



Creative Global Investments

Weekly global equities strategy & charts

Monday, February 12th, 2018

Geo-political and macro commentary

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Objectivity

Integrity

Creativity

In Asia, Japan's government has decided to nominate Haruhiko Kuroda for a second term as governor of the central bank when his current one expires in April, a sign the country's ultra-loose monetary policy will remain in place. The reappointment, widely expected by financial markets and reported late on Friday by Japanese media, will heighten the chances the BOJ will stick to its policy of capping borrowing costs around zero. This offers some relief to investors jittery about signs that some major central banks may dial back their crisis-mode policies earlier than expected. We see this as a sign of stability and are expecting a positive impact on Japanese equities overall.

In Europe, the ECB is concerned that the US is exerting "political influence" on exchange rates and will make this a theme at upcoming G20 meetings, ECB policymaker Nowotny said in an interview on Sunday. "We in the ECB are certainly concerned about attempts by the US to politically influence the exchange rate". "That was a theme of economic discussions in Davos, where the ECB addressed this, and it will certainly be a theme at the upcoming G20 summit." the US Treasury department was deliberately putting downward pressure on the USD. A weaker USD tends to benefit large US multinational companies, but it can also make imports more expensive and hurt consumers. The USD has fallen 2% this year and declined 10% in 2017. The next G20 summit will be held next month in Argentina.

In the Americas, the White House budget proposal projects US economic growth of 3.2% next year, before declining to 3% in 2021 and 2.8% in 2026. The budget, which is due to be released on Monday, assumes the 10-year Treasury yield will average 2.6% this year and 3.1% next year before rising to 3.7% by early next decade

Equities commentary & charts

As we had been forecasting in last week's equities strategy report, whilst the US stocks recovered after hitting a bottom, the USD retreated after shooting up on last Friday 9 February. The USD has been on the rise before Wednesday before saw wild swings on both Thursday and Friday. The potential US government shut-down in the past days has little impact on the markets. In addition, the precious gold and silver posted about 1% weekly losses against the backdrop of the sharp declines in the US stocks which drew a lot of attentions. Investors will also turn their attention to Trump's infrastructure plan and the US CPI and retail sales for January this week.

Longer term, the seasonal affects for EU equities remain positive until early May. Again, this is due to the fact that most companies in Europe are paying out their prior year's dividends after their announcements of full year results starting in February and lasting for some until the end of May. (The original causes of "Sell in May & Go Away").

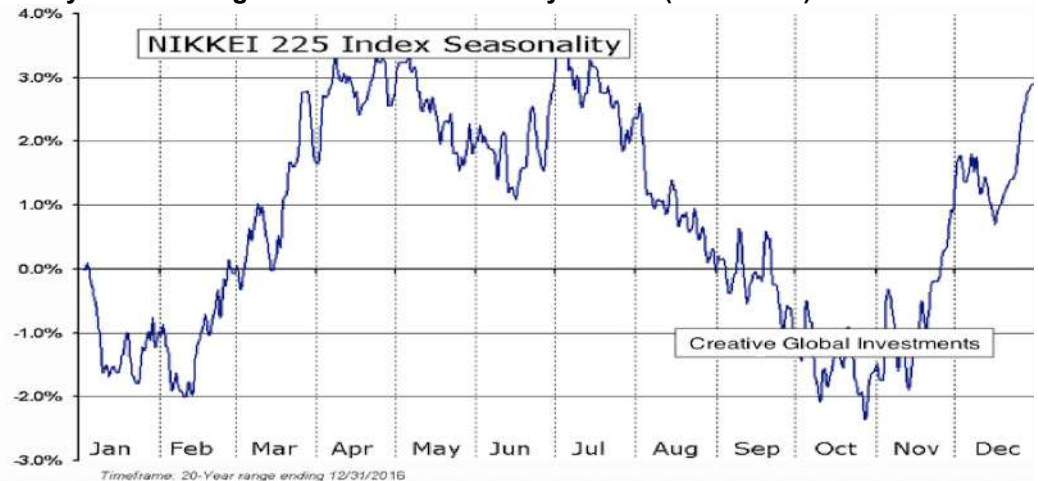
In Asia, equity markets outside of North America were hit harder than North American equity markets last week. The Shanghai Composite was notably dropped by -9.60%.

We like to reiterate our positive stance on Japanese equities, combined with partial hedging of the Yen, as the BoJ's continued easing, and the potential to drive it lower against major currencies including the US\$, Euro, and AUD, are fundamentally very attractive, and also will benefit from a seasonal period of strength until end of March (end of fiscal year 2017).

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Foreign investors are still tremendously underweight in Japanese equities, both on a trade weighted and an overall GDP-weighted basis, and we think there is room for significant further upward momentum in the short-medium term. We continue advising to use those for long-term asset allocation build-ups to overweight Japanese equities on a relative basis, as we do see more value in Japanese equities still at current valuations than in the US.

Today, it trades at 21,382, however, the period of seasonal strength for the N-225 is only about to begin from now until fiscal year end (March 31st).

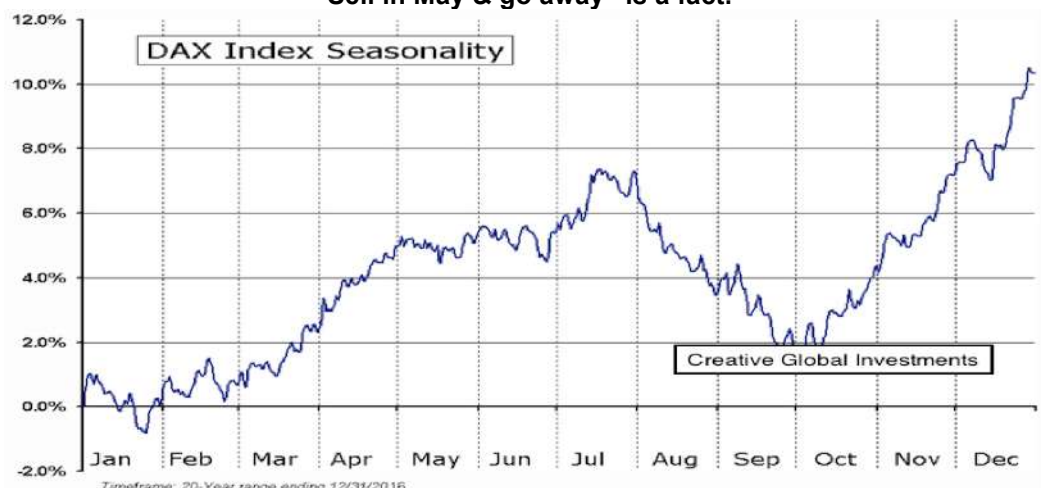


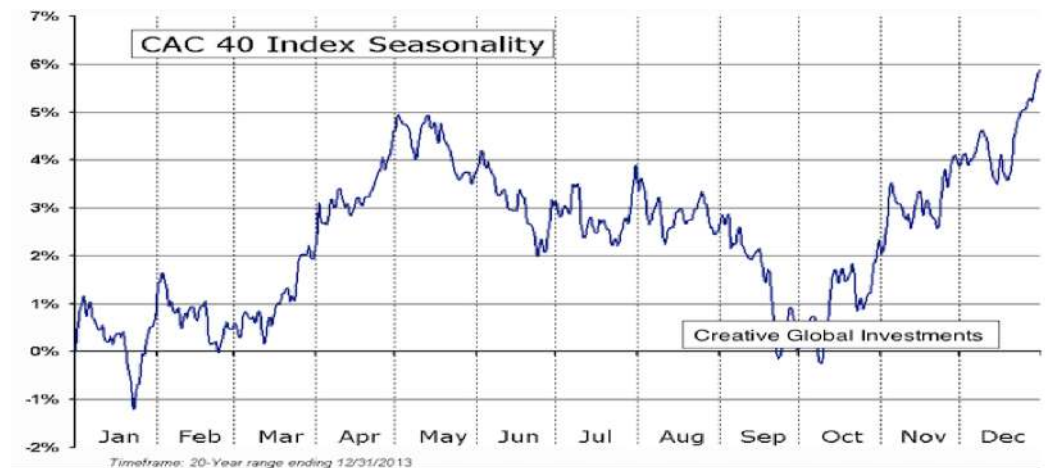
In Europe, rising bond yields and the rising Euro cause equity markets to drop, with Friday capping off the bad week with a sharp decline across the board. The coming week could see the USD weakness to resume and that could hurt European equities further. If bond yields keep rising however, we could see more declines for European equities, despite weakness from the Euro and Pound.

One has to keep in mind that European equity indices have now exited their historic year-end period of seasonal strength, which gives investors a great entry opportunity to fully load up on financial and industrial stocks, same for utilities, energy and automotive stocks, which are paying above market average dividends in the upcoming 4 months.

European high dividend-yield stocks have historically outperformed over the period of November to May, as fund managers are looking at the upcoming annual dividend payout season to own the high yielding stocks. Once post pay-out of the annual dividends, balanced fund managers tend to sell those stocks and “park” their clients money in either government bonds, currencies, or alternatives until October.

Hence, why there is such a seasonal performance disparity in those sectors:
“Sell in May & go away” is a fact.





The sectors that were under the most downside tax loss selling pressures were the energy, oil services and gold sectors. Selected stocks in the gold and precious metals sectors moved strongly higher late last week implying that seasonal influences may have come sooner than normal this year. **We see any weakness in European equities to provide investors with a buying opportunity for a seasonal trade in these sectors into spring. Energy and oil service stocks began showing technical signs of outperformance late last week, an encouraging technical sign prior to entering their period of seasonal strength.**

In the US, short term political uncertainties remain, including North Korean “sabre rattling”, struggling NAFTA negotiations, possibly another shut-down of the US government and increased scrutiny by special council on Russia’s influence on the Presidential election

US economic news this week focuses on inflation. CPI and PPI are expected to record significant monthly and year-over-year gains.

Good corporate news was bad news for North American equity markets last week. Q4 earnings and revenues reports continued to exceed expectations. Analysts significantly raised their estimates for 2018. However, “sell on news” dominated short term technical action. Key moving averages were broken (Most frequently, the 50 day moving average of broadly based equity indices and major sectors). Automated selling took over from there. Volatility spiked. North American equity markets already are deeply oversold prior to start of their strongest period of seasonal strength from the end of February to the end of April.

Technical action by individual S&P 500 stocks turned bearish last week. Number of stocks breaking resistance totaled 3 while number of stocks breaking support totaled 183. Number of stocks trading in an uptrend decreased to 210 from 319, number of stocks trading in a neutral trend increased to 102 from 55 and number of stocks in a downtrend increased to 188 from 126 The Up/Down ratio plunged last week to $(210/188=)$ 1.12 from 2.53

Medium term technical indicators in the US (Percent of stocks trading above their 50 day moving average, Bullish Percent Index) moved significantly lower last week, but have yet to show signs of bottoming.

Short term technical indicators for US equity markets and most sectors (short term momentum, above/below 20 day moving average) continued to trend down and have yet to show signs of bottoming.

Now is the time to watch closely for sectors and markets that show positive strength relative to the S&P 500 Index. They likely will be top candidates for purchase during the next month when technical bottoming is likely. Short and intermediate technical indicators for most markets and sectors are deeply oversold and have yet to show signs of bottoming.

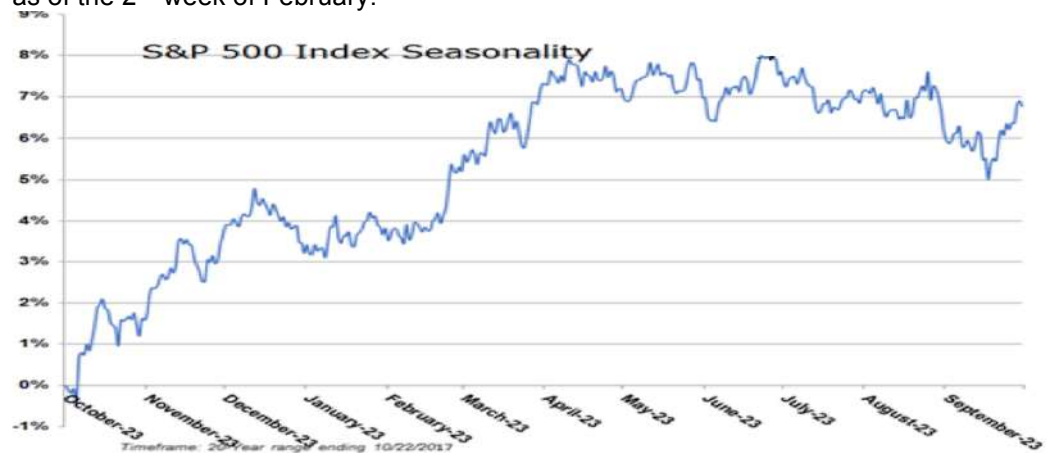
Q4 reports released by S&P 500 companies to date have been encouraging. 68% of S&P 500 stocks have reported to date. 74% reported higher than consensus earnings and 79% reported higher than consensus revenues. The outlook for S&P 500 earnings and sales remains positive:

- Q4 adjusted earnings (excluding one-time write downs related to the tax bill) are expected to increase 14.0% (Up from 13.4% last week) on a 8.0% increase in sales (up from 7.5% last week).
- Estimates beyond Q4 of 2017 were revised higher again mainly due to changes in US corporate tax laws.
- Q1 2018 earnings are expected to increase 16.9% on a 7.4% increase in sales (Up from 7.1%).
- Q2 2018 earnings are expected to increase 18.7% (up from 16.0%) on a 7.8% increase in revenues (up from 7.2%). Q3 earnings are expected to increase 20.3% (up from 18.3%) on a 6.5% increase in revenues. Q4 earnings are expected to increase 17.3% (up from 14.2%) on a 5.0% increase in revenues (up from 4.8%).
- Full year 2018, earnings are expected to increase 18.5% (up from 16.8%) on a 6.5% increase in sales (up from 6.4%).

Earnings and revenue prospects beyond Q4 report season are very good for US based companies with international exposure. Consensus S&P 500 y-o-y earnings are expected to rise +18% in 2018. Earnings will benefit significantly from y-o-y weakness in the USD when revenues and earnings from international operations are translated into USD's. US based companies with 50% of earnings and revenues coming from international operations will see earnings and revenues increase by +6.5% from foreign currency translation alone following a -13% fall in the USD from its high at 103.82 in January 2017. The USD averaged 100 in Q4 of 2016 and 101 in Q1 of 2017. **We maintain our 2018 target price of 80.0 for the USD**



Seasonal influences on US equity indices and economic sensitive sectors turn Positive as of the 2nd week of February.



Asian equity markets weekly charts

The BSE lost 1060.99 points (3.03%) last week.



\$BSE remains close to the lower trendline. Price closed below the 20-day MVA.

Short-term momentum indicators are Negative.

The Nikkei Average dropped 1891 points (8.13%) last week.



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

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

\$SSEC Shanghai Stock Exchange Composite Index (EOD) INDX © StockCharts.com

9-Feb-2018
Open 3172.85 **High** 3180.11 **Low** 3062.74 **Close** 3129.85 **Chg** -132.20 (-4.05%)

\$SSEC (Daily) 3129.85
 MA(20) 3446.42
 MA(50) 3374.52
 MA(200) 3291.24
 Volume undef

14 21 28 Sep 11 18 25 Oct 16 23 Nov 6 13 20 27 Dec 11 18 26 2018 8 15 22 29 Feb

\$SSEC:\$SPX 1.195
 MA(50) 1.241

RSI(14) 21.98

MACD(12,26,9) -31.685, 10.782, -42.467

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The \$SSEC remains below the 20-day MVA. Short-term momentum indicators are Negative and significantly Oversold.

The \$SSEC remains below the 20-day MVA. Short-term momentum indicators are Negative and significantly Oversold.

\$SSEC Shanghai Stock Exchange Composite Index (EOD) INDX © StockCharts.com

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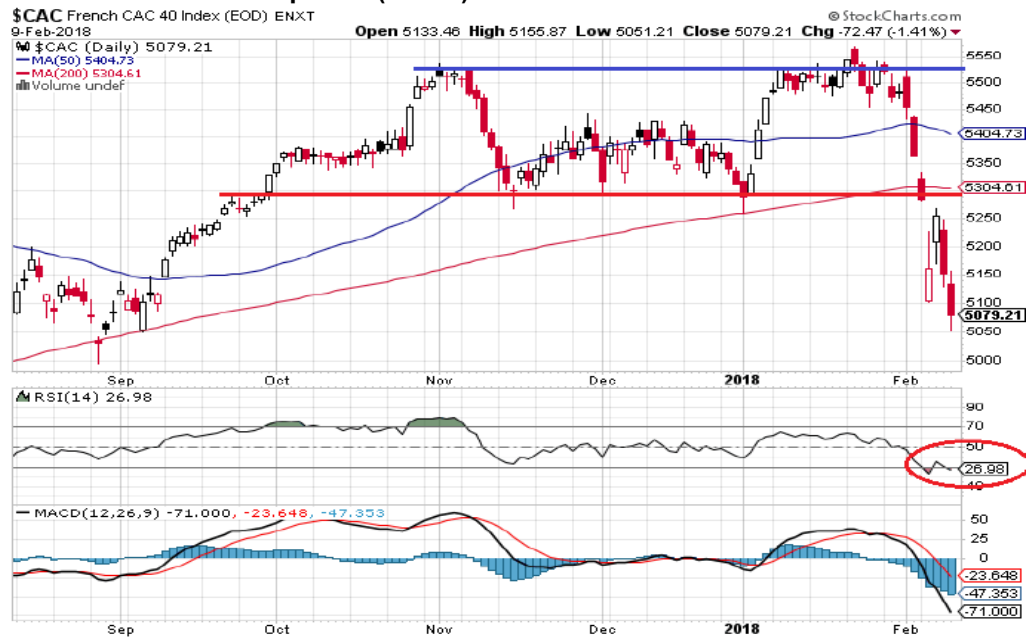
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The Hang Seng dropped 3094 points (9.49%) last week.

Intermediate trend is Negative. \$HSI broke through the important 30 000 level.

The \$SSEC moved below the 50-day MVA. Short-term momentum indicators are Negative.



The CAC 40 lost 285.77 points (5.33%) last week.**The AEX 25 dropped 31.75 points (5.77%) last week.****The IBEX 35 lost 571.60 points (5.60%) last week.**

The FTSE dropped 143.85 (1.86%) last week.

Intermediate trend changed from Neutral to Negative. FTSE is going to test the 50-day MVA. Price remains below the 20-day MVA.

Short-term momentum indicators are Negative.

The RTSI dropped 80.26 (6.32%) last week.

Intermediate trend changed Neutral to Negative. RTS found some support at the previous year highs. Price remains below the 20-day MVA.

Short-term momentum indicators are Negative.

The SMI dropped 538.69 (5.84%) last week.

Intermediate trend is Negative. SMI gapped through the important 9050 level. Price remains below the 20-day MVA.

Short-term momentum indicators are Negative.

US equity markets weekly charts

The VIX Index gained 11.75 (67.88%) last week.

Intermediate trend remains Positive. The Index remains above the 20-day MVA. VIX is ranging after a big breakout.



The S&P 500 Index lost 142.58 points (5.16%) last week.

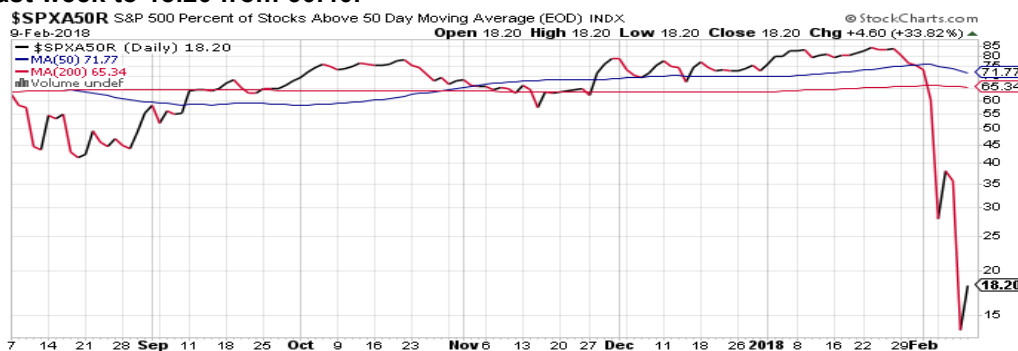
Intermediate trend is Negative. The Index closed below its 20-day MVA. \$SPX broke through the 50-day MVA but rejected of the 200-day MVA.

Short-term momentum indicators are Negative.



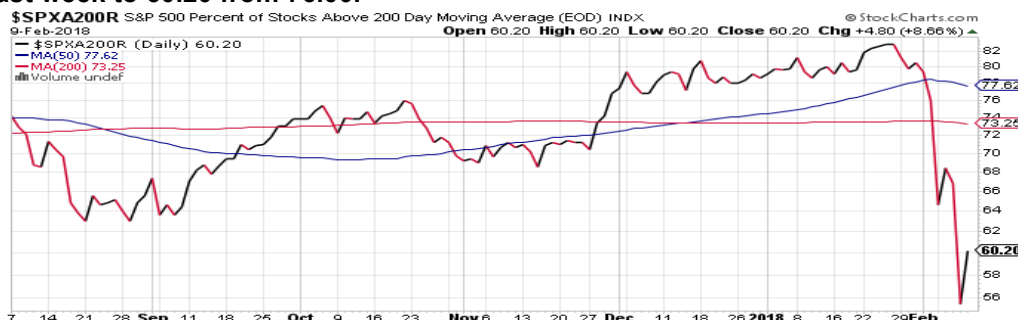
Percent of S&P 500 stocks trading above their 50-day moving average dropped last week to 18.20 from 60.40.

The Index remains below the 50-day MVA.



Percent of S&P 500 stocks trading above their 200-day moving average dropped last week to 60.20 from 76.00.

The Index remains below the 50-day MVA.

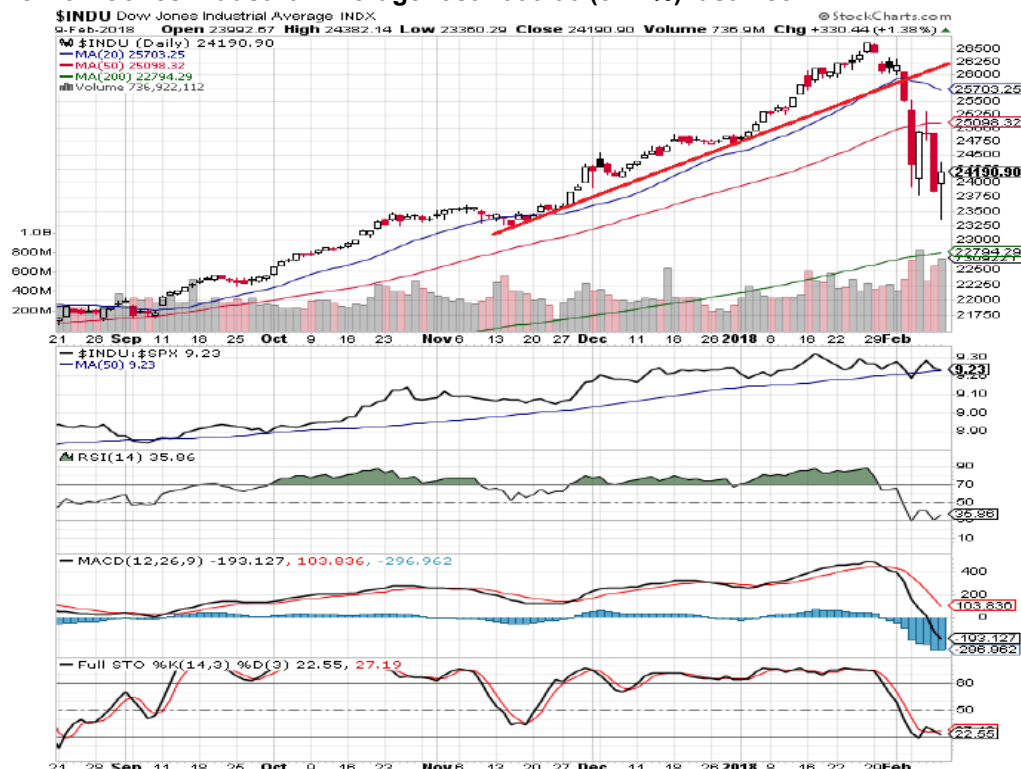


Bullish Percent Index for S&P 500 stocks dropped last week to 40.40 from 77.80 and moved below the 50-day moving average.



The Index moved below the 200-day MVA.

The Dow Jones Industrial Average lost 1330.06 (5.21%) last week.



\$INDU crashed to the Q4 17 levels. Strength related to the S&P 500 is on the 50MVA.

The INDU moved below its 20-day MVA. Short-term momentum indicators are Negative.

Bullish Percent Index for Dow Jones Industrial Average dropped last week to 43.33 from 83.30 and remained below its 20-day moving average.



The Index remains below the 50-day MVA.

The Dow Jones Transportation Average lost 550.57 (5.15%) last week.

Dow Jones Transportation Index crashed all the way to the important support at 10 000. Strength relative to the S&P 500 is Negative. The \$TRAN remains below its 20- day MVA.

Short-term momentum indicators are Negative.



Bullish Percent Index dropped last week to 50.42 from 65.89 and remained below its 20-day moving average.

The Index moved below the 200-day MVA.



The NASDAQ Composite Index lost 366.46 points (5.06%) last week.

\$COMPQ crashed through the lower bound of the channel. Strength relative to the S&P 500 Index remains Positive.

The Index remains below the 20-day MVA.

Short-term momentum indicators are Negative.



The Russell 2000 Index dropped 69.44 points (4.49%) last week.



\$RUT tested the 200-day MVA. Strength relative to the S&P 500 Index remains Negative.

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

The S&P Energy Index lost 45.39 points (8.46%) last week.



Intermediate trend changed from Neutral to Negative. **\$SPEN** broke through the 200-day MVA and an important support. Strength relative to the S&P 500 Index is Negative.

The Index remains below the 20-day MVA. Short-term momentum indicators are Negative and Oversold.

The Philadelphia Oil Services Index dropped 15.89 points (10.54%) last week.



\$OSX broke through the lower trendline. Strength relative to the S&P 500 remains Positive.

The Index moved below its 20-day MVA. Short-term momentum indicators are Negative.

The AMEX Gold Bug Index lost 13.49 points (7.17%) last week.

\$HUI broke through the support at 185.

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

The Index remains below 20-day MVA. Short-term momentum indicators are Negative.



Americas equity markets weekly charts

The BOVESPA dropped 3142 points (3.74%) last week.

\$BVSP corrected towards the support and rejected of the 80 000.

BVSP remains above the 20-day MVA.

Short term momentum indicators are Negative.



The Mexican Bolsa lost 2596 points (5.15%) last week.

Intermediate trend changed from Neutral to Negative. \$MXX rejected from the support at 47 000.

\$MXX moved below the 50-day MVA.

Short-term momentum indicators are Negative.



Bullish Percent Index for TSX Composite dropped last week to 56.00 from 66.40 and moved below its 20-day moving average.

The Index remains below the 50-day MVA.



The TSX Composite Index lost 571.50 points (3.66%) last week.

Intermediate trend is Negative. The Index broke through the 200-day MVA.

The Index remains below the 20-day MVA. Short-term momentum indicators are Negative and significantly Oversold.



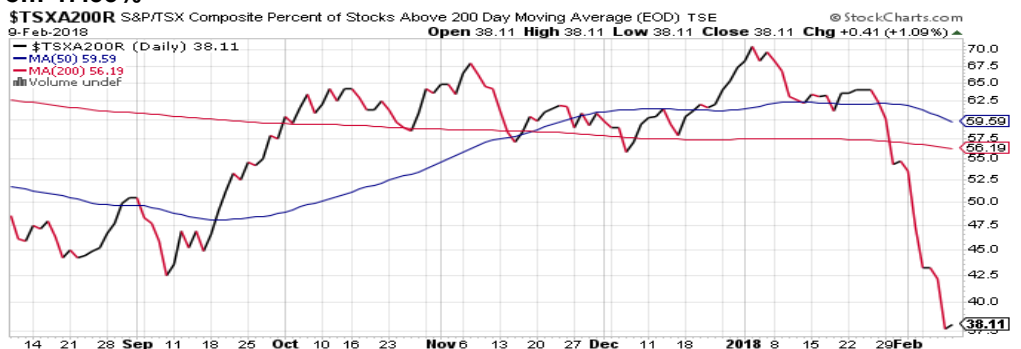
Percent of TSX stocks trading above their 50-day moving average dropped last week to 13.11 from 23.46 % and remained below the 200-day moving average.

The index remains below the 50-day MVA.



Percent of TSX stocks trading above their 200-day dropped last week to 38.11% from 47.33%

The index remains below the 200-day MVA.

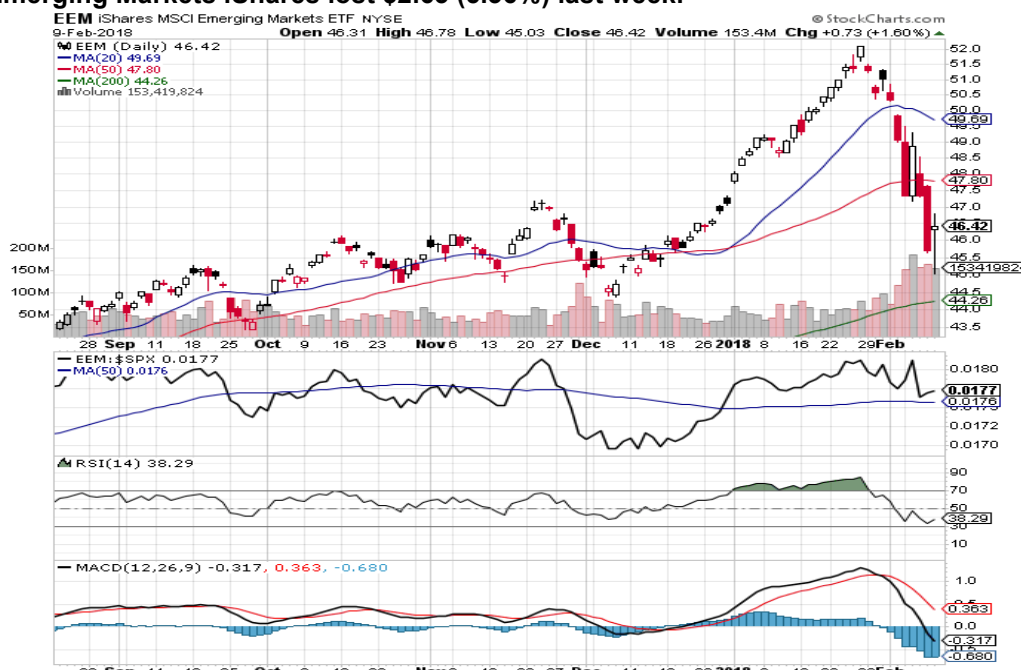


EM equity markets weekly charts

Emerging Markets iShares lost \$2.63 (5.36%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 Index remains Positive. EEM erased the YTD gains.

Units remains below the 20-day MVA. Short-term momentum indicators are Negative.



The Australia All Ordinaries Index dropped 292.30 points (4.69%) last week.

Intermediate trend changed from Positive to Neutral. Strength relative to the S&P 500 Index is Positive. \$AORD broke through the lower trendline but was stopped by the 200-day MVA.

The \$AORD moved below the 20-day MVA. Short-term momentum indicators are Negative.



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