



Creative Global Investments

Morning markets commentary & charts

Wednesday, March 11th, 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

Back in December 2014, we had highlighted that the parabolic rise of the US\$ since June 2014 and welcomed by the majority of the market participants, was eventually going to become a tremendous obstacle for US equities to move significantly higher over time, and for sure, going to be an impediment for US equities to keep up in performance with EAFE based equity indices. The past 3 weeks, it seems that the market is catching on to our concerns.

“Investors in US assets cannot have their cake and eat it too”

The parabolic rise of the US\$ is finally becoming a discussion topic amongst the global strategists, asset allocators and analysts, so that now we start seeing US government officials coming out of the woodworks and starting to comment on the exuberant strength of the US\$ hurting US industries and the inherent lack of competitiveness.

The truth is that the US has built a significant and growing trade deficit over 30 years with a declining US\$ relative to other G-10 currencies. So now, despite a dramatic +20% rise of the US\$ in the past 9 months, market participants want to ignore the facts that the strong US\$ will put pressure on both the FED and corporate America's lack of global competitiveness (remember the \$45bn monthly trade deficit {is a clear sign of lack of global competitiveness, albeit Oil being about 20% of that monthly imbalance)

As we saw with the US\$'s recent rise, and the implicit current and future negative impacts on corporate earnings for US exporting companies and the S&P 500, we became increasingly more convinced that there was no way for the FED to be in a position to raise rates in 2015. Also, the +20% of the US\$ rise since June last year is having a “slowing affect” on the US economy, in that the US exports are falling increasingly so, besides a falling FDI, and inversely that US imports would be rising, and would be increasingly so, over time, as the weighted currency impacts and affects are only about to become a factor with a 6 – 9 months delay. We figure that the inherent US\$ strength is equivalent of a 200bps FED funds rate rise.

So, it seems that over the past three weeks the US\$ has become the central talking point for asset allocators, pretty much as we were forecasting in December of last year.

We continue to advise clients to reduce weightings in US equities, and re-allocate funds and use the current exuberant strength of the US\$ to do so towards Chinese, Japanese, Indian, German, French and Spanish equities, as they are on most valuation metrics cheaper (P/E; P/CF; P/BV; dividend yield), and they have the tailwinds of their weakening currencies to translate into higher earnings over the coming 9 – 12 months, versus their US competitors facing inverse headwinds.

Again, European stocks should do very well in addition due to the full blown QE program by the ECB, basically forcing investors to step up on risk assets, as the negative interest rate scenario is supposed to dissuade investors and balanced fund managers from continuing to invest into European bonds.

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.

In the US, stocks plunged yesterday as the US\$ index soared, strengthening following the plunge in the Euro.



The Euro is now trading at the lowest level in almost 12 years as the ECB begins its bond-buying program, pressuring yields of European government bonds lower. The accommodative monetary policy is likely to keep pressure on the Eurozone currency through the months ahead, which, in turn, will continue to support the strength in the US\$. The US\$ Index continues to trade above the base building pattern charted over the past few years, while the Euro (relative to US\$) continues to trade lower from its long-term topping pattern.

The Euro broke below the lower limit of a descending triangle pattern at the start of the year, a bearish setup that has an implied downside target to \$0.80, potentially testing the 2000/2001 lows. Companies with international exposure are potentially vulnerable.

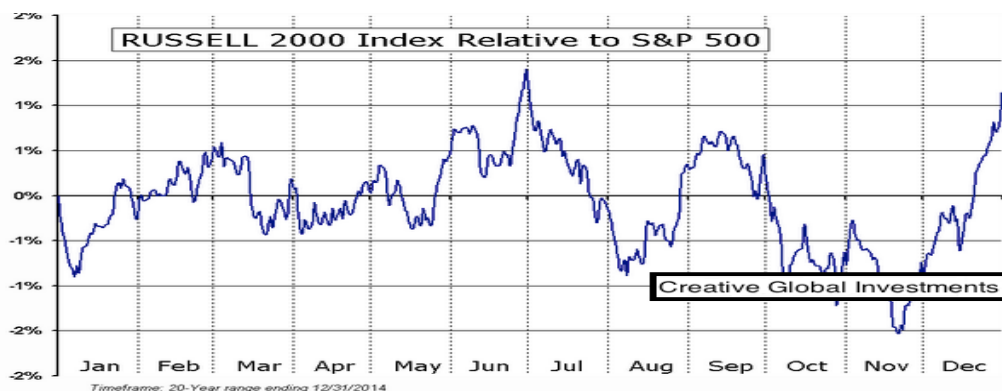


As mentioned before, US\$ strength threatens multinational companies, investors may look toward more domestically focused small cap companies. This turned out to be the case yesterday as the small cap Russell 2000 Index strengthened relative to the large cap S&P 500 Index.

So while the \$RUT may benefit from its lack of exposure to the stronger US\$, the potential for rising rates remains an ongoing threat, which is the reason the benchmark has predominantly lagged the broad market for the past year. Should the Fed choose to raise rates this summer, the \$RUT would be expected to lag the broad market once again, particularly during the period of seasonal weakness for small caps from June through November. The intermediate and long-term trend of the \$RUT, as gauged by the direction of the 50 and 200-day moving averages, continue to point higher.



Seasonally, however, the Russell 2000 Index has reached its average end to its period of seasonal strength, which sees outperforming returns for the benchmark between mid December and early March. Between now and May, the small cap benchmark tends to trade flat relative to its large-cap counterpart. One of the factors that acts as a strain on the small cap benchmark at this time of year is the seasonal rise in borrowing costs (interest rates) through to the end of April, pressuring the profitability of some of the smaller companies with heavy debt burdens.

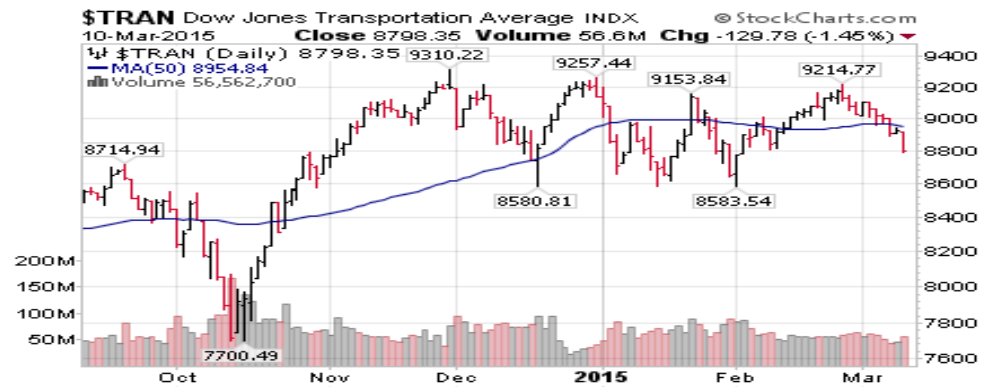


The US equities bull market is still intact as the right fundamental ingredients for the next bear are not in place. So this downward move is just part of the volatility we have come to expect since the start of 2014. However, after stocks broke under 2100, it was clear that they wanted to keep on the downward track for a little while. The first level of support should have been the 50-day moving average at 2062. Yet stocks cut below like a hot knife through butter.

Sure, a bounce could come today. That may be particularly true since small and mid caps actually did much better than large caps. This is important since a market rushing lower typically has a "Flight to Safety" mindset, which clings to large caps while jettisoning smaller, riskier positions. If the 50-day does not provide the necessary support, then indeed the 200-day moving average at 2000 may get tested. That is only two percent below the current level and is barely even worth trading in such a small window. The bull market is still in place. This is another of the many tradable dips to these past several years.

Major US equity indices fell below their 50-day moving average. The S&P 500 is certainly showing some short-term pain. The benchmark broke below potential support around 2065, falling below its 50-day moving average in the process and trading into negative territory for the year. Trend line support stemming from the October low is now being tested as short-term momentum indicators trade down to oversold levels. Despite the short-term downturn, the intermediate and long-term trend continues to point higher, suggesting weakness may present buying opportunities. A break below support at 1972 would suggest a change in the intermediate trend.





Percent of S&P 500 stocks trading above their 50-day moving average plunged to 44.60%, but has yet to show signs of bottoming.



The VIX Index continued to spike higher and likely will continue to move higher prior to the next FOMC meeting news conference scheduled on March 18th.



US equity markets are progressing through a typical short term correction that historically has happened during the six month period prior to the first increase in the Fed Fund rate. Historically, market anticipation of the first increase in the Fed Fund rate during the six months before the first increase implies that a 10% correction between now and this fall is likely. The S&P 500 Index already is down 3.6% from its recent high.

US 30-year treasuries peaked at the end of January following test of trend line resistance; since the price of the 30-year treasury bond has traded lower by around 7%, now testing the middle line of the long-term rising trend channel. We are assuming the price trades to the lower limit of the rising range, a decline of around 13% (to \$130) from present levels is still implied. On a positive note, when the long-term treasury bond prices resists from the upper band of the trading range and subsequently trades lower, equity prices typically benefit as investors rotate from one asset class to the other. A break below the centerline could act as the catalyst for this transition. The centerline has historically acted more as a level of resistance than support, implying that the potential for a bounce from current levels is weak.



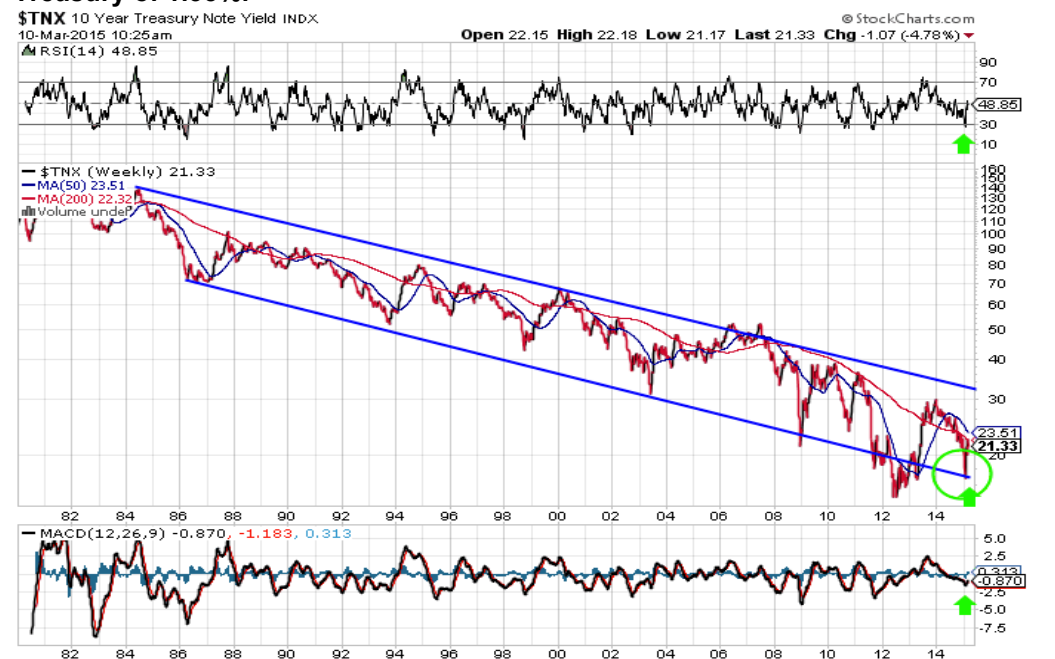
March is the weakest month of the year for treasury prices with declines recorded 87% of the time over the past 24 years.



We believe that the chart reveals yet for another leg down to come for the yield of the 10-year treasuries.



The 33-year long declining trend channel for the 10-year treasuries yield is still perfectly intact, and we keep our 2015 price target for the yield of the 10-year Treasury of 1.35%.



The following chart shows, US bonds are still more favorable relative to equities.



We want to reiterate an updated chart (we first published this chart in August 2013, when we saw the \$NIKK:\$SPX break above its 19-year trend and mark the start to outperform the \$SPX) showing that the long-term trend favoring US equities over Japan has been definitely broken and is reversing. **We continue to advising for investors to reduce holdings in US equities and increase weightings in Japanese equities like the \$NIKK.**



The \$NIKK has hit and surpassed our 2014 (fiscal year end Japan on March 31st, 2015) price target of 18,000. We stick with our 2015 price target for the \$NIKK of 21,000



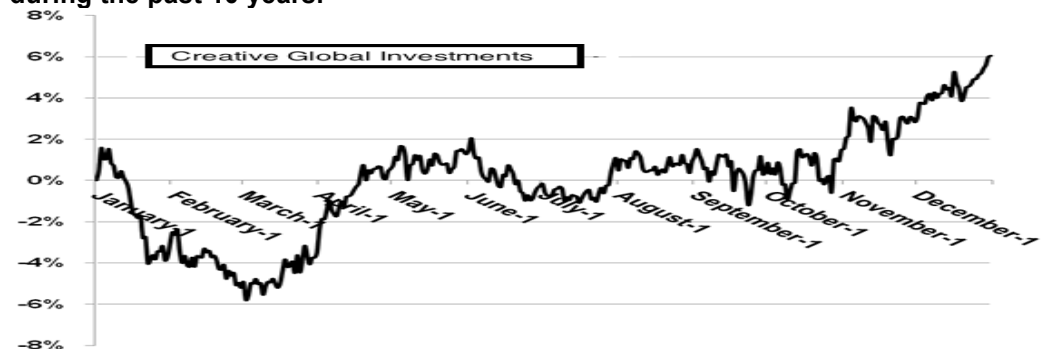
The next chart shows the \$SSEC relative to the \$SPX, and a similar trend reversal as for the \$NIKK;\$SPX has materialized here too. We continue to recommend **overweighing Chinese equities relative to US equities.**



History is repeating. Our 2015 price target for the \$SSEC is 3,600.



The Shanghai Composite Index has a history of moving higher after the Chinese New Year. Following is a Seasonality Chart for the Shanghai Composite Index during the past 10 years.



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.