



Creative Global Investments

Weekly market commentary & charts

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Global Macro Commentary

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



Creative Global
Investments/Europe
5, op der Heed
L-1709 Senningerberg
Luxembourg/Europe
Tel: +(352) 2625 8640
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

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Below are the revised IMF macro forecasts for the world. And as usual, the IMF has the US forecasted ahead of reality, and Europe forecasted too low, as the past 5 years average forecasts have shown. Regardless, the macro picture for the next 12 months is improving as many of our leading indicators (ISM; CPI; Inventories; Baltic Dry Index) have shown, the question begs, will it be a sustainable advance, or will it fade?

As we have written in the past, **we see rising risks for the US economy to slow substantially, mainly due to the unsustainable strength of the US\$, negatively impacting commerce, trade, sales, imports & exports, productivity, EPS, profitability, and the employment outlook surely as of 2H 2017.**

Overview of the World Economic Outlook Projections
(Percent change unless noted otherwise)

	Year over Year				Difference from October 2016 WEO Projections 1/		Q4 over Q4 2/		
	Estimate		Projections		2017	2018	Estimate		Projections
	2015	2016	2017	2018			2016	2017	2018
World Output	3.2	3.1	3.4	3.6	0.0	0.0	3.1	3.6	3.6
Advanced Economies	2.1	1.6	1.9	2.0	0.1	0.2	1.8	1.9	2.0
United States	2.6	1.6	2.3	2.5	0.1	0.4	1.9	2.3	2.5
Euro Area	2.0	1.7	1.6	1.6	0.1	0.0	1.6	1.6	1.5
Germany	1.5	1.7	1.5	1.5	0.1	0.1	1.7	1.6	1.5
France	1.3	1.3	1.3	1.6	0.0	0.0	1.1	1.7	1.5
Italy	0.7	0.9	0.7	0.8	-0.2	-0.3	1.0	0.7	0.8
Spain	3.2	3.2	2.3	2.1	0.1	0.2	2.9	2.2	2.0
Japan 3/	1.2	0.9	0.8	0.5	0.2	0.0	1.5	0.8	0.5
United Kingdom	2.2	2.0	1.5	1.4	0.4	-0.3	2.1	1.0	1.8
Canada	0.9	1.3	1.9	2.0	0.0	0.1	1.6	2.0	2.0
Other Advanced Economies 4/	2.0	1.9	2.2	2.4	-0.1	0.0	1.7	2.5	2.6
Emerging Market and Developing Economies	4.1	4.1	4.5	4.8	-0.1	0.0	4.2	5.1	5.1
Commonwealth of Independent States	-2.8	-0.1	1.5	1.8	0.1	0.1	0.3	1.3	1.5
Russia	-3.7	-0.6	1.1	1.2	0.0	0.0	0.3	1.1	1.3
Excluding Russia	-0.5	1.1	2.5	3.3	0.2	0.4	...	...	...
Emerging and Developing Asia	6.7	6.3	6.4	6.3	0.1	0.0	6.1	6.6	6.3
China	6.9	6.7	6.5	6.0	0.3	0.0	6.6	6.5	6.0
India 5/	7.6	6.6	7.2	7.7	-0.4	0.0	6.2	7.9	7.6
ASEAN-5 6/	4.8	4.8	4.9	5.2	-0.2	0.0	4.3	5.3	5.3
Emerging and Developing Europe	3.7	2.9	3.1	3.2	0.0	0.0	2.8	2.6	3.3
Latin America and the Caribbean	0.1	-0.7	1.2	2.1	-0.4	-0.1	-0.7	1.7	2.0
Brazil	-3.8	-3.5	0.2	1.5	-0.3	0.0	-1.9	1.4	1.7
Mexico	2.6	2.2	1.7	2.0	-0.6	-0.6	1.9	1.4	2.4
Middle East, North Africa, Afghanistan, and Pakistan	2.5	3.8	3.1	3.5	-0.3	-0.1	...	...	...
Saudi Arabia 7/	4.1	1.4	0.4	2.3	-1.6	-0.3	...	...	...
Sub-Saharan Africa	3.4	1.6	2.8	3.7	-0.1	0.1	...	...	...
Nigeria	2.7	-1.5	0.8	2.3	0.2	0.7	...	...	...
South Africa	1.3	0.3	0.8	1.6	0.0	0.0	0.6	1.0	1.9
Memorandum									
Low-Income Developing Countries	4.6	3.7	4.7	5.4	-0.2	0.2	...	...	...
World Growth Based on Market Exchange Rates	2.6	2.4	2.8	3.0	0.0	0.1	2.5	2.9	2.9
World Trade Volume (goods and services) 8/	2.7	1.9	3.8	4.1	0.0	-0.1	...	...	...
Advanced Economies	4.0	2.0	3.6	3.8	-0.1	-0.3	...	...	...
Emerging Market and Developing Economies	0.3	1.8	4.0	4.7	0.1	0.4	...	...	...
Commodity Prices (U.S. dollars)									
Oil 9/	-47.2	-15.9	19.9	3.6	2.0	-1.2	15.0	7.6	2.5
Nonfuel (average based on world commodity export weights)	-17.4	-2.7	2.1	-0.9	1.2	-0.2	6.6	0.2	-1.4
Consumer Prices									
Advanced Economies	0.3	0.7	1.7	1.9	0.0	0.0	1.0	1.8	2.0
Emerging Market and Developing Economies 10/	4.7	4.5	4.5	4.4	0.1	0.2	3.9	4.0	3.9
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	0.5	1.0	1.7	2.8	0.4	0.7	...	...	...
On Euro Deposits (three month)	-0.0	-0.3	-0.3	-0.2	0.1	0.2	...	...	...
On Japanese Yen Deposits (six month)	0.1	0.0	0.0	0.0	0.1	0.1	...	...	...

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during November 4-December 2, 2016. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

1/ Difference based on rounded figures for both the current and October 2016 *World Economic Outlook* forecasts.

2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.

3/ Japan's historical national accounts figures reflect a comprehensive revision by the national authorities, released in December 2016. The main revisions are the switch from the System of National Accounts 1993 to the System of National Accounts 2008 and the updating of the benchmark year from 2005 to 2011.

4/ Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

5/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year.

6/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.

7/ At the time of finalizing the forecasts for Saudi Arabia, a revised quarterly GDP series consistent with the new annual GDP data had not been published. Hence, Q4-over-Q4 data are not shown.

8/ Simple average of growth rates for export and import volumes (goods and services).

9/ Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$42.7 in 2016; the assumed price based on futures markets (as of December 6, 2016) is \$51.2 in 2017 and \$53.1 in 2018.

10/ Excludes Argentina and Venezuela.

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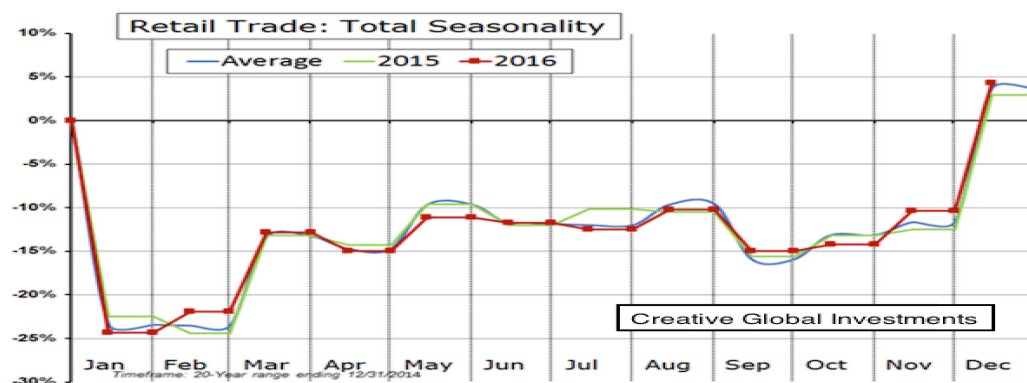
In Asia, China's State Council on Tuesday issued new measures to further open the world's second-largest economy to foreign investment. China will lower restrictions on foreign investment in banking, securities, investment management, futures, insurance, credit ratings and accounting sectors, the Cabinet said in a statement posted on its website. China will allow foreign-invested firms to list on the Shanghai and Shenzhen exchanges and a new third board, and also allow them to issue corporate and convertible bonds, it added.

In Europe, Merkel and François Hollande have responded curtly but defiantly after Donald Trump cast further doubt on his commitment to Nato and gave strong hints that he would not support EU cohesion once in office. "We Europeans have our fate in our own hands," the German chancellor said after the publication of the US president-elect's interviews with the Times and German tabloid Bild. "He has presented his positions once more. They have been known for a while. My positions are also known."

In the UK, "May-Day, May-Day, Sterling sinking, we are getting pounded by head-on-waves". The GBP is facing an uphill battle. May's focus on immigration while giving up single market access could be the dagger and harbinger for a move below 1.1800 for GBP/USD. However, PM May's speech may keep equity bears at bay if she can deliver a clear and decisive post-Brexit roadmap in a forthright manner. Theresa May will rule out Britain staying in the European single market today as she makes immigration controls a priority in Brexit talks. Britain should not be "half-in, half-out" of the EU or "hold on to bits of membership as we leave", the prime minister will say in a speech laying out her negotiating objectives.

Mark Carney has suggested interest rates could go up or down as the Bank of England strikes a difficult balance between supporting growth and managing inflation. He said monetary policy could respond, in either direction, to changes in the economic outlook to ensure that inflation hovers around the Bank's 2pc target, and that the Bank of England would keep an eye on how consumer spending is affected by a weaker sterling when it considers what to do with interest rates

In the US, retail trade for December failed to live up to analysts' lofty expectations. The headline print indicated that retail sales increased by 0.6% in December, just shy of the 0.7% estimated increase.



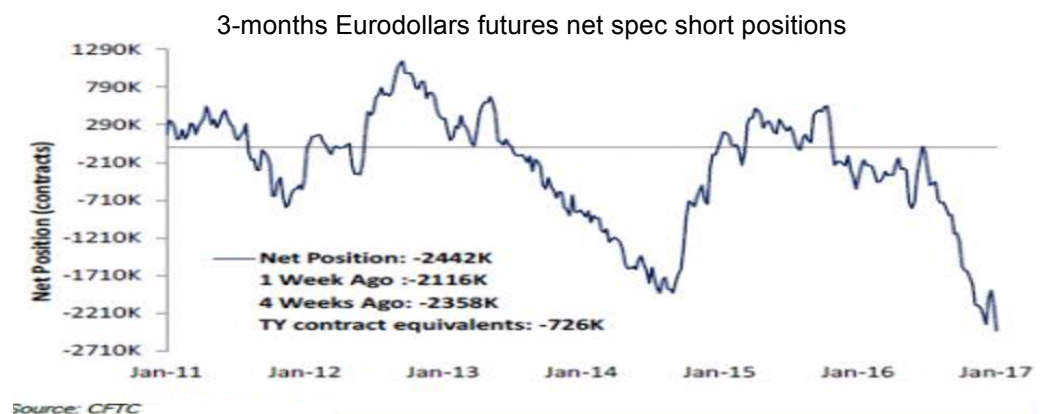
Less the more volatile gas and autos, sales were flat (0.0%) in the holiday period, a miss versus the expectation of a 0.3% gain. Stripping out the seasonal adjustments, sales were actually higher by 16.4%, -1% less than the historical average gain for December of 17.4%. Y-o-y retail sales were higher by 4.3%, marginally higher than the 20-year average increase of 3.7%; stronger than average sales in the month of November were an important factor in the aggregate result. This is the best non-seasonally adjusted calendar year increase since 2011, helped by an end of year jump in auto sales. The sales of autos and other motor vehicles increased by 12.7% in December, more than double the average increase for the month of 5.3%. The gain pushed the y-t-d change above the seasonal average, reversing a trend of below average data-points that had been realized throughout the year. It is apparent that December is becoming an increasingly important month for auto sales as consumers take advantage of year-end deals rather than waiting for the spring buying season.

Currencies Commentary

“MayDay, MayDay”, Sterling is sinking, getting pounded! There is still a downtrend in place in this pair, and we prefer to trade with the trend, however it's worth noting that price is testing a recent support near 1.2100. Should price break under that support, we would be actively looking for sell signals, but if price reaches support near 1.1820.

As we had been predicting over the last few weeks the EUR/USD has made a strong push to the upside and is now trading just below 1.0670 key resistance. Notice the bullish pin bar reversal that formed last Wednesday; if price can break above that key resistance at 1.0670, we could see it move up into 1.0875 area. Buying this pair right now is certainly a higher risk play, as it's against the trend, but it's worth considering this week given the recent bullish surge (upward push). However, given the long-term downtrend in place on this pair, we would also consider selling up near that 1.0875 key resistance level or slightly below on a price action signal. The recent EUR strength is more about the broader USD correction rather than any positivity in Europe. While there's evidence of an improving macro environment, Draghi likely will emphasize high levels of Global uncertainty. Also, Draghi will likely downplay the oil-induced inflationary uptick and focus on political risks in 2017. **We expecting for a major short term “short covering rally” in the oversold Euro.**

We are also seeing a tremendously oversold “Short Eurodollars” (a bet that interest rates in US\$ will rise, which is totally overdone)



We see the US\$ is "the New" Global Risk Factor". Subsequent to the 2008 financial crisis the bank/capital markets nexus has gone global. The VIX index was the barometer of deleveraging pressures in 2008. Now, the US\$ has taken on the mantle of the market risk factor. When the US\$ is strong (+4.7% post-election), risk appetite is weak & market anomalies such as the breakdown of (CIP) become more pronounced.

US dollar broad index and the cross-currency basis

Graph 3



The red line shows the Federal Reserve Board's US trade-weighted broad dollar index, with higher values indicating a stronger US dollar. The blue line is the simple average of the five-year cross currency basis swap spreads for AUD, CAD, CHF, DKK, EUR, GBP, JPY, NOK, NZD and SEK vis-à-vis the US dollar.

Sources: Board of Governors of the Federal Reserve System; Bloomberg.

Fixed Income Commentary: The “Big rotation 2017”?

Speculators increased their net shorts by \$7.7 BN in 10-Y cash equivalents to \$99.4 BN, a third successive week of record low positions.

Aggregate Treasury Spec Shorts

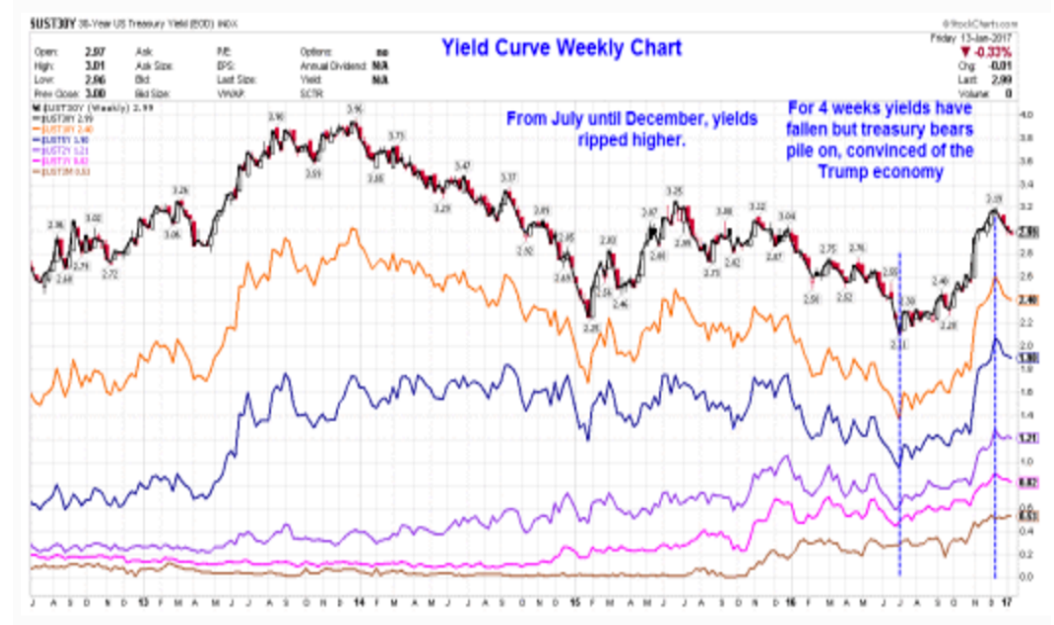


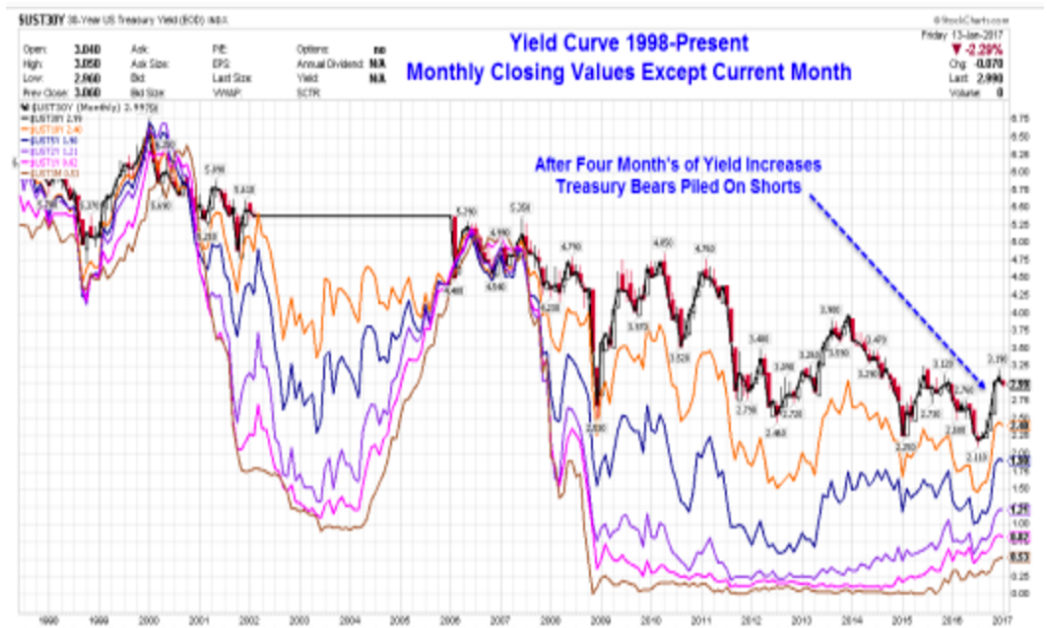
Source: CFTC

As we had been writing over the past 5 weeks, the oversold scenario for US bonds will come towards an end sooner than later due to the following factors:

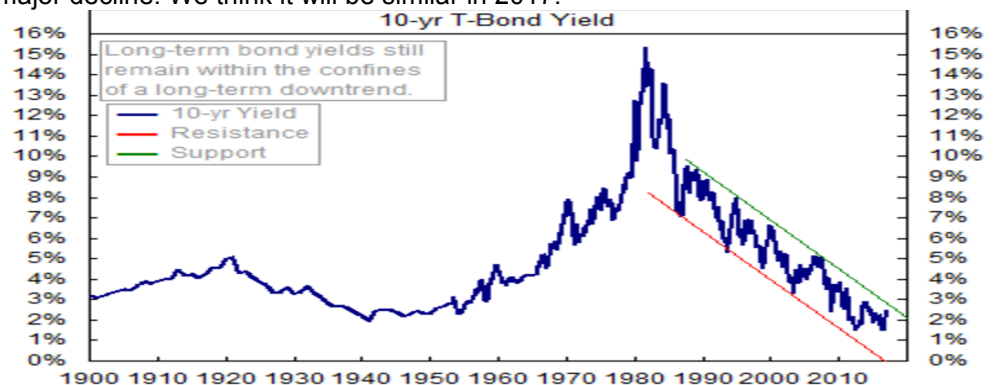
- The Trumponomics related unsubstantiated sugar-high is meeting reality
- Treasury-shorts keep piling on even as yields decline
- Investors who shorted from 3-4 weeks ago are already underwater
- A very explosive short-covering setup is in play, and we see yields plunge back towards 2.00% for the \$TNX if there is any geo-political or macro unexpected event

We are expecting for a massive short-covering rally to lift off imminently.





The 117-year trend of the 10-year Treasury bond yield (thick blue line) is intact, and the yield on the 10-year Treasury bond has been declining since the early 1980s, and although the 10-year yield has spiked to our 2016 year end target of 2.4% and is now approaching support of its 20-year downtrend channel. The last two times the 10-year yield hit (early 2000 and 2007) support (green line), the stock market soon followed with a major decline. We think it will be similar in 2017.



Although the long-term trend for bond yields is still intact, as the chart before shows, the stock-bond correlation however is since November at a critical level, and as we had been writing over the past 2 months, unless the yields drop back towards the 2.10% levels, we see inherently rising risks of an US equity market correction of the magnitude of -10% to -15%, similarly to 2016.

A turning point in the late 1990s multi-asset investors given that it determines the degree of portfolio diversification, and ultimately risk, achieved by allocating to the two main asset classes. 80% 80% But unfortunately, history shows us that over time the relationship between stock and bond returns is highly unstable. The 1-year correlation of returns between 10-year US treasury bonds and those of the S&P 500 was consistently positive in the 1990s, and in fact most of the time since WWII. However since the late 1990s, this relationship has been consistently negative, and very much so in the years following the global financial crisis as the net chart shows. The past two decades have therefore strengthened the pattern of 'risk-on risk-off', whereby investors could confidently expect diversification benefits from a balanced allocation between 'safe haven' and risky assets.

The question moving forward is whether a sustained rebound in interest rates could alter the relationship and bring the period of negative correlation to an end. The

literature suggests essentially three key determinants for the stock-bond correlation:

- **The stock-bond correlation is theoretically undetermined as it depends on the nature of the market shock (growth, inflation, uncertainty).** A growth shock can for example have a stronger positive impact on stocks than on interest rates, while the opposite is true for inflation shocks. The stock-bond correlation is markedly more negative during times of low inflation expectations and when bonds are mainly considered as deflation hedges (downside uncertainty).
- **The stock-bond correlation also tends to become more negative during periods of high equity market uncertainty, when the equity risk premium rises and the bond term premium falls**

Going forward, we expect these determinants to lead to a weaker, if not outright positive correlation, for a number of reasons.

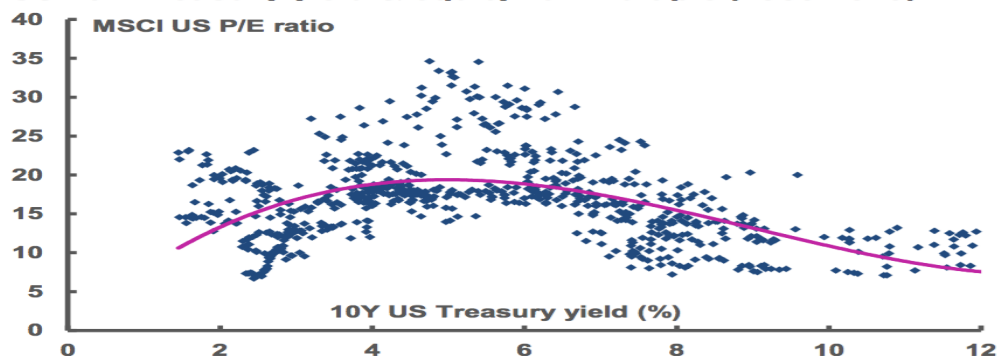
1. Inflation expectations, for both the medium and long term have fallen to excessively low levels and started to normalize. A pro-cyclical fiscal policy in the US and a tight labor market should lead to higher realized inflation. Additionally, the threat of protectionist policies in the US may also reduce deflation concerns and resuscitate upward uncertainty on longer-term inflation – option markets are starting to reflect this.

2. We see the divergence between the equity risk premium and the bond term premium as likely to ease in the coming years. We anticipate that the gradual unwind of unconventional monetary policy will put upward pressure on bond premia while tail risk concerns should fade and prevent further increases in the equity risk premium.

3. The 2000's was characterized by a structural rise in foreign holdings of US treasuries, which in turn made them the de facto global safe haven asset. This trend has started to reverse, with the share of foreign ownership of US treasuries having peaked around 2013.

Looking at the stock-bond correlation over a shorter period of time offers only very tentative signs of a change. A decomposition according to bond returns suggests that, up to now, episodes of negative bond returns have had about zero correlation to equity returns. However episodes of positive returns are more weakly associated with -20% equity declines, as the jump over the past months sows. It is too early to conclude that the correlation has ended, nevertheless reversed. **Another question is what is the correlation of interest rates and equity price-to-earnings (P/E) multiples.** A commonly-made argument is that P/E ratios can rise in line with interest rates as long as rates remain low. This point is based on a historical chart pointing to a bell-shaped relationship with an inflexion point around 4-5%.

US 10Y Treasury yield & equity P/E multiple (1950-2016)



source: Bloomberg

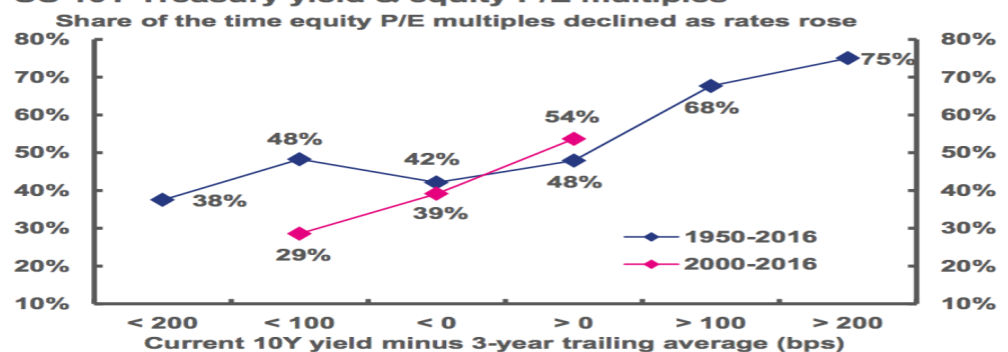
The story goes as follows - in the early phase of the cycle, stronger earnings expectations driven by better economic prospects dominate the negative impact of initial interest rates increases. But as the cycle matures, earnings expectations level off while interest rates keep going higher and eventually hurt equity valuations.

We think this chart is misleading and overstates the likelihood of P/E multiples weathering rises in interest rates. The above rationale would hold if interest rates had been broadly stationary over the period considered, which has not been the case. Instead, long-term interest rates have been on an upward path from 1950 to 1984 and a downward path thereafter. This implies that we have hardly ever seen a cycle where interest rates started at 2% and finished at 6%. The scatterplot is simply reflecting the historical fact that equity multiples have been on average higher when interest rates have been around 4-5%, maybe corresponding to a sort of Goldilocks environment of moderate growth and inflation. But it does not say much about the behavioral relationship between changes in interest rates and alterations in equity multiples.

A more rigorous way to address this question is to look at the correlation of changes in interest rates and P/E multiples, controlling for the level of interest rates. The next chart shows the share of the time P/E multiples declined as rates rose, depending on the relative level of interest rates. It reads as follows - when 10-year treasury yields were more than 200 basis points below their three-year trailing average, a rise in yields was associated with lower P/E only 38% of the time. But when 10-year treasury yields were more than 200bps above their three-year average, a rise in rates led to lower P/E multiples, 75% of the time.

The higher interest rates are relative to their recent history, the more likely a rise in rates will lead to declining P/E ratios, irrespective of the absolute level of rates. Presently 10-year treasury yields are 30bps above their three-year average, implying that according to history, chances of rising rates leading to P/E declines are about 50:50, certainly a different take-away compared to what the above chart would suggest.

US 10Y Treasury yield & equity P/E multiples

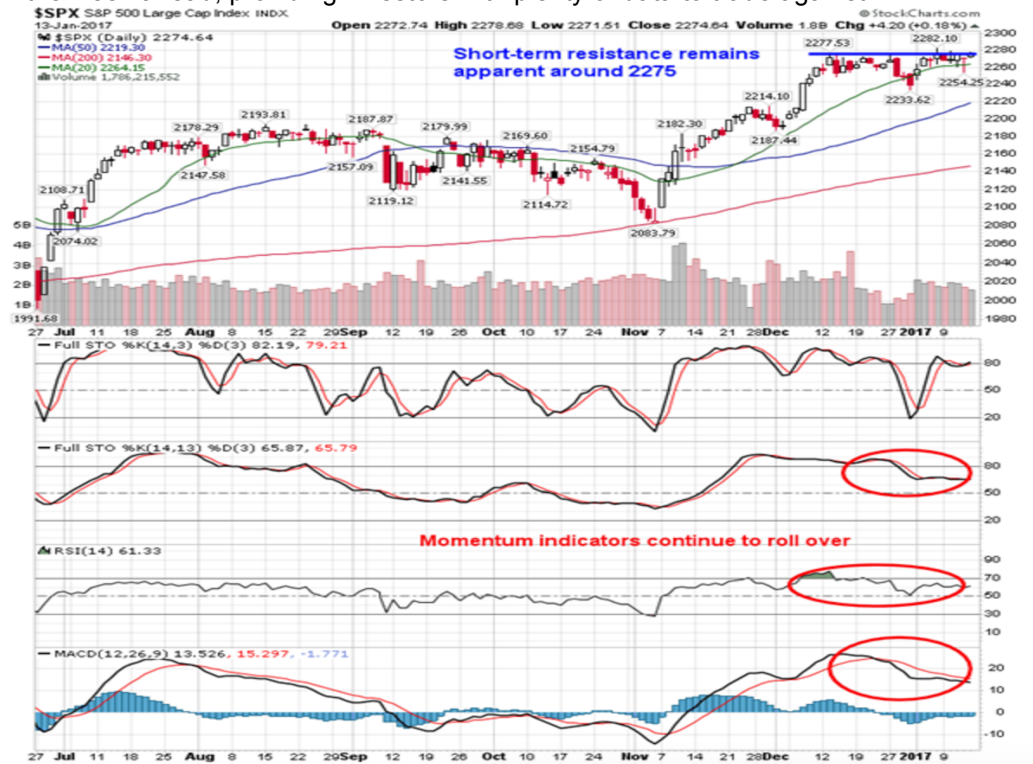


source: Bloomberg

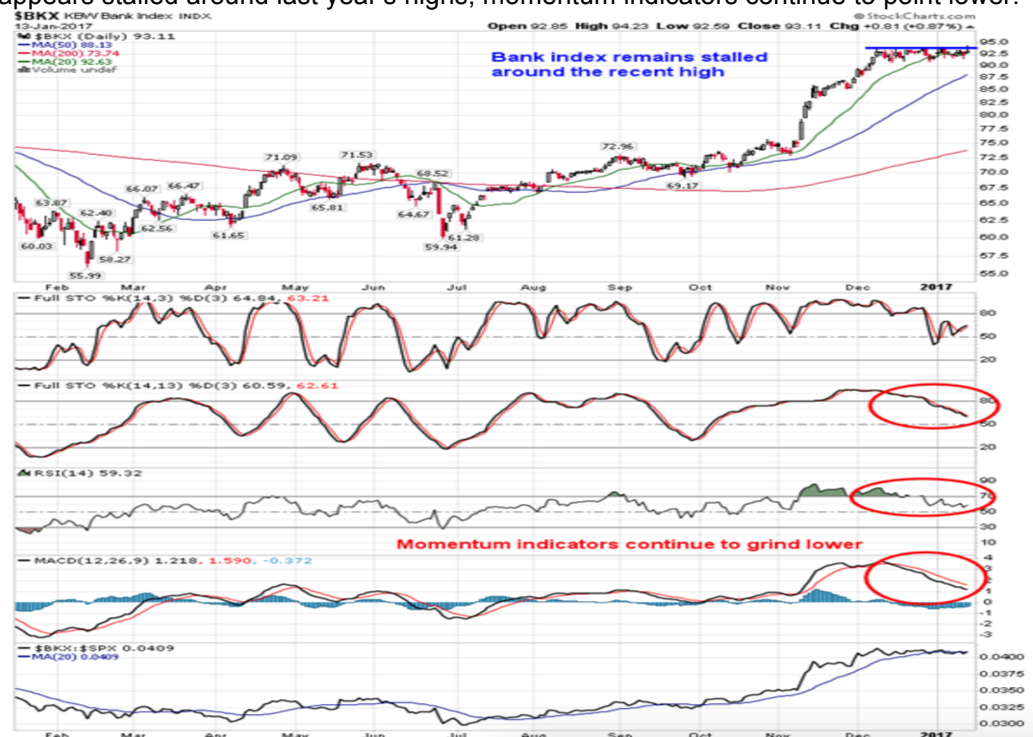
However, in today's times and rate environment, we believe that a rapid rise of 10-year treasuries to 3% would be very likely to hurt equity valuations, well before any '4-5% threshold'.

Equities Commentary

Stocks closed moderately higher on Friday, with the S&P 500 Index to hold below short-term resistance around 2275, consolidating the gains from the post-election rally. Volume around these all-time highs is running around 20% to 30% less than the 10-day average volume recorded in the middle of December. Clearly, a catalyst is needed to fuel the next move in the large-cap benchmark. Earnings season continues in the week ahead, providing investors with plenty of data to trade against.



Financials topped the leaderboard as investors reacted mildly positive to earnings from Bank of America, JP Morgan, and Wells Fargo. The KBW bank index (\$BKX) still appears stalled around last year's highs; momentum indicators continue to point lower.



Weekly Investment Conclusion

The US\$, (and all US\$ priced and related asset classes like US equities and US treasuries, commodities) are simply overbought, overheld, overvalued and overdue for a correction. We see better value in foreign equity markets, particularly as Japanese, Chinese and European equities are in the strongest period of seasonal strength until end of April.

The 90-day correlations between various asset classes has declined since Donald Trump was elected. The irony will not be lost on fund managers. As a candidate, Donald Trump railed against hedge funds, saying they were "getting away with murder." Far from being their nemesis, he may turn out to have been their savior.

Most active strategies seek to generate gains by identifying under- or overpriced assets, valuation anomalies that investors bet will correct themselves over time. Often, the approach involves buying one market or security while selling another. That long-short strategy is rendered powerless when everything rises and falls in tandem. If, say, a fund manager was betting that emerging markets would drop while the S&P 500 would rise and instead both move higher together, then the profit (if any) would be smaller than if the investor had just bought the US index alone.



Economic news this week focuses on comments by central bank authorities in the US and Canada (Yellen in the US and Poloz in Canada). Economic data is expected to be mixed.

Political focus is on Trump's Inauguration on Friday and the Congressional vetting of cabinet members. Media reports over the weekend were extremely divisive along party lines.

Weather in North America can have a short-term impact on equity markets. Winter in the Q1 of 2016 was warmer than average (El Nino effect), prompting stronger than average economic growth during the period. This year, the weather in Q1 is influenced by a "La Nina" event, the opposite to an El Nino effect. Weather in Q1 is forecast by NOAA to be colder than average and wetter than average in the northern states and southern Canada, implying lower economic activity than the same period last year.

Momentum by US equity markets has deflated significantly during the past three week. The S&P 500 Index, Dow Jones Industrial Average and Russell 2000 Index closed slightly below closing levels on December 21st. In contrast, equity markets outside of the US continue to post significant gains (including the TSX). Classic example is Frontier iShares, up 9.0% since December 22nd.

Technical action by individual S&P 500 stocks was mixed last week. 37 stocks broke intermediate resistance and 23 stocks broke intermediate support. Number of stocks in an intermediate uptrend increased to 336 from 334, number of stocks in a neutral trend increased to 67 from 65 and number of stocks in a downtrend dropped last week to 97 from 101.

Short-term momentum indicators (short term momentum indicators, trades above 20 day moving average) for US and Canadian equity markets and economic sensitive sectors are overbought and showing increasing signs of rolling over.

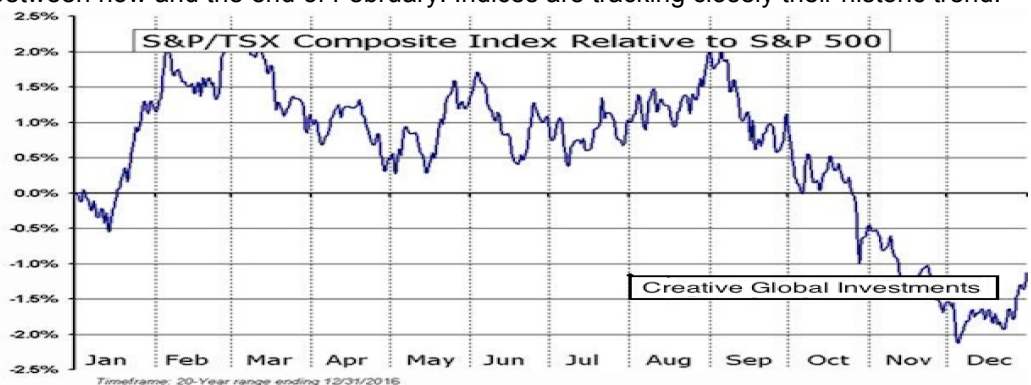
Intermediate technical indicators (Bullish Percent Index, Percent of stocks trading above their 50-day moving average) also are intermediate overbought and showing increasing signs of rolling over.

Q1 reports by S&P 500 companies released to date are off to a good start: 6% have reported to date. 70% reported higher than consensus earnings (mainly financial service companies), but only 33% reported higher than consensus revenues. 33 companies are scheduled to release results this week (including 5 Dow Jones Industrial Average companies: IBM, UnitedHealth Group, Goldman Sachs, American Express and General Electric). 78 companies have issued negative Q4 guidance and 34 companies have issued positive guidance. Consensus calls for a 3.2% increase in earnings on a y-o-y basis and a 4.6% increase in revenues.

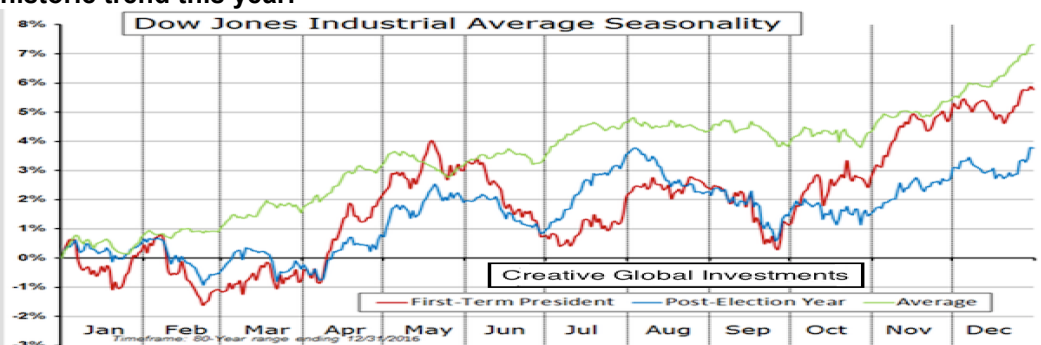
Prospects beyond Q4 remain favorable. Consensus calls for Q1 2017 earnings on a y-o-y basis to increase 11.0% and Q1 revenues to increase 7.7%. Consensus calls for Q2 2017 earnings to increase 10.6% and Q3 revenues to increase 5.8%. Consensus calls for 2017 earnings to increase 11.4% and 2017 revenues to increase 6.0%.

Q4 earnings prospects for TSX 60 companies are much more positive. Consensus calls for an average y-o-y gain of 8.3%. Gains are expected to be most notable by commodity sensitive stocks that have benefitted from higher commodity prices (Crude oil, natural gas, base metals, precious metals).

History shows that the TSX Composite Index normally outperforms the S&P 500 Index between now and the end of February. Indices are tracking closely their historic trend.



With the Dow Jones Industrial Average, S&P 500 Index, NASDAQ Composite Index and TSX 60 Index virtually at all-time highs, North American equity markets are intermediate overbought with limited upside potential and significant downside risk between now and early April. History shows that US equity markets struggle in Post-Election years between Inauguration Day and early April when a new President is elected. US equity Indices are tracking closely to the historic trend this year.

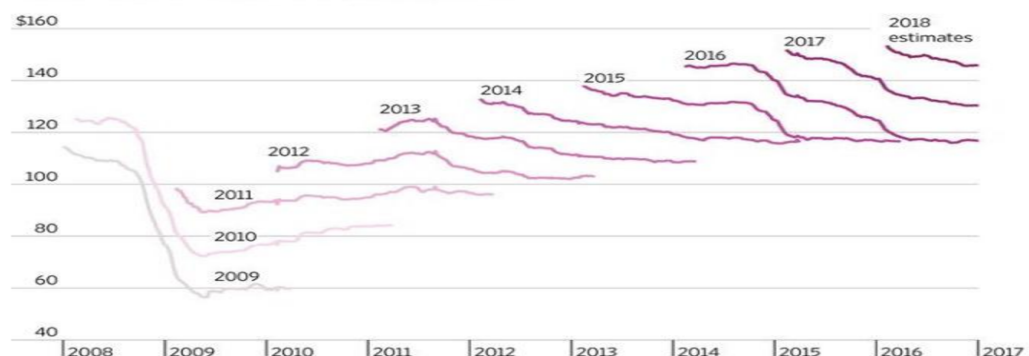




We are recommending for investors to hold seasonally attractive equity positions that remain in an intermediate uptrend and continue to outperform the S&P 500 Index (e.g. precious metals, technology, selected Canadian energy, DIS, UNH, AAPL, etc.). Profit taking in other positions is appropriate. As highlighted in our Fixed Income commentary, year-end portfolio adjustments continue, most notably the switch to fixed income securities from equities.

In 30 years of EPS forecasts collected by IBES, only twice have S&P 500 companies delivered earnings higher than was first predicted by Wall Street.

S&P 500 estimated operating earnings per share



As our research has shown in the past, for every -1% gain of the US\$ Index, analysts have to adjust S&P500 EPS downwards by at least -1%, and the past 2-months' +6% gain of the US\$ Index has not been taken into account by analysts and strategists.

Q4 earnings prospects for TSX 60 companies are much more positive. Consensus calls for an average y-o-y gain of +8.3% led by energy, gold and base metal companies. We see a similar outlook for European companies earnings outlook, as the weaker EUR/US\$ is clearly a tailwind for 2016 and 2017 for both transactional and translational positive impacts, and hence another reason why we are recommending to overweight EU equities at this point.

Inversely across developed countries the strong US\$ related macro impacts are generally but temporarily looking better, until we are going to see a massive shift in risk perception (possibly towards the end of Q1, but surely over the summer), when we see risks for a massive US\$ circumstantiated reversal, and a global equity market correction of a magnitude of -15% to -20%. As we have shown in past research publications, a one-percentage point rise in the annual US\$ Index is having an inverse negative impact on S&P 500 earnings to the tune of minus one EPS point. The table below shows the latest EPS consensus estimates for the current and the next 2 years.

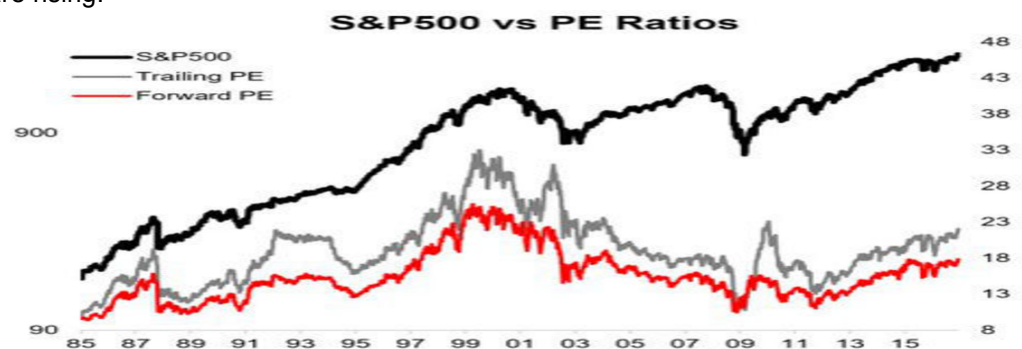
	2016	2017	2018	Frwd
Dec 29	118.06	132.69	148.32	132.69
Jan 5	118.07	132.61	148.30	132.91

So, the weighted average of the US\$ by comparison of 2016/2015 has risen by

about 6% from a 2015 USD average of 92.5 to 98.5, which will lead to a negative EPS adjustment for the \$SPX of -12 EPS, so for consensus EPS for the SPX for 2016 of 118, one would have to shave off -12 EPS towards EPS of 106, which puts the SPX now priced at 2,246 at a current P/E ratio of 21.2x, and for 2017 with estimated consensus EPS of 132, but once revised downwards for currency towards EPS of 124 at a projected P/E of 18.1x.

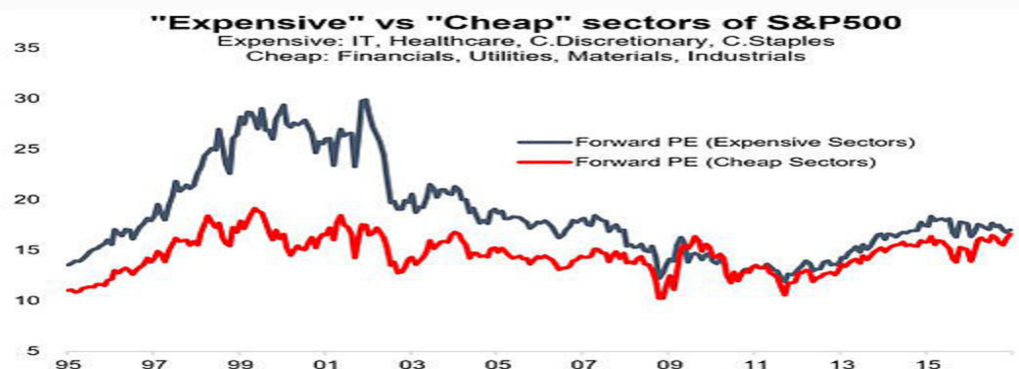
In the US, the "Trumpfactor" resulted so far in way too much Optimism and Euphoria, and the most unexpected investment element was so far sentiment. In years past, we've been less concerned about sentiment because it's been largely negative or neutral. But, if policy changes and rising stock prices beget a mad rush of new investments and renewed excitement about risk assets, that could drive prices further out into overpriced territory. The key is to watch just how willing investors are to pay for incremental rates of return. If investors become increasingly comfortable buying overpriced, risky assets because it feels like a good time to invest (and because everyone else is investing), then that is a big warning sign. It means too much optimism and euphoria could fuel the markets, and that's a bull-killer. (Remember 2000 tech bubble scenario).

P/E ratios based on trailing 12 months earnings, and forward 12 months earnings are both tracking towards the top end of the range of the past couple of decades. So one interpretation is that this is still reflecting the earnings recession and thus is a distorted signal, or that investors are simply paying up for a better earnings outlook. Of course, the other interpretation is that the market is overvalued and the odds of a big correction are rising.



Although there has been some convergence between sectors as the following chart shows, the average forward P/E for "cheap" sectors (i.e. sectors that have typically traded at lower valuations), and "expensive" sectors (sectors that have historically traded on higher valuations).

There's a clear shift leading into the financial crisis - after the crisis valuations converged (QE effects? or the product of a macro-driven risk-on/risk-off environment maybe). Anyway, one interesting development is that the expensive sectors are becoming slightly cheaper, and the cheaper sectors are starting to get expensive...



The last time S&P had 5 consecutive years of P/E expansion was 1994-1999 - P/E - 15

to 30. Currently, the expansion lasted 5 consecutive years, but P/E "only" expanded from 13 to 21. This time P/E expansion has accounted for 70% of the rise in the S&P vs. 1994-1999 period accounted for 40%. FED, two reserve hikes in 1936/1937, later reversed course after -50% fall in S&P BOJ; two rate hikes in 2006/2007; later reversed course; default of Lehman Brothers; Housing Crisis ECB; two rate hikes in 2011 to 1.5% later reversed course; European Sovereign Crisis.

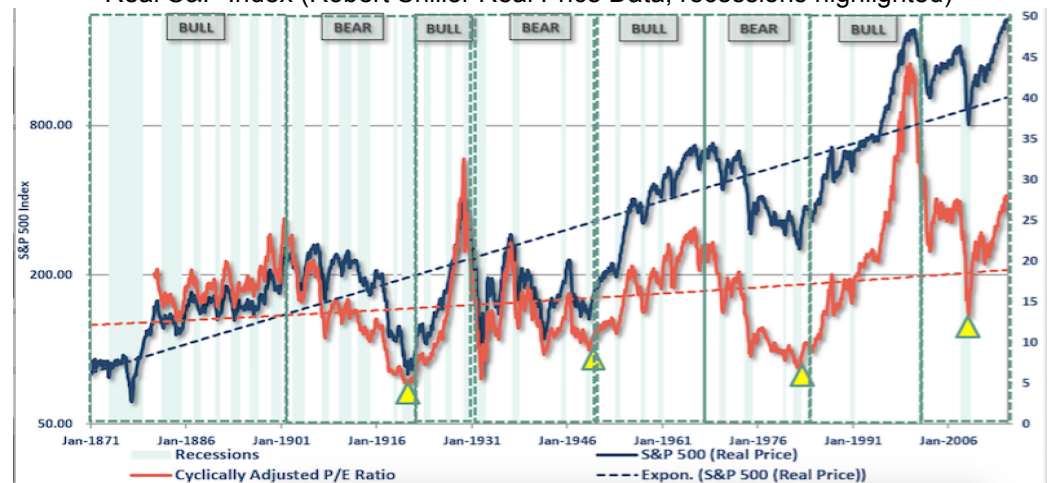
Real S&P 500 Index with Record Highs (R. Shiller Real Price Data)



The downturn that occurred as a result of the financial crisis has been entirely retraced by each of the five major stock market indexes. The Dow peaked at 14,164.53 back in October 9, 2007 and troughed at 6,547.05 back on March 9, 2009. The most recent close for the Dow is 19,855.53, it has retraced +174.7% of its financial crisis bear market decline. Each of these five major stock market indices have regained over +170% of their financial crisis decline, with the tech-laden Nasdaq that leading the recovery with a regain of +269%.

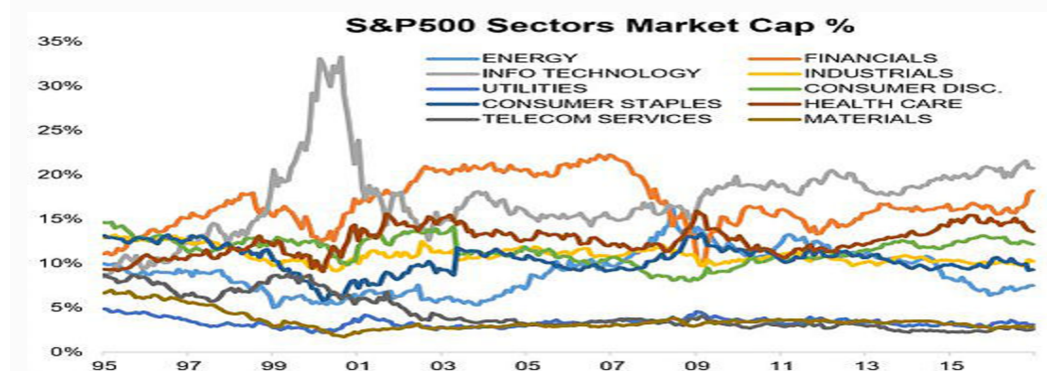


Real S&P Index (Robert Shiller Real Price Data; recessions highlighted)



The next chart focuses on latest trends in sector representation by market cap percentage. The most notable development has been the surge in financials (and fall in healthcare/biotech). More broadly it's interesting to note that there hasn't really been any standout bubble sectors so far (except maybe healthcare) - but certainly none like tech in 2000, or financials pre-financial crisis, or even energy at the peak.

The other thing: longer term it's interesting to note how the market has change from a more even split across sectors in 1995 to more variation now e.g. materials/Telco's/utilities at the bottom end and IT/financials/healthcare at the top end.



In conclusion, short-term investors can't ignore seasonality, but the risk of a short-term correction is rising. The beginning of a New Year marks a good opportunity for investors to rebalance portfolios and position your assets for the year ahead. We continue to favor stocks for growth-oriented investors, though our allocation recommendations have changed from the previous year.

We are advising to stick with the seasonal trend in equity prices for the next two weeks, but are warning investors to prepare to lock in significant profits before Inauguration Day on January 20th.

Exceptions are European and Japanese and China related equities where seasonal tendencies (Europe's majority of companies are starting annual dividend pay-out period late January into early May, and hence why equities are in their period of seasonal strength until May {"Sell in May & go away"} or {"Buy when it snows & sell when it goes"})

And for Asian equity indices the "fiscal year-end" tendencies until end of March are in full swing.

US Equities Commentary

The VIX Index lost 0.09 points (0.80%) last week.

Intermediate trend remains Negative. The Index remained below its 20-day moving average. Price was stopped by the support at 11 once again.



The S&P 500 Index dropped 2.34 points (0.10%) last week.

Intermediate trend remains Positive. The Index closed above its 20-day moving average. \$SPX rebounded from the 2260 support.

Short-term momentum indicators are Neutral.



Percent of S&P 500 stocks trading above their 50-day moving average dropped last week to 75.80 from 77.20.

The index remained above the 200-day moving average.



Percent of S&P 500 stocks trading above their 200-day moving average rose last week to 69.40 from 68.80.

The index moved below the 200-day moving average.



Bullish Percent Index for S&P 500 stocks rose last week to 73.60 from 72.40 and remained above its 50-day moving average.

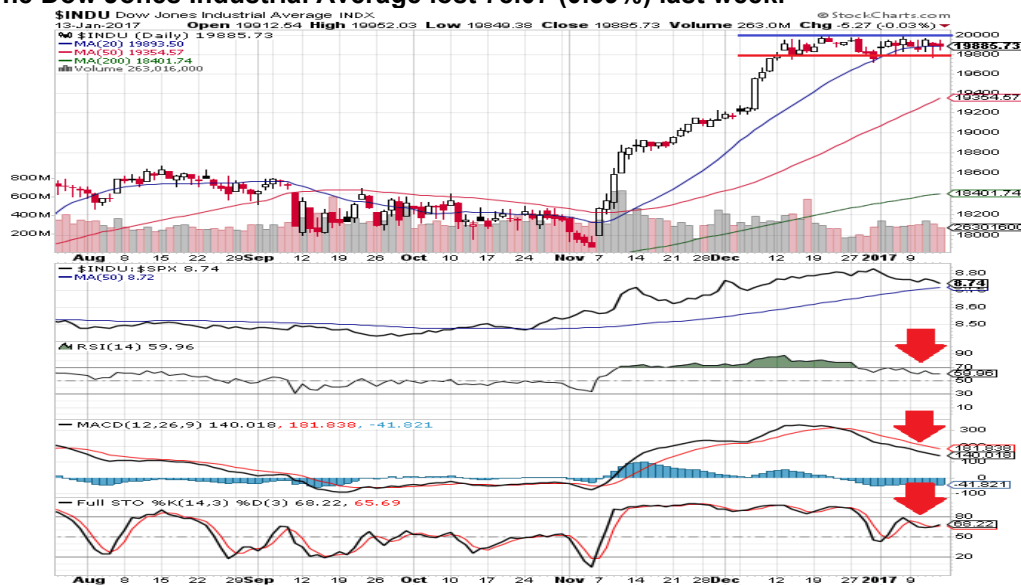
The Index made a new high and remains above the 200-day moving average.



The Dow Jones Industrial Average lost 78.07 (0.39%) last week.

\$INDU continues ranging in a range between the support 19800 and 20000 resistance. Strength related to the S&P 500 changed to Neutral.

The Average closed below its 20-day moving average. Short-term momentum indicators have rolled over to Negative.



Bullish Percent Index for Dow Jones Industrial Average stocks remained unchanged at 70.00 and above its 20-day moving average.

The Index moved above the 20-day moving average.



The Dow Jones Transportation Average added 98.26 points (1.08%) last week.

Dow Jones Transportation Index broke out of a rather crude descending triangle. Strength relative to the S&P 500 Index changed to Neutral. The \$TRAN closed above its 20-day moving average.

Short-term momentum indicators are Mixed.



Bullish Percent Index dropped last week to 65.90 from 66.24 and remained above its 20-day moving average.

The Index is slightly bullish and remains just above the 20-day moving average.

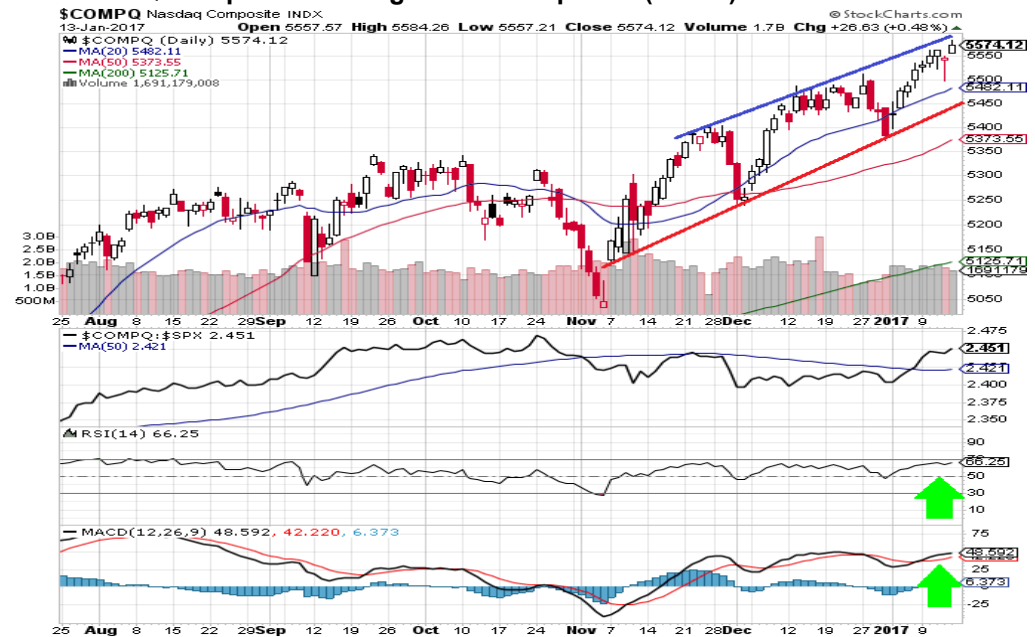


The NASDAQ Composite Index gained 53.06 points (0.96%) last week.

\$COMPQ is in a strong upwards trend. Strength relative to the S&P 500 Index flipped to Positive.

The Index remained above its 20-day moving average.

Short-term momentum indicators are Positive.



The Russell 2000 Index added 4.77 points (0.35%) last week.

\$RUT is ranging between the 1360 support - 1380 resistance. Strength relative to the S&P 500 Index is Neutral.

The Index remained above its 20-day moving average. Short-term momentum indicators are Negative.



The S&P Energy Index lost 10.61 points (1.90%) last week.

Intermediate trend changed to Neutral. \$SPEN broke the 555 support. Strength relative to the S&P 500 Index changed from Neutral to Negative.

The Index moved below the 20-day moving average. Short-term momentum indicators are Negative.



The Philadelphia Oil Services Index lost 7.10 points (3.68%) last week.

\$OSX is pressuring the 185 support once again.

The Index moved below its 20-day moving average. Short-term momentum indicators remain Negative.



The AMEX Gold Bug Index added 2.73 points (1.39%) last week.

\$HUI is ranging post the channel breakout.

Strength relative to the S&P 500 Index changed from Negative to Neutral.

The Index remained above its 20-day moving average. Short-term momentum indicators are Mixed.



Latam Equity markets weekly charts

The BOVESPA gained 1986 points last week.

\$BVSP bullish momentum was stopped by the 64 000 resistance. Short-term momentum indicators are Positive.



The Mexican Bolsa added 110 points last week.

Intermediate trend remains Positive. \$MXX rebounded from the 45500 support.

Short-term momentum indicators are Positive.



Canadian equity markets weekly charts

Bullish Percent Index for TSX Composite stocks dropped to 75.51 from 76.73 but remained above its 20-day moving average.

The Index continues bullish momentum and remains above the 20-day moving average.



The TSX Composite Index gained 1.23 points (0.01%) last week.

Intermediate trend remains Positive. The Index bounced from the moving average again.

The Index remained above the 20-day moving average. Short-term momentum indicators are Neutral.



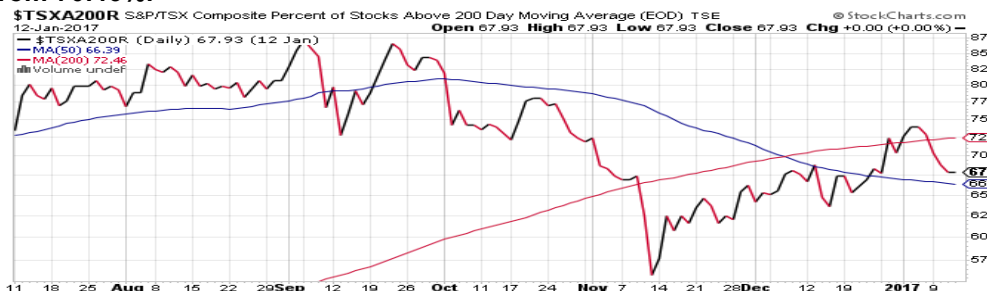
Percent of TSX stocks trading above their 50-day moving average rose last week to 75.53% from 72.57%.

The index remains trending up and above the 50-day moving average.



Percent of TSX stocks trading above their 200 day dropped last week to 68.35% from 70.46%.

The index moved back below the 200-day moving average.



Asian equity markets weekly charts

The SENSEX added 478.83 points (1.79%) last week.

\$BSE is climbing to an important resistance of 27 750.

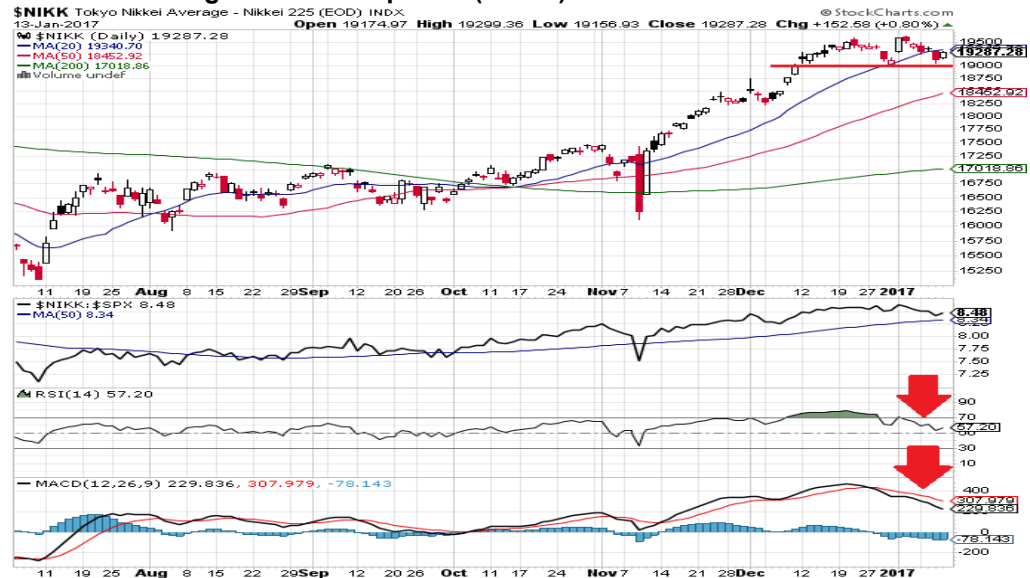
Short-term momentum indicators remain Positive.



The Nikkei Average lost 167.05 points (0.86%) last week.

Intermediate trend was bullish but looks exhausted. Strength relative to the S&P 500 Index remains Positive. \$NIKK looks to challenge the 19 000 support.

The \$NIKK moved below its 20-day moving average. Short-term momentum indicators are Negative.



The Shanghai Composite Index dropped 41.56 points (1.32%) last week.

Intermediate trend is Neutral. The Index was stopped once again at 3100 support.

The \$SSEC remained below the 20-day moving average. Short-term momentum indicators are Negative.



Emerging Markets iShares added \$0.74 (2.06%) last week.

Intermediate trend changed from Neutral to Positive. Strength relative to the S&P 500 Index is Neutral.

Units rebounded from the 36.0 support. Short-term momentum indicators are Positive.



The Australia All Ordinaries Index lost 32.20 points (0.55%) last week.

Intermediate trend changed from Positive to Neutral. Strength relative to the S&P 500 Index remains Positive.

The \$AORD remained above the 20-day moving average. Short-term momentum indicators are rolling over.



European Equity markets weekly charts

The DAX 30 added 30.17 points (0.26%) last week.

Intermediate trend remains Positive. \$DAX is ranging above the 11500 resistances turned support.

Short-term momentum indicators continue to roll over.



The CAC 40 gained 12.65 points (0.26%) last week.



Intermediate trend is Positive. \$CAC seems to have established support at 4850. The Average remains above the 50-day moving average.

Short-term momentum indicators are rolling over.

The AEX 25 added 1.09 points (0.22%) last week.



Intermediate trend remains Positive. Index remains above the 20-day moving average.

Short-term momentum indicators have rolled over.

The IBEX 35 dropped 4.30 points (0.05%) last week.



\$IBEX rebounded from the upper trendline but retained the pressure. Strength relative to the S&P 500 Index changed from Neutral to Positive.

The Index remained above the 20-day moving average.

Short-term momentum indicators are Mixed.

The FTSE added 127.76 points (1.77%) last week.



Europe iShares added \$0.56 (1.17%) last week.



Fixed Income markets weekly charts

International Bonds

Re-iterating from our 2017 Global Investment Outlook and Strategy, the Trump presidential win related hype and hope is fading quickly, and the oversold long bonds in the US and in G-10 countries are a better "buy" at current levels. We are expecting for bond yields to retrace by -30bps to -40 bps in European peripheral markets (Spain, Portugal, Italy, Greece)

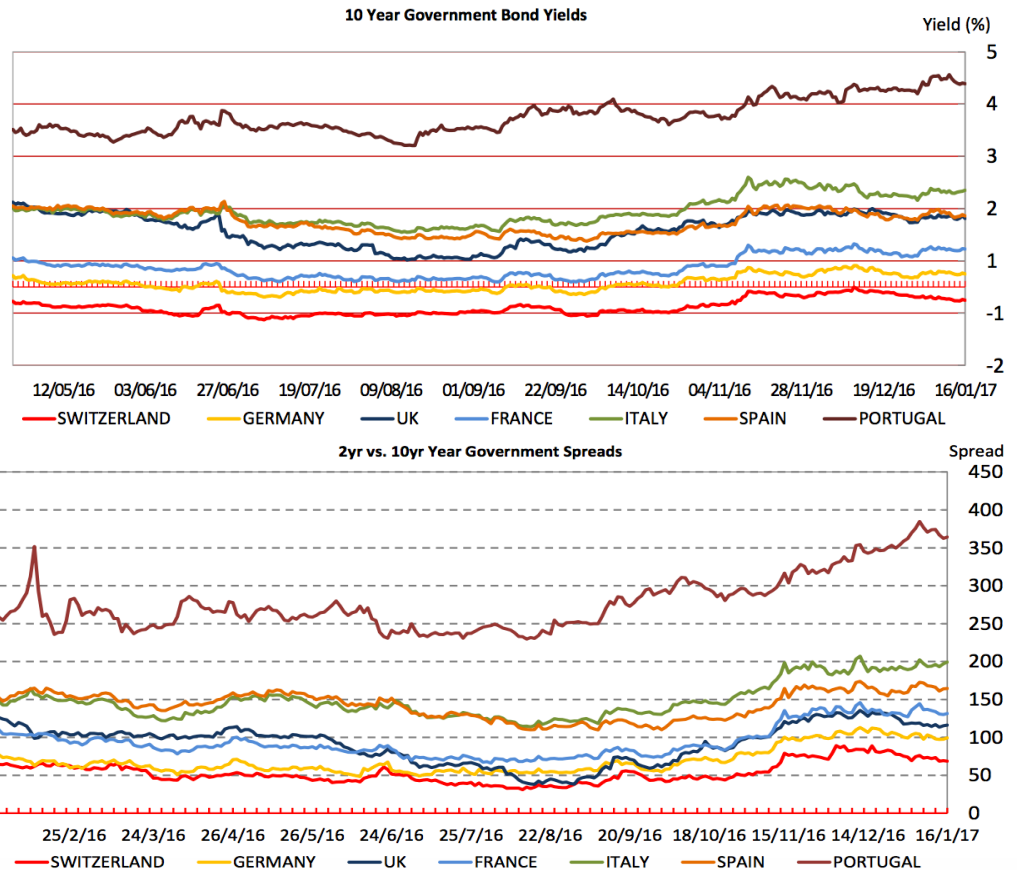
Ten year government bond spreads

Country	Latest yield	Spread vs bund	Spread vs T-notes
Australia	2.71%	+2.38	+0.34
Austria	0.54%	+0.21	-1.83
Belgium	0.70%	+0.37	-1.67
Canada	--	--	--
Denmark	0.35%	+0.03	-2.02
Finland	0.47%	+0.14	-1.90
France	0.81%	+0.49	-1.56
Germany	0.32%	--	-2.05
Greece	6.96%	+6.63	+4.59
Ireland	0.93%	+0.61	-1.44
Italy	1.91%	+1.59	-0.46
Japan	0.05%	-0.27	-2.32
Netherlands	0.44%	+0.11	-1.93
New Zealand	3.14%	+2.81	+0.77
Portugal	3.85%	+3.52	+1.48
Spain	1.44%	+1.12	-0.93
Sweden	0.62%	+0.29	-1.75
Switzerland	-0.18%	-0.50	-2.55
UK	1.31%	+0.99	-1.06
US	2.36%	+2.03	--

Data delayed at least 15 minutes, as of Jan 17 2017 07:43 GMT.

We are recommending continuing to invest in French, Spanish, Italian 10-Year government bonds currently,

However, we are recommending taking profits in German 10-Y Bunds.



US Bonds

Intermediate trend is Neutral. \$TNX moved below its 20-day moving average.

Short-term momentum indicators are Negative.

Yield on 10 year Treasuries dropped 0.38 basis points (1.57%) last week.



The long term Treasury ETF gained 0.45 points (0.37%) last week.

TLT broke through and closed above the 50-day moving average.

Short-term momentum indicators remain Positive.



The Euro added 1.11 points (1.05%) last week.

Short-term momentum indicators are Positive.



The US\$ lost 1.02 points (1%) last week.

Short-term momentum indicators are Negative.



The Japanese Yen gained 1.86 points (2.17%) last week.

Short-term momentum indicators are Positive.



The Canadian Dollar added 0.71 points (0.94%) last week.

Intermediate trend changed from Neutral to Positive. \$CDW bullish run was stopped by the 200-day moving average.

Short-term momentum indicators are Positive and slightly overbought.



Commodities weekly charts

The CRB Index gained 1 point (0.94%) last week.

Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Neutral. \$CRB broke through the upper trendline.

The \$CRB remained above its 20-day moving average.

Short-term momentum indicators are Mixed.



Copper added \$0.14 per lb. (3.33%) last week.

Intermediate trend changed from Neutral to Positive. Strength relative to the S&P 500 Index changed from Neutral to Positive. Copper broke out upwards from a crude descending triangle.

Copper closed above the 20-day moving average.

Short-term momentum indicators are Positive.



Lumber added \$5.10 (0.52%) last week.

Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Positive.

Lumber remains above the 20-day MA. Short-term momentum indicators are Positive.

**The Grain ETN gained \$0.66 (2.29%) last week.**

Intermediate trend remains Positive.

Units continue pressuring the upper trendline. Price moved above the 20-day MA. Short-term momentum indicators are Positive.

**The Agriculture ETF added \$0.44 (0.84%) last week.**

Intermediate trend remained Positive. Strength relative to the S&P 500 Index remained Positive.

Units closed above the 20-day moving average.

Short-term momentum indicators are Positive and slightly Overbought.



Gold & precious metals weekly charts

Gold gained \$22.80 (1.94%) last week.

Gold closed just below the 1200 resistance in a swift, bullish move.

Gold remains above its 20-day moving average.

Short-term momentum indicators are Positive and slightly Overbought.



Silver added \$0.25 per ounce (1.49%) last week.

Silver momentum was stopped by the 50-day moving average.

Silver moved above its 20-day moving average. Short-term momentum indicators are Oversold.



Platinum gained \$15.80 per ounce (1.63%) last week.

Intermediate trend changed from Neutral to Positive. Strength relative to the S&P 500 Index changed from Neutral to Positive. \$PLAT is just below the important resistance of 1000.

\$PLAT trades above its 20-day Moving Average. Momentum indicators are slightly Overbought.



Palladium dropped \$9.20 per ounce (1.21%) last week.

Intermediate trend remains Positive. Strength relative to the S&P 500 Index is Positive.

\$PALL seems to have found some resistance at 760.

Short-term momentum indicators are starting to roll over.

**Oil, gas & energy weekly charts****Crude oil lost \$1.62 per barrel (3%) last week.**

Intermediate trend remained Positive. Strength relative to the S&P 500 Index Neutral. \$WTIC rebounded from the resistance turned support at 51.

Short-term momentum indicators are Mixed.

**Gasoline added \$0.01 per gallon (0.20%) last week.**

Intermediate trend remained Positive. Strength relative to the S&P 500 Index remains Neutral.

\$GASO closed above the 20-day moving average. Short-term momentum indicators are Mixed.

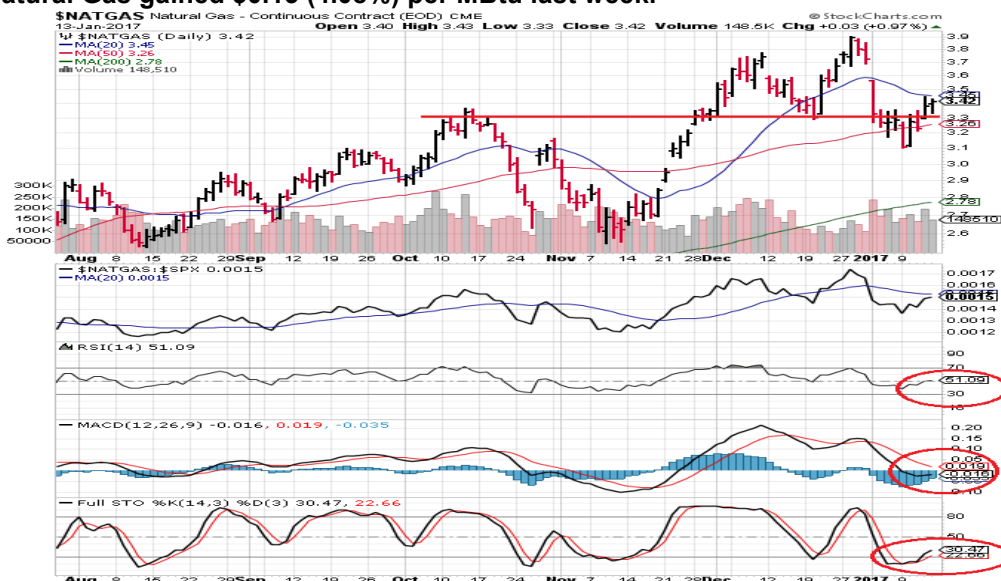


Natural Gas gained \$0.13 (4.08%) per MBtu last week.

Intermediate trend is Neutral. Strength relative to the S&P 500 Index changed from Negative to Neutral.

\$NATGAS rebounded from 50-day MA back above the 3.3 Support.

\$NATGAS is above the 20-day moving average. Short-term momentum indicators are rolling over.



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

Steve Gluckstein,
Global Strategist
sgluckstein@cg-inv.com
office: 212 939 7256
mobile: 732 768 8843
New York, NY, USA

Stjepan Kalinic,
Global Strategist (CMT)
skalinic@cg-inv.com
office: 212 939 7256
mobile: (385) 9152 95916
Kastela, Croatia

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

Jennifer Crisman
COO
jcrisman@cg-inv.com
office: +(352) 26 25 86 40
Luxembourg/Europe

Gary Schieneman,
Managing Director,
Global Accounting and Finance
gschieneman@cg-inv.com
office: 917 868 6842
New York, NY, USA

Feliks Lukas,
Director of Industrial Consulting
flukas@cg-inv.com
office: 212 939 7256
mobile: +(385) 9848 8951
Kastela, Croatia

Allison M Cimon,
Director of Sales & Technology
amcimon@cg-inv.com
office: 646 228 4321
Boston, MA, USA

Sabine CJ Blümel,
Head of Global Automotive Research
sblumel@cg-inv.com
office: +44 (7785) 301588
London, UK

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