Creative Global Investments

Weekly global equities strategy & charts

Monday, February 26th, 2018

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Objectivity

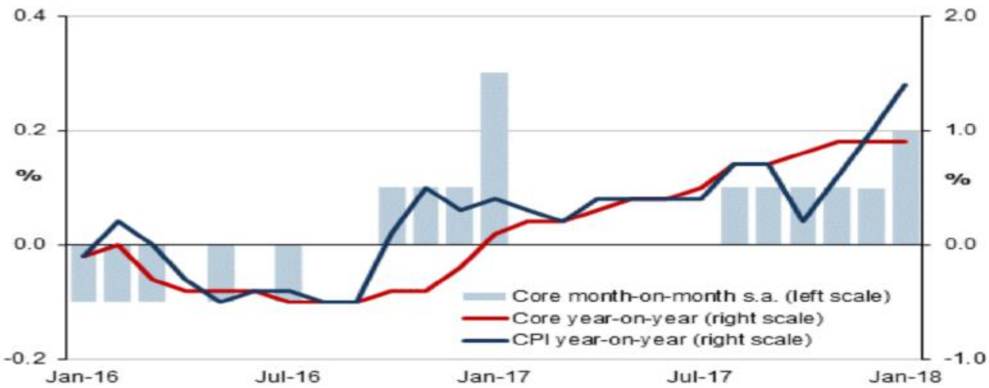
Integrity

Creativity

Geo-political and macro commentary

In Asia, **Chinese economic growth will moderate**, mostly due to slightly weaker domestic demand as authorities continue enforcing financial deleveraging via tighter financial regulations, although the deceleration will be only gradual and managed by the government. Latest consensus forecast is that China's economy will grow 6.5% in 2018, which is unchanged from last month's forecast, and by 6,3% in 2019. Economic indicators suggest the economy continued to fire on all cylinders at the outset of the year. Domestic demand remains resilient as shown by strong import growth in January, while healthy global demand is propelling exports and activity in the manufacturing sector. Data for the first 2 months of the year is highly distorted by the Lunar New Year holidays. Because of China's healthy growth momentum and rising confidence about the state of the economy, the Yuan has strengthened sharply in recent weeks. With the economy sailing smoothly, China will hold the annual National People's Congress in early March, in which the main policies and economic targets will be forged.

Japanese January core consumer price index rose 0.2% compared to the previous month in seasonally-adjusted terms, following December's 0.1% increase. Core inflation came in at 0.9% in January, matching the result in the previous two months, which represented the joint-highest reading since March 2015, and in line with market analysts' expectations. Overall inflation increased from 1.0% in December to 1.4% in January, the highest reading in nearly 3 years. With oil prices moderating the pace of rise, a government official stated that inflation is, "expected to be flat in the coming months". We see subdued inflation pressures will force the BOJ keeping its ultra-loose monetary policy unchanged for the foreseeable future. The BoJ expects that core inflation will average between 1.3% to 1.6% in the fiscal year ending March 2019. In 2019/20, the BoJ sees core inflation rising to between 2.0% and 2.5%. Consensus forecast for inflation is of 0.9% in calendar year 2018, which is up 0.1% points from last month's estimate. In 2019, the panel sees inflation at 1.3%.



Source: *Statistics Bureau (SB)*

Economic growth should remain strong this year on the back of resilient global trade and accommodative financial conditions. Japan's stellar growth trajectory could, however, be clouded by a disorderly slowdown in China, higher trade barriers and an appreciation of the JPY due to mounting geopolitical risks. We see the economy growing 1.5% in 2018, up 0.1% from last month's forecast, and by 1.3% for 2019.

In Europe, Italians will head to the polls on 4 March, amid a fragmented political landscape and with little hope the resulting government will be strong enough to fix the country's many economic and fiscal weaknesses. Polls suggest the likeliest outcome is a hung parliament, with no coalition winning an absolute majority. Laborious negotiations would ensue, and a weak centrist grand coalition, which would have difficulty implementing a broad reform agenda, appears to be the most likely result. The elections come at a time when the economy is expanding at a reasonable pace, helped by improving conditions in the banking sector and gradual progress in the labor market. However, Italy's weak fiscal position and structural issues expose the economy to possible political inaction and lax fiscal policies. Under a new voting system, it is unlikely any coalition will obtain the level of support estimated to be necessary to obtain an absolute majority. This would leave a fragile centrist grand coalition as the most probable outcome, made up of the center-left Democratic Party (PD) and Silvio Berlusconi's center-right Forza Italia (FI), plus some other minor parties. Such a government would likely adopt a gradual approach to reforms and maintain the fiscal deficit below 3% of GDP, broadly ensuring policy continuity and a good relationship with the EU. However, it would not likely deliver much-needed reforms such as privatizations, and substantial spending and tax cuts. Therefore, growth will remain slow compared to Italy's European peers, and the improvement in labor market conditions will remain slow. Moreover, Italy's fiscal parameters would barely improve, leaving the economy structurally weak.

Another possible outcome is an absolute majority of the center-right electoral coalition formed by Forza Italia, the federalist right-wing Northern League (LN) and the national-conservative Brothers of Italy. In this case, more tax cuts and less fiscal discipline are to be expected. Both the FI and LN are in favor of introducing a flat tax cut on household and corporate incomes; however, the Northern League (LN) proposes a 15% rate, while the FI opts for a more prudent 23% rate. Such tax cuts would foster business investment and household spending, and thus boost growth. However, they could translate into a rising fiscal deficit, which would not bode well for public finances' sustainability. Also, given the two center-right parties' divergent policy proposals, their coalition could be unstable and short-lived. In an extreme scenario, there is also a small probability of an anti-establishment government formed by the 5 Star Movement (M5S) and the LN, or of re-run elections if coalition negotiations fail. That said, the possibility of new elections in 2018 is very unlikely, as parties will want to avoid returning to the polls, which could risk increasing political support for the M5S. While the M5S is expected to win the most votes out of any party, a lack of support among other parties makes it very unlikely they would be able to form a government.

In the Americas, the National Association for Business Economics survey of 211 members showed a majority expects the recent tax legislation to boost expansion in 2018 by a 0.25% to 0.75%. Another question showed that only 43% see a positive impact on the economy from the administration's regulatory actions, yet another 40% said the effects could be positive in the near term and negative in the longer run. The survey underscores how many economists diverge from the president on growth expectations, despite policies the White House and Republican lawmakers say will lead to a faster expansion over the long term. The reality is that deregulation and tax reform are helpful for short-lived boosts to growth, but it's much harder to sustain that going forward.

Equities commentary & charts

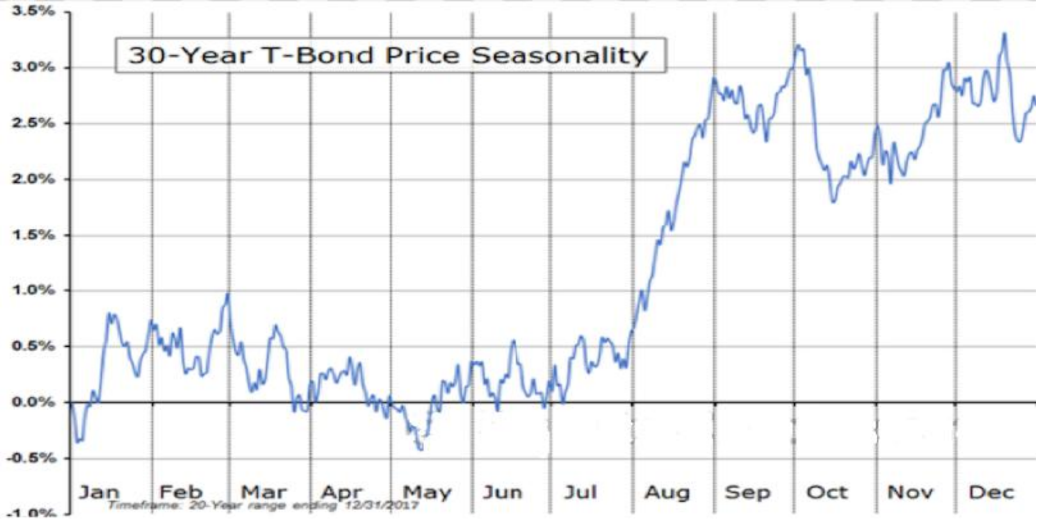
World equity markets and economic sensitive sectors are about to enter their second strongest period of seasonal strength in the year from the end of February to the first week in May. (Strongest period is from mid-October to the first week in January). The February to May period is bolstered by good corporate news released by CEO's at annual meeting (frequently coinciding with release of Q1 reports) combined by seasonally strong economic news related to the spring buying season (e.g. autos, homes). This year the February to May season will be helped by strong gains in corporate sales and earnings triggered by the weaker USD and changes in US tax laws. Last week, analysts raised their earnings and sales estimates again for Q1 of 2018 and all of 2018.

Now is the time to watch closely for sectors and markets that show positive strength relative to the S&P 500 Index. They are top candidates for purchase for the late February-early May seasonal trade. Selected commodity sensitive sectors already have surfaced on the radar screen. Strength is related to weakness in the USD and rising demand for commodities, most notably from China. Commodities are in a period of seasonal strength to at least the end of April. Last week, as we were forecasting, the CRB Index continued to outperform the S&P 500 Index, oil, gasoline and natural gas prices moved smartly higher and lumber prices extended their move to another all-time high. Energy and forest product stocks led the advance in equities. Look for these trends to continue. Expected weakness in the USD and additional weakness in the Canadian $ relative to the USD is bullish for commodity and commodity equity prices

Fixed income markets are now in seasonal swing, it is probably worthwhile to review the price dynamics of the 30-year treasury. Friday's price gain comes around the lower limit of the long-term rising trend channel of the fixed income investment, a level that has historically preceded reaction in the equity market as investors rotate from one asset class to the other. Shorting the treasury market has become a very popular and overcrowded trade amongst many investment managers, but the level of support below on the long-bond has the potential to stir-up this terribly crowded trade.

As we had written in prior reports, the reaction to trendline support could be a determining factor of whether or not the long-term bull market in bonds is broken or still very much intact.

Treasury bond prices remain in a period of seasonal weakness through to May.



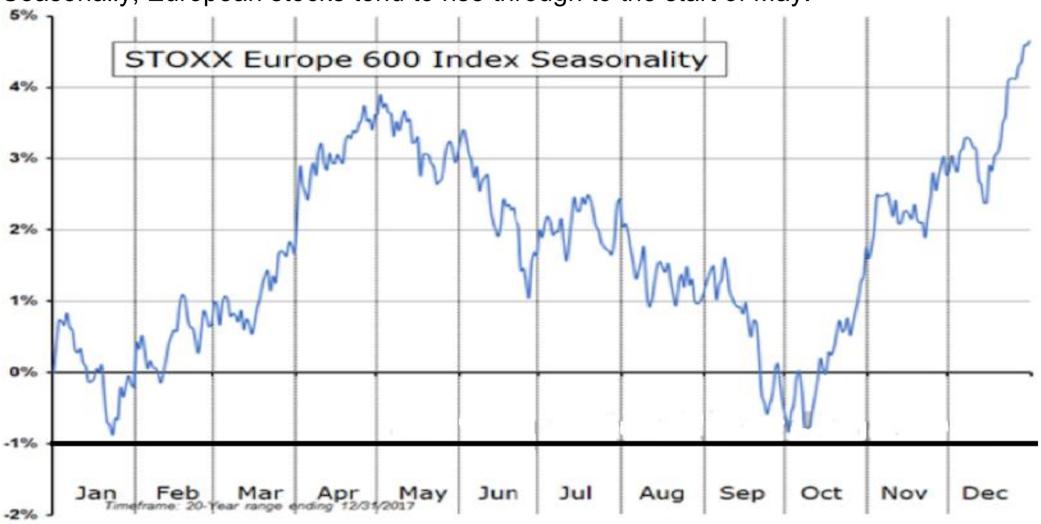
While major equity benchmarks in the US have recouped around 61.8% (a key Fibonacci level) of the losses recorded from the early February decline, benchmarks abroad, particularly in Europe and Asia continue to struggle around the 38.2% retracement zone. This places the rebound in these international equities in the weak category, increasing the odds of a move below the plunge lows that was recorded just two weeks ago. In a number of cases, benchmarks are struggling below their 200-day moving averages, which are showing signs of rolling over.

Whenever a benchmark struggles below its long-term moving average, a certain degree of caution is warranted as longer-term negative implications are suggested.

The August 2015 decline in the STOXX 600 Index when the benchmark sliced below its 200-day moving average. The index took a couple of months to retrace much of the breakdown move, but the 200-day average was too much of a hurdle to overcome, resulting in a rollover in stocks around the globe just as the favorable six months for stocks was set to begin. The STOXX 600 hit its ultimate lows in early 2016, with the correction from high to low lasting around a year before the upward trend resumed, and it has not yet reached a new high above that August 2015 peak.

Other warning signs for the STOXX 600 are apparent, as charted a series of higher-highs since April 2017, momentum indicators have diverged from price, suggesting waning buying pressures. So while the recent rebound may not be fully exhausted, overseas indices are certainly presenting some troubling signs, which could end up weighing on benchmarks closer to home. Gaps on the charts of major benchmarks around the globe warrant monitoring as these levels of resistance could halt the ongoing rebound attempt.

Seasonally, European stocks tend to rise through to the start of May.

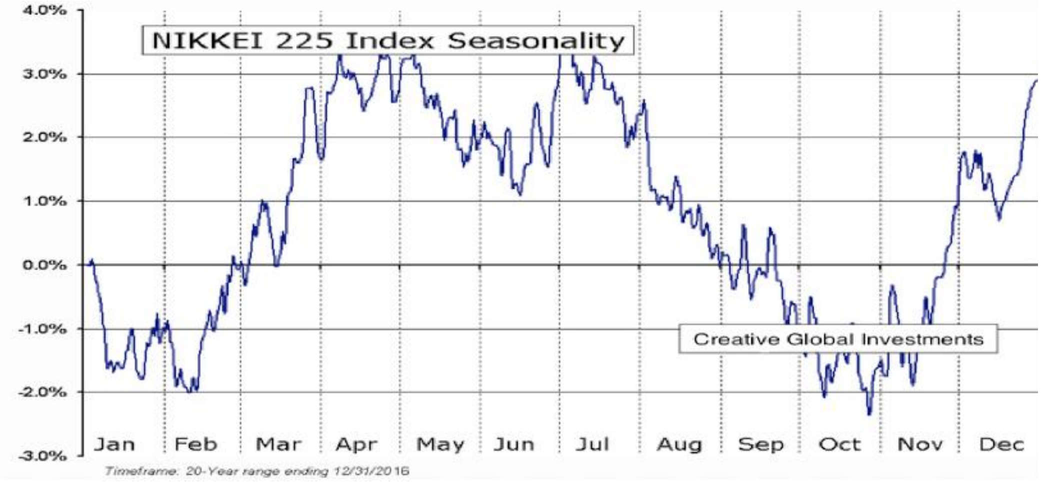


One of the reasons we see why international markets keep having more current troubles to recover is the fact that the respective currencies (EURO, Yen, Yuan, GBP, BRL, AUD, CAD) all have gained significantly over the past 18 months against the USD, and hence, earnings for 2018 and 2019 are going to be somewhat mitigated by the currency affect.

In Asia, **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).**

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 22,153, however, the period of seasonal strength for the N-225 is only about to begin from now until fiscal year end (March 31st).

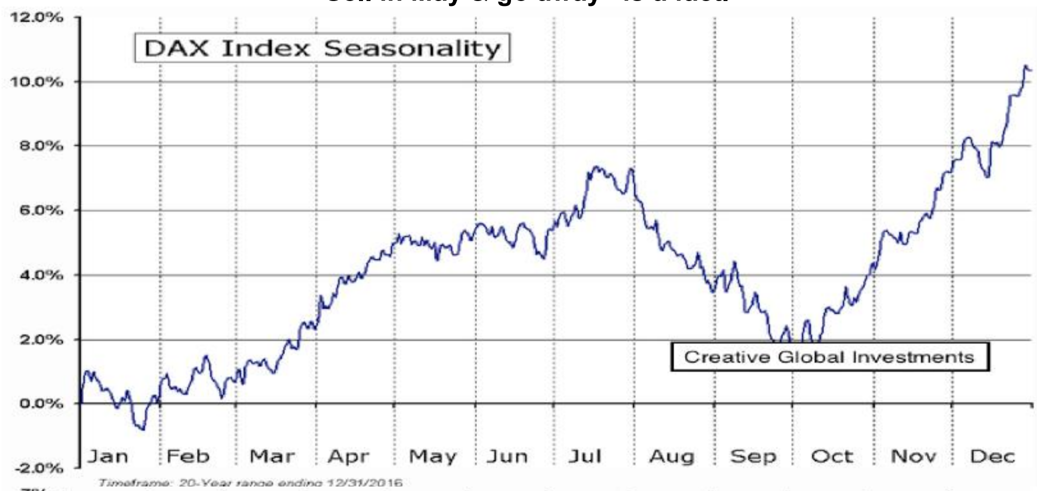


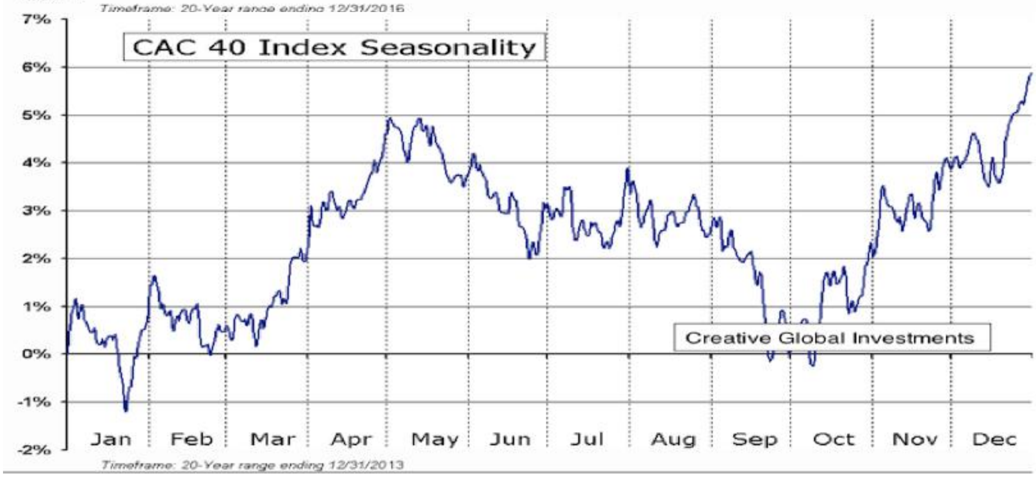
In Europe, rising bond yields and the rising Euro cause equity markets to drop, with Friday capping off the bad week with a sharp decline across the board. The coming week could see the USD weakness to resume and that could hurt European equities further. If bond yields keep rising however, we could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

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").

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.



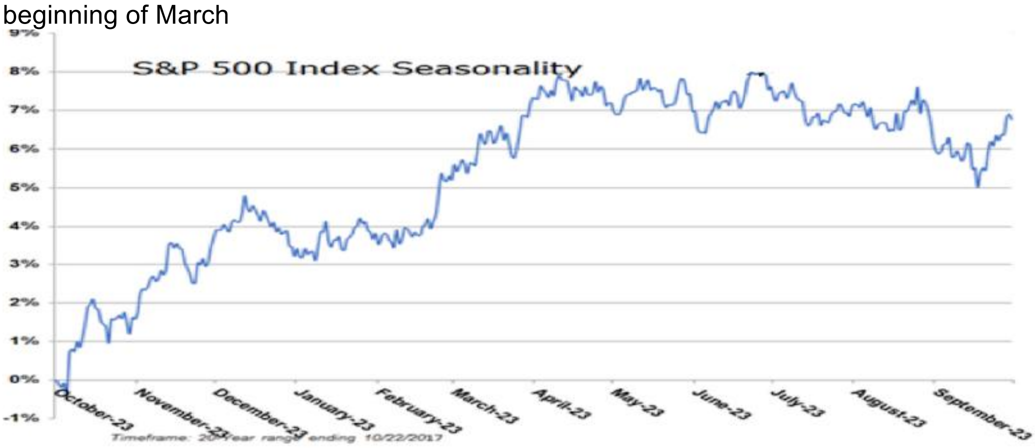


The sectors that were under the most downside tax loss selling pressures were the energy, oil services and gold sectors. Selected stocks in the gold and precious metals sectors moved strongly higher late last week implying that seasonal influences may have come sooner than normal this year.

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 will focus on Humphrey Hawkins testimony before Congress by new Federal Reserve Chairman, Jerome Powell.

Technical action by individual S&P 500 stocks remained quietly bullish last week. Number of stocks breaking resistance totaled 17 while number of stocks breaking support totaled 4. The Up/Down ratio increased last week to (199/195=) 1.02 from 0.99. Medium term technical indicators in the US (Percent of stocks trading above their 50 day moving average, Bullish Percent Index) moved higher last week. Short term technical indicators for US equity markets and most sectors (mainly short term momentum) continued to move higher last week. Many moved above their 50-day moving average and major US equity indices and sectors moved above their 20 day moving average on Friday. Seasonal influences on a wide variety of US equity indices and economic sensitive sectors tend to show renewed strength starting near the beginning of March



Q4 earnings reports by S&P 500 companies have passed their peak with 90% reported to date. 74% reported higher than consensus earnings and 78% reported higher than consensus revenues. Another 32 companies are scheduled to report this week. 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 14.8% on an 8.2% increase in sales (up from 7.9% last week).
- Estimates beyond Q4 of 2017 were revised higher again mainly due to weakness of the USD and changes to US corporate tax laws.
- Q1 2018 earnings are expected to increase 17.1% (up from 17.0% last week) on a 7.5% increase in sales (up from 7.4% last week.
- Q2 2018 earnings are expected to increase 19.0% (up from 18.9%) on a 7.8% increase in revenues.
- Q3 earnings are expected to increase 20.7% (up from 20.6%) on a 6.5% increase in revenues.
- Q4 2018 earnings are expected to increase 16.6% (up from 16.1%) on a 5.1% increase in revenues (up from 5.0%).
- FY 2018 earnings are expected to increase 18.2% (up from 17.9%) on a 6.8% increase in sales (up from 6.6%).

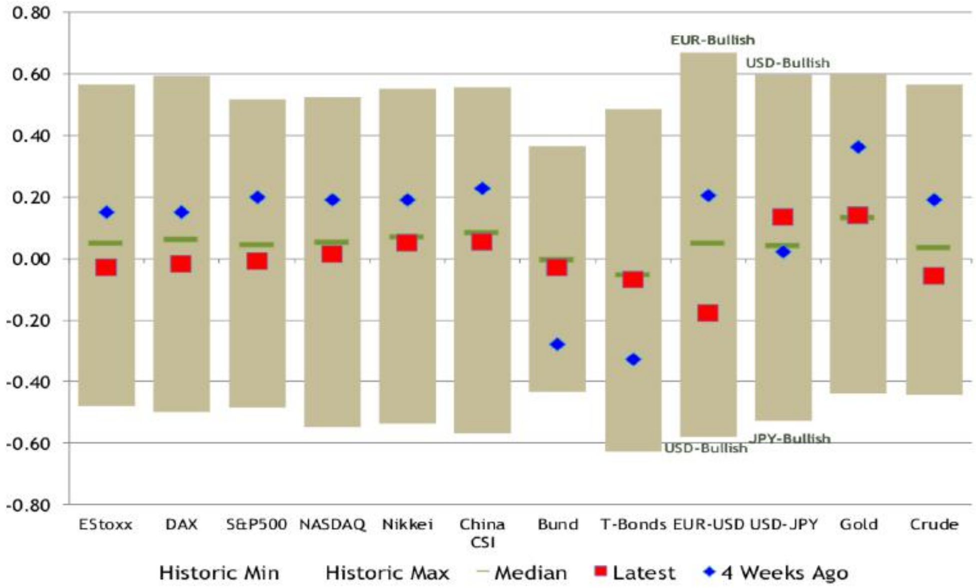
Earnings and revenue prospects beyond Q4 report season remain positive for US based companies with international exposure. S&P 500 consensus y-o-y earnings are expected to increase 18.2% in 2018, benefiting significantly from y-o-y weakness in the USD, when revenues and earnings from international operations are translated into USD's. E.g., a US based company with 50% of its earnings and revenues coming from international operations will see earnings and revenues increase by 6.8% from foreign currency translation alone following the current 13.5% 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 most aggressive downside 2018 target price of 80.0 for the USD.

Investors Sentiment

The latest ***sentix*** survey underlines the large gap that remains in terms of investors' medium-term strategic bias on Gold compared to Crude oil. This in part reflects investors' increasingly downbeat view on the outlook for oil, with survey readings now close to historic lows.

However, the unusually large gap is also consistent with this year's dollar weakness. On this front, it is notable that in recent weeks optimism on Gold has begun to recede as sentiment on USD/JPY has reversed from lows. Gold sentiment may be further tarnished if the dollar's revival continues. It could also challenge investors' polarized views on the medium-term outlook for Gold as compared to oil

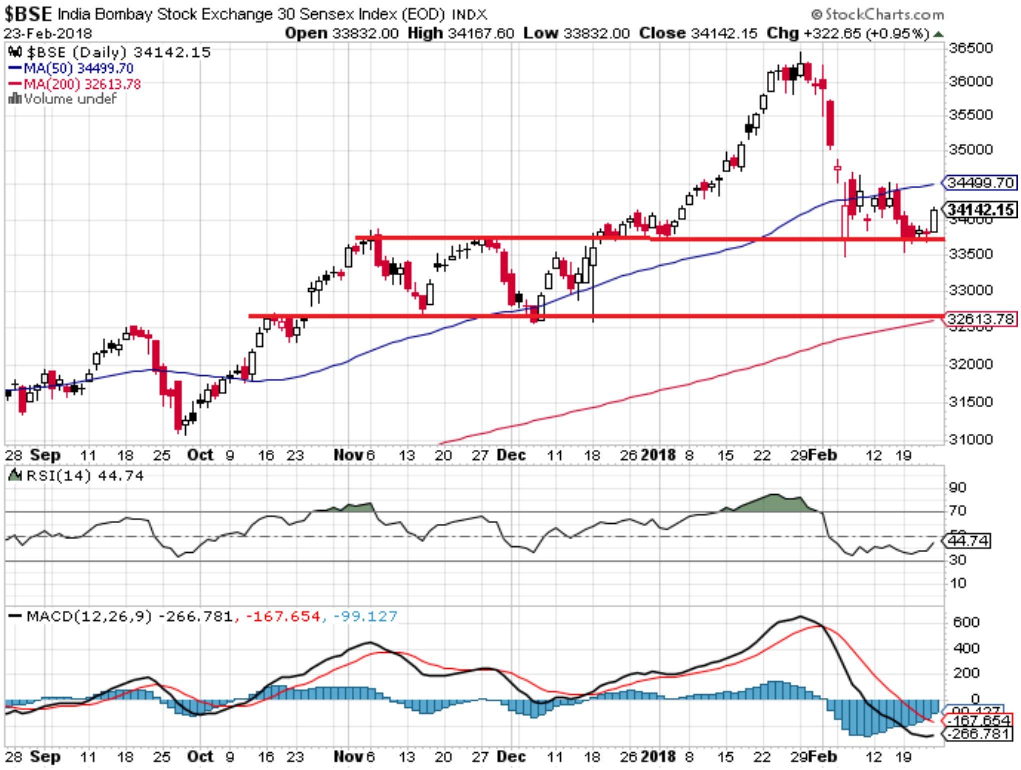


Asian equity markets weekly charts

The BSE gained 131.39 points (0.39%) last week.

$BSE rebounded from support once again. Price remains below the 20-day MVA.

Short-term momentum indicators are Mixed.



The Nikkei Average added 172 points (0.79%) last week.

Intermediate trend remains Neutral. Strength relative to the S&P 500 Index is Negative.
$NIKK remains ranging after the crash.

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

Intermediate trend changed from Negative to Neutral. $SSEC retraced back to the 200-day MVA.
Strength relative to the S&P 500 Index is Negative.

The $SSEC remains below the 20-day MVA. Short-term momentum indicators are rolling over.

The Shanghai Composite Index gained 104.06 points (3.27%) last week.

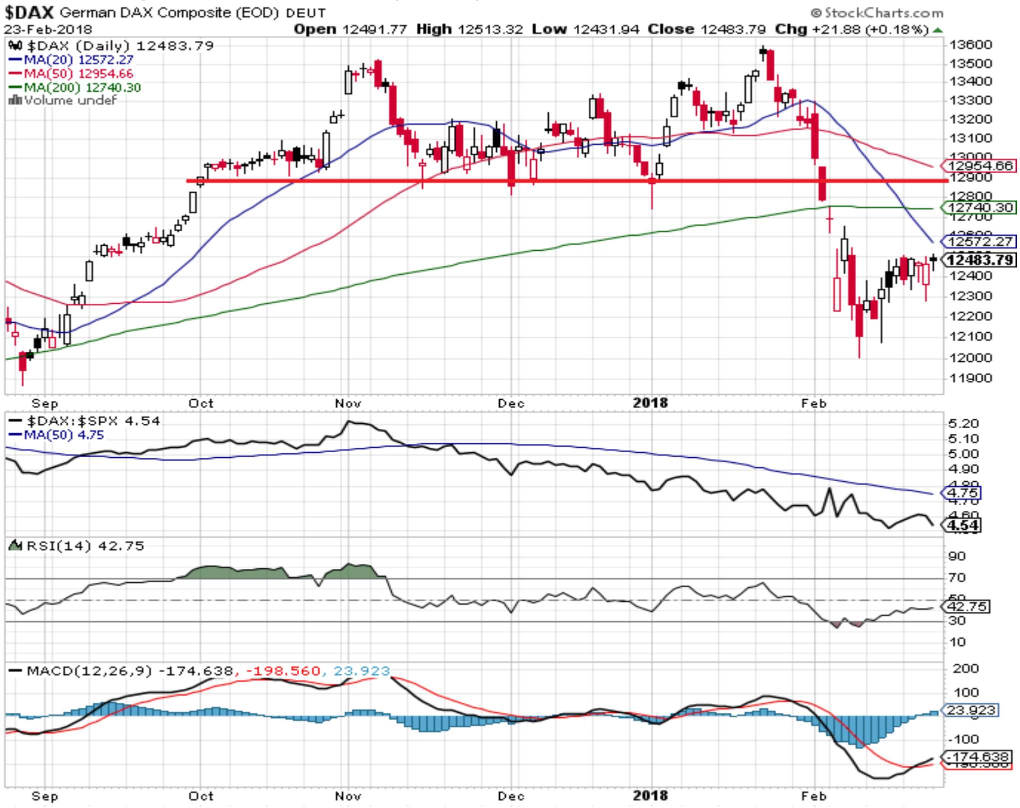
Intermediate trend changed from Negative to Neutral. $HSI is on the support.

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

The Hang Seng gained 151.74 points (0.49%) last week.

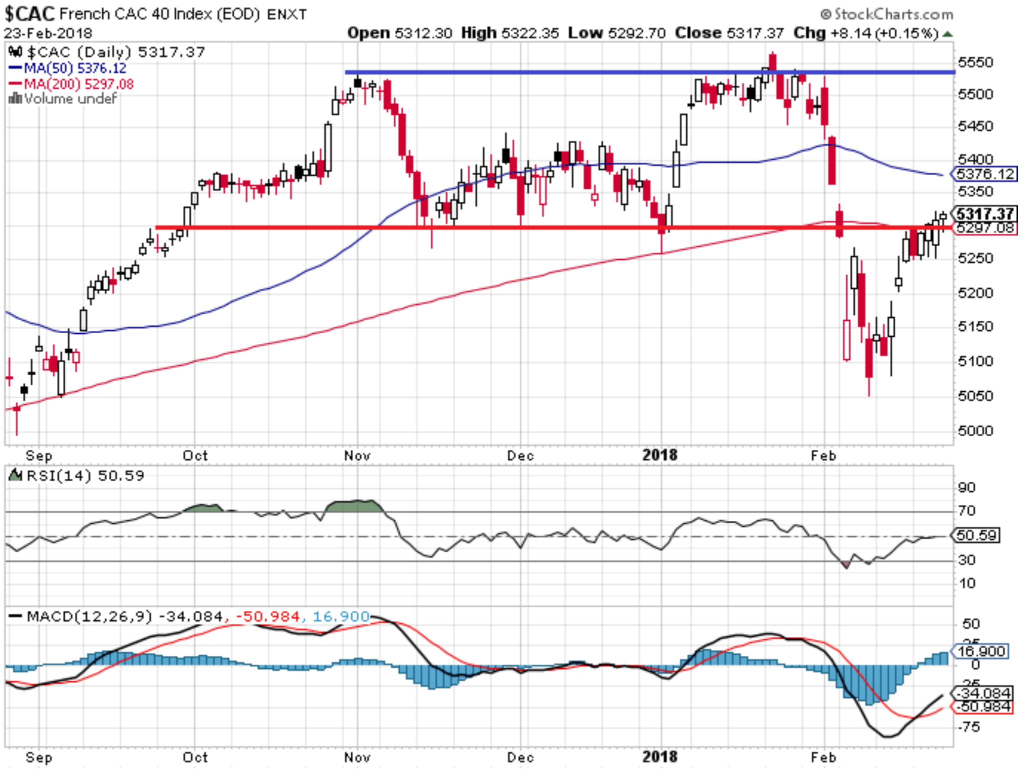
European equity markets weekly charts

The DAX 30 gained 31.83 points (0.26%) last week.



Intermediate trend changed from Negative to Neutral. Price is ranging post the breakout.
$DAX remains below the 20-day MVA.
Strength relative to the S&P 500 Index is Negative.
Short-term momentum indicators are Neutral.

The CAC 40 added 35.79 points (0.68%) last week.



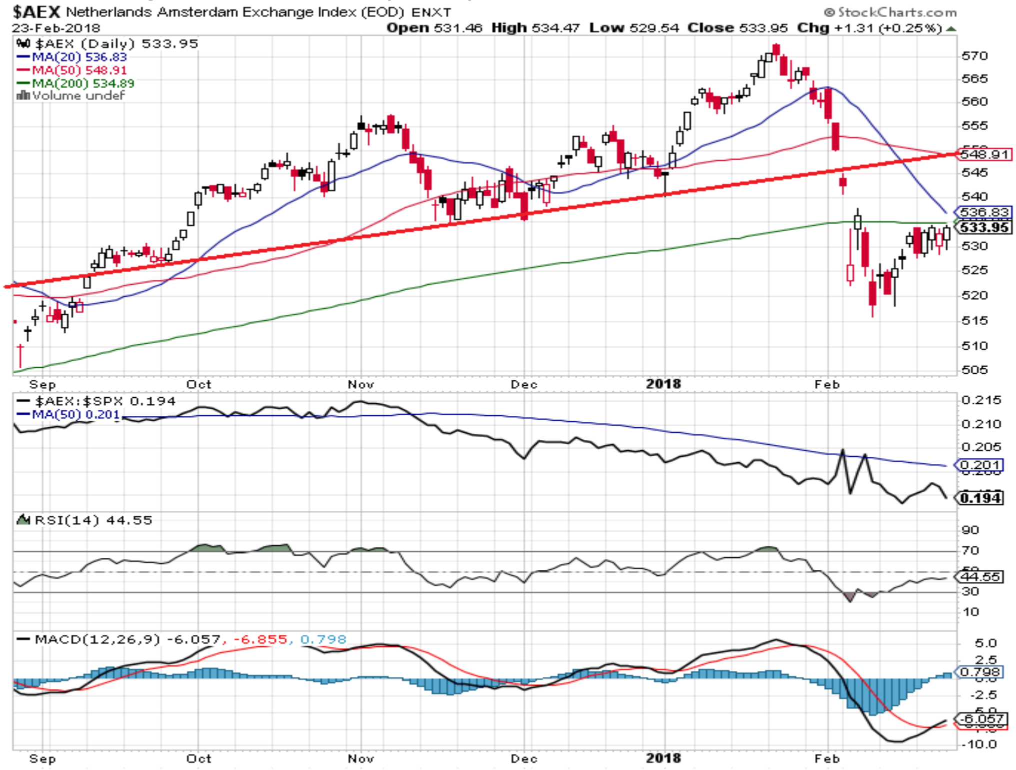
Intermediate trend remains Neutral. $CAC retraced and closed above the 50-day MVA.

Short-term momentum indicators are Positive.

Intermediate trend changed from Negative to Neutral. $AEX is failing to break through the 200-day MVA.

Short-term momentum indicators are Positive.

The AEX 25 gained 1.68 points (0.32%) last week.



Intermediate trend remains Negative. Strength relative to the S&P 500 remains Negative. Index remains ranging below the old support of 10 000.

The Index remains below the 20-day MVA.

Short-term momentum indicators are Neutral.

The IBEX 35 lost 9.70 points (0.10%) last week.

The FTSE dropped 287.87(3.96%) last week.

Intermediate trend remains Negative. FTSE is going to test the Support / 50-day MVA. Price remains below the 20-day MVA.

Short-term momentum indicators are Negative.

The RTSI gained 33.18 (2.62%) last week.

Intermediate trend changed from Neutral to Positive. RTS retraced above the old support.

Short-term momentum indicators are Positive.

The SMI lost 38.53 (0.43%) last week.

**Intermediate trend changed from Negative to Neutral. SMI is ranging below the crash gap.
Price remains below the 50-day MVA.**

Short-term momentum indicators are Neutral.

US equity markets weekly charts

The VIX Index lost 2.97 (15.26%) last week.

Intermediate trend changed Neutral to Negative. The Index remains below the 20-day MVA. VIX continues retracing back to the former resistance.

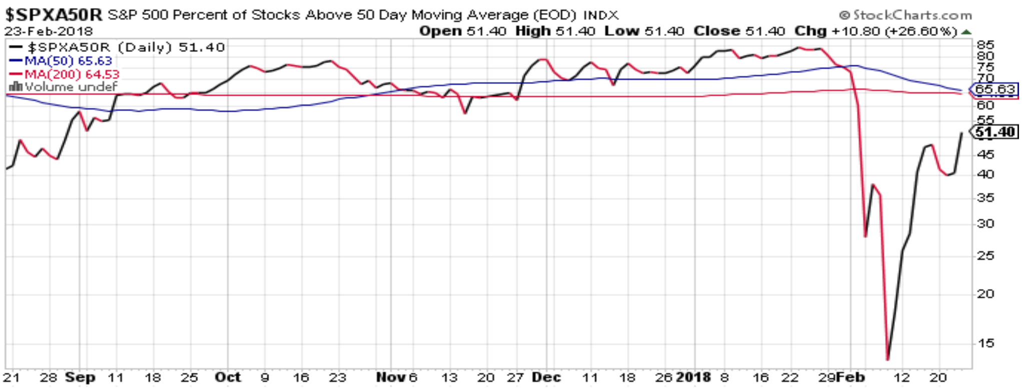
The S&P 500 Index gained 15.08 points (0.55%) last week.

Intermediate trend changed from Neutral to Positive. The Index closed above its 20-day MVA. $SPX continues rebounding after the crash.

Short-term momentum indicators are Positive.

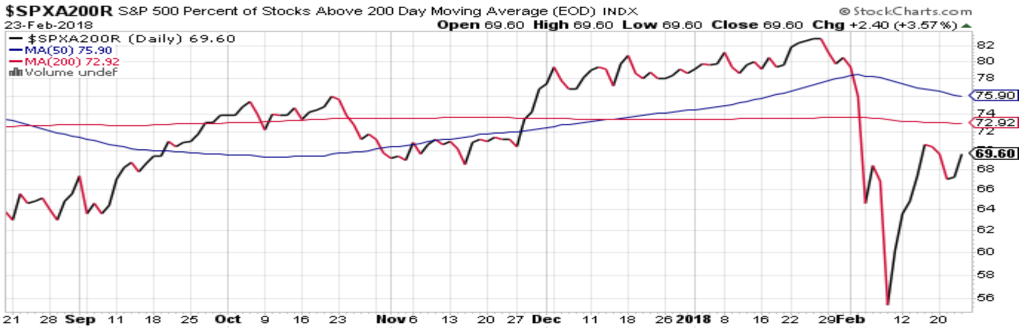
Percent of S&P 500 stocks trading above their 50-day moving average rose last week to 51.40 from 48.00.

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 69.60 from 70.40.

The Index remains below the 50-day MVA.



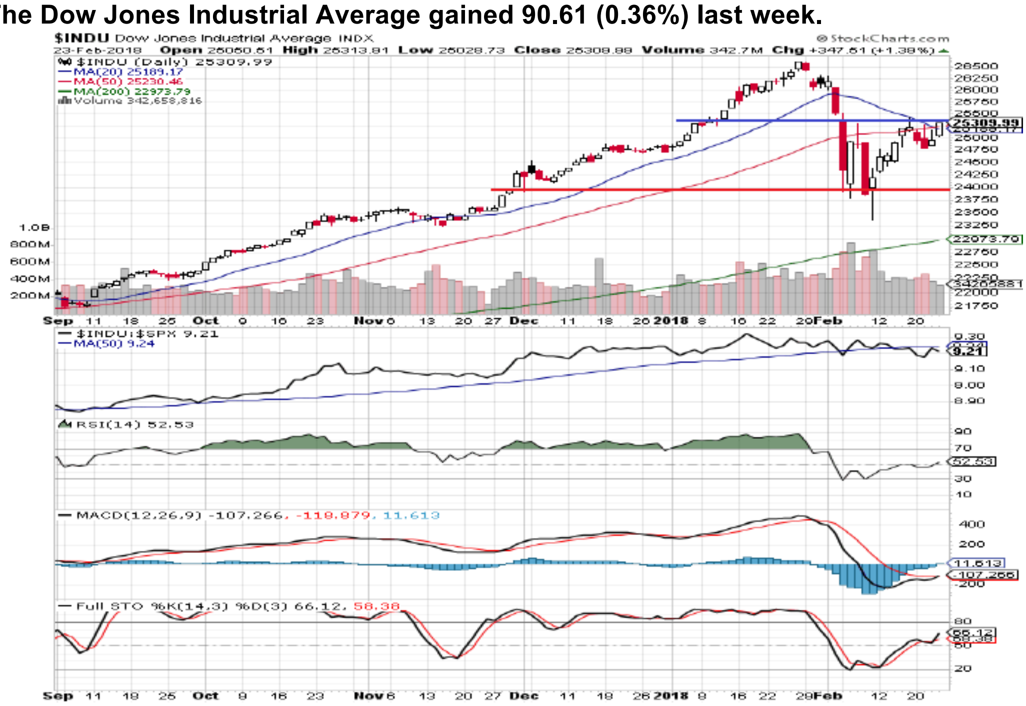
Bullish Percent Index for S&P 500 stocks rose last week to 59.80 from 57.40 and remained below the 50-day moving average.

The Index remains below the 200-day MVA.

The Dow Jones Industrial Average gained 90.61 (0.36%) last week.

$INDU is testing the resistance again. Strength related to the S&P 500 is below the 50MVA.

The INDU moved above its 20-day MVA. Short-term momentum indicators have rolled over.



Bullish Percent Index for Dow Jones Industrial Average rose last week to 63.33 from 56.67 and remained below its 20-day moving average.

The Index remains below the 50-day MVA.

The Dow Jones Transportation Average gained 76.57 (0.73%) last week.

Dow Jones Transportation Index rebounded from the support.
Strength relative to the S&P 500 is Negative. The $TRAN remains below its 20- day MVA.

Short-term momentum indicators are rolling over.

Bullish Percent Index rose last week to 58.53 from 57.26 and remained below its 20-day moving average.

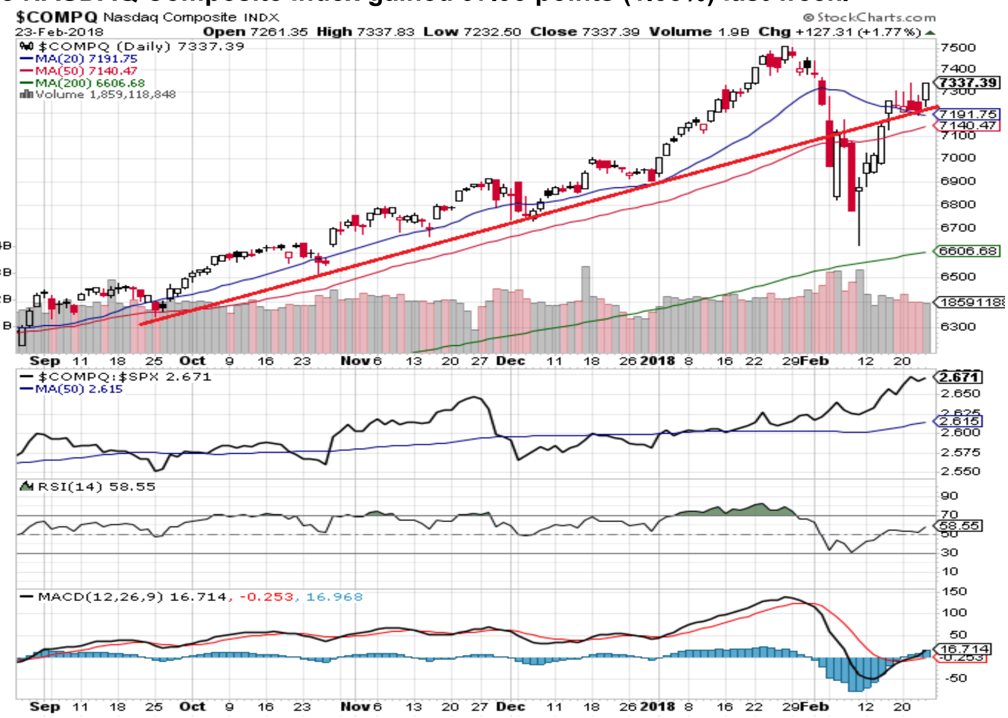
The Index remains below the 200-day MVA.

The NASDAQ Composite Index gained 97.93 points (1.35%) last week.

Intermediate trend is Positive.
$COMPQ retraced almost fully. Strength relative to the S&P 500 Index remains Positive.

The Index remains above the 20-day MVA.

Short-term momentum indicators are Positive.



The Russell 2000 Index added 5.64 points (0.37%) last week.

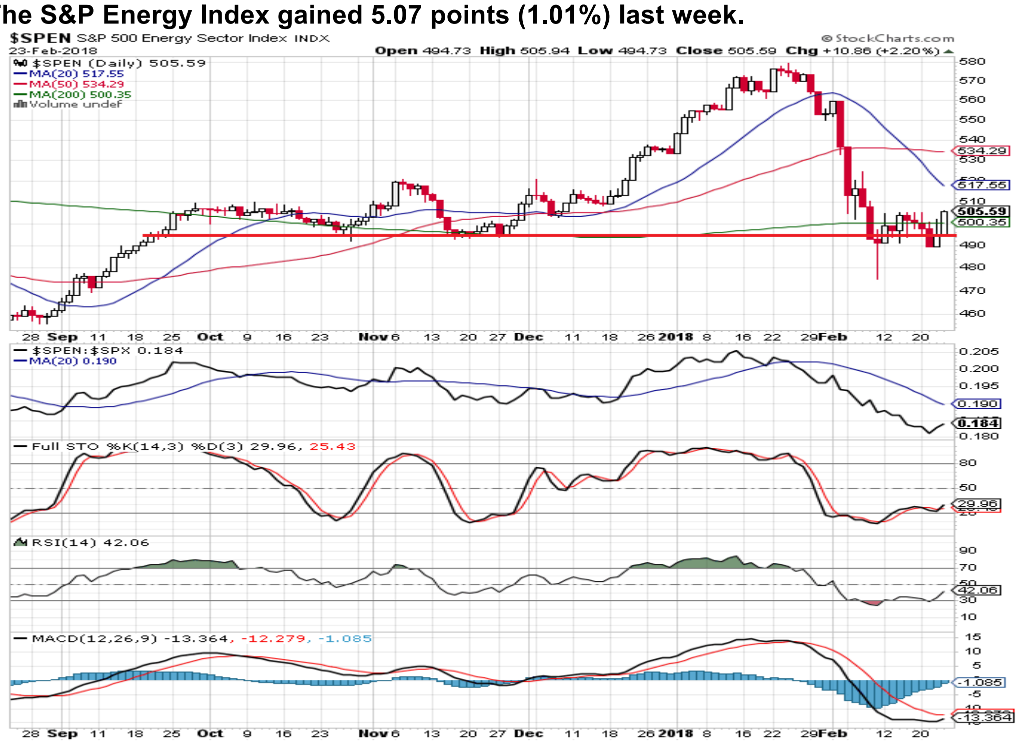
$RUT rebounded back to the 50-day MVA. Strength relative to the S&P 500 Index remains Negative.

The Index moved above the 20-day MVA. Short-term momentum indicators are Positive.

The S&P Energy Index gained 5.07 points (1.01%) last week.

Intermediate trend remains Neutral. $SPEN keeps ranging around 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 rolling over.



The Philadelphia Oil Services Index gained 4.37 points (3.19%) last week.

$OSX is going to test the resistance. Strength relative to the S&P 500 is Negative.

The Index remains below its 20-day MVA. Short-term momentum indicators are rolling over.

The AMEX Gold Bug Index dropped 8.24 points (4.46%) last week.

$HUI is retesting the support at 175.
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 gained 2768 points (3.28%) last week.

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$BVSP fully retraced and made a new high of the year.

BVSP remains above the 20-day MVA.

Short-term momentum indicators are Positive.

The Mexican Bolsa dropped 239.35 points (0.49%) last week.

Intermediate trend remains Negative. $MXX failed to break the 50-day MVA.
$MXX remains below the 50-day MVA.

Short-term momentum indicators are rolling over.

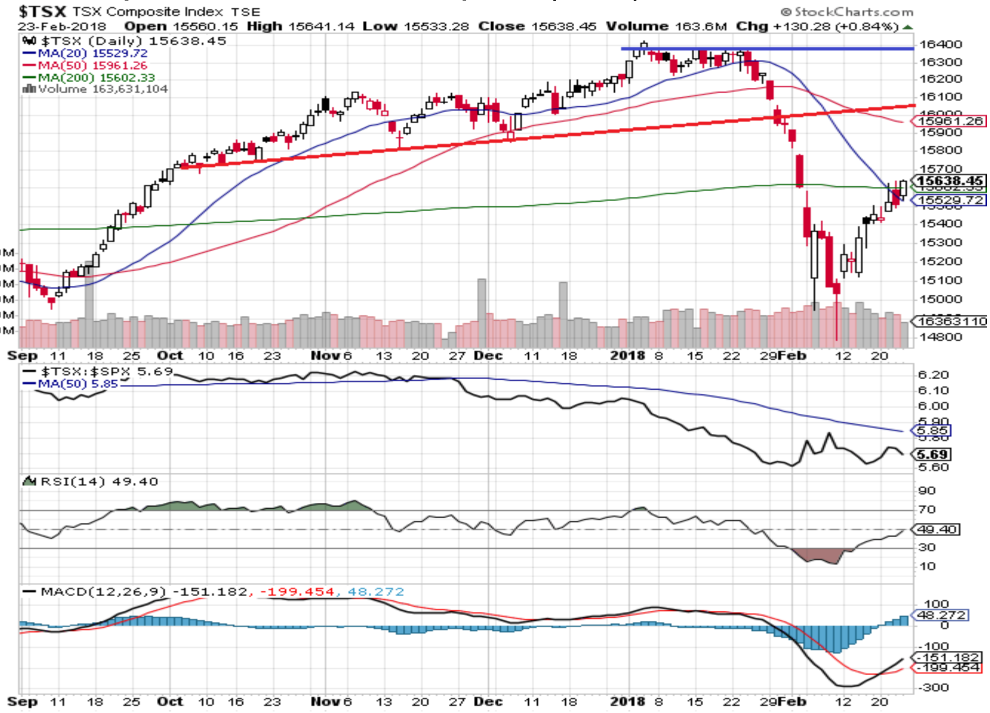
Bullish Percent Index for TSX Composite rose last week to 59.60 from 58.80 and moved below its 20-day moving average.

The Index remains below the 50-day MVA.

The TSX Composite Index added 185.81 points (1.20%) last week.

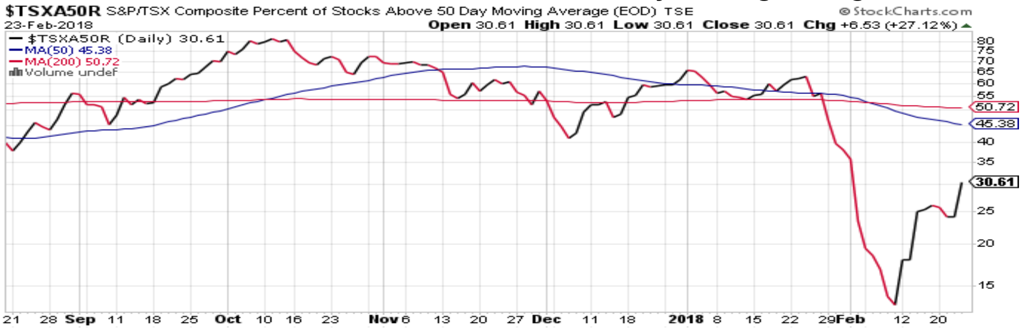
Intermediate trend changed from Neutral to Positive. The Index closed above the 200-day MVA.

The Index remains below the 20-day MVA. Short-term momentum indicators have rolled over.



Percent of TSX stocks trading above their 50-day moving average rose last week to 30.61 from 26.12 % 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 45.31% from 46.12%

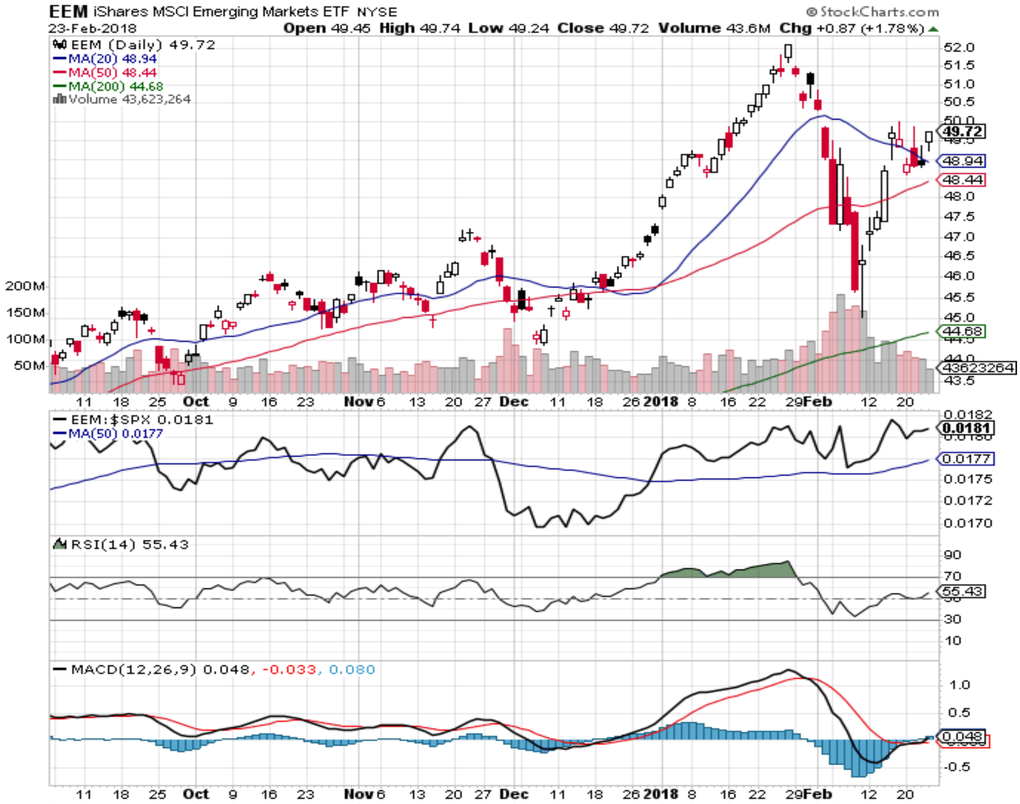
The index remains below the 200-day MVA.

EM equity markets weekly charts

Emerging Markets iShares added $0.18 (0.36%) last week.

Intermediate trend changed from Neutral to Positive. Strength relative to the S&P 500 Index remains Positive. EEM is retracing after the crash.

Units moved remained the 20-day MVA. Short-term momentum indicators are Positive.



The Australia All Ordinaries Index added 100.40 points (1.67%) last week.

Intermediate trend changed from Neutral to Positive. Strength relative to the S&P 500 Index is Negative. $AORD is regaining the momentum post the bearish correction.

The $AORD moved above the 20-day MVA. Short-term momentum indicators are Positive.

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Report completed: 02/26/2018, 07:50 EST
Report first disseminated: 02/26/2018 08:15 EST

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