Creative Global Investments

Global equities weekly strategy update

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Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com

Creative Global Investments LLC
115 East 57th Street
New York, NY 10022
Tel: 212 939 7256

CGI/Europe/Luxembourg
Tel: +(352) 26 25 86 40
Mob: +(352) 691 106 969

Stjepan Kalinic
Market Strategist (CMT)
skalinic@cg-inv.com

Creative Global Investments LLC
115 East 57th Street 11th Floor New York, NY 10022
Tel: 212 939 7256
Mob: +385 9152 95916

Objectivity

Integrity

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Global Macro Economic Outlook & Commentary

The global macro momentum is losing steam on an accelerating basis. Data from around the world is weakening at a frightening speed since December of 2018.

In Asia, China's trade surplus with the US rose to USD 323.32 BN in 2018, up 11.3% (vs. USD275.8 BN in 2018) the widest ever as the two nations are in talks to resolve trade disputes. Exports rose 7.1%, down from the 7.9% reported earlier for 2017. Import growth declined to 12.9% from the previous year's 15.9%. Whilst China's 2018 exports to the US rose 11.3% in USD terms from a year earlier, while imports from the US grew just 0.7%. The deceleration of exports adds to pressure on Beijing to resolve its costly tariff battle with Washington over Chinese technology ambitions. Exports to the US held up through late 2018 despite President Donald Trump's tariff hikes on Chinese goods.

China is the largest driver of crude oil prices on futures markets. When the price of crude oil falls like a rock from USD 77 to USD 42 in a single quarter, it's not only about supply, and Saudi Arabia has been pumping more, but also demand. After all, there is no Saudi component of the London Metals Exchange, and the price action of the LME confirms the message of the crude market. The LME Index weakened beginning in June 2018, much earlier than the crude oil market and before trade tensions intensified. That is evidence the trade friction is merely a catalyst but not the cause of weakening demand for energy. If a Chinese economic hard landing were to materialize (which we do not anticipate in the next 3 years), we would expect significantly more downside for commodities

We currently see 4 unresolved issues that negatively impact global investors:

- **Central Banks and their monetary policies too slow** to react to the rapidly deteriorating macro environment
- **The US - China Trade Dispute**. Although negotiations between the US and China restarted this week, US officials are notoriously skeptical of China and the failed talks not resulting in the big concessions desired by US. President Trump has set a March 2 deadline to cut a deal.
- **The US Government Shutdown** – and the fact that the Democrats as last are week in charge of Federal spending and not giving Donald Trump the USD5.7 BN of border wall funding he seeks
- **Brexit deal or no deal?** March 29 is the crucial deal date the UK has to comply with. If the UK fails to reach a deal with the European Union by that date, it will automatically trigger a "hard Brexit" which means leaving the EU with no trade deal in place - the worst possible outcome.

As long as those issues weigh on investors' minds, we see it hard for global equities markets and commodities to rise from current levels.

On the contrary, with valuations where they are for equities, and particularly relative to bonds, and with more geo-political stress and uncertainties, we continue to advise for investors to "temporarily park" money and new cash in bonds, and particularly in US treasuries, which are offering very good returns, relative to their downside risks, and mostly relative to equities and commodities.

All in all, given the rosy forecasters needing to sober up a bit and revise forecast down for the next 2 – 3 years, we do not see the FED likely to continue to tighten its monetary stance to keep inflation in check, which would tighten global financial conditions and could trigger further emerging-market capital outflows and currency depreciation, and implicitly a prolonged USD appreciation, which neither the US policymakers nor the consumer (still 72% of US GDP) can afford.

The recent increases in volatility of all asset classes globally as a sign that the pillars of the global financial system are fundamentally unstable and could lead to a renewed panic snowball reaction by investors and consumers into the next significant economic and financial crisis. Giant "central counterparties" (CCPs) that clear most of the USD540 Trn in financial derivatives are themselves vulnerable to failure in times of extreme stress.

Equities commentary & charts

Economic focus this week is on US December Retail Sales to be released on Wednesday. How did Christmas sales do this year? Consensus is calling for strong year-over-year gains.

Short-term political concerns remain elevated. Issues include heightened tariff wars between the US and China, shut down of Congress related to extension of government deficit limits and the Mueller investigation.

The bear market rally by EAFE equity markets continues. Equity markets are benefitting from the end of tax loss selling in late December, dropping inflation pressures and anticipation of a trade deal between the US and China.

The USD continues to roll over from a double top pattern. Commodity and commodity equity prices have responded by moving higher. Best performing equity sectors last week included energy, oil services, base metals and forest product stocks. Seasonal influences have appeared earlier than usual this year. All of these sectors normally enter into a period of seasonal strength starting this week for a seasonal trade lasting until at least the end of April.

The USD extended a double top pattern last week, an encouraging technical sign for commodities and commodity related equities and Exchange Traded Funds (particularly if the US and China are able to reach a trade agreement).

Q4 earnings reports start to pour in this week. Notable next week are reports by major US banks. Investors are anticipating a 10.6% y-o-y increase in earnings by S&P 500 companies. CEO's love to include good news when releasing Q4 reports including positive guidance for the next year. This year, look for extra good news including additional share buybacks and dividend increases.

EU and US equity markets extended their tradable bear market rally last week Traders with a time horizon of three months or less can take advantage of a recovery from oversold levels by owning equities that have favorable seasonality and positive strength relative to North American equity indices. Focus is on commodity sensitive securities that are responsive to a flat-to-lower USD including precious metals, base metals, agriculture and energy related equities and Exchange Traded Funds.

Technical action by individual S&P 500 stocks was quiet last week. Number of stocks breaking intermediate resistance totaled 18 while number of stocks breaking support totaled 1. The Ratio of stocks in an intermediate uptrend/ stocks in an intermediate downtrend increased last week to (98/375 =) 0.26 from 0.23.

Medium term technical indicators for US equity markets (e.g. Percent of stocks trading above their 50 day moving average, Bullish Percent Index) continued moving higher last week.

Medium term technical indicators in Canada also continued moving higher last week.

Short-term technical indicators for US & Canadian equity markets and sectors (20 day moving averages, short term momentum) are overbought.

Q4 earnings reports by major US companies start to pour in this week: 34 S&P 500 companies are scheduled to report (notably the banks). 4 Dow Jones Industrial companies are scheduled to report. Longer-term outlook for earnings and sales by S&P 500 companies remains positive, but lower than previous consensus.

- Full-year 2018 consensus calls for a 10.6% increase in earnings (down from 11.4% last week) and a 5.9% increase in sales (down from 6.1%).
- Q1 2019 consensus calls for a 1.8% increase in earnings (down from 2.9%) and a 6.2% increase in sales (down from 7.3%).
- Q2 2019 consensus calls for a 2.9% increase in earnings (down from 3.7%) and a 5.3% increase in sales (down from 6.0%).
- Q3 2019 consensus calls for a 3.6% in earnings (down from 4.3%) and a 5.1% increase in sales (down from 5.9%).
- Q4 2019 consensus calls for an 11.8% increase in earnings (down from 12.1%) and a 6.5% increase in sales (up from 6.0%).
- Full-year 2019 consensus calls for a 6.9% increase in earnings (down from 7.4%) and a 5.5% increase in sales (down from 6.0%).

Again, as we were advising on November 7th, post US mid-term elections, we see November 6th US election as a pivotal point for asset allocations between bonds and equities, and even significantly impacting the future direction of the USD, as a GOP status quo would continue to weigh on the USD for the next two years.

Consequently, we see 10-year Treasuries still at this point relatively inexpensive to US equities, and particularly for balanced-fund type investors applying DDM as a key investment metric, and hence we advise investors to increase weightings towards 10-Year Treasuries, in spite of seasonal period of weakness. Given the wider spreads of US Treasuries versus EU government bonds and Japanese JGB's, we see foreign investors continuing to find better value in US treasuries and increase allocations accordingly.

Investors Sentiment Indicators

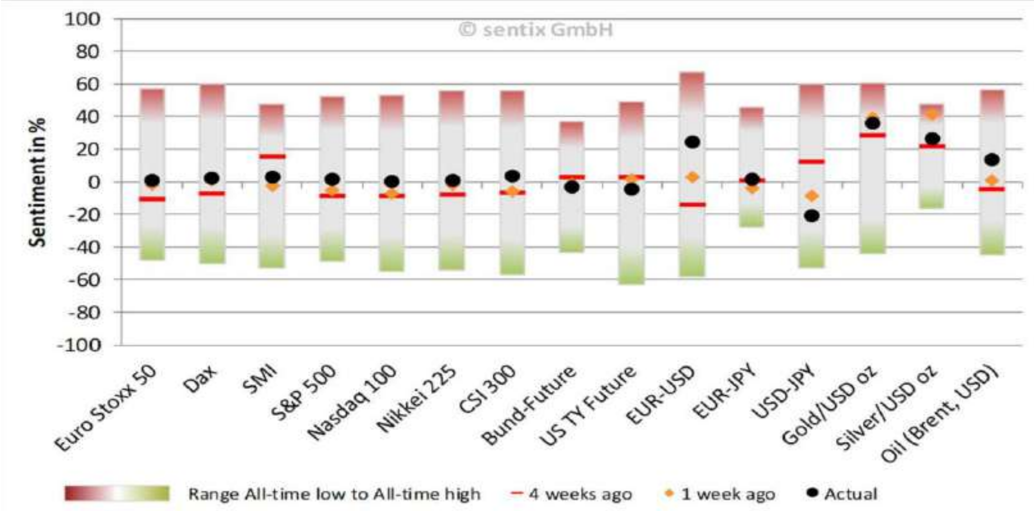
According to the latest ***sentix*** Investors' survey, sentiment on the stock markets is hardly changing. The bias does not show any new life energy either. Investors are waiting for the Brexit vote in the British parliament.

Signals from the ***sentix*** data universe/statistical highlights

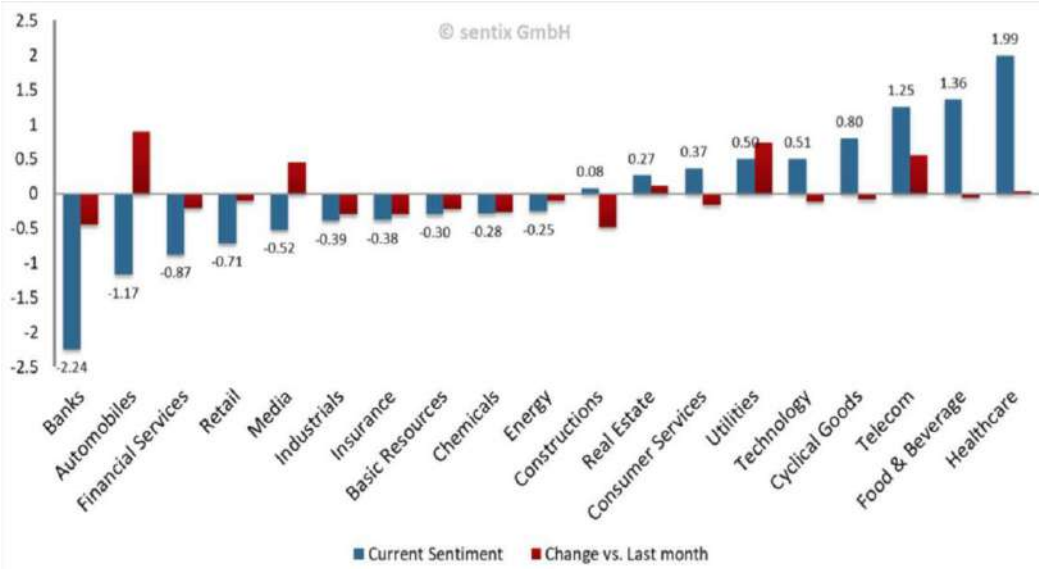
	DAX	ESX50	SMI	S&P 500	Nasdaq	Nikkei	CSI 300	Bunds	T-Bonds	EUR-USD	EUR-JPY*	USD-JPY	Gold	Silver	Oil
Sentiment										X		X			
Strategic Bias													X		
Neutrality Index									X					X	X
Overconfidence Index								X							X

* highlights markets for which the sentix indicators display extreme values

Emotions are showing strength on the currency side. The USD is under fire. The high neutrality on the US bond market is conspicuous. A directional decision and a large movement are to be expected from this



Current investor sentiment towards individual sectors:



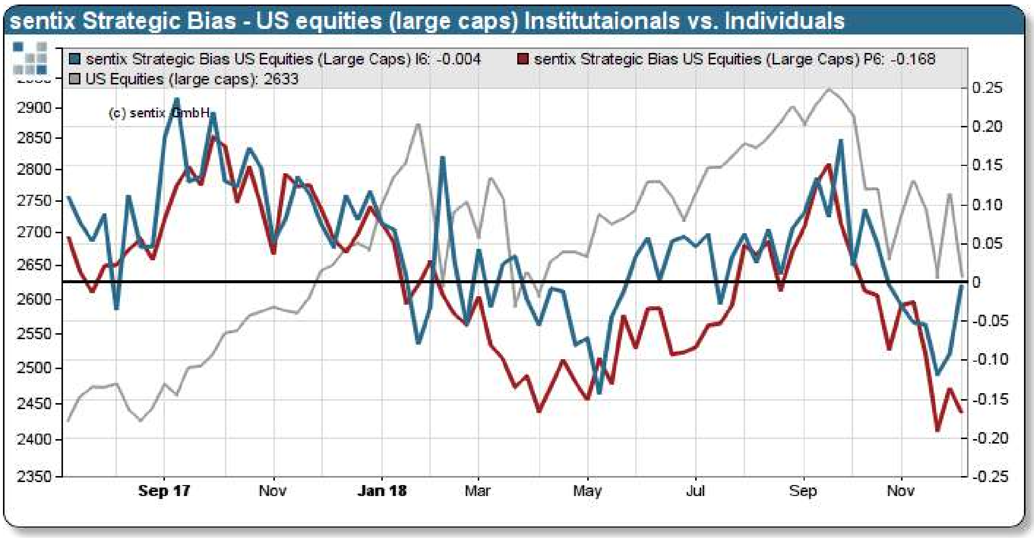
Investor sentiment for US equities has deteriorated significantly within two weeks. With a discount of 44 percentage points, the sentiment is thus setting an exclamation mark.

- The sentiment level in the most recent corrections meant a market low in the S&P 500.
- A weekly discount of -44, however, statistically does not lead one to expect any positive returns in the next 4 weeks.
- With -5 percentage points, the institutional investors are by no means bearish!

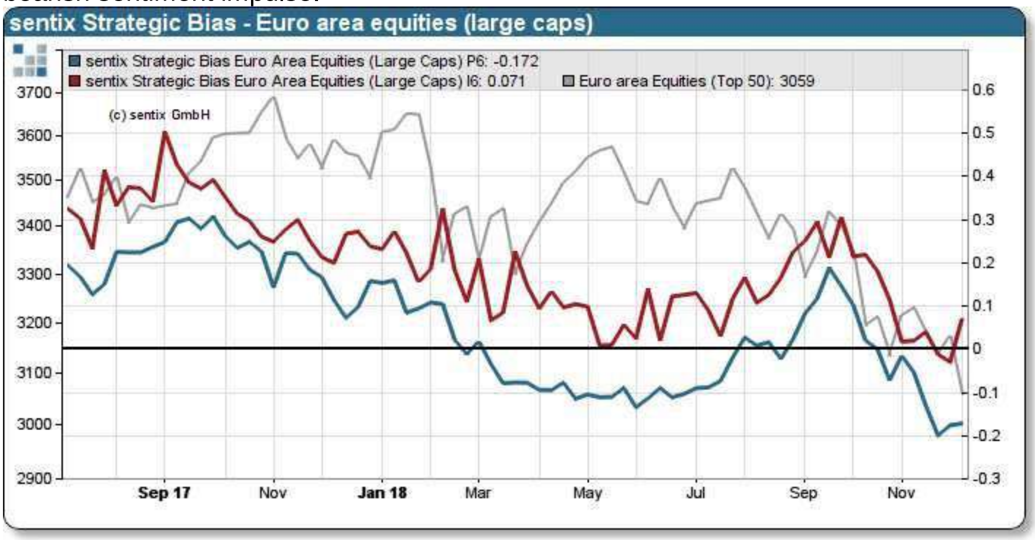
The strategic bias shows bargain hunters not active and not willing to access at the discounted level yet. The underlying confidence in US equities shows no movement here, despite the more favorable prices, there is no perception of value, at least at the level of the headline index.

The trend in the main index is particularly fed by the critical attitude of private investors. The institutional investors see the decline as an opportunity.

The behavior is reminiscent of the January setback, in which the institutional investors showed a similar reaction.

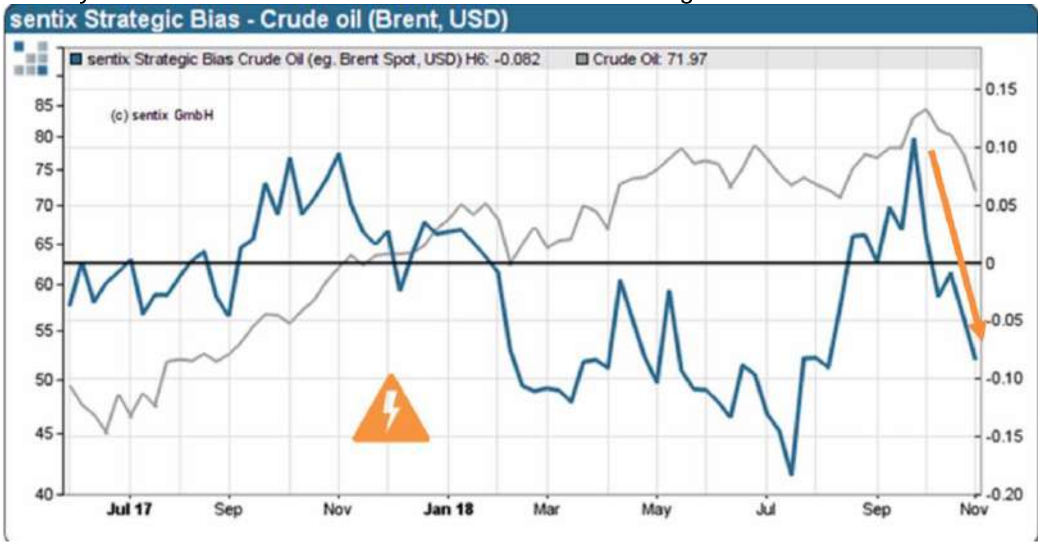


There are similar developments in the bias for Euroland's stock market. The institutional investors also see an opportunity here. The increase in the bias (+3 percentage points) suggests that the current sentiment decline of 40 percentage points (not shown) is not a bearish sentiment impulse.

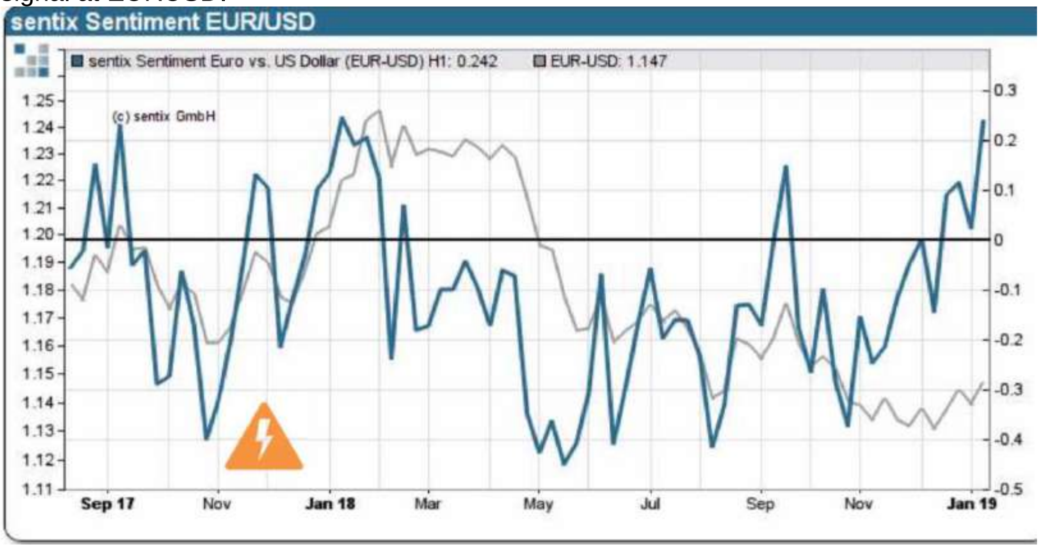


Gold’s investor sentiment jumps 21 percentage points to a 26-week high, bias also climbs to a 26-week high. The absolute values of the bias are higher than those of the sentiment. Investor positioning to gold remains short (CoT Report) and shows no movement, so the short squeeze is yet to come.

Over the past 5 weeks, the outlook for crude oil has deteriorated substantially. Since then, the bias for crude oil has made a U- turn and is drifting more into negative territory. This should constitute a “tradable bottom” for long investors.



Investors are turning away from the USD and towards the EUR. Sentiment against the EURUSD is climbing to a 52- week high. As the bias continues to rise, there are more signs of a sentiment impulse accompanying a trend reversal than of a contrary sell signal at EURUSD.



The sentiment for USDJPY also falls to a multi-year low. The multi-year range has been abandoned and investors are rethinking the USD

For US long bonds, both the short- and medium-term Neutrality Index climb to new 52-week highs, and extreme, this usually happens at important market points and before new trend spurts. The sum of the two indices is therefore also record-breakingly high and signals that a volatility surge is imminent

Asian equity markets weekly charts

$BSE is coming to an apex of the ascending triangle.
Price closed above the 200-day MVA.

Short-term momentum indicators are Neutral.

The BSE added 314.74 points (0.88%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 Index is Negative.
$NIKK made a lower low.

The $NIKK remains below its 20-day MVA. Short-term momentum indicators are rolling over.

The Nikkei gained 797.74 points (4.08%) last week.

Intermediate trend is Neutral. $SSEC is coming to an apex of the Coil.
Strength relative to the S&P 500 Index is Neutral.

The $SSEC moved above the 20-day MVA. Short-term momentum indicators are Positive.

The Shanghai Composite Index added 38.96 points (1.55%) last week.

Intermediate trend is Positive. $HSI broke out through the upper trendline.

The $SSEC moved above the 20-day MVA. Short-term momentum indicators are Positive.

The Hang Seng gained 1041.24 points (4.06%) last week.

European equity markets weekly charts

The DAX 30 added 119.77 points (1.11%) last week.

Intermediate trend remains Negative. $DAX moved to the upper side of the channel.
$DAX is on the 20-day MVA.
Strength relative to the S&P 500 Index is Neutral.
Short-term momentum indicators are Positive.

The CAC 40 gained 44.22 points (0.93%) last week.

Intermediate trend is Negative. $CAC is testing 4800 resistance. $CAC remains below the 200-day MVA.

Short-term momentum indicators are Positive.

The AEX 25 added 6.64 points (1.35%) last week.

Intermediate trend is Negative. $AEX remains below the 50-day MVA. Strength relative to the S&P 500 Index is Negative.

Short-term momentum indicators are Positive.

The IBEX 35 gained 139.30 points (1.59%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 is Positive. IBEX rebounded from the lower trendline.

The Index remains below the 50-day MVA.

Short-term momentum indicators are Positive.

The FTSE dropped 24.69 points (0.36%) last week.

Intermediate trend is Negative. FTSE tested the 7000 level / upper trendline.
FTSE is below the 50-day MVA.

Short-term momentum indicators are Positive.

Intermediate trend is Positive. RTS broke the upper trendline.
Price is above the 50-day MVA.

Short-term momentum indicators are Positive.

The RTSI added 30.72 points (2.75%) last week.

Intermediate trend is Neutral. SMI retraced from the multi-month low.
Price moved above the 200-day MVA.

Short-term momentum indicators are Positive.

The SMI gained 219.66 (2.55%) last week.

US equity markets weekly charts

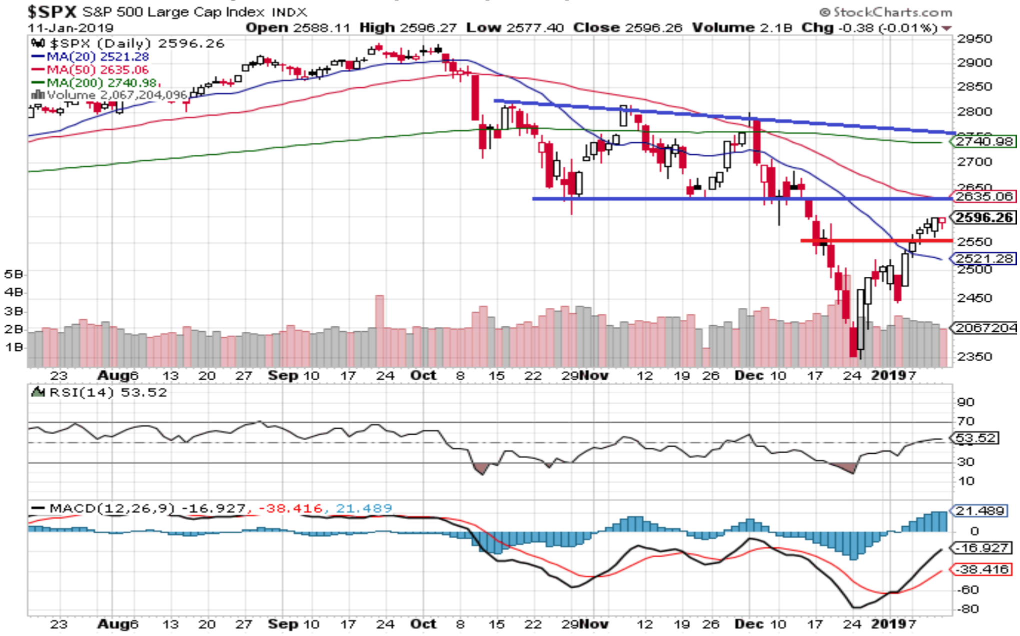
The VIX Index dropped 3.19 points (14.92%) last week.

Intermediate trend is Neutral. VIX remains within an established range.

The S&P 500 Index gained 64.32 points (2.54%) last week.

Intermediate trend is Neutral. The Index moved above the 20-day MVA. $SPX will retest the key level at 50-day MVA.

Short-term momentum indicators are Positive.

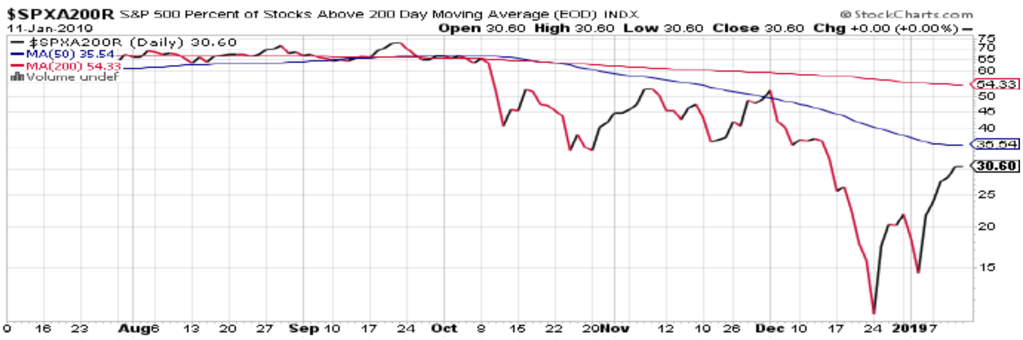


Percent of S&P 500 stocks trading above their 50-day moving rose dropped last week to 38.60 from 11.80.

The Index moved above the 50-day MVA.

Percent of S&P 500 stocks trading above their 200-day moving average rose last week to 30.60 from 21.60.

The Index remains below the 50-day MVA.



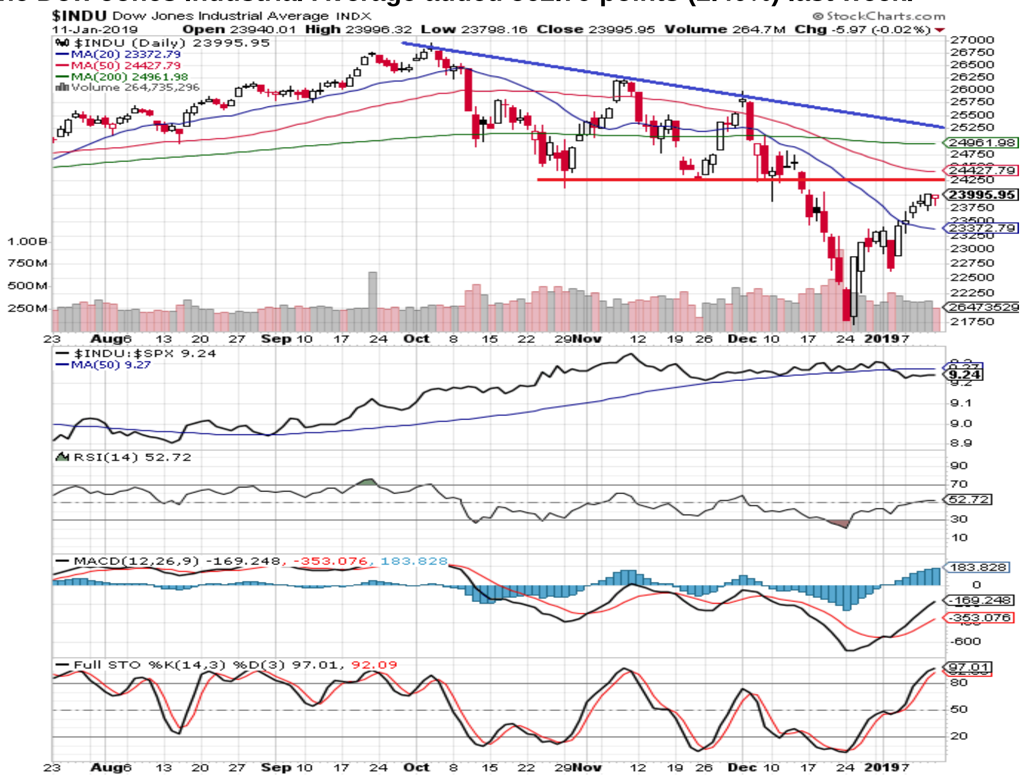
Bullish Percent Index for S&P 500 stocks rose last week to 40.00 from 22.00 and rose above 50-day moving average.

The Index moved above the 50-day MVA.

The Dow Jones Industrial Average added 562.79 points (2.40%) last week.

$INDU is retracing towards the key level. Strength related to the S&P 500 is below the 50MVA.

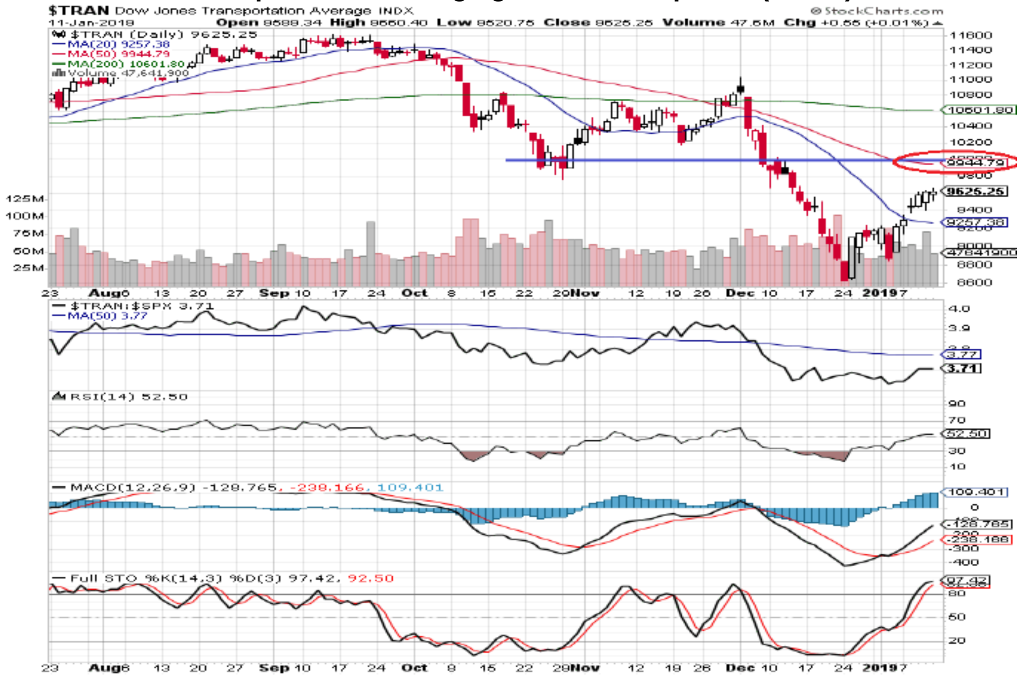
The INDU remains below its 200-day MVA. Short-term momentum indicators are Positive.



Bullish Percent Index for Dow Jones Industrial Average rose to 33.33 from 23.33 last week and moved above its 20-day moving average.

The Index moved above the 20-day MVA.

The Dow Jones Transportation Average gained 400.23 points (4.34%) last week.



Intermediate trend remains Negative.
Dow Jones Transportation Index will test the key former support.
Strength relative to the S&P 500 is Negative.
The $TRAN remains below its 50- day MVA.

Short-term momentum indicators are Positive.

Bullish Percent Index rose last week to 35.74 from 25.87 and rose above its 50-day moving average.

The Index is above the 50-day MVA.

The NASDAQ Composite Index added 232.62 points (3.45%) last week.

Intermediate trend is Negative.
$COMPQ is testing the 50-day MVA. Strength relative to the S&P 500 Index is Positive.

The Index is below the 200-day MVA.

Short-term momentum indicators are Positive.

The Russell 2000 Index gained 66.64 points (4.83%) last week.

Intermediate trend is Negative.
$RUT will test the former support.
Strength relative to the S&P 500 Index is Positive.
The Index moved above the 20-day MVA. Short-term momentum indicators are Positive.

The S&P Energy Index added 14.87 points (3.35%) last week.

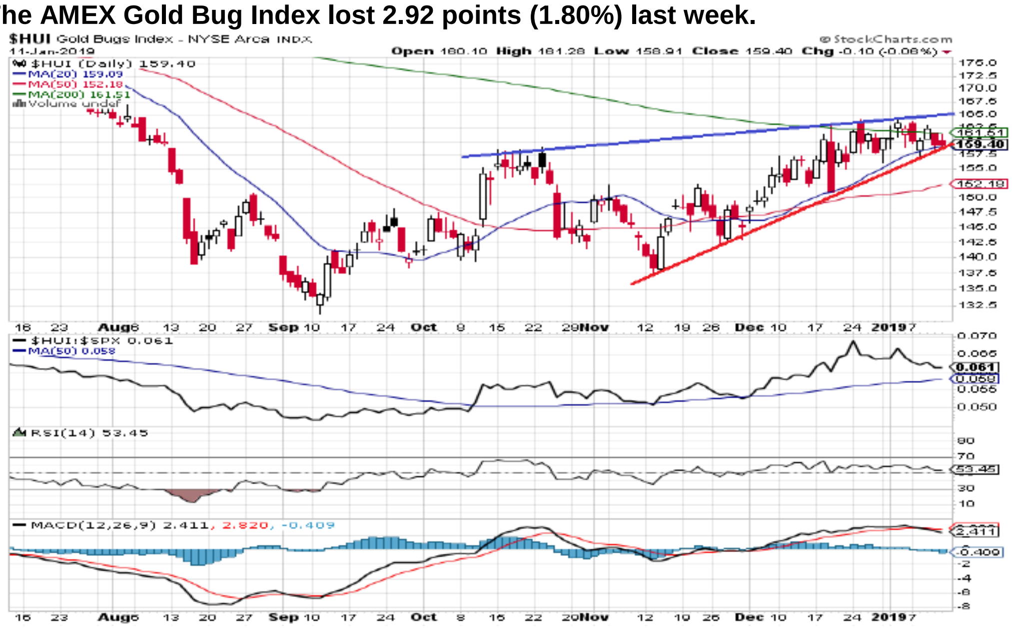
Intermediate trend remains Negative.
$SPEN will test the 50-day MVA. Strength relative to the S&P 500 Index is Positive.

The Index moved above the 20-day MVA. Short-term momentum indicators are Positive.

The AMEX Gold Bug Index lost 2.92 points (1.80%) last week.

Intermediate trend is Positive.
$HUI is within a rising wedge.
Strength relative to the S&P 500 Index is Positive.

The Index is on the 20-day MVA. Short-term momentum indicators are rolling over.



Americas equity markets weekly charts

Intermediate trend is Positive.
$BVSP made a new high.

BVSP remains above the 50-day MVA.

Short-term momentum indicators are Mixed.

The BOVESPA added 1817 points (1.98%) last week.

Intermediate trend is Positive. MXX broke out of an ascending triangle.
$MXX moved above the 50-day MVA.

Short-term momentum indicators are Positive.

The Mexican Bolsa gained 1100 points (2.59%) last week.

Bullish Percent Index for TSX Composite rose last week to 40.41 from 35.10 and moved above its 20-day moving average.

The Index moved above the 50-day MVA.

The TSX Composite Index added 512.56 points (3.55%) last week.

Intermediate trend remains Negative. The Index will test the upper trendline.

The Index moved above the 20-day MVA. Short-term momentum indicators are Positive.

Percent of TSX stocks trading above their 50-day moving average rose to 63.03 from 32.81 and moved above the 200-day moving average.

The index moved above 200-day MVA.

Percent of TSX stocks trading above their 200-day rose last week to 36.13% from 24.48%

The index moved above the 50-day MVA.

EM equity markets weekly charts

Emerging Markets iShares rose $1.04 (2.62%) last week.

Intermediate trend is Neutral. Strength relative to the S&P 500 Index is Positive.
EEM is pressuring the upper trendline.

Units moved above the 20-day MVA. Short-term momentum indicators are Positive.

The Australia All Ordinaries Index rose 157.80 points (2.78%) last week.

Intermediate trend is Neutral. Strength relative to the S&P 500 Index is Positive. $AORD will test the former support.

The $AORD moved above the 20-day MVA. Short-term momentum indicators are Positive.

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Carlo R Besenius, CEO
Chief Global Strategist
cbesenius@cg-inv.com
office: +(352) 26 25 86 40
mobile: +(352) 691 106 969
Luxembourg/Europe
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
Gary Schieneman,
Managing Director,
Global Accounting and Finance
gschieneman@cg-inv.com
office: 917-868-6842
New York, NY, USA

Stjepan Kalinic,
Global Strategist/Technician
skalinic@cg-inv.com
office: 212 939 7256
mobile: +(385) 9152 95916
Kastel Sucurac, Croatia
Allison M Cimon,
Director of Sales & Technology
amcimon@cg-inv.com
office: 646 228 4321
Boston, MA, USA

Per Bjørnholt,
Managing Director Industrial Solution
pbjornholt@cg-inv.com
office: 212 939 7256
New York, NY, USA