



# Creative Global Investments

## Morning market commentary & charts

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Objectivity

Integrity

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## Global equities “Sell in May & go away” anyone?

In our Q2 Global Investment Strategy published on March 23<sup>rd</sup>, we were warning investors of 2015 being a year where the “Sell in May & go away” affects would be pretty normal in magnitude, whereas US, European and Japanese equity markets would be likely doing an average -8% to -10% correction between mid-May and August.

Of course, our views were countered with the usual skepticism towards the “Sell in May & go away” theme, which we do not need to repeat again.

Well, now, let's look into major world equity markets and their performances since March.

The MSCI World Index as of yesterday's close was at 1860. 1900 was major support, which has been broken. We are now expecting for a potential drop to 1600. Investors need to watch out for a possible bear trap, which could range between 1850 and 1875. The RSI if staying below the 50-level were to confirm that the bears are in control.



Looking at equity benchmarks in Europe, stocks continue showing signs of rolling over amidst concerns pertaining to the potential for default in Greece. Benchmarks in the Euro-zone, including the German DAX, French CAC, and Spanish IBEX, broke short-term support at the May lows, starting to confirm a peak following what has been a very profitable run in European stocks year-to-date; a trend of lower-lows and lower highs may now be emerging.

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The benchmarks may be poised for a re-test of 200-day moving average lines, from which price had become significantly stretched above during the strength recorded since last October.

Seasonally, European equity benchmarks follow the same trends as the North American market, however, the moves tend to be greater on both the upside and the downside; European indices tend to outperform the S&P 500 Index from October to May and underperform during the current period of weakness.



The CAC 40 seasonality is quite similar to the DAX 30's.





In Asia, both Japanese and Chinese equities are still at or within a few percentage points of their 7-year highs, however, the air up there is getting thin too. If we see blow-off tops occur in these, we just may, in fact, see the World Market Index drop to 1,600 quickly and other indices around the world drop substantially further. In China, Exports fell for a third consecutive month in May, dropping -2.5% from the same period in 2014 in US\$ terms and -2.8% in Yuan denominated terms, both topping expectations. However, imports continued to tumble to a seven-month low, down -17.6% in US\$ terms and -18.1% in Yuan terms.

In spite of the dizzying heights reached by Shanghai Index and by the Nikkei-225, we would like to highlight the negative-diverging indicators on the following 2 daily charts. The \$SSEC closed yesterday at 5,114.



In Japan, the Nikkei 225 closed yesterday at 20,096.



One other major concern for equity investors is to keep the directional change that we see in the US\$ under close watch. The US\$ is sitting just above major support at 95.00, as shown on the daily chart. For the RSI to move back above the 50-level would be an indication that bulls are back in this trade, again, as per our Q2 Global Investment Strategy since March, we think that the \$USD has reached a top for 2015, and that with the continued sluggish GDP, that the FED rate rise is out for 2015, and that both from a macro perspective and from a valuations perspective there is no valid argument for foreign monies to flow into the US on a relative basis, and that the “temporary US\$ strength” has stopped. We continue to see increasing macro and market technical evidence that a strong US\$ is a direct negative for the US economy and for investments in US assets, and mostly for the competitiveness of the US on a global basis.

**We maintain our 2015 Q2 price target of 90 to 88.50 for the \$USD.**



The trading patterns for the US equity markets are not much different than those for European equities and Japanese equities, and with the VIX Index continuing to spike higher, an ominous technical sign for a similar summer correction in US equities is in place.



Stocks in the US ended lower yesterday as investors continued to weigh the prospects of a sooner than later rate increase following the better than expected employment report that was released on Friday. The S&P 500 Index closed below its 100-day moving average, a level that has acted as support to the positive market trend since rebounding from the lows last October.

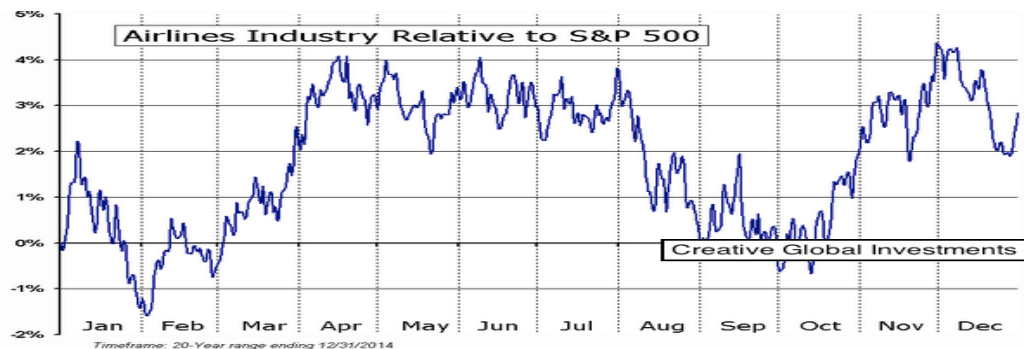
In addition to the break of the significant moving average, the large cap benchmark broke below its neutral range it has held with respect to the Relative Strength Index (RSI); RSI has gyrated between 40 and 60 for the past 60 trading sessions, the longest stretch in over 65 years. The previous record of consecutive neutral RSI readings (between 40 and 60) was 52 days, which ran from June 3rd to August 16th of 1993; the S&P 500 Index subsequently went on to gain 3.1% between mid-August and the end of the year. The track record of returns following other instances of prolonged periods (at least 30-sessions) of neutral momentum is mixed with the return for the S&P 500 Index averaging a decline of 1.62% three months out. The neutral range in equity prices has created a number of levels of significance, which could be deemed as support, including Monday's closing level around 2080.



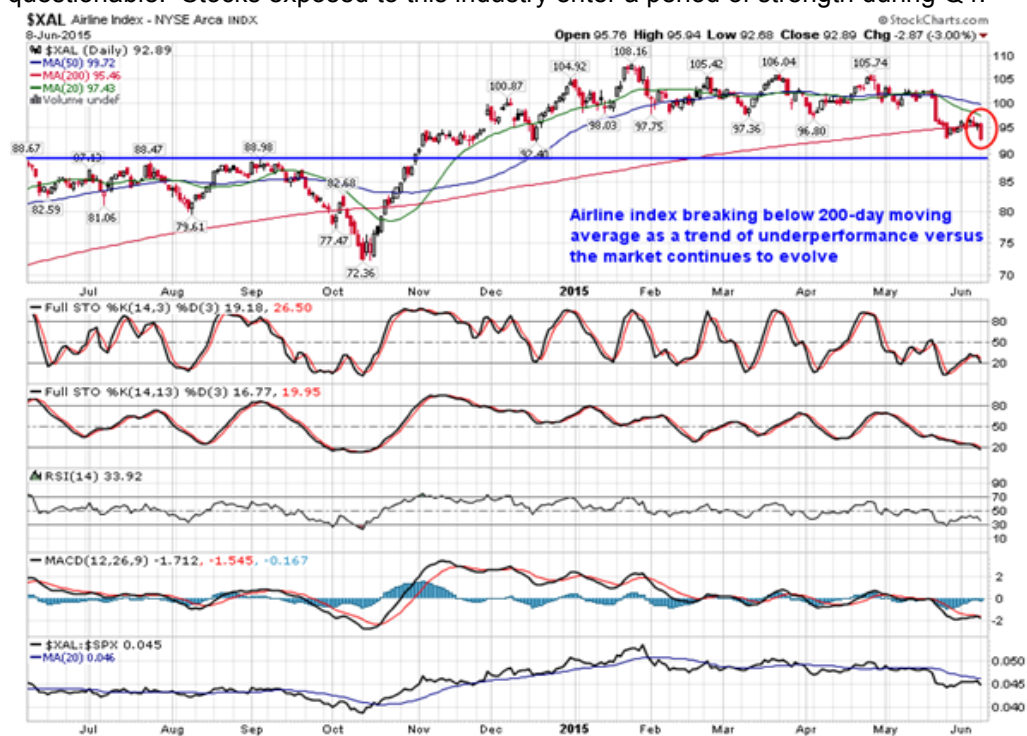
Losses during Monday's session were led, once again, by the transportation sector as airline stocks weighed. The auto sector shows technical signs of passing an intermediate peak.



The NYSE Arca Airline Index is also breaking firmly below its 200-day moving average for the first time since last October; a trend of underperformance continues to evolve. The period of seasonal weakness for the industry is well underway and the peak period of seasonal declines in August and September is yet to come.



Potential support for the Airline index is apparent at last year's level of resistance around \$89. The airlines are suffering under the strain of competition pressures following the announcement from Southwest that it will be increasing capacity in an attempt to gain market share; pricing power of the airline companies is becoming questionable. Stocks exposed to this industry enter a period of strength during Q4.



## Fixed Income markets commentary & charts

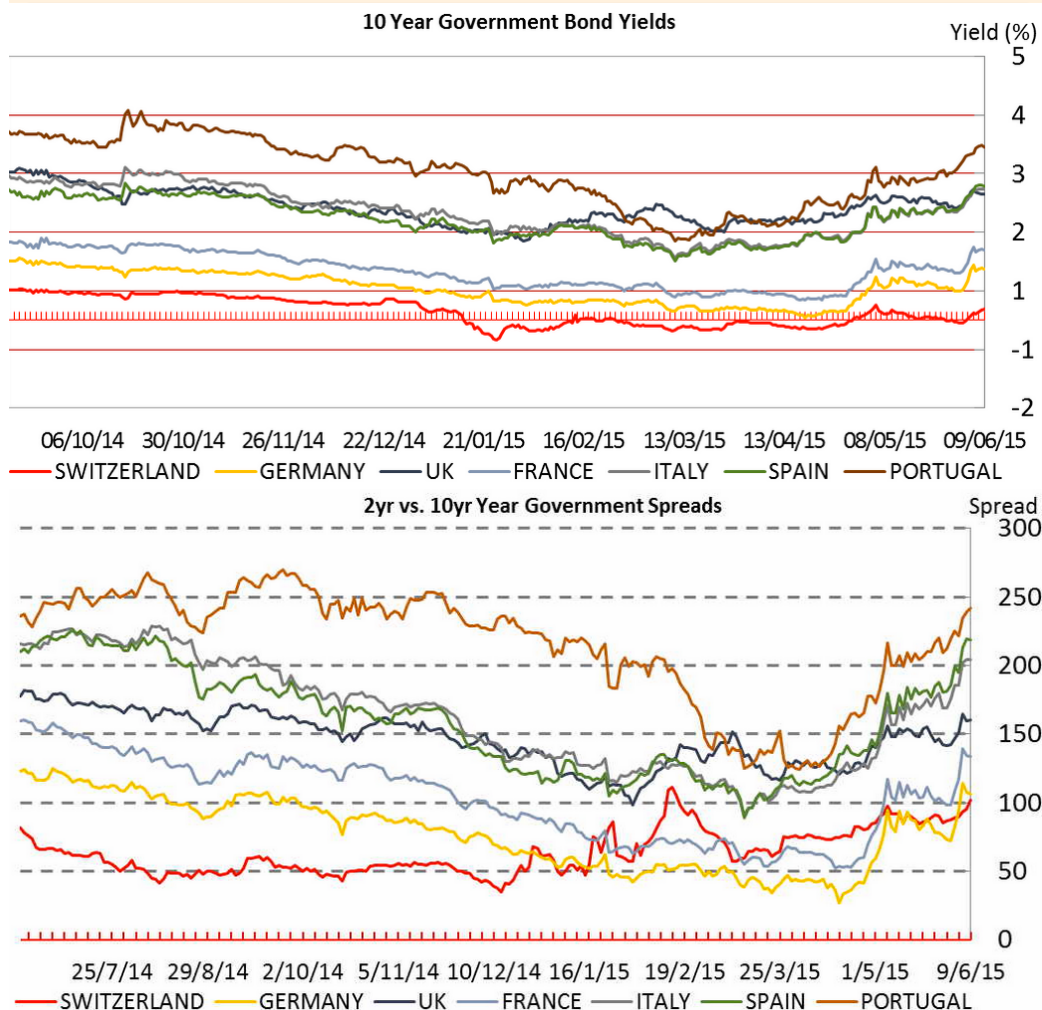
### International Bonds

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

| Country     | Latest yield | Spread vs bund | Spread vs T-bonds |
|-------------|--------------|----------------|-------------------|
| Australia   | 3.01%        | +2.13          | +0.64             |
| Austria     | 1.03%        | +0.16          | -1.33             |
| Belgium     | 1.22%        | +0.34          | -1.15             |
| Canada      | 1.79%        | +0.91          | -0.58             |
| Denmark     | 1.05%        | +0.17          | -1.32             |
| Finland     | 1.03%        | +0.15          | -1.34             |
| France      | 1.21%        | +0.33          | -1.16             |
| Germany     | 0.88%        | —              | -1.49             |
| Greece      | 11.46%       | +10.59         | +9.10             |
| Ireland     | 1.70%        | +0.82          | -0.67             |
| Italy       | 2.24%        | +1.37          | -0.12             |
| Japan       | 0.45%        | -0.43          | -1.92             |
| Netherlands | 1.08%        | +0.20          | -1.29             |
| New Zealand | 3.89%        | +3.01          | +1.52             |
| Portugal    | 2.97%        | +2.09          | +0.60             |
| Spain       | 2.24%        | +1.36          | -0.13             |
| Sweden      | 1.01%        | +0.13          | -1.36             |
| Switzerland | 0.18%        | -0.70          | -2.19             |
| UK          | 2.04%        | +1.16          | -0.33             |

After the short-term current correction in US, European and Japanese 10-Y treasuries, which we see evidence of peaking,

We are now 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



## US Bonds

We believe that the 10-Year Treasury bond prices will fail to break above the resistance level of 2.62%, as show on the next chart, as investors will weigh the negatives of higher rates, given the fragile global economy and the deteriorating macro fundamentals in the US, stemming from the "temporarily stronger US\$".

Clearly, right now, the expectation of a movement from the Fed is altering the tendency for gains; it may be ideal to revisit the trade following the typical summer rally period for equities, which peaks in mid-July.



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