Creative Global Investments

Morning market commentary & charts

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Global Macro Commentary

In Europe, this morning Markit announced its Manufacturing PMI rose to 54.3 in September from 53.6 the previous month, beating expectations for a downtick to 53.1. However, the German Services slipped to 50.6 this month from 51.7 in August. Markit also reported that French manufacturing PMI increased to 49.5 in September from 48.3 in August, compared to expectations for a rise to 48.4 and that French Services PMI advanced to 54.1 this month from 52.3 in August.

In the UK, Theresa May alone will decide the terms of Britain's departure from the EU, Downing Street has said after Boris Johnson began setting out a strategy for Brexit. Speaking in the United States, the Foreign Secretary on Thursday said that the UK would begin formal Brexit talks "early next year" and leave the EU by 2019.
Mark Carney has urged the government to take decisive action to lift the UK's moribund economy as he said that the central bank could do little to improve Britain's long-term prospects. Politicians need to make the running now by taking bold decisions on public spending and economic reforms, the governor of the Bank of England signaled last night in Berlin in a speech on climate change.

In the Americas, as we highlighted in our Market Commentary yesterday, possible fiscal concerns are on the rise. Drooping US state tax revenue in 1H of 2016 could put holes in the states' budgets for fiscal 2017. The public policy research arm of the State University of New York reported that taxes mainly on sales and personal and corporate income slumped by -2.1% in Q2 based on preliminary data, after growing just 1.6% in Q1 compared with the same quarters in 2015. The sharp declines in oil prices and the weak stock market appear to be the primary causes of the depressed state tax revenues. This weakening raises a yellow flag for state budgets. Fiscal 2017 began on July 1 for 46 states and most adopted budgets based on rosier tax growth projections. The institute said the median forecast for income tax growth in 36 states is 4% for fiscal 2017, while the median sales tax growth forecast for 39 states is 3.8% We see risks rising that States are going to have to reduce their forecasts when they next update them. Revenue growth is likely to remain slow and highly uncertain throughout fiscal 2017, unless the stock market perks up in the final months of 2016, boosting the prospect for higher personal income tax collections. The revenue pinch is also being felt in states dependent on revenue from oil and minerals, including Oklahoma and North Dakota. The steep oil price declines throughout 2015 and early 2016 led to declines in severance tax collections as well as in overall state tax collections and depressed overall economic activity, leading to weakness or declines in other taxes.

US existing home sales reiterated the slowdown in housing activity as we progress through 2H of 2016, with sales lower in August by -0.9% to a seasonally adjusted annual rate of 5.33 MN, missing estimates calling for a rate of 5.44 MN. The y-t-d change remains below the seasonal trend following a much weaker than average print for the month of July. Looking through the regions, only the south recorded a below average increase in the month, higher by 5.9% versus the August average increase of 7.0%. Sales activity typically falls in Q4 as the desire to move lessens ahead of the winter and amidst the new school year. Despite a slight decline in prices in the month, a dip in housing inventory is keeping the months of supply at a very constrained 4.6, keeping the trend in prices elevated above the seasonal average. Typically, six months of supply is considered to be a balanced market.

Currency Commentary

As an immediate reaction to no policy change by the FED, we see the US$ on the precipice of needing to deflate. All the arguments and hopes and hypes which propelled the US$ to its "temporary parabolic rise in 2014" are no longer in place at this time, and surely looking out over the next 12 – 18 months:

- **US GDP growth and macro superiority to G-10, particularly Europe have completely reversed over the past 3 quarters,** and will get worse. (US consumer crunch, US fiscal limitations, US corporate spending to decline further, US company valuations too high relative to global peers; US corporate earnings to slow further; US corporate buy-backs to slow), we are expecting for the most anemic recovery to falter and reverse into recession in 2017
- **The "implicit yield premium" of US government bonds is narrowing in spite of Eurozone negative yields to prevail**
- **The "safe heaven" trade in the US$ is being unwound** (additionally, commodities prices have bottomed and commodities' based currencies are going to benefit from the reflation trade)
- **US political risks rising relative to Japan and Europe** (well beyond the US presidential election result)
- **US trade deficit at all-time high** (US exporting companies are at a tremendous disadvantage since well before the 2014 rise of the greenback, but for sure at levels of the US$ index being above 90) (this is not due to bad trade deals and policies, but due to lack of productivity and lower general manufacturing costs and conditions in rest of world)
- **US$ overvalued from a PPP comparison by over 22%**
- **Yuan/Renmimbi manifesting itself as "new reserve currency"**
- **US$ decoupling affects due to many commodities' based nations de-emphasizing commodities trade from US$ pricing and correlation**

And although we've written extensively of why, historically speaking, we believe the dollar is as extended as it became and remains, it has largely been motivated by the Fed, or more precisely, the markets' expectations with future policy.

Framing the dollar as a proxy of confidence in the golden age of central banks, where it discretely took flight as the Fed led policy makers in the wake of the financial crisis and soared to Icarus heights on misplaced expectations with more contemporary tightening cycles, we'd argue the apparent indecisiveness in the dollar's technical structure today aptly represents the unresolved tensions in the market that we believe will ultimately become unwound, as challenging economic conditions largely limit the reach of the Fed going forward.

In discussions with clients in Europe and the ME, we see increasing fundamental and technical causes for why investors in general, but particularly foreign investors in US$ denominated asset classes are going to unwind lots of their trades in US$ they took on over the past 28 months since the US$'s parabolic rise, and why the investment case in favor of US$ denominated assets at this point in time is significantly less attractive.

Short term technical for the US$ bullish ETF are negative.

The short & medium term technical outlook for the US$ is negative (RSI & MACD declining). The short-term risks (1 – 3 months) for the US$ are towards the 92 price levels. The longer-term risks are towards 84 support levels, which would only bring the US$ back towards levels where it broke out in June 2014.

The FED's decision to keep rates unchanged comes to no surprise to us, as we have been forecasting that the FED would not raise rates at all in 2016, mainly due to evidence in our research that the US economy in aggregate was slowing since October 2015, and now since Q2 of 2016 on an accelerating basis.

What should investors do now? What are the foreseeable issues for investors to deal with for the remainder of 2016?

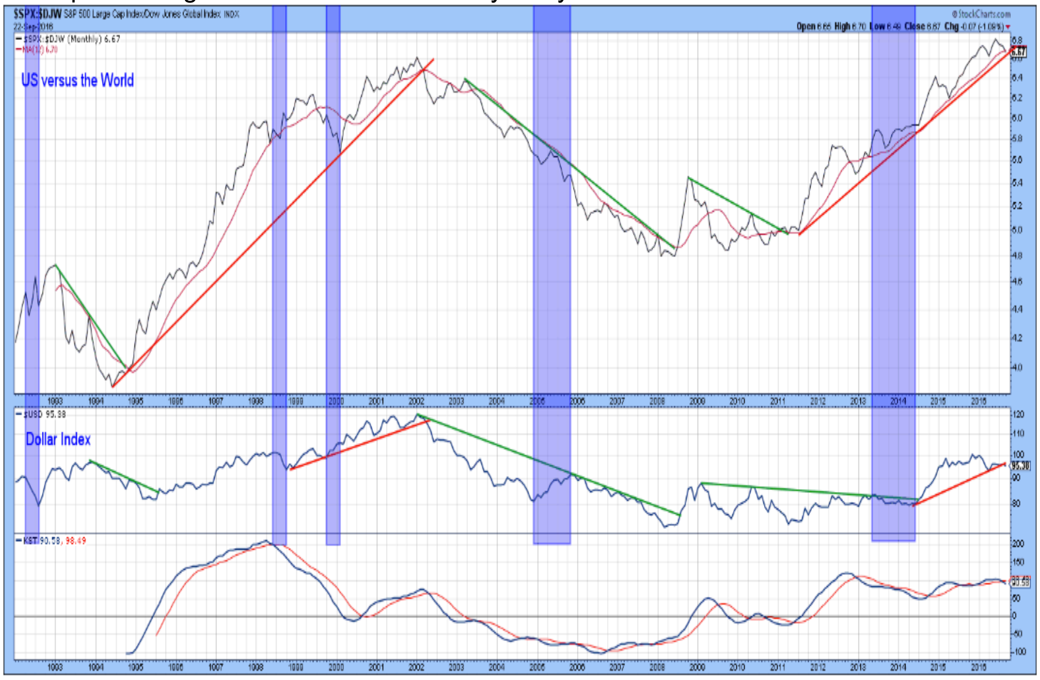
1. FED policy not in play (until post US presidential election, likely 2017)
2. US election uncertainties (too close poll results for new allocations to be made)
3. Global macro developments (China, India, EM GDP to remain higher than expected, but slowing)
4. US macro developments (US GDP growth below Eurozone's)
5. Government bond yield premium of 10-Y treasuries to fade over European comps
6. EM government bond yields to continue to be lowered
7. 28-months US$ strength to vane due to absence of macro & yield support, for sure against the EURO, but also EM currencies "(the great unwind" from the 28 months parabolic fallacy based on the immunity of US macro strength to ROW)
8. Geo-political uncertainties

We will discuss these in detail upon client interest.

Equities Commentary

Equities around the globe continued to rally on central bank policy, namely the Fed's decision to hold off on a rate hike. The rally was especially strong in Europe, where the DAX and CAC rose 2.3% and the FTSE 1.1%.

Technical action by equities and commodities continued to improve following the FOMC announcement on Wednesday, and we are expecting for this to strengthen. However, we see technical developments, which are speaking in favor of foreign equities versus US. The ratio between the US $SPX and world equities, the $DJW has a history of signaling important reversals with trendline breaks. Right now the ratio is resting on a 5-year up trendline and has a slightly bearish long-term KST. That suggests that a downside breakout is possible. If you look carefully you will see previous trendline violations, in both directions, were simultaneously accompanied with a 200-day MA crossover. The current situation is no different except for the important point that a penetration has not yet taken place. A lot will depend on the US$ index in the top window of the chart. That's because it too is resting on an up trendline. Most of the time the two series move in tandem, but the blue shaded areas tell us that it is possible for their paths to diverge for a limited time. Since the line for the US/World relationship is longer and has been touched or approached on more occasions, it's violation would be more serious. However, if they are both penetrated, as we anticipate, a lower US$ and underperforming US market would be very likely.



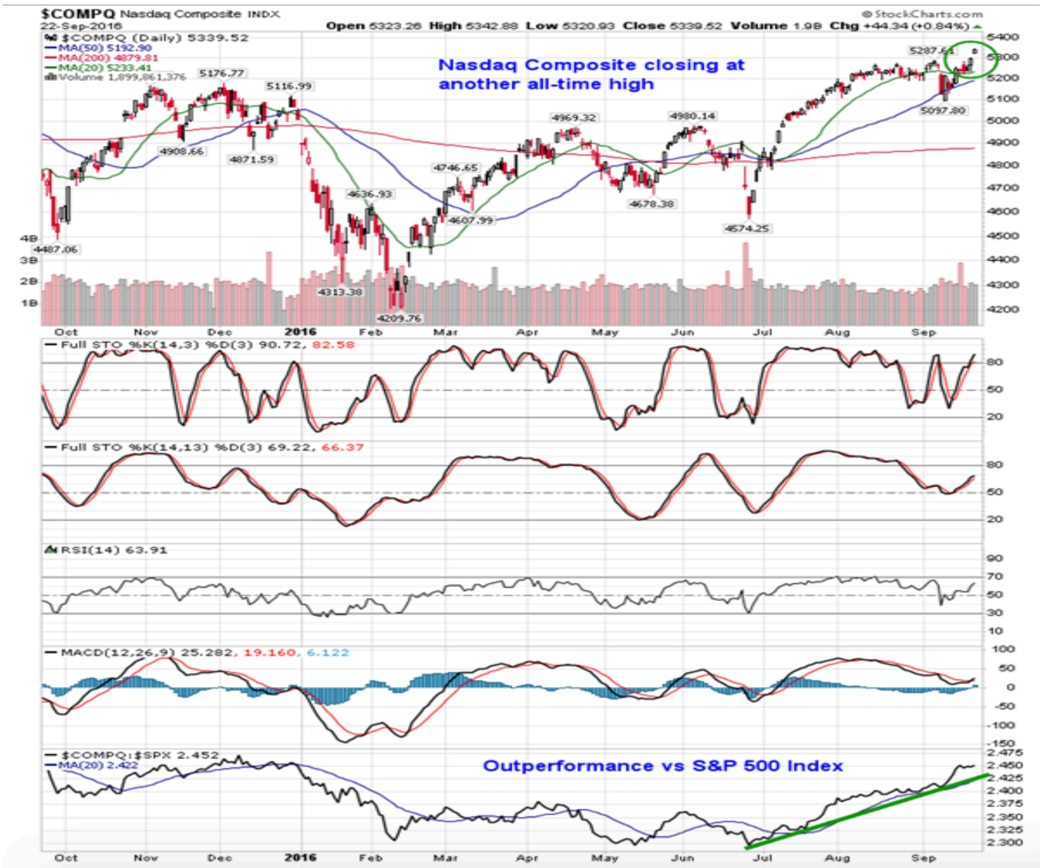
Major North American equity indices once again are testing intermediate resistance levels set in mid-July.

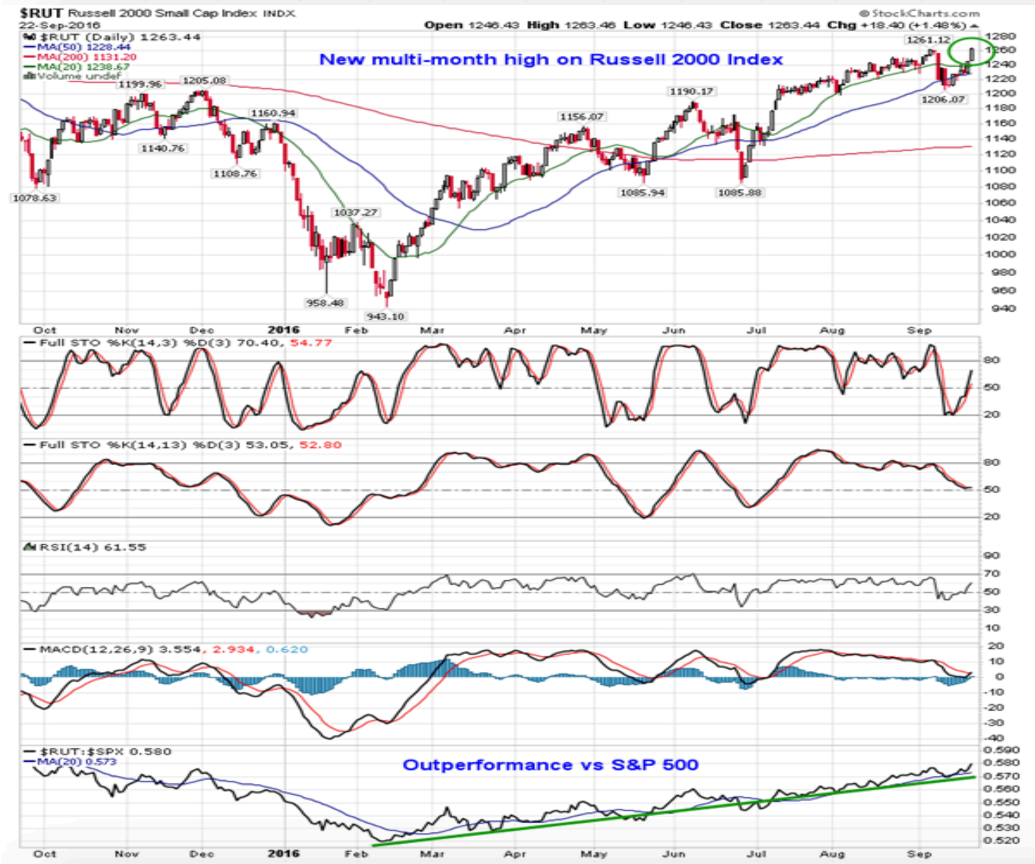
EAFA iShares $EFA moved above $60.10 reaching a 12-month high extending intermediate uptrend.

Emerging Markets iShares $EEM moved above $38.24 reaching a 13-month high extending intermediate uptrend.

Stocks in the US continued to climb yesterday, reacting positively to Wednesday's announcement from the Fed to stay put on rates. The S&P 500 Index made progress in closing the gap from the plunge decline recorded two weeks ago, halting the advance on the session at the upper limit of what could remain a significant hurdle at 2180. Each benchmark has cleared their respected 20 and 50-day moving averages as they attempt to overcome the average tendency of weak performance in the month of September. Aside from a sprinkling of Fed speakers scheduled to speak, the next major catalyst for stocks may be the first presidential candidate debate on Monday, when investors will get a better sense of who has the better probability of taking the top office. Major North American equity indices once again are testing intermediate resistance levels set in mid-July.

The Nasdaq Composite charted another all-time high and the small cap Russell 2000 index achieved a multi-month high, emphasizing the risk-on stance that investors are maintaining during this typically risk-off period.





The yield on the 10-year note closed at 1.63%, down three basis points from the previous session and 10 basis point off its interim high seven sessions earlier on September 13th.

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