



Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

May is here. "Sell" global equities now!

The period for seasonal strength in equity markets concludes on May 5th, after which a trendless market is the average. Economic events over the next few days, including central bank announcements and employment report releases, are likely to set the tone for the month ahead. The technical backdrop of equity markets has shown deterioration over recent months, particularly pertaining to momentum, and the likelihood is increasing that a market correction is near based on recent warning signals that have become prominent in April. Stocks have been up 6 months in a row. And April finished at a historic high of 1597.57.

Each May is different. And there have been some very profitable summers in years past. So it's never wise to just take this saying at face value and truly walk away from the markets. The resilience of stocks to be pressing all-time highs after 3 straight weeks of soft economic reports (including a scary showing for Chicago PMI in contraction territory) is making it hard to say what exactly would make stocks go lower at this stage. Meaning that investors seem quite comfortable with the ebb and flow of muddle through economic growth. And as long as the Fed is on the side of investors, with all that QE, then there is no reason to walk away?

During years when the S&P 500 has posted double-digit gains in the first four months of the year, May has averaged a return of 0.50%, positive in 9 out of 15 instances. 35 of the past 63 May's have ended with a positive result. However, we think that equities are priced for perfection, and that scenario is not reality.

As we mentioned in our Q2 global strategy outlook, we think that there is a greater likelihood for a May pullback in a market that has posted strong year-to-date gains coming into this fifth month of the year. The global investment community has been seeking safety in America, but declining revenues in equities will be difficult to hold for 'safety'. Slower sales globally eventually mean lower profits. Maybe not lower in earnings per share terms if you reduce the number of shares, but that is another story.

We see US equity market indicators teetering on levels they normally break down from. The Bullish Percent indexes are holding just above breakdown levels, (\$BPNDX is still above 70%), where other charts (crossovers) have already been surpassed into the market pullback zone. When they do pullback from these levels, most participants are surprised how far a correction may go. We expect US and global macro and political factors just need a little more time to get into sync for a new bull market

After months of leadership from the three defensive sectors, the tables turned over the last seven days as the Technology Sector started leading the market. Healthcare and Consumer Staples are actually down since 22-April, while the Utilities are up less than the S&P 500. Long bull markets in equities are global. Bear markets are also global. While the US did have a brief rest from the global view, eventually either the world starts doing better or the US equities will falter.

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The S&P 500 Index managed to touch an all-time inter-day high at 1,597.57, slightly higher than its previous high at 1,597.35, albeit on extremely low volume.



Global Macro Commentary & Events

Upcoming Macro Events:

- Great Britain Manufacturing PMI for April will be released at 4:30am. The market expects 48.5 versus 48.3 previous.
- China HSBC Manufacturing PMI for April will be released at 9:45pm EST. The market expects 50.6 versus 51.6 previous.
- Motor Vehicle Sales for April will be released throughout the day.
- ADP Employment Report for April will be released at 8:15am. The market expects 155,000 versus 158,000 previous.
- PMI Manufacturing Index for April will be released at 8:58am. The market expects 52.0 versus 54.6 previous.
- ISM Manufacturing Index for April will be released at 10:00am. The market expects 51.0 versus 51.3 previous.
- Construction Spending for March will be released at 10:00am. The market expects a month-over-month increase of 0.6% versus an increase of 1.2% previous.
- Weekly Crude Inventories will be released at 10:30am.
- The FOMC Meeting Announcement will be released at 2:00pm.

Review of past macro-economic data:

Event	Actual	Forecast	Previous
JPY Housing Starts (YoY)	7.30%	6.00%	3.00%
JPY Annualized Housing Starts	0.904M	0.890M	0.944M
EUR German Retail Sales (YoY)	-2.80%	-1.20%	-2.60%
EUR German GfK Consumer Confidence Survey	6.2	5.9	6
EUR German Unemployment Change	4K	2K	12K
EUR German Unemployment Rate s.a.	6.90%	6.90%	6.90%
EUR Italian Unemployment Rate (SA)	11.50%	11.70%	11.50%
GBP Net Consumer Credit	0.5B	0.5B	0.5B
GBP Net Lending Sec. on Dwellings	0.4B	0.6B	0.8B
EUR Euro-Zone Consumer Price Index Estimate (YoY)	1.20%	1.60%	1.70%
EUR Euro-Zone Unemployment Rate	12.10%	12.10%	12.00%
CAD Gross Domestic Product (MoM)	0.30%	0.20%	0.30%
CAD Gross Domestic Product (YoY)	1.70%	1.30%	1.10%
USD Employment Cost Index	0.30%	0.50%	0.40%
CAD Industrial Product Price (MoM)	0.10%	0.00%	1.30%
CAD Raw Materials Price Index (MoM)	-1.70%	0.50%	2.20%
USD S&P/Case-Shiller Composite-20 (YoY)	9.30%	9.00%	8.10%
USD NAPM-Milwaukee	48.43	51.5	50.98
USD S&P/CS 20 City s.a. (MoM)	1.24%	0.90%	1.00%
USD S&P/Case-Shiller Home Price Index	146.57	146.43	146.14
USD Chicago Purchasing Manager	49	52.5	52.4
USD Consumer Confidence	68.1	61	61.9
AUD AiG Performance of Manufacturing Index	36.7		44.4

European Economy

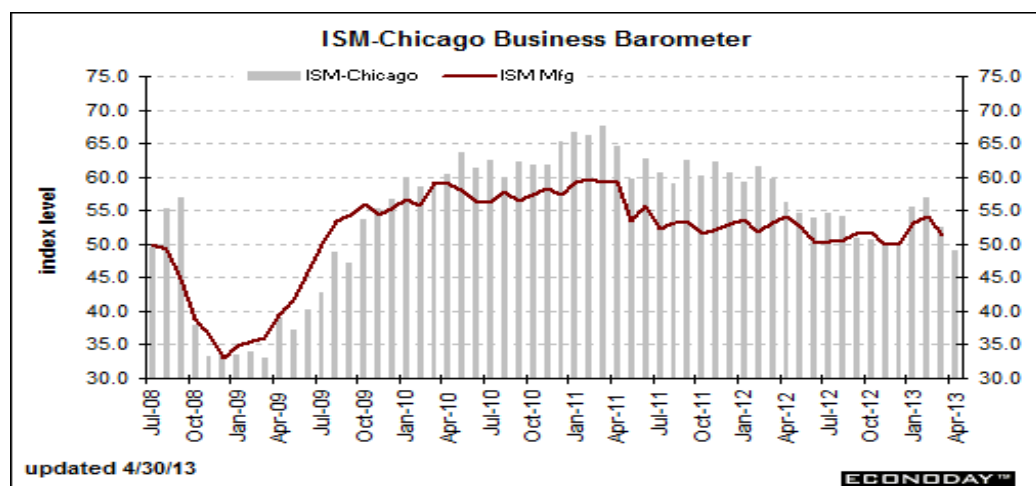
US Economy

Stocks pushed higher on Tuesday as investors reacted positively to economic reports pertaining to consumer confidence and the housing market; the consumer confidence index for April came in at 68.1, beating estimates of 61, while the Case-Shiller 20-City Index showed a year-over-year gain of 9.3%, better than the 8.7% that was expected.

However, economic news wasn't all-upbeat. Chicago PMI showed a surprise contraction for April with a reading of 49.0, well below estimates calling for 52.4. A reading of 50 marks the dividing line between expansion and contraction.

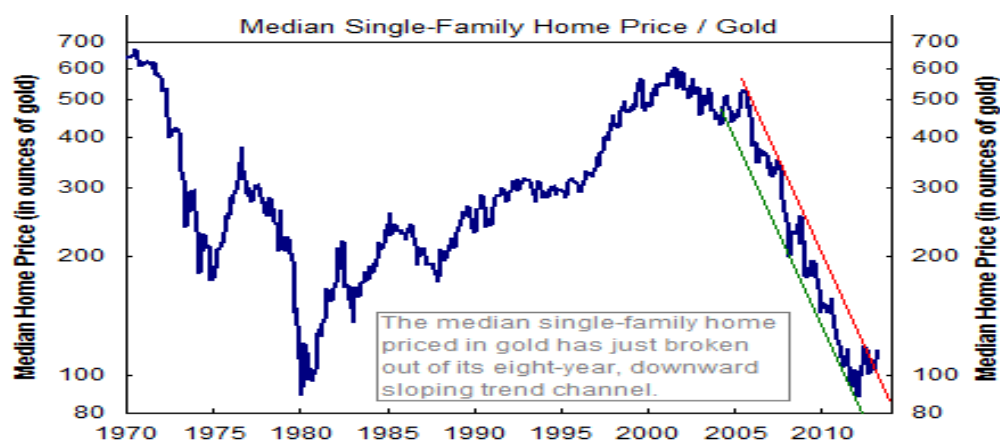
April and May are typically the strongest months of the year for manufacturing, but recent reports from districts across the US have reported some of the weakest readings since the economy emerged from the recession.

ISM will put it all together in a report to be released today at 10:00am, providing a final say as to the strength of this economically sensitive business sector. Other key economic events include the FOMC Announcement and the ADP Employment Report, two reports that could dictate the market trend for many weeks to come.



The home / gold ratio or the cost of the median single-family home in ounces of gold. It takes currently 116 ounces of gold to buy the median single-family home. This is dramatically less than the 601 ounces it took back in 2001.

When priced in gold, the median single-family home is down 74% from its 2001 peak. Since making new 32 year lows last year, home prices (priced in that other global currency; Gold) have worked their way higher. The median single-family home priced in gold has just broken above its eight-year, downward sloping trend channel.



US Equity Market Commentary

Apple (Nasdaq AAPL: US\$ 442) Sell/short

Apple has raised US\$ 17bn via a bond sale, the biggest ever by a non-banking company, to help fund its plan for extra payouts to shareholders. Last week, it said it will buy back US\$ 60bn in shares, and raise its dividend to shareholders by 15%. Apple's bond sale, its first in nearly two decades, comes despite the firm having cash reserves of US\$ 145bn. The bond sale generated massive interest among investors. According to some reports, the company had received orders for nearly US\$ 50bn, almost three times the amount being offered. That proves how desperate institutional investors are for finding yield. However, we doubt that buying an AAPL bond at yields around 2.5% is a good solution, when one can buy European stocks yielding more than 4% on average.

Most of Apple's cash is sitting in accounts outside the US and would be liable for US taxes if repatriated. At the same time, interest rates in the US are currently near record lows, helping drive down cost of raising funds for companies. That makes it cheaper for Apple to raise the money through a bond issue, even though it will attract interest payments. The money will be used to fund special payments to shareholders who, after years of seeing their shares rise in value, have become frustrated in recent months.

Apple shares have dipped nearly 40% after we iterated a "sell/short" recommendation on AAPL on October 3rd 2012. The fall has been triggered by concerns over future growth of the firm, not least due to the success of rivals such as Samsung, which have increased their share of the smartphone, and tablet PC markets, which Apple used to dominate.

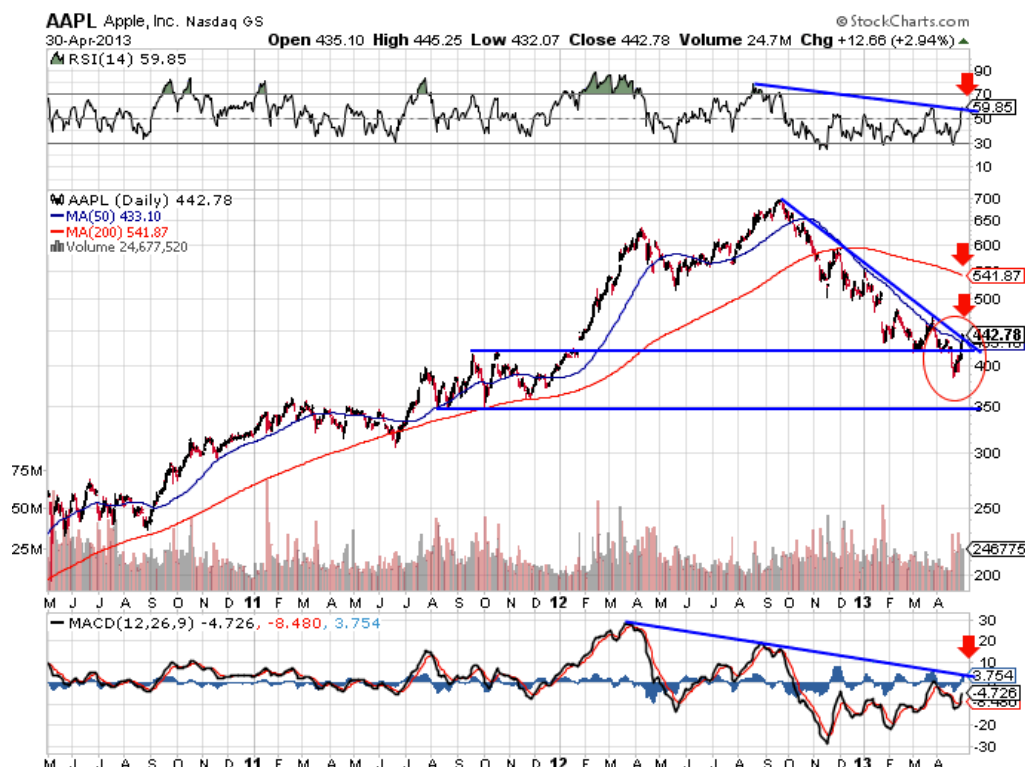
Earlier last week, Apple reported its first quarterly drop in profits in 10 years. It made a net profit of US\$ 9.5bn in the January to March quarter, down from US\$ 11.6bn last year. Despite the drop in earnings, Apple unveiled plans to pass some of its giant cash pile back to investors, sparking a slight rebound in its shares over the past week.

Apple (AAPL) remains in a downtrend overall, but signs of firmness emerged as the stock forged an inside week.

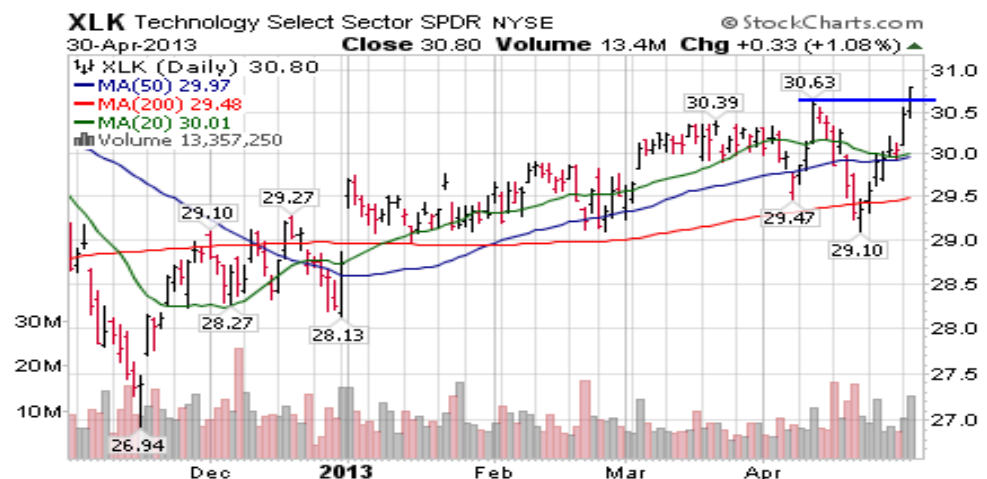
This occurs when the week's high-low range is inside the prior week's high-low range.

AAPL advanced on the highest upside volume since April 2012.

We remain negative on AAPL, and maintain our 9 months price target of US\$ 320.



The Technology sector led yesterday's advance.



Responses to first quarter earnings reports continue to be exceptional.

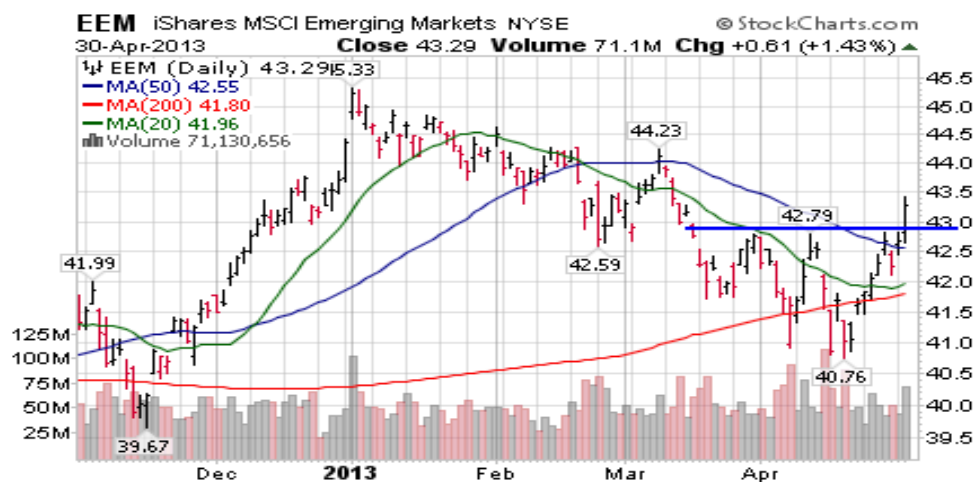
Stock prices have surged when earnings significantly exceeded consensus and stock prices collapsed when earnings were in line or slightly less than consensus.





Asian Equity Markets Commentary

Yesterday, strength has surfaced in other equity markets.



Currencies

Weakness in the US\$ quickly translated into strength in the Canadian \$.



Gold & Precious Metals Commentary

Gold for June delivery rose \$2.10, or 0.1%, to \$1,474.20 an ounce during Asian trading hours. Yesterday, Gold logged its seventh win in nine sessions, climbing \$4.70, or 0.3%, on expectations that the Fed later Wednesday will say it'll keep making US\$ 85 billion a month in asset purchases. At the end of its two-day monetary-policy meeting later today, the Fed may be more downbeat about the outlook for the US economy following a round of weaker-than-expected domestic data.

Something has to give in the Gold/Silver ratio:

The gold/silver ratio weekly computations below track the six years from May 2007 until April 2013.

We think that Silver has the best chance of outperforming Gold in the coming months.

Gold/Silver Ratio: May 2007 – April 2013



The chart shows the ratio rising from 52.04x in August 2008 to as high as 84.63x exactly two months later. Since the ratio was rising, one would think the price of gold was rising faster than the price of silver. In fact, the opposite was true: both were declining, and the price of silver was falling faster than the price of gold. The ratio then declined and settled into a long (21 months: February 2009 until October 2010) band between approximately 60.00x and 70.00x. The ratio then steadily declined to reach a bottom in April 2011 at 32.31x. During this six-months time, the price of gold rose 18.5%, from \$1,318/oz. to \$1,564, while silver rose 118% from \$22.09/oz. to \$47.91.

The averages have trended more closely, in the 56x – 57x range long term. Since the beginning of 2011, the average ratio has been a little lower, near 50x.

Over the past six years, the gold/silver ratio has seesawed considerably, from a high of 84.63x (October 2008) to a low of 32.31x (April 2011).

This likely means that the current ratio, near 61x is too high and there will probably be a correction, either by the price of gold declining or the price of silver rising, or a combination.

Looking at the average prices for the two precious metals, if they were to revert to their long-term indicators, then it is more likely that the price of Silver has a chance to rise to bring the ratio back into the 50s.

Change in Gold Price Relative to May 2007



Change in Silver Price Relative to May 2007



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