



Creative Global Investments

Weekly market commentary & charts

Monday, January 23rd, 2017

Macro Commentary

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Objectivity

Integrity

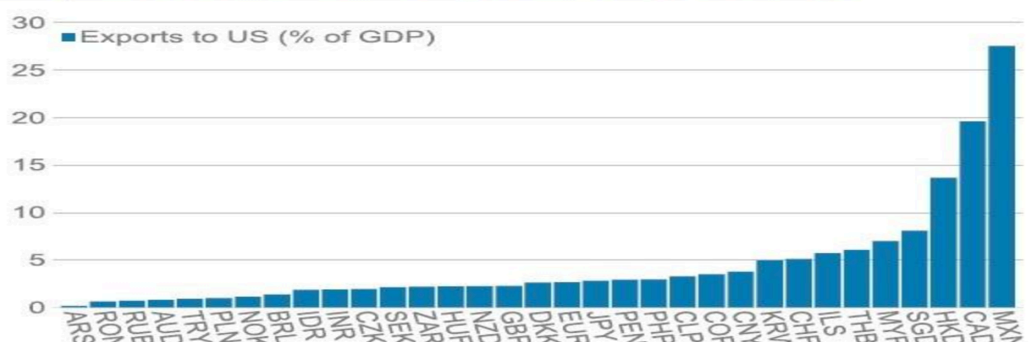
Creativity

Investors are now clearly waiting for concrete economic policies from the Trump administration, with both the upward move in US yields and the US\$ losing some momentum. Furthermore, we think there is an increasing chance that global risk sentiment could be affected by a possible standoff between China and the US. Longer term, we could see risks rise to a global recovery from more economic protectionism.

The IMF announced over the weekend that it projects global growth is on the rise, increasing from 3.1% in 2016 to 3.4% in 2017 and to 3.6% in 2018. A strengthening US\$ and a "race to the bottom" on taxes, deregulation and trade policy are the major risks to an otherwise brightening global economy, financial leaders said on the final day of the World Economic Forum in Davos. Asked about "black swans", or unexpected, disruptive events, that could derail the outlook in 2017, IMF chief Christine Lagarde touched on risks stemming from the policy promises of incoming US president Donald Trump. "If the disruptions we are expecting for 2017 as a result of what has happened in 2016 prove to be all negative and we are to end up in a race to the bottom on the tax front, on the trade front, on the financial regulation front, then that for me would be a really big 'black swan' that would have devastating effects, and protectionist policies from the new US administration could have a negative impact on the economy, overshadowing any positive gains from stimulus measures.

Free trade will become a major topic for the next few years. With Trump's tough talk on trade deals and protectionist ideas of taxing imports, trade will be center stage when assessing economic activity. China, the world's second-largest economy, has seen trade decline for the 2nd year straight. In 2016, exports fell -7.7% and imports declined -5.5%, which resulted in an annual trade surplus of \$510BN (vs. decline of 2015's trade surplus of \$594.5B). If Trump continues to label China a currency manipulator and taxes imports, the problem could get worse and have a material impact on global economic growth. China's President, Xi Jinping, actually had some sage words when discussing the matter of trade at the World Economic Forum in Davos this week. He said, "Protectionism is like locking oneself in a dark room," and that, "No one will win a trade war." He also compared the world economy to a "big ocean that you cannot escape from," which when thought of in terms of supply chains, has some truth to it. The iPhone, for instance, relies on some 200 suppliers from all over the world.

The chart below highlights those countries with the highest Exports to the US
Asia, Canada and Mexico Most at Risk from US Trade Protectionism



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The price of a barrel of crude oil shot-up in the days following the announcement, so clearly markets is interested in the ultimate outcome. OPEC officials stated this week that in their view, 80% compliance would be good, with as low as 50% acceptable. While that is not exactly full follow-through, it should still be enough to placate markets and keep the price of oil steady. It appears at least for now that the supply glut issue is abating – the IEA said that oil stockpiles in the developed world fell for a 4th consecutive month in November, although they remained more than 300MN barrels above the 5-year average.

In Asia, Chinese President gave an unprecedented speech at the World Economic Forum (WEF) in Davos. For the first time ever, a Chinese President gave a speech at the WEF. In stark contrast to the signals from the new US administration, President Xi Jinping emphasized that co-operation is the only way to solve the challenges facing the world economy and that China would keep its doors open to the rest of the world, hoping other nations would follow suit. Admittedly China is not the best example when it comes to free trade, with incoming US commerce secretary Wilbur Ross stressing afterwards that China is the ‘most protectionist’ major economy in the world and said China ‘talks much more about free trade than it actually practices’. However, there is probably no doubt that China wants to assert a bigger and more active role in the governance of the global economy, such as in the IMF, where China has now sought a bigger say and its currency has been included in the SDR basket. We also think that China will seek closer alliances with the rest of the emerging markets in view of more restrictive US trade and foreign policy regime.

In Europe, Theresa May’s Brexit speech on Tuesday served as a reminder of an intrinsically difficult period ahead for the UK and Europe. While the speech did not contain much news, it reminded us that the UK divorce from what could be described as a 33-year marriage of convenience with the EU is likely to be contentious and complicated. While risks are clearly on the UK side, the unity in the EU will also be tested, for example on how to deal with the lack of UK contribution to the EU budget, which accounts for 15% of all contributions. The EU budget is one of the most contentious issues in the EU. While the British pound rebounded after May’s speech, we think it will come under pressure as triggering Article 50 comes closer, seeing the EUR/GBP moving to 0.88 in 3 months. British Prime Minister Theresa May gave a speech on Brexit this week that appeared contradictory in many ways. She expressed a wish of a liberal, open future for Britain, using the slogan “A Global Britain.” This language insinuates the desire for free trade and more open borders, neither of which she is likely to get. She has set immigration control as her priority while insisting that Britain not be beholden to the jurisdiction of the European Court of Justice. It is not evident that Britain has the leverage in these negotiations. To make matters more difficult, the financial industry appears to be hedging its bets on London’s future as a financial epicenter. Goldman Sachs is considering halving its London staff, and may move 1,000 workers to Frankfurt. Also this week, UBS said that Brexit might affect about 1,000 of the bank’s 5,000 employees based in London, while HSBC said it might relocate 1,000 staff to Paris.

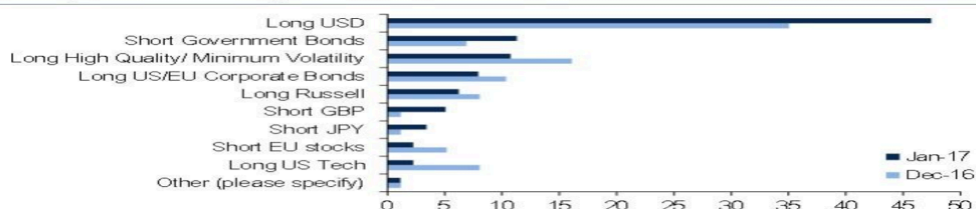
Russia, which looks to benefit from (1) warmer feelings from the new US administration, (2) China seeking closer ties, (3) a rebound in oil prices and (4) strong economic institutions, with a large degree of central bank independence and prudent ministry of finance. This also underpins our long-held moderately bullish call on the ruble, which is among our FX top trades for 2017. Russian stocks are among the most undervalued globally when comparing price-earnings to their long-term value and many major Russian banks are doing very well at the moment from high interest margins given relatively low financing costs and still high lending rates (though we think that the Russian central bank will embark on significant lowering of its policy rates as inflation expectations are brought further under control). While ending the Western sanctions against Russia is not our base case this year, we believe it is clearly a likely upside for Russia with Trump in the White House. We also think that if the US were to lift its Russian sanctions, Europe would follow suit even if it came from the Trump administration. In such an event, we think that Russian equity markets would be lifted by 10% and the USD/RUB would fall under 49.00 by the end- 2017.

In the US, the inauguration of Donald Trump as US president is likely to mark a new era for US economic and foreign policies. Fundamentally, the new US administration points to a shift in US foreign and trade relations, with Trump reaching out to Russia, while taking a rather confrontational approach to China on both Taiwan and trade. Even US and European relations may become cooler, at least Trump's comments that the UK will not be the only country to leave the EU are unlikely to have gone down well with EU member states. Comments by Donald Trump that the US\$ "was too strong" send the US\$ tumbling, and all eyes have turned to the confirmation hearing of Steven Mnuchin for signals about policy ideas that could affect the US\$ and interest rates. The US\$ may undergo a sort of tug of war in 2017. Lowering corporate taxes and implementing fiscal spending programs could be inflationary and would weaken the US\$.

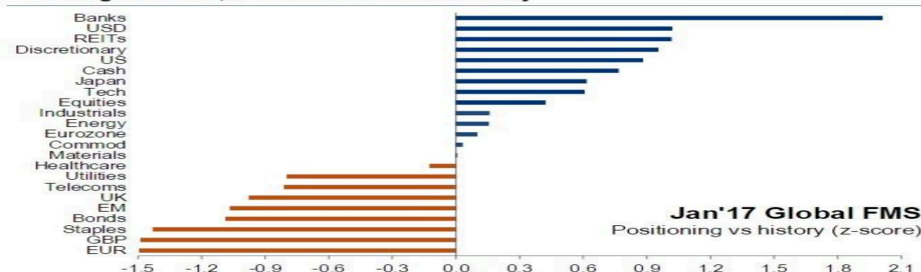
Currencies Commentary

EUR/USD: we see it slowly gaining momentum over coming months, despite relative rates US\$ set to remain supported by Trump and Fed in the near term. We see EUR/USD to head higher beyond 3M. 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. **We expect a major short term "short covering rally" in the oversold Euro to gain momentum.** As we had been saying, the most crowded trade is long the US\$ and US\$ denominated assets.

What do you think is currently the most crowded trade?



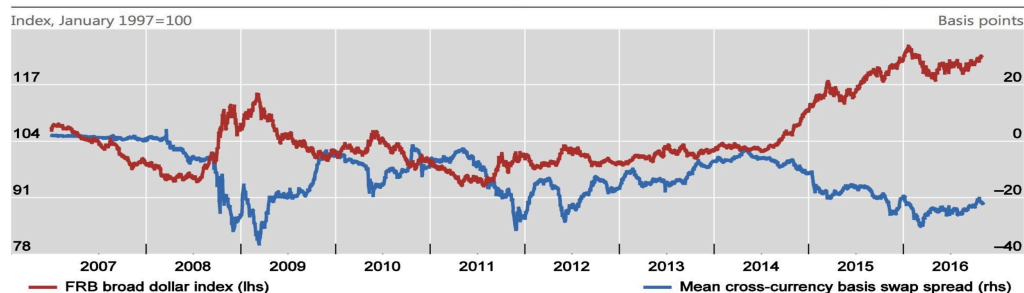
The Longs & Shorts, relative to Global FMS history*



Later in 2017, we see investors to focus on the US\$ as "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.

- **EUR/GBP:** we see risk skewed on the upside in run-up to when the UK is likely to trigger Article 50. Longer term, we expect EUR/GBP to settle in the 0.83-0.88 range. Risk skewed on the upside over the short to medium term due to Brexit.
- **USD/JPY:** we see short-term risks skewed to upside on higher US rates USD/JPY set to remain supported near term by relative monetary policy and risk appetite
- **EUR/SEK:** we see the range near-term after recent decline, gradually lower medium term Gradually lower on relative fundamentals and valuation in 2017 but near-term potential limited
- **EUR/NOK:** we see gradually lower based on valuation and growth, real rate differentials normalizing

Fixed Income Commentary: The “Big rotation 2017”?

- **Higher yields, further steepening 2-Y/10-Y curve**
- **US-Euro yield spread slightly wider in 1H 2017**
- **Peripheral spreads tightening**
- **Credit spreads to remain neutral**

The 2.6% to 3.00% level is the key to interest rate levels and perhaps stock price levels in 2017. We don't necessarily disagree that bonds could be at the cusp of a bear market, with yields gradually moving up for the foreseeable future. What we do disagree with, in the near-to-medium term, is that rising yields will have a dramatic effect on stock prices, and that somehow bond yields are more important than stock prices, the US\$, and/or the price of oil. In our view, that's only true if you make all of your money by managing bonds.

The chart below shows how the bond market has experienced secular bull and bear markets over the last 50+ years. Unlike the stock market, a rising trend line indicates a bear market for bonds, since yields are rising and prices are falling (remember, there is an inverse relationship between bond prices and bond yields). The falling trend line from 1982 through today indicates a strong secular bull market for bonds.



One theory is that bond yields are in the process of bottoming out, and may begin a long-term upward trend, signaling a bear market for bonds. Again, we wouldn't outright agree or disagree with this possibility. If you look at the factors likely to affect bond yields, some of them indicate upward pressure: more risk-taking due to reduced regulation in the financial industry, a hawkish Federal Reserve, inflation drivers via lower corporate taxes, fiscal stimulus, and potentially higher import costs. Rate hikes in 2017 are data dependent, but we wouldn't be surprised if we see two or three.

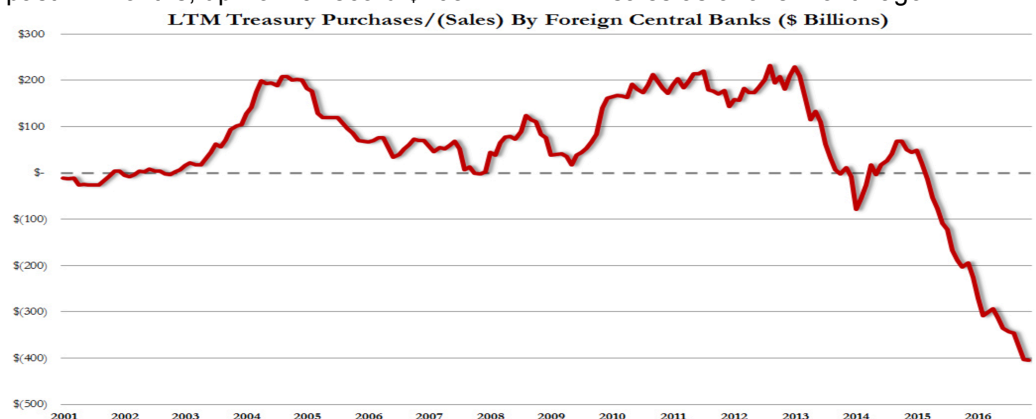
On the other hand, there are forces that may prevent bond yields from rising substantially from here. For one, yields on US bonds are significantly higher than yields on bonds in Germany, the UK, France, and Japan. For example, the spread between US and German 10-year bonds recently hit its highest level in two decades, with the US

10-year yielding 2% more than the German 10-year bund. Even Italian and Spanish bond yields are lower than the US's. Foreign buyers seeking safety and yield could tend to favor US bonds, which would keep upward pressure on bond prices and downward pressure on bond yields.

Remember, too, that a lot of the recent market movement in bond yields is based on anticipated events. With Trump's election, some market participants may be pricing-in an acceleration of GDP growth, higher inflation, and substantially lower taxes. But as we learn time and again, the promises made on the campaign trail are often significantly watered-down before becoming law. The impact of tax cuts may take years to be felt; Congress may balk at the price tag of fiscal stimulus; the strong us\$ could hurt the export of domestically produced goods, thus hurting US manufacturers; and so on. If economic data disappoints at any point along the way, yields could feel substantial downward pressure.

Interest rates and bond yields will be a key feature to watch in 2017. For investors, this doesn't mean eliminating bonds outright from portfolios. But, what it does mean is taking a closer look at your fixed income allocation, and figuring out if you are positioned for changes in the bond market.

The wholesale liquidation of US Treasuries continued in November, foreign central banks sold another \$936 MN in US paper in November 2016, which due to an offset of \$892 million in buying one year ago, means that for the 12 month period ended November, foreign central banks have now sold a new all time high of \$405 MN in the past 12 months, up from a record \$403 MN in LTM sales as of one month ago.

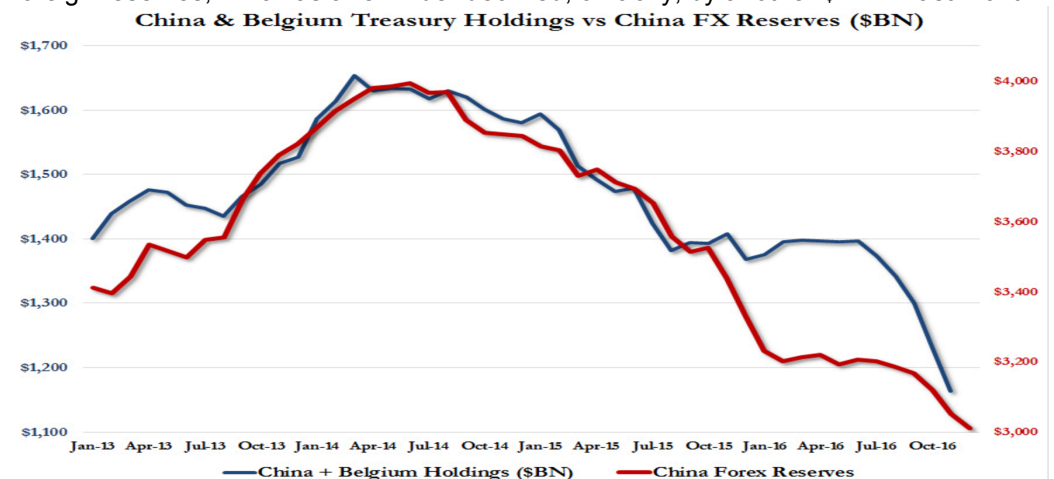


While Japan sold about \$23 BN in November, its fourth month of consecutive selling, it was China which drove the selloff, dumping a whopping \$66.4 BN in US Treasuries in its 6th consecutive monthly sale of US paper, and the biggest monthly selloff since December 2011. The monthly sale also brings China's total Treasury holdings to the lowest level since early 2010.



When combining China's with the Belgian holdings, an offshore center used by China to mask its purchases (and over the past two years sales) the correlation between combined Treasury holdings and China's total reserves suggests that this is where the action is. And considering the reduction in reserves has continued into December, it is

safe to assume that China continued to sell US paper to match the reduction of its foreign reserves, which as a reminder declined, officially, by another \$41BN last month.



Curiously, reversing its recent trend, Saudi Arabia bought just over \$3BN in Treasury, and has added \$10.7 BN in US paper in the past 2 months, the most since July 2006.

But most troubling was neither Japan's, nor China's selling, but all foreign holders of US Treasuries combined, which sold \$70.8 BN, the most in one month ever, bringing their total holdings to 3.771 trillion, far below the \$4.117 BN held one year ago. On an annual basis, the drop was -8.4%, the biggest decline on record (don't blame Russia: "Putin" actually bought \$12BN in US paper in November).



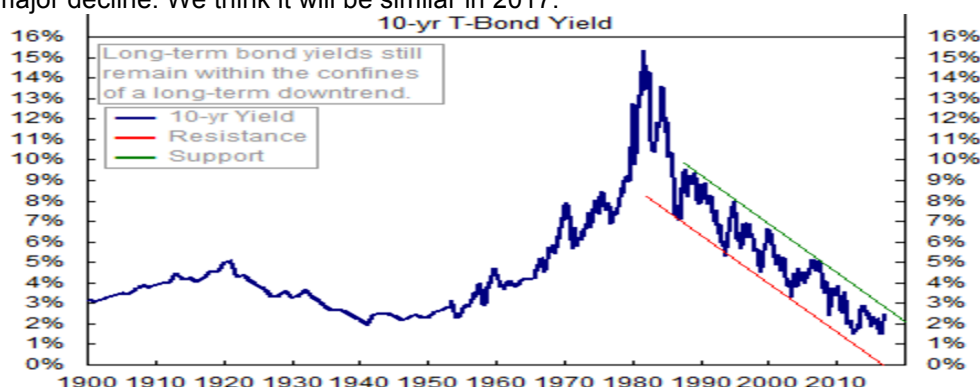
As we pointed out one month ago, what has become increasingly obvious is that both foreign central banks, sovereign wealth funds, reserve managers, and virtually every other official institution in possession of US paper, is liquidating their holdings at a troubling pace, something which in light of the recent surge in yields, appears to have been a prudent move. In some cases, like China, this is to offset devaluation pressure; in others such as various petroleum exporting nations - but curiously not Saudi Arabia in the past 2 months - it is to provide the funds needed to offset the drop in the petrodollar, and to backstop the country's soaring budget deficit. In all cases, it may suggest concerns about a spike in future debt issuance by the US, especially now under the pro-fiscal stimulus Trump administration.

Who are they selling to? The answer, at least until August, was private demand, in other words just like in the stock market the retail investor is the final bag holder, so when it comes to US Treasuries, "private investors" both foreign and domestic are soaking up hundreds of billions in central bank holdings. As we said two months ago when we observed this great rotation in Treasuries out of official holders into private hands, "we wonder if they would keep buying knowing who is selling to them." Well, several months ago this changed, and after private investors had been happily snapping up bonds for 4 straight months, in September "other foreign investors" sold a whopping \$31 BN, bringing the total outflow between public and private foreign holdings to \$76.6 BN, the second highest number on record. In October, while foreign official

entities sold another \$45 BN, at least the pace of selling by private entities moderated somewhat, to "only" \$18.3 BN. However, in November the trend appears to have reversed again, and private foreign buyers picked up some \$731 MN. Maybe they know something central banks do not?

Meanwhile, while just five months ago yields had tumbled to near all time lows, suddenly the picture is inverted, and long-yields are once again rising on concerns that not only could the ECB and the BOJ soon taper their purchases of the long end, but that Donald Trump is about to unleash a \$1 TRN debt tsunami at a time when the Fed will not be available to monetize it, now that the Fed is again hiking rates. While it is unclear under what conditions foreign buyers will come back - after all TSY yields have already jumped high enough to where US paper should be more than attractive to foreign official institutions - one thing is clear: as of this moment the selling strike not only continues but is accelerating, and should the foreign liquidation of Treasuries fail to slow, Yellen will soon have to plan how to not only abort the current rate experiment which continues to pressure yields higher around the globe, but to start thinking how to soak up all the excess supply instead.

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.



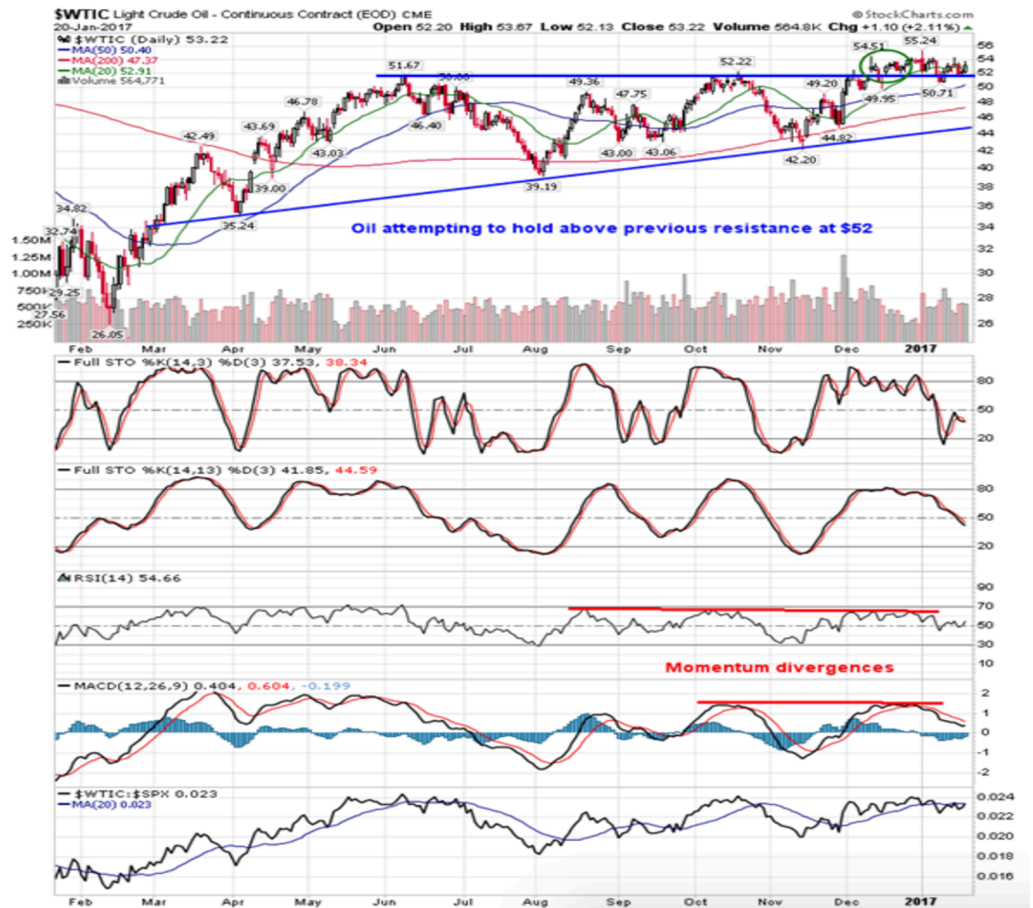
However, in today's times and rate environment, we believe that a rapid rise of 10-year treasuries to 3% would be very likely to hurt equity valuations, well before any '4-5% threshold'.

Commodities Commentary

OPEC hesitant about extending deal through H2, crude stocks remain high, support from positive growth and inflation sentiment; near-term focus implementation of OPEC deal, US crude stocks. China, the largest OPEC customer in the world, is itself expected to produce 7% less oil this year than last. This is the combined effect of low oil prices, lack of investment in oil fields following the oil price crash that started in 2014, as well as Asia's push for natural gas exploration.

In fact, Chinese oil companies are still cutting spending on exploration and engineering. This is creating two separate but enormous profit opportunities for energy investors. First, as global oil demand continues to grow, this means we could be facing another oil price shock.

And at the same time, China is investing \$361BN into renewable power generation just in the next 3 years. That too will create huge opportunities, in both domestic and overseas companies, for investors looking for energy profits



- Metal prices keep on rising, as focus turns to Trump's plans on infrastructure and defense spending. We continue to see underlying support from consolidation in mining industry, recovery in global manufacturing and US fiscal spending
- The Gold price is pressured by more hawkish Fed weighing on gold price, rising yields and a still too strong USD pushing gold price down.
- Agriculturals are also under pressure, as abundant supply keeping a lid on prices; however, "La Niña" weather risks over the winter seem to force consolidation in some parts of the market.

Equities Commentary

The downturn that occurred as a result of the financial crisis has been retraced by several major international stock market indices. The S&P 500 peaked at 1,565.15 back in October 9, 2007 and troughed at 676.53 back on March 9, 2009. The most recent close for the S&P 500 is 2,267.89, and has retraced 179.1% of its financial crisis bear market decline.

China (Shanghai Composite), Japan (Nikkei 225), India (S&P BSE Sensex), Germany (DAX), France (CAC 40) and the UK (FTSE 100) are all above their financial crisis lows (i.e. above 0% chart below shows) and 5 of the aforementioned countries (USA, Japan, India, Germany and the UK) are currently trading above their respective pre-financial crisis peak (i.e. are above 100% on the chart).

We find it unsustainable, that US equities (epicenter of the financial crisis) has outperformed the other major stock market indices while China has lagged to the point where it only trades 32% above its financial crisis lows 8 years ago.



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%.



Economic focus this week is on the Q4 US economies' first GDP estimate on Friday. Momentum continues to decline in US equity markets as Inauguration Day passed. Uncertainty related to a new Trump Presidency likely will continue into April, implying that better opportunities exist in equity markets outside of the US (including the TSX). Commodity sensitive equity markets and sectors continue to show positive relative strength.

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

Technical action by S&P 500 stocks was mixed once again last week. Number of stocks breaking intermediate resistance was 36 while number of stocks breaking support was 27. However, because most stocks breaking resistance already were in an uptrend, number of stocks in an uptrend slipped to 326 from 336, number of stocks in a neutral trend increased to 70 from 67 and number of stocks in a downtrend increased to 104 from 97. The Up/Down ratio slipped last week to (326/104) 3.14 from 3.46.

Short term technical indicators (i.e. short term momentum indicators, trades above 20 day moving average) for US and Canadian equity markets deteriorated last week. Intermediate technical indicators (Bullish Percent Index, Percent of stocks trading above their 50 day moving average) remain overbought and have rolled over.

Q4 reports by S&P 500 companies are off to a good start. 12% of companies have reported to date. 61% beat consensus earnings estimates, but only 47% beat revenue estimates. To date, earnings on a y-o-basis were up 3.4%. Another 70 S&P 500 companies are scheduled to release results this week (including 12 Dow Jones Industrial Average companies).

Prospects into 2017 remain positive, but appear inflated. Six S&P 500 companies announced positive Q1 earnings while three companies announced negative guidance. Consensus for Q1 earnings on a y-o-y basis is a gain of 10.9% (slightly lower than 11.0% last week) and Q1 revenues are expected to increase 7.7%. Q2 earnings are expected to increase 10.6% and revenues are expected to increase 5.7%. Consensus for 2017 is for an earnings increase of 11.4% and a revenue increase of 6.0%.

Q4 earnings prospects for TSX 60 companies are much more positive. Consensus calls for an average year-over-year 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). Reports start trickling in this week. 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.

- **Overweight stocks short and medium term**
- **Underweight US & UK equities**
- **Overweight European (German, French, Spanish, Dutch), Canadian, Japanese, Chinese, Russian and Brazilian equities**

Weekly Investment Conclusion

UNIT	SEASONAL	TREND	RELATIVE STRENGTH	20 DAY MA	MOMENTUM	TECHNICAL SCORE	PREVIOUS SCORE
SPX	Neutral	Up	Neutral	Above	Down	2	0
TSX	Positive	Up	Positive	Above	Down	4	0
DJIA	Negative	Down	Negative	Below	Down	-6	
COMPQ	Neutral	Up	Positive	Above	Down	4	
RUS 2000	Positive	Down	Negative	Below	Down	-6	
TRAN	Positive	Up	Neutral	Above	Up	4	
AORD	Positive	Up	Negative	Below	Down	-2	0
NIKK	Negative	Down	Negative	Below	Up	-4	-6
IEV	Neutral	Neutral	Positive	Above	Down	2	
SSEC	Positive	Down	Neutral	Below	Up	-2	-4
EEM	Positive	Up	Positive	Above	Down	4	

Who looks to be the winner so far from the emerging new global order?

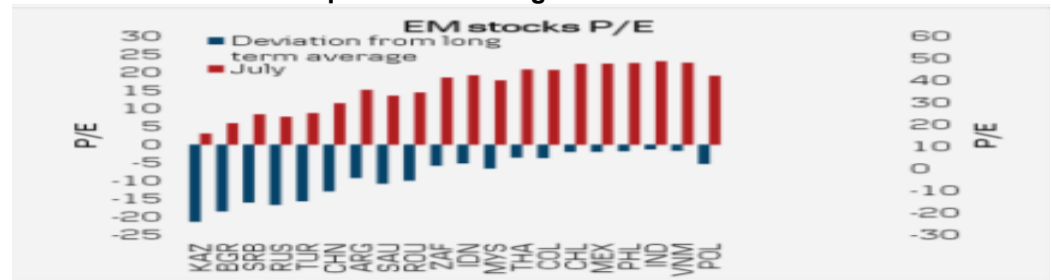
One candidate is Russia, which looks to benefit from

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- (2) China seeking closer ties
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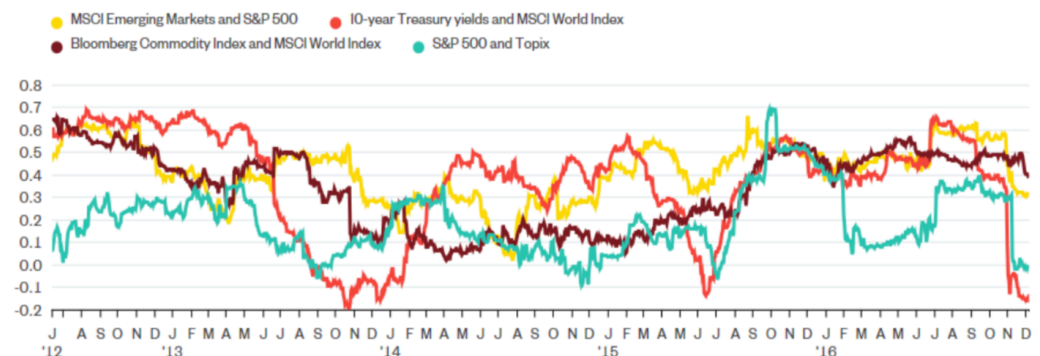
Russian stocks are among the most undervalued globally when comparing price-earnings to their long-term value and many major Russian banks are doing very well at the moment from high interest margins given relatively low financing costs and still high lending rates (though we think that the Russian central bank will embark on significant lowering of its policy rates as inflation expectations are brought further under control). While ending the Western sanctions against Russia is not our base case this year, we believe it is clearly a likely upside for Russia with Trump in the White House.

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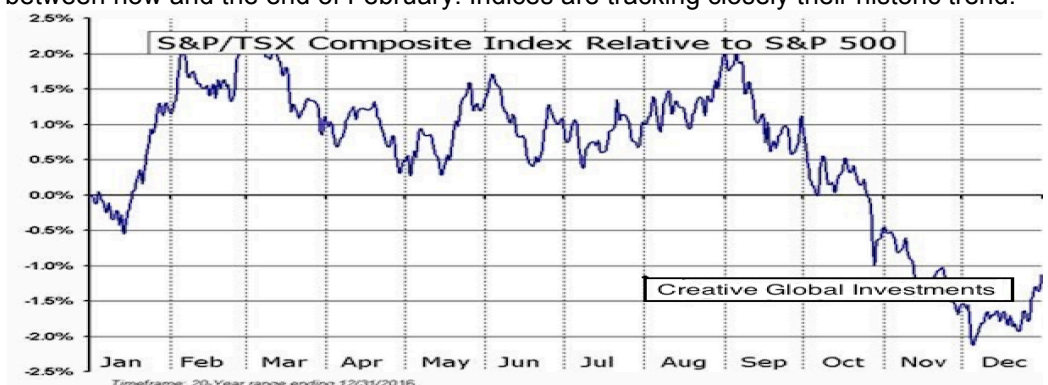
Russian equities are amongst the most undervalued



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 have 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.



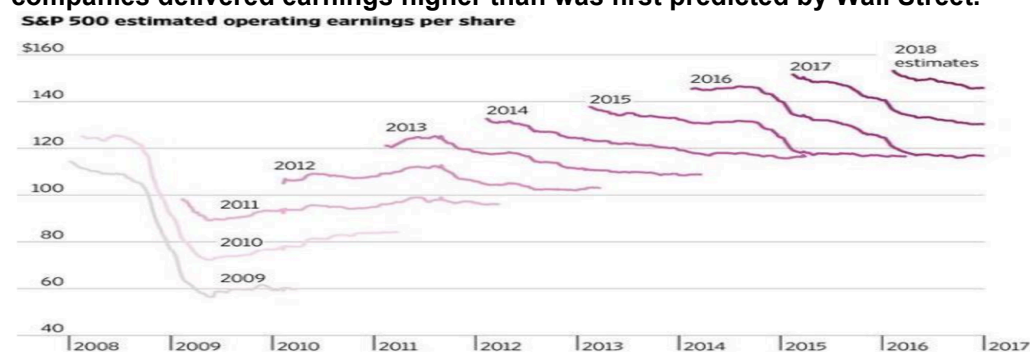
History shows that the TSX Composite Index normally outperforms the S&P 500 Index between now and the end of February. Indices are tracking closely their historic trend.



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.



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.

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.

US equity markets weekly charts

The VIX Index added 0.31 points (2.76%) last week.

Intermediate trend remains Negative. The Index remained below its 20-day moving average. Price will most likely test the 11 support once again.



The S&P 500 Index dropped 3.33 points (0.15%) last week.

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

Short-term momentum indicators are Negative.



Percent of S&P 500 stocks trading above their 50-day moving average dropped last week to 71.20 from 75.20.

The index closed right on the 50-day moving average.



Percent of S&P 500 stocks trading above their 200-day moving average dropped last week to 69.20 from 70.80.

The index remained below the 200-day moving average.



Bullish Percent Index for S&P 500 stocks remained unchanged last week at 73.60 and remained above its 50-day moving average.

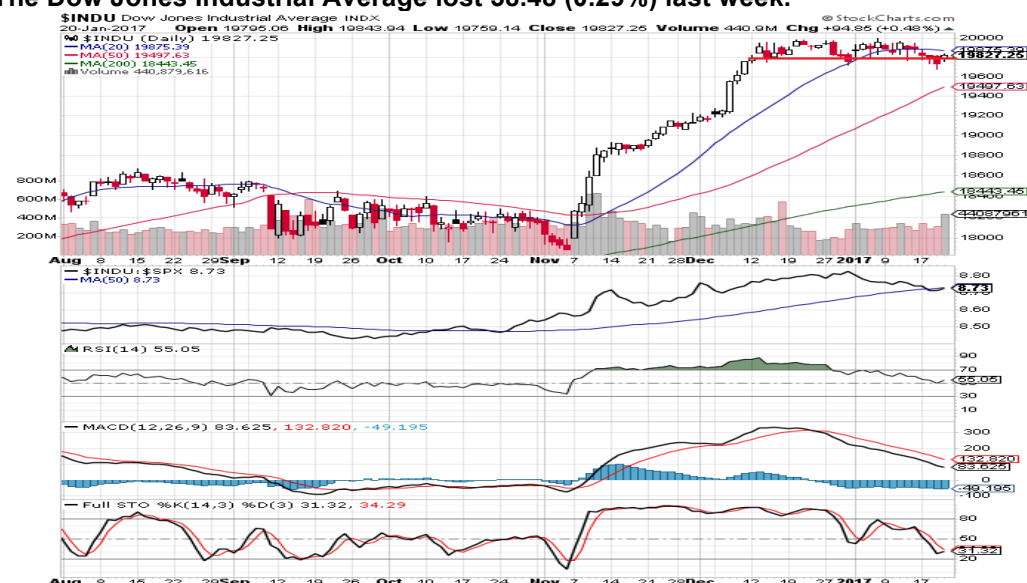
The Index is ranging post the Breakout and remains above the 200-day moving average.



The Dow Jones Industrial Average lost 58.48 (0.29%) last week.

\$INDU failed to break the 19,800 support. Strength related to the S&P 500 remained Neutral.

The Average closed below its 20-day moving average. Short-term momentum indicators are Negative.



Bullish Percent Index for Dow Jones Industrial Average stocks rose last week to 73.33 from 73.00 and moved above its 20-day moving average.

The Index remained above the 20-day moving average.

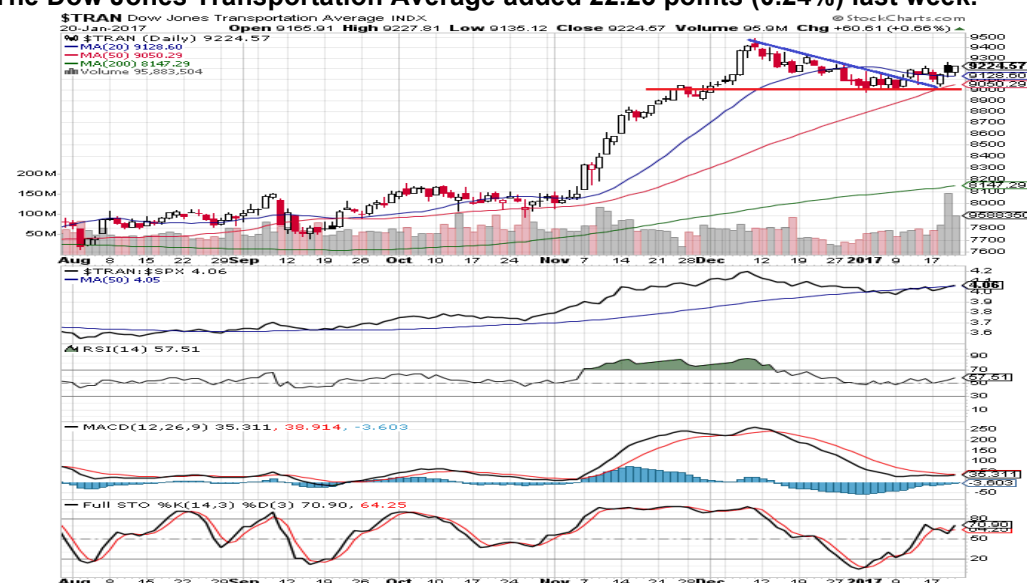


The Dow Jones Transportation Average added 22.23 points (0.24%) last week.

Dow Jones Transportation Index is in a slow bullish momentum after the Breakout.

Strength relative to the S&P 500 Index remains Neutral. The \$TRAN closed above its 20-day moving average.

Short-term momentum indicators are Mixed.



Bullish Percent Index dropped last week to 64.74 from 65.85 and remained above its 20-day moving average.

The Index broke down and moved below the 20-day moving average.

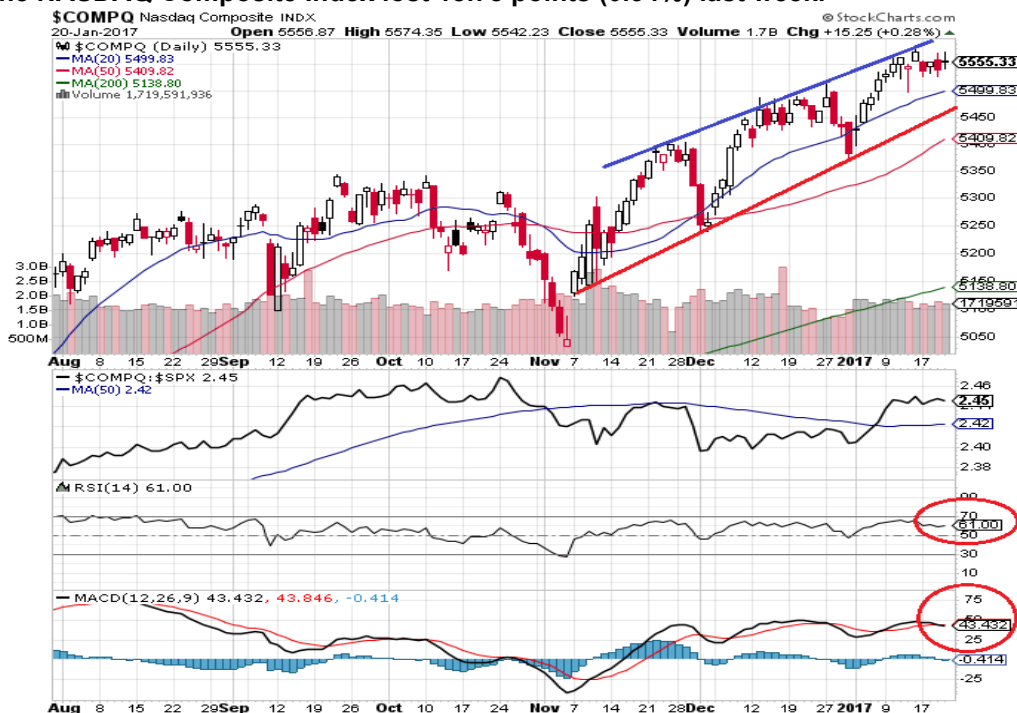


The NASDAQ Composite Index lost 18.78 points (0.34%) last week.

\$COMPQ is showing some signs of trend exhaustion. Strength relative to the S&P 500 Index remains Positive.

The Index remained above its 20-day moving average.

Short-term momentum indicators are rolling over.



The Russell 2000 Index dropped 20.20 points (1.47%) last week.

\$RUT broke the 1360 support and looks to challenge 1340. 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 S&P Energy Index gained 0.45 points (0.08%) last week.

Intermediate trend remains Neutral. \$SPEN is ranging above the 545 support. Strength relative to the S&P 500 Index remains Negative.

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



The Philadelphia Oil Services Index added 2.96 points (1.60%) last week.

\$OSX rebounded from the 185 support once again.

The Index closed above its 20-day moving average. Short-term momentum indicators remain Negative.



The AMEX Gold Bug Index gained 3.33 points (1.67%) last week.

\$HUI continues ranging post the channel breakout. 20-day moving average has crossed 50-day mva from below.

Strength relative to the S&P 500 Index remains Neutral.

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



Latam equity markets weekly charts

The BOVESPA added 869.66 points last week.

\$BVSP broke the 64000 resistance and moved towards the next resistance area at 64500.

Short-term momentum indicators remain Positive.



The Mexican gained 149 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 rose to 76.73 from 75.51 and remained above its 20-day moving average.

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



The TSX Composite Index gained 50.60 points (0.33%) last week.

Intermediate trend remains Positive. The Index rebounded from the 15 400 Support.

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



Percent of TSX stocks trading above their 50-day moving average dropped last week to 69.92% from 73.31%.

The index is retracing but remains above the 50-day moving average.



Percent of TSX stocks trading above their 200 day rose last week to 69.49% from 68.22%.

The index remains below the 200-day moving average.



Asian equity markets weekly charts

The SENSEX lost 203.56 points (0.75%) last week.

\$BSE retraced back to the 200-day moving average.

Short-term momentum indicators are rolling over.



The Nikkei Average dropped 149.37 points (0.77%) last week.

Intermediate trend seems to be rolling over. Strength relative to the S&P 500 Index is Neutral.

\$NIKK failed to break the 19,000 support for the moment.

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



The Shanghai Composite Index added 10.38 points (0.33%) last week.

Intermediate trend is Neutral. The Index failed to break the 3,100 support.

The \$SSEC remained below the 20-day moving average. Short-term momentum indicators are starting to roll over.



Emerging Markets iShares lost \$0.26 (2.06%) last week.

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

Units are ranging post the Breakout. Short-term momentum indicators are starting to roll over.



The Australia All Ordinaries Index lost 67.10 points (1.16%) last week.

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

The \$AORD moved below the 20-day moving average.

Short-term momentum indicators have rolled over to Negative.



European equity markets weekly charts

The DAX 30 added 0.95 points (0.01%) last week.

Intermediate trend remains Positive. \$DAX is using the 20-day moving average as the trailing Support.

Short-term momentum indicators are Neutral.

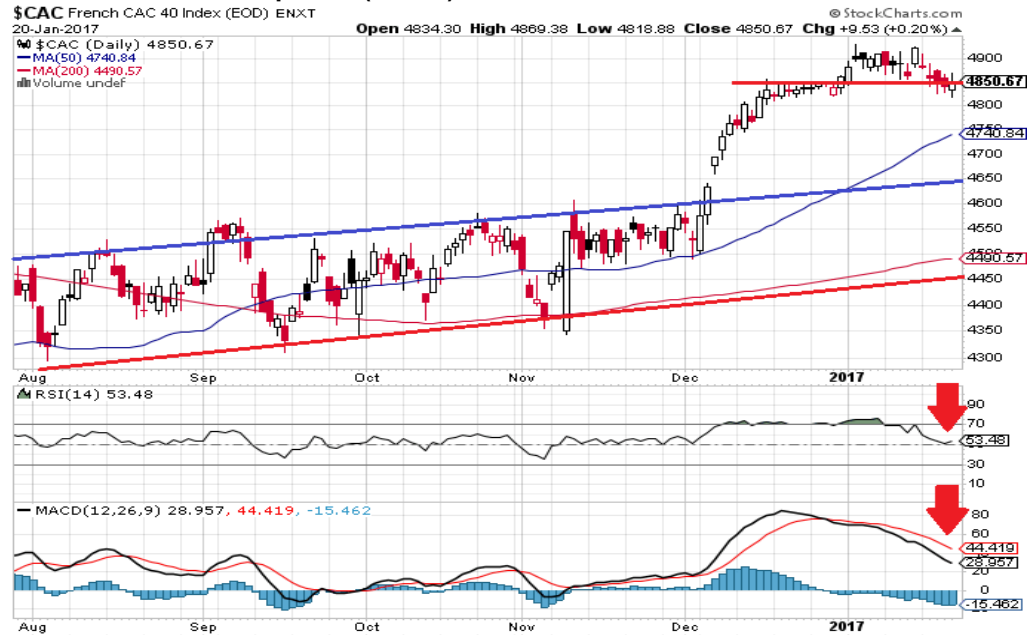


The CAC 40 lost 71.82 points (1.46%) last week.

Intermediate trend is Neutral. \$CAC is attempting to break the 4,850 support.

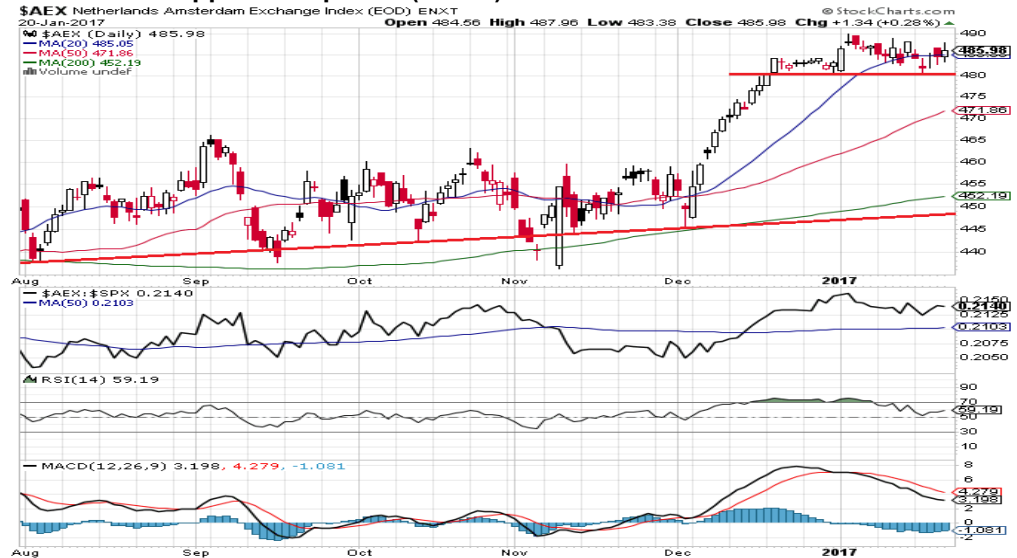
The Average remains above the 50-day moving average.

Short-term momentum indicators have rolled over to Negative.

**The AEX 25 dropped 2.11 points (0.43%) last week.**

Intermediate trend remains Positive but is showing some signs of exhaustion. \$AEX has rebounded from 480 support and remains above the 20-day moving average.

Short-term momentum indicators are Negative.

**The IBEX 35 lost 131.50 points (1.38%) last week.**

\$IBEX is looking to challenge the 9300 Support. Strength relative to the S&P 500 Index remains Positive.

The Index moved below the 20-day moving average.

Short-term momentum indicators are Negative.



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



Intermediate trend is Negative.
Index corrected towards the 20-day moving average.
\$FTSE remained above the 20-day moving average.

Short-term momentum indicators are Negative.

Europe iShares lost \$0.24 (0.50%) last week.



Intermediate trend changed from Positive to Neutral. Strength relative to the S&P 500 is Positive.
\$IEV could create a Head & Shoulders pattern if it retraces back to the support.

Units closed above the 20-day moving average.
Short-term momentum indicators are Neutral.

Fixed income markets weekly charts

International Bonds

Ten year government bond spreads

Country	Latest yield	Spread vs bund	Spread vs T-notes
Australia	2.78%	+2.37	+0.31
Austria	0.61%	+0.20	-1.87
Belgium	0.75%	+0.35	-1.72
Canada	--	--	--
Denmark	0.43%	+0.02	-2.05
Finland	0.55%	+0.15	-1.92
France	0.91%	+0.50	-1.57
Germany	0.41%	--	-2.07
Greece	7.09%	+6.68	+4.62
Ireland	1.05%	+0.64	-1.43
Italy	2.03%	+1.62	-0.45
Japan	0.06%	-0.35	-2.42
Netherlands	0.52%	+0.12	-1.95
New Zealand	3.26%	+2.85	+0.78
Portugal	3.87%	+3.46	+1.39
Spain	1.50%	+1.09	-0.98
Sweden	0.69%	+0.28	-1.79
Switzerland	-0.08%	-0.48	-2.55
UK	1.41%	+1.00	-1.06
US	2.46%	+2.05	--

We see US-Euro yield spreads to compress again in 1H 2017

However, we are expecting for peripheral spreads to tighten further

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.

We can see yields in France and the Benelux move down by another -20bps to -40 bps over the next 3 months, and similarly to decline by -30bps to -50bps in Spain, Italy, Portugal and Greece.

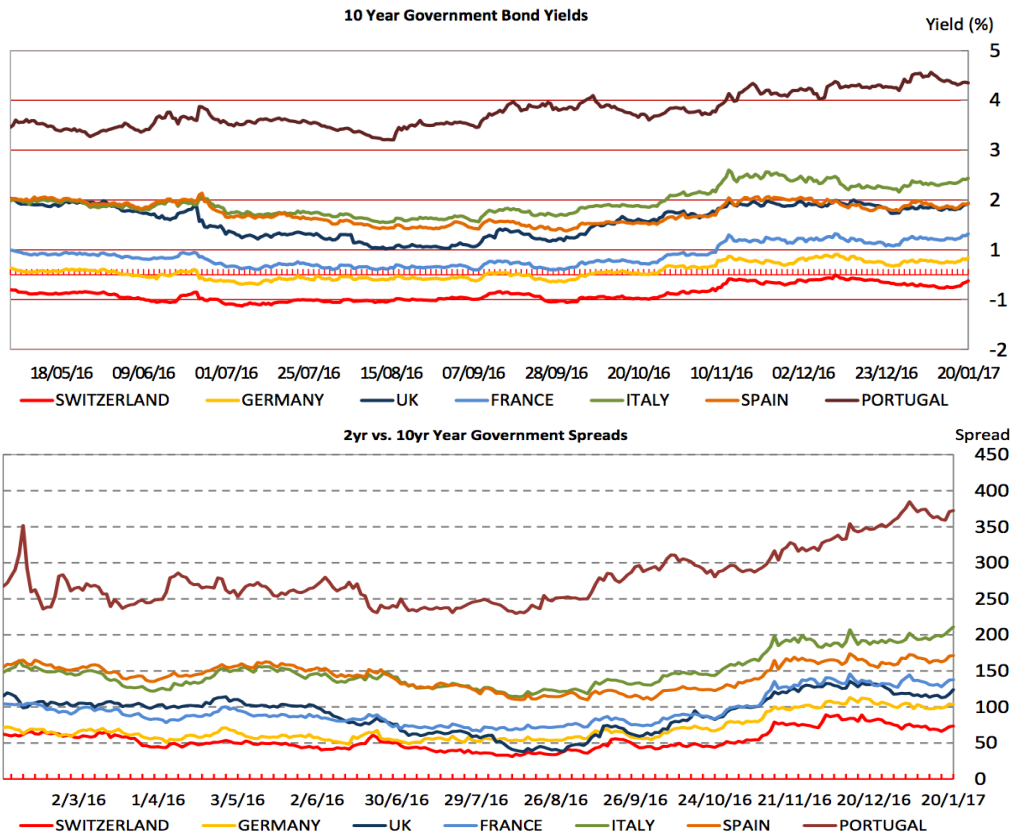
US Bonds

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

Short-term momentum indicators are Positive.

TLT is pressuring the trendline. It moved below the 50-day moving average.

Short-term momentum indicators are rolling over.



Yield on 10 year Treasuries added 0.87 basis points (3.66%) last week.



The long term Treasury ETF lost 1.37 points (1.13%) last week.



Currencies weekly charts

The Euro added 0.58 points (0.55%) last week.

Intermediate trend is Positive. \$XEU might challenge the 108 resistance soon.

The \$XEU remains above the 20-day moving average.

Short-term momentum indicators are Positive.



The US\$ lost 0.50 points (0.49%) last week.

Intermediate trend remains Negative. The US\$ remained below its 20-day moving average.

Short-term momentum indicators are Negative.



The Japanese Yen dropped 0.08 points (0.09%) last week.

Intermediate trend remains Neutral. \$XJY is stuck between the 20-day and 50-day moving averages.

Short-term momentum indicators are Mixed.



The Canadian Dollar lost 1.18 points (1.55%) last week.



Intermediate trend changed back to Neutral. \$CDW created a higher high and a possible head for the H&S pattern.

Short-term momentum indicators are rolling over.

Commodities weekly charts

The CRB Index dropped 0.52 (0.27%) last week.



Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Neutral. \$CRB retraced back inside a channel.

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

Short-term momentum indicators remain Mixed.

Copper lost \$0.07 per lb. (2.42%) last week.



Intermediate trend remains Positive. Strength relative to the S&P 500 Index changed from Neutral to Positive. Copper was stopped by the 2.70 resistance.

Copper closed above the 20-day moving average.

Short-term momentum indicators are Neutral.

Lumber dropped 7.80 \$5.10 (2.34%) last week.

Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Positive. Lumber looks to be inside a Coil.

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

**The Grain ETN gained \$0.68 (2.34%) last week.**

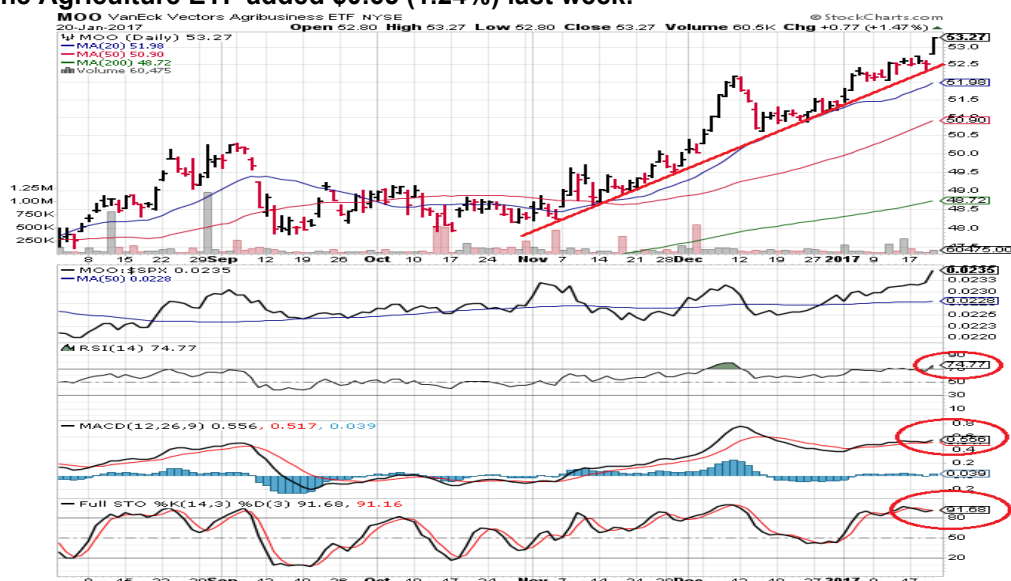
Intermediate trend remains Positive. Units broke out through the upper trend line with a gap. Price remained above the 20-day MA. Short-term momentum indicators are Positive.

**The Agriculture ETF added \$0.65 (1.24%) 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 Overbought.



Gold & precious metals weekly charts

Gold gained \$8.70 (0.73%) last week.

Gold closed above the important 1,200 resistance.

Gold remains above its 20-day moving average.

Short-term momentum indicators are Mixed.



Silver added \$0.27 per ounce (1.59%) last week.

Silver was stopped by the upper trendline and remained in the channel.

Silver is above its 20-day moving average. Short-term momentum indicators are rolling over.



Platinum dropped \$10.40 per ounce (1.05%) last week.

Intermediate trend is Neutral. Strength relative to the S&P 500 Index changed back to Neutral. \$PLAT failed to break the 1000 resistance.

\$PLAT trades above its 20-day Moving Average. Momentum indicators are rolling over.



Palladium gained \$39.25 per ounce (5.24%) last week.

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

\$PALL broke the resistance at 760 and created a new high.

Short-term momentum indicators are Positive and slightly Overbought.

**Oil, gas & energy weekly charts****Crude oil added \$0.85 per barrel (1.62%) last week.**

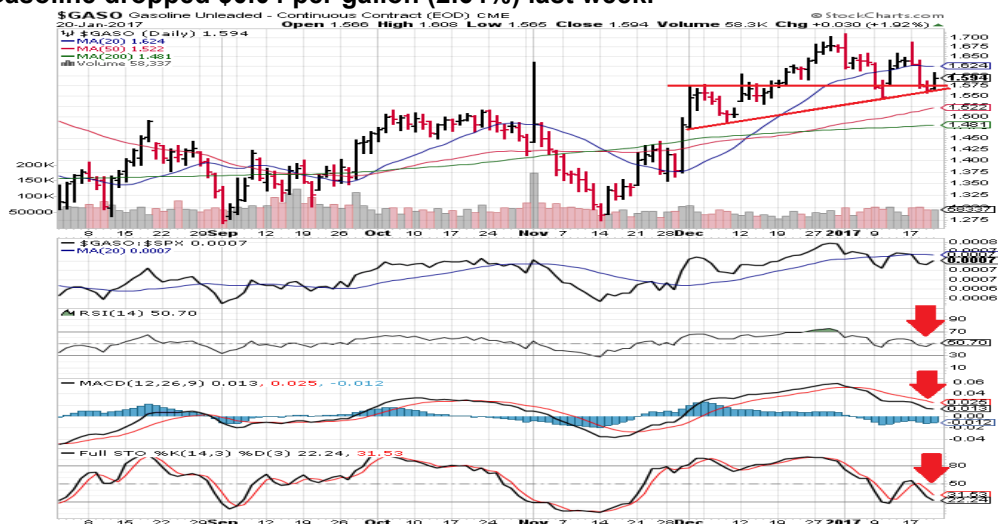
Intermediate trend remained Positive. Strength relative to the S&P 500 Index is Neutral. \$WTIC bounced from the \$52 support.

Short-term momentum indicators are Mixed.

**Gasoline dropped \$0.04 per gallon (2.64%) last week.**

Intermediate trend changed from Positive to Neutral. Strength relative to the S&P 500 Index changed from Neutral to Negative. \$GASO is on the important support/support convergence point.

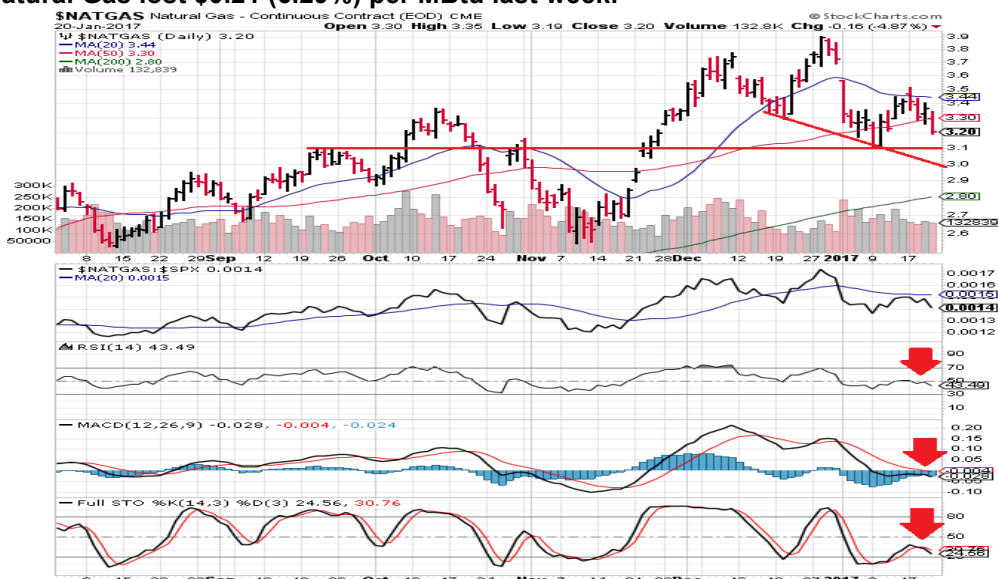
\$GASO closed below the 20-day moving average. Short-term momentum indicators are Negative.



Natural Gas lost \$0.21 (6.29%) per MBtu last week.

Intermediate trend is Negative. Strength relative to the S&P 500 Index is Negative. \$NATGAS is starting to trend down, creating a lower low and a lower high.

\$NATGAS moved below the 20-day moving average. Short-term momentum indicators are Negative.



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