Creative Global Investments

Weekly investment strategy & charts

Monday, July 10th, 2017

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Objectivity

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Macro economic & political commentary

***In Asia,* the North Korea conflict is nothing new as several administrations have failed to arrive at a peaceful resolution**. But, escalation is creeping into never-before-seen territory, in that North Korea's ballistic missile programs are more developed than ever and it continues on with launches meant to serve as threats. The US is getting more aggressive in calling for sanctions with all nations that have any dealing with North Korea, which is a tacit call-out on China. US ambassador Nikki Haley said that North Korea’s actions are "quickly closing off the possibility of a diplomatic solution," and she asserted that the US is ready to use military force against Pyongyang. Nevertheless, we deem the probability of an all-out war with North Korea at lower than 10%, but the conflict is worth monitoring with greater vigilance.

China has been making nominal moves to open its capital markets and economy more, and its latest efforts focused on debt markets. Overseas investors can now purchase debt in the world’s third-largest debt market (behind the US and Japan), via a bond-connect program administered between China and Hong Kong. Should investors rush to diversify debt portfolios in the wake of the news? Not necessarily. These types of debt instruments and diversification tactics are largely reserved for institutional investors, who have enough capital and liquidity access to manage the risk pool. The new bond-connect system is now up and running.

***In Europe*, the G-20 meeting in Hamburg was filling the news over the weekend, where besides much protests, Donald Trump has been unfortunately showing more of his differentiating views on global trade, and global security, and been isolated more and more by the remaining 19 of the G-20 members**. G20 headlines had no impact on Foreign Exchange and other financial markets this morning as the overall language reads very familiar. The great divide between G-19 and the USA remains climate control and trade, with President Trump winning minor concessions on steel concerns. The US has argued unfair steel dumping practices are hurting US jobs. But with the market opening at or near Friday’s closing prices, G20 is being viewed as a non-event by market participants.

In the UK the “Brexit” implications have had confidence among both large and small businesses collapse amid mounting concerns over the domestic political backdrop and fresh evidence that households, the engine of recent economic growth, are tightening their belts. A series of business and household surveys have raised concerns that the UK may be performing as poorly as it was at the start of the year, when the economy grew by only 0.2% in three months. Additionally, UK household spending has fallen at the fastest rate in almost 4 years as rising prices have made consumers less willing to splash out on furniture, clothing and trips out. Spending fell by 0.3% between April and June compared with the same period a year earlier, the biggest drop since Q3of 2013, according to Visa's consumer spending index.

In the US, the Trump Administration seemingly pursues “America First” policies aimed at “leveling” trade relationships with other nations; many of those very nations are taking cues to get busy forming other alliances. The European Union and Japan are set to sign a free-trade agreement which would cover automobiles, agriculture, and other products while China and Russia continue to cozy up with leaders already having met three times this year to ink at least $10B in agreements. President Xi Jinping of China told Russian media that relations between the two countries were currently at their "best time in history" and the two nations were each other's "most trustworthy strategic partners." Meanwhile, perhaps the most-watched meeting of the year takes place between President Trump and President Vladimir Putin on the sidelines of the upcoming G-20 summit. Trump has repeatedly called for improved ties with Russia, but he will have to grapple with shaky encounters and diverging goals in Syria along with the ongoing investigation into Russian hacking in the 2016 US presidential election. The Trump administration's tough stance on trade includes consideration of an unusual strategy: labeling steel and aluminum imports as a threat to national security and thus subject to steep tariffs. The conclusion of PIIE studies is that such measures would undermine the rules-based trading system by invoking national security to justify trade barriers beyond what has been considered acceptable in the past. New trade restrictions on these grounds would likely damage the US economy and lead to retaliation against US exports by trading partners

Whilst most sell-siders still believe the US economy is moving ahead, we have the obligation to show that that is not the full story. The International Monetary Fund (IMF) has pared down its outlook on US economic growth, thanks to growing uncertainties around the nation’s fiscal policies. Should that pose headwinds for equities? Not so fast, we say. From 2.3% in its April update, the IMF’s US GDP growth forecast for 2017 has dipped to 2.1%. The Fund has trimmed down on next year’s growth as well – to 2.1% from its April projection of 2.5%. Dragging down the Fund’s projections are growing uncertainties around Donald Trump’s proposed policies. Trump’s promises to supercharge the economy had led the IMF to shoot up its growth projections in January, under hopes that the proposed tax cuts, infrastructure spending, and other pro-growth reforms would gain steam over the year. But now, fuzzy implementation paths of the proposals have made the Fund remove the policies from its forecast. On the other hand, Trump’s administration has predicted that the annual real GDP growth will reach 3% by 2021, and maintain the same rate each year through the remaining forecast horizon till 2027 (as mentioned in the budget proposal for Fiscal 2018). The IMF, however, has hinted at its apprehensions about the assumption. According to the IMF, the White House’s projection of the US growth path is “unlikely” to materialize, since the implied level of acceleration has been rare in advanced economies since the 1980s, and has occurred only amid strong global demand and during recoveries from major recessions. It also mentions slowing productivity gains and an aging population as potential headwinds to the nation’s growth landscape.

Policy uncertainties have dimmed IMF analysts’ projection of US growth. The Fund is also skeptical of the US government’s target of a sustained 3% growth in the US Whether or not the US achieves the growth rate path assumed by the proposed federal budget, what remains true is that growth is growth at the end of the day. As the world’s largest economy, there may not always be room for earth-shattering growth. Still, the US economy is on its third-longest expansion since 1850 (as mentioned in an IMF note), and is expected to grow positively at least over the next few years. Its GDP growth rate in 2015 was ahead of that of several other advanced economies, such as the UK, Germany, Japan and France. The IMF’s negative adjustments to growth forecasts for the next few years could spell bearish sentiments for US markets.

Another weak spot of the US economy, which we have highlighted for 15 months, now is that in Illinois neighbor state, Michigan, the biggest employer, namely the Big Three Automakers are experiencing car sales again softening more than what analysts and economists are projecting. Detroit's car companies reported steep sales declines in June, capping a bumpy 1H of the year for the US auto industry and setting a bleak tone for the summer selling season. Analysts now expect overall auto sales to have fallen more than -2% in June compared with the prior year. The industry's selling pace hit its lowest point since 2014 over the 1H 2017, and traffic at dealerships fell to a five-year low in June. Buyers are stretching more than ever to afford cars and trucks that are growing increasingly more expensive due to a barrage of safety gear and connectivity options. Estimates also show the average auto-loan length reached a high of 69.3 months in June, with the average amount of financing reaching $30,945, up $631 from May.

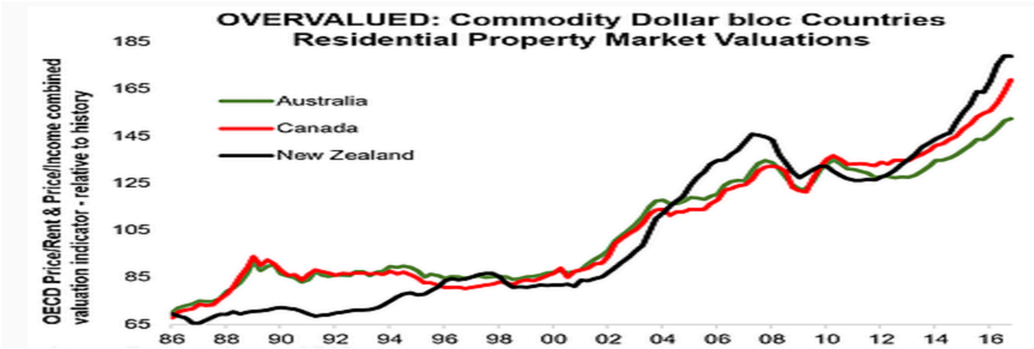
General Motors Co. said US sales fell -5% to 243,155 vehicles, while Ford Motor Co. said sales totaled 227,979 vehicles, down -5.1% from a year earlier, and Fiat Chrysler Automobiles posted a -7% decline to 187,348 vehicles.

Japan's top sellers fared better during the period, with Honda Motor Co. reporting a 1% increase compared with the previous June with 139,793 vehicles sold, aided by gains at its Acura luxury division, while Nissan Motor Co. sold 143,328 vehicles, or 2% more than the prior year, as it ramps up its reliance on trucks. Toyota Motor Corp. notched a 2.1% gain, with 202,376 vehicles sold.

Last week, the US census bureau released the advanced look at international trade for the month of May. The headline print indicated that the deficit narrowed to $65.9 Bn, from $67.1 Bn previous, the result of a -0.4% decline in imports combined with a 0.4% rise in exports. Stripping out the seasonal adjustments, the results contradict the headline results. Exports rose by 3.8% and imports jumped by 7.6%, both above the average May change of +1.9% and +1.6%, respectively. The gain in imports puts the y-t-d change firmly above average, while exports remain stuck below its seasonal norm.

The result is in opposition to President Trump's desires, which he has indicated his intention to reduce the trade deficit by promoting exports and hindering imports, possibly by way of an import tax. Focusing on the export side, a large jump in auto and consumer exports helped to support May's export gain, but both are merely recouping the losses recorded in the month of April. Auto exports are back to average levels on the year, while the other categories lag their historical norms. The below average results have been a detriment to manufacturing activity in the US as negative impacts from the high US$ weigh on activity.

One quick note on the US housing market: US$ countries have tremendously overvalued housing markets. (note, the same indicator for America was at 102 in the latest reading) (Also note the indicators show valuations versus history rather than absolute valuation levels - so we are comparing the degree of over/undervaluation, not relative value).



Even though current US asset valuations (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 metric comparison from the recent past's biggest equities bubble which started in 1994 and ended as we all know too painfully in 1999, the current valuation metrics are frightening:

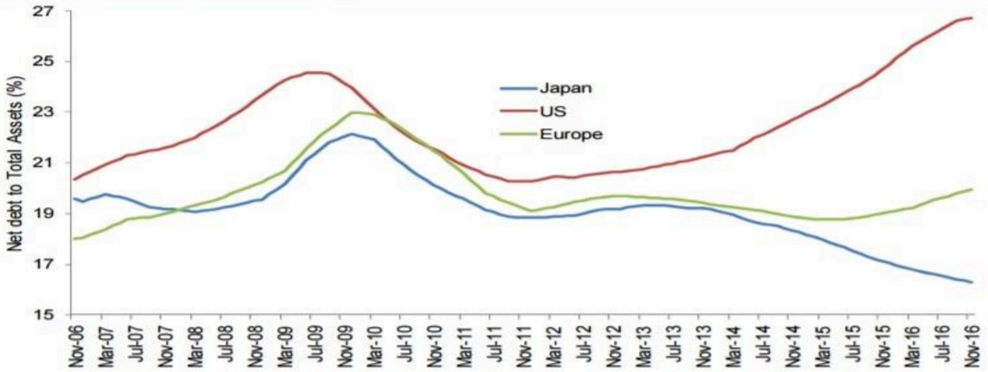
US Economic Valuation Metric	1995 – 2000	2012 – 2017	Change/Diff. (%, $)
US GDP	$9.89 TRN	$18.20 TRN	+$9.32 TRN
US GDP Growth	4.05%	1.90%	-2.15%
US GDP Trend	2.30%	1.80%	-0.50%
US Productivity Growth	1.85%	0.50%	-1.35%
US Federal Debt	$5.36 TRN	$18.2 TRN	+$12.84 TRN
US Federal Debt/GDP	60.50%	106.2%	+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 todays!

Return on equities for the S&P 500 companies are at an all time low.

Another major economic concern we would like to highlight is the ballooning Debt to Asset ratio's of the US, as the following chart shows:

Debt to Asset Ratio's in the US by comparison to Europe and Japan



The US economy shows increasing signs of slowing, as we have been pointing out for the past 10 weeks, we believe that the recent weak US macro data are the precursors to a recession. The case that a recession is increasingly likely simply by looking at the frequency with which they occur.

The last US recession started in 2007 and ended in 2009.
The one before that started and ended in 2001.
The two prior recessions ran from 1990 to 1991 and from 1981 to 1982.

In all cases, the time between the end of one recession and the start of another was about eight years on average. Between 1945 and 1981, recessions were much more frequent. 8 years have passed since the last recession, and based on data going back to 1980, the US is in the structural time window for a slowdown or a likely recession, sometime between now and 2019. During expansions, economies tend to accumulate inefficiencies. Low interest rates allow businesses to survive despite their inefficiency, and this will continue if a recession does not occur. In the current expansion, we have had extraordinarily low interest rates, so even with relatively low growth rates, pruning is needed.

Recessions are unpleasant and hurt some people disproportionately. However, the US recession will likely hurt other countries more. When combined with other global economic problems, the recession will likely weaken Europe's recovery and similarly weaken China's economy, and could put further downward pressure on commodity prices. The 2007-09 recession hurt the Chinese tremendously because their biggest export customers were the United States and Europe. In due course, the Chinese slowdown cut China's consumption of industrial commodities, including oil, hitting countries like Russia and Saudi Arabia.

The US avoided the worst of this because, while it is the second-largest exporter in the world, exports account for only about 12.6% of its GDP (the US ranks only 161st in the world in terms of exports as a percent of GDP). In part, this lack of dependence on exports helped US GDP grow on its internal engine.

The decline in the US economy will inevitably lead to a drop in US imports, unless the US$ would weaken substantially, which we believe it will.

Countries that were driven by exports are now using diminished export demand to simply maintain their economies in the hopes of generating enough domestic demand to replace lost markets. In most cases, they have achieved a fairly precarious balance at this point that is much more subject to destabilization than in previous cycles. A relatively small drop in global demand can have a substantial impact. Thus, a routine US recession will lead to a small global decline, reversing gains in stabilization made in recent years.

The downturn in export demand will have a ripple effect because exporting countries are also importing countries. As American demand contracts, exporters' economies will be affected and their need for imports will contract as well. This domino effect is normal. The problem is that the international system's vulnerability has grown dramatically because many countries have become excessively reliant on exports, and this has been accompanied by a general weakness in their domestic economies. Therefore, the ripple effect, while not a tidal wave, will be more substantial than would have been the case before 2008.

A US recession could put pressure again on oil prices. The price of oil is now subject to market forces rather than any concerted action by oil exporters. Historically, as oil prices fell, industrial production increased. Whilst lower oil prices historically have helped to solve problems for exporters of manufactured goods, they have also created massive problems for oil exporters, and now, the US wants to become one of the biggest exporters.

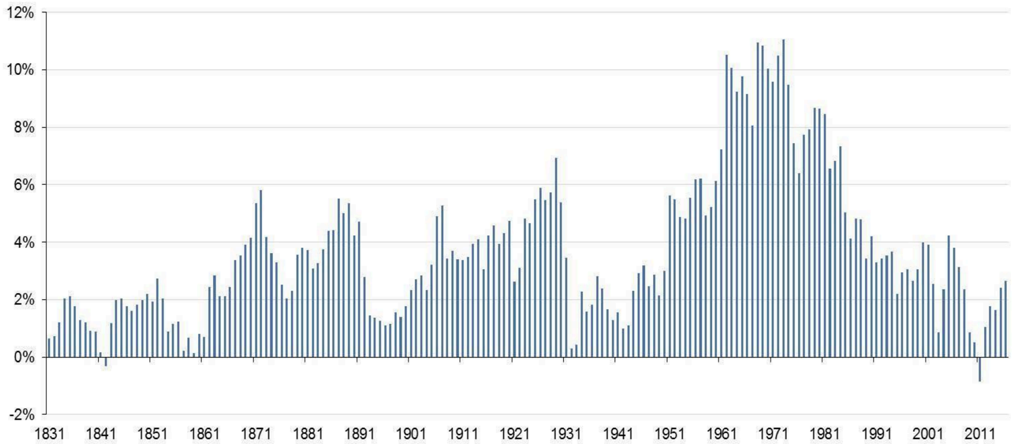
As for Russia and Saudi Arabia, should oil prices be stuck below $50 a barrel, the pressure on these countries' economies will increase. Both will try to manage their regional interests in the face of deepening internal challenges. The credibility of these regimes depends on their ability to maintain a degree of well being appropriate to their historical patterns. Those patterns will be difficult to preserve.

As our research has shown, the US will suffer significantly in this situation. As we have written before, we see the likelihood increasing of a recession in the next two years during Donald Trump's presidency, and consequently a recession would place Trump in a difficult political position moving toward the 2020 election. The US would not be as exposed as export-dependent nations, but the political repercussions would require Trump to have much stronger domestic policies in place.

The last recession is 8 years ago, and 10 years has been the longest period between recessions. The precursors to a depression, such as irrational exuberance of asset classes, rising interest rates, a negative yield curve, and proclamations that "this time, it's different", have at most been modestly appearing.

As per our Q2 Global Outlook and Investment Strategy, we have been advising our clients to reduce exposure to the US$ ($USD) and US equities ($SPX), and instead increase allocations into US long bonds, namely 10-Year Treasuries ($TNX), and into EU and EM currencies and equities, which form a tactical Asset allocation call has been spot on so far in the current quarter.

Risk Premium of US shares vs. US Government Bonds (30-y rolling returns in %)



Currencies Commentary & charts

Last week, the Euro hit our most aggressive EURUSD 1.14 target for end of Q2. That was against a full year EURUSD consensus of 1.04, with 14 out of 27 Bloomberg ranked currency forecasters calling for the Euro to drop under par against the US$. So far for currency experts and their value added to create alpha.

We continue to see the Euro to stabilize further and continue to rise. Safe heaven

currencies like the US$ and like Gold will reverse course and decline. As per our Q3 Global Investment Outlook & Strategy, the EUR/US$ is on track to rise to our Q2 end target of 1.18, and our 2017 EUR/USD target of 1.18 – 1.20. Last week, the $USD continuing a lower trend of lower-highs and lower-lows that has spanned the 1H of 2017. Support for $USD is at 93, less than 3% below current price.

Just as we were forecasting, the US$ Index lost -5.6% in 1H of 2017, and just last week -1%, marking the US$'s largest two-quarter percentage decline since 2011, and hitting both our 1H target prices for the $USD at 96, and EUR/USD at 1.14. Even the Federal Reserve continuing to raise US interest rates, one of the few positives for the US$ this year, is no sure thing. Some Fed officials recently have expressed concern about pushing up rates amid weakening inflation. The latest was Federal Reserve Bank of St. Louis President James Bullard, who now is coming into our thought camp and said last Thursday that he doesn't support raising short-term interest rates again this year.

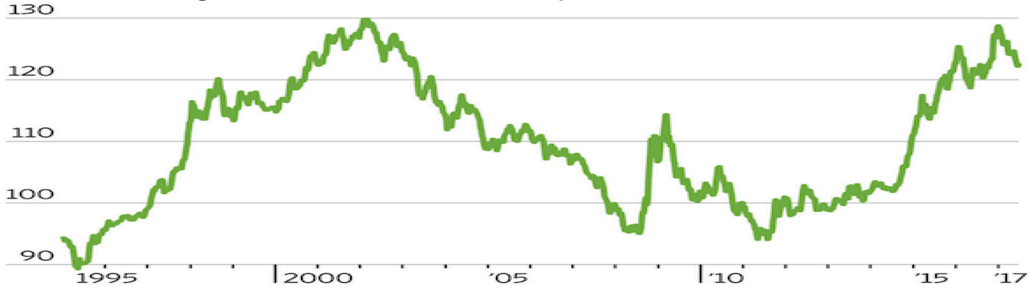
So, with no more rate hikes to come, and with a US economy showing increasing weak spots, where should the US$ be priced? As we argued for 18 months now, the only country which cannot cope with a strong US$ is the United States.

So, where do we see the US$ over the next 6 – 12 months?

- **$USD at 92, with an increasing likelihood of breaking 90**
- **EUR/USD moving back towards 1.20, with an increasing likelihood of hitting 1.24.**

Over the past 23 years, the US$ has experienced two 7-year bull markets, and one 7-year bear market. Is history repeating itself, is the current rolling over the start of another 7-year bear market for the greenback?

Trade weighted US$ until June 27th as per Federal Reserve of St. Louis



Seasonally, the $USD records a loss between July and the middle of October.

Commodities Commentary & charts

President Trump made a strong push for promoting energy development (specifically in oil and gas). The US Interior Department is rewriting an Obama-era drilling plan, with efforts aimed at opening drilling to the Arctic and Atlantic Oceans (off-limits under Obama's plan). President Trump wants America to extract more oil and gas and to become the top exporter in the world, and the work is already underway as the US State Department has already issued permits for three pipelines crossing the US-Mexico border, amongst several other energy deals reached this week. No matter what your view on oil, gas, and renewable energy markets, a push for higher production and energy dominance is likely to rebalance the market back towards oil and natural gas consumption. Oil prices have responded positively to all the events and news, with crude enduring its longest rally in over five years. Crude now hovers around $45/barrel, and building a long-term base around the $45/brl levels.

In other energy-related news, Qatar Petroleum announced it planned to increase production dramatically from its huge North Field in the Persian Gulf. The increase calls for the country's gas production to climb 30% by 2024, and that's going to have a huge impact. Qatar is currently the global leading exporter of liquefied natural gas (LNG), a result of existing production from the North Field. It is also the first gas exporter in the world to put all of its gas into liquefied natural gas (LNG), ending all exports via pipeline. LNG is natural gas cooled to about -260 °F to a liquid state, transported by specially designed tankers, then regasified at a receiving terminal someplace else in the world and injected into existing delivery pipeline networks. It allows a significant expansion in gas exports. And the LNG market worldwide is accelerating rapidly. However, so is the expected supply over the next decade. The Qatari increase, should the country follow through, could create an LNG glut internationally, thereby reducing the price, including for US LNG exporters.

Qatar is currently at loggerheads with Saudi Arabia, Bahrain, the United Arab Emirates (UAE), and Egypt. The four countries are demanding that Doha (Qatar's capital) break ties with Iran, end funding terrorism (a charge Qatar has vehemently denied), close the Al-Jazeera news service, and over a dozen other demands. The Saudis have closed Qatar's primary overland line for trade, and all four of the nations have closed their respective air spaces for flights from Qatar, including all those by national carrier (and my personal favorite service in the region) Qatar Airways. The strategic Strait of Hormuz, located where the Persian Gulf meets the Arabian Sea, remains open. This allows Qatar's LNG to move to market, along with much of the crude oil volume from Saudi Arabia and other Gulf nations further north. The Strait has the UAE on one side of its narrow opening and Iran on the other. This guarantees it remains as a flashpoint. But the Saudis and their allies are not likely to move to obstruct traffic in the face of the Iranian Revolutionary Guard Navy. Quite apart from politics, Qatar relies on Iran for three other important LNG reasons.

1. The countries jointly develop the huge North and South Pars offshore gas fields, among the largest in the world.
2. Should pressure emerge at Hormuz, Qatar may need to rely on contract swaps allowing it to export LNG from Iranian ports south of the Strait in order to have any exports at all.
3. As Iran develops its own gas and LNG projects, Doha becomes a more desirable location for joint access to capital.

Qatar, despite the current crisis, has the highest per capita wealth in the world and is a fast-rising challenger to the UAE's Dubai as the regional location to strike deals. As Riyadh engineers a tightening of the sanctions, Doha will move closer to Tehran. But that's not the only impact of Qatar Petroleum's announcement.

Again, US Energy Companies are feeling pressure. Since OPEC’s November 2014 decision to defend market position and the subsequent collapse in oil prices. Then, one of the targets was US shale oil production. Looks like déjà vu all over again, because Qatar may throw a wrench into US plans to move into the world LNG market. Exporting LNG has been an expectation for some time. It would allow for a continuing increase in shale and tight gas production, with the additional volume moving into the export flow. That flow had been intended for both Europe and Asia, the latter made possible thanks to the recently completed widening and deepening of the Panama Canal, which allowed exports from the Gulf Coast.

In both cases, the local markets provide higher prices than in the US, although transportation costs temper this advantage.

Competition in Asia from huge projects on Papua New Guinea, five major LNG export developments in Australia, and expanded Sakhalin production from Russia, along with major networks already in place for MENA (Middle East North Africa) deliveries to Europe are lowering expectations. For its part, Qatar is dominant in both the European and Asian markets, with the largest fleet of tankers in the world, established infrastructure, and multi-year contracts. Its decision to expand its LNG trade by some 30% is certain to put some downward pressure on prices.

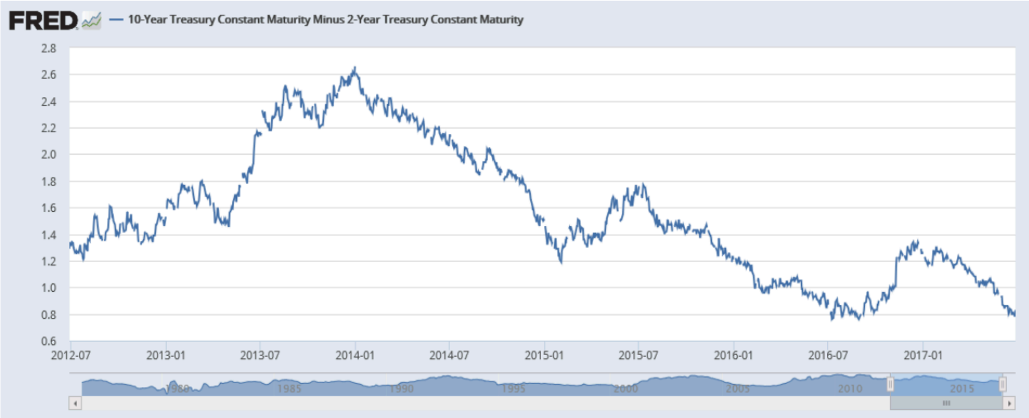
US companies note that Beijing has recently allowed its domestic importers to strike private deals with American exporters. However, some observers believe the Chinese may simply use the new option to leverage lower prices from Qatar. Another element should be remembered as we watch whether Qatar delivers on the increasing gas production decision. As the widening of the global LNG market unfolds, a rage of arbitrage and swaps will emerge quite unlike anything ever witnessed in the energy sector.

Fixed Income commentary & charts

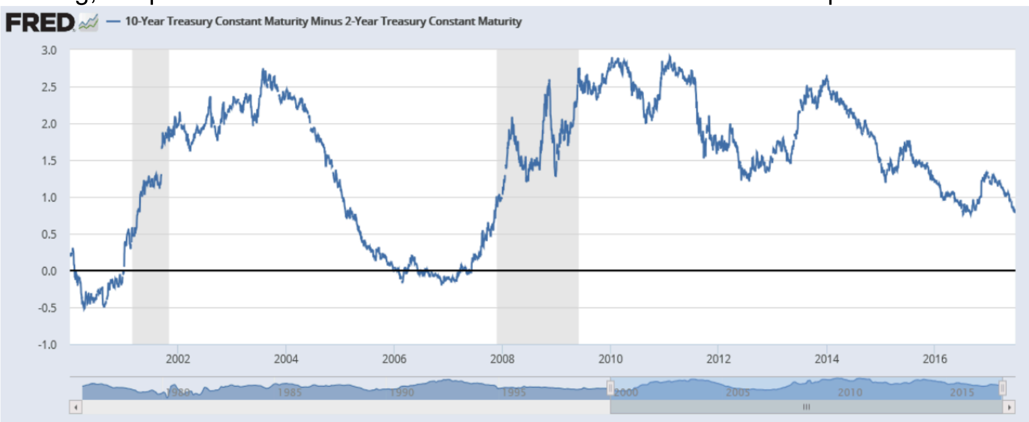
The spread, between the 10-Year US Treasuries yield and the 2-Year US Treasuries yield. A widening spread denotes bullishness and economic growth expectations, while a declining spread that goes negative (or inverts) signifies slowing economic growth and, even, the likelihood of a recession.

For clarity, a negative or inverted yield curve indicates that long-term debt instruments have a lower yield than short-term debt instruments, given that these debt instruments are of the same or similar credit quality. Historically, inversions of the yield curve have preceded many US recessions. Thus, the yield curve is considered an important barometer for predicting turning points in the business cycle.

The current (June 27) 10-2 yield curve reading is 0.83x, and falling. This is nowhere near a recessionary reading of 0.00x. However, the trend is distinctly down and it is close to its five-year low from a year ago and compared to the recent high of 1.34x. Here is a five-year chart (June 2012-June 2017):



Here is a look at the 10-2 yield curve going back to January 2000. It shows the negative occurrences and the corresponding recessions that soon followed. The 10-2 yield curve is nowhere near the 0.00 level needed to denote a recession. With US economic growth slowing, the possibilities of a recession in the US seem not out of the question.



Equities commentary & charts

Geo-political events in a wide variety of countries (most notably in the US) could change the tone and direction in equities this week.

Not much changed last week for world equity markets! Equity markets (except China) remain intermediate overbought and vulnerable to a correction. The usual period of summer weakness from Mid-June to Mid-October has arrived. The Dow Jones Industrial Average and S&P 500 Index probably reached an intermediate peak on June 19th. However, volatility measured by the VIX Index remains relatively mute. Currency changes had an oversized impact on bond and stock markets last week. The Canadian Dollar continued to strengthen in anticipation of the expected Bank of Canada rate increase on Wednesday. Canadian equities trading actively on US exchanges (most notably commodity sensitive equities) responded to the anticipation by moving lower.

Canadian economic focus is on the Bank of Canada and its expected increase in its overnight lending rate. The Canadian equity market continues to be the weakest equity market among developed nations, down 5.75% from its high set on February 23rd at 15,943.09. Short and intermediate technical signs of a bottom have yet to appear. Q2 earnings reports for TSX 60 companies are expected to be impressive. On a y-o-y basis, earnings per share on average (median) are expected to increase 11.3%. Canadian equity prices have yet to respond at a time when short-term technicals have yet to show signs of bottoming.

Economic news this week is expected to confirm that economic growth in the US has accelerated slightly. Will the Federal Reserve respond by slowing things down? Further comments on the Beige Book by Yellen on Wednesday will reveal more, although, we do not expect for the Fed to precede with any more rate hikes until earliest November this year.

The earnings and sales outlook for S&P 500 stocks remains promising (albeit at a slightly lower level than previous: 5% of companies have reported Q2 results to date. Consensus calls for a y-o-y gain in earnings by 6.5% (down from 6.6% last week). Consensus for sales calls for an increase of 4.8% (down from 4.9% last week). 76 companies have issued negative guidance for Q2 while 38 companies have issued positive guidance.

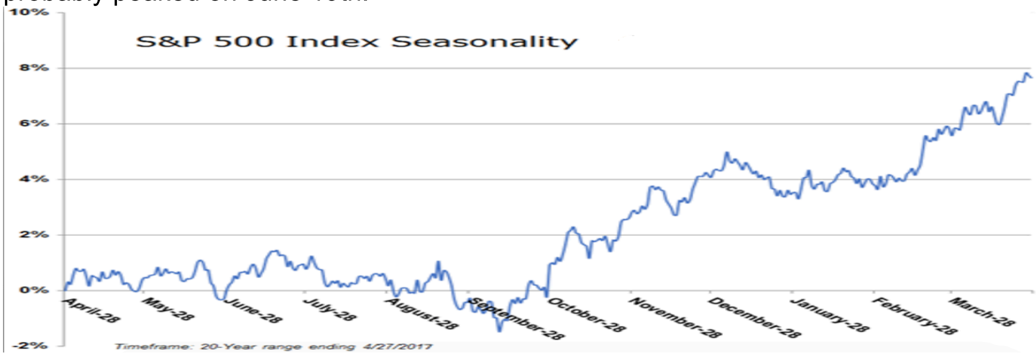
Six S&P 500 companies are scheduled to report this week including one Dow Industrial stock (JP Morgan). Focus is on Citigroup, JP Morgan and Wells Fargo that are expected to report on Friday. Beyond Q2, consensus shows a 7.3% increase in Q3 earnings (down from 7.4%) and a 5.1% increase in sales. Q4 earnings are expected to increase 12.4% and sales are expected to increase 5.1%. For 2017, earnings are expected to increase 9.8% and sales are expected to increase 5.3% (down from 5.4%).

A word of caution on US Q2 earnings reports! On one hand, consensus estimates are notorious for under-estimating actual earnings. On the other hand, consensus estimates for Dow Jones Industrial Average companies are significantly lower than consensus estimates for S&P 500 companies (3.0% increase for Dow companies versus a 6.5% increase for S&P 500 companies). The discrepancy implies that a small number of S&P 500 companies (think FANG companies) will report oversized sales and earnings gains while other companies will report less than consensus results. Rotation within sectors could be significant during the next few weeks.

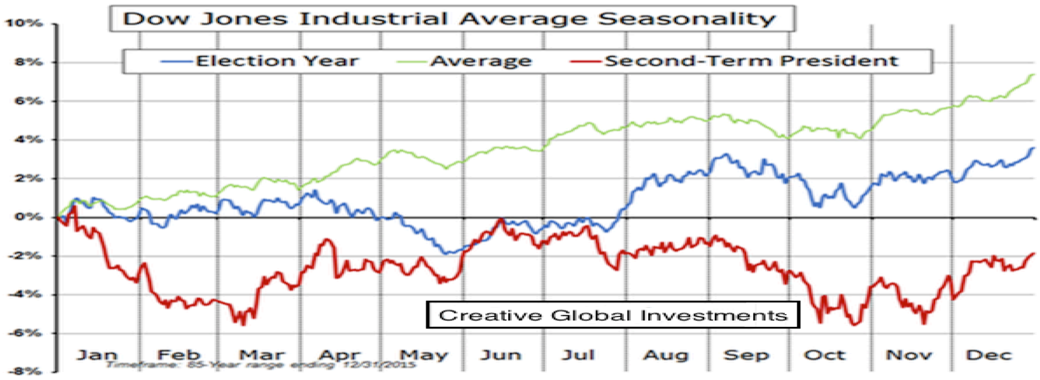
Short-term technical indicators (momentum, above/below 20 day moving average) deteriorated for most equity indices and sectors last week (exception: China and the materials sector). Notably weaker were European equity indices and related ETFs. Short term technical indicators for commodities and commodity stocks turned lower thanks to US$ strength.

Medium term technical indicators (Percent of stocks trading above their 50 day moving average, Bullish Percent Index) generally moved lower last week from overbought levels.

Seasonal influences for Canadian and US equity indices normally are bullish between now and July 17th, the date that frequently is a seasonal peak. This year, technical evidence currently suggests that the S&P 500 Index and Dow Jones Industrial Average probably peaked on June 19th.



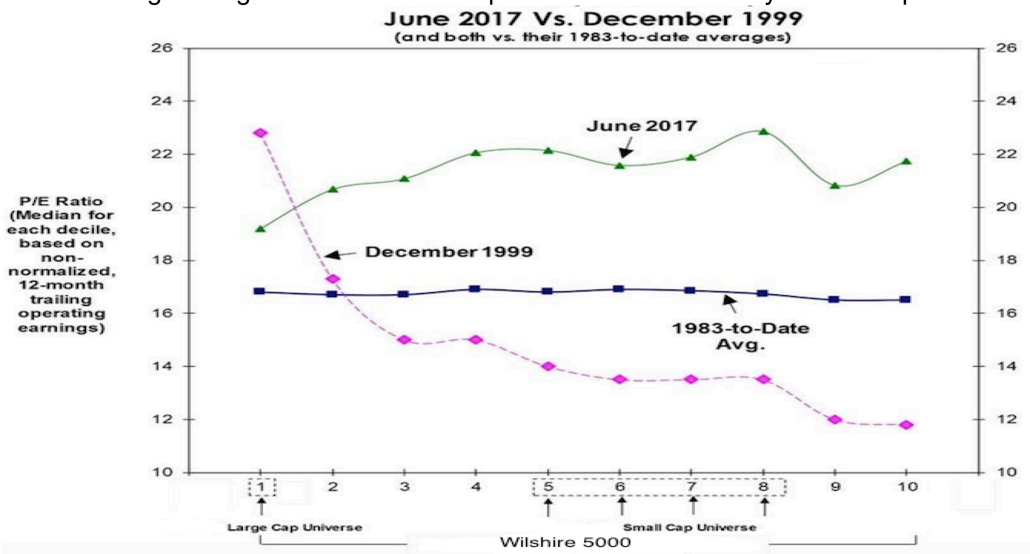
US equity markets have a history of moving lower from mid-June to mid-October in Presidential cycle years after a two term President has been replaced (as indicated this year). See red line in the chart below.



Stocks closed higher last Friday following a stronger than expected employment report for June. The S&P 500 Index added six-tenths of one percent, bouncing from around its rising 50-day moving average. The technicals of the large-cap benchmark have not changed much from our last look just over one week ago; momentum indicators continue to roll over and a confluence of support around 2400 remains the key hurdle below. What has changed is that signs of resistance at the 20-day moving average have become apparent, suggesting risks to the short-term term trend. This weakness is becoming apparent precisely at a seasonally favorable time of year, which spans the last few days of Q2 through the first 20 days into the new quarter in a transition bounce with average gains of +1.11% over the past 50 years with two-thirds of the periods showing a positive result. The tendency stems from start of Q3 fund inflows as they seek to find a home for the back half of the year. The positive influence peaks, on average, on the 17th of July, at which point earnings season takes over as the market catalyst. The stutter-step to start this positive seasonal period does present concern, but it would take a break of the levels of support below to trigger an outright warning.

Thursday's stock losses seemed different than the recent past. It appears to be more than just typical sector rotation or seesawing action. It was a broad-based decline with all 11 sectors of the S&P in negative territory. In fact, it was the lowest close for the market since May 24th, as we broke below the 50-day moving average. Sure, they could bounce right back as they have many times before. However, we sense that this time is different. Probably the Market Gods will try and strike a bit more fear in the heart of investors to test their conviction...which is quite natural throughout the course of a long-term bull market. At this point the $SPX may test down to the psychologically important resistance level of 2400. And while we are there, good chance we will probe below to the 100 day moving average around 2386.

The following chart gives a P/E ratio comparison for US stocks by market capitalization.



Notably weaker were European equity indices. Euro Stoxx 600 Index briefly moved below 386.46 completing a double top pattern, and short-term indicators (MACD and RSI) turned negative. Next support is the 200-day MVA at 366, there after the range of support between 340 and 360 should give comfort.

We continue recommending for investors to reduce equity positions in G-10 markets into the last rally before the summer, as we are forecasting for a -12% to -15% decline in European and US stocks to materialize. The spike in volatility above levels reached last week will be the most likely sign that the summer correction has been confirmed. Meanwhile, we continue to recommend holding a robust position in cash in your investment portfolios.

US equities weekly charts

The VIX Index gained 1.35 (13.33%) last week.

Intermediate trend changed from Negative to Neutral. The Index is above the 20-day moving average. Price spiked up from the lower trendline.

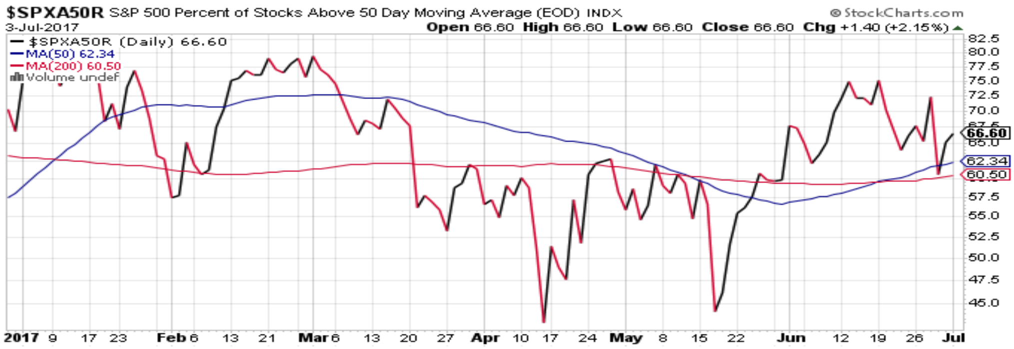
The S&P 500 Index lost 10.06 points (0.41%) last week.

Intermediate trend remains Neutral. The Index closed below its 20-day moving average. $SPX rebounded from the 50 MVA.

Short-term momentum indicators are Negative.

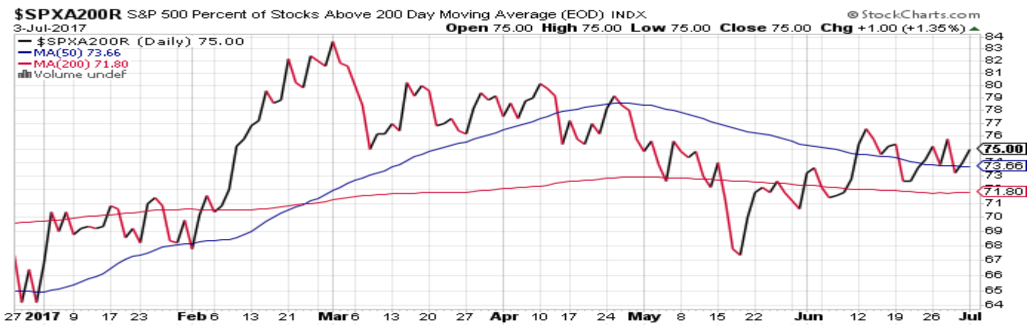
Percent of S&P 500 stocks trading above their 50-day moving average rose last week to 66.60 from 65.20.

The Index remains above the 200-day moving average.



Percent of S&P 500 stocks trading above their 200-day moving average stood put last week at 75.00.

The Index remains above the 200-day moving average.



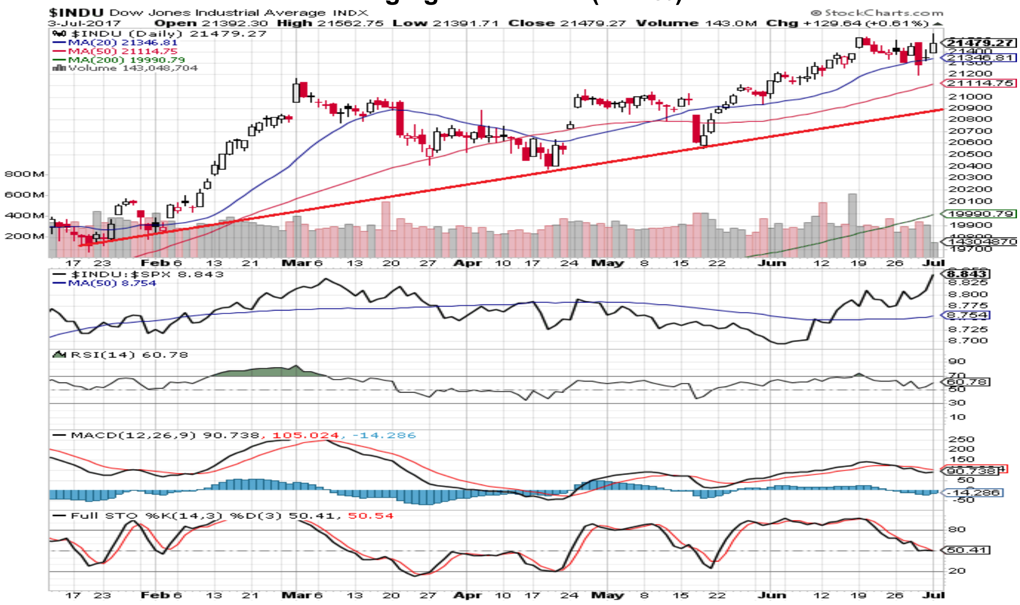
Bullish Percent Index for S&P 500 stocks rose last week to 73.40 from 72.40 and remained above its 50-day moving average.

The Index remains above the 50-day moving average.

The Dow Jones Industrial Average gained 69.72 (0.33%) last week.

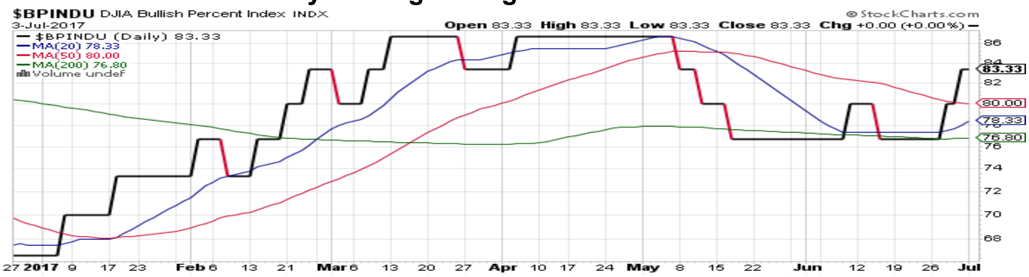
$INDU is showing some exhaustion. Strength related to the S&P 500 remained above the 50MA.

The Average remained above its 20-day moving average. Short-term momentum indicators are Negative.



Bullish Percent Index for Dow Jones Industrial Average stood put at 83.33 and remained above its 20-day moving average.

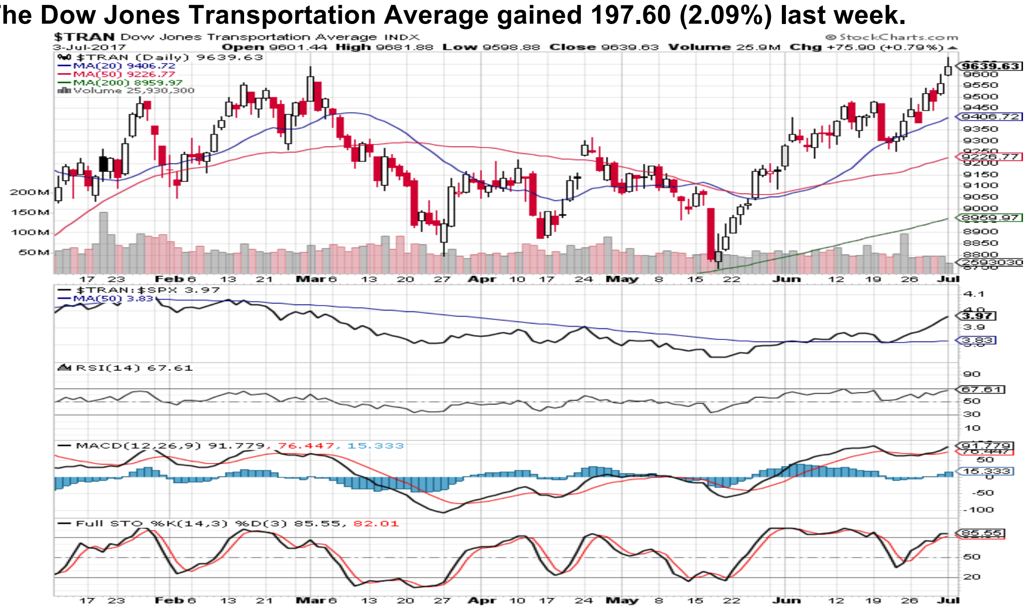
The Index remained above the 200-day moving average.



The Dow Jones Transportation Average gained 197.60 (2.09%) last week.

Dow Jones Transportation Index created a new high. Strength relative to the S&P 500 is Positive. The $TRAN closed above its 20- day moving average.

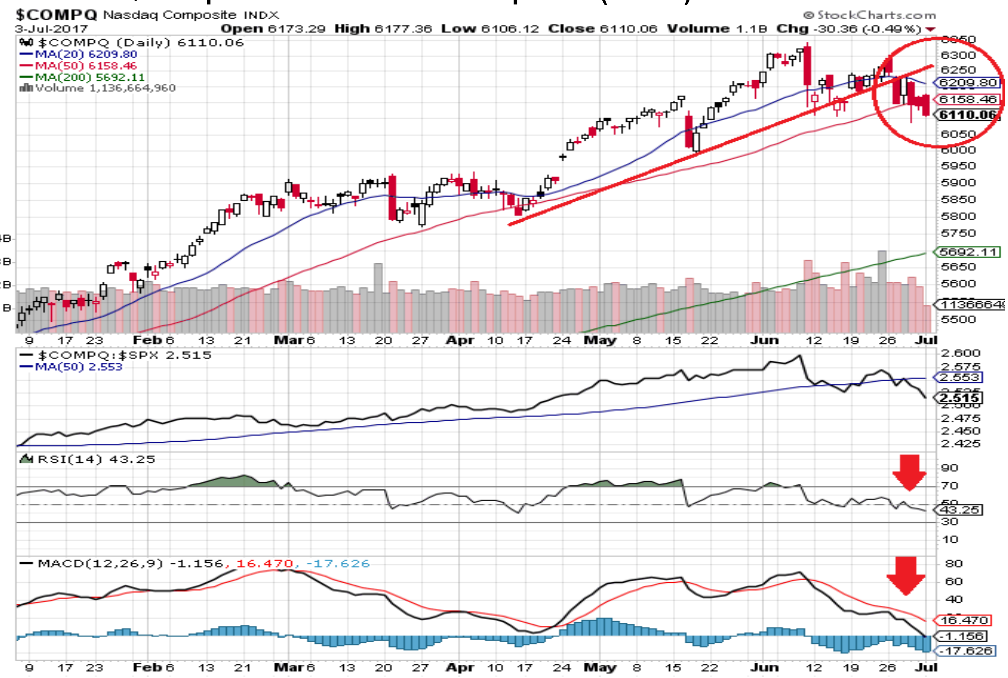
Short-term momentum indicators are Positive.



Bullish Percent Index dropped last week to 61.59 from 61.55 and remained above its 20-day moving average.

The Index rebounded from the 200 day moving average.

The NASDAQ Composite Index lost 137.09 points (2.19%) last week.



$COMPQ broke out through the trendline. Strength relative to the S&P 500 Index is Negative.

The Index remained below the 20-day moving average.

Short-term momentum indicators are Negative.

The Russell 2000 Index added 10.04 points (0.71%) last week.

$RUT keeps on rebounding from the middle of the channel indicating a possible upper breakout. Strength relative to the S&P 500 Index remains Positive.

The Index remained above the 20-day moving average. Short-term momentum indicators are Neutral.

The S&P Energy Index gained 13.80 points (2.91%) last week.

Intermediate trend changed from Neutral to Positive. $SPEN broke through the upper trendline. Strength relative to the S&P 500 Index changed from Neutral to Positive.

The Index is below the 20-day moving average. Short-term momentum indicators are Positive.

The Philadelphia Oil Services Index added 6.81 (5.31%) last week.

$OSX managed to retake the trendline. Strength relative to the S&P 500 remains Negative.

The Index closed above its 20-day moving average. Short-term momentum indicators are rolling over.

The AMEX Gold Bug Index lost 11.05 points (5.73%) last week.

$HUI was stopped on the support. Strength relative to the S&P 500 Index remains Negative.

The Index remains above its 20-day moving average. Short-term momentum indicators are Negative.

$BVSP rallied and closed above the 50-day moving average.

Short-term momentum indicators are Positive.

Latam equity markets weekly charts

The BOVESPA gained 1091 points last week.

Intermediate trend remained Positive. $MXX broke out through the upper trendline.

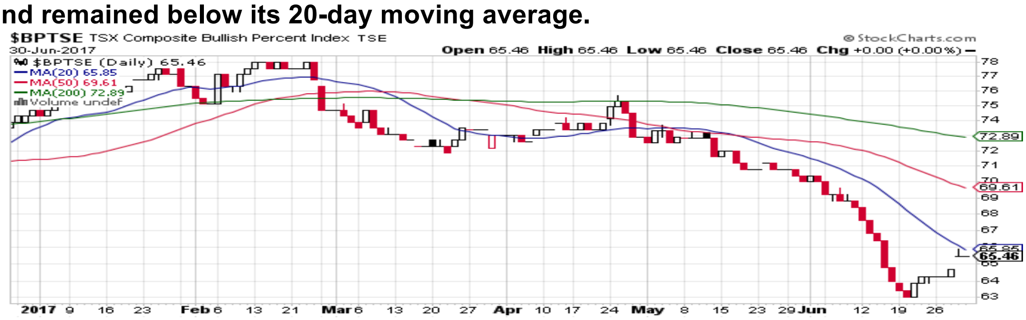
Short-term momentum indicators remain Positive.

The Mexican Bolsa added 943points last week.

Canadian equity markets weekly charts

Bullish Percent Index for TSX Composite dropped last week to 64.26 from 65.46 and remained below its 20-day moving average.

The Index remains below the 20-day moving average.



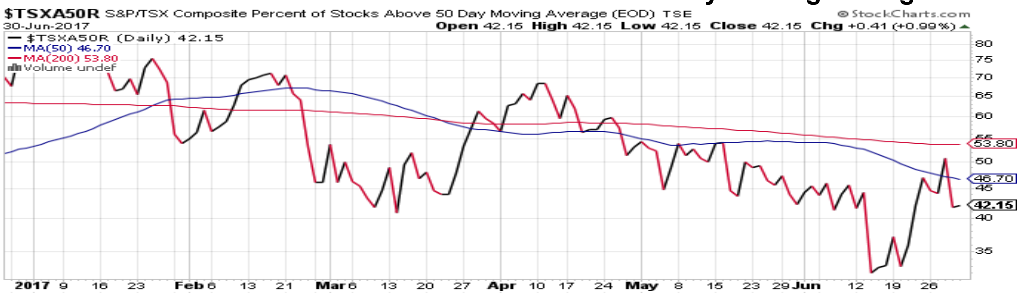
The TSX Composite Index lost 137.37 points (0.90%) last week.

Intermediate trend remains Negative. The Index was stopped by the lower trendline for moment`s notice.

The Index remains below the 20-day moving average. Short-term momentum indicators are Negative.

Percent of TSX stocks trading above their 50-day moving average dropped last week to 42.15 from 44.36% and remained below the 50-day moving average.

The index remains below the 50-day moving average.



Percent of TSX stocks above the 200-day rose last week to 54.13% from 50.19%

The index remains below the 50-day moving average.

Asian equity markets weekly charts

The BSE gained 83.41 points (0.27%) last week.

$BSE rebounded from the lower trendline / 50-day moving average.

Short-term momentum indicators are Mixed.

The Nikkei Average dropped 97.55 points (0.48%) last week.

Intermediate trend remains Neutral. Strength relative to the S&P 500 Index is Positive. $NIKK formed an ascending triangle and is closing on the apex.

The $NIKK remains above its 20-day moving average. Short-term momentum is rolling over.

The Shanghai Composite Index gained 10.47 points (0.33%) last week.

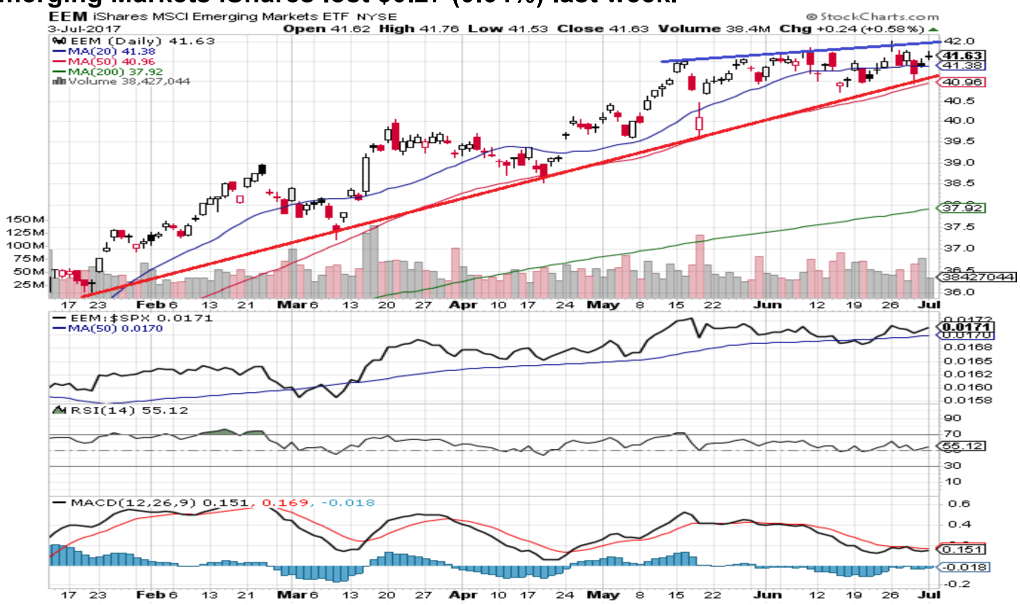
Intermediate trend remains Positive. $SSEC remains bullish but is getting more compressed.

The $SSEC remains above the 20-day moving average. Short-term momentum indicators are Positive.

Emerging Markets iShares lost $0.27 (0.64%) last week.

Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Positive.

Units remain above the 20-day moving average. Short-term momentum indicators are Neutral.



The Australia All Ordinaries Index dropped 30.90 points (0.54%) last week.

Intermediate trend remains Negative. Strength relative to the S&P 500 Index remains Negative. $AORD is about to test the lower trendline again.

The $AORD remains below 20-day moving average.
Short-term momentum indicators are Negative.

European equity markets weekly charts

The DAX 30 lost 295.52 points (2.31%) last week.

Intermediate trend is Neutral. $DAX closed below the 20-day moving average.
Strength relative to the S&P 500 Index is Negative.
Short-term momentum indicators are Negative.

The CAC 40 lost 100.03 points (1.89%) last week.

Intermediate trend remains Negative. $CAC remains in the well-established bearish channel.

Short-term momentum indicators are Negative.

The AEX 25 dropped 7.50 points (1.44%) last week.

Intermediate trend remains Negative. Index remains below the 20-day moving average.

Short-term momentum indicators are Mixed.

The IBEX 35 lost 92.40 (0.86%) last week.

$IBEX is looking very compressed. Strength relative to the S&P 500 remains Negative.

The Index moved below the 20-day moving average.

Short-term momentum indicators are Negative.

The FTSE dropped 56.67 points (0.76%) last week.

Intermediate trend remains Negative. FTSE pulled back towards the previous support.
Price remains below the 20-days moving average.

Short-term momentum indicators are Negative.

Intermediate trend is Neutral. Strength relative to the S&P 500 remains Negative.

Units closed above the 20-day moving average. Short-term momentum indicators are Negative.

Europe iShares added $0.53 (1.04%) last week.

Fixed income markets weekly charts

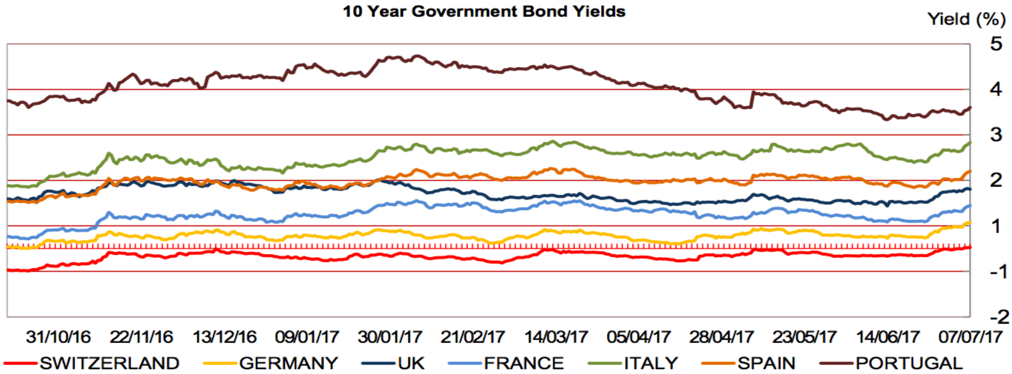
International Bonds

Ten year government bond spreads

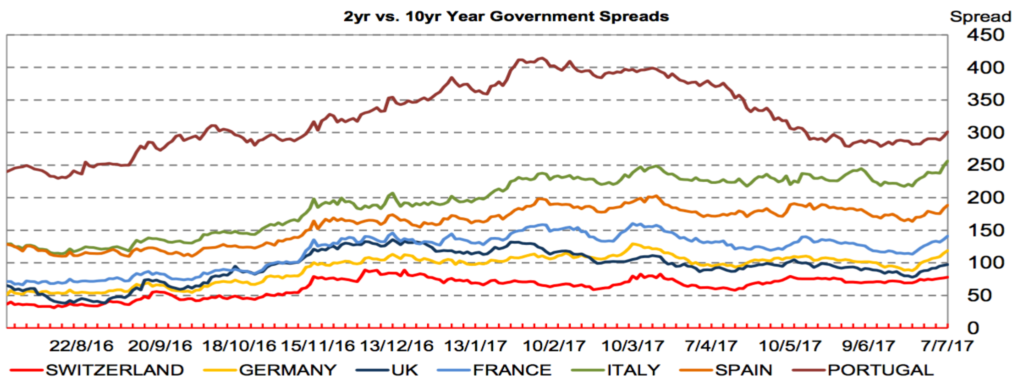
Country	Latest yield	Spread vs bund	Spread vs T-notes
Australia	2.78%	+2.22	+0.39
Austria	0.81%	+0.25	-1.59
Belgium	0.92%	+0.36	-1.47
Canada	--	--	--
Denmark	0.75%	+0.19	-1.65
Finland	0.60%	+0.04	-1.80
France	0.93%	+0.37	-1.46
Germany	0.56%	--	-1.84
Greece	5.41%	+4.85	+3.01
Ireland	0.95%	+0.39	-1.45
Italy	2.32%	+1.76	-0.08
Japan	0.09%	-0.47	-2.31
Netherlands	0.76%	+0.20	-1.64
New Zealand	3.05%	+2.49	+0.65
Portugal	3.17%	+2.61	+0.77
Spain	1.71%	+1.15	-0.69
Sweden	0.68%	+0.12	-1.72
Switzerland	0.02%	-0.54	-2.38
UK	1.31%	+0.75	-1.09
US	2.38%	+1.82	--

Data delayed at least 15 minutes, as of Jul 10 2017 10:11 BST.

As per our 2017 Q3 Global Investment Strategy Outlook for 10-Y government bonds, US 10-Year government bonds have not fully reached our 2017 price targets yet, and we see yields to continue to move lower towards below 2.00%.



We continue recommending taking profits in German 10-Y Bunds.



We can see yields in France and the Benelux move down by another -20bps to -40 bps over the next 3 months, and similarly to decline by -30bps to -50bps in Spain, Italy, Portugal and Greece.

US Bonds

Intermediate trend is Positive. $TNX rallied above the moving averages. $TNX remained above the 20-day moving average.

Short-term momentum indicators are Positive.

Yield on 10 year Treasuries added 2.09 basis points (9.78%) last week.

Intermediate trend remains Neutral. TLT is moving towards the lower trendline.
TLT moved below the 20-day moving average.

Short-term momentum indicators are Negative.

The long term Treasury ETF dropped 3.54 points (2.76%) last week.

Currency markets weekly charts

The Euro gained 1.77 points (1.58%) last week.

Intermediate trend is Positive. $XEU momentarily paused the bullish momentum.

The $XEU remains above the 20-day moving average.

Short-term momentum indicators are rolling over.

The US$ lost 1.15 points (1.18%) last week.

Intermediate trend remains Negative. $USD looks to be pulling back towards the old support. The US$ remains below its 20-day moving average.

Short-term momentum indicators are rolling over.

The Japanese Yen dropped 1.23 points (1.38%) last week.

Intermediate trend remains Negative. XJY is on the lower trendline. $XJY remains below the 20-day moving average.

Short-term momentum indicators are Negative.

The Canadian Dollar added 1.42 points (1.88%) last week.

Intermediate trend remains Positive. $CDW retook the yearly high.

Short-term momentum indicators are Positive and Overbought.

Commodity markets weekly charts

The CRB Index gained 7.59 points (4.50%) last week.

Intermediate trend is Positive. Strength relative to the S&P 500 Index is Positive. $CRB rallies toward the upper trendline.
The $CRB closed above its 20-day moving average.

Short-term momentum indicators are Positive.

Copper added $0.07 per lb. (2.57%) last week.

Intermediate trend remains Positive. Strength relative to the S&P 500 Index remains Positive. Copper seems to have found some resistance at 2.7.

Copper closed above the 20-day moving average.

Short-term momentum indicators are Positive.

Lumber lost $3.20 (0.89%) last week.

Intermediate trend remains Neutral. Strength relative to the S&P 500 Index is Negative. Lumber is rebounding from the lower trendline for now.

Lumber remains below the 20-day MA. Short-term momentum indicators are Neutral.

The Grain ETN dropped 0.20 points (0.71%) the last week.

Intermediate trend remains Positive
Units broke out of the rectangle bottom.

Price is above the 20-day MA. Short-term momentum indicators are Positive.

The Agriculture ETF added $0.24 (0.44%) last week.

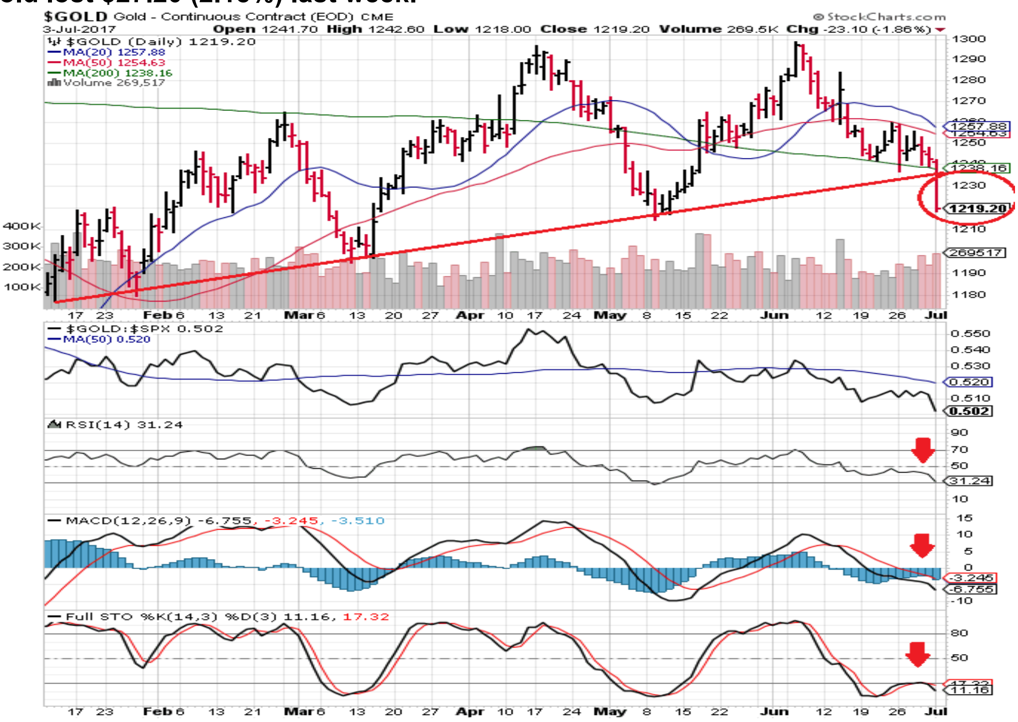
Intermediate trend remains Neutral. Strength relative to the S&P 500 Index is Neutral. MOO rebounded from the 50-day moving average.

Units closed above the 20-day moving average.

Short-term momentum indicators are Positive.

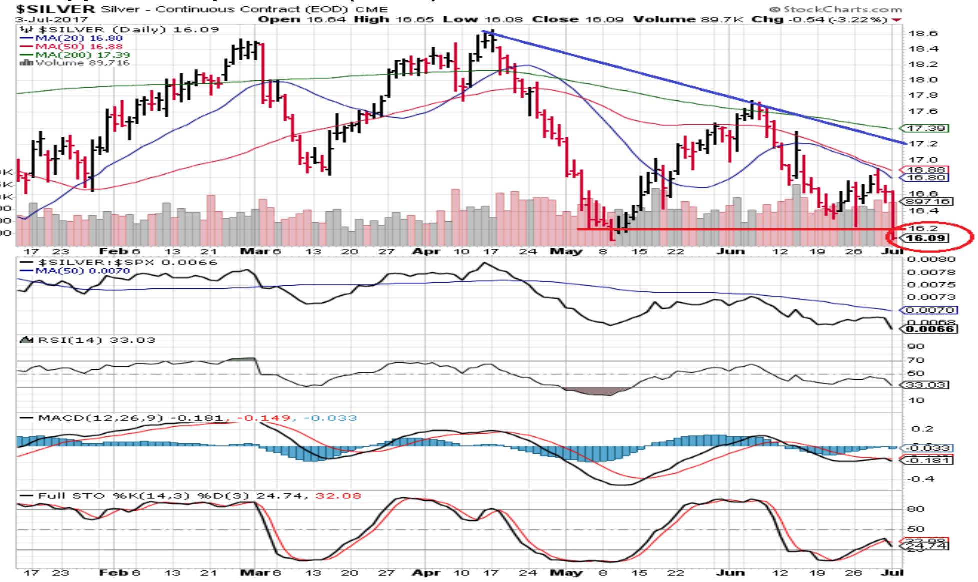
Gold & precious metals markets weekly charts

Gold lost $27.20 (2.18%) last week.



Gold broke through the major lower trendline. Gold is below the 20-day moving average. Short-term momentum indicators are Negative.

Silver dropped $0.48 per ounce (2.90%) last week.



Silver broke through the support.

Silver remains below the 20-day moving average.

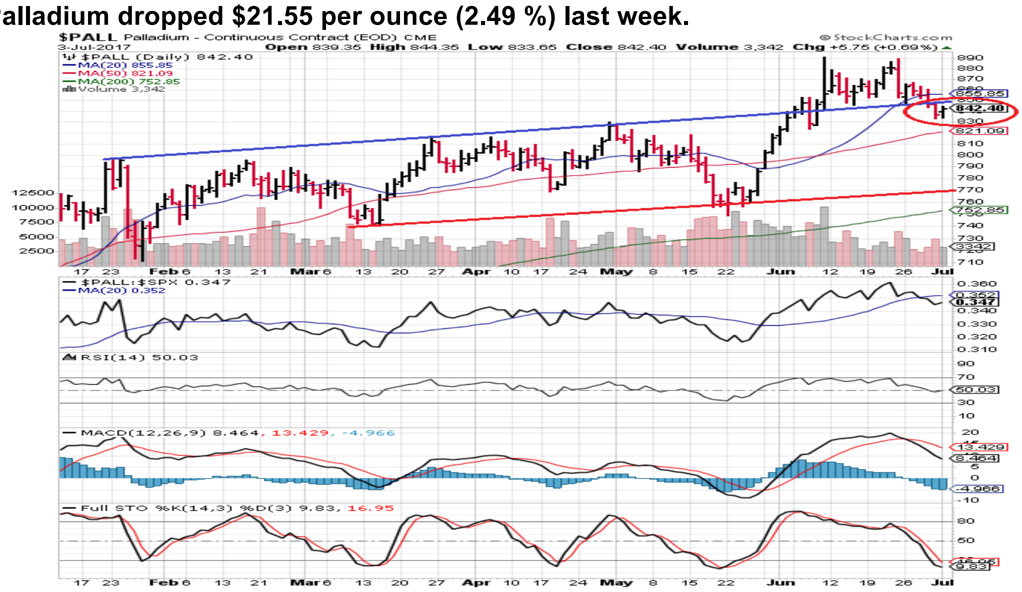
Short-term momentum indicators are Negative.

Platinum lost $10.50 per ounce (1.15%) last week.

Intermediate trend changed from Neutral to Negative. Strength relative to the S&P 500 Index remained is Negative. $PLAT is moving towards the yearly low.

$PLAT trades below its 20-day Moving Average. Momentum indicators are Negative.

Palladium dropped $21.55 per ounce (2.49 %) last week.



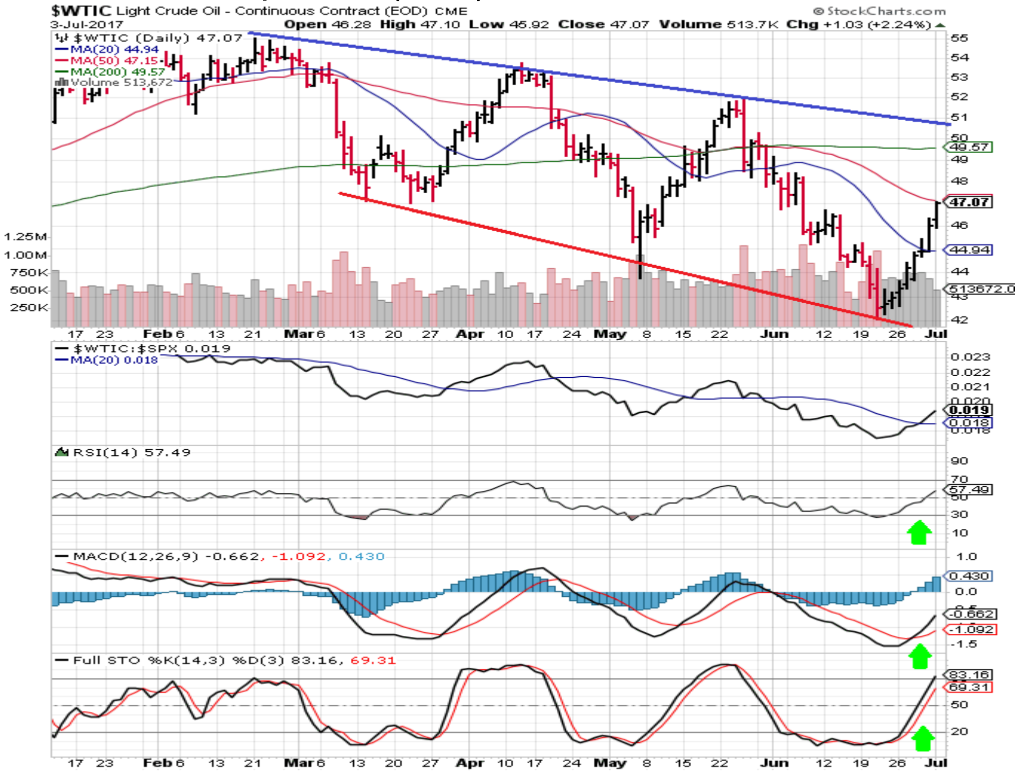
Intermediate trend is Neutral. Strength relative to the S&P 500 Index changed to Negative.

$PALL moved below its 20-day moving average.

Short-term momentum indicators are Negative.

Oil, gas & energy markets weekly charts

Crude oil added $3.69 per barrel (8.51%) last week.



Intermediate trend is Positive. Strength relative to the S&P 500 Index is Positive. $WTIC rebounded from the lower trendline and recaptured the old support.

Short-term momentum indicators are Positive.

Gasoline gained $0.11 per gallon (7.47%) last week.

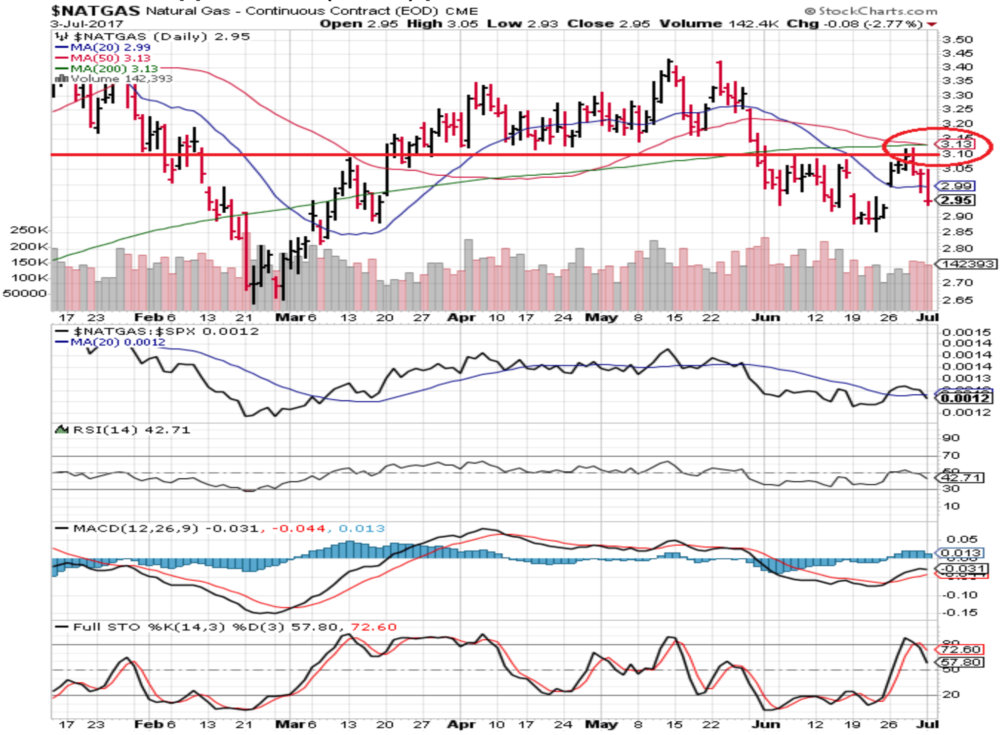
Intermediate trend changed back to Positive. Strength relative to the S&P 500 Index is Positive.

$GASO closed above the 20-day moving average. Short-term momentum indicators are Positive.

Natural Gas dropped $0.10 (3.21%) per MBtu last week.

Intermediate trend remains Negative. Strength relative to the S&P 500 Index remains Neutral. $NATGAS rebounded from the 200MVA and rejected the pullback.

Short-term momentum indicators are rolling over.



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