Creative Global Investments

Morning Market Commentary

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Objectivity

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Mixed Signals for Global Equity Markets

Global equity markets opened higher on Wednesday morning, though gains were only slight as investors turned cautious ahead of a statement from the Federal Reserve, hoping for indications of when the central bank will begin to taper stimulus. Following the heavy sell-off in June, the strong rebound in markets in parallel with slowly improving US economic data suggests that traders are beginning to feel more comfortable with the idea that quantitative easing will not be around forever. Markets this morning were also digesting the news that ratings agency S&P has cut the sovereign rating for Italy by one notch from 'BBB+' to 'BBB' on the back of weakening economic prospects. The rating action reflects our view of a further worsening of Italy's economic prospects coming on top of a decade of real growth averaging minus 0.04%.

US equity markets recorded strong gains yesterday, boosted by a strong employment report for the month of June. **Thus far, the start of July seasonal "bump" has proven to be quite successful with a gain of 2.3% for the large cap index between the end of June and Friday's close. The positive effect largely concludes this week as earnings season anticipation fades and portfolio positioning for the start of the new quarter and second half of the year are completed. We are expecting the usual negative seasonal trend for the broad equity markets between July and October to manifest, as a lack of positive reoccurring events and subdued volumes promote volatility through the remainder of summer.**

We see three significant threats to impact equity market strength ahead, which we believe global investors have not taken adequately into account:

1. Rising US$

The US$ Index reached another three year high. As per our report on Monday, the recent temporary US$ strength has already impacted the US' trade deficit in a violent way, and our short-term currency analysis. The rising US$ is the next threat for equity markets. Companies are forced to repatriate currency at unfavorable rates, which is likely to impact earnings and guidance for the earnings season ahead. Seasonally, the US$ tends to trend negative during the summer period due to a lack of favorable fundamental events.

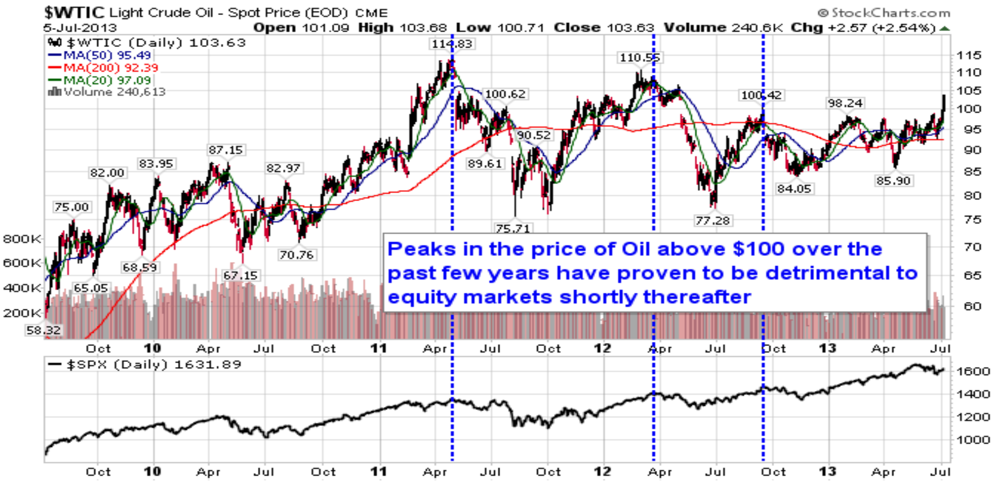
The Euro broke support at 127.96. We believe this short-term weakness offers investors a great opportunity to buy the Euro and European equities. Stochastics and the RSI remain neutral-to-bullish signaling that sideways-to-higher prices are likely near-term. If it extends this month's rally, the 75% retracement level of the February-April decline crossing is the next upside target. Closes below the 20-day mva crossing would confirm that a short-term top has been posted.

2. Surging Interest rates. The yield on the 10-year note once again broke to the highest level in almost 2 years with a push above 2.7%. The abrupt increase in the cost of borrowing is already having a significant impact on interest sensitive stocks, such as REITs and Utilities, both of which are seasonally positive at this time of year, but were pressured lower on Friday amidst the broad market strength. Abrupt increases in the cost of borrowing, such as what has been realized over the last couple of months, could cause shocks to the economy and, in turn, the equity market. Seasonally, interest rates tend to decline during the summer, as volatility and a slowdown in economic data tend to drive investors out of stocks and into bonds.

Surging interest rates already have impacted several sectors, such as Real Estate;

And similarly Utilities

3. Rising Crude Oil, prices. WTI pushed well above $104.74 a barrel this morning. Unrest in Egypt has caused the energy commodity to surge higher amidst concerns that worldwide distribution will be disrupted. Peaks in the price of Oil above US$ 100 over the past few years have proven to be detrimental to equity markets shortly thereafter as consumer spending becomes pinched and corporate energy costs rise. Seasonally, oil typically rises at this time of year as the peak summer driving period begins, however, the recent advance attributed to supply concerns even threatens this seasonal pastime, as well as the positive spinoff effects that the road-trips inject into the economy.

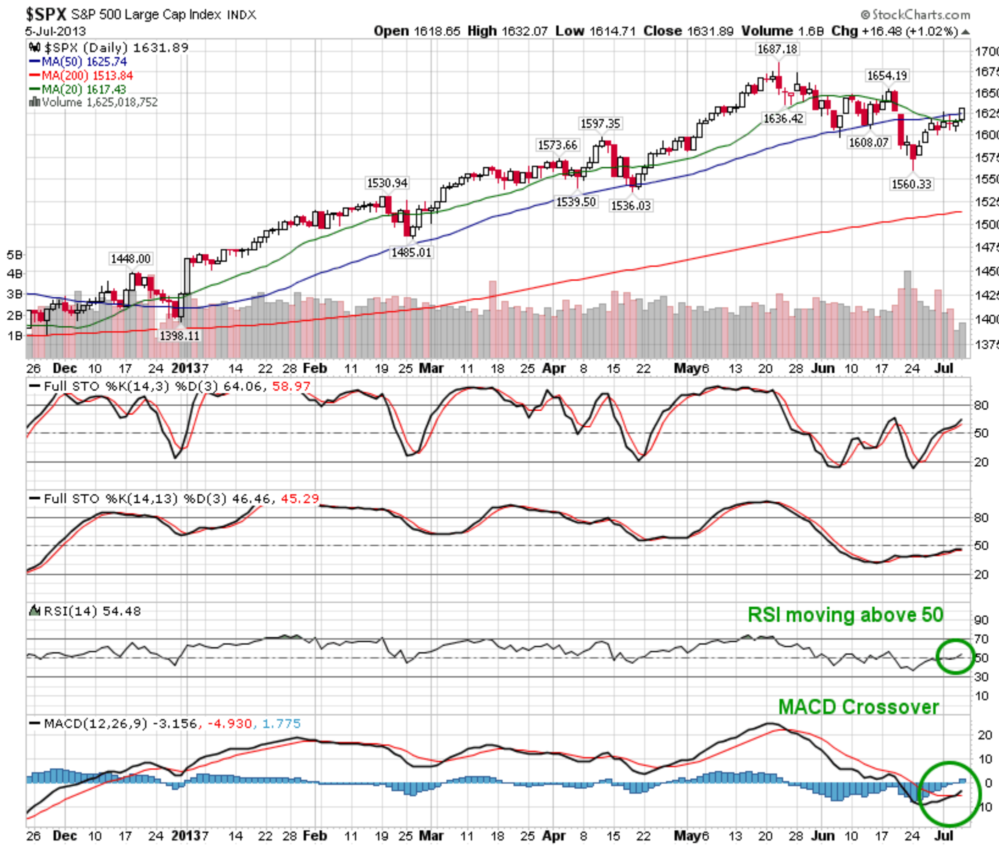


We continue to advise clients to wait for lower prices in global equities, as each of these three threats increase the cost of doing business and potentially threaten revenues should the consumer be impacted for a prolonged period of time. Although the trading activity of interest rates, the US$, and Crude Oil may not be following the typical seasonal norms, the volatility and potential weakness that may be imposed on the broad market is very much typical.

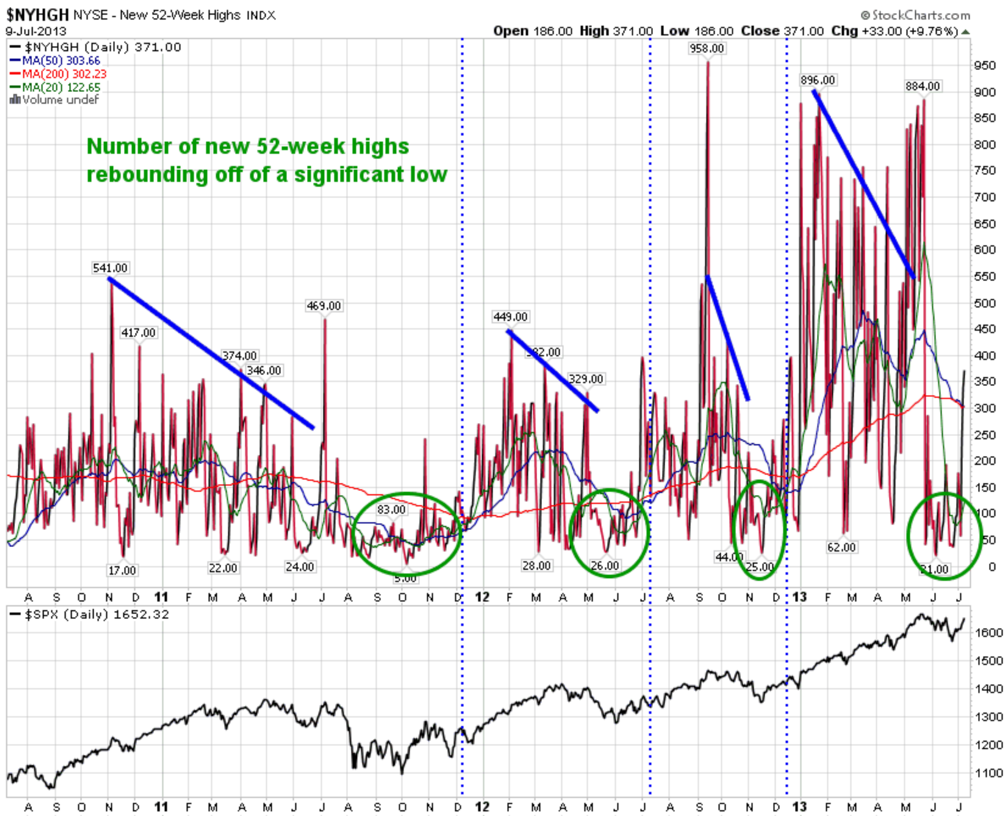
Data going back over 62 years shows that the S&P 500 Index has gained an average annualized return of 21.48% per period followed by an average annualized return of -2.04% per period from July 17th to September. The S&P 500 Index has a history of moving higher 71% of the time from July 1st to five trading days following US Independence Day, specifically, the S&P 500 Index has a history of outperformance during the first 18 calendar days in the month when quarterly earnings reports are launched.

From a short-term perspective, the trend remains negative, however, intermediate momentum indicators have recently triggered a positive event. On the S&P 500, a MACD crossover was recorded during the past couple of sessions; RSI also pushed above 50. Despite these technical triggers, much remains desired with regards to the trend of these same momentum indicators. RSI has predominately shown a flat trend since the start of June, while MACD has been trending lower. A change of this negatively biased technical picture, where the short-term trend of a number of momentum indicators remains flat to negative, coinciding with lower-lows and lower-highs in the price action, is required justify an altered seasonal view of equity markets over the next three months. **The gains of yesterday pushed the S&P 500 precisely up against a point of resistance that is derived by the mid-June highs. Tuesday's high of 1654.18 falls just one one-hundredth of a point shy of the 1654.19 short-term peak. This is the last hurdle holding the large cap index back within the recent short-term negative trend. The benchmark has recently overcome variable resistance presented by both the 20 and 50-day moving averages and momentum indicators have curled positive, charting bullish crossovers, however, further evidence is required to confirm positive momentum of the market past the typical seasonal bounce that accompanies the start of the**

third quarter; positive broad market seasonal influences largely conclude by mid-July as investors begin to digest earnings results and fully price stocks with updated valuations.

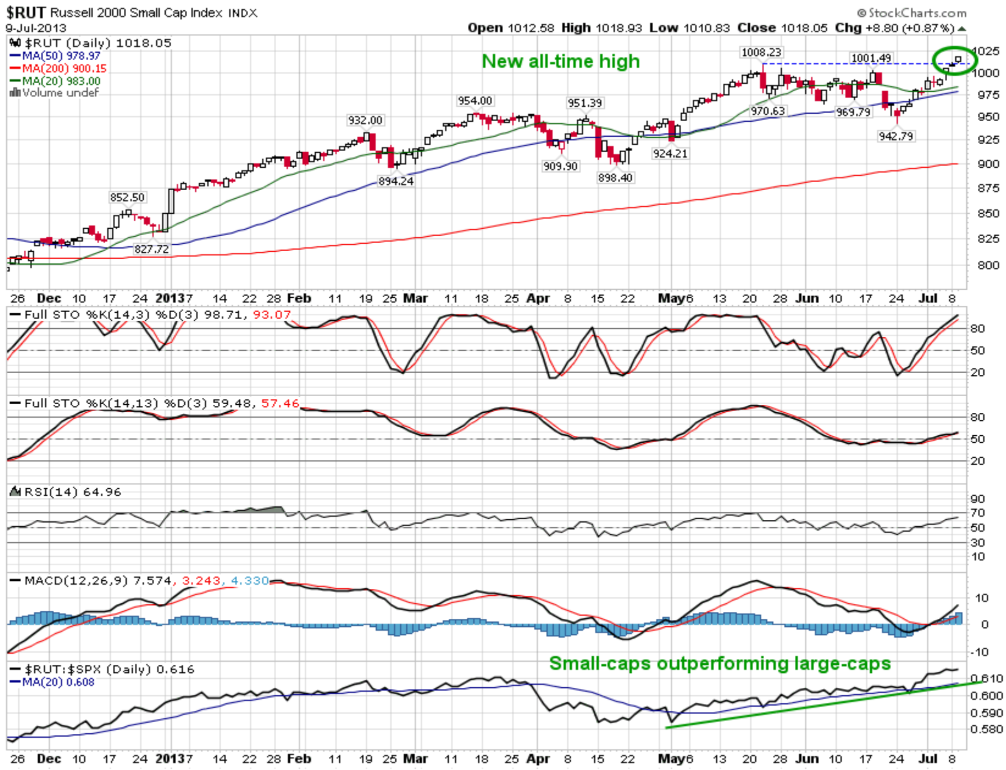


The NASDAQ Advance-Decline line continues to chart a path of higher-highs and higher-lows, implying positive breadth. And the number of new 52-week highs on the NYSE is rebounding from a significant low, typically a precursor to positive intermediate equity market trends.



After the closing bell on Monday, Alcoa reported results that topped expectations; shares of the company, however, ended lower on Tuesday. The aluminum producer is approaching a period of significant seasonal weakness that runs from August into October; average loss over this period tops 8% as manufacturing activity seasonally declines during the summer months. The stock remains within a negative intermediate trend, defined by lower-highs and lower-lows, however, momentum indicators have recently curled positive, implying a short-term bounce may be progressing. The stock is representative of the materials sector and the seasonal weakness that this market segment experiences into the end of summer, dragging upon major equity benchmarks and fuelling volatility through to October.

The Russell 2000 Small Cap index charted a new all-time high on Tuesday. Outperformance of Small Caps versus Large Caps is increasingly apparent, suggesting improving conviction to riskier assets. Bullish sentiment prior to the release of second quarter reports prompted selected indices and sectors to touch all-time highs yesterday including the Russell 2000 Index and three consumer related sectors. Focusing on the positive aspects of equity markets at present, strength is building.

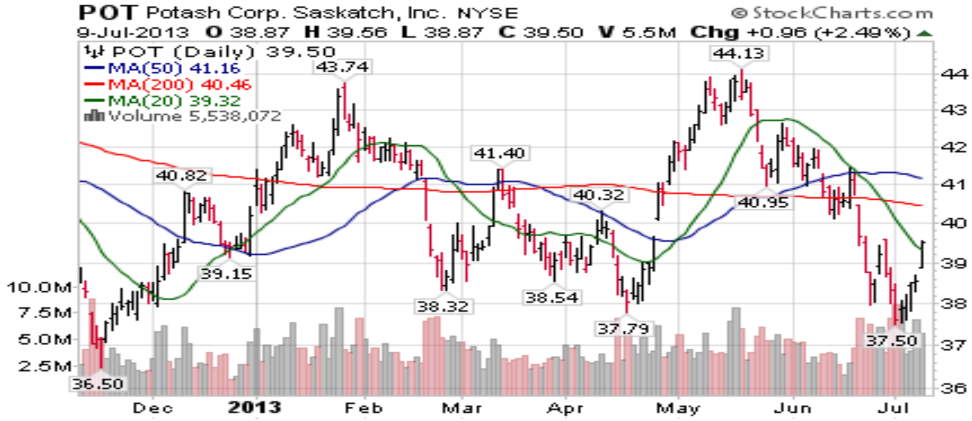


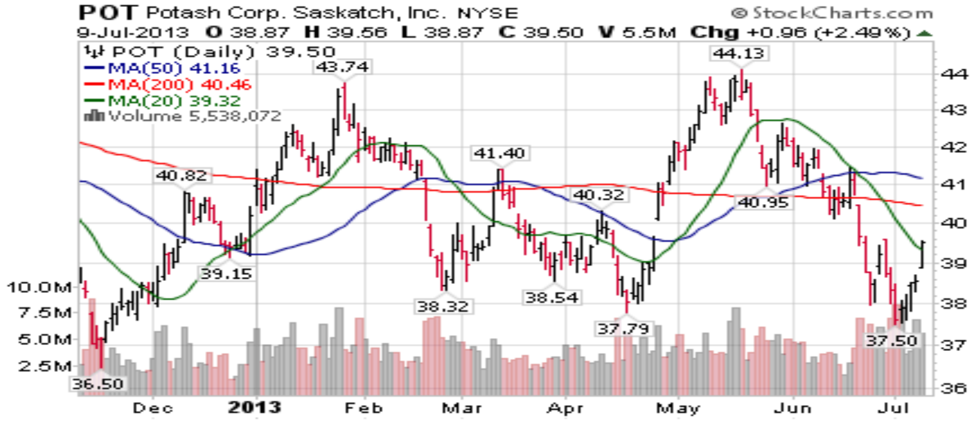
Most of these particular market technicals are suggesting continued strength for equities ahead, despite looming seasonal patterns that suggest otherwise, and besides the three major equity market risks, which we highlighted above. Still, further evidence is required to verify a counter-seasonal rally, similar to last year's market surge that ran through the month of September.

Commodities

Grain prices were notably stronger yesterday despite strength in the US$ Index.

Fertilizer stocks quickly responded to higher grain prices. This is a favorable season for fertilizer stocks to move higher.





Gold, Silver, Precious Metals

Gold and gold stocks were notable movers the past days on the upside. Gold is moving through a typical base building pattern for this time of year.

Performance relative to the S&P 500 Index is showing early signs of change from its current negative stance

Oil, Nat Gas & Energy

Crude oil prices strengthened again yesterday to a 14 month high. That's good news for energy stocks and not so good news for the S&P 500 stocks. Higher energy prices raise costs and reduce profit margins. Crude oil prices already are overbought, but have yet to show signs of peaking. Watch out for comments about higher energy costs when S&P 500 companies release third quarter guidance.

Higher Oil and Gas prices ahead

The annual summer driving season for Europe and the US has started. Historically, it is cheaper to fill the tank today than come Labor Day. Crude oil prices, which have remained relatively flat in recent months, are apt to rise for several reasons.

Gasoline prices, which have declined by about 10% since their February highs, are likely to head higher along with crude.

We are expecting for pricing pressure on Oil and Gas to increase both from the US and overseas perspective in the coming weeks.

Additionally, there are

US consumer confidence climbed to a five-year high, aided by recovery in the housing sector. Encouragingly, consumers' expectations for the next six months soared as well, besting analysts' forecasts by a wide margin. That kind of enthusiasm can quickly translate in greater spending across the board, especially if the job market continues to improve.

China's leadership has signaled that it is targeting 7.5% annual growth going forward. Europe's industrial production is still struggling, but the latest numbers have improved over previous readings. And although the region is still mired in recession, increasingly we see indications that the austerity policies that so hobbled many of the continent's economies are giving way to more growth-oriented measures. **We see pessimism towards Europe's prospects being so great that from a contrary perspective, European economic recovery could well prove to be the positive surprise story in the 2H of the year.** The recent weakness in commodity prices has gone hand-in-hand with the slump in Europe. Even just a modest turnaround there would reverse that trend. In such a case, instead of a further decline in Europe's oil consumption, the region's use of black gold could actually rise, leading to a corresponding increase in energy prices.

On the supply side, OPEC expects demand for its oil to average nearly 30 million barrels a day in the second half, up from little more than 29 million barrels per day at present. What limited spare capacity the group does possess mostly rests with Saudi Arabia, which would be happy to see higher prices to cover the Kingdom's massive social programs. Supply issues, meanwhile, in Nigeria and elsewhere, could leave the cartel struggling to meet the increased demand. **Outside of OPEC, the biggest increases are expected from the US oil-production, which has already reached a 21-year high**. This has lead to misguided hopes that we are en route to energy independence. Even near-term, the increase in output in North Dakota's Bakken, the principal source of production growth, currently looks like it is slowing. In other words, an increase in US oil pumping will do little, if anything, to hold prices down in the face of stronger demand.

The risk premium on oil is rising as tensions run high in the volatile Middle East.

geopolitical issues at work.

In a bid to counter Russia supplying the Assad regime with weapons, the EU is moving to arm Syrian rebels. Hezbollah fighters from Lebanon have also stepped into the conflict to support Bashar al-Assad, threatening to draw a response from Israel. Iran, meanwhile, remains intractable in its nuclear ambitions and its determination to prop up Assad. So, even absent stronger global economic growth, we could be faced with higher oil prices later this year.

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