# Quantitative/Technical Package

## Market Elements

<table>
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<tbody>
<tr>
<td>June 11, 2019</td>
<td>NEW</td>
<td>Market Elements</td>
<td>2</td>
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## Trends & Inflection Points

<table>
<thead>
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<tbody>
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<td>June 7, 2019</td>
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<td>ECB Nudges Inflation Forecast Higher!</td>
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<tr>
<td>June 6, 2019</td>
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<td>Financials – What’s Working</td>
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<td>All About the Base</td>
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<td>Waiting for the Flow</td>
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<td>Quiver at the Core</td>
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<td>May 22, 2019</td>
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<td>Big Picture Breakouts &amp; Breakdowns</td>
<td>24</td>
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<td>May 21, 2019</td>
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<td>Staples</td>
<td>25</td>
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<td>May 17, 2019</td>
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<td>Why. Not.</td>
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<td>Hi-dee hi-dee hi-dee hi</td>
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<td>Submitting Defense Exhibits Alpha &amp; Bravo</td>
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<tr>
<td>May 14, 2019</td>
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<td>The Pivot to High Yield Equities</td>
<td>29</td>
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<td>May 13, 2019</td>
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<td>Headed for Their Destination</td>
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<td>Get the Direction Right</td>
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<td>May 9, 2019</td>
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<td>The Song Remains the Same</td>
<td>32</td>
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<td>May 8, 2019</td>
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<td>Zero, My Hero</td>
<td>33</td>
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<tr>
<td>May 7, 2019</td>
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<td>One Is the Loneliest Number</td>
<td>34</td>
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<tr>
<td>May 6, 2019</td>
<td></td>
<td>Fast Headlines, Slow Market</td>
<td>35</td>
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<tr>
<td>May 3, 2019</td>
<td></td>
<td>Moving Parts</td>
<td>36</td>
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## Focal Points

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>February 8, 2018</td>
<td>One Shoe Blues</td>
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</table>
Market Elements

- Chinese benchmarks continued to rebound across the board; ChiNext surged 4% to lead gains; CSI 300 jumped 3% to a 1m high; the STOXX 50 broke above its flat 50d MA before paring the advance; NAmer indices gapped up as much as 1% at the open, yet reversed the move to end flat; global sectors were little changed to higher; commodities (+110bps) rose for a seventh day and led gains; utilities fell 45bps pulling back for a second day.

- The US 2y yield added 2bps to Monday’s strong rebound, while the long end digested gains; high yield Brazilian real and SA rand rose 1% and led the upside; the MXN extended yesterday’s surge to its 50d MA; the offshore yuan rebounded 30bps from a 6m low.

- Major crosses were little changed to higher against the US dollar; the BBG dollar index saw its biggest rise in a month; the JPY continued to rebound across the board; ChiNext surged 4% to a new closing 52-week high; corp credit risk indices narrowed for a sixth day; all NAmer IG OAS widened while most HY continued to narrow.

- Most commodities posted gains; iron ore futures broke to a new high and led base metals and bulks higher for second day; nickel rebounded 2%; lumber soared 6% to a 1m high; oil benchmarks edged lower; gold held at a 4d low.

Levels®

<table>
<thead>
<tr>
<th>Currencies (USD per)</th>
<th>Commodities</th>
<th>Government 10-Yr Benchmark</th>
<th>Equity Indices &amp; Sentiment</th>
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<td>Symbol</td>
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<td>Canada</td>
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<td>CHF</td>
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<td>1.0080</td>
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<tr>
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<td>•</td>
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<tr>
<td>JPY</td>
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<tr>
<td>CAD</td>
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<td>Italy</td>
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<td>AUD</td>
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<tr>
<td>MXNx10</td>
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</tr>
<tr>
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<td>CHN</td>
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Moves

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<td>KRWx10</td>
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Sectors

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<th>S&amp;P/TSX Composite</th>
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<td>Cons Disc</td>
<td>Cons Disc</td>
<td>Materials</td>
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<td>Cons Disc</td>
<td>Real Estate</td>
<td>Cons Disc</td>
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<td>Energy</td>
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<td>Industrials</td>
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<td>Industrials</td>
<td>Cons Disc</td>
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Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson
H/L = at a new closing 52-wk High/Low; • = within 10% of the 52-week High/Low; Colour codes are inverted for bond and sentiment indications
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

Currencies
Bloomberg Dollar Spot Index

Commodities
Gold (Spot)

Bonds
U.S. 2 Yr Bond

Equities
MSCI World Index

Currencies
Euro

Commodities
Crude Oil (Brent)

Bonds
U.S. 10 Yr Breakeven

Equities
S&P 500

Currencies
Yen

Commodities
Crude Oil (WTI)

Bonds
U.S. 10 Yr Bond

Equities
S&P/TSX Composite

Currencies
Chinese Yuan (CNY)

Commodities
Natural Gas (NGM)

Bonds
Canadian 10 Yr Bond

Equities
VIX

Currencies
Canadian Dollar

Commodities
Copper (CMX)

Bonds
German 10 Yr Bond

Equities
CDX North American Inv. Grade Index

Currencies
Australian Dollar

Commodities
Nickel (LME 3Mo)

Bonds
Italian 10 Yr Bond

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

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<tr>
<td>Ultragas Participacoes</td>
<td>USGPA3 BZ</td>
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<tr>
<td>Caltex Australia</td>
<td>CTA AU</td>
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</tr>
<tr>
<td>Petrobrás</td>
<td>PBR US</td>
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<tr>
<td>Enagas SA</td>
<td>ENG SM</td>
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<tr>
<td>CNOC Ltd</td>
<td>BHP</td>
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<tr>
<td>Ecopelec SA</td>
<td>EC US</td>
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<td>Vale SA</td>
<td>VALE US</td>
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<td>Hankyu Hanshin</td>
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<tr>
<td>Fast Retailing</td>
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<td>adidas AG</td>
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<tr>
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<td>Hankyul Hanshan</td>
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<td>Fast Retailing</td>
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<td>adidas AG</td>
<td>A05 GR</td>
<td>-2.7%</td>
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<td>Treasury Wine Estates</td>
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<td>OKRk AS</td>
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<td>SunPh</td>
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<td>Banco Santander Chile</td>
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<td>CaxiasBank SA</td>
<td>CABR SM</td>
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<td>Bank of Ireland Group PLC</td>
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<td>Medtronic Inc</td>
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<tr>
<td><strong>Comm Svr</strong></td>
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<tr>
<td>Nippon Telegraph &amp; Telephone</td>
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<td>Publicis Groupe</td>
<td>PUB PP</td>
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<tr>
<td>SES SA</td>
<td>SRSG FP</td>
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<td>NAVER Corp</td>
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<td>Vivienda SA</td>
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<td>UBSH PP</td>
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<tr>
<td><strong>Utilities</strong></td>
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<tr>
<td>Cia Energética de Minas Gerais</td>
<td>CIG US</td>
<td>2.1%</td>
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<td>Enel Americas SA</td>
<td>ENA US</td>
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<tr>
<td>APA Group</td>
<td>ARA AU</td>
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<td>RWE AG</td>
<td>RWE AG</td>
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<td>Centrica PLC</td>
<td>CNA LN</td>
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<td><strong>Real Estate</strong></td>
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<td>Vanoma SA</td>
<td>VNR GR</td>
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**Bold** – move of more than 5%
<table>
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<tr>
<th>Energy</th>
<th>Symbol</th>
<th>H/L</th>
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<th>%Chg</th>
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### Canadian Market Movers

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**H/A** - at a new closing **52-wk High/Low**, **+** = within 10% of the 52-wk **High/Low**, **Blue** = S&P/TSX 60 member, **Italics** = ETF, **Bold** = move of 5% or more; stocks are sorted by GICs Subindustry (grey lines) and market capitalization
Hydrocarbons (*Sans* Oxygen)

- The difference between CBD oil and crude oil is that crude oil lacks oxygen, and is suffocating in the current global growth threatened market. Energy is the flipside of our recommended long duration trio, and it stands alone in its ugliness – Exhibit 1.
- Some will try the “mean reversion” trade, and buy into the ugliness. These would be the same which see the high yield energy market (short duration) bonds as a buy (double top on OAS); however we see current strength as a bid to sell into – Exhibit 2.
- Our Energy link gives you a long list of energy momentum sells. We won’t discriminate between oil, gas, uranium, or refiner, they are all on the wrong side – Exhibit 3.

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

**Exhibit 2: North American HY Energy OAS**

**Exhibit 3: Top of Energy Momentum Sell List vs ACWI Energy – Full List Here**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
We are going to stay with the “messy charts” theme. Today, we pivot to real estate. Your first real estate was your bedroom, and your mom saw it as a mess, but you thought it was totally different in your eyes. We see the global real estate market that way. Sure our system sees just a 6%/trend with lots of volatility, but if we tweak the system to show the short-term trend, it’s more like 25%/year and just breaking out to give us leg 2 – Exhibit 1.

- Why not top of the channel? Because when treasury volatility peaks, real estate buyers step in. The peak was a week ago. You are now here – Exhibit 2.
- We sorted the largest 50 outperformers by slope, and show the stocks with slopes in excess of 20%. Yes we kept in stocks below falling 50d MAs as we think that many will clean up their mess – Exhibit 3.

Exhibit 1: FTSE EPRA/NAREIT Global Index (and Short Term Trend)

Exhibit 2: Treasury Volatility (MOVE)

Exhibit 3: Largest 50 Outperformers, Sorted By Trend Slope To Show 20%+

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

- While markets start more “risk on” today, and try to figure out the mess of what sort of deal is true, or fake news, we want to rewind the tape and look at moves from Friday with some mess of our own.
- Friday’s breakout towards Renminbi weakness raises the specter of Chinese creditworthiness. Just sayin’ – Exhibit 1.
- Friday’s huge downdraft in the CRB Raw Industrials shows our messy trend channel on that time series as a “time out” breaking lower – Exhibit 2.
- Chinese stocks bounced from a 3m low today. Based on the volatility, which we also see as messy and rather neutral, we’d expect a similar amount of positive and negative stock patterns…which we do – Exhibits 3, 4.

Exhibit 1: Breakout in the Renminbi, Govt China 5y CDS, Fit of Returns

Exhibit 2: CRB Raw Industrials

Exhibit 3: CBOE China ETF Volatility (VXFXI)

Exhibit 4: Chinese Momentum Buys & Sells vs MSCI China

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

ECB Nudges Inflation Forecast Higher!

- Seriously??!!
  - The market sez otherwise (Mario is not alone) – Exhibit 1.
- Continue to be overweight long duration assets, adding to high and low beta buckets as the market as conditions (volatility and credit risk) and opportunity allow.

Exhibit 1: European 5y5y Inflation Expectations at 6am This Morning

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Best of the NASDAQ 100

- As credit risk eases, yet bonds continue to soar, staples fade away, and the long duration trio holds together. The corollary to staples weakness is that technology reasserts its strength – Exhibit 1.
  - One great long-term trend, which while fading a bit, looks more like a pullback to buy, rather than a top, is the outperformance of the NASDAQ 100 – Exhibit 2.
  - We carved out the "best of" for a global manager, which shows lots of gaps higher, taking them back above still rising 50d MAs – Exhibit 3.

Exhibit 1: Global Sector Relative Strength Heat Map

Exhibit 2: NASDAQ 100 vs MSCI World in USD

Exhibit 3: NASDAQ 100 Momentum Buys vs MSCI World in USD

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
We’re going to give you a “now for something completely different” note while most equity volatility levels remain elevated, or at least near midpoints of channels. Within our TIPs suite, we recently amended the Agriculture link to include a new crop. This crop is one of the few where volatility continues to trend lower. It’s not immune to overall equity market volatility swings, and it packs a punch at more than double the market, but it’s certainly different – Exhibit 1.

- On a price basis, our system sees more noise than signal for the index – Exhibit 2...
- ...this is good for stock pickers, either sector focused, or for generalists – Exhibits 3, 4.

Exhibit 1: Alternative Harvest ETF Implied Volatility (and Fit to VIX)
Exhibit 2: North American Marijuana Index
Exhibit 3: CBD Related Stocks vs North American Marijuana Index
Exhibit 4: CBD Related Stocks vs S&P/TSX Composite

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

Note: BMO Capital Markets is Restricted on LABS.
Trends & Inflection Points

Wishing My Legs Away

- Here are a couple of important breakouts which help to update the long vs. short duration leaning in the market:
  - Short-duration energy credit risk breaks higher – Exhibit 1.
  - Long-duration real estate relative performance breaks higher – Exhibit 2.

- For fans of long legs, we present the dive of European inflation expectations (the sole mandate of the ECB eh?), and the corollary, the trend of aggregate negative yielding debt (a key part of the thesis for gold longs) – Exhibits 3, 4.

- It’s that first chart which can inflict the most damage, and as Brent takes out the low at pixel time, and we can hear the long only manager say...

...Oh I’m wishing my legs away cuz they’re taking me to no where safe

Mother Mother

Exhibit 1: HY Energy OAS (Other Sectors Here, IG Here)

Exhibit 2: Real Estate vs. MSCI World

Exhibit 3: European 5y5y Inflation Expectations

Exhibit 4: Aggregate of Negative Yielding Debt

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The size of negative yielding debt continues to soar this morning, and we’d expect that it’s now above the top of the channel, which is rising at over 100%/year. On Friday, Treasury volatility officially entered into the panic buying zone – Exhibit 1. So that’s two extremes on the newfound demand for treasuries.

We often write that we are buyers of panic, but that’s typically panic selling, not buying. Still, it’s a call to action, and in this case it’s a switch to gold which we lined up a week ago today (see “Waiting for the Flow”).

- The update there is that the flow into the gold ETF is at a 1m high. The flow has arrived, nicely on time.
  - Not only that, gold volatility is just off a new low - Exhibit 2.
    - And gold stocks are starting to do better than gold – Exhibit 4.
    - All things bullion are found at this link.

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**Exhibit 1: Treasury Volatility (MOVE)**

**Exhibit 2: Gold Volatility (GVXX)**

**Exhibit 3: Spot Gold in USD**

**Exhibit 4: Gold Stocks vs Bullion**

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

• OK, this piece was to be titled, “Ties That Bind”, but we just couldn’t help ourselves. Jurassic park is an appropriate title, as the direction of the ties that bind are currently getting more ferocious by the day.
• There is good reason we highlighted the pre-inflection point on Chinese Bank CDSs in our May chart deck. They are part of the FSA’s SIFI (too interconnected to fail) list and when risk goes from an all-time low, to not so much, we’d call that one Spinosaurus Aegyptiacus – Exhibits 1, 3.
• Then there is oil, sensitive to global demand, which falters when trade wars open up on all fronts (that mid-month reprieve is so yesterday), which owing to the amount of debt outstanding tied to that black gold, becomes Velociraptor Mongoliensis – Exhibits 2, 4.

Exhibit 1: Bank of China 5Y CDS (Spinosaurus Aegyptiacus) – SIFIs Here

Exhibit 2: 12M WTI (Velociraptor Mongoliensis)

Exhibit 3: BoC 5Y CDS, ACWI & Rolling 30d Correlation of Returns

Exhibit 4: 12M WTI, ACWI & Rolling 30d Correlation of Returns

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Financials – What’s Working

• When we look at the global market cap weighted financials relative performance, we see a downtrend, of lower lows and highs for the past year, so our system just sez underweight, but...

• ...a few months back, our equal-weighted breadth reading went from confirming that position, to, as of yesterday's session, recovering to the best reading in 9mo – Exhibit 2, so we dig in, and easily find...

• ...that there is a pretty straightforward bifurcation going on of what works, and what does not – Exhibit 3, and from there we delve in to detail the insurance and consumer finance stocks that fit the bill for either...
  o ...the momentum minded (outperforming market and sector), - Exhibit 3...
  o ...and the bottom fisher (severed underperformers), (note how many large caps broke above underperforming trends yesterday – Exhibit 4, and that’s the end of this run on sentence).

Exhibit 1: Global Financial Relative Strength Breadth Reading

Exhibit 2: Global Financial Industries vs. MSCI World

Exhibit 3: Largest 10 Insurance & Consumer Finance Stocks Outperforming ACWI & Financials – Full List Here

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>LT RS</th>
<th>RS</th>
<th>MkCap (US$)</th>
<th>Chg Last Day</th>
<th>ACWI w</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS HI (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt MA Trend</th>
<th>Chg wrt 200d MA Trend</th>
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Exhibit 4: Largest 10 Insurance & Consumer Finance Stocks Severing Underperforming Trends vs ACWI – Full List Here

<table>
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<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>Sub Industry</th>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Canadien Banks

- On **Friday**, we highlighted the creditworthiness of US banks. Yesterday, we highlighted the creditworthiness of Chinese banks. It’s not much of a stretch to then look at Canadien banks, and yesterday’s inflection point on Canadien bank implied volatility allows an easy segue into that **all important Canadian group**. We can ‘splain the segue from credit risk to CDN banks in one chart – Exhibit 1.
  - We see Canadien bank volatility as somewhat in between the wakeup call that we’re not in Kansas anymore (or, perhaps we are), and the reason we look at volatility, for the buy point (see our May 13 TIPS note) – Exhibit 2.
    - Then there is the chart of CDN banks, which is just 3% off of its high, so we think it’s still a great time to mind the pattern – Exhibit 3.
    - For the institutional manager, who just can’t avoid 20% of the Canadien market, it all comes down to choice, so we highlight North American Diversified banks vs the CDN Diversified banks index, cause we have the tools to do that, eh – Exhibit 4?

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**Exhibit 1: US Prime Broker 5Y CDS and CDN Banks (Inverted Scale)**

**Exhibit 2: Canadien Bank ETF (ZEB CN) Implied Volatility**

**Exhibit 3: S&P/TSX Diversified Bank Total Return Index**

**Exhibit 4: Diversified Banks vs S&P/TSX Diversified Banks Index**

*Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit*
One relatively esoteric credit risk indication we look at is the CDS curve, or the ratio of 1/5y levels for the SIFIs (that’s the sort here).

Typically it’s to see exactly where Deutsche Bank is in its credit folly as it’s always on top (not a good place to be), but recently what has piqued our interest was that Banco Santander has a flatter curve than Chinese banks, which is remarkable, as the Chinese banks are semi-sovereign.

For the China/US tension watch, one should be looking at the creditworthiness of the banking system, and the most liquid instrument to watch is Bank of China – Exhibit 1.

Below that chart, we stack up Cu & Crude to show the synchronicity – Exhibit 3.

After basing for over two years, is the Bank of China curve is at a key inflection point, and we label the three options – Exhibit 2.

Below that, we line up the CRB Raw Industrials, which points out the likely direction going forward - Exhibit 4.

However, we won’t get too far over our skis, here though. We will continue to monitor the base here, because...

...I’m All About the Bass, No Treble

Meghan Trainor
Waiting for the Flow

- When we write on the strategy of being overweight “long duration assets” we tuck gold into the fold, but it does not yet get the same screen time as the others - bonds, real estate, and utilities. The reason is simple: it’s hard to cheer for the team when it’s stuck in a rut, or in this case a consolidation pattern. But as it does so, we can highlight that,
  - against bonds, gold is nearing 2 standard deviations “inexpensive” – Exhibit 1;
  - against the yen, gold is receding back to neutral – Exhibit 2.
- If we were to point to a culprit, holding gold back, we would point to the flows, which have been decidedly out this year – Exhibit 3.
  - So while we wait for the flows, we’ll just highlight the skinny list of gold outperformers – Exhibit 4.
Trends & Inflection Points

Quiver at the Core

- Here’s the only chart you need (updates in CDS) – Exhibit 1.
  - Playbook remains the same. The strength of staples is new this week. That’s directionally congruent with the thesis.
  - Ultimate risk was delineated here.

EXHIBIT 1: The Core of the Banking System – Counterparty Risk (5Y CDS) for a Basket of Global Prime Brokers (Individuals Here, SIFI List Here)

Makes it kind of quiver down in the core...And now you're stumblin’

Tom Waits

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

**Signals**

- We gave a number of “risk off” signals yesterday, ending with the Canadian 10-2 curve, which is set to break to an 11y low. We believe that will lead the US curve lower, but in reality it’s the UK curve which has broken first. Britain is a very broken place – Exhibit 1.

- Today, we go back to our relative strength breadth report, where for the first time this year, the best “strength & momentum” quadrant is filled with the ultra-safe duo of utilities and staples (covered this week) – Exhibit 2.
  - Long duration Real estate is coming off of its peak, and we attribute that to the weakness in China (12% of the universe). Long duration technology peaked with the VIX bottom in April. Resources continue to be the weakest place to be, and we highlight the best defense (pipes and golds) in each.

- The LME basket, churning for 10 months now, is breaking lower. Mind that signal – Exhibit 3.

- A few European prime brokers broke above narrowing trends yesterday, and this morning at pixel time, Morgan Stanley widens above its 200d MA. Mind that signal too – Exhibit 4.

*For you, the blind who once could see, bell tolls for thee, bell tolls for thee*

---

Exhibit 1: **US 10-2 Curve** (With CDN & UK Curves in Insert – All Here)

Exhibit 2: **Global Relative Strength Breadth Heat Map**

Exhibit 3: **LME Basket** (All Base Metals & Bulks Here)

Exhibit 4: **BNP Paribas 5y CDS** (Other Prime Broker CDS Here)

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

Big Picture Breakouts & Breakdowns

- We don’t think much commentary is necessary here...
  - Go long the US market vs ACWI – Exhibit 1.
  - This is your wake up call for US Telecom – Exhibit 2.
  - Mind the breakdown in those miners – Exhibit 3.
  - Mind the Canadian recession barometer – Exhibit 4.

Exhibit 1: S&P 500 ETF (SPY US) vs ACWI

<table>
<thead>
<tr>
<th>Trend / Width</th>
<th>Trend Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% / 3%</td>
<td>9 mo</td>
</tr>
</tbody>
</table>

Breaking Out of 9M Holding Pattern

Exhibit 2: S&P 1500 Integrated Telecom Index With Stocks in Insert

<table>
<thead>
<tr>
<th>Trend / Width</th>
<th>Trend Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% / 9%</td>
<td>14 mo</td>
</tr>
</tbody>
</table>

Breaking Out of 3Y of Churn

Exhibit 3: S&P/TSX Diversified M&M vs S&P/TSX (Stocks in Insert)

<table>
<thead>
<tr>
<th>Trend / Width</th>
<th>Trend Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1% / 18%</td>
<td>10 mo</td>
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</tbody>
</table>

Distribution Top

Exhibit 4: Canadian 10-2 Yield Curve (Other NAmer Curves Here)

<table>
<thead>
<tr>
<th>Trend / Width</th>
<th>Trend Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>92% / 141%</td>
<td>6 mo</td>
</tr>
</tbody>
</table>

Pre-Breakdown View eh?

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

May 22, 2019
Staples

- We don’t write about staples too often, as their utility in a portfolio geared towards outperformance seems limited to periods where “risk” (volatility, bank credit risk, political risk) rises, and that seems to end with a bang, making timing of entry & exit problematic. That being said, we need to focus on what the market rewards and disregards, and we have been all over the reward of long duration trio, the disregard of resources and financials; but need to also pay homage to staples, which has risen out of “the neutral zone” in our breadth work, and is either in an outperforming trend if your benchmark is European or EAFE, and is breaking above underperforming trends in many cases elsewhere – Exhibits 1, 2.

- Without further ado (as we run out of space) here are the largest staples momentum buys for a global portfolio – Exhibit 3.

Exhibit 1: **Global Relative Strength Sector Breadth Z-Score**

Exhibit 2: **Staples vs Local Benchmarks**

Exhibit 3: **Largest 20 Liquid Global Staple Momentum Buys vs ACWI**

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

- We will tweak the call, as is appropriate, but the call, unless there is a major change to the central bank stance and threatening economic environment, is to be overweight long duration assets, and to be underweight economic sensitives.

- We updated the trend on the stock of negative yielding debt on the breakout Exhibit 1. The next chart requires a bit more working up, but it’s instructive nonetheless. One of the most fantastic charts, which broke significantly in Q4, was leveraged loans. Pricing hit new highs this year again, but the relative chart just never got its mojo back, and if anything we see the top continuing to form – Exhibit 2.

  - These two charts are a decent underpinning for our long duration strategy. Both the “why the strategy,” and the “not to own.”

  - We consider long duration stocks as technology, real estate, utilities, and gold. With yesterday’s nice lift, and the lack of sells from these pages recently, we decided to carve out the list of stocks in these categories that are not working.

  - It’s a clean house list. Why are they not working? Why not sell? – Exhibit 3.

Exhibit 1: Global Stock of Negative Yielding Debt in USD

Exhibit 2: Senior Leveraged Loans vs Barclays Aggregate

Exhibit 3: Largest MSCI World Stocks in “Long Duration” Industries Which are NOT Working – Trending Lower – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Hi-dee hi-dee hi-dee hi

• Equity markets sure liked to see that the US was not going to wage economic war on the world everywhere, all the time. That sure seems to be an incremental improvement. From a long-term standpoint, we continue to recommend a barbell of low beta and high beta long duration, looking for opportunities in either camp.

  The low beta stuff outperforms when credit risk heats up.

• In the current environment, we see US bank credit risk as the key barometer to watch.

  We are micromanaging here, and that’s always tricky in a threatening environment, but US bank risk peaked at a 6w high on Monday, and is off a few bps, back to its narrowing 50d MA this morning.

  We’ll use this window of ease as an opportunity to have the market point out which high beta long duration stocks the market rewards. These are the stocks that improved to an “n-Month” high yesterday – Exhibit 1.

Hi-dee hi-dee hi-dee hi

Minnie the Moocher, Cab Calloway

Exhibit 1: Technology Stocks at an n-Month Hi-Dee Hi-Dee... Yesterday

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Submitting Defense Exhibits Alpha & Bravo

- Here’s a fantastic chart for you, and this morning at pixel time, it takes out the March high – Exhibit α.
  - That would be the stock of global negative yielding debt.
- Before we move on, note that the materials sector just sank to the worst sector in our breadth work, as the defensiveness of the energy storage and transports has helped in the performance derby. So yes, you should be underweight materials, but most clients don’t go zero weight, and herein lies the out...
  - Gold, which has consolidated gains for a few months now, and which is that long duration asset (we are recommending) of zero yield, has a pretty good fit to the stock of negative yielding debt. Oh, and mind the gap – Exhibit β.
    - And gold stocks have corrected nicely as gold has consolidated – Exhibit 3.
  - Technically, gold indices are all below falling 50d MAs, which is not good. But one should never buy gold stocks when they look good. You should buy them when the reason for owning them looks good and we send you back to Exhibits α & β.
    - For the specialist, this is your gold link. For the generalist, here are the gold stocks that are outperforming the market and sector – Exhibit 4.

I said grave danger? You said is there any other...

Lt. Daniel Kaffee

Exhibit α: The Momentum Buy That Is the Value of -ve Yielding Debt

Trend / Width 116% / 13%
Trend Length 8.9
7 mo
Breakout

Exhibit β: Gold, that Mo Buy & Rolling 30d Correlation of Returns

There are Better Fits to Gold Out There, But This One Tells A Lot, and Has a Pretty Good Rhyme

Exhibit 4: Largest Outperformers vs ACWI & Materials – Full List Here

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

Note: BMO Capital Markets is restricted on Newcrest Mining and Polyus PJSC
The Pivot to High Yield Equities

- Before we get to high yield equities, note the sell-off in high yield bonds, where energy OAS just broke out to a 4m wide, and all sectors are at least a 1m wide, and all are above rising 50d MAs. That’s the contagion that just started to show up a week ago. Ugly pivot!

- This pivot dovetails with what we are seeing in bank counterparty risk, which itself is begat by the move in market(s) volatility. US prime broker risk is at a 6w wide, and widens again this morning – Exhibit 1.

  - Now high yield equities are at a 10d relative high, after significantly underperforming so far this year. This performance lags behind the performance of counterparty risk, and the two are typically joined at the hip – Exhibit 2.

- Because it’s hard to feed the family on relative gains, we’ll pivot to dividend-adjusted price trends, and carve out the stocks that have good yield and dividend growth profiles, and let the market reveal what’s in favour, priced at least at a 1m high – Exhibit 3.

Exhibit 1: US Prime Broker 5Y CDS Average (JPM, GS, MS)

Exhibit 2: US PBroker 5Y CDS, Namer HY RS, 30d Correlation of Returns

Exhibit 3: North American Large & Liquid Stocks at n-Month Highs With a Dividend Yield & Growth Filter Applied – Full List Here

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

Headed for Their Destination

- On Friday, our focus was the direction of global equity markets, which is southerly. The focus that always comes next is magnitude.
- First of all, note that low beta long duration (Real State) is starting to overtake high beta long duration (Technology), and further that, resources continue to be shunned, so all is working according to plan.
  - Second, we must qualify that real estate call with the main rule of the trade, location, location, location. That spectacular outperformance of China is breaking down as credit risk is breaking higher. Credit matters!
- Third, and to repeat ourselves here: Treasuries are gorgeous, just gorgeous - Exhibit 3.
- Finally, and this addresses the magnitude of equity decline question, we are waiting for concerns to be priced in. We’ve quantified concerns as market(s) volatility, which dovetails with counterparty risk. Volatility is in a bull market, making higher highs and lows. We’ve put a big circle around what we expect to be its final destination – Exhibit 4.
  - However much equity markets want to fall between now and then, is pure conjecture. Here’s a great song while we wait.

And after a while all the people left the harbor and headed for their destination

Waterfront, John Lee Hooker

Exhibit 1: Global Sector Relative Strength Breadth

Exhibit 2: Chinese REstate 5Y CDS Ave (REstate vs GBL REIT in Insert)

Exhibit 3: Global Aggregate Treasury Index Hedged USD

Exhibit 4: Stock, Bond, and Commodity Implied Volatility

If This Was a Stock, And You Were Momentum Oriented, You'd Own It

Left the Harbour (Again)

...and Headed for Their Destination (Buy Points)

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

Get the Direction Right

- In case you didn’t notice, our last overview deck was devoid of an equity chart. Why? Because we want our clients to focus on the equity drivers, commodities (CRB Raw industrials now at a 30m low) and credit (four more SIFIs broke above narrowing trends yesterday).

- Now, with the official start what is likely to be a long US/China trade kerfuffle, we will present our system on the widest equity market gauge, ACWI – Exhibit 1.

  - The trend is is -4%/year, so we suggest adding some dividends to counter that (and indeed continue to recommend owning lists full of treasuries).
  - The width of the channel is 15%, and at this point that’s mostly downside as we are just off of the top of the channel? Otherwise put, our system can easily see a 15% correction and that would be “the norm.” The norm? Yes. Why?
    - Because while all three of the dips which comprise the downtrend have different drivers, they are the same in terms of inducing higher volatility and thus higher financial credit risk (our Chinese Bank & Real Estate CDS baskets broke above narrowing trends yesterday).
  - Without a solid banking system, you’ve got nothin’ but downside in equity land.

Exhibit 1: ACWI
The Song Remains the Same

- It’s just a symphony of fantastic inflection points out there on the macro front. You don’t come to us for the trends, anyone can do momentum. You come to us for the inflection points.
- On these inflection points, you make the decisions to either act, or say, no thanks, you’ll stay invested based on the trend that you expect will resume. The better your decisions, the less likely you are to be replaced by an ETF. That’s the honest truth of what our industry has become.
- We will let the charts speak for themselves. Today, they are all consistent with our latest marketing deck, found here, with colour commentary from yesterday’s note here.

Exhibit 1: EM Currency Volatility (More Macro Decision Points in Insert)

Exhibit 2: CRB Raw Industrials (Other Benchmarks in Insert)

Exhibit 3: EMBI Global Core Bond Index (Sov. Broke Yesterday Too)

Exhibit 4: Ag Bank of China SY CDS (SIFIs at N-Mo Wides in Insert)

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

Zero, My Hero

- We are in Winnipeg today, and the tidy overview package, or state of the market address in just 10 pages, “You Are Here” is found here.
  - The only update, would be this chart, showing combined capital markets volatility (stocks, commodities, bonds) at a 3m high. Our readers know that this behavior induces forced selling from risk parity funds, and also that counterparty risk rises, and thus equity markets fall during such episodes.

- That’s why page 3 details the counterparty risk of US and Chinese banks at one-month highs, which was our warning in yesterday’s note (duly noted by the market).

- Then on page 4 we take a step back, and detail state of the global economy via a few commodity baskets, which show that we are moving back towards the 2008 crisis low. From then, you have to ask which central bank is going to turn this around? The FED sees the US economy as fine thank you very much, and the banking system is solid (highest SIFI curve is but 55), so why add stimulus? The ECB has been all in, has failed to improve the only mandate it has, which is to get inflation (which is diving in Europe) higher. China? Japan?

- This dovetails with what we are seeing from a global equity relative strength breadth standpoint, which we detail on page 5. Long duration high beta technology is rewarded, while resources are rejected. The “mind the gap” warnings on the page remind our readers that when the spreads get too wide, they end up collapsing. In this case, technology will weaken as counterparty credit risk surges, which again is foretold by the weak commodity backdrop.

- Page 6 details the treasuries. The market loves treasuries, the longer duration the better. Why take the duration risk? Page 7 details the receding, or diving behavior of inflation expectations. The kryptonite that would hurt that long duration leaning is sealed in the box, and again we ask, which central bank is ready to ease substantially to change this? No indication = no change in our strategy.

- Then on page 8 we make the observation that high yield energy credits have lately failed to respond to the higher oil price, and we note the risk if oil falters then the risks become rather Q4ish. Also noted on this page is the first sign of contagion in the HY market (which is actually worse in the IG market).

- Our final slide is for the asset allocator, as we show ratios of stocks vs bonds from a global, US, and Canadian perspective. It’s an exciting conclusion, which you won’t want to miss. And to answer the question really? We highlight a 30-year chart of treasuries. Yep.

Exhibit 1: Combined, Stock, Bond, and Commodity Volatility

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

One Is the Loneliest Number

- We love it when markets are as clear as they are, but this is unbelievable! So in case you have been on vacation, we’ve been writing on (as to say expecting to see something here) counterparty credit risk for the past four sessions. With the new US-China negotiating environment, US and Chinese bank counterparty risk moved to one month wides yesterday – Exhibits 1-3.

- Rising/falling counterparty risk = falling/rising equity markets.
  - From a counterparty risk trend perspective,
    - US diversified banks look like “here we go again” short candidates (whac-a-mole style) – Exhibit 2.
    - Chinese banks are at inflection points, which can lead to meaningful corrections – Exhibit 3.
- When markets lose a stable counterparty risk environment, well as the song sez...

...It’s just no good anymore since you went away

One, Three Dog Night

Exhibit 1: Too Interconnected to Fail Financials (FSA) with 5Y CDS at 1-Month Wides

Exhibit 2: Wells Fargo 5-Year CDS (Equity Trend Here)

Exhibit 3: China Construction Bank 5-Year CDS (Equity Trend Here)
Fast Headlines, Slow Market

- With all the headlines you hear and read on your way in, you’d think the world is falling apart. As we have detailed in the past few days, the signature of that happening is bank credit risk rising, but that’s not the case (yet?). Instead, we just have the slow moving market where commodities signal all is not well in the world – Exhibit 1.
  - We remain focused on a long-duration strategy, overweighting the long end of the treasury curve – Exhibit 2...
  - ... and for equities overweighting the barbell of high beta technology (momentum buy, which can get smacked on risk aversion) and low beta real estate and utilities (a tad out of favour...below falling 50d MAs, but moves back in favour as treasury yields fall in a calm fashion) – Exhibit 3.

Exhibit 1: CRB Non-Energy Total Return Index

Exhibit 2: US Treasury 20+ Index (TLT US) vs US Treasury Index

Exhibit 3: Global Technology, Real Estate & Utilities vs MSCI World (Full Sector Spectrum Here)

<table>
<thead>
<tr>
<th>Name</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>%Chg wrt 50d RS MA</th>
<th>Chg wrt 50-d RS MA Trend</th>
<th>%Chg wrt 200d RS MA</th>
<th>Chg wrt 200-d RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities vs. MSCI World</td>
<td>15%</td>
<td>-2.2%</td>
<td>Below Falling</td>
<td>-0.1%</td>
<td>Below Rising</td>
<td></td>
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<tr>
<td>Technology vs. MSCI World</td>
<td>10%</td>
<td>2.0%</td>
<td>Above Rising</td>
<td>4.3%</td>
<td>Above Rising</td>
<td></td>
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<tr>
<td>Real Estate vs. MSCI World</td>
<td>9%</td>
<td>-1.5%</td>
<td>Below Falling</td>
<td>1.2%</td>
<td>Above Rising</td>
<td></td>
</tr>
</tbody>
</table>

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

- Yesterday’s move higher in rates was not in our investment thesis, and in Canada we saw inflection points from 2s to 10s, so we need to address the problem – Exhibit 1.
- Yesterday was a “cash is king” day. Stocks lower. Commodities lower. Bonds lower. The key thing what was up was selected equity and commodity volatility. If you recall, there is a good fit to higher volatility and lower (formerly known as) risk parity fund performance, and those funds may be indiscriminate sellers in a rising volatility environment, so our propensity is to point fingers there – Exhibit 2.
- Now that we’ve got that out of the way (but recall there is a tie in to where we are leading you today), and with oil continuing to lack much of a bid at pixel time, we’ll guide your focus to the calm, and potentially impending storm 2 in energy high yield credit risk, which has the potential to induce contagion risk to the overall high yield market – Exhibit 3.
  - And if, and of course this is a big if, energy credit risk breaks higher, then here is the most important “you are here” inflection point we can leave you with on a Friday – Exhibit 4.

Exhibit 1: Canadian 5y Bond Yield & Other Parts of the Curve in Insert

Exhibit 2: Volatility & Formerly Known as the AQR Risk Parity Fund

Exhibit 3: High Yield Energy OAS

Exhibit 4: Goldman Sachs 5Y CDS

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

Source: All charts/tables BMO Capital Markets, Bloomberg
IMPORTANT DISCLOSURES

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ETFs designed to track an index or asset may experience a discrepancy between the ETF’s performance and the performance of its target index known as tracking error. A variety of factors can create a performance gap between ETF and its target index such as the impact of transaction fees and expenses incurred by the ETF, changes in composition of the underlying index/assets, the ETF portfolio manager’s replication strategy and sampling techniques, and the timing of purchases and redemptions of ETF’s shares. Inverse and Leveraged ETFs: Most leveraged ETFs seek to provide a multiple of the investment returns of a given index or benchmark on a daily basis.

Inverse ETFs seek to provide the opposite of the investment returns of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect.
## Distribution of Ratings (June 06, 2019)

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<td>Buy</td>
<td>Outperform</td>
<td>48.4 %</td>
<td>22.3 %</td>
<td>62.0 %</td>
<td>50.2 %</td>
<td>60.1 %</td>
<td>57.7%</td>
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<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>48.6 %</td>
<td>12.4 %</td>
<td>34.8 %</td>
<td>46.9 %</td>
<td>38.3 %</td>
<td>37.5%</td>
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<tr>
<td>Sell</td>
<td>Underperform</td>
<td>3.0 %</td>
<td>18.8 %</td>
<td>3.3 %</td>
<td>2.9 %</td>
<td>1.6 %</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

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

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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~~~~ As of April 1, 2019.

### Ratings Key (as of October 2016)

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- Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis;
- (S) = Speculative investment;
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(April 2013 - October 2016)


(January 2010 - April 2013)


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