



Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

Creativity

FOMC Decision to keep rates unchanged does not come as a surprise for us, as we have been steadfast in our views for 20 months now, that there is insufficient global and US macro-economic growth and particularly insufficient inflation, in order for the Federal Reserve to change policy course. In addition, the temporary parabolic strength since last June of the US\$, and related implications for various countries, besides the negative impacts on the US economy, is changing the variables that the Federal Reserve committee has to take into account. As we have been saying repeatedly, the only nation that cannot live with a strong US\$ is the United States, and more and more evidence on the macro and corporate side start to show this, and the FED and Ms. Yellen are surely taking this new element now into account in their policy considerations.

Simple facts for the FOMC decision, which we have been pointing in the past:

- **Weakening global macro data (GDP; Inflation; Exports;**
- **weakening macro data in the US**
- **“too strong” US\$, causing effects of:**
 - slowing and reversing FDI's**
 - foreign investors taking profits in US equities and bonds (from all time high allocations and valuations, on concerns of declining future returns outlook)**
 - commodities prices declining**
 - exports declining & imports increasing = importing deflation**

What this means for the short term for various asset classes:

- **Rising 10-year bonds (yields will drop back below 2% levels)**
- **US\$ will weaken, US\$ index will drop and test .92 level (likelihood of .88)**
- **US equities will underperform (utilities, consumer stocks will rise)**
- **Commodities (Oil, Gold, Silver, Platinum, Palladium will rise)**

When Ms. Yellen took over at the helm of the FEDERAL RESERVE 20 months ago, subsequent to our then fundamental and technical investment research findings, we launched a series of research reports and investment strategy reports, where we were forecasting for a much weaker global economy, including the US, and for a much longer pronounced series of global central bank easing policies consequently. Our differentiating views found a lot of resistance from investors and mostly from so-called "sell side competitors" like big banks and b/d's. (So much for "insightful" big banks' sell-side investment research and their economists and strategists, predicting FED taper tantrums, rate hikes in May, then September, now "for sure in December" or, "if not in December, then sometime in the future, for sure" and predicting +5% GDP nominal growth in the US forever, and predicting a lot other "hope'n-hype type fallacies".)

Independent Research Providers like Creative Global Investments have the privilege to be able to conduct highest quality global investment research with no bias and any conflicts of interest, and help clients consistently achieve alpha returns, unlike compromised traditional big banks and their research. We will be in NYC and Boston next week discussing Q4 Global Investment Strategy, and are interested to meet clients and discuss our differentiating research methodologies and successes and also our views of the future.

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On a lighter note, a friend recorded this FED Policy Parody about 20 months ago, and as it seems, he hit it right on with his interesting lyrics:

<https://www.youtube.com/watch?v=Tx1RUCzPo64>

US\$ commentary & charts

Subsequent to the FED's decision to stay put, the US\$ fell over 1%, breaking below its 200-day moving average, a risk that we had been focusing on for two months now. The chart shows the formation of a head-and-shoulders topping pattern with the right shoulder peaking around the September high of 96.64; a break below support around 93 would target a move towards 88, or another -7% below present levels. Since last September, we have been pointing out to investors that the US is the country that can least cope with a strong US\$, and in our 2015 Global Investment Strategy, we pointed out that we had sufficient fundamental and technical evidence that the US\$ had peaked. Now, as it seems, the rest of the world and particularly the FED has come to grips with this phenomenon too. The US\$ has been a major burden on corporate profits over the past 3 quarters, Oracle, being the latest company blaming this headwind for its lackluster results, and for the declining internal growth of the US economy, a currency advantage for the biggest trade deficit nation in the world is just another very bad headwind for economic stability. After all, the FED wants to at least seem to successful in steering the economy the right way in one of the three mandates, namely producing inflation to their 2% target. Not really possible with a strengthening US\$, isn't it Ms Yellen.

As we have been writing since March 2015, US equities are tremendously overheld (67 year high for foreign investors in US equities) and were tremendously overvalued, on an absolute but also relative basis, particularly related to the US\$ headwinds for revenues and earnings. After meetings with European Institutional investors attending the EUROFIN summit in Luxembourg, and others in Frankfurt at the IAA Motor show, we were discussing current Global Investment Strategy matters, and we can see that there is a clear shift in how European asset allocators are now looking at the US economy and its financial markets and challenges and opportunities.

A reversal the US\$ would be conducive to strength in US earnings, as well as an improvement in commodity prices, which is a significant factor in the declining inflation statistics. Seasonally, the US\$ remains in the weakest period of the year, running through to the end of October and continuing in the month of December. October and December have shown declines in the US\$ 70% of the time over the past 20 years, averaging a loss of 0.1% and 0.7%, respectively, on top of the average decline of 0.6% for September.

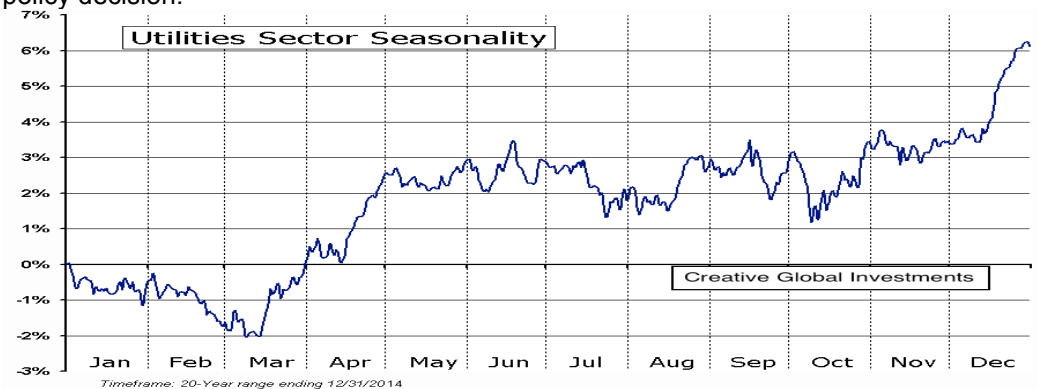


With rates on hold, there is a renewed investment case for Utilities

Interest rate sensitive equities, such as Utilities and REITS, received a bid as investors accumulated positions in shares that had been sold off in recent weeks in anticipation of the Fed event. The Utilities Sector ETF (XLU) is testing resistance presented by their respective 50-day moving averages. Major moving averages for the two are leaning negative, presenting concern for the short, intermediate, and long-term trends.



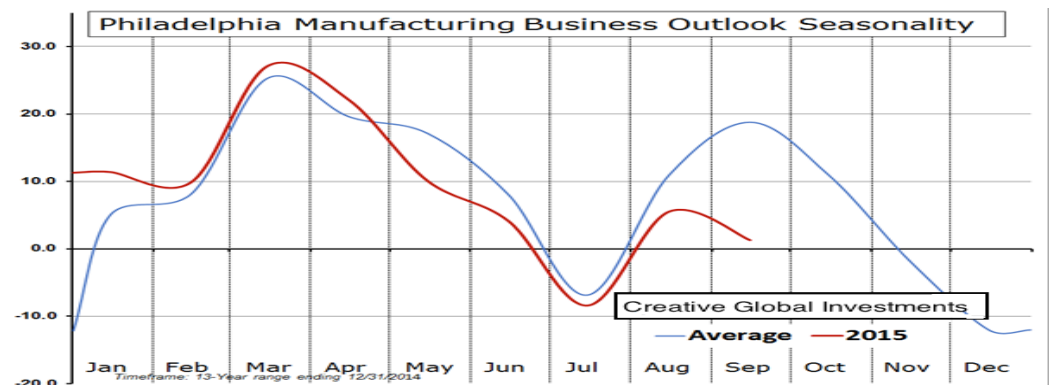
Seasonally, however, Utilities exit their period of strength on October 3rd. But this year, that seasonality period of weakness might be derailed for quite a while, due to the FED policy decision.



More macro evidence of US economy slowing.

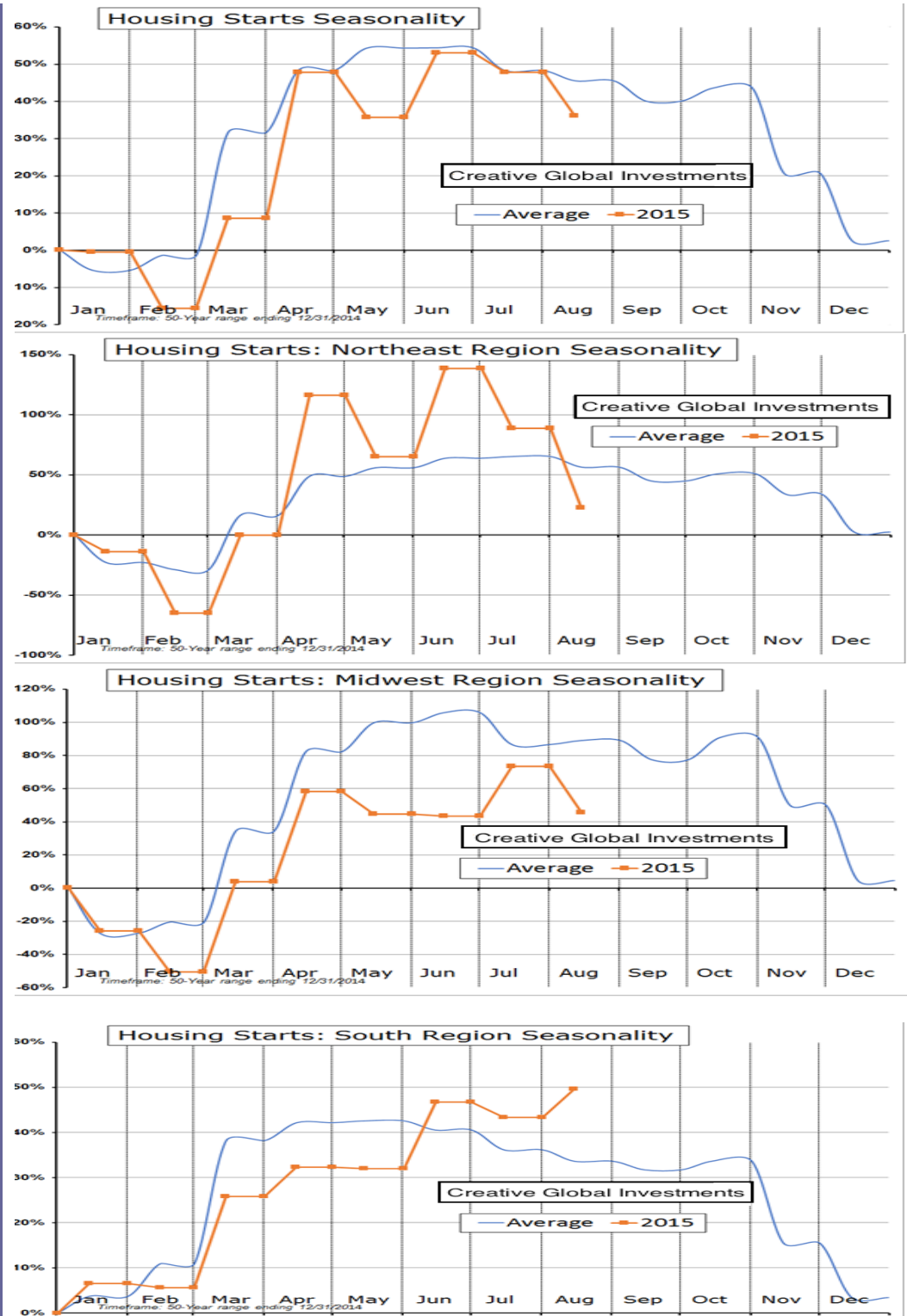
Maybe the FED was simply looking into the US macro data?

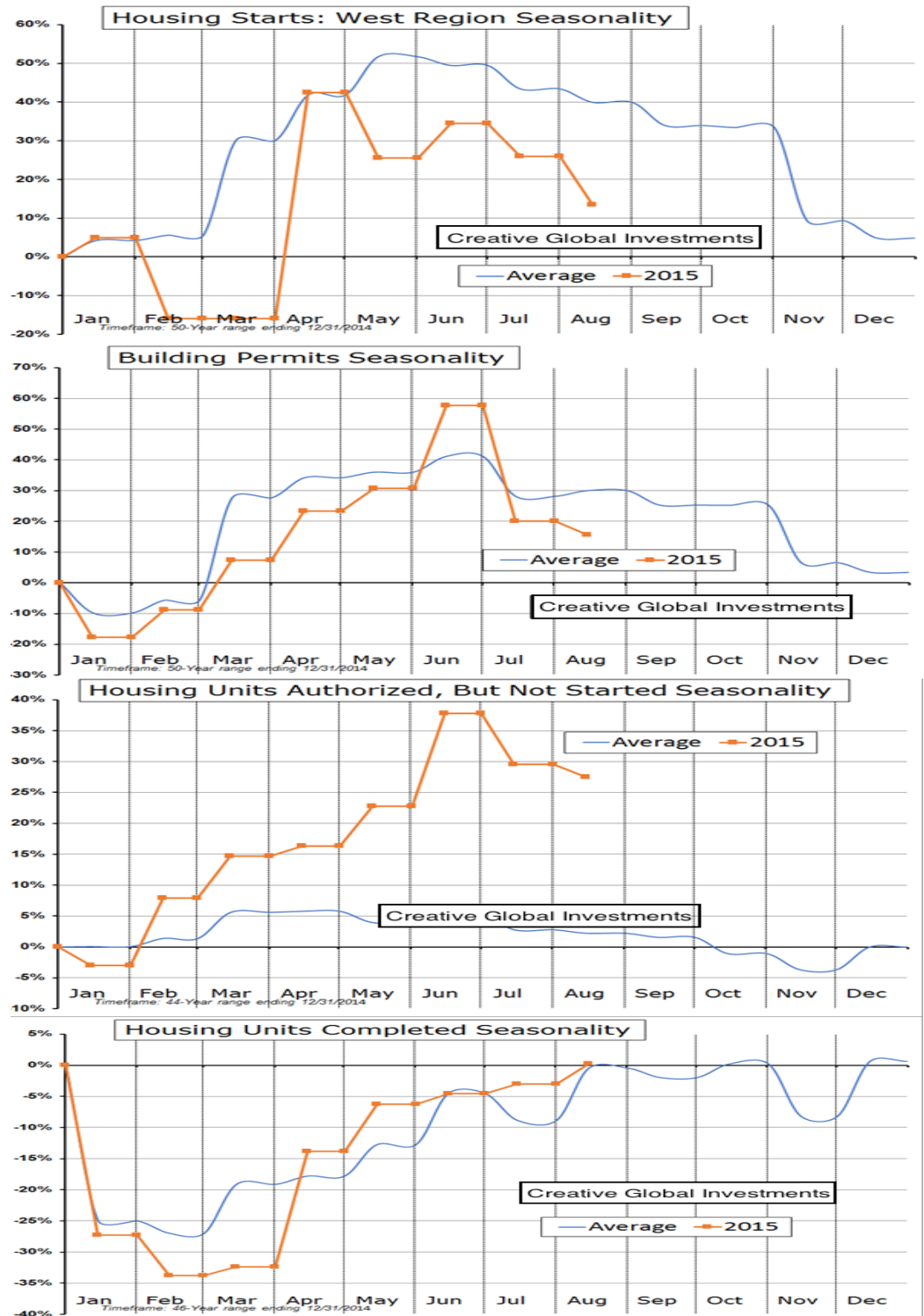
And there is more macro evidence like in the Philadelphia Fed Business Outlook Survey, which is confirming the weakness that is apparent in the manufacturing sector. The headline print came in at -6.0, the opposite end of the spectrum from the consensus estimate of +6.3. The non-seasonally adjusted level was 1.3, well below the 46-year average for the month of August of 25.9. It remains unclear as of present whether the later than average Labor day holiday and variations in the timing of factory shutdowns played a role in depressing the result of this report. Overall, the setup for Q4 is less than encouraging.



US housing starts and manufacturing data provided further reason to be concerned of the strength of the economy going into Q4. Housing starts were reported at a seasonally adjusted annual rate of 1.126 MN, or a decline of -3.0%, missing estimates calling for 1.168 MN. Stripping out seasonal adjustments, starts actually declined by -7.9%, significantly larger than the average August decline of -1.9%. The y-t-d change had been hovering around the average trend through the spring and summer months, closing the gap that was created during the winter months, but now that underperformance is returning.

Weakness in the Northeast, Midwest, and West regions contributed to the weakness, while the South reported an abnormal increase. Building Permits, which typically rise by 1.7%, on average, declined by -3.6%. Housing units completed is currently hovering around the average trend.





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