



# Creative Global Investments

## Weekly investment strategy & charts

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### Global Macro and political Commentary

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Objectivity

Integrity

Creativity

**In Europe, IHS Markit's Eurozone Flash Composite Purchasing Managers' Index for May, seen as a good guide to growth, matched the previous month's 56.8, its highest since April 2011.** That confounded the median consensus expectations for a dip to 56.6. IHS Markit said the PMI pointed to Q2 GDP growth of 0.7%, much faster than the 0.4% predicted in a Reuters poll last week. Official flash data said the bloc's economy grew 0.5% in Q1. Activity in the French private sector surged to a 6-year high in May as growth in the dominant service sector accelerated and the election of President Emmanuel Macron lifted business optimism, a sister survey showed. Germany's private sector grew at the fastest pace in more than 6 years, and Ifo said business morale brightened more than expected, suggesting Europe's biggest economy will carry its robust upswing into the second quarter. Its economy picked up steam in Q4 helped by strong exports, booming construction and higher household and state spending. Growth was 0.6% q-o-q, up from 0.4% in Q4 of last year. Buoyant demand meant firms across the bloc built up backlogs of work at the 2nd fastest rate in over 6 years. The sub-index rose to 53.3 from 53.0. Factories across the EU had a much better May than predicted. Consensus was for the manufacturing PMI would fall to 56.5 but it instead climbed to 57.0 from 56.7, its' highest since April 2011. An index measuring output, which feeds into the composite PMI, rose to 58.4 from 57.9, also the highest since April 2011. Demonstrating their confidence about the months ahead, factories increased headcount at the fastest rate in the 20-year history of the survey. The employment index was 56.2, up from April's 55.5 and overall employment gains were the 2nd best in 10 years. Growth in the bloc's dominant service industry decelerated slightly this month, its PMI showed, dipping to 56.2 from 56.4 and missing forecasts in a Reuters poll for no change. But last month's final reading was the highest since April 2011. All leading indicators are pointing towards strong growth, as the business expectations index bounced to 68.1 from 67.2, it's highest since early 2011.

Credit growth has turned positive in Europe (US credit growth turned positive already in 2009) and growth and corporate earnings have been following in kind. A significantly weakened but stable Euro continues to provide a nice tailwind to the profitability of Europe's many multi-national businesses. Seen through the lens of the credit market, the European economic cycle has a long way to run and will impact credit markets further, as we see monetary policy to remain accommodative into 2018 as the ECB remains committed to supporting the nascent expansion. Investors expecting the US to continue its prolonged period of outperformance over European credit and equity markets may be in for a surprise.

**After meetings with Institutional Investors in Europe last week, we were baffled that still at this point, most sell side economists forecasts', as most investors' remain overly negative and cautious for Europe, however, at the same time continue to be optimistic again, after the "sugar rush" towards the US and its economic outlook had faded over March & April.**

The Eurozone GDP rose by an annualized rate of 2% in Q1 of 2017, more than double the US growth rate over the same period, and most recent US economic activity has been surprising to the downside, whilst the Citi Eurozone Economic Surprise Indices have been climbing since early 2016, as the next chart highlighting Citi's Economic Surprise indices shows.

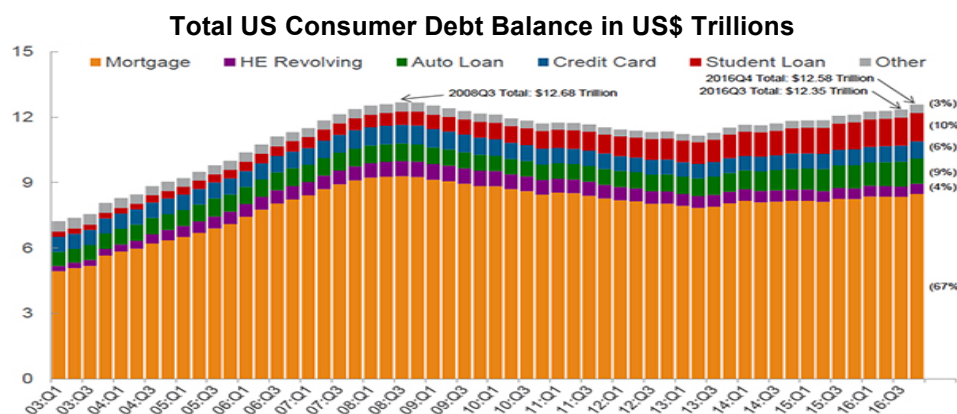
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**In the Americas, we see one major problem for the Fed trying to be more aggressive in raising rates in June as being the fact that US household debt levels now have surpassed their 2008 peak, as the NY Fed released a new report last week that showed US collective household debt balances climbed to a whopping \$12.73 TRN by the end of March, surpassing the 2008 peak of \$12.68 TRN.** The Fed also announced that the US consumers had \$1TRN in credit-card debt. (Consumers hit that number previously in Q4 of 2016, but had eased on their use of revolving credit during January 2017. The Fed announcement showed revolving consumer credit hit more than \$1 TRN once again in February 2017)

While the debt levels are similar to 2008, the things Americans are in debt for have changed, as household incomes have increased in recent years, and housing and stock prices have improved. Compared with 2008, fewer borrowers have housing-related debt, including their first mortgages, or home equity lines of credit, and instead more have taken on auto and student loans. Student loans have made it harder for younger consumers to buy homes; plus, lower housing prices are also tied to higher student loan default rates. The NY FED's report also showed debt delinquencies of 90-days or more have mostly improved since 2008, except for student loans. About 10% of student loan balances are 90-days or more delinquent.

Although Housing-related debt is down nearly \$1 TRN since the 2008 peak, auto loan balances are significantly higher by \$367 BN, and student loans have grown by a staggering \$671 BN. Credit card debt is still down a bit from peak recession levels, however we expect the amount to surpass the prior peak by the end of 2018.



Source: New York Fed Consumer Credit Panel/Equifax

Although housing debt has decreased since 2008, mortgages still make up the bulk of the debt total, at 67%, as of 2016. Previous Fed studies have shown Americans struggle with their auto debt, which often has high interest rates. The number of subprime auto loans that have fallen into delinquency hit their highest level since 2010 during December 2016, when close to 6 MN consumers were 90-days-plus-late on their payments. That is similar consumer behavior to what was seen just before the 2007 - 2009 recession. 25% of the adults the Fed surveyed in 2016 purchased or leased a new or pre-owned passenger car or truck in the last year. About 67% of them took out a loan to do so, with 12% of those who used loans had a longer repayment period than

the amount of time they even planned to own the vehicle.

Older Americans are taking on a greater share of debt than in years past. Those ages 60 and older held 22.5% of total household debt in Q4 of 2016, compared with 15.9% in 2008 and 12.6% in 2003. Although much of that debt is likely due to mortgages, it's also possible they are shouldering more student loan debt than in the past, for their children and grandchildren. 2 MN borrowers between ages of 50 and 64 took on "Parent PLUS" loans, the loans the government offers parents, in 2015, up from about 1 MN in 2005. Another 200,000 borrowers over the age of 65 also have them.

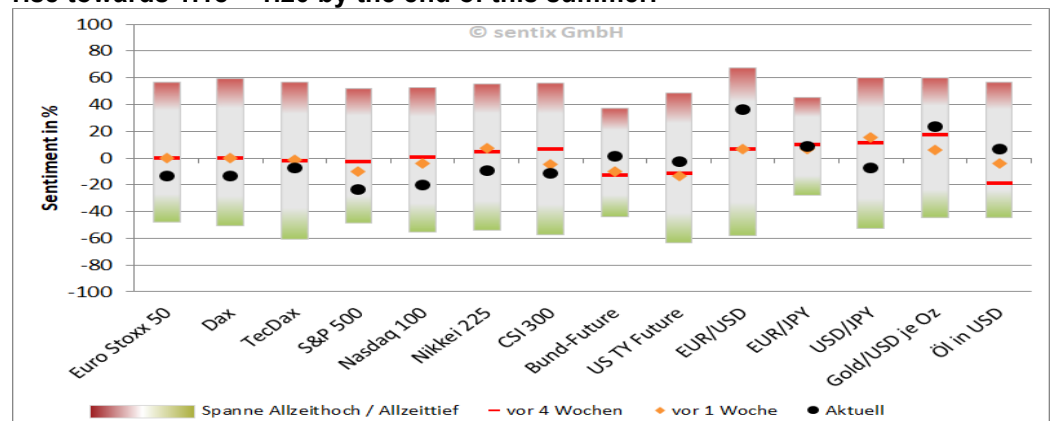
Credit card debt and auto loan debt balances for people ages 60 and older have also risen sharply since 2008, whereas credit card debt for those 59 and younger has fallen. The Fed, when describing that phenomenon, said lending standards have tightened since the recession, and those who are older may also be more creditworthy. Although young Americans may feel a sigh of relief, it's still potentially dangerous, as high levels of debt could mean older Americans don't have enough money saved for retirement. Indeed, the average American couple has barely \$5,000 saved for retirement, and only 1/3 of working Americans are saving money in an employer-sponsored or tax-deferred retirement account.

Tougher underwriting standards for mortgages have contributed to Americans holding debt holding higher credit scores than in the past. As of 2016, 41.3% of Americans' total debt is held by people with high credit scores, above 760. That's compared with 33.9% in 2008 and 23.7% in 2003. And a smaller share is held by those with lower scores, below 620. Some 13.2% of debt in Q4 of 2016 was held by those with scores below 620, compared with 19% in 2008 and 16.6% in 2003. **We are seeing increasing signs of a very similar credit bubble in the US as in 2006/2007, and investors should consequently diversify risks by re-allocating more assets outside of the US equities and credit markets.**

**Investors Sentiment did improve last week in favor of European investments, for the Euro, for equities and for bonds, as the latest *sentix* survey has shown.** A month ago we noted that there was a risk that continued caution on commodities would prove a drag on emerging market (EM) equity sentiment. In the event, investor sentiment towards EM has begun to follow survey readings on commodities lower in the latest survey, though it is also notable that investors are becoming less negative on Crude oil from a medium-term strategic perspective.

Any signs of a wider firming in sentiment towards commodities would likely lend support to EM equity sentiment.

In FX, optimism on EUR/USD has reached its highest level for over a year, with readings based on the near-term outlook for the euro versus the US\$ now running at the high-end of their historic range. **Although a lot of positive near-term sentiment is baked into EUR/USD at current levels, we can see the EUR/USD to continue to rise towards 1.18 – 1.20 by the end of this summer.**



## Global Equities Commentary & charts

The S&P 500 Index added just over 0.5% yesterday, moving back above its 20-day moving average. Looking at the hourly chart of the large-cap benchmark, the index is quickly closing the gap recorded in last week's panic decline. However, as investors eye a complete recovery in equity values, the short-term memory of investors may prevent an immediate move to new highs. The upper limit of the gap pegs a level of resistance at 2398, a level that may see investors take down some exposure as they recall the events of the week just past. This pivotal level ahead will surely have investors debating whether event risk has truly faded and whether adding exposure to stocks at present levels is warranted. The S&P 500 Index has a positive bias in the week ahead as traders settle positions ahead of the Memorial Day long weekend, allowing for a slight drift higher through the end of the month.



US stock markets are overvalued by a number of valuation metrics, particularly given the weakening macro backdrop, and an increasing recognition, that the entire “Trumpenomics” were nothing but hot air. With political risks rising of a full fledged investigation of the Trump campaign staff likely being in direct contact and conflict with Russian political interference in the US Presidential election process, this cannot be good for any US\$ denominated assets, let alone for equities.

**The entire “Trump Bump” is now unfolding into a “Trump Dump” as we have predicted over the past 3 months.**

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 table 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 comparison from the recent past's biggest equities bubble which started in 1994 and ended as we know 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 today's.

The S&P 500 Index, the large-cap index shed 0.35% over the course of last week, retracing the gain accumulated during the week prior. Resistance remains apparent at 2400, just as support at the rising 20-day moving average remains intact. A break, one way or the other, appears imminent. Momentum indicators on the daily chart are increasingly showing signs of rolling over with MACD on the verge of triggering a bearish crossover. If confirmed, a negative divergence, compared with price, would become evident, signaling waning buying pressures as the market stalls at its all-time high. **These revelations come on the day that a bout of risk aversion played out, resulting in a gap higher in treasury prices. Seasonal tendencies for bond prices are positive between May and October.**



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.

## Fixed income charts & commentary

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. **Intermediate trend changed from Neutral to Negative. \$TNX closed below the important level of 23. \$TNX closed below the 20-day moving average. Short-term momentum indicators are rolling over. Again, we are expecting for the \$TNX to drop towards 1.70% by the end of summer 2017.**



## Currencies commentary & charts

USD dropped versus all G10 currencies on last week, amid further “investors’ sobering up” with regards to “the empty Trump policies”, and continued weakening US macro data. **The US\$ remains below its 20-day moving average. Intermediate trend remains Negative. \$USD broke through the lower trendline. Short-term momentum indicators are Negative and Oversold. We see the \$USD on-trend to reach our Q2 price target of 1.14 – 1.16 within the next 2 – 4 weeks.**



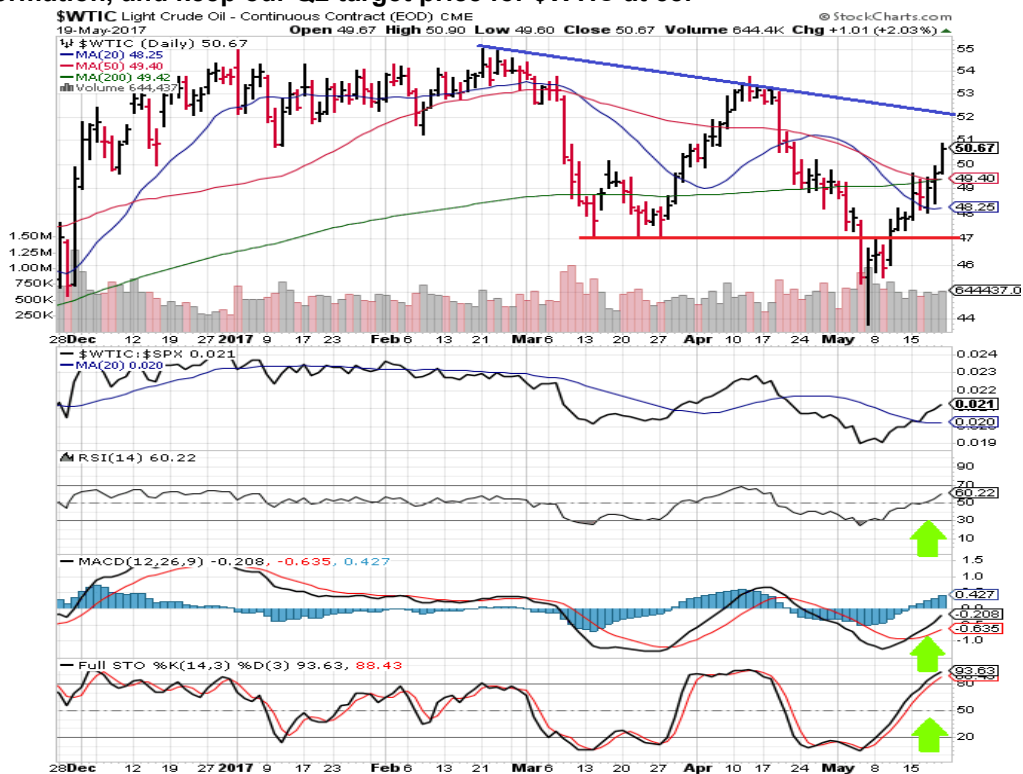
## Commodities charts & commentary

Although 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, we believe that the positive macro economic momentum of the world around the US will likely help the commodity market to sustain its recent upward move and momentum. **The \$CRB closed above its 20-day moving average. Intermediate trend flipped to Positive. Strength relative to the S&P 500 Index changed from Neutral to Positive. \$CRB is threatening to break the upper trendline. Short-term momentum indicators are Positive.**



Oil prices are either at a “death cross”, or “golden cross” level. \$WTIC is climbing to the important upper trendline. Intermediate trend changed from

**Neutral to Positive. Strength relative to the S&P 500 Index is Positive. Short-term momentum indicators have rolled to Positive. Given the continued weakness in the US\$, we believe that \$WTIC risks to break to the upside in this "golden cross" formation, and keep our Q2 target price for \$WTIC at 58.**



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