Creative Global Investments

Morning market commentary & weekly charts

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Objectivity

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Global Macro Commentary

Data for the global industrial (IP) cycle in September in the form of Eurozone manufacturing PMI, German IFO and China's Caixin PMI manufacturing have come out better than expected, supporting the case for a moderate recovery. It appears that relief that Brexit did not have a more damaging effect on sentiment is currently supporting investments and consumption in the Eurozone. In China, we expect the recovery to hold up during most of 2016. However, we expect it to lose steam in 2017 as the fiscal stimulus fades, with the biggest boost to construction likely to fade as well. Worryingly, the debt problem in China continues to worsen with the recent sharp credit creation only kicking the can further down the road. US data are mixed; supporting our case that growth in Q3 is not as strong as many (including the Fed) believe.

As such, global growth is currently moving sideways, but we see risks skewed to the downside, with political uncertainty in the US and Europe and rising protectionism potentially weighing on sentiment. This week, the World Trade Organization (WTO) revised down its 2016 forecast for world trade to 1.7% and just 1.8% in 2017. 2016 marks the first year in 15 years in which world trade will grow slower than GDP growth – a truly worrying sign. Rising geopolitical risks centered on the West's, particularly Europe's, relationship with Russia, Turkey and the Middle East could weigh on sentiment.

In Asia, China's Yuan today officially joined the US$, the Euro, the Yen and British pound in the IMF's special drawing rights (SDR) basket, which determines currencies that countries can receive as part of IMF loans. It marks the first time a new currency has been added since the Euro was launched in 1999.The IMF is added the Yuan, on the same day that the Communist Party celebrates the founding of the People's Republic of China in 1949. To gain entrance to the SDR group, China had to relax its controls and allow freer cross-border flows of capital. Now that the Remimbi/Yuan is part of the reserve currencies group, this will open the stage for investors from around the world to make more meaningful long-term investments into the Chinese economy and businesses and investments opportunities.

In the UK, Prime Minister Theresa May on Sunday said Mrs. May said that Britain will leave the EU by at 2019 and that she will trigger Article 50 to process Britain's exit from the EU by March next year. The UK would become "truly global" as she listed eight nations including China, India and Singapore prepared to sign major free trade deals with the UK.

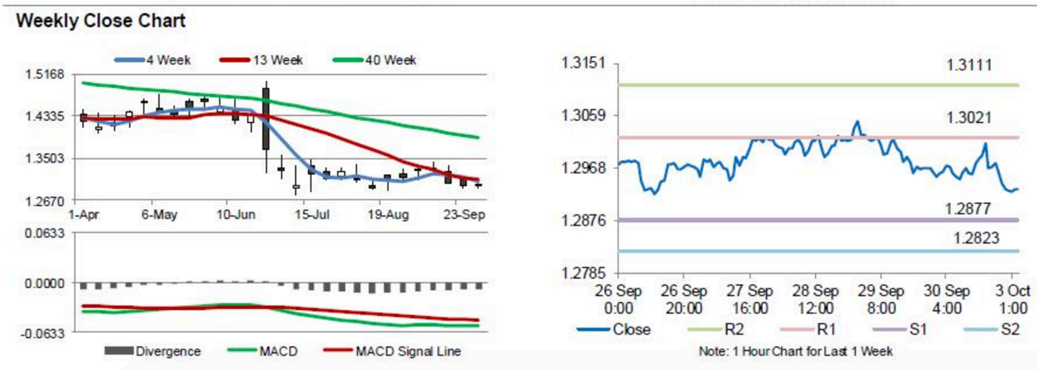
Addressing Conservative conference on Sunday for the first time since becoming Prime Minister, Mrs. May made clear that border controls are a red line in the Brexit negotiations, saying that "we are not leaving the European Union only to give up control of immigration again".

The UK's agricultural and food services industry would struggle to survive without access to seasonal labor from Europe, leading to higher prices and even shortages, the boss of the country's biggest potato company has warned. Angus Armstrong, chief executive of Produce Investments, an Aim-listed business that cultivates spuds across 6,500 acres of land, said the biggest concern for the company over leaving the European Union was getting access to non-UK workers.

Currencies Commentary

One of our highest conviction trades among major currencies was that the British pound (GBP) would weaken this year from GBP/USD 1.48 since the year began towards 1.30. Since the Brexit referendum, we have been on record repeatedly that the GBP/USD would decline a lot further, likely well below the GBP/USD 1.20 levels. Prime Minister May's announcement yesterday of a speed up process to enact article 50 by March 2017 will weaken GBP given the UK's large current account deficit. GBP/US traded down about 0.8% at $1.2874, after falling as low as $1.2845 earlier this morning.

As per our Q4 Global Investment Strategy, which we published yesterday, we are expecting for the GBP/USD to drop towards 1.20 over the coming 6 – 12 months.



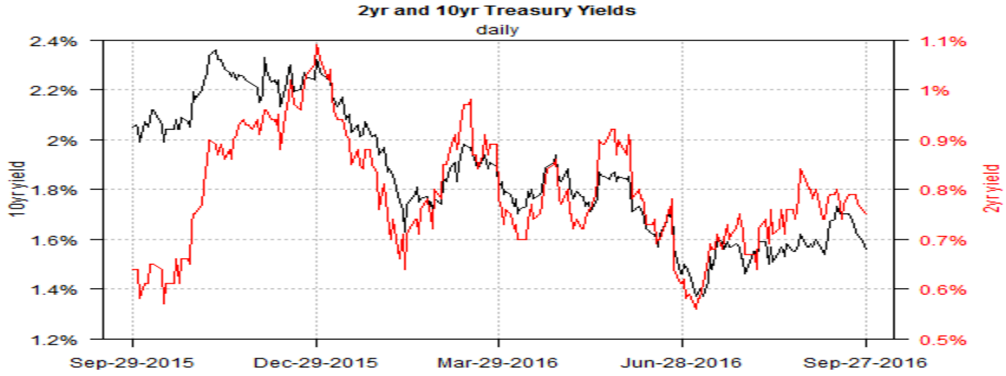
Fixed Income Commentary

We maintain our long-held view that global interest rates will stay low for longer. A gradual increase in oil prices will clearly support our call that CPI inflation in the Eurozone will rise. On Friday, September HICP inflation rose to 0.4% from 0.2% and we expect inflation to reach 1% in December. Nevertheless, base effects will drive a lot of the expected near-term rise in CPI, however we expect that the ECB will revise its forecasts for core inflation downward.

In the US, Q3 GDP growth might accelerate in the government's "advance" GDP report that's due next month. The US Treasury yield curve does only partially reflect weak US growth that's at risk of sliding into recession.

Is the yield curve's value as a business-cycle indicator still a decent indicator, given the G-7 central banks grand experiment in monetary policy with all-time low interest rates?

More economists, strategists and analysts are warning that long yields are finally poised to rise, as the FED's monetary benchmarks (full employment; price stability) are met. However, we've heard this before over the past 2 years, and of course, and it turned out to be dead wrong time over time. That does however not mean that central banks have the desire to keep rates at all-time low levels for ever, it is just that the macro fundamentals for the US are declining at an accelerating rate, and that the risks of a recession after that the US economy has been in an upside cycle for 8 years are increasing over time. And with the FED changing policy at this point in time in that weakest recovery in US history yet, would surely become a self-fulfilling prophecy act.

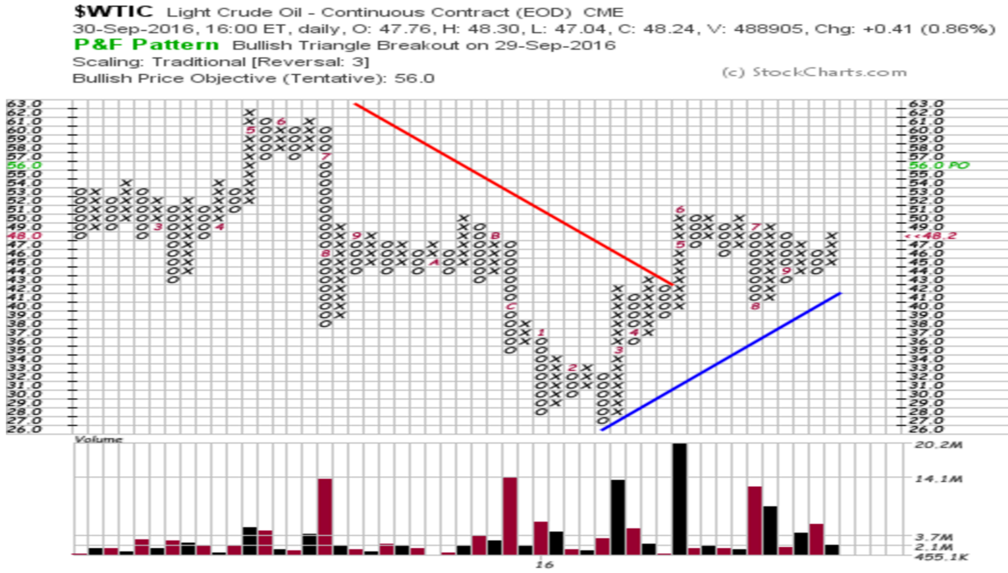


And hence why we maintain our views that 10-Year government bonds in the US, Japan and Europe will stay low for a lot longer.

Rising commodity prices are potentially inflationary and usually bad for bond prices and supportive to yields. In a normal situation, rising commodity prices would have more of an upward pull on interest rates. But these aren't normal times. Central bankers are keeping a heavy thumb on bond yields.

Commodities Commentary

Oil prices have risen sharply this week as OPEC on Wednesday said that its members agreed to cut output to around 32.5-33.0MN bpd from the current level of 33.2MN bpd. We expect oil prices to stay highly volatile near-term, although moving higher over the medium term.



From fundamental and chart-technical aspects we continue seeing $WTIC move higher in the coming 3 - 6 months and likely hit our year-end $63 price target.

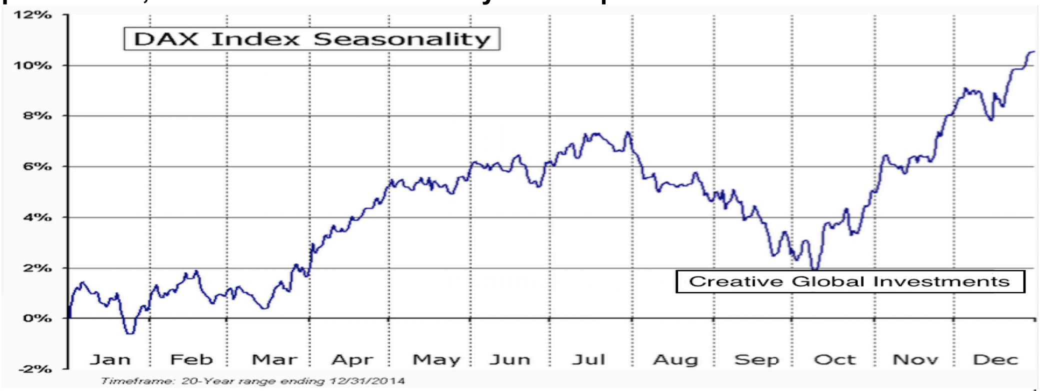
Equities Commentary

Q3 ended and for global equity investors relatively positive by historical comparison. Let's take a look at the best performing equity indices for the quarter and also y-t-d:

3 months		YTD	
Austria	14.76%	Argentina	42.83%
Argentina	13.57%	Brazil	34.64%
Brazil	13.27%	Russia	30.94%
Luxembourg	12.73%	Vietnam	18.43%
Hong Kong	12.04%	Indonesia	16.80%
NASDAQ	9.69%	New Zealand	16.39%
Finland	9.13%	Hungary	15.65%

Whilst October is the second highest month on volatility characteristics, it is the beginning month for some equity indices major periods of seasonal strength. Below are the countries equity indices, which historically have recorded the biggest percentage moves since the beginning of October until year-end.

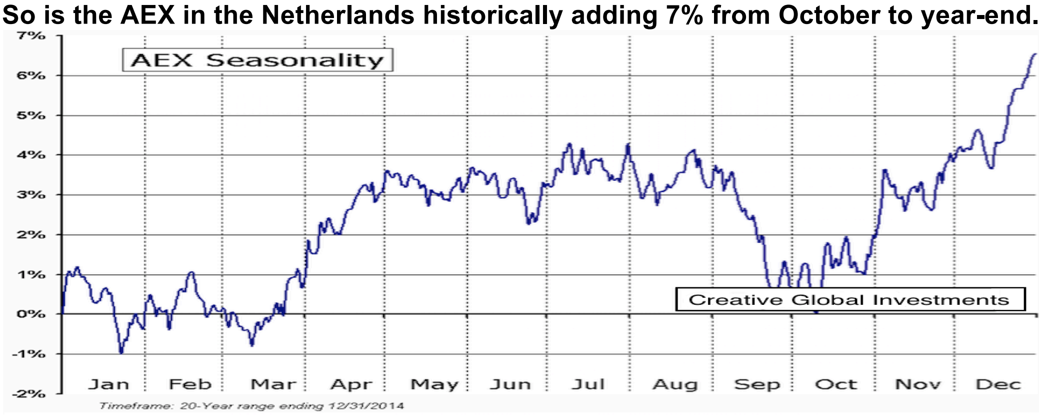
To no surprise, Germany's DAX 30 index is amongst the biggest seasonal performers, with an annual October – year-end performance of 8%.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.4%	0.6%	0.8%	3.5%	0.6%	0.3%	1.1%	-2.6%	-2.0%	2.5%	3.0%	2.5%
Gain Frequency	60%	50%	50%	75%	55%	60%	55%	55%	55%	70%	80%	80%
Max Return	9.3%	11.5%	9.5%	20.0%	8.9%	7.9%	15.9%	3.4%	6.2%	14.6%	9.4%	16.8%
	2012	2000	2010	2003	1998	2003	1997	1999	1997	2002	2001	1999
Min Return	-15.7%	-11.6%	-8.8%	-6.7%	-7.5%	-9.9%	-15.4%	-20.4%	-28.2%	-12.9%	-10.2%	-13.1%
	2008	2009	1995	2002	2012	2008	2002	2011	2002	2008	2000	2002

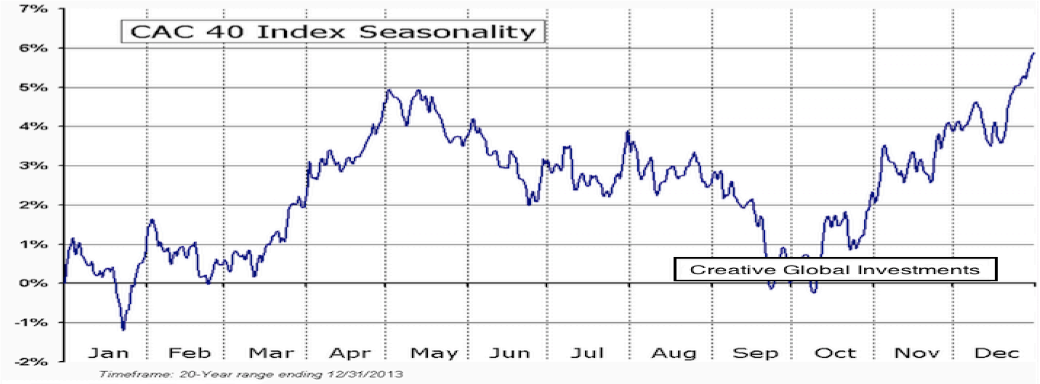
So is the AEX in the Netherlands historically adding 7% from October to year-end.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.4%	0.4%	0.6%	2.4%	0.2%	-0.1%	1.1%	-1.1%	-2.7%	1.5%	1.8%	2.7%
Gain Frequency	60%	60%	50%	75%	50%	60%	50%	50%	50%	70%	65%	80%
Max Return	4.7%	11.3%	8.1%	13.4%	7.8%	8.6%	13.5%	4.7%	6.1%	15.7%	10.6%	11.0%
	1998	1998	2010	2003	2009	1997	1997	2009	1997	2002	1998	1999
Min Return	-14.9%	-11.9%	-6.4%	-5.9%	-6.9%	-12.9%	-17.2%	-11.9%	-21.5%	-18.1%	-7.5%	-11.1%
	2008	2009	2001	2005	2010	2008	2002	1997	2002	2008	2007	2002

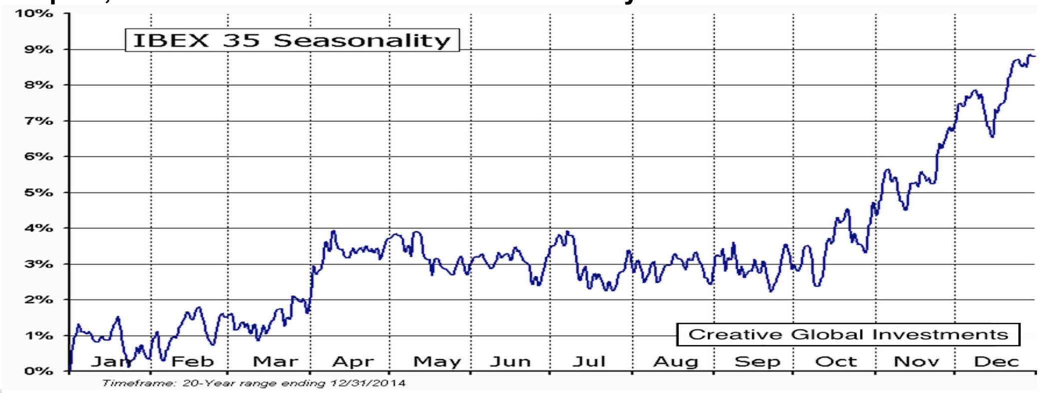
France's CAC 40 records an average 6% from October to year-end.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.7%	-0.3%	1.5%	2.7%	-0.8%	-0.7%	0.8%	-1.4%	-2.5%	2.3%	1.6%	1.9%
Gain Frequency	65%	45%	65%	70%	50%	50%	55%	35%	50%	80%	65%	80%
Max Return	8.5%	9.3%	12.6%	12.4%	5.2%	10.3%	9.4%	6.6%	8.4%	13.7%	9.0%	11.1%
	1997	2000	1998	2003	2005	1997	1994	2009	1997	2002	1999	1999
Min Return	-13.6%	-11.0%	-7.1%	-6.0%	-7.5%	-12.1%	-11.9%	-11.2%	-18.2%	-11.5%	-7.4%	-8.0%
	2008	2001	1994	2012	2010	2008	2002	2011	2002	2008	2000	2002

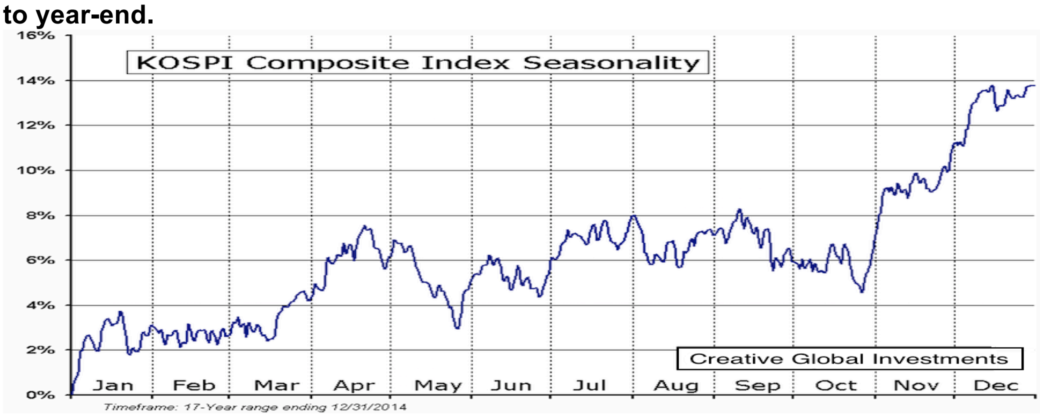
In Spain, the IBEX adds over 5% from October to year-end.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.3%	1.2%	0.1%	2.1%	-0.8%	0.3%	0.1%	-0.7%	0.2%	1.9%	2.0%	2.1%
Gain Frequency	60%	55%	45%	65%	50%	55%	40%	50%	60%	65%	70%	80%
Max Return	10.7%	15.3%	13.9%	15.0%	6.6%	15.9%	12.8%	10.3%	10.8%	14.7%	11.9%	10.3%
	2001	2000	1998	2009	1997	2012	2010	2012	1997	1998	1999	1996
Min Return	-13.0%	-10.0%	-5.4%	-12.8%	-13.7%	-13.6%	-9.0%	-23.2%	-16.3%	-15.7%	-15.2%	-10.0%
	2008	2009	2012	2012	2012	2002	2002	1998	2002	2008	2010	2002

Over in ASIA, Korea's KOSPI gains the most with an average of 8% from October to year-end.



Monthly Averages over past 17 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	3.1%	-0.6%	1.5%	2.0%	-1.1%	0.4%	2.4%	-0.7%	-1.2%	0.5%	4.5%	2.9%
Gain Frequency	59%	47%	47%	53%	53%	47%	71%	47%	53%	59%	71%	65%
Max Return	41.9%	9.6%	17.9%	20.2%	9.9%	19.1%	15.5%	9.0%	12.1%	22.6%	18.5%	23.5%
	1998	2002	1999	1999	2007	1999	1998	2004	2005	1998	2001	1998
Min Return	-15.0%	-12.4%	-12.5%	-15.6%	-21.3%	-10.8%	-14.6%	-11.8%	-12.6%	-23.2%	-7.6%	-14.1%
	2008	2000	1998	2000	1998	1998	2000	2011	2002	2008	2007	2002

The Hang Seng records an average of 4% from October to year-end.

Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-1.8%	2.7%	-1.3%	2.3%	0.0%	0.4%	2.4%	-1.6%	0.2%	1.9%	2.1%	1.3%
Gain Frequency	40%	60%	45%	75%	40%	60%	70%	40%	65%	75%	75%	70%
Max Return	12.2%	22.9%	10.8%	20.2%	16.3%	11.0%	11.6%	7.5%	12.6%	26.3%	15.1%	10.1%
	1996	1998	1999	1999	2009	1999	2009	2003	2007	1998	1999	1999
Min Return	-15.2%	-8.4%	-14.4%	-10.8%	-14.7%	-10.2%	-6.9%	-14.3%	-15.5%	-30.5%	-9.5%	-7.6%
	2008	2001	2001	2000	1998	2008	1998	1997	2008	1997	2011	2002

India's SENSEX also adds an average of 5% from October to year-end.

Monthly Averages over past 17 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.6%	0.8%	0.8%	0.8%	0.8%	1.2%	1.7%	1.4%	2.1%	-0.7%	3.1%	3.7%
Gain Frequency	47%	59%	47%	53%	47%	71%	59%	71%	65%	47%	71%	76%
Max Return	10.8%	11.9%	15.2%	16.5%	26.8%	12.7%	9.5%	11.5%	12.3%	14.4%	10.9%	14.8%
	2012	1998	1999	2009	2009	2003	1999	2003	2007	2007	2005	2003
Min Return	-13.0%	-8.3%	-15.5%	-11.1%	-15.7%	-19.4%	-9.9%	-8.8%	-13.6%	-24.6%	-9.2%	-4.2%
	2008	2007	2001	1999	2004	2008	2000	1998	2001	2008	2011	2014

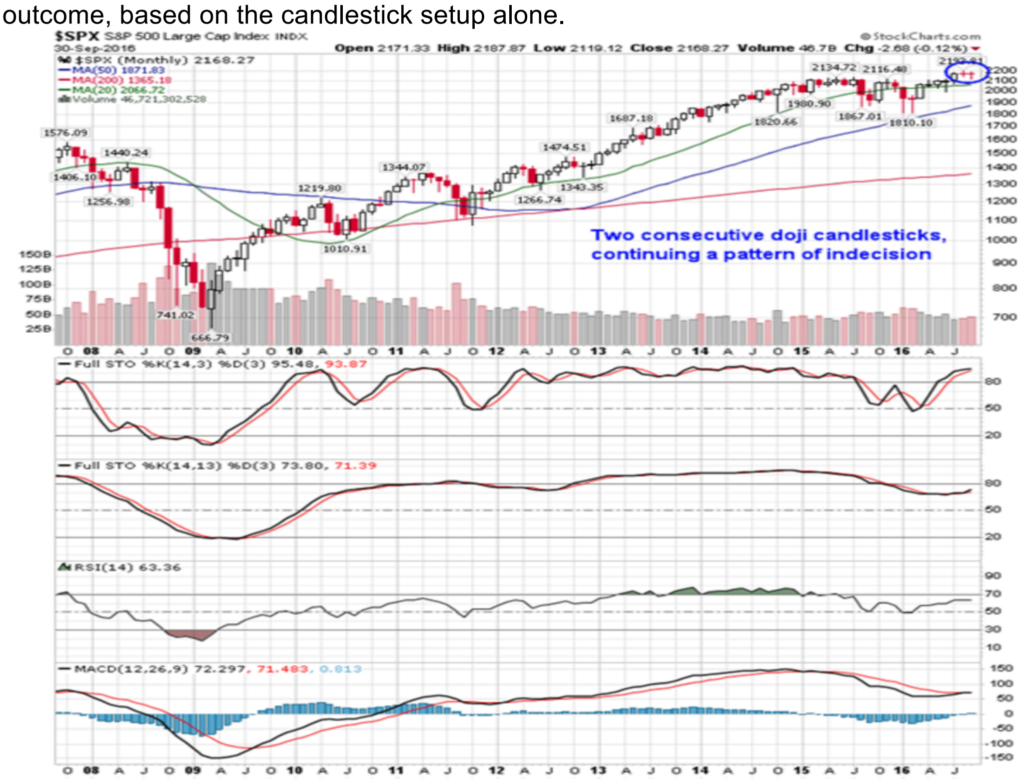
In the US, the $SPX ended lower in September by a mere 0.12%, matching the return recorded in August. The average decline in this last month of Q3, based on the past 50 years of data, is 0.6%. Nevertheless, US equity markets also ended Q3 on a high note with the S&P gaining 3.3% from the June 30 close to Friday's close. The $SPX got to 2168 two weeks into Q3 which is exactly where it ended on Friday, so flat from July 14 and woke up on September 30.

Four of the past five years have produced positive results between September 30 and October 31, with 2015 the most substantial increase of over 8%. Even though the S&P has been stuck near the same level for the past 2.5 months it still remains within easy striking range of its all time high. Looking back over the past five years, from September 30 to October 31, here's the results:

- 2011 - +3.6%
- 2012 - (-1.9%)
- 2013 - +4.4%
- 2014 - +2.3%
- 2015 - +8.2%

The $SPX overcame the September period of volatility unscathed, holding just below the all-time high set in the month of August. September recorded some notable moves intra-period, the most important being the almost 2.5% one-day plunge recorded mid-month. The abrupt decline opened a gap between 2170 and 2180, defining a range of resistance that has remained intact through the multiple daily tests attempted thus far.

Looking at the monthly chart, two consecutive doji candlesticks have now been charted, continuing a pattern of indecision. Strategy calls for buying the breakout on a move above the upper limit of the two candlestick pattern, which in this case is at the all time high of 2193, or selling the breakdown below the lower limit, which is around significant intermediate support around 2120. Until those points are breached, there is no probable outcome, based on the candlestick setup alone.



In 1987 however, two consecutive doji candlesticks led to the October 1987 crash. A double doji setup going into October is not necessarily a bad omen, but rather the break of the previous two-candlestick range is likely to see follow-though, whether it be higher or lower. Caution for October this year might be a right strategy call.

Weekly Investment Conclusion

The period of uncertainty for world equity markets continues. Many equity markets, commodities and primary sectors have returned to the top of their trading range previously reached in mid-July. Establishment of another intermediate uptrend is unlikely prior to the US Presidential election on November 8th.Prospects following the Presidential election are positive.

US economic news this week is expected to show a slight re-acceleration of economic growth. Reports that are expected to show improvement include Manufacturing ISM, Services ISM and the Employment report.

Earnings reports this week are not expected to have a significant impact on equity markets on both sides of the border. Seven S&P 500 companies are scheduled to report. Most companies are in their “quiet period” prior to release of quarterly results. Any surprise announcements likely will be negative when companies traditionally pre-release bad news prior to release of actual results. To date, 80 S&P 500 companies have issued negative Q3 guidance while 34 companies have issued positive guidance. EPS for S&P 500 companies on a y-o-y basis are expected to decline -2.1% in Q3 while revenues are expected to increase 2.6%. Data for Dow Jones Industrial Average companies is more positive: 17 companies are expected to report higher earnings, 2 are expected to report no change and 11 companies are expected to report lower earnings. Average (median) gain on a y-o-y basis is 1.8%.

Beyond Q3, prospects for S&P 500 companies improve significantly, with earnings on a y-o-y basis are expected to increase 5.6% while revenues are expected to increase 5.2%. For 2017, earnings are expected to increase 13.0% and revenues are expected to increase 6.1%, which we deem overly optimistic.

Seasonal influences begin to change in the month of October. During the past 20 years, US equity markets on average have reached their annual low in October (October 15th for S&P 500 companies) on increased volatility.

Short-term momentum indicators for most equity markets and sectors currently are overbought and showing signs of rolling over. Intermediate technical indicators (e.g. Percent of stocks trading above their 50 and 200-day moving averages, Bullish Percent Index) for most equity markets and sectors are overbought with a downward bias. Technical action by S&P 500 stocks last week showed a mixed picture: 36 stocks broke resistance (led by energy stocks) and 33 stocks broke support (led by financial stocks). Number of stocks trading in an uptrend slipped to 234 from 236, number of stocks trading in a neutral trend was unchanged at 85 and number of stocks trading in a downtrend increased to 191 from 189.

Historically, US equity indices have moved lower in October during US Presidential election years when a new President is elected after a two term President. After the election, equity markets normally move higher.

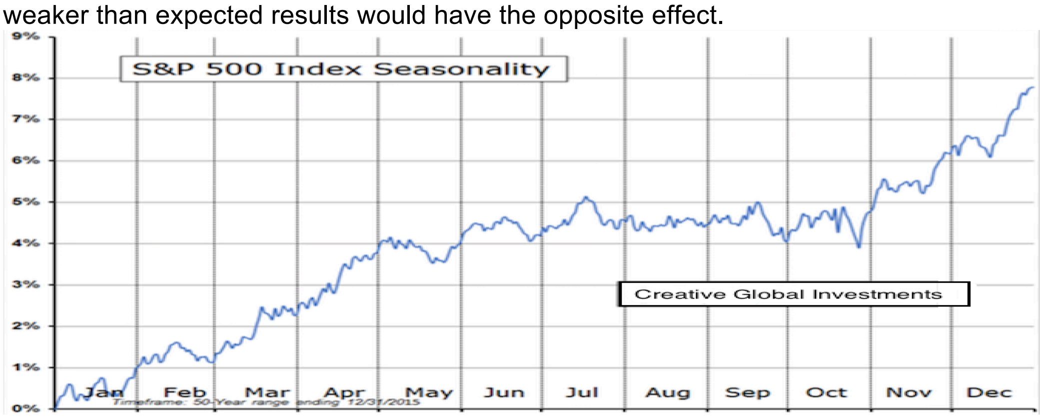
Looking forward to the month of October, while still a volatile month, the returns aren't what you may think. Over the past 50 years, the S&P 500 has returned 1.0%, on average, in this tenth month of the year. The gains in the month have come with a frequency of 60%, one of the better monthly frequencies in the 50-year timespan. Returns have ranged from a loss of -21.8% in 1987, known as the crash of Black Monday, to a gain of 16.3% realized in 1974. As is common with seasonal pivot points, earnings play a significant role in influencing market activity.

Monthly Averages over past 50 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	1.0%	0.1%	1.1%	1.5%	0.2%	0.0%	0.4%	-0.1%	-0.6%	1.0%	1.2%	1.4%
Gain Frequency	58%	56%	66%	70%	56%	52%	44%	56%	44%	60%	68%	70%
Max Return	13.2%	7.1%	9.7%	9.4%	9.2%	5.4%	8.8%	11.6%	8.8%	16.3%	10.2%	11.2%
	1987	1986	2000	2009	1990	1999	1989	1982	2010	1974	1980	1991
Min Return	-8.6%	-11.0%	-10.2%	-9.0%	-8.2%	-8.6%	-7.9%	-14.6%	-11.9%	-21.8%	-11.4%	-6.0%
	2009	2009	1980	1970	2010	2008	2002	1998	1974	1987	1973	2002

While the average low in the large-cap benchmark is typically realized on October 27, reaction to Q3 earnings released in the month can play a role in driving stocks higher or lower throughout this first month of Q4. Presently, the expected y-o-y earnings decline for Q3 is -2.1%, still driven by the energy sector, which is expected to realize an earnings decline of a whopping 67%.

Utilities, consumer discretionary, consumer staples, health care, materials, technology, and financials are all expected to report growth in earnings of between 0.3% to 5.3%. Real estate, industrials, and energy are the unfortunate victims to the sharp decline in oil prices, either directly or indirectly. As of the end of Q2, it was expected that Q3 earnings would tilt back into growth territory at 0.3%, but analyst revisions have taken numbers lower throughout the past three months. Should it become apparent that analyst expectations are too low, stocks may see that earlier than average jump, while weaker than expected results would have the opposite effect.



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