



Creative Global Investments

Market commentary & charts

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Macro Commentary

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Objectivity

Integrity

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The Global economy is still decelerating. The global economic situation is grim and major economies must lead the way in tackling problems including sluggish growth and weak trade, China's trade minister Gao Hucheng said on Saturday. Gao made the remarks at the start of a two-day meeting of trade ministers from G20 economies in Shanghai, as uncertainty hangs over the outlook for a slow-growing global economy now beset by post-Brexit reverberations. The global economic recovery remained "complicated and grim", Gao said. "Global trade is dithering, international investment has yet to recover to levels before the financial crisis, the global economy has yet to find the propulsion for strong and sustainable growth. "In the current circumstances, the international community expects the G20 to show leadership in resolving the prominent problems we are facing and inject impetus for recovery and growth," he said. In April, the IMF cut its 2016 global growth forecast for the fourth time in a year, to 3.2% from 3.4%, amid weakening global demand and geopolitical risks. A fifth straight global growth markdown by the IMF looks almost certain. The World Trade Organization (WTO) expects 2016 to be the fifth consecutive year of less than 3 percent growth in global trade, and Director-General Roberto Azevedo said on Friday trade would remain sluggish going into Q3.

Again, despite most sell side firms economists' heeding's about the FED raising the FED funds rate an expected 2x in 2016, we just continue to see insufficient rational for such a policy change.

In Asia, China's Q2 GDP is seen slowing to 6.6% y-o-y according to a Reuters poll. Growth would be lowest since global financial crisis in 2009. Industry losing steam; financial sector boost loses steam. Economists see slowdown extending to second half of the year. Government expected to roll out economic support measures

Japanese Prime Minister Shinzo Abe ordered a new round of fiscal stimulus spending after a crushing election victory over the weekend as evidence mounted the corporate sector is floundering due to weak demand. Abe did not give details on the size of the package, but Japanese stocks jumped nearly 4% and the Yen weakened over perceptions a landslide victory in upper house elections now gives him a free hand to draft economic policy. An unexpected decline in machinery orders shows the economy needs something to overcome consistently weak corporate investment. Economists worry, however, that Abe's focus on public works spending will not tackle the structural issues around a declining population and workforce. More public works also increases pressure on the BoJ to keep interest rates low and the yen weak to make sure stimulus spending will gain traction. The government was ready to spend more than Yen 10TRN ruling party sources told before the election.

In Europe, the IMF cut its Eurozone growth outlook for the next two years over uncertainties sparked by Britain's vote to leave the European Union, and warned that the conditions could worsen if confusion continues to reign in financial markets. In its annual policy review of the 19-country Euro currency bloc, the IMF said it now expects 2016 growth of 1.6%, down from the previous forecast of 1.7%, while the 2017 growth forecast will drop to 1.4% from 1.7% previously. In its annual policy review of the 19-country bloc, the IMF said a further global growth slowdown could derail the Eurozone's domestic demand-led recovery.

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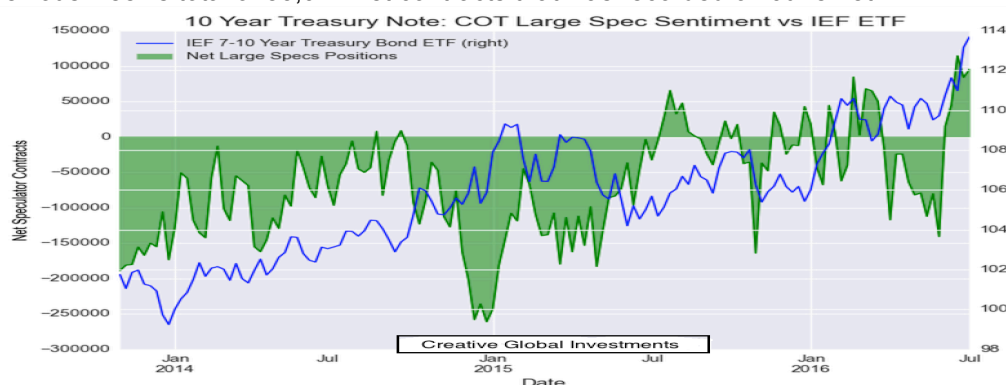
In the US, a much stronger than expected employment report for June indicated that employers added 287,000 jobs last month, bouncing back from May's lackluster print and exceeding the consensus estimate calling for a gain of 180,000. The unemployment rate ticked mildly higher to 4.9%, as a result of an increase in the participation rate, and average hourly earnings was higher by only 0.1%, half of the consensus estimate. The surge payrolls between May and June highlights the significant manipulation present within the seasonal adjustment, justifying a non-seasonally adjusted breakdown in order to accurately pinpoint the underlying trends. Stripping out the adjustments, the enthusiasm surrounding the report quickly disappears. Payrolls actually increased by 0.5%, remaining light versus the average increase for June of 0.7%. A negative gap versus the average seasonal trend continues to open with the y-t-d change now sitting at +0.8% versus the average change of +1.0%. This follows years of above average growth as the economy recovered from the depths of the recession. This year's growth in employment puts the change at the lowest since 2010 when employment growth by the end of the year was less than half of the average annual increase. Looking through the details of the report, the story doesn't get much better. Low paying opportunities in the retail and leisure/hospitality industries continue to realize above average employment growth for the year, while the often higher paying opportunities in professional and business services continues to lag the average trend. As a result, average hourly earnings realized a pronounced decline by 0.8%, essentially matching the largest June decline on record and realizing the fourth largest monthly drop in the past 50 years. This certainly doesn't bode well for wage inflation or the demand for labor in general as the calendar flips to the month of July, the second weakest month of the year for employment as the summer factory shutdown period begins. **Overall, this previous bright spot in the economy is slowly becoming a flickering light as employment trends show signs of maturing and employers cut back on the pace of hiring given the global uncertainties.**

The US trade gap widened to USD 41.14BN in May of 2016 from a USD 37.4 BN deficit in the previous month. Figures last Thursday came worse than market expectations of a USD 40 BN shortfall as exports shrank -0.2 percent hurt by a weighted stronger US\$ and imports rose 1.6 percent due to higher oil prices.

The bigger than expected June drop of auto sales in the US is just another sign that the US economy is cooling off faster and more than economists are expecting. We continue to see increasing risks of the US economy slipping into a recession in the next 12 months.

Fixed Income Commentary

Large 10-year treasury note futures traders and speculators added to their overall bullish positions last week for the fifth out of the last six weeks, according to the latest Commitment of Traders (COT) data released by the CFTC on Friday. The non-commercial futures contracts of the 10-year treasury notes, primarily traded by large speculators and hedge funds, totaled a net position of +96,109 contracts in the data reported for July 5th. This was a weekly change of +12,185 net contracts from the previous week's total of 83,924 net contracts that was recorded on June 28th.



The chart technical short-term dynamics are still very favorable for the 10-Year US treasury bonds. The yield on \$TNX dropped another 9 basis points (6.18%) last week. Intermediate trend remains down. Yield remains below its 20-day moving average. Short-term momentum indicators are trending down and are oversold. **We maintain to our revised short-term target yield for the \$TNX of 1.15% by the end of the summer 2016.**



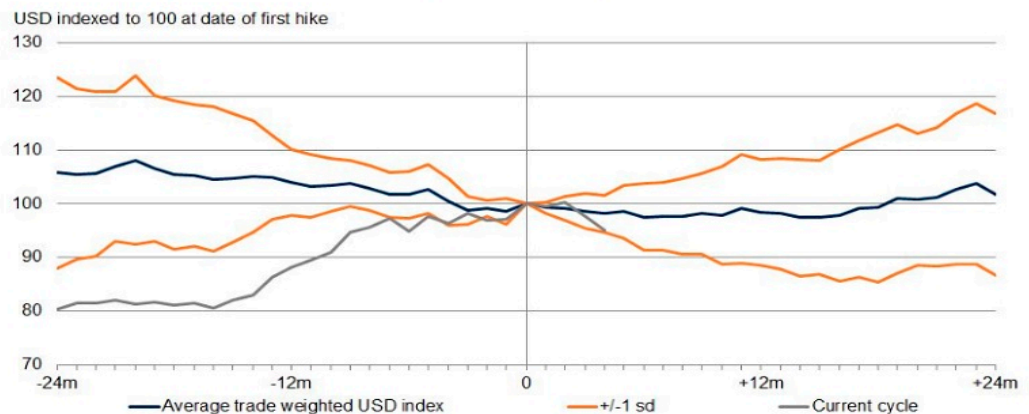
Currencies Commentary

The US\$ Index gained 0.57 (0.60%) last week. Intermediate trend remains up. The Index remains above its 20 day moving average. Short-term momentum indicators are trending up and are overbought, but have yet to show signs of peaking.



When looking at the trade-weighted US\$ back to 1975, before and after the Fed starts the process of raising rates, one can see the performance of the US\$ in the current interest rate cycle has been very different to past cycles. This time, the US\$ rose close to 20% in the 24 months leading up to the first rate hike. Historically, however, the US\$ has depreciated steadily in the run up. **We believe the embedded US\$ strength is way overdone, and that the US\$ index (\$USD) peaked in March 2015 at 100.71.**

The trade weighted US\$ has historically underperformed following Fed rate hikes

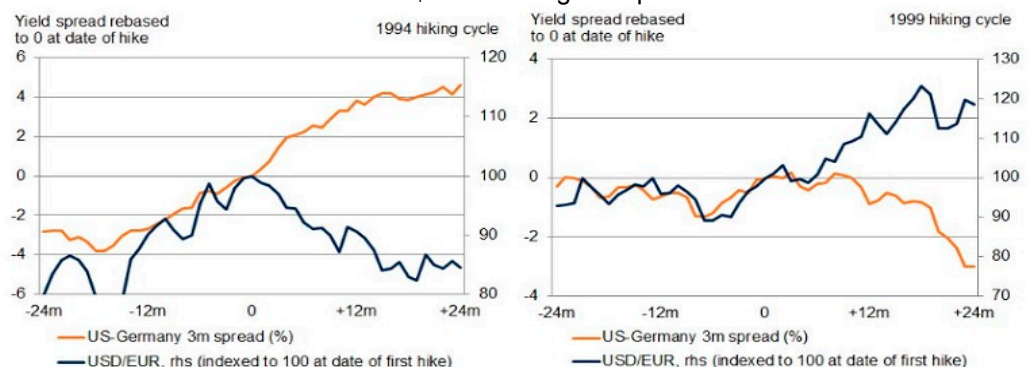


source: Thomson Reuters

The trade-weighted US\$, post rate hikes, tends to weaken by around -1.6% within 12 months. Given the parabolic 1-year exaggerated rise of the US\$, we are of the opinion that the tremendous damage that this US\$ rise has caused globally, the reaction by currency investors with regards to the direction of the US\$ (we still are not expecting, contrary to consensus, for rates in the US to rise versus other major central banks) in the unlikely event of a rate rise by the Fed in June will be opposite to historic incidents. **Hence why the US\$ carry trade should diminish and inherently weaken the US\$.** We therefore continue to see fundamental and technical evidence that the US\$ will likely weaken all through the summer, even if interest rates between the US and Japan and Europe were to diverge further.

Unlike in past cycles, when looking at the relationship between the US/Germany interest rate differential and the performance of the US\$/EUR exchange rate, we believe that the US\$'s recent 2-year parabolic strength has been totally overdone, and will not continue, even in the case where our "no rate hike in 2016" scenario were not to pan out. The impact of interest rate differentials on US\$ movements in past cycles looks to be stronger before the first rate hike than after it. This in 2016, as in the 1994 and 1999 hiking cycles, where initially rates and currencies moved together before a pronounced divergence occurred when the Fed finally hiked.

Interest rates and US\$/EUR divergence post Fed rate hikes



source: Thomson Reuters

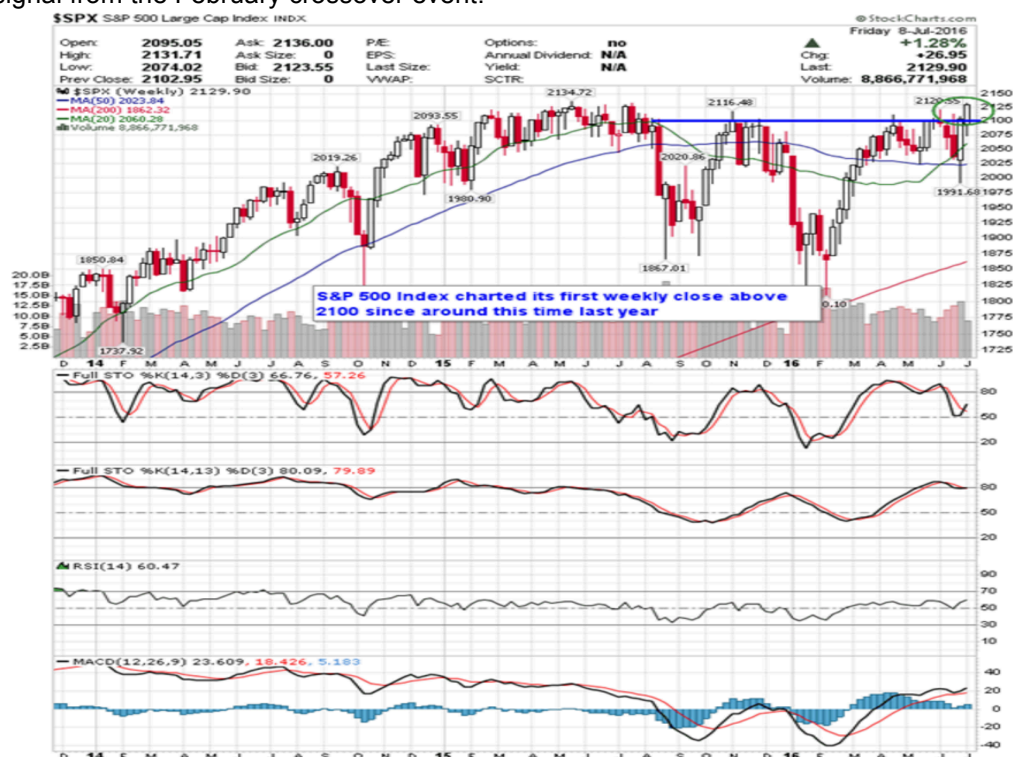
The British Pound plunged 4.15 (2.37%) last week. Intermediate trend is down. The Pound remains below its 20 day moving average. Short-term momentum indicators are trending down and are oversold.



Equities Commentary

Stocks surged on Friday as investors reacted to a much stronger than expected employment report for June. US equity markets once again are testing all-time highs thanks to an encouraging employment report released on Friday. Institutional traders may try to trigger technical buying by pushing the S&P 500 Index and Dow Jones Industrial Average to all-time highs. However, short-term strength is likely to be short lived. Weak Q2 reports starting this week that frequently include lower guidance for Q3 results will not help. Caution in equity markets is preferred.

The weekly chart of the \$SPX shows a close above the 2100 pivot point, a level it had been toying with for the past year. Despite the intra-week break of the 50-week moving average following the Brexit volatility, this average is slowly cementing itself as a level of support as significant overhead resistance continues to be chipped away at. With all off the volatility in recent weeks and signs of waning momentum, a bearish MACD crossover failed to materialize on this weekly look, keeping the benchmark on a buy signal from the February crossover event.

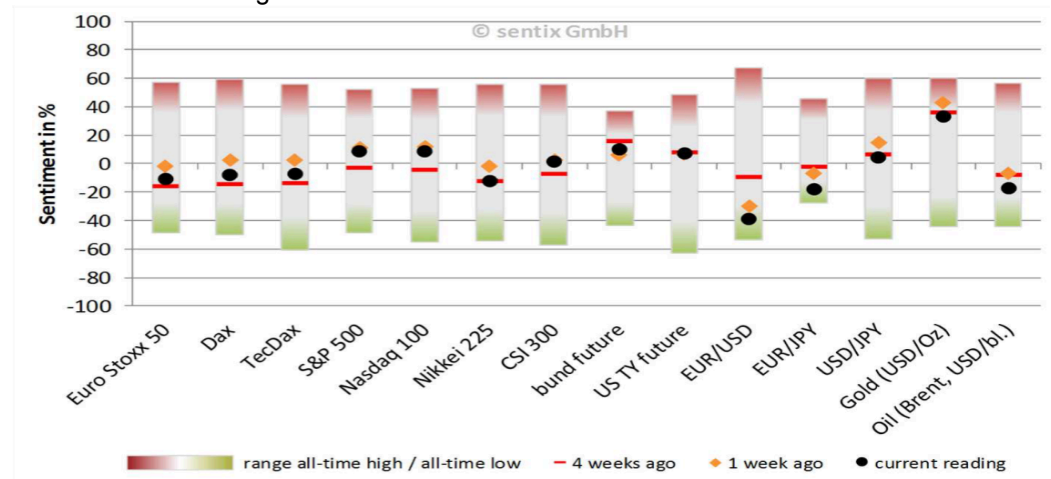


Of course, the recent gains have fallen precisely within the average time of year that stocks typically rally, running through to the doorstep of peak earnings season, on or about July 17th (see chart below originally posted on June 27th).



Weekly Investment Conclusion:

Investors' sentiment for equities remains neutral. The post-Brexit assessment process is still ongoing. However, investors perceive that European equities are disadvantaged over Chinese and especially US equities. Moreover, for German Bunds a sentiment divergence emerges. From a FX perspective, the strength of the Japanese Yen could subside in the coming weeks.

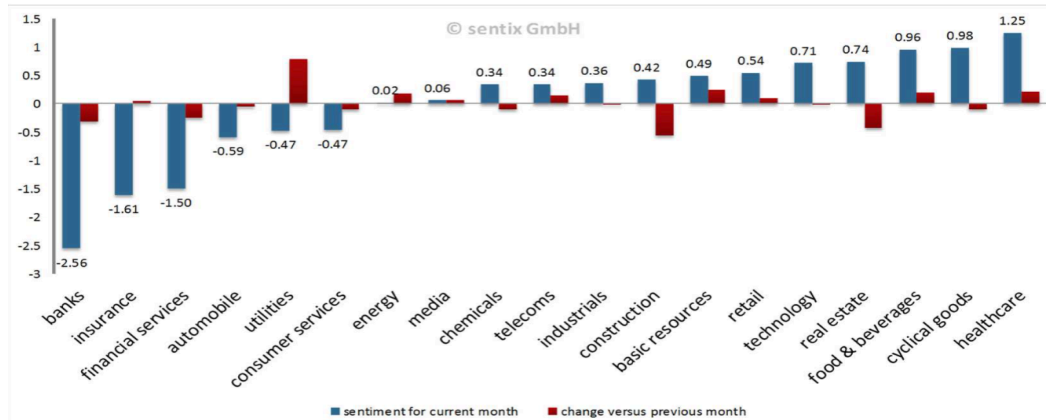


The sentiment for the banking industry slips below its 2012 all-time-low. Back then, Mr. Draghi was forced to hold his famous speech "whatever it takes". But now, what's next?

According to the time series, a comparably depressed sentiment for the European banking industry was on average a contrarian buy opportunity.



The latest **sentix** Sector sentiment highlights significant sentiment drops for Banks, insurances, financial services and especially for the construction and real estate industry. Therefore, sectors responsive to interest rate fluctuations have lost investors' confidence, at least this month. Defensive industry sectors, however, manage to gain investors' confidence



Another important asset allocation tool, the ratio of stocks to bonds, continues to punch up against declining trend line resistance as the fixed income asset class remains in a position of outperformance. It has been well documented that bonds are rising alongside stocks and that something eventually has to give as investors cast their vote in favor of one asset class or the other. The declining ratio suggests that the bond market remains the better hold and any sustainable equity market rally may require bond market participation, leading to a breakout in stocks relative to bonds. The fixed income market remains in a period of seasonal strength between May and October, but keep this ratio handy in case a shift away from the defensive asset class is warranted.



Economic focuses this week are on June Producer Prices on Thursday and June Retail Sales and June Consumer Prices on Friday.

Investor and consumer confidence in the US took a hit over the weekend when race inspired riots broke out in major cities across the country. Looks like another long hot summer. Disturbances this year are happening just before the Republic and Democrat conventions later this month, events that historically have been targets for unrest.

Several S&P sectors broke to new highs on Friday including Industrials, Consumer Discretionary and Health Care. However, significant follow through by US equity indices this week given overbought short and intermediate technical conditions and overhead resistance.

Earnings season makes its unofficial start today with a report from Alcoa, a stock that has typically realized negative tendencies following this pre-earnings run-up period. Investors should be watching closely for evidence of selling on news, a catalyst that could quickly claw back the gains accumulated over the past couple of weeks.

Q2 earnings reports start to appear later this week. Focus is on reports from Financial services companies to be released on Thursday and Friday. Twenty-six S&P 500 companies and one Dow Jones Industrial Average company are scheduled to release results this week. Consensus calls for a -5.6% y-o-y decline in earnings by S&P 500 companies as well as a -0.7% decline in revenues.

To date, 81 S&P 500 companies have issued negative Q2 guidance while 32 companies have issued positive guidance.

Watch for negative Q3 guidance by large international companies with UK operations that will be hit by the sharp drop in the British Pound triggered by Brexit. Q2 earnings by Dow Jones Industrial companies are expected to be better than earnings by S&P 500 companies: up 2.1% on y-o-y basis. Ditto for Canada's top 60 companies! Consensus calls for an average (median) gain for earnings per share of 0.68%.

Earnings and revenue projections for S&P 500 companies in 2H of 2016 remain mildly encouraging. Y-o-y earnings are expected to increase 0.7% in Q3 and 7.1% in Q4.

Seasonal influences for North American equity markets are slightly positive this week, followed by start of a neutral/ negative period lasting until the second week in October.

Historically, the Dow Jones Industrial Average during the year, when a new US President is elected after two terms, has a difficult time starting in mid-July and lasting until mid-October.

We continue advising investors to reduce equities exposure and buy instead 10-Year and 30-Year US treasuries into the weakest 2 months for equities ahead.

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