



Creative Global Investments

Morning market commentary & charts

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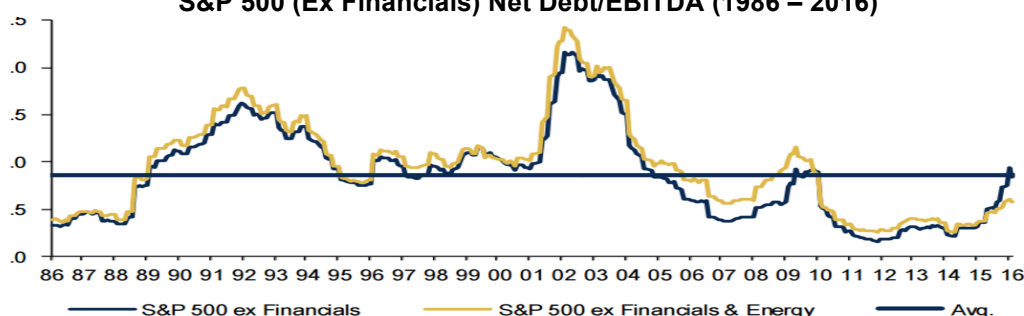
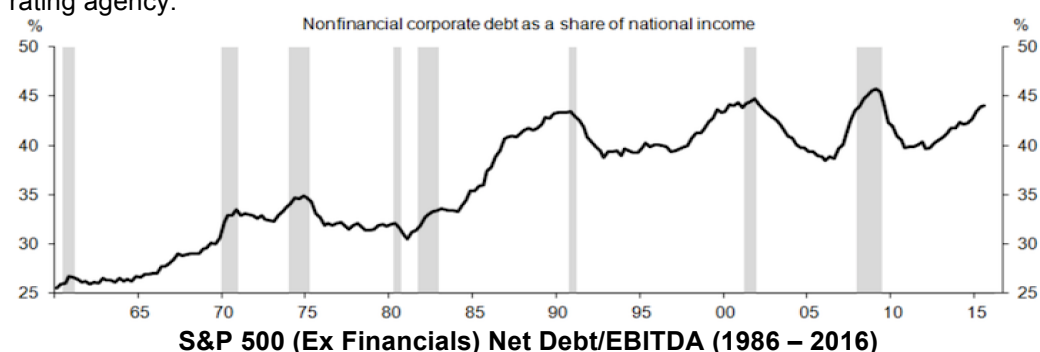
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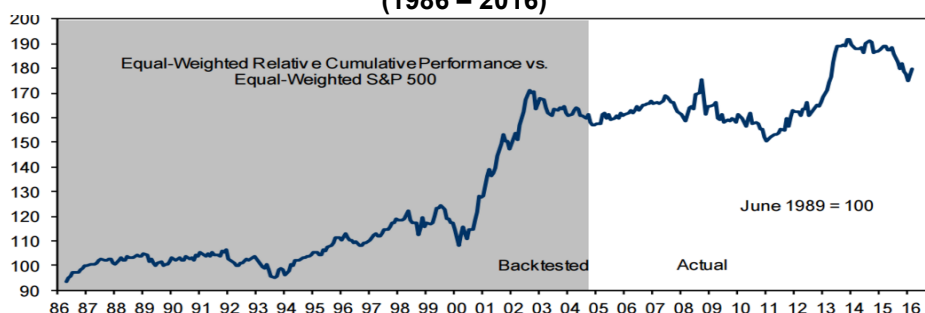
US Macro Commentary

One phenomenon that should worry investors in US equities is the fact that **corporate debt to income is at extremely high levels** with the ratio of nonfinancial corporate debt to national income is nearly 45%, an elevated reading that suggests corporate balance sheets are not in particularly good shape **as** nonfinancial US companies have added nearly \$2 TRN in debt to their books since 2008. High corporate debt levels while the Fed is struggling to shut off the tap of cheap money doesn't bode well, especially if earnings growth is struggling. Moody's warned that a spike in US corporate debt defaults is looming not long from here, and we have to concur with the rating agency.



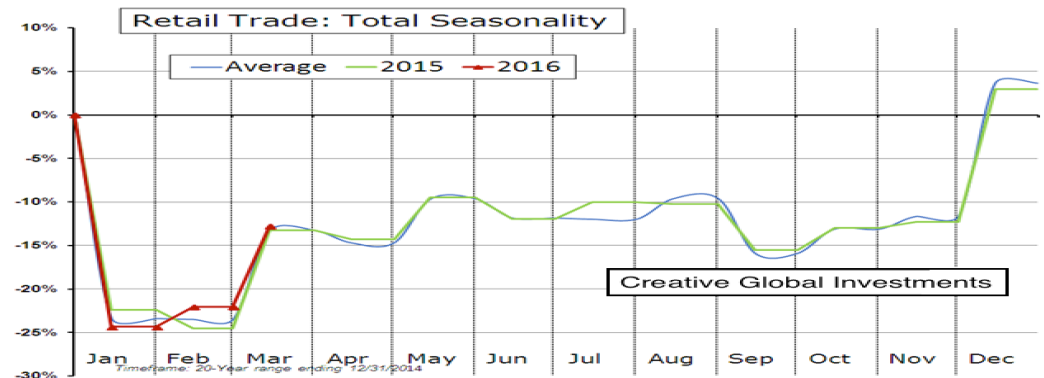
The number of companies spending more money on buy-backs as they earn has risen to levels not seen since the recession. Investors are becoming more critical towards big spending on buybacks, and they should, as US companies underinvested in their businesses, and when the next global macro boom will take off, they will be left out.

Cumulative relative performance of S&P 500 Top Decile by Share Repurchase (1986 – 2016)

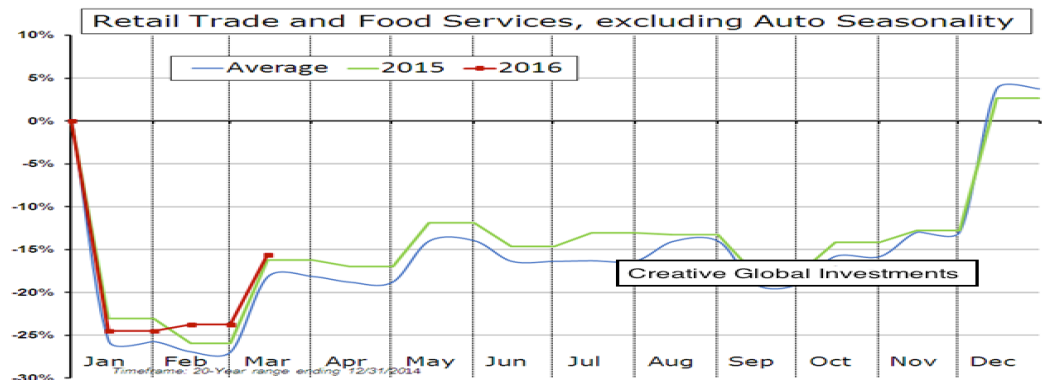


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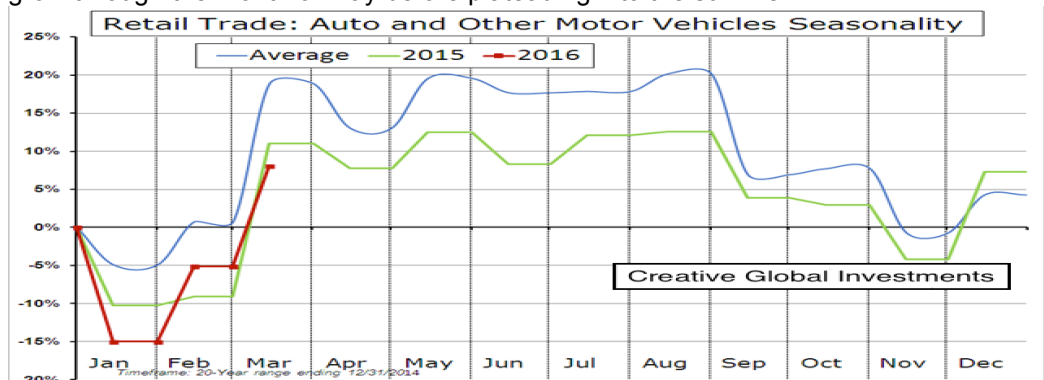
Other macro news in the US showed a report on retail sales had investors focus on the weakness of the consumer in the month of March. The headline print indicated that retail sales declined by -0.3%, missing estimates calling for a gain of 0.1%.



Less gas and autos, retail sales did tick into the plus column at 0.1%, but this was still below the growth analysts expected of 0.3%. Stripping out seasonal adjustments, retail sales actually advanced 11.9%, which is less than the average increase for March of 13.4%. However, alleviating concerns that the consumer was weak in Q1 is the fact that the y-t-d change in sales is marginally above average at -12.8%. The average change through Q1, based on data from the past 20 years, is -13.3%.



The y-t-d pace for automobile sales continues to lag the average trend, weighing on the overall report. So while the seasonally adjusted numbers for the month of March may concern some investors, the above average activity y-t-d suggests that the consumer is undeterred in doing its part to support the economy. Retail sales typically continue to grow through the month of May before plateauing into the summer.



Global Equities Commentary

The stronger Euro had been a headwind for stocks overseas, which have underperformed US counterparts. However, the current **Head-and-Shoulders bottoming patterns on the charts of European benchmarks present upside potential of around 12%, and we see a 8% outperformance potential likely for European major equity indices against its US peers over the next 30 to 45 days.** The bullish setups across European benchmarks has the potential to lead to a massive shift away from US equities and into benchmarks overseas as investors search for value, which has become slim picking on this side of the pond.



With global economic data less negative, likely to be firming and a drop lower in the European currency, foreign benchmarks are starting to turn, setting up for a possible bullish scenario.

Seasonally, April is one of the strongest months of the year for European indices, gaining around 70% of the time in the fourth month of the year.





The DAX, CAC, FTSE MIB, IBEX, all posted gains in excess of 2% yesterday, starting to confirm a higher intermediate low above February's bottom. The setup is obvious as each index approaches the neckline of head-and-shoulders bottoming patterns.

Upside potential for each is around +12% upon a break above neckline resistance overhead.

We see the bullish technical setups across European benchmarks, paired with much higher and attractive equity-dividend-yields (German and French companies are in the beginning period {February to June} of their annual dividend pay-outs, combined with a slightly weaker Euro, to lead to a massive shift away from US equities and into benchmarks overseas as investors search for value, which no longer exists in US equities by comparison by most valuation metrics, be it by:

- P/E
- CAPE
- P/CF
- P/B
- DDM (dividend discount model)
- or even Tobin's Q.

Positive tendencies for European equity indices can persist occasionally into the early summer months, however for 2016 we see the typical "May peak" that has become conducive to the well known adage:

"Sell in May and Go Away"

and particularly after May 11th, (which constitutes the zenith of annual dividend pay-outs for German and French equities) repeat itself, and to become catalyst to most professional money managers to lighten up their portfolio's in European equities and to switch for the summer into the historically seasonally stronger performing 10-Year European government bonds.

(We prefer Spanish, Portuguese, Italian and French 10-year government bonds over the Bunds)





European equity markets are rallying strongly, led by mining stocks, after yesterday's announcement of Chinese exports increasing by an unexpectedly strong y-o-y gain of 11.5% in March, suggesting that the economic situation in both China and its export markets is better than had been anticipated. The Stoxx 600 basic resources index rallied 4.3% after data showed China's Yuan-denominated exports surged 18.7% in March compared to last year.



The Nikkei-225 also posted a big gain yesterday, although we do not see the upside for the \$NIKK as attractive as for European equities at this particular point, mainly due to the unfavorable YEN/US\$ temporary reversal from 121 at the beginning of 2016 towards 107 currently.



In the US, so far, three major earnings reports have been released: Alcoa (AA), CSX (CSX), and JP Morgan (JPM). While the reaction following Alcoa's release was initially negative, the loss was erased by Wednesday's gain and the strength in CSX and JPM are suggesting an emerging positive intermediate-term trend following a bounce over recent days from their 50-day moving average lines. While too early to conclude that earnings will be the catalyst to break the range of resistance overhead for the large-cap benchmark, the reaction, thus far, is conducive to it. Earnings reports start being released fast and furious next week, providing further insight as to how investors are perceiving present valuations.

The S&P 500 closed within the previously mentioned range of resistance that spans between 2080 and 2100, a range that we identified as likely requiring a major catalyst to break through; support remains firm between 2020 and 2040. The \$SPX opened a gap around 2065, which, albeit may be filled at some point, presents yet another level for investors to shoot off of as the market continues its grind higher.



The S&P 500 has also entered a period of weaker seasonal performance as of late March, hence why we are recommending to lighten up already now in S&P 500 stocks, and look for alpha returns outside of US equities temporarily.



Alternatively, the NASDAQ has entered a period of seasonal outperformance relative to the S&P 500. The technology heavy Nasdaq 100 Index enters a period of seasonal strength in mid-April, moving higher into the middle of July. The strength is reflected in both the average absolute and relative performance as prices of the benchmark constituents push higher into a period dominated by developer conferences.



Looking at the technicals, the relative trend may be emerging earlier than average this year. The Nasdaq 100 has been outperforming the S&P 500 large-cap index since mid-March as price consolidates above its 200-day moving average. Significant resistance is directly overhead between 4500 and 4600, representing the open gap charted with the plunge that started the year.

This range has clearly proven to be significant having jumped higher and lower around this level a few times since last summer. Reaction to overhead resistance will be critical to the success or failure of the seasonal trade ahead.



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