



Creative Global Investments

Morning market commentary & charts

Wednesday, February 25th, 2015

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

Integrity

Creativity

After the FOMC meeting notes, it seems that Ms. Yellen is now altering the FED's focus away from employment, GDP and other determining interest rate policies' factors to one of the economic indicators, which we had been highlighting as one of our main benchmarks for our forecasts on FED related policy changes, and our 2015 assumptions on

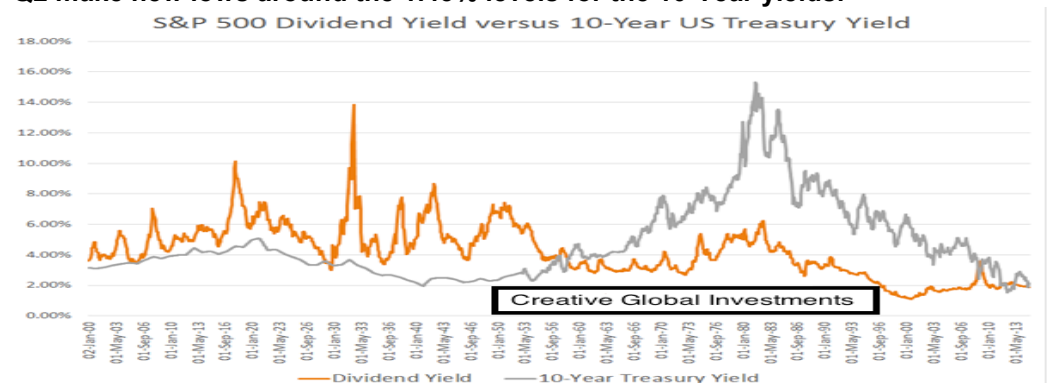
"No FED rate hike until 2016"!

namely **consumer price inflation indicator (CPI)**. The fact that CPI is still decelerating and significantly below the 2.0% benchmark, which the FED is using as a pivotal point of inclusion into monetary policy changes, Ms. Yellen sees no need to raise interest rates currently. Ms. Yellen inferred that the likely trigger to raise rates is when inflation starts getting back up towards their 2% target. **With inflation declining towards 1%, and likely below that level in the coming months, due to US\$ strength and consequently imports increasing and abating inflation, then it means the rates hikes are a long, long way off.**

Hence, we maintain our baseline forecast for 2015 of "No FED rate hike in 2015", as the global inflationary pressures (data released by the Fed last Wednesday, US industrial production rose a seasonally adjusted 0.2% in January, falling short of the expected 0.4% increase) are still declining, and we see increasing macro-economical evidence of the US economy slowing, and of our baseline forecast becoming more widely be accepted both by central bankers and by market participants.

Consequent to the market slowly adapting to our base line scenario, we do see a strong case for renewed allocations towards high yielding equities mostly outside of the US, particularly in the case of Japan and Europe, as those equities markets have entered their periods of seasonal strength until April for Japan, and mid-May in the case of Europe.

In the US, dividend yields on S&P 500 stocks are clearly exceeding the yields on 10-Year Treasuries. We believe that the recent statements by the FED and Ms. Yellen will prompt additional rotation into equities, but nevertheless, **we also do see 10- and 30-Year Treasury Yields declining towards the previous lows, and eventually in late Q2 make new lows around the 1.45% levels for the 10-Year yields.**



IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.

US treasury bonds showed a swift and prominent reaction to Yellen's testimony, jumping higher following sharp losses recorded since the start of the month. As we were highlighting in reports over the past 5 weeks, the treasury market after the recent month's short term correction now appears poised to make a run back towards the previous high as it attempts to keep the long-term positive trend alive, but seasonal tendencies may present a headwind over the months ahead.

The treasury market remains in a period of seasonal weakness that spans the months of February, March, and April. Earlier this month we highlighted the significant level of trend line resistance that the 30-Year Treasury Bond had encountered, trading immediately lower following the test. Although the present trading channel suggests a positive long-term trend for the treasury market, past instances have shown that the price of the long-term bond has been inclined to test the lower limit of the channel over the months that have followed a test of resistance. That would imply that the price of the long-term treasury bond could trade down to around \$135 over the course of the next year. Despite this resistance, there is no sign of a significant long-term topping pattern that would suggest a conclusion to the over 30-year old bull market trend in the treasury market.

For balanced fund managers, any potential weakness in the bond markets over coming months could be a catalyst for higher equity prices as investors rotate from one asset class to the other.



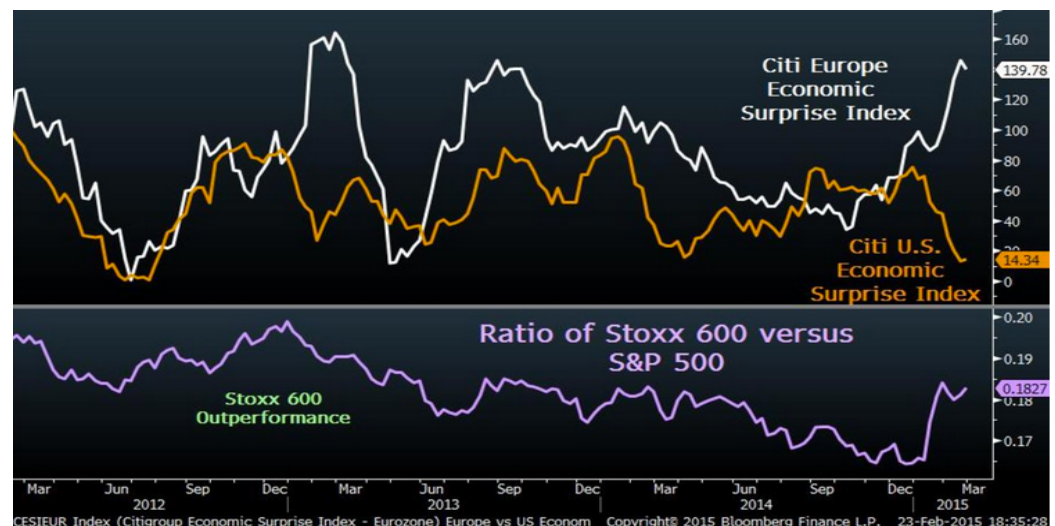
For global equities investors, there are significantly better value and return opportunities outside the US

Why European and Japanese equities are better value than US equities, and why the outperformance for European equities will likely last for a long time? Let's look at the short list:

1. Better relative short to midterm macro outlook
2. Weak Yen and Euro tailwind for Japanese and European exporting companies significant, and not at all factored in by investors and valuations yet (and strong US\$ headwind for US companies having the reverse affect, not factored in by investors in US assets)
3. Better political landscape (no elections for a few years)
4. Lower interest rate environment (financial restructuring opportunities earlier stage and greater and more favorable for European Equities)
5. Higher equity yields for Europe (3.1% for Eurostoxx 600 vs. 1.95% for SPX)
6. Lower equity valuations (P/E; P/BV)
7. Household ownership of equities in Continental Europe at multi-year lows, like in the case of Germany all-time lows (approx. 7.5% vs. 20% in 2000)
8. Regulatory changes going into affect to attract long-term bond investors to switch into equities (Pension funds; Insurance companies)

1. Macro divergence between US and Europe decelerating

Economic data in Europe are topping forecasts by the most in almost two years, helping the region's equities outstrip shares in the US, where reports have been missing estimates. The European Commission raised its Eurozone growth forecasts this month to 1.3 percent for 2015 and 1.9 percent next year. Our 2015 forecasts for the US economy are to expand by 2.2% for 2015 (2.6% consensus, however not factoring in the negative impacts of the strong and overvalued US\$); releases in February have shown that data from manufacturing to retail sales and industrial production have missed projections.



Exports:

US exports to continue to decline due to strong US\$

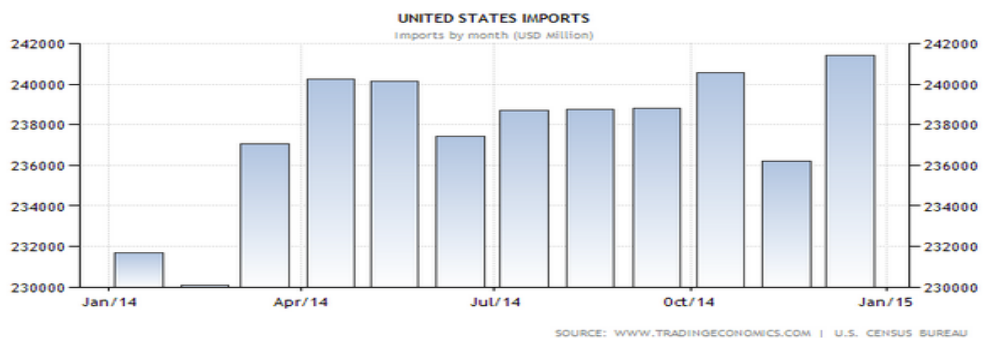


Eurozone exports to continue to rise due to weak EURO



Imports:

US Imports continue to rise due to strong US\$

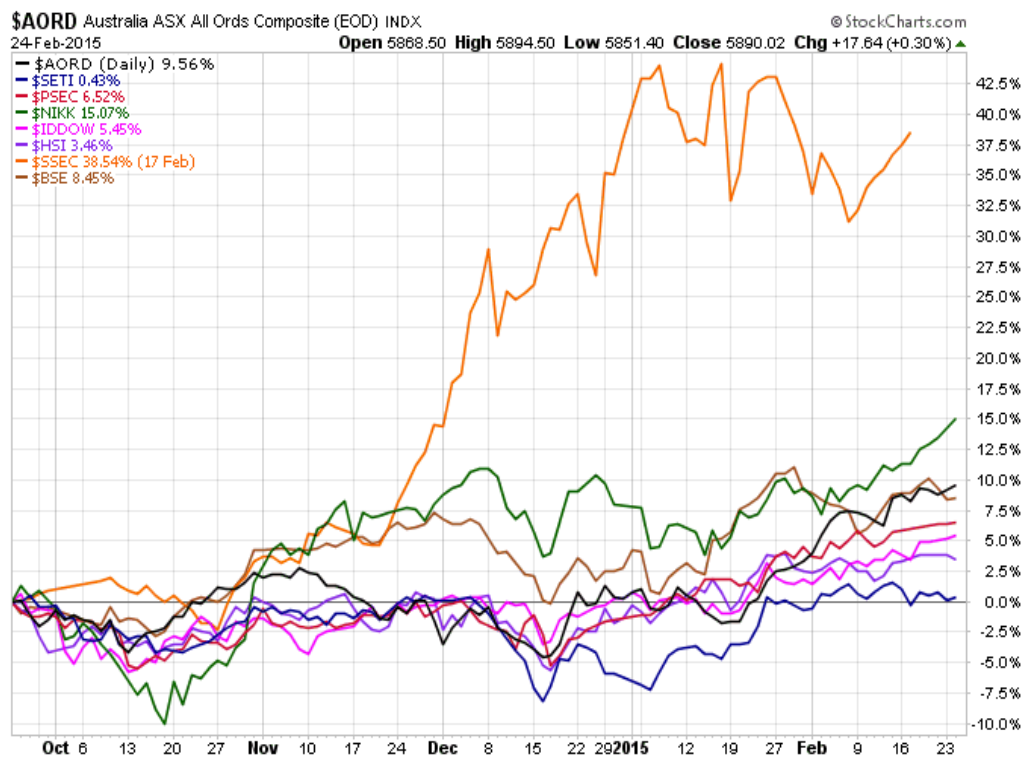
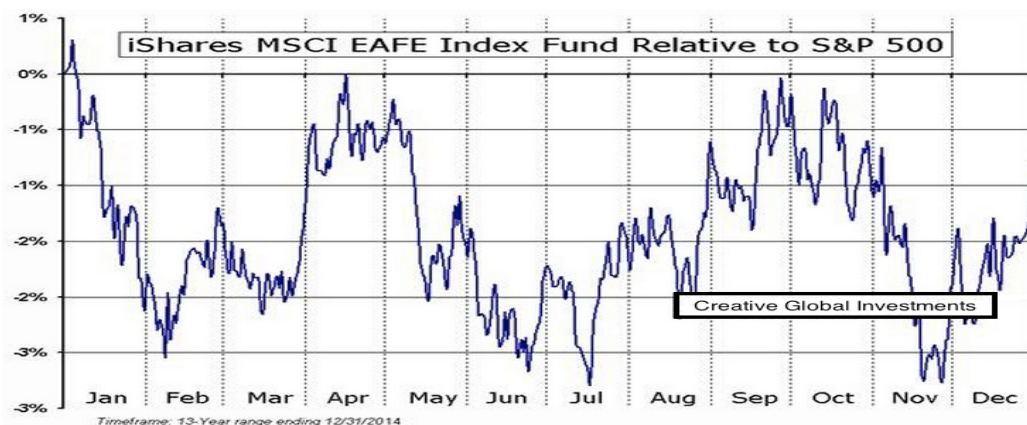


European imports continue to decline due to weak EURO



EAFE stock indices have entered their period of seasonal strength versus US stocks

EAFE equities' indices have entered a period of seasonal strength relative to the S&P 500 Index.



The 25-year chart below shows the Nikkei-225 gaining momentum relative to the S&P 500. The N-225 is at a 20-year low forward P/E multiple of 13.5x, and a 25-year low P/E comparison to the S&P 500. We continue to advise investors to increase allocations towards Japanese equities and towards the \$NIKK in particular, as we see the structural changes made by Abe's government gaining traction and delivering tangible results, and Japanese investors increasing exposure into domestic equities.



The short-term chart shows the \$NIKK breaking above a double top and ready to move towards new highs, as both RSI and MACD and other short-term indicators are positive.

Our short-term target for the \$NIKK is 20,000.

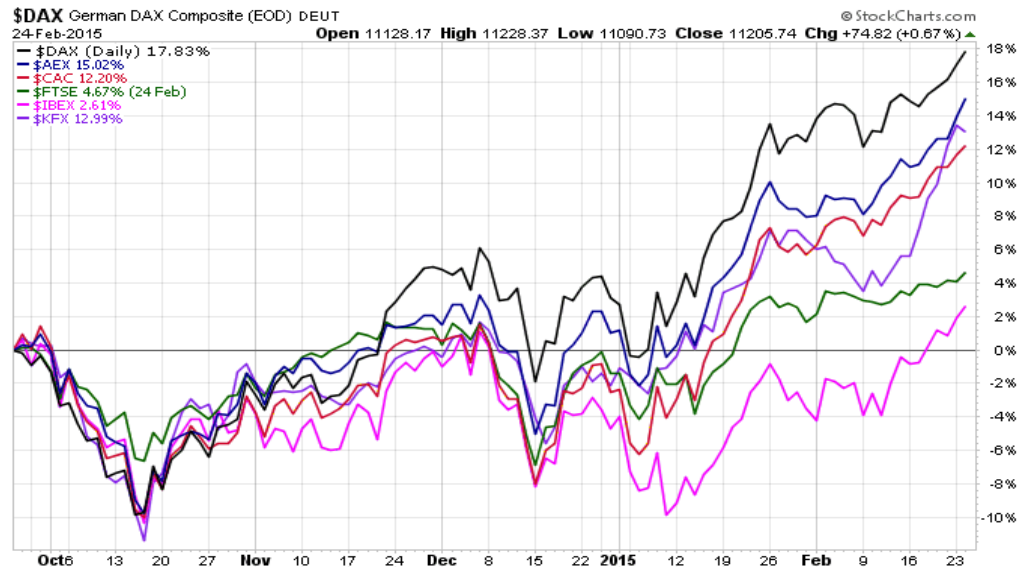


Historically, the N-225 is in a period of seasonal strength from January until early April (in part due to fiscal year end {March 31st} window dressing related performance).



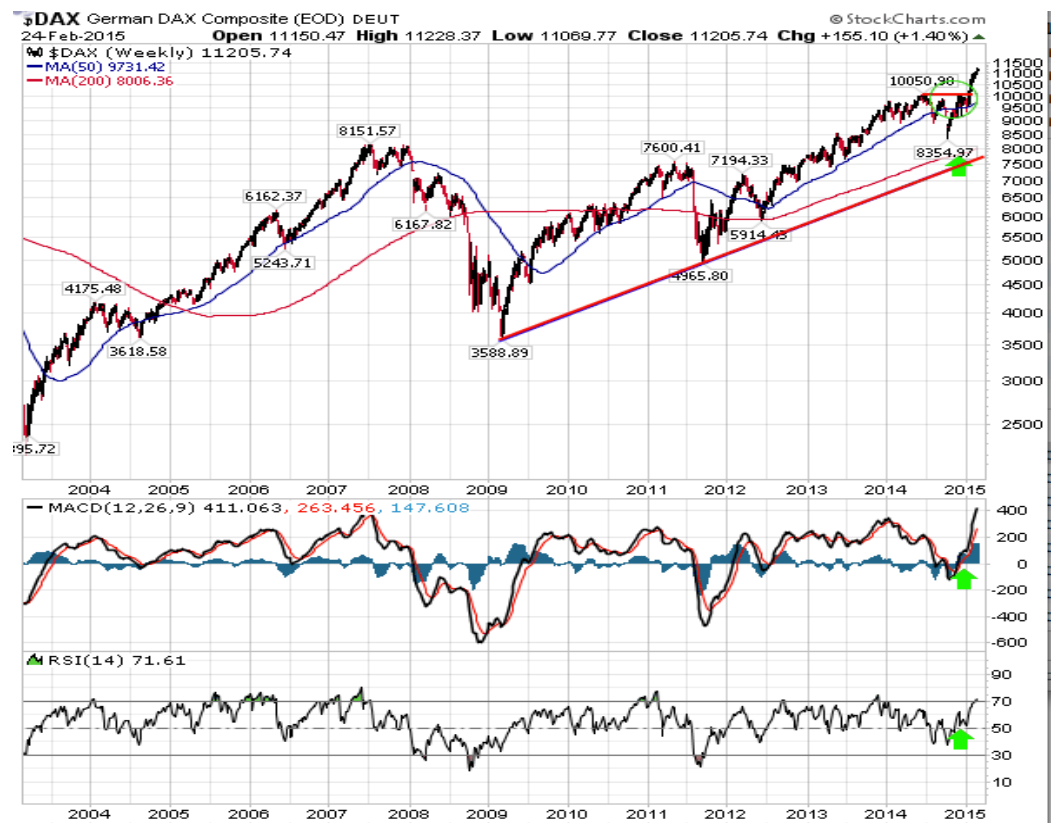
Europe to continue outperforming the US indices

As we had been expecting, European benchmarks have been outperforming US benchmarks since the beginning of the year, mainly due to the much lower valuations attracting investors (P/E; P/CF; much higher dividend yields) but also benefiting from the accommodative monetary policies enacted by the ECB.



The DAX 30 continues to make all-time highs, and upside breakout pressures are on the rise. All short-term technical indicators (MACD, RSI) are positive, the \$DAX 30 has broken above 20-, 50- and 200-day MVA.

Our short-term target for the \$DAX is 11,800.



We see technical evidence of the strength in European equity markets set to continue, following historic seasonal strength patterns that run through to the start of May, which is coinciding with the end of annual dividend pay-out period.



The CAC 40 charted a new 52-week high during yesterday's session. All short-term technical indicators (MACD, RSI) are positive, and the \$CAC has broken above 20-, 50- and 200-day MVA.

Our short-term target for the \$CAC is 5,200.



Also benefiting from the European stimulus are equities in the UK, which, thus far, is following its familiar seasonal pattern of gains from mid-October through to May. The \$FTSE is presently pushing up against resistance around 6900, a level that has restrained the benchmark for over 15 years. Investors love significant milestones in equity markets and a breakout in this benchmark has a high likelihood of more upside momentum. The \$FTSE has been underperforming the S&P 500 Index since 2009, but the strong performance in January and February so far suggests the trend may be changing. The \$FTSE 100 was trading just 0.04% lower at 6,947.03 in early deals. The index set a new closing record of 6,949.63 on Tuesday, and also reached a new intraday peak of 6,958.89.

Our short-term target for the \$FTSE is 7,300.



Commodities commentary & charts

Copper bounced off support and bumped up against resistance during yesterday's session. The metal bounced from around its 20-day moving average to hit a high close to its 50-day, a level that has restrained any rebound attempt for over six months. \$COPPER has been showing signs of stabilizing over recent weeks as strength in the US\$ shows signs of fading, at least temporarily, providing a reprieve from the negative pressures the currency has imposed on \$COPPER since last June.

A breakout above the 50-day MVA may be the catalyst to allow for a run towards trend line resistance around \$2.90; longer-term trend line resistance can be seen around \$3.00, also the level of previous horizontal support that was broken late last year. The price of copper has traded below its 200-day moving average for a total of 169 calendar days, the 10th longest run below this long-term average over the past 25 years; when price trades too far below significant moving averages, such as the 200-day, for an extended period of time, a reversion to the mean typically follows. The 200-day moving average sits right around the broken level of horizontal support at \$3.00.



Copper has entered its period of seasonal strength and trades higher between now and May. With the Chinese New Year celebrations ending tonight, we are expecting for demand in \$COPPER to increase and for prices to go higher.



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

Sabine CJ Blümel, Head of Global Automotive Research

sblumel@cg-inv.com

office: +44 (7785) 301588

London, UK

Trish Twining, Managing Director of Sales

ttwining@cg-inv.com

office: 7817710117

Boston, MA, USA

Gary Schieneman, Managing Director,

Global Accounting and Finance

gschieneman@cg-inv.com

office: 917-868-6842

New York, NY, USA

Steve Gluckstein, Global Strategist

sgluckstein@cg-inv.com

office: 212 939 7256

mobile: 732 768 8843

New York, NY, USA

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

Allison M Cimon, Director of Sales & Technology

amcimon@cg-inv.com

office: 646 228 4321

Boston, MA, USA

Jennifer Crisman, COO

jcrisman@cg-inv.com

office: +(352) 26 25 86 40

Luxembourg/Europe

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.