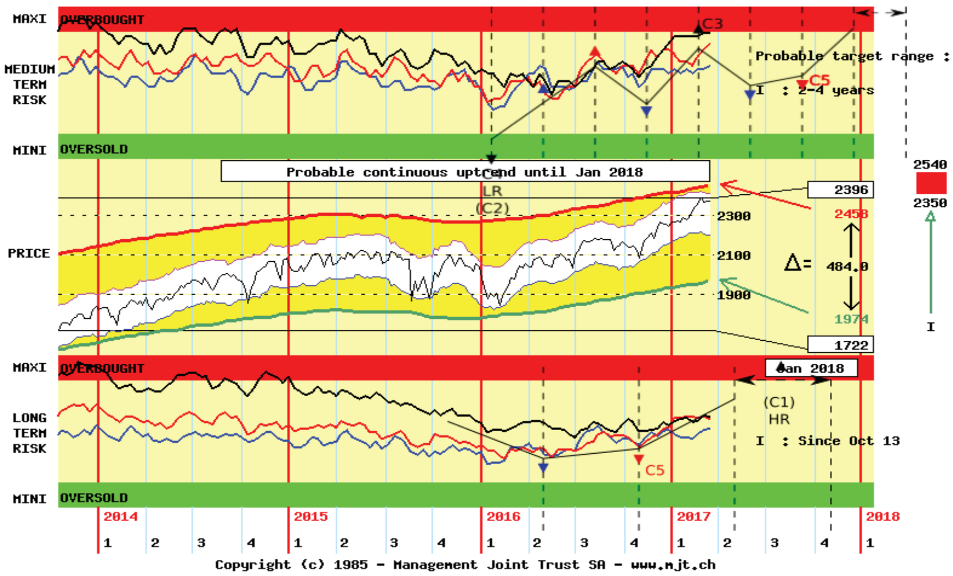
29 / TIMING AND TACTICAL INSIGHT

Equities and Bond yields could extend at high levels, for how long?

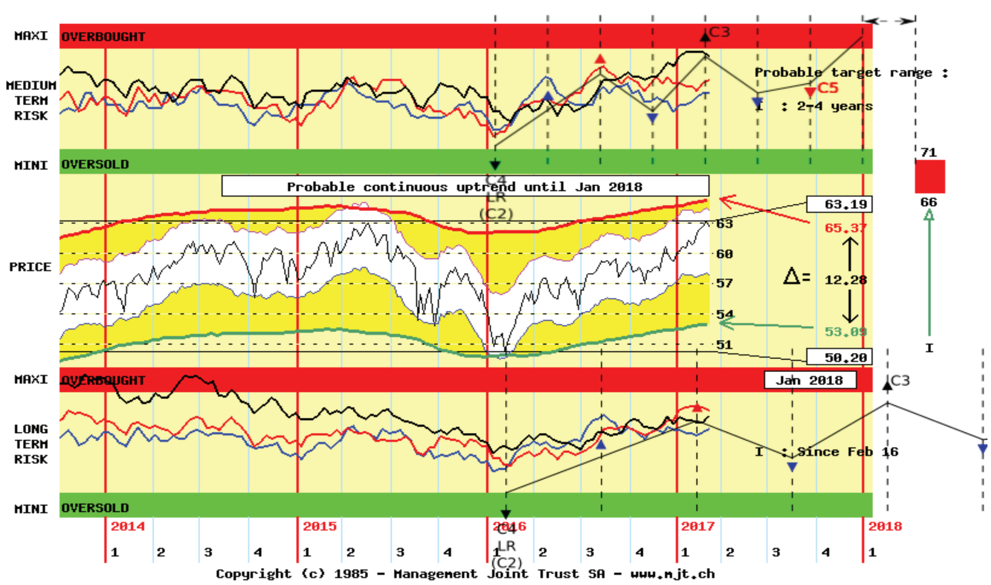
S&P500 Index
(Weekly chart or the perspective over the next 2 to 4 quarters)



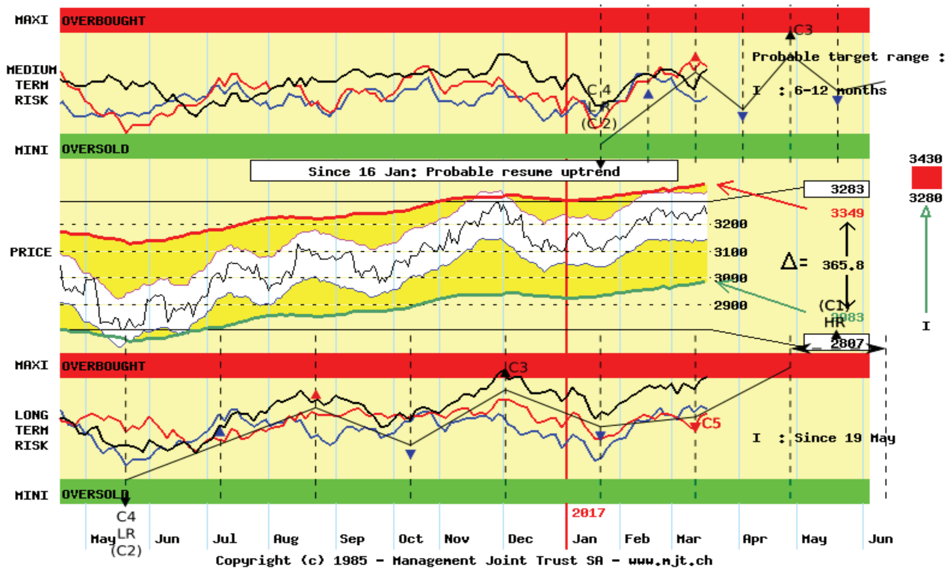
On our medium term oscillator series (upper rectangle), the S&P500 just made a Case 3 intermediate top, which should cap its potential over the next few months. On our long term oscillators (lower rectangle), however, the effect of the Case 5 (rapid acceleration up) made in Q4 2016 are still being felt. Give these contradictory signals, we would maintain our mild consolidation scenario into late Q2 2017 before prices continue their uptrend in H2 2017. “I” impulsive price potential up towards January 2018 is less than 10% (right-hand scale), i.e. the US market is probably quite expensive already.

ACWI - iShares MSCI ACWI Index Fund
(Weekly chart or the perspective over the next 2 to 4 quarters)

The world index (in USD terms) has also reached an intermediate top. It is clearly visible on both oscillator series (lower and upper rectangles). It should cap the potential up over the next few months (into late Q2 2017). From mid 2017, we expect it to resume its uptrend towards early 2018. “I” impulsive price potential up indicate that world equity market could move up by 10% to 15% towards January 2018, i.e. in USD terms, we see more potential up abroad than in the the US for H2 2017.



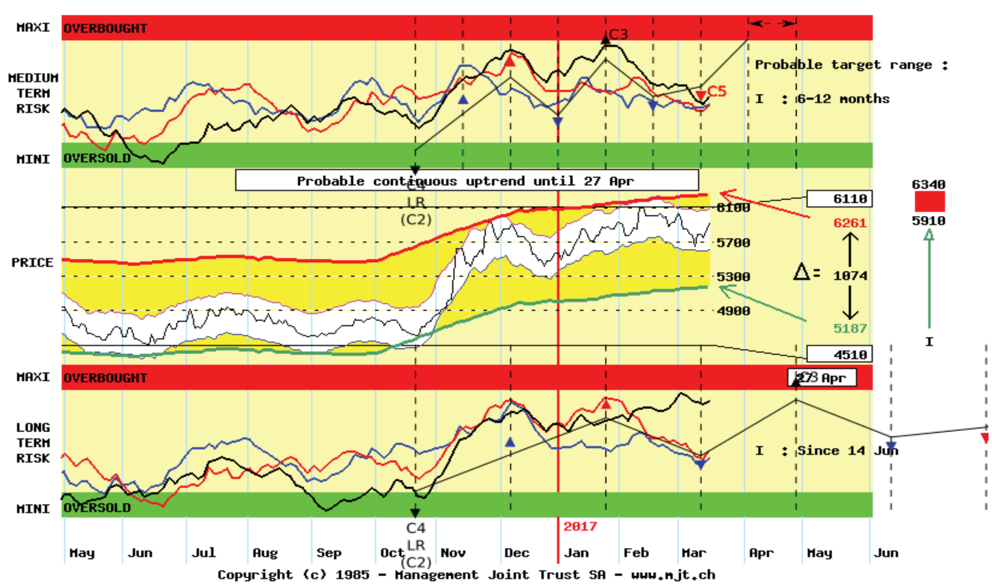
Shanghai Composite Index
(Daily chart or the perspective over the next 2 to 3 months)



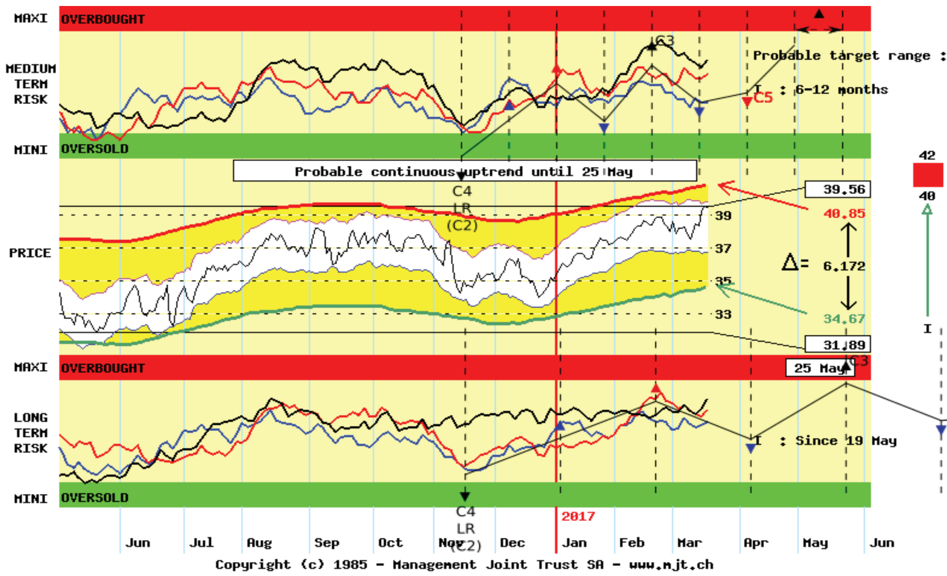
Scoping down to the Daily charts, some markets remain quite strong. This is the case of China where the Shanghai Composite Index could extend into late April on both our oscillator series (lower and upper rectangles). The move may take a few more weeks to materialize (upper rectangle), yet April should be a good month with "I" impulsive price target potential up that could reach into the 3'400 (circa 5% higher; right-hand scale).

Copper Spot (London Metal Exch.)
(Daily chart or the perspective over the next 2 to 3 months)

Copper confirms this extension. It has been consolidating down since February (from late January on both our oscillator series; lower and upper rectangles) and could now be getting ready to resume its uptrend into late April (as per our model projections). "I" impulsive price potential up indicates that it could make new highs above 6'300 USD/t (right-hand scale).



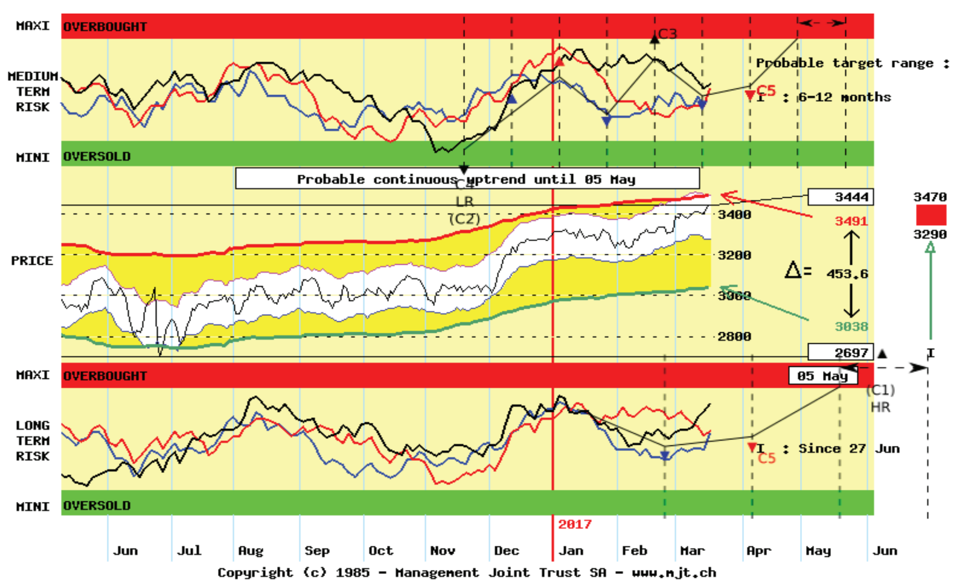
EEM - iShares MSCI Emerging Index Fund
(Daily chart or the perspective over the next 2 to 3 months)



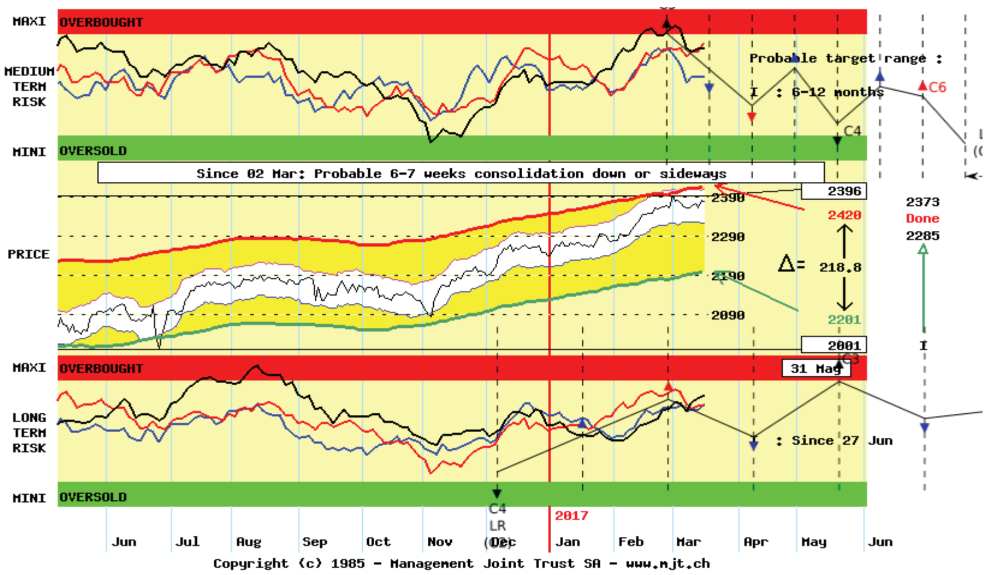
Emerging markets seem to extend even further (towards late April and possibly end May). Given both oscillator series (lower and upper rectangles), we would ideally consider them from early April, as they may have gotten ahead of themselves short term. The "I" impulsive price target potential up points to a 5% performance over the next couple of months. It is interesting to note that emerging markets often thrive when the Dollar weakens.

DJ EURO STOXX 50
(Daily chart or the perspective over the next 2 to 3 months)

Short term, Europe also seems extended with our "I" impulsive potential price targets up having been met (right-hand scale). While we may expect some retracement into early April on both our oscillator series (lower and upper rectangles), prices should then continue up towards end April / early May. Again, the potential up does seem limited at this stage.

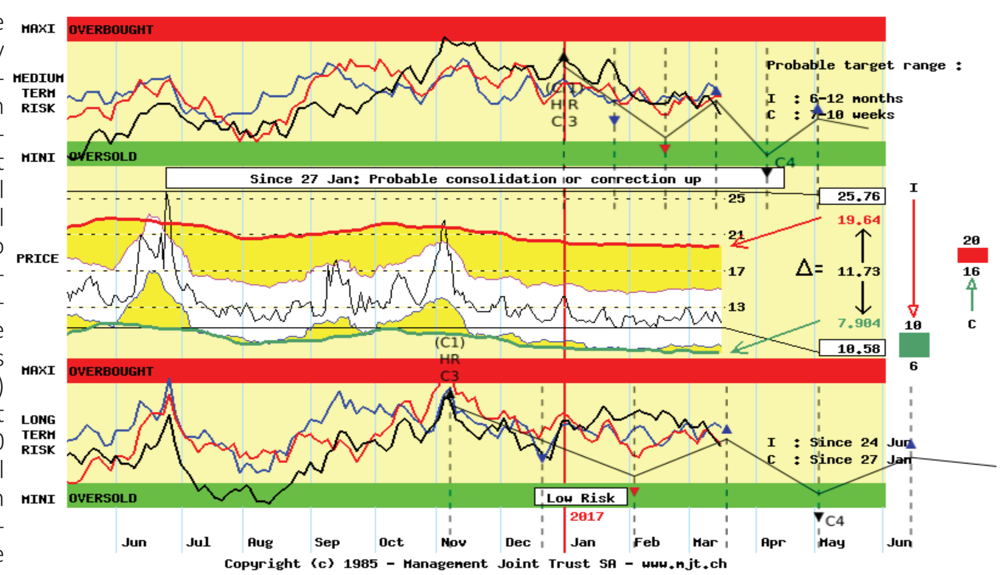


S&P500 Index
(Daily chart or the perspective over the next 2 to 3 months)



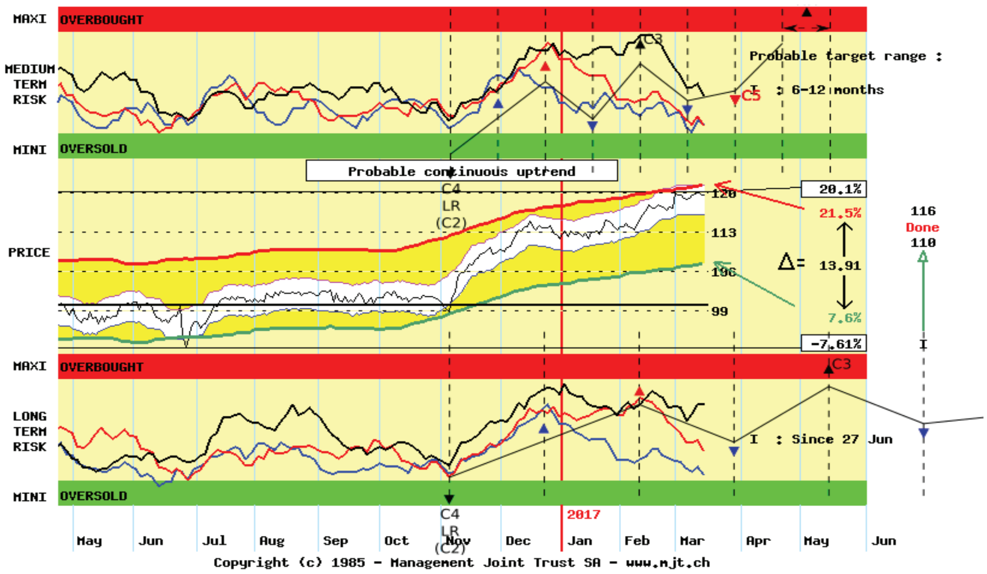
We've decided to take a balanced view on the S&P500. Indeed, with our Weekly chart possibly on an intermediate top (see chart on page 29), the Daily chart also on an intermediate top ("red top", lower rectangle) and our "I" impulsive up price targets potential having been fulfilled (right-hand scale), we don't believe that at this stage, the risk/reward is advantageous anymore. Whatever the scenario we consider, i.e. a correction down and a last move up towards May (lower rectangle), or the beginning of a downtrend from the recent tops made end February (upper rectangle), we would potentially expect some retracement into early April, a new rally during April before price roll over again into May and June.

VIX CBOE Volatility Index
(Daily chart or the perspective over the next 2 to 3 months)



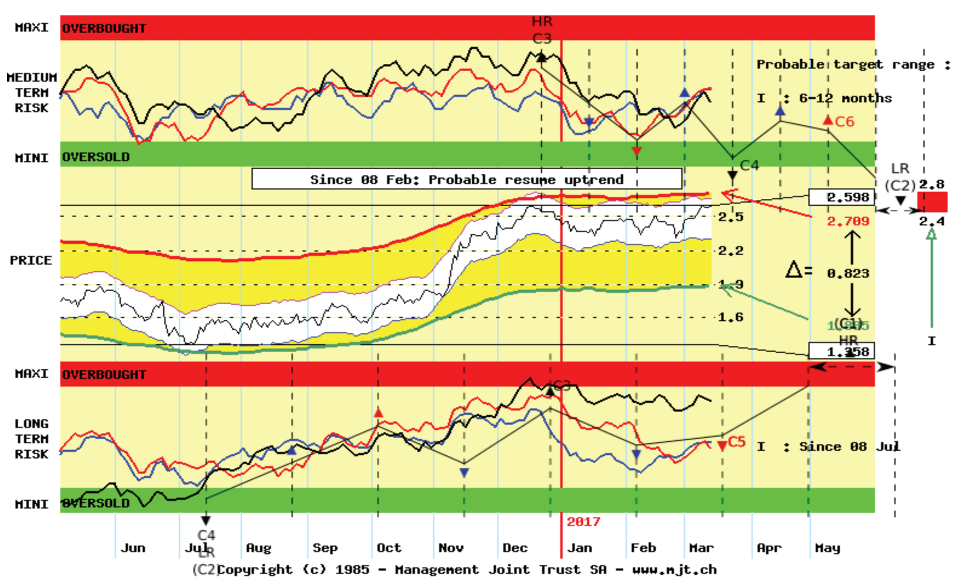
Volatility (proxied here by the VIX) is already very low (a Low Risk situation was identified on our long term oscillators in late January), yet according to our model projections, it could still extend a bit lower to confirm a late April turning point (lower rectangle). Our "I" impulsive potential price targets down (right-hand scale) would even suggest that it could break below 10 or into new historical lows. Our medium term oscillators (upper rectangle) are slightly more advanced, they suggest that volatility may start itching up from early April. Overall, an Oversold situation that will not extend forever.

SPY - SPDR S&P 500 / IEF - iShares 7-10 Year Treasury Bond ETF
(Daily chart or the perspective over the next 2 to 3 months)



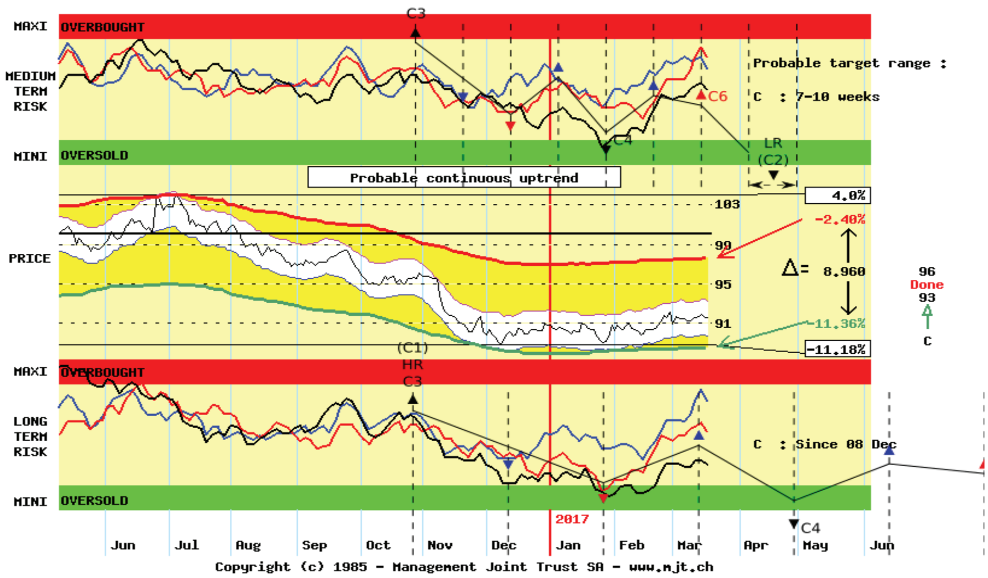
The ratio of equities to bonds also looks extended with our "I" impulsive potential price targets up having been exceeded (right-hand scale). A last move up could materialize towards end April / early May, yet in the meantime we would expect some retracement into end March.

US 10 years Benchmark Bond Yield
(Daily chart or the perspective over the next 2 to 3 months)



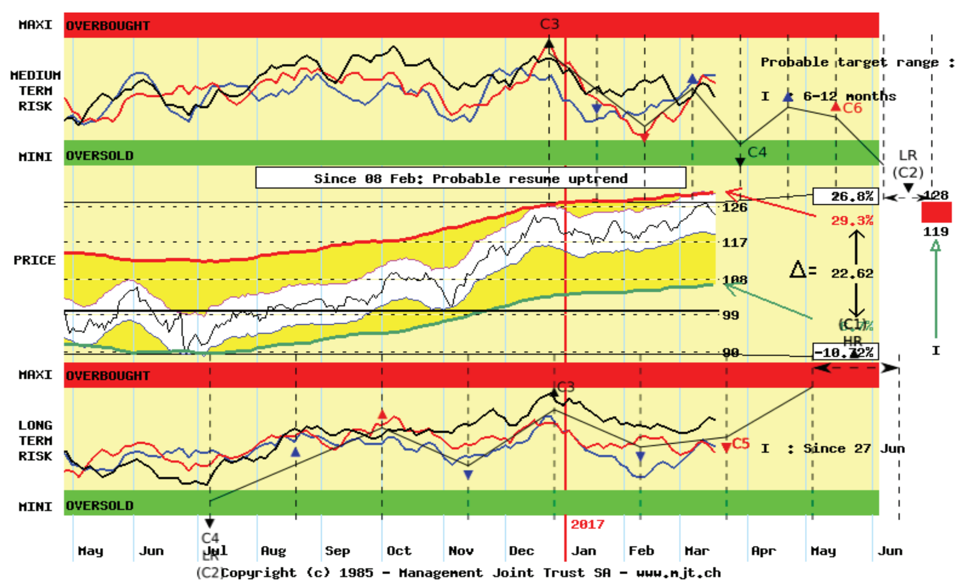
US 10 year Benchmark bond yields are well within their "I" impulsive targets up (right-hand scale). Hence, the potential to move much higher over the next few months is limited. Whatever the scenario we consider on our oscillator series, a nascent downtrend (upper rectangle) or a continuing uptrend (lower rectangle), rates do seem to hold up during April before they reach tops and roll over from end April / early May into June. Given current volatility (measured by our delta = 0.823%; right-hand scale), the corrective price potential down into June could be between 40 and 60 bps (0.5 to 0.8 times our delta).

Defensive sectors vs SPY - SPDR S&P 500
(Daily chart or the perspective over the next 2 to 3 months)



US defensive sectors have made a come-back vs the general market since December. When we consider an Equal weighted portfolio of Healthcare (XLV SPDR ETF), Staples (XLP SPDR ETF) and Utilities (XLU SPDR ETF), they may be in the process of re-suming down towards late April vs S&P500 ETF (the models we project on both our oscillator series ; lower and upper rectangles)

QQQ - PowerShares QQQ Trust, Series 1 / Gold Spot (USD/Oz)
(Daily chart or the perspective over the next 2 to 3 months)



We are constructive on Gold (as mentioned further up in this document), yet, as we expected in our previous letter the Nasdaq 100 (QQQ PowerShares ETF) has been a strong outperformer lately. The pair is an interesting indicator for the risk-on / risk-off relationship at this extended stage of the reflation trend (i.e. according to a Daily investment horizon: for the next 2 to 3 months). Here also, we can note that the "I" impulsive price targets potential up has been reached (right-hand scale). Again, we apply two models: a downtrend on our medium term oscillators (upper rectangle) and a continuation of the uptrend on our long term oscillators (lower rectangle). Both suggest a similar timing to what we have seen above in other charts in this section: a bit of retracement into end March, a new push up during April and a new period of weakness from May. Whatever the scenario, the upside risk/reward is disadvantageous at this stage.

Concluding remarks:

Although at very high level, most risk and reflationary assets correct up / hold / extend during April, before consolidating down into May/June. Impulsive targets up have widely been achieved, hence we expect limited potential. Short term lows for this extension should be found during late March, early April.

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