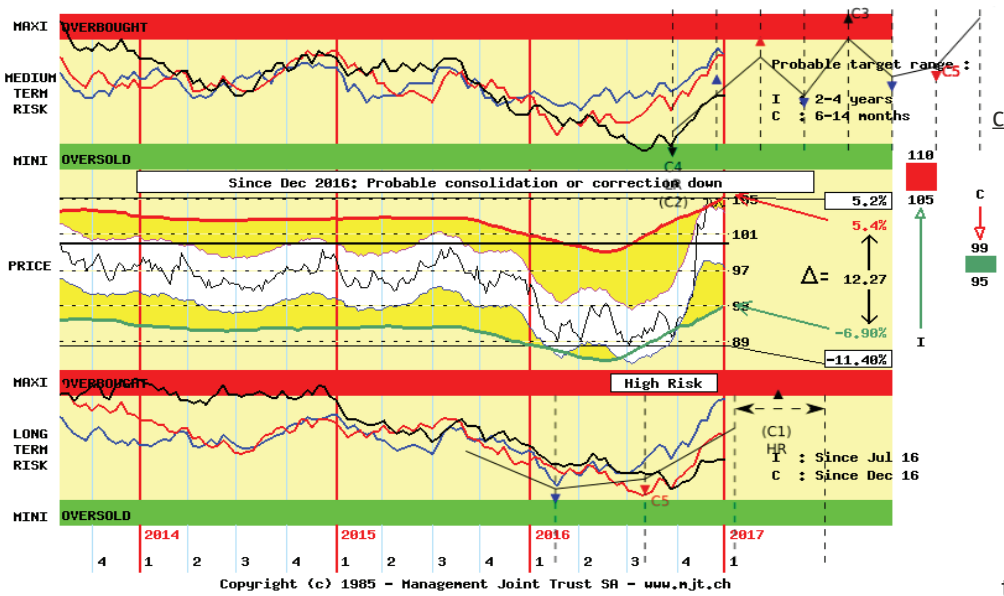
A switch back to Defensive and Growth assets during H1 2017

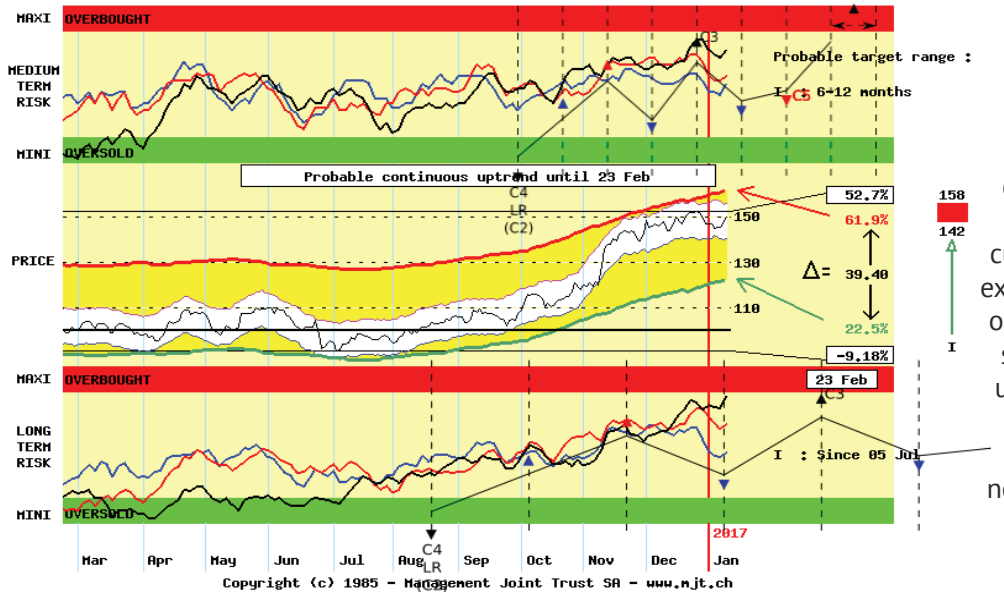
XLF - Financial Sector SPDR Fund / SPY - SPDR S&P 500 (Weekly graph or the perspective over the next 2 to 4 quarters)



The rise in interest rates along with the steepening of yield curves since mid 2016 have provided for a stunning relief rally for US Financials vs the S&P500. Our long term oscillators have entered a High Risk situation (lower rectangle). The sequence on our medium oscillators could push into February or March to effectively confirm a top (upper rectangle).

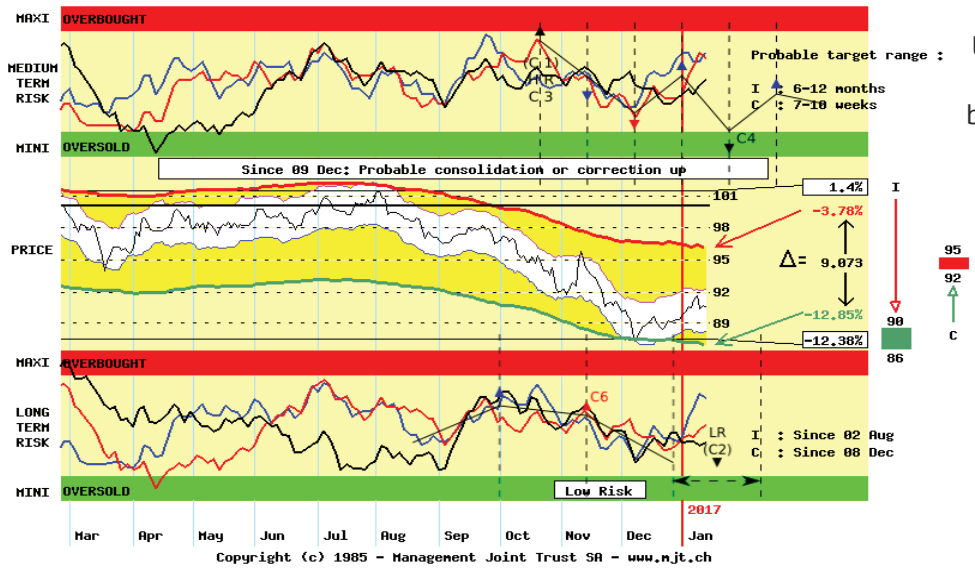
The Risk/Reward has however deteriorated as shown by our targets (right hand scale), i.e. the corrective potential down ("C") is now larger than the impulsive potential up "I".

KRE - SPDR S&P Regional Banking / RWR - SPDR DJ Wilshire REIT (ETFs) (Daily graph or the perspective over the next 2 to 3 months)



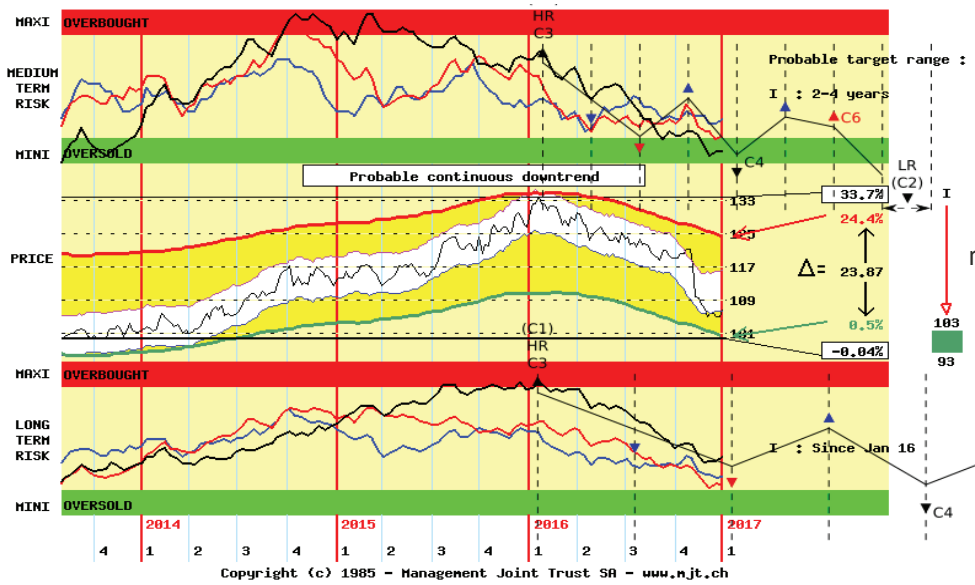
Taking this relation a bit further, we look at outperformer "US Regional Banking" vs REITs (opposite sides of the reflation trade) on a Daily basis. The current move up could extend to late February on both our oscillators sequences (lower and upper rectangles). The potential up for this pair trade is however nearing exhaustion ("I" Impulsive up targets; right hand scale)

XLV - Health Care Select Sector SPDR Fund / SPY - SPDR S&P 500 (Daily graph or the perspective over the next 2 to 3 months)



Focusing on Defensives, US Healthcare is another sector that on a relative basis may be anticipating a slowdown in reflation. The downtrend sequence on our long term oscillators (lower rectangle) has reached a Low Risk zone and Impulsive targets down have been achieved ("I"; right hand scale). The medium term oscillators (upper rectangle) could still justify a last sell-off into late January, yet there is little time left to achieve new lows.

IVW - iShares S&P 500 Growth ETF / Russell 2000 Value Index (Weekly graph or the perspective over the next 2 to 4 quarters)



Value has had a tremendous run vs Growth in 2016 (the chart shown is inverted, i.e. Growth vs Value). We believe Growth is also due for some rebound during H1 2017: intermediate bottoms are expected in mid Q1 2017 on both our oscillator series (lower and upper rectangles). These could trigger 3 to 6 months of rebound. In this chart, we've taken the S&P500 Growth ETF vs the Russell 2000 Value Index as an example, yet the analysis also holds for the Nasdaq vs the S&P500, the S&P500 vs the Russell 2000 (larger caps vs small caps) or larger Technology companies (e.g. the XLK Technology ETF) vs small caps, value or the general market (and any iteration of these).

Concluding remarks:
As reflationary assets and trades retrace during H1 2017, Defensive and Growth stocks should outperform again, possibly from February to late Spring / early Summer 2017.