# Creative Global Investments

## Weekly investment strategy & charts

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Objectivity

Integrity

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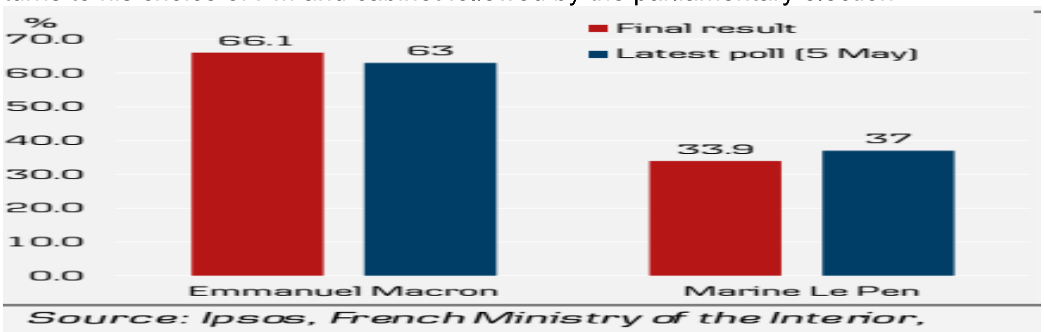
## Macro(n) economic & political Commentary

***In Europe***, in the French elections, Macron wins by a very wide margin. Focus now turns to his choice of PM and cabinet followed by the parliamentary election




In Germany, Chancellor Angela Merkel's party also secured a win and 33.0% of the vote in the western German state of Schleswig-Holstein a big victory in Germany's northernmost state yesterday, dashing hopes from the rival center-left Social Democrats (SDP) ahead of the national vote in September. The SDP, which have ruled the state since 2012, had hoped to be the front-runner, but won just 26.2% of the vote.

The big difference between Europe and the UK and the US lies in the political direction that the populations of those countries are choosing to vote for. While the UK and US opted for more protectionism and populism, Europe has so far been in favor of pro-European candidates. In Austria, the presidential election was a victory for the pro-European candidate from the greens. The Dutch elections were won by the pro-European, pro-trade liberal party. A pro-European party also came out on top in the Bulgarian elections.

And finally, most important bit of news is that fact that Emmanuel Macron won as anticipated yesterday's final round of the French elections, and will become France's next President. And so another milestone in European history is reached, whereas a non-party candidate did the unthinkable, and to the surprise of most, shook the establishment parties and their candidates in France.

Was this predictable?
Yes, obviously it was, and we did.

The elections that matter the most for Europe were the Dutch, the French and the upcoming German elections. These 3 countries represent 56% of the Eurozone economy. They are 3 of the six founding members of the EU, and together with Belgium, Italy and Luxembourg, they signed the Treaty of Rome exactly 60 years ago this year.

**Since March of last year, we also started to see increasing macro evidence that the Euro area was going to be a more stable, secure and reliable place to invest in than the UK and US, but our call fell mostly on deaf ears until 2017. Europe has emerged once again as a region that offers a stable political and macro economic environment, just as the fate of other economies is harder to predict.**

Since November 8th of last year, investors were increasing their big bets on US$ denominated assets, after having bet for 5 years on the "US being the world's economic locomotive", which did never materialize, as the anemic annual 2.1% GDP growth average for the US did barely outgrow the EU, and Japan.

Now the "Trump-reflation" story was the last hype investors were "buying" to allocate even more of their clients assets towards US$ denominated assets. As we have written over the past 18 months, the risks in US$ denominated assets have increased, due to extreme valuations in equities, and due to "empty political promises" which the current administration have failed to delivered.

And as it appears, now after the initial sugar rush, investors have to reconsider if any of those promises have a leg to stand on over 2017 to turn into even fractional reality. The UK on the other hand is facing complex divorce negotiations with the EU.

There are significant economic downsides from the upcoming Brexit for the UK. The damage to the EU economy is probably limited, and the impact might even well be positive. Especially if companies and financial institutions decide to move to the continent.

Nevertheless, the Eurozone did indeed strengthen beyond expectations over the past 18 months, and besides "surprisingly" continuously improving macro data since then, a testimony to our call was delivered last week by Kalin Anev Janse, Secretary General of the European Stability Mechanism (ESM) at a conference in Luxemburg last week. The ESM provides financial assistance to Eurozone countries' that have lost market access. It was set up at the height of the Euro crisis. Without the ESM, countries such as Greece would have defaulted, and the Euro would have been in serious trouble.

The ESM has disbursed a total of EUR 265BN in assistance loans to Cyprus, Greece, Ireland, Portugal and Spain, of which 4 (Ireland, Spain, Portugal and Cyprus) have ended their programs and have turned into are success stories, as Ireland and Spain have the highest growth rates in Europe, and all these countries have undergone massive reforms, making more progress in modernizing their economies than others. This is because of the strict conditions that came with ESM programs.

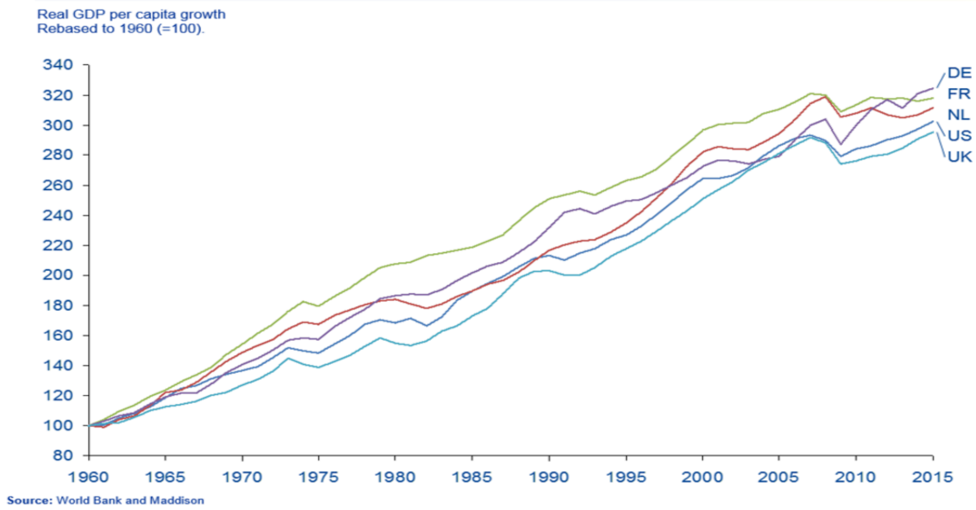
Last week's news show that Greece has also been making positive progress, and provided the Greek government continues to implement the reforms it has agreed to, it can return to the bond market before the end of the program in 2018, which will eliminate uncertainty for financial markets and shows that Europe's approach of providing solidarity to countries in financial need is working.

And this is not the only good news. In December 2016, when we published our 2017 Global Outlook and Investment Strategy we argued that the big elections in Europe would be key drivers for the markets this year. This was important for the ESM, as they planed to issue EUR 57BN in bonds, which makes it the largest issuer of Euro-denominated debt.

The next three charts evidently clarify why those three countries have fewer reasons to follow the populist path chosen by the UK and US.

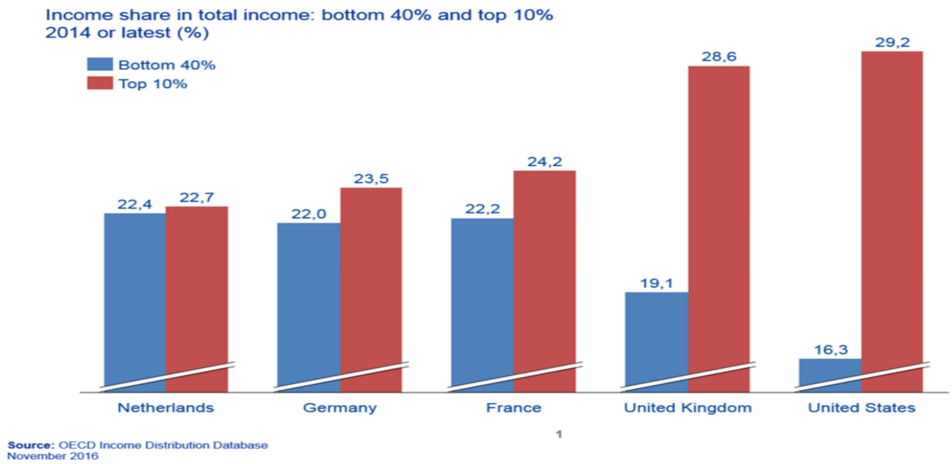
**Firstly,** over the last 60 years, the Netherlands, France and Germany outperformed the US and UK in real GDP per capita growth. It shows that cross-border collaboration made these countries and their citizens rich and wealthy - very rich and wealthy.

**As the chart shows, the economies of Germany, France and the Netherlands outperformed the UK and the US since the 1960's.**




**Secondly,** as the next chart clearly shows, these three countries also do a much better job in distributing wealth. This ensured that large parts of society benefit from this economic growth.

**Germany, France and the Netherlands have had a more equal and fair income distribution than the UK and the US**

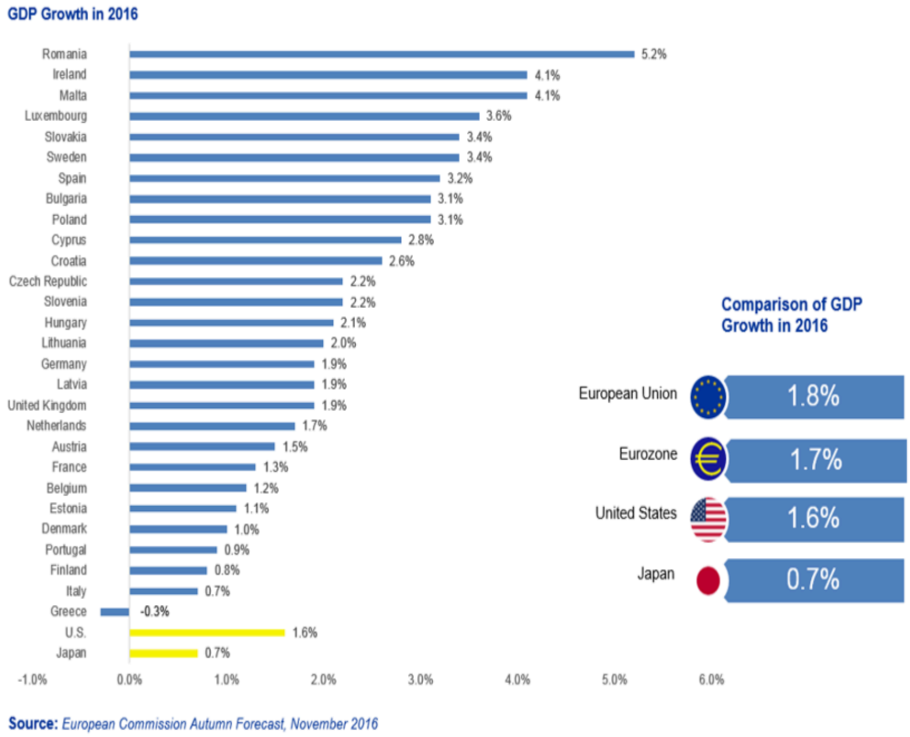



In the US, the poorest 40% of earners bring home just 16.3% the national income, while the richest 10% earn a full 29%. In the Netherlands, France and Germany the numbers are much smoother. The UK is somewhere in the middle, but the trend is similar to that in the US.

From fairer tax schemes to affordable first-class education and social security, the European social model has many strong points to counter concerns of the population. Rising income inequality is by now widely recognized as an important factor behind the surge in populism, or protectionism, or nationalism or whatever you want to call it. We believe that it is no coincidence that this movement has been more successful in the US and UK than continental Europe, and that there is a direct connection with the numbers shown and the outcome of these elections. This makes us confident about political risk for the remainder of the year, as Europe will continue to hold together, against most Anglo-Saxon critics and experts beliefs.

**And thirdly, Europe's success is also reflected in economic data for 2016, as with the exception of Greece (which as of Q1 2017 also has returned to positive GDP), all European countries have returned to growth after the crisis, as we were forecasting in our 2016 Global Outlook and Investment Strategy, and not surprisingly to us, the EU and the Euro area grew faster than the Japan and US last year.**

**EU & Eurozone outpacing the US & Japan**




A hundred days into the Trump administration, it is equally clear that predicting the economic future of the US is becoming more difficult. On the contrary, the recent elections have shown that the headline risk is waning in the EU and Euro area. Even some of the most skeptical commentators have started recognizing this.

This is important for Europe, as institutions like the ESM see increasing appetite for bonds and bills. The funding efforts so far this year have been going very well, and the ambitious funding program of EUR 57BN for 2017 is ahead of schedule, and higher than in previous years. Despite the ESM also needing to fund the cost of some of the short-term debt measures for Greece, and heightened uncertainties around the Dutch and French elections, investors have returned.

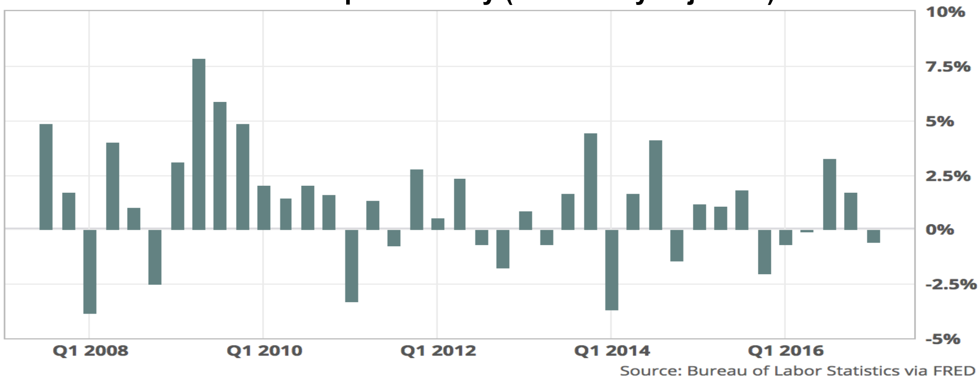
As planned, the ESM raised EUR16 BN in Q1, and on April 25 completed the full Q2 funding requirements for the EFSF, the temporary predecessor to the ESM, and that despite the week after the 1st round of the French election. The ESM successfully printed EUR 8 BN in total in a dual-tranche transaction, with a total order book in excess of EUR 20 BN, and allowing to raise the full EUR 13 BN needed for Q2 as early as April, more than 2 months before the end of quarter. The accomplished deal has a big significance for Euro area sentiment.

Our investors are spread all over the world and more and more recognize that Europe is a stable and attractive place to invest. While the UK and US recently made a turn towards more protectionist and populist policies, this year's European elections brought victories for candidates who are pro-European, pro-trade and pro-cross-border collaboration. **Consequently, we continue to see the Euro to stabilize further and continue to rise. Safe heaven currencies like the US$ and like Gold will reverse course and decline over the summer. As per our Q2 Global Investment Outlook & Strategy, the EUR/US$ is on track to rise to our Q2 end target of 1.14.**

**We see European stocks will likely rally for another short period, until they reach the zenith of annual dividends paid out in mid-May. We recommend for investors to start reducing equity positions into the last rally before the summer, as we are forecasting for a -12% to -15% decline in European and US stocks to materialize once the period of seasonal strength for this asset class will pivot into their strongest period of seasonal weakness from May to October.**

***In the US***, productivity has been in the doldrums, and the decline in productivity from Q4's revised 1.8% clip mostly stemmed from a lower output at many businesses. Companies sought to reduce inventory levels to avoid getting stuck with unsold goods or products they'd have to discount steeply to move. The increase in output rose just 1% after a 2.7% gain in Q4. Yet workers put in even more time on the job. Hours worked increased 1.6%. The combination of slower production and higher hours caused unit-labor costs to rise to a 3% rate from 1.3% at the end of 2016. Labor costs rose in 2016 at the fastest clip in nine years. Productivity has been weak since an economic recovery began almost eight years ago, increasing at 1.2% annual clip since 2007, well below the 2.1% average since the 1960's or the 2.6% average from 2000 to 2007. The slowdown in productivity has broad ramifications for the US economy, as pay rises more slowly.

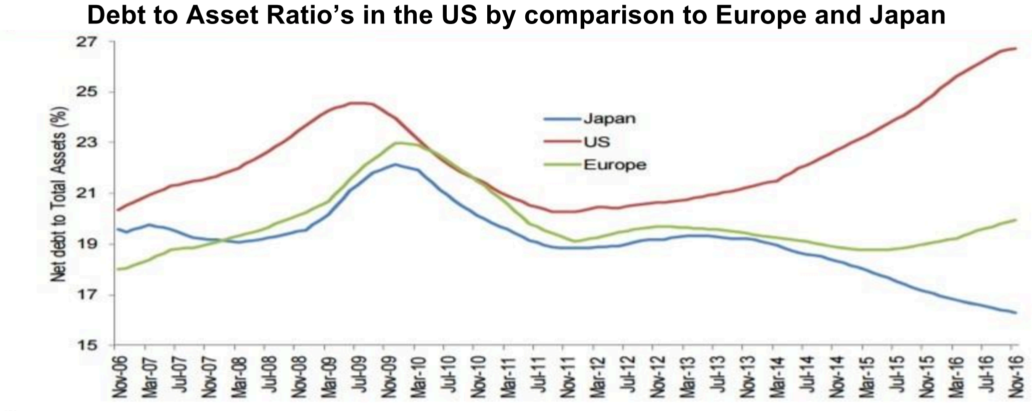
**US Labor productivity (seasonally adjusted)**




Some economists suggest a tightening labor market could spur companies to invest more in labor saving devices or technology that boosts productivity, but so far there's little evident to support such a shift. All figures reflect seasonally adjusted annual rates.

Another major economic concern, unrelated, however significant that we would like to highlight is the ballooning Debt to Asset ratio's of the US, as the following chart shows:

**Debt to Asset Ratio's in the US by comparison to Europe and Japan**




As we have been pointing out for the past 10 weeks, we believe that the recent weak US macro data are the precursors to a recession. The case that a recession is increasingly likely simply by looking at the frequency with which they occur.

The last US recession started in 2007 and ended in 2009.
The one before that started and ended in 2001.
The two prior recessions ran from 1990 to 1991 and from 1981 to 1982.

In all cases, the time between the end of one recession and the start of another was about eight years on average. Between 1945 and 1981, recessions were much more frequent. Eight years have passed since the last recession, and based on data going back to 1980, the US is in the structural time window for a slowdown or a likely recession, sometime between now and 2019.

During expansions, economies tend to accumulate inefficiencies. Low interest rates allow businesses to survive despite their inefficiency, and this will continue if a recession does not occur. In the current expansion, we have had extraordinarily low interest rates, so even with relatively low growth rates, pruning is needed.

Recessions are unpleasant and hurt some people disproportionately. However, the US recession will likely hurt other countries more. When combined with other global economic problems, the recession will likely weaken Europe's recovery and similarly weaken China's economy, and could put further downward pressure on commodity prices. The 2007-09 recession hurt the Chinese tremendously because their biggest export customers were the United States and Europe. In due course, the Chinese slowdown cut China's consumption of industrial commodities, including Oil, hitting countries like Russia and Saudi Arabia.

The US avoided the worst of this because, while it is the second-largest exporter in the world, exports account for only about 12.6% of its GDP (the US ranks only 161st in the world in terms of exports as a percent of GDP). In part, this lack of dependence on exports helped US GDP grow on its internal engine.

The decline in the US economy will inevitably lead to a drop in US imports, unless the US$ would weaken substantially, which we believe it will.

Countries that were driven by exports are now using diminished export demand to simply maintain their economies in the hopes of generating enough domestic demand to replace lost markets. In most cases, they have achieved a fairly precarious balance at this point that is much more subject to destabilization than in previous cycles. A relatively small drop in global demand can have a substantial impact. Thus, a routine US recession will lead to a small global decline, reversing gains in stabilization made in recent years.

The downturn in export demand will have a ripple effect because exporting countries are also importing countries. As American demand contracts, exporters' economies will be affected and their need for imports will contract as well. This domino effect is normal. The problem is that the international system's vulnerability has grown dramatically because many countries have become excessively reliant on exports, and this has been accompanied by a general weakness in their domestic economies. Therefore, the ripple effect, while not a tidal wave, will be more substantial than would have been the case before 2008.

A US recession could put pressure again on oil prices. The price of oil is now subject to market forces rather than any concerted action by oil exporters. Historically, as oil prices fell, industrial production increased. Whilst lower oil prices historically have helped to solve problems for exporters of manufactured goods, they have also created massive problems for oil exporters, and now, the US wants to become one of the biggest exporters.

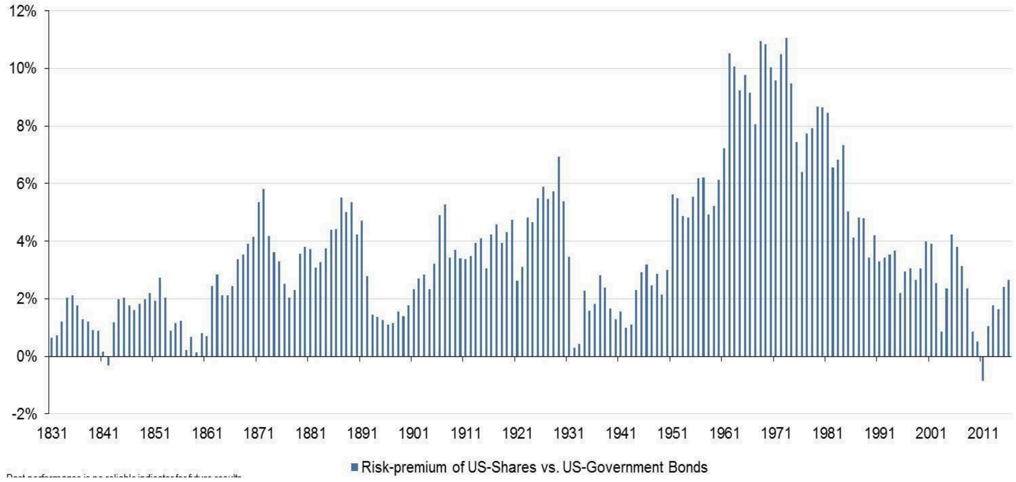
As for Russia and Saudi Arabia, should oil prices be stuck below $50 a barrel, the pressure on these countries' economies will increase. Both will try to manage their regional interests in the face of deepening internal challenges. The credibility of these regimes depends on their ability to maintain a degree of well being appropriate to their historical patterns. Those patterns will be difficult to preserve.

As our research has shown, the US will suffer significantly in this situation. As we have written before, we see the likelihood increasing of a recession in the next two years during Donald Trump's presidency, and consequently a recession would place Trump in a difficult political position moving toward the 2020 election. The US would not be as exposed as export-dependent nations, but the political repercussions would require Trump to have much stronger domestic policies in place.

The last recession is 8 years ago, and 10 years has been the longest period between recessions. The precursors to a depression, such as irrational exuberance of asset classes, rising interest rates, a negative yield curve, and proclamations that “this time, it’s different”, have at most been modestly appearing. But the clock is ticking. We may set new records on this expansion, but we find it much more likely that a necessary cyclical recession will take place within the next two years.

**As per our Q2 Global Outlook and Investment Strategy, we have been advising our clients to reduce exposure to the US$ ($USD) and US equities ($SPX), and instead increase allocations into US long bonds, namely 10-Year Treasuries ($TNX), and into EU and EM currencies and equities, which form a tactical Asset allocation call has been spot on so far in the current quarter.**

**Risk Premium of US shares vs. US Government Bonds (30-y rolling returns in %)**




***In Asia***, **China’s trade surplus widened to USD 38.1b in April, up from USD 23.9BN and beat expectation of USD 35.3BN.** However, exports rose 8.0% y-o-y while imports rose 11.9% y-o-y. Both fell short of expectation of 10.4% y-o-y and 18.0% y-o-y respectively. Calculated in Yuan, the trade surplus widened to CNY 262BN, up from CNY 164BN and beat expectation of CNY 197BN. The data showed some softening domestic demand that weighed down imports. There would likely be more downward pressure with the government's tightening policies.

## Currencies commentary & charts

A muted relief rally in EUR crosses finally sent EUR/USD above 1.10 in Asian morning trading. However, the move was short-lived and EUR/USD has moved below 1.10 again.

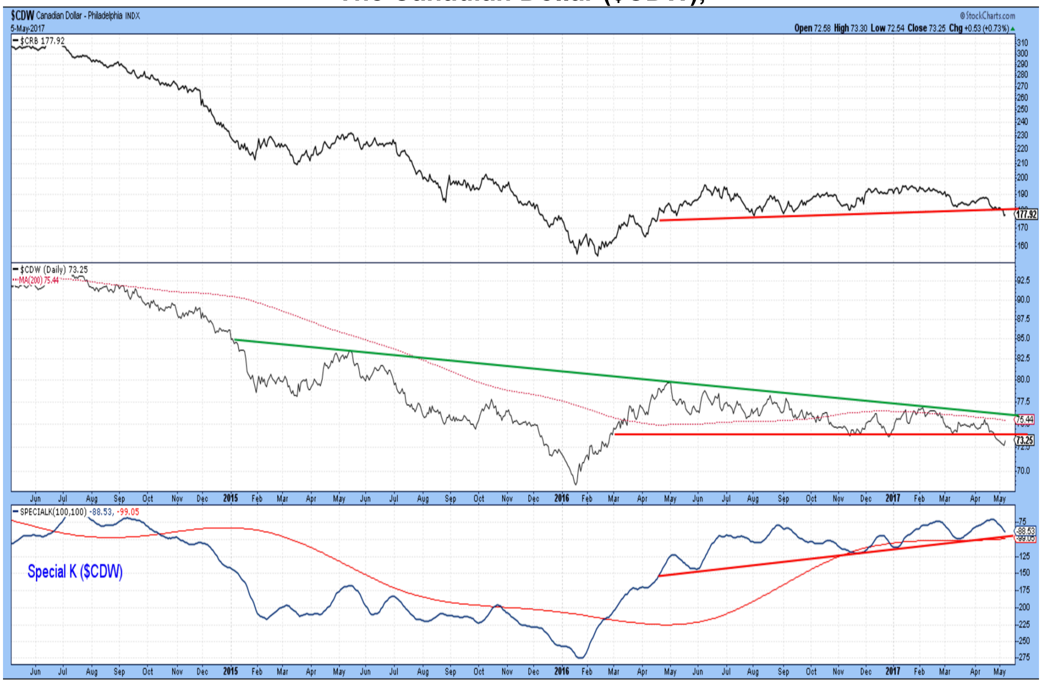
The Macron-win should subdue populist/Eurosceptic risks for the single currency for a while and thus help to sustain the move higher in ranges notably for EUR/USD seen recently. With euro-area political risks sidelined, focus should return to the fact that Europe is looking “surprisingly” good cyclically, which could shift the ECB into a slightly hawkish direction in terms of communication on policy rates in June. And, with Trump policies increasingly diluted and hence set to provide little USD support for the time being, the main driver left to deliver USD support in our base case will be the Fed and we believe Yellen will be cautious in avoiding just that when announcing ‘quantitative tightening’.

Moreover, it is not obvious that a weaker global business cycle (as we envisage going forward) should necessarily be a USD positive, as has been the case historically. On the whole, the French election has implied a level shift in EUR/USD. While we maintain that it will take more firm indications of an ECB exit for the cross to embark on a sustained uptrend, the pair is in our view now more likely to stand above than below 1.10 in 3M; our current near-term forecasts are below this level and we are thus reviewing these.

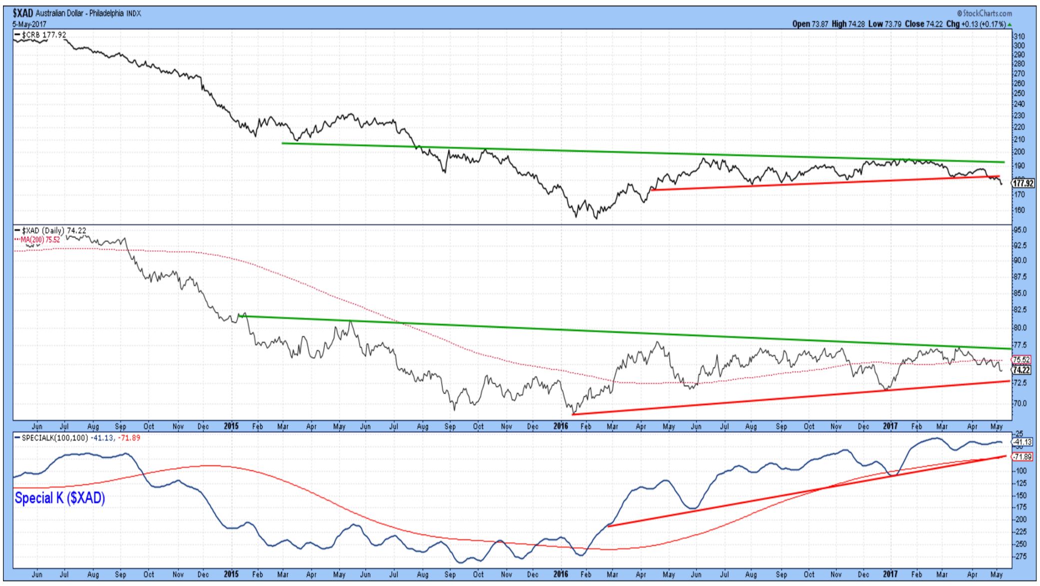
While the French presidential election is now over, the never-ending story about European politics continues. The next chapter is the UK general election on 8 June. As such, a Macron win might – at the margin - be a negative for GBP in the sense that a more united EU could do better in the Brexit negotiations. However, judging from last week's local elections in the UK, the Conservative Party is likely to increase its majority significantly in the general election. This means that we will get a much more stable government in the UK, and ultimately, this would reduce the risk of an abrupt Brexit and 'no deal' with the EU considerably. Hence, we think the trading range for EUR/GBP should be in for a modest shift lower to 0.82-0.8650 (from the current 0.84-0.88) after the UK general election amid a reduction in tail risk.

As investors have been leaning in their current views towards more of a deflationary scenario, we want to focus on two key currencies that are known for their sensitivity movements to commodity prices are the Canadian and Australian dollars.

**The Canadian Dollar ($CDW),**




The Australian Dollar ($XAD) has not yet broken to the downside yet, and we find that the recent top completions and deflationary trendline violations could turn out to be a whipsaw, then a break above the green trendline for the $XAD could well be a leading indicator.

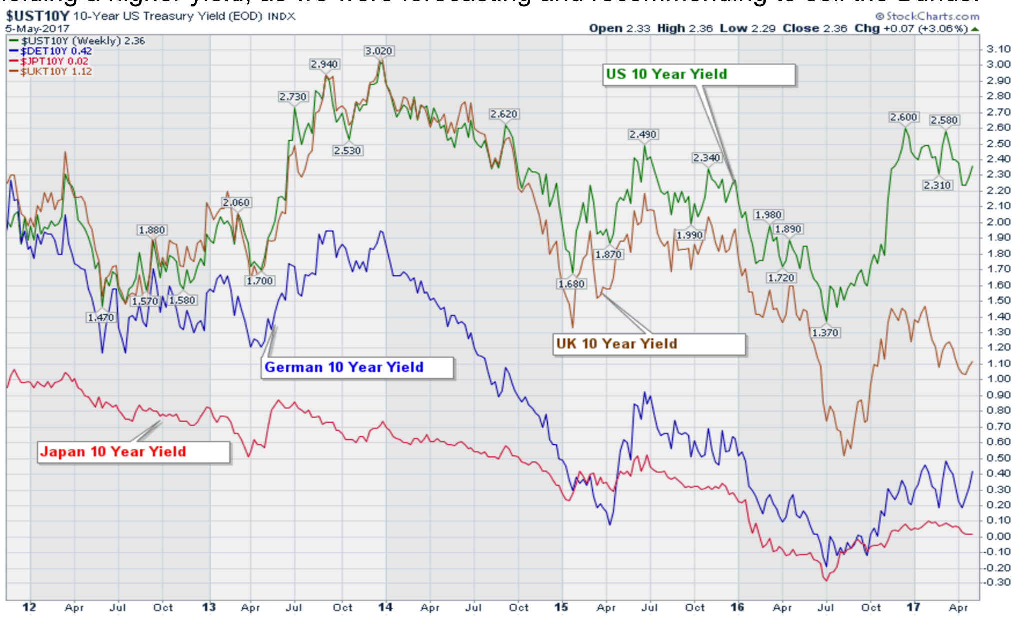


## Fixed income charts & commentary

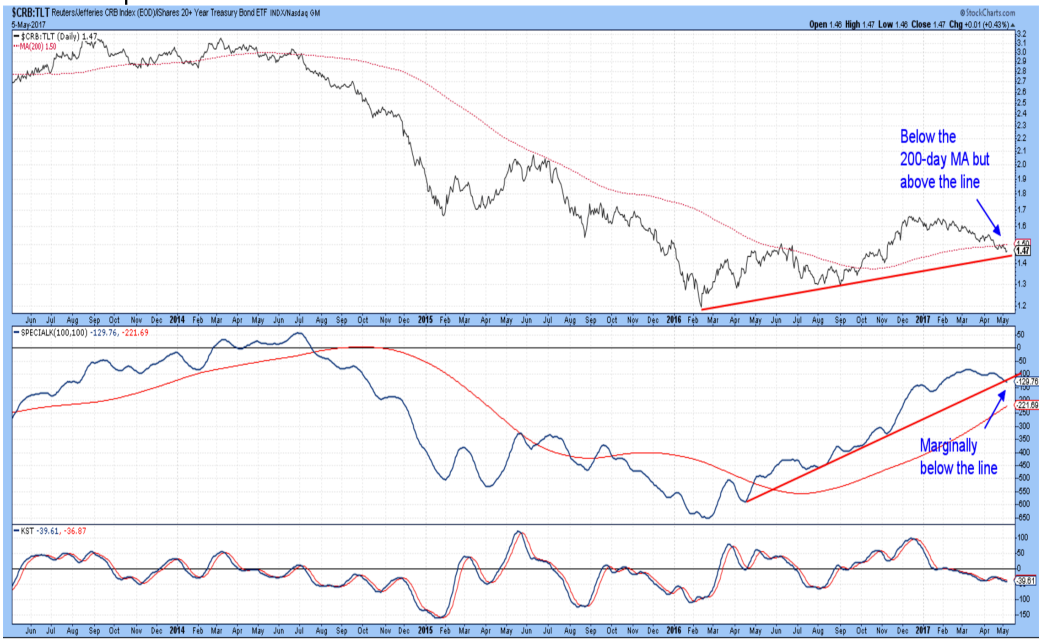
We have seen a solid rebound in French government bonds after the first round, and looking at French government bonds versus swaps, there is limited potential for more tightening. We are likely to see more performance versus core and semi-core EU government bonds as well as the Bund-spread tighten as the primary markets for corporates, financials and covered bonds are likely to increase as new issuance is coming to market. The big winner in the European markets is likely to be Italian government bonds as they have been lagging the performance of French government bonds and to some extent Spain and Portugal.


The fixed income market will now turn its focus to the ECB once again. The French election result and the higher than expected April inflation data might fuel speculation that the ECB could take a step in a slightly more hawkish direction as early as next month. We see limited scope for market moves on the back of yesterday's French political result. More important now for European credit markets are company fundamentals and the ECB's QE. With a solid Q1 reporting season mostly behind us, we see support for spreads from improving headline figures and credit metrics in company reports. As for QE, a continuation of the program into 2018 should support credit spreads, even though the purchase rate has come down a bit in the most recent months. For now, we expect stable spread development with the possibility of the euro area outperforming Nordic names as risk appetite resumes and investor sentiment towards Europe improves.

As we were forecasting, US Long-bond yields have been dropping since the beginning of 2017, and have caught a lot of the major participants off-guard. The US', the British and Japanese charts also score lower yields since January, and only Germany is holding a higher yield, as we were forecasting and recommending to sell the Bunds.



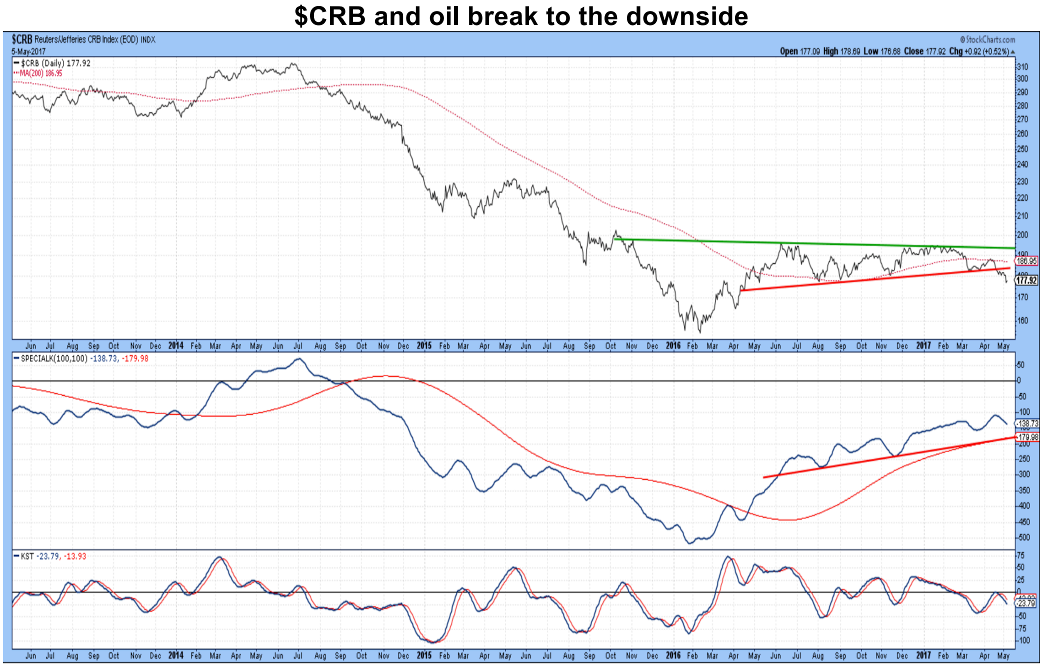
For the past 3 weeks, investors are again leaning towards a more deflationary scenario by bidding up the price of bonds against commodities. The technical position of this relationship has started to break down, with a negative 200-day MA cross by the price itself, and an increasing risk of a drop below 1.4, which would result in a violation of that 2016-17 up trendline.




## Commodities charts & commentary

Seasonally, commodities are one of the weakest asset class performers in financial markets between May and October, falling victim to reduced manufacturing demand over the summer months. In recent reports we highlighted the risk that instability in one market, such as the commodity market, can flow into another, such as the equity market. The extreme moves recorded in commodity prices in recent days warrant caution.

**$CRB and oil break to the downside**




## Equities charts & commentary

**For investors in the S&P 500, the "Sell in May & Go Away" effect is coming into play, as since 1950, holding the S&P 500 between May 5 and October 27 would have netted a loss of -20.1%.**

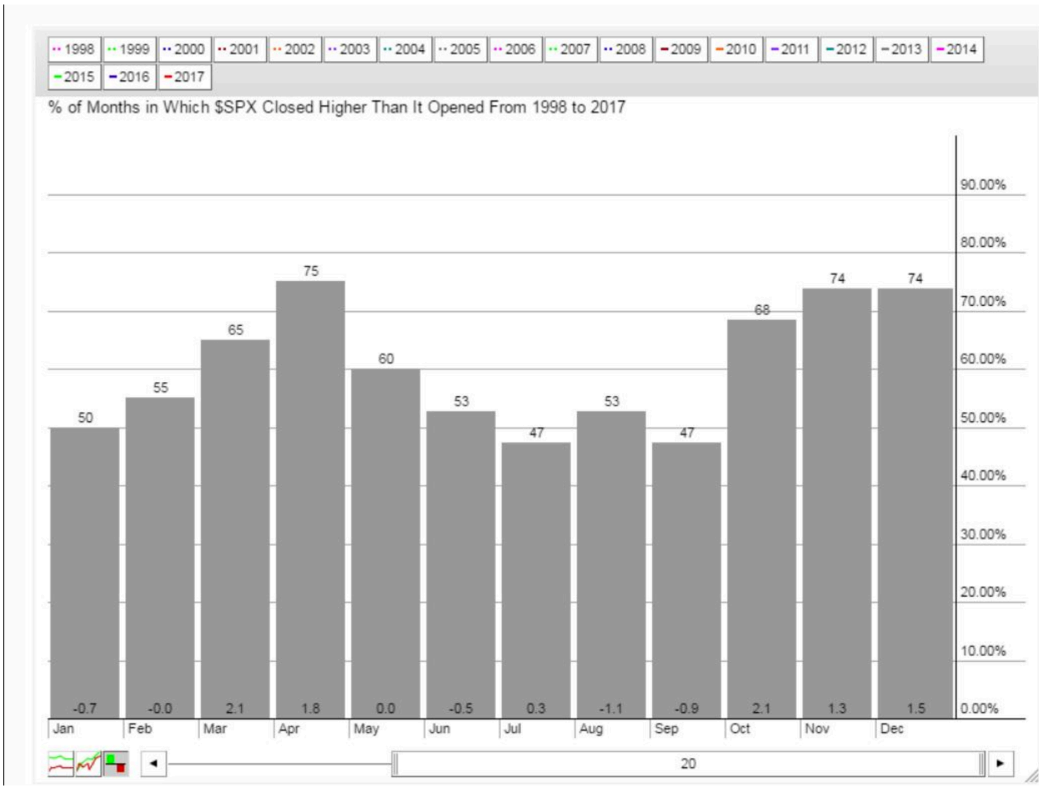
Today marks the first session of the seasonally weaker period for equity markets between May 5th and October 27th, a period characterized by erratic, often volatile, trading activity as positive catalysts become fewer into the summer months.

The S&P 500 Index has averaged a return of 0.20% over this six-month timeframe with positive results realized in 63% of periods. The stats that tend to draw attention are the cumulative returns generated over the seasonally favorable and unfavorable periods for the S&P 500 Index.

Since 1950, a portfolio that held the large-cap benchmark between the close of May 5th and the close of October 27th would have realized a loss of -20.1%. Compare that to the 16,309.1% cumulative gain realized between October 27 and May 5th, the value of the semi-annual rotation is easily apparent.

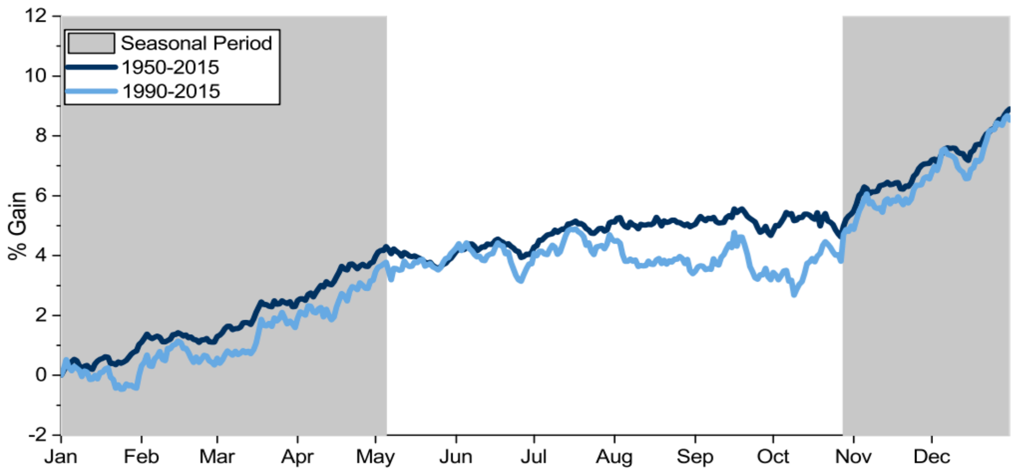
Over the last 2 decades, April has closed higher 75% of the times, while May closed lower 60% of the times.

June till September closed lower 50% of the times. That is how to read the following chart




The average seasonal performance of the S&P 500 and asked the audience their thoughts on investing in the favorable seasonal period (shaded grey) and the unfavorable seasonal period. A large portion of the audience responds that the unfavorable season has on average produced a “flat” return and so why not just hold the market during this time and benefit from the next strong seasonal period.

This is not the best way to look at this seasonal trend, as it does not reflect the true risk/reward relationship between the favorable six-month period for stocks from October 28th to May 5th compared to the unfavorable six months. It is not a matter of whether the stock market is positive on average in the unfavorable six month period (since 1950, the S&P 500 has been positive 62% of the time in the unfavorable period), but rather how much risk is incurred during this period.




In the table below, we look at the annual seasonal “favorable” versus “unfavorable S&P 500 performance from 1950 to currently, **and the findings are clearly showing that the “Sell in May & go Away” strategy is performance enhancing**

S&P 500 Unfavorable vs. Favorable Period Performance (1950-2016)

| | Unfavorable Period May 6 to Oct 27 | Favorable Period Oct 28 to May 5 | Oct28-May5> May6-Oct27 |
|---|---|---|---|
| 1950/51 | 8.5 % | 15.2 % | YES |
| 1951/52 | 0.2 | 3.7 | YES |
| 1952/53 | 1.8 | 3.9 | YES |
| 1953/54 | -3.1 | 16.6 | YES |
| 1954/55 | 13.2 | 18.1 | YES |
| 1955/56 | 11.4 | 15.1 | YES |
| 1956/57 | -4.6 | 0.2 | YES |
| 1957/58 | -12.4 | 7.9 | YES |
| 1958/59 | 15.1 | 14.5 | |
| 1959/60 | -0.6 | -4.5 | |
| 1960/61 | -2.3 | 24.1 | YES |
| 1961/62 | 2.7 | -3.1 | |
| 1962/63 | -17.7 | 28.4 | YES |
| 1963/64 | 5.7 | 9.3 | YES |
| 1964/65 | 5.1 | 5.5 | YES |
| 1965/66 | 3.1 | -5.0 | |
| 1966/67 | -8.8 | 17.7 | YES |
| 1967/68 | 0.6 | 3.9 | YES |
| 1968/69 | 5.6 | 0.2 | |
| 1969/70 | -6.2 | -19.7 | |
| 1970/71 | 5.8 | 24.9 | YES |
| 1971/72 | -9.6 | 13.7 | YES |
| 1972/73 | 3.7 | 0.3 | |
| 1973/74 | 0.3 | -18.0 | |
| 1974/75 | -23.2 | 28.5 | YES |
| 1975/76 | -0.4 | 12.4 | YES |
| 1976/77 | 0.9 | -1.6 | |
| 1977/78 | -7.8 | 4.5 | YES |
| 1978/79 | -2.0 | 6.4 | YES |
| 1979/80 | -0.1 | 5.8 | YES |
| 1980/81 | 20.2 | 1.9 | |
| 1981/82 | -8.5 | -1.4 | YES |
| 1982/83 | 15.0 | 21.4 | YES |
| 1983/84 | 0.3 | -3.5 | |
| 1984/85 | 3.9 | 8.9 | YES |
| 1985/86 | 4.1 | 26.8 | YES |
| 1986/87 | 0.4 | 23.7 | YES |
| 1987/88 | -21.0 | 11.0 | YES |
| 1988/89 | 7.1 | 10.9 | YES |
| 1989/90 | 8.9 | 1.0 | |
| 1990/91 | -10.0 | 25.0 | YES |
| 1991/92 | 0.9 | 8.5 | YES |
| 1992/93 | 0.4 | 6.2 | YES |
| 1993/94 | 4.5 | -2.8 | |
| 1994/95 | 3.2 | 11.6 | YES |
| 1995/96 | 11.5 | 10.7 | |
| 1996/97 | 9.2 | 18.5 | YES |
| 1997/98 | 5.6 | 27.2 | YES |
| 1998/99 | -4.5 | 26.5 | YES |
| 1999/00 | -3.8 | 10.5 | YES |
| 2000/01 | -3.7 | -8.2 | |
| 2001/02 | -12.8 | -2.8 | YES |
| 2002/03 | -16.4 | 3.2 | YES |
| 2003/04 | 11.3 | 8.8 | |
| 2004/05 | 0.3 | 4.2 | YES |
| 2005/06 | 0.5 | 12.5 | YES |
| 2006/07 | 3.9 | 9.3 | YES |
| 2007/08 | 2.0 | -8.3 | |
| 2008/09 | -39.7 | 6.5 | YES |
| 2009/10 | 17.7 | 9.6 | |
| 2010/11 | 1.4 | 12.9 | YES |
| 2011/12 | -3.8 | 6.6 | YES |
| 2012/13 | 3.1 | 14.3 | YES |
| 2013/14 | 9.0 | 7.1 | |
| 2014/15 | 4.1 | 6.5 | YES |
| 2015/16 | -1.1 | -0.7 | YES |
| 2016/17 | 4.0 | 12.5 | YES |

Average “buy and hold” investors do not have to make the decision about being in or out of the stock market. They are already in the stock market and rationalize why they should stay invested. The bias results with investors fearing that they will miss out on large returns if they exit the stock market during the unfavorable six-month period.

So what did the six month seasonal numbers reveal?

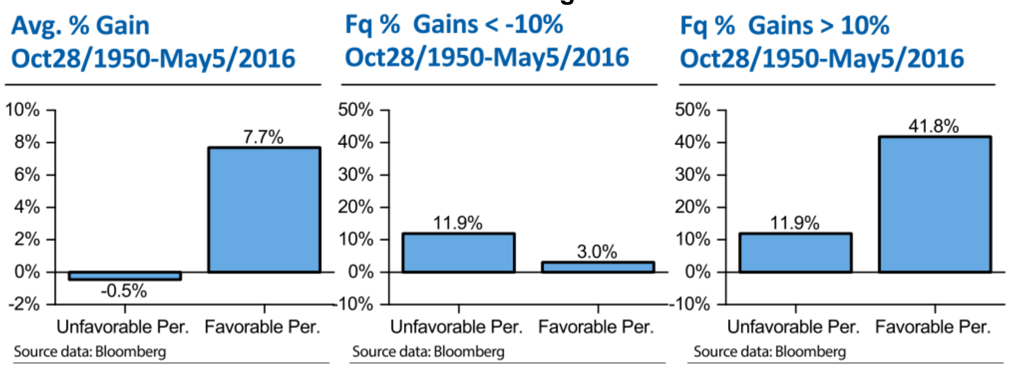
The most obvious metric is that the favorable seasonal period outperforms the unfavorable seasonal period more than 72% of the time (number of YES's in far right hand column). The other important facts resulting out of the analysis are that the unfavorable seasonal period produces an average geometric loss of 0.5%, compared to the average geometric gain of 7.7% in the favorable period.

And another fact is that the frequency of losses equal to or greater than 10% is substantially higher in the unfavorable period versus the favorable period, 11.9% and 3.0% respectively

The frequency of gains equal to or greater than 10% is substantially less in the unfavorable period versus the favorable period, 11.9% and 41.8% respectively, as the next chart shows.

The six-month favorable period over the six-month unfavorable period in which to invest, on average produces more gains, bigger gains more often, fewer losses and fewer large losses.

**Investment Results investing in the S&P 500**




Technically, there is nothing wrong with the S&P 500 at this time. After all, the S&P 500 is at an all-time closing high of 2399 (May 5, 2017). Nevertheless, caution should be used while investing in the six-month unfavorable period for stocks.

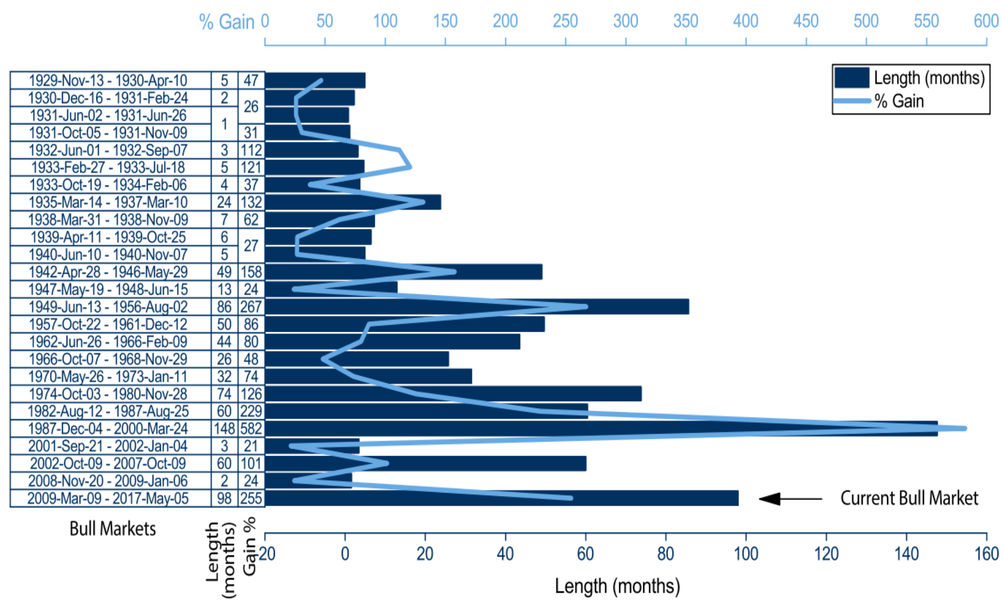
Last Friday, the 200-day moving average for the S&P 500 is 2246. A lot of traders track the movement of the 200-day moving average and if the S&P 500 falls this level, there is a good chance that the 2200 level will be tested. If the S&P 500 breaks below 2200, especially on heavy volume, the stock market will have turned and will have a decidedly bearish bias.

The length of a bull market does not tell an investor if a stock market is going to correct in the next month or two. A bull market can keep going a lot longer than investors anticipate. Despite the lack of immediate predictive power, the length of a bull market can still provide a sense of whether the stock market is susceptible to fading in strength.

Historically, since 1929, S&P 500 bull markets have averaged 32 months and have produced an average gain of 109%. The current bull market that started with the bottom on March 9, 2009 has so far been running for ninety-seven months and has produced a gain of 255%. Both measurements have more than doubled the long-term averages.

The only two bull markets since 1929 that have produced greater gains are the 1949 to 1956, and the 1987 to 2000 bull markets.

**S&P 500 Bull markets (+20%) percentage Gains vs. Length of Bull market (1929 to 2017)**




Even compared to the more recent bull markets since 1949, the current bull market has become extended and is susceptible to a correction

**S&P 500 Bull market (+20%) Performance since 1929**

| | 1929 to 2017 | 1929 to 1948 | 1949 to 2017 | Current Bull Mkt |
|---|---|---|---|---|
| Length Avg. (months) | 32.2 | 9.6 | 56.7 | 97.8 |
| % Gain Avg. | 109% | 64% | 158% | 255% |

Source Data: Bloomberg

Although the current bull market stands out against the average since 1929, the results are not quite so stellar when compared to the average bull market since 1949, but still above average.

Post WWII, on average, bull markets have lasted longer and produced greater returns. There are a host of reasons of why this phenomenon may have occurred, including: the rapid rise of US industry, technological advancements, the advent of the do-it-yourself investors and ETF's and Federal Reserve supportive actions for the stock market.

Practical strategies for the unfavorable six-month period The stock market can rally in the unfavorable six-month period, particularly in a strong bull market. Seasonal investors should adjust their portfolios to reflect the increased risk to reward ratio at this time. At this time of the year, we are advising for active investors to:

**(1) Reduce Equities**

It is fairly standard in the investment industry to operate a portfolio with an Investment Policy Statement (IPS) that states a percentage range for different asset classes, depending on risk tolerance and other factors. The overall equity allocation to the stock market typically has a 10-20% range around a specified target value in an investment portfolio. Based upon seasonal trends demonstrating lower expected risk adjusted returns in the unfavorable six month period for stocks, seasonal investors may want to lower their equity holdings within their risk parameters and equity allocate on range for their portfolios

Within the six-month unfavorable seasonal period for stocks, there are shorter-term opportunities in the broad stock markets for more active investors. For example, the stock market tends to rally from the end of June, into the first half of July. This "summer rally," tends to be ephemeral and it might be wise for seasonal investors to use right stops on their positions.

**(2) Reduce Beta**

At times of expected lower returns, generally it makes sense to reduce risky investments. If the market corrects, riskier investments tend to correct more, especially if the market suffers a major correction.

**(3) Reallocate into Seasonally Strong Sectors**

Not all sectors are seasonally equal. Some sectors perform better at certain times of the year. In fact, seasonal investing is primarily a sector rotation strategy, favoring different sectors at different times of the year when they tend to outperform.

Although the unfavorable six-month period may not be kind to the broad stock markets on average, some sectors tend to underperform and others outperform. In general, it is the defensive sectors that tend to outperform in the six-month unfavorable period for stocks, including the health care, utilities and consumer staples sectors. The defensive sectors have different seasonal periods within the unfavorable period Naturally, if the stock market has a major correction, the defensive sectors will still be expected to correct, but typically not by as much as the cyclical sectors.

There are other sectors of the market that tend to perform well in the six-month unfavorable period for stocks, such as gold and the agriculture sector. Both of these sectors tend to perform well at different times within the unfavorable period, based upon supply and demand relationships within their sectors.

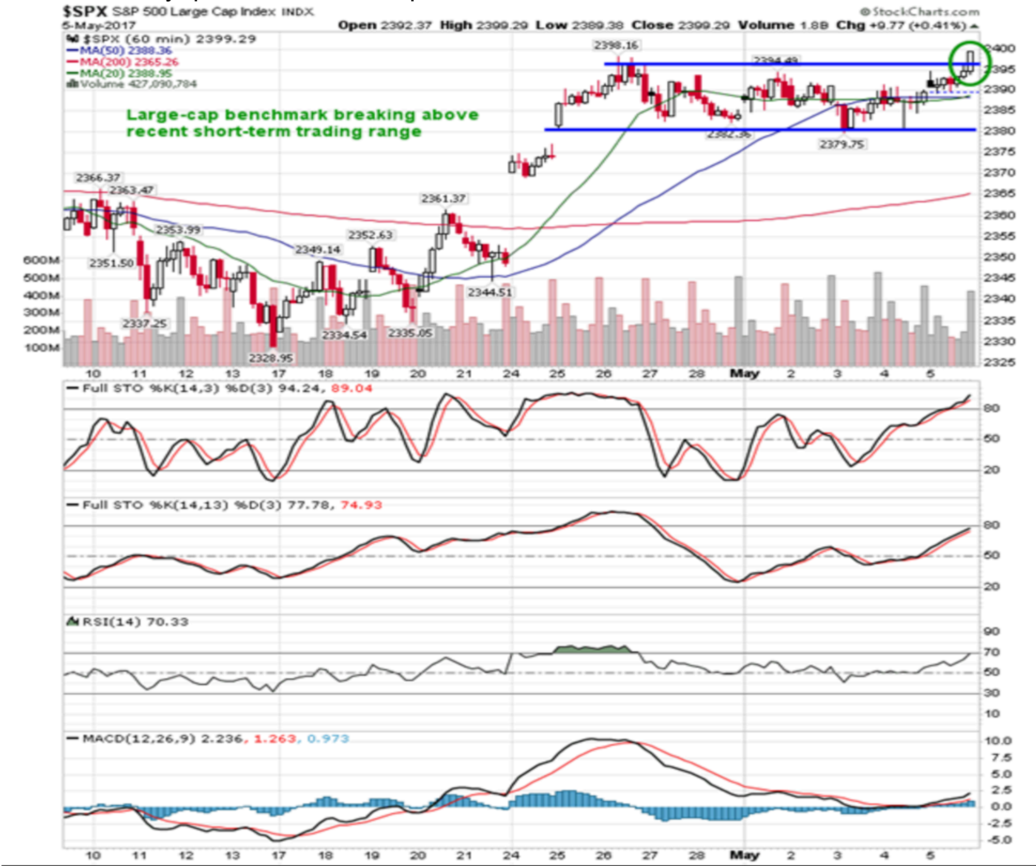
Investors should also consider investing in government bonds from May 6th until the beginning of October. Government bonds tend to perform well at this time of the year as investors look for a place to park their money during the six-month unfavorable period for stocks.

Seasonal analysis looks at historical trends in the market over the long-term in order to develop an investment strategy. Exogenous events can have an impact on any well-founded investment strategy, both positively and negatively. Seasonal analysis is not immune from these effects.

Nevertheless, the stock market is overvalued according to a number of valuation metrics and the stock market has just entered its six-month unfavorable period. Given the negative backdrop over the next six months (from May 6th to October 27th), stock markets are probably in for a stormy summer.

US equity markets have a history of moving sideways/lower into May during the first year after a US Presidential election. A new President takes longer than expected to establish his Cabinet and to pass promised legislation. History is repeating this year.

Major North American equity indices tried, but failed to move to all-time highs last week despite encouraging political and earnings news: S&P 500 Index has averaged a gain of 0.3% in May, positive in 58% of periods.




Even though current US asset valuation measures (particularly equities) are not as extreme as in 1999, today's economic underpinnings are not as robust as they were then. The chart below allows for a different perspective and quantification, as comparison of valuations and economic activity, to show that today's P/E ratio might be more overvalued than those observed in 1999." A simple direct metric comparison from the recent past's biggest equities bubble which started in 1994 and ended as we all know too painfully in 1999, the current valuation metrics are frightening:

| US Economic Valuation Metric | 1995 – 2000 | 2012 – 2017 | Change/Diff. (%, $) |
|---|---|---|---|
| US GDP | $9.89 TRN | $18.20 TRN | +$9.32 TRN |
| US GDP Growth | 4.05% | 1.90% | -2.15% |
| US GDP Trend | 2.30% | 1.80% | -0.50% |
| US Productivity Growth | 1.85% | 0.50% | -1.35% |
| US Federal Debt | $5.36 TRN | $18.2 TRN | +$12.84 TRN |
| US Federal Debt/GDP | 60.50% | 106.2% | +45.7% |
| US Federal Reserve Balance Sheet | $0.45 TRN | $4.65 TRN | +$4.20 TRN |
| US Personal & Corporate Debt | $15.5 TRN | $41.5 TRN | +$25.5 TRN |
| US Government Deficit (% of GDP) | -0.35% | -3.3% | +2.95% |
| US Personal & Corporate. Debt/GDP | 156.10% | 223.50% | +67.4% |
| US Trade Deficit | $210 BN | $505 BN | +$295 BN |
| US Fed Funds Rate | 5.40% | 0.25% | -5.15% |
| US 10-Y Treasury Yield | 6.10% | 2.15% | -3.95% |
| S&P 500 3 Y EPS Growth Rate | 7.53% | 3.85% | -3.68% |
| S&P 500 5 Y EPS Growth Rate | 9.50% | 0.50% | -9.00% |
| S&P 500 10 Y EPS Growth Rate | 7.75% | 1.00% | -6.75% |
| US Equities Market Cap/GDP | 151% | 134% | 17% |

Of course, as we all know in hindsight, equity valuations back in 1999 were ridiculously stretched. However, relative to economic factors as the table above shows, those valuations appear to be relatively sanguine compared to todays!

## US equity markets weekly charts

**The VIX Index dropped 0.25 (2.31%) last week.**

**Intermediate trend remains Negative. The Index is below the 20-day moving average. Price rebounded from the support once again.**

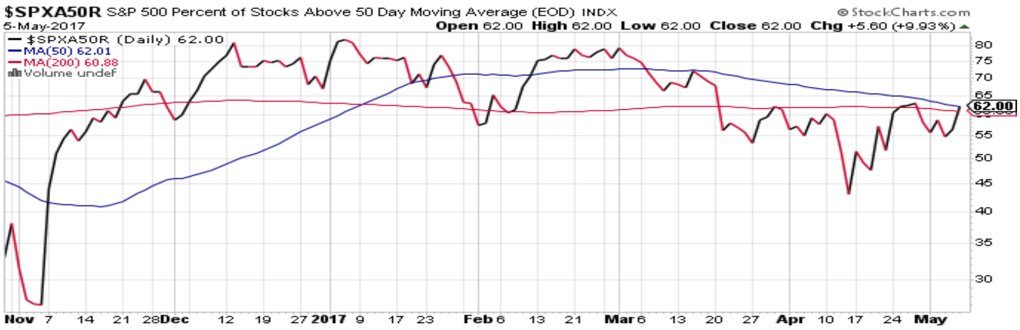

**The S&P 500 Index added 15.09 (0.63%) last week.**

**Intermediate trend remains Positive. The Index closed above its 20-day moving average. $SPX returned to the yearly high.**

**Short-term momentum indicators are Positive.**

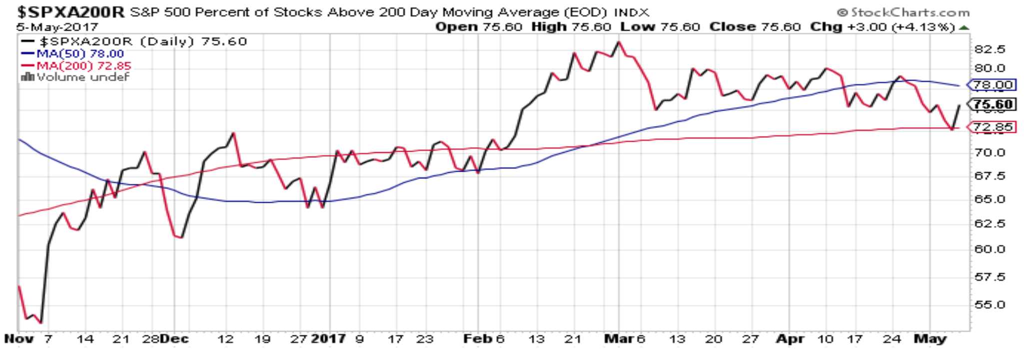

**Percent of S&P 500 stocks trading above their 50-day moving average rose last week to 62.00 from 58.20.**

**The Index moved at the 200-day moving average.**




**Percent of S&P 500 stocks trading above their 200-day moving average dropped last week to 75.60 from 75.80.**

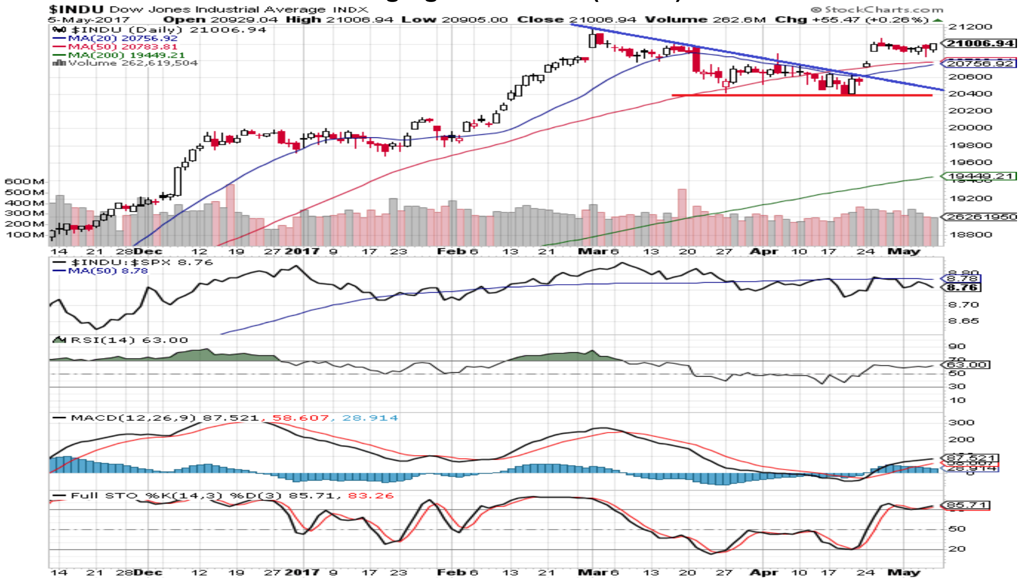
**The Index remained below the 50-day moving average.**



**Bullish Percent Index for S&P 500 stocks dropped last week to 71.60 from 74.20 and remained above its 50-day moving average.**


**The Index remained below the 50-day moving average. There is divergence between the price and RSI.**

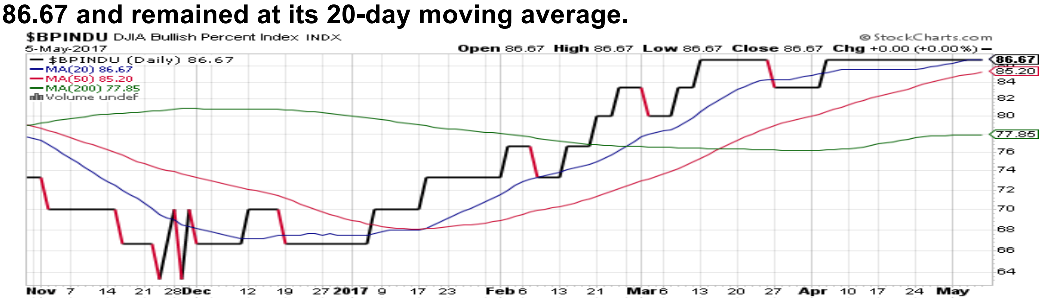
**The Dow Jones Industrial Average gained 66.43 (0.32%) last week.**




**$INDU keeps ranging post the breakout. Strength related to the S&P 500 changed from Neutral to Negative.**

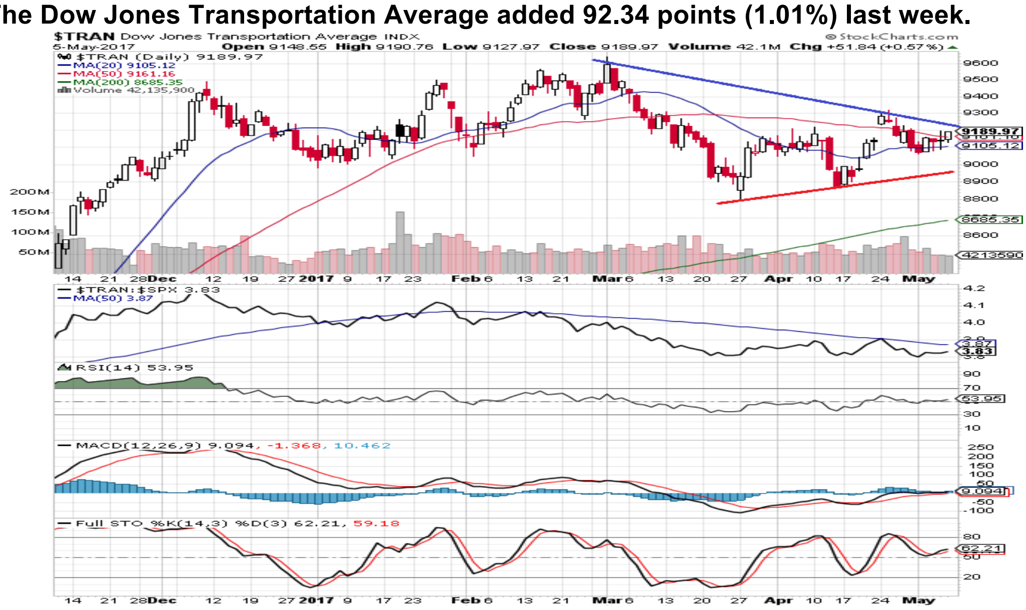
**The Average remains above its 20-day moving average. Short-term momentum indicators are Positive.**

**Bullish Percent Index for Dow Jones Industrial Average stood put last week at 86.67 and remained at its 20-day moving average.**




**The Index remains sitting at the yearly high.**

**The Dow Jones Transportation Average added 92.34 points (1.01%) last week.**



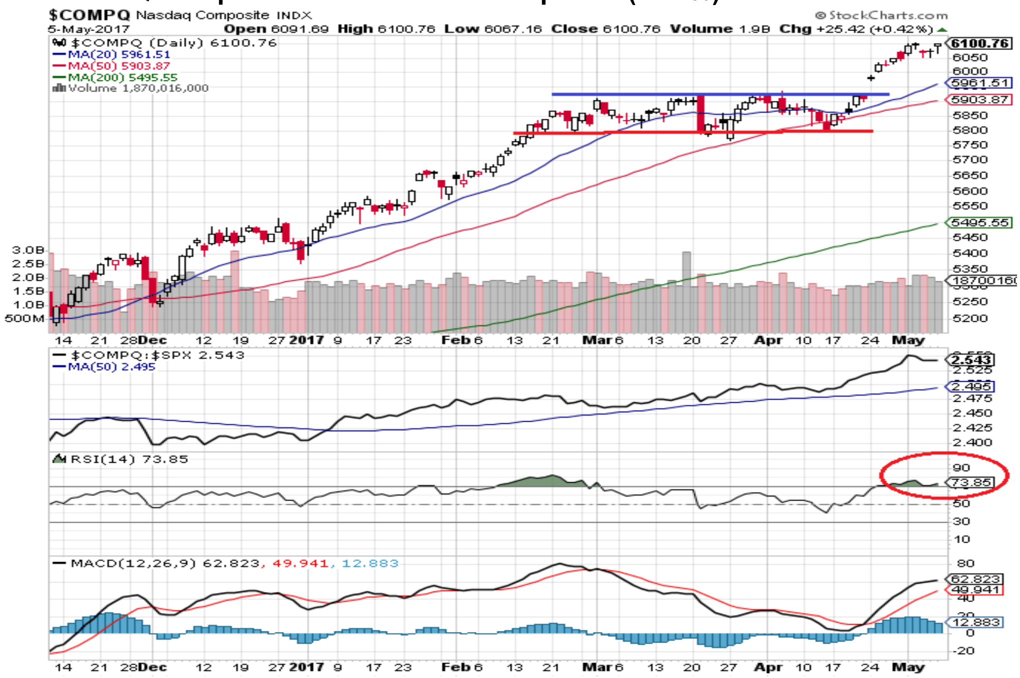

**Dow Jones Transportation Index rebounded from the moving averages. Strength relative to the S&P 500 remained Negative. The $TRAN closed above its 20- day moving average.**

**Short-term momentum indicators are Neutral.**

**Bullish Percent Index dropped last week to 61.97 from 62.76 and moved below its 200-day moving average.**


**The Index remained just below the 50-day moving average.**

**The NASDAQ Composite Index added 53.15 points (0.88%) last week.**




**$COMPQ is going for a new high. Strength relative to the S&P 500 Index remains Positive.**

**The Index remained above the 20-day moving average.**

**Short-term momentum indicators are Positive and overbought.**

**The Russell 2000 Index lost 3.43 points (0.25%) last week.**


**$RUT corrected back towards the moving average convergence point. Strength relative to the S&P 500 Index remained Neutral.**

**The Index remains above the 20-day moving average. Short-term momentum indicators are rolling over.**

### The S&P Energy Index dropped 3.50 points (0.70%) last week.

Intermediate trend remains Negative. $SPEN temporarily broke the trendline but retraced. Strength relative to the S&P 500 Index remains Negative.

The Index remains below the 20-day moving average. Short-term momentum indicators are Mixed.


### The Philadelphia Oil Services Index lost 1.78 points (1.16%) last week.

$OSX did a fake out and closed inside a channel. Strength relative to the S&P 500 remains Negative.

The Index closed below its 20-day moving average. Short-term momentum indicators are Oversold but rolling over.


### The AMEX Gold Bug Index dropped 5.94 points (3.10%) last week.

$HUI rebounded from the 180 support. Strength relative to the S&P 500 Index remains Negative.

The Index remained below its 20-day moving average. Short-term momentum indicators are Negative.

## Latam equity markets weekly charts

**The BOVESPA added 306 points last week.**

**$BVSP faked the upper breakout but still closed above the 50-day moving average.**

**Short-term momentum indicators are Positive.**


**The Mexican Bolsa gained 224 points last week.**

**Intermediate trend changed from Positive to Neutral. $MXX remains inside a broadening channel.**

**Short-term momentum indicators are Negative and indicate bearish divergence.**

## Canadian equity markets weekly charts

**Bullish Percent Index for TSX Composite stood put at 72.91 and remained below its 20-day moving average.**

**The Index remains below the 20-day moving average.**


**The TSX Composite Index lost 4.09 points (0.03%) last week.**

**Intermediate trend remains Neutral. The Index has rebounded from the 15 400 support once again.**

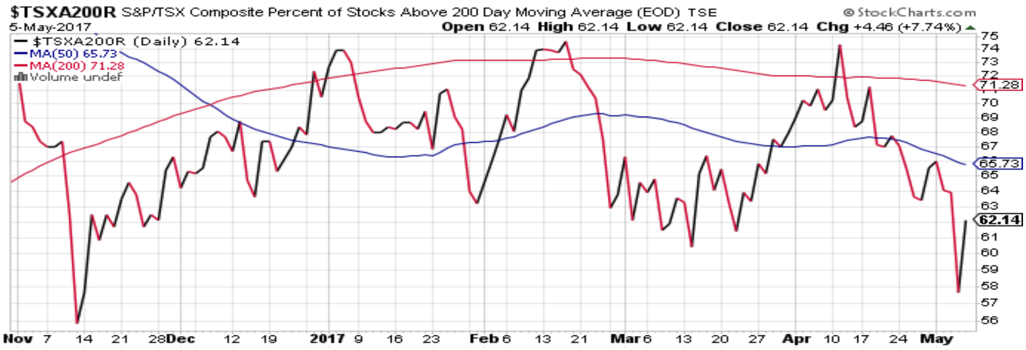
**The Index remains below the 20-day moving average. Short-term momentum indicators are Negative.**


**Percent of TSX stocks trading above their 50-day moving average dropped last week to 48.97% from 53.11%**

**The index remains below the 50-day moving average.**


**Percent of TSX stocks trading above their 200 day dropped last week to 62.14% from 65.56%**

**The index remains below the 50-day moving average.**



## Asian equity markets weekly charts

**The BSE dropped 59.60 points (0.20%) last week.**


**$BSE keeps pressuring the upper trendline of an established channel.**

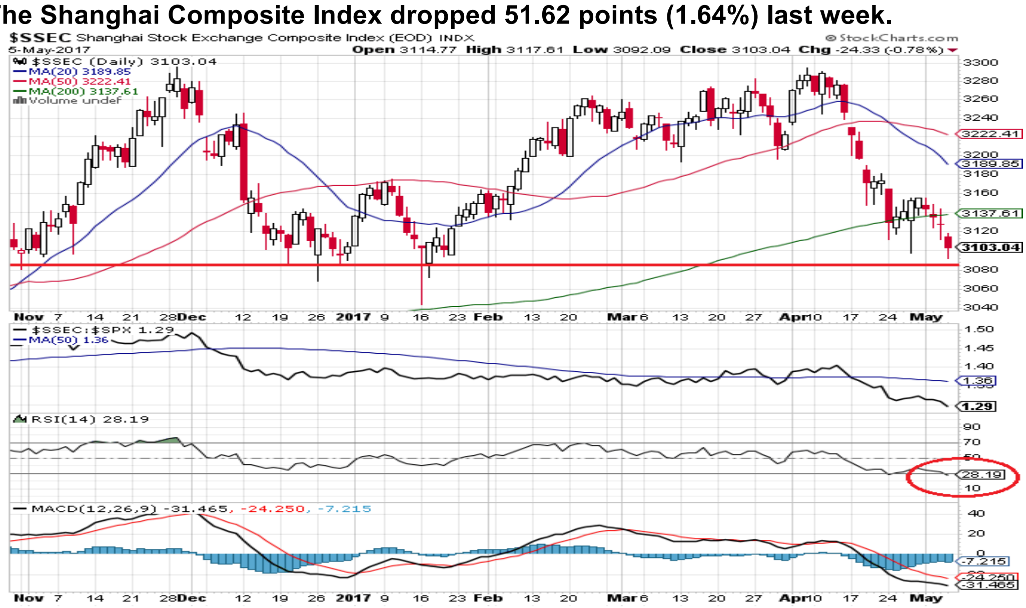
**Short-term momentum indicators are Mixed but indicate some bearish divergence.**

**The Nikkei Average gained 366.37 points (1.92%) last week.**


**Intermediate trend changed from Neutral to Positive. Strength relative to the S&P 500 Index remains Neutral. $NIKK looks to test the resistance once again.**

**The $NIKK remains above its 20-day moving average. Short-term momentum is Positive.**

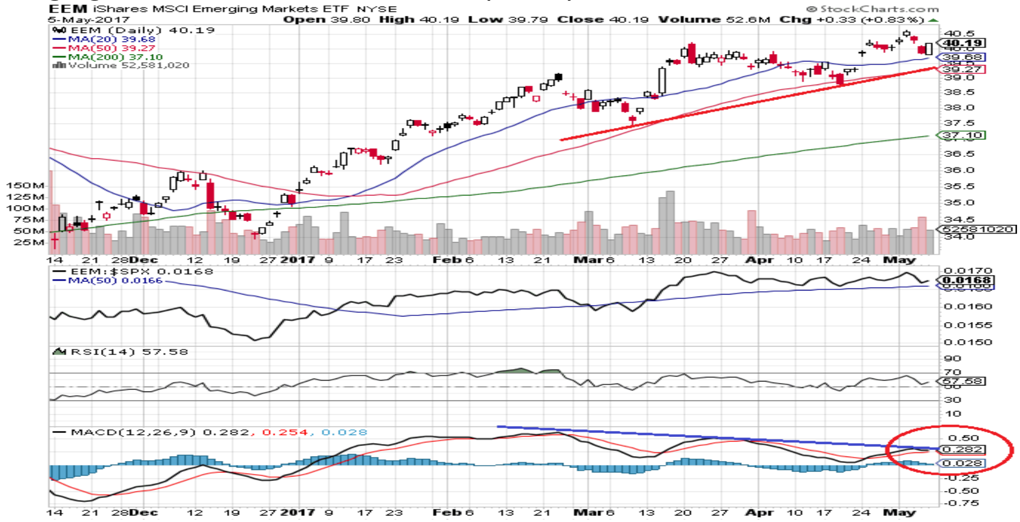
**The Shanghai Composite Index dropped 51.62 points (1.64%) last week.**




**Intermediate trend remains Negative. $SSEC looks to test the important Support.**

**The $SSEC remains below the 20-day moving average. Short-term momentum indicators are Negative.**

**Emerging Markets iShares added $0.13 (0.32%) last week.**




**Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Positive.**

**Units remain above the 20-day moving average. Short-term momentum indicators are Neutral but MACD indicates divergence.**

**The Australia All Ordinaries Index lost 83.80 points (1.41%) last week.**


**Intermediate trend changed from positive to Neutral. Strength relative to the S&P 500 Index flipped to Negative. $AORD corrected towards the 50-MVA temporarily.**

**The $AORD moved below 20-day moving average.**
**Short-term momentum indicators are Negative.**

## European equity markets weekly charts

**The DAX 30 gained 278.88 points (2.24%) last week.**

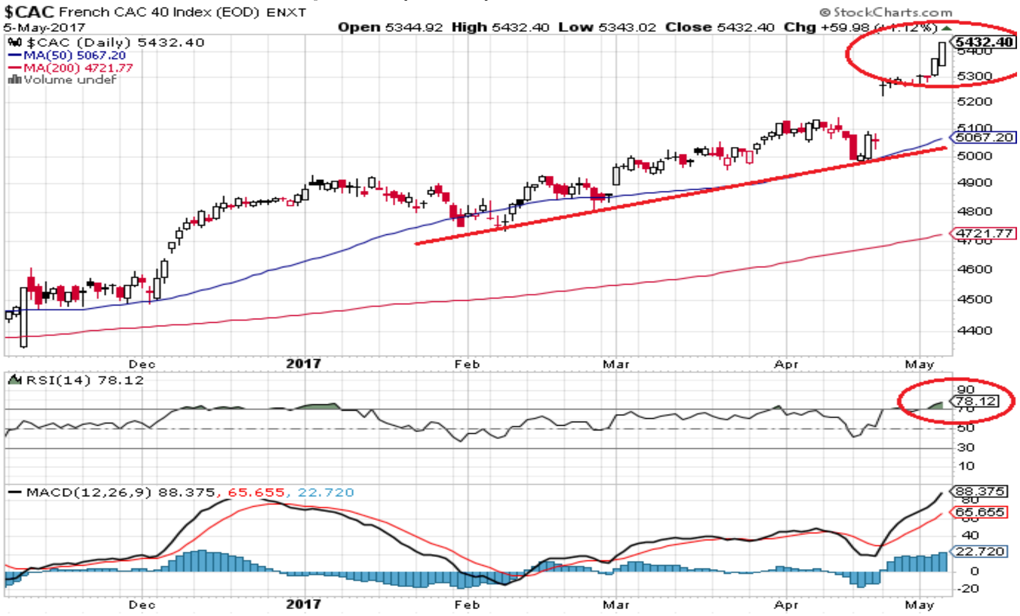

**Intermediate trend remains Positive. $DAX broke out of the channel upwards. Strength relative to the S&P 500 Index remains Positive.**

**Short-term momentum indicators are Positive and Overbought.**

## The CAC 40 added 165.07 points (3.13%) last week.

**Intermediate trend remains Positive. $CAC broke the 5300 resistance and made a new high.**

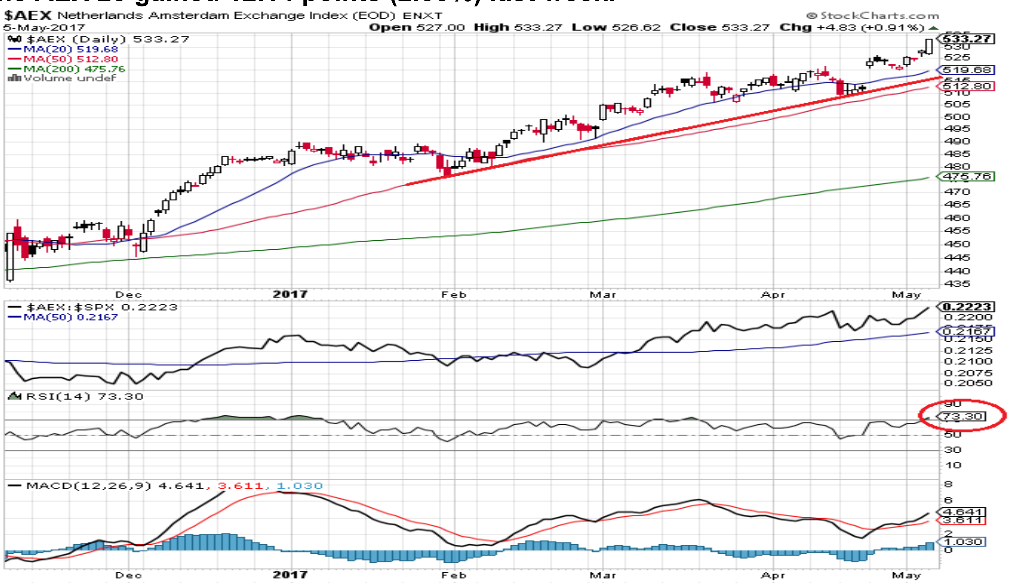
**Short-term momentum indicators are Positive and Overbought.**




## The AEX 25 gained 12.14 points (2.33%) last week.

**Intermediate trend is Positive. Index remains above the 20-day moving average.**

**Short-term momentum indicators are Positive and slightly Overbought.**

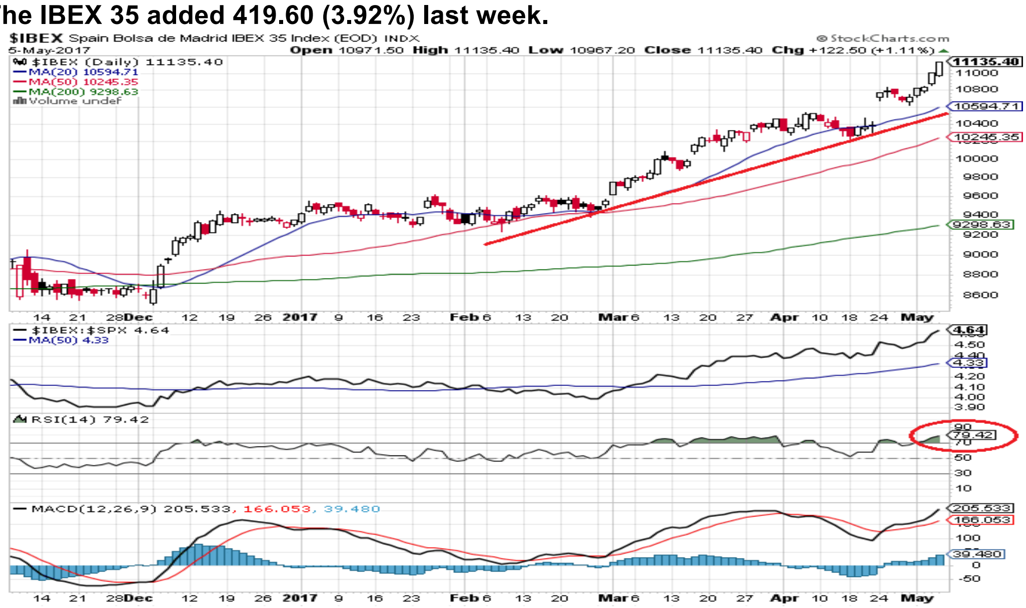



## The IBEX 35 added 419.60 (3.92%) last week.

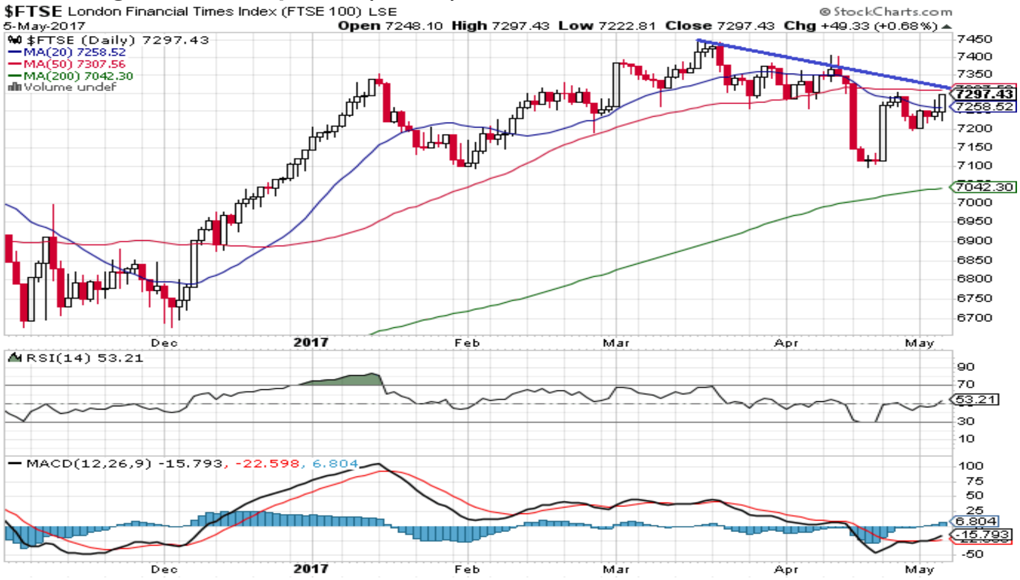
**$IBEX continues strong bullish momentum with a potential of 300 more points. Strength relative to the S&P 500 remains Positive.**

**The Index remains above the 20-day moving average.**

**Short-term momentum indicators are Positive and Overbought.**



**The FTSE gained 93.49 points (1.30%) last week.**




**Intermediate trend changed back to Neutral. FTSE looks to test the upper trendline Price moved above the 20-days moving average.**

**Short-term momentum indicators are Positive.**

**Europe iShares added $0.94 (1.83%) last week.**


**Intermediate trend remains Positive. Strength relative to the S&P 500 remains Positive.**
**$IEV continues the bullish momentum and made a yearly high.**
**Units closed above the 20-day moving average. Short-term momentum indicators are slightly overbought.**

## Fixed income markets weekly charts

## International Bonds

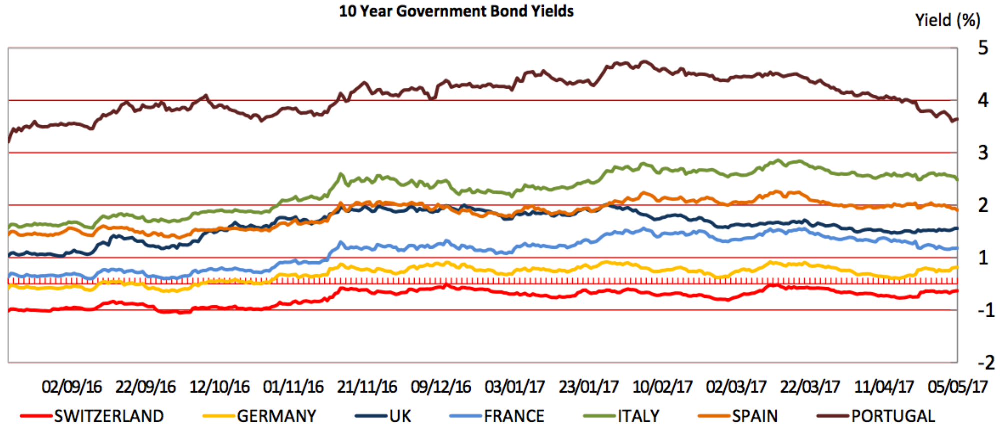
As per our 2017 Q1 Global Investment Strategy Outlook for 10-Y government bonds, US 10-Year government bonds have not fully reached our 2017 price targets yet, and we see yields to continue to move lower towards 2.15%

**Ten year government bond spreads**

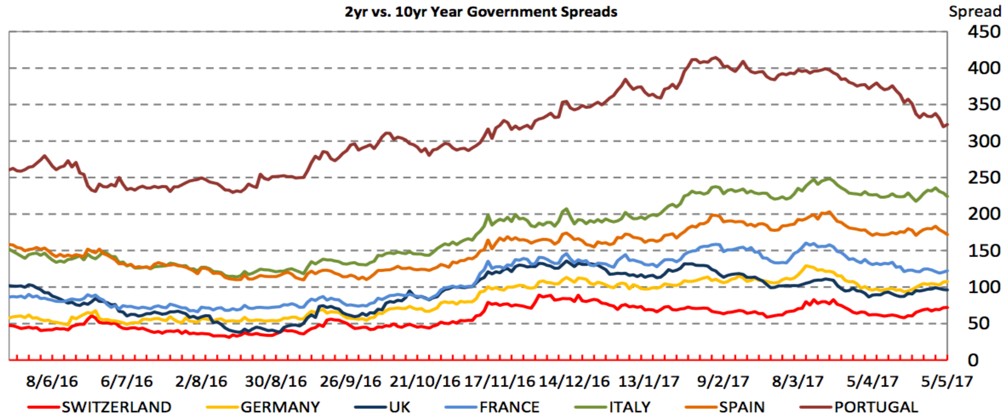
| Country | Latest yield | Spread vs bund | Spread vs T-notes |
|---|---|---|---|
| Australia | 2.68% | +2.28 | +0.32 |
| Austria | 0.67% | +0.26 | -1.69 |
| Belgium | 0.81% | +0.40 | -1.55 |
| Canada | -- | -- | -- |
| Denmark | 0.69% | +0.29 | -1.67 |
| Finland | 0.47% | +0.06 | -1.90 |
| France | 0.78% | +0.37 | -1.59 |
| Germany | 0.41% | -- | -1.96 |
| Greece | 5.84% | +5.44 | +3.48 |
| Ireland | 0.86% | +0.45 | -1.51 |
| Italy | 2.19% | +1.79 | -0.17 |
| Japan | 0.03% | -0.38 | -2.33 |
| Netherlands | 0.62% | +0.21 | -1.75 |
| New Zealand | 3.09% | +2.68 | +0.72 |
| Portugal | 3.42% | +3.01 | +1.05 |
| Spain | 1.58% | +1.17 | -0.79 |
| Sweden | 0.64% | +0.23 | -1.72 |
| Switzerland | -0.06% | -0.47 | -2.42 |
| UK | 1.12% | +0.71 | -1.25 |
| US | 2.35% | +1.94 | -- |

Data delayed at least 15 minutes, as of May 08 2017 10:09 BST.

We continue recommending taking profits in German 10-Y Bunds.




We can see yields in France and the Benelux move down by another -20bps to -40 bps over the next 3 months, and similarly to decline by -30bps to -50bps in Spain, Italy, Portugal and Greece.




## US Bonds

**Intermediate trend change from Negative to Neutral. $TNX pulled back to the 50-day moving average. $TNX closed above the 20-day moving average.**

**Short-term momentum indicators are Positive.**

**Yield on 10 year Treasuries added 0.70 basis points (3.07%) last week.**


**The long term Treasury ETF lost 0.81 points (0.66%) last week.**

**Intermediate trend changed back to Neutral.**
**TLT moved below the 20-day moving average.**

**Short-term momentum indicators are Negative.**

## Currency markets weekly charts

**The Euro added 1points (0.92%) last week.**

**Intermediate trend is Positive. $XEU broke through the upper trendline.**

**The $XEU remains above the 20-day moving average.**

**Short-term momentum indicators are Positive.**


**The US$ dropped 0.37 points (0.37%) last week.**

**Intermediate trend remains Negative. $USD continues pressuring the lower trendline. The US$ remains below its 20-day moving average.**

**Short-term momentum indicators are Negative.**


**The Japanese Yen lost 0.94 points (1.05%) last week.**

**Intermediate trend changed from Positive to Neutral. XJY is sitting on the lower trendline. $XJY remains below the 20-day moving average.**

**Short-term momentum indicators are Negative.**

**Intermediate trend remains Negative. $CDW is pulling back to the old support.**

**Short-term momentum indicators are rolling over.**

**The Canadian Dollar dropped 0.01 points (0.01%) last week.**


# Commodity markets weekly charts

**Intermediate trend remains Negative. Strength relative to the S&P 500 Index remains Negative. $CRB made a new low.**

**The $CRB remains below its 20-day moving average.**

**Short-term momentum indicators are Negative.**

**The CRB Index lost 3.80 points (2.09%) last week.**


**Intermediate trend remains Negative. Strength relative to the S&P 500 Index remains Negative. Copper corrected towards the lower trendline.**

**Copper closed below the 20-day moving average.**

**Short-term momentum indicators are Negative.**

**Copper dropped $0.08 per lb. (3.03%) last week.**

**Lumber gained $2.70 (0.70%) last week.**


**Intermediate trend is Neutral. Strength relative to the S&P 500 Index is Negative. Lumber continues pressuring the lower trendline.**

**Lumber remains below the 20-day MA. Short-term momentum indicators are Negative.**

**The Grain ETN added $0.54 (1.97%) last week.**


**Intermediate trend changed from Negative to Neutral.**
**Units seem compressed between the moving averages.**

**Price moved above the 20-day MA. Short-term momentum indicators are Positive.**

**Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Negative. MOO rebounded from the old trendline.**

**Units closed above the 20-day moving average.**

**Short-term momentum indicators are Mixed.**

**The Agriculture ETF lost $0.27 (0.50%) last week.**

# Gold & precious metals markets weekly charts

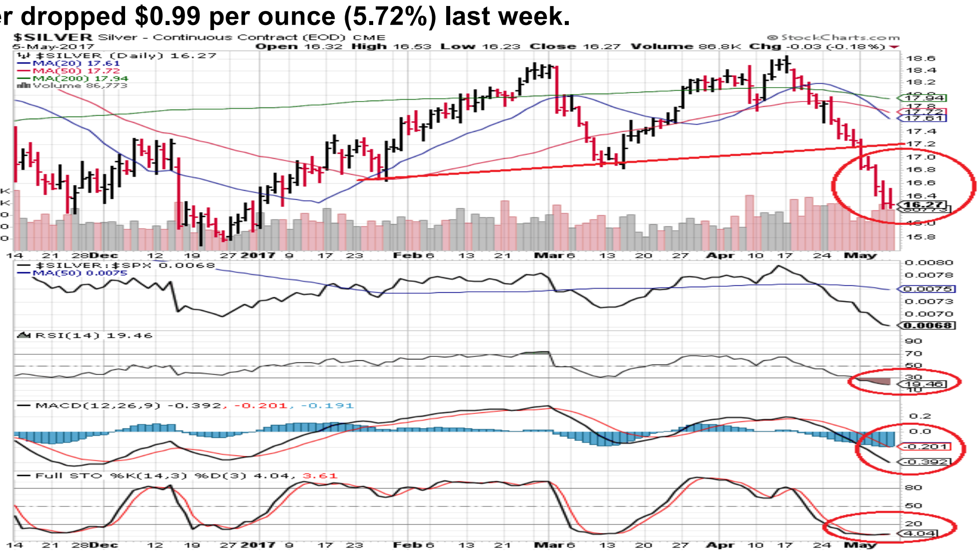
**Gold lost $41.40 (3.26%) last week.**

**Gold broke the 200-day moving average and the lower trendline.**
**Gold is below the 20-day moving average.**
**Short-term momentum indicators are Negative.**


**Silver dropped $0.99 per ounce (5.72%) last week.**

**Silver broke through the lower trendline towards the yearly low.**

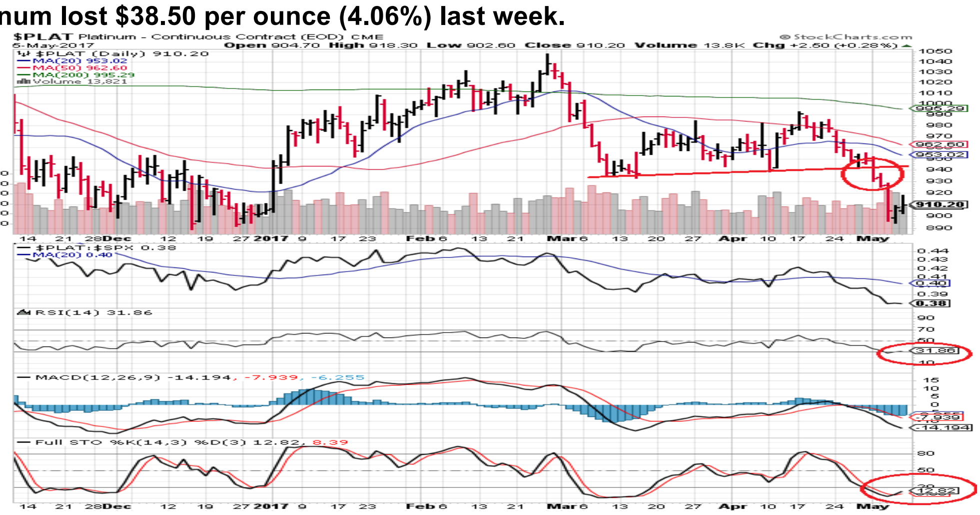
**Silver moved below its 20-day moving average. Short-term momentum indicators are Negative and Oversold.**




**Platinum lost $38.50 per ounce (4.06%) last week.**

**Intermediate trend remained Negative. Strength relative to the S&P 500 Index remained Negative. $PLAT broke the lower trendline.**

**$PLAT trades below its 20-day Moving Average. Momentum indicators are Negative and marginally Oversold.**



**Palladium dropped $13.65 per ounce (1.65%) last week.**

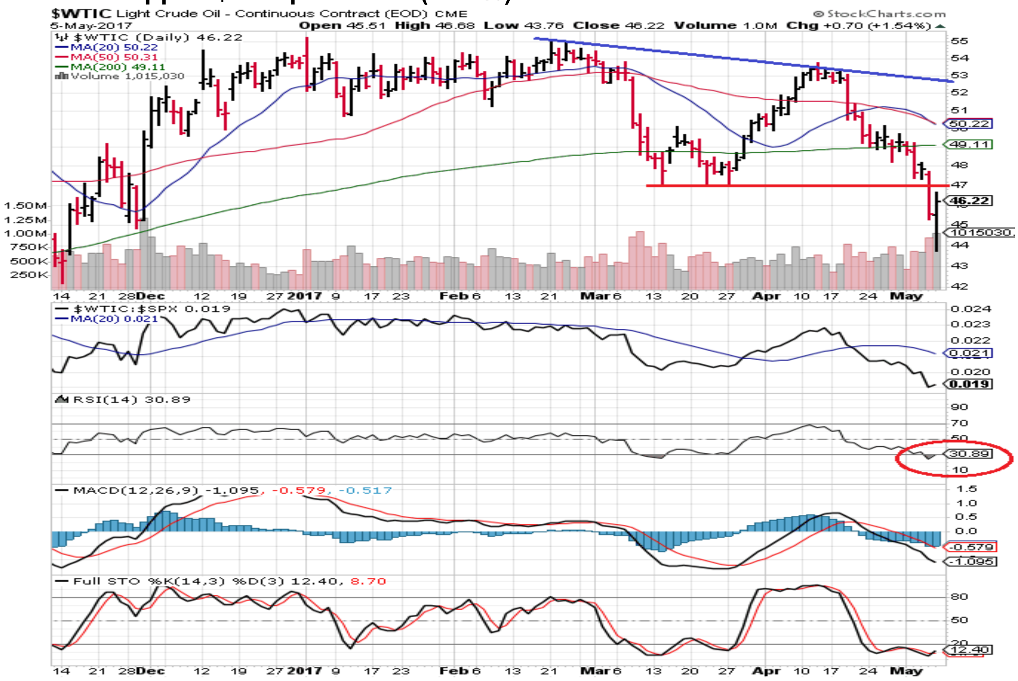

**Intermediate trend remains Positive. Strength relative to the S&P 500 Index changed from Positive to Neutral.**

**$PALL remains above its 20-day moving average and is getting more compressed.**

**Short-term momentum indicators are Mixed.**

## Oil, gas & energy markets weekly charts

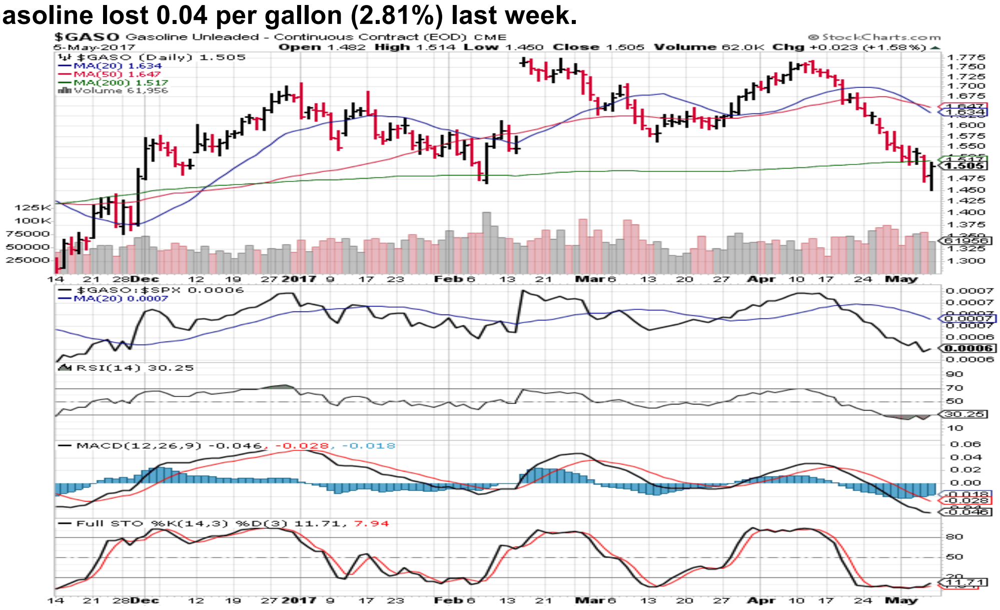
**Crude oil dropped $3.11 per barrel (6.30%) last week.**




**Intermediate trend changed from Neutral to Negative. Strength relative to the S&P 500 Index is Negative. $WTIC broke through the support.**

**Short-term momentum indicators are Negative and marginally Oversold.**

**Gasoline lost 0.04 per gallon (2.81%) last week.**




**Intermediate trend is Negative. Strength relative to the S&P 500 Index is Negative. $GASO broke below the 200-day moving average.**

**$GASO closed below the 20-day moving average. Short-term momentum indicators are Negative and Oversold.**

**Natural Gas dropped $0.01 (0.31%) per MBtu last week.**

**Intermediate trend is Neutral. Strength relative to the S&P 500 Index remains Neutral. $NATGAS remains ranging at the 20-day moving average.**

**Short-term momentum indicators are Neutral.**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