Creative Global Investments

Strategy update & charts

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Objectivity

Integrity

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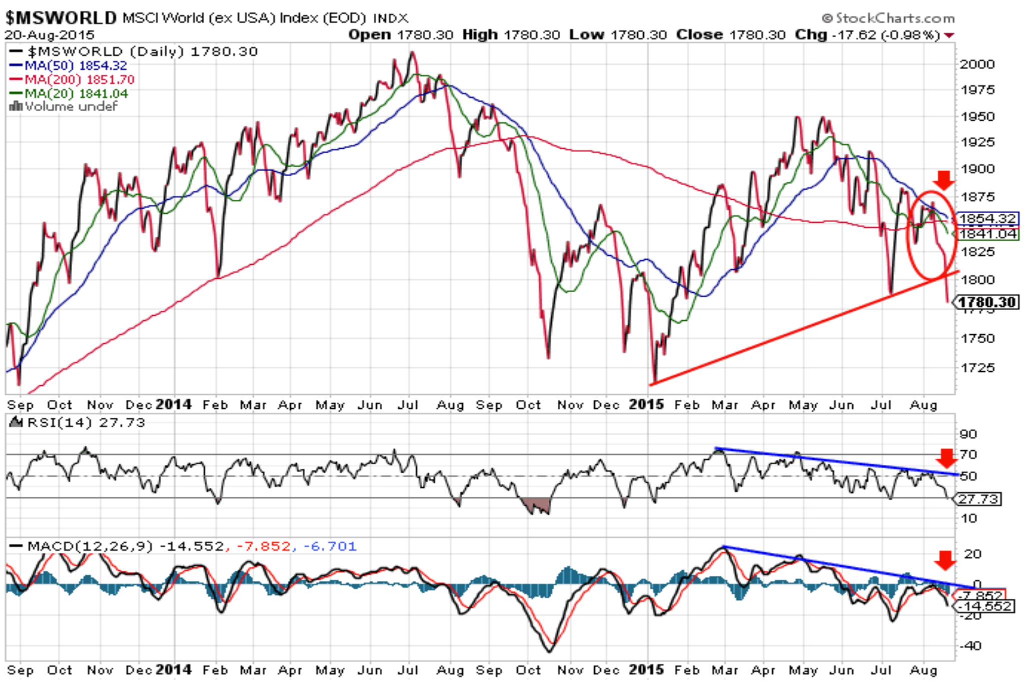
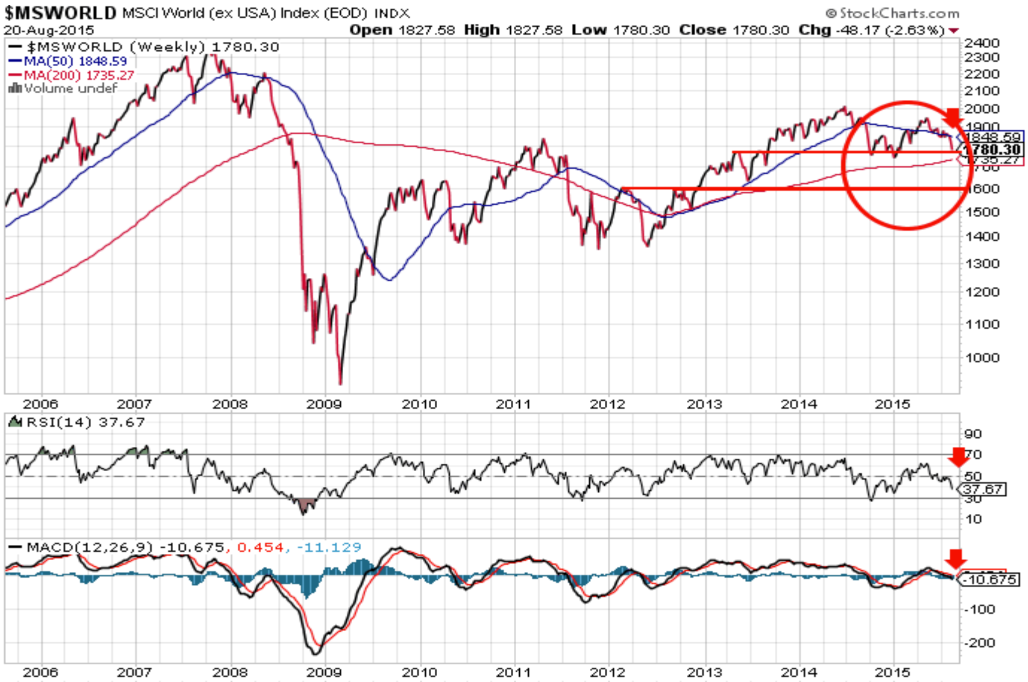
Global equity markets are in danger of breaking below major support levels

Stocks in Asia fell sharply on Thursday, with the Shanghai Composite slumping over 4% after the flash Caixin/Markit China Manufacturing Purchasing Managers' Index dropped to 47.1 in August, down from a final reading of 47.8 in July. The data marked six-year low, fuelling concerns about a slowdown in the world's second-largest economy. European shares also fell in early trade, taking their cue from weak sessions in Asia, as disappointing Chinese manufacturing data compounded fears of a slowdown. Europe's major such as the Stoxx Europe 600 was down -1.4%, while Germany's DAX and France's CAC 40 were down -1.1%

We are expecting for equities in Developed Markets to remain in a declining pattern until October. Bullish opportunities between now and October will be limited to a few select seasonal opportunities, visible by significant rotation in favorable defensive sectors such as Utilities, moving higher while economic sensitive sectors (e.g. Consumer Discretionary) are moving lower. Technical parameters for world equity markets have turned negative. Short and intermediate technical indicators for major equity markets and most sectors are trending down, but already are approaching oversold levels. Once again, they failed to move to multi-year highs after testing recent highs. Meanwhile, their short-term momentum indicators continue to trend down.

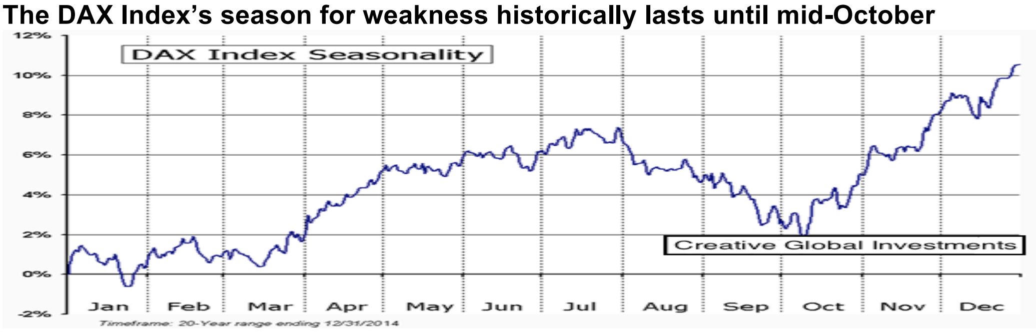
The MSCI World index ($MSWORLD) is close to a "bear cross" formation, and looking at the short term technical outlook, after failing to hold at the 200-day moving average support, it will have to hold at the trend line, or it may face downside risk towards 1600.



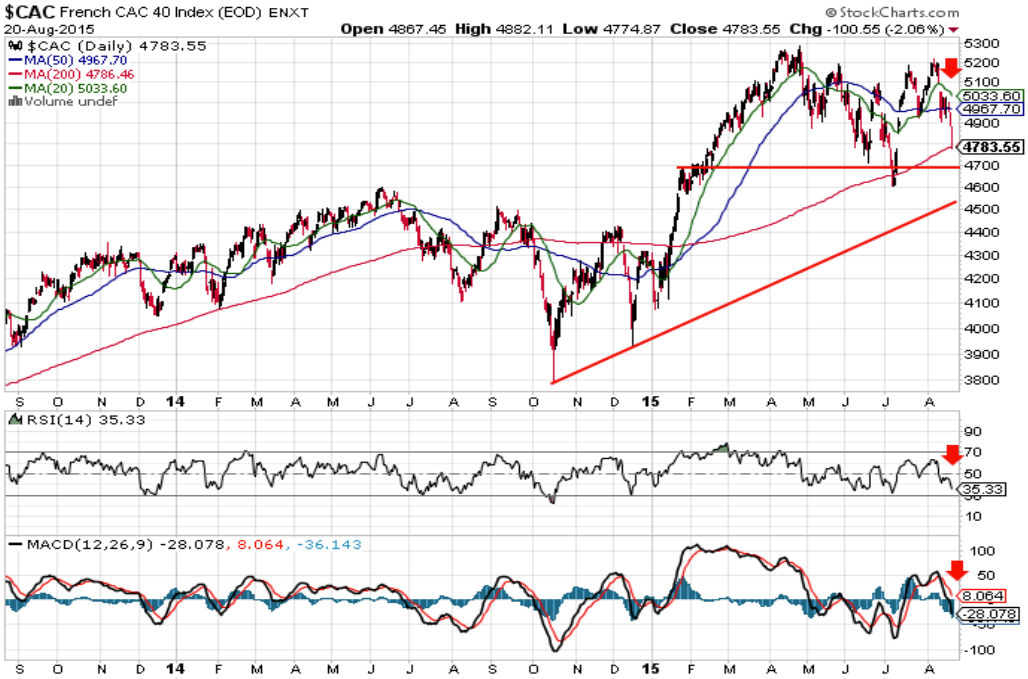


Over in Europe, the usual summer carnage has taken place, and looking at the DAX-30, after breaking the 50-day and 200-day support, now we see short-term downside risks all the way towards the psychological 10,000 level.

The DAX Index's season for weakness historically lasts until mid-October



The CAC 40 has held up best in Europe so far, however, after breaking through the 50-day moving average, the 200-day at 4,738 is the next target. Thereafter, 4,700 might bring some comfort to investors.

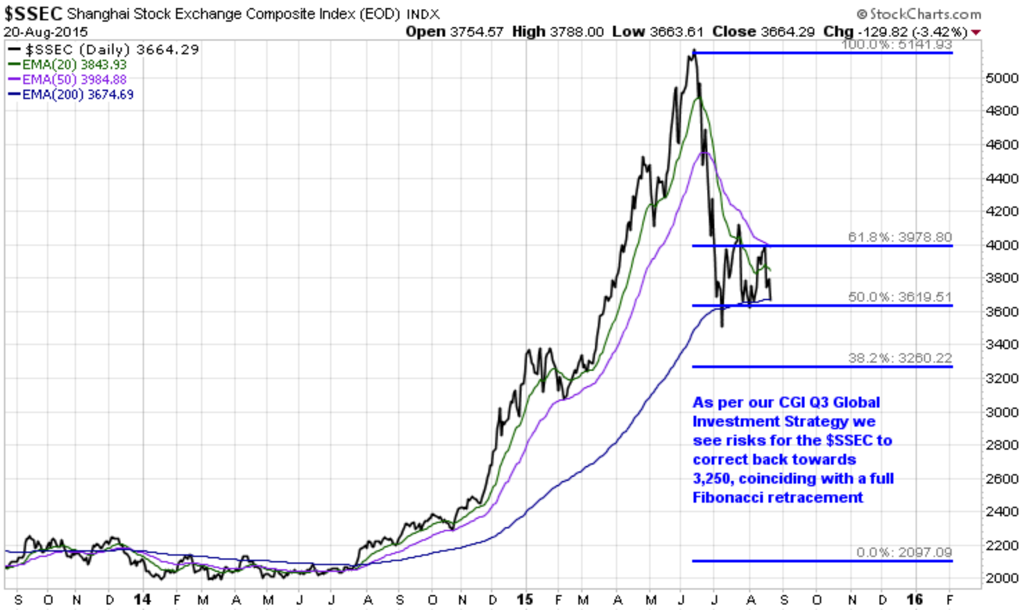


International equity indices are hurt by the global deflationary bouts, like the Bovespa Index in Brazil which is currently much at risk, with all short-term technical indicators negative, below 20-, 50- and 200-day averages, plus MACD and RSI negative.

After the $BVSP failed to hold at the long term trend level of 46,800, it now has a small support at around 45,700, if it were not to hold at that level, 40,000 could be a realistic target for the short term.

Same for the Mexican Bolsa, where the 20-day and 50-day moving averages have turned negative. Next support will be at the 200-day at 43,553; below the 43,000 level (long term trend support) could halt the decline. If that support were to break, same 40,000 for the $MXX could be a realistic target for the short term.

As several writings we did in the past week's, we continue to see Chinese equity markets and the Shanghai Index under increasing pressure, for the short-term that is, as the technical set up is still negative. As per our Q3 Global Investment Strategy Outlook, which we published in late June, we see the $SSEC to reverse short-term and re-test the 3,250 level, which coincides with a full Fibonacci retracement.



Long-term, we remain very bullish for the $SSEC, looking at the most important chart to us, the long-term trend of the $SSEC versus the $SPX, where the evidence of a long term positive breakout of the $SSEC versus the $SPX has materialized since fall 2014. We see this trend currently in a normal corrective phase, and likely retesting the 200-day moving average, ad possibly the 50-day moving average.

Structurally, however, the trend is well intact, and we continue to see the $SSEC as a much more attractive investment for investors as the $SPX.

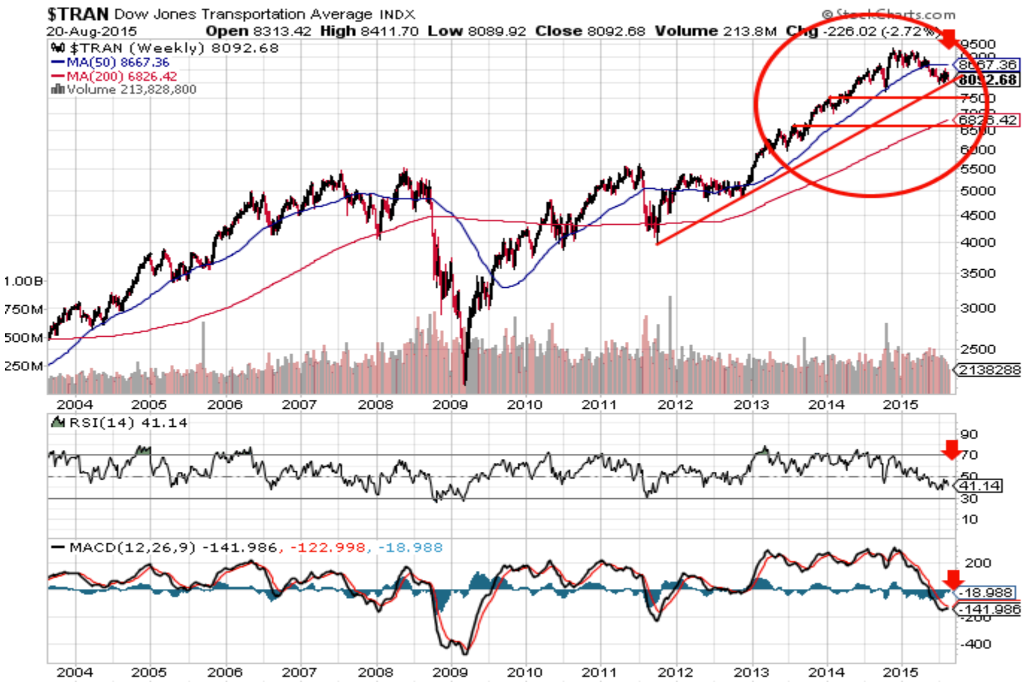
The plunge in the price of oil also drove the TSX Composite lower. The $TSX continues to be constrained by the declining 20-day moving average. The 200-day moving average also looks to be rolling over. The $TSX is nearing support around 14,000, a break of which could see a retracement of the move that saw the benchmark break above resistance around 13,000 back in Q3 of 2013. What was resistance around 13,000 now becomes support, which arguably has a high probability of being tested. The setup that has been materializing since the start of 2014 resembles that of a double top, with resistance apparent around 15,500. The topping pattern, if realized, has longer-term implications that may take months to find a low from which a basing pattern may emerge.

Seasonally, the $TSX is nearing the weakest time of year, with losses averaging -1.0% in the month of September.

US equity markets are clearly rolling over too, as we have been warning since late April.

Back in late March, we were sending the following chart out, warning investors of a major reversal in process for the Dow Jones Transports Index, which as it seems was an invaluable advice.

The long-term technical outlook for the $TRAN is less negative. We see the $TRAN's first support at 7,750, thereafter at 7,500, but, the long-term trend is still positive, and with good support thereafter at the 200-day moving average of around 6,900.



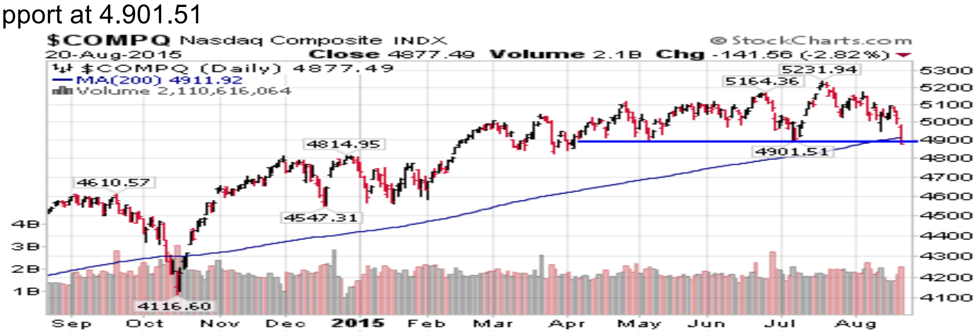
Then, looking at the Dow Jones Industrial, one can see both a "rounded top" and a "bear cross" formation in place, which is a clear negative. The short-term technical outlook is negative, with the $INDU below 50- and 200-day moving averages, and with RSI and MACD both negative. We see downside risks for the $INDU towards 16,000.

The VIX is surely moving back to the highs of the year as investors scramble to reallocate portfolios. When volatility hits a peak, opportunities will emerge; until then, stay defensive.

US stocks plunged yesterday in what was the largest selloff for the S&P 500 Index since February of 2014. The drop was largely technical in nature; selling pressures escalated as the S&P 500 large-cap index gave up support at its 200-day moving average, breaking out of a pennant pattern that was highlighted in a recent report.

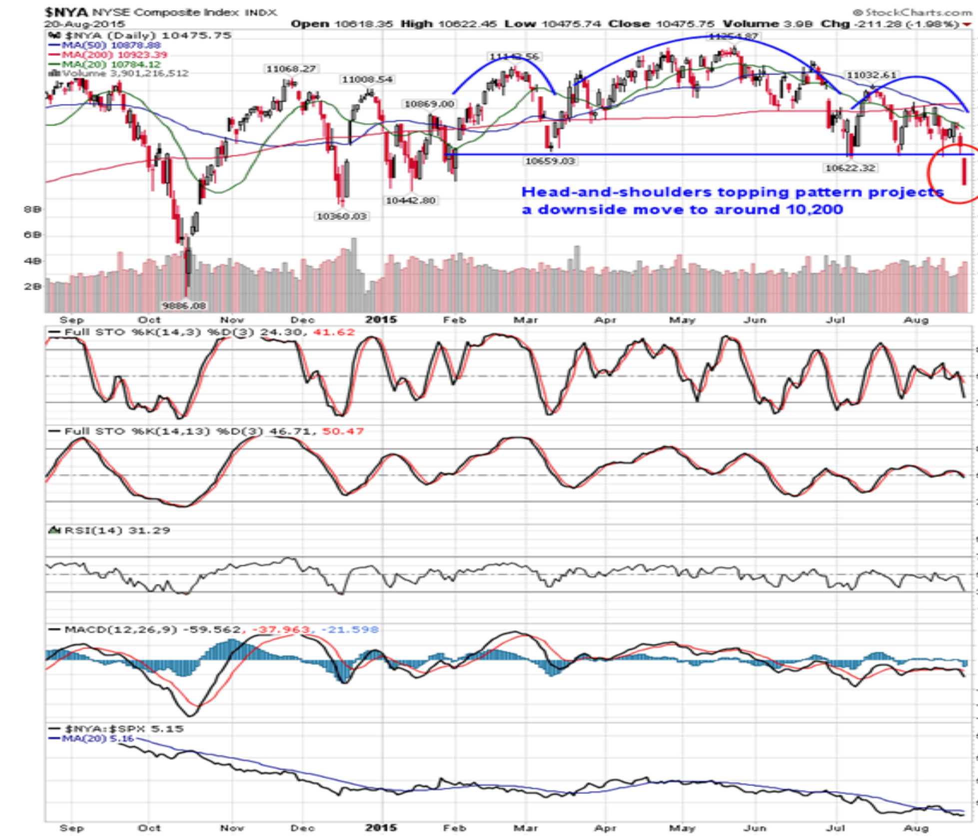
The benchmark closed below the lower limit of the over 6 month old trading range that spanned from 2040 on the downside to around 2130 at the peak. Yesterday's volume was amongst the highest of the year, running 16% higher than the 20-day average. Investors are aggressively positioning for further downside ahead.

The NASDAQ Composite Index broke below its 200 day moving average and fell below support at 4.901.51



The $COMP has also completed a rounded top, and broken below the 200-day moving average. Medium-term technical indicators are also negative. We see risks for the $COMP towards 4,550.

The NYSE Comp. broke through a multi-month head-and-shoulders pattern, the neckline was broken yesterday. The topping pattern suggests a calculated move lower to around 10,200 or just less than -3% below Thursday's close. Critical support comes in around 9800, represented by the 2014 lows. This intermediate support has been violated and investors positioned for further downside potential to come, longer-term investors should monitor the strength of any rebound attempts in the weeks/months ahead. A lower intermediate high below the May peak would have longer-term implications, dragging on the 200-day moving average, which remains positive for the moment. Resistance for the NYSE Composite is apparent at the declining 50-day moving average and intermediate momentum indicators are pointing lower.



Global Bonds Still outperforming

AS per our Q3 Global Investment Strategy, from a short-term tactical point of view, combined with the traditional seasonal trading patterns, we continue to see better value in US and European 10-Year Government bonds over equities, a tactical advice which so far into the middle of the quarter has been a very correct advice.

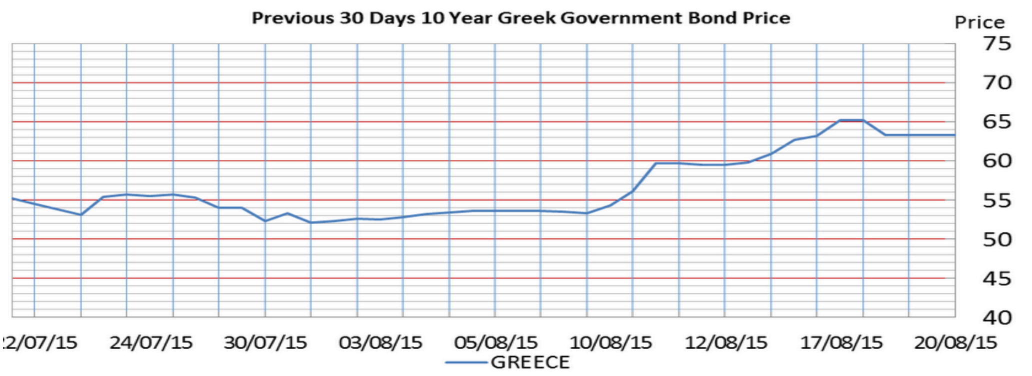
The 10-Year US Government bonds are attempting a major breakthrough, back below the 2.00% levels (our Q3 Price target being unchanged of 1.85%).

As per prior writings, we see diminishing global macro fundamentals, combined with declining inflation, actually continued deflation, as a major reason for short-term focused institutional investors to capture yield in this secure asset class. Yesterday, the Fed said that most participants at the last meeting “judged that the conditions for policy firming had not yet been achieved, but they noted that conditions were approaching to that point”. Some more analysts now are following our lead and believe that a US rate rise is unlikely in September.

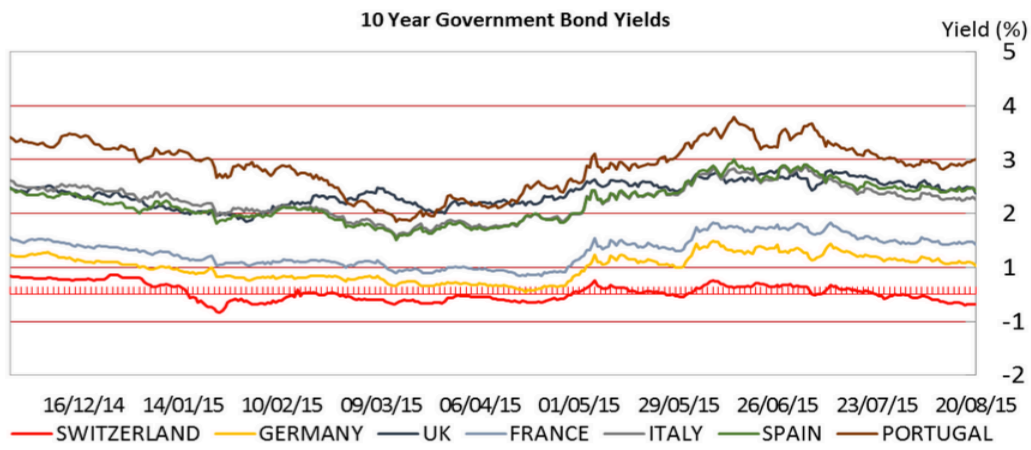
The FOMC committee also cited the “material slowdown” in the Chinese economy could affect the US economic outlook, which is confirming our warnings to investors, that the US economy is not “immune” to external macro divergences, and that the US has an increasingly tough time to compete with the ROW due to the recent, but temporary (as we see it) strength in the US$.

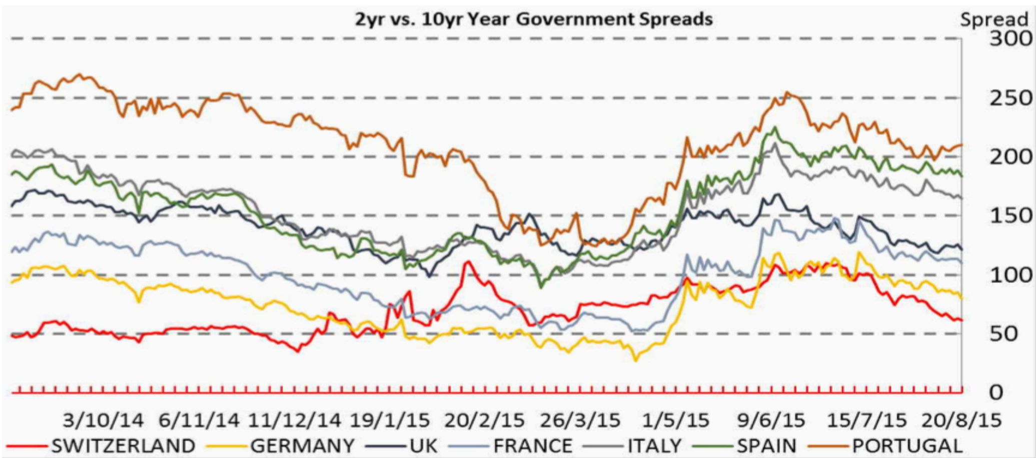
We stick with our Q3 yield target of 1.855 for the 10-Year US treasuries.

In Europe, Greece will receive EUR 13bn in fresh loans this morning as the country’s third three-year bailout program gets underway. Another EUR 10bn will be set aside in Luxembourg to help fund the repair to the Greek banking system. Later today the Greeks must repay EUR 3.2bn to the European Central Bank, in settlement of a maturing loan. Markets are waiting to see if Greek Prime minister, Alexis Tsipras, calls a snap election in the coming weeks. As per prior writings, Greek bonds will continue their upside, as Greek and other European agencies will ratify more “bail-out terms” and arrangements.



We continue to see good value for investors in European 10-year government bonds, as the impacts of the ECB QE programs, particularly now in the midst of the summer, when issuance of government bonds is extremely light, and where the ECB's EUR 60bn monthly repurchase targets will be hardly met. Besides, European government bonds are in their period of seasonal strength until October.





US$ to correct further

The US$ is coming under increasing pressures, for reasons explained in prior reports:

- US economic growth expectations too high, and clearly not met y-t-d
- US monetary policy expectations too aggressive (FED will not raise in September, our expectations are for FED not to raise until 2016, if at all)
- US corporate revenues and profitability outlook severely hampered by "too strong US$"

- US trade deficit growth concerning policy makers
- US equity allocations too high for declining earnings growth, foreign equity holders of US equities at all time high, with US market cap to GDP more than 52% of world (ridiculously too high, particularly trade-, currency and monetary policy weighted ad adjusted)
- Chinese Yuan “rebalancing” and it’s negative impacts on the US$ due to peg dynamics and impacts
- US$ negative impacts on world wide commodity prices and deflation
- US$ negative impacts on EM governments’ and corporate debt

The short-term technical outlook for the US$ Index is negative after breaking below the 14-day and 50-day moving averages. We see the 200-day moving average as next support around 94.70. If the $USD were to drop below the 200-day moving average, which we are anticipating, then the $USD will set up for a “bear cross” situation.

As we have been reporting in the past, we see it difficult for the $USD to continue it’s parabolic move, and, parabolic price move’s historically fail to the rate of over 85%, and result in classical Fibonacci full retracements towards the 50% and very likely 61.8% levels.

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