# Quantitative/Technical Package

<table>
<thead>
<tr>
<th>Date</th>
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<th>Page</th>
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</thead>
<tbody>
<tr>
<td>December 13, 2018</td>
<td>Market Elements</td>
<td>2</td>
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</table>

## Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>December 14, 2018</td>
<td>Twas a Golden Tbird</td>
<td>9</td>
</tr>
<tr>
<td>December 13, 2018</td>
<td>To V or Not to V</td>
<td>10</td>
</tr>
<tr>
<td>December 12, 2018</td>
<td>South Pole Elf</td>
<td>11</td>
</tr>
<tr>
<td>December 11, 2018</td>
<td>Cover Me</td>
<td>12</td>
</tr>
<tr>
<td>December 10, 2018</td>
<td>Rock, Paper, Scissors</td>
<td>13</td>
</tr>
<tr>
<td>December 7, 2018</td>
<td>Squidward</td>
<td>14</td>
</tr>
<tr>
<td>December 6, 2018</td>
<td>Other Stuff</td>
<td>15</td>
</tr>
<tr>
<td>December 5, 2018</td>
<td>This, That, and Other Things</td>
<td>16</td>
</tr>
<tr>
<td>December 4, 2018</td>
<td>Northern Lights</td>
<td>17</td>
</tr>
<tr>
<td>December 3, 2018</td>
<td>Lift and Separate</td>
<td>18</td>
</tr>
<tr>
<td>November 30, 2018</td>
<td>Question for December</td>
<td>19</td>
</tr>
<tr>
<td>November 29, 2018</td>
<td>Breadth Breakout in Technology</td>
<td>20</td>
</tr>
<tr>
<td>November 28, 2018</td>
<td>Stop and Reverse on EM</td>
<td>21</td>
</tr>
<tr>
<td>November 27, 2018</td>
<td>Blackbird</td>
<td>22</td>
</tr>
<tr>
<td>November 26, 2018</td>
<td>This Is What Rotation-In Looks Like</td>
<td>23</td>
</tr>
<tr>
<td>November 23, 2018</td>
<td>Europe Fades Back to Black</td>
<td>24</td>
</tr>
<tr>
<td>November 22, 2018</td>
<td>Canada – Outperformers in 10%+ Sectors</td>
<td>25</td>
</tr>
<tr>
<td>November 21, 2018</td>
<td>Where Thanks Is Due</td>
<td>26</td>
</tr>
<tr>
<td>November 20, 2018</td>
<td>Bond Land</td>
<td>27</td>
</tr>
<tr>
<td>November 19, 2018</td>
<td>North American HY Equity</td>
<td>28</td>
</tr>
<tr>
<td>November 16, 2018</td>
<td>US Value vs Growth &amp; Curve, EU Growth Outperformers</td>
<td>29</td>
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<tr>
<td>November 15, 2018</td>
<td>There’s Always a Bull Market Somewhere</td>
<td>30</td>
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<tr>
<td>November 14, 2018</td>
<td>You Were Lucky</td>
<td>31</td>
</tr>
<tr>
<td>November 13, 2018</td>
<td>Take 5</td>
<td>32</td>
</tr>
<tr>
<td>November 12, 2018</td>
<td>The Third Embrace</td>
<td>33</td>
</tr>
<tr>
<td>November 9, 2018</td>
<td>Fernando’s Hideaway</td>
<td>34</td>
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<tr>
<td>November 8, 2018</td>
<td>Just Imagine Rates Were Falling</td>
<td>35</td>
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<tr>
<td>November 7, 2018</td>
<td>Positive Momentum – The Non Cash-Like Cut</td>
<td>36</td>
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## Focal Points

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

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 38 to 41.
Equities were mixed: Asian gains (1-1.5%) were not translated to Europe or North America where indices ended mixed and little changed; MSCI World traded in a narrow range; global defensive sectors pivoted from loss leaders (Wednesday) to top gainers; U.S. banks broke 2d of calm, falling 1.5% to a new low.

Major 10y yields were mixed and little changed, save Italian debt, which continued to rally sharply; most global 2y yields were flat to 2bps lower; corp credit risk indices continued to narrow; Senior loans (SRLN) paused sliding and held at a 9m low.

The BBG USD index and the Euro continued to churn; the Yen weakened to a 1w low; the Mexican peso fell 110bps, retracing from a 1m high; other moves were slight; G7 volatility fell to a 9m low.

Commodities were mixed and mostly little changed; the BBG commodity index rose for the first day in four; oil gauges rose 3-4% yet remained range-bound; base metals straddled the zero line; gold continued to churn.

### Levels
Currencies (USD per)

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<thead>
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<th>Symbol</th>
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<th>Level</th>
<th>%Chg</th>
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<td>BBDXY</td>
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<td>0.2%</td>
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<tr>
<td>EUR</td>
<td>1.1362</td>
<td>-0.1%</td>
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<tr>
<td>CHF</td>
<td>1.0061</td>
<td>-0.0%</td>
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<tr>
<td>GBP</td>
<td>1.2663</td>
<td>0.3%</td>
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<tr>
<td>JPYx10</td>
<td>0.0881</td>
<td>-0.2%</td>
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</tr>
<tr>
<td>CAD</td>
<td>0.7491</td>
<td>0.0%</td>
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<tr>
<td>AUD</td>
<td>0.7225</td>
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<tr>
<td>NZD</td>
<td>0.6864</td>
<td>0%</td>
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<tr>
<td>BRL</td>
<td>0.2569</td>
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<tr>
<td>MXXnx10</td>
<td>0.4923</td>
<td>-1.1%</td>
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<tr>
<td>ZAR</td>
<td>0.0705</td>
<td>-0.4%</td>
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<tr>
<td>KRWx10</td>
<td>0.8885</td>
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<tr>
<td>CNH</td>
<td>0.1454</td>
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### Commodities

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<tbody>
<tr>
<td>WTI Oil</td>
<td>53.11</td>
<td>3.8%</td>
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<tr>
<td>NMX Gas</td>
<td>4.12</td>
<td>-0.3%</td>
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<tr>
<td>Gold</td>
<td>1,242.9</td>
<td>-0.2%</td>
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<tr>
<td>Palladium</td>
<td>1,262.6</td>
<td>-0.3%</td>
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<tr>
<td>LME Al 3m</td>
<td>0.88</td>
<td>-0.4%</td>
<td></td>
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<tr>
<td>LME N 3m</td>
<td>1.16</td>
<td>-0.2%</td>
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<tr>
<td>LME Zn 3m</td>
<td>1.16</td>
<td>-0.2%</td>
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<tr>
<td>Copper</td>
<td>324.70</td>
<td>0.5%</td>
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<tr>
<td>Corn</td>
<td>384.25</td>
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| LME Al 3m| Platinum

### Government 10-Yr Benchmark

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<tr>
<td>U.S.</td>
<td>2.91</td>
<td>-0.00</td>
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</tr>
<tr>
<td>Canada</td>
<td>2.16</td>
<td>0.02</td>
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</tr>
<tr>
<td>Germany</td>
<td>0.29</td>
<td>0.01</td>
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<tr>
<td>France</td>
<td>0.73</td>
<td>-0.00</td>
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<tr>
<td>Italy</td>
<td>2.96</td>
<td>-0.04</td>
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</tr>
<tr>
<td>Spain</td>
<td>1.42</td>
<td>-0.01</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>(0.15)</td>
<td>-0.00</td>
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<tr>
<td>Australia</td>
<td>2.47</td>
<td>0.02</td>
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<tr>
<td>Hong Kong</td>
<td>2.20</td>
<td>0.08</td>
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<tr>
<td>China</td>
<td>3.34</td>
<td>0.06</td>
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</tr>
<tr>
<td>Japan</td>
<td>0.06</td>
<td>0.00</td>
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### Equity Indices & Sentiment

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<th>%Chg</th>
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</thead>
<tbody>
<tr>
<td>MSCI World</td>
<td>1,974</td>
<td>-0.1%</td>
<td></td>
</tr>
<tr>
<td>MSCI EM</td>
<td>986</td>
<td>0.7%</td>
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<tr>
<td>S&amp;P 500</td>
<td>2,651</td>
<td>-0.1%</td>
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<tr>
<td>STOXX 50</td>
<td>3,112</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>FTSE 100</td>
<td>6,878</td>
<td>-0.0%</td>
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<tr>
<td>Hang Seng</td>
<td>26,524</td>
<td>1.3%</td>
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<tr>
<td>STOXX 50</td>
<td>5,662</td>
<td>0.1%</td>
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<tr>
<td>CSI 300</td>
<td>3,220</td>
<td>1.5%</td>
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<tr>
<td>EDX IG SY</td>
<td>77.2</td>
<td>-1.5%</td>
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<tr>
<td>AMX</td>
<td>0.8</td>
<td>2.5%</td>
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</tr>
<tr>
<td>VIX</td>
<td>20.7</td>
<td>-3.8%</td>
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### Sectors

| MSCI World | Utilities | Real Estate | Cons Stal | Energy | Info Tech | Hlth Care | Industrials | Cons Disc | Materials | Financials | Comm Stal
|------------|-----------|-------------|----------|-------|----------|-----------|-------------|-----------|----------|-----------|-----------
| S&P Europe 350 | Utilities | Real Estate | Cons Disc | Financials | Energy | Info Tech | Hlth Care | Industrials | Cons Disc | Materials | Financials | Comm Stal
| S&P 500 | Utilities | Real Estate | Cons Disc | Financials | Energy | Info Tech | Hlth Care | Industrials | Cons Disc | Materials | Financials | Comm Stal
| S&P/TSX Composite | Utilities | Real Estate | Cons Disc | Financials | Energy | Info Tech | Hlth Care | Industrials | Cons Disc | Materials | Financials | Comm Stal

Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson

* H/L = at a new closing 52-wk High/Low; **/i = 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
Intra Day Charts
2-Day 1-Minute View

Currencies
Bloomberg Dollar Spot Index

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

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 (NMX)

Bonds
Canadian 10-Yr Bond

Equities
VIX

Currencies
Canadian Dollar

Commodities
Copper (COMX)

Bonds
German 10-Yr Bund

Equities
CDX North American Inv. Grade Index

Currencies
Australian Dollar

Commodities
Nickel (LME 3Mo)

Bonds
Italian 10-Yr Bond

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tbody>
<tr>
<td>Energy</td>
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</tr>
<tr>
<td>CNOOC Ltd</td>
<td>BHPK</td>
<td>2.5%</td>
</tr>
<tr>
<td>China Petroleum &amp; Chemical</td>
<td>BGHE</td>
<td>1.9%</td>
</tr>
<tr>
<td>Empresas Cofece</td>
<td>CXC</td>
<td>1.9%</td>
</tr>
<tr>
<td>Ecopetrol SA</td>
<td>PETR</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Neste Oy</td>
<td>XOM</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Subsea 7 SA</td>
<td>NO</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

| Materials                      |        |       |
| Sumitomo Metal Mining          | YS     | 2.4%  |
| South32 Ltd                    | SQ2    | 2.2%  |
| Rio Tinto Ltd                  | RIO    | 2.1%  |
| Svenska Cellulosa AB           | SCA    | -2.9% |
| Mondi PLC                      | MDND   | -3.9% |
| Stora Enso                     | SFRA   | -4.7% |

| Industrials                    |        |       |
| G4S PLC                        | GSF    | 6.8%  |
| Vestas Wind Systems            | VWS    | 4.7%  |
| LIXIL Group                    | 5393JP | 4.3%  |
| Einbo                            | EPIA   | -2.8% |
| Cobham PLC                     | COBL   | -3.4% |
| Atlas Copco                    | ATOCA  | -3.4% |

| Cons Disc                      |        |       |
| Yamaha Motor                   | YUM    | 4.7%  |
| TUI AG                         | TUI    | 4.5%  |
| Geely Autoholdings Holdings   | GECH   | 4.5%  |
| Next PLC                       | NKT    | -3.2% |
| Barratt Developments           | BDEV   | -3.3% |
| Marks & Spencer Group          | MKS    | -3.8% |

| Health Care                    |        |       |
| Takekada Pharmaceutical        | 4592JP | 7.0%  |
| Shire PLC                      | SHPP   | 2.6%  |
| Sonic Healthcare               | SHL    | 1.8%  |
| Fresenius Medical Care         | FME    | -2.1% |
| Tate & Lyle                    | TATE   | -2.2% |
| Unicharm PLC                   | 8113JP | -2.5% |

| Financials                     |        |       |
| Standard Life                  | 54A    | 4.7%  |
| Banco do Brasil                | BBAS3  | 2.6%  |
| Banco Bradesco                 | BBBD   | 2.4%  |
| First Group Bank               | EBV    | -2.3% |
| Lian Group PLC                 | EMG    | -2.7% |
| SEB                             | SEBA   | -3.5% |

| Technology                     |        |       |
| Rich Co Ltd                    | 7752JP | 5.0%  |
| Domon Corp                     | 6440JP | 4.3%  |
| Hori Precision Industry       | 2337TP | 2.5%  |
| Logitech International         | LOGN   | -1.8% |
| Atos SE                        | ATOS   | -2.3% |
| Cap Gemini                     | CAPP   | -2.7% |

| Comm Svr                       |        |       |
| America Movil                  | AMX    | 3.8%  |
| Grupo Televisa SAB             | TELEVP | 3.4%  |
| UBUFF Entertainment SA          | UBEF   | 3.1%  |
| Teleg AB                       | TEL2   | -2.0% |
| Koninklijke KPN                | KPN    | -3.0% |
| Teksta Corp Ltd                | TLS    | -3.3% |

| Utilities                     |        |       |
| Fortum OY                      | FORTUM | 2.4%  |
| Iberdrola SA                   | IBRE   | 2.4%  |
| Enel SPA                       | ENEL   | 1.8%  |
| AGU Energy                     | AGU    | -1.4% |
| Kansai Electric Power Co       | 9503JP | -1.4% |
| Chubu Electric Power Co        | 9502JP | -3.3% |

| Real Estate                    |        |       |
| China Overseas Land & Investment | 688HK | 3.0%  |
| Sun Hung Kai Properties        | 16HK   | 2.5%  |
| Daowa House Industry           | 1929JP | 1.6%  |
| Hammerson PLC                  | 4558FS | -2.6% |
| Scentre Group                  | SGG    | -2.7% |
| Victoria Centres               | VCA    | -2.9% |

### S&P 500

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tr>
<td>Energy</td>
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<tr>
<td>ONEOK Inc</td>
<td>OKE</td>
<td>2.9%</td>
</tr>
<tr>
<td>Baker Hughes &amp; Co Ge</td>
<td>BNGH</td>
<td>2.1%</td>
</tr>
<tr>
<td>Occidental Petroleum</td>
<td>OXY</td>
<td>1.9%</td>
</tr>
<tr>
<td>HollyFrontier</td>
<td>HFC</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Diamondback Energy</td>
<td>FANG</td>
<td>-2.2%</td>
</tr>
<tr>
<td>National Oilwell Verso</td>
<td>NOV</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

| Materials                      |        |       |
| Surfair                        | BF     | 2.1%  |
| Turanil Service Ltd            | TSW    | -4.5% |
| Birchcliff Energy              | BIIF   | -6.7% |

### S&P/TSX Composite

<table>
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<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tr>
<td>Baylex Energy</td>
<td>BFE</td>
<td>8.4%</td>
</tr>
<tr>
<td>Tamarack Valley Energy</td>
<td>TVE</td>
<td>6.2%</td>
</tr>
<tr>
<td>Peyto Exploration &amp; Development</td>
<td>PEY</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Tschil Won Service Ltd</td>
<td>TSW</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Birchcliff Energy</td>
<td>BIIF</td>
<td>-6.7%</td>
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**Market Elements | Page 5 December 13, 2018**

**Bold** = move of more than 5%
<table>
<thead>
<tr>
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<th>High</th>
<th>Low</th>
<th>Last</th>
<th>%Chg</th>
<th>Last</th>
<th>%Chg</th>
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<th>%Chg</th>
<th>Last</th>
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</tr>
<tr>
<td>BBY</td>
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<td>55.93</td>
<td>-2.0%</td>
<td>58.07</td>
<td>53.39</td>
<td>-9.4%</td>
<td>58.07</td>
<td>53.39</td>
<td>56.96</td>
<td>5.6%</td>
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<tr>
<td>CH</td>
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<td>CCM</td>
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<td>DOW</td>
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*H/L - at a new closing 52-wk High*  
*Low - within 10% of the 52-wk High*  
*Blue - 560/15x 60 member, Italics - ETE, Bold - move of 5% or more, stocks are sorted by GICS Subindry (grey lines) and market capitalization*
Trends & Inflection Points

Twas a Golden Tbird

- This morning the BBG USD index breaks out of a 6 week consolidation, and that’s with U.S. short rates rolling over mind you. It’s a cleanest dirty shirt market – Exhibit 1.

- When we look at major currency crosses, we add gold to the mix, as it’s been considered a currency ever since clam shells went out of fashion. When we look at the list, what we see in gold is an outlier, or a sell into strength opportunity – Exhibit 2.

  - For gold shares, the opportunity seems even greater. While the USD was churning, gold stocks were able to rise from 10th decile, to 3rd decile. The bottom line is that they would have helped your portfolio over the past two months – Exhibit 3.

    - That help, is often temporary, and with commodity stocks, all the more so. With the breakout in USD strength, you should consider that Daddy, just took the golden T-Bird away, and if you cash in, at these elevated levels – Exhibit 4.

      - you can deploy that proceeds to continue to….

Have Fun Fun Fun Now That Daddy Took the T-Bird Away
The Beach Boys

Exhibit 1: BBG USD Index at 7:30am

Exhibit 2: Major Currency Crosses vs the USD

Exhibit 3: Gold Equity Relative Strength Decile

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

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

This jives with oil, which this morning leaning towards the bottom end of a three-week holding pattern – Exhibit 2.

A break, in breakevens and oil, would merely be trend following as far as sector performance is lined up, leading the market to fade the relative performance rebound in energy (at least at the relative strength breadth level, market cap wise, there has been continued disdain), and take advantage of the pullbacks in real estate and utilities – Exhibits 3, 4.

Exhibit 1: German 10y Breakeven Rate (Inflation Expectations)

Exhibit 2: German 1y BE Rate, 12m Brent, Correlation of Returns

Exhibit 3: Global Sector Relative Performance Heat Map

Exhibit 4: Utility & Real Estate Sectors vs Local Markets

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Quite frankly, when we were surfing the SMID space, and saw this hero to zero chart, we figured the global small cap manager may just need a hug – Exhibit 1.

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

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

Exhibit 1: ACWI Small Caps vs ACWI World

Exhibit 2: Largest 15 Global SMID Momentum Buys (Market Cap Cut-off of $5bn) (US List Here, CDN List Here)
The times are tough now, just getting tougher. This whole world is rough, it’s just getting rougher. Cover me – Exhibits 1, 2.

US Financial implied volatility at a multi-year high, with price action punished below the bottom end of a channel, means it’s a good time to cover shorts on US financials, expecting a bounce as a panic situation ebbs. This is not, however, an all-clear signal. Clients should look towards the minority of financials in outperforming trends for their long allocations – Exhibit 3.

Exhibit 1: US Financial ETF Implied Volatility

Exhibit 2: US Financial ETF (XLF US) Dividend Adjusted Price Trend

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

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

Trends & Inflection Points

Cover Me

quantitative/technical research website

December 11, 2018

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quantitative/technical
Trends & Inflection Points

Rock, Paper, Scissors

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

Exhibit 1: Real Estate Relative Strength Z-Score

Exhibit 2: USD HY OIS Indices

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

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

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
We’ve just one sector left to write on this week, **financials**, as we’ve already carved out the rest of what has been rewarded and rejected. And as we wait for Russia’s determination on oil output, we opine on what’s really at stake for equity markets which require a stable banking system, where the cost to protect debt falls, not rises – Exhibit 1.

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

---

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

Other Stuff

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

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

Don’t be Afraid Carlo
Michael Corleone

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

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

Exhibit 3: Industrials Relative Strength Breadth Reading

Exhibit 4: Largest 10 Industrial Breakdowns – Full List Here

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

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

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

### Exhibit 1: US Inflation Expectations Gauges

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward Risk</th>
<th>Trend Slope</th>
<th>Hi</th>
<th>Low</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
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<tbody>
<tr>
<td>U.S. 5y/10y</td>
<td>-1.3%</td>
<td>1.7%</td>
<td></td>
<td></td>
<td>-4%</td>
<td>0%</td>
<td>-2%</td>
<td>50d MA</td>
<td>50 Day MA</td>
</tr>
<tr>
<td>U.S. 30y BE</td>
<td>-1.2%</td>
<td>1.3%</td>
<td></td>
<td></td>
<td>-4%</td>
<td>0%</td>
<td>-2%</td>
<td>50d MA</td>
<td>50 Day MA</td>
</tr>
<tr>
<td>U.S. 10y BE</td>
<td>-1.0%</td>
<td>1.3%</td>
<td></td>
<td></td>
<td>-6%</td>
<td>0%</td>
<td>-2%</td>
<td>50d MA</td>
<td>50 Day MA</td>
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<tr>
<td>U.S. 20y BE</td>
<td>-1.4%</td>
<td>1.1%</td>
<td></td>
<td></td>
<td>-11%</td>
<td>0%</td>
<td>-2%</td>
<td>50d MA</td>
<td>50 Day MA</td>
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### Exhibit 2: US Treasury Yields

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<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward Risk</th>
<th>Trend Slope</th>
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<th>Low</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
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<tr>
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<td>-1.4%</td>
<td>-1.3%</td>
<td></td>
<td></td>
<td>-4%</td>
<td>0%</td>
<td>-2%</td>
<td>50d MA</td>
<td>50 Day MA</td>
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<tr>
<td>US 5</td>
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<td>-3.0%</td>
<td></td>
<td></td>
<td>-4%</td>
<td>18%</td>
<td>-2%</td>
<td>50d MA</td>
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<td>US 10</td>
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<td>-4.4%</td>
<td></td>
<td></td>
<td>-6%</td>
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<td>50d MA</td>
<td>50 Day MA</td>
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<tr>
<td>US 15</td>
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<td>-4.4%</td>
<td></td>
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<td>-6%</td>
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<td>-2%</td>
<td>50d MA</td>
<td>50 Day MA</td>
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### Exhibit 3: Largest 20 Momentum Buys in ACWI World ex USA Universe – Full List Here (See These links for Mo buys in S&P 500, and R2k)

<table>
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<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gross R$</th>
<th>1-Day Chg (%)</th>
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<th>Low</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>RSI Dly</th>
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<td>RsrcClt</td>
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<td>Electtll</td>
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<td>-0.8%</td>
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<td>3 HK</td>
<td>Hong Kong &amp; China Gas</td>
<td>GasUtil</td>
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<td>0.5%</td>
<td>1.5%</td>
<td>31,546</td>
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<td>1%</td>
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<td>-49</td>
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<td>55%</td>
<td>-49</td>
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<td>HMB SS</td>
<td>Hennes &amp; Mauritz</td>
<td>ApparItd</td>
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<td>1%</td>
<td>1%</td>
<td>55%</td>
<td>-49</td>
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</tbody>
</table>

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

Northern Lights

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

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

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

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

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

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

Sundown you better take care

Gordon Lightfoot
Lift and Separate

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

Exhibit 1: Global Relative Strength Breadth Sector Heat Map

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

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
November 30, 2018

Trends & Inflection Points

Question for December

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

Exhibit 1: S&P 500 Sectors in Downtrends

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

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

Exhibit 3: Bloomberg Commodity Index

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

Breadth Breakout in Technology

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

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

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

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

---

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

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

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

- Yes, all those stocks are Chinese, which collectively have been falling at a rate of over 40%/year for the past seven months. Mind the inflection point here too – Exhibit 2.
- We thus expect to see a positive reversal in the Emerging Markets ETF – Exhibit 3.
- All things EM are found at this link.

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

Exhibit 2: MSCI China

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

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Here’s our equal weighted relative strength reading on technology, sleeping quite nicely thank you at the neutral position – Exhibit 1.

- Firstly, note how unusual this is, and secondly, note that despite markets in correction territory, the reading has stuck to neutral. We’ll take that as a positive.

- For a North American, the largest technology Blackbird that sings in the dead of night, or in Hong Kong time, is Tencent Holdings (yes, it’s got a GICs code of Telecom now, but it’s a tech fund holding), which has been smashed since the start of the year. In our system, it broke above a downtrend last Thursday, and this morning it just completes the first set of higher highs and lows since the top. That’s a positive song – Exhibit 2.

- Then there is the Apple, which has fallen from the tree. Our position? It’s a severed uptrend, which is oversold. Again – Exhibit 3.

- We expect that a recovery here (Exhibit 3) and there (Exhibit 2) will help our IT breadth reading to fly again (Exhibit 1).

- While we wait, here are the largest 15 technology outperformers, all sporting RSIs in the 30s to 50s – Exhibit 4.

You were only waiting for this moment to arise
Blackbird, John Lennon & Paul McCartney
**Trends & Inflection Points**

**This Is What Rotation-In Looks Like**

- A small set of stocks **trending higher** and a larger set of stocks **breaking above downtrends** – this is the fingerprint of rotation-in, and we see it in **airline stocks** – Exhibit 1.
  - Yes, there are still large, liquid momentum buys that are not defensive plays in the market. Witness United Continental – Exhibit 1.
  - For bottom fishers, there are more stocks breaking above downtrends, and in some cases, like American Airlines, the **CDS indicates that the last downside equity print was overdone** – Exhibit 3.

**Exhibit 1: Dividend-Adjusted Price Trends on Airline Stocks**

<table>
<thead>
<tr>
<th>Stock</th>
<th>Dividend Adjusted Price Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAL</td>
<td>57%</td>
</tr>
<tr>
<td>SAVE</td>
<td>115%</td>
</tr>
<tr>
<td>AF P</td>
<td>82%</td>
</tr>
<tr>
<td>ALK</td>
<td>6%</td>
</tr>
<tr>
<td>SKYW</td>
<td>8%</td>
</tr>
<tr>
<td>DAL</td>
<td>11%</td>
</tr>
<tr>
<td>IAG LN</td>
<td>11%</td>
</tr>
<tr>
<td>AC CN</td>
<td>1%</td>
</tr>
<tr>
<td>HA</td>
<td>-3%</td>
</tr>
<tr>
<td>LUV</td>
<td>0%</td>
</tr>
<tr>
<td>EIF CN</td>
<td>-10%</td>
</tr>
<tr>
<td>SAS SS</td>
<td>-3%</td>
</tr>
<tr>
<td>WIZZ</td>
<td>-22%</td>
</tr>
<tr>
<td>AIR NZ</td>
<td>-12%</td>
</tr>
<tr>
<td>WJA CN</td>
<td>-3%</td>
</tr>
<tr>
<td>RYA LN</td>
<td>-23%</td>
</tr>
<tr>
<td>EZI LN</td>
<td>-62%</td>
</tr>
</tbody>
</table>

**Exhibit 2: United Continental Price Trend** *(CDS Overlay Here)*

**Exhibit 3: American Airlines Equity/CDS Overlay** *(Price Trend Here)*

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Europe Fades Back to Black

- Yesterday, the two European sectors that were in uptrends, broke below said trends leaving the continent devoid of a bull trend. Sectors are either breaking, or are trending, lower – Exhibit 1.
- You can go down to the industry level to find some strength, and we can take you there – Exhibit 2.
- You can do down to the stock level to find some strength, and we can take you there.
- Or, you could just tread water in European AAA government debt, which is a lot better than entering the second year of a slide of European high yield debt.

Exhibit 1: MSCI Europe Sector Total Return Price Trends

Exhibit 2: MSCI Europe Industry Total Return Price Trends

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

Canada – Outperformers in 10%+ Sectors

- 70% of the Canadian equity market is found in just four sectors, and we carve out the largest five stocks in outperforming trends versus the market and sector in each. Got em or need em? – Exhibits 1-4.

Exhibit 1: Largest 5 Financials in Outperforming Trends vs TSX and Sector (Opposite List Here)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Grp</th>
<th>LT</th>
<th>RS</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPTSX Δ</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200d MA</th>
<th>Bull Band</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRI CN</td>
<td>Thomson Reuters</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>34,866</td>
<td>1.18</td>
<td>%</td>
<td></td>
<td>59%</td>
<td>Below Falling</td>
<td>Above Rising</td>
<td>5%</td>
<td>10%</td>
<td>Below Rising</td>
<td>60%</td>
<td>Above Rising</td>
<td>62</td>
</tr>
<tr>
<td>BAN/A CN</td>
<td>Brookfield Asset Management</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>54,621</td>
<td>1.09</td>
<td>%</td>
<td></td>
<td>23%</td>
<td>Above Rising</td>
<td>0%</td>
<td>-3%</td>
<td>Below Falling</td>
<td>57%</td>
<td>Above Rising</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>RY CN</td>
<td>Royal Bank of Canada</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>137,378</td>
<td>0.70</td>
<td>%</td>
<td></td>
<td>-3%</td>
<td>Below Falling</td>
<td>12%</td>
<td>7%</td>
<td>3%</td>
<td>10%</td>
<td>Below Rising</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>NA CN</td>
<td>National Bank of Canada</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>20,182</td>
<td>0.70</td>
<td>%</td>
<td></td>
<td>7%</td>
<td>Above Rising</td>
<td>-3%</td>
<td>7%</td>
<td>2%</td>
<td>10%</td>
<td>Below Rising</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>BMO CN</td>
<td>Bank of Montreal</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>62,244</td>
<td>0.62</td>
<td>%</td>
<td></td>
<td>-3%</td>
<td>Below Falling</td>
<td>7%</td>
<td>4%</td>
<td>2%</td>
<td>10%</td>
<td>Below Rising</td>
<td>37%</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 2: Largest 5 Energy in Outperforming Trends vs TSX and Sector (Opposite List Here)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Grp</th>
<th>LT</th>
<th>RS</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPTSX Δ</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200d MA</th>
<th>Bull Band</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKI CN</td>
<td>Parkland Fuel</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>5,050</td>
<td>1.47</td>
<td>%</td>
<td></td>
<td>56%</td>
<td>Below Falling</td>
<td>10%</td>
<td>Above Rising</td>
<td>0%</td>
<td>10%</td>
<td>Above Rising</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>PPL CN</td>
<td>Pembina Pipeline</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>22,175</td>
<td>1.17</td>
<td>%</td>
<td></td>
<td>14%</td>
<td>Above Rising</td>
<td>0%</td>
<td>3%</td>
<td>Above Rising</td>
<td>4%</td>
<td>Above Rising</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>ENB CN</td>
<td>Enbridge Inc</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>80,575</td>
<td>1.52</td>
<td>%</td>
<td></td>
<td>17%</td>
<td>Above Rising</td>
<td>5%</td>
<td>Above Rising</td>
<td>7%</td>
<td>10%</td>
<td>Above Rising</td>
<td>67%</td>
<td></td>
</tr>
<tr>
<td>CCO CN</td>
<td>Cameco Corp</td>
<td>4</td>
<td>7</td>
<td>3</td>
<td>6,202</td>
<td>2.45</td>
<td>%</td>
<td></td>
<td>25%</td>
<td>Above Rising</td>
<td>8%</td>
<td>Above Rising</td>
<td>15%</td>
<td>10%</td>
<td>Above Rising</td>
<td>57%</td>
<td></td>
</tr>
<tr>
<td>IOM CN</td>
<td>Imperial Oil</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>31,757</td>
<td>1.37</td>
<td>%</td>
<td></td>
<td>11%</td>
<td>Below Rising</td>
<td>4%</td>
<td>Above Rising</td>
<td>1%</td>
<td>10%</td>
<td>Above Rising</td>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 3: Largest 5 Industrials in Outperforming Trends vs TSX and Sector (Opposite List Here)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Grp</th>
<th>LT</th>
<th>RS</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPTSX Δ</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200d MA</th>
<th>Bull Band</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNR CN</td>
<td>Canadian National Railway</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>81,723</td>
<td>1.17</td>
<td>%</td>
<td></td>
<td>28%</td>
<td>0%</td>
<td>Below Falling</td>
<td>6%</td>
<td>Above Rising</td>
<td>51%</td>
<td>Above Rising</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>WCN CN</td>
<td>Waste Connections</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>26,322</td>
<td>1.02</td>
<td>%</td>
<td></td>
<td>13%</td>
<td>0%</td>
<td>Above Rising</td>
<td>6%</td>
<td>Above Rising</td>
<td>52%</td>
<td>Above Rising</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>CP CN</td>
<td>Canadian Pacific Railway</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>38,503</td>
<td>1.25</td>
<td>%</td>
<td></td>
<td>21%</td>
<td>1%</td>
<td>Above Rising</td>
<td>9%</td>
<td>Above Rising</td>
<td>51%</td>
<td>Above Rising</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>RBA CN</td>
<td>Ritchie Bros Auctioneers</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4,907</td>
<td>1.47</td>
<td>%</td>
<td></td>
<td>17%</td>
<td>0%</td>
<td>Above Rising</td>
<td>3%</td>
<td>Above Rising</td>
<td>54%</td>
<td>Above Rising</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>CAE CN</td>
<td>CAE Inc</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>6,959</td>
<td>1.28</td>
<td>%</td>
<td></td>
<td>13%</td>
<td>5%</td>
<td>Above Rising</td>
<td>4%</td>
<td>Above Rising</td>
<td>67%</td>
<td>Above Rising</td>
<td>67%</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 4: Largest 5 Materials in Outperforming Trends vs TSX and Sector (Opposite List Here)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Grp</th>
<th>LT</th>
<th>RS</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPTSX Δ</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50d MA</th>
<th>%Chg wrt 200d MA</th>
<th>Chg wrt 200d MA</th>
<th>Bull Band</th>
<th>RSI Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>WPK CN</td>
<td>Winpak Ltd</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2,954</td>
<td>1.30</td>
<td>%</td>
<td></td>
<td>22%</td>
<td>Below Falling</td>
<td>-2%</td>
<td>-2%</td>
<td>Below Falling</td>
<td>48%</td>
<td>Above Rising</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>KL CN</td>
<td>Kirkland Lake Gold Ltd</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>5,367</td>
<td>2.46</td>
<td>%</td>
<td></td>
<td>46%</td>
<td>Above Rising</td>
<td>1%</td>
<td>6%</td>
<td>Above Rising</td>
<td>52%</td>
<td>Above Rising</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>UPS CN</td>
<td>Domtar Corp</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>3,654</td>
<td>1.62</td>
<td>%</td>
<td></td>
<td>18%</td>
<td>Below Falling</td>
<td>-7%</td>
<td>-4%</td>
<td>Below Rising</td>
<td>36%</td>
<td>Above Rising</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>OGC CN</td>
<td>OceanaGold</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>2,454</td>
<td>1.99</td>
<td>%</td>
<td></td>
<td>22%</td>
<td>Above Rising</td>
<td>4%</td>
<td>11%</td>
<td>Above Rising</td>
<td>63%</td>
<td>Above Rising</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>OSB CN</td>
<td>Norbord Inc</td>
<td>10</td>
<td>3</td>
<td>4</td>
<td>3,201</td>
<td>2.19</td>
<td>%</td>
<td></td>
<td>19%</td>
<td>Below Falling</td>
<td>-6%</td>
<td>-17%</td>
<td>Below Rising</td>
<td>51%</td>
<td>Above Rising</td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Towards Thanks Is Due

- A bull market for volatility and credit insurance is a bear market for stocks. That theme has been building since February. This morning prime broker credit risk abates slightly after an 8d surge. Our mostly long only clients will give thanks to that. The weakest sectors in our breadth work are resources, and discretionary, yet with every weak sector, we carve out both the absolute and relative strength.

- For the Natural Resource specialist who saw her benchmark peak in the spring, yet is not paid to sell in May and walk away, and so has suffered a 16% decline from the peak, there are a dozen stocks holding their own – Exhibit 1.

- Discretionary sectors around the world are either underperforming, breaking down, or indicating that that is due, yet there are still a small group that technically look good – Exhibit 2.

Exhibit 1: The Dozen Natural Resource Momentum Buys (vs Four Dozen Momentum Sells)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gnp</th>
<th>RS</th>
<th>Price</th>
<th>Trend</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>HI (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>RSI</th>
<th>Dly</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLL US</td>
<td>Ball Corp</td>
<td>M&amp;GlsCnt</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>16,637</td>
<td></td>
<td></td>
<td>91%</td>
<td>7%</td>
<td>Above Rising 62</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICL LT</td>
<td>Israel Chemicals</td>
<td>Fert&amp;Ag</td>
<td>3</td>
<td>9</td>
<td>1</td>
<td>7,587</td>
<td></td>
<td></td>
<td>96%</td>
<td>0%</td>
<td>Above Rising 45</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEI CN</td>
<td>Gibson Energy</td>
<td>OG S/Tr</td>
<td>4</td>
<td>7</td>
<td>1</td>
<td>2,351</td>
<td></td>
<td></td>
<td>72%</td>
<td>3%</td>
<td>Above Rising 50</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIF CN</td>
<td>Labrador Iron Ore Royalty</td>
<td>Steel</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td>1,464</td>
<td></td>
<td></td>
<td>77%</td>
<td>8%</td>
<td>Above Rising 60</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MOS US</td>
<td>Mosaic Co</td>
<td>Fert&amp;Ag</td>
<td>3</td>
<td>7</td>
<td>1</td>
<td>1,375</td>
<td></td>
<td></td>
<td>64%</td>
<td>5%</td>
<td>Above Rising 54</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>EPX CN</td>
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<td>OG Equip</td>
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<td>5%</td>
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<td></td>
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<td>Givaudan SA</td>
<td>SpecChm</td>
<td>7</td>
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<td>OG &amp;P</td>
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<td>9</td>
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<td>Sham SPa</td>
<td>OG S/Tr</td>
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<td>2</td>
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<td>10</td>
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<td>2</td>
<td>7,787</td>
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<td></td>
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<td>2%</td>
<td>Above Rising 55</td>
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<td>OceanaGold</td>
<td>Gold</td>
<td>6</td>
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<td>2</td>
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<td></td>
<td>26%</td>
<td>3%</td>
<td>Above Rising 61</td>
<td></td>
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<tr>
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<td>Ecolab Inc</td>
<td>SpecChm</td>
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<td>45,082</td>
<td></td>
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<td>1%</td>
<td>Above Rising 52</td>
<td></td>
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</table>

Exhibit 2: Largest 10 in Our Discretionary Momentum Buy List – See Link for Full List (vs the Sell List Which is 4x the Size)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>Sub Industry</th>
<th>Gnp</th>
<th>RS</th>
<th>Price</th>
<th>Trend</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>HI (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA</th>
<th>RSI</th>
<th>Dly</th>
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<tbody>
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<td>Helen of Troy</td>
<td>Bermuda</td>
<td>HldMpl</td>
<td>8</td>
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<td>1</td>
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<td>7%</td>
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<td>U. S.</td>
<td>AutoRl</td>
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<td>Above Rising 51</td>
<td></td>
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<td>AutoRl</td>
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<td>4</td>
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<td>U. S.</td>
<td>LsftCl</td>
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<td>U. S.</td>
<td>Educat</td>
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<td>1</td>
<td>1</td>
<td>6,811</td>
<td></td>
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<td>1%</td>
<td>Above Rising 52</td>
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<tr>
<td>9983 JP</td>
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<td>Japan</td>
<td>ApparRl</td>
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<td>4</td>
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<td>1</td>
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<td>Brazil</td>
<td>InetDrntl</td>
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<td>3</td>
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<td>141,624</td>
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<td>7%</td>
<td>Above Rising 61</td>
<td></td>
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</tbody>
</table>
Nov. 20, 2018

Trends & Inflection Points

Bond Land

- **Prime broker CDS** continue to widen relentlessly this morning. It’s what we start the day looking at, and we add it to our **market wrap**. It’s the reason all of our recent equity buy lists look so treasury-like. We’ll pull back from equities for a day to describe the changes in the bond market that are impacting **allocation**.

- The best risk-adjusted return in **bond & bond-like land** was a **basket of CLOs wrapped up into an ETF**. That trend has broken, and suffered the worst sell-off since 2015-2016 – Exhibit 1. The second-best risk adjusted return comes from short-term treasury securities, which are priced dearly, above the top end of the channel on the flight to quality bid – Exhibit 2. What is not priced dearly yet are longer treasury maturities, and while the technical jury is still out as whether the bull or bear trend prevails for **longer duration**, we remain steadfast in expecting that the bull case triumphs, as the bearish inflation trends retreat – Exhibits 3, 4.

Exhibit 1: Markit iBoxx USD Liquid Leveraged Loans TRI (SRLN US)

![Exhibit 1](chart1)

The Most Consistent Performer (Basket of CLO’s, Turned Into an ETF, SRLN), Suffering Its Worst Downdraft Since 2015-16

Exhibit 2: US Short-Term Bond TRI (SHY US)

![Exhibit 2](chart2)

A Great, Albeit Modest Trend, Looking Extended on the Flight to Safety

Exhibit 3: US 7-10Yr Bond TRI (IEF US)

![Exhibit 3](chart3)

Still Expecting This Decision Point To Come, as...

Exhibit 4: US 10Y Breakeven Rate

![Exhibit 4](chart4)

...This Top Is Most Definitely In

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

Legal Entity: BMO Nesbitt Burns inc.
**North American HY Equity**

- **High yield equity** is outperforming both broad non-high yield equity benchmarks, and high yield bonds. From a top down perspective, the strength is all **North American**, as HY benchmarks in other regions are mired in downtrends – Exhibit 1.

- We carved out two “best of” high yield lists, one smaller list of stocks in weak sectors as per our group selection report, and one larger list of stocks in the strongest sectors – Exhibits 2, 3.

---

**Exhibit 1: MSCI NA High Yield Equity Index (Other Regions in Insert)**

Retains String of Higher Lows, Back Above Flat 50D MA, And Where High Yield Equities Are Rewarded

**Exhibit 2: Largest High Yield Momentum Buys in Weakest Sectors**

```
Symbol | Name         | MktCap Vol (%) | Price Trend | Trend Slope | %Chg wgt 50D MA | Chg wgt 50D MA | RSI 60 |
-------|--------------|----------------|-------------|-------------|-----------------|----------------|-------|
DM US  | Dominion Midstream Partners | 2,300 | 2.03 | 142% | 7% | Above Ralling | 50 |
LADR US| Ladder Capital              | 1,782 | 1.04 | 40% | 0% | Above Ralling | 49 |
GLBE US| Gibson Energy               | 2,408 | 1.40 | 72% | 5% | Above Ralling | 53 |
LIF CN | Labrador Iron Ore Royalty   | 1,505 | 2.05 | 77% | 11% | Above Ralling | 58 |
BXK US | Blackstone Mortgage Trust  | 4,210 | 0.71 | 26% | 4% | Above Ralling | 65 |
ABUS   | Alliance Bernstein Holding LP | 2,857 | 1.33 | 34% | 1% | Above Ralling | 55 |
ARCC US| Are Capital                | 7,341 | 0.78 | 20% | 2% | Above Ralling | 56 |
ARLP US| Alliance Resource Partners LP | 2,546 | 1.53 | 29% | 3% | Above Ralling | 55 |
SID US | GlaxoSmithKline             | 3,524 | 3.46 | 73% | 6% | Above Ralling | 53 |
MCY US | Merck & Co                  | 3,261 | 1.89 | 39% | 11% | Above Ralling | 52 |
```

**Exhibit 3: Largest High Yield Momentum Buys in Strongest Sectors**

```
Symbol | Name         | Country | Sub Industry | Grp FS | L T | Price Trend | Price Cap (US$) | Vol (%) | Chg Last Day | Price Trend | Trend Slope | %Chg wgt 50D MA | Chg wgt 50D MA | RSI 60 |
-------|--------------|---------|--------------|--------|----|-------------|----------------|--------|-------------|-------------|-------------|-----------------|----------------|-------|
PFE US | Pfizer Inc    | U. S.   | Pharma       | 1      | 4  | 1           | 251,998        | 1.16   |             | 73%          | 0%          | Above Ralling | 51 |
AES US | Aes            | U. S.   | JPPTrad      | 2      | 4  | 5           | 10,272         | 1.56   |             | 61%          | 7%          | Above Ralling | 60 |
NVS US | Novartis AG    | Switzerland | Pharma | 3      | 7  | 1           | 223,817        | 1.13   |             | 44%          | 2%          | Above Ralling | 53 |
PRL US | PPL Corp      | U. S.   | Elect util   | 1      | 4  | 1           | 22,188         | 1.30   |             | 45%          | 1%          | Above Ralling | 50 |
UDR US | UDR Inc       | U. S.   | Real REIT    | 2      | 1  | 2           | 11,023         | 1.08   |             | 33%          | 3%          | Above Ralling | 60 |
WELL US | Welltower     | U. S.   | HCA care REIT | 3      | 1  | 3           | 26,419         | 1.43   |             | 58%          | 16.5        | Above Ralling | 65 |
FE US  | FirstEnergy   | U. S.   | Elect util   | 4      | 1  | 6           | 10,829         | 1.30   |             | 31%          | 4%          | Above Ralling | 62 |
HCP US | HCP Inc       | U. S.   | HCA care REIT | 4      | 1  | 6           | 13,426         | 1.31   |             | 45%          | 8%          | Above Ralling | 87 |
D US  | Dominion Resources | U. S. | Multibit | 1      | 4  | 1           | 48,221         | 1.06   |             | 34%          | 3%          | Above Ralling | 50 |
SPG US | Simon Property Group | U. S. | Retail REIT | 1      | 3  | 1           | 57,241         | 1.19   |             | 37%          | 4%          | Above Ralling | 59 |
SYN US | Sanofi        | France  | Pharma       | 1      | 3  | 1           | 112,930        | 1.21   |             | 29%          | 2%          | Above Ralling | 55 |
AVB US | AvalonBay Communities | U. S. | Real REIT | 1      | 3  | 1           | 25,646         | 1.05   |             | 27%          | 4%          | Above Ralling | 61 |
WEC US | WEC Energy Group | U. S. | Multibit | 1      | 1  | 1           | 22,374         | 1.00   |             | 27%          | 4%          | Above Ralling | 62 |
ETN US | Entergy Corp  | U. S.   | Elect util   | 1      | 4  | 1           | 15,639         | 1.09   |             | 19%          | 5%          | Above Ralling | 64 |
FRT US | Federal Realty Investment Trust | U. S. | Retail REIT | 2      | 1  | 2           | 9,529          | 1.15   |             | 22%          | 2%          | Above Ralling | 61 |
ACP US | American Electric Power Co | U. S. | Elect util | 1      | 2  | 2           | 37,979         | 1.03   |             | 22%          | 4%          | Above Ralling | 69 |
DTE US | DTE Energy    | U. S.   | Multibit     | 1      | 2  | 2           | 21,655         | 1.04   |             | 25%          | 6%          | Above Ralling | 65 |
PEG US | Public Service Enterprise Group | U. S. | Multibit | 1      | 2  | 2           | 27,446         | 1.00   |             | 15%          | 2%          | Above Ralling | 55 |
DUX US | Duke Energy   | U. S.   | Elect util   | 1      | 3  | 2           | 61,803         | 1.00   |             | 19%          | 7%          | Above Ralling | 70 |
PWX US | Pineapple West Capital | U. S. | Elect util | 1      | 2  | 3           | 8,690          | 1.00   |
```

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

US Value vs Growth & Curve, EU Growth Outperformers

• This is one nugget in our latest chart book that we didn’t want to leave buried. The narrative of growth/value being hit, because the equity markets rolled over, just does not work. So what was it? We believe it was the turn in the US 30-10 yield curve, as that’s the time series that best rhymes with the resurgence of value vs growth – Exhibit 1. How this fits from a logical sense is this: the flattening curve sez the market is reaching for duration risk because there is no fear of long-term inflation to derail this leaning. In a similar way, the market is reaching for the potential for growth to turn into earnings, because there is no fear that the trajectory may be disrupted. The bottom line is, we are now watching those curves for G/V signaling.

• We look at many growth vs value ratios, and the one that appears different, with growth pivoting back to strength vs value, is found in the EU – Exhibit 2. The best European outperformers that screen well for growth are found in Exhibit 3.

Exhibit 1: US Value vs Growth & US 30-10 Yield Curve & Fit of Returns

Exhibit 2: EU Growth vs Value & Other G/V Ratios in Insert

Exhibit 3: Largest 15 EU Outperformers Which Screen Well for Growth – See Link for Full List

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

Note: BMO Capital Markets is restricted on Eni SpA

November 16, 2018

Trends & Inflection Points

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Trends & Inflection Points

There’s Always a Bull Market Somewhere

- Here is a link to our latest slide deck.
- The new bull market this year is in volatility, which was the focus of our first chart yesterday, and we offer up the second key chart today, as US prime broker bank risk CDS widens to a 19m high on the hunt for the next fund failure, or Amaranth part 2 – Exhibit 1.
- Taking a birds eye view on the price trends on every bank in MSCI World, one now sees that the bulk are trending lower – Exhibit 2.
  - The banks we view as momentum sells (trending lower, below falling moving averages, and not oversold) are found here – Exhibit 3.

Exhibit 1: US Prime Broker Credit Risk & Market Volatility

Exhibit 2: Dividend Adjusted Price Trends on Global Banks

Exhibit 3: Largest 15 Bank Momentum Sells – Full List at This Link

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

So, so you think you can tell heaven from hell

David Gilmour & Roger Waters

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David Cheng
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(416) 359-7383

November 15, 2018

Trends & Inflection Points

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David Cheng
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(416) 359-7383

November 15, 2018
Trends & Inflection Points

You Were Lucky

- **Yesterday**, we tuned down our expectations for the trend of the S&P 500, which is the best looking benchmark in the TAA book. Today, before we move to EAFE, we ask you to ponder what would it be like to "splain" the performance of your volatility targeting fund in a bull market for that nevau asset class – Exhibit 1.

- For an EAFE manager, your benchmark trend slope is negligible, so you may as well just look at total return spectra, instead of relative returns – Exhibit 2.
  - There are 95 EAFE buys in our system, with all sectors (save energy., can’t wait what the question for December will be eh?) covered. We highlight the largest 15 below, and the full list at this link – Exhibit 3.

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**Exhibit 1: Combined Stock, Commodity & Bond Volatility vs RP Fund**

**Exhibit 2: MSCI EAFE in Local Currency (Looks Much Worse in USD)**

**Exhibit 3: Largest 15 EAFE Momentum Buys – Full List Here**

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

Take 5

- If you want to avoid looking at the pain and panic in markets, stick to the relative. How does the S&P 500 look against MSCI World? Fantastic! Trending higher, above rising moving averages, and just off of an all-time high – Exhibit 1.

- For mere mortals who get paid to make and retain capital, we turn to the absolute. Our system, which ditched the 25%/year trend in October, now looks at the S&P 500 in a messy three-year channel with a slope of 15%/year, and below the bottom end of it. We actually think it’s worse than that. If you look at the slope and duration of channel for global real estate yesterday, that’s what we expect here. What’s a reasonable slope going forward? Take 5 – Exhibit 2.
  - Finessing that S&P 500 chart, we point out the minor head and shoulders pattern, which suggests the end of pain is nigh, and the upside target is a very Santa Clause-like new high.
  - We quantify panic every day, and are always buyers of it. The VIX curve points out two things, (1) inversion suggests that markets are still unusually panicked, and (2) the state of invertedness is waning – Exhibit 3.
  - From a stock picking level, we recommend buying the outperformers in the market – Exhibit 4.

---

Exhibit 1: S&P 500 vs MSCI World

Exhibit 2: S&P 500

Exhibit 3: S&P 500 and VIX Curve

Exhibit 4: Largest 15 S&P 500 Outperformers – Full List Here

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

- Our market breadth measure has embraced three sectors. We've written up two of three (Health Care: Fernando's Hideaway, Utilities; Just Imagine Rates Were Falling). Now we embrace the third, Real Estate. In case you had not noticed, the market's embrace is rather defensive. One can either go with that, or fight it. We are going with it. The closest cousin for real estate is financials, from which the sector was carved out many years ago now. We compare the two global sectors, and beneath them, we highlight the market bottoms as so nicely defined by implied volatility: treasury volatility for real estate, and US financial volatility for financials.

- Both sectors are at the midpoint of channels, but the channels and drivers are different:
  - Real Estate is in an uptrend, and treasury implied volatility continues to be in a downtrend.
  - Financials are in a downtrend, and US financial implied volatility has a series of higher highs and lows: an uptrend is born.

- These different patterns in implied volatility are subtle, but are very important.

- We'll squeeze in some of the best stocks in for managers with the following Real Estate perspectives: North America, US, Canada, EAFE.

- All things Real Estate are found at this link.

---

Judas, are you betraying the Son of Man with a kiss

Yeshua

---

Exhibit 1: Global Real Estate & Treasury Implied Volatility

Exhibit 2: Global Financials & US Financial Implied Volatility

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
This morning as oil continues to fall like a knife, EM slides back below a falling 50d MA, and European banks, which never made it to that milestone do worse, it’s a sea of red in equity and commodity land. The only things that look green are bonds (non-Italian).

Yesterday, we bestowed praises on the utilities (bond proxy sector), but there is another sector to embrace which looks marvelous, absolutely marvelous, and that’s Health Care – Exhibits 1 & 2.

Now we don’t get too much of an opportunity to highlight the core of Canadian Health Care, but we’ll update it here for those that think it’s about how you feel – Exhibit 3.

For those looking for how you look, and let me tell you darlings, you look marvelous (back to Exhibit 2), it’s these stocks that bring this on – Exhibit 4.

Nothing lasts forever, darling, but it’s not the end of the world.

You Look Marvelous (1985), Billy Crystal

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

Just Imagine Rates Were Falling

- Nice risk on rally yesterday! What’s odd is that our utility relative strength breadth gauge surged too. Not only surged, but surged from an already positive level and the level coincides with treasury yield bottoms, which is not at all what’s on display right now – Exhibit 1.

- On a relative strength, market cap weighted basis, global utilities bottomed this year, and are trending higher above rising moving averages. If we were to add the overlay, which best matches the strength in 2018, it would not be rates, nor curves, nor oil, nor a broader commodity basket, it would be ACWI ex-US. We highlight one chart above the other below – Exhibits 2, 4.

- Now technically, world ex-US is in a bear market, below all falling moving averages, and the current rally is counter trend. We don’t discount a Santa Claus rally, but on the other hand, we just don’t see the shift away from North America, which is about to hit a new high, while World ex-US hits a new low on a relative basis.

- So we are buyers of utilities on the pullback, as the breadth is improving, and we expect global utilities will break out to new highs. Further, our trend slope reading of 10% likely underestimates the potential performance, and the trend itself has really been non-functional given the churn recently. We highlight the pre-breakout perspective in Exhibit 3.

Exhibit 1: Global Utility Relative Strength Breadth Z-Score

Exhibit 2: Utilities vs MSCI World

Exhibit 3: MSCI World Utilities

Exhibit 4: ACWI World ex US

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Positive Momentum – The Non Cash-Like Cut

- Yesterday’s note, detailing how from a high level, global top-down approach, one sees unblemished positive momentum constrained to cash-like industries, and ultimately pulling those stocks forward is a good strategy for keeping one onside with what the market rewards.

- Today’s note broadens out the scope and the universe of what is rewarded. Instead of choosing subindustries trending higher, above rising 50d MAs, we choose stocks in top deciled subindustries – where the majority of stocks are rewarded, not on an absolute, but on a relative basis. Instead of looking at utility-type stocks, we exclude them. The list is 146 strong (versus the opposite list, of more than double that proportion) – Exhibit 1.

  o For your specific markets: the Canadian contingent is here, EAFE here, world ex USA, North American SMID, Global SMID.

Exhibit 1: Largest 20 Momentum Buys in Top Deciled SubIndustries – See Link for Full List

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
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