Quantitative/Technical Package

Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
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<tbody>
<tr>
<td>February 8, 2018</td>
<td>NEW</td>
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Trends & Inflection Points

<table>
<thead>
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<th>Date</th>
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<tbody>
<tr>
<td>February 9, 2018</td>
<td>NEW Volatility Tail is Wagging the Dog</td>
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<td>February 8, 2018</td>
<td>The Call of Cash</td>
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<td>February 7, 2018</td>
<td>It’s Still Growth</td>
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<td>February 6, 2018</td>
<td>After the Melt-Down</td>
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<td>February 5, 2018</td>
<td>Treasuries &amp; Credit Risk</td>
<td>13</td>
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<tr>
<td>February 2, 2018</td>
<td>The Start of Credit Risk Signalling</td>
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<td>February 1, 2018</td>
<td>4bps Up = Down</td>
<td>15</td>
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<td>January 31, 2018</td>
<td>Swaping Yer Canadian Stetson for Tin</td>
<td>16</td>
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<td>January 30, 2018</td>
<td>NASDAQ Panic?</td>
<td>17</td>
</tr>
<tr>
<td>January 29, 2018</td>
<td>Say Goodbye To That Secular Decline in Long Rates</td>
<td>18</td>
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<tr>
<td>January 26, 2018</td>
<td>Short Rates Matter</td>
<td>19</td>
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<tr>
<td>January 25, 2018</td>
<td>Financial Subindustry Heat Map</td>
<td>20</td>
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<tr>
<td>January 24, 2018</td>
<td>Exploring the Space: Energy Equipment &amp; Services</td>
<td>21</td>
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<td>January 23, 2018</td>
<td>Parsing European Banks</td>
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<td>January 22, 2018</td>
<td>Inflation Matters</td>
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<td>January 19, 2018</td>
<td>King CanUte and the Tide</td>
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<td>January 18, 2018</td>
<td>Off the Canadian Rails</td>
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<td>January 17, 2018</td>
<td>After the Melt-Up</td>
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<td>January 16, 2018</td>
<td>Your PICK Has an RSI of 90</td>
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<td>January 15, 2018</td>
<td>The Breakdowns in Canadian Utilities</td>
<td>28</td>
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<td>January 12, 2018</td>
<td>NAFTA Ain’t Norway</td>
<td>29</td>
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<td>January 11, 2018</td>
<td>To Every Thing There Is a Season</td>
<td>30</td>
</tr>
<tr>
<td>January 10, 2018</td>
<td>...And I Feel Fine</td>
<td>31</td>
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<tr>
<td>January 9, 2018</td>
<td>Focus, Apply, Achieve</td>
<td>32</td>
</tr>
<tr>
<td>January 8, 2018</td>
<td>Finding Leverage</td>
<td>33</td>
</tr>
<tr>
<td>January 5, 2018</td>
<td>What If Your World Was Flat?</td>
<td>34</td>
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Focal Points

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<thead>
<tr>
<th>Date</th>
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<tr>
<td>February 8, 2018</td>
<td>One Shoe Blues</td>
<td>35</td>
</tr>
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<td>May 7, 2017</td>
<td>Quiet</td>
<td>36</td>
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<tr>
<td>April 23, 2017</td>
<td>Tut-Tut, it Looks Like Rein</td>
<td>37</td>
</tr>
<tr>
<td>April 16, 2017</td>
<td>The Wisdom of Sweet Brown</td>
<td>38</td>
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</table>

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Market Elements

- **Equities** continued to fall broadly, and once again sharply; equity volatility rose.
- **Bonds fell broadly**: the flight to quality bid was there (yields tracked equities), yet ‘twas de minimis; bond volatility rose; prime broker credit risk surged 7%.
- The Bloomberg US dollar index rose; currency volatility rose.
- Oil fell; oil volatility rose.
- **Volatility rose** in all asset classes; **One Shoe Blues indeed!** - Reuters, WSJ, Wsj2, FT, WM, BBG.

### Levels

<table>
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<th>Currency</th>
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<td>EUR</td>
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<td>Silver</td>
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<tr>
<td>Platinum</td>
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<tr>
<td>Palladium</td>
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<td>962.8</td>
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<td>U.K.</td>
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<td>MSCI EM</td>
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Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson.
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
Intra Day Charts
2-Day 1-Minute View

Currencies
Bloomberg Dollar Spot Index

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

Euro

Crude Oil (Brent)

U.S. 10-Yr Breakeven

S&P 500

Yen

Crude Oil (WTI)

U.S. 10-Yr Bond

S&P/TSX Composite

Chinese Yuan (CNH)

Natural Gas (NG)

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 (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

<table>
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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<td>Inpex Corp</td>
<td>1605 JP</td>
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<td>Exxon Mobil</td>
<td>XOM</td>
<td>-1.1%</td>
<td>MEG Energy</td>
<td>MEG</td>
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<td></td>
<td>TOTAL SA</td>
<td>FF PP</td>
<td>0.7%</td>
<td>Cabot Oil &amp; Gas</td>
<td>CCO</td>
<td>-1.5%</td>
<td>EnEflex US</td>
<td>EFX</td>
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<td>Mullen Group</td>
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<td>TEN MM</td>
<td>-3.9%</td>
<td>Canche Resources</td>
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<td>Veestepaline</td>
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<td>CSR A Inc</td>
<td>CSR</td>
<td>-1.6%</td>
<td>CIII Group Inc</td>
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<tr>
<td></td>
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<td>UTID GR</td>
<td>-5.0%</td>
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<td>Starnet Wireless</td>
<td>SW</td>
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<td>HPQ</td>
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<td>SHP</td>
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<td>Alline Inc</td>
<td>ALN</td>
<td>-6.3%</td>
<td>Computer Modelling Group</td>
<td>CMG</td>
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<td>TDC</td>
<td>TDC DC</td>
<td>17.8%</td>
<td>AT&amp;T Inc</td>
<td>T</td>
<td>-3.7%</td>
<td>Telus Corp</td>
<td>TCL</td>
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<td>TLS AU</td>
<td>1.7%</td>
<td>Venron Communications</td>
<td>VZ</td>
<td>-3.9%</td>
<td>BCE Inc</td>
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<td>CTL</td>
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<td>RCI</td>
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<td>SD</td>
<td>0.1%</td>
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<td>VIE FR</td>
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<td>AES</td>
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<td>CIG US</td>
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<td>FSV</td>
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<td>CIG</td>
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<td>UR NA</td>
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<td>DWN GR</td>
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<td>-4.6%</td>
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<td>BRI</td>
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<td>VNA GR</td>
<td>-4.1%</td>
<td>Digital Realty Trust</td>
<td>DLR</td>
<td>-5.0%</td>
<td>First Capital Realty</td>
<td>FCR</td>
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**Bold** - move of more than 5%
### U.S. Market Movers

**Energy**
- **Symbol**: U.S. NLB 67.40 
- **Last**: -3.4%  
- **% Change**: -3.4%

**Industrials**
- **Symbol**: RIG 67.18 
- **Last**: -3.4%  
- **% Change**: -3.4%

**Consumer Discretionary**
- **Symbol**: OXY 68.47 
- **Last**: -2.0%  
- **% Change**: -2.0%

**Technology**
- **Symbol**: FB 70.55 
- **Last**: -5.1%  
- **% Change**: -5.1%

**Consumer Staples**
- **Symbol**: WBD 68.22 
- **Last**: -4.6%  
- **% Change**: -4.6%

**Telecom Services**
- **Symbol**: BAC 62.49 
- **Last**: -3.9%  
- **% Change**: -3.9%

**Utilities**
- **Symbol**: SRX 61.99 
- **Last**: -3.8%  
- **% Change**: -3.8%

**Health Care**
- **Symbol**: MMM 32.68 
- **Last**: -4.1%  
- **% Change**: -4.1%

**Real Estate**
- **Symbol**: SLB 67.40 
- **Last**: -3.4%  
- **% Change**: -3.4%

**Materials**
- **Symbol**: SLB 67.40 
- **Last**: -3.4%  
- **% Change**: -3.4%

---

*Note: H/L: at a new closing high/low, *: within 10% of the 52-wk high/low, $: move of 5% or more; stocks are selected by GICS Subindustry (grey lines) and market capitalization.
### Canadian Market Movers

#### Energy
- **Symbol**
- **H/L Last**
- **%Chg**
- **Price**
- **Volume**
- **Market Cap**

#### Materials
- **Symbol**
- **H/L Last**
- **%Chg**
- **Price**
- **Volume**
- **Market Cap**

#### Industrials
- **Symbol**
- **H/L Last**
- **%Chg**
- **Price**
- **Volume**
- **Market Cap**

#### Consumer Discretionary
- **Symbol**
- **H/L Last**
- **%Chg**
- **Price**
- **Volume**
- **Market Cap**

#### Financials
- **Symbol**
- **H/L Last**
- **%Chg**
- **Price**
- **Volume**
- **Market Cap**

#### Utilities
- **Symbol**
- **H/L Last**
- **%Chg**
- **Price**
- **Volume**
- **Market Cap**

---

### Telecom Services

#### Real Estate

---

**Note:**
- **H/L** - at a new closing 52-week High/Low
- **Low** - within 10% of the 52-week Low
- **High/Low** - S&P/TSX 60 member
- **Symbol**
- **Market Cap**
- **Volume**
- **Price**
- **%Chg**
- **Change**

---

**Market Elements | Page 7**

February 8, 2018
Volatility Tail is Wagging the Dog

This morning, prime broker credit risk, while very low, rises another 4%, is above a rising 50d MA, and is up against the falling 150d MA. It’s never about the level of credit risk. It’s always about the direction. It’s also always about the reason for the uptick. We tackled that in yesterday’s One Shoe Blues. To reiterate, there are a lot of assets in funds that don’t behave well when volatility rises. We present the volatility in stocks, bonds, commodities and currency below. It’s rising everywhere. Stocks, bonds, and commodities are all under pressure this week.

We are always a buyer of panic. Capitulation filters are here. We also respect the fact that this is becoming a “power of one” market, where uncorrelated assets become correlated, portfolio effects of diversity are lost, and knife catching skills become useful.

You gotta keep one eye looking over your shoulder

Pink Floyd, Dogs

Exhibit 1: Implied Volatility in Equity, Bonds, Commodities, and Currency

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</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 wrt 50 Day MA</th>
<th>%Chg wrt 200 Day MA</th>
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<tr>
<td>China IV</td>
<td>.FXIIV</td>
<td>9.6%</td>
<td>47.5%</td>
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<td>↑</td>
<td>23.5</td>
<td>63%</td>
<td>Above Rising</td>
<td>89%</td>
<td>Above Rising</td>
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<td>EM FX</td>
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<td>3.9%</td>
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<td></td>
<td>↑</td>
<td>12%</td>
<td>10%</td>
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<td>18%</td>
<td>Above Rising</td>
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<td>VXN</td>
<td>37.0%</td>
<td>77.0%</td>
<td></td>
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<td>22%</td>
<td>29.5</td>
<td>Above Rising</td>
<td>105%</td>
<td>Above Rising</td>
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<tr>
<td>LME Cu IV</td>
<td>LPE1</td>
<td>0.1%</td>
<td>12.1%</td>
<td></td>
<td>↑</td>
<td>12%</td>
<td>14%</td>
<td>Above Rising</td>
<td>12%</td>
<td>Above Falling</td>
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<td>SKEW</td>
<td>SKEW</td>
<td>-4.4%</td>
<td>8.6%</td>
<td></td>
<td>↓</td>
<td>4%</td>
<td>1%</td>
<td>Above Rising</td>
<td>-2%</td>
<td>Below Falling</td>
<td></td>
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<tr>
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<td>VVIX</td>
<td>13.6%</td>
<td>70.8%</td>
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<td>9.5</td>
<td>Above Rising</td>
<td>84%</td>
<td>Above Rising</td>
<td>31%</td>
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</table>

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

The Call of Cash

• If you are an asset allocator, you have seen the **outperforming trends of stocks vs bonds break to the downside** – Exhibit 1.

• You have also seen the outperformance of the most cash-like **treasuries against the treasuries index** – Exhibit 2.

• And you are also grappling with the downside risk if volatility continues to rise from here. That’s the focus of today’s Focal Points – please see "**One Shoe Blues**".

Exhibit 1:  **MSCI World vs Barclays Global Agg Index (Suite In Insert)**

Exhibit 2:  **Barclays US Treasury 1-3 Index vs US Treasury Index**

Exhibit 3:  **Global, US Large Cap, and Canadian Benchmarks and Sector Indices (vs Cash)**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
It's Still Growth

- It's still a bit of a nervous calm tape this morning. Oversold stocks are rebounding. Some oversold bonds are rebounding. The US dollar continues to enjoy some counter-trend strength, which keeps gold on a back foot, and gold stocks (i.e. the Canadian Materials sector) themselves look worse. Brent, which broke a steep uptrend on Monday, holds at a 1m low. But with capitulation filters full, and equity indices at, or below the bottom ends of channels, we want to focus on what to own in this post melt-down phase of the market, not what to sell.

- Own growth, as it continues to trump value – Exhibit 1.
- Own technology, as the outperforming trend looks more secular than cyclical – Exhibit 2.
- Filter for earnings growth, as it continues to be favoured over yield or value – Exhibit 3.

Exhibit 1: MSCI World Growth vs Value (See links for R1k & R2K)

Exhibit 2: IT vs ACWI (vs Other Benchmarks Here, Breadth Insert Here)

Exhibit 3: Stocks vs ACWI Technology Index with an Earnings Growth Filter Applied (Price Trends Here)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
After the Melt-Down

- This is the other bookend to our “After the Melt-Up” (stocks melted up 2% more after that piece...then the melt-down began).
- Stocks and futures are lower again, and MSCI World, and the Topix, and EAFE, and the STOXX 50, and the FTSE 100, which broke trend in yesterday’s session, continue to explore space below the channel. If markets get punished to the same extent that they were lauded during the melt-up phase, the downside risk is just ~2% away from here – Exhibit 1.
- Meanwhile in volatility land, the fear of fear is a signaling a buy point and we channel John Candy for our quote of the day as short volatility product collapses – Exhibit 2.
- In credit land, here is your inflection point - Exhibit 3. We expect churn, not a V-Bottom, and as such we are looking to buy equity. We will continue to direct clients toward our capitulation filters (available daily in the TIPS suite), which are rather full.
- Finally, while we are not economists, from our vantage point we are not convinced that we will get significant wage inflation. Certainly on this trading desk, twas the bots that were doing all the work yesterday. The bots are also at a key inflection point – Exhibit 4.

Blowed up good, blowed up real good

Big Jim McBob (Flaherty) & Billy Sol Hurok (Candy), SCTV Farm Film Report

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

February 6, 2018

Trends & Inflection Points

Exhibit 1: MSCI World at 6:45am

Exhibit 2: CBOE Volatility of Volatility

Exhibit 3: North American IG 5Y CDS (Other Corp CDS Indices Here)

Exhibit 4 – Robotics and AI ETF (BOTZ US) Price Trend

Blowed up good, blowed up real good

Big Jim McBob (Flaherty) & Billy Sol Hurok (Candy), SCTV Farm Film Report
If you didn’t know it before, you know it now: inflation matters, and especially so given the low rate environment (thanks central banks), which begat the melt-up priced equity environment, albeit that melt up started to melt down last week. That environment is changing.

Let’s look at the treasury market in terms of price, to look at where we see it going technically (removes bias of targeting some sort of yield). Treasury pricing has formed a major lower high, is trending lower, below all moving averages, and we expect to see a major lower low this year – Exhibit 1.

As we pointed out on Friday, we are just getting a smattering of signaling that this move in yields is impacting the credit risk market. We should start to see more, which will ultimately give us a decent panic buy signal, but so far the signaling is weak. Still, let’s define it for the record, this time from the perspective of bank credit risk (your ultimate source of contagion) – Exhibit 2.

In terms of equity price indices, many are just coming off of melt-up labeling, and few have broken trend – Exhibit 3.

In terms of individual stocks, our capitulation filters are filling up, so you should at least start considering the victims – Exhibit 4.

Come gather 'round people wherever you roam and admit that the waters around you have grown

Bob Dylan

Exhibit 1: Barclays US Treasury Index

Exhibit 2: CDS on HSBC & Other SIFI’s Where Level Is Above Channel

Exhibit 3: The Few Equity Indices Which Have Broken Price Uptrends

Exhibit 4: Stocks Oversold by Bollinger Bands, Where Bands Are 3X the Width of the 1y Average – See Broader List Here

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

#### The Start of Credit Risk Signalling

- There are lots of inflection points to consider here, so there is no room for charts, but they are all linked in, as per usual.
- US and Canadian bonds have been brutalized all week, and equities are just starting to feel the pain, but the credit risk pain, which would ultimately lead to a flight to quality bid for bonds just started to show up. We had to go across the pond to see it, but it’s there – Exhibit 1.
  - And of course the reason for this uncomfortable season – Exhibit 3.
- For the treasury manager, with long duration breaking down yesterday, it’s just TIPS that remain in a price uptrend, and even that is threatening to breakdown – Exhibit 2.
  - High yield, low volatility fans, here is your inflection point – Exhibit 4.
- Finally, for Canadians, it took two days for the parts to follow the composite and break below uptrends, but that happened yesterday – Exhibit 5. For the Midcap manager there were a number of REITs which joined the club and broke trend yesterday. There is also a pharma stock that severed a trend that clocked in just shy of 2,500%/year (as 3 of 10 have). Yesterday’s SmallCap severed trends are here.

#### Exhibit 1: Markit iTraxx Europe Crossover 5Y CDS Severing a Narrowing Trend – Full List of CDS Indices Here

<table>
<thead>
<tr>
<th>Name</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>Trend Slope</th>
<th>Trend</th>
<th>Trend Length (Mo)</th>
<th>CDS HI (Mo)</th>
<th>1-day Chg</th>
<th>5-day Chg</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wtr 50 Day MA</th>
<th>%Chg wtr 200d MA</th>
<th>Chg wtr 200 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>US TIPS Bond</td>
<td>-0.3%</td>
<td>-0.7%</td>
<td>-2%</td>
<td>2.0</td>
<td>-1%</td>
<td>Below Falling</td>
<td>US 10y BE</td>
<td>0.5%</td>
<td>3.1%</td>
<td>30%</td>
<td>40.5</td>
<td>7%</td>
</tr>
<tr>
<td>US LT Bond</td>
<td>-1.1%</td>
<td>-2.1%</td>
<td>-2%</td>
<td>6.5</td>
<td>-3%</td>
<td>Below Falling</td>
<td>US 30y BE</td>
<td>0.3%</td>
<td>3.1%</td>
<td>20%</td>
<td>11.5</td>
<td>7%</td>
</tr>
<tr>
<td>US 10-20 Bond</td>
<td>-0.6%</td>
<td>-1.5%</td>
<td>-4%</td>
<td>10.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>US 20y BE</td>
<td>0.7%</td>
<td>3.8%</td>
<td>23%</td>
<td>40.5</td>
<td>9%</td>
</tr>
<tr>
<td>US 7-10 Bond</td>
<td>-0.4%</td>
<td>-1.1%</td>
<td>-5%</td>
<td>10.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>US SYSTMR</td>
<td>0.0%</td>
<td>4.1%</td>
<td>10%</td>
<td>12.0</td>
<td>11%</td>
</tr>
<tr>
<td>US 3-7 Bond</td>
<td>-0.2%</td>
<td>-0.6%</td>
<td>-4%</td>
<td>10.5</td>
<td>-1%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US ST Bond</td>
<td>-0.0%</td>
<td>-0.1%</td>
<td>-1%</td>
<td>10.5</td>
<td>6%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Exhibit 2: Price Trends on US Treasury Indices

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Trend Slope</th>
<th>Trend</th>
<th>Trend Length (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wtr 50 Day MA</th>
<th>%Chg wtr 200d MA</th>
<th>Chg wtr 200 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>US TIPS Bond</td>
<td>-0.3%</td>
<td>-0.7%</td>
<td>-2%</td>
<td>2.0</td>
<td>-1%</td>
<td>Below Falling</td>
<td>US 10y BE</td>
<td>0.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td>US LT Bond</td>
<td>-1.1%</td>
<td>-2.1%</td>
<td>-2%</td>
<td>6.5</td>
<td>-3%</td>
<td>Below Falling</td>
<td>US 30y BE</td>
<td>0.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>US 10-20 Bond</td>
<td>-0.6%</td>
<td>-1.5%</td>
<td>-4%</td>
<td>10.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>US 20y BE</td>
<td>0.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>US 7-10 Bond</td>
<td>-0.4%</td>
<td>-1.1%</td>
<td>-5%</td>
<td>10.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>US SYSTMR</td>
<td>0.0%</td>
<td>4.1%</td>
</tr>
<tr>
<td>US 3-7 Bond</td>
<td>-0.2%</td>
<td>-0.6%</td>
<td>-4%</td>
<td>10.5</td>
<td>-1%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US ST Bond</td>
<td>-0.0%</td>
<td>-0.1%</td>
<td>-1%</td>
<td>10.5</td>
<td>6%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Exhibit 3: US Inflation Expectation Indices

- US TIPS Bond
- US LT Bond
- US 10-20 Bond
- US 7-10 Bond
- US 3-7 Bond
- US ST Bond

#### Exhibit 4: S&P High Dividend Low Volatility High Dividend Index

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Trend Slope</th>
<th>Trend</th>
<th>Trend Length (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wtr 50 Day MA</th>
<th>%Chg wtr 200d MA</th>
<th>Chg wtr 200 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPX HiDivLoVol</td>
<td>-0.7%</td>
<td>-1.5%</td>
<td>-18%</td>
<td>1.5</td>
<td>0%</td>
<td>Below Rising</td>
<td>4%</td>
<td>Above Rising</td>
<td></td>
</tr>
</tbody>
</table>

#### Exhibit 5: Canadian Equity Indices – The Parts Followed the Whole to Break Trend Yesterday

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Trend Slope</th>
<th>Trend</th>
<th>Trend Length (Mo)</th>
<th>%Chg wtr 50d MA</th>
<th>Chg wtr 50 Day MA</th>
<th>%Chg wtr 200d MA</th>
<th>Chg wtr 200 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPTSX 60</td>
<td>-0.6%</td>
<td>-1.9%</td>
<td>23%</td>
<td>2.5</td>
<td>-2%</td>
<td>Below Falling</td>
<td>3%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>S&amp;P/TSX</td>
<td>-0.6%</td>
<td>-2.1%</td>
<td>21%</td>
<td>2.0</td>
<td>-2%</td>
<td>Below Falling</td>
<td>3%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>S&amp;P/TSX SmL</td>
<td>-0.6%</td>
<td>-3.3%</td>
<td>17%</td>
<td>1.5</td>
<td>-1%</td>
<td>Below Rising</td>
<td>2%</td>
<td>Above Falling</td>
<td></td>
</tr>
<tr>
<td>S&amp;P/TSX Cmpl</td>
<td>-0.6%</td>
<td>-2.5%</td>
<td>14%</td>
<td>1.5</td>
<td>-1%</td>
<td>Below Rising</td>
<td>2%</td>
<td>Above Rising</td>
<td></td>
</tr>
</tbody>
</table>

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

4bps Up = Down

- Watching the intraday is incredibly important to us. It’s where we see relationships start to form. In this regard, treasury yields across the curve and inflation expectations continue to push higher. At pixel time, the US 10y is up 4bps and S&P 500 futures, while still positive, are starting to wane – Exhibit 1.

- Equities had a fantastic January. Bonds had a very poor one. If you are an asset allocator, just paying attention to the trends for your performance, you are overweight stocks, but should realize that that relationship looks stretched – Exhibit 2.

- That’s not to say that we see a rotation into bonds. It’s hard to argue for this given that big ole nasty pattern in inflation expectations, which if you didn’t look at it a week ago, you should really look at now – Exhibit 3.

- So, given the pressure on bond pricing – which stems from rising inflation expectations (Exhibit 3), the aggressive pricing of stocks vs bonds (Exhibit 2), the relationship that is just starting to form (once again) between bonds and stocks (Exhibit 1), and the melt-up pricing of stocks – we’ll just quantify the risk to trend for the S&P 500 is 7% - Exhibit 4.

Come back to reality, Dom. Please

Miles, Inception

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

Swaping Yer Canadian Stetson for Tin

- While we can write about US and global indices pulling back from a melt-up condition, we in the North have a distinctly different picture, where that equity pullback is enough to break many an uptrend. That’s true of the composite, interest sensitive sectors, staples and energy – Exhibit 1. Our Subindustry view is shown in Exhibit 2.

- The best place to hide is the banks. You’ve done that – Exhibit 3.

- The largest downside risk driver is energy, and we’ve harped on how Canadian energy is different, and not in a good way before, only now it’s worse – Exhibit 4.

Exhibit 1: S&P/TSX TR Index, With Sector TR Index Trends in Insert

Exhibit 2: Total Return Price Trends on CDN Subindustries

Exhibit 3: Banks vs TSX: Index and Members Below

Exhibit 4: S&P/TSX Energy (Top) & Western Crude Oil Differential

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

- We follow up our note on some bond market implied volatility panic signals, with the same for the equity market signaling, which came to the fore yesterday – Exhibit 1. The reality is that while bond market implied volatility may be due to fear of rising rates, what panic can you possibly subscribe to the NASDAQ, where volatility is at a 15m high? Panic hedging by FOMO investors we suppose – Exhibit 2.

- We continue to expect that rates will rise, and that technology may have to share the road with banks, and in this regard we see a mind-the-gap opportunity – Exhibit 3.

- Our subscription for technology investors still facing melt-up pricing? Same as always, screen the stocks breaking above underperforming trends for buy candidates – Exhibit 4.

Exhibit 1: Implied Volatility Gauges Surging Above Top Ends of Channels Yesterday

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>% Chg wrt 50d MA</th>
<th>% Chg wrt 50d MA</th>
<th>% Chg wrt 200d MA</th>
<th>% Chg wrt 200d MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASDAQ</td>
<td>VXX</td>
<td>9.7%</td>
<td>18.0%</td>
<td>↑</td>
<td>↑</td>
<td>14%</td>
<td>14.5</td>
<td>30% Above Rising</td>
<td>31% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HY Corp IV</td>
<td>.HYGIV</td>
<td>25.4%</td>
<td>17.6%</td>
<td>↑</td>
<td>↑</td>
<td>-40%</td>
<td>1.5</td>
<td>21% Above Falling</td>
<td>16% Above Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEM IV</td>
<td>.EEMIV</td>
<td>15.7%</td>
<td>20.7%</td>
<td>↑</td>
<td>↑</td>
<td>-11%</td>
<td>5.5</td>
<td>27% Above Rising</td>
<td>29% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NASDAQ Biotech</td>
<td>.IBB</td>
<td>9.1%</td>
<td>22.5%</td>
<td>↑</td>
<td>↑</td>
<td>-6%</td>
<td>11.0</td>
<td>20% Above Rising</td>
<td>18% Above Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIX</td>
<td>VIX</td>
<td>24.9%</td>
<td>25.5%</td>
<td>↑</td>
<td>↑</td>
<td>-16%</td>
<td>5.5</td>
<td>31% Above Rising</td>
<td>28% Above Falling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 2: NASDAQ Composite

Volatility Spike, Really? FOMO Fear Is How We Read It

Exhibit 3: US 10y Bond Yield and Ratio of Global IT / Global Banks

US 10Y Bond Yield

Ratio: Global Banks vs Global Technology

Exhibit 4: Technology Stocks Breaking Above and Underperforming Trend vs ACWI Technology Yesterday

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>GRP</th>
<th>LT</th>
<th>RS</th>
<th>Flg</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>ACWI IT</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>% Chg wrt 50d MA</th>
<th>% Chg wrt 200d MA</th>
<th>Chg wrt 200d MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIDN</td>
<td>BB Biotech</td>
<td>Fert &amp; Ag</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>4,306</td>
<td>1.16</td>
<td>↑</td>
<td>-6%</td>
<td>3.5</td>
<td>0% Above Rising</td>
<td>14% Above Rising</td>
<td>14% Above Rising</td>
<td>ABOVE 181%</td>
<td>66</td>
</tr>
<tr>
<td>3637</td>
<td>Unimicron Tech</td>
<td>Elec Comp</td>
<td>5</td>
<td>10</td>
<td>8</td>
<td>1,936</td>
<td>2.25</td>
<td>↑</td>
<td>-35%</td>
<td>4.0</td>
<td>18% Above Rising</td>
<td>15% Above Rising</td>
<td>15% Above Rising</td>
<td>CDOT 108%</td>
<td>70</td>
</tr>
<tr>
<td>FEIV</td>
<td>Finsev Inc</td>
<td>Data Proc</td>
<td>4</td>
<td>2</td>
<td>8</td>
<td>25,657</td>
<td>0.76</td>
<td>↑</td>
<td>-18%</td>
<td>-18%</td>
<td>7% Above Rising</td>
<td>12% Above Rising</td>
<td>12% Above Rising</td>
<td>ABOVE 235%</td>
<td>81</td>
</tr>
<tr>
<td>AMD</td>
<td>Advanced Micr Devices</td>
<td>Semi</td>
<td>7</td>
<td>3</td>
<td>9</td>
<td>12,651</td>
<td>3.69</td>
<td>↑</td>
<td>-72%</td>
<td>3.0</td>
<td>18% Above Rising</td>
<td>8% Above Falling</td>
<td>8% Above Falling</td>
<td>ABOVE 515%</td>
<td>69</td>
</tr>
<tr>
<td>KEYS</td>
<td>Keysight Techs</td>
<td>Elec Instr</td>
<td>6</td>
<td>4</td>
<td>9</td>
<td>8,924</td>
<td>1.27</td>
<td>↑</td>
<td>-19%</td>
<td>2.0</td>
<td>9% Above Rising</td>
<td>13% Above Rising</td>
<td>13% Above Rising</td>
<td>ABOVE 199%</td>
<td>71</td>
</tr>
<tr>
<td>GERN</td>
<td>Genet Corp</td>
<td>Biotech</td>
<td>3</td>
<td>10</td>
<td>9</td>
<td>374</td>
<td>3.18</td>
<td>↑</td>
<td>-67%</td>
<td>3.0</td>
<td>21% Above Rising</td>
<td>8% Above Falling</td>
<td>8% Above Falling</td>
<td>CDRT 116%</td>
<td>76</td>
</tr>
<tr>
<td>TIEV</td>
<td>Tieto Oy</td>
<td>IT Consult</td>
<td>2</td>
<td>5</td>
<td>9</td>
<td>2,585</td>
<td>1.31</td>
<td>↑</td>
<td>-32%</td>
<td>-32%</td>
<td>5% Above Rising</td>
<td>5% Above Rising</td>
<td>5% Above Rising</td>
<td>ABOVE 252%</td>
<td>61</td>
</tr>
<tr>
<td>EA</td>
<td>Electronic Arts</td>
<td>Hm EntServ</td>
<td>2</td>
<td>10</td>
<td>19</td>
<td>35,227</td>
<td>1.58</td>
<td>↑</td>
<td>-57%</td>
<td>8%</td>
<td>8% Above Rising</td>
<td>4% Above Rising</td>
<td>4% Above Rising</td>
<td>ABOVE 108%</td>
<td>64</td>
</tr>
</tbody>
</table>

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

Say Goodbye To That Secular Decline in Long Rates

- Here’s the updated chart from our “Inflation Matters” chart deck, where the US 10y breaks above the 30 year secular downtrend – Exhibit 1.
- Here is the sense of unease priced into the implied volatility in bond markets, where volatility was trending lower, but is just now breaking above those downtrends – Exhibit 2.
- Here is cost to protect corp credit debt against default, sleeping like a baby – Exhibit 3.
  - That last point is important to us. The mean reversion observed in the US 10y yield needs a reason to revert towards the mean. That’s what we are always looking for, but at this point in time are not finding. We continue to recommend you underweight your utilities, telecom, and real estate.

Exhibit 1: US 10 Year Bond Yield With ±1, 2 Standard Deviation Markers

Exhibit 2: German Bund Futures (RX1) And Other Bond IV Indices

Exhibit 3: North American HY 5Y CDS (Other Corp CDS in Insert)

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

• From a **Tactical Asset Allocation** view, technology heavy **North America** is outperforming MSCI World, but broke down for the second time this week, and now stands below a (slightly) falling 50d MA. On the flipside, **EAFE** and **Europe** are both in underperforming trends, yet broke above said trends this week – Exhibit 1.

• From a sector relative strength view, technology broke below an outperforming trend yesterday, from the perspective of US large and small caps, and indeed global small caps – Exhibit 2. From that same perspective, notice financials in underperforming trends, severing underperforming trends, or at a 5.5m high, threatening to do so in global, US, EAFE, and European markets – Exhibit 3.

• From a **global relative strength breadth perspective**, and considering the backup in European short rates over the past few days, with the notable move in the **German 2y bund breaking to the upside**, and realizing how the backup in North American short rates have spurred North American financials higher, we make the observation that financials just nudged ahead of technology in the derby – Exhibit 4.

• Short rates matter. They are shifting the sector, and thus regional relative strength landscape. See our note on banks? Nuff said.

---

**Exhibit 1: Regions vs MSCI World in USD – Severed Trends View**

<table>
<thead>
<tr>
<th>Name</th>
<th>1d RS (Mo)</th>
<th>5d RS (Mo)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>0.0%</td>
<td>-0.2%</td>
<td></td>
<td>3%</td>
<td></td>
<td></td>
<td>0% Below Falling</td>
<td>0% Above Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td>0.1%</td>
<td>0.4%</td>
<td></td>
<td>-5%</td>
<td></td>
<td></td>
<td>1% Above Rising</td>
<td>0% Below Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>0.3%</td>
<td>0.4%</td>
<td></td>
<td>-10%</td>
<td></td>
<td>2.0</td>
<td>1% Above Rising</td>
<td>-1% Below Rising</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit 2: Technology Severing Outperforming Trends Yesterday**

<table>
<thead>
<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>1-Day RS Chg (%)</th>
<th>5-Day RS Chg (%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA</th>
<th>Chg wrt 200-d RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology vs. S&amp;P 500</td>
<td></td>
<td>-14%</td>
<td>1.0</td>
<td>-0.2%</td>
<td>-0.8%</td>
<td>-0.6%</td>
<td>Below Falling</td>
<td>2.0% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology vs. MSCI World Small Cap</td>
<td>10%</td>
<td></td>
<td>1.0</td>
<td>-0.2%</td>
<td>-1.2%</td>
<td>-0.5%</td>
<td>Below Falling</td>
<td>1.0% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology vs. Russell MidCap</td>
<td>19%</td>
<td></td>
<td>1.0</td>
<td>-0.4%</td>
<td>-1.5%</td>
<td>-0.1%</td>
<td>Below Falling</td>
<td>2.3% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit 3: Financials vs MSCI World**

<table>
<thead>
<tr>
<th>Name</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Lo (Mo)</th>
<th>1-Day RS Chg (%)</th>
<th>5-Day RS Chg (%)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200 Day MA</th>
<th>Chg wrt 200-d RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials vs. MSCI World</td>
<td>1%</td>
<td></td>
<td>1.0</td>
<td>0.0%</td>
<td>0.3%</td>
<td>1.1%</td>
<td>Above Rising</td>
<td>1.0% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financials vs. S&amp;P 500</td>
<td>8%</td>
<td></td>
<td>1.0</td>
<td>-0.2%</td>
<td>0.5%</td>
<td>1.3%</td>
<td>Above Rising</td>
<td>3.4% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financials vs. MSCI Europe</td>
<td>-4%</td>
<td></td>
<td>1.0</td>
<td>0.3%</td>
<td>0.6%</td>
<td>2.3%</td>
<td>Above Rising</td>
<td>2.4% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financials vs. MSCI EAFE</td>
<td>0%</td>
<td></td>
<td>1.0</td>
<td>0.1%</td>
<td>0.2%</td>
<td>1.5%</td>
<td>Above Rising</td>
<td>1.2% Above Rising</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit 4: Global Relative Strength Breadth**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Market
Global Financials broke out to a one-year high on a relative basis yesterday, and for most benchmarks, financials are in an outperforming trend, or is breaking above an underperforming trend (See our note on European banks, and check out the surge in EM!). Meanwhile, for the Global SmallCap or US SMID manager, the opposite is true. A top down view, using our Global Relative Strength heat map helps to uncover the why, as it details the best - investment banks, the positive - diversified banks, and the weaker membership, which includes small cap regional banks – Exhibit 1.

Leading with strength, we highlight dividend-adjusted price trends on all investment banks and brokers. The current reality is that half of the stocks are overbought, and thus do not offer great entry points. We paired down the list to show the non-overbought stocks in the insert – Exhibit 2.

Exhibit 1: Global Financial Relative Strength Heat Map

Exhibit 2: DVD Adj Price Trends on Investment Bank & Brokerage Stocks (Insert Shows the Stocks Trending Higher Which are Not Overbought)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit.
Exploring the Space: Energy Equipment & Services

- *Atta boy Mnuchin*, let’s exacerbate the weak USD trend – Exhibit 1.
- Of course that trend is a key cornerstone to our recent package “Inflation Matters”: The USD continues to trend lower, and commodities continue to trend higher. Go ahead and take a look *at the spectrum of commodities*, and what do you see has the highest torque? *Yep it’s oil*. Let’s go with that.
- The leveraged play on oil are energy equipment and services stocks, which are V-bottoming, and importantly, *it’s still early in the V* – Exhibit 2.
- For the energy specialist, there are some service stocks which are now *momentum buys in outperforming trends*, but the vast majority of stocks are *still in, or are severing underperforming trends*. We expect that this shift to green will continue – Exhibit 3.
- From the perspective of the energy services ETF (Exhibit 4), yes it’s priced at the top end of the channel, and your ideal entry point *came earlier*, but we see this as a major double bottom, so just like our mantra for USD weakness, we see energy services strength...

...I mean, really.. explore the space. I like what I’m hearing. Roll it.

The Bruce Dickinson

---

**Exhibit 1: BBG USD Index at 6am or Noon Mnuchin (Davos) Time**

**Exhibit 2: Energy Services vs MSCI World**

**Exhibit 3: Energy Services vs MSCI ACWI Energy** (Price Trends Here)

**Exhibit 4 – Oil Services ETF (OIH US) DVD Adjusted Price Trend**

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

Parsing European Banks

- Banks are signaling across the pond, and that signal made it to the other side of the Atlantic – Exhibits 1, 2.
- To be clear, these are relative strength signals, against benchmarks that are melting higher, or at least trying to in the case of Europe, so don’t expect to find too many absolute bargains. Almost half of European banks sport an RSI north of 70. Still, besides the melt-up stocks, there are ones breaking out of short-term downtrends, and a small handful of these that are not overbought. There is fare for both the momentum minded and bottom fishing types. You know what end of the spectrum you invest in – Exhibit 3.
- While we touched on the key theme yesterday, our updated marketing deck, “Inflation Matters” is found here.

Exhibit 1: European Banks vs MSCI Europe

Exhibit 2: European Bank ETF (BNK FP) vs S&P 500 (Price Here)

Exhibit 3: Spectrum of Dividend Adjusted Price Trends of European Banks (vs STOXX 50 Here, vs MSCI World in Local Currency Here)

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

**Inflation Matters**

- **The pattern** most disconcerting to bond bulls – Exhibit 1.
- How it’s playing out as Treasury manager’s shift – Exhibit 2.
- For equities, it’s what you don’t own – Exhibit 3.
- That large head and shoulders bottom for inflation expectations (Exhibit 1) would take a year to play out. The caveat that could be the fly in the ointment which kills the global growth needed to give us rising inflation is systemic risk. Here we continue to monitor China, as instructed by the China Banking Regulatory Commission and the unwind that could very well be a headwind – Exhibit 4.

**Exhibit 1: US 5y5y Inflation Expectation (Other 5y5ys Here)**

Friday’s 7bps Pop was a Change in the Bond Used To Calculate the 5y5y, Still it Forces Us to Consider

**Exhibit 2: TIPS vs. Barclays Treasury Index (Other Slices in Insert)**

At Risk: Long-Term Treasuries

The Shift: Cash

**Exhibit 3: Global Sector Relative Strength Breadth Heat Map**

It's About What You Don't Own

**Exhibit 4: Bonds of CBRC’s “Systemic Risk” Companies**

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

January 22, 2018
Trends & Inflection Points

King CanUTE and the Tide

- Trend – Exhibit 1.
- Tide – Exhibit 2.
- Impact – Exhibit 3.
- Lost causes – Exhibit 4.

"By our command, waters retreat
Show my power, halt at my feet"

But the cause was lost, now cold winds blow

Genesis

Exhibit 1: US Trade Weighted Broad Dollar Index

Trend / Width: -7% / 4%
Trend Length: 14 mo

Exhibit 2: USD, Rogers Commodity Index, Rolling Fit of Returns

Exhibit 3: MSCI World Utilities (Other Utility Benchmarks in Insert)

Topping & Breaking Lower

Exhibit 4 – Utility Momentum Sells, DVD Adjusted Price Trends

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

Off the Canadian Rails

- Here’s the inflection point on the 6th largest Canadian stock, Canadian National Railway…it just broke trend yesterday – Exhibit 1.
- That just so happens to be the North American railway with the weakest technicals, in that it’s below a falling 50d MA, with the flattest slope in the bunch. The next weakest member is CP Rail, which weakened to a 1.5m low, and is poised just at its 50d MA, with the 2nd flattest slope in the group – Exhibit 2.
- We show technical supports and downside risk for CNR and CP in Exhibits 3 & 4.
- For the global industrials manager, there is no question that the group is heterogeneous, with outperformers and underperformers, with the outperformers being US and Japanese.
- That same tool we provided a link to above “vs Peers” can also be used to cycle through the rest of global industries, or US and Canadian subindustries. Some examples: Global Chemicals, North American Airlines vs the US Airline Index, North American Banks vs the TSX Diversified Bank Index. That tool is available daily in our TIPS Suite – see the Click Here to the top left.

She caught the Katy and left me a mule to ride

Taj Mahal

Source: All charts/Tables BMO Capital Markets, Bloomberg, Thomson, Markit
After the Melt-Up

Yesterday we picked on miners for being overbought, using the nervous tape of base metal pricing to highlight the excuse that would take stocks out of that state. The reality is that while miners (PICK US) were the most egregiously overbought grouping, they are not alone.

While you have North American credit widening from overnarrowed positioning, you really don’t see the same natural pullback in North American equity indices, which have melted up beyond the top ends of rising channels. This is also the positioning in global benchmarks – Exhibits 1-2.

In regional & style as well as industry ETF terms, the most egregiously overbought ETFs based on RSI are highlighted in Exhibit 3. At the stock level, see link.

Exhibit 1: North American IG Corporate Credit Risk – 5y CDS

Exhibit 2: MSCI World & Insert Showing Indices Above Tops of Channels

Exhibit 3: Regional, Style, Sector & Industry ETFs with an RSI North of 80

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

Your PICK Has an RSI of 90

- This morning base metals have come off 1-2%, and the miners are the weakest stocks on the board. For perspective, take a look at where they are priced, rather egregiously above the top end of a steep uptrend, with the consolidation pattern that refreshed and renewed for three months ending in early December left far behind – Exhibit 1.
- Another way of looking at this would be to show the RSI on the Metals & Mining Equity ETF, which has never seen the current RSI of 90 in its five years of existence – Exhibit 2.
- Bottom line is that many shares are overbought, and due for a cooling off period. We list the most heated stocks, sorted by RSI, in Exhibit 3.

Exhibit 1: ACWI Metals & Mining Index

Exhibit 2: MSCI Global Metals & Mining Producer ETF (PICK US)

Exhibit 3: Dividend-Adjusted Price Trends on The Most Egregiously Overbought Miners (RSI > 80) – See Larger List (RSI>70) Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Breakdowns in Canadian Utilities

- Most conservative Canadian investors will have some local utilities, despite the fact that they are underperforming the TSX, and indeed are now priced so badly that they are being punished below the bottom end of an underperforming trend – Exhibit 1.

- It may seem easy to blame the bond market, but in price terms, Canadian bonds are just levitating and have been doing so for a few years now. What is different is that Canadian utilities are transitioning from outperforming bonds, to breaking that trend ... and materially so this year – Exhibit 2.

- We highlight price trends on our largest 15 to show most are below falling 50d MAs, and are either trending lower, or are breaking below uptrends – Exhibit 3.

- Supports and downside targets for two of the largest Canadian utilities, Fortis and Hydro One, are shown in Exhibits 4 and 5.

Exhibit 1: Canadian Sectors vs. S&P/TSX Composite

Exhibit 2: Canadian Utilities vs. CDN Bond Market (XBB CN)

Utilities transitioning from a bond proxy that outperforms...to one that underperforms

Exhibit 3: DVD Adj Price Trends on Largest 15 CDN Uts – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
NAFTA Ain’t Norway

- If only NAFTA were Norway, where the POTUS graces the country with F-52s, but alas that’s not quite the reality the rest of us live in.
- This morning, the Euro surges, but it’s not interest differential driven, it’s driven by a favourable political breakthrough. Let’s take that consideration to the U.S.’s Northern and Southern NAFTA neighbours...
- When one lines up their crosses against the greenback, one can see the market shows the Trump election win effect in one cross (circled in red), but not the other. Clearly, one is considered less Norwegian than the other. Still, both crosses fell over one percent on Wednesday when Canadian officials sounded the alarm over NAFTA negotiations, which is the markets way of saying that if the deal is scuttered, then central banks are more likely to ease, or at least not hike rates. If NAFTA negotiations fail, then both currencies would likely not change course, they would both fall in the direction of their current trends, it’s just one is falling much faster than the other – Exhibits 1, 2.
- It’s also likely that equity capital markets in both countries would feel the effect, and here too one is falling much more sharply relative to the other. In both cases, we show the perspective against the S&P 500, unhedged (from our TAA link) – Exhibits 3, 4.
- While all four charts have notable differences, and drivers, they all have the same direction, which would likely not change if NAFTA is considered to be an agreement made with countries which are far removed from Norway, that is to say some sort of unpleasant hole.

Exhibit 1: Mexican Peso vs US Dollars

Exhibit 2: Mexican IPC Index vs S&P 500 in USD (FX Hedged View Here)

Exhibit 3: Canadian Peso vs US Dollars

Exhibit 4: S&P/TSX 60 Index vs S&P500 in USD (FX Hedged View Here)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
To Every Thing There Is a Season

- See the breakout – Exhibit 1.
- See the breakdown – Exhibit 2.
- Note the connection – Exhibit 3.
- Now understand why we are recommending high risk? – Exhibit 4.

Exhibit 1: CRB Raw Industrials

Exhibit 2: MSCI World Sector Neutral Quality vs MSCI World

Exhibit 3: Market Beats Quality When Inflation Pressures Build

Exhibit 4 – Corporates Where CDS > 100bps, Yet CDS Trends Lower

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

...And I Feel Fine

- **Yesterday, the US 30y bond yield broke above its 14m downtrend.** If we read the chart bearishly, looking at the past 8m as a minor H&S bottom, we figure the yield can near 3.2%, the old high. If we read the chart bullishly, this is your inflection point to buy – Exhibit 1.

- **If you are a constrained treasury manager**, you are almost at that buy point, and you know (if you are our client), that in your universe, only long duration and TIPS are outperforming the Barclays US Treasury index – Exhibit 2.

- If you are an unconstrained bond manager, you have many equity or other options that are outperforming, but that has been the case for quite some time now.

- If you are wondering if we have changed our opinion on the potential for negative US 10y yields in the years ahead, no, there is no need to – Exhibit 3.

Exhibit 1: **US 30 Year Yield** (Trends on US Rates in Insert)

Exhibit 2: **Long Term Treasuries vs Barclays Treasury Index**

Exhibit 3: Secular Decline in the US 10y Treasury Yield; Regression Line, ±1,2 Standard Deviations

**It’s the end of the world as we know it and I feel fine**

R.E.M.

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
**Focus, Apply, Achieve**

- We know what a good portfolio looks like in our system: if most of your stocks are under the green wedges (outperforming), you have pulled all of your stocks that were under the solid red (underperforming) wedges, and you have a few in the middle ground to refresh the consistent outperformers, then that’s a solid portfolio. It just takes a few clicks to get you there, if you focus on the most consistently outperforming sectors (Exhibit 1), and apply a growth filter to your universe (Exhibit 2), then the largest 50 global stocks appear as that good, no great, portfolio (Exhibit 3). You can tailor your specific universe similarly for stock ideas. Every day.

**Exhibit 1: Sectors vs MSCI World**

**Exhibit 2: ACWI Growth vs Value**

**Exhibit 2: Largest 50 Stocks in Technology, Materials & Energy With an Earnings Growth Filter Applied**

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

Finding Leverage

- The market is rewarding upside leverage, which you can see looking at the sectors rewarded (resources, technology) vs disregarded (defensives), and look at the state of the market where credit risk is being sought – Exhibit 1.

- At the corporate level, this means seeking out higher, rather than lower, credit risk, if said risk is trending or breaking lower. We’ve filtered for the corporates whose 5y CDS is greater than 100bps, and whose equity moves are reasonably correlated with CDS moves in Exhibit 2. Many of these stocks have performed very well recently, which is the point, but there are others that look to break out of consolidation patterns, like AMX (Exhibit 3), RIG, ARNC, and MTOR, and some that look to break above downtrends in the direction of lower credit risk in the cases of ERIC (Exhibit 4), AKS, and NBR.

Exhibit 1: Custom Basket of Credit Default Swaps

Exhibit 2: CDS Level > 100bps, and Equity Moves are Reasonably Correlated to CDS Moves

Exhibit 3: America Movil SAB (AMX US) Equity/CDS Overlay

Exhibit 4: Ericsson (ERIC US) Stock Price

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
**What If Your World Was Flat?**

- Sure equity indices are ripping, but not all of our clients are benchmarked there. Some of their worlds are flat. So for them...
- If you are bondie constrained to the world of treasuries, you be chillin’, and you have just two options to outperform, overweight inflation protection, which is running a bit dear right now as commodities surge, and extend duration which has provided a bit more torque (see how those curves be flattin’) – Exhibits 1, 2.

- If you are a US REIT manager, your benchmark is similarly horizontal, and we suggest you use the current dip, caused by rotation out of your world into something better, to spend a bit of cash – Exhibit 3.
  - We’ve carved out the North American momentum buys versus your flat benchmark in Exhibit 4.
  - For the Global Manager, your location is here.

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I have never met a man so ignorant that I couldn’t learn something from him

Galileo Galilei
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 (Socrates).

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

B.B. King, One Shoe Blues
Quiet

- Technically, the Renminbi is at the apex of a pennant, which we expect will break to the weakening side, in the direction that the Hong Kong dollar has recently been moving since early January – Exhibit 1.
- Quantitatively, the expected break may be the signalling, which brings to light an upcoming slowdown (see references to the leading indication of credit impulse below) in Chinese demand for raw materials, which may compound the supply problem in oil, which may lead to lower oil prices, which may lead to lower inflation expectations, which may lead to lower long duration treasury yields, which may continue to lead the yield curve lower, which may continue to pressure the performance of the S&P 500 against the world, which was foreshadowed by the state of resource heavy Canadian equity market against the world.
- Enjoy the rest of your weekend. We do offer up some interesting reading material, given the damp chilly weather out there...

References for “Credit Impulse”
1. Credit and economic recovery; Michael Biggs, Thomas Mayer, Andreas Pick; DNB Working Paper No. 218 July 2009
2. China’s Continuing Credit Boom; Jeff Dawson, Alex Etra and Aaron Rosenblum; Liberty Street Economics; February 27, 2017
3. China’s Credit Slowdown Poses a Threat to Global Growth; WSJ May 1, 2017
5. World Bank warns of China debt risk from backdoor local borrowing, FT May 6, 2017

“There’s zero correlation between being the best talker and having the best ideas.”

Susan Cain, Quiet

Exhibit 1: Chinese Renminbi
On Friday, treasury volatility reached the point where we can quantify it as being panicked, or above the top end of its range – Exhibit 1. Our system now begs the question, “Is this extreme to be faded, or is this the sign of a regime change?”

- This is not panic selling of treasuries; it is panic buying, which is by far the more common affliction witnessed over the past several years – Exhibit 2.
- This escalation of treasury volatility, which has culminated in Friday’s signal, has been going on for a month now, and as such, appears to be “episodic”, like those of the past few years. The last time we had a bond panic buying “regime” was in 2014-15. During that period of considerable duration, bond folk were panic buyers for quite some time before turning into panic sellers.

Importantly, the buying phase was also coupled with a dive in oil prices, which ultimately led to OPEC production cuts.

- We are in the OPEC production cut era now, and really in the second chapter of this era;
  - Chapter 1 narrative entailed belief that OPEC cuts could make a difference in U.S. production.
  - In March, and again last week as WTI cracked back below $50, we have been reading the market as being in chapter 2, where the reality of shale staying power sets in. But there is more to this story.

- To bring in other Market Elements, alongside the panic buying of treasuries, observed as higher volatility with yields rolling over, we observe industrial metals rolling over, oil rolling over, and finally inflation expectations rolling over. This roll has also been aligned with Chinese monetary conditions rolling over, or perhaps better put, being reined in– Exhibit 3. If this rein/roll continues, and we expect that it will, our bond panic buying inflection point signals the regime change, which can be backdated one month prior.

“I’m just a little black rain cloud”
Robert & Richard Sherman, 1966

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Exhibit 1: US Treasury Volatility (MOVE)
Exhibit 2: US 30y Bond Yield and Treasury Volatility
Exhibit 3: The Seeding of a Rein Cloud

Source: All charts BMO Capital Markets, Bloomberg
The Wisdom of Sweet Brown

- We can give you the knowledge that on Friday the MSCI All Country World Index broke an uptrend, and that the NASDAQ did too, and that the cost to protect a basket of Life & Health Insurers broke to the upside that very day, and finally that the US 30y yield just broke yield support and has entered its "thinking fast" air pocket (Exhibits 1-4), but that would not impart wisdom.
- Wisdom would come from realizing how these seemingly disparate events are related as markets head back towards the zero bound in rates.
- We view these equity breakdowns as stop loss considerations, rather than buy the dip opportunities and continue to recommend being long duration.

○ Here’s some Sunday night reading for you; new stuff from Ben and old stuff from BIS.

“Well, I woke up to get me a cold pop and then I thought somebody was barbecuing. I said, ‘Oh Lord Jesus, it’s a fire.’ Then I ran out, I didn’t grab no shoes or nothing, Jesus. I ran for my life and then the smoke got me, I got bronchitis! Ain’t nobody got time for that.”

Sweet Brown

Exhibit 1: MSCI All Country World Index (MXWD)

Exhibit 2: NASDAQ Composite (CCMP)

Exhibit 3: Global Life & Health Insurance Ave 5y CDS

Exhibit 4: US 30y Bond Yield

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
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### Distribution of Ratings (February 01, 2018)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>46.1%</td>
<td>24.7%</td>
<td>55.7%</td>
<td>48.8%</td>
<td>57.4%</td>
<td>53.9%</td>
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<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>50.6%</td>
<td>17.2%</td>
<td>42.6%</td>
<td>48.0%</td>
<td>41.1%</td>
<td>41.1%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>3.4%</td>
<td>10.0%</td>
<td>1.6%</td>
<td>3.2%</td>
<td>1.4%</td>
<td>5.0%</td>
</tr>
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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.

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***** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

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- **R** = Restricted - Dissemination of research is currently restricted.

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**(April 2013 - October 2016)**


**(January 2010 - April 2013)**


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