



Creative Global Investments

Morning market commentary & charts

Thursday, June 4th, 2015

Carlo R. Besenius

Chief Executive Officer
cbesenius@cg-inv.com
+(352) 2625 8640



Creative Global Investments LLC

115 East 57th Street
11th Floor
New York, NY 10022
Tel: 212 939 7256
Mob: 917 301 3734

Creative Global Investments/Europe

5, op der Heed
L-1709 Senningerberg
Tel: +(352) 2625 8640
Mob: +(352) 691 106 969

Objectivity

Integrity

Creativity

So. Let's look at the "most important rhetoric" that could impact financial markets today:

"The Federal Reserve should defer raising interest rates until there are greater signs of wage or price inflation than are currently evident", the International Monetary Fund said today. Based on forecasts, and barring upside surprises, this would put lift-off into the first half of 2016, the international agency said in its annual review of the US economy. While "pockets" of financial stability risks are emerging, the report said, monetary policy should not be used to dampen them. Instead, financial regulation and supervision should be strengthened. The IMF said that the underpinnings for growth and job creation remain in place for the US, but momentum has been sapped by a series of negative shocks.

The IMF now took the GDP growth outlook for the US down to 2.5%. This is still way above our 2015 forecast for the US of 2.2% GDP growth, which we are likely going to revise down in the coming months, if growth does not kick in massively in the current quarter, which we do not see in most of the aggregate data, which we use in our assumptions.

The strong US\$, coupled with weak foreign demand and the collapse in oil prices have complicated the US outlook. The expected benefits of higher consumer spending have yet to materialize, while the drag on exports has been more severe and will be longer lasting than anticipated.

The strong US\$ headwinds for the US are not of a transitory nature, as the weighted price of the US\$ is still significantly higher in the current quarter than in any quarter of the past year, since the US\$ started its parabolic move, which we repeatedly have highlighted as an unsustainable scenario for the US.

Now, looking at today's productivity data for Q1 for the US, there is even more evidence of the US losing more and more competitiveness.

US nonfarm productivity fell more sharply than previously thought in the Q1, leading to a jump in labor-related production costs, a trend that could spur a rapid increase in inflation. Productivity dropped at a 3.1 percent annual rate instead of the previously reported 1.9 percent rate, the Labor Department showed today. That was the first back-to-back fall in productivity since 2006.

Headwinds from abroad, including the risks associated with a Greek default and a slowdown in China, may persist for some time.

The underlying momentum of the recovery has proven relatively susceptible to successive headwinds.

We believe that the past 5 days sell off in US and European 10-year Treasuries is overdone, and that current market prices constitute a clear "buy" signal. We are advising for investors to step up investments into 10-year US and European bonds, which sold off excessively in the past week, on nothing but a bit of improving, but still mixed, and not sustainable macro data from Europe and the US in the past three days.

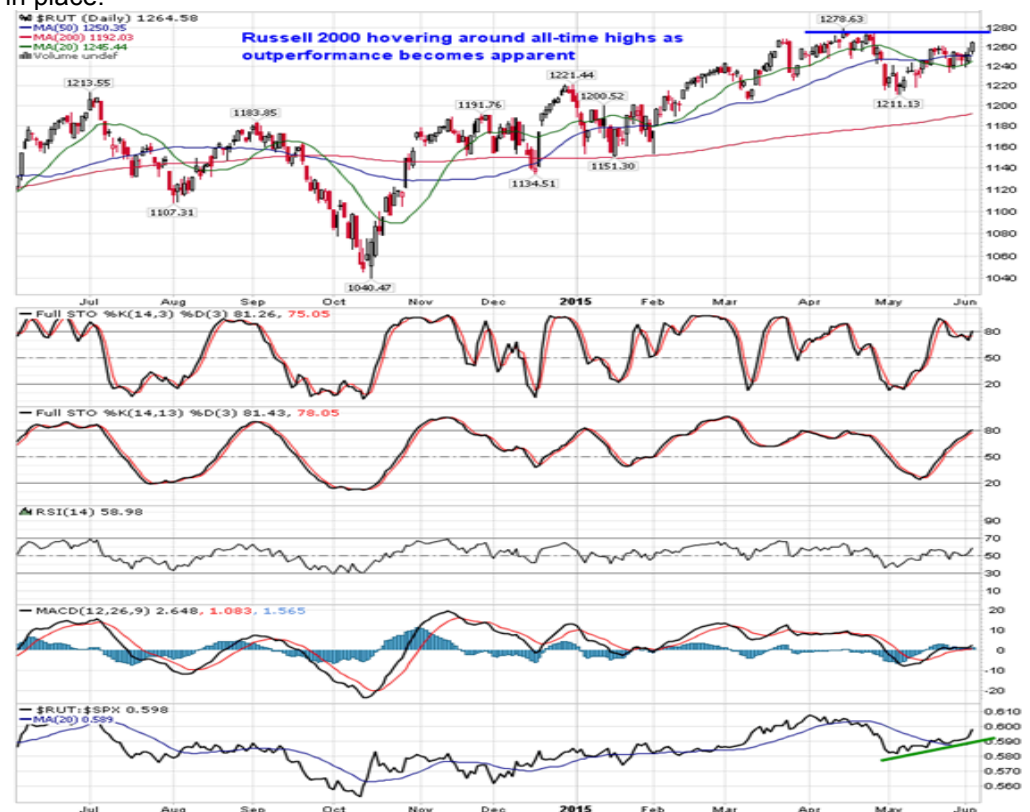
IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.

Equity markets commentary & charts

The rather stagnant trading activity over the past few months might suggest that investor risk sentiment is waning, however, sector activity suggests otherwise. Cyclical sectors, including financials and technology, have been outperforming the market since mid-April, while defensive sectors, including consumer staples and utilities, have done the opposite. As well, the riskier small-cap stocks, as gauged by the Russell 2000 Index, have been outperforming the S&P 500 Index since the end of April; the same can be said of momentum stocks, as gauged by the momentum ETF (MTUM). The accumulation of these riskier assets, which can often have higher betas and higher valuation multiples than the broad market, is not typical of a potential market peak, suggesting investors are not expecting imminent declines.



Recall that in 2000 and 2007, the Russell 2000 Small Cap index peaked at least three months before the ultimate peak in the broad market; the small cap index peaked in the first quarter of 2000, while the S&P 500 Index peaked in Q3; and in 2007, the Russell peak in Q2, while the S&P 500 peaked in the fourth quarter. With the \$RUT still hovering around all-time highs, it remains difficult to conclude, as of yet, that a peak is in place.





The rise in yields led to a selloff in equities that are sensitive to higher borrowing costs, including Utilities and REITs.

Seasonally, equities that benefit from low borrowing costs typically perform well during the spring and summer months, but the simple uncertainty of when the Fed will raise has forced investors to the sidelines, maintaining a neutral stance until a catalyst is triggered. Bank stocks are one of the few areas of the equity market showing a benefit from higher yields over the past few months as investors expect higher interest margins.

The KBW Bank Index continues to hover around multi-year highs, albeit still well below the 2007 peak, which would require a gain of 60% or more to exceed. Bank stocks have traded flat, on average, during the summer months, pressured by what is typically a declining rate environment. This year we may see results for each of these sectors act contrary to seasonal norms.



Fixed Income markets commentary & charts

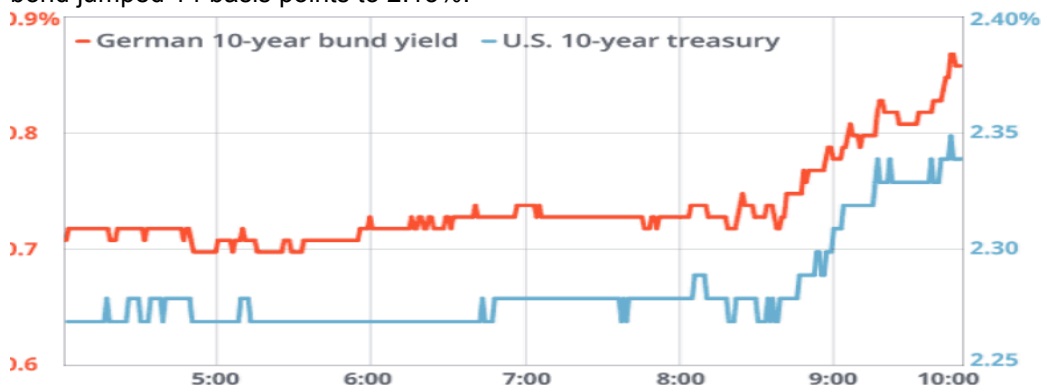
International Bonds

European 10-Year government bonds are entering their period of seasonal strength from mid-May until end of August.

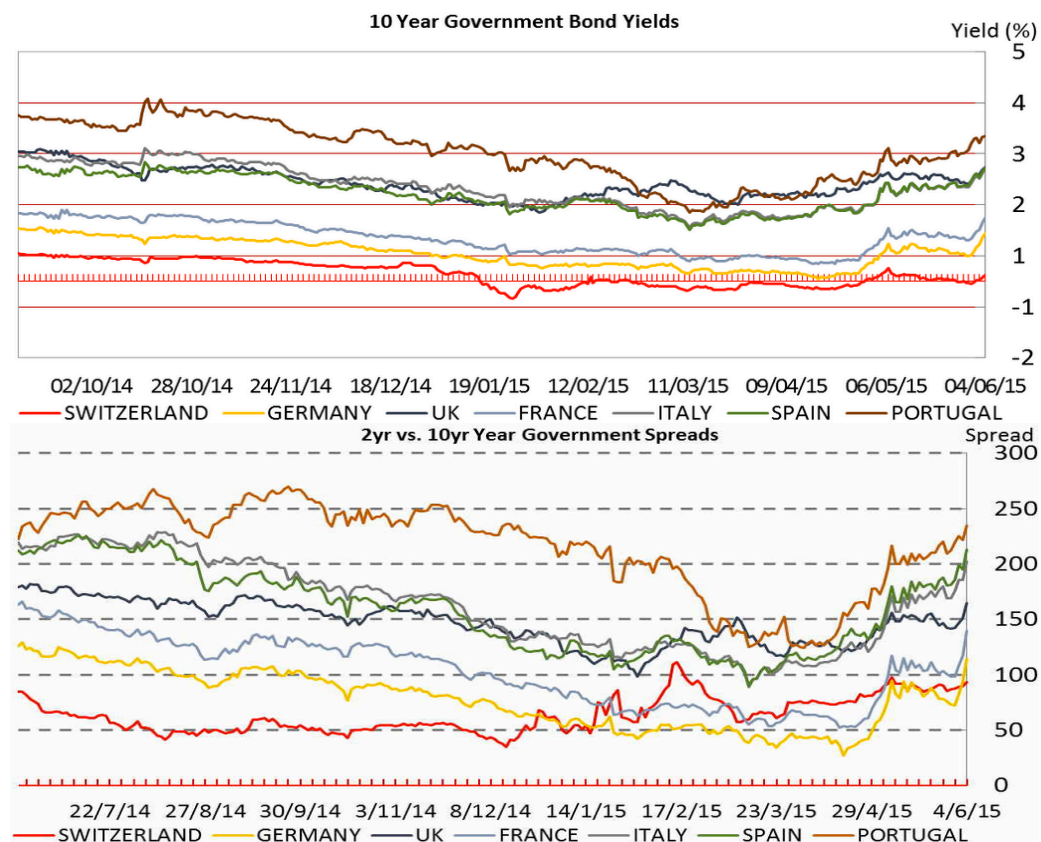
After the short-term current correction in US, European and Japanese 10-Y treasuries, which we expect to last for another few days, we are expecting for further yield compression between French, Italian, Portuguese, Spanish 10-Y Government bonds and the German bunds to materialize over the coming 2 - 3 months, and are advising for investors to increase their weightings into Spanish, Italian, Portuguese, Irish 10-Year bonds into the current correction

The European Central Bank lifted its 2015 inflation forecast to 0.3%, up from 0% in its March predictions. The news, along with comments from ECB President Mario Draghi that the central bank stands behind its stimulus efforts but that markets should “get used to periods of higher market volatility”, helped send the euro climbing and 10-year bond yields around the Eurozone rising between 14 and 17 basis points.

The yield on the 10-year German Bund gained an impressive 19.7 basis points to 0.888%, its highest level since Nov. 20. The yield on the Spanish 10-year benchmark bond jumped 14 basis points to 2.13%.



Volatility is particularly heightened in the German bund market because it is much smaller than the Treasury market in terms of amounts of bonds traded in the market. Bunds are widely held by European banks on a buy-and-hold basis, so there's little out there to trade.



US Bonds

A strong US\$, weak foreign demand and the collapse in oil prices have complicated the US outlook. The expected benefits - of higher consumer spending, for example - have yet to materialize, while the drag on exports has been more severe and longer lasting than anticipated. We continue to see the data presenting a mixed picture, and there may be reason not to ignore recent readings entirely, with Q2 not yet showing signs of the expected bounce back from the dismal start of the year. The US economy contracted 0.7 percent in Q1, according to revised data issued last week, and was seen growing just 0.8 percent in Q2, according to an influential Atlanta Fed survey.

From the data input that we take into account, we see more long-lasting process may be under way that could put the Fed in an indefinite holding pattern, saying the recovery so far has been a story of "fits and starts." The underlying momentum of the recovery has proven relatively susceptible to successive headwinds. Headwinds from abroad, including the risks associated with a Greek default and a slowdown in China may persist for some time.

The Fed's policy setting committee meets in June and Fed officials have signaled a June hike is unlikely, given the recent disappointment in some economic data and concerns that a more significant slowdown may be taking shape. Many Fed officials have suggested the troubles overseas would have only a transitory effect on the US economy.

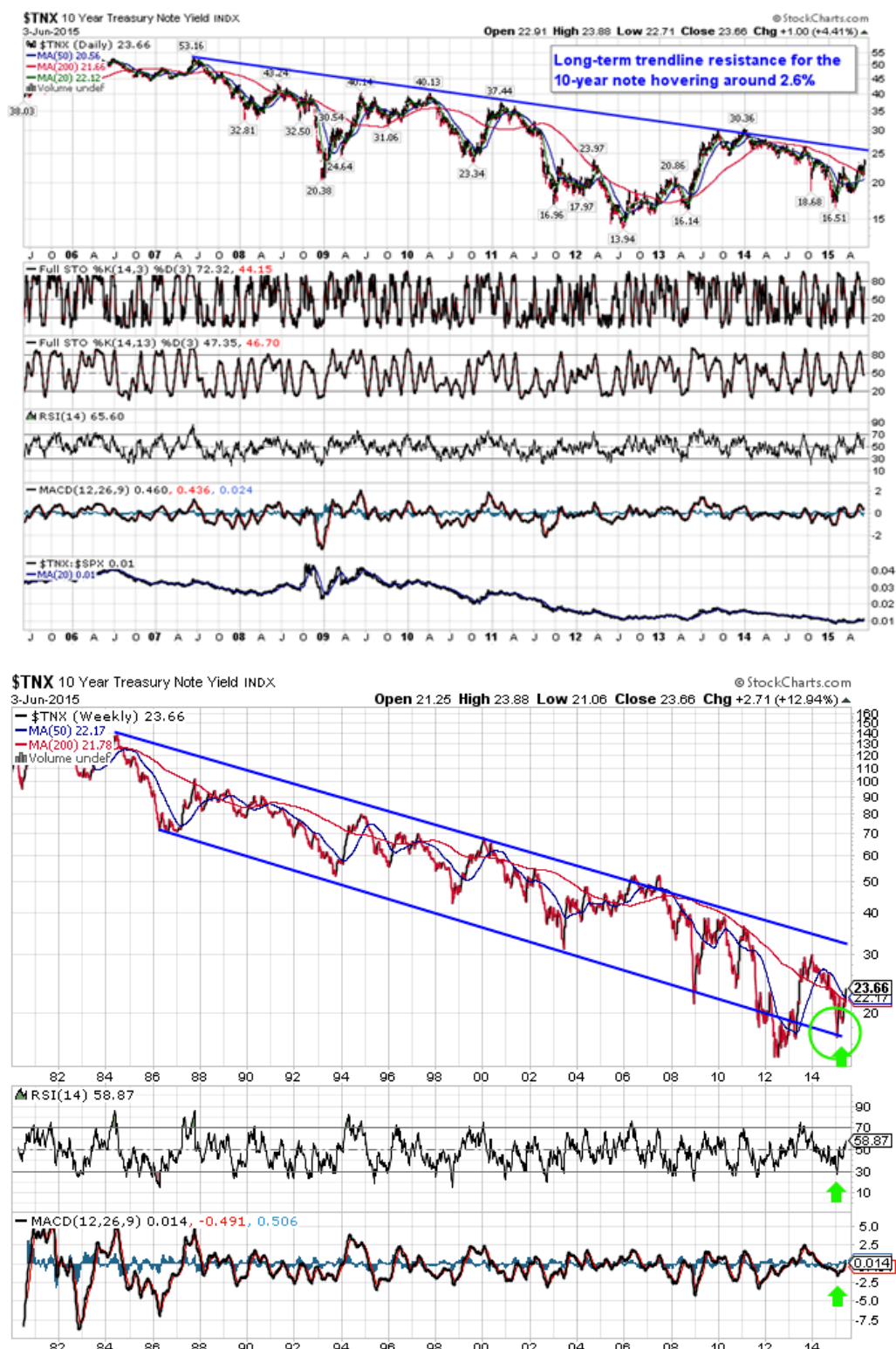
The yield on the 10-year treasury note broke resistance at 2.3%, pushing to the highest level in seven months; broken resistance of an apparent ascending triangle pattern calculates upside potential to around 2.9%, which would test the 2013 highs and potentially confirm the conclusion to the bull market trend for bonds that began in the 1980s.



Long-term trend line resistance stemming from the 2007 highs, just prior to the flurry of buying in the bond market amidst significant equity market declines in 2008/09, hovers around 2.6%, a level that could become the basis of a neckline of a head-and-shoulders bottoming pattern that would suggest significantly more upside as the bond trade unwinds.

Some of these outflows may find their way into the equity market, supporting stock prices, but a limit will be reached when investors enticed by the higher yields shift back to the beaten down asset class as fast as they left.

It is unlikely that the long-term declining trend in yields will suddenly shift to a long-term rising trend; a prolonged range-bound trend, either as part of a bottoming pattern or a stagnant period, is the more probable scenario.



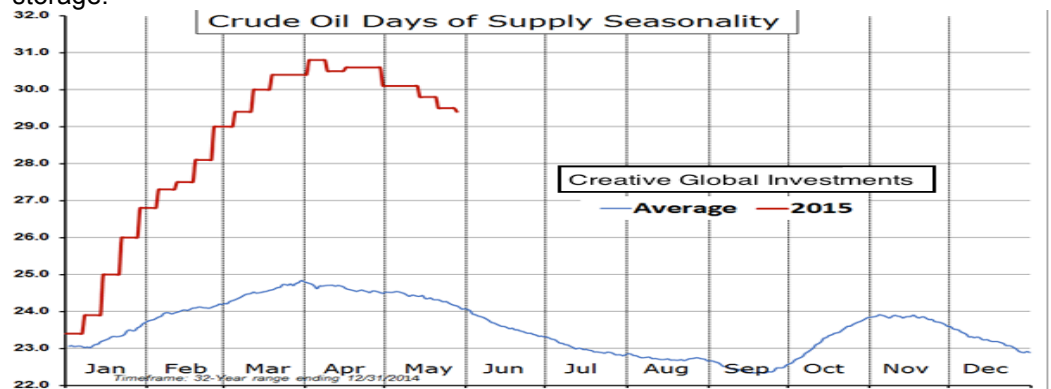
Oil & Energy Markets Commentary & Charts

Oil took a hit during yesterday's session following the release of the inventory report.



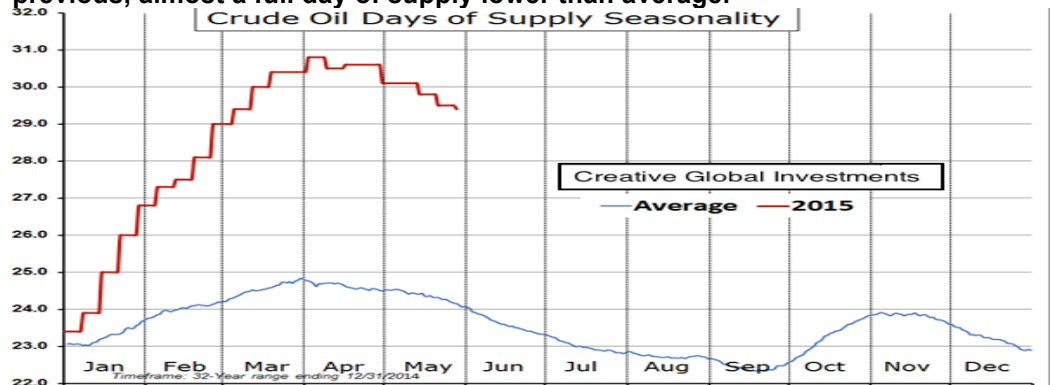
The report did indicate a drawdown for the energy commodity, however, the decline failed to meet analyst expectations as concerns persist over substantial levels in storage.

Days of supply ticked marginally lower to 29.4 from 29.5 previous; average for this time of year is 24.1 days

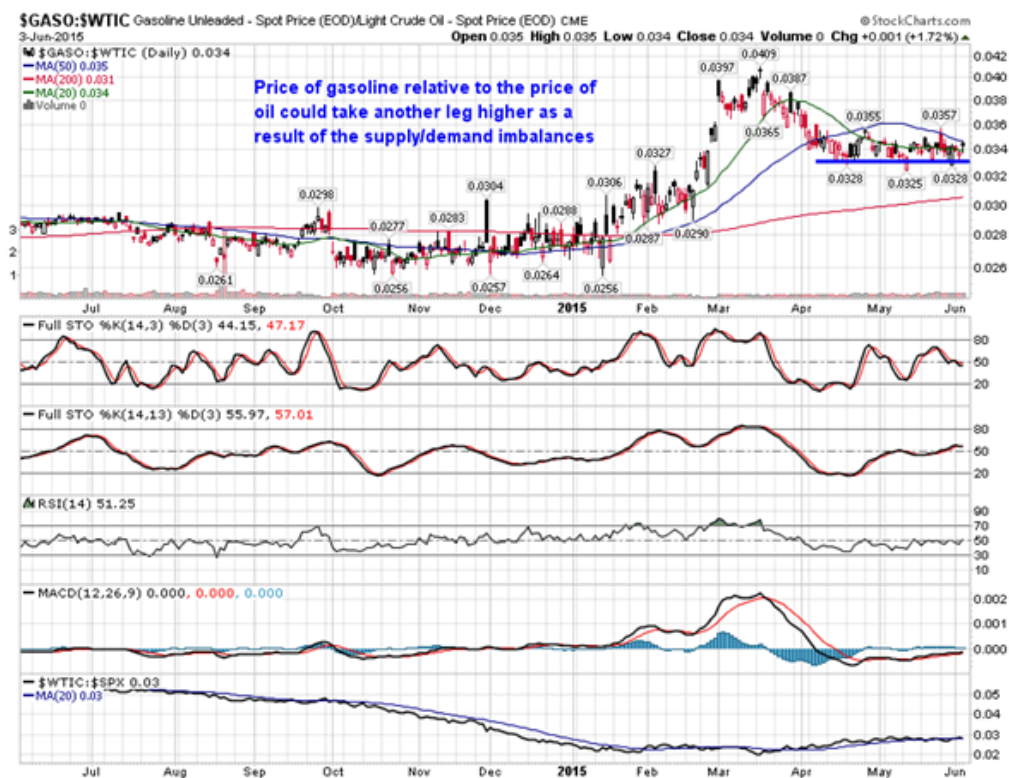


Gasoline days of supply continues to push lower, now down to 23.7 from 23.9 previous, almost a full day of supply lower than average.

The chart of days of supply suggests that demand continues to outpace supply going into the height of the summer driving season in just a few weeks time.



The price of Gasoline and Oil are both struggling around short-term resistance, however, as a result of the supply/demand imbalance, the price of Gasoline relative to the price of Oil could take another leg higher, despite seasonal averages that suggest otherwise.



Carlo R Besenius, CEO & Head of Global Strategy

cbesenius@cg-inv.com

office: +(352) 26 25 86 40

mobile: +(352) 691 106 969

Luxembourg/Europe

Sabine CJ Blümel, Head of Global Automotive Research

sblumel@cg-inv.com

office: +44 (7785) 301588

London, UK

Feliks Lukas, Director of Industrial Consulting

flukas@cg-inv.com

office: 212-939-7256

Gary Schieneman, Managing Director,

Global Accounting and Finance

gschieneman@cg-inv.com

office: 917-868-6842

New York, NY, USA

Steve Gluckstein, Global Strategist

sgluckstein@cg-inv.com

office: 212 939 7256

mobile: 732 768 8843

New York, NY, USA

Marc Peters, Head of Global Industrial Strategy

mpeters@cg-inv.com

office: +(352) 26 25 86 40

mobile: +352 621 36 44 50

Luxembourg/Europe

Allison M Cimon, Director of Sales & Technology

amcimon@cg-inv.com

office: 646 228 4321

Boston, MA, USA

Jennifer Crisman, COO

jcrisman@cg-inv.com

office: +(352) 26 25 86 40

Luxembourg/Europe

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.