Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

Creativity

Global Macro Commentary
More mixed to negative global data

Today, **the Organization for Economic Cooperation and Development lowered it's global GDP forecast in its semi-annual forecasting to hit 2% this year, 2.2% next and 2.3% in 2017, and part of the organization's report said that growth in the US would continue to be among the most robust in the group of nations, hitting 2.4% in 2017.** It predicted the 19-nation Eurozone would continue to lag behind the US, with growth at 1.5% this year, 1.8% next year and 1.9% in 2017. Lower oil prices and falling unemployment will bolster economic growth in the 34-nation group of developed economies, helping to offset the impact of a slowdown in emerging economies.

In Asia, **Chinese trade figures missed economists' forecasts by a wide margin in October, and added to concerns over slowing global demand. Chinese exports fell -6.9% y-o-y, down for a fourth month, whilst imports were down -18.8%, driving the Chinese trade surplus to a new high of US$ 61.64 BN**. Exports to the US, the European Union and Japan all fell, and this year alone exports to Japan have declined -9%, and to the EU they have declined -3.7%. Considering this, we see that at some point Chinese authorities may have to take further steps to ease policy further, with potentially another move in the US dollar peg likely in the coming weeks, and months, as GDP growth in China slowed to 6.9% in Q3, dropping below the 7% mark for the first time since 2008.

In another report in Asia, Ministry of Finance Taiwan said that **Taiwanese Trade Balance rose to a seasonally adjusted annual rate of 6.12B, from 5.25B in the preceding month**. Analysts had expected Taiwanese Trade Balance to fall to 5.02B last month.

Over in **India, the Markit India Business Outlook survey points to the weakest degree of optimism among private sector companies since the inception of the survey in October 2009. The current outlook is also well below the global average. October outlook data indicates that a net balance of 17 per cent of private sector firms in India expect incoming new work to expand over the next 12 months**. Business revenues are anticipated to rise at a softer rate in the year ahead with just 21 per cent of companies expecting an improvement in the revenue front.

In the US, **the Department of Labor said the US economy added 271,000 jobs helping the US Unemployment to fall to 5.0% in October, the lowest level since April 2008. Hourly wages also jumped 9 cents to $25.20, the fastest y-o-y rise since July 2009**. Simultaneously, US initial jobless claims rose by the most in eight months last week, but were still consistent with a strengthening labor market. The Department of Labor said the number of Americans filing for initial jobless benefits rose by 16,000 to 276,000 It was the largest weekly increase since February, and analysts had expected jobless claims to rise by 2,000 to 262,000.

Over in Europe, **Germany's trade balance fell unexpectedly last month, official data showed on Monday. In a report, Destatis said that Germany's Trade Balance fell to 19.4B, from 19.6B in the preceding month**. Analysts had expected Germany's Trade Balance to rise to 20.0B last month.

Fixed Income Commentary

Post Friday's US October employment report, investors' expectations changed towards imminent increase in rate. The 2-year treasuries yield surged to the highest level since 2010.

The 5-year yield is back testing significant resistance around 1.75%. The move quickly puts the cost of borrowing into overbought territory, however, the trend, at least in terms of the short-term note, is firmly positive.

For the 10-Year US treasuries, the pattern is very similar. The yield has broken above the short-term trend resistance line, and seems to move towards the double top of 2.49% yield levels.

The $TNX is currently trading towards the upper range resistance, well within the 35 year trend range.

Currencies Commentary

The impact of the jump in yields became evident in the value of the US$, which advanced 1.23% to break out of a nearly 7-month trading range. However, the market is much more likely to sell the totally overbought US$ on the news rather than buy it, and we believe this in turn could trigger a short covering rally in EUR/USD well before the parity level is reached. For now the pair is likely to target the key multi year support at the 1.0500 figure as traders focus on the immediate policy implications.

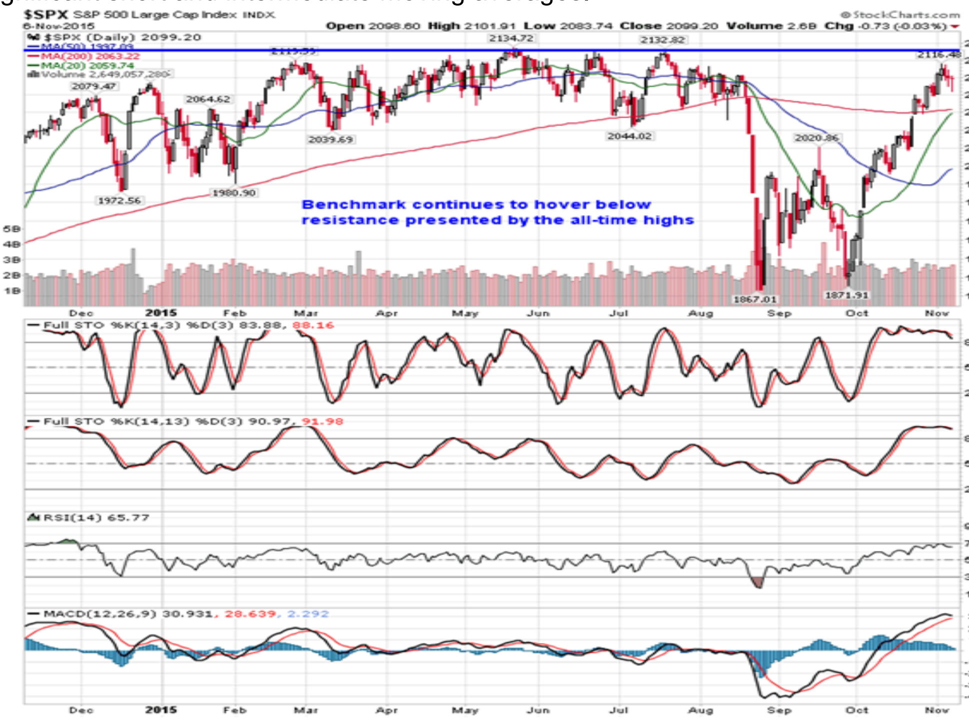
Seasonally, the US$ is typically positive in the month of November, advancing 65% of the time, based on data from the past 20 years, and gaining an average of 0.5%.

The trend for the US$ turns negative in December, as 70% of periods have shown.

Monthly Averages over past 20 years:	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	1.1%	-0.1%	0.0%	-0.4%	0.4%	-0.3%	-0.1%	0.5%	-0.6%	-0.1%	0.5%	-0.7%
Gain Frequency	65%	45%	50%	40%	60%	45%	55%	55%	45%	30%	65%	30%
Max Return	5.6%	3.5%	4.9%	4.5%	5.6%	2.0%	4.5%	5.4%	6.5%	8.6%	4.9%	4.3%
	1997	2013	2001	2000	2010	2003	1997	2008	2011	2008	2010	2009
Min Return	-2.4%	-2.4%	-4.5%	-4.0%	-6.5%	-4.9%	-5.5%	-3.3%	-5.3%	-3.5%	-3.8%	-5.3%
	2006	1995	1995	2006	2009	2002	2010	2001	2010	2011	2004	2008

Global Equities Commentary

With October's employment report significantly beating expectations resulted in a muted reaction in the broad equity market. The S&P 500 Index remains around resistance, presented by its all-time peak around 2130. The index is just over 5% above its 50-day moving average, sufficient to categorize it as being "stretched" from this major average. We are expecting a retracement or consolidation back to levels close to significant short and intermediate moving averages.



The financial sector realized a rather pronounced tug-of-war reaction as REITs traded sharply lower and the banks surged. While anticipation of a fed funds increase can have a negative impact on broad equity markets, the increase itself is typically positive, as it is a confirmation that the Fed feels growth is strong enough that it needs to be calmed via higher rates.

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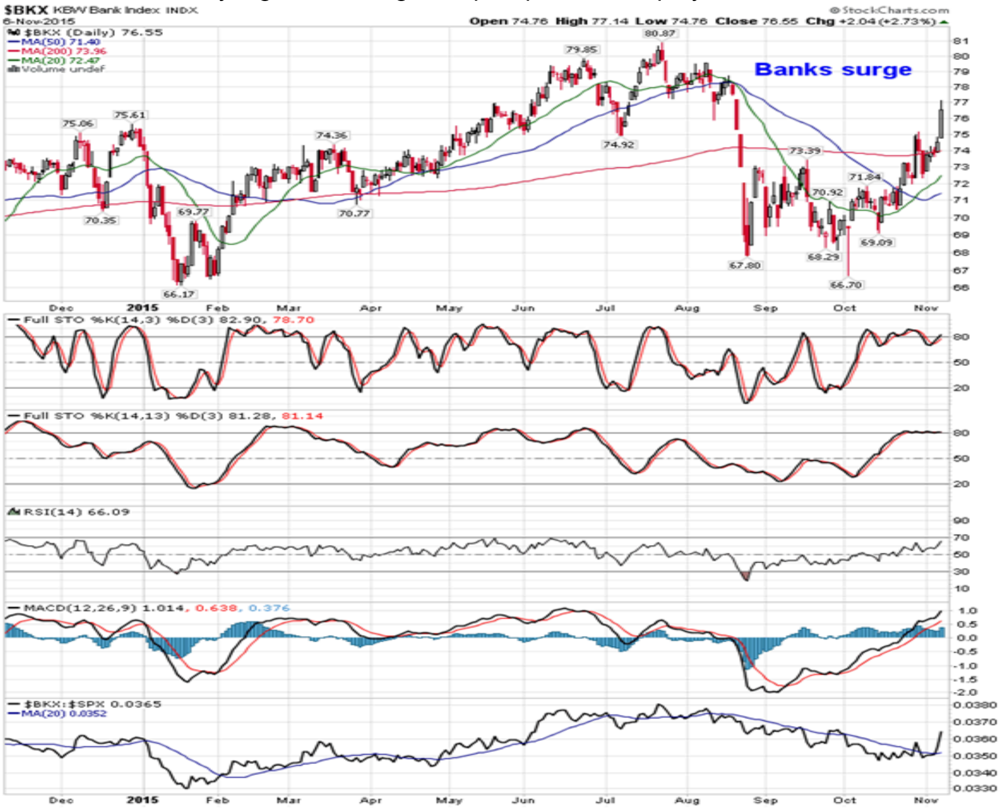


Weekly Investment Conclusion

During the upcoming week, 17 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for Q3. According to FactSet, here is the US Earnings' Scorecard:

Of the 444 companies that have reported earnings to date for Q3 2015, 74% have reported earnings above the mean estimate and 46% have reported sales above the mean estimate.

+ Earnings Growth: For Q3 2015, the blended earnings decline is -2.2%. If the index reports a decline in earnings for Q3, it will mark the first back-to-back quarters of earnings declines since 2009.

+ Earnings Revisions: On September 30, the estimated earnings decline for Q3 2015 was -5.2%. Eight sectors have higher growth rates today (compared to September 30) due to upside earnings surprises, led by the Health Care and Energy sectors.

+ Earnings Guidance: For Q4 2015, 56 companies have issued negative EPS guidance and 19 companies have issued positive EPS guidance.

+ Valuation: The 12-month forward P/E ratio is 16.6. This P/E ratio is based on Thursday's closing price (2099.93) and forward 12-month EPS estimate ($126.88).

Coming into the Q3 earnings season, there were concerns in the market about the impact of the stronger US$ (relative to last year) and the impact of lower global economic growth on the sales and earnings of companies in the S&P 500.

Are companies in the S&P 500 with more global exposure reporting weaker sales and earnings growth relative to companies in the index with less global exposure?

The answer is yes.

FactSet divided the S&P500 index into two groups:

- Companies that generate more than 50% of sales inside the US (less global exposure)
- Companies that generate less than 50% of sales inside the US (more global exposure).

Aggregate earnings and revenue growth rates were then calculated based on these two groups. The results are listed below.

The blended (combines actual results for companies that have reported and estimated results for companies yet to report) earnings decline for the S&P 500 for Q3 2015 is -2.2%.

For companies that generate more than 50% of sales inside the US, the blended earnings growth rate is 4.8%.

For companies that generate less than 50% of sales inside the US, the blended earnings decline is -10.6%.

The blended sales decline for the S&P 500 for Q3 2015 is -3.7%.

For companies that generate more than 50% of sales inside the US, the blended sales growth rate is 1.0%.

For companies that generate less than 50% of sales inside the US, the estimated sales decline is -12.5%.

The blended earnings decline for Q3 is -2.2% this week, which is a slight increase from the blended earnings decline of -2.1% last week.

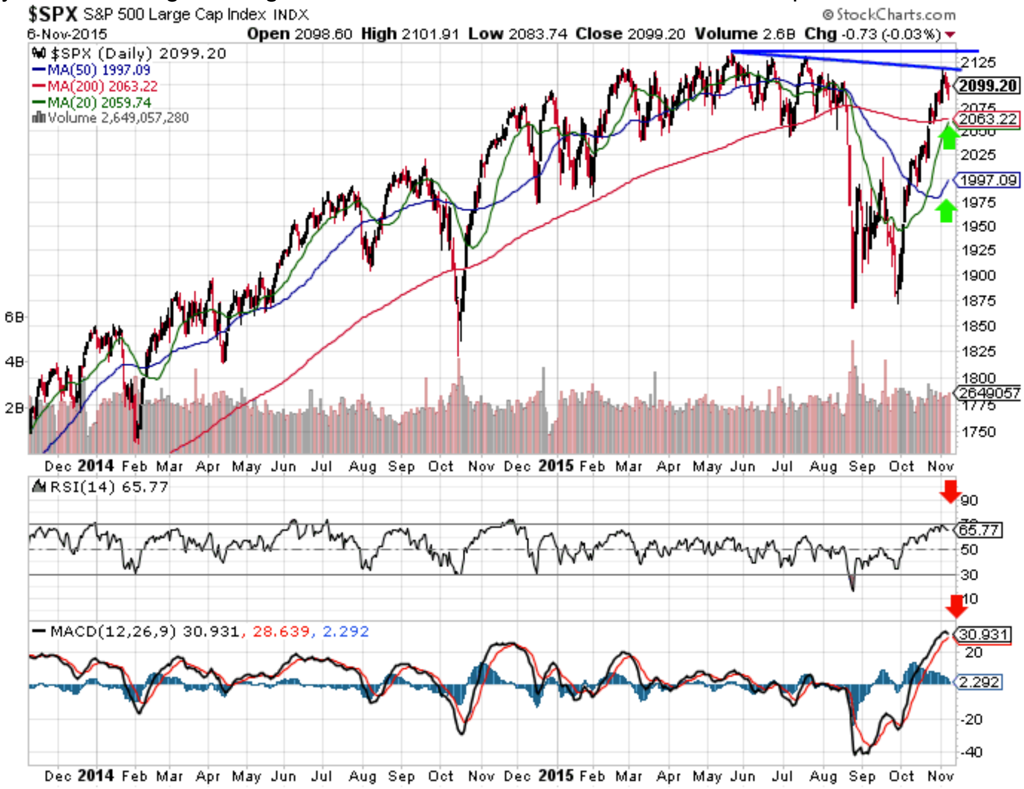
Upside earnings surprises reported by companies in the Energy, Health Care, and Consumer Discretionary sectors were slightly offset by downside earnings surprises reported by companies in the Financials and Information Technology sectors, resulting in the slight increase in the earnings decline for the index this past week.

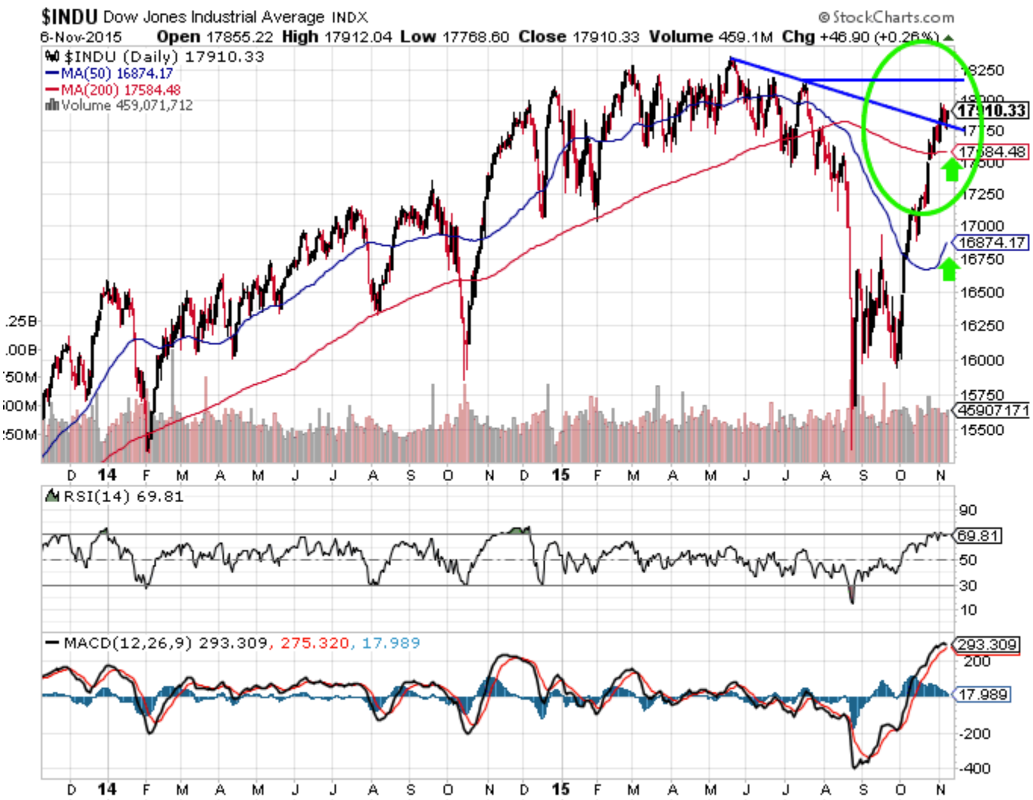
- Consensus for Q4 earnings is a y-o-y decline of -2.4%.
- Second Consecutive Quarter of Earnings Declines (-2.2%).
- Third Consecutive Quarter of Revenue Declines (-3.7%)

Short and intermediate technical indicators for most equity market and primary sectors are trending higher and are overbought. However, technical signs of a peak have yet to surface. Technical action by individual S&P 500 stocks was exceptionally bullish last week. 59 stocks broke resistance and 19 stocks broke support.

Seasonal influences for most equity markets in the world as well as economically sensitive primary sectors have just turned positive for the seasonally strong Christmas season. Tax loss selling pressures become a focus between now and mid-December (particularly in Canadian energy, precious metal and base metal sectors).

The Dow Jones Industrial Average and S&P 500 Index remain above the 200-day moving averages, but face significant resistance just above current levels. The implication is that broadly based US equity indices can move higher between now and year-end, but gains might be smaller and harder to record than the past five weeks.





The US was stronger in Q3 2015 relative to year-ago values for both the Euro and the YEN. In the year-ago quarter (Q3 2014), one Euro was equal to US$ 1.33 on average. For Q3 2015, one Euro was equal to US$1.11 on average.

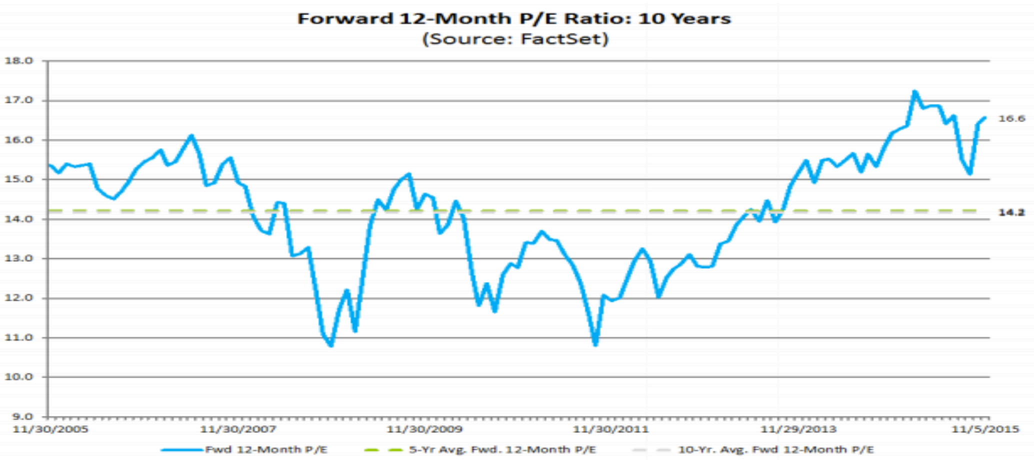
In the year-ago quarter (Q3 2014), one US$ was equal to YEN 103.97 on average. For Q3 2015 to date, one US$ was equal to YEN 122.17 on average. Companies have continued to discuss the negative impact of the stronger US$ during their earnings calls for Q3.

And with the recent rally of the US$, we are seeing that sell side analysts and strategists are one more time way behind the curve when factoring in those continuously growing currency headwinds for Q4/2015 and the coming Q1/2016 and Q2/2016 for US companies and their related future revenues, margins and earnings.

And inversely, analysts and strategists are again underestimating the embedded currency related tailwinds for foreign companies revenues, margins earnings, resulting out of the continuously stronger US$.

Hence, why we have 4 major reasons to underweight US equities:

- **No Earnings and Revenue Growth until 2016**
- **Negative EPS Guidance (75%) for Q4 Above Average**
- **Decrease in Profit Margins Projected for 2nd Half of 2015**
- **Valuation too high, {forward P/E Ratio is 16.6, above the 10-Year Average (14.2)}** both historically and relative to foreign equities



Consequently, we continue to see better alpha opportunities in EM and developed markets equities outside of the US, as the already embedded strength of the US$ will continue to be an increasing headwind for US companies' future revenues and earnings. For non-US companies, just the opposite continues to be increasingly true, and the currency advantages will continue to translate into higher and more competitive revenues and implicitly earnings.

Plus, we have a hard time seeing foreign investors adding at this stage to US equities, now with diminished purchasing power resulting from a weaker foreign currency against the US$. In the US, and in most developed equity markets, the easy money in stocks and economic sensitive sectors has been made already for the current intermediate up cycle. Beyond the earnings report season, seasonal influences are positive for most equity markets and primary sectors. We advise investors to accumulate seasonally attractive equities and economic sensitive sectors on weakness.

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