



Creative Global Investments

Morning Market Commentary

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European Bond Yields are compressing to 5-year low levels, and we see this to continue throughout 1H in 2014. Amongst the EURO bond arena, we prefer Spain and Italy to Portugal and Ireland, two of the bloc's smaller but most indebted countries that last week sold debt in hugely oversubscribed placements, with investors bidding for more than three times the amount offered.

Spain's borrowing costs dropped to an all-time low at an auction of three-year government bonds on today, adding to signs that the Euro zone's fourth-largest economy is recovering. The Spanish Treasury sold EUR 2.66 Bn (\$3.62 Bn) of a 2017 bond at an average yield of 1.595%, the lowest level since 2004. The Spanish government also sold EUR 1.81 Bn in 2026 bonds and EUR 1.44 Bn in 2028 bonds, for a total of EUR 5.91 Bn. The targeted range was EUR 4.5 Bn to EUR 5.5 Bn. In the secondary market, the yield on 10-year government paper fell 1 basis point to 3.75%.

Yesterday Portugal's EUR 3.25 Bn sale attracted bids of more than EUR 11 Bn from 280 accounts worldwide. Of the amount sold, 88 percent went to non-Portuguese investors. But notably, they included only other Europeans, not US or Asian investors.

Ireland's return to the international bond market drew huge demand for its first post-bailout debt sale, with investors bidding more than EUR 14 Bn for the EUR 3.75 Bn sold. North American investors accounted for 14 percent of buyers.

The head of the International Monetary Fund has warned about the risks to global economic recovery of deflation. Christine Lagarde said that "optimism is in the air" about growth, but the recovery is still "fragile". "If inflation is the genie, then deflation is the ogre that must be fought decisively," she said in a speech in Washington. "We see rising risks of deflation, which could prove disastrous for the recovery," Ms. Lagarde said at the National Press. There has, for example, been growing debate about whether deflation might take hold in the Eurozone, where inflation remains persistently below the European Central Bank's target. Deflation can reduce personal consumption as people wait for prices to fall further, and discourage investment because it can raise the real cost of borrowing. Ms. Lagarde also warned about the volatility that could accompany the US Federal Reserve's gradual withdrawal of monetary stimulus.

Global demand for energy will grow at a slower pace over the next two decades, a report from the oil giant BP predicts. BP's Energy Outlook says energy demand will rise by 41% between now and 2035, less than the 55% growth seen over the past 23 years. It said increased fuel efficiency in developed economies was behind the predicted slowdown. But demand from emerging economies is expected to continue to rise strongly. Some 95% of the growth in global demand will come from developing countries, BP predicts, with China and India alone accounting for half the increase. According to the report, oil, natural gas and coal are expected to account for more than 80% of energy use by 2035, with renewables and other sources accounting for the rest. The boom in shale gas through fracking in the US is likely to have a significant impact. Natural gas is the fastest growing of the fossil fuels, and shale gas is expected to account for more than 20% of world gas production by 2035.

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2014 Global GDP expectations being lifted, as we anticipated in December, and to accelerate further in 2014.

Asian and European stocks rallied after the World Bank raised its outlook for the global economy. The World Bank said the economy is at a “turning point” as it forecast now stronger global GDP growth of +3.2% for 2014, up from +2.4% in 2013, driven by improvement in developed economies, which in return is expected to support stronger growth in developing economies. It also warned growth prospects “remained vulnerable” to the impact of the withdrawal of economic stimulus measures in the US. There is concern this could push up global interest rates, which could affect the flow of money in and out of developing countries and lead to more volatile international financial markets. An abrupt unwinding of central bank support for advanced world economies could cause capital flows to emerging markets to contract by as much as 80 per cent, inflicting significant economic damage and throwing some countries into crises, the World Bank has warned. Capital flows into emerging markets are influenced more by global than domestic forces, leaving them vulnerable to disorderly changes in policy by the US Federal Reserve, concludes a study by World Bank economists

In our 2014 Global Strategy Outlook, which we presented to investors in December, we highlighted that global systemic risk had largely diminished in recent quarters. We are expecting accelerating global growth to +3.8% in 2014 (+2.9% in 13). Improving momentum within Developed economies (+2.4% in 2014e vs. +1.4% in 2013e), which recently have also shown signs of improvements. We are expecting European GDP to grow by + 1.7% in 2014e, and for German growth to pick up to 1.8% in 2014e (vs +0.6 2013e). The economic improvements are noticeable via global PMI data as well as by increasing consumer and business confidence.

Looking at major equity market consensus valuations by conventional metrics, and comparing to 10-year averages, one can see that the US is stretched already, and that Germany and France offer the most upside from here.

	Current composite index	Current				Ten-year average		
		Forward P/E	P/B	P/CF	Dividend yield	Forward P/E	P/B	P/CF
France	-1,07	12,5x	1,5x	6,8x	3,4%	11,5x	1,4x	5,7x
Germany	-0,42	12,5	1,7	7,1	2,7	11,6	1,5	4,9
UK	-0,41	12,3	1,9	8,4	3,6	11,9	1,9	7,1
Canada	0,05	14,2	1,9	8,3	2,9	13,6	2,0	7,5
Australia	0,09	13,7	2,0	10,4	4,5	13,3	2,1	8,6
ACWI	0,49	13,8	2,0	8,6	2,5	13,2	2,0	7,1
Japan	0,75	14,1	1,4	7,5	1,7	16,0	1,3	6,0
Switzerland	0,94	14,6	2,5	9,7	3,0	13,4	2,3	9,9
US	2,12	15,4	2,7	9,8	1,9	14,1	2,3	8,4

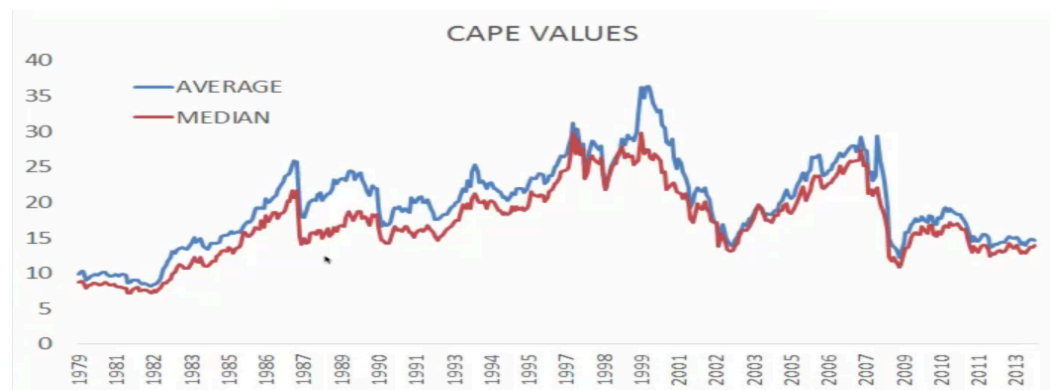
We would like to point out to investors that by measuring global equities with Robert Shiller’s CAPE methodology (Cyclically adjusted Price to Earnings), US equities are second most expensive of all major markets, with the exception of Sri Lanka. Hence, why we see limited upside in 2014 and beyond for US equities relative to the rest of the world.

The following table gives a perspective on where there is still value to be found on a CAPE methodology.

Market	CAPE 2013 Multiples
Greece	3.8
Russia	7.0
Argentina	7.5
Italy	7.5
Austria	9
Portugal	10.3
Spain*	10.3
Brazil*	10.5
Turkey	11.5
Belgium	12.5
China*	13
France*	14
UK	14
Australia	16
Germany*	16
India*	17.5
Switzerland	18
Mexico	19.5
Japan*	21
Chile	25
Peru	25
US	25.5
Indonesia	29
Sri Lanka	32
Average	15X

* Markets we currently see the most relative CAPE value

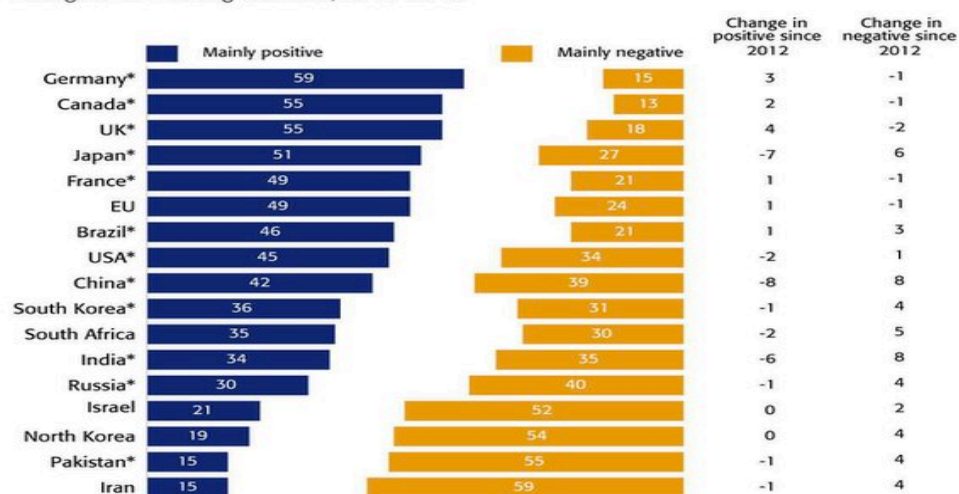
Let's look at global CAPE multiple valuations for the past 25 years.



The following is a simplistic, however easily comprehensible thought for investors:

If a country is considered the best in the world, then why are its companies valued at a -25% discount to country # 3 or better even, the country that ranks #8 on the same survey list? In a global survey completed in May of 2013, Germany is the most positively viewed nation in the world in this year's annual Country Ratings Poll for the BBC World Service. More than 26,000 people were surveyed globally for the poll. Germany came out top, with 59% rating it positively. Iran was once again the most negatively viewed. Global views of Europe's most populous country have improved significantly in 2013, according to the poll.

Views of Different Countries' Influence
Average of 22 Tracking Countries, 2012–2013



Note: average ratings exclude the target country's rating of itself, meaning some of the averages are based on 21 and not 22 countries.

*Average of 21 tracking countries

The white space in this chart represents "Depends," "Neither/neutral," and "DK/NA."

Additionally, Germany has a trade balance second to none on earth. Germany recorded a trade surplus of EUR 18.10 Bn in November of 2013. Balance of Trade in Germany (as per Federal Statistical Office) averaged EUR 5.94 Bn from 1971 until 2013, reaching an all time high of EUR 20.30 Bn in September of 2013 and a record low of EUR -0.50 EUR Bn in January of 1981. Germany runs regular trade surpluses primarily due to its strong export of cars and other machinery. Germany also exports chemical products, hardware, electronic equipment, metals and pharmaceuticals. Germany main imports are energy & fuel, metals, electronic devices, industrial components & vehicle parts and metals. Main trading partners are France, Netherlands, Italy, UK, United States, Japan, China, Brazil, India.



SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL STATISTICAL OFFICE

Germany is world leader in current account surplus in 2014. Germany's world-beating current account surplus probably hit a new record in 2013 of about \$260 Bn, the Ifo think tank said yesterday, and it may even have eked out the first surplus with China since reunification, Ifo said. Germany's surplus was far higher than China's, the world's leading exporter, which was in second place with \$195 Bn, Ifo said. Germany's was equivalent to 7.3 percent of gross domestic product (GDP), once again breaching the European Commission's recommended upper threshold of 6 percent.

We are expecting for the DAX 30 equities' outperformance to extend through 2015. EPS expectations should stabilize alongside global GDP growth. We are forecasting DAX EPS FY 2014 to rise by 16% yoy to 760. (Vs. consensus 729)

Based on the an improved global and European economic outlook as well as a lack of investment alternatives we think that the current valuation level (PER 14e of 12.9x at

consensus EPS of 729) is highly attractive in relation to historic metrics but also relative ones (i.e. vs. bonds).

At our 2014 year-end DAX target of 12,000, the index would trade at a PE 15.7 times our forward earnings estimates, or at 16.4 times consensus earnings.

That price target would put the DAX 30 at 2x P/B value, which is where the S&P 500 is trading currently.

And at 12,000, the DAX 30 would trade at a 2% dividend yield, which would still be above that one of the S&P 500 currently.

In the past 30 years that we have been active in the global equities capital markets arena, Germany has been focusing like no other nation and its corporate sector in re-inventing and restructuring and repositioning itself and its economy by constantly upgrading through technological, intellectual value-added, and by high capital expenditure driven innovative research and development. This has lead to the point that the majority of German companies to-date are world class leaders, second to none (as the continuous and growing and silly-senseless {and unfounded in our opinion} criticism and blame by US and UK government policy makers {Jack Lew; Adam Posen; George Osborne} and leading economists are proof of.

So, it is time for investors to embrace that leading competitiveness and invest in those world class companies, which are cheap on a historic, relative and absolute basis, and particularly in a market, where currently only 7.5% of households (vs. 17% 20-year average) are currently invested in its own equities, and where more funds will flow in the coming 5 years out of fixed income investment vehicles into higher yielding and absolute return-type investment vehicles such as equities.

We believe that the DAX 30 deserves to be re-rated and trade at a premium valuation on a relative basis, but mostly against UK ad US equities.

We would like to reiterate our 2014 recommendations in German Stocks:

- **Cyclicals:** Airbus, BMW, Daimler, Linde, Siemens, Volkswagen
- **Financials:** Deutsche Bank, Allianz
- **Defensives:** Beiersdorf, Fresenius Medical
- **Technology:** SAP

Global Macro Commentary

Upcoming macro data:

1. Consumer Price Index for December will be released at 8:30am. The market expects a month-over-month increase of 0.3% versus no change (0.0%) previous. Less Food and Energy, the increase is expected to show 0.1% versus an increase of 0.2% previous.
2. Weekly Jobless Claims will be released at 8:30am. The market expects Initial Claims to decline to 327,000 versus 330,000 previous.
3. Philadelphia Fed Survey for January will be released at 10:00am. The market expects 8.7 versus 7.0 previous.
4. Housing Market Index for January will be released at 10:00am. The market expects 57.5 versus 58 previous.
5. German CPI for December will be released at 2:00am EST. The market expects a year-over-year increase of 1.4%, consistent with the previous report.
6. Euro-Zone CPI for December will be released at 5:00am EST. The market expects a year-over-year increase of 0.8% versus an increase of 0.9% previous.

Past macro-data review:

Event	Actual	Forecast	Previous
EUR Euro-Zone Trade Balance s.a. (Euros)	16.0B	14.8B	14.3B
EUR Euro-Zone Trade Balance (Euros)	17.1B	16.5B	16.8B
USD MBA Mortgage Applications	11.90%		2.60%
USD Producer Price Index (YoY)	1.20%	1.10%	0.70%
USD Producer Price Index Ex Food & Energy (YoY)	1.40%	1.30%	1.30%
USD Empire Manufacturing	12.51	3.5	2.22
USD Producer Price Index (MoM)	0.40%	0.40%	-0.10%
USD Producer Price Index Ex Food & Energy (MoM)	0.30%	0.10%	0.10%
CAD Existing Home Sales (MoM)	-1.80%		-0.10%
USD DOE U.S. Crude Oil Inventories	-7658K	-1300K	-2675K
USD DOE Cushing OK Crude Inventory	145K		1100K
USD DOE U.S. Gasoline Inventories	6183K	2500K	6243K
USD DOE U.S. Distillate Inventory	-1023K	1250K	5826K
JPY Tertiary Industry Index (MoM)	0.60%	0.70%	-0.90%
JPY Machine Orders (MoM)	9.30%	1.10%	0.60%
USD Total Net TIC Flows	-\$16.6B		\$188.1B
USD Net Long-term TIC Flows	-\$29.3B	\$18.5B	\$28.7B
JPY Machine Orders (YoY)	16.60%	11.70%	17.80%

US Equities Commentary & Charts

Gains on the session helped propel the S&P 500 to a new all-time closing high as the large-cap index finally found gains on the year, as small as they may be; a significant breakout above the previous high around 1850 still has yet to be achieved.

The short-term declining trendline resistance, presently just above 1840, a level that has restrained upside momentum since the year began.

Seasonal tendencies suggest volatility in equity markets through to February, throughout the earnings season.

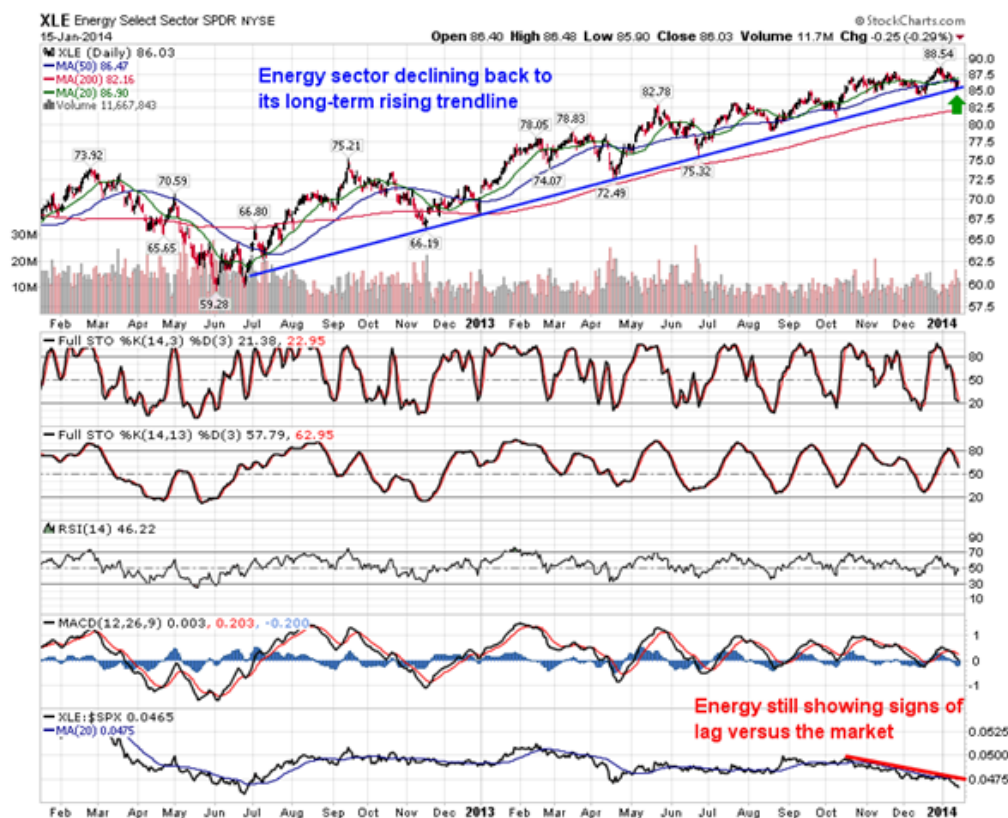
The next up-leg in broad market equity benchmarks is typically realized from the end of February through to May.



Energy stocks, are gaining on average, between mid-January through to the start of May.

The Energy sector ETF has recently declined back to its rising long-term trendline, offering appealing levels to take advantage of the upcoming seasonal trend. One thing to note, however, is the declining relative performance in the sector, which has coincided with the recent slide in Oil and Gas prices.

Improvement in the price of Oil from a point of support could reverse this negative relative trend rather quickly, however, as of present, it continues to express caution that demand for stocks in this space is still weak.



Encouraging fourth quarter reports by Financial Services companies led the US market's advance.



Commodities' based ETF's continue to trend higher, as they are in their period of seasonal strength.



Base metal prices (copper, nickel) are rising.





European Equities Commentary & Charts

European equity markets continue to outperform U.S. equity markets. European Sector participation in the rally is broad based, from Auto's, Industrials, Mining & Metals, Banks & Financials, to Food and Retail.

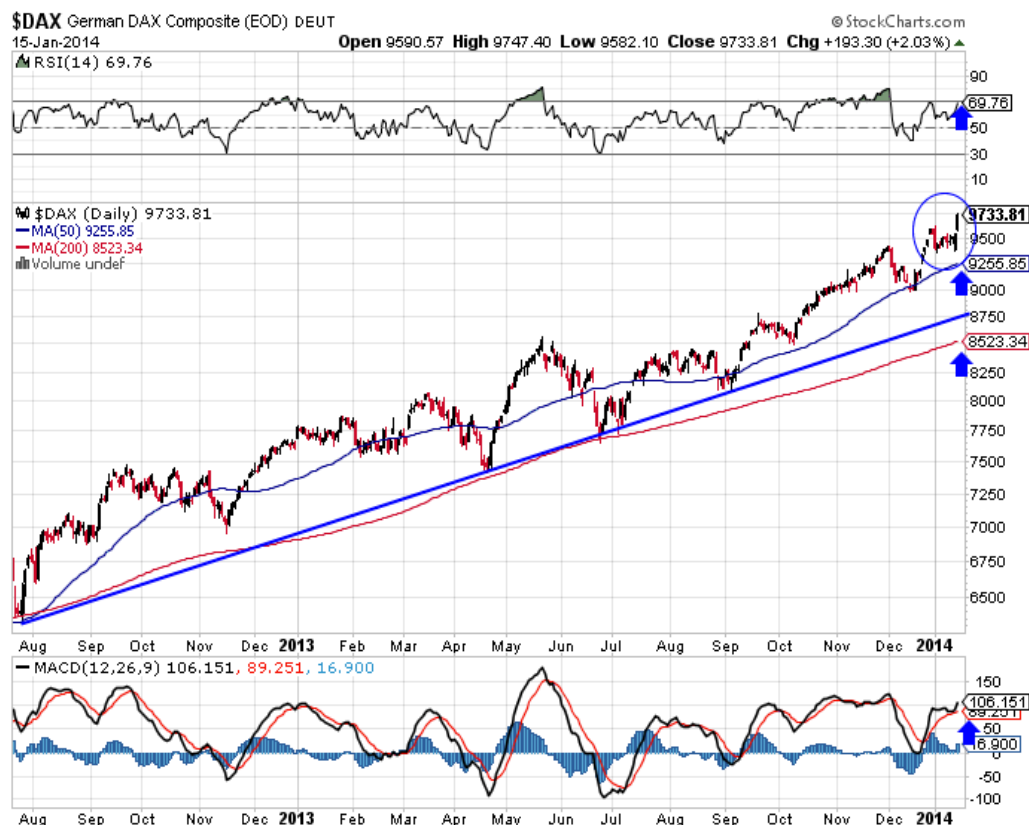


Germany, Spain and Italy are leading markets in Europe.

The short-term technicals for the DAX 30 are positive. RSI, TSI, MACD and 50day and 200-day MVA's are all rising.

We see the next psychological 10,000 level as a minor resistance point.

We maintain our 2014 price target of 12,000 for the DAX 30.



The short-term technicals for the CAC 40 are positive. RSI, TSI, MACD and 50day and 200-day MVA's are all rising.

The current resistance level of 4,335 should be broken, and then the CAC could be on its way to 4,500 in the short-term.

We maintain our 2014 price target of 5,000 for the CAC 40.



The short-term technicals for the IBEX 35 are positive. RSI, TSI, MACD and 50day and 200-day MVA's are all rising.

The current resistance level of 10,525 should be broken, and then the Ibex 35 could be on its way to 11,500 in the short-term.

We maintain our 2014 price target of 12,500 for the IBEX 35.





Oil Commentary & Chart

The price of Oil jumped almost 2% on yesterday following a report indicating a greater than expected drawdown in inventories for the previous week. Oil is showing signs of halting its recent slide, setting up the potential for upside during the period of seasonal strength in energy stocks and commodities ahead.

The price of Crude Oil seasonally gains from mid-February through to May and recent lows may be sufficient to provide the launching point for the trade ahead; Oil has held predominantly above \$91 for the past year, supporting the commodity numerous times at this level.

Technical indicators are currently hinting of improving momentum.

We maintain our \$112 - \$115 price target for WTI for 2014.



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