Quantitative/Technical Package

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<th>Market Elements</th>
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Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
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<tbody>
<tr>
<td>May 2, 2017</td>
<td>Best Stocks in the Worst Sector: Energy</td>
<td>11</td>
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<tr>
<td>May 1, 2017</td>
<td>US Large Cap Value</td>
<td>12</td>
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<tr>
<td>April 28, 2017</td>
<td>It Took Me Four Days to Hitchhike From Saginaw</td>
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</tr>
<tr>
<td>April 27, 2017</td>
<td>The Wisdom of a Toronto Cab Driver</td>
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</tr>
<tr>
<td>April 26, 2017</td>
<td>On the Road Again: Boston Day 1</td>
<td>15</td>
</tr>
<tr>
<td>April 25, 2017</td>
<td>And Now For Something Completely Different</td>
<td>16</td>
</tr>
<tr>
<td>April 24, 2017</td>
<td>Viva La France, Viva L'Europe</td>
<td>17</td>
</tr>
<tr>
<td>April 21, 2017</td>
<td>Other Stuff is Breaking Out</td>
<td>18</td>
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<td>April 20, 2017</td>
<td>Growthy SMID Technology</td>
<td>19</td>
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<tr>
<td>April 19, 2017</td>
<td>Energy As a Short Duration Short</td>
<td>20</td>
</tr>
<tr>
<td>April 18, 2017</td>
<td>O ye'll tak' the high road, and I'll tak' the low road</td>
<td>21</td>
</tr>
<tr>
<td>April 17, 2017</td>
<td>Insurance Three Months Later</td>
<td>22</td>
</tr>
<tr>
<td>April 13, 2017</td>
<td>S&amp;P 500 Prebreakdown, Soda Breakout, TSX 60 Review</td>
<td>23</td>
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<td>April 12, 2017</td>
<td>Run to the Hills</td>
<td>24</td>
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<tr>
<td>April 11, 2017</td>
<td>This Is the Reflation Trade</td>
<td>25</td>
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<tr>
<td>April 10, 2017</td>
<td>The Foundation Stage Is Over</td>
<td>26</td>
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<td>April 7, 2017</td>
<td>US Launches Strike on Syria in Response to Chem Attack</td>
<td>27</td>
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<tr>
<td>April 6, 2017</td>
<td>European Road Trip Day 4: London Back to Zurich</td>
<td>28</td>
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<td>April 5, 2017</td>
<td>European Road Trip Day 3: Paris to London</td>
<td>29</td>
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<td>April 4, 2017</td>
<td>European Road Trip Day 2: Geneva to Paris</td>
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<tr>
<td>April 2, 2017</td>
<td>European Road Trip Day 1: Surprise Encounters</td>
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<td>March 31, 2017</td>
<td>China's Greatest Gift to the U.S.</td>
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<td>March 30, 2017</td>
<td>Spotlight on Health Care REITs</td>
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<td>March 29, 2017</td>
<td>The Outlier That Is Canadian Real Estate</td>
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<td>March 28, 2017</td>
<td>Financials &amp; Utilities - Mind the Gaps</td>
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Focal Points

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<th>Date</th>
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<tbody>
<tr>
<td>April 23, 2017</td>
<td>Tut-Tut, it Looks Like Rein</td>
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<td>April 16, 2017</td>
<td>The Wisdom of Sweet Brown</td>
<td>37</td>
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<tr>
<td>March 19, 2017</td>
<td>Treasury Bear? You Have Been Soft Served</td>
<td>38</td>
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</tbody>
</table>
The U.S. indices rose, led by rebounding banks and the momentum of technology, Canada pulled back, while Europe was closed; MSCI World edged to a new high; Global tech rose 1% while all other sector moves were slight; VIX hit a post crisis low.

The U.S. 30y rose 5bps to close back to the 3% mark and the 30-5 curve pushed to its widest in 3m on Mnuchin ultra-long bond comments; the 2y yield held in a 4d range; corporate credit risk fell;

Most currency moves were slight in the liquidity constrained day; outliers included a 10% surge in bitcoin; and a 50bps pullback in Sterling.

Gasoline led oil benchmarks to 1m lows; CMX copper spiked over 3% (‘freak move’) higher on a volume spike and settled 2% higher (LME was closed); silver fell 1.7% (near 3m low) to lead all precious metals lower; gold moves tracked yen weakness.

Levels*
Currencies (USD per)
Symbol H/L Level %Chg Symbol H/L Level %Chg Symbol H/L Level %Chg Symbol H/L Level %Chg
BBDXY * 1,217 0.0% BB Cndty * 84.21 0.2% XBT H 1,434 9.9% CHF H 1,0035 -0.2%
XBT H 1,0899 0.0% WTI Oil * 48.76 -1.2% EUR H 1,2889 -0.5%
PALLD H 0.7309 -0.2% NMX Gas 3.23 -1.5% GBP H 0.0%

Moves
Currencies (spot)
Symbol H/L Level %Chg Symbol H/L Level %Chg Symbol H/L Level %Chg Symbol H/L Level %Chg
BBDXY * 1,217 0.0% BB Cndty * 84.21 0.2% XBT H 1,434 9.9% CHF H 1,0035 -0.2%
XBT H 1,0899 0.0% WTI Oil * 48.76 -1.2% EUR H 1,2889 -0.5%

Sectors
MSCI World
Info Tech Real Estate Financials Cons Disc Hlth Care Materials Industrials Energy Cons Stap Telecom Utilities

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
The News That Drives Markets in a Slow Growth World

Central Station

- Fed edges gingerly towards talk of shrinking its balance sheet; Move to unwind may be less radical than thought – FT
  - US inflation back to undershooting 2 per cent ahead of FOMC meeting – Alphaville
- Trump Says He's Willing to Consider Raising Gas Tax to Fund Infrastructure – BBG, Reuters
- Trump Says He's Considering Moves to Break Up Wall Street Banks – BBG
- Trump Says He's ‘Happy’ With Spending Deal That Jettisons Many of His Goals – BBG
- Trump Pushing for Vote on Health Bill, but Stumbling Blocks Remain – WSJ, FT
- Treasuries sell-off after Mnuchin says US still exploring ultra-long bonds – FastFT, FT
- Trump won’t trade U.S. jobs for China’s help on North Korea: Ross – Reuters
  - Trump Says He’d Be Honored to Meet With Kim Jong Un Under Right Circumstances – BBG, Reuters
  - Japan issues 1st order to protect U.S. ships amid N. Korea tension – Nikkei, FT
  - U.S. Push for Tougher North Korea Approach Faces Resistance from China, Russia – WSJ, WSJ2
  - North Korea’s nuclear push masks Korean (world’s 4th largest) army coming apart at seams – FT
- Trump Aluminum Probe Evokes 1949 Cheese and Wool Threat in Canada – BBG
- Mexico calls on Trump to reuse TPP deals to reanimate Nafta – FT
- Le Pen's Euro Contortions Underline French Reluctance to Exit – BBG, FT
- The quiet but substantial successes of Abenomics; In Japan, despite headwinds, prices and growth are getting firmer – FT
- PBOC Official (Xu Zhong, head of the Chinese central bank’s research bureau) Says China Should Deleverage Properly – Caijing
  - China Crackdown to Be Intensified After Xi Meeting – BBG, BBG2
    - FTSE-listed miners rattled by China concern – FT
    - Chinese underground lending cools in April – FT
**Crude Realities**

- Oil's Big Glut Isn't Shrinking, It's Resting Elsewhere (in products, which are not being consumed) – [BBG]
  - Trump Administration’s Push for Gas Exports Faces Market Glut – [NYT]
- Housing Makes B.C., Ontario Canada's Fastest-Growing Provinces – [BBG Terminal]
  - Canada’s Frothy Housing Market – [BBG]
    - Contagion Odds Questioned – [BBG, ZH];
    - Canada’s Housing Woes Hurt CIBC’s PrivateBancorp Takeover Plans – [BBG]
    - Equitable Group stock soars after deal to borrow up to $2 billion from banks – [CP]
    - Where were the regulators? – [G&M]
- Australia’s Red Hot Housing Market Shows First Signs of Slowing (after regulatory tightening in March) – [BBG Terminal]
  - Australia record home sale highlights bubble risks – [FT]
- US share buyback plan approvals plunge; Stock market’s surge this year may be curbing a key source of demand for equities – [FT]
- US credit card stocks sink to fresh lows; Providers earmark $1bn more for bad loans as clients struggle to pay off debts – [FT]
- British Interest-free credit cards a ‘ticking time bomb’, bankers fear – [FT]
- It’s the corporate earnings growth hope that kills you – [FT]
- Japan's Labor Shortage (tightest market in decades) Prompts Grudging Turn to Permanent Jobs – [BBG]

**Other Voices**

- Return of $4.5 trillion balance sheet to pre-crisis levels isn’t feasible (Bernanke) - [CNBC]
- Trump’s friendly invitation to strongman Duterte stuns all – [SMH, FT]
  - ‘Does the president have a thing’ for totalitarian leaders? (reporter to Spicer) – [BI]
- Dear Uber, That Record Funding Means Didi Is Coming for You – [BBG]
- Ms May “lived in another galaxy” and was “deluding herself” (Juncker) – [Independent, FAZ, BBG, FT, Project Syndicate]
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

Currencies
Bloomberg Dollar Spot Index

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

Euro

Crude Oil (Brent)

U.S. 10-Yr Breakeven

SGP 500

Yen

Crude Oil (WTI)

U.S. 10-Yr Bond

SGP/TSX Composite

Chinese Yuan (CNY)

Natural Gas (NMX)

Canadian 10-Yr Bond

VIX

Canadian Dollar

Copper (CMX)

German 10-Yr Bond

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

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

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<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tbody>
<tr>
<td>Caltex Australia</td>
<td>CTX AU</td>
<td>0.6%</td>
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<tr>
<td>Woodside Petroleum</td>
<td>WPL AU</td>
<td>0.2%</td>
</tr>
<tr>
<td>Petroleo Brasileiro</td>
<td>PBR US</td>
<td>0.1%</td>
</tr>
<tr>
<td>Inpex Corp</td>
<td>6605 JP</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Santos Ltd</td>
<td>STO AU</td>
<td>-0.9%</td>
</tr>
<tr>
<td>J&amp;TG Holdings Inc</td>
<td>5020 JP</td>
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#### Materials

<table>
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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tr>
<td>Nitto Denko</td>
<td>6988 JP</td>
<td>5.9%</td>
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<tr>
<td>Vale SA</td>
<td>VALE US</td>
<td>1.2%</td>
</tr>
<tr>
<td>Mitsubishi Chemical Holdings</td>
<td>4188 JP</td>
<td>1.1%</td>
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<tr>
<td>Sumitomo Metal Mining</td>
<td>5713 JP</td>
<td>-1.6%</td>
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<tr>
<td>JFE Holdings Inc</td>
<td>5411 JP</td>
<td>-1.7%</td>
</tr>
<tr>
<td>South32 Ltd</td>
<td>532 AU</td>
<td>-2.2%</td>
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#### Technological

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<tr>
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<th>% Chg</th>
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<tr>
<td>Yamaoto Holdings</td>
<td>9064 JP</td>
<td>6.1%</td>
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<tr>
<td>Mitsubishi Electric</td>
<td>6503 JP</td>
<td>3.7%</td>
</tr>
<tr>
<td>Qantas Airways</td>
<td>QAN AU</td>
<td>2.6%</td>
</tr>
<tr>
<td>ANA Holdings Inc</td>
<td>9202 JP</td>
<td>-2.0%</td>
</tr>
<tr>
<td>TOTO Ltd</td>
<td>5332 JP</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Japan Airlines</td>
<td>9201 JP</td>
<td>-7.3%</td>
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#### Cons Disc

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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tbody>
<tr>
<td>Nitto Denko</td>
<td>6988 JP</td>
<td>5.9%</td>
</tr>
<tr>
<td>Canon Corp</td>
<td>5802 JP</td>
<td>1.0%</td>
</tr>
<tr>
<td>Denso Corp</td>
<td>6922 JP</td>
<td>-1.3%</td>
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<tr>
<td>Mazda Motor</td>
<td>7261 JP</td>
<td>-2.8%</td>
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<tr>
<td>Yamaha Holdings</td>
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#### Cons Stap

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<tr>
<td>Keins Holdings</td>
<td>2503 JP</td>
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<tr>
<td>Westfarmers</td>
<td>WES AU</td>
<td>1.4%</td>
</tr>
<tr>
<td>Treasury Wine Estates</td>
<td>TWE AU</td>
<td>1.4%</td>
</tr>
<tr>
<td>Nissin Foods Holdings</td>
<td>2897 JP</td>
<td>-0.6%</td>
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<tr>
<td>Kao Corp</td>
<td>4452 JP</td>
<td>-0.7%</td>
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<tr>
<td>Yakuhi Honsha</td>
<td>2267 JP</td>
<td>-0.8%</td>
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#### Health Care

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<tbody>
<tr>
<td>Sysmex Corp</td>
<td>6609 JP</td>
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<tr>
<td>Chugai Pharmaceutical</td>
<td>4519 JP</td>
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<tr>
<td>Gemsh A/S</td>
<td>GEN DC</td>
<td>1.0%</td>
</tr>
<tr>
<td>Coloplast</td>
<td>COLOR DC</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Novo Nordisk</td>
<td>NOVOB DC</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Astellas Pharma</td>
<td>4503 JP</td>
<td>-2.5%</td>
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#### Financials

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<tr>
<td>Banco Santander Chile</td>
<td>BSAC US</td>
<td>2.1%</td>
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<tr>
<td>Sumitomo Mitsui Trust</td>
<td>8309 JP</td>
<td>2.1%</td>
</tr>
<tr>
<td>Banco Bradesico</td>
<td>BBID US</td>
<td>2.0%</td>
</tr>
<tr>
<td>Daiwa Securities Group</td>
<td>8601 JP</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Shinsei Bank</td>
<td>8303 JP</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Resona Holdings Inc</td>
<td>8308 JP</td>
<td>-4.3%</td>
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</table>

#### Technology

<table>
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<tr>
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<td>Tokyo Electron</td>
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<td>Fujitsu Ltd</td>
<td>6702 JP</td>
<td>8.4%</td>
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<tr>
<td>NTT Data Corp</td>
<td>9013 JP</td>
<td>9.8%</td>
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<tr>
<td>Omron Corp</td>
<td>6645 JP</td>
<td>-0.3%</td>
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<tr>
<td>Yahoo Japan</td>
<td>4689 JP</td>
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<tr>
<td>Kirin Co Ltd</td>
<td>7732 JP</td>
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### Utilities

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<tr>
<td>Kyushu Electric Power Co</td>
<td>9508 JP</td>
<td>2.7%</td>
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<td>APA Group</td>
<td>9433 JP</td>
<td>0.5%</td>
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<tr>
<td>Chunghwa Telecom</td>
<td>2412 TT</td>
<td>0.0%</td>
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<tr>
<td>TDC</td>
<td>TDC DC</td>
<td>-0.8%</td>
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### Real Estate

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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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</thead>
<tbody>
<tr>
<td>Mirvac Group</td>
<td>M19 AU</td>
<td>1.8%</td>
</tr>
<tr>
<td>Goodman Group</td>
<td>G19 AU</td>
<td>1.6%</td>
</tr>
<tr>
<td>Lendlease Group</td>
<td>L11 AU</td>
<td>0.9%</td>
</tr>
<tr>
<td>Cheung Kong Property Holdings</td>
<td>1113 HK</td>
<td>0.0%</td>
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<tr>
<td>Daiko House Industry</td>
<td>9125 JP</td>
<td>-0.5%</td>
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**Bold** = move of more than 5%

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**Market Elements | Page 7 May 1, 2017**
## U.S. Market Movers

### Energy
- **Symbol**: H/L Last %Chg
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- **Symbol**: H/L Last %Chg

### Industrials
- **Symbol**: H/L Last %Chg
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### Consumer Discretionary
- **Symbol**: H/L Last %Chg
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### Consumer Staples
- **Symbol**: H/L Last %Chg
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### Technology
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### Telecom Services
- **Symbol**: H/L Last %Chg
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### Health Care
- **Symbol**: H/L Last %Chg
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### Materials
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### Real Estate
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**Market Capitalizations**
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<td>Consumer Discretionary</td>
<td>Symbol</td>
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<td>Symbol</td>
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<td>Last</td>
<td>%Chg</td>
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<tr>
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<td>Symbol</td>
<td>H/L</td>
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<tr>
<td>Utilities</td>
<td>Symbol</td>
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<td>%Chg</td>
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**Market Elements:**

**High/Low:** At a new closing 52-wk High/Low.

**Market Capitalization:** 4.80% - 19.58%
**Trends & Inflection Points**

**Best Stocks in the Worst Sector: Energy**

- We don’t want you to go to energy; we want you to hide from energy – Exhibits 1, 2.
  - If you do have to be there, and your capital has the ability to travel, we suggest it travels to Emerging Markets, which comprise the bulk of the small momentum buy list in energy – Exhibit 3.

**Exhibit 1:** Energy Rel Strength Breadth (Sector Heat Map in Insert)

**Exhibit 2:** Energy vs MSCI World

**Exhibit 3:** Largest 15 Energy Momentum Buys vs ACWI – See Link for Full List

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

US Large Cap Value

- The best of US Large Cap Value, which is bank driven financial services, formerly outperforming at an annualized rate of 16%/year is breaking down - Exhibits 1, 2.
  - It is breaking as the US yield curve is nearing the complete eradication of the Thinking Fast Trump bump. We’ve harped upon this enough; you should be underweight and/or short.

- The worst of US Large Cap value is energy, which is more of a continued momentum sell opportunity, which is again nothing new to our readers.

- The most interesting new feature of the spectrum of sectors (Exhibit 1) is the positive reversal in the discretionary segment of the US large cap value universe (and beyond).
  - We continue to expect weakness in oil and products (which would drive rates, inflation expectations, and the yield curve lower, which would continue to pressure financials), which ought to boost discretionary spending power.
  - The periodic table of Russell 1000 Value Discretionary stocks shows a heavy representation of outperformers and a few bottom-fishing opportunities – Exhibit 3.

Exhibit 1: Russell 1000 Value Sectors vs Russell 1000

Exhibit 2: Russell 1000 Financial Services

Churning With Risk of Retracing "Thinking Fast" Surge as the US Yield Curve Trends Lower

Exhibit 3: Russell 1000 Value Consumer Discretionary Stocks vs Russell 1000 Value Index

Vast Majority of Stocks are Outperforming Trends

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

It Took Me Four Days to Hitchhike From Saginaw

- We are going to put on our hat on today, but the math is not too difficult, ‘cause we’ve been doing a lot of traveling lately, and we’re tired, and our shoes are kinda worn out. TGIF.
  - $6 < 14 < 21 < 25 < 26 < 27$
  - Capital will flow where wants to, and is able to flow.

Let us be lovers, we’ll marry our fortunes together

I’ve got some real estate here in my bag

America, Simon & Garfunkel

Exhibit 1: Tokyo Stock Exchange REIT Index

Exhibit 2: MSCI US REIT Index (RMZ) With Boston FED Tower in Insert

Exhibit 3: Europe REITs Index

Exhibit 4: FTSE EPRA/NAREIT World ex US Index

Exhibit 5: S&P/TSX REIT Index

Exhibit 6 – UK REIT Index

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit, Photography by Mark Steele
The Wisdom of a Toronto Cab Driver

- The Toronto mortgage market is "75% driven off of alt lenders, and 25% banks" said the Toronto cab driver as we returned home from Europe a few weeks back. Take those numbers and sentiment from the source it came from (and the concern he had for the kids) for what it’s worth, but let’s take a look at the relationship between the two – Exhibit 1. The fit can move from fantastic (late 2015 to early 2016) to irrelevant (mid 2016). What causes the variation? Oil – Exhibits 1, 2.
  - While the Bank of International settlements is, we are just somewhat concerned about the current pricing of Toronto real estate, four standard deviations above the long-term trend – Exhibit 3. We are more concerned about the prospects for negative North American nominal rates, and where real estate would be priced in that environment (and the concern we have for the kids).
- Want a quote to hedge Toronto real estate; we suggest you open a dialogue here.
- Want an instrument to hedge Canadian banks, it’s clearly imperfect, but it’s there – Exhibit 4.

Exhibit 1: CDN Banks vs Mortgage Lenders; Rolling 30d Fit of Returns

Exhibit 2: CDN Banks and WTI; Rolling 30d Fit of Returns

Exhibit 3: Teranet Toronto (using Case-Shiller Methodology)

Exhibit 4 – CDN Banks and TLT; Rolling 30d Fit of Returns

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
On the Road Again: Boston Day 1

- **Here’s the package**, which is really a continuation of the European package, which in itself is a continuation of the Quebec package. The main new part of our narrative was conveyed in our Focal Points piece on Sunday, and again yesterday. The most interesting chart updates in our package not covered in our TIPS notes yet include:
  - The somewhat more divergent relationship between the Trump approval rating and the US yield curve. The curve did not benefit from the bounce in the Trump approval rating, and why should it? Firing missiles does not really help the home economy – Exhibit 1. Global yield curves received a little French hook, but we fully expect them to continue to bull flatten (page 6).
  - **We gave you the double top of the S&P 500 vs MSCI World weeks ago**, but as we continue to focus on the weakness in energy, base metal, and bulks, we remind you that we have seen this pattern in Canada before. Humility is a Canadian thing, eh – Exhibit 2.
  - Getting back on yesterday’s Love Boat theme, we thought that the breakout in relative strength breadth of industrial stocks was fresh, exciting and new – Exhibit 3.
    - We suppose, if your input energy costs are about to tank, which is what the relative strength breadth of energy warns you about, that’s probably a good thing for non-energy related industrials – Exhibit 4.

Exhibit 1: Trump Approval Rating and US Yield Curve (10-2) Overlay

Exhibit 2: S&P/TSX 60 vs MSCI World

Exhibit 3: Global Industrials Relative Strength Breadth Score

Exhibit 4 - Global Energy Relative Strength Breadth Score

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
And Now For Something Completely Different

“When faced with a difficult question, we often answer an easier one instead, usually without noticing the substitution”
Daniel Kahneman, Thinking Fast and Slow

- See the nice fit between the Chinese 30Y and the US 30Y bond yields? – Exhibit 1.
  - So why do we interpret the technicals so differently? – Exhibit 2.
    - Cause we look at the underlying drivers eh – Exhibit 3.
      - Which end up forging new relationships – Exhibit 4.

Exhibit 1: Nice Fit Eh?

Exhibit 2: The Technical Layer

Technical Target 4.7
Real Breakout
False Breakout & Double Top
Double Top Target 2.65
Target if The Chinese Yield Goes to 4.7%

Exhibit 3: The News Flow Layer (Dec 14, Dec 20, Feb 28, Apr 14)

- Premier Li Keqiang called on authorities to “root out corruption in the financial sector” FT April 14
- “China bond market forgery exposes leverage risks amid market rout” FT Dec 20
- Fed sees three interest rate rises in 2017 FT Dec 14
- NY Fed: ‘Animal spirits have been unleashed’ CHN Feb 28

Exhibit 4 – The Impact Layer

Crackdown = Breakdown

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

Viva La France, Viva L'Europe

- That’s all we have to say about the first round of the French election. Exhibit 1.
- Our sights are set elsewhere.

Exhibit 1: Average French Bank CDS (BNP Paribas, SocGen, Credit Agricole)

We Can't Envisage Returning to a 6bps World, Yet This Morning, The Three Year Uptrend Breaks With Macron, and The Risk Friendly Downtrend Takes The Stage

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

Other Stuff is Breaking Out

• We never write “the discretionary sector is doing this or that” because it’s such a bucket of other stuff. Are we talking Disney or Toyota? Amazon or McDonalds? LVMH or TJX? So it is with discretion that we tell you that both the equal weighted relative strength breadth, and market cap weighted index, which are two very different animals, are both breaking to the upside – Exhibits 1, 2.

• While benchmarks will have different drivers, the universality of the positivity is homogeneous; in a few cases the trend is positive, but in most, the sector is breaking out of an underperforming trend, which is what most clients care on – Exhibit 3.

• What stocks to highlight? With inflation expectations rolling over, and rolling over hard, the market will focus on where there is earnings growth regardless of the economic signaling of the flattening yield curve. So in this vein, we highlight dividend adjusted price trends on our momentum buy list where we filter for earnings growth – Exhibit 4.


Goldmember

Exhibit 1: GBL Relative Strength Breadth Reading for Cmr Disc.

Exhibit 2: Consumer Discretionary vs MSCI World

Exhibit 3: Discretionary Indices vs Local Benchmarks

Exhibit 4 – Top of our Earnings Growth Mo Buy List of Cmr Disc Stocks

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

**Growthy SMID Technology**

- It’s a small world after all – Exhibit 1.
- Tech is the strongest, most unblemished outperformer – Exhibit 2.
- Growth, because it’s coming back with a vengeance – Exhibit 3.
- At the stock level, it looks like this – Exhibit 4.
- That’s about all we have to say, but since we have this space to fill, we might as well point out for new readers, that all of this stuff is updated daily at the “click here” button on the top left when you open the link in your browser. It’s now tablet and phone friendly if that is your want. If you are a BMO client, we will even give you a link that updates daily to bookmark. Want something tailor made? Give us a call.

Need a personal introduction? Have shoes, will travel. How much more value do you want? MiFID II, bring it on baby!

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Exhibit 1: ACWI Small Caps vs ACWI World

Exhibit 2: Sectors vs MSCI World Small Cap Index

Exhibit 3: ACWI Small Cap Growth vs Value

Exhibit 4 – SMID Technology with an Earnings Growth Filer vs Bench

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

Energy As a Short Duration Short

- After a brief, oil bounce driven, counter-trend rebound (as we see it) in the relative strength breadth reading for energy, the strength has started to roll again - Exhibit 1.

- As we see technical risk to WTI back to the $40s, we recommend adding to short, or underweighted positions here on the breakdown. What breakdown? Those breakdowns - Exhibit 2.

- We will specifically target energy companies, whose CDS has broken narrowing trends, because, heck, when you have that information, you might as well use it?
  - In the low volatility arena, you have Exxon Mobil (XOM US) - Exhibit 3.
  - In the high volatility space, you have Transocean (RIG US) - Exhibit 4.

- Everything energy is found at this link.

Exhibit 1: Energy Relative Strength Breadth Z-Score

We See This Breakdown as The Future....

...And Advocate Selling Into This Fading Counter-Trend Rebound

Exhibit 2: Energy Indices with Broken Price Trends

<table>
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<tr>
<th>Energy</th>
<th>Change Last Day</th>
<th>Reward/Risk</th>
<th>1-Day Price Chg(%)</th>
<th>5-Day Price Chg(%)</th>
<th>%Chg</th>
<th>50-d Price MA Trend</th>
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<td>34%</td>
<td>-2.7%</td>
<td>-3.7%</td>
<td>-1.4%</td>
<td>Below Falling</td>
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<td>Russell 2000 Value Energy</td>
<td>-</td>
<td>39%</td>
<td>-1.3%</td>
<td>-5.5%</td>
<td>-6.5%</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Russell 2000 Energy</td>
<td>-</td>
<td>34%</td>
<td>-1.4%</td>
<td>-5.8%</td>
<td>-6.6%</td>
<td>Below Falling</td>
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<tr>
<td>S&amp;P 500 Energy</td>
<td>+</td>
<td>11%</td>
<td>-0.3%</td>
<td>-2.9%</td>
<td>-2.2%</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Russell 1000 Value Energy</td>
<td>+</td>
<td>11%</td>
<td>-0.9%</td>
<td>-3.1%</td>
<td>-2.5%</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Russell 2500 Energy</td>
<td>+</td>
<td>11%</td>
<td>-1.1%</td>
<td>-5.5%</td>
<td>-5.3%</td>
<td>Below Falling</td>
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<tr>
<td>Russell 2000 Growth Energy</td>
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<td>8%</td>
<td>-2.3%</td>
<td>-7.5%</td>
<td>-7.1%</td>
<td>Below Falling</td>
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Exhibit 3: Exxon Mobil (XOM US) Dividend Adjusted Price Trend

Expect Breakdown

Target

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

Exhibit 4 - Transocean (RIG US) Dividend Adjusted Price Trend

Breaking Back Below All Those Moving Averages

Near-Term Risk

Target is Exploring This Space

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
0 ye'll tak' the high road, and I'll tak' the low road

- From a long-term perspective, and by long term we mean that interest rates continue to trend lower as they have for the past thirty years, portfolios should be positioned towards long duration assets, which means low volatility Utilities, and Real Estate but also high volatility Technology. Both are currently trending higher. We expect that not to be the case going forward.

- From a short-term perspective, as the animal spirits hype regresses towards the hard data reality, we expect some turbulence with respect to the market (see the Wisdom of Sweet Brown). The NASDAQ broke trend last week. That was a stop loss signal, not a buy the dip opportunity.

- We highlight the relative strength of generally high volatility technology, vs generally low volatility utilities in Exhibit 1. Then we show the fantastic (40%/year) run that Technology has had, against the good (20%/year) performance that Utilities are also enjoying in Exhibits 2-3. Then we show utility momentum buys in Exhibit 4, and at this link.

’Twas then that we parted

The Bonnie Banks o’ Loch Lomond, 1841

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Exhibit 1: Global Technology vs Global Utilities

Exhibit 2: Global Technology

Exhibit 3: Global Utilities

Exhibit 4 – Top of our Utility Momentum Buy List – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Insurance Three Months Later

- Insurance was the first of the Financial Trinity to break its steep outperformance trend, and that was way back in January. As we highlighted over the weekend (see The Wisdom of Sweet Brown), the cost to protect a basket of insurance stocks against default just broke a narrowing trend, and this is because treasury yields have started heading back towards the zero bound, which is not a happy place for insurance.

- The market has done a pretty good job bashing banks lately, and that has led into a nice counter-term rebound for insurance to sell into, at least with respect to global financials – Exhibit 1.
  - This is not to say that we can’t find many life and health insurance stocks that have broken price trends, one third of them have – Exhibit 3.
  - Many are in that delicate stage of breaking trend, but not support, air pocket dead ahead, but passengers not quite braced, support and target clear, but so far away – Exhibit 4.

Exhibit 1: MSCI World Insurance vs Global Financials

Exhibit 2: MSCI World Insurance Price Trend

Exhibit 3: Insurance Stocks With Broken Price Trends

Exhibit 4 – Prudential Financial (PRU US)

The Life & Health Insurance Stocks Which have Severed Their Rising Dividend Adjusted Price Trends

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Excuse the fact that the themes seem a bit disparate, but we have a number of goals to hit here before the long weekend. If you want the common denominator, it is the interest rate picture, which is so beautifully unfolding, as long as you are positioned correctly. The S&P 500 is about to break a very steep and narrow trend. This breakdown would be driven off of the banks (which have already broken down), which have broken down because the US yield curve is collapsing – Exhibit 1. When inflation expectation head lower, as is their current want, you want to get rid of your junk (yesterday’s note), and buy quality. Might as well go for a soda – Exhibit 2.

The Canadian equity market does not look as vulnerable as the US, for in Canada, we have heavy weightings in both fiat currency banks, and non-fiat currency banks – Exhibit 3.

Might as well go for a soda, Nobody hurts and nobody cries

Kim Mitchell

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Run to the Hills

- Seems we never left last night, but we did get some sleep, and alas woke up to see iron ore speak to us with an 8.5% haircut – Exhibit 1.
  - Funny enough, the ACWI Metals & Mining ex Gold & Silver index looks kinda like that, without the drubbing – Exhibit 2.
    - Then you have the 5-year CDS on the world’s largest miner at a key inflection point, asking you to make a decision – Exhibit 3.
      - And if you decide with a pink ticket, which is the right move for the day, then here are some suggestions – Exhibit 4.
- More in its typical spot.

**Exhibit 1: Iron Ore Delivered to Qingdao China**

Certainly, It’s Far too Late to Short This, as the Collapse Has Now Taken it Almost Back to Support, Yet...

**Exhibit 2: MSCI ACWI Metals & Mining ex Gold & Silver**

...We See Opportunity Here, At This Quiet as a Moose Inflection Point Downside Target

**Exhibit 3: Glencore 5Y CDS**

**Exhibit 4 - Mining and Steel at at Least a 1m Low**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
It's conflict and compromise, it's new every time ... and it's dying

Exhibit 1: CRB Raw Industrials

Trend / Width 26% / 5%
Trend Length 8 mo

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Foundation Stage Is Over

• Last Thursday our equal-weighted breadth reading for Real Estate broke above the zero mark, and that move accelerated on Friday. The foundation stage, which is built upon the topping pattern for global rates, is finished. We are now building above ground – Exhibit 1.

• A U.S.-centric, market cap-weighted benchmark will not look as rosy, but it’s also at an inflection point; in fact, it’s the second one. Real Estate outperformed on Friday, it outperformed last week, it is above rising 50d relative strength moving averages, and it closed at 1-2m highs vs local benchmarks – Exhibit 2.

• The inflection point is clear – if you expect higher global long rates, you are a seller into strength; if you expect that rates are rolling over, and have the potential to roll over hard due to duration mismatches, which is our thesis, then you are adding to Real Estate here on the breakout (Exhibit 1) or the positive reversal (Exhibit 2). We highlight the largest 100 Real Estate stocks vs ACWI in Exhibit 3. Everything Real Estate is found at this link.

Exhibit 1: Gbl Equal Weighted Real Estate Relative Strength Breadth

Exhibit 2: Real Estate vs MSCI World (other Markets in Insert)

Exhibit 3: Largest 100 Real Estate Stocks vs ACWI (see Full Spectrum Here, or vs FTSE Global REITS Here, or vs RMZ Here)

The Outperforming Trends

Most Shares in Underperforming Trends, Yet...

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

**US Launches Strike on Syria in Response to Chem Attack**

- Equity futures lower, treasury yields lower, Schatz not open yet, oil higher, gold higher, yen higher, copper and nickel little changed – Exhibit 1. That’s the “thinking fast” market response and we see it as rational, but also in the direction of where the market was leaning before the strikes, so we’ll continue to recommend in that direction, and specifically highlight the safe haven asset which does well with yields lower and yen higher - gold. Our technical target is $1,400 vs $1,264 at pixel time, the latter of which is a break above recent resistance. We like gold as it is a proxy for a lower US 5y yield, which is the direction of the breakdown in the entire set of global yield curves, yet expect the Japanese 5y yield will remain relatively stable, the combined effect of which favours yen strength, which underpins gold strength. That is our bull thesis. Gold equities do not yet reflect that view and we are most bullish when we take a well rooted contrarian stance.

Momentum followers will look at outperformers to the left, like ABX, bottom fishers will look to the green shaded stocks to the right, like FNV – Exhibit 2. By the way, it’s day five of our European road trip and the train ticket is Zürich to Milano. Thanks for journeying with us.

Exhibit 1: Our Dashboard at 10:55pm EST, Less Than Two Hours After U.S. Launched a Strike on Syria in Response to the Chemical Attack

Exhibit 2: Gold and Precious Mineral Shares vs ACWI

**The Gold Shares Which Have Formed Outperforming Trends vs ACWI (The Leaders)**

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

European Road Trip Day 4: London Back to Zurich

- It’s day 2 in London, and while Friday’s destination is Claudio Borio’s Italy, we will be checking back to Switzerland (Exhibit 1 bottom) along the way. First, we check back with Market Elements, and using the “severed trends last day” view on our ETF screens, read what the market is telling us – Exhibit 1. It tells us that banks and financials, and the US market, and miners are all breaking down versus the global market, but we’ve told you all of that before. What we have not delved into is quality, which has enjoyed its first great month in over a year last March – Exhibit 2.

- Quality is the last place you want to be when junk is ripping higher, but is the exact place you want to move towards when the tide turns. The tide is measured by inflation expectations, and it is turning.
  - A disinflationary environment, which is what we see the market reverting back to, is when quality takes the stage - Exhibit 3.
  - Can you hear the calling? – Exhibit 4.

Exhibit 1: Market & Sector/Style ETFs vs ACWI: Severed Last Day View

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Chg Last Day</th>
<th>ACWI Last Day</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</th>
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<td>ZEB CN</td>
<td>TSX Equal Weight Banks ETF</td>
<td>+19%</td>
<td>19%</td>
<td>45%</td>
<td>5.0</td>
<td></td>
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<tr>
<td>PICK US</td>
<td>MSCI GII Metals &amp; Mining ETF</td>
<td>+30%</td>
<td>30%</td>
<td>45%</td>
<td>5.0</td>
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<tr>
<td>SLX US</td>
<td>Mv US Steel ETF</td>
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<td>7%</td>
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<tr>
<td>PXP US</td>
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<td>XPN CN</td>
<td>CDN Capped Financial ETF</td>
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<td>IWM US</td>
<td>Russell 2000 ETF</td>
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<td>IWN US</td>
<td>Russell 2000 Value ETF</td>
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<td>iShares MSCI World Quality Factor UCITS ETF</td>
<td>+5%</td>
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</table>

Exhibit 2: MSCI World Quality Factor ETF (IWQU LN) vs ACWI

For 14 Months, Quality Has Been in an Underperforming Trend

Exhibit 3: Global Quality vs MSCI World & US 10y Breakeven (Inverted)

US 10y Breakeven Rate

Global Quality vs MSCI World

...Quality Performs Poorly As Inflation Expectations (Inverted) Rise, and...

...Turns Positive As Disinflation Returns

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

Exhibit 4 - Sierra Leone's Refugee All Stars at The Venue Last Night
**European Road Trip Day 3: Paris to London**

- Keeping in mind that because we expect global long rates to turn negative again as global yield curves bull flatten under the cover of falling inflation expectations, we need to look at the other key long duration option, namely Real Estate. Technically, UK REITS are right at the apex, or decision point, against the global benchmark. We will take the cue from other central banks, which are moving into Sterling and away from the negative rate environment of the Eurozone. So we expect that apex to break to the upside, and there is a good gap to fill, mind you – Exhibit 1. **UK REITS on their own**, broke above the downtrend last month, have started forming higher highs and lows, and are trending higher at an annualized rate of 15%/year – Exhibit 2.

- On the inflation front, we are not at all concerned. We tried marmite at Heathrow airport. Hated it. While inflation expectations of other countries are breaking lower giving cover to drive long rates towards negative yielding levels, **UK inflation is buoyant** – Exhibit 3.

- Currently, there are also subtle differences in the stances between our departure of the city of Paris, and our arrival at the city of London – Exhibit 4. In Paris, you get the sense that people are taking cover, almost as if they are waiting for an upcoming storm to pass, while in London, you see a determined look to move away from the wall, and step out into the light of a new day. Personally, we come to London for the music and friends. See you at the show...

*You left your country to seek refuge in another man’s land*

Living Like a Refugee; **Sierra Leonne’s Refugee All Stars**

---

**Exhibit 1: UK REITS vs FTSE Global REIT Index**

**Exhibit 2: FTSE EPRA/NAREIT UK REITS Index**

**Exhibit 3: UK 10Y Breakeven Rate, With Global Breakevens in Insert**

**Exhibit 4 – Paris (Left) vs London (Right)**

Source: Photography by Mark Steele, all charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Good morning. It’s day 2 of our European road trip, and as the market allows, with long duration yields breaking back to the downside yesterday towards our “No, Mr. Bond, I expect you to die!” Goldfinger reference, we’ll take that cue and elaborate on our thesis.

Long duration bond yields are breaking in the direction of the long-term trend, and inflation expectations are breaking lower with them, and so too by the way are the banks (and so too, by the way is iron ore) – Exhibits 1-3.

That blip you saw last year, with the Swiss having negative long duration bond yields, was not a blip in our opinion, it’s the capital destroying the next great thing for the wacky world of bonds. Our base case, unless central banks target debt imbalances instead of inflation, is that US long bond yields will be negative within the next 2-3 years. It’s a fallacy to think that the only reason bond yields go negative is the greater fool theory. The world of finance, being more complicated than that, finds another great reason why yields head, no, spiral lower. It’s called Asset/Liability mismatch, and it is the reason we expect the next panic in bonds to be panic buying.

Let’s take a hypothetical Swiss hard asset example, to explore this wacky world outside of bond land. Let’s call it La La land. Say that long duration asset on the hill, basking in the glow of the setting sun, was not appreciating in value, due to policy decisions, yet the rents able to be charged were falling, due to other policy decisions – Exhibit 4. Well then, given the trajectories, one could envisage a situation where this long duration hard asset was producing negative returns. What would such a La La Land look like? Another tearjerker for sure. Or it could be less than nothing; good to know; so you agree? A Lovely Night; Ryan Gosling; La La Land

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
European Road Trip Day 1: Surprise Encounters

- Here’s our latest package, the title of which is probably explained better in person, but here ya go: No, Mr. Bond, I expect you to die!
- So we’re on the flight to Zurich and as the conversation with a gentleman from the BIS (surprise #1) progresses, we end up discussing the more qualitative theory of a Claudio Borio, who’s work helps to explain the 30y downtrend in long rates (see Treasury Bear? You Have Been Soft Served) versus more quantitative work of Hyun Song Shin, which details the dynamics of panic buying in bonds, which was the precondition for the Bund Tantrum of April 2015. We value both the novel unquantifiable economic theories, such as the importance of using the downward trajectory of the Trump approval rating to explain the bull flattening in the yield curve, and also the quantifiable rational (albeit somewhat perverse) theories of why there is panic buying in bonds, which, by the way, is the next type of panic in bonds we expect to see - Exhibit 1.
  - Then we saw a one-legged man score a goal in soccer, which is a nice way to say expect the unexpected – Exhibit 2.
    - Then we took ten minutes out to watch a cat playing with a mouse, which kinda ties in with our view that the next animal spirits we are going to see are bond bears scurrying like rats off of a sinking ship – Exhibit 3.

“My mom always said life was like a box of chocolates. You never know what you’re gonna get.” Forrest Gump

Exhibit 1: US 10 Year Bond Yield (Top) and Treasury Implied Volatility (Bottom)

Exhibit 2: Don't be disabled in spirit as well as physically. S. Hawking

Exhibit 3: Animal Spirits

Source: photography Mark Steele, charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
China's Greatest Gift to the U.S.

• Today, the Chinese spot iron ore price fell 1.7%. It has already broken below its 50d MA, it has already broken below trade support, and it is now poised at the bottom of the channel, so, yes, here is another potential “pre-breakdown” view – Exhibit 1.

• That kinda looks a lot like inflation expectations, which if anything are just a tad ahead, as they have already broken to the downside in the US, and also in Canada, and also in Germany, and also in France, and also in Japan, and also in Mexico. You get the picture, the inflation trade like a fifty-year-old doing the breakdance for the first time. For the reflationists, it’s not a pretty picture – Exhibit 2.

• We don’t want to make up any new theory, about what drives asset prices. Oh wait, yes we do, and indeed did, with the record-setting Trump disapproval rating looking a lot like the contracting yield curve, but we digress. We are saying that the decent, albeit worsening fit of movements of inflation expectations and commodity house driven oil, is currently improved upon by looking at long term poor, yet currently superior fit of inflation expectations and iron ore – Exhibits 3, 4.

  o Amusingly, Trump just gifted Mexico $17bn (two minutes in). We are not sure what the POTUS will inadvertently offer China this weekend, but according to the CBO, China’s greatest gift to the US would probably be lower inflation. Just sayin…

…伙計可以用一毛錢?
Spotlight on Health Care REITs

• Tuning our sector and industry report towards absolute price trends on US Subindustries, and looking at the ones that were “severed” or that broke in the opposite direction of the trend direction yesterday, shows three, largely interest rate related groups, plus Health Care REITs – Exhibit 1.

• Perhaps you’ve heard enough from us on the rate front lately, and are looking for something completely different; so today, we will offer up a peer review of the Health Care REITs against the S&P 1500 Health Care REIT Index. What you see is three standout outperformers, which are all SMID, and the balance of which are pretty much performing in line – Exhibit 2.

• Want to see this peer review on other segments of the market? We provide that daily in our TIPS suite. Just click on vs Peers.

Exhibit 1: Price Trends on US SubIndustry That “Severed” Their Trends Yesterday

<table>
<thead>
<tr>
<th>Name</th>
<th>Wgt(%)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>Price HI (Mo)</th>
<th>Price Lo (Mo)</th>
<th>%Chg 50d Price MA</th>
<th>Chg wtr 50d Price MA Trend</th>
<th>%Chg 200d Price MA Trend</th>
<th>Chg wtr 200d Price MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance</td>
<td>0.1 %</td>
<td>+</td>
<td>53%</td>
<td>-0.6%</td>
<td>-0.9%</td>
<td>Below Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Regional Banks</td>
<td>1.9 %</td>
<td>+</td>
<td>91%</td>
<td>-0.6%</td>
<td>1.3%</td>
<td>Below Falling</td>
<td>Above Falling</td>
<td>Above Falling</td>
<td></td>
</tr>
<tr>
<td>Life &amp; Health Insurance</td>
<td>0.8 %</td>
<td>+</td>
<td>65%</td>
<td>-0.7%</td>
<td>0.4%</td>
<td>Below Falling</td>
<td>Above Falling</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Health Care REITs</td>
<td>0.4 %</td>
<td>+</td>
<td>-14%</td>
<td>1.0</td>
<td></td>
<td></td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 2: Health Care REITs vs the S&P 1500 Health Care REIT Index

A Few Standout Outperformers, Amidst a Pool Which are Performing in Line vs Peers

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>Rs HI (Mo)</th>
<th>Rs Lo (Mo)</th>
<th>%Chg wtr 50d MA</th>
<th>Chg wtr 50d Day MA</th>
<th>%Chg wtr 150d MA</th>
<th>Chg wtr 150d Day MA</th>
<th>Bull Band</th>
<th>Bull Band Width</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBRA US</td>
<td>Sabra Health Care REIT</td>
<td>1,810</td>
<td>1.91</td>
<td>+</td>
<td>44%</td>
<td>6%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 53%</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>NWH-CN</td>
<td>NorthWestern Healthcare Properties REIT</td>
<td>621</td>
<td>0.97</td>
<td>+</td>
<td>22%</td>
<td>4%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 18%</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>CTRE US</td>
<td>CareTrust REIT Inc</td>
<td>1,099</td>
<td>1.41</td>
<td>+</td>
<td>25%</td>
<td>4%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 113%</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>NHI US</td>
<td>National Health Investors</td>
<td>2,897</td>
<td>1.23</td>
<td>+</td>
<td>12%</td>
<td>0%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>RSI 125%</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>UHT US</td>
<td>Universal Health Realty Income Trust</td>
<td>878</td>
<td>1.41</td>
<td>+</td>
<td>14%</td>
<td>4%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 160%</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>OHI US</td>
<td>Omega Healthcare Investors</td>
<td>6,489</td>
<td>1.49</td>
<td>+</td>
<td>6%</td>
<td>3%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 86%</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>HTA US</td>
<td>Healthcare Trust of America</td>
<td>4,440</td>
<td>1.30</td>
<td>-</td>
<td>4%</td>
<td>1.5</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 80%</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>SAVN US</td>
<td>Senior Housing Properties Trust</td>
<td>4,034</td>
<td>1.48</td>
<td>+</td>
<td>3%</td>
<td>4%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 78%</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>LTC US</td>
<td>LTC Properties</td>
<td>1,881</td>
<td>1.13</td>
<td>+</td>
<td>2%</td>
<td>2%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>RSI 105%</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>HR US</td>
<td>Healthcare Realty Trust</td>
<td>3,759</td>
<td>1.29</td>
<td>+</td>
<td>9%</td>
<td>5%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>RSI 85%</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>DOC US</td>
<td>Physicians Realty Trust</td>
<td>2,992</td>
<td>1.40</td>
<td>+</td>
<td>-1%</td>
<td>3%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 101%</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>HCN US</td>
<td>Welltower</td>
<td>25,762</td>
<td>1.30</td>
<td>+</td>
<td>-1%</td>
<td>6%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>RSI 105%</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>MCP US</td>
<td>MCP Inc</td>
<td>14,530</td>
<td>1.46</td>
<td>-</td>
<td>-3%</td>
<td>5%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>RSI 125%</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>MPW US</td>
<td>Medical Properties Trust</td>
<td>4,111</td>
<td>1.48</td>
<td>-</td>
<td>-11%</td>
<td>1%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>RSI 118%</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>VTR US</td>
<td>Ventas Inc</td>
<td>22,930</td>
<td>1.37</td>
<td>+</td>
<td>-7%</td>
<td>5%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td>RSI 113%</td>
<td>97</td>
<td></td>
</tr>
</tbody>
</table>

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

Note: BMO Capital Markets is restricted on NorthWest Healthcare Properties REIT
Trends & Inflection Points

The Outlier That Is Canadian Real Estate

- At the risk of breaking a Canadian code of modesty and, even worse, potentially insulting our good neighbour to the south, well, we’ll just lay the trends and inflection points before you, and have that do the talking – Exhibit 1.

- If we constrain the dialogue to overlapping time zones, we’ll tell you that Canadian publicly listed real estate is (1) outperforming the US noisily, at a rate of 6%/year; (2) still climbing out of a three-year hole; and (3) potentially forming an accelerated rate of outperformance – Exhibit 2.

- Interestingly, and curiously, Canadian privately listed housing is also outperforming the US. It’s one thing to say that while the US was in a bear market, but for the past almost three years, it’s been outperforming in a bull market too – Exhibit 3.

- We carved out the largest 10 Canadian Real Estate Stocks with decent trends in Exhibit 4.

And on the sign it said “No Trespassing.” But on the other side it didn’t say nothing, That side was made for you and me.

Woody Guthrie 1912 - 1967

Exhibit 1: Global Real Estate Indices vs. FTSE Global REIT Index

Canada is The Sole Region Trending Higher vs Global Markets

Exhibit 2: CDN REIT Index vs. MSCI US REIT Index

World ex US is Breaking to the Upside

Exhibit 3: CDN vs. US HPI; Rolling 12m Correlation of Returns

US is Breaking To the Downside

Exhibit 4 – Largest 10 CDN Real Estate Stocks With Trend/Width > 2

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

BMO Capital Markets is Restricted on AAR.UN
Trends & Inflection Points

Financials & Utilities - Mind the Gaps

- Our group selection report does an excellent job ferreting out both what the market likes/dislikes and where the market is leaning towards/away from. It’s pretty tightly packed right now, as the market is undergoing rotation, but there are two standout gaps in the strength/momentum plane of our chart, Utilities with a gap higher, and Financials with a gap lower – Exhibit 1.

- You can read and listen to the Trump-related reports to your heart’s content, or you could just use one simple chart to explain the gaps, and receive clarity such that you can position yourselves, appropriately – Exhibit 2.
  - And in this context, we offer the pre-breakout view for Global Utilities, and the pre-breakdown view for Global Financials – Exhibits 3, 4.

By the time I recognize this moment this moment will be gone
Clarity, John Mayer

Exhibit 1: Global Relative Strength Breadth Heat Map

Strength

2017-03-27

Upside
Gap, The
Market is
Rotating
Into
Utilities

Downside
Gap, The
Market is
Rotating
Away From
Financials

Exhibit 3: Global Utilities Total Return Index

Trend / Width -1% / 12%
Trend Length 12 mo

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

Exhibit 2: Trump Approval Rating and the US Yield Curve (10-2)

Too Early To Tell if This is a Trump Slump, or a Trump Slide...

But Either Way, The Curve is Coming DOWN

Exhibit 4 – Global Financials Total Return Index

It’s A Fantastic Trend, Any Way You Look At It, And It’s Set To Break Down, and For Good Reason

It’s A Messy, Messy Trend Any Way You Cut it, But it's Set To Break Out To New Highs, and For Good Reason

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

March 28, 2017
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, \textit{“Is this extreme to be faded, or is this the sign of a regime change?”} 
\begin{itemize}
  \item 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.
  \item This escalation of treasury volatility, which has culminated in Friday’s signal, has been going on for a month now, and as such, \textit{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 \textit{duration}, bond folk were panic buyers for quite some time before turning into panic sellers.
\end{itemize}
Importantly, the buying phase was also coupled with a dive in oil prices, which \textit{ultimately led} to OPEC production cuts.
\begin{itemize}
  \item We are in the OPEC production cut era now, and really in the second chapter of this era;
  \item Chapter 1 narrative entailed belief that OPEC cuts could make a difference in U.S. production.
  \item In March, and again \textit{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 \textit{more to this story}.
\end{itemize}
To bring in other \textit{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 \textit{inflation expectations} rolling over. This roll has also been aligned with \textit{Chinese monetary conditions} rolling over, or perhaps better put, \textit{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, \textit{which can be backdated one month prior}.

\textit{I’m just a little black rain cloud}
Robert & Richard Sherman, 1966
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.

  o 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
Treasury Bear? You Have Been Soft Served

- Soft serve is a type of ice cream that is softer than regular ice creams as a result of air being introduced during freezing. The long end of the treasury curve is being air jacked, with its own serving of soft data (top). Of course the hard data may come, and the market can continue to sell treasuries, and that **30 year downtrend in yields** can indeed break, and so on and so forth. But that’s not what typically happens. Typically, when a tall serving of soft serve data is laden upon a small cone of hard data the soft stuff melts quickly, and runs down those little hands (middle). Inflated treasury yields tend to deflate again and again (bottom).
- The greatest argument we can envisage, which would end the 30 year bull market in treasuries (**not what we expect**), comes from Borio’s paper (**BIS**) which argues that central banks should target imbalances which have been created by central banks’ own asymmetric behavior, rather than targeting the inflationary signal that never comes (**Becket**). Yet the central bank dissention we heard from last week was nothing of that sort. It was all, oh inflation is too strong (**BoE**), or oh inflation too weak (**FED**). We did not hear central bankers suggest that they have had their eye on the wrong ball. So until the market tells us that there is a paradigm shift, we will expect that the horror of negative US long rates will be on our doorsteps as early as next year (extrapolation of the trend, at the minus two standard deviation mark), and not that the horror of imbalances becoming unwound by said overseers will be upon us any time soon (the inflection point of a reversal driven by a ‘new and improved’ central bank targeting). It’s kinda like choosing **one horror** (yes you saver, that kid with the huge mortgage is being paid by the banks to own it), rather than **the other** (what is the Canadian way to spell foreclosure? +250bps eh).
- We will continue to mindfully follow the trend, until we have to respect the inflection point.
  - We continue to expect that treasury yields will eventually roll over. The current soft-hard outlier is a massive signal.
    - You have been served.

**Exhibit 1: US Economic Surprise: Soft Survey Data vs Hard Data (Industrial, Labour, Retail, Housing) and US 10Y Treasury Yield**

Source: BMO Capital Markets, Bloomberg
IMPORTANT DISCLOSURES

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

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<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>43.0%</td>
<td>22.1%</td>
<td>56.0%</td>
<td>44.3%</td>
<td>56.5%</td>
<td>53.1%</td>
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<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>53.2%</td>
<td>13.4%</td>
<td>42.0%</td>
<td>52.3%</td>
<td>41.9%</td>
<td>41.6%</td>
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<tr>
<td>Sell</td>
<td>Underperform</td>
<td>3.7%</td>
<td>9.1%</td>
<td>2.0%</td>
<td>3.3%</td>
<td>1.2%</td>
<td>5.2%</td>
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* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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(April 2013 - October 2016)

(January 2010 - April 2013)

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