



Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

Equity Market Observations

We are starting to see weakening in breadth data that is suggestive of a possible short-term correction in the market. With the highly anticipated upcoming September 17-18 FOMC meeting, we could be in store for some volatility and market weakness. While it is highly anticipated that the Fed will begin to taper its QE program next month, what the market is uncertain about is by how much and at what pace. This uncertainty will likely keep the market's near-term upside potential limited, and may open up a small correction or consolidation.

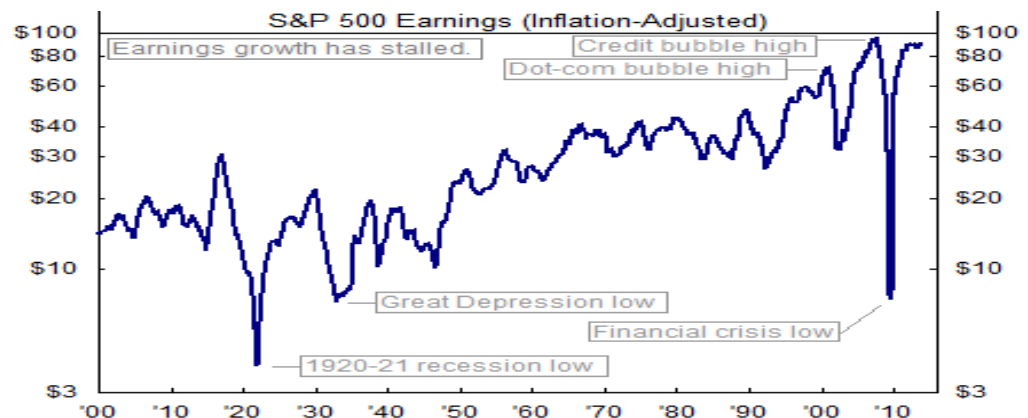
US stocks aren't the bargain they were a year or two ago. After rising 17% in the year's first seven months, the S&P 500 is currently trading at 19.5 times trailing 12-month earnings. That's the most expensive valuation for the index since January 2010. Many US stocks are at record highs, making it difficult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

Once the FOMC decision will be known, the markets are likely to head to new highs given how robust the market currently is (excluding short-term divergences) as well as having an accelerating economy, as seen by the sharply rising service and manufacturing PMIs that were released last week.

To date, some 72% of the 445 firms from the S&P 500 that have reported quarterly earnings so far this season have beaten profit forecasts, while 56% have exceeded sales estimates.

Focusing on 12-months reported S&P 500 earnings, the following chart illustrates how earnings declined over 92% from its Q3 2007 peak to Q1 2009 low which brought inflation-adjusted earnings to near Great Depression lows. Since its Q1 2009 low, S&P 500 earnings have surged to a level that was not that far below its credit bubble peak. After the surge ended in Q4 2011, inflation-adjusted earnings stagnated.

However, second-quarter earnings have picked up significantly enough to where inflation-adjusted S&P 500 earnings are now once again making new post-financial crisis highs



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

Macro Economic Commentary

Asian Economies

Worries over a slowdown in China eased temporarily this morning after a barrage of strong economic figures from the world's second-largest economy sparked decent gains in the mining sector in London.

Chinese industrial production increased at an annual rate of 9.7% in July, an acceleration from the 8.9% rise in June and ahead of expectations consensus forecast: +8.9. This was the biggest jump since February in a sign that the targeted investment by the government, in response to the slowing growth this year, is already having a positive impact.

Consumer-price inflation remained steady at 2.7% in July, in line with the increase in June and under the expected increase to 2.8%. With inflation still well below the 3.5% government target, analysts believe it leaves Beijing with room to implement more stimulus to boost growth

Chinese retail sales growth fell slightly from 13.3% to 13.2% last month consensus forecast: +13.5% The fact that China's growth of 13.2% on the retail side is what is needed in order to pick up some of the slack from the lower demand for Chinese exports, due to the recession in the Eurozone and slowing growth in other countries. Yesterday, Chinese trade figures were well received by the market with both imports and exports smashing forecasts in July.

India's central bank has announced new measures to reduce volatility in currency markets and support the weakened rupee. The Reserve Bank of India (RBI) said it will auction 220bn rupees (\$3.6bn; £2.3bn) of government cash management bills every Monday. It did not say how many weeks the sale would go on. The rupee hit a record low of 61.80 against the US dollar on Tuesday. Other measures have so far failed to shore up the currency. The rupee has lost more than 12% of its value since the start of the year, because of investors taking money out of the country, among other reasons. On 15 July the RBI took action, including raising short-term rates to reduce cash in the financial system. It took additional steps on 23 July. However, the rupee has continued to drop in value, raising concerns about India's economy, which is growing at 5% - its slowest pace in a decade.

Euro Economies

The UK trade gap shrank to its smallest level in almost a year in June as more goods were sold abroad. The ONS said the UK goods trade deficit narrowed to GBP 8.1bn in June, down from GBP 8.7bn in May. The ONS also said construction output grew more in the second quarter than it had first estimated. The trade gap in goods with non-EU countries fell sharply from GBP 4bn in May to £2.6bn in June, well below forecasts of a GBP 3.8bn deficit. UK manufacturers have been urged to trade with countries outside Europe - which have been growing far more quickly in recent years - rather than with those in the Eurozone, where growth is much weaker. However, the UK's single biggest trading partner remains the Eurozone. Although the UK usually imports more goods from other countries than it exports, it normally makes more from services sold abroad than it imports, and taking this into account the overall trade gap, including both goods and services, was GBP 1.55bn, the lowest since January. Over the three months to June, export volumes grew by 5.9% percent, almost twice as fast as the growth in imports.

US Economy

US economic data also came in ahead of forecasts with US jobless claims rising marginally to 333,000 last week from 328,000. The figure still came in under the 335,000 expected by analysts and remained near a five-and-a-half-year low. Sandra Pianalto, President of the Fed Bank of Cleveland, sparked falls on Wall Street last night after saying that there has been "clearer signs of a more sustained recovery" in the labor market over the last few months. Meanwhile Richard Fisher, head of the Dallas Fed, told a newspaper in Germany today that the Fed could start tapering as soon as September if "economic data doesn't significantly deteriorate".

US Equity markets commentary

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

Gold and Silver and related stocks seasonally gain between now and the end of the year, while copper seasonally trades flat to negative over the same period.



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.



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.

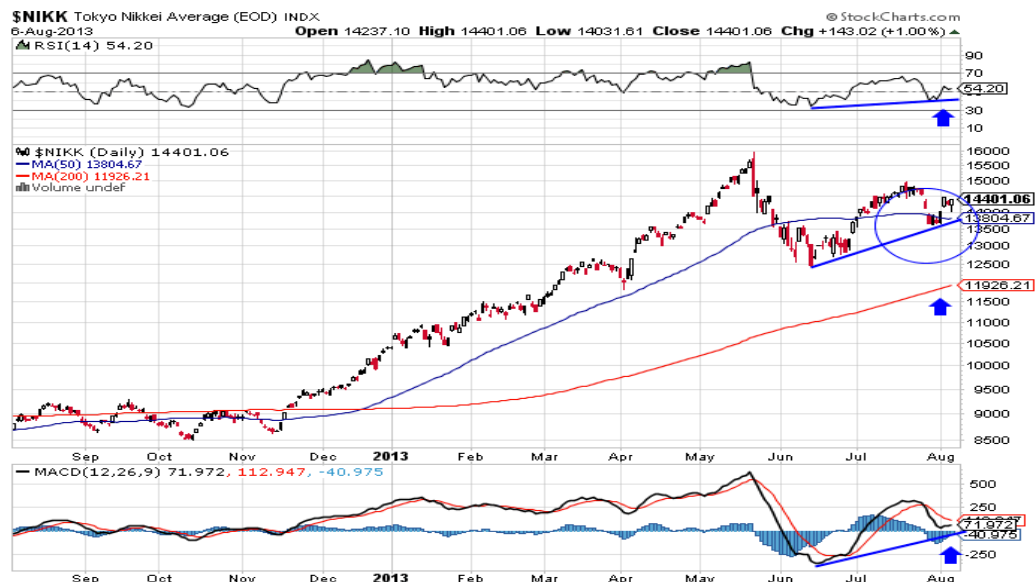
Technicals for the Shanghai Composite Index are starting to improve.

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.



Commodities

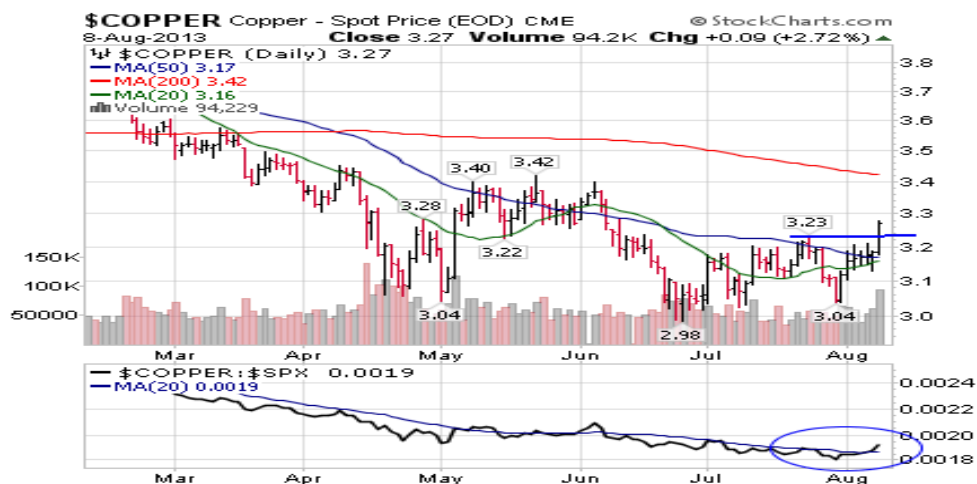
Metal prices popped yesterday following release of greater than expected July China export data. Copper managed to punch through the 50-day average, suggesting strength over the intermediate-term.

Prior to quantitative easing manipulating the commodity markets, the ratio of Copper versus Gold was a fairly reliable indicator of risk sentiment. As the price of Copper outperformed Gold, positive risk sentiment could be implied, while underperformance of Copper relative to Gold could imply risk aversion; the direction of the ratio often correlated with the direction of equity markets.

The ratio of Copper versus Gold showed a rare deviation from the direction of equity markets last summer as European leaders injected much needed stimulus into the economy amidst faltering economic fundamentals, which put pressure on the relative performance of the industrial metal (Copper) but inflated equity prices. Economic data has increasingly beat expectations over recent weeks, acting as a positive catalyst for risk.

The price trend of Copper vs. Gold has returned to a positive trend dating back to the November lows as fundamental data has firmed and manufacturing data rebounds, particularly as of recent.

Although this risk-on trend is not typical during the summer months and the trend could change at any time, risk aversion has yet to be identified within the ratio, which is positive for equity markets as long as the trend continues



DBB is weighted one-third copper, one-third aluminum and one-third zinc.



Gold & Precious Metals

Gold gained almost 2%, while Silver pushed higher by almost 3.5% yesterday.

Both Gold & Silver have charted intermediate base building patterns since the end of June suggesting rebounding metal prices as the commodities attempt to trade off of 52-week lows, and are presently testing resistance at their 50-day moving averages, a level that each metal has struggled to trade away from over recent weeks.

Gold and Silver seasonally gain between now and the end of the year, while copper seasonally trades flat to negative over the same period.





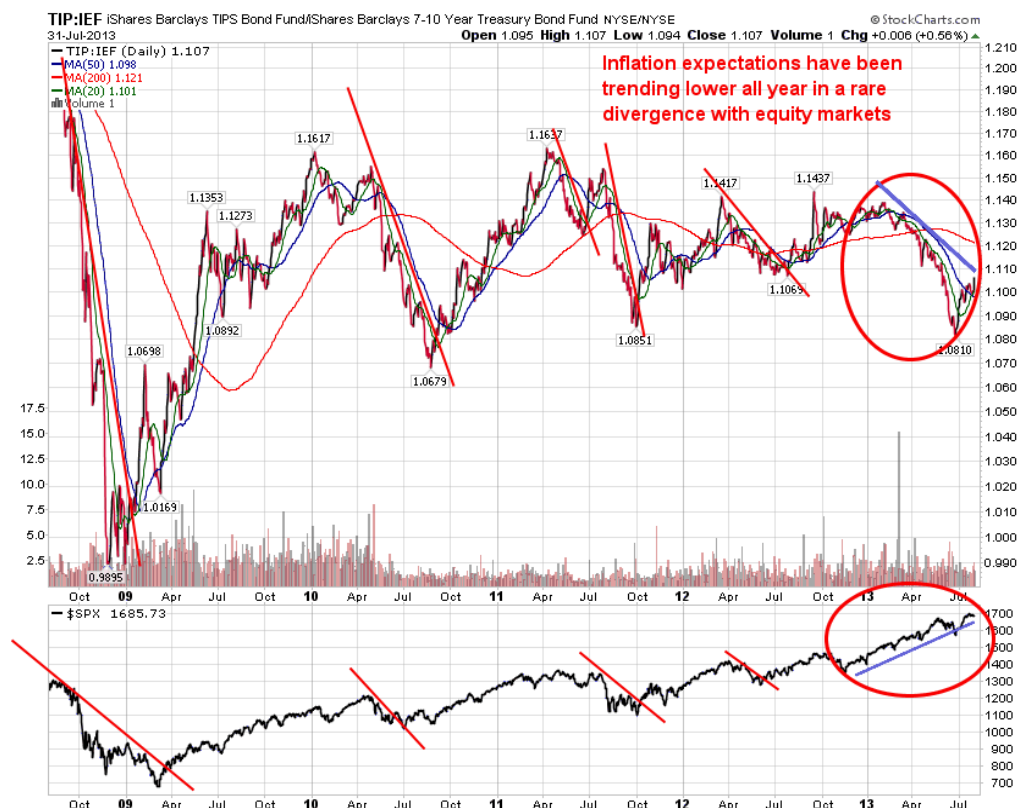
Fixed Income markets commentary

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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