Creative Global Investments

Market commentary & charts

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Objectivity

Integrity

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Macro Commentary

***In Asia*, China's** Caixin's manufacturing sector purchasing managers' index for February rose from 51.0 in January to 51.7 for February. That was marginally below the four-year high of 51.9 reached in December but nevertheless better than the 50.8 consensus forecast. February's PMI readings suggest that the recent pick-up in global demand is keeping China's recovery mostly intact for now. Furthermore, indices for new export orders hit multi-year highs.

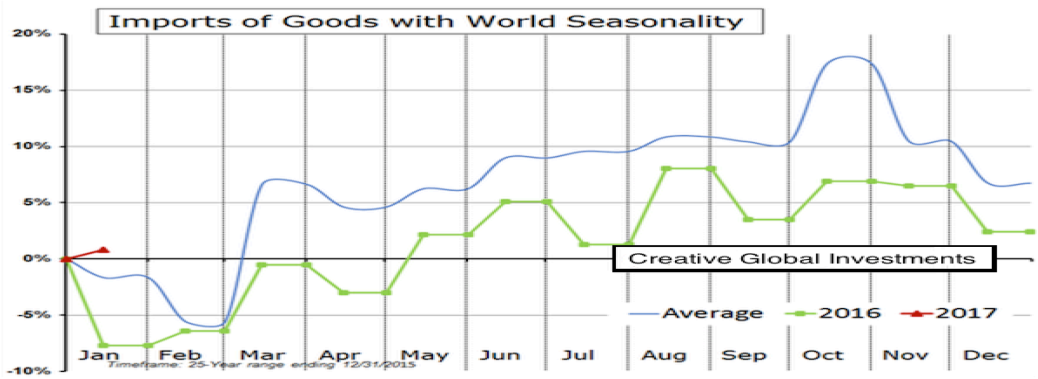
In Europe, the EU's manufacturing sector picked up in February, as the IHS Markit PMI index rose to 55.4 from 55.2 in January, reaching its highest level since April 2011. A preliminary estimate released last month had the PMI at 55.5. The measure is consistent with other recent indicators that point to a pickup in Eurozone economic growth in the early months of 2017, despite heightened political uncertainty ahead of a series of elections that could see gains for political parties hostile to the Euro and the European Union. Businesses appear undaunted by that risk. The Netherlands will hold elections on March 15 that may result in the far-right Party for Freedom securing the largest share of the vote, but the country's PMI hit a 70-month high in February.

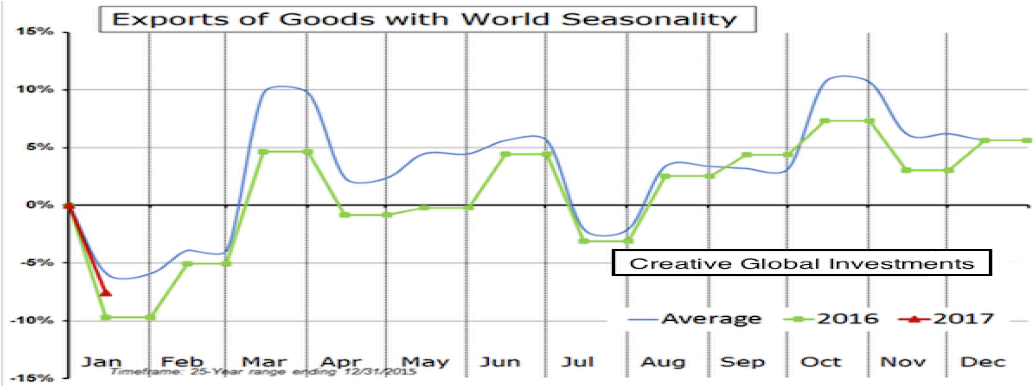
In the US, Trump's speech last night merely confirmed aspirations with respect to infrastructure spending, up to US$1TRN, while there was little in the way of content about tax policy, though we had been forewarned about that given his comments about prioritizing revamping Obamacare. There were no details about a border adjustment tax, though he did reiterate his commitment to free and fair trade, as well as building the border wall with Mexico. All in all, as we anticipated, lots of words, little action, very "Trumpesque".

On the economic front, **US Q4 GDP growth was confirmed at its second reading, official data yesterday showed**. The Bureau of Economic Analysis confirmed Q4 growth at 1.9%. (Vs. consensus forecast Q4 GDP to be revised upward to 2.1%). In Q3, US GDP was up an annual 3.5%. The GDP Q4 price index was up 2.0% annually vs. previous reading of 2.1%. The Index was forecast to show a rise to 2.1%.

In an other report on **International Trade it showed the US deficit widened in January to $69.2 BN from $64.4 BN previous the result of a -0.3% decline in exports and a 2.3% rise in imports** (vs. Analysts consensus expecting a deficit of $66.0 BN). Seasonally adjusted, exports actually declined by -7.6% and imports rose by 0.8%; the average change for each during the month of January is –6.1% and –1.8%, respectively.

US$ strength through Q4 had an negative influence on the export side, weakness appears to be centered with Capital Goods, which declined by -16.2%, the weakest start to the year in the history of the report. The average change in this category for the month of January is –10.8%. Other categories showed an above average result, including Industrial Supplies, Automotive Vehicles, and Consumer Goods exports. Exports remain vulnerable to the strength in the US$ as we have forecasted for 18 months, the embedded US$ strength is increasingly harmful to the US becoming globally less competitive, as President Trump has already indicated. Investors should be careful attention over the coming weeks, as the US$ transitions out of a period of seasonal strength and into a period of weakness.





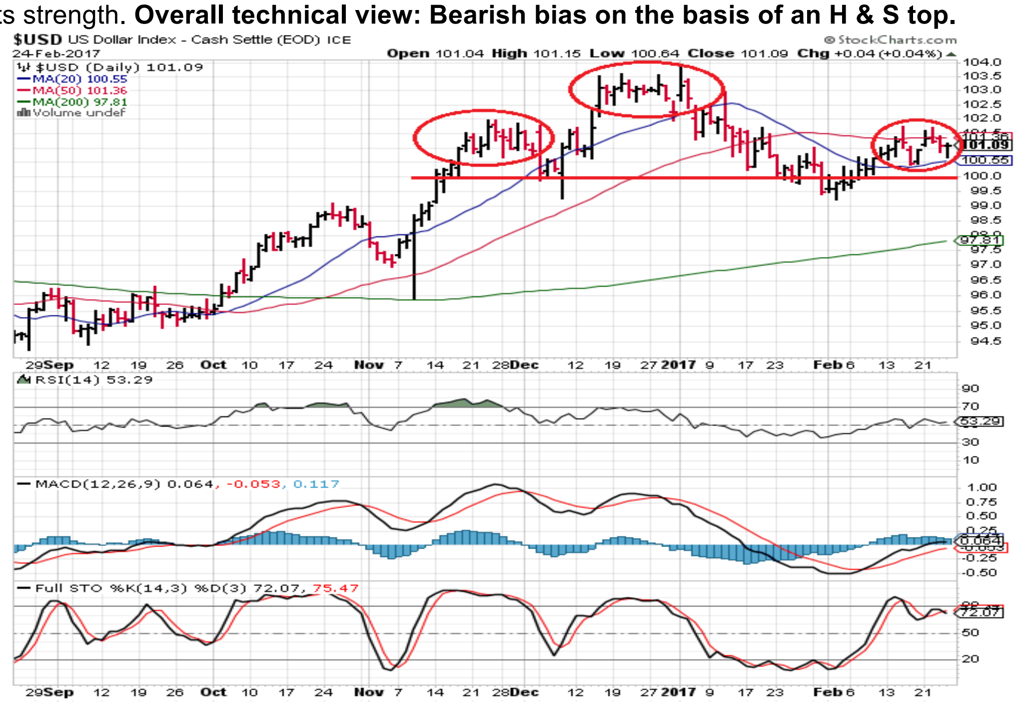
Currencies Commentary

Strength in the US$ through Q4 of 2016 and Q1 of 2017 is likely to have a continued and increasingly negative influence on US exports. As it appears, a number of categories so far have been resilient in the midst of the breakout gains on the US$ index in recent 6 months. However, the US's global competitiveness is suffering increasingly with the US$ at levels of around USD 100. **The US$ warrants careful attention in the weeks ahead as we transition out of a period of seasonal strength and into a period of weakness.**

At the moment the current and projected strength of inflation and of growth look likely to justify two interest rate hikes this year, however, we do not believe that the FED will even proceed with those, as they would likely cause an even stronger US$, which the US currently cannot cope with, and particularly given the Trump administrations economic and fiscal objectives. The US$ has been consolidating above 100 for about 5 months, but a short-term head-and-shoulders topping pattern may be in the works as the index shows signs of rolling over from resistance around its 50-day moving average.

The short-term technical for the USD are very overbought, with full stochastics close to an all time high, and RSI and MACD also at extended levels. We believe that the US$ will retest the 100 levels, and consolidate back towards a 96 level of support over the coming 3 months.

US$ Index formed a head & shoulders top, with the left shoulder and head put in, and a possible right shoulder is in progress; the neckline has support around 98. If it follows through and breaks the neckline it could open up about a 4 point move based on the head vs neckline measure rule; that would put the price target around 95 - 92 and right back in the old range. The latest rally failed to break upper resistance, and is struggling with the 101 level, so either way there should be doubts on its strength. **Overall technical view: Bearish bias on the basis of an H & S top.**

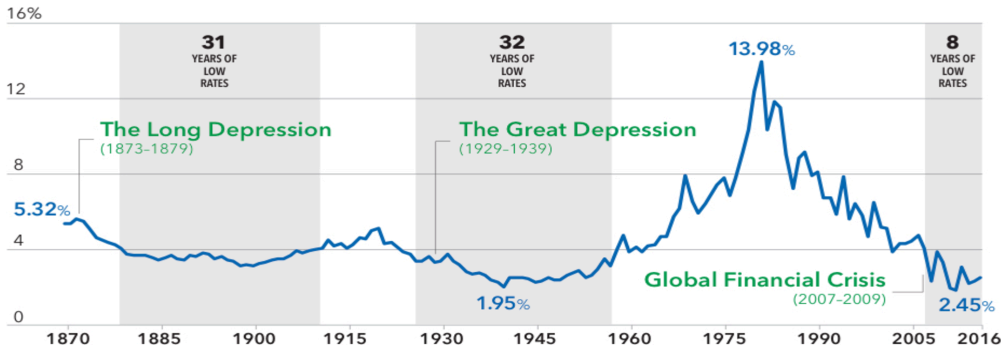


Fixed Income Commentary

In the US, as we have been warning for 4 weeks, investors would be wise to watch the recent consolidation in treasury yields, which could threaten the upside momentum in financial stocks during the last two months of the seasonal trade. The yields on the 10 and 30-year treasury bond continue to hold within a descending triangle pattern; a break of the lower limit could see a retracement of the bulk of the post-election move. Yields have bounced mildly higher in the past few sessions, certainly not reminiscent of the move in stocks, which have exceeded their consolidation ranges.

US Treasuries are forming a notable descending triangle, we see initial price target for a downside break of around a yield of 2%, which would still position it around the top end of the previous range. Speculative futures positioning also remains stretched to the short side, which would tend to bias the expectation toward a drop in yields from a contrarian standpoint. **Overall technical view: We expect yields to fall (bonds to rally) further towards 2.15%.**

We have been observing that investors are getting quite bullish on inflation, particularly in the US, however, Interest rates are low because growth and inflation in the US have been relatively tame, and foreign central banks continue to buy bonds, pushing down global yields. In order to see significantly higher yields, we probably need to see both a hawkish Fed and high inflation, but we see the probability of both of those things low.



Sources: Federal Reserve, Robert Shiller, Thomson Reuters Datastream. Data from 1871–1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data from 1962–2016 represents year-end 10-year Treasury yields.

Commodities Commentary

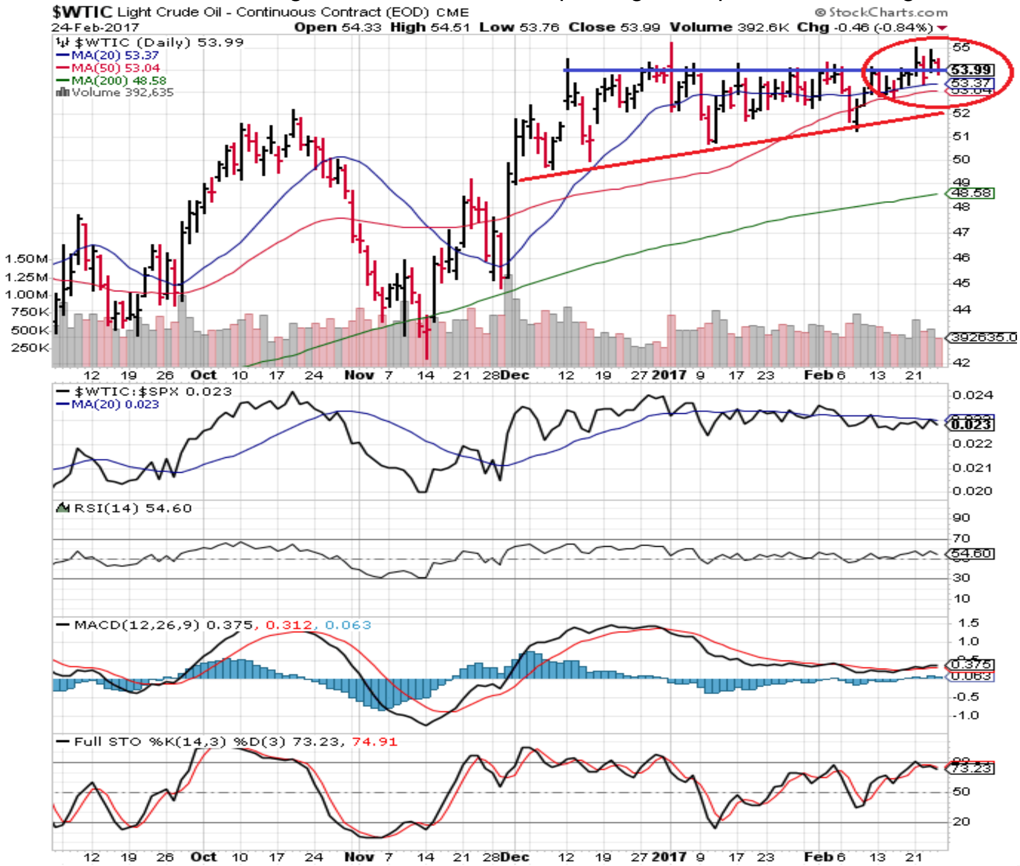
Oil in the US (WTI) tends to play a dominant role in the month ahead as refiners transition from production of winter to summer blend gasoline, drawing down the inventories of the refined product and leading to a peak in the days of supply of the raw input. **Over the past 30 years, the price of WTI Crude has averaged a gain of +4.4% in the month of March, the best monthly return of the year.**

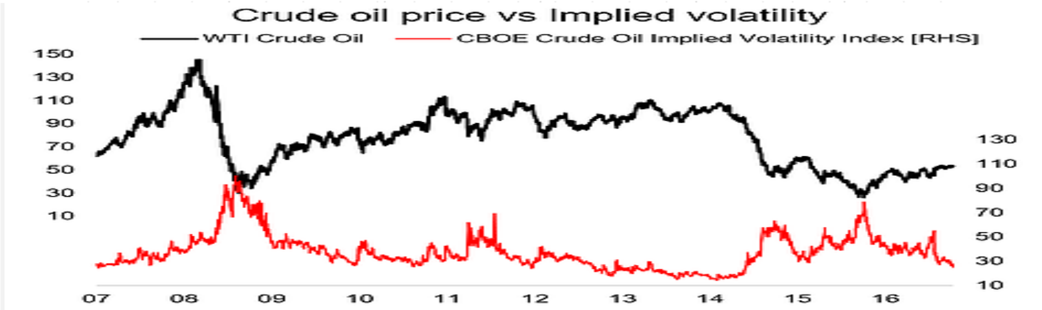
Monthly Averages over past 30 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.2%	1.0%	4.4%	3.4%	0.8%	0.9%	0.9%	1.7%	1.9%	-2.7%	-3.0%	-0.2%
Gain Frequency	47%	57%	67%	63%	47%	53%	63%	53%	50%	40%	40%	53%
Max Return	11.3%	11.0%	35.3%	24.9%	31.7%	14.7%	20.6%	33.4%	44.0%	18.1%	14.1%	16.2%
	2005	2008	1999	2015	2009	1999	1990	1990	1990	2011	1999	2002
Min Return	-23.1%	-15.9%	-15.3%	-16.2%	-17.5%	-13.3%	-20.8%	-13.3%	-12.9%	-32.4%	-21.5%	-20.5%
	1991	1997	2003	2003	2012	1988	2015	1994	2008	2008	1998	2000

The pace of inventory gains through the first seven weeks of the year continues to be concerning, warranting further monitoring before adopting a bullish bias. Further details on the state of petroleum inventories will be released on Wednesday when the Energy Information Administration (EIA) releases their weekly report.

Crude Oil has been forming an ascending triangle, and our initial 3 months price target would be around $59 - $60 a barrel. We previously talked about the crunch in volatility for Crude Oil in the commodities and the fact that the implied volatility index for oil has also fallen considerably, and that this could be a harbinger of a potential surge in volatility to follow shortly. Well, this is now confirmed by last weeks' price action and our overall technical view being confirmed, we are expecting an explosive move higher.





Equities Commentary

The month of March has historically been one of the better months of the year for stocks. The S&P 500 Index has averaged a gain of +1.3% in March, advancing in 68% of periods in the past 50 years. The month tends to have a cyclical bias, buoyed by strength in retail sales and industrial production as the economy emerges from the slower winter period. Returns have ranged from a loss of 10.2% recorded in 1980 to a gain of 9.7% realized in 2000.

Monthly Averages over past 50 years:

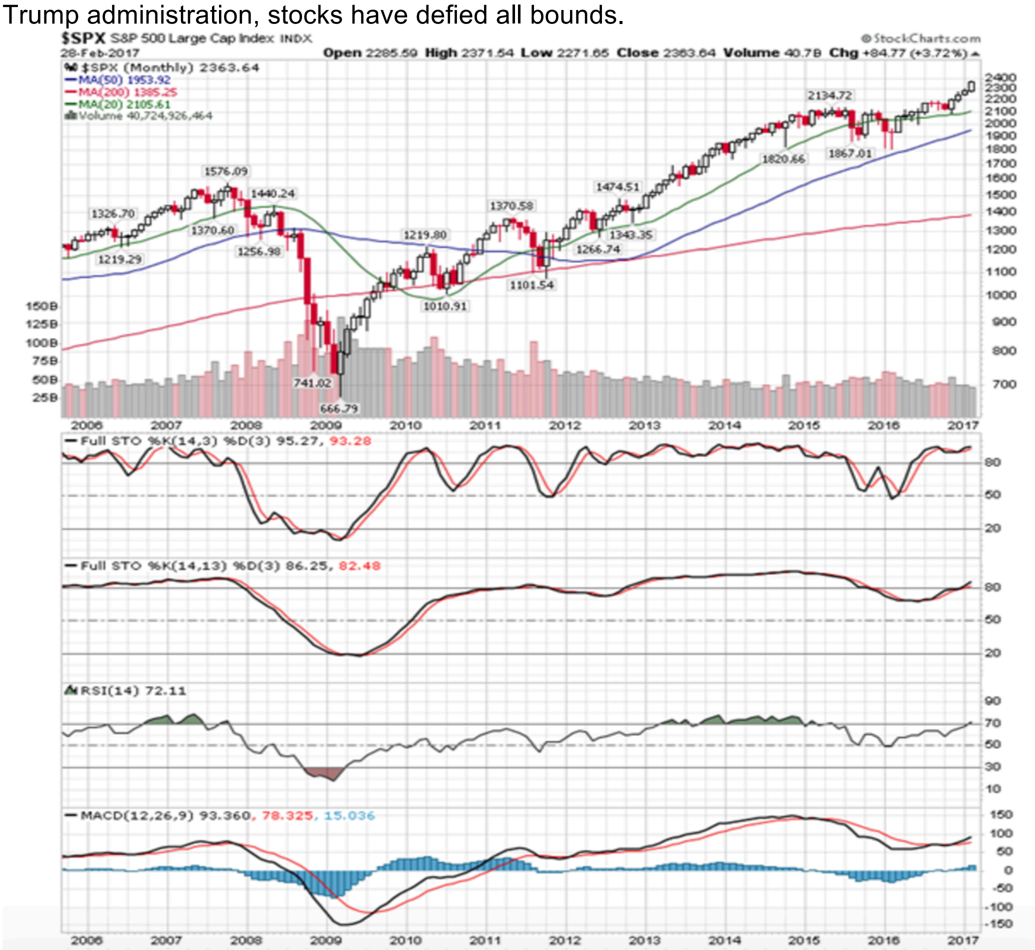
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.9%	0.1%	1.3%	1.5%	0.3%	0.1%	0.5%	0.1%	-0.6%	0.9%	1.3%	1.5%
Gain Frequency	56%	56%	68%	70%	58%	54%	46%	56%	44%	58%	68%	72%
Max Return	13.2%	7.1%	9.7%	9.4%	9.2%	5.4%	8.8%	11.6%	8.8%	16.3%	10.2%	11.2%
	1987	1986	2000	2009	1990	1999	1989	1982	2010	1974	1980	1991
Min Return	-8.6%	-11.0%	-10.2%	-9.0%	-8.2%	-8.6%	-7.9%	-14.6%	-11.9%	-21.8%	-11.4%	-6.0%
	2009	2009	1980	1970	2010	2008	2002	1998	1974	1987	1973	2002

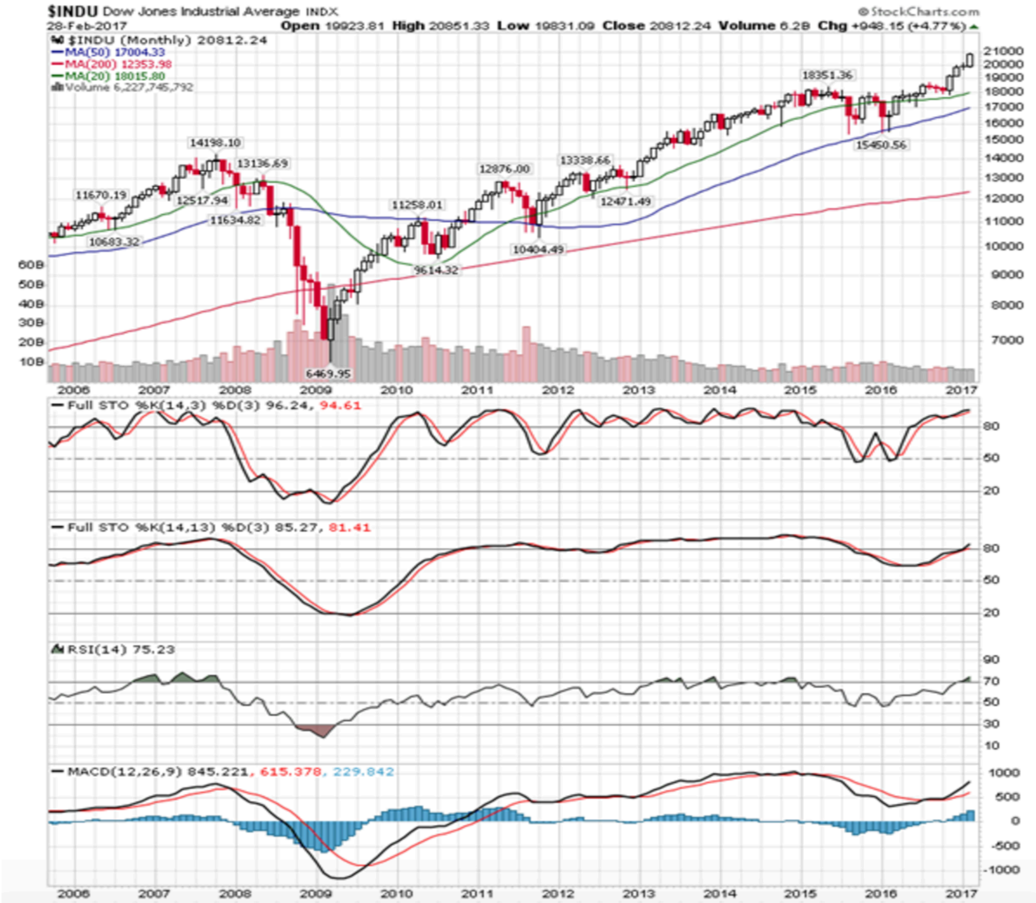
Looking through the past 20 years of data, the best performing sectors in this last month of Q1 are Energy and Financials, averaging a gain of around +3%.

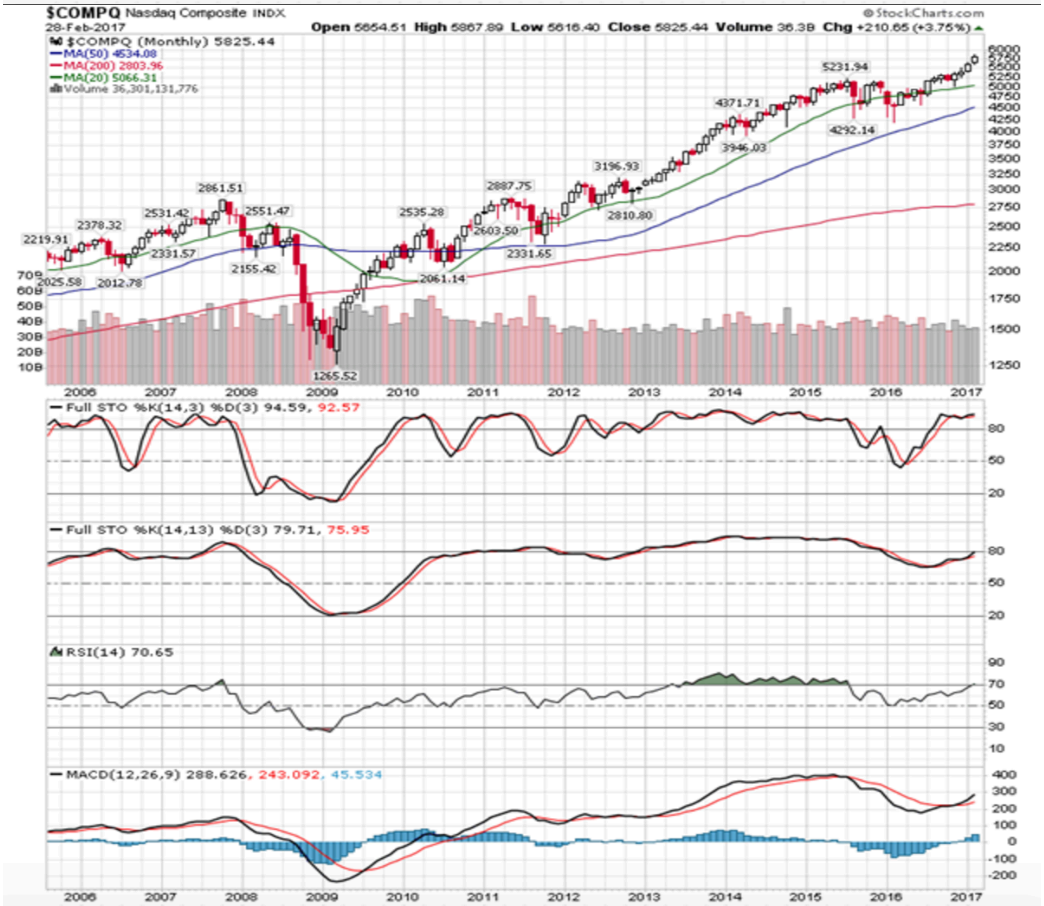
Materials, Industrials, Consumer Discretionary, and Utilities have each averaged a return of around +2%.

Health Care and Consumer Staples have historically been the laggards, gaining less than 1% over this 31-day period.

Stocks closed mildly lower on yesterday, brining an end to a historic 12-day win-streak on the Dow Jones Industrial Average, the longest stretch of consecutive daily gains since 1987. The session caps off another positive month for major equity benchmarks in the US. The S&P 500 Index closed higher by 3.72%, the Nasdaq Composite posted a gain of 3.75%, and the Dow Jones Industrial Average tacked on an additional +4.77%, each ending in overbought territory and around all-time highs. Typically, February is the weakest month of the positive six-month seasonal trend for equity benchmarks, but with improving fundamental data and anticipation of pro-business policies from the Trump administration, stocks have defied all bounds.




$INDU Dow Jones Industrial Average INDX
28-Feb-2017
Open 19923.81 High 20851.33 Low 19831.09 Close 20812.24 Volume 6.2B Chg +948.15 (+4.77%)
$INDU (Monthly) 20812.24
MA(50) 17004.33
MA(200) 12353.98
MA(20) 18015.80
Volume 6,227,745,792
Full STO %K(14,3) %D(3) 96.24, 94.61
Full STO %K(14,13) %D(3) 85.27, 81.41
RSI(14) 75.23
MACD(12,26,9) 845.221, 615.378, 229.842


$COMPQ Nasdaq Composite INDX
28-Feb-2017
Open 5654.51 High 5867.89 Low 5616.40 Close 5825.44 Volume 36.3B Chg +210.65 (+3.75%)
$COMPQ (Monthly) 5825.44
MA(50) 4534.08
MA(200) 2803.96
MA(20) 5066.31
Volume 36,301,131,776
Full STO %K(14,3) %D(3) 94.59, 92.57
Full STO %K(14,13) %D(3) 79.71, 75.95
RSI(14) 70.65
MACD(12,26,9) 288.626, 243.092, 45.534

The "still bullish case for Japanese equities"

As we had written over the past year, the Japanese economy is close to full employment, and we are expecting for wages to grow, and hence, why we see a good chance that Japan will soon be exiting its long dark era of deflation, which will be a huge surprise to investors. The fundamental reasons for our beliefs are based on structural issues that caused deflation to first take hold in Japan's economy, including the bursting of the real estate bubble in 1991, and corporate deleveraging, are finally coming to an end.

The government is finally throwing the full weight of a unified set of policies at the problem. Prime Minister Shinzo Abe took office in late 2012 vowing to shake deflation, but that goal was muddled by another that worked at cross-purposes: shoring up Japan's fiscal health. The government increased the national sales tax in 2014 to whittle down the country's debt burden, which is among the highest in the world. The tax increase — from 5% to 8% — throttled consumption and sent the country into a recession.

One of the biggest headwinds to a stronger Japanese economy is structural: its aging population. However, first data from the central bank's measurement of the labor force input gap turned positive for the first time in Q3 of last year, meaning the economy ran out of spare workers.

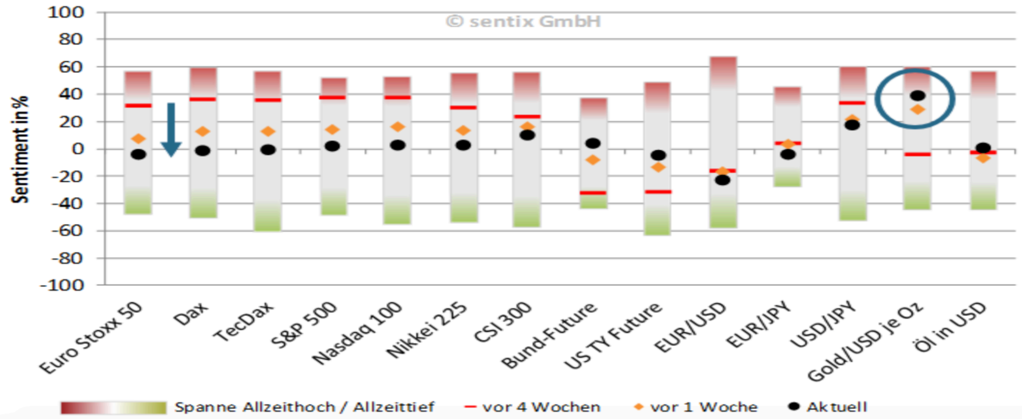
It's worth noting that the input gap measurement has been positive during a few periods ever since the initial 1991 downturn, including one stretch that began in 2005, but was interrupted by the global financial crisis and recession. A second period started in 2014, as some of the early enthusiasm about "Abenomics" bolstered growth, but it faltered along with the rest of the economy. But it wasn't just a cooling economy that increased labor market slack. One of Abenomics' most elusive components was its "third arrow", big structural economic changes like liberalizing immigration and deregulating industries like agriculture and energy in order to complement monetary and fiscal stimulus.

Among those reforms, one of the most important was drawing more women into the labor force, a goal that was unexpectedly successful. The female labor force participation rate was 50.4% in December, compared to 47.8% when Abe took office in December 2012. The success of "womenomics" is another reason why the Bank of Japan estimates that pretty much all the people who want to be working already are. That's borne out by some statistics: that labor force input gap measurement in Q3 of last year was five basis points higher than its peak in 2014 before turning negative. At the same time, Japan's jobless rate remains low at 3.1% in December, and the ratio of job openings to applicants hit the highest since 1991 in December. This is signaling that the labor market is starting to really heat up, and that employers will have no choice but to increase wages to compete for workers, and as the balance tips from prime-age workers saving for retirement to pensioners spending their savings,

The demographics are moving from being a deflationary force to a reflationary one, and signs point to changes in incomes and movement away from the two-decade malaise of no inflation, limited growth, and continuously rising savings rates as people worked longer and accumulated more money in order to protect themselves in their old age, which we see this as a bullish scenario for investors, as wages will pick up enough to spur inflation, that means downward pressure on the Yen, which would generate a virtuous cycle for the economy, exports will benefit, and the economy will overheat some more, and inflation expectations will rise further.

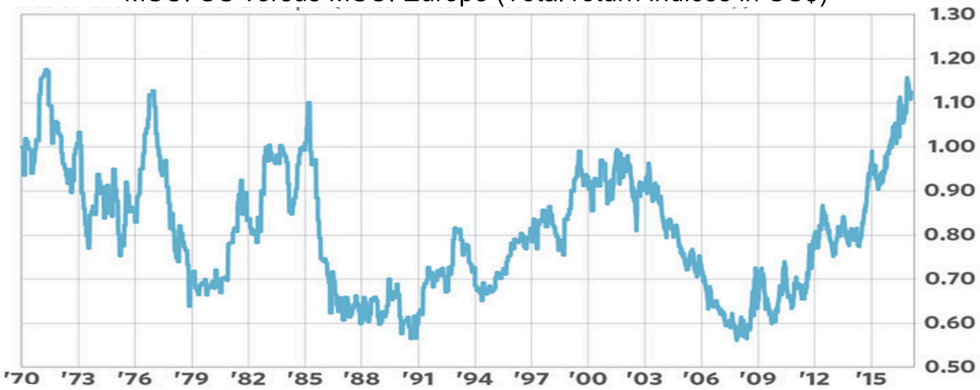
We continue to see Japanese equities, and particularly banks to be a good investment as the economy begins to reflate and the yield curve begins to steepen. Our 3 months price target for the $NIKK is 21,000.

As we had been forecasting, the recent decline in US real yields to under 2.40% for the 10-Year Treasuries (we keep our Q1 target of 2.15%), which have dipped into negative territory, has provided support to sentiment towards Gold. This can be seen in the latest ***sentix survey***, with optimism on Gold now running at elevated levels, while readings based on investors' medium-term strategic bias on Gold continue to head higher. As we noted last week, the medium-term strategic attraction of Gold appears to be investors' focus for now in a commodity context, which chimes with survey participants' less negative strategic bias on bunds versus Eurozone equities.



We continue recommending for investors to use the current US$ strength and diversify into the seasonally better performing European and EM equities. As we have written in the past 3 months, we see a stronger case in favor of higher European allocations until mid May. We believe that the political and sovereign tail risks for Europe, particularly with respect to potential Eurozone disintegration, are fully priced in the weak Euro and European equities. Looking ahead, Europe is facing Dutch elections in March, the UK is set to kick off negotiations to exit from out of the European Union after last year's referendum, French elections are slated for April/May and Germany is expected to hold elections in September that could result in a leadership change. There's also speculation Italy could call a snap election in 2017, possibly in June. The earnings cycle in Europe is bottoming and therefore turning the decade long downturn in relative profit growth around in Europe's favor. So far the signs are positive. Earnings are now rising relative to the US and we expect double-digit EPS growth in 2017. European companies are currently trading around a forward P/E ratio of 14.7, compared with a P/E of 17.8 in the US. But as we pointed out in the past, the tides may be turning now with a weaker Euro and its tailwind benefits and that US corporations will be hard pressed to squeeze their margins further, after going through significant cost-cutting measures in the aftermath of the financial crisis.

US stocks at 40 Year high versus European stocks
MSCI US versus MSCI Europe (Total return indices in US$)



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