# Quantitative/Technical Package

## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>Page</th>
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</thead>
<tbody>
<tr>
<td>January 22, 2020</td>
<td>NEW Market Elements</td>
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## Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>January 23, 2020</td>
<td>NEW What's a Short These Days?</td>
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<td>January 22, 2020</td>
<td>Divergences</td>
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<tr>
<td>January 21, 2020</td>
<td>Chinese Bank CDS Widen 10% Today</td>
<td>11</td>
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<td>January 20, 2020</td>
<td>Canadian Sector Review &amp; Technology Stocks</td>
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<td>January 17, 2020</td>
<td>Real Estate</td>
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<tr>
<td>January 16, 2020</td>
<td>Biotechnology &amp; Not So Big Pharma (CBD)</td>
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<tr>
<td>January 15, 2020</td>
<td>Calm, But So Extreme</td>
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<td>January 14, 2020</td>
<td>CBD – The Positive Inflection Point</td>
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<td>January 13, 2020</td>
<td>Free Cheddar?</td>
<td>17</td>
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<tr>
<td>January 10, 2020</td>
<td>Breakout Master</td>
<td>18</td>
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<tr>
<td>January 9, 2020</td>
<td>Hear This</td>
<td>19</td>
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<td>January 8, 2020</td>
<td>Why Staples Suffer</td>
<td>20</td>
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<td>January 7, 2020</td>
<td>Strategic Sells Part 2</td>
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<tr>
<td>January 6, 2020</td>
<td>Strategic Sells</td>
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<td>January 3, 2020</td>
<td>Embrace the Resurrection</td>
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<td>January 2, 2020</td>
<td>Another Long Duration Breakout</td>
<td>24</td>
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<tr>
<td>December 31, 2019</td>
<td>Last Call</td>
<td>25</td>
</tr>
<tr>
<td>December 30, 2019</td>
<td>Natural Resources &amp; Asian Currency Strength</td>
<td>26</td>
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<tr>
<td>December 27, 2019</td>
<td>Breakouts</td>
<td>27</td>
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<tr>
<td>December 24, 2019</td>
<td>Silver and Gold</td>
<td>28</td>
</tr>
<tr>
<td>December 23, 2019</td>
<td>Gift of Understanding</td>
<td>29</td>
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<tr>
<td>December 20, 2019</td>
<td>Christmas Shopping Dos</td>
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<tr>
<td>December 19, 2019</td>
<td>Christmas Shopping Don’ts</td>
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<td>December 18, 2019</td>
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<td>December 17, 2019</td>
<td>Christmas Card From the SMID Energy Sector</td>
<td>33</td>
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<td>December 16, 2019</td>
<td>Chinese Inflection Points</td>
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<td>December 13, 2019</td>
<td>New Best Sector?</td>
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## Focal Points

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<tbody>
<tr>
<td>October 10, 2019</td>
<td>Trainspotting</td>
<td>36</td>
</tr>
<tr>
<td>August 20, 2019</td>
<td>Blue Drag</td>
<td>37</td>
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</table>
Market Elements

- Asian markets rebounded from Tuesday’s sharp declines, the ChiNext rose 1.4% to mint a new 3y high; most European bourses continued lower, albeit losses were slight; North American indices pushed to new highs yet reversed moves to end little changed; global indices were mixed with most moves confined to ±40bps; energy extended Tuesday’s decline by 80bps.
- Global 10y yields edged 1-2bps lower; Canada was the exception, with rates falling 5-8bps across the curve; the French 10y yield fell back below 0% for the first time in 1m; the German 10y real yield broke to a 3m low; U.S. inflation expectation gauges held at 5w lows; corporate credit risk indices were mixed.
- Gold churned at the midpoint of a 3w range; the Renminbi was little changed, the dollar gained, while the yen were flattened.
- The BBG commodity index continued to slide commodity currencies (ZAR, BRL) gained, while the loonie fell 1m; 5-2bps across the curve; global indices were mixed with most moves confined to ±1% and breaking to a high.

Levels

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<td>1.264</td>
<td>1.264</td>
<td>0.0%</td>
</tr>
<tr>
<td>AUD</td>
<td>0.684</td>
<td>0.684</td>
<td>0.0%</td>
</tr>
<tr>
<td>NZD</td>
<td>0.659</td>
<td>0.659</td>
<td>0.0%</td>
</tr>
<tr>
<td>MXNx10</td>
<td>0.535</td>
<td>0.535</td>
<td>0.0%</td>
</tr>
<tr>
<td>RUR</td>
<td>0.097</td>
<td>0.097</td>
<td>0.0%</td>
</tr>
<tr>
<td>KRWx10</td>
<td>0.857</td>
<td>0.857</td>
<td>0.0%</td>
</tr>
<tr>
<td>CHN</td>
<td>0.144</td>
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Moves

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<tr>
<td>BRL</td>
<td>0.684</td>
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<td>GBP</td>
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<tr>
<td>MXN</td>
<td>0.535</td>
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<td>0.144</td>
<td>0.0%</td>
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Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson

* H/L = at a new closing 52-wk High/Low; **● = within 10% of the 52-week High/Low; Colour codes are inverted for bond and sentiment indications
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
Intra Day Charts
2-Day 1-Minute View

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<th>Bonds</th>
<th>Equities</th>
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<td>Gold (Spot)</td>
<td>U.S. 2-Yr Bond</td>
<td>MSCI World Index</td>
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<tr>
<td>Euro</td>
<td>Crude Oil (Brent)</td>
<td>U.S. 10-Yr Breakeven</td>
<td>S&amp;P 500</td>
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<tr>
<td>Yen</td>
<td>Crude Oil (WTI)</td>
<td>U.S. 10-Yr Bond</td>
<td>S&amp;P/TSX Composite</td>
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<tr>
<td>Chinese Yuan (CNH)</td>
<td>Natural Gas (NG)</td>
<td>Canadian 10-Yr Bond</td>
<td>VIX</td>
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<tr>
<td>Canadian Dollar</td>
<td>Copper (COMX)</td>
<td>German 10-Yr Bund</td>
<td>CDX North American Inv. Grade Index</td>
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<tr>
<td>Australian Dollar</td>
<td>Nickel (LME 3Mo)</td>
<td>Italian 10-Yr Bond</td>
<td>Ave. Prime Broker Syr CDS</td>
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Daily Sector Charts (U.S., Canadian, European)
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
<table>
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<th>SECURITY_NAME</th>
<th>TICKER</th>
<th>Chg</th>
<th>SECURITY_NAME</th>
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<th>Chg</th>
<th>SECURITY_NAME</th>
<th>TICKER</th>
<th>Chg</th>
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<tbody>
<tr>
<td>Unibail-Rodamco-Westfield</td>
<td>URW NA</td>
<td>-1.2%</td>
<td>Extra Space Storage</td>
<td>EXR</td>
<td>-2.7%</td>
<td>Brookfield Property Partners</td>
<td>BPY-U</td>
<td>-1.8%</td>
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<tr>
<td>Klepierre SA</td>
<td>LI FP</td>
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<td>Simon Property Group</td>
<td>SPG</td>
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<td>CT Real Estate Investment Trust</td>
<td>CRT-U</td>
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<td>LKX</td>
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<td>Wells Fargo</td>
<td>WFC</td>
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<td>Brookfield Business Partners</td>
<td>BBP-U</td>
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<tr>
<td>581</td>
<td>-2.7%</td>
<td>Esri</td>
<td>-2.1%</td>
<td>jacket</td>
<td>-3.4%</td>
<td>Atlas Financial</td>
<td>AFI</td>
<td>-1.8%</td>
</tr>
<tr>
<td>582</td>
<td>-2.5%</td>
<td>EssilorLuxottica</td>
<td>ELSX</td>
<td>-1.1%</td>
<td>Bally</td>
<td>-0.2%</td>
<td>CDA</td>
<td>3.5%</td>
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### U.S. Market Movers

#### Energy
- **Symbol**: H/L
- **Last**: 77.56
- **%Chg**: -0.3%

#### Industrials
- **Symbol**: H/L
- **Last**: 121.6
- **%Chg**: 0.6%

#### Consumer Discretionary
- **Symbol**: H/L
- **Last**: 91.25
- **%Chg**: 0.2%

#### Consumer Staples
- **Symbol**: H/L
- **Last**: 53.42
- **%Chg**: -0.3%

#### Technology
- **Symbol**: H/L
- **Last**: 95.59
- **%Chg**: 0.7%

#### Communication Services
- **Symbol**: H/L
- **Last**: 72.74
- **%Chg**: -0.4%

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#### Communication Services
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### Festival
- **Symbol**: H/L
- **Last**: 197.4
- **%Chg**: 1.2%

### Health Care
- **Symbol**: H/L
- **Last**: 792.9
- **%Chg**: -0.1%

### Financials
- **Symbol**: H/L
- **Last**: 48.61
- **%Chg**: -0.3%

### Real Estate
- **Symbol**: H/L
- **Last**: 243.7
- **%Chg**: 0.2%

### Energy
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- **Last**: 72.74
- **%Chg**: -0.4%
### Energy

<table>
<thead>
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<tr>
<td>MD</td>
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### Materials

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<td>CHE-U</td>
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### Industrial

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### Financials

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What’s a Short These Days?

- What’s a short these days, in a “don’t fight the FED” environment? In the past 18 weeks, the FED has pumped in the liquidity, retracting over 50% of its sharp balance sheet contraction, which had been taking place for almost two years, before the market squealed, and the FED abandoned its tightening trajectory. We’re not going to overlay this time series (FARBAST) with anything. We’re just pointing out that markets love liquidity, and asymmetric central bank behavior, where the punch bowl is given, but not taken away. That behavior allows us to appreciate the trajectory towards a long-term treasury target of zero (page 7 of our latest chart deck).

- So what’s a short these days?
  - Stocks are appreciated. Not just at the composite index level, but the cupboard of downtrends down at the industry level is pretty bare. When that changes, we’ll be there.
  - Bonds are just starting to be appreciated at the aggregate level. They are starting to break out of 6m holding patterns, as inflation expectations retreat, and sub-zero real rates are just becoming a reality of our time (the US 10y real rate touches down this morning on zero again for the fourth time this month).
    - We use ETFs to provide colour beyond treasuries. Many are hitting new highs. Most are trending higher. Even in the minority, which is trending lower, we find some are looking attractive from a bottom fishing perspective.
    - It’s really just the mid-to short-term European bonds, suffering from negative rates, and negative sentiment as the world (ex the POTUS) tries to dig itself out of that negative rate policy adventure, which still looks awful.

- We’ve got a whole set of short-sale filters here, and when we surfed them (given the current environment), some stocks in some filters actually looked more like buys to us. The one short-sale filter that we deem most trustworthy is here – Exhibit 1.

Listen. If you wanted to join the P.F.J., you’d have to really hate the Romans.

Reg, Life of Brian Script, Scene 8: The Grumpy People’s Front of Judea

Exhibit 1: Momentum Sells in Weak Subindustries – Full List Here

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>LT Price</th>
<th>Price Trend</th>
<th>MktCap (US$)</th>
<th>Vol (%)</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 MA</th>
<th>Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day MA</th>
<th>RSI Dty</th>
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<tbody>
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<td>S US</td>
<td>Sprint Corp</td>
<td>WistelSrv</td>
<td>8 7 10</td>
<td>20,616</td>
<td>2.53</td>
<td>-54%</td>
<td>7% Below Falling</td>
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<td>CP ALL PCL</td>
<td>FdRetail</td>
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<td>1.13</td>
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<td>0% Below Falling</td>
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<td>Broadcast</td>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Divergences

- This morning as CDS levels on Chinese banks continue to widen (to 5w wides), we want to dedicate some pixels to yesterday’s closing CDS levels to show the potential contagion (French Banks to 2w wides, albeit the moves are slight), and lack thereof (US Banks). We are going to assume, since Chinese bank risk, and the coronavirus is still on the move, that this picture is fluid and evolving – Exhibit 1.

- We are updating our relative strength breadth report on a pretty regular basis because we really see huge value in its ability to present what “the market is thinking”. The long duration buckets continue to gain and cozy up to technology – Exhibit 2.

  That’s our long-duration strategy, which has been dormant for some time, as technology has led the equity surge. As we’ve pointed out, technology might have run too far, too fast. Long duration in bondland on the other hand is showing signs of reemergence: (1) the broadest measure of global real yields is starting to slide, and is at a 3m low, (2) global 10-2 yield curves are starting to reach 6w lows, and (3) what we consider is the most important global inflation expectation gauge, the US 5y5y, is meandering to a 6w low. Meandering might not seem impressive, but we believe continued softness, will continue to exacerbate a picture of equity outperformance vs long duration bonds, when the correlation of moves between that ratio and the 5y5y continues to show the promise of a linkage – Exhibit 3.

Exhibit 1: CDS Trends on the FSA’s SIFI List, Sorted by 1d % ROC

Exhibit 2: Global Relative Strength Sector Heat Map

Exhibit 4: S&P 500 vs Long Duration Treasuries & US 5y5y
Chinese Bank CDS Widen 10% Today

- The Renminbi is off 50bps this morning, and the liquid (one tick per hour) indications of Chinese bank CDS (Bank of China and Agricultural Bank of China) are up 10% apiece. The level of risk is extremely low. That does not matter. It’s the trajectory that matters. It’s the source (coronavirus) and thus staying power that matters. And importantly for us, it’s the linkages that we expect will exert themselves that matter – Exhibit 1.

- Morgan Stanley (MS US) looks fantastic! We’d rather be a seller up here with an RSI of 86 (highest amongst North American financials) and above the top end of a wide Bollinger band – Exhibit 2.

- Getting a bit more esoteric:
  - It’s a good time to consider a counter-trend position in EM currency volatility – Exhibit 3.
  - Treasury volatility too – Exhibit 4.

Exhibit 1: B of China 5Y CDS & Ave US Bank CDS at 5:30am

Exhibit 2: Morgan Stanley Dividend Adjusted Price Trend

Exhibit 3: EM Currency Volatility

Exhibit 4: Treasury Volatility (MOVE)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
With US market closed for Martin Luther King Jr. Day, it gives us a good excuse to delve into the Canadian equity market. We'll start with our obligatory view of Canada vs. our southern neighbour so as not to give the impression that we want you to pile into Canada relative to the US, or even the global opportunity set – Exhibit 1.

With that disclaimer aside, here's how the TSX sectors stack up vs. the TSX Composite, which itself is rising 10%/year and like many other benchmarks has been lauded above the top end of trade channels. We covered all the themes last week; we can nicely show it all in one graphic in a Canadian context – Exhibit 2.

- The highest torque of outperformance is found with technology.
- Long duration sectors are also in outperforming trends, and are firming from recent 3-8m relative strength lows to 1m highs.
- Resources are either in underperforming trends (materials) or pulling back from from an 8m high (energy).
- Health Care, which is heavily dominated by CD stocks, is bottoming.

This is a good space to highlight Canadian technology stocks, many of which are SMID, most of which are trending higher, and the small minority which has not been favoured yet are changing, either by firming above rising 50d MAs, or reversing a downtrend – Exhibit 3.

Exhibit 1: S&P/TSX 60 vs. S&P 500 (Other Markets vs. S&P 500 In Insert) Exh ibit 2: Sectors vs. S&P/TSX Composite

Exhibit 3: Price Trends on Canadian Incorporated Technology Stocks

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

- Here’s a daily look for us – Exhibit 1.
  - We ask ourselves, have we properly covered what the market is rewarding, or rejecting, and properly analyzed the shifts and opportunities?
  - Technology? Check. Health Care? Check. We covered Utilities Wednesday, as we expect recovery, but we need to update Real Estate from two weeks ago, as it’s the most favoured of the long-duration sectors (as the US 5y5y is poised at a 1m low, and as global real rates roll over), and breaking to new highs in world-ex US markets, Canada, and we expect the US will not be far behind.
- From a relative strength perspective in the US, we are also anticipating a denominator effect to kick in – Exhibit 2.
- If you are going the ETF route, you see it’s pretty much a momentum buy list, with the caveat that about most of the list became overbought this week (and technically, we exclude overbought stocks/ETFs from a momentum buy list) – Exhibit 3.
- If you are going the single stocks route, our momentum buy list is shown in here.

Exhibit 1: Global Relative Strength Breadth Heat Map

Exhibit 2: Real Estate vs S&P 500

We are a buyer down here as:
1. Numerator effect: we see inflation expectations, and real rates still in downtrends
2. Denominator effect: We see the key driver of the S&P 500 (technology) as overbought

Exhibit 3: Dividend Adjusted Price Trends on Real Estate ETFs

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Biotechnology & Not So Big Pharma (CBD)

There were a number of calls in yesterday’s note: it’s a good time to trim IT, underweight materials, and also a good time to add to long duration plays. The flipside to this is it’s a good time to sell banks. We could do that today, but the market did it yesterday with European, US and global banks breaking below their 50d MAs, so we move on.

We want to double back to our notes last year on Biotechnology. You can either consider Biotech ridiculously overbought, or at a key turning point on its own. That can and will ultimately determine its relative performance profile not only to the market, but also to the non-biotechnology sector – Exhibits 1, 2.

- We don’t see this as a sector you can capture optimally with market cap weighted ETFs. The bottom line is that large caps are bifurcated between outperformers and underperformers – Exhibit 3.
- When you take an equal weighted approach, you see biotechnology knocking on the door of transition from neutral to positive. You do your hard work here, because when stocks move, they move – Exhibit 4.

This last statement allows us to tie in our bottoming call on CBD. The worst looking stock is right at its key inflection point – Exhibit 5.

Exhibit 1: MSCI World Biotechnology Index

Exhibit 2: Monthly View: Biotech, Biotech vs MSCI World, Biotech vs IT

Exhibit 3: Largest 10 Biotechnology Stocks vs ACWI

Exhibit 4: Biotechnology Relative Strength Z-Score

Exhibit 5: Emerald Health Therapeutics (Other CBDs vs ACWI in Insert)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Calm, But So Extreme

- Markets are extremely calm, but we see extremes:
  - We see extreme optimism towards technology (mind the gap), and a little tick lower yesterday – Exhibit 1.
    - This would be a good time to trim exposure.
  - We see extreme optimism towards the Renminbi, and a tick lower yesterday, and again this morning.
    - As we pointed out yesterday, we see the extreme, but do NOT recommend adjusting as to what a strong Renminbi implies.
  - Of economic growth-sensitive commodities, we see the most optimism priced into copper. Our system sees more noise than signal; however, if we look at the short-term uptrend (blue insert), or the long-term downtrend (trend shaded in blue), in either case we see an extreme, which is being faded this morning – Exhibit 2.
    - We are still very much advocating an underweighted position in the economic growth-sensitive materials sector.
- On the flip side: We still see the US 5y5y in a downtrend. We are also watching the US 10y real rate cozy back up to the zero mark this morning. We also note that the world-ex US real rate is rolling over, priced at a 2.5m low, and is firmly priced in negative territory.
  - At the micro level in bondland, we see an opportune time (extremes circled below) to embrace long-duration, and shun short-duration treasuries in a portfolio – Exhibit 3.
  - And while our system sees more noise than signal in utilities, we think that the noise may very well be upside potential, as we expect utilities to firm from the bottom towards the top of a channel – Exhibit 4.

Head way up in a storm cloud. Calm but so extreme. Did you ever analyze...?

Wolf Alice - Beautifully Unconventional

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**Exhibit 1: Technology Relative Strength Z-Score**

**Exhibit 2: Copper Long-Term (2y) Trend, and Short-Term Trend (Insert)**

**Exhibit 3: Long-Term Treasuries vs Barclays Agg (Spectrum in Insert)**

**Exhibit 4: Utilities vs MSCI World (vs Different Benchmarks in Insert)**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
CBD – The Positive Inflection Point

- It’s been just over six months since we highlighted CBD stocks, back then a head and shoulders top had formed, so we trotted out the list of momentum sells. The momentum sells worked spectacularly well, but that top has been fully priced in. Now, at the key positive inflection point, it’s time to consider “stop and reverse” positioning – Exhibit 1.

  - Looking at the technicals on ETFs provides a bit more granularity and confidence to speculative long positioning – Exhibit 2.

  - 30% of CBD stocks in downtrends have severed those downtrends, so there is good breadth behind the positive reversals we are seeing in the index and ETFs – Exhibit 3.

  - All but one CBD stocks have very high volatility readings, which can work in one’s favour, but clearly, not recently. The outlier is GW Pharmaceuticals (GWPH US), and the technicals here look good – Exhibit 4.

Exhibit 1: North American Marijuana Index

Exhibit 2: Alternative Harvest ETF (MJ US) Price Trend

Exhibit 3: Full Spectrum of CBD Stock Trends

Exhibit 4: GW Pharmaceuticals (GWPH US) Price Trend

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Market
Regardless of what we write, we always start the day with currency. The move in the Renminbi this morning is impressive, and so is the short-term trend, which started at the low on October 8 – Exhibit 1.

Why care? Well the moves in Chinese currency have been really impressively correlated with US treasury yields. It’s not a historical relationship you can count on, but with a current 30d fit of CNH moves to moves in the US 10y yields exceeding 70%, it does grab your attention. Further, there appears to be a “mind the gap opportunity” setting itself up. So if the fit holds, then either the Renminbi is overvalued, or treasury yields will spike about 40bps higher, which would really really matter to one’s portfolio positioning – Exhibit 2.

Going back to the currency market, a more reliable fit to the Renminbi is the Latin American currency basket. Think of it like Chinese economic strength (strong Renminbi) = strong bid for supplies (strong Latin American currencies). Interestingly, that chart also has a “mind the gap opportunity.” Hmm, two mind the gaps?? – Exhibit 3.

The trend on the Latin American currency basket is still negative. There is no higher high, and current pricing is at a 1m low – Exhibit 4.

So no, we don’t think treasury yields will spike higher. But we thought it bared examination...

There’s always free cheddar in a mousetrap, baby it’s a deal, it’s a deal

Tom Waits
Breakout Master

- After **four days of what to sell**, we figure you get the picture, so happy Friday, and let’s look at what we think you should be funding with that cash. The current **standalone** sector that is (1) driving **new highs in market cap weighted indices**, but also (2) has the equal-weighted underlying **breadth** to support the move, is IT – **Exhibit 1**.

  - What is driving that performance is a very **fat tail of stocks with consistent uptrends**. That’s something to marvel at, and to enjoy in one’s portfolio, but for an analyst, who needs to fish out new buy ideas, it does not offer much – **Exhibit 2**.

  - Rather, we point our clients towards **the breakouts in these types of charts** – **Exhibit 3**.

  - And of course there is a **master filter to find these breakouts** – **Exhibit 4**.

---

**Exhibit 1: ACWI Technology Index** *(Rel Strength Heat Map in Insert)*

**It’s a Fantastic Trend** and there is **Fantastic Breadth Behind It, But Being an Analyst, On The Side of the Street Which Takes Your Orders, We Can’t Suggest We Take a Green Ticket Out To Buy it Up Here**

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

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**Exhibit 2: Price Trends on Largest 75 Global Technology Stocks**

**A**

**Very Fat Tail Over Here**

Carlos Ghosn

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**Exhibit 3: ServiceNow (NOW US) Trend** *(Similar OP Rated Stocks Here)*

Don’t Think This is the Trend, It’s the Time-Out Period, and... It’s Over

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**Exhibit 4: Top of Long Term +ve, Breaking Out of Flat/-ve Trend List**

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

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January 10, 2020
Trends & Inflection Points

Hear This

- Our theme this week has been what NOT to own (a good deal of this comes down to what to own is rather overbought). With so much happening on the political front and the massive intraday melt-down/melt-up market gymnastics of the past few sessions, we didn’t think you heard this tree fall in the forest. But there you go; trees, which are the best part of the materials sector, (which you should be underweight in – Exhibit 1) just fell – Exhibit 2.

- At the stock level, here are the most consistently underperforming material stocks that should not be in your long portfolio – Exhibit 3.

Exhibit 1: Materials vs MSCI World

Exhibit 2: P&F vs MSCI World (Other Material Industries in Insert)

Exhibit 3: Consistently Underperforming Materials vs MSCI World & Materials Sector in Weakest SubIndustries

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

- Remember when staples were doing great? It really was not too long ago. Yet since the peak in September, staples have been underperforming very consistently at double-digit rates – Exhibit 1.
  - But that’s not the message we want to deliver.
- The reason we rarely write about staples, is that they spend the majority of the time with a quantitative reading of “blah”. It’s rare that they break out of that range, but indeed they have done so just now...to the downside – Exhibit 2.
- So what would it take to rebound back to blah? Or even to pivot to the other extreme, which actually happens with decent regularity (why you should own outperformers):
  - Lower oil would help. It’s not the driver now, but it’s important – Exhibit 3.
  - Higher credit risk is needed. It’s up off of the low, but then again high oil is probably keeping staples subdued – Exhibit 4.
- Not all staples have a weak reading. If you do some reconnaissance down at the subindustry level, drug retail improved to a top decile position in Q4, and is holding there. More recently, agricultural products have shown some glitter.

And now, adding color, a group of anonymous Latin-American Meat packing glitterati

Pink Floyd

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Strategic Sells Part 2

- It’s like night follows day. As global real rates and then US inflation expectations (barely so far, but that’s our key watch) roll over, banks relative performance does as well – Exhibit 1.

- Why is it strategic? That counter-trend rally is actually the top of the channel for the price trend. So either you expect acceleration, or continuation (2017, 2018), or you sell, trim, reallocate – Exhibit 2.

- The picture of banks vs the market is a full spectrum, so there are stocks to own. It’s just that spectrum is tilted to the negative, and rates rolling over (bond pricing breaking out) would further tilt that spectrum in that negative direction, so there are more stocks not to own. We can filter those out here – Exhibit 3.

Exhibit 1: Banks vs MSCI World

Exhibit 2: Banks – Dividend-Adjusted Price Trend

Exhibit 3: Largest 15 Diversified Banks in Underperforming Trends vs MSCI World & Global Industry – Full List Here

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

- Portfolio management is much to do with what you sell. We trust our buy ideas, which comprise the bulk of our recent notes, are clear. It’s time to consider some strategic sells. So we ask you – Exhibit 1.
- We are “struck” with how that mining-ex gold and silver equity bucket looks quite a bit like US inflation expectations. We trust we are clear here; our call is that Friday was the peak – Exhibit 2.
  - Here’s the math behind “struck” – Exhibit 3.
    - Here are the stocks you don’t need. Mind the gaps – Exhibit 4.

Exhibit 1: ACWI Mining ex Gold & Silver Index

Exhibit 2: US 5y5y Forward Inflation Expectations

Exhibit 3: Rolling 30w Fit of Returns: Miners & US 5y5y

Exhibit 4: Largest 10 Mining Stocks in Downtrends – Full List Here

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

BU2B, Rush

The bright glow of optimism abandoned me somehow
Embrace the Resurrection

- **Inflation expectations at 5m highs**, yet US treasuries well bid? Wait a minute. *We know this script!* Go gold, and let reality slide to the negative — Exhibit 1!

- Ah, but what about the rest of the world? We are please to *update*. Global ex US real rates are still very much in negative territory, and at the top end of a declining channel. So this is exactly the time where one needs to decide if the **20m downtrend** will continue, or with real rates break higher, and issue in another **quarter of underperformance for bonds**. We are in the former camp — Exhibit 2.

- And what about **US inflation expectations**, the key risk/reward for long duration treasuries? It’s timely you should ask. We just received the *key inflection point we were watching for yesterday* — Exhibit 3.
  - This is either time to dump treasuries, as inflation is finally rearing its ugly head, or time to embrace treasuries, as that head is about to get whacked as it has twice before in the past two years. Our call is to embrace treasuries (**reiterated** today).
  - Treasuries are very very quiet, but we see **volatility** as mean reverting, and **given an excuse**, we believe that it will expand to the upside, along with pricing — Exhibit 4.

*The preacher asked if I’d embrace the resurrection*

*This Cowboy Song, Sting*
Another Long Duration Breakout

- Late last year, we captured the breakout in gold (here and here), and also highlighted our expectation that aggregate treasury prices will follow US short duration bond pricing and breakout to new highs. If gold were a sector on its own, it would cozy up to the other sector that just overtook technology in the most favoured quadrant in our group selection report. That sector would be real estate – Exhibit 1.

- The comparison of real estate to technology in terms of market favoritism is a good one. In the US, technology is outperforming at 10%/year, and real estate is performing just shy of that, at 9%/year. The outperformance in real estate just comes with a lot more volatility, which if timed right, can add to performance – Exhibit 2.

- On a timing basis, it looks like US real estate is front-running a potential breakout in bonds – Exhibit 3.
  - Or perhaps, it’s just following the benchmark for global real estate as it broke out to a new high – Exhibit 4.

Exhibit 1: Global Relative Strength Sector Heat Map (Gold View Here)

Exhibit 2: Real Estate vs S&P 500 (Other Sectors in Insert)

Exhibit 3: US Real Estate, Barclays Agg., Rolling 30d Fit of Returns

Exhibit 4: FTSE EPRA/NAREIT Global Index

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

**Last Call**

- If you own a US short-term bond ETF, it’s **overbought** at a **new high**. In terms of yield, and seemingly missing in market commentary, **US rates most in tune with what the FED will be doing in the future, are falling**, not rising – Exhibit 1.

- If you own the German short-term bond ETF (RXP1EX GY), it’s rather oversold and priced at a new low. The slow and steady suffrage (in price terms, falling at 1%/year) comes both from both the rate and more recently some capital depreciation from rising rates. So on yesterday’s “breakout” in the **German 2y yield**, where do we see it technically in 2020? Still in negative territory – Exhibit 2.

- Those are completely different bond market trends and pricing. How does it **look in aggregate if you take all bonds from all maturities together**? Rather quiet. We end 2019 continuing to expect an upward breakout in the direction of the main price trend, which is higher – Exhibit 3.

  - If you are looking for a **long duration asset that is leading bonds**, and thus **has already broken out**, look to **gold**. And for your equity consideration, look to **gold stocks, which are outperforming both bullion** and **global equity markets** – Exhibit 4.

My friend, I’ll say it clear, I’ll state my case, of which I’m certain

*My Way, Frank Sinatra*

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**Exhibit 1: US 2Y Bond Yield** (Short-Term Bond Price Trend [Here](#))

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**Exhibit 2: German 2y Bond Yield**

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**Exhibit 3: Global Agg Treasuries Index, Unhedged in USD**

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**Exhibit 4: Gold Miners vs. MSCI World**

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

Natural Resources & Asian Currency Strength

- As we highlighted last week in “Gift of Understanding”, we are paying a lot of attention to currencies (Renminbi finally rallying off of the 7 mark today), and in particular their influence on commodity pricing – Exhibit 1.

- But for the most part, our clients are equity investors, and are either generalists, or specialists, looking for shifts in/out of their sector. If one gears the math more towards the investment decisions that matter for our clients, the picture is less clear. Does this morning’s breakout in the Asia dollar index to a 5m high matter to the overweight/underweight decision on natural resources? Sometimes. But it’s unreliable. The most positive signal we see for natural resources regarding their fit to currencies is the large non-confirm of the natural resources low this month – Exhibit 2.

- So what does one do with a group that has been consistently underperforming for almost two years as it approaches the key inflection point? – Exhibit 3. Buy some energy, which we have highlighted this month. Consider the outperformers for your portfolio – Exhibit 4.

Exhibit 1: Asia Dollar Index, Commodities, Rolling 30d Fit of Returns

Exhibit 2: ADXY, RS of Nat. Res. vs MSCI World, Rolling 30d Fit

Exhibit 3: Global Natural Resources vs MSCI World

Exhibit 4: Momentum Buys vs Natural Resources – Full List Here

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

- **Amazon** (AMZN US) broke above underperforming trends vs. the S&P 500 and ACWI IT indices yesterday. That signalling is timely. We highlight the pre-breakout view on the stock below – Exhibit 1.

- About 10% of our global real estate universe has broken out to new 52-week highs. We see this segment as the leadership. The balance, at the relative strength breadth level, is rebounding from the zero mark, which we see as the time to buy real estate – Exhibit 2.

- We highlighted the charts of gold and silver breaking out of consolidation patterns in our last note. Following up today, we note that (1) gold broke out to a new high in yen terms yesterday and (2) gold is nicely correlated to real return bonds, and we observe a breakout here too – Exhibits 3, 4.

**Exhibit 1: Amazon (AMZN US) Price Trend (vs. SPX Here)**

**Exhibit 2: Global Relative Strength Breadth Heat Map**
Pullback to Zero Mark is The Time to Buy Still Leading Best Short

**Exhibit 3: Gold in Yen (Gold in Other Major Crosses Here)**

**Exhibit 4: DB International TIPs Bond ETF (WIP US) Price Trend**
Trends & Inflection Points

Silver and Gold

Silver and gold, silver and gold, mean so much more when I see silver and gold decorations on ev’ry Christmas tree

Burl Ives

Exhibit 1: Silver ETF (SLV US)

Exhibit 2: Gold ETF (GLD US)

Exhibit 3: Gold Equity ETFs With Full Technicals – Positive and Not Overbought – Across the Board

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

Gift of Understanding

- That pop in the CRB Raw Industrials, which we use as a key barometer of global growth expectations was a surprise to us.
  - When it comes to investing, we don’t like surprises.
- The key for us is then to unpack the surprise until one attains understanding. The pop was timed around the China-US phase one deal. The move appears to be a catch-up to the strength of the Renminbi, which had been in place for a few months. The correlation of the two time series, which was pure noise a few years ago, is now impressively signal – Exhibit 1.
  - So rather than focus on the lack of pattern in the CRB Raw Industrials, we will focus on the Renminbi, it’s nascent uptrend, and the consolidation around the 7 mark which can break in either direction.

Exhibit 1: China Renminbi (CNY), CRB Raw Industrials, Rolling 30d Correlation of Returns

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

Christmas Shopping Dos

- Starting broad, then narrowing in:
  - Large Cap technology – Exhibit 2.
  - At the aggregate level, it’s a bit pricy, with an RSI at 70, and at the top of the channel – Exhibit 3.

- But at the stock level, we can tune out the overbought stocks to come up with a pretty good shopping list for the portfolio – Exhibit 4.

Exhibit 1: MSCI North America vs. MSCI World

Exhibit 2: Technology vs. S&P 500

Exhibit 3: US Technology ETF (XLK US) Price Trend

Exhibit 4: North American Technology Momentum Buys

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

Quantitative/Technical

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Legal Entity: BMO Nesbitt Burns Inc.
**Trends & Inflection Points**

**Christmas Shopping Don'ts**

- In line with our call to bottom fish in energy, and take the capital from staples, we focus on the later today. Staples, breaking down in our system, has really been underperforming at a rate of 23%/year over the past 17w. There are better places to invest – Exhibit 1.

- We can twin the energy/staples call nicely using our relative strength breadth work. When energy rises/falls, staples are the counterbalance of this move, falling/rising in tandem – Exhibit 2.

- So no soap on-a-rope under the tree this Christmas – Exhibit 3.
  - And any more household products you can think of are off the list as well – Exhibit 4.

---

**Exhibit 1:** Staples vs. MSCI World (Short-Term Trend in Insert)

**Exhibit 2:** Energy & Staples Breadth Relative Strength Z-Score

**Exhibit 3:** Procter & Gamble Co (PG US) vs. ACWI

**Exhibit 4:** Largest (10th Decile) Household Products Stocks vs. ACWI

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

Commodities in 2020

- **Commodities** in 2020 will be just like commodities in 2019, and 2018, and...they will continue to be intimately related to Asia, the growth engine of the world. The best real-time indication of Asian growth optimism/pessimism is found in currency markets – Exhibit 1.
- So what do we do with yesterday’s inflection point – Exhibit 2?
- The key to the Asia dollar index is China, where the currency underwent a positive inflection point on December 12, and started to retrace that on December 13 – Exhibit 3.
- We were going to leave you with the chart of basic materials vs ACWI to highlight how much capital we think you should allocate there, but the answer is pretty simple, so we will let the chart speak for itself.
  - Instead, as we’ve handled energy quite a bit recently, we’ll cover the other basic resources sector, with the declaration that tis not the season to be thinking about material things, at least relative to the broader equity opportunity set – Exhibit 4.

Exhibit 1: **Asia Dollar**, BBG Commodity, Rolling 30d Fit of Returns

Exhibit 2: **Bloomberg Commodity Index**

Exhibit 3: **Offshore Chinese Renminbi (CNYUSDx10)**

Exhibit 4: **Materials vs MSCI World** (same Trend Elsewhere, Except in Canada and US SmallCaps)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
One week ago, Canada (being closer to the North Pole) received the relative strength Santa Claus call to buy energy. Yesterday, that signal reached south of the border, for US Small Caps. We suggest that you use funds from staples for the purchase – Exhibits 1, 2.

This same messaging can be seen elsewhere, including Russell MidCaps, and Global SmallCaps, but not for Europe or EAFE.

Not a lot of light has shone upon the energy space this year. It’s been absolutely horrible, which has been fantastic for the “underweight energy” call that has played itself out beautifully. But alas, winter solstice is at hand, and we see (selected) evidence of the birth of new optimism – Exhibit 3.

- For the stock picker, the choices are here or here for the global SmallCap manager – Exhibit 4.

Hey Charley I think I’m happy for the first time since my accident

Tom Waits

---

Exhibit 1: Global Relative Strength Breadth Heat Map

Exhibit 2: Sectors vs Russell 2000 (Sectors vs Global SmallCaps Here)

Exhibit 3: Energy vs Russell 2000 (Energy vs Global SmallCaps Here)

Exhibit 4: Severed Underperformers vs. R2k (vs Global SmICaps Here)
Chinese Inflection Points

- On Friday, MSCI China was lauded above the top end of a rising channel, but more important for us technically, is that it broke a two-year downtrend. When Chinese stocks rally, they can rally very hard, so it’s the inflection point which matters, and it’s here – Exhibit 1.

- For a tactical asset allocation fund, the Hang Seng has been the absolute worst place to allocate funds. That inflection point also arrived on Friday – Exhibit 2.

- We never look at China, without looking at bank credit risk. That signals here are all bright green – Exhibit 3.

- We highlight price trends on the largest 15 Chinese stocks, to detail – Exhibit 4:
  - A number of stocks appear overbought, but in every case, this is in a “low volatility environment (circled),” so it’s more of a breakout signal, than an overbought “time out” signal.
  - With Tencent breaking out, China Mobile (Telecom, our new least favourite sector), is the only decent mega-cap short.

Exhibit 1: MSCI China (Other Chinese & EM Indices in Insert)

Exhibit 2: Hang Seng vs MSCI World (Other Global Markets in Insert)

Exhibit 3: Chinese Bank CDS Average (939, 1398, 3988)

Exhibit 4: Price Trends on Largest 15 Stocks – Full Spectrum Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
New Best Sector?

• New best sector? We are always on the lookout, but in a similar fashion to the US-China phase 1 trade deal at pixel time, we don’t have one. For many regions, it’s still technology – Exhibit 1.

• We’ve noted the bifurcation of the sector a month ago, and that’s still the case today (Exhibit 2), and the longer that exists, the more we see it as labeled (bifurcated), and not the one set of subindustries leading the other set down. With health care pulling back, technology continues to lead in our global relative strength breadth reading. So in total, the highest concentration of outperformance (for momentum managers), or severed underperformers (for bottom fishing managers) continues to be found in technology.

  o Taking the cue from the bifurcation, investors should look to the best subindustries for buy candidates, and the weak side for their avoids, or shorts if you do that – Exhibits 3, 4.

Exhibit 1: Technology vs MSCI World (IT vs Local Markets in Insert)

Exhibit 2: Technology SubIndustry Relative Strength Breadth Heat Map

Exhibit 3: Largest 10 Technology (in Strong SubIndustries) Momentum Buy List – Full List Here

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp</th>
<th>LT</th>
<th>Price Trend</th>
<th>Close 12-Dec</th>
<th>1-Day Equity Chg (%)</th>
<th>5-Day Equity Chg (%)</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>Trend</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
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Exhibit 4: Largest 5 Technology (in Weak SubIndustries) Momentum Sell List – Full List Here

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<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trainspotting

- **It’s the question that drives us.** Once the answer is fully known we expect asset prices could be rather different. One pays for answers with performance.

- US bank CDS hit a low on Friday September 13, and started pivoting higher (and remains near a 7w wide) when the US O/N repo rate surged, causing the FED to start to open up a spigot of liquidity to fix some sort of “plumbing problem”.

- We’ve always pointed to the 2017-2018 transition from low to high volatility (which is intimately related to counterparty risk), as a new era. In hindsight, we now expect that the transition was related to the reduction of the FED balance sheet, which has now been forced to expand quite aggressively. We might as well label the start of FED balance sheet expansion, as the second leg of this train ride, where volatility and bank risk are passengers.

- The questions are: (1) What is the counterparty, whose lust for life is causing such an expansion in US central bank reserves? (2) Is this inducing the largest spike in counterparty risk since the December-January period? (3) Will it end in a train wreck?

*All on a Government Loan
Lust for Life, Iggy Pop*

Exhibit 1: US Bank CDS; US Overnight Repo Rate; US Federal Reserve Balance Sheet; Average Stocks, Bond and Commodity Volatility

Source: All charts/tables BMO Capital Markets, Bloomberg
Blue Drag

- We had a tough time deciding on the lyrics to this note, but came up with a cool depression era tune, Blue Drag. It’s a note about yield curves, and central banks, and inflation, and globalization, and all the mystery about how economies in North America, being so good, can dish out recession signals seeming to indicate that it’s really so bad. The “seeming” bit is incorrect, yet it will become important.
- The US yield curve inverted last week (a few months behind Canada), and will continue to trend towards inversion. Why? Because the US economy is so strong. Say what??
  - Think like a chemist, and break the yield curve into its two market elements, (1) where the FED will be in two years, and (2) why own the 10-year bond?
    - The FED rate will be lower in two years. That’s what the market tells the FED. But the FED is sticky, because things are so good, and, importantly, the FED does not want to fight an asset bubble (a great president resides here). Very true.
    - The long end rallies and this is the key part, which is how the yield curve inverts, because there is not enough global economic growth to sustain the pricing of basic commodities, and thus inflation expectations. Inflation expectations fall, and so does the fear of owning the long end of the curve, so it’s bought because that’s where the leverage is.
  - Oh yeah, and banks do poorly in this environment. That blue line drags the black one down. That’s been the case since the last great recession – Exhibit 1.
    - Why? Because the inversion will induce a bank profitability recession. Ultimately, this could tighten up conditions as banks tighten credit to remain profitable.
      - Or central banks can just continue to ease and not fight this holy Armageddon.

Oh, the rhythm, the rhythm has got me into this mysterious craze
Blue Drag, Josef Myrow 1932

Exhibit 1: Relative Strength of Global Banks vs. MSCI World, US 5y5y Inflation Expectations, Rolling 30w Correlation of Returns

Source: All charts/tables BMO Capital Markets, Bloomberg
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For a complete list of ETFs mentioned in this report, please contact the research analyst directly.

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

Inverse ETFs seek to provide the opposite of the investment returns, also daily, of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect.
### Distribution of Ratings (January 22, 2020)

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