Creative Global Investments

Market commentary & charts

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Objectivity

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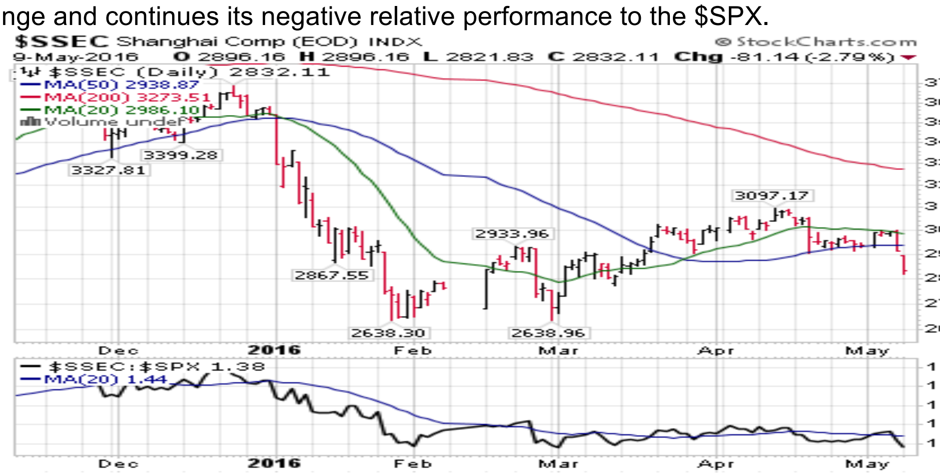
The bear market for global equities is well alive and showing its claws one more time. Since December, we were warning of an initial equities rout in Q1 of the magnitude of -12% to -15%, we have seen increasing deterioration of both the technical outlook for global equities, and similarly for the fundamental (macro; earnings, valuations, DDM; political environment and geo-political risks) outlook and support for global equities.

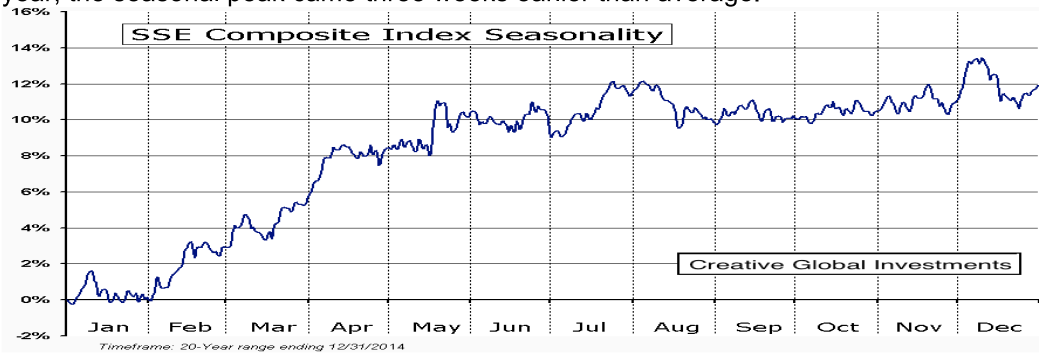
The longer-term picture, the "big switch" from long-term bonds into equities is gaining momentum, nevertheless seasonal affects weigh on equities for now in favor of bonds.

The recovery in global equity prices that took place since February 11th, has now grown long in the tooth, and as we have been writing over the past 4 weeks, now that Japanese and Chinese equities have entered their period of seasonal underperformance (with March 31st marking end of fiscal year, and a subsequent historical seasonal period of weakness starts until October) and quite similarly European equities (with the annual dividend zenith being reached by May 11th {yes today}) and similarly for US equities, the signs of conviction fatigue (lack of inflows, volume, breadth) amongst equity investors (mostly balanced fund managers in Europe and Asia) seasonal shift from equities into bonds increasing.

Renewed concerns about a slowdown by China's economy had a significant impact on equity and commodity markets yesterday: the $SSEC moved below a short-term trading range and continues its negative relative performance to the $SPX.

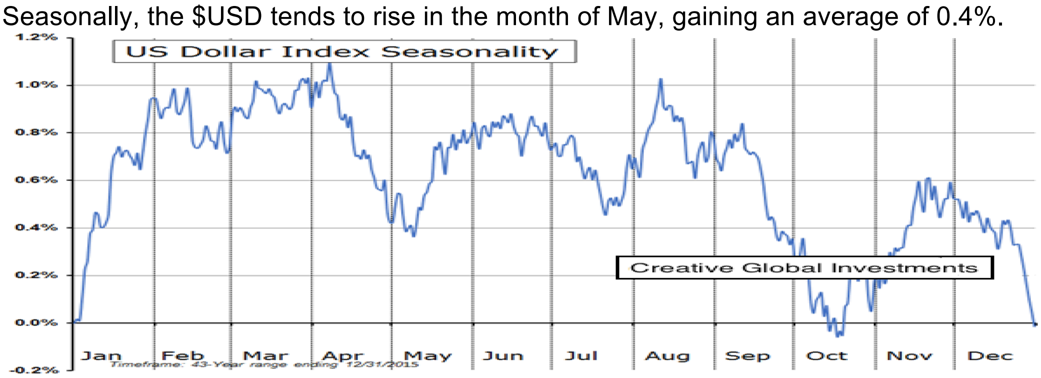


Typically, the Shanghai Composite Index reaches a seasonal peak in mid-May. This year, the seasonal peak came three weeks earlier than average.



Weakness in the Shanghai Composite Index quickly spread to China-sensitive markets including the TSX Composite, the Mexican Bolsa, base metals, steel, materials, industrials and energy. Additionally, investors reacted to a stronger US$, and commodity sensitive sectors. The US$ Index is testing resistance around its declining 20-day moving average, after recovering from last week's move below support around 93. A long-wick candlestick chart has commodity traders concerned for a retracement of the y-t-d declines in the $USD.

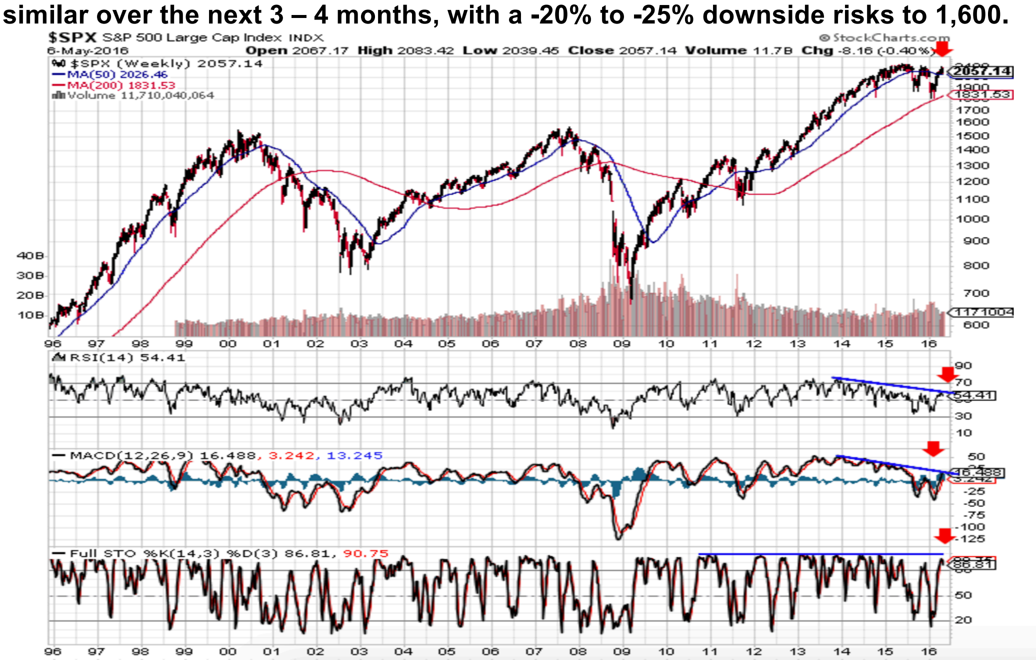
Seasonally, the $USD tends to rise in the month of May, gaining an average of 0.4%.



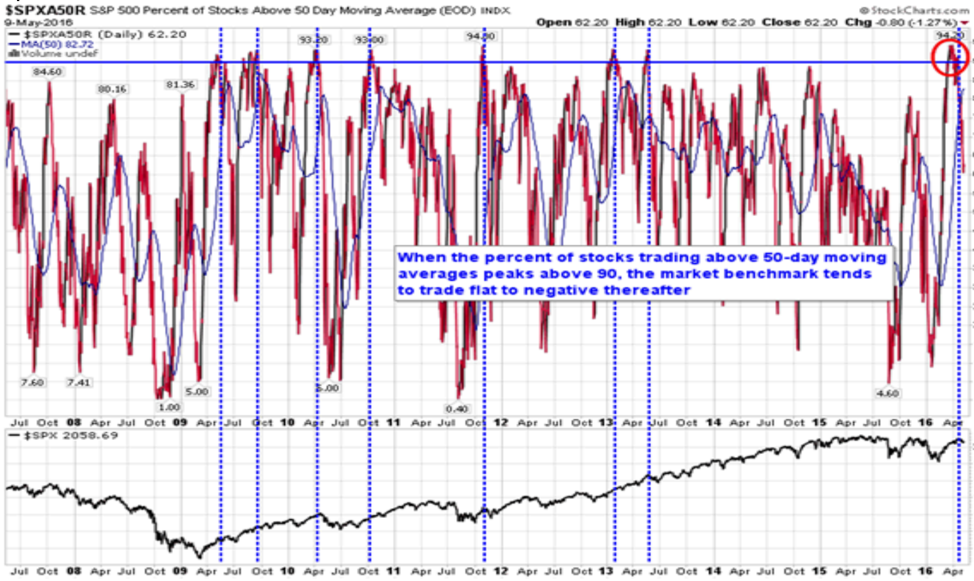
Back to US equities, investors' bias in general is shifting away from stocks and back towards bonds, resuming a trend that began last July, just before the market downturn in August. With the ratio trending lower, investors should increase exposure to bonds rather than stocks, taking advantage of the seasonal strength in the bond market. Whether the ratio is suggesting another decline in equity markets similar to last August or January has yet to be seen, but, for the time being, it is suggesting that the more prudent allocation is towards bonds given the stall in equity prices. Looking at the SPDR S&P 500 ETF (SPY) relative to the iShares US Aggregate Bond ETF (AGG), the ratio of the pair recently hit long-term declining trend line resistance in the second to last week of April and has traded lower since.

$SPX setting up for a "Bear Cross"?

As we had highlighted over the past 3 weeks, the short term technicals for the $SPX have deteriorated and the charts show the $SPX forming a "Bear Cross". **The two prior times this happened to the $SPX, the sell-offs were brutal. We think it will be very similar over the next 3 – 4 months, with a -20% to -25% downside risks to 1,600.**



Another important gauge we use is the percent of stocks within the S&P 500 Index trading above their intermediate-term moving averages, which continues to trend lower. We last highlighted the percent of stocks trading above 50-day moving averages in the middle of April when the technical indicator peaked above and broke back below 90, typically an indication of a substantially overbought market. Historically, the $SPX traded negative shortly thereafter, something that appears to be playing out, yet again. The percent of stocks trading above this moving average just reiterates the lack of positive momentum in the broad market.



Other major equities indices in the US continue to temporarily find support around their 50-day moving averages. Negative momentum divergences with respect to MACD did a good job at foretelling of the weakness in equity prices since late April. Investors continue to wait for a catalyst that will either renew upside momentum or fuel a breakdown. Seasonally, there is typically not much to be constructive of from a broad market perspective between May and October, forcing investors into the defensive sectors, something that was evident during Monday’s session. Health care, Utilities, and Staples topped the leaderboard on the day as investors reach for yield while the direction of the broad market seeks to resolve itself.


$NYA NYSE Composite Index INDX
9-May-2016
Open 10300.66 High 10325.05 Low 10261.12 Close 10291.59 Volume 3.7B Chg -17.24 (-0.17%)
$NYA (Daily) 10291.59
MA(50) 10199.08
MA(200) 10123.86
MA(20) 10412.87
Testing support at rising 50-day moving average
Full STO %K(14,3) %D(3) 15.43, 13.55
Full STO %K(14,13) %D(3) 55.88, 61.70
RSI(14) 48.09
MACD(12,26,9) 41.626, 81.875, -40.249


$RUT Russell 2000 Small Cap Index INDX
9-May-2016
Open 1114.72 High 1123.65 Low 1113.08 Close 1118.25 Chg +3.53 (+0.32%)
$RUT (Daily) 1118.25
MA(50) 1104.55
MA(200) 1122.31
MA(20) 1131.52
Testing support at rising 50-day moving average
Full STO %K(14,3) %D(3) 18.46, 11.78
Full STO %K(14,13) %D(3) 56.86, 61.62
RSI(14) 49.47
MACD(12,26,9) 4.388, 9.778, -5.391

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