



Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

Q3 Asset allocation assumptions

- For the upcoming quarters, the Fed has now made the market very sensitive to economic data which will increase volatility around every data point potentially pushing investors to the sidelines through the summer
- After the recent move we are less negative on “core” US and European bonds at this juncture but do expect yields to push higher in the medium-term, however, we see the US 10yr settling into a range of 2.7% to 3.3% over the next 12 months as investors come to the realization that there could be a considerable gap between the end of QE and the first rate hike.
- Equities offer the best risk-adjusted returns compared to most other asset classes, however, our tactical view still remains somewhat cautious but we expect global equities’ indices to bottom sometime in late August/September and we advise to deploy cash around that time
- European and Emerging Markets equities remain cheapest on an absolute basis and although the relative valuation discount to bonds has eroded somewhat over the past two months month, European and emerging market equities still offer much better risk-adjusted returns in our opinion
- Overall, for the broader equity markets to go higher, we need to see a rotation into the more cyclical sectors as it is unlikely the higher yielding defensives can re-rate materially higher from here
- We would have a preference for sectors where valuation measures looks less demanding, particularly Automotive, Technology, Consumer Discretionary and Basic Materials.

2013 Q3 Global Equities Sector Outlook

| Industry Sector | Valuation | Earnings Momentum | Balance Sheet | Share Price Momentum | CGI Outlook |
|--------------------|-----------|-------------------|---------------|----------------------|-------------|
| Automotive | + | + | + | + | Positive |
| Aerospace. & Def. | + | + | + | 0 | Positive |
| Banks | - | + | 0 | + | Positive |
| Basic Resources | + | 0 | + | 0 | Positive |
| Chemicals | 0 | + | + | + | Positive |
| Construction | 0 | 0 | 0 | 0 | Neutral |
| Financial Services | - | 0 | - | 0 | Neutral |
| Food & Beverages | + | 0 | + | + | Positive |
| Healthcare | 0 | 0 | 0 | + | Positive |
| Industrials | + | + | + | + | Positive |
| Insurance | 0 | 0 | 0 | + | Positive |
| Media | - | - | 0 | 0 | Neutral |
| Oil & Gas | + | + | + | + | Positive |
| Personal Goods | 0 | 0 | 0 | 0 | Neutral |
| Retail | - | 0 | 0 | 0 | Neutral |
| Technology | + | 0 | 0 | - | Neutral |
| Telecoms | 0 | 0 | 0 | - | Neutral |
| Travel & Leisure | - | - | - | 0 | Negative |
| Utilities | 0 | - | 0 | 0 | Neutral |

- = Negative
0 = Neutral
+ = Positive

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US Equity markets commentary

US stocks aren't the bargain they were a year or two ago. After rising 17% in the year's first seven months, the S&P 500 is currently trading at 19.5 times trailing 12-month earnings. That's the most expensive valuation for the index since January 2010. Many US stocks are at record highs, making it difficult to find stocks that are deeply undervalued.

To find true value investments, the best place to look may be outside the US.

Early technical warning signs by broadly based equity indices and selected sectors.

Equity markets ended lower on Tuesday as investors booked profits amidst renewed Fed tapering concerns. The S&P 500 traded down by almost six-tenths of a percent, testing the 10-day moving average as a point of support. The tone on the day was very much "risk-off" as cyclical sectors (materials, industrials, and financials) led the decline while defensive sectors (staples, health care, and utilities) declined less than the market benchmarks. Surprisingly, not a single stock within the S&P 500 broke below long-term support defined by the 200-day moving average.



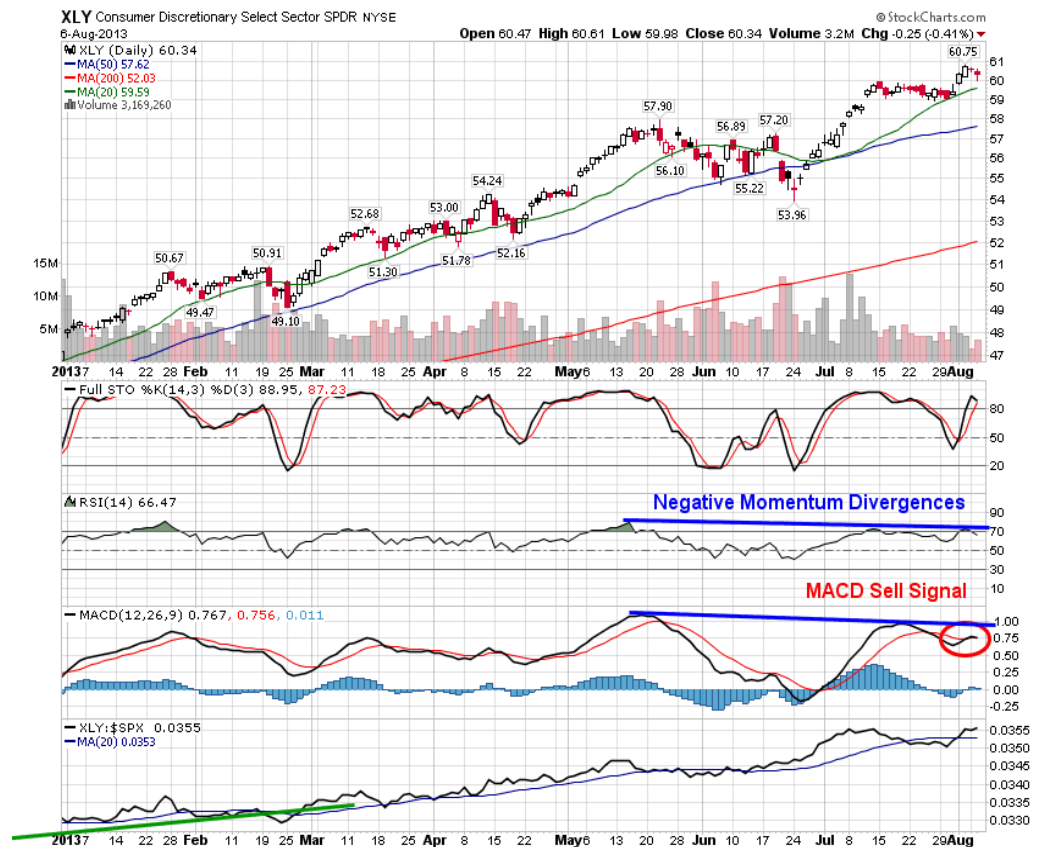
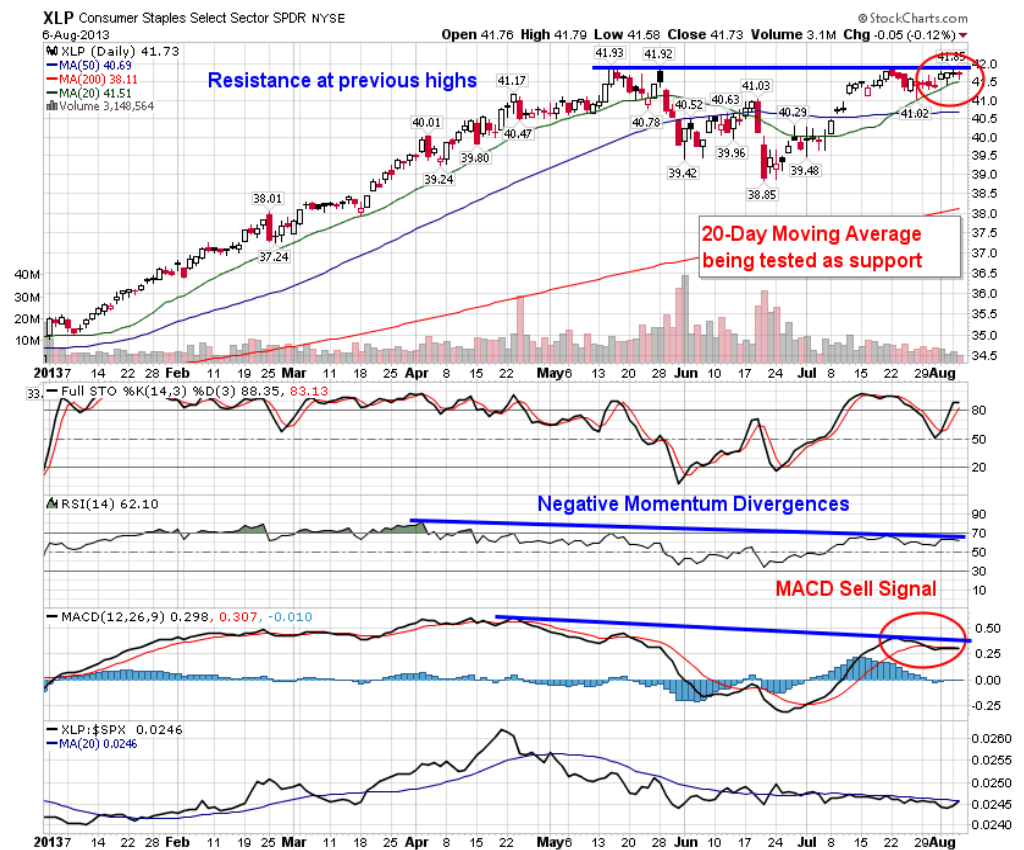
A number of sector ETFs are now finding support at their respective 20-day moving averages, the dividing line between strength and weakness over the short-term. Should the 20-day moving average fail to hold as support, 50-day moving averages could quickly be tested. They are breaking below their 20-day moving average and are underperforming the S&P 500 Index.

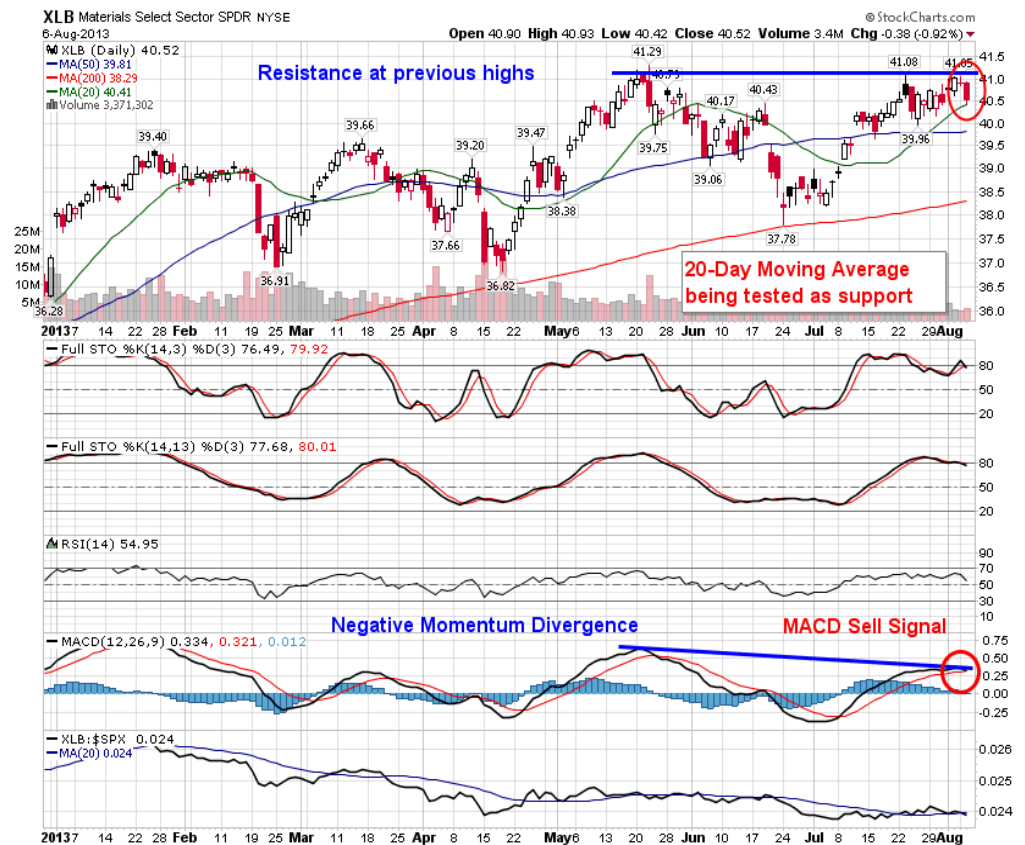
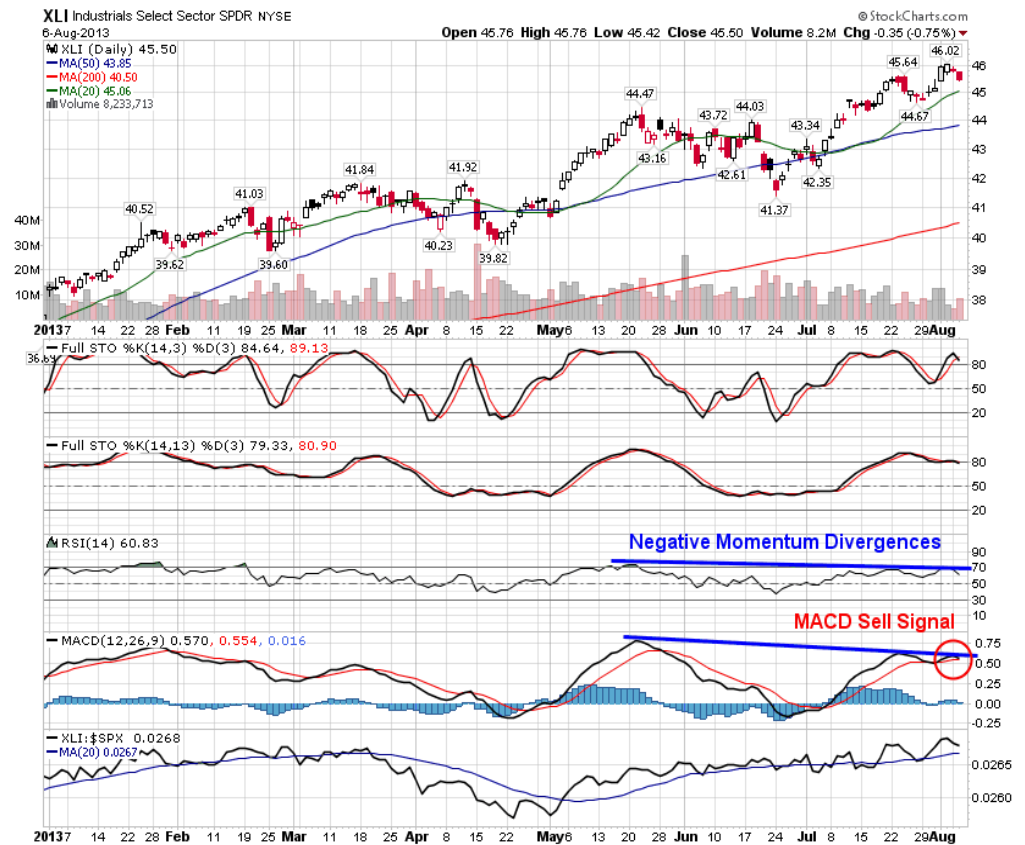
Average decline per period for the DJIA Index was 1.2%.

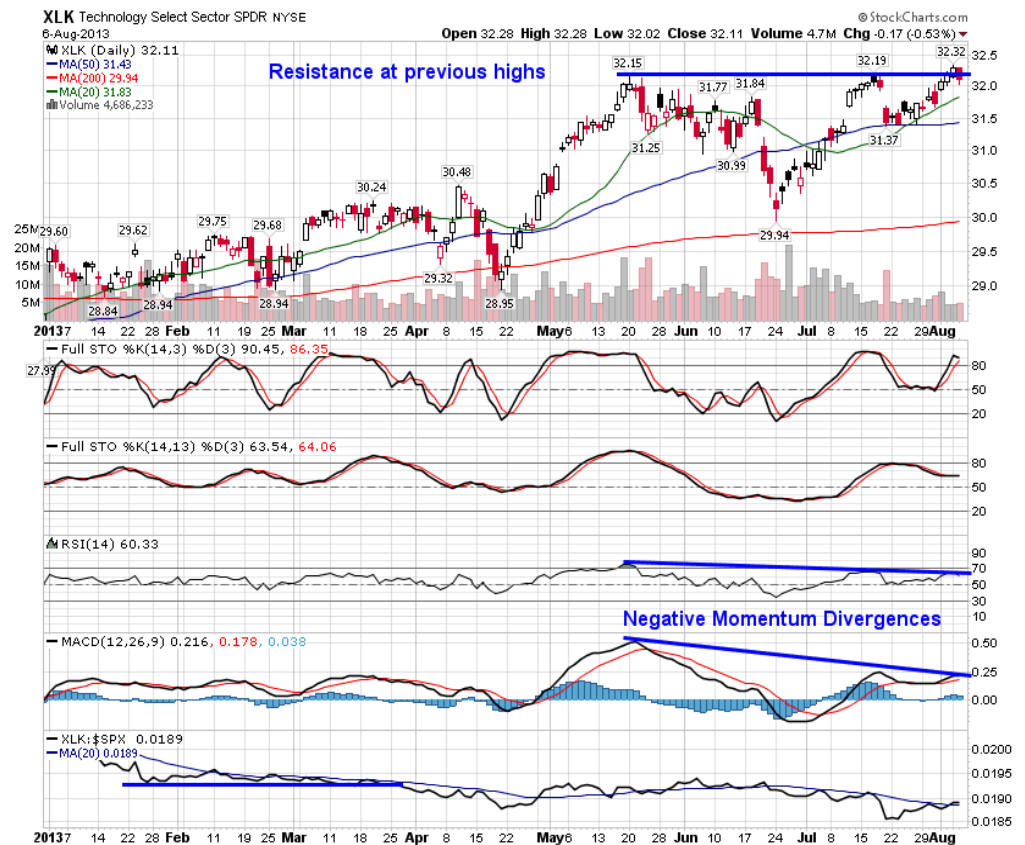
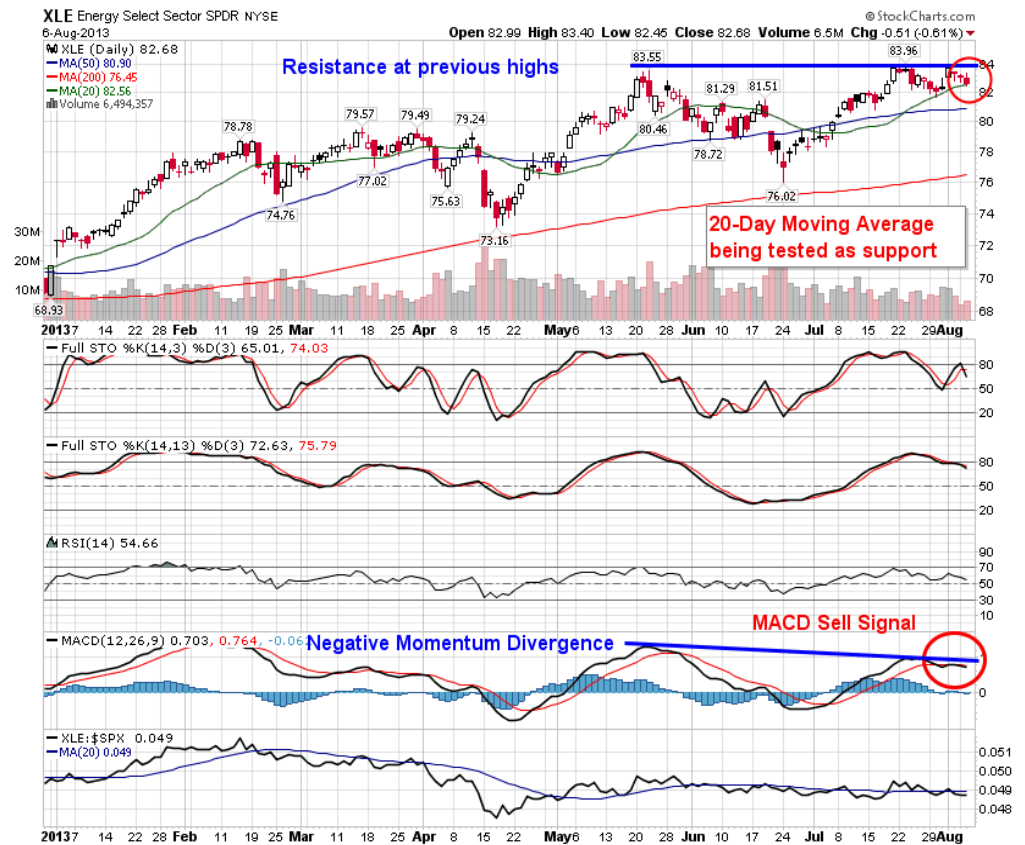


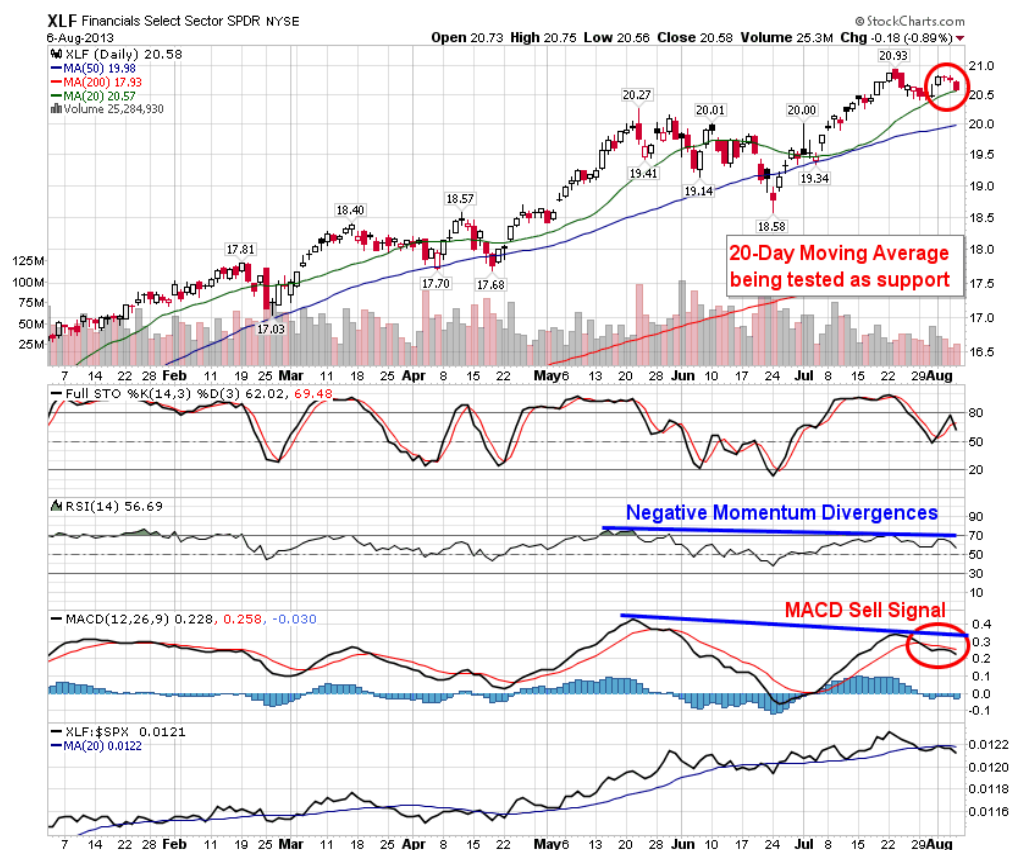
Consumer discretionary, materials, and industrials act as a drag on the broad market between now and the Fall.

Weakest sectors between August and November have been Telecoms, Materials.

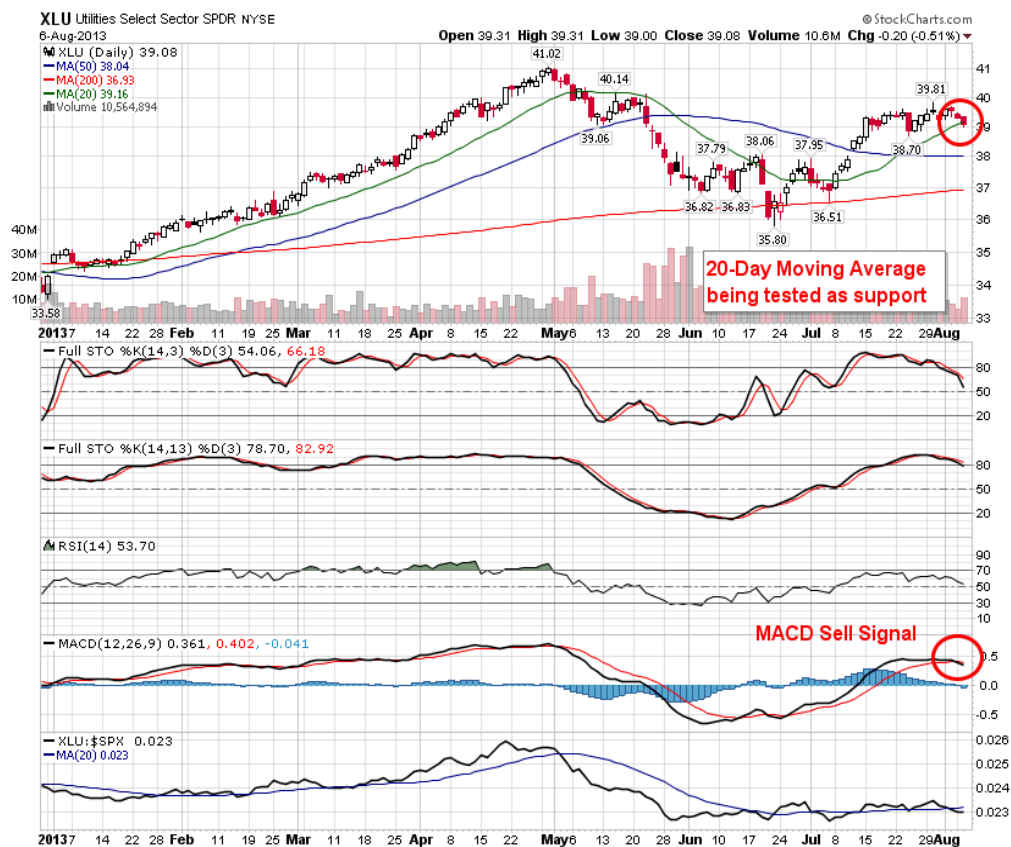








Sectors with traditional positive seasonality are the exceptions. Only one sector, utilities have recorded an average gain per period during the past 21 Augusts.





The inflation-adjusted Dow since 1900 -- there are several points of interest. For one, while all major US stock market indices trade well within record territory, when adjusted for inflation, the story changes. For example, the inflation-adjusted Dow still trades below both its 1999 and 2007 peaks -- albeit not by much (only 0.3% below its 2007 pre financial crisis peak and 2.7% below its 1999 all-time, inflation-adjusted record high).

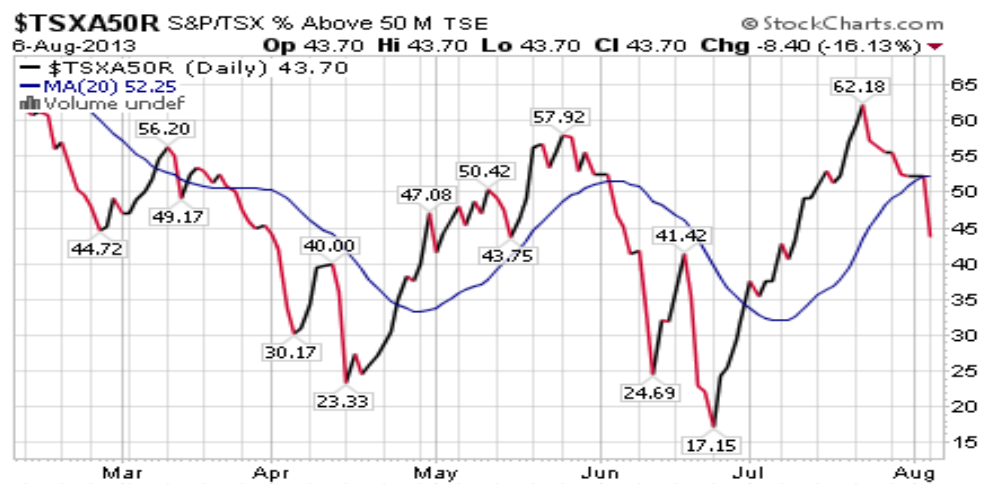
Another point of interest is how the inflation-adjusted Dow has not spent much time above the low 15,000 level (see red dashed line).

From an average seasonal perspective, the Dow Jones Industrial Average punches out a flat return between now and mid-September. During post-election years, averages show that the Dow tends to decline between the beginning of August and the end of October, resulting in an average loss of approximately 4, relinquishing a sizeable portion of the year to date returns. An even greater loss of approximately 6% is the norm during the seven-year cycle, although the negative trend doesn't customarily begin until September, running through to November. In each cycle model, strong gains through the first seven months of the year are typical leading into this contractionary period for equity indices, during which declines encapsulating at least half of the year-to-date returns are the average outcome. With this year's equity market performance resembling the above average performance depicted through the month of July in each of the models, concern grows that the remaining five months of the year may also prove to be similar, meaning that a sizeable pullback may be near. Markets typically end the year with below-average annual returns during post-election years, which annual returns are typically above average during this period in the seven-year cycle.



Canadian Equity Market Commentary

Technical deterioration was most notable by TSX Composite stocks.



Emerging markets equities commentary

We do not think so, and we see inherent value in India, China, Brazil and Russia.

The MSCI Emerging Markets Index (EEM) is down 12% this year, underperforming US stocks by nearly 30%. The performance among emerging markets has been pretty bad, despite the fact that US stocks have been continuously rising.



Emerging equity markets versus frontier markets have been underperforming since 2 H 2012, will this persist for the remainder of 2013?

After a period of tremendous growth following the global recession, emerging markets have been essentially beaten down for two straight years. For now, emerging markets are extremely cheap when compared to US stocks. Collectively, emerging markets are trading at roughly 10 times 2013 profit estimates. When you consider the growth outlook for most emerging markets remains stronger than the US, they appear to be attractively valued.

In the next five years emerging markets will grow 6% annually, according to our forecasts and those by the IMF and OECD. Meanwhile, the Federal Reserve projects the US economy to grow between 2.3% and 2.6% this year and between 3% and 3.5% next year. That means that the average emerging market stock is not only half as cheap as the average US stock on a price-to-earnings basis, but is also tied to an economy that has double the growth prospects.

Finding a bottom is never easy. In the case of emerging markets, however, the turnaround has already begun. Since dipping to an 18-month low in late June, the MSCI Emerging Markets index has risen 7.5%. The FXI and the EWZ, ETFs that track the performance of stocks in China and Brazil, respectively, have each advanced more than 5% during that time. Slowly but surely, the cloud over emerging markets appears to be lifting. The recent rebound in emerging markets to us seems like just the beginning of a long-term rally. Furthermore, the investment risk is already reduced due to the deep discount of emerging market valuations compared to US stocks. That's why we are recommending to our clients to increase exposure to emerging-markets in their portfolio.

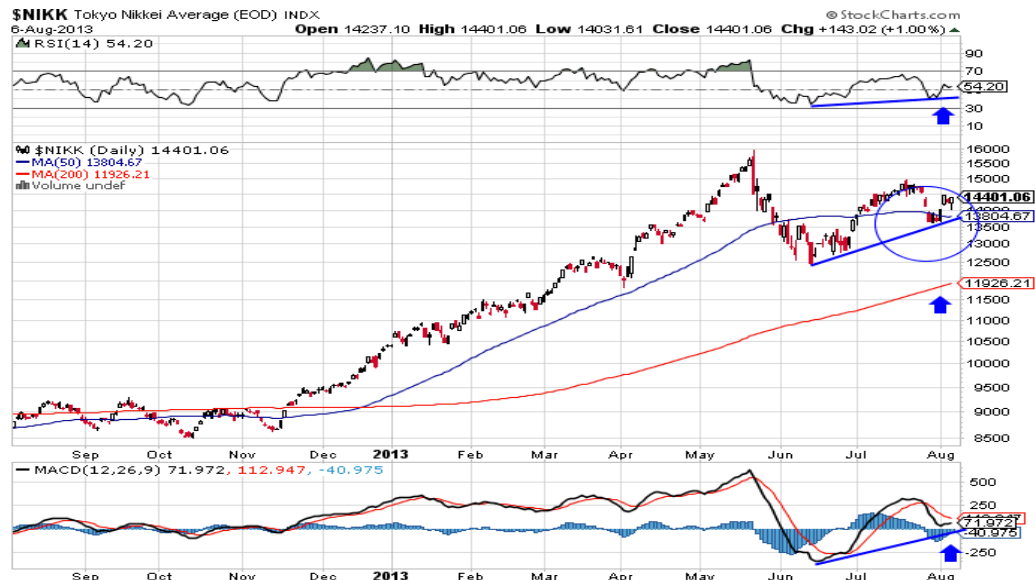
Technicals for the Shanghai Composite Index are starting to improve.

A move above 2,092.87 will attract technical buying.



Nikkei 225, what is next?

The \$NIKK is above both the 10-month and 40-month MA's, the RSI has made a lower high, the N-225 did retrace slightly more the 61.8% but closed the last week at the 61.8% retracement level. Now the price is testing the 20-WMA.



There is a lower high in place and a higher low, we are anticipating for the N-225 to start on another significant move higher.

Overnight the Nikkei closed at 13825. It closed above the 10-WMA and the 20-WMA but still down from the previous week.

We are expecting a major positive trend change for the N-225.



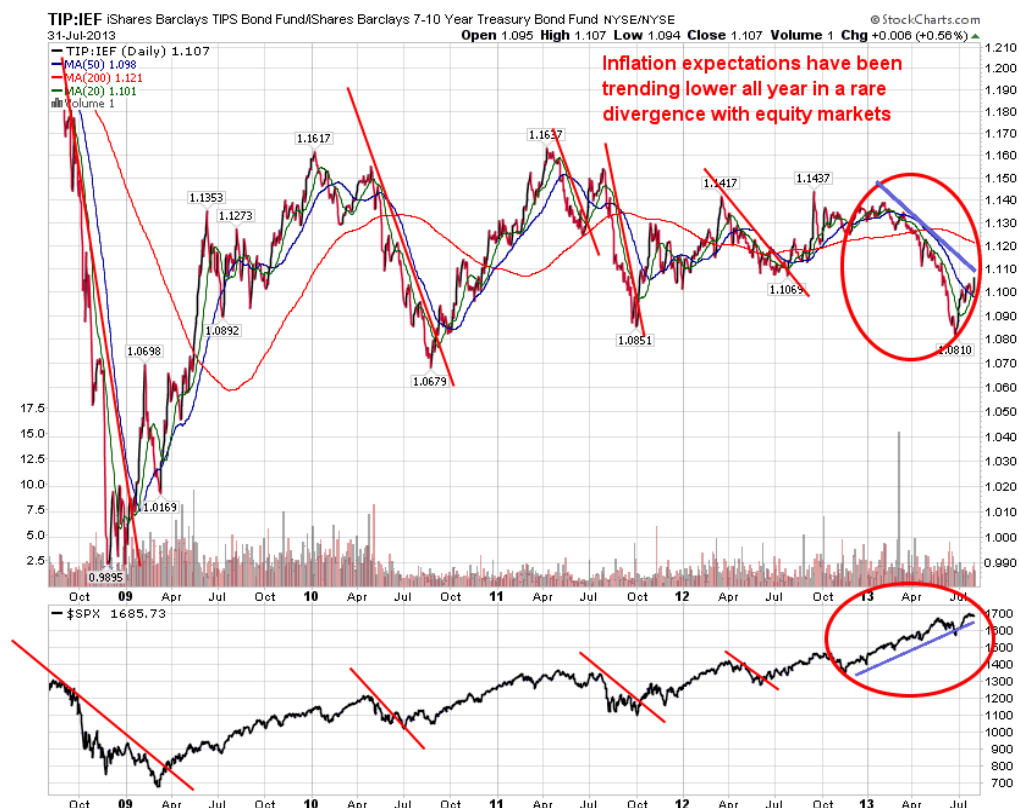
Fixed Income markets commentary

The Fed's statement noted "the Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term." The Treasury Inflation Protected ETF (TIP) jumped on the statement, firming up recent gains since the low charted in June.

Seasonally, bonds enter their peak period of strength between now and the start of October as volatility rises.

Inflation expectations, as gauged by the ratio between the Treasury Inflation Protected ETF (TIP) and iShares Barclays 7-10 year Treasury Bond Fund (IEF), have been trending lower all year, resulting in a rare divergence with equity markets.





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