



Creative Global Investments

Global equities strategy update

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Global Macro and Political Outlook

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Objectivity

Integrity

Creativity

We are expecting for 2019 economic momentum globally to slow substantially, lead by the US, mainly due to the fading impact of tax cuts, and an exhausted and overly indebted consumer, and faced now with much higher base interest rates for financing homes, cars and credit card purchases, we see a significant slowdown likely having a knock-on effect on other countries which rely heavily on the US for trade.

Consensus for global GDP is expected to grow a real 3.5% in 2019, down from 3.7% forecast in September, and consensus is forecasting a slight slowdown to 3.5% in 2020.

Labor market conditions are still improving globally, however, investment and trade growth have started to soften beyond expectations. Plus, in recent weeks, financial market conditions have tightened, and both PMI and Consumer confidence has weakened, accelerated by heightened trade tensions between the US and China and the EU.

The US has raised tariffs on USD 250Bn of goods imported from China under President Donald Trump's "America First" agenda, and is threatening to do so on the remaining \$260Bn. China has retaliated with tariffs on USD 110Bn of US imports.

We believe that consensus growth projections for Japan in 2018 at 0.9% and in 2019 at 1.0% might need a further downward revision with a scheduled increase in the consumption tax next October expected to weigh on demand, and for Japan's economy to grow 0.7% in 2020.

China's growth projections also might be a tad too high at 6.0% in 2018, 6.3% in 2019 and 6.0% in 2020 amid slowing exports and infrastructure investment.

The consensus forecasts for the US, currently with an expected consensus growth rate of 2.9% in 2018, 2.7% in 2019 and 2.1% in 2020, with business investment being underpinned by Trump's recent tax reform, plus likely being affected negatively by Trump's trade tax increases seem way too high to us.

Also consensus expectations for the EU, seen expanding 1.9% in 2018, 1.8% in 2019 and 1.6% in 2020, seem too high to us, given the Brexit impacts to come.

All in all, given the rosy forecasters needing to sober up a bit and revise forecast down for the next 2 – 3 years, we do not see the FED likely to continue to tighten its monetary stance to keep inflation in check, which would tighten global financial conditions and could trigger further emerging-market capital outflows and currency depreciation, and implicitly a prolonged USD appreciation, which neither the US policymakers nor the consumer (still 72% of US GDP) can afford.

The recent increases in volatility of all asset classes globally as a sign that the pillars of the global financial system are fundamentally unstable and could lead to a renewed panic snowball reaction by investors and consumers into the next significant economic and financial crisis. Giant "central counterparties" (CCPs) that clear most of the USD540 Trn in financial derivatives are themselves vulnerable to failure in times of extreme stress.

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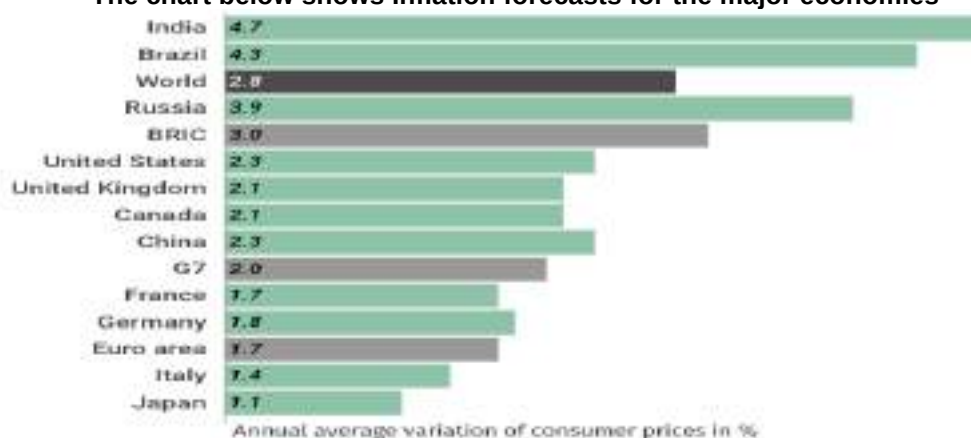
In the Asian region, Chinese data released earlier showed that industrial production rose 5.4% y-o-y in November, versus expectations of 5.9% growth. Chinese retail sales were up 8.1%, falling short of expectations for 8.8% growth and marking the weakest pace of growth since 2003.

Talk of China resuming purchases of US soybeans has helped provide another element of optimism after the recent trimming of tariffs on US cars. The impact of the US/China trade war has yet to be properly felt, we see China's economic data could be in for more shocks in early 2019 unless the countries secure a permanent truce. China confirmed that it would temporarily halt its additional 25% tariffs on US vehicles. According to a release on the Chinese finance ministry's website, China will suspend 25% tariffs on 144 vehicles and auto parts from the US and 5% on an additional 67 auto items. The temporary halt - which was part of an agreed truce between the US and China will kick-off on 1 January and last for three months.

We see this is a positive development no doubt, but while the US-China trade tensions are thawing slightly, they still remain frosty and are in danger of freezing back over all together at a moment's notice

In India, November consumer prices rose 0.07% from the previous month, contrasting the revised 0.36% rise in October (previously reported: +0.29% m-o-m).

The chart below shows Inflation forecasts for the major economies



In the Eurozone, the latest data and survey results have been weaker than expected," ECB President Mario Draghi said at the news conference following last week's governing council meeting. "This may suggest some slower growth momentum ahead."

But nonetheless Mr. Draghi said the ECB would end asset purchases, currently running at EUR 15 BN per month, with this month's investment. However, the ECB will continue to reinvest maturing principal and maintain its bond holdings at EUR 2.6 Trn for the foreseeable future. Draghi's concession to slower growth was that this reinvestment can continue even after the ECB starts raising interest rates, which won't happen before the end of next summer. The purchases will continue "as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation." Draghi wants "as long as necessary" to have the same effect as "whatever it takes" to reassure markets. Even as central banks defend their need for independence in conducting monetary policy, however, it is clear they are playing politics. Draghi needed to make the commitment to end the quantitative easing program and keep to it because of German pressure to do so. On the face of it, the European economy needs the stimulus just as much next month as it does this month so the decision to stop is looking arbitrary – or politically motivated.

In the UK, suggestions of a second referendum are rising as an increasing number of senior minister's view this as the only way out of the current impasse, whilst avoiding a hard no deal Brexit. Although PM May is vocally against the idea, we see an increasing chance to it, and in this eventuality, we would expect a boost the GBP as well as to UK

hard assets, namely CRE & RRE. However, today UK homebuilders were all lower, with Persimmon, Taylor Wimpey, Barratt Developments and Berkeley after Rightmove's latest survey showed house prices fell -1.5% in December compared with a -1.7% drop the month before. This marked the biggest fall over two consecutive months since 2012, as sellers try to attract buyers despite a combination of the Christmas slowdown, stretched affordability and political uncertainty.

The UK economy has crashed, as Britain's goods exports have "collapsed" to levels not seen for three years in response to growing Brexit uncertainty and slowdowns in the Chinese and the US economies, according to the quarterly trade monitor. Business consultants BDO found that the UK's goods exports, which have suffered a slowdown in growth since the beginning of 2017, contracted in the last three months of the year to leave them at a level not seen since 2015. We see an eventual exit from the EU likely spark a flurry of industries to continue to leave the UK, and opt for locations such as Germany, France, but also Czech Republic, Poland, Croatia as a viable approach to continue to sell & service EU customers.

Turkey continued to deteriorate, and we are expecting for 2019 the sharp slowdown in Turkey to continue, as President Erdogan's government has not yet come up with sort of an emergency plan for stability and to relaunch growth.

In the Americas, the US industrial production rose 0.6% last month, the strongest gain this quarter and above Wall Street expectations of a 0.4% increase. November's rise, driven by strong mining and utility output, means that production has risen 3.9% y-o-y, the Federal Reserve revealed on Friday.

IHS Markit's manufacturing PMI fell to a 13-month low of 53.9 in December, down from the 55.3 recorded a month earlier due to a decline in new orders and employment. Lastly, US business inventories climbed 0.6% last month

Capacity utilization in the US rose 0.4% in November to 78.5%, a touch below 80%, where it is expected to put pressure on costs.

Consumer spending in the US picked up in November, with households purchasing furniture, electronics and a variety of other goods, going a way to allay fears of a significant slowdown in the country's economy. Retail sales excluding automobiles, gasoline, building materials and food services grew 0.9% last month, according to the Commerce Department, after an upwardly revised 0.7% increase for October.

Nevertheless Wall Street stocks closed sharply lower on Friday following the release of some weak Chinese data that spread concerns regarding the state of the world's second-largest economy. At the close, the Dow Jones was 2.02% lower at 24,100.51, while the S&P 500 lost 1.91% to 2,599.95 and the Nasdaq moved 2.26% softer to 6,910.66.

In Argentina, the National Statistical Institute (INDEC) released national consumer prices rose 3.2% over the previous month in November, coming in well below October's 5.4% m-o-m increase.

Equities commentary & charts

With the holiday season around the corner and the period of seasonal weakness for US and EU government bonds in full swing, we believe that investors this year have to factor different themes in their modeling for year-end performance results.

Fixed income safe heaven for now, as over the past month, just as were predicting, government bonds have again proven their value as a portfolio stabilizer.

Investors' focus this week will be on the FOMC announcement on Wednesday, where a 0.25% increase to 2.50% in the Fed Fund rate is widely anticipated. Markets will respond to guidance.

In the US, the short-term political concerns remain elevated. Issues include heightened tariff wars between the US and China, possible shut down of Congress related to extension of government deficit limits and the Mueller investigation.

Favorable seasonal influences from late October to the first week in January for major European and US equity indices are not working so far this year. They had another real test last week, with the S&P 500 Index and Dow Jones Industrial Average broke through their October 29th lows early last week, recovered in mid-week and tested their lows again on Friday. Lows set on December 10th were 2,583 for the S&P 500 Index and 23,881 for the Dow Jones Industrial Average.

Today, North American equity markets enter the Santa Claus rally period starting from December 17th extending to January 4th. On average since 1990, the S&P 500 Index has advanced 21 out of 28 periods. Average gain per period was 1.8% per period.

We see several good reasons for the Santa Claus rally in 2018:

- Private investors are in a jolly mood during the Christmas season, particularly if they received a year-end bonus.
- Institutional investors are on holidays.
- Tax loss selling pressures have abated.
- Most investment dealers release favorable reports for the next year, including their top picks.

Precious metals and precious metal stocks have entered their best period of seasonal strength on schedule this year, running from early December to the end of February. Breakouts last week were recorded in gold equity ETFs including GDX, GDXJ and SIL in the US as well as XGD in Canada. ETFs significantly outperformed gold and silver bullion, a confirming technical signal that both will move higher during their period of seasonal strength.

Base metal stocks and related ETFs also entered their period of seasonal strength last week. Their period of seasonal strength is from the second week in December to the end of April. Base metal prices are responding to increasing demand at a time when inventories in the London Metal exchange have reached a 5-year low. China is the largest consumer of base metals. Look for a spike in demand if/when China and the US reach a trade agreement. On the charts, selected base metal stocks such as Teck Resources and Lundin Mining and already have completed base building patterns. Base Metals Equity ETFs include PICK, COPX in the US.

Technical action by individual S&P 500 stocks was strongly negative last week. Number of stocks breaking intermediate resistance totaled 7 while number of stocks breaking support totaled 72. The Ratio of stocks in an intermediate uptrend/stocks in an intermediate downtrend decreased last week to $(174/277 =) 0.63$ from 0.80.

Put-call ratio has spent 30 of the past 50 sessions in bearish territory, historically a contrarian buy signal for short-term gains. Sentiment on Friday, as gauged by the put-call ratio, ended bearish at 1.13. Over the past 50 sessions, there have been 30 instances when this sentiment gauge has closed bearish above 1. Similar instances over the past 20 years have seen gains for the S&P 500 Index in the 30-and 60-day period that followed with returns averaging 1.85% and 3.83%, respectively.

Beyond that, 90 days out, the short covering rally that followed the overly bearish sentiment turns back into losses with the large-cap index shedding 5.50%, on average.



Medium term technical indicators for US equity markets (e.g. Percent of stocks trading above their 50 day moving average, Bullish Percent Index) **were mixed last week despite weakness in indices**

Short term technical indicators for US markets and sectors (20-day moving averages, short term momentum) **moved lower last week.**

Longer-term outlook for earnings and sales by S&P 500 companies remains positive, although analysts have reduced expectations slightly.

- Consensus calls from Strategists is for a 12.8% increase in earnings (down from 13.4%) and 6.5% increase in sales in Q4 (down from 6.8%.
- Consensus calls for a 20.5% increase in earnings and an 8.9% increase in sales for full-year 2018.
- Consensus calls for a 4.3% increase in earnings and 7.0% increase in sales in Q1 2019.
- Consensus calls for a 4.8% increase in earnings and 5.7% increase in sales in Q2 2019.
- Consensus calls for a 5.2% increase in earnings and 5.4% increase in sales in Q3 2019.
- Consensus calls for a 12.0% increase in earnings and a 6.1% increase in sales in Q4 2019. Consensus for all of 2019 calls for an 8.3% increase in earnings and a 5.5% increase in sales.

Major US companies are seeking places to invest their new found cash flow following changes in US tax laws. Look for anticipation of news about share buybacks, increased dividends, take overs, employee bonuses and wage increases prior to release of Q4 results. "Santa Claus is coming to town".

When the equities markets started to fall as of early October, as we were predicting for a -6% to -8% correction in the US and in the Europe, it seemed easy to shrug off the decline. After all, economic growth rates were robust, unemployment remained low, and occasional bouts of volatility didn't stop the major indexes from climbing to all-time highs in September. Above all, we still see investor sentiment towards US stocks as too complaisant. US bonds, on the other hand, offer opportunities.

- **Currencies:** Turning away from the USD continues
- **Commodities:** Sentiment for Energy & Metals drops more, rises for Gold
- **Bonds:** Sentiment for US Treasuries remains very positive
- **Equities:** Sentiment deteriorates further

Again, as we were advising on November 7th, post US mid-term elections, we see November 6th US election as a pivotal point for asset allocations between bonds and equities, and even significantly impacting the future direction of the USD, as a GOP status quo could continue to weigh on the USD for the next two years.

Consequently, we see 10-year Treasuries still at this point relatively inexpensive to US equities, and particularly for balanced-fund type investors applying DDM as a key investment metric, and hence we advise investors to increase weightings towards 10-Year Treasuries, in spite of seasonal period of weakness. Given the wider spreads of US Treasuries versus EU government bonds and Japanese JGB's, we see foreign investors continuing to find better value in US treasuries and increase allocations accordingly.

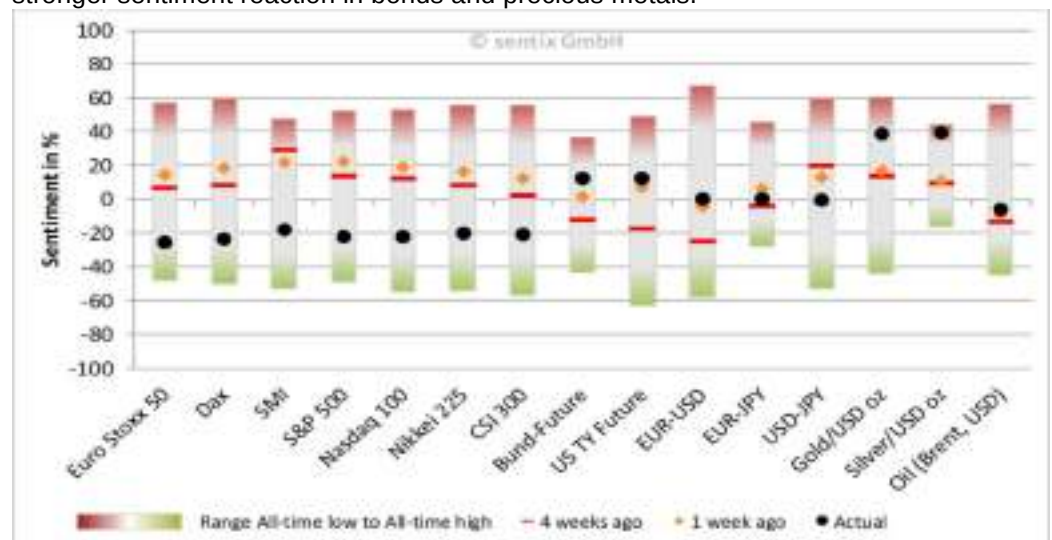
Investors Sentiment Indicators

According to the latest **sentix** Investors' survey, investors seem continue to show increasing pessimism, with investment professionals, who now sense an opportunity in the recent sale of shares.

	DAX	ESX50	SMI	S&P 500	Nasdaq	Nikkei	CSI 300	Bunds	T-Bonds	EUR-USD	EUR-JPY*	USD-JPY	Gold	Silver	Oil
Sentiment								X	X			X	X	X	
Strategic Bias										X		X	X		
Neutrality Index										X	X				
Overconfidence Index															

* highlights markets for which the sentix indicators display extreme values

Investors reveal less fear and their bias rises more clearly in return, combined with a stronger sentiment reaction in bonds and precious metals.

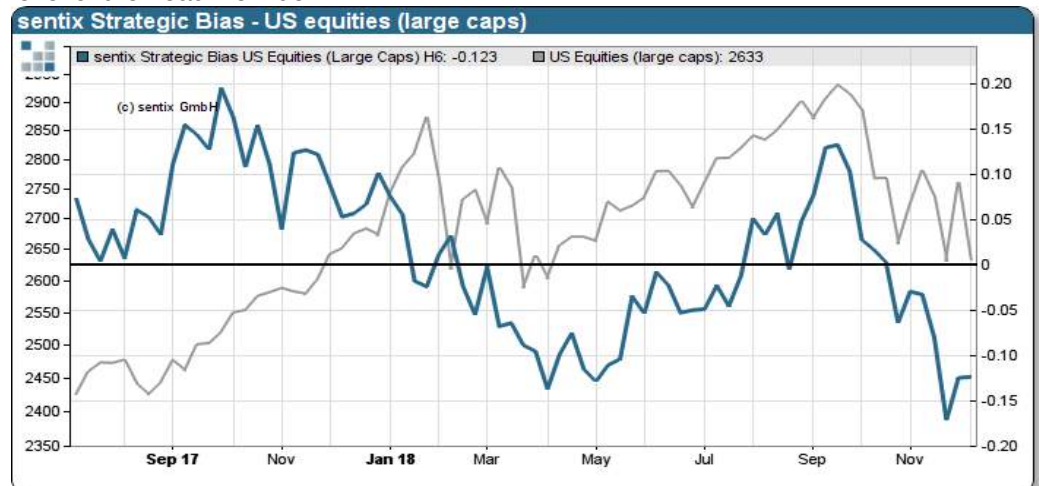


Investor sentiment for US equities has deteriorated significantly within a week. With a discount of 44 percentage points, the sentiment is thus setting an exclamation mark.

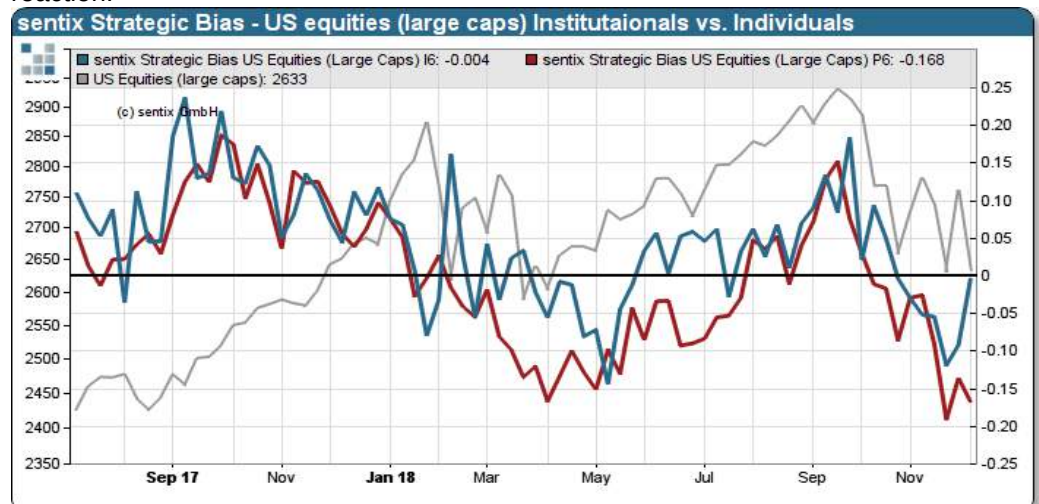
- The sentiment level in the most recent corrections meant a market low in the S&P 500.
- A weekly discount of -44, however, statistically does not lead one to expect any positive returns in the next 4 weeks.
- With -5 percentage points, the institutional investors are by no means bearish!



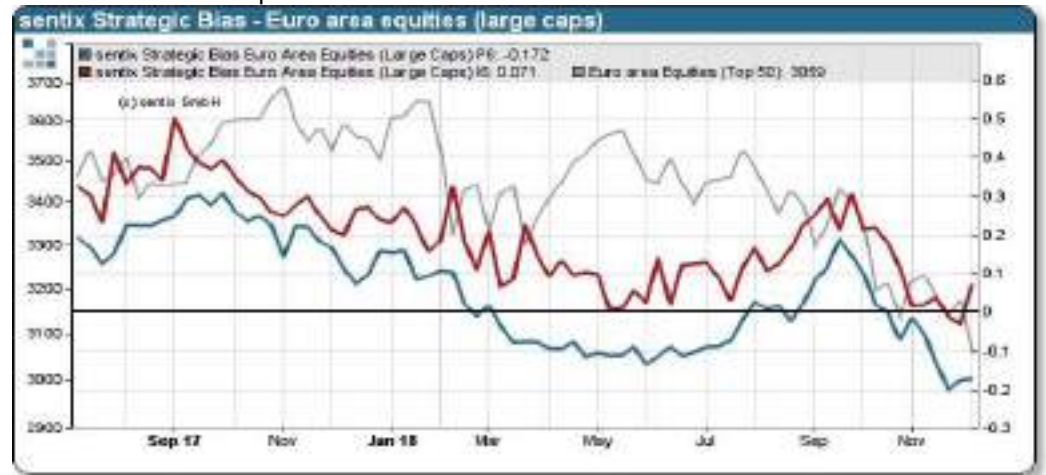
The strategic bias shows bargain hunters not active and not willing to access at the discounted level yet. The underlying confidence in US equities shows no movement here, despite the more favorable prices, there is no perception of value, at least at the level of the headline index.



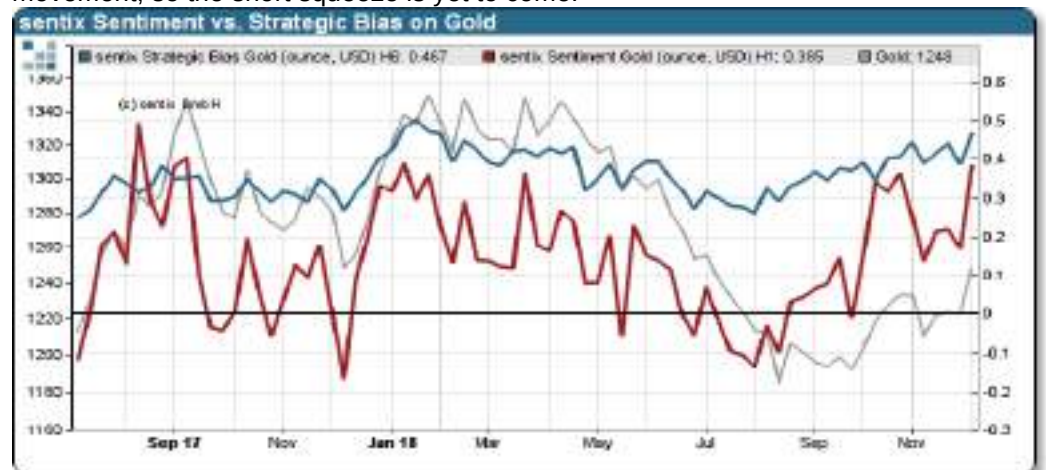
The trend in the main index is particularly fed by the critical attitude of private investors. The institutional investors see the decline as an opportunity. The behavior is reminiscent of the January setback, in which the institutional investors showed a similar reaction.



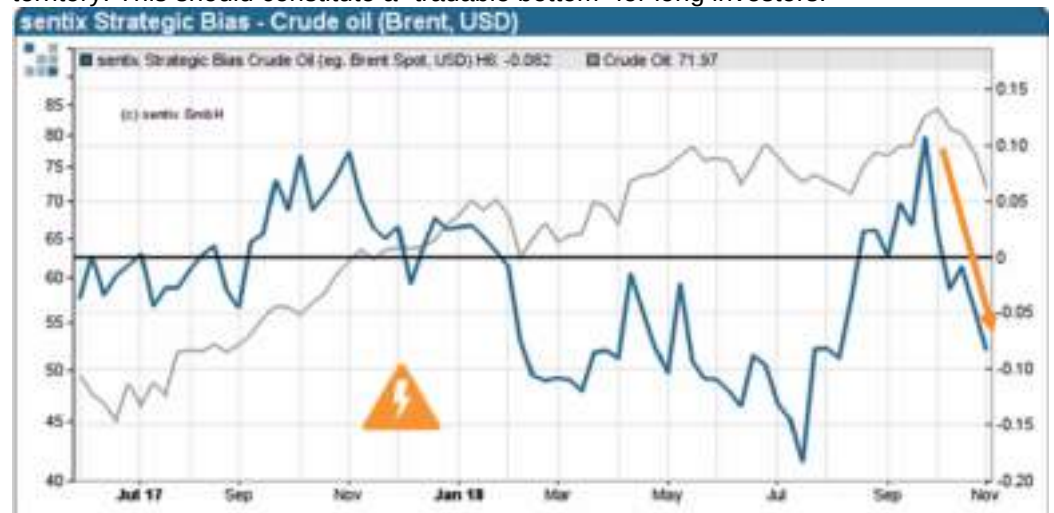
There are similar developments in the bias for Euroland's stock market. The institutional investors also see an opportunity here. The increase in the bias (+3 percentage points) suggests that the current sentiment decline of 40 percentage points (not shown) is not a bearish sentiment impulse.



Gold's investor sentiment jumps 21 percentage points to a 26-week high, bias also climbs to a 26-week high. The absolute values of the bias are higher than those of the sentiment. Investor positioning to gold remains short (CoT Report) and shows no movement, so the short squeeze is yet to come.



Over the past 5 weeks, the outlook for crude oil has deteriorated substantially. Since then, the bias for crude oil has made a U- turn and is drifting more into negative territory. This should constitute a "tradable bottom" for long investors.



Asian equity markets weekly charts

The BSE added 289.68 points (0.81%) last week.

\$BSE retested the support.
Price closed above the 200-day MVA.

Short-term momentum indicators are Positive.



The Nikkei lost 303.85 points (1.40%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 Index is Positive.
\$NIKK is going retesting October bottom.

The \$NIKK remains below its 20-day MVA. Short-term momentum indicators are Negative.



The Shanghai Composite Index dropped 12.15 points (0.47%) last week.

Intermediate trend is Neutral. \$SSEC is coming to an apex of the Coil. Strength relative to the S&P 500 Index is Positive.

The \$SSEC moved below the 20-day MVA. Short-term momentum indicators are Neutral



The Hang Seng gained 31.03 points (0.12%) last week.

Intermediate trend is Negative. \$HSI is ranging on the upper side of the bearish channel.

The \$SSEC moved below the 20-day MVA. Short-term momentum indicators are Negative.



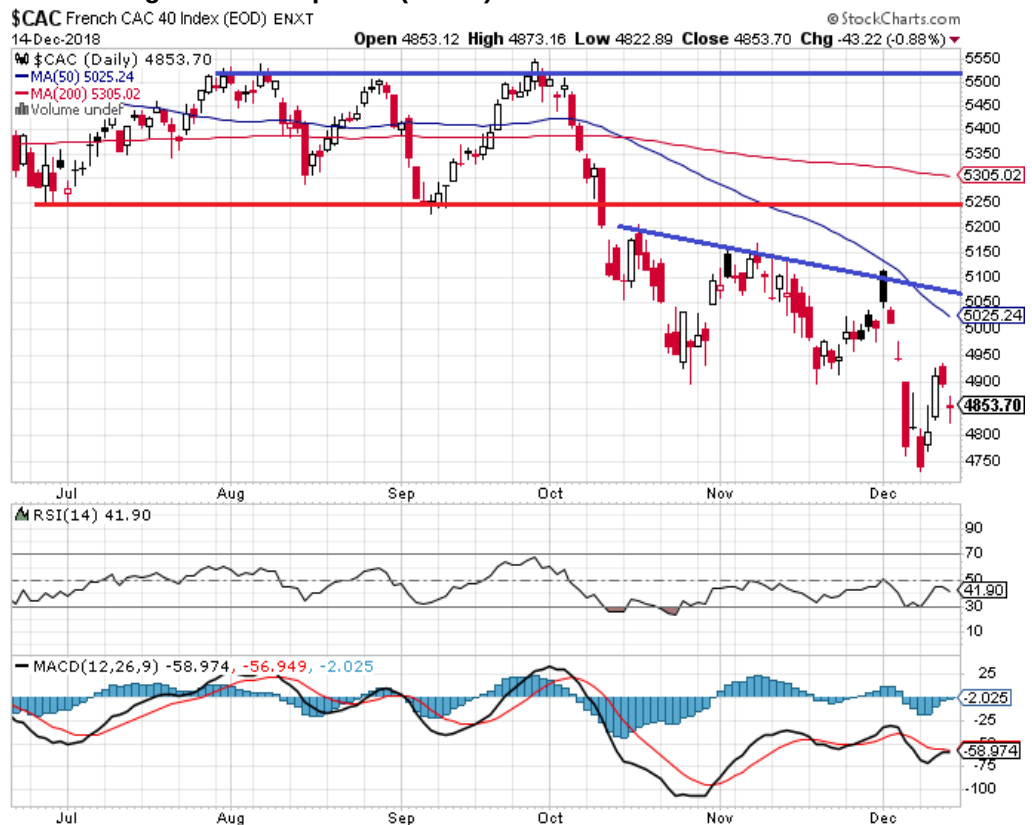
European equity markets weekly charts

The DAX 30 added 77.68 points (0.72%) last week.



Intermediate trend remains Negative. \$DAX continues along the bearish channel. \$DAX is on the 20-day MVA. Strength relative to the S&P 500 Index is Neutral. Short-term momentum indicators are Negative.

The CAC 40 gained 40.57 points (0.84%) last week.



Intermediate trend is Negative. \$CAC made a new low. \$CAC remains below the 200-day MVA.

Short-term momentum indicators are Negative.

The AEX 25 added 2.55 points (0.51%) last week.

Intermediate trend is Negative. \$AEX remains below the 200-day MVA. Strength relative to the S&P 500 Index is Positive.

Short-term momentum indicators are Mixed.



The IBEX 35 gained 70.60 points (0.80%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 is Positive. IBEX rejected off the October bottom.

The Index remains below the 20-day MVA.

Short-term momentum indicators are Negative.



The FTSE dropped 32.33 points (0.47%) last week.

Intermediate trend is Negative. FTSE remains along the bearish channel. FTSE is below the 50-day MVA.

Short-term momentum indicators are Negative.



The RTSI dropped 41.44 points (3.58%) last week.

Intermediate trend is Neutral. RTS rejected off the 200-MVA multiple times. Price is below the 50-day MVA.

Short-term momentum indicators are Negative.



The SMI lost 27.35 (0.31%) last week.

Intermediate trend is Neutral. SMI is moving within the established range. Price moved below the 200-day MVA.

Short-term momentum indicators are Negative.



US equity markets weekly charts

The VIX Index dropped 1.60 points (6.89%) last week.

Intermediate trend is Neutral. The Index is within an established range.



The S&P 500 Index lost 33.13 points (1.26%) last week.

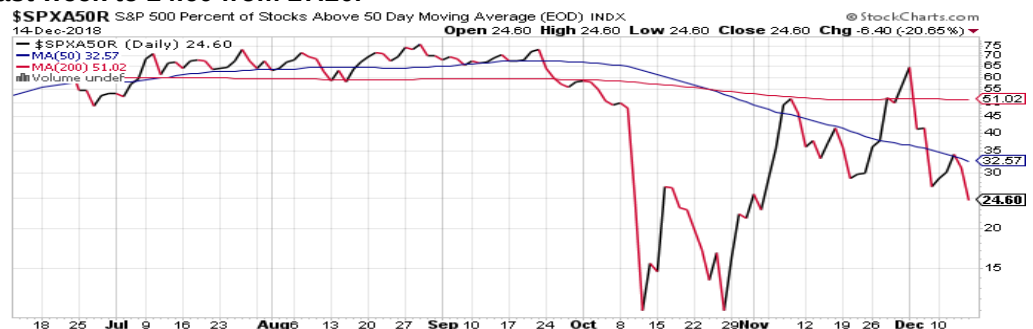
Intermediate trend is Negative. The Index remains below the 20-day MVA. \$SPX broke through the October bottom.

Short-term momentum indicators are Negative.



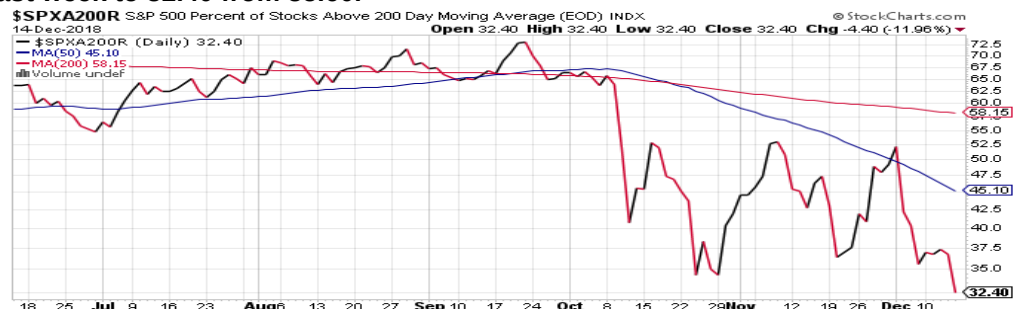
Percent of S&P 500 stocks trading above their 50-day moving average dropped last week to 24.60 from 27.20.

The Index remains below the 200-day MVA.



Percent of S&P 500 stocks trading above their 200-day moving average dropped last week to 32.40 from 35.60.

The Index remains below the 200-day MVA.



Bullish Percent Index for S&P 500 stocks dropped last week to 36.80 from 45.20 and remained below 50-day moving average.



The Index remains below the 50-day MVA.

The Dow Jones Industrial Average lost 288.44 points (1.18%) last week.



\$INDU is threatening to break the lower trendline. Strength related to the S&P 500 is above the 50MVA.

The INDU remains below its 200-day MVA. Short-term momentum indicators are Negative.

Bullish Percent Index for Dow Jones Industrial Average dropped to 50.00 from 83.33 last week and remained below its 20-day moving average.



The Index remains below the 200-day MVA.

The Dow Jones Transportation Average dropped 437.05 points (4.39%) last week.

Intermediate trend is Negative.

Dow Jones Transportation Index made a new low.

Strength relative to the S&P 500 is Negative. The \$TRAN remains below its 200-day MVA.

Short-term momentum indicators are Negative.



Bullish Percent Index dropped last week to 34.41 from 39.46 and dropped above its 20-day moving average.



The Index is below the 50-day MVA.

The NASDAQ Composite Index dropped 58.59 points (0.84%) last week.



Intermediate trend is Negative.

\$COMPQ is pressuring the lower trendline. Strength relative to the S&P 500 Index is Negative.

The Index is below the 200-day MVA.

Short-term momentum indicators are Negative.

The Russell 2000 Index lost 37.28 points (2.57%) last week.

Intermediate trend is Negative.
\$RUT made a new low.
Strength relative to the S&P 500 Index is Negative.
The Index remains below the 20-day MVA.
Short-term momentum indicators are Negative.



The S&P Energy Sector Index dropped 15.41 points (3.27%) last week.

Intermediate trend remains Negative.
\$SPEN is pressuring the lower trendline.
Strength relative to the S&P 500 Index is Negative.



The Index remains below the 20-day MVA.
Short-term momentum indicators are Negative.

The AMEX Gold Bug Index lost 1.27 points (0.83%) last week.

Intermediate trend is Positive.
\$HUI is climbing along the lower trendline.
Strength relative to the S&P 500 Index is Positive.

The Index is on the 20-day MVA. Short-term momentum indicators are Positive.



Americas equity markets weekly charts

The BOVESPA dropped 665 points (0.76%) last week.



Intermediate trend is Positive.

\$BVSP rebounded from the lower trendline.

BVSP remains above the 50-day MVA.

Short-term momentum indicators are Negative.

The Mexican Bolsa lost 557 points (1.33%) last week.



Intermediate trend is Negative. MXX rebounded from the 40,000 level.

\$MXX remains below the 50-day MVA.

Short-term momentum indicators are Mixed.

Bullish Percent Index for TSX Composite rose last week to 35.92 from 41.06 and remained below its 20-day moving average.

The Index remains below the 20-day MVA.



The TSX Composite Index lost 200.06 points (1.35%) last week.

Intermediate trend remains Negative. The Index made a lower low.

The Index remained below the 20-day MVA. Short-term momentum indicators are Negative.



Percent of TSX stocks trading above their 50-day moving average dropped to 27.39 from 33.89 and remained below the 200-day moving average.

The index remains below the 200-day MVA.



Percent of TSX stocks trading above their 200-day dropped last week to 26.97 from 30.58%

The index remains below the 50-day MVA.



EM equity markets weekly charts

Emerging Markets iShares lost \$0.05 (0.13%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 Index is Positive. EEM ranging but remains below the upper trendline.

Units moved below the 20-day MVA. Short-term momentum indicators are Negative.



The Australia All Ordinaries Index dropped 79.10 points (1.37%) last week.

Intermediate trend is Negative. Strength relative to the S&P 500 Index is Positive. \$AORD formed a falling wedge.

The \$AORD remains below the 20-day MVA. Short-term momentum indicators are Neutral.



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