



Creative Global Investments

Morning Market Commentary

Tuesday, January 14th, 2014

Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com
+(352) 2625 8640



Creative Global Investments LLC

115 East 57th Street
11th Floor
New York, NY 10022
Tel: 212 939 7256
Mob: 917 301 3734

Creative Global Investments/Europe

5, op der Heed
L-1709 Senningerberg
Tel: +(352) 2625 8640
Mob: +(352) 691 106 969

Objectivity

Integrity

Creativity

The **US Congress** has agreed a broad spending deal for the first time since 2009, but it has left the International Monetary Fund in disarray by refusing to fund its latest capital increase. The \$1.012tn package lays out how the US will spend the budget agreed after tense negotiations in December. A full appropriations bill marks another step in the return to regular budgeting in Washington and will prevent another government shutdown by funding the government until September

Stocks ended sharply lower yesterday as investors continued to digest Friday's weak employment report. Stocks generally closed higher on Friday following the report, speculating that the Fed would be forced to restrain taper activity based on the weak employment result. However, Atlanta Fed President Dennis Lockhart indicated on Monday that he would support further tapering this year, which led investors to shed risk, selling stocks predominantly in cyclical sectors.

Is this going to be a 10% correction for US and global equities?

We do not think so!

Since the bears and profit-takers took out last week's lows, and decisively on strong volume for most US indices, we see testing of support in the 1790-1810 zones likely. We would become concerned if the S&P 500 were to break 1760-70, but we are advising clients to be buying all the way down because we see earnings season as a catalyst for new highs before a 10% correction may occur more towards the "Sell in May & Go away" seasonality.

Weekly Investment Conclusion

Short and intermediate technical indicators for most equity markets and sectors are overbought and showing signs of peaking. Midterm US Presidential Cycle years show that US equity markets show an average correction by the S&P 500 Index of 1.7% in the month of January followed by strength into mid-April. History appears to be repeating itself. Look for renewed seasonal buying opportunities in economic sensitive sectors following a brief period of weakness into January.

Our preferred equity markets like Germany, France, Spain, and Japan continue to outperform US benchmarks. We advise clients to add towards those countries' equities and towards our favorite sectors, which continue to show seasonal strength, such as:

- **Automotive OEM's and suppliers**
- **Industrials**
- **White metals**
- **Base and precious Metals**
- **Biotech**
- **Medical Devices**
- **Health Care Services**
- **Small Cap**
- **Software**
- **Semiconductors**

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.

The risk-off session led investors to buy bonds and gold as the classic fear trade catches new life. 10-Y US Bonds have broken out above an intermediate declining trendline as the “short bond” trade that was a winner last year shows signs of unwinding. The charts of the Intermediate-term and Long-term Treasury Bond ETFs are both suggesting a higher intermediate low, which could be conducive to further gains in the fixed income asset class. Gains in the bond market would buck the typical seasonal trend at this time of year that calls for losses through to April. The bond market has effectively traded inverse to its seasonal trends for the past year and a half as investors speculate upon Fed tapering.



Eurozone Macro Observations & Commentary

European stocks gained after global regulators eased the leverage-ratio rule for banks. The Basel Committee on Banking Supervision diluted a planned debt limit for banks following a meeting in Switzerland yesterday. The committee said the leverage ratio, which penalizes low-risk financial activities and curtails lending, was adjusted after thoroughly analyzing bank data. Banking stocks posted the second-biggest gain on the Stoxx 600 after the news. Deutsche Bank and Barclays were among the big risers. **We like the EURO STOXX BANKS Index at current levels, and are advising our clients to add towards European Banking stocks.**



Our favorite European Banking Stocks are:

- **Deutsche Bank**
- **Banco Santander**
- **HSBC**

We believe the story happening in Europe has not been fully appreciated. There is still much fear surrounding the Eurozone and whether or not its early economic recovery is sustainable. Right now the main concern seems to be France and its debt load. The theory goes that France will be a drag on the entire region and pull it back into recession, but focusing on one country rather than the bigger picture would be a mistake. Germany, the biggest economy in the region, will continue to lead the way. German November factory orders beat expectations and has seen demand come from both within the region and outside of it, showing that demand abroad is strong as well.

Looking at the sovereign debt yields of the peripheral countries (Portugal, Italy, Ireland, Greece and Spain) one can see that even they are gaining strength. In 2011 and 2012 yields in spiked, as many believed there would be a disorderly collapse of the entire region. But today, yields are close, and in some cases, below pre-crisis levels. Other than Greece, investors in these peripheral countries' debt have had more confidence than most assumed would be the case. Ireland officially exited its bailout program in December and its first post-bailout debt auction occurred last week. Again, demand was strong for Ireland's debt, which was unthinkable just a couple years ago. Bids passed EUR 14 billion for a EUR 3.75 billion lot of 10-year bonds. The average yield was 3.5% and 3.27% in the secondary market due to the strong demand. That is down from 14% in 2011 and an eight-year low. GDP is also growing, not only in Ireland but Portugal and Spain as well. Essentially, the Eurozone periphery has surpassed anyone's expectations.

Spain was one of the hardest hit economies during the global financial crisis and the following European sovereign debt crises. Before the crises the Spanish economy grew rapidly over many years attracting international investors. As a result of the crises, the economy tanked primarily due to the bursting of the once red-hot real estate industry. Spain was burdened with infrastructure projects like massive airports with no flights, unsold residential apartments and condos, etc. Not surprisingly, investors fled Spanish stocks. After years of low growth, the Spanish economy finally seemed to have turned a corner. Spain's service sector registered its fastest pace of growth in six-and-a-half years in December, fuelling optimism the economy could expand more than expected in 2014. **Last year the IBEX 35 rose 20.9% It is up by 3.80% year-to-date, the best among major European indices. Spanish stocks currently have a dividend yield of 3.9% and a P/E ratio of 19.8 relative to U.S. stocks' yield of 1.9% and P/E of 19.7. Our favorite stocks in Spain are Banco Santander SA, which offers investors a dividend yield of 8.80% and Repsol SA, with a dividend yield of 3.14%**

The recovery in Spain and Europe, as every recovery is, will be choppy and most likely slow. The fact remains, the Eurozone is recovering faster than anyone could have predicted just a couple years ago when there was talk of dismantling the Euro and the region falling apart.

Global Macro Commentary

Upcoming macro data:

- Japan Economy Watchers Survey for December will be released at 12:00am EST. The market expects 54.0 versus 53.5 previous.
- Great Britain CPI for December will be released at 4:30am EST. The market expects a year-over-year increase of 2.1%, consistent with the previous report.
- Euro-Zone Industrial Production for November will be released at 5:00am EST. The market expects a year-over-year increase of 1.8% versus an increase of 0.2% previous.
- Retail Sales for December will be released at 8:30am. The market expects no change (0.0%) on a month-over-month basis versus an increase of 0.7% previous. Less Autos and Gas, sales are expected to increase by 0.3% versus an increase of 0.6% previous.
- Import/Export Prices for December will be released at 8:30am.
- Business Inventories for November will be released at 10:00am. The market expects a month-over-month increase of 0.3% versus an increase of 0.7% previous.
-

Past macro-data review:

Event	Actual	Forecast	Previous
USD Monthly Budget Statement	\$53.2B	\$44.0B	-\$135.2B
JPY Current Account Total (Yen)	-¥592.8B	-¥368.9B	-¥127.9B
JPY Adjusted Current Account Total (Yen)	-¥46.6B	¥27.9B	-¥59.3B
JPY BoP Current Account Balance (YoY)	230.10%	74.20%	-130.40%

US Equities Commentary & Charts

Comments by Atlanta Fed President Lockhart, implying continuation of tapering, triggered late selling in US equity markets yesterday. Broadly based US equity indices closed below their 20-day moving average, an early warning signal for a short-term correction. The losses in equity markets follows a low hit at significant support in the volatility index.

The so-called “fear gauge” hit a low of 11.82 yesterday morning and bounced higher by around 10% at the close of the session.

Significant support for the VIX is obvious around 12, a level that when hit usually coincides with short-term equity market peaks, a scenario which seems to be proving true yet again.

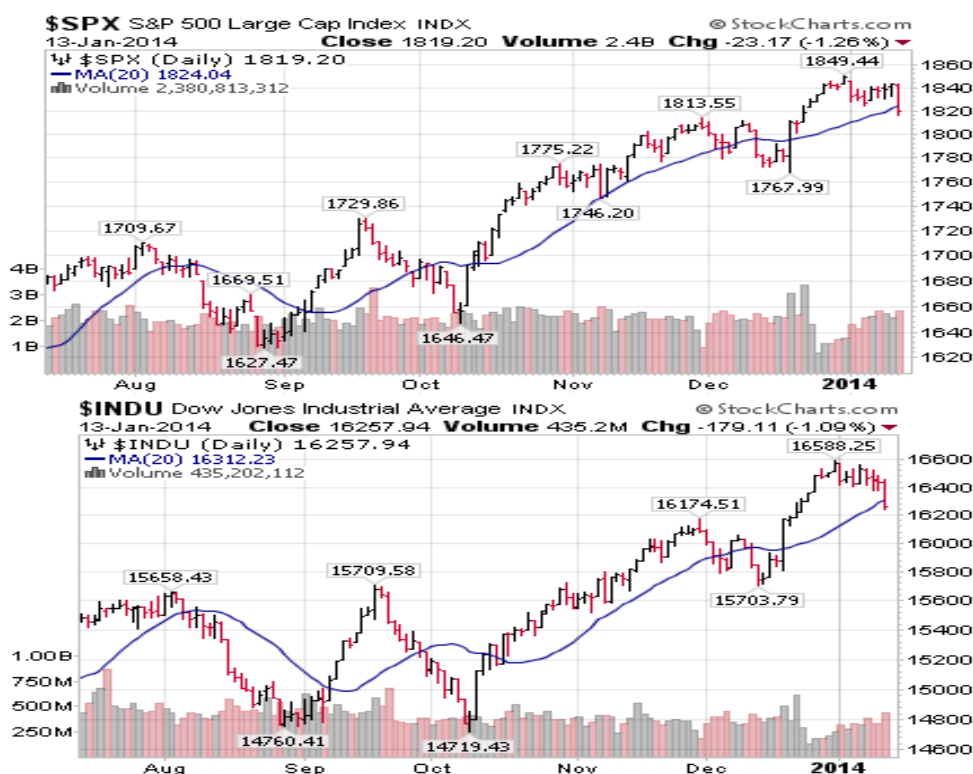


History repeating itself?

Early weakness in January during a mid-term U.S. election year is average. Average correction by the S&P 500 Index in January is 1.7%.

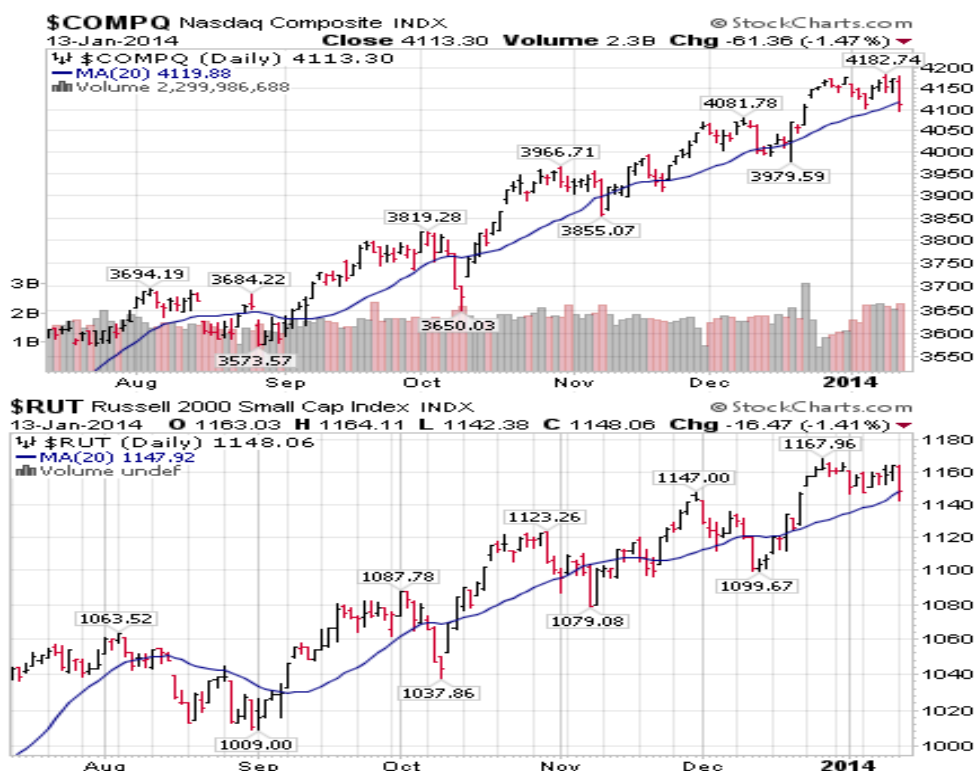
The S&P 500 Index already is down 1.6% from its early January high. Note that weakness in early January provides an opportunity to purchase on weakness.

When investors become defensive during periods when seasonal tendencies favor cyclical sectors, a warning signal is provided:



Equity weakness follows. market typically

Intermediate trends continue to favor cyclical assets, particularly Industrials and Financials. relative



The S&P Retail Index ETF (XRT) fell almost 3% on the session as investors react to lackluster holiday sales; the government report on retail sales for the month of December will be released today before the opening bell. The Retail ETF has now shown a significant break below the long-term positive trendline that carried the retail industry and the discretionary sector to all-time highs; the impact on equity benchmarks, as a result, has also been significant. The newly identified negative trend could prove to be detrimental to the upcoming period of seasonal strength for the industry, which runs from late January to early April. Minor support for the Retail ETF (XRT) can be found directly below at \$83, the resistance peaks from the summer months.

Perhaps the largest declines out of all of the equity industries were realized amongst the retailers.



Carlo R Besenius, CEO & Head of Global Strategy

cbesenius@cg-inv.com

office: +(352) 26 25 86 40

mobile: +(352) 691 106 969

Luxembourg/Europe

Sabine CJ Blümel, Head of Global Automotive Research

sblumel@cg-inv.com

office: +44 (7785) 301588

London, UK

Trish Twining, Managing Director of Sales

ttwining@cg-inv.com

office: 7817710117

Boston, MA, USA

Gary Schieneman, Managing Director,

Global Accounting and Finance

gschieneman@cg-inv.com

office: 917-868-6842

New York, NY, USA

Steve Gluckstein, Global Strategist

sgluckstein@cg-inv.com

office: 212 939 7256

mobile: 732 768 8843

New York, NY, USA

Marc Peters, Head of Global Industrial Strategy

mpeters@cg-inv.com

office: +(352) 26 25 86 40

mobile: +352 621 36 44 50

Luxembourg/Europe

Allison M Cimon, Director of Sales & Technology

amcimon@cg-inv.com

office: 646 228 4321

Boston, MA, USA

Jennifer Crisman, COO

jcrisman@cg-inv.com

office: +(352) 26 25 86 40

Luxembourg/Europe

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.