Wednesday, June 25, 2014

### Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>Page</th>
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<tbody>
<tr>
<td>June 24, 2014</td>
<td>NEW Market Elements</td>
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### Relative Strength Filter

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
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<tbody>
<tr>
<td>June 25, 2014</td>
<td>NEW Aerospace Tilting Lower</td>
<td>9</td>
</tr>
<tr>
<td>June 24, 2014</td>
<td>Pre-Breakouts : OGZD, FCX, FTT, BEZQ</td>
<td>10</td>
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<tr>
<td>June 23, 2014</td>
<td>Energy Overboughts &amp; Laggards: TLM, ATW</td>
<td>11</td>
</tr>
<tr>
<td>June 20, 2014</td>
<td>Diversified Miners – Time for the Buy List</td>
<td>12</td>
</tr>
<tr>
<td>June 19, 2014</td>
<td>The Laggardship of Industrials</td>
<td>13</td>
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<td>June 18, 2014</td>
<td>Interest-Sensitive Signs – MET, MS</td>
<td>14</td>
</tr>
<tr>
<td>June 17, 2014</td>
<td>+ve Reversals Following CDS : F, GM, EXPE</td>
<td>15</td>
</tr>
<tr>
<td>June 16, 2014</td>
<td>Integrated Oils Now First Decile</td>
<td>16</td>
</tr>
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<td>June 13, 2014</td>
<td>E&amp;P – Welcome to 1st Decile</td>
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<td>June 12, 2014</td>
<td>Interest Emerges – Golds Part 2</td>
<td>18</td>
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<tr>
<td>June 11, 2014</td>
<td>We Know You Don’t Care, but Junior Golds</td>
<td>19</td>
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<td>June 10, 2014</td>
<td>WTI Target $112; Buy the Sands</td>
<td>20</td>
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<td>June 9, 2014</td>
<td>After the Pause : AMP, OII, WJA, CWB</td>
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<td>June 6, 2014</td>
<td>Post ECB; The Trends Remain the Same</td>
<td>22</td>
</tr>
<tr>
<td>June 5, 2014</td>
<td>Canadian Trends &amp; Shifts</td>
<td>23</td>
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<tr>
<td>June 4, 2014</td>
<td>U.S. Small Cap Growth Energy</td>
<td>24</td>
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<td>June 3, 2014</td>
<td>Small Cap Technology Shorts</td>
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<td>June 2, 2014</td>
<td>All Cap Material Weakness</td>
<td>26</td>
</tr>
<tr>
<td>May 30, 2014</td>
<td>Stronger Bonds = Weaker Capital Markets Stocks</td>
<td>27</td>
</tr>
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<td>May 29, 2014</td>
<td>Long Duration Assets vs. Liabilities</td>
<td>28</td>
</tr>
<tr>
<td>May 28, 2014</td>
<td>Key Positive Reversals: SBUX, CELG, F, NA</td>
<td>29</td>
</tr>
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<td>May 27, 2014</td>
<td>CDN SmallCaps – Buying the Dip</td>
<td>30</td>
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<td>May 26, 2014</td>
<td>Switch Into Diversified Miners</td>
<td>31</td>
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<td>May 23, 2014</td>
<td>When Gold Wakes Up</td>
<td>32</td>
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<td>May 22, 2014</td>
<td>Small Cap Energy; The Pause That Refreshed</td>
<td>33</td>
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### Focal Points

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<thead>
<tr>
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<tbody>
<tr>
<td>June 24, 2013</td>
<td>NEW Tighten Up</td>
<td>34</td>
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</table>
Equity markets retreated sharply, with the sell-off starting just before 1pm on reports of Syrian warplanes striking in Iraq; energy was the worst sector hit, with steep declines pairing its steep MTD advances.

Treasures led major global 10y yields lower; the safe-haven bid tracked equity declines; the U.S. 10y yield fell to a 3w closing low.

The rouble surged to a 5m high as Putin tried diplomacy; other major currencies fell against the USD; the EUR continued to straddle 1.36.

Gold and oil prices held at high Isis induced levels; base metals were mixed; grains fell.

**Levels**

<table>
<thead>
<tr>
<th>Currencies (USD per)</th>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
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<td>80.32</td>
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<td>EUR</td>
<td>⋅</td>
<td>1.3604</td>
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<tr>
<td>CHF</td>
<td>⋅</td>
<td>1.1186</td>
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</tr>
<tr>
<td>GBP</td>
<td>⋅</td>
<td>1.6897</td>
<td>-0.2%</td>
<td></td>
</tr>
<tr>
<td>JPYx10</td>
<td>⋅</td>
<td>0.9881</td>
<td>-0.0%</td>
<td></td>
</tr>
<tr>
<td>CAD</td>
<td>⋅</td>
<td>0.9308</td>
<td>-0.1%</td>
<td></td>
</tr>
<tr>
<td>AUD</td>
<td>⋅</td>
<td>0.9374</td>
<td>-0.5%</td>
<td></td>
</tr>
<tr>
<td>NZD</td>
<td>⋅</td>
<td>0.8682</td>
<td>-0.3%</td>
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</tr>
<tr>
<td>BRL</td>
<td>⋅</td>
<td>0.4496</td>
<td>-0.3%</td>
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</tr>
<tr>
<td>MXNx10</td>
<td>⋅</td>
<td>0.7652</td>
<td>-0.3%</td>
<td></td>
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<tr>
<td>ZAR</td>
<td>⋅</td>
<td>0.0938</td>
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<tr>
<td>KRWx10</td>
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<td>0.9813</td>
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<tr>
<td>CNY</td>
<td>⋅</td>
<td>0.1605</td>
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**Commodities**

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<tbody>
<tr>
<td>DJ UBS</td>
<td>⋅</td>
<td>136.34</td>
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<tr>
<td>WTI Oil</td>
<td>⋅</td>
<td>106.01</td>
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<tr>
<td>NMX Gas</td>
<td>⋅</td>
<td>4.53</td>
<td>1.9%</td>
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<tr>
<td>WTI</td>
<td>⋅</td>
<td>1318.3</td>
<td>0.1%</td>
</tr>
<tr>
<td>Silver</td>
<td>⋅</td>
<td>20.9</td>
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</tr>
<tr>
<td>Platinum</td>
<td>⋅</td>
<td>1468.5</td>
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</tr>
<tr>
<td>Palladium</td>
<td>⋅</td>
<td>829.10</td>
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</tr>
<tr>
<td>CMX Cu</td>
<td>⋅</td>
<td>314.65</td>
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<tr>
<td>LME Al 3m</td>
<td>⋅</td>
<td>0.86</td>
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</tr>
<tr>
<td>LME Ni 3m</td>
<td>⋅</td>
<td>8.22</td>
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</tr>
<tr>
<td>LME Zn 3m</td>
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<td>9.98</td>
<td>-0.5%</td>
</tr>
<tr>
<td>LME Ni 3m</td>
<td>⋅</td>
<td>331.30</td>
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</tr>
<tr>
<td>Com</td>
<td>⋅</td>
<td>443.00</td>
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**Government 10- Yr Benchmark**

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<th>%Chg</th>
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<tr>
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<td>-0.05</td>
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<tr>
<td>Canada</td>
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<td>2.29</td>
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<tr>
<td>U.K.</td>
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<td>2.73</td>
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</tr>
<tr>
<td>Germany</td>
<td>⋅</td>
<td>1.32</td>
<td>-0.00</td>
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<tr>
<td>France</td>
<td>⋅</td>
<td>1.76</td>
<td>-0.02</td>
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<tr>
<td>Italy</td>
<td>⋅</td>
<td>2.88</td>
<td>-0.02</td>
</tr>
<tr>
<td>Spain</td>
<td>⋅</td>
<td>2.66</td>
<td>-0.03</td>
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<td>Portugal</td>
<td>⋅</td>
<td>3.46</td>
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<td>Greece</td>
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<tr>
<td>Australia</td>
<td>⋅</td>
<td>3.04</td>
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<tr>
<td>Hong Kong</td>
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<tr>
<td>India</td>
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<td>8.72</td>
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<tr>
<td>Japan</td>
<td>⋅</td>
<td>0.58</td>
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**Equity Indices & Sentiment**

<table>
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<tr>
<td>MSCI World</td>
<td>⋅</td>
<td>1,738</td>
<td>-0.5%</td>
</tr>
<tr>
<td>MSCI EM</td>
<td>⋅</td>
<td>1,047</td>
<td>0.4%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>⋅</td>
<td>1,950</td>
<td>-0.6%</td>
</tr>
<tr>
<td>S&amp;P/TSX</td>
<td>⋅</td>
<td>14,962</td>
<td>-0.9%</td>
</tr>
<tr>
<td>STOXX 50</td>
<td>⋅</td>
<td>3,285</td>
<td>0.1%</td>
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<tr>
<td>FTSE 100</td>
<td>⋅</td>
<td>6,787</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Hang Seng</td>
<td>⋅</td>
<td>22,881</td>
<td>0.3%</td>
</tr>
<tr>
<td>Topix</td>
<td>⋅</td>
<td>1,269</td>
<td>0.1%</td>
</tr>
<tr>
<td>S&amp;P/ASX</td>
<td>⋅</td>
<td>5,433</td>
<td>-0.4%</td>
</tr>
<tr>
<td>CSI 300</td>
<td>⋅</td>
<td>2,145</td>
<td>0.5%</td>
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<tr>
<td>MSCI EM</td>
<td>⋅</td>
<td>1,047</td>
<td>0.4%</td>
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<td>⋅</td>
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<td>0.5%</td>
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<td>⋅</td>
<td>1,047</td>
<td>0.4%</td>
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<tr>
<td>CSI 300</td>
<td>⋅</td>
<td>2,145</td>
<td>0.5%</td>
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</tbody>
</table>
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

- CDN equities suffered the worst decline since Jan/Feb (Chinese bank concerns).
  - Market is removing overbought issues, in a hurry.
- Note the continued elevation of U.S. inflation expectations.
Intra Day Charts
2-Day 1-Minute View

Currencies
U.S. Dollar Index

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

Euro

Crude Oil (Brent)

U.S. 10-Yr Breakeven

S&P 500

Yen

Crude Oil (WTI)

U.S. 10-Yr Bond

S&P/TSX Composite

MSCI EM Currency Index

Natural Gas (NMX)

Canadian 10-Yr Bond

VIX

Canadian Dollar

Copper (CMX)

German 10-Yr Bund

CDX North American Inv. Grade Index

Australian Dollar

Nickel (LME 3Mo)

Italian 10-Yr Bond

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

- Europe – at a 52-week high: Energy.
# Market Movers – Largest Daily Percentage Moves

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

<table>
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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<td>Tenaris SA</td>
<td>TINI</td>
<td>1.6%</td>
</tr>
<tr>
<td>OMV AG</td>
<td>OMAV</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Empresas COPEC SA</td>
<td>COPEC</td>
<td>1.0%</td>
</tr>
<tr>
<td>Petróleo de Fomento, S.A.</td>
<td>PFC</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Inepex</td>
<td>IEX</td>
<td>1.65</td>
</tr>
<tr>
<td>Petróleo Brasileiro SA</td>
<td>PBR</td>
<td>-4.3%</td>
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## S&P 500

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<th>Symbol</th>
<th>% Chg</th>
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<td>Kinder Morgan Inc/DE</td>
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<tr>
<td>ONEOK Inc</td>
<td>OKE</td>
<td>0.2%</td>
</tr>
<tr>
<td>Spectra Energy Corp</td>
<td>SE</td>
<td>-0.1%</td>
</tr>
<tr>
<td>EOG Resources Inc</td>
<td>EOG</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Nabors Industries Ltd</td>
<td>NBR</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Pioneer Natural Resources Co</td>
<td>PXD</td>
<td>-4.8%</td>
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## S&P/TSX Composite

<table>
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<th>Symbol</th>
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<tr>
<td>Enbridge Inc</td>
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<tr>
<td>Parex Resources Inc</td>
<td>PXT</td>
<td>0.5%</td>
</tr>
<tr>
<td>Trinidad Drilling Ltd</td>
<td>TDG</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Husky Energy Inc</td>
<td>HSE</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Penn West Petroleum Ltd</td>
<td>PWT</td>
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## Materials

### Syngenta AG

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<tr>
<td>Cia Siderurgica Nacional SA</td>
<td>SID</td>
<td>1.9%</td>
</tr>
<tr>
<td>Lorrin PLC</td>
<td>LML</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Southern Copper Corp</td>
<td>SCCO</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Cia de Minas Buenaventura SAA</td>
<td>BUVN</td>
<td>-3.3%</td>
</tr>
</tbody>
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### Industries

**Utilities**

- Acciona SA | ANX | 2.8% |
- Kyushu Electric Power Co Inc | 9508 | 2.1% |
- Power Assets Holdings Ltd | 6HK | 1.9% |
- Suez Environment Co | SEVP | -0.9% |
- Severn Trent PLC | SVT | -1.2% |
- Fortum OYJ | FUMV | -1.2% |

**Telecom**

- Millicom International Cellular | MIC | 2.0% |
- Telecom Italia SpA | TIM | 1.3% |
- America Movil SAB de CV | AMX | 1.2% |
- Telcel ASA | TEL | -0.5% |
- TeliaSonera AB | TLSN | -1.0% |
- Portugal Telecom SGPS SA | PTC | -1.0% |

**Utilities**

- Acciona SA | ANX | 2.8% |
- Kyushu Electric Power Co Inc | 9508 | 2.1% |
- Power Assets Holdings Ltd | 6HK | 1.9% |
- Suez Environment Co | SEVP | -0.9% |
- Severn Trent PLC | SVT | -1.2% |
- Fortum OYJ | FUMV | -1.2% |

**Utils**

- BMO Capital Markets

### June 24, 2014

<table>
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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<td>ICE</td>
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</tr>
<tr>
<td>Agf Management Ltd</td>
<td>AGF/B</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Banca Monte dei Paschi di Siena</td>
<td>BMPS</td>
<td>-13.3%</td>
</tr>
</tbody>
</table>

### Cons Disc

**Financials**

- Cathay Financial Holding Co Ltd | 2882 | 1.9% |
- KB Financial Group Inc | 105500 | 2.3% |
- Shinhin Financial Group Co Ltd | 055550 | 2.0% |
- Investment AB Kirevik | KMB | -3.8% |
- Banca Espirito Santo SA | BES | -9.6% |
- Banca Monte dei Paschi di Sien | BMPS | -13.3% |

**Health Care**

- Shire PLC | SHP | 2.3% |
- Daiichi Sankyo Co Ltd | 4568 | 1.5% |
- Otsuka Holdings Ltd | 4578 | 1.4% |
- CSL Ltd | CSL | -0.9% |
- Coloplast A/S | COLOB | -1.2% |
- Smith & Nephew PLC | SN | -1.3% |

**Technology**

- Cielo SA | CIE | 2.8% |
- Rohm Co Ltd | 6963 | 2.1% |
- Samsung Electronics Co Ltd | 005930 | 1.7% |
- Nokia OYJ | NOKIV | -2.1% |
- Ricoh Co Ltd | 7752 | -2.2% |
- Atos-Lucitcent | ALUF | -2.9% |
- Millicom International Cellular | MCC | 2.0% |
- Telecom Italia SpA | TIM | 1.3% |
- America Movil SAB de CV | AMX | 1.2% |
- Telcel ASA | TEL | -0.5% |
- Teliasonera AB | TLSN | -1.0% |
- Portugal Telecom SGPS SA | PTC | -1.0% |

**Utilities**

- Acciona SA | ANX | 2.8% |
- Kyushu Electric Power Co Inc | 9508 | 2.1% |
- Power Assets Holdings Ltd | 6HK | 1.9% |
- Suez Environment Co | SEVP | -0.9% |
- Severn Trent PLC | SVT | -1.2% |
- Fortum OYJ | FUMV | -1.2% |

**Materials**

- Bayerische Motoren Werke AG | BMW | 2.8% |
- Hyundai Motor Co | 005380 | 2.3% |
- SES SA | SESS | 2.2% |
- Carnival PLC | CCL | -1.6% |
- Daily Mail & General Trust PLC | DMGT | -2.1% |
- OPAP SA | OPAP | -2.6% |

**Cons Disc**

- Nippon Meat Packers Inc | 2282 | 1.9% |
- Yakult Honsha Co Ltd | 2267 | 0.8% |
- Asahi Group Holdings Ltd | 2502 | 0.7% |
- Diageo PLC | DGE | -1.5% |
- Dehaze Group SA | DEHB | -2.0% |
- Cencosud SA | CENCOSUD | -2.1% |

**Health Care**

- Shire PLC | SHP | 2.3% |
- Daiichi Sankyo Co Ltd | 4568 | 1.5% |
- Otsuka Holdings Ltd | 4578 | 1.4% |
- CSL Ltd | CSL | -0.9% |
- Coloplast A/S | COLOB | -1.2% |
- Smith & Nephew PLC | SN | -1.3% |

**Technology**

- Cielo SA | CIE | 2.8% |
- Rohm Co Ltd | 6963 | 2.1% |
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- Telecom Italia SpA | TIM | 1.3% |
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- Telcel ASA | TEL | -0.5% |
- Teliasonera AB | TLSN | -1.0% |
- Portugal Telecom SGPS SA | PTC | -1.0% |

## Market Elements

- **S&P Global 1200 ex U.S. & Canada**
- **S&P 500**
- **S&P/TSX Composite**

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

### Energy
- Symbol: T, E, X, U, H
- % Chg: 11.59%, -2.7%

### Industrials
- Symbol: IN, O, H, D, D, L
- % Chg: -1.3%

### Consumer Discretionary
- % Chg: 15.49%, -9%

### Consumer Staples
- Symbol: G, E, N, T, K, C
- % Chg: 5.06%, 0.3%

### Technology
- Symbol: Y, B, E, A, P, S
- % Chg: 5.13%, 2.4%

### Financials
- Symbol: B, E, D, K, L, M
- % Chg: 8.46%, 1.5%

## Materials
- Symbol: B, S, P, C, Q, A
- % Chg: 1.13%, -0.7%

### Health Care
- Symbol: N, M, S, L, L, S
- % Chg: 0.16%, -0.5%

### Utilities
- Symbol: O, B, X, N, L, P
- % Chg: 0.25%, -0.7%

### Market Elements
- % Chg: 1.13%, -0.7%

### High
- % Chg: 1.13%, -0.7%

### Low
- Symbol: L, L, L, L, L, L
- % Chg: 0.16%, -0.5%
## Canadian Market Movers

| Energy | Symbol | H/L % | Last | Change | Materials | Symbol | H/L % | Last | Change | Industrials | Symbol | H/L % | Last | Change | Consumer Discretionary | Symbol | H/L % | Last | Change | Technology | Symbol | H/L % | Last | Change | Financials | Symbol | H/L % | Last | Change |
|-------|--------|-------|------|--------|-----------|--------|-------|------|--------|------------|--------|-------|------|--------|-------------------------|--------|-------|------|--------|------------|--------|-------|------|--------|------------|--------|-------|------|--------|------------|--------|-------|------|--------|------------|--------|-------|------|--------|------------|
|       |        |       |      |        |           |        |       |      |        |             |        |       |      |        |                          |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |
|       |        |       |      |        |           |        |       |      |        |             |        |       |      |        |                          |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |
|       |        |       |      |        |           |        |       |      |        |             |        |       |      |        |                          |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |
|       |        |       |      |        |           |        |       |      |        |             |        |       |      |        |                          |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |        |       |      |        |            |

Note: H/L = High/Low; symbol represents the stock symbol for the respective company.
Aerospace Tilting Lower

- The Aerospace group fell to an eight-month relative strength low yesterday, and that was punished below the bottom end of an underperforming trend – Figure 1. This is the weakest industry within the industrial sector, which continues to weaken in our breadth work.
- The breadth of the group, which scored very well for over a year, has now slumped to the bottom end of neutral – Figure 2.
- Both indications are near the tipping point to where digestion of gains turns to the erasing of gains.

- The distribution of Aerospace stock relative strength patterns is shifting to the negative, with many of the outperforming stocks breaking to the downside – see link.
- Boeing broke a short-term uptrend early this month, and just fell below its 50d and 150d MA this week. Trade support is at $120, downside risk is to $100 – Figure 3.
- Bombardier balked at resistance (C$4.50) and is now trending below a suite of falling moving averages. We expect shares to break below the $3.50 low. Downside risk is below $3 – Figure 4.
Tools

- Just charting today.
- It’s an eclectic mix of companies, but each stock is breaking out of a very tight Bollinger band, and each screens well for value.
- Gazprom OAO (OGZD LI) is $100bn worth of a major double bottom – Figure 1.
- Freeport-McMoRan (FCX US) is expected to pick up with the strength in both the commodities and miners overall. Its CDS has narrowed substantially, yet the share price lagged that strength. Shares have been trading in a very tight range over the past two months. Our target on breakout is $45 – Figure 2.
- Finning (FTT CN) has tracked the strength in CAT, but it has lagged in the past three months as shares consolidated gains. Shares are close to breaking out. Our target is $34.
- Bezeq Israeli Telecom (BEZQ IT) is breaking out of short & medium-term consolidation patterns – Figure 4.

Figure 1: Gazprom OAO (OGZD LI) Dvd Adj Share Price

Figure 2: Freeport-McMoRan (FCX US) Dvd Adj Price

Figure 3: Finning International (FTT CN) Dvd Adj Price Trend

Figure 4: Bezeq Israeli Telecom (BEZQ IT) Dvd Adj Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
**Energy Overboughts & Laggards: TLM, ATW**

- **Energy** continues to be the most favoured sector, yet a quarter of the group can now be classified as overbought. We highlight the most egregious cases below, where shares are above the top ends of trade channels, and Bollinger bands are very wide and positioning overbought – Fig 1.

- The market is picking up the energy laggards:
  - **Talisman has now been basing for three years now** – Figure 2. While share price movements are not correlated to CDS movements, we still highlight the much more favourable move in the CDS which equities are ignoring – Fig 3.
  - **Atwood Oceanics is firming in its long-term price trend, and the relative strength has bottomed** – Figures 4, 5.

---

**Figure 1: Most Overbought Energy Stocks**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Domicile</th>
<th>Sub Industry</th>
<th>Gp</th>
<th>RS</th>
<th>LT</th>
<th>Price</th>
<th>Trend</th>
<th>Close</th>
<th>20-Jun</th>
<th>1-day</th>
<th>5-day</th>
<th>MktCap (US$)</th>
<th>Chg</th>
<th>Last</th>
<th>Price</th>
<th>Trend</th>
<th>Slope</th>
<th>Hi</th>
<th>Low</th>
<th>%Chg</th>
<th>%Chg w/Std MA</th>
<th>Chg w/ 50 Day MA</th>
<th>Trend</th>
<th>Chg w/ 50 Day MA</th>
<th>Bull</th>
<th>Bill</th>
<th>%Rsi</th>
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<td>Williams Cos Inc</td>
<td>U. S.</td>
<td>OG SITr</td>
<td>1</td>
<td>2</td>
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**Figure 2: Talisman Energy Dvd-Adj Share Price**

**Figure 3: Talisman Energy Equity/CDS Overlay**

**Figure 4: Atwood Oceanics Share Price**

**Figure 5: Atwood Oceanics vs. Russell 1000 Value**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit  
BMO Capital Markets is Restricted on Crocotta Energy
Diversified Miners – Time for the Buy List

- Diversified miners improved to a neutral reading in our system in late May. That was the best reading in years. Strength was new, and caution was warranted, so we highlighted the best stocks and moved on. We now return.
- Yesterday, miners improved to third decile. Miners are a more homogeneous bunch than most subindustries, so when our reading improves to a top third decile position, the group deserves some respect – Figure 1.
- Intellectually, we are fighting the strength. Weak bulks (copper, coking coal, steel and iron ore, and the Baltic Dry barometer) seem to overweight the strong bulks (nickel, zinc, and now look at aluminum) – Figure 2. But the market is speaking (Figure 1), and it is folly to ignore the market.
- The strength is broad enough that we will use a generalist benchmark, the ACWI, to assemble our list of metal (diversified and aluminum) outperformers. Nickel leads, aluminum is well represented.
- There are also a few stocks breaking above underperforming trends – see link.
- Not to ignore the strength in bullion, but we covered golds with two bullish notes last week (see link), and golds are updated here.

Figure 1: Diversified Miners Relative Strength Decile

Figure 2: Trends on Bulks

Figure 3: Mining Stocks in Outperforming Trends vs. ACWI and ACWI Materials – See Full List Here

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
The Laggardship of Industrials

- It's not that industrials are falling, price trends are higher, and it's a bull market out there, it is more that they are not keeping up with the market. Industrials do well when rates rise, and despite other groups strengthening when rates press a bit higher, industrials have not participated. When rates press lower, industrials have lagged more.
  - Our global relative strength breadth reading, which peaked in December (when bond yields peaked), is nearing the negative zone – Figure 1.
  - Pick your benchmark: industrials are either underperforming, or breaking below outperforming trends – Figure 2 (only in the rail-dominated – rails being a key outperforming industry – CDN industrial sector is there a sign of near-term strength).
- See our index constituents link, to select your benchmark of choice, but for global large caps, we highlight two lists of weak industrials.
  - Stocks underperforming the market and the sector – Figure 1.
  - Stocks breaking outperforming trends – Figure 2.
- The “rotate into” sectors, which have benefitted as industrials have lagged in the past five days, have been rebounding utilities, and ever-strengthening energy, which happen to be the two sectors sporting our best breadth readings.

Figure 1: Industrial Relative Strength Breadth Reading

Figure 2: Industrials (Producer Durables) vs Local Markets

Figure 3: Largest Global Industrial Underperformers

Figure 4: Largest Industrials Breaking Outperforming Trends

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

**Interest-Sensitive Signs – MET, MS**

- **TOOLKIT**
  - Treasury yields have not broken the downtrend from the January high, nor have any major 10-year bond yield, save U.K. rates, but the equity market is pricing in the reversal.
  - U.S. LifeCos and Brokers, where underperforming trends are a fingerprint of lower long rates, broke above underperforming trends yesterday – Figures 1, 2.

- **Research Comment**
  - MetLife, Lincoln National and Prudential all broke above underperforming trends vs. the S&P 500 yesterday.
    - Our favourite LifeCo within the group is MetLife, which is breaking out of a consolidation pattern – Figure 3.
  - Morgan Stanley broke above an underperforming trend against U.S. financials yesterday. Shares have been treading water for 7 months; we expect a move to new highs – Figure 4.
    - Also notable in the group is Charles Schwab, which is breaking above a short-term downtrend, and E*Trade Financial, which has formed a tidy 2-month pennant. Both stocks saw spikes in both price and volume yesterday.

---

**Figure 1: U.S. Life & Health Insurance vs S&P 1500**

**Figure 2: U.S. Investment Banking vs. S&P 1500**

**Figure 3: Metlife Dividend Adjusted Price Trend**

**Figure 4: Morgan Stanley Dividend Adjusted Price Trend**

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

+ve Reversals Following CDS : F, GM, EXPE

- Consumer Discretionary sports the weakest breath amongst our global sectors. We are screening for stocks that have the best chance at going against that grain.
- We honed in on three stocks with high CDS levels, where that risk is trending lower (risky and derisking), where equity moves are correlated to CDS moves (top 3 deciles). For timing, the credit market is in a very bullish state and many of the overbought (overnarrowed) credit trends have dissipated over the past week.
  - Ford and GM 5yr CDS trends continue to narrow, yet stocks are just breaking above relative strength and price downtrends – Figs 1-4.
  - Expedia is heading back to the CDS lows, which supports a higher price – Figs 5, 6.

Figure 1: Ford 5Yr CDS (see Equity/CDS Overlay)
Figure 2: Ford Dvd Adjusted Price Trend
Figure 3: GM 5Yr CDS (see Equity/CDS Overlay)
Figure 4: GM Dividend Adjusted Price Trend
Figure 5: Expedia 5Yr CDS (see Equity/CDS Overlay)
Figure 5: Expedia Dvd Adjusted Share Price

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Integrated Oils Now First Decile

We have had a narrow focus in the past week, on energy and gold. Energy represents established leadership, which continues to open up against other sectors. Gold shares are bottoming. Both play out well in a world where global energy instability is in focus.

Our breadth reading for Gbl integrated oils hit first decile on Friday – Fig 1. Strength is just emerging; U.S. group rel. strength sports a bottoming pattern – Fig 2.

Our decile reading just approached first, so leadership is still in the developing stage. There are a number of outperformers, and a number of stocks breaking above underperforming trends – Fig 3.

Chevron just broke above an underperforming trend on Friday. Note the new trend forming has a slope of 49%/year – Figure 4.

Royal Dutch is further advanced, but note the long base from which the breakout emerged from; give the upside lots of space – Figure 5.

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**Figure 1:** Global Integrated Oil Relative Strength Decile

**Figure 2:** U.S. Integrated Oils vs. S&P 1500

**Figure 3:** Integrated Oils vs. ACWI

**Figure 4:** Chevron (CVX US) Dvd Adjusted Price (see ST Trend)

**Figure 5:** Royal Dutch Shell PLC (RDS.A US) Dvd Adj Price

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Source: BMO Capital Markets, Bloomberg, Thomson, Markit
E&P – Welcome to 1st Decile

- After years of a weak reading, it took Oil & Gas producers 6mo to go from worst to best in our breadth work – Fig 1
- The move to 1st decile took the threat of supply disruption from OPEC’s 2nd largest producer; however, there is also a good contingent of natural gas leveraged stocks behind the move, and natty has held in nicely as North America transitions from “gee it’s cold” to “golly it’s hot”.

We continue to recommend an overweighted position. Energy sectors are still pivoting toward outperforming trends. Consistent uptrends are just starting to develop – Figure 2.

1st decile tells you that there is already good momentum, and we highlight the E&P stocks with the most consistent outperformance against global E&P – Figure 3.

See link for E&P stocks outperforming MXWO & Energy.
Interest Emerges – Golds Part 2

- One-fifth of the gold stocks we track moved at least 5% higher yesterday. Wednesday’s bullish note titled “We Know You Don’t Care, But Jr Golds” encountered a wall of buying.
- The ACWI Gold Miners index sports a symmetric head and shoulders bottom, and the recent positive reversal firms up this view – Figure 1.
- While gold shares are notoriously volatile, note that the current implied volatility of the gold miner’s index is at a historic low. Upside leverage is cheap – Figure 2.
- The major gold companies that drive the index are seeing their credit risk trend lower - Fig 3. This is being ignored by the equity market; mind the gap – Figure 4.
- We are interested in gold shares that can outperform bullion. The largest 10 structured this way are shown in Figure 5. We recommend buying the 50% retracement in Franco Nevada, which just crossed above its 50d MA– Figure 6.
- Quantitative & Technical trends on all things gold are found at this link.

Figure 1: ACWI Select Gold Miners IMI Index

Figure 2: Gold Miner Implied Volatility (Extracted from GDM)

Figure 3: Global Gold 5Yr CDS Trend

Figure 4: Newmont Mining Equity vs 5Yr CDS (CDS Trend Here)

Figure 5: Largest 10 Golds in Outperforming Trends vs Bullion

Figure 6: Franco Nevada (FNV CN) Dvd Adj Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

*BMO Capital Markets is restricted on Osisko Mining & Agnico-Eagle Mines
We Know You Don’t Care, but Junior Golds

- We anticipated the breakdown in gold in May, but the victory was short-lived, and our system gave a curious nod yesterday, in that Junior Golds broke above an underperforming trend against the majors - Figure 1. No one cares, so you should.
- Junior Golds had retraced 75% of the December to March surge, and are now setting up to form a (messy) head and shoulders bottom. The time to look is now, at the right shoulder – Figure 2.

As this is a bottoming call, we need to lead with the leaders, so we screened for the stocks in consistent price uptrends that are also outperforming bullion – Fig 3.
  - At the top of the leader board is Detour Gold, which has been consolidating gains for 3m now – Figure 4.
  - Centamin PLC is at the top of our gold momentum buy list - Figure 5.

Figure 1: Jr Golds vs. Majors (GDXJ vs. GDX)

Figure 2: Market Vectors Jr Gold Index

Figure 3: Gold Shares in Consistent Uptrends, Both on Price and vs. Bullion

Figure 4: Detour Gold (DGC CN) Price Trend

Figure 5: Centamin PLC (CEE CN) Price Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit  BMO Capital Markets is Restricted on Osisko Mining Corp (OSK)
WTI Target $112; Buy the Sands

- First, we reiterate that the energy sector sports the highest strength and momentum in our breadth gauge. Your portfolio may not be structured this way, but the market is – Figure 1.
- Second, we note that that strength came before the breakout in oil, which is now taking place on both the near and out-month contracts for WTI. Our upside target for WTI on this breakout is $112 – Figure 2.
- Major Canadian oil sands levered stocks are (CNQ, SU), or are close to (COS, MEG), breaking out of consolidation patterns.
- Minor oil sands levered stocks have RSI’s in the 30s, and we would be covering shorts there (PXX, CLL, ATH).
- CDN Natural Resources is the leader in the group, trending higher at 87%/year. Our upside target on the current breakout is $52 – Figure 3.
- Canadian Oil Sands has the same pattern, but is a bit behind near term (is not overbought). Our upside target is $27 – Figure 4.
Relative Strength Filter

After the Pause: AMP, OII, WJA, CWB

- The key positive move last week was found in the credit markets where risk just cratered. The North American high yield CDS index, after pausing for months, broke down to a new low – Figure 1.
- Equity consolidation patterns that break to the upside are a good place to find new momentum. We highlight a sample, chosen from the sectors that offer the best breadth of strength and momentum – Figure 2.
- Ameriprise Financial (AMP US), with a stellar long-term history, is breaking out of a 7m consolidation pattern – Figure 3.
- Oceaneering Intl (OII US) corrected, based, and is now breaking out of its basing pattern – Figure 4.
- WestJet (WJA CN) broke above a 7mo consolidation pattern last week on good volume - Figure 5.
- CDN Western Bank (CWB CN) broke out of a pennant – Fig 6.

Figure 1: North American High Yield 5Yr CDS Index

Figure 2: Group Selection Report

Figure 3: Ameriprise Financial Dvd Adjusted Share Price

Figure 4: Oceaneering International Dvd Adj Share Price

Figure 5: WestJet Airlines Ltd Dvd Adjusted Share Price

Figure 6: Canadian Western Bank Dvd Adjusted Share Price

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

Post ECB; The Trends Remain the Same

- The most powerful and consistent reaction to the ECB decision was to lower credit risk – Figure 1.
  - This is nothing new.
  - The trend is global.
  - The trend supports higher stock prices and lower volatility.

- In Q&A, when Draghi was asked if the ECB’s package would raise inflation, he was confident that it would. This confidence seems misplaced. There is no sign that the disinflation trend will not continue – Figure 2.

- The most powerful and inconsistent reaction to the ECB decision was on the currency, which had sold off for a month on expectations that Draghi would address its strength. He did not. Expect the trend toward a higher EUR to continue, until a more serious sign of QE is forthcoming – Figure 3.

- The trends for European equities, where credit risk is falling and rates are falling even faster, are higher across the board, with turbocharged utilities leading the way – Fig 4.

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**Figure 1: iTraxx Europe Main 5-yr CDS**

**Figure 2: German 10-Year Breakeven Rate**

**Figure 3: Euro**

**Figure 4: European Sector Price Trends (Very Green)**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
When you break down the Canadian equity market by sector relative strength trends, you notice three themes – Figure 1.

- Energy, which is digesting gains, is the sole outperformer holding in the channel.
- The high global growth leveraged materials sector continues to suffer alongside the defensive utilities and staples sectors.
- There are numerous sectors being rotated into.

For a more granular perspective, we highlight the spectrum of 60 stocks versus the composite – Figure 2.

- The only major CDN theme missing here is the momentum of small cap energy.
- There is a narrow pool of consistent outperformance that is growing as more energy and banks shift to the positive. BCE and T are lifting out of flat trends.
- The shifts to the middle ground have already taken place. The underperformers are fully entrenched.

### Figure 1: Canadian Sector Relative Strength Trends

<table>
<thead>
<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>1-day RS Chg(%)</th>
<th>5-day RS Chg(%)</th>
<th>%Chg wrt S&amp;D</th>
<th>RS NA</th>
<th>Chg wrt 50-40 NA Trend</th>
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</thead>
<tbody>
<tr>
<td>Health Care vs. S&amp;P/TSX Composite</td>
<td>-0.9%</td>
<td>35%</td>
<td>-0.9%</td>
<td>0.3%</td>
<td>-0.8%</td>
<td>Below Falling</td>
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<tr>
<td>Energy vs. S&amp;P/TSX Composite</td>
<td>-2%</td>
<td>2%</td>
<td>0.0%</td>
<td>0.7%</td>
<td>0.0%</td>
<td>Above Rising</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Technology vs. S&amp;P/TSX Composite</td>
<td>-2%</td>
<td>6%</td>
<td>-0.5%</td>
<td>-0.3%</td>
<td>-0.9%</td>
<td>Below Falling</td>
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<tr>
<td>Discretionary vs. S&amp;P/TSX Composite</td>
<td>-3%</td>
<td>5.0</td>
<td>0.0%</td>
<td>-0.5%</td>
<td>0.0%</td>
<td>Above Rising</td>
<td></td>
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<tr>
<td>Utilities vs. S&amp;P/TSX Composite</td>
<td>-4%</td>
<td>35.0</td>
<td>-2.2%</td>
<td>-3.2%</td>
<td>-2.2%</td>
<td>Below Falling</td>
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<tr>
<td>Materials vs. S&amp;P/TSX Composite</td>
<td>-15%</td>
<td>48.5</td>
<td>-3.3%</td>
<td>-3.9%</td>
<td>-5.1%</td>
<td>Below Falling</td>
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<tr>
<td>Staples vs. S&amp;P/TSX Composite</td>
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<td>15.0</td>
<td>-0.2%</td>
<td>-0.4%</td>
<td>-1.9%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecom vs. S&amp;P/TSX Composite</td>
<td>-7%</td>
<td>4.5</td>
<td>0.2%</td>
<td>0.5%</td>
<td>1.5%</td>
<td>Above Rising</td>
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<tr>
<td>Industrials vs. S&amp;P/TSX Composite</td>
<td>-7%</td>
<td>All But RCI.B</td>
<td>0.1%</td>
<td>-0.4%</td>
<td>0.7%</td>
<td>Above Rising</td>
<td></td>
<td></td>
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</table>

### Figure 2: S&P/TSX 60 vs Composite

- CNQ CN 41% BAM/A CN 15% ECA CN 29% ARX CN 8% L CN 0% BBM CN -67%
- PPL CN 30% ERF CN 28% VRX CN 54% IMA CN 7% GON CN 0% FTS CN -20%
- MG CN 37% POT CN 12% PWT CN 9% CTC/A CN -1% CCB CN -35%
- SAP CN 21% GLI CN 15% CM CN 5% CNR CN -1% TRZ CN -35%
- ENB CN 17% HSE CN 4% CN B/E CN -2% CP CN -2%
- CP CN 1% TM CN 0% TRP CN -1% COS CN 3%
- FM CN 4% TRM CN 0% SLV CN -14%
- T CN 1% BBO CN 1% ABX CN 14% BHE CN -2%
- AGU CN 1% SU CN 3% SIR/B CN -4% BCE BN -2%
- CCO CN 2% CGF CN 1% BOS CN 0% SNC CN -7%
- CPG CN 1% BNS CN 0% ELD CN -21%
- Unrewarded & Unchanging
- Miners, LifeCos
- Food Retail
- Technology
- Utilities
U.S. Small Cap Growth Energy

- Energy strength is global, market cap agnostic, and continues to look very positive in our breadth analysis – Figure 1.
- We are specifically targeting U.S. Small Cap Growth energy names as a small (only 4% by weight) place to hide for managers benchmarked off of the Russell 2000 Growth index, which is being battered by technology weakness (see yesterday’s RSF) – Figure 2.
- We carved out energy stocks with consistent price uptrends that are in outperforming trends against the Russell 2000 Growth index and sector – Figure 3. A broader list of Russell 2000 (including value) energy outperformers is found at this link.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Small Cap Technology Shorts

- Our breadth reading on technology continues to weaken away from neutral and toward negative – Fig 1.
- The key driver here is U.S. small cap software stocks, which, after stabilizing for a few weeks, have started to weaken once again.
- Our breadth indication is a function of both stocks breaking outperforming trends and stocks in underperforming trends.
  - The wave of Russell 2000 growth technology (and biotechnology) stocks breaking outperforming trends yesterday is shown in Figure 2.
  - As this deterioration has been going on for three months now (Figure 1), there is now a solid book of momentum sells, or stocks trending lower, below falling MAs and not oversold from which to pick short sale candidates – Figure 3.

Figure 1: Technology Relative Strength Z-Score

Figure 2: Technology (& Biotech) Breaking Outperforming Trends vs. Russell 2000 Growth Yesterday

Figure 3: Russell 2000 Growth Technology (& Biotechnology) Momentum Sells (Dvd Adj Price Trends)
All Cap Material Weakness

- Last Friday, both global large cap and small cap materials sectors broke down from slightly outperforming trends. Bases that have been in a holding pattern for the past year started to give way – Figures 1, 2.
- From an equal-weighted breadth perspective, the materials sector has been neutral to negative for years. Portfolios should be underweight, or transitioning in that direction.
- At the global industry level, it was the miners that broke a flat trend on Friday. The key hiding place to allocate materials funds continues to be chemicals.
- Specifically targeting the miners, we highlight the largest 20 stocks at the inflection point where they are breaking outperforming trends vs ACWI – Figure 3. The market is rotating away from these names.

**Figure 1: Materials vs MSCI World**

**Figure 2: Small Cap Materials vs MSCI World**

**Figure 3: Miners Breaking Outperforming Trends vs ACWI**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Domicile</th>
<th>Sub Industry</th>
<th>Grp</th>
<th>RS</th>
<th>RS</th>
<th>Close</th>
<th>1-day Equity Chg (%)</th>
<th>5-day Equity Chg (%)</th>
<th>MinCap (US$)</th>
<th>Chg Last Day</th>
<th>ACWI</th>
<th>Trend</th>
<th>RS</th>
<th>RS</th>
<th>% Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
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<td>76%</td>
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<td>-15%</td>
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<td>4</td>
<td>51.38</td>
<td>-4.0%</td>
<td>-5.6%</td>
<td>72,641</td>
<td>6%</td>
<td>9.5%</td>
<td>-5%</td>
<td></td>
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<td>Below Falling</td>
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</tr>
<tr>
<td>STLD US</td>
<td>Steel Dynamics Inc</td>
<td>U.S.</td>
<td>Steel</td>
<td>10</td>
<td>5</td>
<td>4</td>
<td>17.27</td>
<td>-1.6%</td>
<td>-1.2%</td>
<td>3,659</td>
<td>5%</td>
<td>10.5%</td>
<td>-5%</td>
<td></td>
<td></td>
<td>Below Rising</td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Stronger Bonds = Weaker Capital Markets Stocks

- Following on yesterday’s statement (REITs are the only global financial industry in an outperforming trend), we delve into the most consistently underperforming financial group - capital markets – Figure 1.
- The pattern of relative performance is perhaps less tightly tied to long rates now as when the group was joined at the hip during 2011-2012, but the relationship is still a formidable force: lower long rates = capital market underperformance – Figure 2.

- The spectrum of capital markets stocks vs MSCI World shows stocks continuing to break and shift toward underperformance – Figure 3.

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

Long Duration Assets vs. Liabilities

- Surprised that the U.S. 10y yield broke below 2.5% yesterday? Don’t be. The trend for global 10y rates is lower, and it is even more pronounced at the longer, 30y end of the curve – Figure 1.
- Note that that the U.S. 30y just broke the uptrend from the 2012 recovery low – Figure 2.
- This is all pre-Draghi, and notice inflation expectations in Germany & France continue to trend lower, suggesting ECB-induced pressure on rates will be with us for some time.
- Amongst global financial industries, REITs are the only group in an outperforming trend against the market, and that trend started when rates peaked – Figures 3, 4.
- Amongst global industrial industries, Transportation Infrastructure is the most consistent outperformer, and that trend also started when rates peaked. Widening out to a Global Infrastructure index, which includes utilities & pipelines, and you see the similarly timed and structured outperformance – Figure 5.

Figure 1: Global 30-Yr Bond Yields are Trending Lower

Figure 2: US 30-Year Bond Yield

Figure 3: Global Financial Industries vs MSCI World

Figure 4: Global REITs vs. MSCI World (see Price Trend Here)

Figure 5: Macquarie Global Infrastructure vs MSCI World

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

Key Positive Reversals: SBUX, CELG, F, NA

- They have been out of favour, lagging, in some cases falling, then along comes the inflection point where the trends are broken to the upside, and you need to rethink your position.
- Starbucks broke above both the relative strength and absolute price downtrend yesterday. This as the price of coffee, which has been trending higher at over 300%/year, broke down – Figure 1.
- Celgene also saw positive reversals in both relative strength and price downtrends. The volume yesterday, as it broke back above its 200d MA, was the best in a month – Figure 2.
- Ford has been meandering out of its underperforming trend, while its CDS continues to narrow. We expect this sleeper will start tilting toward outperformance – Figure 3.
- National Bank has been digesting gains since November. It is just breaking out of that holding pattern, and reversing a relative strength downtrend – Figure 4.

Figure 1: Starbucks vs S&P 500

Figure 2: Celgene vs S&P 500

Figure 3: Ford vs S&P 500 (see CDS Trend Here)

Figure 4: National Bank vs S&P/TSX Composite

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

CDN SmallCaps – Buying the Dip

- Canadian small caps have suffered their 2nd setback since stabilizing against the large cap driven composite just over a year ago. We recommend buying this pullback – Figure 1.
  - For source of funds, we highlight the stocks in the S&P/TSX 60, which are in underperforming trends against the market and sector – Figure 2.
- Our momentum buy list of what the market is valuing is highlighted in Figure 3.
  - Half of this list consists of energy companies, and our breadth reading on energy continues to be positive.
  - The balance of this list contains some industrials, and interest sensitives (bond yields continue to trend lower), and very little in other sectors.
- Our severed market underperformers list highlights companies vying to dust off their underperforming trends – Figure 4;
  - REITs are add-ons to a positively developing theme.
  - We highlighted HudBay (Restricted) as a new emerging positive within diversified miners yesterday.
- Gold stocks, which are the 2nd largest subindustry, do not show up on either list. They should also be considered source of funds, in a tilted Canadian small cap portfolio.

Figure 1: S&P/TSX SmallCaps vs Composite

Figure 2: S&P/TSX 60 Underperformers

Figure 3: S&P/TSX SmallCap Momentum Buys

Figure 4: Severed Market Underperformers

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

*BMO Capital Markets is restricted on HudBay Minerals and Torstar Corp.
Switch Into Diversified Miners

- Following our “When Gold Wakes Up” piece on Friday, where we expect it to wake up to the downside, we highlight the strength in diversified miners, which is our “switch into group” in the materials sector. Using our breadth gauge, diversified miners have broken out of a negative reading, which has persisted for years – Fig 1.

- At this early stage, where our strength reading is just at the upper end of neutral, we will highlight the group winners;
  - For the Canadian perspective, we highlight these miners against the Canadian SubIndustry where it becomes readily apparent that there are three key outperformers: Lundin, First Quantum, and HudBay (Restricted) – Fig 3.
  - A global perspective can be found using the ACWI Metals & Mining ex Gold & Silver as a benchmark. We circled two groups here, the most consistent outperformers and the stocks breaking out above marginally outperforming trends – Fig 3.

Figure 1: Diversified Minerals Relative Strength Z-Score

Figure 2: CDN Miners vs. S&P/TSX Diversified Minerals Index

Figure 3: Global Miners vs ACWI Metals & Mining ex Gold & Silver

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
When Gold Wakes Up

- **Gold volatility**, like volatility metrics on other commodities, FX, equity and debt markets, is trending towards all-time lows. The chart of bullion is that of a narrowing wedge, approaching the apex. When it does wake up, or break the wedge, we expect it does to the downside.
- Holdings of the gold (GLD) ETF have fallen to a 5y low after a rebound earlier this year – Figure 1.
- The dollar is strengthening against the euro, which is bullion unfriendly. More properly emphasized, the euro is breaking its uptrend and 200d MA this morning, two weeks before the ECB announces its suite of tools, which will be used to “address” euro strength.
  - No one is betting against Draghi – Figure 2.
- This week, gold stocks made it back to a neutral or 5th decile reading for the first time in over a year. We expect that the strength ends there, and recommend using it to sell into – Figure 3.
- Part of the reason that the euro is breaking down, is the recent market push back in owning European peripheral debt, and for that we can see some clients wanting to own protection. Gold stocks, however, are in an underperforming trend against bullion, and the stocks to sell are those in underperforming trends against the metal – Fig 4.

Figure 1: Gold Bullion vs Gold ETF Holdings (GLDSO)

Figure 2: Euro Breaking Down This Morning

Figure 3: Gold Relative Strength Decile

Figure 4: Gold Shares in Underperforming Trends vs Bullion

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Note: BMO Capital Markets is restricted on Yamana Gold
Small Cap Energy; The Pause That Refreshed

- Our breadth reading for the Energy sector, which had paused for a few weeks, broke out to a new high yesterday – Figure 1.
  - As an aside, the strongest sectors, measured by our global breadth heat map are Utilities, Energy, and Telecom.
  - The strength, which is universal across market cap and regional regimes, on a 1d or 5d basis, is amplified in small cap sectors – Figure 2.

- While the indices are dominated by large caps, our equal-weighted breadth reading would tilt toward small caps (70% of the energy stocks we follow have a market cap less than $5bn). The energy sector rally really only started taking off this year, so it is important to look both at the momentum buy leaders and the “severed market underperformers” (laggards picking up) lists – Figure 3, 4.
  - Relative strength momentum buys are found at these links for the following benchmarks: MSCI World SMID, TSX Small Cap, Russell 2000.
  - Relative strength severed underperformers are found at these links for the following benchmarks: MSCI World SMID, TSX Small Cap, Russell 2000.
Focal Points

Investment & Trading Ideas

Tighten Up

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

Sock it to me now
Tighten it up

Archie Bell & The Drells

- A tipping point has been reached. The central bankers’ bank (BIS) now deems that (1) there has been enough stimulus provided to the global economy, (2) more cannot be done without compounding risks that central banks have already created, and (3) easing has led to the delay of structural reforms (BIS Annual Report June 23, 2013).
- After a period of unprecedented central bank easing, and ultra low interest rate volatility, markets are adjusting to now rather rapid tightening and escalating volatility.
  - The known unknown is that when interest rates move from low and highly certain, to high and highly uncertain, that carry trades blow up. This was Long-Term Capital Management, this was Carlyle Capital Corporation, and this is the known unknown that markets are routing out now.
- Our goal over the next few pages is to detail these stresses, which we believe are still at very early stages. We expect global equity weakness to persist over the near term.

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

Figure 2: Chinese Interbank Lending Rates

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

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

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

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

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

---

**Figure 5:** Chinese Sovereign CDS

**Figure 6:** Chinese Bank 5Yr CDS

**Figure 7:** Chinese Real Estate CDS

**Figure 8:** Chinese Sovereign CDS Levels and Curve
BIS: Borrowed Time

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

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

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

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

---

Figure 9: **Spanish Sovereign CDS**

Figure 10: **Average Peripheral Bank CDS**

Figure 11: **Italian and Spanish Spreads off of German Bunds**

Figure 12: **UniCredit SpA 5Yr CDS**
SIFI: Stresses Rising

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

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

<table>
<thead>
<tr>
<th>Name</th>
<th>1-day Equity Chg (%)</th>
<th>5-day Equity Chg (%)</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>CDS</th>
<th>Trend Slope</th>
<th>CDS Hi (Mo)</th>
<th>CDS Low (Mo)</th>
<th>CDS Curve 1/5Yr</th>
<th>CDS % Chg wrt 50 DMA</th>
<th>Chg wrt 50 Day MA Trend</th>
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<td>UniCredit SpA</td>
<td>-4.1%</td>
<td>-7.2%</td>
<td>27,666</td>
<td>↑</td>
<td>↑</td>
<td>-13%</td>
<td>2.5</td>
<td>0.58</td>
<td>22%</td>
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<td>-0.1%</td>
<td>-3.6%</td>
<td>191,403</td>
<td>↑</td>
<td>↑</td>
<td>-30%</td>
<td>7.5</td>
<td>0.51</td>
<td>32%</td>
<td>Above Rising</td>
<td></td>
</tr>
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<td>ING Groep NV</td>
<td>-2.1%</td>
<td>-3.1%</td>
<td>33,509</td>
<td>↑</td>
<td>↑</td>
<td>-45%</td>
<td>2.0</td>
<td>0.49</td>
<td>9%</td>
<td>Above Falling</td>
<td></td>
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<td>Banco Santander SA</td>
<td>-1.2%</td>
<td>-6.9%</td>
<td>69,239</td>
<td>↑</td>
<td>↑</td>
<td>-42%</td>
<td>2.5</td>
<td>0.47</td>
<td>24%</td>
<td>Above Rising</td>
<td></td>
</tr>
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<td>Morgan Stanley</td>
<td>-1.0%</td>
<td>-3.6%</td>
<td>48,825</td>
<td>↑</td>
<td>↑</td>
<td>-60%</td>
<td>5.5</td>
<td>0.46</td>
<td>35%</td>
<td>Above Rising</td>
<td></td>
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<td>Royal Bank of Scotland Group Plc</td>
<td>-5.1%</td>
<td>-10.3%</td>
<td>27,112</td>
<td>↑</td>
<td>↑</td>
<td>-10%</td>
<td>9.5</td>
<td>0.46</td>
<td>43%</td>
<td>Above Rising</td>
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<td>Barclays PLC</td>
<td>-0.8%</td>
<td>-5.3%</td>
<td>56,350</td>
<td>↑</td>
<td>↑</td>
<td>8%</td>
<td>7.0</td>
<td>0.44</td>
<td>22%</td>
<td>Above Rising</td>
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<td>Goldman Sachs Group Inc</td>
<td>-0.7%</td>
<td>-5.3%</td>
<td>42,253</td>
<td>↑</td>
<td>↑</td>
<td>5%</td>
<td>7.0</td>
<td>0.38</td>
<td>20%</td>
<td>Above Rising</td>
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<td>Credit Suisse Group</td>
<td>-1.2%</td>
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<td>136,803</td>
<td>↑</td>
<td>↑</td>
<td>50%</td>
<td>6.5</td>
<td>0.42</td>
<td>39%</td>
<td>Above Rising</td>
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<td>Bank of America Corp</td>
<td>-1.6%</td>
<td>-2.9%</td>
<td>35%</td>
<td>↑</td>
<td>↑</td>
<td>5%</td>
<td>6.5</td>
<td>0.36</td>
<td>28%</td>
<td>Above Rising</td>
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<tr>
<td>Commerzbank AG</td>
<td>-2.3%</td>
<td>-1.8%</td>
<td>10,873</td>
<td>↑</td>
<td>↑</td>
<td>35%</td>
<td>3.0</td>
<td>0.36</td>
<td>14%</td>
<td>Above Rising</td>
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<td>Credit Agricole SA</td>
<td>-2.3%</td>
<td>-6.0%</td>
<td>21,255</td>
<td>↑</td>
<td>↑</td>
<td>6%</td>
<td>2.0</td>
<td>0.35</td>
<td>15%</td>
<td>Above Rising</td>
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<td>UBS AG</td>
<td>-1.5%</td>
<td>-4.7%</td>
<td>64,921</td>
<td>↑</td>
<td>↑</td>
<td>11%</td>
<td>6.5</td>
<td>0.35</td>
<td>23%</td>
<td>Above Rising</td>
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<td>Deutsche Bank AG</td>
<td>0.6%</td>
<td>-4.2%</td>
<td>44,674</td>
<td>↑</td>
<td>↑</td>
<td>27%</td>
<td>2.5</td>
<td>0.35</td>
<td>19%</td>
<td>Above Rising</td>
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<td>BNP Paribas</td>
<td>-2.6%</td>
<td>-5.9%</td>
<td>66,362</td>
<td>↑</td>
<td>↑</td>
<td>-26%</td>
<td>2.5</td>
<td>0.35</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
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<td>JPMorgan Chase &amp; Co</td>
<td>-1.0%</td>
<td>-2.2%</td>
<td>196,392</td>
<td>↑</td>
<td>↑</td>
<td>-2%</td>
<td>6.5</td>
<td>0.34</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
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<td>Citigroup Inc</td>
<td>-2.2%</td>
<td>-4.8%</td>
<td>142,620</td>
<td>↑</td>
<td>↑</td>
<td>-55%</td>
<td>5.5</td>
<td>0.33</td>
<td>31%</td>
<td>Above Rising</td>
<td></td>
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<td>Societe Generale</td>
<td>-2.1%</td>
<td>-5.6%</td>
<td>27,619</td>
<td>↑</td>
<td>↑</td>
<td>-16%</td>
<td>2.0</td>
<td>0.32</td>
<td>13%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>2.2%</td>
<td>2.8%</td>
<td>216,940</td>
<td>↑</td>
<td>↑</td>
<td>-29%</td>
<td>0.29</td>
<td>12%</td>
<td>12%</td>
<td>Above Rising</td>
<td></td>
</tr>
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</table>
US Equities: Last Dot Finally Connected, Picture Now Emerging

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

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

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

Figure 16: U.S. 2-year Swap Spread – Long Term Perspective
IMPORTANT DISCLOSURES

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

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Distribution of Ratings (March 31, 2014)

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<td>Buy</td>
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<td>21.5%</td>
<td>60.7%</td>
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<td>Hold</td>
<td>Market Perform</td>
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<td>10.8%</td>
<td>38.2%</td>
<td>52.8%</td>
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<td>Sell</td>
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<td>3.2%</td>
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* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
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