



# Creative Global Investments

## Weekly global equities strategy & charts

Monday, March 5th, 2018

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Objectivity

Integrity

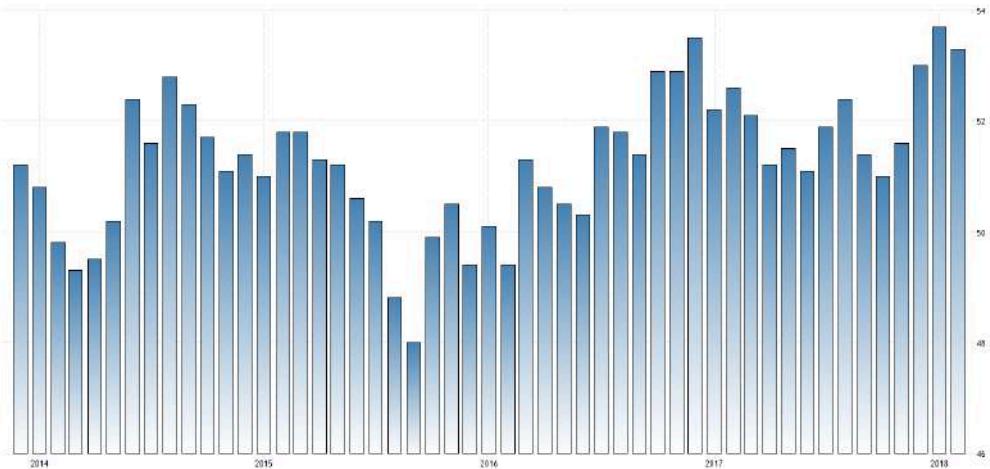
Creativity

### Geo-political and macro commentary

**In Asia**, China aims to expand its economy by around 6.5% this year, the same as in 2017, while pressing ahead with its campaign to reduce risks in the financial system, Premier Li Keqiang said today. The goal was kept unchanged even though the economy grew 6.9% last year and exceeded the government's target. China has cut its budget deficit target for the first time since 2012, suggesting Beijing will be more watchful of fiscal spending while not tapping the brakes so hard that it risks a sharper slowdown.

China government officials were also responding to "trade war talks" by US President Trump by saying trade wars weren't good for anyone, and a lose-lose scenario for all trading nations, a day after Trump said he intended to put duties of 25% on steel imports and 10% on aluminum products. Trade tensions between the world's two largest economies have risen since Trump took office in 2017, and although China only accounts for a small fraction of US steel imports, its massive industry expansion has helped produce a global glut of steel that has driven down prices. Negotiations and mutual opening of markets would be the best ways to resolve trade frictions, Chinese Vice Foreign Minister Zhang said at a briefing ahead of China's annual plenary session of parliament. "China does not want to fight a trade war with the US, but will absolutely not sit by and watch as China's interests are damaged," Zhang, who is a spokesman for parliament and was formerly an ambassador to the US, said. "If US policies are made on the basis of mistaken judgments or assumptions, it will damage bilateral relations and bring about consequences that neither country wants to see," Zhang said.

China is faced with a temporary global decrease in demand for its goods and services, export orders, a decrease in the composite index, manufacturing output, factory employment and a slump in services PMI confirmed the cool-off in demand. China export growth is a key barometer we are watching for slowdown signals, especially with the continued appreciation of the RMB we will get to see China's trade numbers on Thursday this week. The Caixin China Composite PMI dropped to 53.3 in February of 2018 from a seven year-high of 53.7 in the previous month. Services sector growth slows (PMI at 54.2 in February of 2018 from a 68-month high of 54.7 in January) while factory activity expanded modestly (PMI at 51.6 from 51.5)



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Additional tariffs on aluminum foil coming from China imposed by the US contributed to the growth deceleration as well. Should China, Japan and other nations, which have recycled their trade USD's through their Treasuries holdings, suddenly decide to whittle them down, markets could be in for a rough ride.

Such a retaliatory move, in the wake of Trump's first big protectionist action, comes at a time when foreign demand for US debt is seen critical to offset an expected surge in federal borrowing needs. **We see increasing risks for countries such as China, Japan, Germany, France, and Middle Eastern countries easily reduce parts of their over allocated holdings in US bond investments, in the case where they were not winning any compromises from Washington.**

**In Hong Kong**, the annual budget speech of Financial Secretary Paul Chan showed an 8-fold increase in surplus, totaling to \$17.6 Bn for the fiscal year 2017-2018. Although this seems like a good problem to have, social security spendings and healthcare expenses will likely consume this surplus within the next 10 years.

**In Japan**, BOJ Governor Haruhiko Kuroda caused a drop for the Yen by stating that policy makers are considering to end stimulus by the start of the fiscal year in April 2019.

**In India**, a slight increase in expected GDP growth (6.6% vs. initially predicted 6.5%) relieves some of the pressure put on India's government by the voters. Still short of the growth rates of the previous year (7.1%), the government allocated budget towards rural areas to stimulate growth prior to the 2019's elections. Inflation rose sharply last year, ending 2017 at 5.21% and is targeted to remain at around 4% over the medium term, the Indian Central Bank stated. Already faced with the heaviest sell-off in the last two decades, India's bond markets will be the main target of the adjustments in interest rates.

Global Macro Momentum has been slowing, as shown in the chart of the Citi Economic Surprise Index for all major markets



**In Europe**, the out outcome of the Italian elections is a bit surprising, as the big losers of the elections in Italy are the Social Democrats of Prime Minister Renzi. Europe-critical and right-wing parties are the big winners: The five-star party and the Lega have managed to grow well but are unlikely to win the majority. The ruling Social Democrats of the Partito Democratico (PD), however, had to take a serious hit. Parliament will meet for the first time on March 23 and President Sergio Mattarella is not expected to open formal talks on forming a government until early April.

**In Germany**, Germany finally has a majority coalition government, after Sunday's Social Democratic Party election result came in, where a majority of SPD members have supported their party's participation in a new coalition with the Union 66.02% for the CDU/CSU negotiated coalition agreement, as the SPD announced. SPD will enter the government, and wants to decide on the occupation of ministerial posts in the coming days. Half of the SPD leaders want to send female and male ministers, party leader Scholz announced. Among the departmental chiefs should be ministers who

have officiated so far, some would be new. Scholz, currently governing mayor in Hamburg, is considered to be the Minister of Finance and vice-chancellor. Merkel's election as Chancellor is scheduled for March 14 in the Bundestag. The AfD will now be largest opposition party.

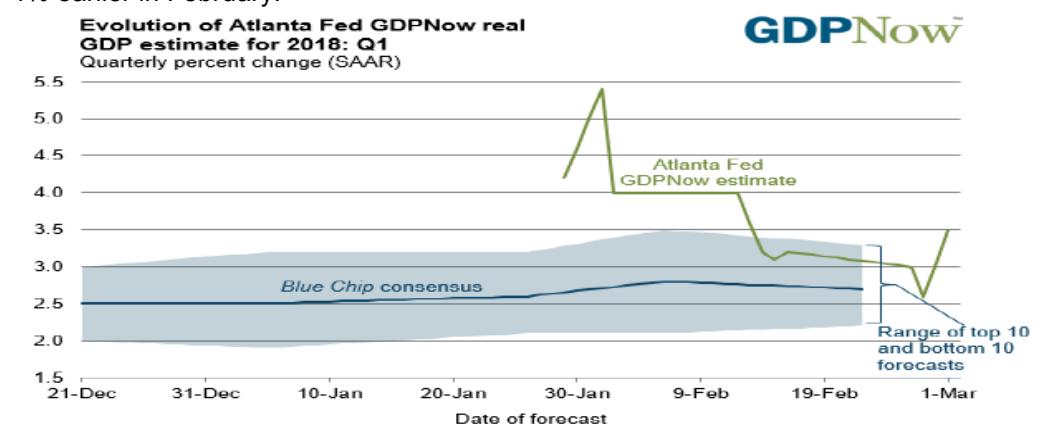
Economic Momentum in the EU had also been slowing a bit in 2018, which is mostly seasonally related, as the Citi Economic Surprise Index for EU is showing



**In the Americas**, FED Chairman Powell has re-asserted his hawkish tone showing confidence on the strength of the US economy, inflation moving to target, a large demand boost from US fiscal policy, whilst acknowledging they do see some high asset prices out there. Maybe he missed the following chart (Citi Economic Surprise Index)



US economic data has been missing expectations in February in the face of a market heavily skewed towards higher rates. Q4 GDP was revised down to 2.5% from 2.6% last week, whilst the Atlanta Fed's Q1 GDP forecast now sits at 3.0%, down from over 4% earlier in February.



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts  
Note: The top (bottom) 10 forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

(Source: Atlanta Fed)

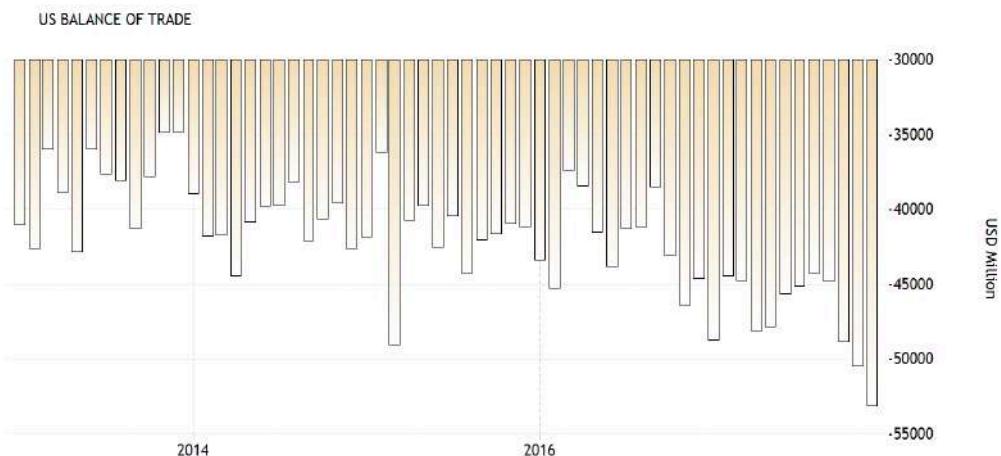
The next chart of the Baltic Dry Index (\$BDI) is showing signs of investors starting to disbelieve in the current global macro-momentum. **The \$BDI has rolled over from its peak in December, and there is increasing danger of a “death cross formation”.**



As for commodities in general, investors' concerns are rising. Gauging by the following chart of the CRB/Reuters Commodities Index, it seems that investors are pricing in a demand peak, and similarly for price dynamics. The \$CRB struggled to make progress in February. The next chart shows that the \$CRB made a lower high and a lower low last month, risking the breakout above 196 we saw in January 2018 to be put in question.



Another important topic we like to emphasize on is the fact that the 2017 total US trade deficit was \$566Bn. And that the US imported \$2.895Trn of goods and services while exporting \$2.329Trn in 2017. The deficit was higher than in 2013 when it was \$478Bn. That's because the USD gained 28% between 2014 and 2016, making imports cheaper and exports more expensive.



SOURCE: TRADINGECONOMICS.COM | U.S. CENSUS BUREAU

But the deficit is less than the record \$762 Bn in 2006. The decrease since then means US exports are growing faster than import, a positive for US businesses and job growth.

Automobiles and consumer products are the primary drivers of the trade deficit. In 2017, the US imported \$602Bn in generic drugs, televisions, clothing, and other household items, whilst it only exported \$198Bn of consumer goods. The imbalance added \$404Bn to the deficit. America imported \$359Bn worth of automobiles and parts, while only exporting \$158Bn. That added \$201Bn to the deficit.

In 2017, the US imported \$ 183Bn in petroleum products, including crude oil, natural gas, fuel oil, and other petroleum-based distillates such as kerosene, cumulatively a lot lower than the record \$313Bn imported in 2012, mostly due to new US shale oil discoveries and exploration.

US petroleum exports totaled \$71Bn in 2017, so that petroleum trade contributed \$92Bn to the trade deficit.

The US exported more services than it imported, service exports totaled \$778Bn, whilst imports totaled \$534Bn, resulting in a US trade surplus of \$244Bn, detailed by category as follows:

- Intellectual property (royalties/licensing fees) \$75Bn
- Travel related Services & transport: \$55Bn
- Computers & business services: \$53Bn
- Financial & Insurance services \$45Bn

## Equities commentary & charts

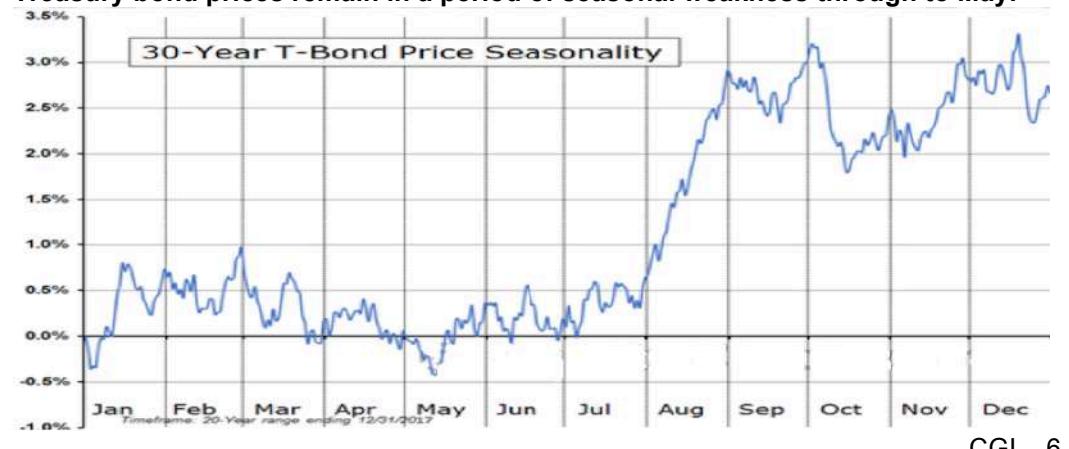
World equity markets and economic sensitive sectors are about to enter their second strongest period of seasonal strength in the year from the beginning of March to the first week in May. (Strongest period is from mid-October to the first week in January). The March to May period is bolstered by encouraging comments offered by CEOs at annual meeting (frequently coinciding with release of first quarter reports) combined by seasonally strong economic news related to the spring buying season (e.g. autos, homes spring clothing). This year the March to May season will be helped by strong gains in corporate sales and earnings triggered by changes in US tax laws.

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 March-May seasonal trade. Selected commodity sensitive sectors already have surfaced on the radar screen. Commodities and commodity equity prices historically move higher to at least early May. 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. 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.

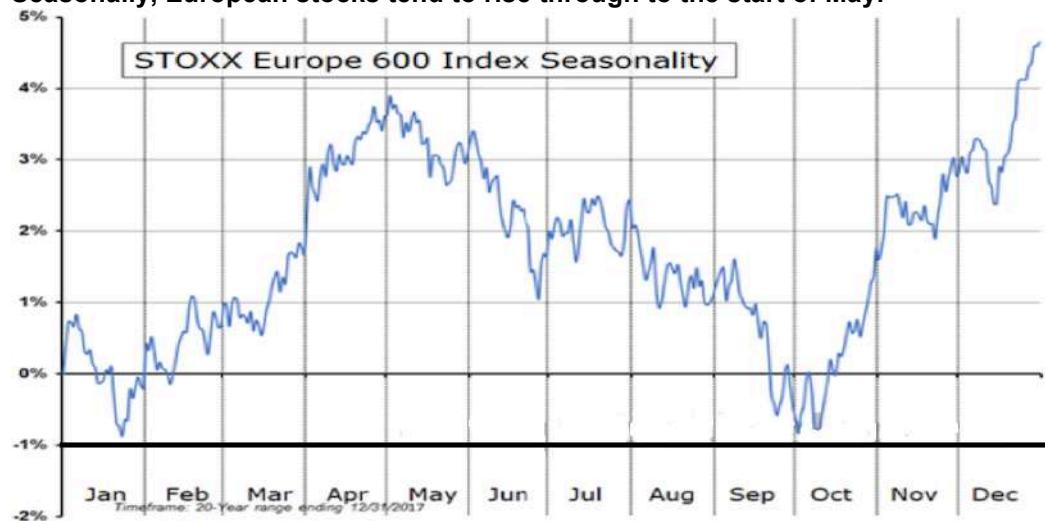


Treasury bond prices remain in a period of seasonal weakness through to May.





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

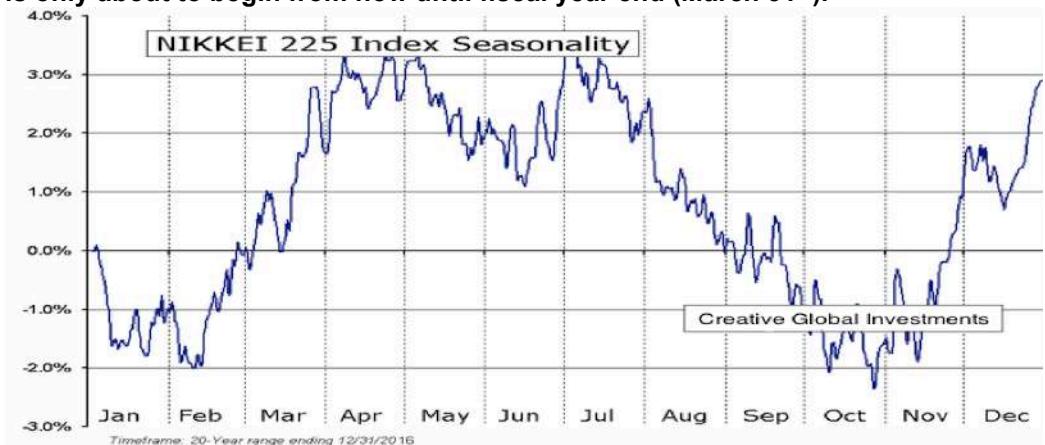


One of the reasons we see why international markets keep having more current troubles to recover is the fact that the respective currencies (EURO, Yen, Yuan, GBP, BRL, AUD, CAD) all have gained significantly over the past 18 months against the USD, and hence, earnings for 2018 and 2019 are going to be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

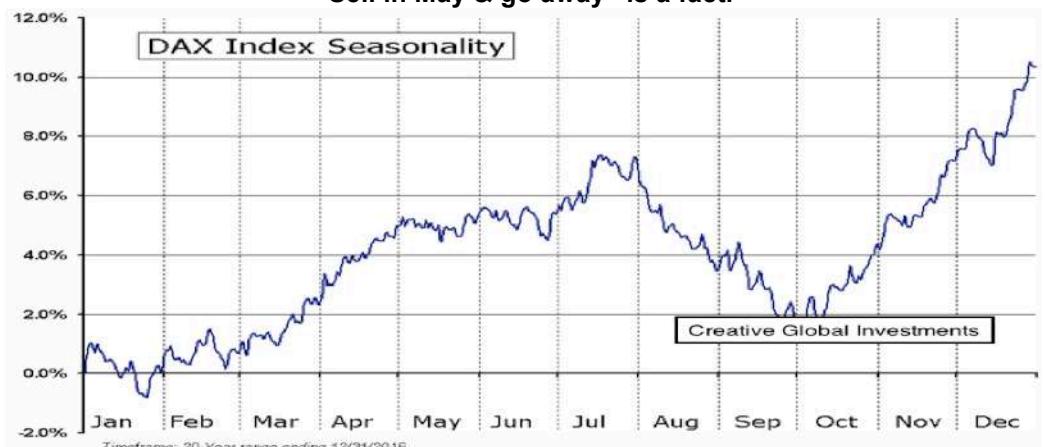
Foreign investors are still tremendously underweight in Japanese equities, both on a trade weighted and an overall GDP-weighted basis, and we think there is room for significant further upward momentum in the short-medium term. We continue advising to use those for long-term asset allocation build-ups 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.

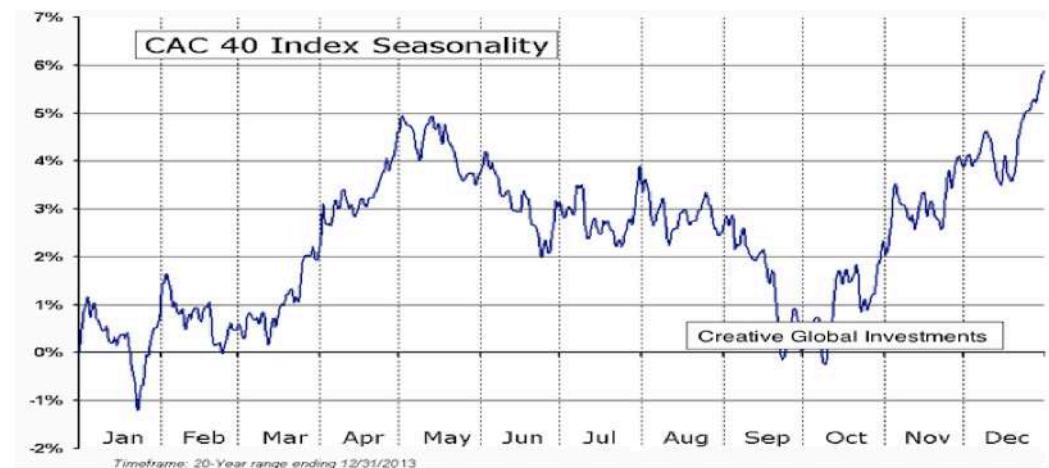
Today, it trades at 21,042, however, the period of seasonal strength for the N-225 is only about to begin from now until fiscal year end (March 31<sup>st</sup>).



*In Europe, we expect to see the USD weakness to resume due to the “Trump trade tariffs” 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.**

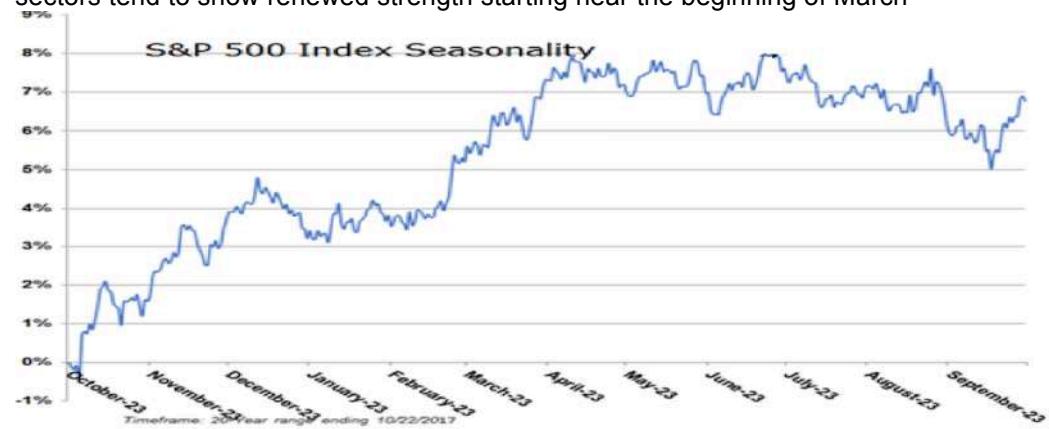
**In the US**, short term political uncertainties remain, including North Korean “sabre rattling”, struggling NAFTA negotiations, rising trade war fears following proposed tariffs on aluminum and steel and increased scrutiny by special council on Russia’s influence on the Presidential election. US economic news this week will focus on the February Employment report on Friday

Technical action by individual S&P 500 stocks remained bearish last week. Number of stocks breaking resistance totaled 19 while number of stocks breaking support totaled 48. The Up/Down ratio decreased last week to (192/222=) 0.86 from 1.02

Medium term technical indicators in the US (Percent of stocks trading above their 50 day moving average, Bullish Percent Index) moved lower last week. Medium term technical indicators in Canada also moved lower and remain at intermediate oversold levels.

Short-term technical indicators for US equity markets and most sectors (20 day moving averages, short term momentum) moved sharply lower last week.

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 97% 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) increased 14.8% on an 8.2% increase in sales.

Estimates for 2018 were virtually unchanged last week.

- Q1 2018 earnings are expected to increase 17.0% on a 7.5% increase in sales.
- Q2 2018 earnings are expected to increase 18.9% on a 7.8% increase in sales.
- Q3 2018 earnings are expected to increase 20.6% on a 6.5% increase in sales.
- Q4 2018 earnings are expected to increase 16.7% (up from 16.6% last week) on a 5.1% increase in revenues.
- FY 2018 earnings are expected to increase 18.3% (up from 18.2%) on a 6.7% increase in sales.
- Consensus for y-o-y S&P 500 earnings are expected to increase 18.3% 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.

Currently, US based companies with 50% of their 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 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.**



## Asian equity markets weekly charts

The BSE gained 227.44 points (0.67%) last week.



The Nikkei Average dropped 711.14 points (3.25%) last week.



\$BSE remains close to support.

Price rebounded and remains below the 20-day MVA.

Short-term momentum indicators are Negative.

Intermediate trend remains Neutral. Strength relative to the S&P 500 Index is Negative.

\$NIKK is retesting the low at 200-day MVA.

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

The Shanghai Composite Index lost 34.50 points (1.05%) last week.



The Hang Seng dropped 683.72 points (2.19%) last week.



## European equity markets weekly charts

The DAX 30 dropped 570.08 points (4.57%) last week.

Intermediate trend changed back to Negative.

\$DAX remains below the 20-day MVA. Strength relative to the S&P 500 Index is Negative.

Short-term momentum indicators are Negative.



The CAC 40 lost 180.79 points (4.57%) last week.

Intermediate trend changed from Neutral to Negative. \$CAC retraced back below the 50-day MVA.

Short-term momentum indicators are Negative.



Intermediate trend changed back to Negative. \$AEX broke through the 200-day MVA.

Short-term momentum indicators are Negative.

The AEX 25 lost 15.23 points (2.85%) last week.



The IBEX 35 dropped 291.30 points (2.97%) last week.

Intermediate trend remains Negative. Strength relative to the S&P 500 remains Negative. Index made the new low.

The Index remains below the 20-day MVA.

Short-term momentum indicators are Negative.



The FTSE dropped 287.87 (3.96%) last week.



The RTSI lost 38.43 points (2.96%) last week.



The SMI lost 319.68 (3.57%) last week.



Intermediate trend changed back to Neutral. The Index remains below the 20-day MVA. VIX rebounded from the lower trendline.

## US equity markets weekly charts

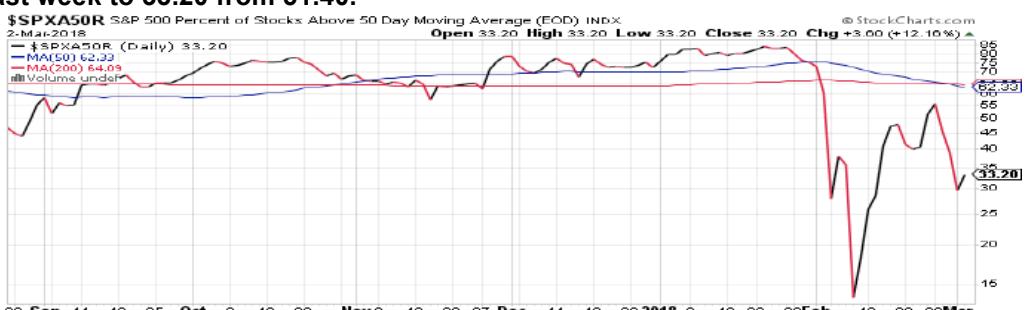
The VIX Index added 3.10 (18.80%) last week.



The S&P 500 Index lost 56.05 points (2.04%) last week.



Percent of S&P 500 stocks trading above their 50-day moving average dropped last week to 33.20 from 51.40.



Percent of S&P 500 stocks trading above their 200-day moving average dropped last week to 63.40 from 69.60.



Intermediate trend changed back to Neutral. The Index closed below its 20-day MVA. \$SPX looks to test the temporary support.

Short-term momentum indicators are rolling over.

The Index remains below the 50-day MVA.

The Index remains below the 50-day MVA.

**Bullish Percent Index for S&P 500 stocks dropped last week to 55.60 from 59.80 and remained below the 50-day moving average.**

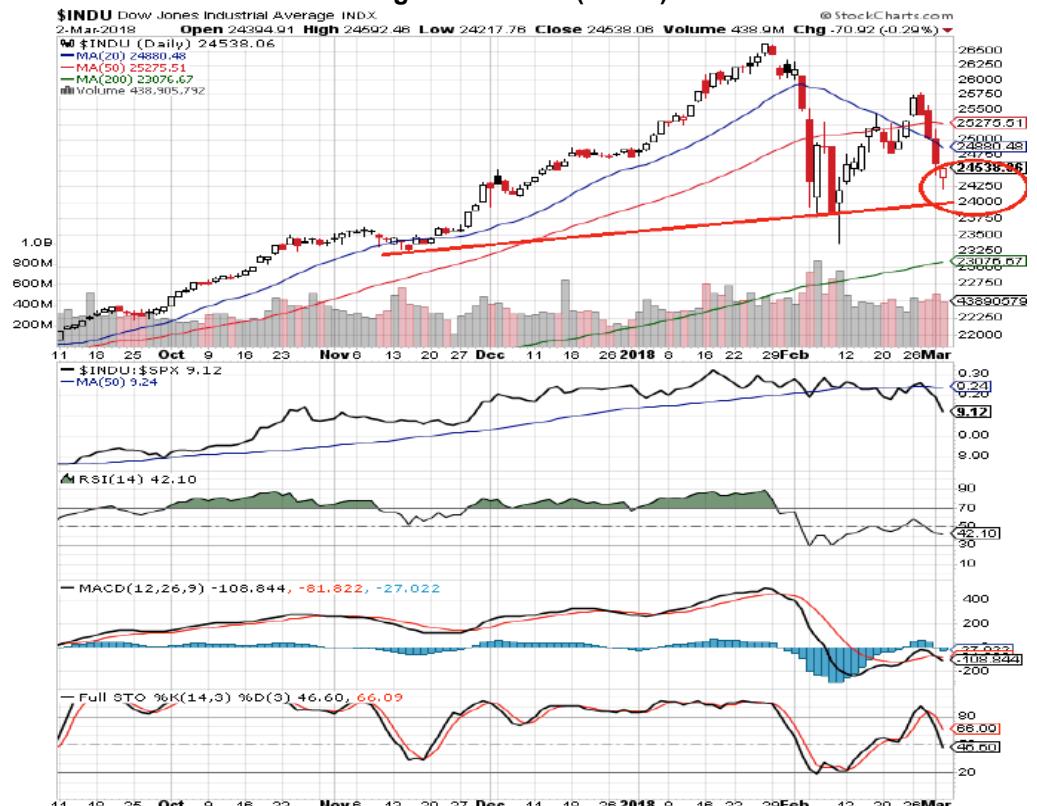
The Index remains below the 200-day MVA.



**The Dow Jones Industrial Average lost 771.93 (3.05%) last week.**

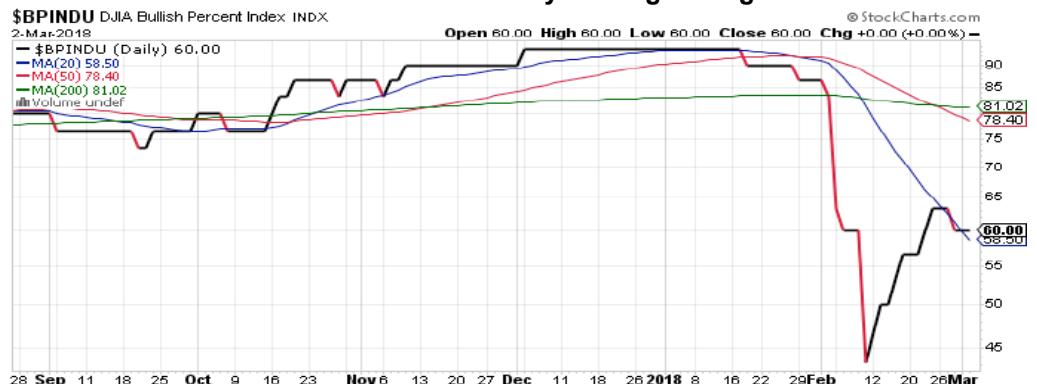
**\$INDU is going to retest the lower trendline. Strength related to the S&P 500 is below the 50MVA.**

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



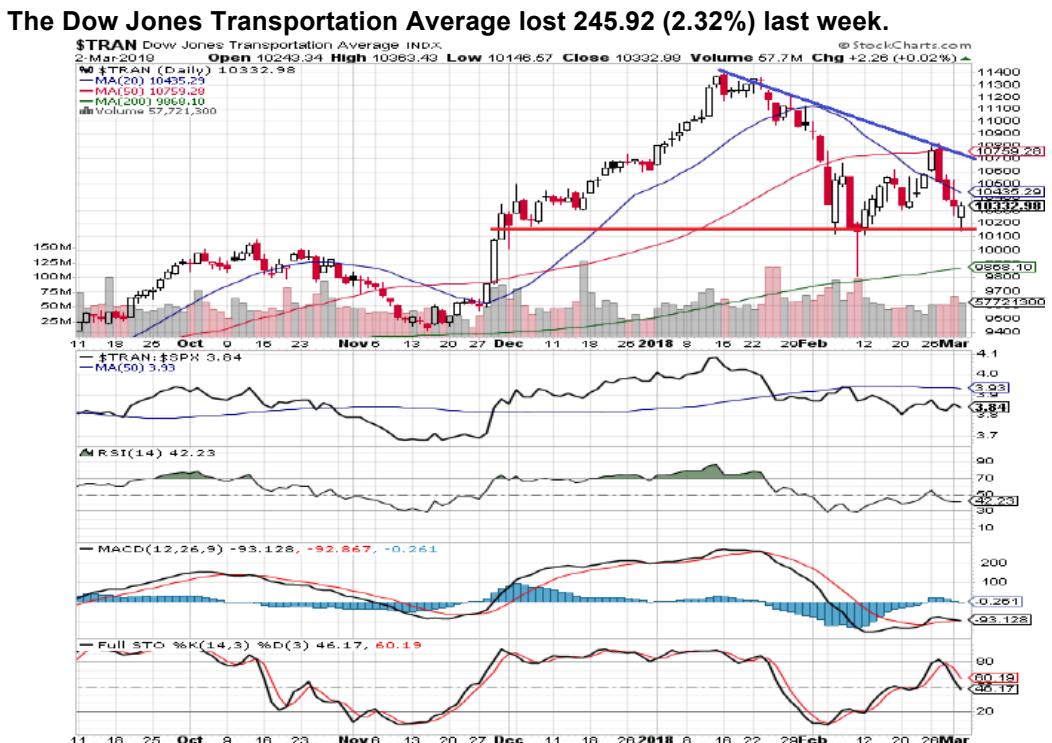
**Bullish Percent Index for Dow Jones Industrial Average dropped last week to 60.00 from 63.33 and moved above its 20-day moving average.**

The Index remains below the 50-day MVA.



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

## Short-term momentum indicators are Neutral.



**Bullish Percent Index dropped last week to 57.16 from 58.53 and moved above its 20-day moving average.**

The Index remains below the 200-day MVA.

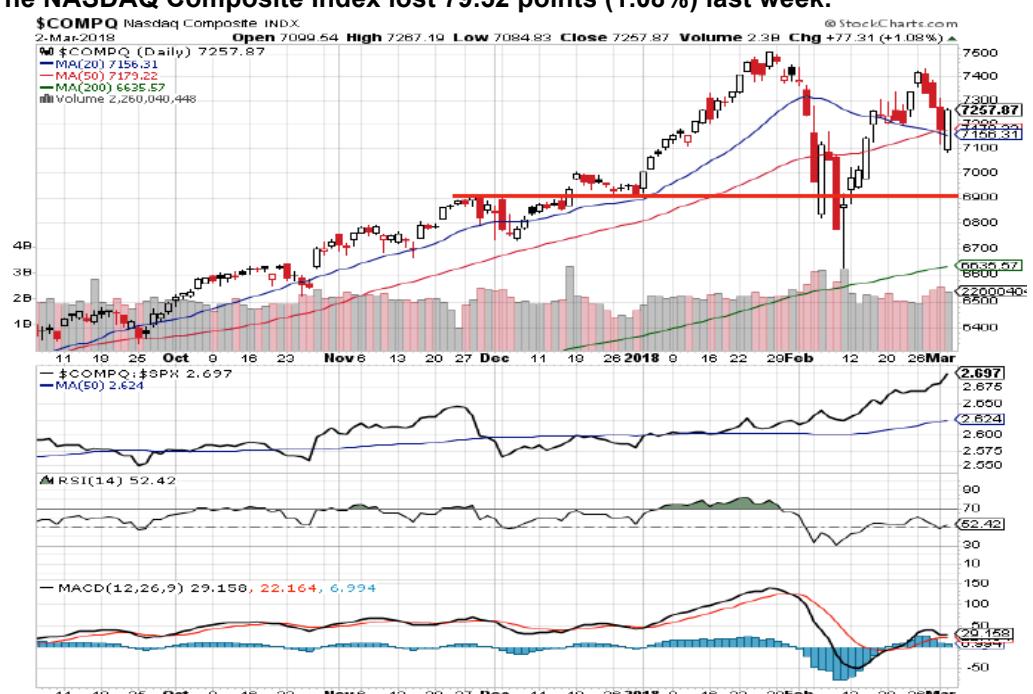


The NASDAQ Composite Index lost 79.52 points (1.08%) last week.

Intermediate trend changed to Neutral. \$COMPQ created a lower high. Strength relative to the S&P 500 Index remains Positive.

The Index remains above the 20-day MVA.

## Short-term momentum indicators are Neutral.



\$RUT rebounded from the 50-day MVA. Strength relative to the S&P 500 Index is Positive.

The Index remained above the 20-day MVA. Short-term momentum indicators are Neutral.



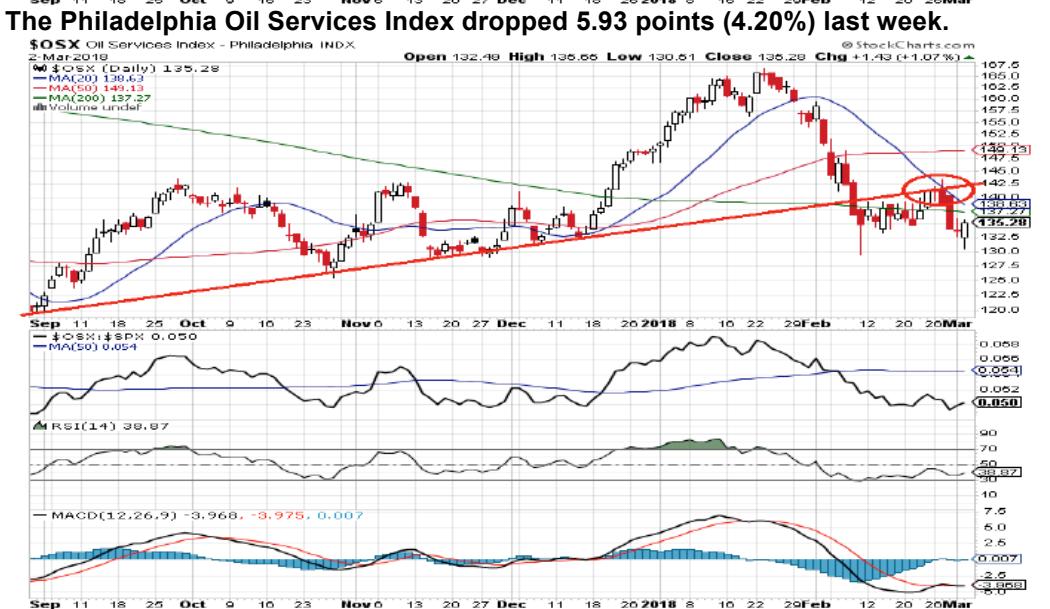
Intermediate trend remains Neutral. \$SPEN remains ranging around the 200-day MVA. Strength relative to the S&P 500 Index remains Negative.

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



**\$OSX rebounded from the old trendline. Strength relative to the S&P 500 is Negative.**

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



**\$HUI broke the 175 support but still holds the former trendline. 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 lost 1531 points (1.75%) last week.



**The Mexican Bolsa dropped 1095 points (2.25%) last week.**



**Bullish Percent Index for TSX Composite dropped last week to 57.60 from 59.60 and remained below its 20-day moving average.**

The Index remains below the 50-day MVA.



The TSX Composite Index lost 253.86 points (1.62%) last week.

Intermediate trend changed back to Neutral. The Index moved below the 200-day MVA.

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



Percent of TSX stocks trading above their 50-day moving average dropped last week to 28.46 from 30.61 % 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 43.09% from 45.31%

The index remains below the 200-day MVA.



## Australia & EM equity markets weekly charts

Emerging Markets iShares lost \$1.59 (3.20%) last week.

Intermediate trend changed back to Neutral. Strength relative to the S&P 500 Index remains Positive. EEM made a lower high and could retest the trendline.

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



The Australia All Ordinaries Index dropped 76.80 points (1.26%) last week.

Intermediate trend remains Neutral. Strength relative to the S&P 500 Index is Neutral. \$AORD looks to test the lower trendline once again.

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



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Report completed: 03/05/2018, 05:00 EST  
Report first disseminated: 03/05/2018 05:15 EST

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