Thursday, August 11, 2016

Market Elements

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Trends & Inflection Points

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<td>IT for Those Who Don’t Buy New Highs</td>
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<td>Fishing for Small Cap Technology</td>
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Focal Points

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<td>Gold Dances to the Tune of The Dollar Wine</td>
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Golds rose 2% and EM rose for the fifth day, but most equity indices pulled back from recent highs; with energy and biotech leading declines.

Bonds continued to rally; gilt yields went -ve for the second time (first was on Brexit), gilts and other Eurozone yields hit new lows as did yields in China; corporate credit risk pivoted higher across the board.

Major crosses continued to advance against the greenback; the broad Bloomberg U.S. dollar index broke down to a 6w low.

Palladium & Platinum led precious and base metals higher, while gasoline led a sharp retreat in energy commodities after EIA; WTI fell 3%, retracing 50% of the OPEC hope-driven

<table>
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<tr>
<th>Levels*</th>
<th>Currencies (USD per)</th>
<th>Commodities</th>
<th>Government 10-Yr Benchmark</th>
<th>Equity Indices &amp; Sentiment</th>
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<tbody>
<tr>
<td>Symbol</td>
<td>H/L</td>
<td>%Chg</td>
<td>Symbol</td>
<td>H/L</td>
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<tr>
<td>BBXY</td>
<td>1.177</td>
<td>-0.4%</td>
<td>BB Cndty</td>
<td>83.23</td>
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<tr>
<td>XBT</td>
<td>1.175</td>
<td>0.5%</td>
<td>WTI Oil</td>
<td>41.47</td>
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<tr>
<td>EUR</td>
<td>1.0257</td>
<td>0.7%</td>
<td>XMX Gas</td>
<td>2.57</td>
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<tr>
<td>CHF</td>
<td>1.3015</td>
<td>0.1%</td>
<td>Gold</td>
<td>1.34B.8</td>
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<tr>
<td>GBP</td>
<td>0.0987</td>
<td>0.6%</td>
<td>Silver</td>
<td>20.16</td>
</tr>
<tr>
<td>JPYx10</td>
<td>0.7657</td>
<td>0.4%</td>
<td>Platinum</td>
<td>1.17B.3</td>
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<tr>
<td>CAD</td>
<td>0.7707</td>
<td>0.4%</td>
<td>Palladium</td>
<td>723.83</td>
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<tr>
<td>AUD</td>
<td>0.3195</td>
<td>0.9%</td>
<td>LME Al 3m</td>
<td>217.20</td>
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<tr>
<td>BRL</td>
<td>0.5431</td>
<td>0.1%</td>
<td>LME Ni 3m</td>
<td>4.93</td>
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<tr>
<td>ZAR</td>
<td>0.0752</td>
<td>-0.5%</td>
<td>LME Zn 3m H</td>
<td>1.04</td>
</tr>
<tr>
<td>KRWx10</td>
<td>0.9111</td>
<td>0.5%</td>
<td>Lumber</td>
<td>329.70</td>
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<tr>
<td>CNY</td>
<td>0.1507</td>
<td>0.3%</td>
<td>Com</td>
<td>333.00</td>
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<tr>
<td>GBP</td>
<td>1.177</td>
<td>-0.4%</td>
<td>WTI Oil</td>
<td>41.47</td>
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</table>

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, Credit Challenged World

SIFIs
- ZEW: Deutsche Bank Unexpectedly Found To Have Massive Capital Gap, Larger Than Its Entire Market Cap – ZH
  - Deutsche Bank doth protest - Reuters
- Italy’s bank saga spreads its trouble wide – FT

Central Station
- UK government bonds turn negative in historic rally – FT
- The Bank of England Just Learned a Lot About Bond Market Liquidity – BBG, FT
- No Need to Be So Negative on Sub-Zero Rates, Mr Carney – BBG
- Japan’s Plunging Jobless Rate Is All About Aging, Not Abenomics – BBG
- RBA’s Stevens: Inflation to Stay Low, Negative Rates Unlikely – The Australian
  - RBA’s Stevens: ‘We need some realism’ on monetary policy limits – FT
- Some now appear to be betting China could get in on the easing action as well – FT

Crude Realities
- Saudi-Iran Oil Rivalry Heats Up as OPEC Seeks Stable Prices – BBG
  - Saudi oil production hits record in July – FT
- OPEC Signals Oil Market Lull May Persist on Muted Fuel Demand – BBG
- Bond Markets: Growing Ever More Bizarre – WSJ
- Did US Consumers Finally Tap Out? BofA Internal Card Data Shows Significant July Spending Slowdown - ZH
- Libor’s rise worth keeping an eye on – FT
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

Yen

Crude Oil (WTI)

U.S. 10-Yr Bond

Chinese Yuan (CNY)

Natural Gas (NMX)

Canadian 10-Yr Bond

Canadian Dollar

Copper (CMX)

German 10-Yr Bund

Australian Dollar

Nickel (LME 3Mo)

Italian 10-Yr Bond

Ave. Prime Broker 5yr CDS

CDX North American Inv. Grade Index

VIX
Intra Day Charts
2-Day 1-Minute View

Currencies
Bloomberg Dollar Spot Index

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

Euro
Crude Oil (Brent)

U.S. 10-Yr Breakeven

Yen
Crude Oil (WTI)

S&P 500

Chinese Yuan (CNY)
Natural Gas (NMX)

S&P/TSX Composite

Canadian Dollar
Canadian 10-Yr Bond

VIX

Australian Dollar
Nickel (LME 3Mo)

Italian 10-Yr Bond

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

- **Canada** – at a 52-week high: Materials, Consumer Staples, Telecommunications Services.
- **Europe** – at a 52-week high: Real Estate.

**S&P 500**

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples

**S&P/TSX Composite**

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples

**S&P Europe 350**

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
## Market Movers – Largest Daily Percentage Moves

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>JX Holdings Inc</td>
<td>5020.JP</td>
<td>1.3%</td>
<td>Valero Energy</td>
<td>VLO</td>
<td>0.8%</td>
<td>NuVista Energy</td>
<td>NVA</td>
<td>5.0%</td>
</tr>
<tr>
<td>OMV AG</td>
<td>OMV</td>
<td>1.1%</td>
<td>Phillips 66</td>
<td>PSX</td>
<td>0.3%</td>
<td>Bonterra Energy</td>
<td>BNE</td>
<td>2.4%</td>
</tr>
<tr>
<td>Petropavlovsk</td>
<td>PFC.LN</td>
<td>0.4%</td>
<td>Pioneer Natural Resources</td>
<td>PXD</td>
<td>0.3%</td>
<td>Pason Systems</td>
<td>PSI</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total</td>
<td>TLW.LN</td>
<td>-2.1%</td>
<td>Marathon Oil</td>
<td>MRO</td>
<td>-3.1%</td>
<td>Precision Drilling</td>
<td>PDD</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Petrobras Brasiliero</td>
<td>PBR.US</td>
<td>-3.1%</td>
<td>Diamond Offshore Drilling</td>
<td>DO</td>
<td>-3.7%</td>
<td>Baylex Energy</td>
<td>BTE</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Amec Foster Wheeler</td>
<td>AMFW.LN</td>
<td>-3.6%</td>
<td>Transocean</td>
<td>RIG</td>
<td>-8.8%</td>
<td>Gran Tierra Energy</td>
<td>GTE</td>
<td>-5.3%</td>
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</tbody>
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### Materials

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gerdau SA</td>
<td>GGB.US</td>
<td>4.7%</td>
<td>Vulcan Materials</td>
<td>VMC</td>
<td>1.6%</td>
<td>OceanaGold</td>
<td>OGC</td>
<td>7.1%</td>
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<tr>
<td>Talleyo Cement</td>
<td>5233.JP</td>
<td>4.3%</td>
<td>International Paper</td>
<td>IP</td>
<td>1.6%</td>
<td>Tahoe Resources</td>
<td>THO</td>
<td>5.8%</td>
</tr>
<tr>
<td>Newcrest Mining</td>
<td>NCM.AU</td>
<td>-4.3%</td>
<td>Newmont Mining</td>
<td>NEM</td>
<td>1.3%</td>
<td>Endeavour Mining</td>
<td>EDOV</td>
<td>5.4%</td>
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<tr>
<td>ArcelorMittal</td>
<td>MT.NA</td>
<td>-3.5%</td>
<td>Eastman Chemical</td>
<td>EMN</td>
<td>-1.0%</td>
<td>Methanex Corp</td>
<td>MX</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Vale SA</td>
<td>VALE.US</td>
<td>-4.4%</td>
<td>Mosaic Co</td>
<td>MOS</td>
<td>-1.2%</td>
<td>Labrador Iron Ore Royalty</td>
<td>LIO</td>
<td>-3.1%</td>
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<tr>
<td>Novolines</td>
<td>NZMB.DC</td>
<td>-11.8%</td>
<td>CI Foods</td>
<td>CF</td>
<td>-2.5%</td>
<td>Alamos Gold</td>
<td>AGI</td>
<td>-4.7%</td>
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### Industrials

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tbody>
<tr>
<td>G4S PLC</td>
<td>GFS.LN</td>
<td>16.2%</td>
<td>General Dynamics</td>
<td>GD</td>
<td>2.0%</td>
<td>Badger Daylighting</td>
<td>BAD</td>
<td>3.6%</td>
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<tr>
<td>Shimizu Corp</td>
<td>1803.JP</td>
<td>6.0%</td>
<td>Eaton Corp</td>
<td>ETN</td>
<td>1.3%</td>
<td>WestJet Airlines</td>
<td>WJA</td>
<td>2.0%</td>
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<tr>
<td>Recruit Holdings Co Ltd</td>
<td>6058.JP</td>
<td>5.2%</td>
<td>Waste Management</td>
<td>WM</td>
<td>1.2%</td>
<td>Stancec Inc</td>
<td>STN</td>
<td>2.0%</td>
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<td>John Frieda</td>
<td>1903.JP</td>
<td>-0.7%</td>
<td>Delta Air Lines</td>
<td>DL</td>
<td>-1.3%</td>
<td>Macdonald-Dettwiler &amp; Associates</td>
<td>MDA</td>
<td>-1.4%</td>
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<tr>
<td>Nippon Yusen</td>
<td>9101.JP</td>
<td>-3.2%</td>
<td>United Continental</td>
<td>UAL</td>
<td>-1.4%</td>
<td>Ritchie Bros Auctioneers</td>
<td>RBA</td>
<td>-2.3%</td>
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<td>Dai Nippon Printing</td>
<td>7912.JP</td>
<td>-3.4%</td>
<td>Jacob's Engineering Group</td>
<td>JEC</td>
<td>-1.7%</td>
<td>Aeon Group</td>
<td>ARE</td>
<td>-3.5%</td>
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### Cons Disc

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<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<td>Sands China</td>
<td>1928.HK</td>
<td>5.2%</td>
<td>Ralph Lauren</td>
<td>RL</td>
<td>8.5%</td>
<td>Amaya Inc</td>
<td>AYA</td>
<td>2.8%</td>
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<td>Swatch Group AG</td>
<td>UHR.VX</td>
<td>3.8%</td>
<td>Hanwha &amp; Co</td>
<td>HWR</td>
<td>3.2%</td>
<td>Echelon</td>
<td>ECH</td>
<td>2.2%</td>
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<td>Pandora</td>
<td>PNDORA.DC</td>
<td>3.7%</td>
<td>Dollar Tree</td>
<td>DLTR</td>
<td>2.3%</td>
<td>Great Canadian Gaming</td>
<td>GGC</td>
<td>1.8%</td>
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<td>Denso Corp</td>
<td>6902.JP</td>
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<td>Harman International Industries</td>
<td>HAR</td>
<td>-1.3%</td>
<td>Linamar Corp</td>
<td>LNR</td>
<td>-1.0%</td>
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<td>Suzuki Motor</td>
<td>7269.JP</td>
<td>-2.5%</td>
<td>Coach Inc</td>
<td>COH</td>
<td>-2.3%</td>
<td>Restaurant Brands International</td>
<td>QSR</td>
<td>-1.0%</td>
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<td>Bridgestone</td>
<td>5198.JP</td>
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<td>Michael Kors Holdings</td>
<td>KORS</td>
<td>-2.8%</td>
<td>Intertek Group</td>
<td>IT</td>
<td>-1.5%</td>
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<td>Kao</td>
<td>4452.JP</td>
<td>2.8%</td>
<td>Hershey Co</td>
<td>HSY</td>
<td>1.4%</td>
<td>Alimentation Couche-Tard</td>
<td>ATB</td>
<td>1.5%</td>
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<td>Lawson Inc</td>
<td>2651.JP</td>
<td>2.1%</td>
<td>Wal-Mart Stores</td>
<td>WMT</td>
<td>1.2%</td>
<td>North West Co Inc</td>
<td>NWC</td>
<td>0.9%</td>
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<tr>
<td>BRF SA</td>
<td>BRFS.US</td>
<td>-1.7%</td>
<td>Estee Lauder Cos Inc</td>
<td>EL</td>
<td>-0.5%</td>
<td>Loblaws Cos</td>
<td>L</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Carlsberg</td>
<td>CARLB.DC</td>
<td>-1.9%</td>
<td>Kraft Heinz Co</td>
<td>KHC</td>
<td>-0.5%</td>
<td>Saputo Inc</td>
<td>SAP</td>
<td>-0.9%</td>
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<tr>
<td>Hlneis Co Ltd</td>
<td>4911.JP</td>
<td>-5.7%</td>
<td>CorAgras Foods</td>
<td>CAG</td>
<td>-0.6%</td>
<td>Jean Coutu Group</td>
<td>PJC</td>
<td>-1.1%</td>
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</table>

### Health Care

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cochlear Ltd</td>
<td>COH.AU</td>
<td>7.6%</td>
<td>Zoetis Inc</td>
<td>ZTS</td>
<td>1.7%</td>
<td>CharterOak Retirement Residence</td>
<td>CSU</td>
<td>0.7%</td>
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<tr>
<td>Terumo Corp</td>
<td>4543.JP</td>
<td>1.7%</td>
<td>Humana Inc</td>
<td>HUM</td>
<td>1.5%</td>
<td>Concordia Healthcare</td>
<td>CRC</td>
<td>0.0%</td>
</tr>
<tr>
<td>CSL Ltd</td>
<td>CSL.AU</td>
<td>1.3%</td>
<td>Henry Schein</td>
<td>HSIC</td>
<td>0.3%</td>
<td>Express Scripts</td>
<td>EXE</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Novo Nordisk</td>
<td>NOVOB.DC</td>
<td>-1.9%</td>
<td>Vertex Pharmaceuticals</td>
<td>VRTX</td>
<td>-3.0%</td>
<td>Promentis Life Sciences</td>
<td>PL</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Sanofi</td>
<td>SAN.FR</td>
<td>-2.5%</td>
<td>Zimmer Biomet Holdings</td>
<td>ZBH</td>
<td>-3.1%</td>
<td>Valeant Pharmaceuticals</td>
<td>VRX</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Genmab A/S</td>
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### Financials

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### Technology

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### Utilities

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*Bold = move of more than 5%*
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### Canadian Market Movers

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- Last
- %Chg
- Symbol
- Last
- %Chg
- Symbol
- Last
- %Chg
- Symbol
- Last
- %Chg
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#### Materials
- Symbol
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#### Industrials
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- %Chg
- Symbol
- Last
- %Chg
- Symbol
- Last
- %Chg
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- %Chg
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#### Discretionary
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- %Chg

#### Financials
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- %Chg

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**Market Elements**

- July 10, 2016

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**Health Care**

- Symbol
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- %Chg
- Symbol
- Last
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**Utilities**

- Symbol
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- Symbol
- Last
- %Chg
- Symbol
- Last
- %Chg
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**Technology**

- Symbol
- Last
- %Chg
- Symbol
- Last
- %Chg
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**Market Symbols**

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- Symbol
- Last
- %Chg

Why High Risk Energy Stocks Can Be Bought

- **High yield corporate debt, anything but energy, is at a new high**, but energy has the highest torque. High yield energy just broke out to a 13m high. Mind the breakout – Figure 1.
- **CDS trends on high risk (CDS level over 100 bps) energy companies are narrowing across the board** – Figure 2.
- So when you look at the equity/CDS overlays of some high yielding ultra high risk energy stocks that have pulled back recently, you notice that the CDS did not pull back as much, and has improved since then. RIG and CHK are buys on these pullbacks – Figures 3, 4.
  - The market is going for yield. What yield you ask? These stocks don’t pay dividends anymore.
    - It’s not the equity that is in control, it’s the debt.
    - Thus endith the lesson.

All You Need is Yield
All You Need is Yield
All You Need is Yield
Yield is All You Need
(If the Beatles did Corporate Gigs)

---

Figure 1: **BBG HY Energy Corp Bond Index** (Others in Insert)

Figure 2: **CDS Trends on Energy Corps Where CDS > 100bps**

Figure 3: **Transocean (RIG US) Equity/CDS Overlay**

Figure 4: **Chesapeake Energy (CHK US) Equity/CDS Overlay**

---

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
This morning, the Bloomberg U.S. dollar index breaks below a short-term uptrend in the direction of the major trend, which is down. Mind the inflection point – Figure 1.

- Oh yes, and that falling dollar is correlated to rising Canadian miners – Figure 2.

The Materials sector continues to garner the strongest sector reading in our breadth work and that’s because of the miners and steel stocks – Figures 3, 4.

- That’s been the case for some time, so it hardly needs a cheerleader. The opportunity is to seek out stocks that have low current volatility relative to their history, in anticipation that the ultimate breakout will be explosive, as volatility mean reverts.

- We sorted Canadian miners by Bollinger band width as a percentage of their 1y median. The four stocks highlighted are all below 40%, and are still in or are just breaking out of consolidation patterns. Charts of Capstone Mining, Kinross Gold, First Quantum Minerals, and Sabina Gold & Silver are shown in Figures 5-8.
Trends & Inflection Points

Figure 5: Capstone Mining (CS CN) Price Trend

Volatility Just 1/3rd of the 1y Median; Buy Pullback to Bottom End of Steep Channel

Figure 6: Kinross Gold (K CN) Price Trend

The End of the Consolidation (Pre-Breakout View)

Figure 7: First Quantum Minerals (FM CN) Price Trend

Just Broke Out

Figure 8: Sabina Gold & Silver (SBB CN) Price Trend

Key Decision Point (We Recommend Purchase)

Key Trend
OK, ACWI Technology has not quite broken above the 2000 spike high, but after breaking out of a 1y consolidation pattern last month, it should have the gusto to do so on this leg.

- But that’s not your style. You are more the one looking at basing and bottoming patterns.
- We’ve done the math to find those patterns. We do it every day, and for all benchmarks we follow.
- For the technology specialist, these are our favourite four.

**Figure 1:** Teradata Corp (TDC US) vs. ACWI IT

**Figure 2:** Jive Software (JIVE US) vs. ACWI IT

**Figure 3:** Simplo Technology (6121 TT) vs. ACWI IT

**Figure 4:** Synnex Technology (2347 TT) vs. ACWI IT

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Fishing for Small Cap Technology

- We’re going to reiterate last Friday’s chart showing the breadth of technology just getting back to positive (see Technology – All Aboard! Figure 1), to point out that given that this is a breadth indication, it is primarily driven by SMID. Most SMID indices are in outperforming trends vs. the broader markets, and that’s the case for technology as well. It’s just in this case, there is a pullback buying opportunity – Figure 2.

- There are always new stocks breaking above downtrends to consider, and those looking for new strength and leadership should be tuning toward small cap technology. The list of these shares breaking above downtrends last Friday are shown in Figure 3.

- Of these, the best-looking patterns from a technical standpoint are found in Constellation Software, and Angie’s list – Figures 4, 5.

Figure 1: Technology Relative Strength Breadth Score

Figure 2: Small Cap Technology vs. MSCI World Technology

Figure 3: Technology Stocks Breaking Above Price Downtrends on Friday

Figure 4: Constellation Software (CSU CN) Price Trend

Figure 5: Angie’s List (ANGI US) Price Trend

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Technology – All Aboard!

- Here is the chart of global Technology vs MSCI World. It’s at an eight-month high, just short of the all-time high. It’s been consolidating gains for eight months now, and it’s close to a breakout. All aboard – Figure 1.

- Clearly that chart is market cap weighted, but look at the relative strength breadth of technology. It broke out of the neutral zone this week. All aboard – Figure 2.

- From our long/short filters, available daily in the TIPS Suite, here are the technology stocks with good long-term performance that are breaking out of flat or negative trends. All aboard – Figure 3.

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
What Not to Own, The Canadian Edition

- There has been a substantial amount of rotation going on in the market recently, which has been our focus in the last two weeks of notes. If something were to break above an underperforming trend as the next “go-to” stock, it would have probably happened by now. What’s left are the “what not to own” dregs – Figure 1.
  - Of the 14, the best sells (or shorts if you do that sort of thing) from a technical perspective are:
  - **CI Financial** (CIX), just poised above technical support, but lower lows and highs have been in place since early 2015. Downside risk is to $24 – Figure 2.
    - Most CDN asset managers are in underperforming trends vs. the market, and the only stellar outperformer, Dundee Corp (DC.A), broke its outperforming trend and price trend last week.
  - **Manulife Financial** (MFC), which broke below major support late last year, rebounded, and broke below the rebound uptrend during the Brexit bashing. It has rebounded into resistance again and has downside risk to $14 – Figure 3.
    - Global life insurers rank horribly in our relative strength breadth score, and of the largest 10 life insurers by market cap (MFC is #7), the only worse looking insurer vs. ACWI is Japan Post.
  - **Magna** (MG) similarly has had a nice rebound into resistance. The key trend is down as is the case for the MSCI World Auto Components Index – Figure 4.

---

**Figure 1: Canadian Momentum Sells vs. the TSX**

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<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>MMCac (CAD)</th>
<th>YR</th>
<th>SPF5X Trend Slope</th>
<th>%Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>ROT</th>
<th>DVD</th>
<th>Respectable/Strong</th>
<th>Price Range</th>
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<tr>
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<td>Dominion Diamond</td>
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<td>90</td>
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<td>below Failure</td>
<td>$19-21</td>
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<td>CI Financial</td>
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<td>$27-29</td>
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<td>Drug Retail</td>
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<td>Linamar Corp</td>
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<td>Fertilizer</td>
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<td>$20-22</td>
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<td>41</td>
<td>below Failure</td>
<td>$9-11</td>
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**Figure 2: CI Financial (CIX CN) DVD-Adjusted Price Trend**

Expect Breakdown 6-12m Target $24

**Figure 3: Manulife Financial (MFC) DVD-Adjusted Price Trend**

The Key Trend

6-12m Target $14

**Figure 4: Magna International DVD-Adjusted Price Trend**

Almost a 3y Distribution Top, With Downside Risk Just Below $30

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~09:23 ET
Canadian 'Rotation In' Candidates

- The “severed last day” screen for Canada, shows the same energy weakness we highlighted for the US market yesterday, but with little presence in technology and health care, which are the key “rotation in” candidates in the U.S., the “in camp” takes on a different flavour eh? – Figure 1.

- Food Retail is the largest “rotation in” group, and there are four stocks that are trending higher, above rising moving averages, sporting buyable RSIs – Figure 2.

- Multi-line Insurance in Canada is really just Fairfax Financial Holdings (FFH CN). We present the pre-breakout view on the price chart in Figure 3.

- The forest products group in Canada is an eclectic bunch, but the most interesting chart is found with Interfor (IFP CN), which is small and volatile, but is also breaking out of a bottoming pattern – Figure 4.
The Police’s Roxanne, apparently, is the most repetitive song, clocking in at 27x. We’ve only been highlighting the rotation in the market for the past seven, OK, now eight days. But when the market speaks, with such clarity and the weight of the moves are so substantial, it’s what we must do. By U.S. subindustry, there’s almost 10% of the market breaking above underperforming trends at the expense of energy just on Friday alone – Figure 1.

Of course with such large shifts going on at the subindustry level, there are large inflection points going on above that as well;
- On Friday, MSCI World Growth broke above a slightly underperforming trend vs MSCI World Value – Figure 2.
- A similar, trend, albeit a steeper trend of underperformance among the Russell 1000 Growth / Value ratio was also broken on Friday – Figure 3.
- And if you are a U.S. small cap manager, those seeds of Growth outperformance are being sown – Figure 4.
Positive Reversals in Biotechnology

- The backdrop is that as oil continues to slide, and realizing that the breadth of health care relative strength looks like the mirror image of energy relative strength (see page 3) our quant reading on biotechnology improved to a height of 4th decile this week, just shy of a top three ranking. We also know that the group is heterogeneous, so there is an advantage of owning some as opposed to all via an ETF.

- Celgene (CELG US) has a good history of outperforming. This week, it broke above an underperforming trend which has been in place for the past year. Mind the inflection point – Figure 1.

- Regeneron (REGN US) has a similar pattern, albeit with a bit more volatility – Figure 2.

- This note could not be complete without pointing out the breakout of the world’s largest biotech stock, Amgen (AMGN US) – Figure 3.

- For those who are more momentum minded, we highlight the two dozen biotech momentum buys in our system – Figure 4.

Figure 1: Celgene vs S&P 500
Figure 2: Regeneron Pharmaceuticals vs S&P 500
Figure 3: Amgen (AMGN US) Dividend Adjusted Price Trend
Figure 4: Periodic Table of Biotech Momentum Buys

Breaking Out of an Almost 2 Year Holding Pattern

All Trending Higher, at The Annualized Rates Shown Here (%); Above Rising MAs, and Not Overbought

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

~08:03 ET
There is rather a lot of rotation going on. We will delineate it with market cap weighted sector relative strength trends looking at the trends, the inflection points, and the precursors to inflection points. In one figure, with a bit of help from a ball and stick modeling from organic chemistry days, and some follow-up charts from the TIPs suite, we can elucidate – Figure 1.

- Energy, the best outperformance, which broke down this week, has been the theme or subtheme of our past three notes. Using Ragin’ Cajun bluntness, it’s the commodity, stupid – Figure 2.
- Why is Materials, Energy’s commodity cousin, still strong? Those commodities don’t show the same weakness that oil and products currently suffer with – Figure 3.
- Staples, outperforming with only half of the torque of energy, but breaking down all the same, has its relative performance closely twinned with credit stress, which peaked in January, and has receded dramatically since – Figure 4.
- Our relative strength breadth reading on technology had been positive to neutral for years, only dipping into the negative this year during the height of resource outperformance. It’s instructive to look at the ratio of one to the other. Ahh – Figure 5!
- Health Care, technologies’ cousin, has yet to show a positive reversal, but those seeds are being sown now. It’s currently priced above rising 50 and 200d relative strength moving averages, and this week on a breadth basis, all subindustries (yes Biotech too) moved into a positive strength decile. That’s a big change. Mind the precursors to the inflection point – Figures 6, 7.

Figure 1: Global Sector Relative Strength Trends

Energy Breakdown: It’s the Commodity, Stupid (Figure 2)

Materials Still Strong?: Take A Look at a The Commodities Here Too (Figure 3)

Staples Breakdown: Had Done Wonderfully in a Credit Stressed Environment, Which Has Faded Away (Figure 4)

Technology: Positive Reversal Coupled With Energy Weakness (Figure 5)

Health Care: Note The Preconditions For a Positive Reversal (Figures 6, 7)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Figure 2: **WTI**

Figure 3: **Trends on Base Metals and Bulks**

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<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>Reward /Risk</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>
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<td>Baltic Dry</td>
<td>-5%</td>
<td>56%</td>
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<td>6%</td>
<td>-16%</td>
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Figure 4: **N. Amer. IG CDS (Top) and Global Staples RS**

Figure 5: **Global Technology vs Global Natural Resources**

Figure 6: **Global Health Care vs MSCI World**

Figure 7: **Global Health Care Relative Strength Heat Map**

**All The Bad Stuff...**
Small Cap Technology

- When you look across the spectrum of small caps vs. broad markets, it’s almost a clean sweep of outperformance, with only the resource heavy TSX seeing a break in the trend. Globally, the relative performance is at a good buy point, at the bottom of a rising channel – Figure 1.

- If you are looking at which sector to deploy small cap capital toward, we suggest you look at technology, which is breaking to the upside, in the direction of the long-term outperforming trend – Figure 2. And, yes, as we discussed in the past few days, this time out was caused by energy sector strength, which is now fading.

- We continue to find that an earnings growth filter helps to bias a spectrum of stocks towards outperformance, and that’s the case here with Small Cap Technology as well – Figure 3.
  - That leaves the field open for spotting momentum buys such as UBISOFT Entertainment, as well as late-stage bottoming patterns as found in WEX Inc and early-stage bottoming patterns as found in Radware.

Figure 1: Small Caps vs. ACWI, With Small Caps vs. Local Benchmark Ratios in Insert

Figure 2: Small Cap IT vs. MSCI World Small Cap Index

Figure 3: Small Cap Technology vs. ACWI Small Cap Index With an Earnings Growth Filter Applied

Largely Outperformers... ...With Some Breaking Above Flat or Underperforming Trends

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Side Effects of Energy’s Trajectory Part 2

- Yesterday, we highlighted a few breakdowns in energy, but many more came during the session. The majority of our clients are benchmarked against one of the indices where the energy sector broke below an outperforming trend yesterday. Mind the inflection point – Figure 1.
- We still see little sign of credit stress in energy, but that would come with more commodity stress, and commodity stress just poked its head up yesterday – Figure 2.
- Yesterday, we narrowed-in on technology as the key sector benefitting from early energy weakness (and by the way, energy broke below the zero mark yesterday after peaking a month ago). Staples needs more credit stress to get back into positive territory, but it is rebounding sharply. Sandwiched in between comes health care – Figure 3.
- We have not put the spotlight on health care too much recently, because it’s in a reasonably steady state of blah, improving with the weakness in energy, but not as much as has technology. The smaller services sectors are outperforming. The hefty pharma segment is market performing, and the once upon a time high torque biotech segment is underperforming – Figure 4.
Tech Benefiting From Petro-Trajectories

- Petro-Currencies are at or near the breakdown point. The most leveraged currency, the Ruble just broke below its 50d MA, to join the loonie and the Krone this morning—Figure 1.

- Energy commodity trends show the breakdowns in oil and its products (but also the resurgence of natural gas around the world) – Figure 2.

- Rather than feeling squeamish, the credit market shows no sign of worry. Need energy credit in a yield starved world? So far, you’ve still got it – Figure 3.

- So perhaps instead of looking for energy shorts, one should be looking at opportunity costs lost. The relative shift out of energy is being mirrored with the relative shift into technology – Figure 4.

- From a relative strength breadth perspective, we lined up energy and technology in Figure 5. Energy rose from the depths and technology from the heights in Q4 2015. We can’t say that they are quite mirror images, but they do rhyme.

- We highlight the top of the earnings driven technology momentum buy list in Figure 6, and the full list at this link.

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

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Figure 1: Russian Ruble With Petrocurrencies in Insert

Figure 2: WTI with Energy Commodities in Insert

Figure 3: High Yield Energy Bond Index

Figure 4: Energy & Technology Relative Strength Trends
Figure 5: Energy and Technology Relative Strength Breadth

- Energy Relative Strength Breadth Z-Score
  - Shifting From Positive to Neutral
  - Energy Bottom = Technology Top
- Technology Relative Strength Breadth Z-Score
  - Shifting From Negative to Neutral

Figure 6: Top of IT Mo Buy List vs ACWI IT – Full List Here

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<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>LT RS</th>
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<td>Internet SVC</td>
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<td>3</td>
<td>1</td>
<td>2</td>
<td>1,084</td>
<td>77%</td>
<td></td>
</tr>
<tr>
<td>CCOI.US</td>
<td>Cogent Comm Hldgs</td>
<td>U.S.</td>
<td>TelCom</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1,946</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>AMAT.US</td>
<td>Applied Materials</td>
<td>U.S.</td>
<td>SemiCond</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>28,721</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>2413.JP</td>
<td>M3 Inc</td>
<td>Japan</td>
<td>Modern Tech</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>11,399</td>
<td>61%</td>
<td></td>
</tr>
<tr>
<td>SHN.L</td>
<td>Samsung Electronics</td>
<td>S.Korea</td>
<td>ElecStap</td>
<td>5</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>189,148</td>
<td>46%</td>
<td></td>
</tr>
<tr>
<td>ATN.VX</td>
<td>Actelion Ltd</td>
<td>Switzerland</td>
<td>BioTech</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>19,822</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>DLD.US</td>
<td>Dolby Laboratories</td>
<td>U.S.</td>
<td>Elec Comp</td>
<td>7</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2,050</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>PACT.US</td>
<td>Paycom Software</td>
<td>U.S.</td>
<td>Applicatn</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2,805</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>DYN.US</td>
<td>Dycom Industries</td>
<td>U.S.</td>
<td>ComServ</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2,971</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>CORN.US</td>
<td>CornerStone Holding Co.</td>
<td>U.S.</td>
<td>ComServ</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6,059</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>DBC.US</td>
<td>Dr. Bock Ltd</td>
<td>Israel</td>
<td>Elec Stap</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1,204</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>FTS.US</td>
<td>FTS Corp</td>
<td>U.S.</td>
<td>Chems</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>627</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>ULTI.US</td>
<td>Ultimate Software Group</td>
<td>U.S.</td>
<td>Applicatn</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>6,372</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>INTU.UK</td>
<td>Intuit Inc</td>
<td>U.S.</td>
<td>Applicatn</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>29,185</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>BOC.US</td>
<td>Belden Inc</td>
<td>U.S.</td>
<td>Elec Comp</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3,050</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>OSCI.JP</td>
<td>Tokyo Electron</td>
<td>Japan</td>
<td>Semicond</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>14,322</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>STRF.FP</td>
<td>Ubisoft Entertainment</td>
<td>France</td>
<td>MultiMedia</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4,404</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>MND.OR</td>
<td>Konectyschek</td>
<td>Germany</td>
<td>Applicatn</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2,960</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>FIV.US</td>
<td>Frazer Inc</td>
<td>U.S.</td>
<td>DataStas</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>24,882</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>CIX.US</td>
<td>CIX Global</td>
<td>U.S.</td>
<td>Applicatn</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8,996</td>
<td>31%</td>
<td></td>
</tr>
</tbody>
</table>
Renewables

- Our Group Selection report, which sheds light upon the relative strength breadth of the market by sector and subindustry, has flattened out recently. The pressure on some resources has been countered by emerging strength in health care and technology. Staples broke below the zero mark as credit risk fell sharply this month. Financials are trying to be less bad, but it’s really real estate that gives the sector its strength. The sector in the strength and momentum spotlight right now is utilities – Figures 1, 2.

- The smallest segment of the market, renewable electricity, just obtained a first decile ranking, so we will put today’s focus there. It’s all SMID and all over the world, so we just show them by their dividend-adjusted price trends instead of against a benchmark – Figure 3.

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

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**Figure 1: Global Relative Strength Breadth Heat Map**

**Figure 2: Utilities Relative Strength Z-Score**

**Figure 3: Renewable Electricity Dividend Adjusted Price Trends**

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mark.steele@bmo.com
Assoc: Tiberiu Stoichita/Jin Li
A Collection of Inflection Points

- From **Industry & Sector ETFs vs the S&P 500**, the market asks you to consider easing up on natural resources (the most spectacular of which have been the golds, which we have covered for the past two days), and look at the basing/bottoming pattern in US pharma – Figure 1.

- From the **Canadian link**, the market wants to swap **golds** for rails – Figure 2.
  - While Canadian rails are currently overbought, they have been laggards vs. their US peers, and have catch-up potential – Figure 3.

- From our **index members link**, a look at the OEX points to the **Microsoft breakout** as a play on the emerging strength of technology – Figure 4.
  - Our **Tactical Asset Allocation link** makes one consider the whole NASDAQ 100 as an alternative to the single MSFT suggestion – Figure 5.

_Done done done digging up the dirt dirt dirt, time to get to work work work._ Rihanna

---

**Figure 1: Sector & Industry ETFs vs the S&P 500 – Severed Last Day**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Country</th>
<th>LT RS</th>
<th>Close 20-Jul</th>
<th>1 Day Equity Chg (%)</th>
<th>5 Day Equity Chg (%)</th>
<th>Fi</th>
<th>MktCap ($B)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPX</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>% Chg wtr 50 Day MA</th>
<th>Chg wtr 50 Day MA Trend</th>
<th>Chg wtr 100 Day MA Trend</th>
<th>Chg wtr 100 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGU US</td>
<td>MA Natural Resources ETF</td>
<td>U. S.</td>
<td>8</td>
<td>31.93</td>
<td>-0.6%</td>
<td>-0.9%</td>
<td>1.08</td>
<td>1.88</td>
<td>↓</td>
<td>37%</td>
<td>1.5</td>
<td>3%</td>
<td>Above Rising</td>
<td>13%</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>60%</td>
<td>54</td>
</tr>
<tr>
<td>GFI US</td>
<td>HY Off Services ETF</td>
<td>U. S.</td>
<td>9</td>
<td>9.29</td>
<td>-2.9%</td>
<td>-0.5%</td>
<td>929</td>
<td>2.49</td>
<td>↓</td>
<td>25%</td>
<td>2%</td>
<td>Above Rising</td>
<td>9%</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>55%</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>XPH US</td>
<td>US Pharmaceuticals ETF</td>
<td>U. S.</td>
<td>9</td>
<td>34.66</td>
<td>2.4%</td>
<td>2.2%</td>
<td>540</td>
<td>2.17</td>
<td>↓</td>
<td>-47%</td>
<td>1.0</td>
<td>5%</td>
<td>Above Rising</td>
<td>3%</td>
<td>Above Falling</td>
<td>ABOVE</td>
<td>65%</td>
<td>63</td>
</tr>
</tbody>
</table>

---

**Figure 2: S&P/TSX 60 Stocks vs the 60 – Severed Last Day**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gnp RS</th>
<th>LT RS</th>
<th>Close 20-Jul</th>
<th>1 Day Equity Chg (%)</th>
<th>5 Day Equity Chg (%)</th>
<th>Fi</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>SPTSX</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>% Chg wtr 50 Day MA</th>
<th>Chg wtr 50 Day MA Trend</th>
<th>Chg wtr 200 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELD CN</td>
<td>Eldorado Gold</td>
<td>Gold</td>
<td>3</td>
<td>9</td>
<td>5.63</td>
<td>-7.4%</td>
<td>-12.3%</td>
<td>4</td>
<td>6.34</td>
<td>4.51</td>
<td>↑</td>
<td>97%</td>
<td>1.0</td>
<td>-5%</td>
<td>Below Rising</td>
<td>29%</td>
<td>Above Rising</td>
<td>BELOW</td>
</tr>
<tr>
<td>G CN</td>
<td>Goldcorp Inc</td>
<td>Gold</td>
<td>5</td>
<td>9</td>
<td>4.23</td>
<td>-5%</td>
<td>-7.2%</td>
<td>5</td>
<td>9.23</td>
<td>3.54</td>
<td>↑</td>
<td>50%</td>
<td>1.0</td>
<td>-1%</td>
<td>Below Falling</td>
<td>18%</td>
<td>Above Rising</td>
<td>BELOW</td>
</tr>
<tr>
<td>CP CN</td>
<td>Canadian Pacific Railway</td>
<td>Railroads</td>
<td>5</td>
<td>3</td>
<td>10.52</td>
<td>2.5%</td>
<td>3.7%</td>
<td>29</td>
<td>601</td>
<td>2.11</td>
<td>↑</td>
<td>-17%</td>
<td>2.0</td>
<td>15%</td>
<td>Below Rising</td>
<td>12%</td>
<td>Below Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>CNR CN</td>
<td>Canadian National Railway</td>
<td>Railroads</td>
<td>5</td>
<td>3</td>
<td>10.83</td>
<td>1.9%</td>
<td>3.6%</td>
<td>64</td>
<td>604</td>
<td>1.13</td>
<td>↑</td>
<td>-26%</td>
<td>3.0</td>
<td>8%</td>
<td>Below Rising</td>
<td>8%</td>
<td>Below Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>ATD/CN</td>
<td>Alimentation Couche-Tard</td>
<td>Edatadi</td>
<td>3</td>
<td>9</td>
<td>59.31</td>
<td>1.0%</td>
<td>0.4%</td>
<td>24</td>
<td>989</td>
<td>1.58</td>
<td>↓</td>
<td>-47%</td>
<td>7%</td>
<td>Above Rising</td>
<td>2%</td>
<td>Above Falling</td>
<td>ABOVE</td>
<td>66</td>
</tr>
</tbody>
</table>

---

**Figure 3: North American Rails vs the S&P 500**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gnp RS</th>
<th>LT RS</th>
<th>Close 20-Jul</th>
<th>1 Day Equity Chg (%)</th>
<th>5 Day Equity Chg (%)</th>
<th>Fi</th>
<th>MktCap ($US)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>S&amp;P 500</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>% Chg wtr 50 Day MA</th>
<th>Chg wtr 50 Day MA Trend</th>
<th>Chg wtr 150 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSR US</td>
<td>Kansas City Southern</td>
<td></td>
<td>3</td>
<td>5</td>
<td>9.33</td>
<td>0.8%</td>
<td>0.7%</td>
<td>10</td>
<td>0.67</td>
<td>2.66</td>
<td>↑</td>
<td>35%</td>
<td>1.5</td>
<td>8%</td>
<td>Above Rising</td>
<td>16%</td>
<td>Above Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>UNP US</td>
<td>Union Pacific</td>
<td></td>
<td>4</td>
<td>4</td>
<td>9.12</td>
<td>0.2%</td>
<td>0.8%</td>
<td>79</td>
<td>1.27</td>
<td>1.27</td>
<td>↑</td>
<td>35%</td>
<td>1.5</td>
<td>8%</td>
<td>Above Rising</td>
<td>14%</td>
<td>Above Rising</td>
<td>ABOVE</td>
</tr>
<tr>
<td>NCS US</td>
<td>Norfolk Southern</td>
<td></td>
<td>7</td>
<td>1</td>
<td>0.78</td>
<td>0.4%</td>
<td>1.1%</td>
<td>27</td>
<td>1.34</td>
<td>2.05</td>
<td>↑</td>
<td>22%</td>
<td>7%</td>
<td>5%</td>
<td>Above Rising</td>
<td>13%</td>
<td>Above Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>GWR US</td>
<td>Genesee &amp; Wyoming</td>
<td></td>
<td>8</td>
<td>4</td>
<td>64.23</td>
<td>0.3%</td>
<td>0.9%</td>
<td>30</td>
<td>6.27</td>
<td>2.73</td>
<td>↑</td>
<td>22%</td>
<td>5%</td>
<td>6%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>CSX US</td>
<td>CSX Corp</td>
<td></td>
<td>5</td>
<td>2</td>
<td>53.92</td>
<td>1.1%</td>
<td>1.5%</td>
<td>27</td>
<td>6.04</td>
<td>2.5</td>
<td>↑</td>
<td>7%</td>
<td>6%</td>
<td>9%</td>
<td>Above Rising</td>
<td>11%</td>
<td>Above Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>CNR CN</td>
<td>Canadian National Railway</td>
<td></td>
<td>6</td>
<td>4</td>
<td>83.13</td>
<td>1.9%</td>
<td>3.6%</td>
<td>49</td>
<td>456</td>
<td>1.67</td>
<td>↑</td>
<td>1%</td>
<td>2.5</td>
<td>8%</td>
<td>Above Rising</td>
<td>5%</td>
<td>Above Rising</td>
<td>OBOT</td>
</tr>
<tr>
<td>CP CN</td>
<td>Canadian Pacific Railway</td>
<td></td>
<td>6</td>
<td>5</td>
<td>196.26</td>
<td>5.5%</td>
<td>8.7%</td>
<td>V</td>
<td>22</td>
<td>261</td>
<td>2.11</td>
<td>↑</td>
<td>-31%</td>
<td>2.5</td>
<td>15%</td>
<td>Above Rising</td>
<td>12%</td>
<td>Above Rising</td>
</tr>
</tbody>
</table>

---

**Figure 4: S&P 100 Stocks vs the OEX – Severed Last Day**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gnp RS</th>
<th>LT RS</th>
<th>Close 20-Jul</th>
<th>1 Day Equity Chg (%)</th>
<th>5 Day Equity Chg (%)</th>
<th>Fi</th>
<th>MktCap ($US)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>S&amp;P 100</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>% Chg wtr 50 Day MA</th>
<th>Chg wtr 50 Day MA Trend</th>
<th>Chg wtr 200 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRK/B US</td>
<td>Berkshire Hathaway</td>
<td></td>
<td>6</td>
<td>0</td>
<td>-0.5%</td>
<td>0.2%</td>
<td>183.63</td>
<td>↓</td>
<td>7%</td>
<td>5.5</td>
<td>2%</td>
<td>Above Rising</td>
<td>7%</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>105%</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>MSFT US</td>
<td>Microsoft Corp</td>
<td></td>
<td>5</td>
<td>3</td>
<td>53.92</td>
<td>4.5%</td>
<td>499.47</td>
<td>↑</td>
<td>-29%</td>
<td>3.0</td>
<td>9%</td>
<td>Above Rising</td>
<td>8%</td>
<td>Above Rising</td>
<td>OBOT</td>
<td>134%</td>
<td>71</td>
<td></td>
</tr>
</tbody>
</table>

---

**Figure 5: World Equity Indices vs the S&P 500 – Severed Last Day**

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1d RS Chg</th>
<th>5d RS Chg</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>% Chg wtr 50 Day MA</th>
<th>Chg wtr 50 Day MA Trend</th>
<th>% Chg wtr 200 Day MA Trend</th>
<th>Chg wtr 200 Day RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASDAQ 100</td>
<td>NDX</td>
<td>0.7%</td>
<td>1.0%</td>
<td>↑</td>
<td>↑</td>
<td>-1.0%</td>
<td>1.5</td>
<td>1.0%</td>
<td>Above Rising</td>
<td>-1%</td>
<td>Below Falling</td>
<td></td>
</tr>
</tbody>
</table>
Questioned frankly; Gold, who’s in charge? The answer would be the yen. Math-wise, over 70% of the moves in bullion can be explained by the moves in the yen – Figure 1.

So when you see the yen on a weakening trajectory (broke above its 50d MA this morning) ever since Helicopter Ben came to town, and realized that the Japanese unfortunately ignored Ben’s call over a decade ago, you may shiver at the fact that all gold stocks are tipped so bullishly. We do. But we are wired to worry.

Figure 1: Gold, Yen, and the Rolling 20-day Correlation of Returns

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Golds – Just Asking

- Just as the yen has weakened back to its 50d MA, which has a softening influence on gold.
  - And just as a few gold stocks have broken steep outperforming trends against the market, which just nudges our relative strength reading for gold stocks from first to second decile.

- And given the distribution of gold stocks vs. the market, which are heavily positioned on the same side of the ship – Figure 1.
  - And given our experience with boating:
    - We just ask the simple question.
    - It’s not an “if” question, but a “when” question.
    - When golds break trend. Will you be ready?

**Figure 1: Gold Stocks vs. the S&P 500**

Just a Very Few Have Tipped Over, But It's a Good Time to Ask...How Are Your Capsizing Skills?

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit. BMO Capital Markets is Restricted on CG, CGG, ELD, and GUY.

~08:55 ET
Everybody Look What’s Going Down

- It seems everything wants to blow in and out like a hurricane these days.
- Safe-haven long bonds were swept up in the storm, and are now easing back to earth. The trend is still in their favour, it’s just that they got overdone.
- Last week, it was the credit market that was blown higher by the hurricane. Take a look at the dashboard of companies whose equity moves are most correlated to CDS moves. Eighty percent of CDS here narrowed more than 5%, and there are copious amounts of credit that looks mighty over-narrowed – Figure 1.

- The credit outliers in the current jubilant state of the market would be the ones where CDS is still in a widening trend, and CDS levels are still above widening 50-day moving averages. These are the avoids, or shorts, if you do that sort of thing. It’s a skinny list, as they are in the minority – Figure 2.
  - The largest stock in the list is Valero Energy, which is still working out its head and shoulders top – Figure 3.
  - Deutsche Bank, sadly, is the notable too-interconnected-to-fail financial in the list. It’s easy to take a shot at it, but the equity market has already shot, and shot it down too far according to the credit market. It makes a good short-covering candidate – Figure 4.
  - Ladbrokes is the opposite position, mind the gap – Figure 5.

We better stop, hey, what’s that sound; Everybody look what’s going down

Buffalo Springfield, 'For What It's Worth'

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
In The Material World

Due to an unexpected publication delay, we are publishing our July 15 edition of Trends & Inflection Points today. Please note all links contained within are as of July 14 close.

- If the market wants to be balanced, we’ll be so as well. If the market wants to focus on one sector to deliver the most upside, then that’s where our focus must be. In this case, at this time, it’s materials.
- Relative strength breath-wise, which is our major guiding light, it looks like this – Figure 1.
- Market cap weighted-wise, which is a better reflection of your portfolio, if you are benchmark focused, it looks like this – Figure 2.
- Continued strength you ask? Commodity prices – that’s your daddy – Figure 3.
- But so many material stocks are overbought you retort. Our momentum buy list excludes those names – Figure 4.

There is no political solution…

...We are spirits in the material world

The Police

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

~10:59 ET

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Credit Downgrades Staples, Upgrades Materials

- We are going to start with a very messy, confusing, but important chart – North American investment grade credit risk – Figure 1.
- And we are going to couple that picture with the relative strength breadth scores for staples and materials – Figures 2, 3.
- We never had too much to say about staples before mid-2015. They were boringly neutral. Then they upshifted to positive, and that was coupled with a credit market that pivoted to show credit risk increasing as opposed to decreasing. See early stages of Figures 1, 2.
  - We have since been a cheerleader for staples (not caring a whit about valuation, as the market prices as the market wants to price). That’s what the market told us to do, and we listen to the market.
  - But now this week, staples are breaking heavily below the zero line. The market tells us to cheer for this group no longer. And yes, that comes with credit risk, as divergent as the recent pattern is, breaking to the downside. See late stages of Figures 1, 2.
- How do materials fit in? It’s the anti-staples. When the market wants upside torque, it finds it here – Figure 3.
Have You Noticed Steel?

- With a first decile relative strength breadth reading, we force you to ask yourselves, “where are you on steel stocks?” – Figure 1.
  - Did you notice the breakout in the Steel ETF yesterday? – Figure 2.
  - Have you noticed that the vast majority of steel stocks are outperforming, or are breaking above underperforming trends? – Figure 3
  - Are you observing credit risk in steel stocks is still high yet is dropping like a stone?
    - There’s leverage here.
- That’s about it. We just do the quant and technicals, which say the fundamentals have transitioned from awful to good. You need to do the digging from here.
  - You call me a fool
  - You say it’s a crazy scheme
  - This one’s for real
  
  
  Steely Dan, Deacon Blues

Figure 1: Steel Equity Relative Strength Breadth Decile

Figure 2: MV US Steel ETF (SLX US) Dividend Adj Price Trend

Figure 3: Steel Stocks vs ACWI

If Your Portfolio Looked Like This, We'd Call You a Rock Star

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

~=08:01 ET
What Beats the TSX With Yield?

- The TSX, which is trending higher at a dividend-adjusted annualized rate of 42%/year (Figure 1) is easy to beat with many high flying gold stocks, which are trending higher at rates in the hundreds or thousands, but those stocks are largely overbought. These stocks look better to harvest than to sow new capital into.

- It’s harder to find stocks with good dividend yield and dividend growth attribution that can beat the index, but with yields continuing to trend lower, and despite the currently overbought state of bonds (Figure 2), we don’t see the same overbought state in these stocks (as investors chase higher torque). We highlight stocks trending at a rate greater than the TSX, with a buyable RSI less than 60, with an indicated dividend yield north of 2%, and flat-to-positive dividend growth in Figure 3.

Figure 1: S&P/TSX Composite Total Return Index

Figure 2: Trends on Global 30y Yields

Figure 3: Buyable (RSI <60) Canadian Stocks Beating the Market With Good Dividend Yield & Growth Attribution

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Gold Dances to the Tune of The Dollar Wine

- If you looked at the currency market yesterday, you would think that the market loves euros (1.7%), and that’s why gold rose 1.4%. The overlay looks good, but gold bottomed a bit earlier, and that was timed with the 5y EUR-USD cross currency swap rate (that cryptic chart we published Thursday). Yes that swap is liquidity challenged, but we present Exhibit 1.

- If you look at the cross currency swap market (remember Eurodoom?), you will see that the market penalizes euro holders, and yen holders even more so, for obtaining USD (the penalty rate for EUR holders rose yesterday) - Exhibits 2 & 3.

- The yen has a better fit to gold than does the euro, but based on the yen relationship, gold should be flat over the past month and gold makes new highs almost daily lately. If you create a basket of NIRPy country 5y cross currency swap rates (USDWine if you Soca), you see that this index, a measure of the cost, or stress to obtain USD from a NIRPy currency base has a fit to gold which now rivals the fit of yen and gold. The overlay is better – Exhibit 4.

- We wouldn’t bother with this if gold, that "barbarous relic" (Canadian standpoint) wasn’t just killing paper, but it is - Exhibit 5.

Exhibit 1: Yesterday’s Intraday Fit: Spot Gold, Spot Euro, EUR-USD 5Y Cross Currency Swap Rate

Exhibit 2: EUR-USD 5Y Cross FX Swap Rate (News Inlay Here)

Exhibit 3: JPY-USD 5Y Cross FX Swap Rate (Trend Starts Here)

Exhibit 4: Rolling 30d Fit of Returns Gold/JPY (L) Gold/FX Swaps (R)

Exhibit 5: Gold vs Barclays US Aggregate Bond Index

Gime dollar, gime dollar Gime dollar, gime dollar Gime dollar, gime dollar Gime dollar, gime dollar Dollar Wine, Colin Lucas
Bank Risk Priced at a 2-Year High

**U.S. bank credit risk rose to a 2-yr high on Friday.** How did it get there? In 2014, as the FEDs quantitative easing program tailed off, international central bank reserve assets peaked and started to decline. Tightening replaced easing. Corporate bonds peaked with central bank reserves. Stocks have subsequently peaked. Central bank easing reduced corporate bank risk, but did not inspire enough global growth to pull commodities out of a bear market. The dollar surge at the end of U.S. QE, sent commodities into a sharp decline. With global growth scarce, growth stocks surged versus value. At tightening has replaced easing, credit risk is rising once again. Stocks trending lower outnumber stocks trending higher. Treasuries are resuming a bull trend. Portfolio emphasis should remain on growth and income, which are not hampered by a weakening credit environment.

**Figure 1: Global Macro Overview**

The QE-driven Fed balance sheet flattened out in 2014. International reserve assets peaked in August of 2014, and have fallen 6% from the peak. Notable sellers have been China and Russia.

The global investment grade bond market topped out with international reserves in August of 2014. This index of bond prices has been losing value at a rate of 6%/year since. It has stabilized recently with the strength of Treasuries (Figure 2).

Since 2011, when credit risk in the world's too-interconnected-to-fail banks peaked at over 300 bps (many banks had sported inverted CDS curves), bank risk fell 80% to 55 bps in 2014. That risk bottomed, based, and is now breaking out to form higher highs and lows. U.S. bank risk is priced at a 2-yr high (Figure 3).

While QE worked wonderfully to reduce credit risk, it did nothing to spur commodities, the barometer of global growth, higher.

The broad U.S. dollar index started to soar with the end of QE and the decline in central bank reserves. This sharpened the rate of commodity decline (Figure 4).

Equities started decelerating in 2014 and started reacting to a negative backdrop of credit in 2015 (Figure 7).

The tilt of growth over value really took off in 2014, coincident with the peak in central bank reserves and the sharp rise in the dollar (Figure 5).
Not Enough Puff

- This morning, Draghi adjusts QE to continue to puff up the ECB balance sheet. That’s helpful for global risk markets, but it’s not enough. Globally, the net figure shows central banks are blowing out their reserves:
  - That puff peaked last August – Figure 1 top.
  - Pricing on investment grade corporate credit debt peaked and started to turn lower that same month – Figure 1 middle, and Figure 2.
  - Then finally equities took the blow - Figure 1 bottom.
- When mama's credit market ain’t happy, eventually ain’t nobody happy;
  - That global corporate bond index in Figure 1 is trending lower at an annual rate of 6%/year – Figure 2.
  - Commodities, which didn’t really make it onto central bank balance sheets, have been in a bear market since 2011. They are falling at an annualized rate of 17%/year, and that’s ex everyone’s (yes ours too) focus on crude oil – Figure 3.

So, unless we see a turn in the synchronized bear trends in credit and commodities (and we are always looking), we’ll continue to frame many of our buy ideas in the relative and short-sale ideas in the absolute.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Figure 2: BBG USD Global Investment Grade Bond Index
Trend / Width: -2.2%
Trend Length: 15 mo

Figure 3: U.S. Bank Risk—5Y CDS Ave of C, BAC, JPM
US Bank Risk Breaking Out of a Base
Still Low Yet Trending Higher and Priced at a 2 Year High
(C 107bps, BAC 96bps, JPM 91bps)

Figure 4: Bloomberg Commodity Price Index
Trend / Width: -27% / 13%
Trend Length: 18 mo

Figure 5: U.S. Trade Weighted Broad Dollar Index
Trend / Width: 3.9%
Trend Length: 6 mo

Figure 6: U.S. 10-Year Bond Yield
Trend / Width: -14% / 37%
Trend Length: 26 mo

Figure 7: MSCI World in USD
Transiting Back to a Bull Trend
This Rebound Was Not Confirmed By Credit Improvement
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