Creative Global Investments

Weekly Equities investment strategy & charts

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Equities Commentary & Charts

Uncertainties remain for global financial markets, including assessment of impact of two hurricanes on the US economy (and possibly two more hurricanes approaching the US), North Korean "sabre rattling", failure by Congress to pass crucial legislation (notably tax reform), etc. Additionally, concerns are rising that a 3rd major hurricane could impact the US with a likely landfall as early as Sunday.

From an economic perspective, financial markets are going to focus on news this week from the ECB chief economist Peter Praet stating that aggressive stimulus is still required from the ECB to maintain the state of the European economy as inflation risks remain. This Dovish rhetoric has been a key theme over the past 12 months from the ECB as investors have been seeking the central bank to provide a more hawkish approach to policy. If we see this continue in the medium term we could see the EUR fail to maintain such a strong position as frustration begins to grow. Another slow start to the week in terms of data with only minor releases scheduled for today. **As of Wednesday, investors will be focusing on the Fed announcement post the FOMC meeting, and how quickly the Federal Reserve might remove monetary stimulus?**

A number of key announcements were released from the US on Friday; including Retail sales, which unexpectedly fell from 0.3% to -0.2% causing, the USD to retreat as trading came to a close last week. With little on the cards from the US today focus will shift heavily towards this week's Fed announcement, scheduled for Wednesday. We see sufficient slow down in US macro matters for the Fed to likely keeping rates at 1.25% as attention will be centered upon the statement released as investors look for guidance as to economic forecasts as markets will begin to price in rate hike probabilities for the remainder of the year. The US data card will begin tomorrow with a number of figures scheduled, including the latest housing figures. If we see positive figures released here we could see support for the USD increase as we head towards the Fed announcement. With little scheduled for today, the USD will be at the mercy of global sentiment as investors start to price in Wednesday's announcement.

Last week's main event came from the Bank of England as they held interest rates firm at 0.25%. The pound was able to gain almost 3% last week due to the hawkish comments from many of the notoriously dovish MPC members, which came alongside the rate release. The British Pound was able to strengthen more than any of the other major currencies as investors reacted to the BOE statement with a shift in sentiment causing safe haven currencies such as the USD, CHF and JPY to retreat across the board. The week will start slow in terms of data, as we will have to wait until Thursday for any major releases. Attention today will turn to Mark Carney, who is due to speak today at an event hosted by the IMF in Washington DC. The pound usually faces difficulties when the head of the central bank speaks and we have already seen the currency retreat slightly as a result. Investors will be interested in these comments following last week's announcements and any reference to the state of the UK economy will likely motivate movement.

For US equities earnings reports are light this week with seven S&P 500 companies scheduled to release fiscal Q3 results. However, the normally quiet period for corporate comments between now and first week in October could be busier than usual this year. Several companies lowered their Q3 earnings and revenue guidance last week mainly due to the impact of Hurricanes Harvey and Irma. We are looking for more companies to lower guidance; nevertheless, the outlook for S&P earnings and revenues remains positive (albeit at a lower than previous rate). 73 companies have issued negative Q3 guidance and 43 companies have issued positive guidance. Q3 earnings are expected to increase 4.5% (down from 4.9% last week due to Hurricane impacts) on a 5.2% increase in revenues. Q4 earnings are expected to increase 11.2% (down from 11.4% last week) on a 5.7% increase in revenues. Full year 2017 earnings are expected to increase 9.6% (down from 9.7% last week) on a 5.7% increase in revenues. Q1 2018 earnings are expected to increase 10.3% (down from 10.4% last week) on a 6.2% increase in revenues. Q2 2018 earnings are expected to increase 10.2% on a 5.7% increase in revenues.

Despite a series on negative events last week, equity prices in most markets in the world moved higher including all-time highs set by the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index.

Consider the events last week:

- North Korea fired another missile across Japan
- Devastation by Hurricanes Harvey and Irma became apparent
- Analysts began to lower third quarter earnings and revenue estimates to reflect impact of hurricanes on the economy.
- Economic news from the US bordered on disaster: Retail sales were lower than consensus; Industrial Production was lower than expected, Capacity Utilization decreased, Weekly Jobless Claims increased and Consumer Sentiment dropped below expectations.
- Efforts by Trump to escalate his political agenda (tax reform, health care and infrastructure) have stalled at best. Meanwhile, the investigation on Russian interference with the U.S. election and possible collusion with the Trump team was ramped up.

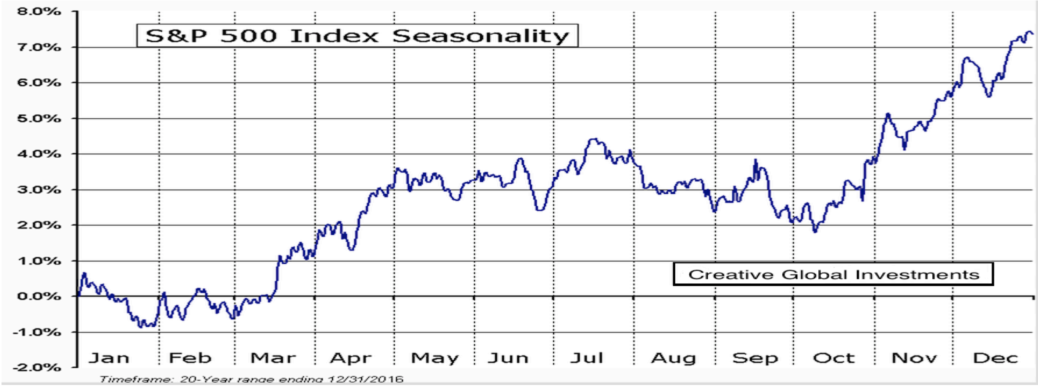
What to expect between now and early October?

- More news from one and possibly two additional hurricanes is coming
- Number of companies releasing negative Q3 revenue and earnings guidance related to impact by hurricanes is expected to escalate.
- The Federal Reserve is expected to reveal plans for further monetary tightening through purchase of Treasuries.
- More North Korea/United Nations/US finger pointing is likely
- Seasonally, the weakest 4-week period for North American equity markets in the year is from the 2nd week in September to the middle of October.
- US trade negotiations (NAFTA and China) are ramping up. Recent media comments on negotiations to date have not been encouraging

Equity markets have been climbing a “wall of worry”. However, expected events during the next 3-4 weeks are formidable and are not fully anticipated by equity markets. Seasonally, North American equity markets currently are in the later part of their traditional period of weakness related to higher than average volatility from early July to mid-October. Accordingly, caution in equity market is preferred until at least mid-October.

Seasonality on a wide variety of equity indices, commodities and sectors turned negative at the end of July. More turn negative in mid-September.

Weakest month for equity markets is September (most notably from the second half of September to the second week in October).



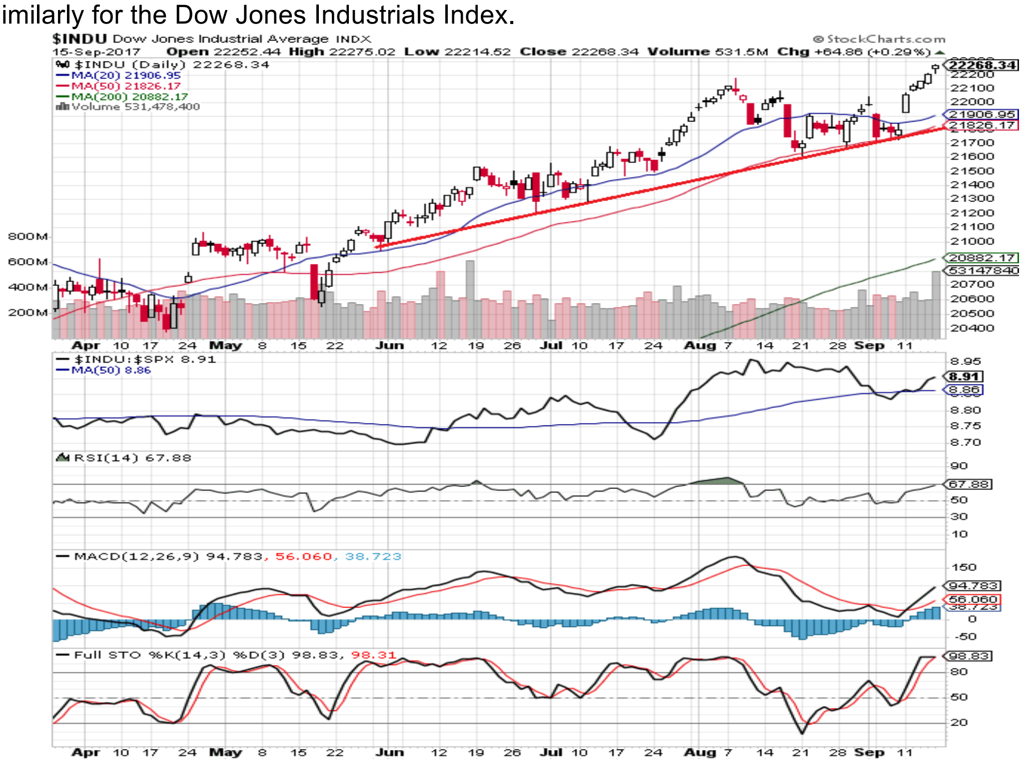
Between September's quadruple witching day (third Friday in September) and the end of the month, the S&P 500 Index has declined by an average of 0.90% with 31 of the past 50 periods (or 62%) showing a negative result. These last two weeks of September are also the weakest period of the year as investors reallocate portfolios for Q4 ahead. Tax loss harvesting can often factor into this period as portfolio managers seek to offset gains with unrealized losses, thereby reducing the year-end tax burden.

S&P 500 Index Return between September Quadruple Witching to Month-end

Quad Witch Date		September Month-end	Return
September 16, 2016	to	September 30, 2016	1.36%
September 18, 2015	to	September 30, 2015	-1.94%
September 19, 2014	to	September 30, 2014	-1.90%
September 20, 2013	to	September 30, 2013	-1.66%
September 21, 2012	to	September 30, 2012	-1.33%
September 16, 2011	to	September 30, 2011	-6.96%
September 17, 2010	to	September 30, 2010	1.39%
September 18, 2009	to	September 30, 2009	-1.05%
September 19, 2008	to	September 30, 2008	-7.07%
September 21, 2007	to	September 30, 2007	0.07%
September 15, 2006	to	September 30, 2006	1.23%
September 16, 2005	to	September 30, 2005	-0.74%
September 17, 2004	to	September 30, 2004	-1.24%
September 19, 2003	to	September 30, 2003	-3.89%
September 20, 2002	to	September 30, 2002	-3.56%
September 21, 2001	to	September 30, 2001	7.78%
September 15, 2000	to	September 30, 2000	-2.00%
September 17, 1999	to	September 30, 1999	-3.95%
September 18, 1998	to	September 30, 1998	-0.30%
September 19, 1997	to	September 30, 1997	-0.34%
September 20, 1996	to	September 30, 1996	0.04%
September 15, 1995	to	September 30, 1995	0.18%
September 16, 1994	to	September 30, 1994	-1.80%
September 17, 1993	to	September 30, 1993	0.02%
September 18, 1992	to	September 30, 1992	-1.21%
September 20, 1991	to	September 30, 1991	-0.02%
September 21, 1990	to	September 30, 1990	-1.69%
September 15, 1989	to	September 30, 1989	1.19%
September 16, 1988	to	September 30, 1988	0.47%
September 18, 1987	to	September 30, 1987	2.21%
September 19, 1986	to	September 30, 1986	-0.38%
September 20, 1985	to	September 30, 1985	0.02%
September 21, 1984	to	September 30, 1984	0.26%
September 16, 1983	to	September 30, 1983	-0.11%
September 17, 1982	to	September 30, 1982	-1.74%
September 18, 1981	to	September 30, 1981	-0.07%
September 19, 1980	to	September 30, 1980	-2.93%
September 21, 1979	to	September 30, 1979	-1.04%
September 15, 1978	to	September 30, 1978	-1.52%
September 16, 1977	to	September 30, 1977	0.05%
September 17, 1976	to	September 30, 1976	-0.97%
September 19, 1975	to	September 30, 1975	-2.34%
September 20, 1974	to	September 30, 1974	-9.41%
September 21, 1973	to	September 30, 1973	1.15%
September 15, 1972	to	September 30, 1972	1.60%
September 17, 1971	to	September 30, 1971	-1.62%
September 18, 1970	to	September 30, 1970	2.03%
September 19, 1969	to	September 30, 1969	-2.17%
September 20, 1968	to	September 30, 1968	0.99%
September 15, 1967	to	September 30, 1967	0.46%
		Average:	**-0.89%**
		% Negative:	**62.0%**

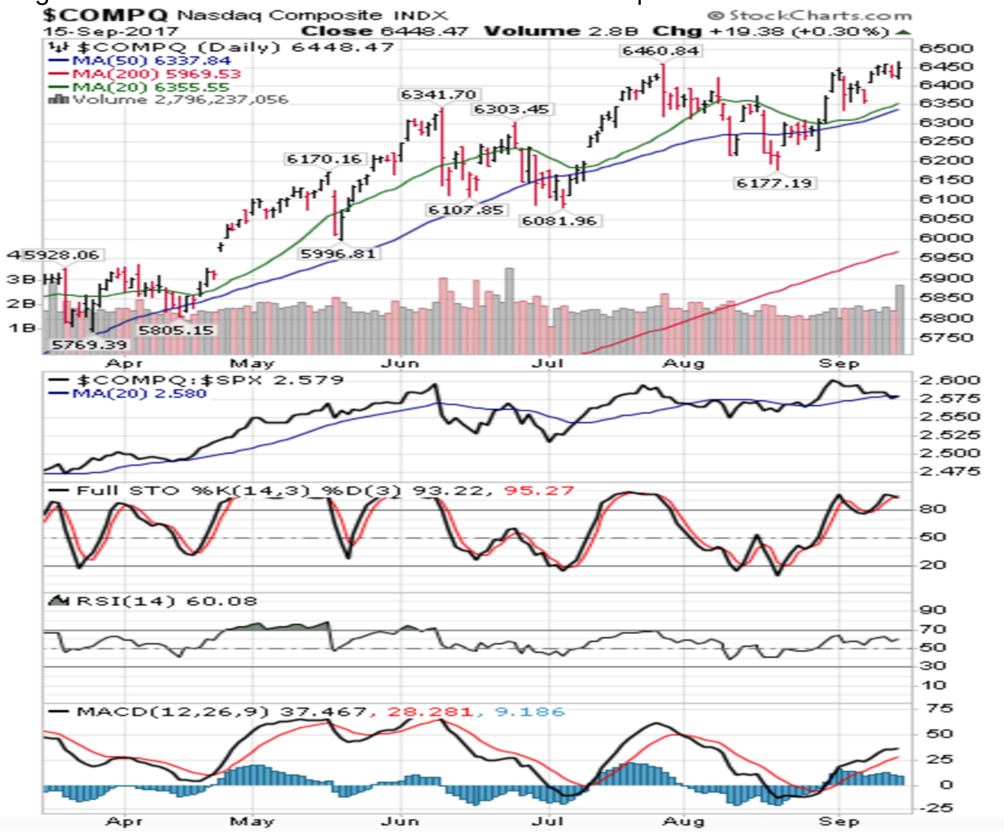
Technical action by individual S&P 500 stocks was bullish last week. Notable among stocks breaking resistance were Energy and Industrial stocks. Number of stocks breaking resistance totaled 56 while number of stocks breaking support totaled 12. Number of stocks trading in an uptrend increased to 243 from 227, number of stocks trading in a neutral trend increased to 74 from 68 and number of stocks in a downtrend decreased to 183 from 205. The Up/Down ratio increased last week to (243/2183=) 1.33 from 1.11. Medium term technical indicators (Percent of stocks trading above their 50 day moving average, Bullish Percent Index) remain at intermediate overbought levels. Short-term technical indicators (short term momentum, above/below 20 day moving average) mostly moved higher last week to overbought levels, but have yet to show signs of rolling over.

Similarly for the Dow Jones Industrials Index.



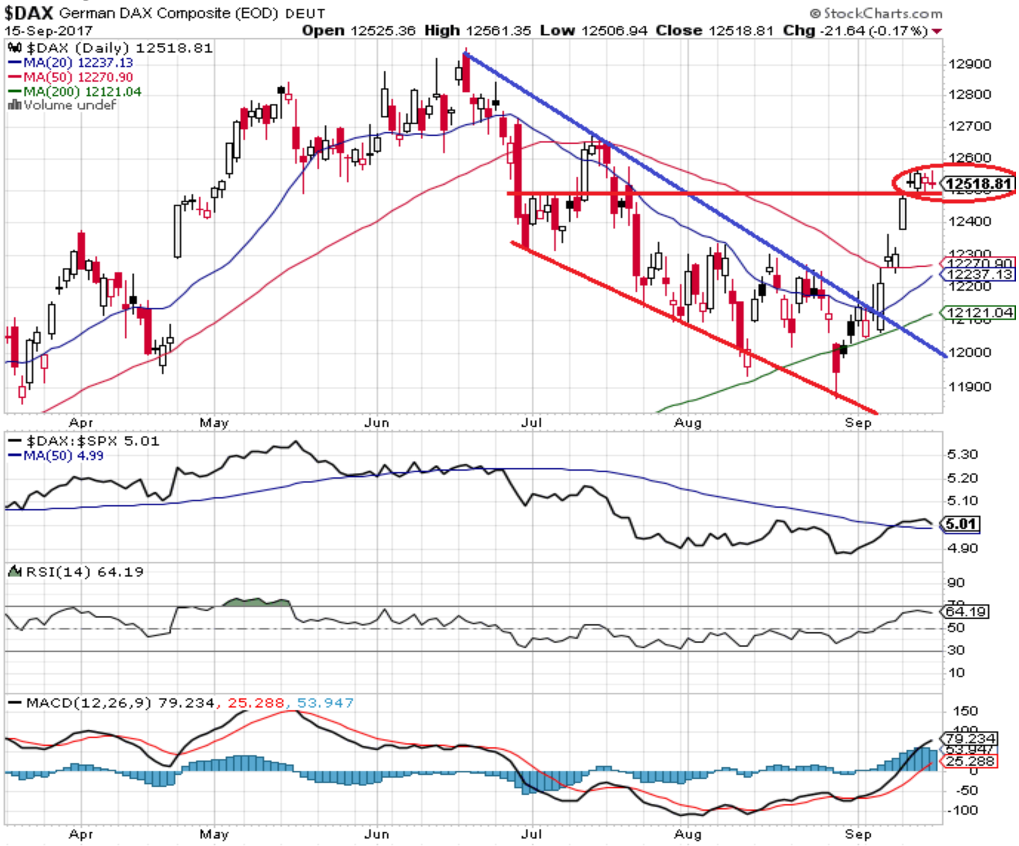
The Russell 2000 Small Cap index however could get hit by tax loss selling in the coming 4 – 6 weeks.

The NASDAQ Composite Index gained 88.28 points (1.39%) last week. Intermediate uptrend was confirmed on Friday when the Index briefly moved above 6,460.84 to an all-time high. Strength relative to the S&P 500 Index remained above its 20 day moving average. Short-term momentum indicators turned back up.

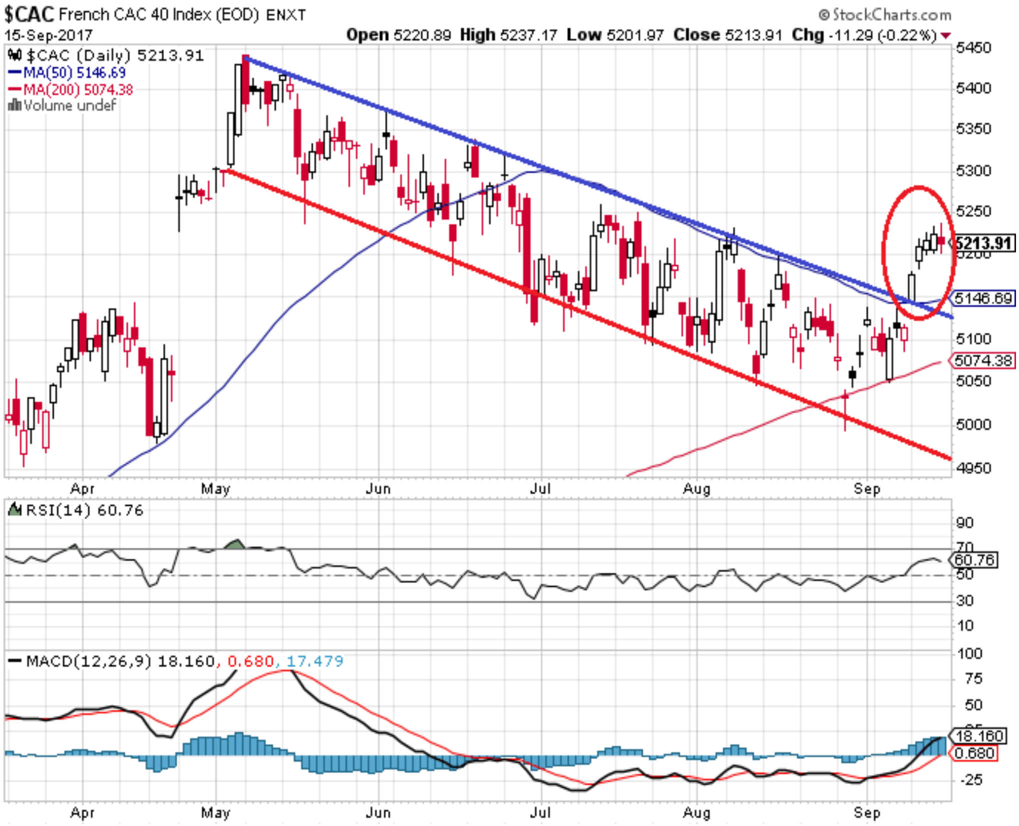


Canadian equity indices continue to struggle for direction, and although last week the TSX broke out in spite of rate hike by the BoC, the TSX's short term upside seems capped at the 15,300 levels

In Europe, the seasonal period of weakness for equity indices has been on track, but, after continued macro economic improvement, and subsequent to President Juncker's remarkable State of the Union speech, most major Continental indices broke to the upside, in spite of a renewed strength of the Euro. We continue for both to gather in momentum.



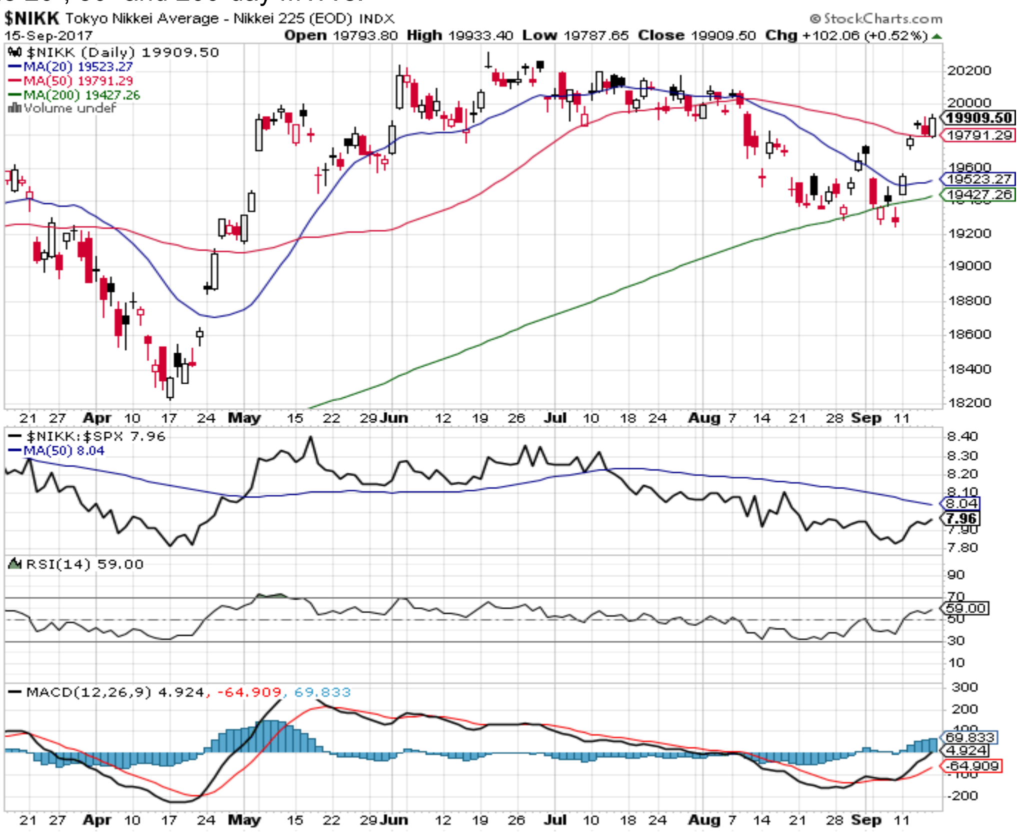
Same for the CAC 40.



And same for the IBEX 30.

And not unexpectedly, the reverse is true for the UK equities indices, as shown in the chart of the FTSE 100.

Other major international markets in Asia are less susceptible to summer seasonality, and continue to perform as anticipated. The Nikkei-225 is regaining momentum above the 20-, 50- and 200-day MVA's.



As per our 2017 Global Outlook & Investment Strategy publication in December of 2016, we see tremendous structural technical improvement for the Shanghai Index, and continue expecting for the $SSEC to outperform for the remainder of 2017, and into 2018.

Similarly for the Brazilian Bovespa, which has now reached and surpassed our most aggressive 2017 target of 74,000, at a level of 75,756. However, we see the $BVSP to continue to rise to new all-time levels of 78,000.

Still trending downward, with more of US trade policy uncertainty coming out of the White House, and more currency pressure from a lower US$, the Mexican Bolsa continues its downward trend, now at critical trendline support, which we see breaking, with our target price of 48,500 for the short term.

Investor Sentiment indicators

The latest ***sentix*** survey provides an insight into investors' opinion on European sectors as markets move into the final month of Q3. At a market level, investors' medium-term strategic bias on equities remains on an increasingly positive path, while recent pessimism on the near-term outlook has also subsided. A renewed 'risk on' attitude is also evident in survey participants' sector preferences.

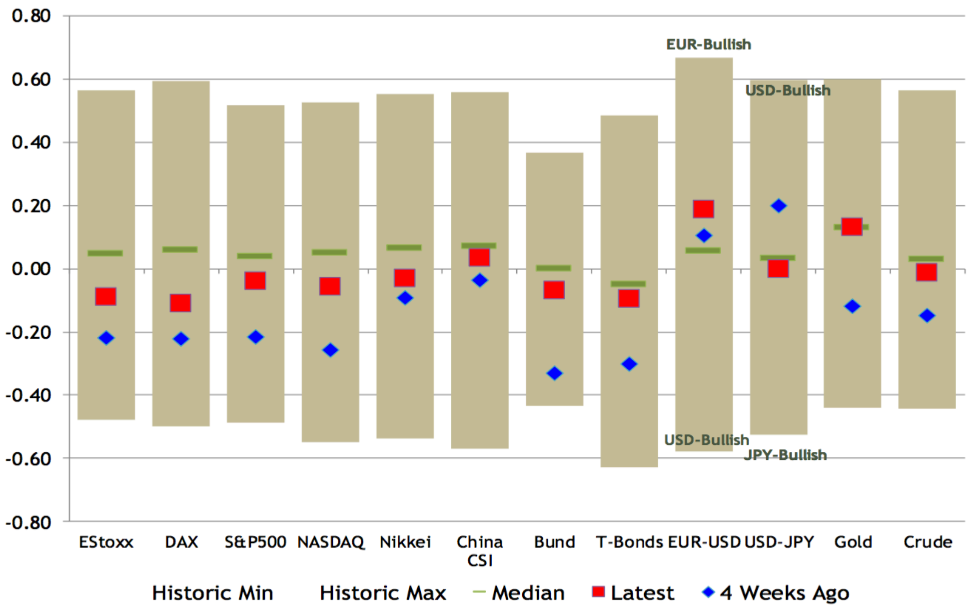
The past month has seen revived optimism on cyclical sectors such as Basic Resources, Chemicals and Industrials, alongside a notable turnaround in sentiment on Autos, with readings bouncing off last month's historic lows. The big losers in the past month have been Insurance and Media. Media is especially unloved, with pessimism reaching levels not previously seen in the past 10 years.

Investor pessimism on Bunds has receded in the past couple of weeks, while survey respondents are also becoming less negative on Bunds from a medium-term strategic perspective, with survey readings much less downbeat than they were at the start of this year. Monthly questions on bond 'themes', suggest investors view inflation as a much less Eurozone bond-bearish theme than it was coming into 2017.

In contrast, economics is still seen as a notably bearish theme for bonds. While inflation expectations appear to be continuing to win out over bond concerns over economics as a theme, it may still leave bunds at risk from any signs that inflation is not as benign as believed.

The latest sentix survey revealed that investors kept levels of over-investment in equities, while pessimism on indices such as the EuroSTOXX remains notable.

Sentiment readings on EUR/USD did tick modestly lower over the week, albeit they remain elevated. Any further moderation in Euro optimism over the summer might be the catalyst for renewed sentiment support for Eurozone equities.



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