



# Creative Global Investments

## Morning Market Commentary

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Objectivity

Integrity

Creativity

### “Sell in May & Go Away”

or is it

### “Sell in April”, like it was in 2012? Part II

Equity markets on both sides of the Atlantic have a history of moving higher during the month of April in anticipation of first-quarter reports, and when those Q1 earnings are released at annual meetings, historically, most CEO's have not shied away from offering encouraging comments about company prospects for the current year.

During the past 62 years, April has been the strongest month for the Dow Jones industrial average and second strongest for the S&P 500 index.

For now, consensus estimates show that first-quarter earnings reports released by major US companies will be sluggish. Consensus earnings estimates for the 30 Dow Jones industrial average companies shows an average (median) gain of only 3.1 per cent on a year-over-year basis.

**With 25% of S&P 500 earnings coming out of Europe, and 6% coming from Japan, we think that most sell side analysts are behind the curve on this. The negative impact on first quarter earnings by international companies due to strength in the US\$ on a year-over-year basis will be mentioned frequently when first quarter reports are released during the next three weeks. The US\$ Index averaged approximately 81.0 in the first quarter of 2013, up from approximately 79.0 in the first quarter last year. At the end of the quarter, the Index was at 83.14 versus 79.00 last year. However, the US\$/Yen has fallen by -31.5% since September 2012, which is in line with our forecasts, and this will weigh significantly on EPS for Q1 and will continue to be a negative surprise for analysts throughout 2013, particularly, as we anticipate the US\$/Yen to be at 1.12 by year end 2013.**



Investors are now expecting earnings to decline by 0.6% for the first quarter, well below estimates as of the end of 2012 calling for an increase of 2.1%. First quarter earnings season is the last major fundamental catalyst within the favorable six months of the year for equity markets, which concludes around May 5th, on average. From the start of May through the month of October, directionless markets are the average.

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The historic move higher by equity markets in the month of April may be in doubt this year. Technical indicators for the S&P 500 index, Dow Jones industrial average and the TSX composite index also are flashing a warning sign. Since Nov. 16, the S&P 500 index is up 16.8 per cent, the Dow Jones industrial average has gained 16.9 per cent and the TSX composite index has advanced 8.4 per cent. Short-term momentum indicators are overbought, but have yet to show significant signs of peaking.

**So, our Q2 Global Strategy Outlook's advice to clients to "Sell in May and Go away" strategy seems so far to become more and more reality. Current technical data and the likely response to first-quarter reports is that North American equity markets might enter into at least a shallow corrective phase before May 5 of this year.**

**Additionally, we are advising to use the current inherent US\$ strength, which we expect to fade, as seasonal tendencies for the US\$ are negative from April to August, and for investors to increase weightings in foreign stocks, particularly in Japanese and in European stocks.**

**Japanese companies see the continued weakening of the Yen as an opportunity to increase investments abroad, and are buying foreign assets. European companies are generating more than 50% of their earnings from outside of the Eurozone, and for the Eurostoxx 600, about 30% of earnings are coming from emerging markets.**

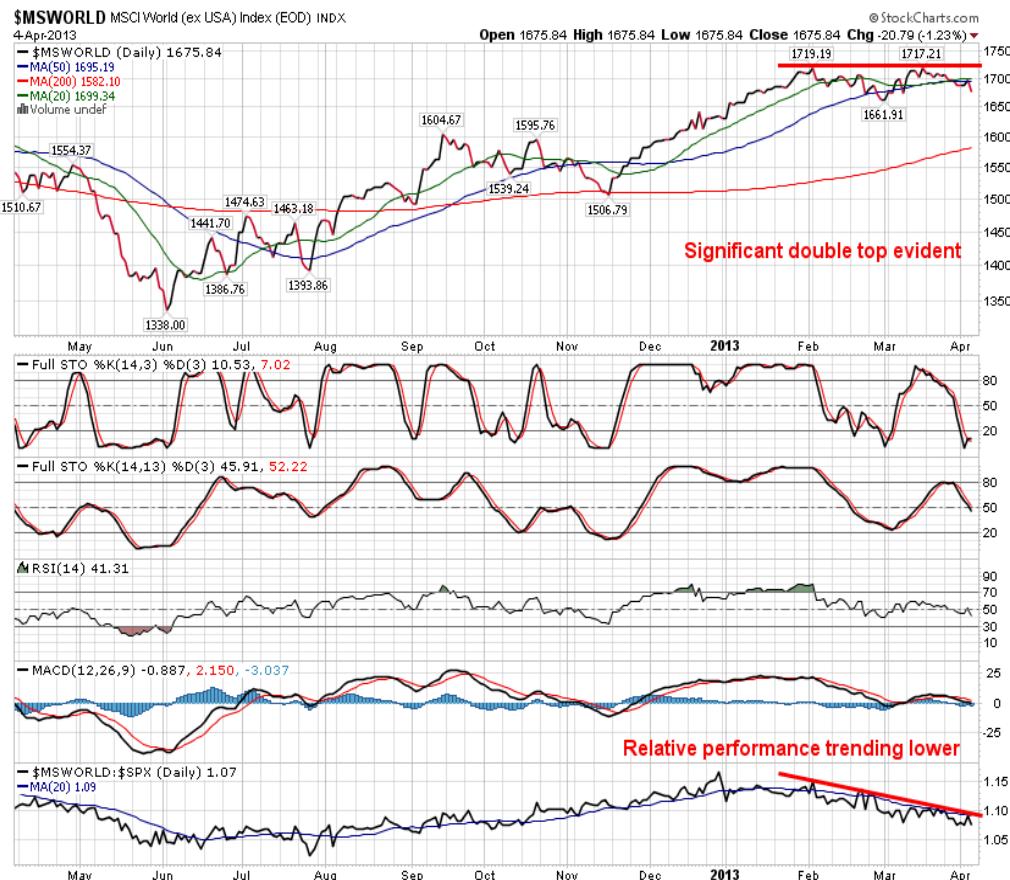
**Hence why we see better buying opportunities in Japanese and European stocks.**

## Global Markets Commentary

Given the time of year, with the average “Sell in May” date just around the corner, we are within the window when sell signals are typically realized.

Just as the market realized last year, (we had identified the peak of global markets to have been April 2<sup>nd</sup>) it is increasingly likely that a “Sell in April” event will be realized given the technical Sell signals that are becoming ubiquitous.

The MSCI World (ex-USA) is starting to show a double top pattern. Indices around the globe are overwhelmingly showing bearish setups, the impact of which could bring upon the long-awaited correction in equity markets.

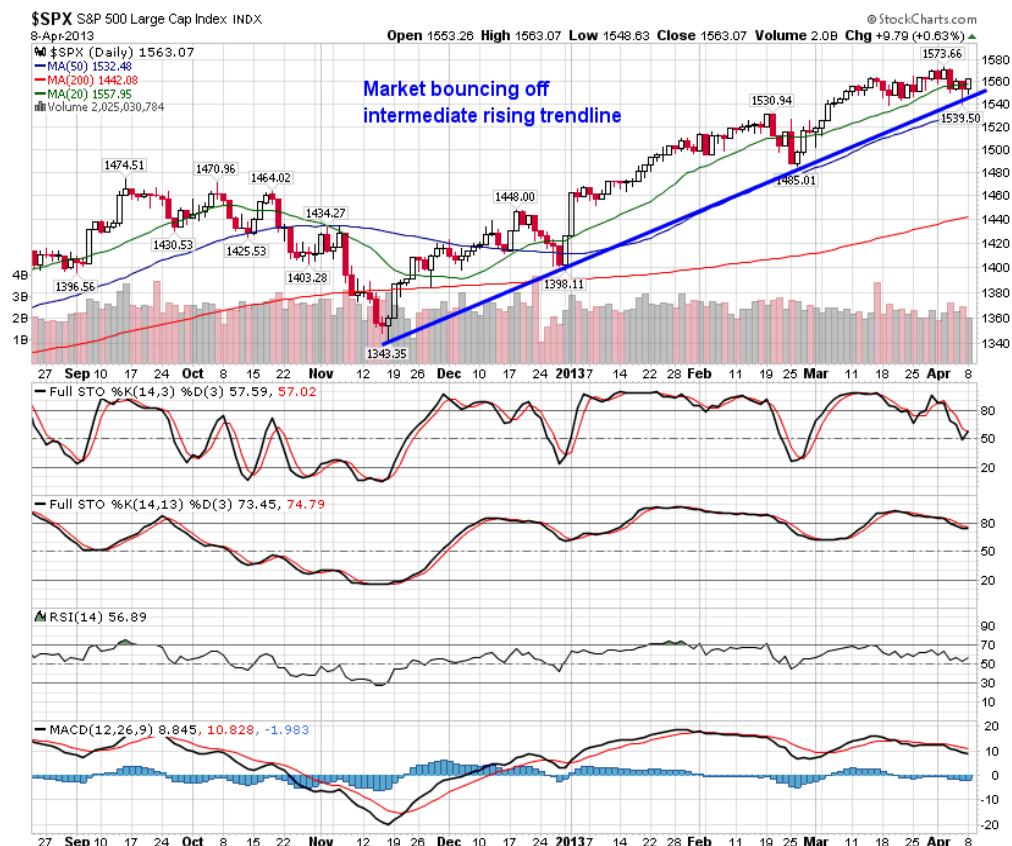


## US Market Commentary

The Index has drawn a "line in the sand" at 1,538.57.

A break below this level would not be nice for the bulls.

The S&P 500 Index managed to return above its 20 day moving average yesterday. Nice bounce after the fall on Friday triggered by the weak March employment report!



Rotation from economic sensitive to defensive, higher yielding equities and sectors continues.



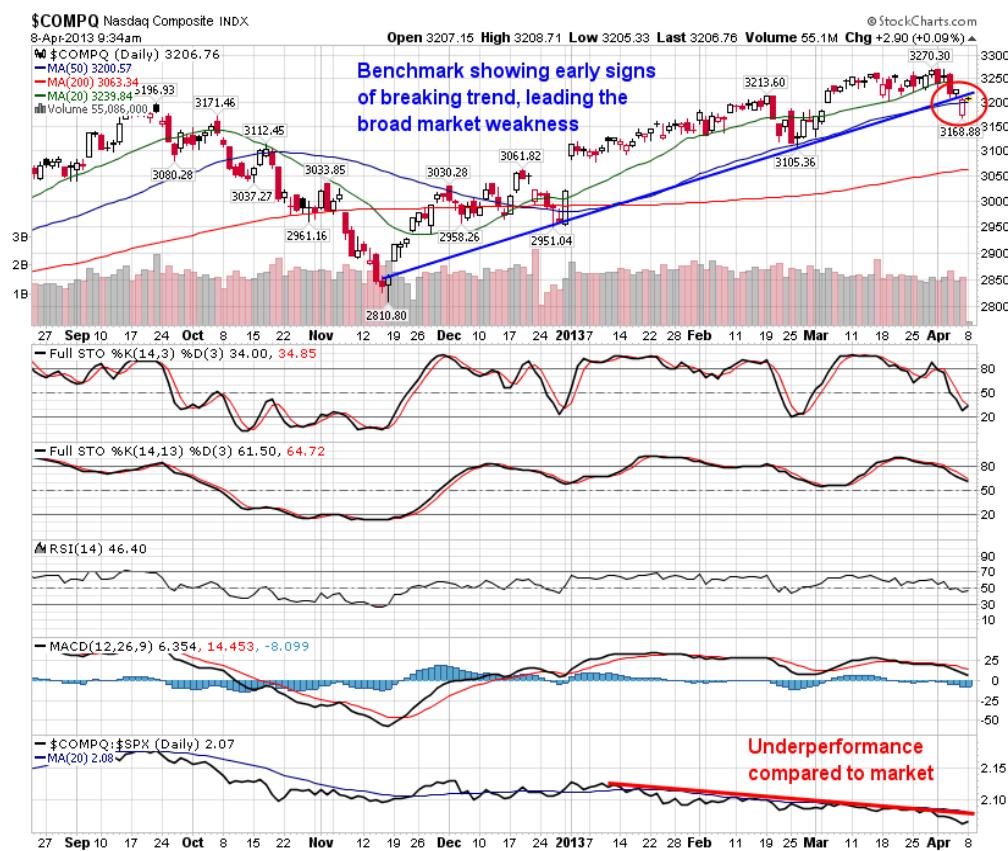


The benchmark broke a key intermediate rising trend line last week, threatening the almost five month trend of higher-highs and higher-lows. The benchmark has been underperforming the broad equity market since the year began as the technology heavy index fails to attract buyers during this period, which is seasonally weak for tech stocks.

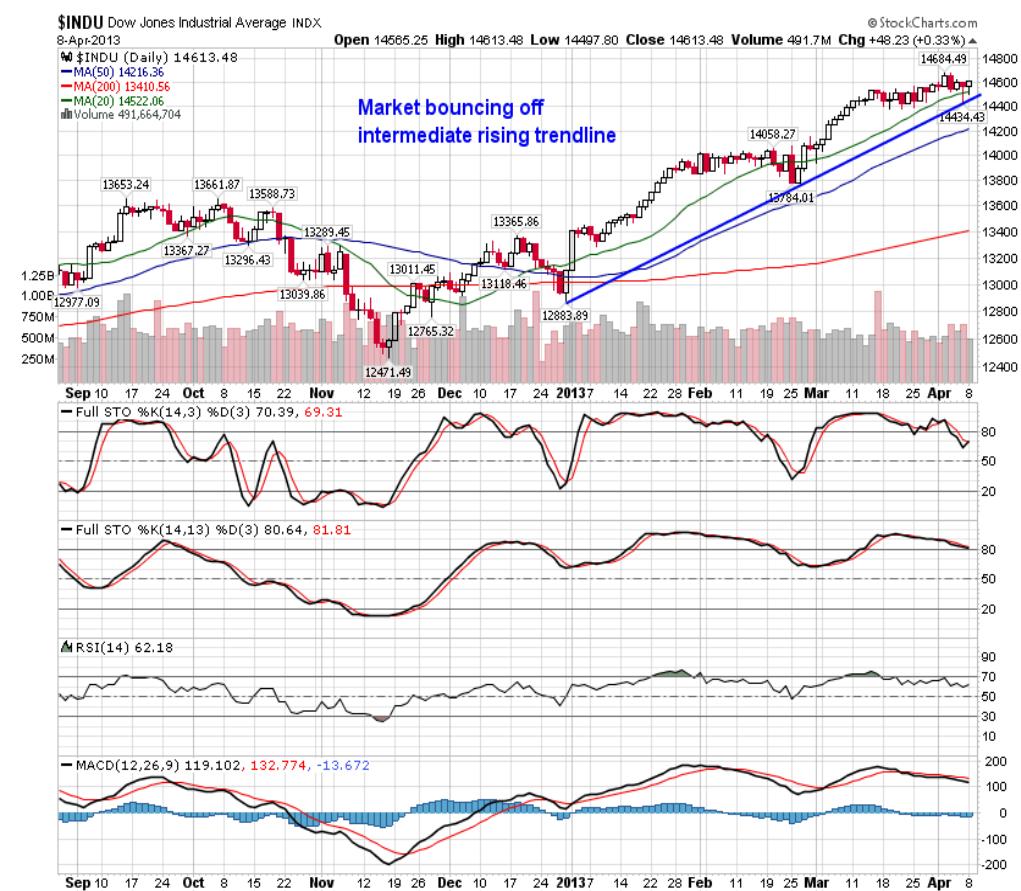
The advance-decline line for the index is showing a similar break of trend, declining from a point of resistance in the month of March and breaking below the positive trend line that originated in November of 2012.

The break of trend of the advance-decline line reiterates the struggling equity market momentum

**The NASDAQ Composite is already showing early signs of breaking trend, leading the market weakness over recent weeks.**



that exists as stocks show evidence of peaking around these all-time highs.

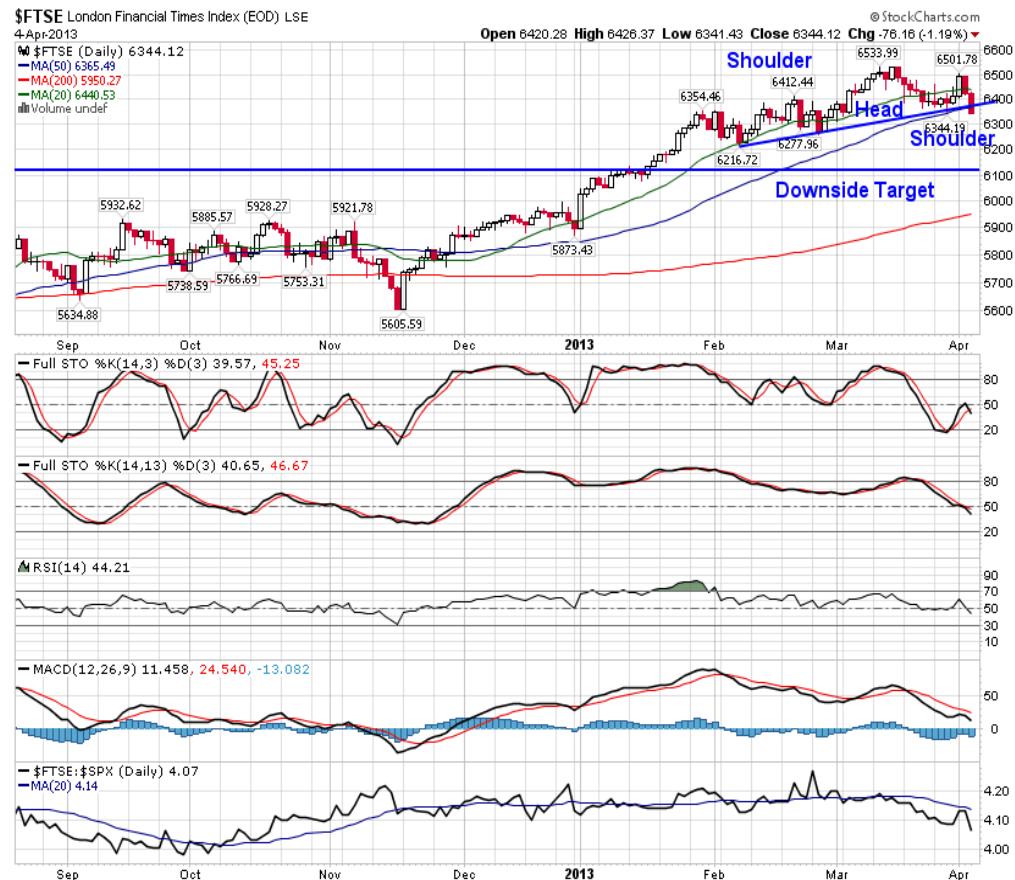


## European Markets Commentary

The last 3 years for European equity indices appears to be a fractal view of the last 15 years. Same pattern, shorter time frame. Having 40 % of the large European economies below the 20-month mva and 20-week mva is not a positive development after we had started a global bull late last year. Having 80% of these markets below the 20-weekmva is very bearish for short-term price action. This week matters in terms of the charts breaking down technically.

6 major markets currently are below the 20-weekmva and Canada testing it on Friday is troublesome. The new bull market has not held together very well. Maybe it just needs a pullback to rev up the engines of growth. Even though in the US the financial media are not covering this European market with any real depth, this past week behaved very poorly without 'new' news out of the region.

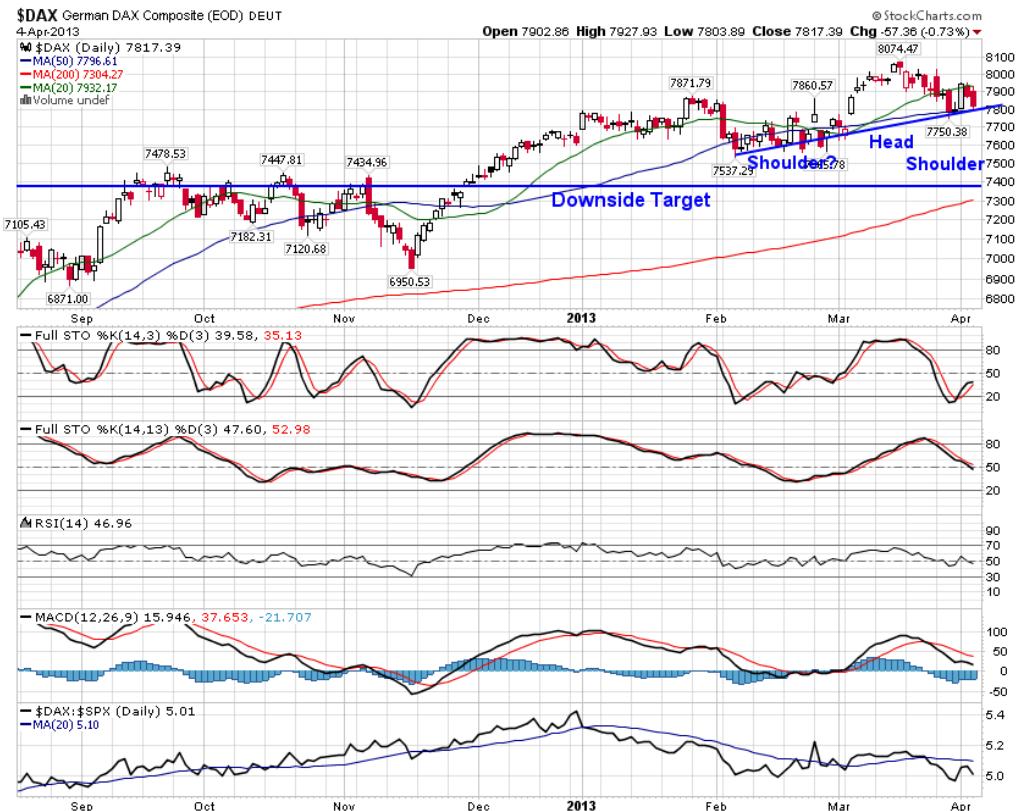
**The UK had an outside week this week. That is the weekly bar went above the last week and moved down to close below the range of the previous week. Usually, that type of candle action is associated with tops. It can happen in the middle of the uptrend, but not nearly as often as it appears in tops. It also wiped out the gains of 8 weeks worth of work to close near the low of the range. While residing above the horizontal support line and the 20-week mva is hardly disturbing, the price action this week was.**



The DAX was not only unable to break to the upside after a lower close last week; it stroked a big week with a 4% range. It also took out the lows of the last 7 weeks in one weekly bar.

The Dax moved to close just below the 20-week mva. Just a brief scan of the recent price action shows that the 20-week mva has been good support. We'll see if it can get back above this level in the coming week.

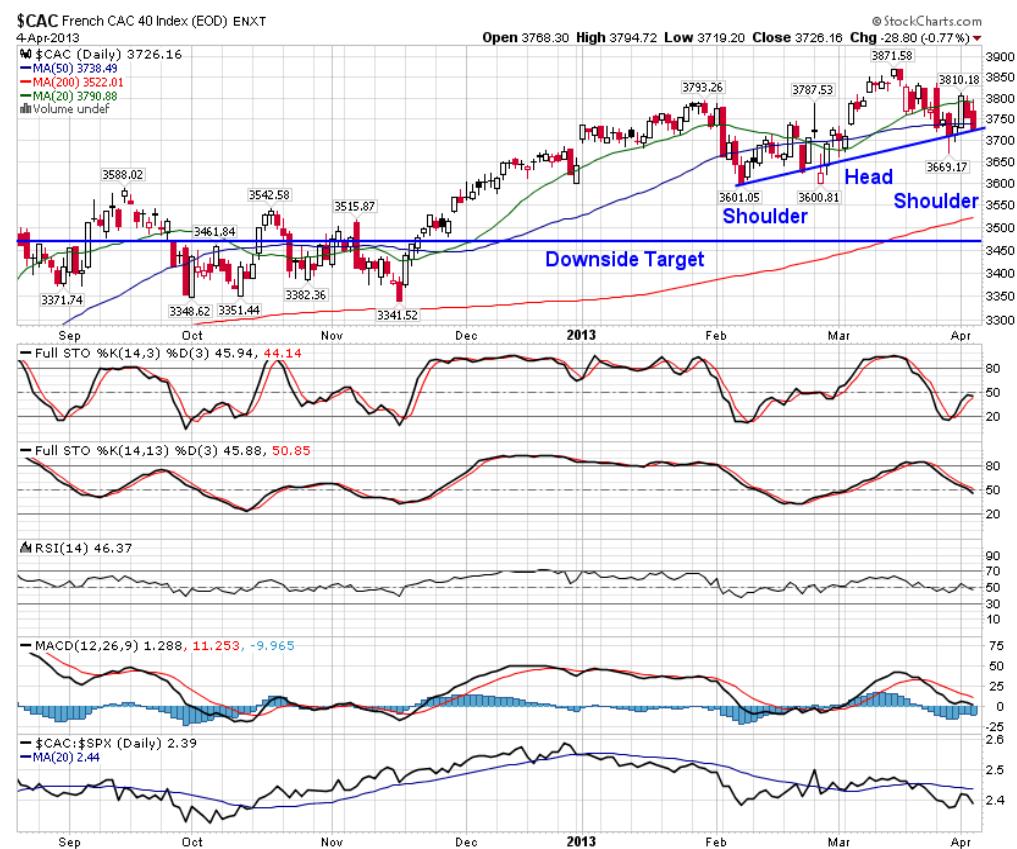
2 weekly closes below support going into seasonal weakness would be adding to the concern pile when we are talking about one of the 3 strongest markets in the world currently.



The CAC has broken below the 20-week mva, which now means 80% of these charts are below the 20-week mva. A failure of the formerly AAA-french bond market to follow London and Germany above the 2011 highs is worrying for the broader European zone as it is the second largest economy the Euro.

The CAC still makes lower lows. France is still making higher highs and higher lows on the bigger trend (multiple week view say 10-12) as well as holding inside the December to March range, but closer to the lows than the highs. The 3600 level is serious support. A sustained move below that would mark a test of the 3300 zone

The CAC made lower highs for the third week and closed below the 20-week mva. Maybe it just needs another few months.



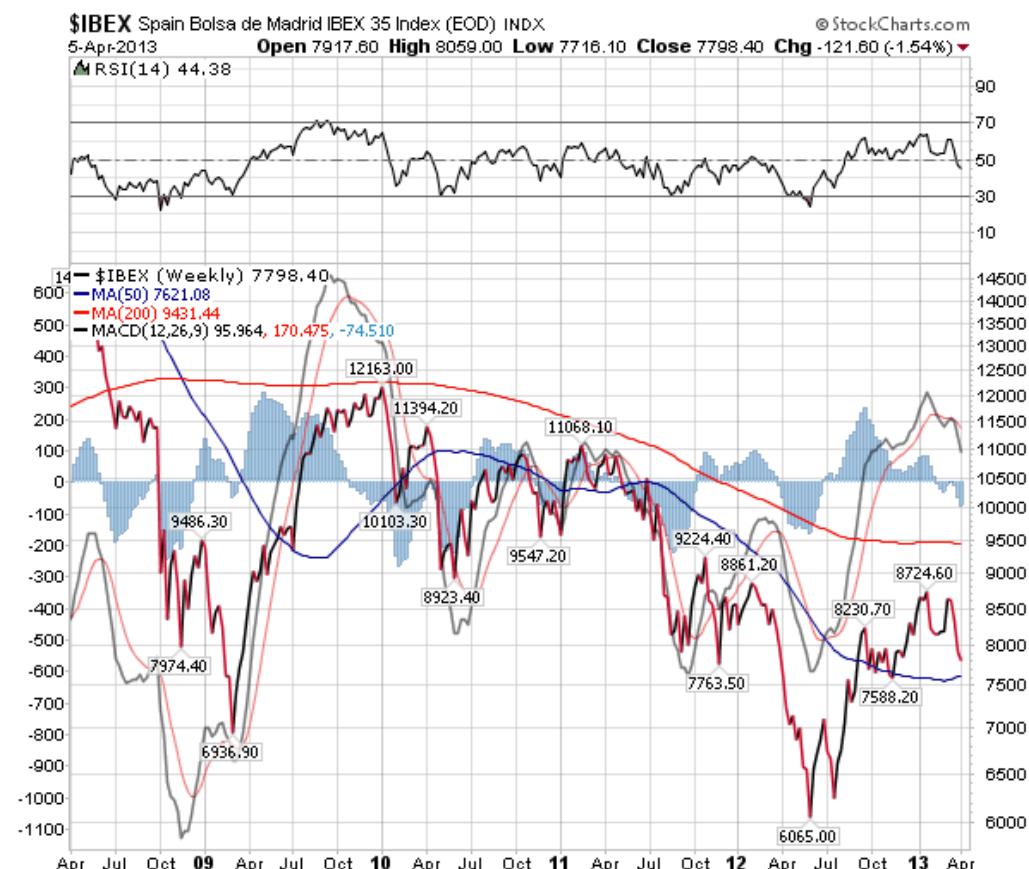
The MIB has also broken below the 6 months trend line. It is also making lower highs and lower lows. Not an encouraging sign.



The IBEX took out the January lows and moved below the December lows.

The Ibex is making lower highs and lower lows. It is very close to the top of the horizontal zone of support at 7750. The bottom would be 7500 and would make a head/shoulders topping pattern using the September 2012 highs as the left shoulder.

This is a much shorter head/shoulders top than the big multi year bottom. The previous four weeks saw the market touch the 20 WMA but failed to break above. Now it is clearly falling away from the uptrend support level.



Intermediate trend remains down. The Index remains above its 200 day moving average and below its 20 and 50 day moving averages.

Strength relative to the S&P 500 Index remains negative.

Short-term momentum indicators are oversold, but have yet to show signs of bottoming.

The Athens Index plunged another 46.24 points (5.32%) last week.



iShares Europe 350 fell \$0.22 (0.55%) last week.

Intermediate trend is down. Support is at \$38.87. Units remain below their 20 and 50 day moving averages.

Strength relative to the S&P 500 Index remains negative.

Short-term momentum indicators are trending down.



## Fixed Income Markets Commentary

### US Bonds

Bonds seasonally benefit from May through to October as equity markets struggle to gain traction.

The shift from stocks to bonds is happening much sooner than average, a warning sign for equity market strength ahead.

Bond yields are already showing evidence of turning lower, breaking below a significant rising trend line that stretched back to July 2012.



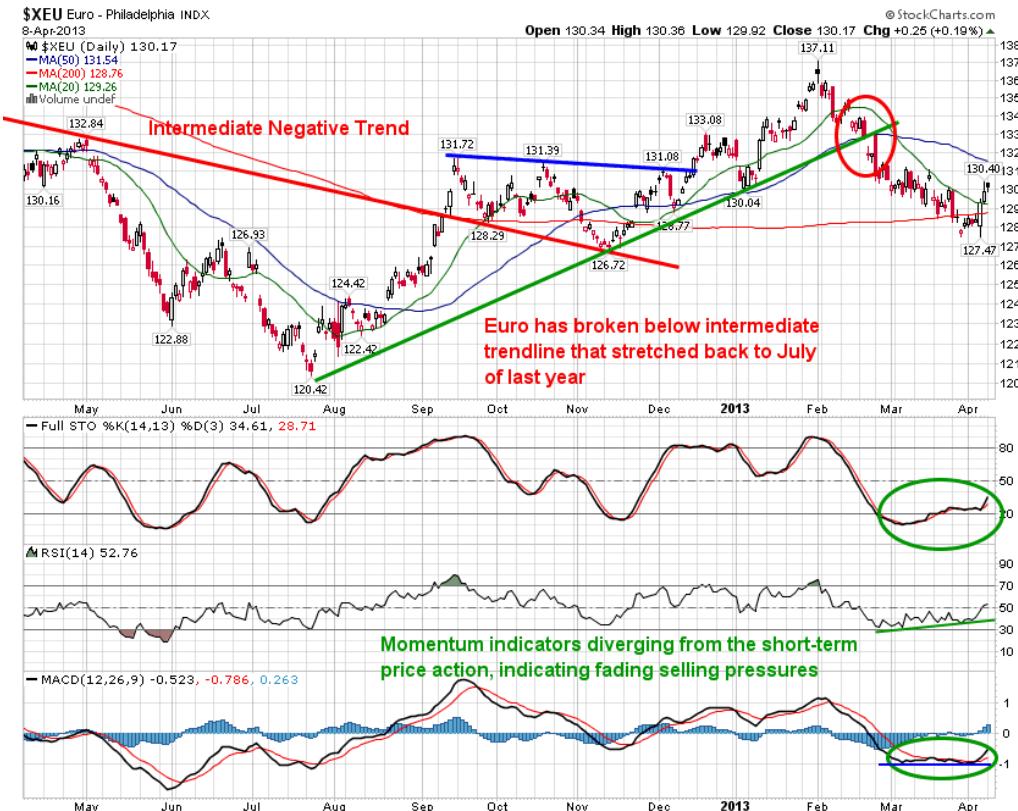
## Currencies Commentary

The intermediate trend is noted to have changed, but a continuation of this short-term rebound is reasonable as the currency corrects an oversold condition. A retest of the 50-day moving average around 1.32 is increasingly probable as the currency exits a period of seasonal weakness that concluded at the end of March.

Euro strength has generally coincided with US Dollar index weakness, often seen as a positive catalyst for equity and commodity prices.

The US\$ index is pushing towards its 50-day average as seasonal weakness in the month of April pressures the currency lower.

The Euro has realized rather pronounced declines since the start of February, but recently momentum indicators have diverged from the short-term price action, indicating that selling pressures were abating.



The US\$ index is showing signs of rolling over from its recent positive trend.



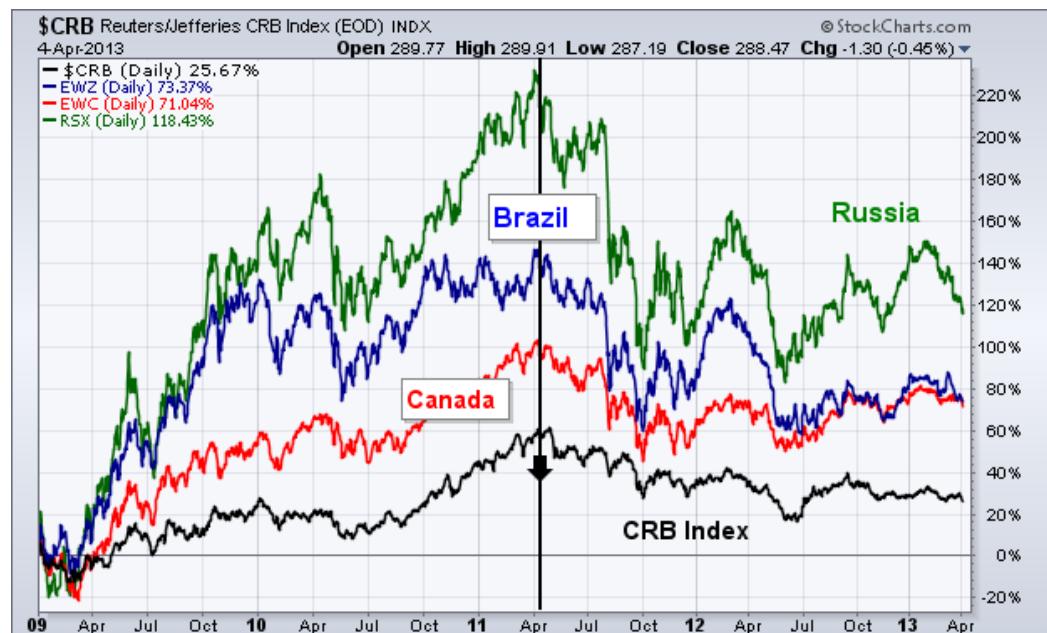
## Commodities Commentary

Brazil, Canadian, and Russian stock ETFs peaked at the same time and have continued to weaken along with commodities. Russia's stock market is especially sensitive to trends in energy, which is its biggest export market. Relative weakness in the Chinese stock market (which is the world's biggest importer of commodities) has also hurt demand for commodities and country stocks that produce them.

The chart shows the trend in the CRB Index (bottom line) to Brazil (blue line), Canada (red line), and Russia (green line) iShares since 2009.

All four markets rose together until the spring of 2011.

The CRB Index peaked that spring (thanks to a rising US\$), and has continued to weaken.



The CRB Index fell 8.11 points (2.74%) last week despite weakness in the US\$.

Intermediate downtrend was confirmed on a break below support at 289.20. The Index remains below its 20, 50 and 200 day moving averages.

Strength relative to the S&P 500 Index remains negative.

Short-term momentum indicators continue to trend down.



Copper fell \$0.06 per lb. (1.76%) last week.

Intermediate downtrend was confirmed on a break below \$3.388. Copper remains below its 20, 50 and 200 day moving averages.

Strength relative to the S&P 500 Index remains negative.

Short-term momentum indicators are oversold, but have yet to show signs of bottoming.



Lumber fell \$14.59 (3.72%) last week.

Intermediate trend changed from up to down. Lumber moved below its 20 and 50 day moving averages.

Strength relative to the S&P 500 Index has turned negative.

Short-term momentum indicators continue to trend down.



## Oil, Gas & Energy Commentary

**Just about a year ago, the Nat Gas market was laboring under expectations that the NYMEX futures contract for natural gas would remain at around US\$ 3 per 1,000 cubic feet (or million BTUs).**

The pundits were proclaiming that a surplus of shale gas, over production, and historic storage surpluses translated into long-term discounted pricing. Last year's historically warm winter over much of the US had not helped the price either. While this year the weather is more seasonal, there are other factors in the price rise. For the investor this means there will be plays developing in specific areas that were simply nonexistent six months ago. We are not seeing Nat Gas to go back up to the US\$ 12 - US\$ 15 levels experienced a few years ago. Those days may be gone forever, due to the tangible impacts of the unconventional gas revolution (shale, tight, coal bed methane). However, there will still be volatility in this sector as the ongoing balance between extraction potential and well counts works itself out. But prices of Nat Gas are likely to move into a manageable pricing dynamic. Natural gas pricing used to be largely about how cold were winters and hot were summers. Heating needs were the driver in the first case, electricity generation for air conditioning determining the second. These still exist, but today there are other determining factors.

The environment in which Nat Gas companies operate has changed dramatically. Given the known extractable reserves currently available in the US market, it would be possible to increase overall gas production 20% a year for the near future. Nobody is about to do that, of course. It would destroy the market and most of the companies working in it. But that amount of available volume eliminates a concern on the supply side. In fact, it will serve to moderate and put some downward pressure on pricing whether or not it is extracted.

**The key to Nat Gas prices is on the demand side. Here, several factors are emerging to portend higher prices.**

**We keep our estimates of about US\$ 4.35 come high summer, absent any unforeseen developments, with an increase to \$4.85 to \$5.60 by the end of 2014.**

**We see 5 factors impacting Natural Gas Prices, and each has been enhanced by the period of reduced prices since lower prices will always encourage greater energy use. As the reliance increases with the usage levels, so will the commodity price.**

- 1. **Broad based industrial use has returned and is higher than at pre-crisis levels.** This is always the last of the main traditional demand areas to return after a recession (and the most recent as the worst in seventy years).
- 2. **Natural gas replacing oil as a feeder stock for petrochemicals,** everything from ingredients used in the production of plastics to fertilizers and widely used chemicals. This flow is actually increasing quicker than I had initially anticipated.
- 3. **A move to liquefied natural gas (LNG) and compressed natural gas (CNG) as a vehicle fuel.** The transition remains primarily noticeable in higher end trucks, with the emphasis on passenger vehicles still awaiting cost reductions. Nonetheless, heavy truck, bus and equipment fleets are moving to natural gas.
- 4. **A move from coal to gas for the production of electricity,** a development occurring most rapidly than even the rather optimistic predictions. The background is this. The US will retire at least 90 GW of capacity by 2020, with an additional 20-30 GW likely from the imposition of EPA non-carbon emission standards (mercury, sulfurous and nitrous oxides). Most of today's capacity is fueled by coal. Last year, we estimated that for each 10 GW transferred, 1 billion cubic feet of natural gas per day would be required. Initial figures are coming in at 1.2 billion, which implies at half of the transition from coal to gas actually takes place, it will eat up three times the current volume in storage. Certainly, increasing production will offset some of that. But the operators have learned that flooding the market does not help any of them. That is another lesson taught by the shale gas age.
- 5. **US LNG exports to Canada are not likely to begin until late 2014,** but will transform the sector. From providing none of the current global LNG trade, the US will account for at least 9% within ten years.

The key factor for the US Nat Gas industry and for pricing is going to be balancing production. LNG exports will act as a primary outlet for excess shale gas extraction. The greater the exports, the lower the price volatility in the US..

Natural Gas gained \$0.10 per MBtu (2.49%) last week.

Intermediate trend is up. Gas remains above its 20, 50 and 200 day moving averages.

Strength relative to the S&P 500 Index remains positive.

Short-term momentum indicators are overbought.



Intermediate downtrend was confirmed on a break below 3.015 per gallon. Gasoline remains below its 20 and 50 day moving averages.

Strength relative to the S&P 500 Index remains negative.

Gasoline fell another \$0.25 per gallon (8.04%) last week.



Crude Oil fell \$4.53 per barrel (4.66%) last week.

Crude fell below its 20 and 50 day moving averages.

Strength relative to the S&P 500 Index changed from positive to neutral.

Short-term momentum indicators are trending down.



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