Creative Global Investments

Morning market commentary & charts

Tuesday, August 4th, 2015

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Objectivity

Integrity

Creativity

"Economists are masters at predicting the past"

For the past years we were heavy critics of consensus GDP forecasts for the US being way too high, and, yes, we were heavily criticized for our views, now, not to our surprise, it seems consensus was very wrong, as the announced downward revisions were coming in well below consensus.

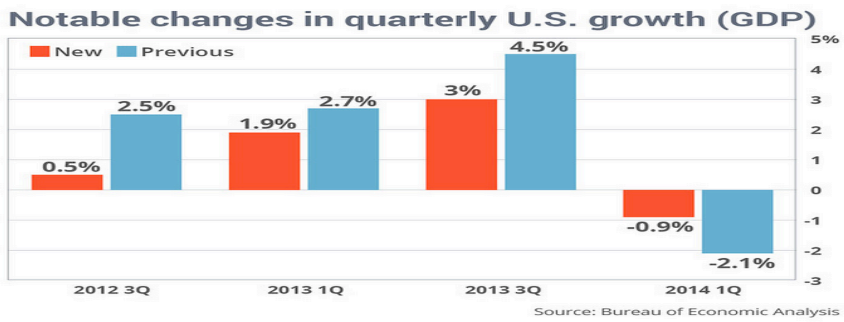
The US GDP expanded at average +2% rate each year from 2012 to 2014 instead of +2.3% as reported under the old method of calculating GDP, the Bureau of Economic Analysis said. In short, as we were predicting in our 2015 Global Strategy Outlook, this is the slowest US recovery since the end of World War II, and is even weaker than everyone thought

In another surprise to most sell side economists (again, as we keep on saying, most sell side and government economists are also going to be surprised tomorrow that the sun rises again in the East), Q3 GDP turned out to be the one with the largest revisions. Average Q3 GDP growth from 2012 to 2014 was marked down to +2.6% from +4%. Average growth in Q1 was raised to +1.2% from +1%, new BEA figures show. GDP was slashed to show just +0.5% growth instead of +2.5%. New adjustments to military spending accounted for 25% of the downward revisions.

As part of its overhaul, the government also released a pair of new tools to help better understand how fast the economy is growing. One measure combines GDP and GDI, or gross domestic income. In theory what an economy produces and the income it generates should match up over time. Averaging GDP and GDI is viewed by many economists as a better way to assess the nation's growth rate.

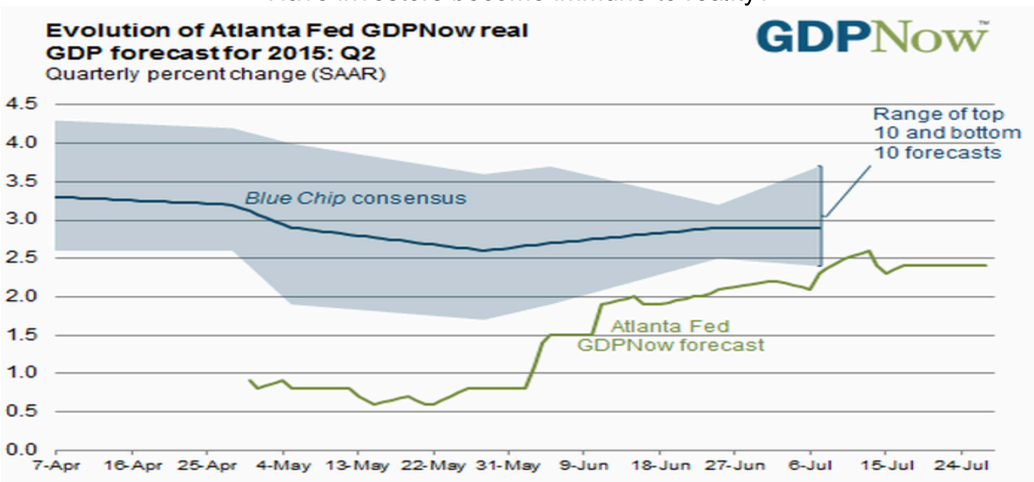
So, in order to "continue the hype", what is next? Redefining a "technical recession" by moving the specifics from 2 consecutive quarters of negative GDP to three quarters, just to continue the hype?

Looking at the FED past policy, now, post GDP downwards revisions, maybe one should consider these know facts to Mr. Bernanke and why he did not proceed with tapering as early as announced in his career. So, maybe a bit of inside information, to say the least, or as we could suspect, data manipulation? So, why does anyone feel good now, after the "coming clean" and doing the revisions, believing that we now are in possession of "real data"? What potentially "different information" might Ms. Yellen possess, just as a thought, for when in September she might announce yet another "status quo" on FED rate policy?



For the past 2 years, we have been following (for the better as it showed) the Atlanta Fed created forecasting tool for GDP, which seems to track real GDP better than the other models the Fed has. Their forecast has been and still is below every forecast in the private markets. So +2.4 to +2.5% GDP growth is better than Q1, which was slightly negative. Below is the chart for GDP going back 20 years. Recently, the stock market has been immune to the dips in GDP. The last four dips in the rate of change of GDP would have been big enough to get a response historically, but now we don't respond to the data. While this may be great in hindsight, it does not give an investor confidence that the stock market reflects the US economic conditions or the economy worldwide.

Have investors become immune to reality?



Another data point yesterday was the ISM Manufacturing which did come in under the 53.7 estimate, however still in positive territory with the forward looking New Orders component moving higher to 56.5. However, seasonally, July & August generally experience somewhat of a slowdown.

The Organization for Economic Cooperation and Development announced today that the aggregate annual rate of inflation for its 34 members was unchanged at +0.6% in June, well below the +2.0% regarded by most central bankers in developed economies as consistent with healthy economic growth. Inflation across the Group of 20 largest economies was also unchanged at +2.6%. The G-20 accounts for 85% of estimated global economic output. According to the OECD, 10 of its members experienced a decline in prices over the 12 months to June, down from 12 in the 12 months to May. Most of those were in Europe, although consumer prices fell in Israel. Greece experienced the largest decline, as prices dropped -2.2%.

We are expecting for Ms. Yellen to show her dovish better side, even though she will not attend the Jackson Hole summit this year. The Fed's August 27-29 annual Economic Policy Symposium at Jackson Hole, will focus on the topic of “Inflation Dynamics and Monetary Policy”.

We are having a tough time seeing Ms. Yellen ignoring the obvious macro economic facts, and thinking that a rate hike for September would be in order in spite of the continuously weak US economy, (which is supposedly the “motor of the world economy”, now with a mere inherent +2% GDP growth), and US and global inflation in decline.

Global Bonds Commentary

For bonds, globally August historically has been the best month of the year, and we see technical evidence that 2015 should be "Business as usual". We believe that US, 10-Y Government bonds are the better value for investors currently, and are advising to reduce exposure towards European 10-Year government bonds, and strategically add towards US 10-Year Bonds.

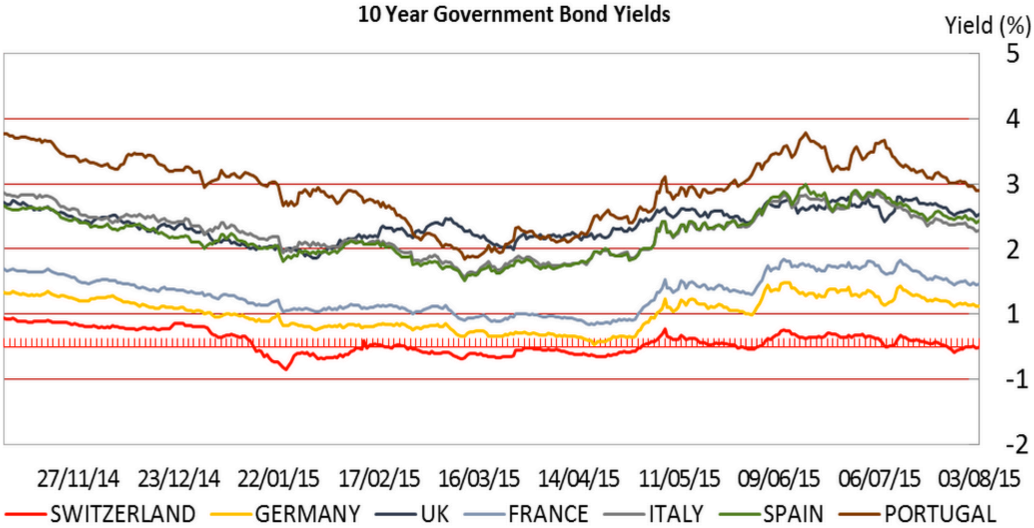
We continue to see decreasing inflation globally, and surely in the US, and as stated in the intro part of last weeks report, we continue to see weakening global macro developments, and consequently we do not see a chance for the Federal Reserve to raise the FED's funding rates until 2016, if so at all. We expect for the yield on the $UST to drop again towards 1.85% in the coming 6 weeks.

European 10-Year government bonds are also in their period of seasonal strength from mid-May until end of August. European 10-Y government bond yields have come down towards our Q3 Global Strategy target levels, particularly the Bunds, the OAT's, and the Spanish and Italians.

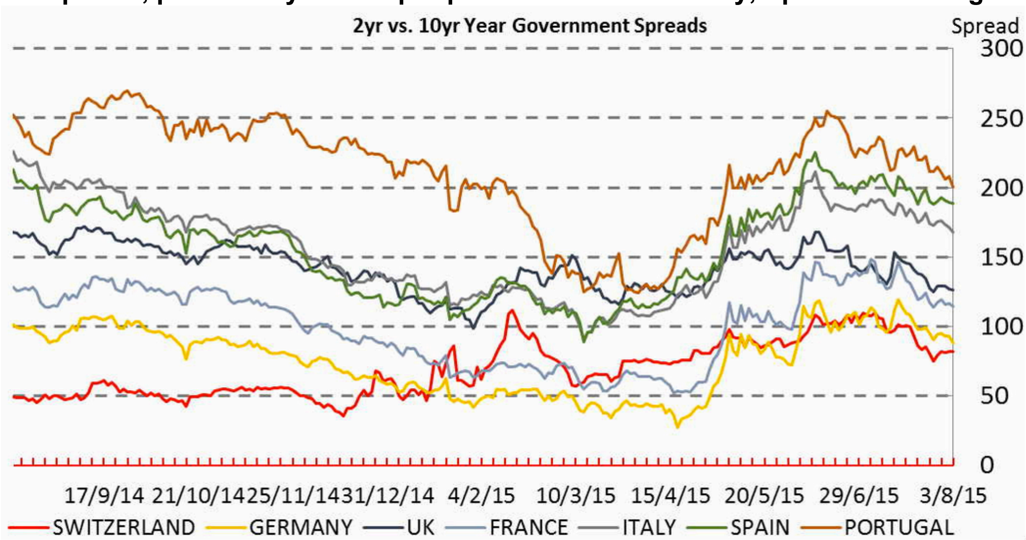
Country	Latest yield	Spread vs bund	Spread vs T-bonds
Australia	2.73%	+2.08	+0.53
Austria	0.92%	+0.27	-1.28
Belgium	0.97%	+0.31	-1.23
Canada	1.44%	+0.79	-0.76
Denmark	0.87%	+0.21	-1.33
Finland	0.81%	+0.15	-1.39
France	0.96%	+0.30	-1.25
Germany	0.66%	—	-1.55
Greece	12.06%	+11.40	+9.86
Ireland	1.19%	+0.54	-1.01
Italy	1.79%	+1.14	-0.41
Japan	0.41%	-0.24	-1.79
Netherlands	0.83%	+0.18	-1.37
New Zealand	3.35%	+2.70	+1.15
Portugal	2.41%	+1.75	+0.21
Spain	1.88%	+1.22	-0.33
Sweden	0.75%	+0.09	-1.45
Switzerland	-0.04 %	-0.70	-2.24
UK	1.91%	+1.26	-0.29

However, we do see technical evidence that August could be another positive month for European 10-year government bonds, and particularly now that a lot of risks related towards Greece and a "potential Grexit" (which we had never seen as a realistic chance) have subsided.

Again, another main reasons for investors to remain bullish on 10-year European government bonds throughout this summer is the fact that the ECB is "strapped to find sufficient paper" for the intended EUR 60BN monthly QE program.



We see room for further short-term gains for the 2-Year Government bonds in Europe too, particularly for the peripheral markets like Italy, Spain and Portugal.



US Equities Commentary

With August upon us, we thought it be prudent to look back through history to gauge the average US equity market performance for this eighth month of the year. Over the past 50 years, the S&P 500 Index has averaged a rather lackluster gain of 0.1% between August 1st and August 31st.

Monthly Averages over past 50 years:

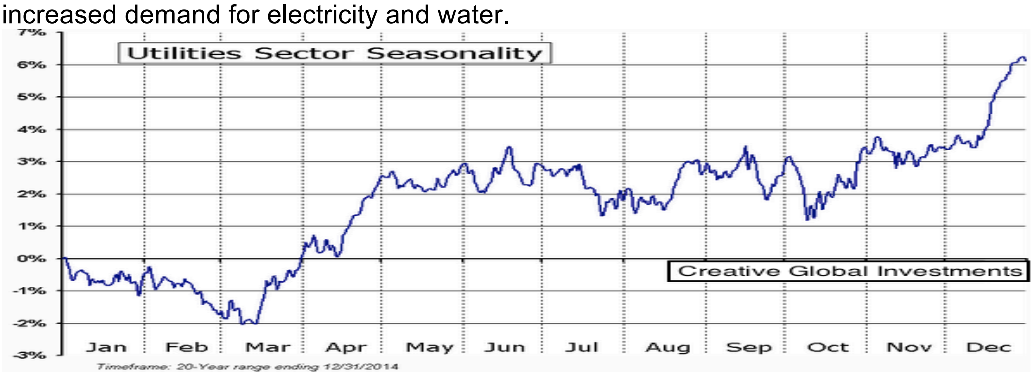
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	1.1%	0.0%	1.1%	1.6%	0.2%	0.0%	0.3%	0.1%	-0.5%	0.9%	1.2%	1.5%
Gain Frequency	60%	54%	66%	70%	54%	52%	44%	58%	46%	60%	66%	72%
Max Return	13.2%	7.1%	9.7%	9.4%	9.2%	5.4%	8.8%	11.6%	8.8%	16.3%	10.2%	11.2%
	1987	1986	2000	2009	1990	1999	1989	1982	2010	1974	1980	1991
Min Return	-8.6%	-11.0%	-10.2%	-9.0%	-8.2%	-8.6%	-7.9%	-14.6%	-11.9%	-21.8%	-11.4%	-6.0%
	2009	2009	1980	1970	2010	2008	2002	1998	1974	1987	1973	2002

However, despite a rather uneventful average return, the frequency of gains for the month remains fairly healthy at 58%, based on data dating back to 1965. The month is characterized as a low volume period with increasing volatility as traders take vacations ahead of the end of summer. Few catalysts exist to influence the market in either direction.

Top performing sectors in August are Utilities, which has already started showing strength relative to broad market benchmarks over recent weeks. Utilities were the top-performing sector of the equity markets in the US last week, and seemingly still attempting to carve out an intermediate-term bottom.

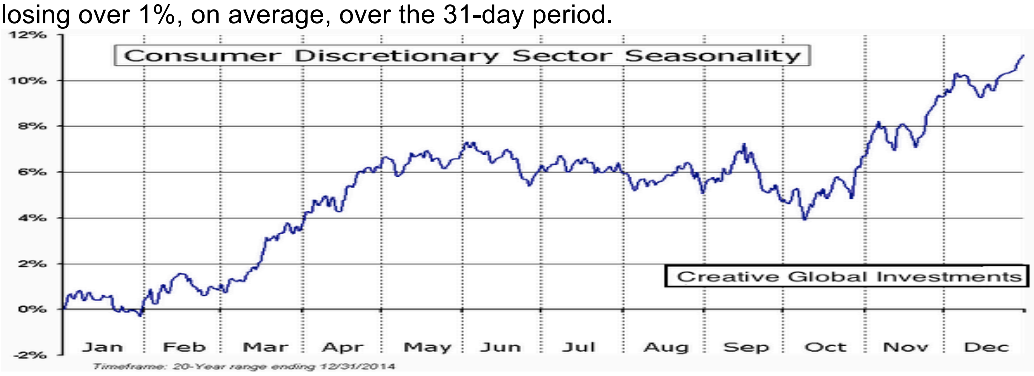
The seasonal trade for Utilities remains intact with gains typical between late July and early October. The trade remains dependent upon stable to declining borrowing rates, which have shown signs of consolidating over the past month and a half, according to the yield on the 10-year US Treasury note.

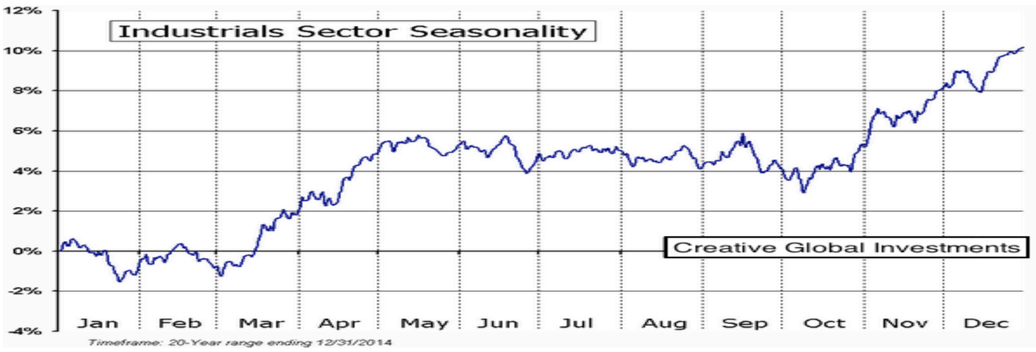
Aside from the seasonal impact of lower rates, warm weather tends to influence electric and water utility stocks higher during the summer months. Temperature trends in the US Northeast are running slightly above average in the month of July, conducive to increased demand for electricity and water.

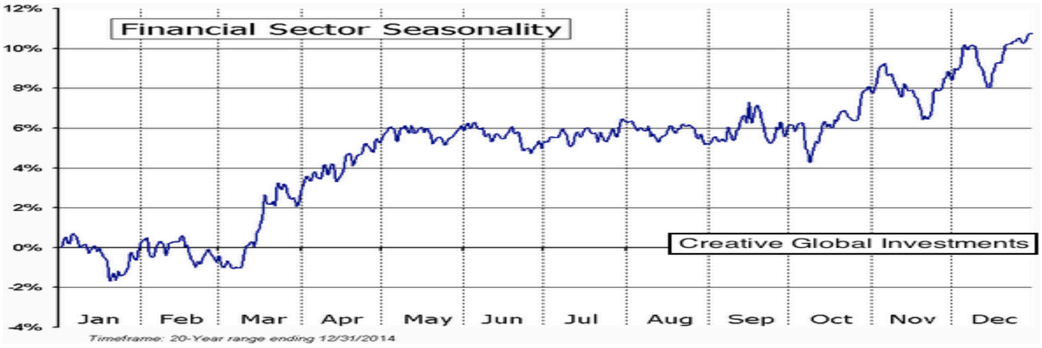


The Utilities sector ETF is presently holding support at $42 with significant resistance evident around $45.

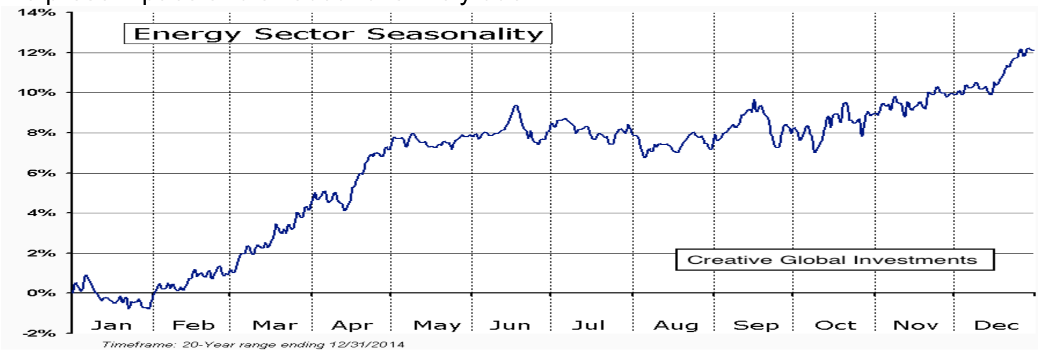
Consumer Discretionary, Materials, Industrials, and Financials are the weakest sectors, losing over 1%, on average, over the 31-day period.







Seasonally, the energy sector has shown a minor period of strength that runs from mid-August through to mid-October; exploration and production stocks tend to benefit most. Support may not be evident as of yet, but the parabolic move lower in many energy stocks over the past few months suggests that the decline is unsustainable at the present pace and a rebound is likely due.



The S&P 500 Energy Sector Index is testing the lowest levels since 2012, moving increasingly away from significant moving averages in the process. Significant support for the sector benchmark is apparent at 460. A bounce from a 5% band surrounding this significant support level in the near-term may provide an appealing entry point for the late summer seasonal trade ahead.

Weekly Investment Conclusion

Macro and geo-political risks related to international events remain subdued. China remains a concern. Economic focus this week in the US is on the employment report on Friday. Generally, economic news will confirm that the US economy continues slow, but steady growth.

For the month of August, we are expecting for a historical repeat for bond prices around the world to have their best month of the year. So far, for the past week, investors have been evaluating the deteriorating macro news, and re-allocated new money into the bond markets, just as we were predicting. Strength in the bond market, utilities and real estate over the past week signaled that investors are coming around to our views that the Federal Reserve is likely to postpone its first increase in the Fed Fund rate beyond September, which in return, will be a positive influence for equity markets.

Equity markets around the world (except China) have regained short-term momentum. Most overhead resistance exists for US equity indices. Short and intermediate technical indicators are trending higher for most global equities' markets, less so for the US. More S&P 500 stocks broke resistance than support last week, a trend that is likely to continue this week: 43 stocks broke resistance and 35 stocks broke support. Last week's recovery in fertilizer, gold and silver stocks was encouraging.

Quantity of Q2 reports to be released this week remains high, but less than last week. Focused sectors include energy, fertilizer, gold and auto parts. A total of 354 S&P 500 companies have reported Q2 results to date: 73% have reported higher than consensus earnings and 52% have reported higher than consensus sales. Earnings on a y-o- basis are down -1.3% and sales are down -3.3%. Of greater importance 44 companies have lowered Q3 guidance while 18 companies have raised Q3 guidance.

August is a mixed month for equity markets and most sectors. During the past 10 periods, Dow Industrials averaged a -0.6% decline per period, the S&P 500 Index averaged a -0.4% decline and the NASDAQ Index averaged a -0.4% decline. European and Far East markets generally move slightly lower led by weakness in the Korean Kospi, Hong Kong Hang Seng and Paris CAC. The TSX Composite has been an exception with an average increase of +0.8%.

Top performing sectors during August in the past 25 years were:

- Utilities
- Consumer Staples
- Agriculture
- Gold
- Biotech

Worst performing sectors during August in the past 25 years were:

- Telecom
- Materials
- Financials
- Steel
- Transportation
- Railroads

Best performing commodity during August for the past 25 years was:

- Heating oil

Worst performing commodity during August for the past 25 years was:

- Gasoline

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