



Creative Global Investments

Morning market commentary & weekly charts

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Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com



Creative Global
Investments LLC
115 East 57th Street 11th
Floor New York, NY 10022
Tel: 212 939 7256
Mob: 917 301 3734

Creative Global
Investments/Europe
5, op der Heed
L-1709 Senningerberg
Luxembourg/Europe
Tel: +(352) 2625 8640
Mob: +(352) 691 106 969

Objectivity

Integrity

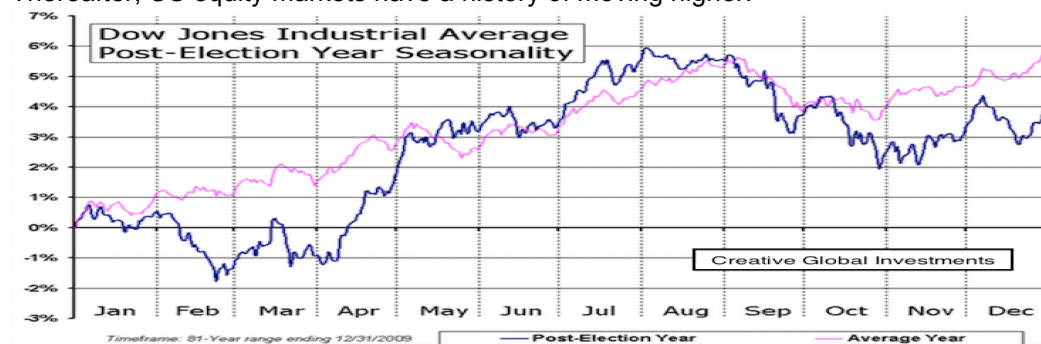
Creativity

US election outcome & investment considerations

What will happen after the initial reaction?

**Trump win = US & global equity markets move lower,
US\$ will decline by -20% over 12 – 18 months,
commodities & alternatives will rise by 40%**

History shows that US equity markets move higher (on average +3%) between the day after Election Day and Inauguration Day (January 20th) when investors anticipate at least partial approval of the President's new mandate by Congress. However, reality strikes shortly after when investors realize that Congressional action on the mandate will not come quickly. US equity markets move lower into late January/March. Thereafter, US equity markets have a history of moving higher.



Looking at the table below of total returns for the S&P 500 during presidencies since 1929, it is clear that US stock returns have been much better when a Democrat was the president; however, it would be a mistake to conclude that stock returns were higher because a Democrat held the presidency.

President(s)	Office Control	Term Start Date	Term End Date	Total Return During 4-Year Term	Annualized Return During 4-Year Term
Herbert Hoover	Republican	3/4/1929	3/3/1933	-77.09%	-30.82%
Franklin D. Roosevelt	Democrat	3/4/1933	1/19/1937	205.48%	33.28%
Franklin D. Roosevelt	Democrat	1/20/1937	1/19/1941	-40.58%	-12.19%
Franklin D. Roosevelt	Democrat	1/20/1941	1/19/1945	28.37%	6.44%
Franklin D. Roosevelt/Harry S. Truman	Democrat	1/20/1945	1/19/1949	15.33%	3.62%
Harry S. Truman	Democrat	1/20/1949	1/19/1953	69.30%	14.05%
Dwight D. Eisenhower	Republican	1/20/1953	1/20/1957	71.63%	14.46%
Dwight D. Eisenhower	Republican	1/21/1957	1/19/1961	34.32%	7.64%
John F. Kennedy/Lyndon B. Johnson	Democrat	1/20/1961	1/19/1965	44.89%	9.70%
Lyndon B. Johnson	Democrat	1/20/1965	1/19/1969	17.38%	4.08%
Richard M. Nixon	Republican	1/20/1969	1/19/1973	16.42%	3.87%
Richard M. Nixon/Gerald R. Ford	Republican	1/20/1973	1/19/1977	-13.31%	-3.50%
Jimmy Carter	Democrat	1/20/1977	1/19/1981	26.77%	6.10%
Ronald Reagan	Republican	1/20/1981	1/20/1985	27.50%	6.26%
Ronald Reagan	Republican	1/21/1985	1/19/1989	67.31%	13.70%
George Bush	Republican	1/20/1989	1/19/1993	72.27%	14.54%
William J. Clinton	Democrat	1/20/1993	1/19/1997	97.85%	18.57%
William J. Clinton	Democrat	1/20/1997	1/19/2001	82.98%	16.27%
George W. Bush	Republican	1/20/2001	1/19/2005	-6.62%	-1.69%
George W. Bush	Republican	1/20/2005	1/19/2009	-26.30%	-7.34%
Barack Obama	Democrat	1/20/2009	1/20/2013	90.70%	17.47%
Barack Obama	Democrat	1/21/2013	7/5/2016	50.83%	12.60%
Republican Average				16.61%	1.71%
Democrat Average				57.44%	10.83%

Source: Bloomberg.

Barack Obama's current term is incomplete, but is still included in the average returns

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The Republican Party won highly contested Senate seats in Indiana, North Carolina, and Wisconsin, while retaining Senate seats in Florida and Ohio. The party has retained control not only of the upper chamber, but also the House of Representatives, losing fewer seats than expected. While historically a Republican sweep has been one of the most favorable scenarios for US equity markets (with a median annual total return of 15% for the S&P 500 Index, between 1928 and 2014), Trump's win, and his policies that he has iterated to cause his win will bring investors a period of greater uncertainty. We see his lack of governing experience, potential difficulties building relationships with congressional leaders, and inconsistent policy pronouncements during the race make it hard to predict his policy initiatives or his effectiveness in driving them through Congress.

Some investors have raised concerns that his election would mark a deterioration in global trade relations. During the campaign Trump pledged a tougher stance in trade talks with key trading partners such as Mexico and China as well as a review of US commitments to global security institutions.

Trump also promised a clampdown on illegal immigrants, and his policies, if implemented, could cause the US labor force to contract.

Trump, has a muddled public record when it comes to Ms. Yellen. In the past, he's said both that he has great respect for her, but his comments of late have been far more critical, stating that Yellen should be ashamed of herself and that she's leaving interest rates low to benefit Obama. At this point, it seems unlikely that Yellen would serve a 2nd term under a President Trump, but we doubt that her eventual replacement could likely be more hawkish, given the deteriorating US and global economies and negative impacts.

We have been one of very few research firms, forecasting throughout the past year that the Fed will not proceed with a rate hike in 2016, and have even stepped up our views that given increasing macro evidence of global economic slump but also further slowing in the US economy, we are on record since Q3, that we are forecasting that, the FED will engage in QE-5 sometime in 2017, regardless of a Trump win.

The implications of this surprise electoral outcome will take time to unfold. Given Trump's limited background in politics, markets will look toward his appointments for top administrative posts for clues about his policy agenda. The result underlines again the importance of investment diversification, both in terms of regions and asset classes.

We see the following as immediate political and macro concerns, which are not correctly factored in by financial market participants yet:

- **De-globalisation will increase** (as the US has not globally competed for decades, trade deficit has been rising for 4 decades, and only a weak US\$ can slow the rising deficit a bit)
- **NAFTA and other prior trade deals the US has with its biggest trading partner nations will be repealed/modified**, and new ones more favorable to the US will be initiated
- **US debt will become a major concern to global investors** (remember Trump in his campaign talked about letting US debt default) this will put newly perceived risks on US debt, which is held 45% by foreigners, who will re-examine the sovereign risks and pricing adjustments, China and Europe will re-examine their high US debt holdings, and their high US\$ holdings
- **US government debt will increase not only initially**, (infrastructure spending will increase, foreign trade will decrease; tax receipts will decline, US corporate tax will be lowered to attract repatriation of excess corporate funds, labor market will decline)
- **Interest rates will initially rise a bit, then fall to new lows**, FED will have to be more accommodative, (remember the Donald comes from Real Estate and higher rates hurt his real estate empire (or what's left in Net Asset value), but

then later in 2017/2018 the rate cycle will turn, where the US/FED will have to raise rates to attract foreign investors to buy US debt over foreign

- **US\$ will fall -20% over 12 – 18 months**
- **Inflation will rise moderately**
- **Commodity prices, particularly energy will rise +40% in 2 years**
- **Equities will go lower over 6 months to 18 months by -25%**
- **Eurozone consumer discretionary stocks to underperform the broader market (MSCI EMU), on fears that increased protectionism and a weaker US\$ will damage the sector's earnings prospects.**
- **Middle East conflict will escalate, US to increase involvement**
- **US defense companies outperforming the wider US stock market, as we believe a Trump presidency will boost US military spending.**
- **Obama-care likely to be repealed with consequence of rising healthcare costs**
- **US managed care providers in the healthcare sector, by contrast, suffering, as Trump has promised to work on repealing the Patient Protection and Affordable Care Act (known as "Obamacare").**
- **Mexican assets to remain under pressure.** We expect the Mexican peso to stay weak against the USD, and Mexican equities to underperform emerging market equities overall (MSCI Emerging Markets). A full 80% of Mexican exports are US bound, and 98% of remittances come from Mexican workers in the US. Trump's proposed curbs on immigration and trade may weaken these important economic ties.

Fixed Income Commentary

The Bond market reaction to the outcome, in our view, will come in two stages.

European and Asian bond markets retreated from early falls but ended with yields down, a reflection of the fact that investors now expect the US to take a different path from the rest of the world.

The market-implied probability of a December rate hike by the Federal Reserve fell below 50%, from around 82% on the eve of the vote, but longer term, Trump's promised tax cuts without offsetting expenditure reductions do not bode well for bond prices.

A deteriorating fiscal outlook could push government borrowing costs higher. Markets are already shifting their central bank policy expectations to account for higher US policy uncertainty, and elevated market turbulence, however, let's not forget that Trump has a conflict of interest motive, namely to protect his capital intensive and sensitive real estate empire in real estate to worry about as well.

We do not share the beliefs that a reflexive flight to safety (which is an oxymoron, as Trump's win constitutes more uncertainty & risks, hence US assets can by definition no longer be viewed as safety investments), will happen, and that is why US treasuries were selling off. Part of this is due to the seasonal weakness for government bonds between October and April. **We see short-term risks given the period of seasonal weakness for the 10-Year US government bonds prices to fall, with yields hitting the long-term resistance upper trend line 2,30%.**

It is tough to say how high rates need to go before negative returns affect flows, but credit as a whole has become very overvalued and there is a more downside in the near term, and as we have been advising over the past 5 weeks, it is important to hold cash right now. **Valuations are not that attractive. As volatility is on the rise and risk premium is higher. We advise to be patient for better opportunities to unfold for long duration global government bonds.**

On the Daily chart, \$TNX has broken through the Coil and is marching towards the next resistance at 21.5.



However on the longer term chart it still remains within the bearish channel.



Looking at the 30-Year US bonds, they have been in a downtrend for the last few months.



The weekly chart shows the trend line break. The next bearish attack is targeted at 160 support with the stronger support waiting at 157.



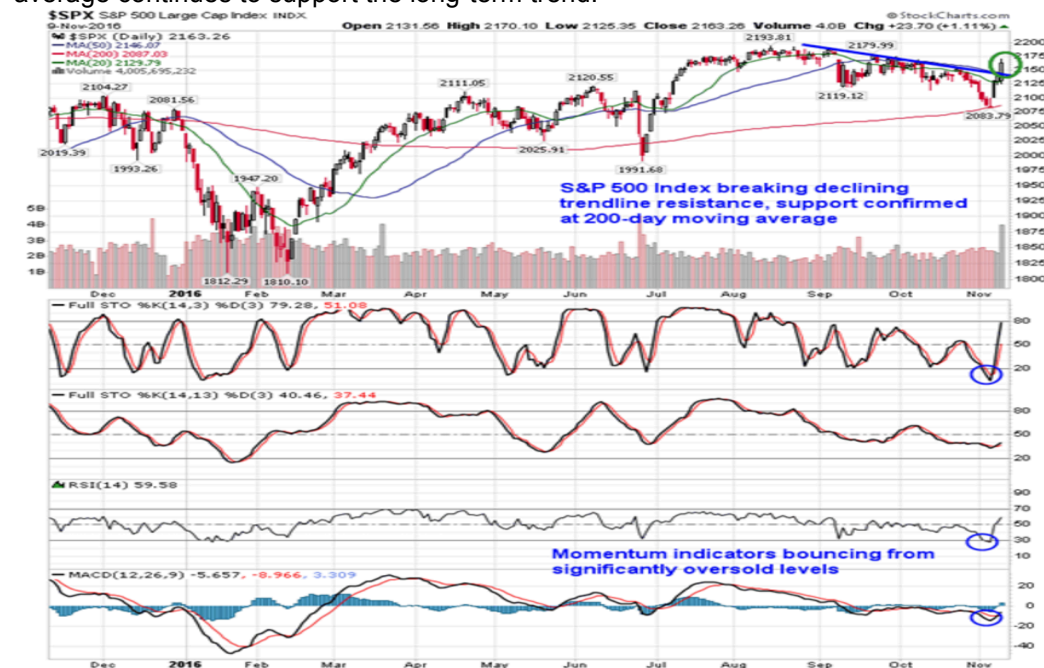
Equities Commentary & charts

For equities, the first-round effects are certainly disconcerting, we expect the portfolio re-allocation process to adjust for the macro-economic shifts due to a republican sweep to impact US equity markets neutrally at best over the medium term.

However, we believe investors should be very cautious, particularly from outside the US not being impacted by the “sugar-high” of this republican sweep will focus immediately more on fundamentals, which are looking bleakest for US equities, and will weigh those alongside political uncertainty and hence why we believe US stocks will have a hard time to move significantly higher in the short to medium term. We forecast EPS to rise from 1% this year to 4% in 2017.

Whilst stocks have been doing just fine out of the combination of gridlock and easy money and if the US Trump initiated policy changes were to become reality, then equities would suffer greatly. Cutting taxes and increasing spending will be damaging to an already extremely high budget deficit. It is an unambiguous long-term negative. We also see the temporary pressures of a Trump victory and directional policy changes of the US hurting Emerging Market equities, which we would see as a great opportunity over time to add towards EM equities. We also caution investors are betting on more spending, more borrowing and more growth, but in Europe, Asia and the UK, central banks are still buying bonds and spending is constrained, the effect on the global bond market is not uniform.

The gains were sufficient to break declining trendline resistance on the S&P 500 Index, a barrier that had constrained upside momentum for the past few months. Momentum indicators on the large-cap benchmark continue to point higher, rebounding from significantly oversold levels recorded last week. Next hurdle is now back to the gap that was charted following the early September decline around 2180. The 200-day moving average continues to support the long-term trend.



The key to the rally yesterday was the solid bullish rotation. Financials (XLF, +4.25%), healthcare (XLV, +3.52%) and industrials (XLI, +2.51%) led the recovery and buying frenzy. Healthcare buyers were relieved that there'd be no Clinton presidency and a highly likelihood that Obamacare would be repealed or changed in some manner gave traders reason to hop on board the group. Biotechs (\$DJUSBT, +7.78%) were the primary beneficiaries as that group has now bounced off 1500 support, gaining more than 13% over the past four trading days. But the real winner has been the financials and they soared again yesterday with a surging 10 year treasury yield (\$TNX)





Currencies Commentary & Charts

The US\$ historically has shown a preference for Democratic presidents, at least over the last 4 decades. Dating back to President George HW Bush in 1988, the US\$ index has tended to fall during Republican presidencies and rise under Democrats, including over the last eight years under Obama.



The US\$ endured a wild ride in the wake of the election result, and how currencies continue to respond will come down to politics, what the president-elect says, who he appoints and how foreign governments react. The Republican victory is a "potentially game-changing result for the FX market. The near-term price action could be dominated by the risk-off mood, heightened volatility and uncertainty.



The medium-term implications could be determined by the pace and scale of policy implementation by the Trump administration. When looking at the monthly chart, \$USD broke upwards from the triangle but it may have been a fake breakout. Support is at 94 with the very strong support at 92.5



Looking at the EUR/USD short-term technicals post Brexit EUR/USD has been spiraling down in a triangle that even the president Trump could not bust.



By comparison, the weekly chart shows the clearer picture. First is the 6 months lower bearish trend line and the second is the 20 months bullish move. They are converging at the end of the year that can turn out as the make or break on the EUR. In case of a bullish rally, the big obstacle will be 1.14500



USD/CAD remains within the bullish channel with the support at 1.32500, resistance at 1.36500 and very strong resistance at 1.4. The Golden Cross is just about to happen.



USD/JPY Resistance is at 105.500 and support is at 102.800 which also happens to be precisely 50% of the short term Fibonacci retracement. Very strong support is at 100.



The daily chart shows USD/JPY broke out of a descending triangle after a series of BOJ struggles to keep the JPY weak enough for their economy. In case of the further continuation of BOJ efforts, USD JPY could move up all the way to the 111.500 in the mid-term possibly stopping at the few resistance points (107 and 108.5) on the way.



The daily chart of USD/MXN shows MXN has been losing ground to USD through the most of this year. Despite the huge rally (from one trend line to the other) through the Election night, USD/MXN still remains inside the well-established bullish channel.

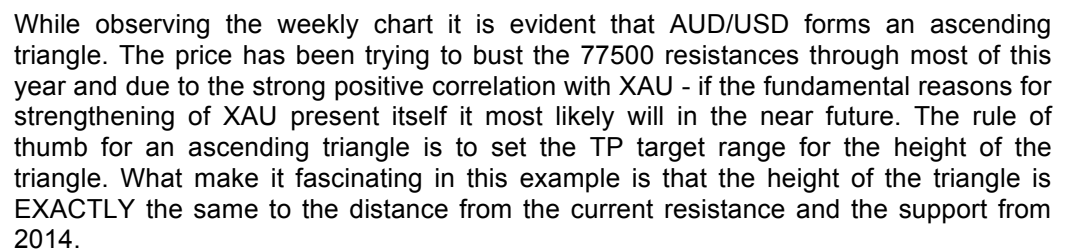


USD/RUB short-term chart shows RUB has been advancing towards the USD since beginning of this year. It currently moves within the well-defined bearish channel. Major resistance is at 70 while the next strong support is around 61.



AUD/USD chart shows Support at 76500 with the major support lower at 76000. Resistance at 77200 and stronger resistance at 77500.





Commodities Charts & Commentary

The weekly chart of the \$CRB has been ranging for the biggest part of this year, bouncing between the 190-195 resistance and 178- 180 support.



Daily chart shows a Coil forming which still happens to be on the safe distance from the triangle Apex; the breakout threat is not present yet.



These 2 months however might just show the longer future for the precious metal, which is in a very delicate position at the moment. It is trapped in a triangle between the short-term trend line propelled by the 200 day moving average (on the daily chart) and the major 5-year trend-line. Ceteris paribus, an older trend line would emerge victorious from this clash but if the fundamental reason presents itself and the upper trend line is broken, Gold could easily move towards the resistance of 1380 and beyond towards 1500.



Silver looks to be trapped inside a Coil stretching through the year. 200 moving average has stopped the decline and formed the lower trend line in the process. Despite the big move in the election night, Silver is still challenging the post-Brexit Support (now Resistance). Support is at 17.800, Resistance at 18.800 and strong Resistance is at 19.300.



Given the fact that investors are long cash at very high levels, and with a lot of the political uncertainties vanishing after tomorrow, we see big upside potential for commodities and particularly Oil and as the first reversal signals are here and price could explode to new highs around \$54 and higher.

Oil is clearly at support area and at least a bounce is justified. We think it is very probable to see oil above \$54 again clearly within the next 3 weeks ahead of the most critical OPEC meeting on November 30th. Currently, the \$43 level is a very important support, which we do not likely see breaking.



Carlo R Besenius, CEO & Head of Global Strategy

cbesenius@cg-inv.com

office: +(352) 26 25 86 40

mobile: +(352) 691 106 969

Luxembourg/Europe

Sabine CJ Blümel, Head of Global Automotive Research

sblumel@cg-inv.com

office: +44 (7785) 301588

London, UK

Stjepan Kalinic, Strategist/Market Technician

skalinic@cg-inv.com

office: 212 939 7256

mobile: +(385) 9152 95916

Kastel Sucurac, Croatia

Feliks Lukas, Director of Corporate Consulting

flukas@cg-inv.com

office: 212 939 7256

mobile: +(385) 9848 8951

Kastela, Croatia

Gary Schieneman, Managing Director,

Global Accounting and Finance

gschieneman@cg-inv.com

office: 917-868-6842

New York, NY, USA

Steve Gluckstein, Global Strategist

sgluckstein@cg-inv.com

office: 212 939 7256

mobile: 732 768 8843

New York, NY, USA

Marc Peters, Head of Global Industrial Strategy

mpeters@cg-inv.com

office: +(352) 26 25 86 40

mobile: +352 621 36 44 50

Luxembourg/Europe

Allison M Cimon, Director of Sales & Technology

amcimon@cg-inv.com

office: 646 228 4321

Boston, MA, USA

Jennifer Crisman, COO

jcrisman@cg-inv.com

office: +(352) 26 25 86 40

Luxembourg/Europe

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