financial implied volatility at a multi-year high, with price action punished below the bottom end of a channel, means it’s a good time to cover shorts on US financials, expecting a bounce as a panic situation ebbs. This is not, however, an all-clear signal. Clients should look towards the minority of financials in outperforming trends for their long allocations – Exhibit 3.

Exhibit 1: US Financial ETF Implied Volatility


Exhibit 3: Largest 20 Global Financials in Outperforming Trends vs ACWI

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

December 11, 2018
**Trends & Inflection Points**

**Rock, Paper, Scissors**

- We’ll start with the rock, AKA real estate, which broke out to a new high in our equal-weighted relative strength breadth work – Exhibit 1.
- Moving to paper, we look on the screen this morning, and watch the cost to protect US prime broker debt from default continuing to surge (all up 3% at pixel time) to new wides, and we recall how nasty a close it was for high yield, CLOs, and other bits of paper that were getting scissored on Friday – Exhibit 2.
- Then we note the really nice fit between the unwind of paper and the rock – Exhibit 3.
- And continue to recommend clients own a piece of the rock – Exhibit 4.

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**Exhibit 1: Real Estate Relative Strength Z-Score**

Breakout to New High

---

**Exhibit 2: USD HY OIS Indices**

**Most Sectors at or Near 2y Wides**

<table>
<thead>
<tr>
<th>Name</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>% Chg wrt 50D MA</th>
<th>% Chg wrt 200D MA</th>
<th>Chg wgt 50 Day MA</th>
<th>Chg wgt 200 Day MA</th>
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<td>Financials Sub</td>
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<td>23%</td>
<td>Above Rising</td>
<td>42%</td>
<td>Above Rising</td>
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<tr>
<td>Tech</td>
<td>44%</td>
<td>22.5</td>
<td></td>
<td>20%</td>
<td>Above Rising</td>
<td>35%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>CMR Disc</td>
<td>33%</td>
<td>24.0</td>
<td></td>
<td>13%</td>
<td>Above Rising</td>
<td>25%</td>
<td>Above Rising</td>
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<td>Materials</td>
<td>42%</td>
<td>24.0</td>
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<td>Above Rising</td>
<td>42%</td>
<td>Above Rising</td>
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<td>14%</td>
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<td>21%</td>
<td>Above Rising</td>
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<tr>
<td>Financials Snr</td>
<td>12%</td>
<td>24.0</td>
<td></td>
<td>21%</td>
<td>Above Rising</td>
<td>25%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Energy</td>
<td>9%</td>
<td>15.0</td>
<td></td>
<td>17%</td>
<td>Above Rising</td>
<td>27%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Utilities</td>
<td>-11%</td>
<td>10.0</td>
<td></td>
<td>12%</td>
<td>Above Rising</td>
<td>12%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Comm Serv</td>
<td>-17%</td>
<td>10.0</td>
<td></td>
<td>15%</td>
<td>Above Rising</td>
<td>14%</td>
<td>Above Rising</td>
</tr>
</tbody>
</table>

**Exhibit 3: Real Estate vs MSCI Wld, USD HY All Sectors OIS, Fit of Returns**

Allure / Demise of Junk pivots & Rhymes Nicely with the Under / Outperformance of Real Estate

---

**Exhibit 4: Largest 15 From Global Real Estate Momentum Buy List**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>% Chg wgt 50D MA</th>
<th>% Chg wgt 200D MA</th>
<th>Chg wgt 50 Day MA</th>
<th>Chg wgt 200 Day MA</th>
<th>RSI 10 Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>UDR US</td>
<td>UDR Inc</td>
<td>11.69</td>
<td>33%</td>
<td>5%</td>
<td>Above Rising</td>
<td>60%</td>
<td>Above Rising</td>
<td>90%</td>
</tr>
<tr>
<td>WELL US</td>
<td>Welltower</td>
<td>27.66</td>
<td>60%</td>
<td>11%</td>
<td>Above Rising</td>
<td>48%</td>
<td>Above Rising</td>
<td>98%</td>
</tr>
<tr>
<td>HCP US</td>
<td>HCP Inc</td>
<td>14.03</td>
<td>46%</td>
<td>10%</td>
<td>Above Rising</td>
<td>60%</td>
<td>Above Rising</td>
<td>60%</td>
</tr>
<tr>
<td>ESS US</td>
<td>Erox Property Trust</td>
<td>17.49</td>
<td>28%</td>
<td>5%</td>
<td>Above Rising</td>
<td>61%</td>
<td>Above Rising</td>
<td>57%</td>
</tr>
<tr>
<td>SGP US</td>
<td>Simon Property Group</td>
<td>58.78</td>
<td>38%</td>
<td>5%</td>
<td>Above Rising</td>
<td>60%</td>
<td>Above Rising</td>
<td>72%</td>
</tr>
<tr>
<td>APRT US</td>
<td>American Tower</td>
<td>73.31</td>
<td>32%</td>
<td>8%</td>
<td>Above Rising</td>
<td>64%</td>
<td>Above Rising</td>
<td>70%</td>
</tr>
<tr>
<td>AVB US</td>
<td>AvalonBay Communities</td>
<td>26.07</td>
<td>28%</td>
<td>4%</td>
<td>Above Rising</td>
<td>64%</td>
<td>Above Rising</td>
<td>57%</td>
</tr>
<tr>
<td>VICI US</td>
<td>VICI Properties</td>
<td>8.71</td>
<td>23%</td>
<td>0%</td>
<td>Above Rising</td>
<td>48%</td>
<td>Above Rising</td>
<td>57%</td>
</tr>
<tr>
<td>EQR US</td>
<td>Equity Residential</td>
<td>26.46</td>
<td>24%</td>
<td>7%</td>
<td>Above Rising</td>
<td>64%</td>
<td>Above Rising</td>
<td>59%</td>
</tr>
<tr>
<td>REG US</td>
<td>Regency Centers</td>
<td>11.02</td>
<td>23%</td>
<td>3%</td>
<td>Above Rising</td>
<td>59%</td>
<td>Above Rising</td>
<td>59%</td>
</tr>
<tr>
<td>FRT US</td>
<td>Federal Realty Investment Trust</td>
<td>9.899</td>
<td>23%</td>
<td>6%</td>
<td>Above Rising</td>
<td>54%</td>
<td>Above Rising</td>
<td>54%</td>
</tr>
<tr>
<td>CPF US</td>
<td>Camden Property Trust</td>
<td>8.653</td>
<td>9%</td>
<td>1%</td>
<td>Above Rising</td>
<td>30%</td>
<td>Above Rising</td>
<td>59%</td>
</tr>
<tr>
<td>WPC US</td>
<td>WP Carey Inc</td>
<td>11.215</td>
<td>8%</td>
<td>6%</td>
<td>Above Rising</td>
<td>56%</td>
<td>Above Rising</td>
<td>59%</td>
</tr>
<tr>
<td>FLD US</td>
<td>PulteGroup Inc</td>
<td>42.077</td>
<td>8%</td>
<td>1%</td>
<td>Above Rising</td>
<td>76%</td>
<td>Above Rising</td>
<td>70%</td>
</tr>
<tr>
<td>MAU US</td>
<td>Mid-America Apartment Communities</td>
<td>11.59</td>
<td>8%</td>
<td>2%</td>
<td>Above Rising</td>
<td>59%</td>
<td>Above Rising</td>
<td>59%</td>
</tr>
</tbody>
</table>
We’ve just one sector left to write on this week, financials, as we’ve already carved out the rest of what has been rewarded and rejected. And as we wait for Russia’s determination on oil output, we opine on what’s really at stake for equity markets which require a stable banking system, where the cost to protect debt falls, not rises – Exhibit 1.

Why is it whenever I’m having fun, it’s wrong?

Squidward Q. Tentacles

Exhibit 1: Rolling 5y Correlation Between Goldman Sachs 5Y CDS and USD HY Energy OIS

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

Other Stuff

- Yesterday in *This, That, and Other Things*, we highlighted the list of many stocks that still look good. They mostly have high grade bond-like qualities (low volatility, good dividend streams, and non-economic sensitive). For balance, and as oil flirts with the lows, and as bank CDS continue to widen (*GS breaks to a new wide*), we highlight other stuff, or the underperformers.

- Both our global market weighted indices, and our equal weighted breadth measures point out the same underperforming sectors: Resources (covered Monday), Discretionary, Financials and Industrials – Exhibits 1, 2.
  - Of the five, the key inflection point we see is industrials breaking from what is still neutral, to the negative – Exhibit 3.
  - Industrials breaking uptrends are shown in Exhibit 4. Industrials labeled momentum sells are shown in Exhibit 5.

Exhibit 1: Global Sectors vs MSCI World (Price Trends Here)

The Outperformers

- Rth Care 27%
- Telecom 15%
- Info Tech 12%
- Utilities 12%
- Real Estate 4%

The Question

- Financials -6%
- Energy -15%
- CMO Disc -8%
- Industrials -8%
- Materials -23%

The Underperformers

Exhibit 2: Sector Relative Strength Heat Map in our GS Report

Exhibit 3: Industrials Relative Strength Breadth Reading

Exhibit 4: Largest 10 Industrial Breakdowns – Full List Here

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>LT Price</th>
<th>Price Trend</th>
<th>%Chg wt 50 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTAS US</td>
<td>Cintas Corp</td>
<td>Dv SPG Div</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>19,187</td>
<td>39%</td>
</tr>
<tr>
<td>AER FP</td>
<td>Airbus Group</td>
<td>Aero &amp; Def</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>81,306</td>
<td>34%</td>
</tr>
<tr>
<td>EMR US</td>
<td>Emerson Electric</td>
<td>Elec Comp</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>41,107</td>
<td>20%</td>
</tr>
<tr>
<td>HON US</td>
<td>Honeywell</td>
<td>Ind Congl</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>105,024</td>
<td>21%</td>
</tr>
<tr>
<td>LMT US</td>
<td>Lockheed Martin</td>
<td>Aero &amp; Def</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>81,553</td>
<td>15%</td>
</tr>
<tr>
<td>UTX US</td>
<td>United Technologies</td>
<td>Aero &amp; Def</td>
<td>6</td>
<td>4</td>
<td>1</td>
<td>104,357</td>
<td>15%</td>
</tr>
<tr>
<td>6307 JP</td>
<td>Daikin Industries</td>
<td>BlndPets</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>31,914</td>
<td>10%</td>
</tr>
<tr>
<td>HO FP</td>
<td>Thales SA</td>
<td>Aero &amp; Def</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>25,626</td>
<td>9%</td>
</tr>
<tr>
<td>FYI US</td>
<td>Förth</td>
<td>Ind Mach</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>27,429</td>
<td>11%</td>
</tr>
<tr>
<td>8031 JP</td>
<td>Mitsubishi &amp; Co Ltd</td>
<td>TrdgPlt</td>
<td>6</td>
<td>6</td>
<td>1</td>
<td>26,782</td>
<td>2%</td>
</tr>
</tbody>
</table>

Exhibit 5: Largest 10 Industrial Momentum Sells – Full List Here

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>LT Price</th>
<th>Price Trend</th>
<th>%Chg wt 50 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIE GR</td>
<td>Siemens AG</td>
<td>Ind Congl</td>
<td>4</td>
<td>4</td>
<td>10</td>
<td>97,509</td>
<td>=-30%</td>
</tr>
<tr>
<td>SSG FR</td>
<td>Cie de St-Gobain</td>
<td>BlndPets</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>19,246</td>
<td>=-31%</td>
</tr>
<tr>
<td>6034 JP</td>
<td>FANVAC Corp</td>
<td>Ind Mach</td>
<td>9</td>
<td>7</td>
<td>2</td>
<td>32,364</td>
<td>=-34%</td>
</tr>
<tr>
<td>ITIV US</td>
<td>Illinois Tool Works Ind Mach</td>
<td>Ind Mach</td>
<td>9</td>
<td>8</td>
<td>2</td>
<td>44,030</td>
<td>=-22%</td>
</tr>
<tr>
<td>6300 JP</td>
<td>Mitsubishi Electric</td>
<td>Elec &amp; Elecs</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>27,001</td>
<td>=-24%</td>
</tr>
<tr>
<td>DPW GR</td>
<td>Deutsche Post</td>
<td>AirlFrg</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>36,794</td>
<td>=-29%</td>
</tr>
<tr>
<td>6301 JP</td>
<td>Komatsu Ltd</td>
<td>CrntMachSt</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>25,019</td>
<td>=-25%</td>
</tr>
<tr>
<td>GE US</td>
<td>General Electric</td>
<td>Ind Congl</td>
<td>4</td>
<td>10</td>
<td>8</td>
<td>63,322</td>
<td>=-48%</td>
</tr>
<tr>
<td>GO US</td>
<td>General Dynamics Aero &amp; Def</td>
<td>Ind Congl</td>
<td>6</td>
<td>3</td>
<td>8</td>
<td>51,287</td>
<td>=-20%</td>
</tr>
<tr>
<td>ABB US</td>
<td>ABB Ltd</td>
<td>Elec Comp</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>42,625</td>
<td>=-18%</td>
</tr>
</tbody>
</table>

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
This, That, and Other Things

- Our Northern lights call was rather pertinent yesterday, as we saw this inflection point activity in U.S. inflation expectations, which led to that inflection point activity in U.S. treasury yields - Exhibits 1, 2.
- If we continue with our thesis that the inflation expectations lead, and they are now trending lower (in place for at least 6mo), then we should also expect that many stocks that are still momentum buys (trending higher for at least 6mo) in the same macro environment, after yesterday’s joyous action in treasuries, but brutal action in stocks, can indeed continue to perform well. Those other things, where we use World ex U.S. as the pool to consider today as U.S. markets are closed, are highlighted in Exhibit 3.

Exhibit 1: US Inflation Expectations Gauges

Exhibit 2: US Treasury Yields

Exhibit 3: Largest 20 Momentum Buys in ACWI World ex USA Universe - Full List Here (See These links for Mo Buys in S&P 500, and R2k)

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

Northern Lights

- In Canada, above the 49th, one sees inflation expectations diving, which was the precursor to the breakdowns we saw in the belly of the CDN curve yesterday, which is a precursor to the inversion of the CDN 10-2 curve which is just 7bps away – Exhibits 1, 2.
- Note the similarity to the US situation, below the 49th – Exhibits 3, 4. Northern Lights indeed.
- These trends and inflection points are important for your bond allocation (we are positive, precisely because of that inflation signaling), and equity strategy (the market continues to reward interest sensitives).

Exhibit 1: Canadian 30y Breakeven Rate (Spectrum Here)

Exhibit 2: Canadian 10-2 Yield Curve (CDN Bond Spectrum In Insert)

Exhibit 3: US 30y Breakeven Rate (Spectrum Here)

Exhibit 4: US 10-2 Yield Curve (US Bond Spectrum Here)

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

Sundown you better take care

Gordon Lightfoot
Lift and Separate

- Post G2 dinner, there is a large risk rally going on, stocks (higher), bonds (lower), high yield currencies (higher), and commodities (higher). It’s not affecting bank CDS levels (mixed, holding at recent wides). It’s also not affecting the US treasury 10-2 yield curve, which continues to threaten another breakdown.
- The largest sector movers are resources, which happen to be the weakest sectors from our breadth work – Exhibit 1.
- With just a few liquid trading weeks left this year, we suggest the best tactic to take on this lift, is to separate the underperformers from your portfolio – Exhibit 2.

Exhibit 1: Global Relative Strength Breadth Sector Heat Map

Exhibit 2: Largest Materials & Energy Underperformers vs MSCI World – See Link for Full List

When something isn't done, you want to do something about it

Bernadette Peters
Trends & Inflection Points

Question for December

• As winter approaches, will your portfolio respect the negative trends in the market?
  o For an S&P 500-based portfolio, that means avoiding resources and financials (Exhibit 1), i.e., do you respect that,
    • credit risk is in a bull trend? – Exhibit 2.
    • commodities are in a bear trend? – Exhibit 3.

Exhibit 1: S&P 500 Sectors in Downtrends

<table>
<thead>
<tr>
<th>Name</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>Price Hi (Mo)</th>
<th>Price Lo (Mo)</th>
<th>1-Day Chg(%)</th>
<th>5-Day Chg(%)</th>
<th>%Chg wrt 50-d Price MA Trend</th>
<th>%Chg wrt 200-d Price MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Financials</td>
<td>-5%</td>
<td></td>
<td></td>
<td></td>
<td>-0.8%</td>
<td>2.3%</td>
<td>-0.4% Below Falling</td>
<td>-2.5% Below Falling</td>
</tr>
<tr>
<td>S&amp;P 500 Materials</td>
<td>-8%</td>
<td></td>
<td></td>
<td></td>
<td>0.6%</td>
<td>0.8%</td>
<td>-1.3% Below Falling</td>
<td>-5.7% Below Falling</td>
</tr>
<tr>
<td>S&amp;P 500 Energy</td>
<td>-19%</td>
<td></td>
<td></td>
<td></td>
<td>0.6%</td>
<td>0.4%</td>
<td>-6.1% Below Falling</td>
<td>-7.7% Below Falling</td>
</tr>
</tbody>
</table>

Exhibit 2: Global SIFI 5Y CDS Average (Individuals Here)

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

Exhibit 3: Bloomberg Commodity Index

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

Breadth Breakout in Technology

- **Back to technology**, now with the breakout in relative strength breadth. After months of snoozing, she’s breaking out. Atta boy! – Exhibit 1.
- Here’s our favourite carve for situations like this, **stocks with good long-term performance, breaking out of flat or negative trends** – Exhibit 2.
- Here’s another nice filter to look for strength both in outperformers, and for bottom fishers - **stocks priced at an n-month (n=1m, 2m, ...) high** – Exhibit 3.

Exhibit 1: **IT Relative Strength Breadth** (Sector Heat Map in Insert)

Exhibit 2: **IT With Good Long Term Strength, Breaking Out** (Gbl Here)

Exhibit 3: **Technology Stocks Priced at an n-Month High**

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

Note: BMO Capital Markets is Restricted on VMW
Stop and Reverse on EM

Yesterday, we highlighted the positive reversal in Tencent Holdings as a key barometer for global technology. It’s an even larger barometer for EM. Broadening out, take a look at price trends on the largest 5 EM stocks: one trends higher, but the damage was being done by the others that had been trending lower. We said “had” not “have.” Mind the inflection points – Exhibit 1.

Yes, all those stocks are Chinese, which collectively have been falling at a rate of over 40%/year for the past seven months. Mind the inflection point here too – Exhibit 2.

We thus expect to see a positive reversal in the Emerging Markets ETF – Exhibit 3.

All things EM are found at this link.

Exhibit 1: Dividend-Adjusted Price Trends on the Largest 5 EM Stocks

Exhibit 2: MSCI China

Exhibit 3: MSCI EM ETF (EEM US) Dividend-Adjusted Price Trend

Without going out of your door you can know all things on earth

George Harrison (Closet Technical Analyst®)
One Shoe Blues

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

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

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

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. To provide a multiple of the investment returns of a given index or benchmark on a daily basis.

ETFs designed to track an index or asset may experience a discrepancy between the ETF's performance and the performance of 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.

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

ETF Related Disclosures

ETFs offer unique advantages and can be part of a diversified strategy, but they also exhibit unique risks and constraints.

For Important Disclosures on the stocks discussed in this report, please go to http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx.
Distribution of Ratings (January 08, 2019)

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<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>48.0 %</td>
<td>30.7 %</td>
<td>60.0 %</td>
<td>50.9 %</td>
<td>63.9 %</td>
<td>57.7%</td>
</tr>
<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>49.5 %</td>
<td>19.2 %</td>
<td>38.6 %</td>
<td>46.8 %</td>
<td>35.4 %</td>
<td>37.7%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>2.5 %</td>
<td>13.3 %</td>
<td>1.4 %</td>
<td>2.3 %</td>
<td>0.7 %</td>
<td>4.6%</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 October 4, 2018.

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;
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