# Creative Global Investments

## Morning market commentary & charts

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Objectivity

Integrity

Creativity

Asian markets closed mixed after a turbulent session, with the Shanghai Composite Index rebounding from a 5% loss to end on a 0.8% gain at an 8-year high of 5,023.

European stocks fell about 1% today, along with German government bonds, following news that Greece has delayed its EUR 300MN debt payment to the International Monetary Fund and amid caution ahead of the all-important US non-farm payrolls data. Greece has decided to pay its debt in one payment at the end of the month. This partly allows Greece to continue negotiating with its creditors for a few more weeks to try and get what it believes is an acceptable deal while paying workers and pensions, but it also appears to be politically driven. The Stoxx Europe 600 telecoms and financial services indexes both down 1.2%, while the indexes for technology and autos were down 1.1%. The Euro was up against the US$, trading at $1.1272.

George Osborne will miss his deficit-reduction target by more than a year, the British Chambers of Commerce has warned, as it cut its UK growth forecast for 2015. In its 2nd economic update this year, the business group said that the chancellor would need to extend his austerity program" at least until the end of the decade" to move the budget into surplus as tax receipts remained weak. The BCC scaled back its economic growth forecast, dealing a fresh blow to hopes for a sustainable UK recovery. The downgrade for 2015 GDP expansion to 2.3 per cent from 2.7 per cent comes just days after data showed Britain's key services sector suffered its sharpest slowdown in growth for nearly four years in May

In the US, headwinds from abroad, including the risks associated with a Greek default and a slowdown in China, may persist for some time. 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 it's parabolic move, which we repeatedly have highlighted as an unsustainable scenario for the US. Analysts are expecting non-farm payrolls to increase by 220,000, consistent with the increase reported in the month prior. May is typically a strong month for employment gains with payrolls having shown an increase every May for the past 50 years; seasonal hiring for summer employment is a significant factor. Stripping out seasonal adjustments, the actual average increase in employment for the month of May is 0.7%, which would suggest an increase in 990,000 jobs to 142,452,000. Of course, all that matters is the reaction to the seasonally adjusted/manipulated headline print, which could be anything. The report is expected to have a significant influence on the Fed's interest rate decision when the FOMC meets mid-month.

**Monthly Average Employment Change over past 50 years:**

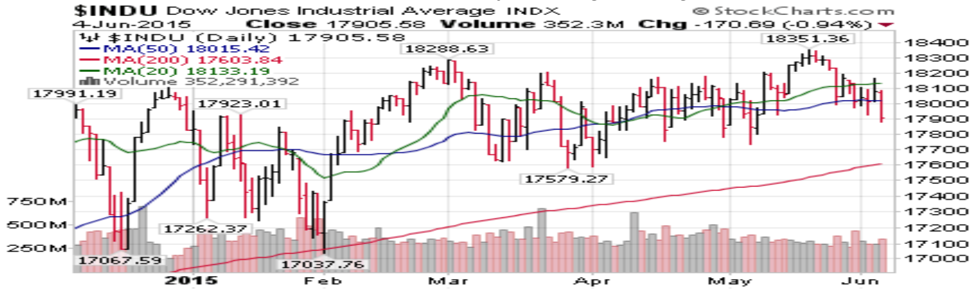
| | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Return | -2.1% | 0.4% | 0.6% | 0.8% | 0.7% | 0.7% | -0.9% | 0.2% | 0.7% | 0.5% | 0.3% | 0.1% |
| Gain Frequency | 0% | 90% | 98% | 100% | 100% | 98% | 0% | 86% | 100% | 96% | 86% | 54% |
| Max Return | -1.6% | 0.8% | 1.2% | 1.5% | 1.0% | 1.8% | -0.3% | 0.8% | 1.9% | 0.9% | 0.8% | 1.1% |
| | 1984 | 1996 | 1978 | 1978 | 1977 | 1966 | 1965 | 1972 | 1983 | 1972 | 1967 | 1965 |
| Min Return | -2.8% | -0.6% | -0.1% | 0.1% | 0.0% | -0.1% | -1.5% | -0.3% | 0.0% | -0.3% | -0.5% | -0.8% |
| | 1975 | 1975 | 2009 | 2009 | 1980 | 2009 | 1980 | 1983 | 2008 | 1970 | 2008 | 1974 |

**We continue to see weakening global macro data, and consequently we believe that the past 7 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.**

## Equity markets commentary & charts

Significant technical damage was afflicted to US equity indices such as the S&P 500 Index and DJIA fell below their 20-and 50-day moving averages.





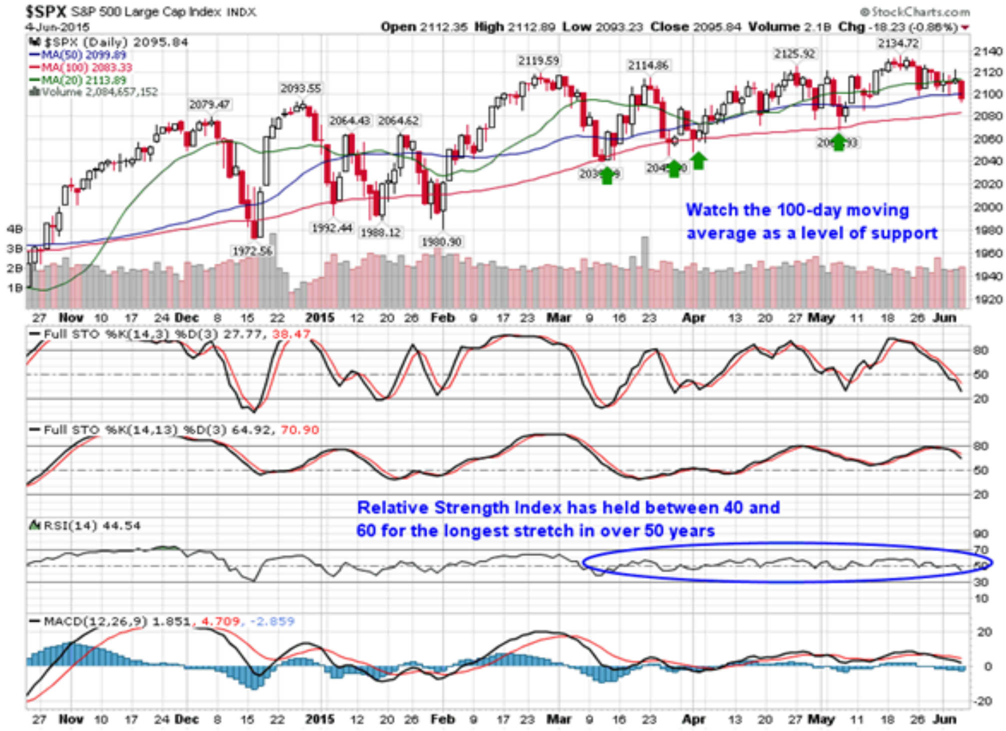
The VIX continues to spike, typical for start of the traditional summer correction.


International equity markets also are under pressure.



The Greek ETF has been moving up/down 5% per day prior to finalization of European Central Bank/Greece negotiations.


The selloff in equities pushed the S&P 500 Index back below its 50-day moving average, a level that the benchmark has held fairly close to since mid-March as investors maintain a neutral stance on the market. Significant support to the ongoing positive trend remains apparent at the 100-day moving average, a critical level to watch should weakness continue to materialize following the release of the employment report. Momentum indicators for the large-cap index remain eerily neutral; the Relative Strength Index (RSI) has hovered between 40 and 60 for the longest timeframe in over 50 years, which presents difficulties for investors seeking to take advantage of either overbought (RSI above 70) or oversold (RSI below 30) conditions.



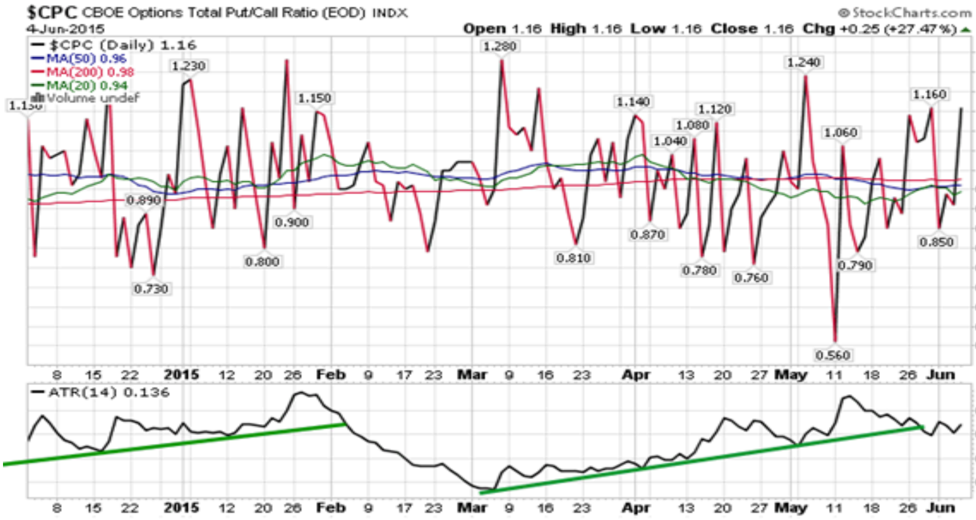

Similar to the prolonged stretch of neutral readings from the Relative Strength Index is the prolonged period of neutral readings from the American Association of Individual Investors Sentiment Survey, which in the latest results shows that 48% of survey participants are neutral on the market for the next six months.

The long-term average level of neutral investor sentiment is 30.8%. This past week is the eighth consecutive week of a greater than 40% reading for neutral sentiment, the longest stretch since 1988 following the plunge in October of 1987. Despite a number of gyrations in 1988, the neutral sentiment didn't hold back the broad equity market as the S&P 500 realized an above average annual gain of 12.4%. Looking at other instances of extended neutral sentiment readings, the S&P 500 Index has averaged a decline of less than one percent 30-days following two or more consecutive weeks of neutral sentiment readings of over 40%, but the losses quickly reverse 90 and 180 days following the survey; the S&P 500 Index has averaged a healthy gain of 7.17% in the 180-day period following a prolonged neutral reading.

| AAII Sentiment Survey | | **S&P 500 Index Return** | | |
|---|---|---|---|---|
| **Period Ending** | **Consecutive Weeks of over 40% of Investors Neutral** | **30-Days Following** | **90-Days Following** | **180-Days Following** |
| June 4, 2015 | 8 | ? | ? | ? |
| May 29, 2014 | 4 | 2.13% | 4.17% | 7.66% |
| July 16, 1998 | 3 | -10.24% | -15.07% | 4.69% |
| October 9, 1997 | 3 | -4.44% | -0.68% | 14.31% |
| June 23, 1994 | 2 | 0.77% | 2.63% | 1.66% |
| August 20, 1993 | 7 | 0.59% | 1.64% | 3.65% |
| April 21, 1989 | 3 | 3.76% | 7.72% | 10.38% |
| February 3, 1989 | 10 | -1.95% | 3.64% | 15.95% |
| October 21, 1988 | 7 | -6.06% | 1.15% | 8.28% |
| August 19, 1988 | 4 | 4.00% | 1.68% | 13.06% |
| June 24, 1988 | 12 | -3.75% | -1.68% | 1.31% |
| February 26, 1988 | 5 | -1.50% | -2.98% | -0.51% |
| November 27, 1987 | 2 | 4.86% | 8.84% | 5.58% |
| | **Average Return:** | **-0.99%** | **0.92%** | **7.17%** |

Bottom line is that there is little historical precedent to suggest that neutral sentiment is a bull market killer and near-term weakness may present ideal buying opportunities for longer-term gains.

Sentiment on Thursday, as gauged by the put-call ratio, ended bearish at 1.16.



# Fixed Income markets commentary & charts

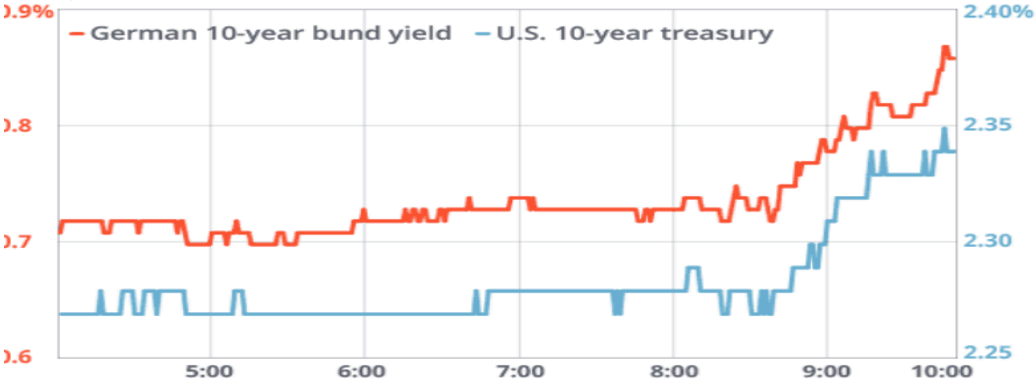
## International Bonds

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

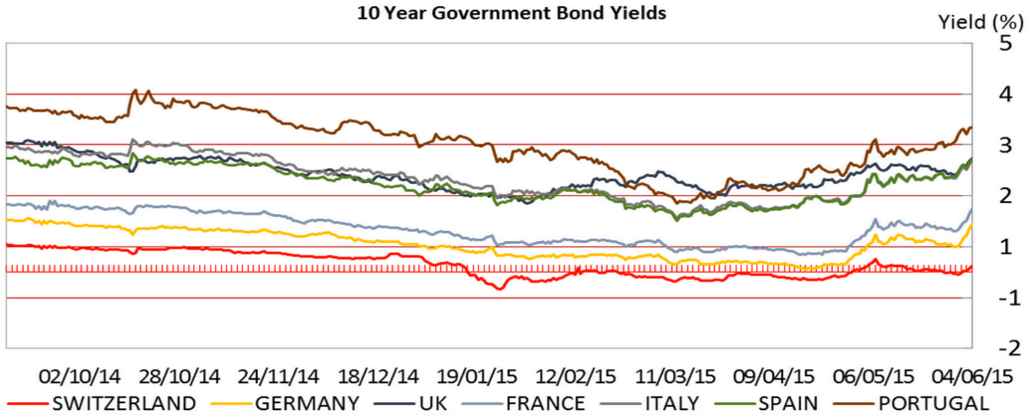
**After the short-term current correction in US, European and Japanese 10-Y treasuries, which we expect to last for another few days, we are expecting for further yield compression between French, Italian, Portuguese, Spanish 10-Y Government bonds and the German bunds to materialize over the coming 2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

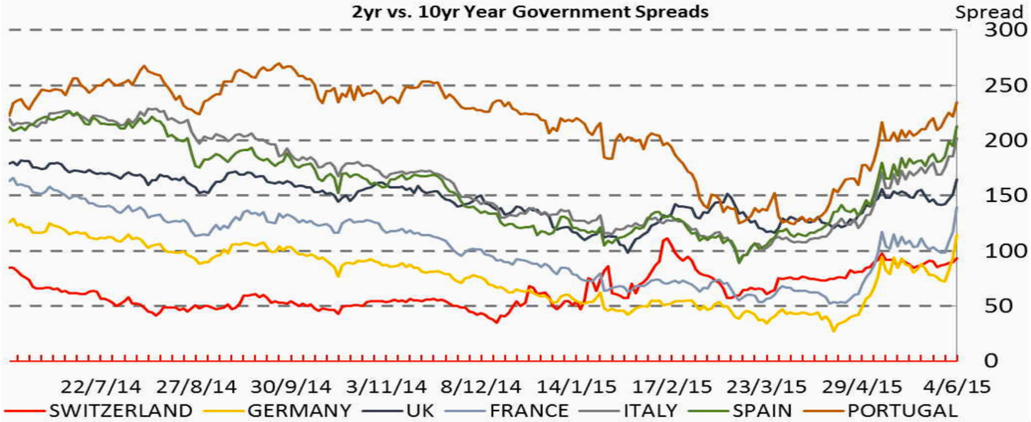
The European Central Bank lifted its 2015 inflation forecast to 0.3%, up from 0% in its March predictions. The news, along with comments from ECB President Mario Draghi that the central bank stands behind its stimulus efforts but that markets should "get used to periods of higher market volatility", 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.

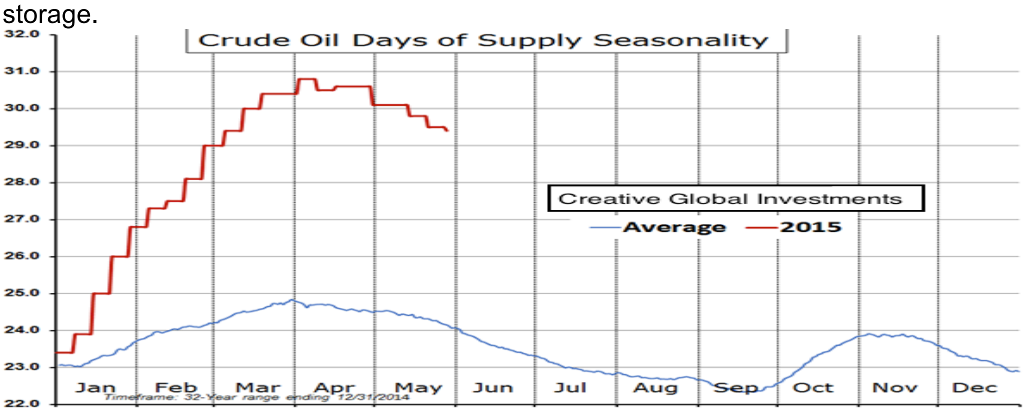
It is unlikely that the long-term declining trend in yields will suddenly shift to a long-term rising trend; a prolonged range-bound trend, either as part of a bottoming pattern or a stagnant period, is the more probable scenario.


## Oil & Energy Markets Commentary & Charts

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

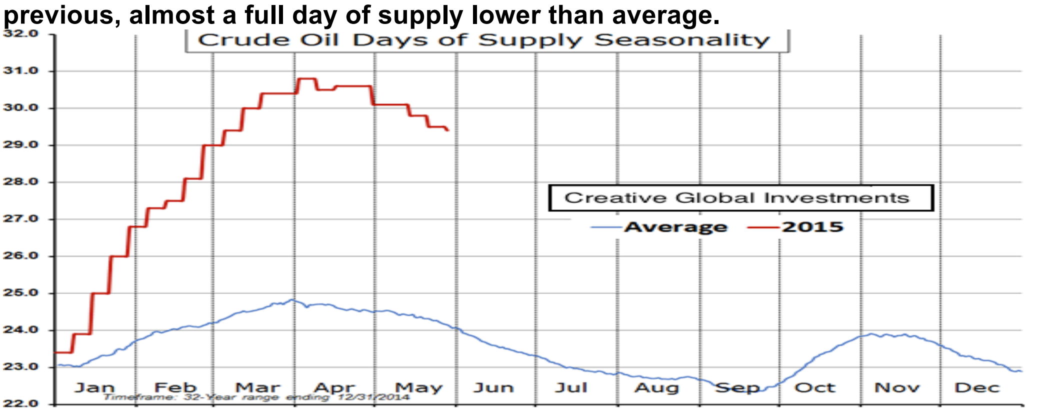

The report did indicate a drawdown for the energy commodity, however, the decline failed to meet analyst expectations as concerns persist over substantial levels in storage.

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.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