



Creative Global Investments

Morning Market Commentary

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European Economic Outlook for 2013

Clearly,more mixed macro news ahead.

The European Commission today said the Eurozone economy would shrink in 2013, after previously predicting that it would grow slightly. Delivering its winter forecast, vice-president Olli Rehn said the 17 economies in the Eurozone would collectively shrink by 0.3% this year.

The Commission had previously predicted overall GDP growth of 0.1%. But it is also predicting that the Eurozone will see 0.7% growth in the fourth quarter.

Most economic forecasters have been revising down their European growth estimates, after the global economic recovery showed signs of faltering in the final quarter of 2012.

For example, in January the IMF said it expected the Eurozone to fall into "mild recession" in 2013, having previously predicted growth. It also predicted that the UK would grow 1% in 2013, compared with the 1.1% previously forecast.

The World Bank also revised down its global growth forecasts earlier in January.

But the ECB's president Mario Draghi believes the Eurozone will begin recovering in the second half of this year.

And this week, Germany's Bundesbank said Europe's biggest economy would avoid recession and return to growth in the first quarter of 2013, after shrinking 0.6% in the last three months of 2012. It expects Germany to continue growing throughout 2013.

Today, Germany announced its Ifo Business Climate index jumped to 107.4 in February, exceeding expectations of a 104.7 reading.

At the same time, Spain's budget deficit widened to 10.2 percent in 2012, the most in three years, swollen by the cost of bailing out the banking system and a shortfall in tax revenue, the European Commission forecast.

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US Market Commentary & Charts

As we had warned ten days ago, the VIX under 15 is a very unsustainable and unrealistic price, and the past days' breakout above 15 may lead towards our next target of 20.

As we were expecting, stocks remained under pressure Thursday with a quick breach of 1500. This test was quickly rejected with the S&P ending the session at 1502.42.

The number of excuses for the market to sell off has increased. However, they are not more than "excuses" because there are many more logical reasons for the market to go higher. But, as we all know, stocks never make a straight line from the bottom to the top.

We see technical evidence for the long-term bullish trend to remain intact until there are greater odds of a looming recession. Or until stocks become overvalued. Neither is a real concern right now. Not even with the government cost cuts from the sequester going through post March 1st.



The temporary strength in the US\$ continues to weigh on equity markets and also on commodities prices.



We notice increasingly more technical factors and evidence to point to an intermediate correction, such as:

The S&P 500 Index closed below its 20 day moving average.



The percent of S&P 500 stocks trading above their 50 day moving average broke decisively below the 80% level.



The Russell 2000, our favorite equity index in the US, also broke support, and a retracement towards 870 may be likely.



Just like some major sector ETF's are showing a break below the 20-daymva



The technology sector is seasonally still out of favor between now and April.

Apple stock continues to look for a lower price.

The gap down from January is a major sign of more selling volume to possibly join the carnage in the once biggest stock in the world.

Shares of Apple have not moved above its 50-day moving average since September of last year, precisely when the new iPhone and iPad were launched.



Asian Market Commentary & Charts

The Shanghai index dipped in October 2012 below the 2,000 level for the first time, which seemed to us to be a tremendous buying opportunity for underinvested US and European Institutions.

The SSEC is overbought from a short-term technical perspective, and we have identified two major support levels for the SSEC in the short term.

The first support being at 2,320, the next one being at 2,238.

We maintain our 2013 price target for the SSEC at 2,900.



European Equity Markets Commentary & Charts

A similar fragment picture exists for the European Equity Markets. Whilst the macro and fundamental picture is not improving, the case for “buying” and “adding” towards stocks into any type of correction increasingly makes sense, particularly from a classical dividend discount model aspect, as equities are cheap on a relative basis versus bonds.

Weakness was also noticeable in European equity markets, particularly in Italy, with only two days ahead of the countries most important Presidential election.



Also notably weaker in Europe was the Athens Index following another march on Greece’s parliament buildings.

Clearly, treasury yield spreads in most of the peripheral European markets are narrowing versus German and French bond yields, increasing the attractiveness for equities in those countries.



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