Creative Global Investments

Morning markets commentary & charts

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Objectivity

Integrity

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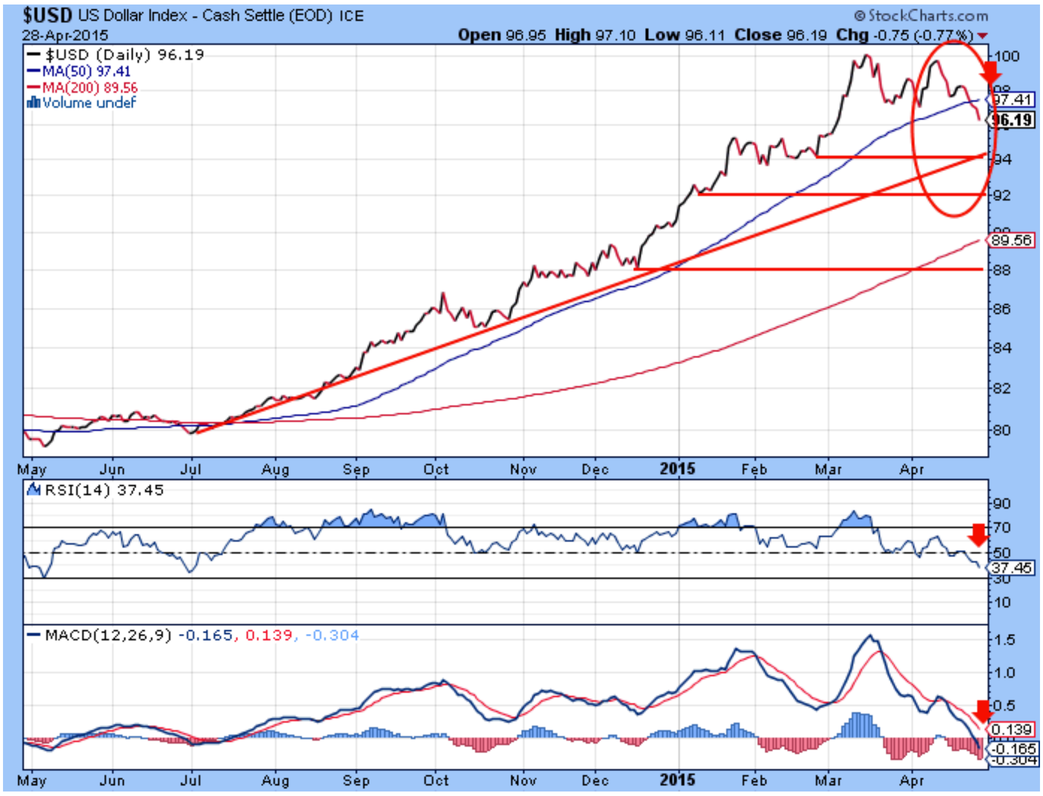
The US economy just doesn't look robust enough to warrant normalizing the interest rate. Employment figures have missed the mark recently with the latest unemployment claims up to 295k from 268k at the beginning of April. The last Nonfarm was a big disappointment at 126k down from 295k the previous month. Retail sales have consistently come in under market expectations.

GDP has played its part too with Q4 2014 GDP dipping to 2.2% (annualized) from 5.0% in Q3. Today's Q1 US GDP data will be critical for the FOMC decision on possible monetary policy changes. And the announced 0.2% Q1 GDP today will not warrant the FED to remain hawkish.

Given the macro-economic deterioration affecting the US economy, we continue to see the Fed remain on the dovish side and cite the weak data as a reason for holding interest rates steady at this meeting. Hence why we advise investors to "buy" US 10-Year and 30-year Treasuries at current prices, and to continue to "sell/short" the tremendously overbought US$ at current prices.

Now with the Fed remaining dovish, as we are expecting, look for US$ support to be found at 95.58, 94.05 and 92.75 with the price sitting on support at the current level. This level represents the neckline of the "head and shoulders" pattern at the top of the recent bullish run.

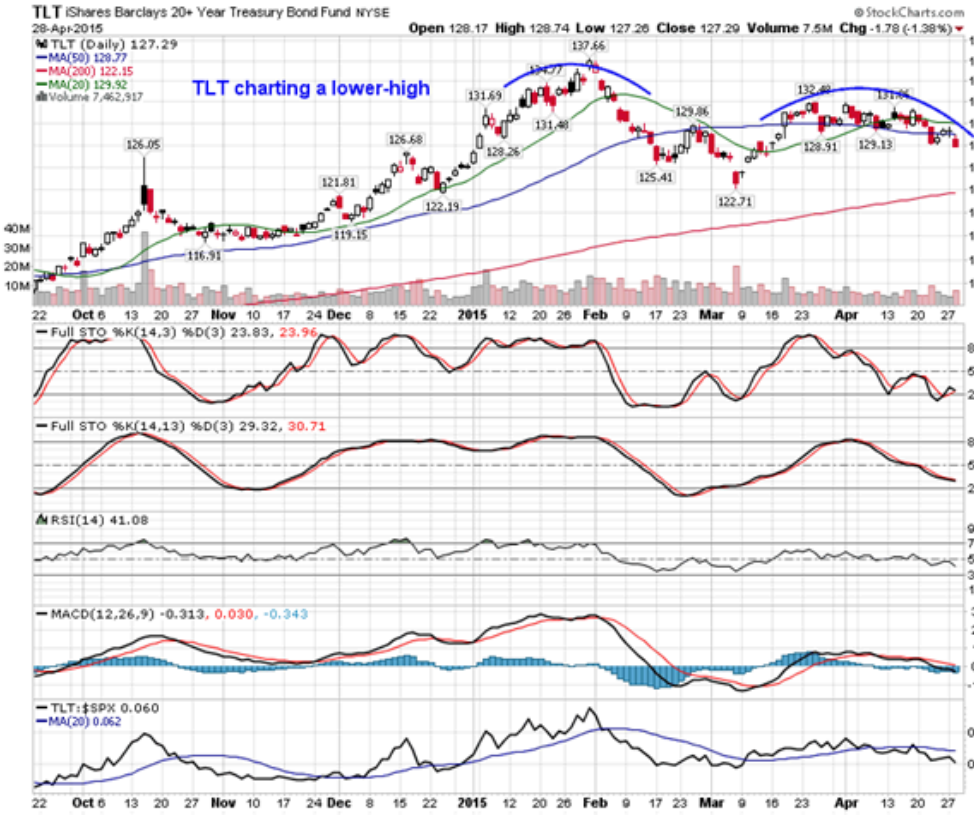


Ahead of the FOMC's decision on rates, treasury bonds are increasingly showing signs of topping, charting a lower-high below the January peak. The 30-year treasury bond price is turning lower from rising trend line resistance, a level that has constrained upside momentum for the past three decades.

We do see these short-term negative setups as a great level of entry/re-entry for investors, as the longer-term trend for treasury bond remains positive and still a long way from confirming the conclusion to the multi-decade bull market with respect to price.

Again, given the deteriorating macro conditions in the US (too strong US$; too low energy prices) we are expecting for this longer-term-trend for the 30-year and 10-year treasuries to continue well throughout 2015, as we do not see a case for the FED to raise rates in 2015.

Two of the more widely followed treasury bond ETFs, TLT and IEF, are now at risk of trading back down to support at the March low.



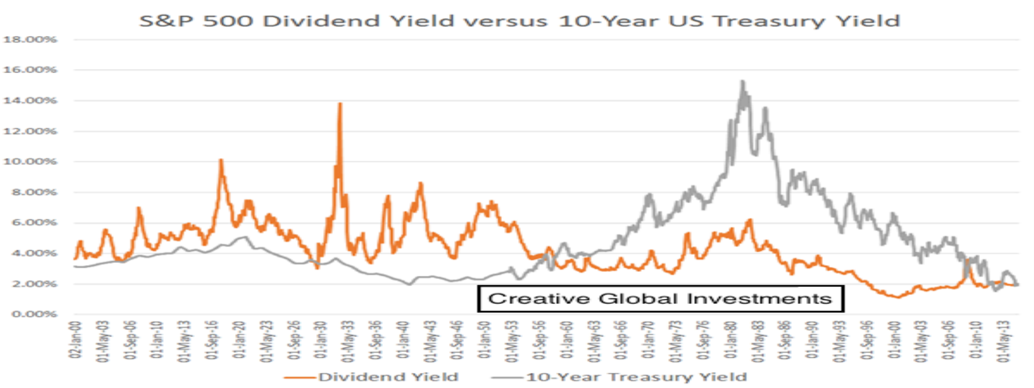
The “big reallocation”

The “big re-allocation” out of bonds into US stocks has not yet occurred. Despite the S&P 500 index reaching new record highs, -US$ 60 Bn flowed out of US stock funds last year, and about +US$ 44 Bn flowed into all bond funds. **Given the slowing macro picture in the US, and the bond yield environment still looking favorable, particularly into the summer months, when long-term bonds in the US and Europe are entering their period of seasonal strength, we believe that the “big re-allocation” will slowly begin in late summer/early fall in 2015.**

As we had been forecasting in our 2015 Global Strategy Outlook, and reiterating in our Q2 Global Strategy Outlook for 2015, there has been a more notable rotation out of US equities into much higher yielding European equities, and also into higher growth emerging markets equities. If one looks for equities with superior yield and best total returns, there are much better investment opportunities outside of the US.

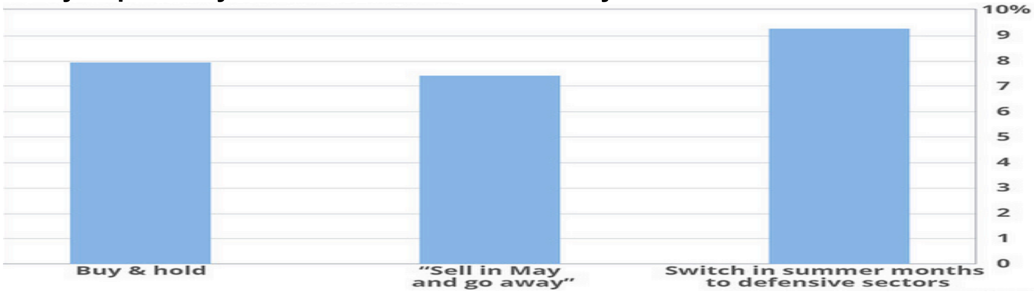
Equities Index	2015 Y-t-d return	P/E	P/B	Dividend Yield
S&P 500	+2.46%	18.45x	2.75x	**1.95%**
EURO Stoxx 600	+19.41%	17.8x	1.89x	**3.67%**
DAX 30	+20.41%	19.2x	1.75x	**2.87%**
CAC 40	+21.25%	21.5x	1.51x	**3.21%**
FTSE 100	+8.33%	17.2x	1.95x	**4.61%**
Hang Seng	+18.96%	11.2x	1.46x	**3.57%**
Nikkei-225	+16.03%	19.5x	1.45x	**1.55%**
S&P/ASX 200	+9.86%	18.2x	2.13x	**5.21%**

US equities, even at current extremely high valuations, still have DDM support. The present dividend yield of the S&P 500 sits around 1.95%, almost double what it was at the start of the century. For the first time since the 1950’s, the dividend yield of the S&P 500 benchmark is higher than the 10-year Treasury yield (1.92%), increasing the appeal of the equity market. Whatever the use of enormous corporate cash balances, there remain many reasons to be enticed by the equity market over the long-term. Defensive sectors like utilities (+25%) and healthcare (+24%) are leading the US sector higher last year, and we believe that the low growth environment keeping the FED monetary policies on hold will bode well again for these sectors in 2015.



Investors in US equities over the past 10 years have been able to achieve alpha by switching in May from growth oriented portfolio strategy and composition into “defensive” sectors as the following chart shows.

Study of past 10 years of various investment styles:



We believe that the continued benign global GDP growth will help long term government bonds around the world to rise, and hence yields to reach new low levels, and this should be very beneficial for "defensive" equity sectors over this summer such as Utilities, Consumer staples, Healthcare.

Additionally, we believe that the "half-glass full" investors sentiment for the US macro economic outlook is still fading, and inversely that the "half-glass empty" European and emerging markets macro expectations is still on the rise, and hence, why we believe that the eagerly anticipated "big re-allocation" out of bonds into stocks is still muted, as bonds are still offering great value, and particularly the US 10-year and 30-Year Treasuries.

Country	Latest yield	Spread vs bund	Spread vs T-bonds
Australia	2.65%	+2.39	+0.62
Austria	0.37%	+0.12	-1.66
Belgium	0.53%	+0.28	-1.50
Canada	1.61%	+1.35	-0.42
Denmark	0.41%	+0.15	-1.62
Finland	0.36%	+0.10	-1.67
France	0.53%	+0.27	-1.50
Germany	0.26%	—	-1.77
Greece	11.27%	+11.02	+9.24
Ireland	0.83%	+0.58	-1.20
Italy	1.46%	+1.20	-0.57
Japan	0.31%	+0.05	-1.72
Netherlands	0.40%	+0.14	-1.63
New Zealand	3.42%	+3.16	+1.39
Portugal	2.14%	+1.88	+0.11
Spain	1.40%	+1.14	-0.63
Sweden	0.38%	+0.12	-1.65
Switzerland	-0.04 %	-0.30	-2.07
UK	1.78%	+1.53	-0.25
US	2.03%	+1.77	—

Data delayed at least 15 minutes, as of Apr 29 2015 13:29 BST.

Once that yields for both of those may have compressed to less than 100 bps over the European Treasuries and Japanese JGB's, then we see in late summer the possibilities for more money's to be devoted towards equities globally, however, with the US equities being less attractive than European and EM equities.

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