



Creative Global Investments

Morning markets commentary & charts

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Carlo R. Besenius

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



Creative Global Investments LLC

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

Creative Global Investments/Europe

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

Objectivity

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US Bond markets commentary & charts

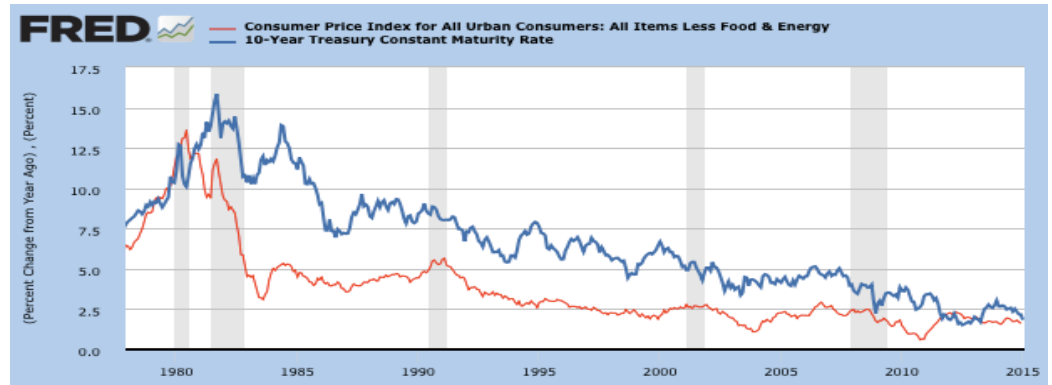
Early technical signs have surfaced that 10-Y US Treasuries are rolling over from overbought levels.



However, as we noted repeatedly over the past 10 months, due to falling global inflation, we see any temporary small correction of 10-Y Treasuries as another re-entry point for investors, as we anticipate for the yield for the 10-Y Treasuries to fall at least towards 1.3% in the coming 2 quarters.



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The latest data through Q3 2014 shows world inflation average (y-o-y CPI change) of the largest 50 economies to hit 56-months lows with a reading at 1.65%.



Low and declining global growth and inflation, both in the US and abroad, fundamentally and technically support lower rates. That institutional investors believe they should be higher may reflect a lot of frustration at being unable to earn a higher return on investments. That's understandable but the benefits of lower rates on the macro-environment far outweigh the disadvantage of lower investment returns for fund managers. We'd all prefer to have both higher macro-growth and higher fixed-income investment returns right now.

What about the claim that low rates negatively affect those that now depend on a reasonable interest rate to produce an equitable amount of interest income?

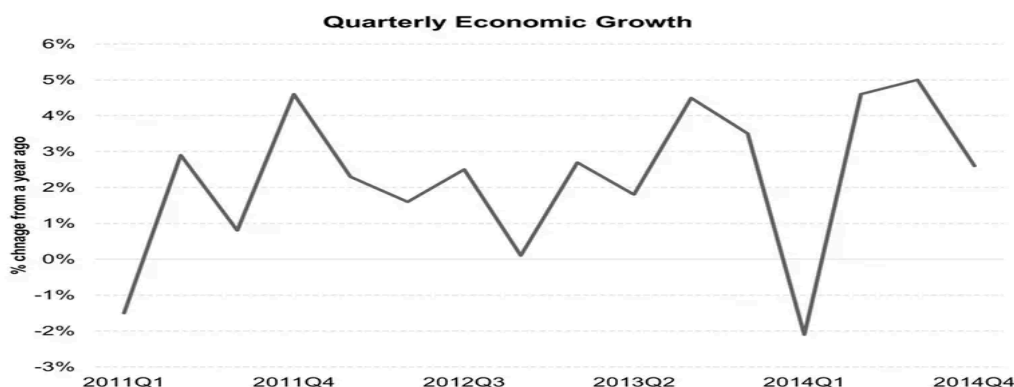
There is no doubt that low rates hurt savers. However, relatively few Americans have any savings on which to earn interest income. Those who could reasonably be expected to earn interest income of any significance also have a large principal on which to live or use in retirement. 90% of US citizens, regrettably, are not in that group.

Instead, most Americans are net debtors and lower interest rates increase disposable income. Should inflation increase, the real value of their debt would also decline. Conversely, disinflation and outright deflation lowers disposable income and also increases the value of debt.

Plus, one point which a lot of strategists totally omit, is the fact that with **generational changes, and more and more baby boomers inheriting, the inflows and allocations into equities have been rising, mitigating the affects on spendable income of low fixed income returns.** Hence, why US equity indices are at all time highs, and why US households equities' ownership has moved substantially above 60% again, and is close to the all-time highs of household equity ownership established in the late 90's to peak in 2000.

None of this is to minimize the impact of low rates on savers. But, all things considered, the benefit of lower rates is heavily skewed in favor of the economy at large and 90% of Americans. Like low investment returns, there is a trade-off.

Not to our surprise did the 2014 Q4 US GDP data come in much slower than expected, as the advance estimate by the US Bureau of Economic Analysis showed that GDP growth for the US economy slowed to a 2.6% pace in the fourth quarter over the same period a year ago. This was a sharp slowdown from the stellar 5% rise reported in the final estimate for the third quarter. The BEA releases three estimates of GDP growth, and the third is considered its most accurate estimate for the quarter.



To no surprise to us, the weaker-than-expected reading for the US economy shook markets and economists alike.

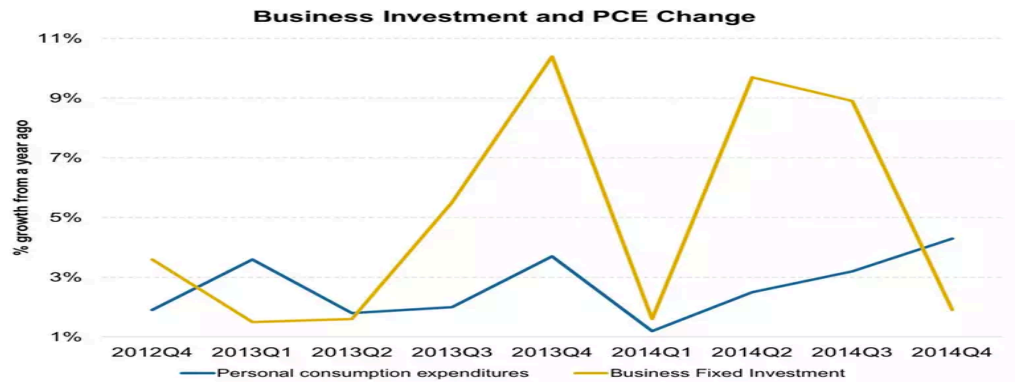
Federal government spending and investment dragged down the GDP. It fell 7.5% in the fourth quarter after growing by 9.9% in the third. Government spending is generally volatile. Defense spending was down 12.5% in the quarter after surging by 16% in the third quarter. Even though state and local government spending and investment rose 1.3% in the quarter after rising 1.1% in the third quarter, it was too little to cover the fall in spending by the federal government.

Another reason for the slow rise in GDP was the rise in imports while exports rose much more slowly. Q4 exports rose by 2.8%, imports surged by 8.9%. This is clear evidence to us, which we have been pointing out for the past 4 months, that a strong US\$ will eventually hurt the US economy substantially when it comes to export competitiveness, and even more on the overall trade balance. Faster growing exports contributed to the GDP in the third quarter when exports rose 4.5% and imports fell 0.9%.

Slowing nonresidential fixed investment, or business investment, contributed to the slowing GDP growth in Q4. Though business investment rose by 1.9% in the fourth quarter, it was much slower than the 8.9% rise reported in the third quarter.

Business investment slowed primarily on account of slowing investment in equipment, which decreased by 1.9% in the fourth quarter after having surged by 11% in the third. This fall was the largest since the second quarter of 2009. Again, as pointed out in the past 4 months, the strong US\$ would have an immediate impact on business spending, as it has a reverse affect on commodities' prices, and in the current case, where Oil and other hard commodities prices have fallen as much as they have, it is instantly impacting business managers' decisions to cut back business spending.

Similarly, it impacts foreign executives to reconsider their manufacturing plans and outlook for their business in the US. As a consequence of the strong US\$, FDI has tanked since June 2014.



Consumer spending strongest since 2006, as personal consumption expenditures (or PCE), which contribute the largest chunk of the GDP, rose 4.3% in Q4, the quickest rise since the first quarter of 2006.

In Q3 PCE rose by 3.2%. The recent fall in prices, which has affected commodities and has saved consumers more money to spend elsewhere.

How did the US GDP fare in 2014?

In 2014, real GDP grew by 2.4% (at exactly our GDP forecast for 2014) from a year ago, versus a consensus GDP forecast of 2.7%, and compared to a rise of 2.2% in 2013. Among the most important factors that helped the GDP rise in the past year were PCE, business investment, strong exports, state and local government spending, and residential fixed investment.

European equity markets commentary & charts

The Eurozone PMI was revised from a preliminary estimate of 52.2, and signaled the economy grew at the fastest pace since July 2014. But even after that acceleration, growth remained modest. The “January-pickup” was driven by service providers in Germany and Spain, while activity in Italy also increased. That left France lagging behind the other major Eurozone economies, as its composite PMI fell to 49.3, and a two-month low. The pickup looks set to be sustained, as new orders rose, and businesses hired additional workers at the fastest rate since mid-2011. But they continued to cut their prices, opting to pass on declines in their own costs as a result of falling oil prices. That behavior suggests the Eurozone won't soon emerge from a period of falling consumer prices. The survey encompasses more than 5,000 businesses across the Eurozone, its composite purchasing managers index rose to 52.6 in January from 51.4 in December.

European equity markets and related ETFs priced in US\$ are leading world equity markets on the upside (helped by weakness in the US\$)



(Helped by past few days weakness in the US\$)



US equity markets commentary & charts

As noted in the past 4 weeks, US stocks are in a consolidation since the December 29th. Stocks continue to bounce around in a range between 1973 (200-day moving average) and the record high at 2093. And it is true that all movement within that range is nothing but noise. What matters is when we break above or below.

Short-term resistance on the S&P 500 Index remains present at 2064, a level that has been tested twice over the past month. Investors continue to speculate on the direction of the break, refraining from placing any significant bets until the breakout occurs. Perhaps hinting of things to come for the rest of the market, the S&P 500 Equally Weighted Index did record a breakout above its short-term range, opening a path towards the all-time high at 3305.72. A short-term positive momentum divergence with respect to MACD is providing reason to maintain an upside bias.

Stocks closed firmly higher on yesterday, led by strength in the energy sector as the price of Oil continues to rebound from the lowest levels since 2009. Major benchmarks posted gains topping 1%, pushing back towards the upper limit of the short-term range that has dominated trading activity since the year began.



The S&P 500 Equally Weighted Index has been outperforming the Capitalization Weighted benchmark over the last few weeks, suggesting positive breadth, typically an indication of further gains in equity prices ahead.

Seasonal tendencies for the broad market can remain volatile, in both directions, through the remainder of earnings season.



Typically these sideways consolidation periods end with the market heading in the same direction it was going before the range bound action began. In this case, that would be to continue moving up to new highs above 2093. And that is what I am expecting.

What would cause the \$SPX to break below the 200-day at 1973?

As we found in October, that breakdown can happen for no good reason at all. Gladly that mess got cleaned up quickly with new highs soon in hand. But typically you need a rash of bad news to make folks question the outlook for the economy.

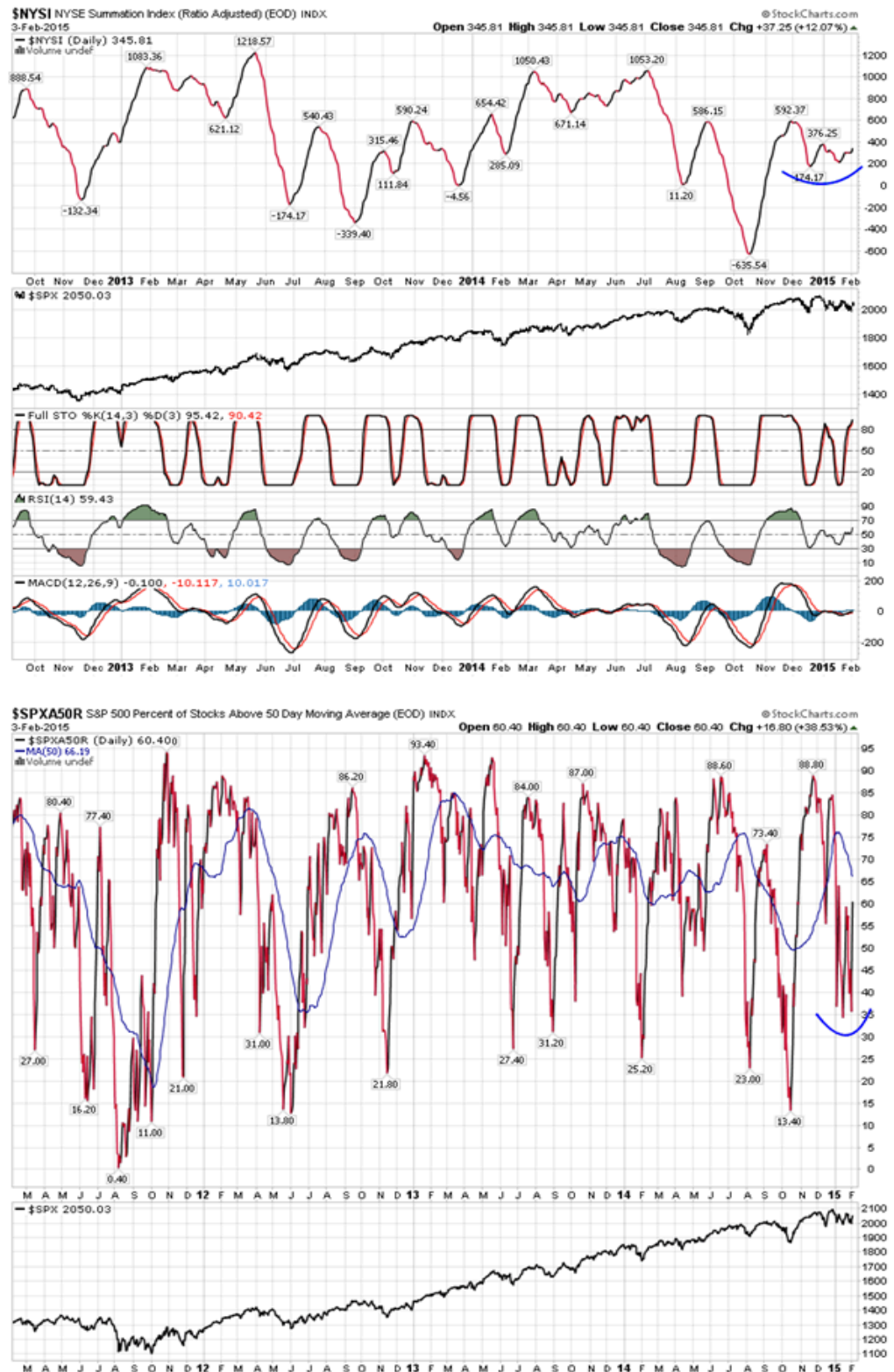
Recent economic data has been lighter than the past several months. Yet we should have expected that +4-5% GDP from the past two quarters was not meant to last. So getting back to 2.0-2.75% growth is more the norm for the US economy and that is what the indicators point to ahead. That should be plenty good enough for the S&P 500 to explore new highs above 2100 and even to our 2,350 target later this year.

Meanwhile, as the NYSE Composite struggles with the same level of short-term resistance as other broad market indices,



The NYSE Cumulative Advance-Dedline line charted a new all-time high during Tuesday's session. This breadth indicator continues to trend positive, suggesting ongoing equity market strength. Typically, divergences in this indicator compared with the price trend of the market can suggest a change in direction of equity prices.

Other indications of breadth, including the NYSE Summation Index and the Percent of Stocks Trading above 50-Day Moving Averages, are also showing signs of curling higher. These hints of strength, assuming they continue to appear, should translate into higher equity prices in the near future.



Yesterday, the Energy sector dominated the list of breakout. The start of the rally last week seemed to coincide with data showing another steep drop in rig counts. The bounce also comes as one oil producer after another announced plans to slash spending in response to the oil-price drop, and as a refinery strike takes a toll on output.

\$XOP completed a double bottom. Crude has roared back by +20% over the last three trading sessions, when Nymex West Texas Intermediate (WTI) oil futures climbed for the first time from \$44 to \$53 a barrel back in 2004, the rally took nearly three months.

And that was a “fairly quick” period for a gain of more than +20%. This time around, oil futures did the same thing in less than three days, rather than three months.



As we wrote last week in our Weekly Market Commentary, “we believe that \$WTIC was close to or possibly at the bottom, when it tested US\$44 a barrel level. The massive drop in rig counts in the US since the beginning of Q4 2014, and particularly the acceleration in the first 20 days in January to 188 rigs being shut down, combined with the massive cuts in capital spending announced by most of the US majors, not to mention a refinery strike, the supply fundamentals have changed fastest in \$WTIC’s history.

The US\$ has been the major driving factor for oil and other commodities priced in US\$. We believe that Oil’s plunge since June 2014 was primarily the result of the US\$ parabolic rally.

As the chart indicates, the parabolic move in the US\$ Index suggests that the benchmark is vulnerable to a near-term decline down to levels of support at the 20-and 50-day moving averages.

The broken long-term level of resistance provides horizontal support at 89.



Seasonally, the US\$ Index remains in a period of strength through to the end of Q1.



As we stated in our 2015 Global Investment Strategy, we believe that from a structural and fundamental aspect, as well as from chart-technical considerations, we do see commodities, and particularly Oil rebound substantially, once the US\$ rally paused. We are not convinced that with \$WTIC now at US\$ 51.48/bbl, having rebounded from a “temporary bottom of US\$ 44” has set a clear bottom in place, however, if that were not the case, a final bottom will be close, as the production adjustments that have been made in Europe, the US and Canada in the past 4 months are substantial

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

Sabine CJ Blümel, Head of Global Automotive Research

sblumel@cg-inv.com

office: +44 (7785) 301588

London, UK

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

Trish Twining, Managing Director of Sales

ttwining@cg-inv.com

office: 7817710117

Boston, MA, USA

Allison M Cimon, Director of Sales & Technology

amcimon@cg-inv.com

office: 646 228 4321

Boston, MA, USA

Gary Schieneman, Managing Director,

Global Accounting and Finance

gschieneman@cg-inv.com

office: 917-868-6842

New York, NY, USA

Jennifer Crisman, COO

jcrisman@cg-inv.com

office: +(352) 26 25 86 40

Luxembourg/Europe

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