



Creative Global Investments

Morning market commentary & weekly charts

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Objectivity

Integrity

Creativity

So Ms. Yellen,

“To raise or not to raise” That is the question

Will the Federal Reserve increase its Fed Fund rate for the first time in 11 years?

Most economists believe so, however, we still do not, and the main reasons for our concerns and disbeliefs are:

- 1) current economic set up for both the US and for the ROW economies is not in good enough shape to do so
- 2) with the recent Oil & commodities price declines to new lowest levels, there is no reason to raise rates regarding the momentum of inflationary pressures
- 3) the continued implications on the US\$ will be significant and results will be catastrophic
- 4) US\$ embedded strength already is killing the competitiveness of the US and profitability of US companies

Economists are talking about “a one and done” increase in the Fed Fund rate this time, implying likelihood of an extended period of stable interest rates following the first increase. Our question is, why, and why now, when US and global economic data are clearly showing continued signs of slowing?

We believe that a rate rise will cause significant stress not only on financial markets, but also towards consumer sentiment and related activities at this point. We seriously question the FED’s understanding of the “real economy” and if the FED has a clue of how an interest rate rise at this premature point (after missing the ideal timing point over the past 2 years) will impact the US consumer and future decisions on purchases towards the main drivers of the past 5 years of economic recovery, namely car sales and consumer sales of discretionary items.

Again, as most central banks have proven over and over in the past decades that they are not applying strict rule based decisions for making monetary policy decisions, but acting rather reactionary towards “overheating” and “excessive slowing” we do not see any rational for the FED to raise at this point in time, as we see dire unintended consequences as a result, which we believe will be very regrettable at a not so distant future.

The first increase in the Fed Fund rate historically has had a significant impact on equity markets, both before and after the event. Since 1955, the Federal Reserve reversed its interest rate policy with an increase in the Fed Fund rate on 12 occasions. Equity investors anticipated a negative response during the six-month period prior to the first increase.

The net results have been that the S&P 500 Index recorded 12 consecutive corrections averaging 10.0 per cent per period.

If the Federal Reserve were to increase the Fed Fund rate next Wednesday, it would make for the 13th consecutive occasion since the summer:

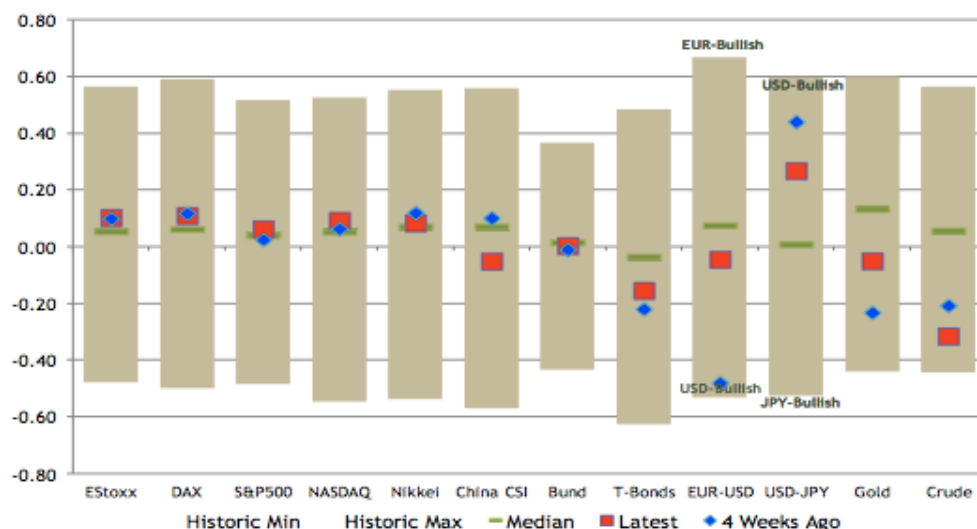
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The S&P 500 Index dropped 12.5 per cent from its high on July 20 at 2,133 to its low on Aug. 25 at 1,867. The S&P 500 Index also has a history of moving higher after the first increase in the Fed Fund rate is announced. On average during the past 12 periods, the S&P 500 Index during the next three months gained 10.9 per cent per period. Following is the data:

<i>Date of first rate hike</i>	<i>% Gain after 3 months</i>
March 14 1955	13.5
March 5 1968	14.4
May 26 1970	17.2
Nov. 23 1971	16.9
Oct. 3 1974	13.5
Oct. 29 1980	9.3
July 24 1984	-1.7
Dec. 4 1987	19.4
April 4 1994	1.7
April 11 1997	24.3
May 27 1999	5.2
Aug. 12 2004	11.4
Mean average	10.9
Median average	13.5

The first increase in the Fed Fund rate since 2004 likely will be the starting point for North American equity markets to move higher. Negative investor anticipation of the event finally will be relieved. The stage will be set for a period of strong equity markets lasting until at least spring.

The latest **sentix** survey points to increased caution on equities, with sentiment back at relatively neutral levels and readings based on investors' medium-term strategic bias drifting lower. At a sector level, several areas of the market are prey to even more deeply entrenched pessimism. Investor pessimism is notable on Utilities, Banks and Basic Resources, albeit readings remain above recent lows.



Note: China bluechips (eg CSI 300 Index) data as from late-2009 only.

After another wild week for North American equity indices last week, we are expecting for even more volatility and price swings in all asset classes this week. Volatility early this week will focus on the Federal Reserve's decision in the Fed Fund rate on Wednesday. Thereafter, the stage is set for a classic Santa Claus rally.

The VIX Index vaulted 9.47 (63.94%) last week. Intermediate trend changed to up on above 20.67%. The \$VIX moved above its 20, 50 and 200-day moving averages.



The S&P 500 Index plunged 79.32 points (3.79%) last week. Trend changed to down from up on a move on Friday below support at 2,019.39. The Index fell below its 20 day moving average. Short-term momentum indicators are trending down and are oversold, but have yet to show signs of bottoming.



Percent of S&P 500 stocks trading above their 50 day moving average plunged to 28.80% from 65.80%. The index is intermediate oversold and trending down, but has yet to show signs of bottoming.



Percent of S&P 500 stocks trading above their 200 day moving average dropped last week to 38.20% from 52.60%. The index is trending down and is oversold, but has yet to show signs of bottoming.



Bullish Percent Index for S&P 500 stocks dropped last week to 55.60% from 66.40% and remained below its 20-day moving average. The Index has established an intermediate downtrend.



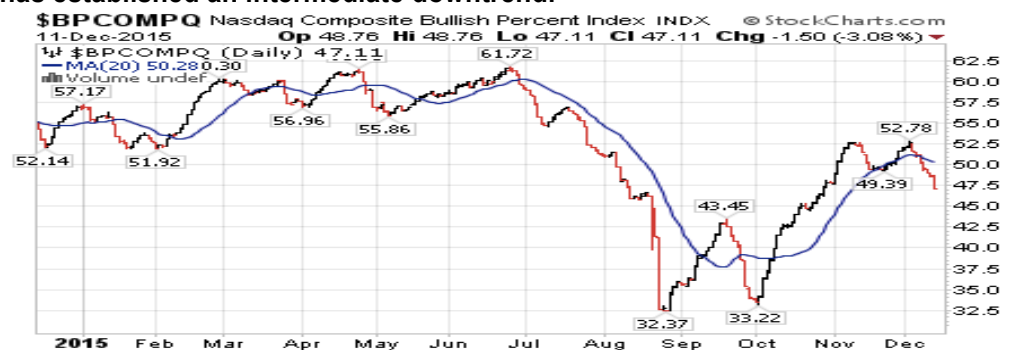
The Dow Jones Industrial Average plunged 592.42 points (3.26%) last week. Intermediate trend remains up. Strength relative to the S&P 500 Index changed to positive from neutral. The Average fell below its 20-day moving average. Short-term momentum indicators are trending down and are oversold, but have yet to show signs of bottoming.



Bullish Percent Index for Dow Jones Industrial Average dropped last week to 73.33% from 83.33% and remained below its 20-day moving average. The Index is intermediate overbought and trending down.



Bullish Percent Index for NASDAQ Composite stocks dropped last week to 47.11% from 51.17% and remained below its 20-day moving average. The Index has established an intermediate downtrend.



The NASDAQ Composite Index plunged 208.81 points (4.06%) last week. Intermediate trend remains up. Strength relative to the \$SPX remains positive. The \$COMP fell below its 20-day MVA. Short-term momentum indicators are trending down & oversold, but have yet to show signs of bottoming.



The Russell 2000 Index plunged 59.79 points (5.05%) last week. Intermediate trend changed to neutral from up on a move below 1140.76. Strength relative to the \$SPX remained neutral. The Index moved below its 20-day moving average. Short-term momentum indicators are trending down and are oversold, but have yet to show signs of bottoming.



The Dow Jones Transportation Average plunged 430.19 points (5.41%) last week. Intermediate trend changed to down from neutral on a move below 7640.88. Strength relative to the \$SPX remains negative and is oversold, but has yet to show signs of bottoming. The \$TRAN remains below its 20-day moving average.



Fixed Income Commentary

For the 10-Year US treasuries the 6-months double top of 2.49% yield levels seems to be a strong resistance level. **Short-term, we see the \$TNX to move back towards 2.00% levels by year-end.**



The \$TNX is currently trading towards the upper range resistance, well within the 35 year trend range. **Our 3 – 6 months yield target for the \$TNX is 1.80%.**

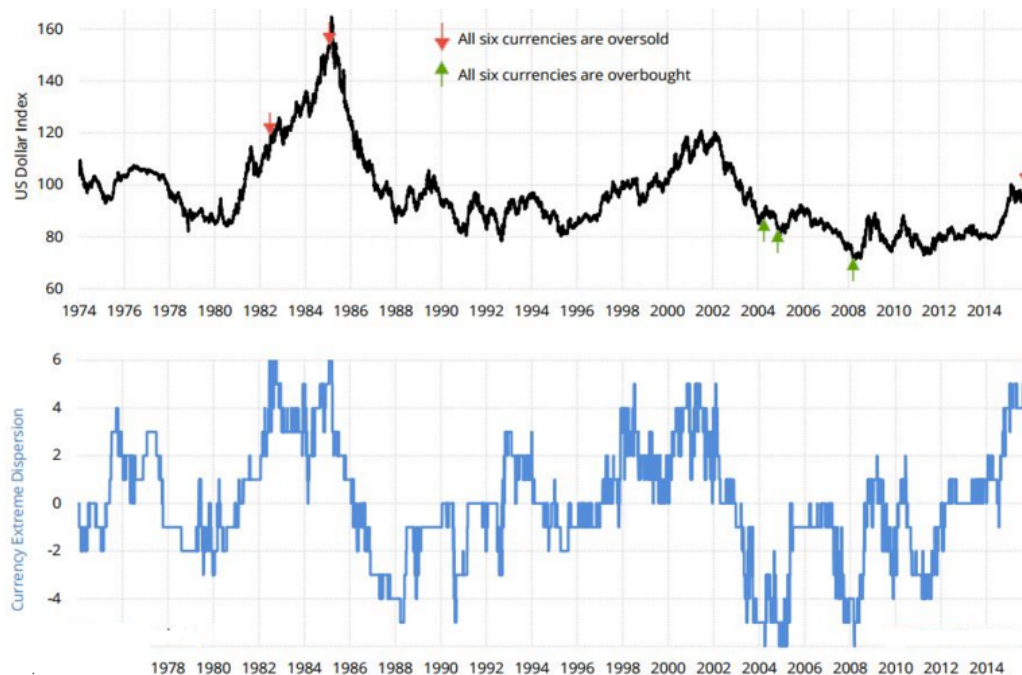


Currency Commentary

The US\$ dropped 0.78 (0.79%) last week. Intermediate trend remains up. The Index remains below its 20 day moving average. Short-term momentum indicators are trending down. An intermediate peak likely was reached at 100.60.



The US\$'s relative valuation swelled to this level twice during the US\$ rally of the early 80's, once in July 1982, and again in March 1985. As the charts below illustrate, the second hit immediately preceded a turning point in the US\$'s long-term trend.



When the opposite was true short-term rallies ensued. The bullish trend didn't reverse until the second signal arrived. This signal comes as the US\$ index seems to re-test the 100-mark for the first time since March.

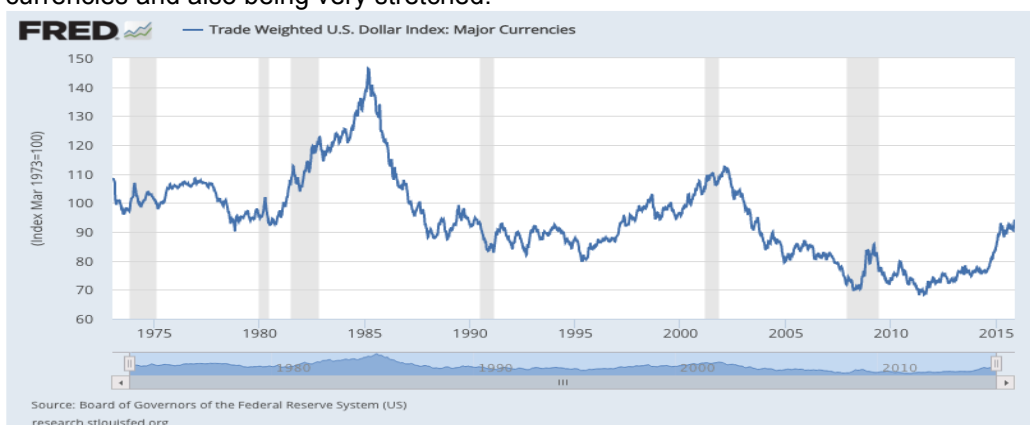
Seasonally, the US\$ is typically negative in the month of December, declining 70% of the time, based on data from the past 20 years, and gaining an average of 0.5%.



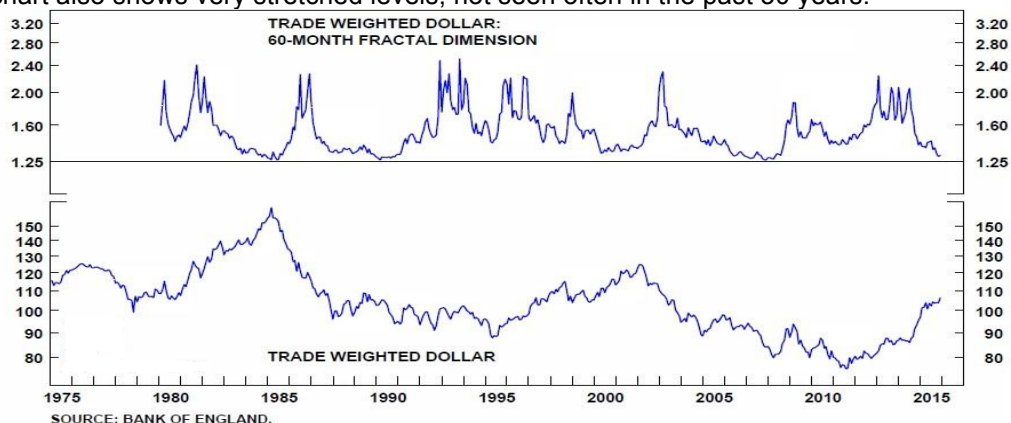
The trend for the US\$ turns negative in December, as 70% of periods have shown.

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

The weekly chart is showing the US\$ on a trade weighted basis relative to major currencies and also being very stretched.



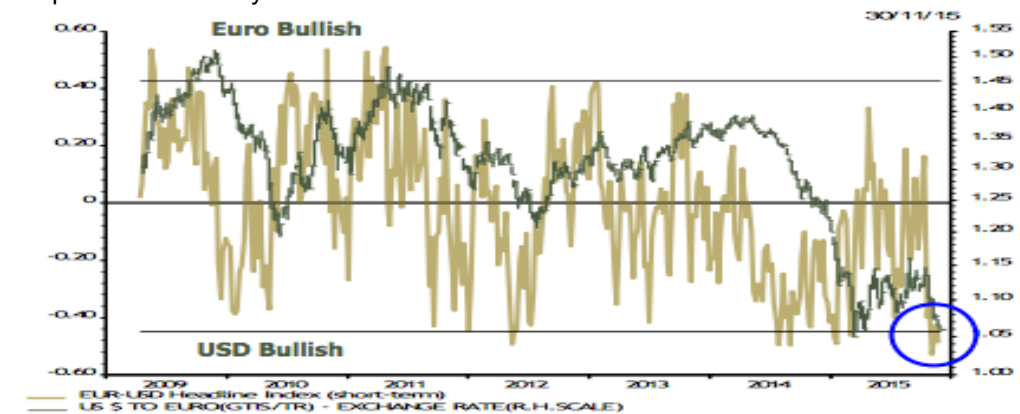
On another comparison, namely the long-term groupthink for the US\$, the following chart also shows very stretched levels, not seen often in the past 30 years.



No matter which parameter one chooses, the US\$ is currently overvalued by at least 25%. We believe that is where in 2016 investors can achieve alpha, by going against the herd in the final month of 2015, and making the according allocation changes.

The sentiment of investors towards the Euro remains an all-time low, as the most recent *sentix* Global Investor Survey shows. The Euro currently faces stronger investors' pessimism than during the height of the Euro-crisis. The latest *sentix* Sentiment Index for the currency pair EUR/USD, which captures investors' one-month market expectations, reaches the lowest value since survey inception. Investors have never been more pessimistic about the Euro. Investors rising expectation of an imminent FED rate hike as well as ECB's intention to expand its quantitative easing program increasingly burden the Euro vs. US\$.

Technically, low readings of the *sentix* Sentiment Index offer contrarian opportunities. Hence, an indication of an oversold market. However, this contrarian signal needs confirmation, which currently is not given since investors' medium-term confidence drops simultaneously.



For now the pair is likely to target the key multi year support at the 1.0500 and having resistance at 1.12 figures as traders focus on the immediate policy implications.



The Euro gained 1.11 (1.02%) last week. Intermediate trend remains down. The Euro remains above its 20 day moving average. Short-term momentum indicators are trending up.

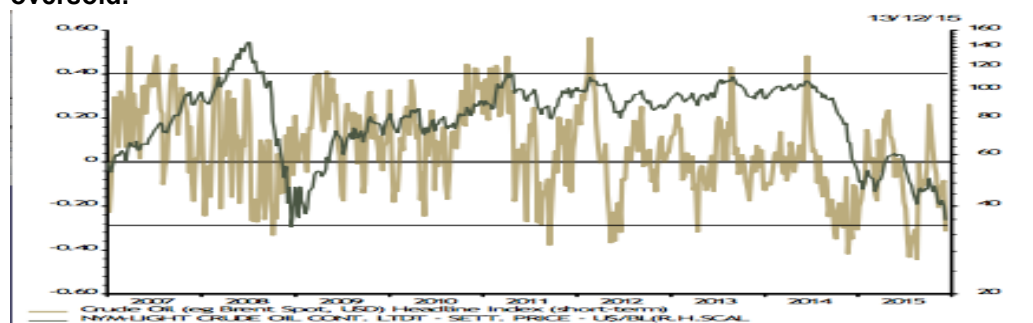


Commodities Commentary

The CRB Index plunged 8.38 points (4.57%) last week. Intermediate trend remains down. Strength relative to the S&P 500 Index remains negative. The Index remains below its 20 day moving average. Short-term momentum indicators are trending down.



The latest *sentix* survey points to increased caution on investor pessimism is notable on Commodities, Basic Resources and particularly Oil, albeit readings remain above recent lows. Investors appear even more downbeat on the Energy sector versus the market; with monthly survey readings having reached historic lows. This echoes the sharply deteriorating sentiment towards Oil that has followed in the wake of the break lower in Brent Oil below \$40. Energy is deeply oversold.



Source: Thomson Reuters Datastream (price data)/Sentix

Crude Oil plunged \$4.35 per barrel (10.88%) last week. Intermediate trend remains down. Strength relative to the \$SPX remains negative. Crude remains below its 20-day moving average. Short-term momentum indicators are trending down.



Weekly Investment Conclusion:

Economic data this week is expected to confirm slowing economic growth in the US. Data will be sufficient to prompt the Fed to increase the Fed Fund rate for the first time in a decade. As indicated earlier, an increase in the Fed Fund rate will set the stage for a significant recovery in North American equity markets over the next three months.

Technical signs of an intermediate peak in the US\$, the positive impact on equity markets by an El Nino weather event and anticipation of a return to earnings and revenue growth beyond the release of Q4 results are bonus factors that are unique this year.

Earnings news is quiet this week. Consensus shows Q4 earnings per share by S&P 500 companies on a y-o-y basis will fall -4.4%, down from -4.3% last week. Q4 revenues are expected to decline -2.9%.

83 S&P 500 companies have issued negative earnings guidance for Q4 while 26 companies have issued positive guidance. Prospects beyond Q4 turn positive when the negative impact of a strong US\$ will have less influence. Y-o-y earnings per share are expected to increase 1.7% in Q1 and 7.9% for 2016. Y-o-y revenues are expected to increase 2.9% in Q1 and 4.4% for 2016.

Technical action by S&P 500 stocks last week was definitely bearish. 100 S&P 500 stocks broke support and 10 broke resistance. Energy and Financial stocks dominated the list of breakdowns. Look for additional breakdowns early this week followed by a reversal by the end of the week.

A recovery in North American equity markets during the next three months corresponds to another phenomenon, the positive El Nino effect on weather, industrial production and equity prices until at least the end of February.

The Santa Claus rally is scheduled to start on December 16th. Equity markets are deeply short term and intermediate oversold. A recovery bounce after tax loss selling pressures are relieved is lining up nicely this year.

The sectors that will benefit the most, and that all have a history of positive seasonal trends at this time of year:

- **Materials**
- **Financials**
- **Industrials**
- **Technology**

The stage is set for an intermediate recovery in North American equity markets starting later this week and continuing into spring.

However, in the not so distant future a most significant question emerges:

When will investors begin to anticipate downward earnings and revenues following the current downtrend? Probably when difficult full-year 2015 reports are released in late January accompanied by negative guidance?

As the latest rising volatility in both currencies and stocks has shown, there are rising concerns about the health of the economy and the equity markets, and we believe that starting in late January, this will occupy investors much more, as we anticipate for further downward guidance of US companies earnings for the present and 6months future, and this not only US\$ related.

Again, the continuously weakening global economy and slowing global trade, is clearly also impacting the economic momentum and growth negatively in the US, and hence why the FED will not be in a position to raise rates in December, as we have been predicting all year. Again, we seem to be amongst a few research firms looking realistically towards the deteriorating data, and factoring this into our forecasts.

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\$.

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