US Strategy Snapshot

Avoid the Temptation to “Make the Call”

The correlation between stock market volatility and the proclivity of declaring dramatic investment forecasts has certainly skyrocketed, judging by our client interactions, not to mention the overwhelming fear that most of these forecasts are generating on a nearly hourly basis. The collateral economic, fundamental and psychological damage that the crisis has caused is undeniable. While the duration and depth remain in question, so, too, is the fortitude of the eventual recovery. Yes, this too shall pass – and yes, stocks and the economy will rebound. So why are so many forecasts ONLY focusing on the negative? Our work shows that there is almost NO relationship between EPS growth and market performance for holding periods out to 20 years. In addition, history shows that S&P 500 returns have been predominantly POSITIVE during years of negative EPS growth, many of which were double-digit gains. Furthermore, the academic relationship between GDP and stock market performance has always had a lag – and therefore is NOT dependable. So why the dire earnings and GDP headlines? We believe most of these dramatic headlines were driven by the reaction of stock market weakness, the “need to make the call,” and the fear of not wanting to be wrong. Again, these forecasts may end up being bang-on after all. The reality is that no one knows for sure how long the crisis will last. The stock market will be the ultimate judge, but many of these dire forecasts and the fear associated with them feel more and more every day that the verdict is already guilty until proven innocent.

We have been receiving a lot of questions on our sector positioning and themes in lieu of our recent changes, let alone the pullback in the market. Please see the following table and our US Strategy Portfolios for actual positions.

Sector One Liners:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Opinion</th>
<th>Tgt. Wgt.</th>
<th>Theme</th>
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<tbody>
<tr>
<td>Communication Svcs</td>
<td>OW</td>
<td>12.5%</td>
<td>Broadband (need it to work from home), content, and yield</td>
</tr>
<tr>
<td>Consumer Discret.</td>
<td>OW</td>
<td>10.5%</td>
<td>Online shopping is safe and so, too, is casual wear as we work at home</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>UW</td>
<td>6%</td>
<td>Essential goods and services remain open and shelves are being stocked</td>
</tr>
<tr>
<td>Energy</td>
<td>MW</td>
<td>3%</td>
<td>Focus on yield and cash flow only</td>
</tr>
<tr>
<td>Financials</td>
<td>MW</td>
<td>11.5%</td>
<td>Multi-divisional; biggest of the big are best positioned</td>
</tr>
<tr>
<td>Health Care</td>
<td>MW</td>
<td>14%</td>
<td>Biotech, pharma, medical devices are more important than ever</td>
</tr>
<tr>
<td>Industrials</td>
<td>MW</td>
<td>8.5%</td>
<td>Will benefit from a cyclical recovery, but stick with high quality</td>
</tr>
<tr>
<td>Information Tech</td>
<td>OW</td>
<td>25.5%</td>
<td>Consumer-driven cash flow and innovators</td>
</tr>
<tr>
<td>Materials</td>
<td>MW</td>
<td>2.5%</td>
<td>Hard to own the metals here; stay diversified</td>
</tr>
<tr>
<td>Real Estate</td>
<td>OW</td>
<td>4%</td>
<td>Yield and cash flow</td>
</tr>
<tr>
<td>Utilities</td>
<td>UW</td>
<td>2%</td>
<td>Yield and stability of dividend</td>
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Please click on the report link below for additional analysis and commentary:

US Strategy Comment: Our Conviction Is Resolute, Template Notwithstanding

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<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>44.3 %</td>
<td>26.6 %</td>
<td>54.3 %</td>
<td>46.0 %</td>
<td>54.9 %</td>
<td>57.7%</td>
</tr>
<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>52.0 %</td>
<td>18.0 %</td>
<td>43.1 %</td>
<td>50.8 %</td>
<td>44.0 %</td>
<td>37.5%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>3.7 %</td>
<td>15.0 %</td>
<td>2.6 %</td>
<td>3.1 %</td>
<td>1.1 %</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

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** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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(April 2013 - October 2016)

(January 2010 - April 2013)

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