

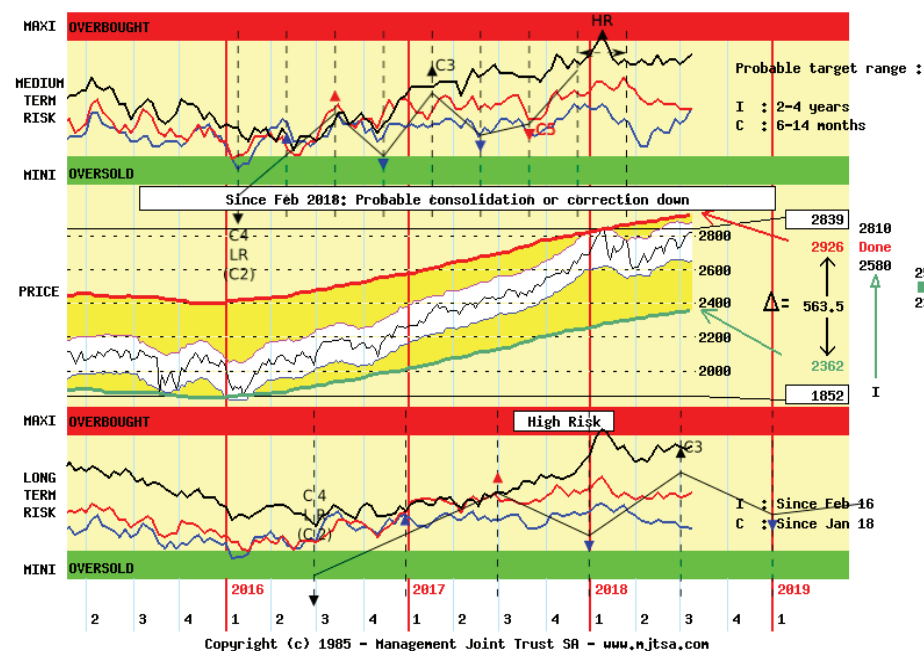
28 / MJT - TIMING AND TACTICAL INSIGHT

Rather than a shift towards Value, we believe that the recent weakness in the Nasdaq is a Defensive warning

During the second half of July, many cyclical assets such as Emerging markets or cyclical sectors (e.g. Industrials and Energy) did manage to rebound vs the S&P500. On the one hand, this rebound can be explained by a slight steepening bounce in the US yield curve. On the other, two prominent Big Growth stocks, Facebook and Netflix, did deceive on earnings. The Nasdaq 100 started to correct and many voices in the market came out to forecast a major shift from Growth to Value. We believe this call is premature as we expect the yield curve to continue to flatten into late Q4 (a strong tailwind for Growth vs Value). The fact that some of the FAANGs stocks are starting to deceive and correct, in our view, rather signals the beginning of a Defensive shift in the market, rather than a rotation towards Value. Below, we go over the main US and international equity markets to confirm this view.

S&P500 Index

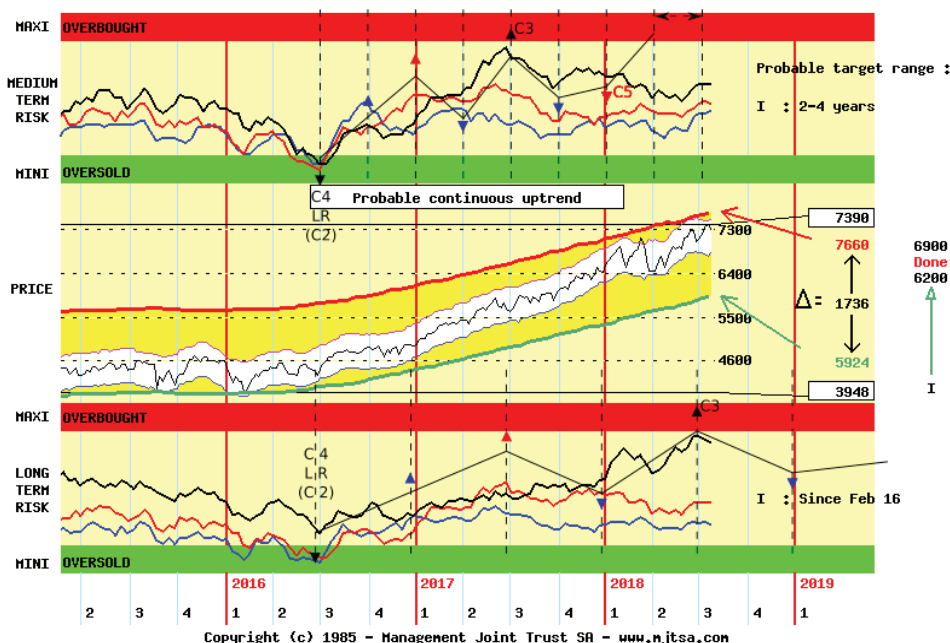
Weekly graph or the perspective over the next 2 to 4 quarters



Following the uptrend sequence it completed in January on our medium term oscillators (upper rectangle), the S&P500 Index has been in a "High Risk" position as confirmed by our automatic messaging. Just recently, a second uptrend sequence, which we show on our long term oscillators (lower rectangle), may have been completed. We believe that it marks a re-test of the January highs and that it probably confirms an important inflection point to the downside for the S&P500. At this stage, risk/reward is also quite disadvantageous. Our I Impulsive targets to the upside (right-hand scale) have been achieved for the second time this year (and are now labelled as "Done"), while our C Corrective targets to the downside point to initial support in the 2'560 (February/March lows) - 2'390 (January 2017 highs) range, 10 to 15% below current levels.

Nasdaq 100 Index

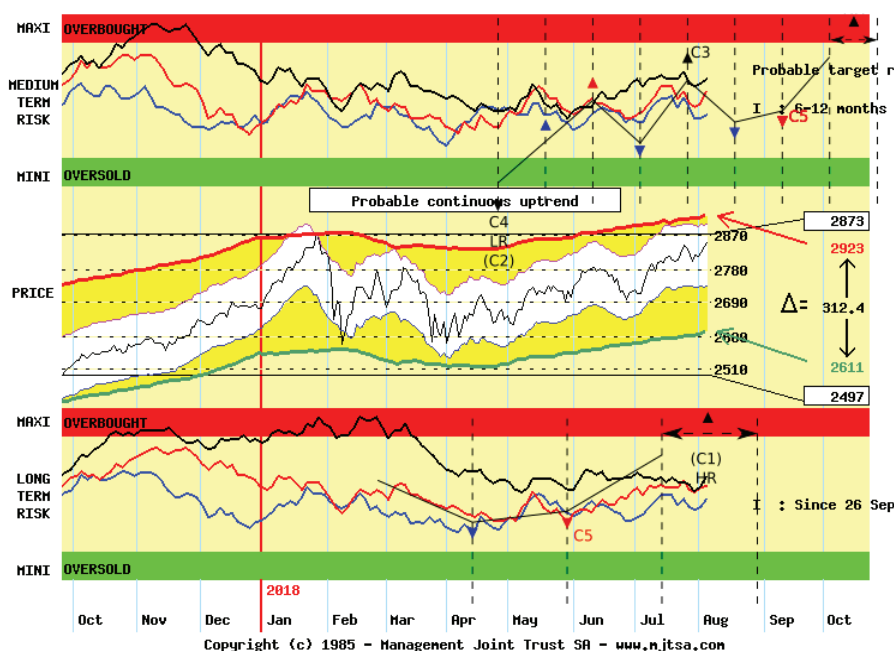
Weekly graph or the perspective over the next 2 to 4 quarters



The graph on the Nasdaq 100 seems even clearer. Both oscillators series (lower and upper rectangles) just completed their uptrend sequences on the new highs, which were just made in July. Our I Impulsive targets to the upside have also been achieved (right-hand scale). Hence, the timing looks right to call an important top, while the upside potential is exhausted (i.e. the risk/reward is extended anyways).

S&P500 Index

Daily graph or the perspective over the next 2 to 3 months

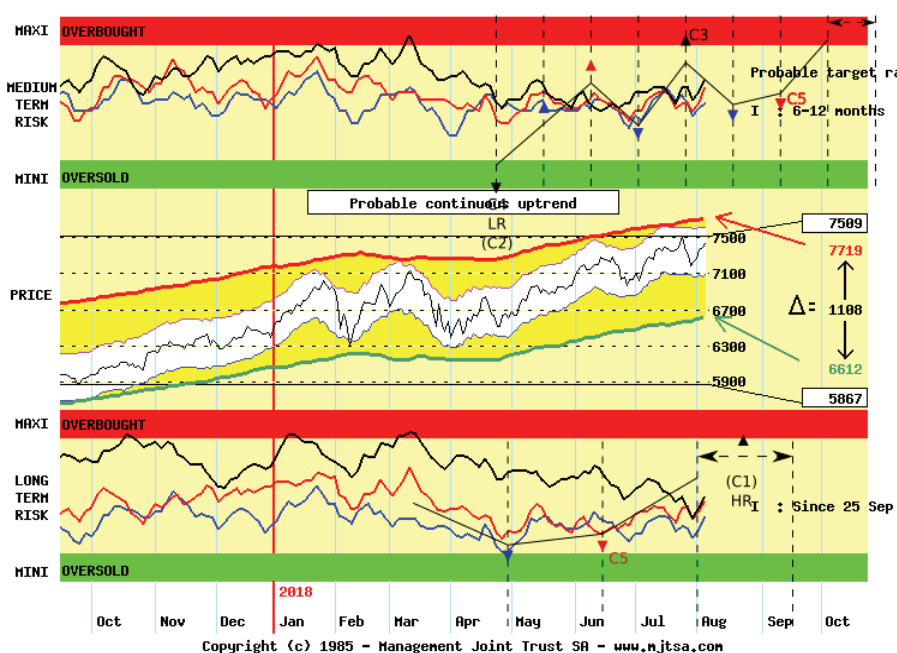


On the Daily graph, our long term oscillators (lower rectangle) are back in a “High Risk” position, while our medium term oscillators are approaching a potential top (upper rectangle). We expect it to materialize over the next week or so, and initiate a correction to the downside that could last until late August / early September in first instance (upper rectangle). On the target front, there is still some upside potential left (right-hand scale), and theoretically the S&P500 could still reach new highs. Yet, we believe that the time window

to do so is closing and that anyways, the downside risk is at least as high as the upside potential (we calculate 2-7% upside potential, vs 6 to 9% initial downside risk). **In general, this Daily graph situation is rather toppish, but not that stretched. Yet, given our weekly (previous page) and bi-monthly graphs (page 15 of this issue), which are now quite extended, we would confirm that we are now in take profit mode on the S&P500.** Last month we had already anticipated that this could be the case between late July, early August.

Nasdaq 100 Index

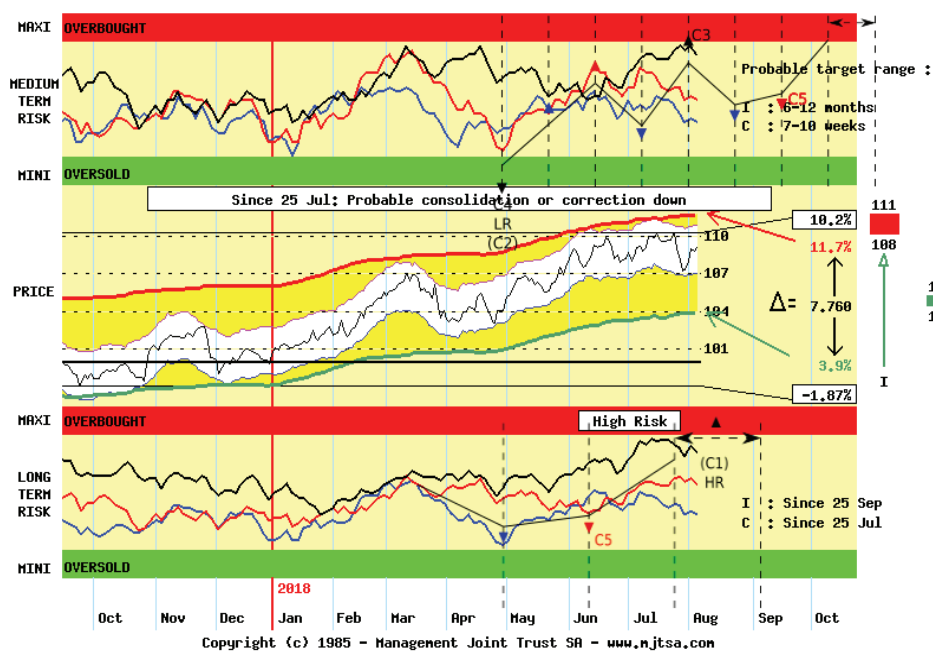
Daily graph or the perspective over the next 2 to 3 months



This situation is similar, yet more extended on the Nasdaq 100. Our long term oscillators (lower rectangle) have reached a “High Risk” position, while the top we were expecting on our medium term oscillators (upper rectangle) has probably already been done. Our I impulsive targets to the upside (right-hand scale) have pretty much been achieved late July, while the C Corrective targets to the downside we initially calculate are around the 6’950 – 6’620 range. **The risk/reward is hence disadvantageous. Our view is that the**

initial correction may have already started late July and that it could extend into late August / early September (medium term oscillators; upper rectangle). Following that, the Nasdaq 100 may attempt to retest up towards late September / October, yet we have no guarantee that it will manage to match or even exceed its recent highs. Hence, we also believe that it is now take profit time on the Nasdaq 100.

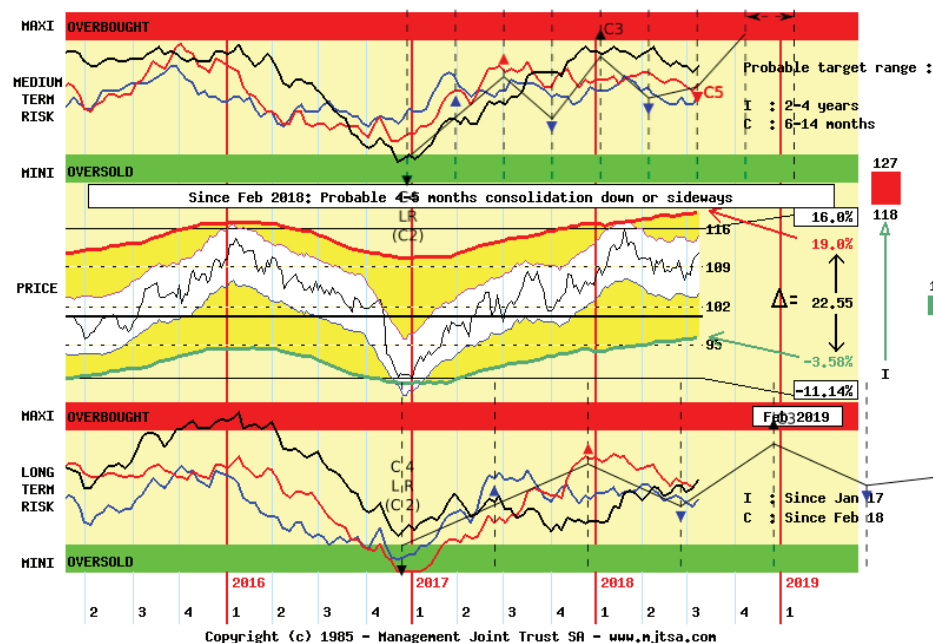
Daily graph or the perspective over the next 2 to 3 months



We now compare the Nasdaq 100 vs the S&P500. The ratio also looks extended. As with the S&P500 or the Nasdaq 100 standalone, it also entered a High Risk position on our long term oscillators (lower rectangle). It probably also made an important top late July on our medium term oscillators (upper rectangle), and could also initially correct down towards late August / early September. Risk/Reward is also extended (right-hand scale), i.e. our 1 impulsive targets to the upside (right-hand scale) have been achieved, while our

C Corrective targets to the downside are pointing towards 3 to 5 % underperformance for the Nasdaq 100 vs the S&P500 over the coming weeks. **These projections are very similar to the ones we expressed above on the S&P500 or the Nasdaq 100, yet we believe that these similarities are simply due to the higher beta profile of the Nasdaq 100 vs the S&P500, rather than a shift from Growth to Value.**

Weekly graph or the perspective over the next 2 to 4 quarters

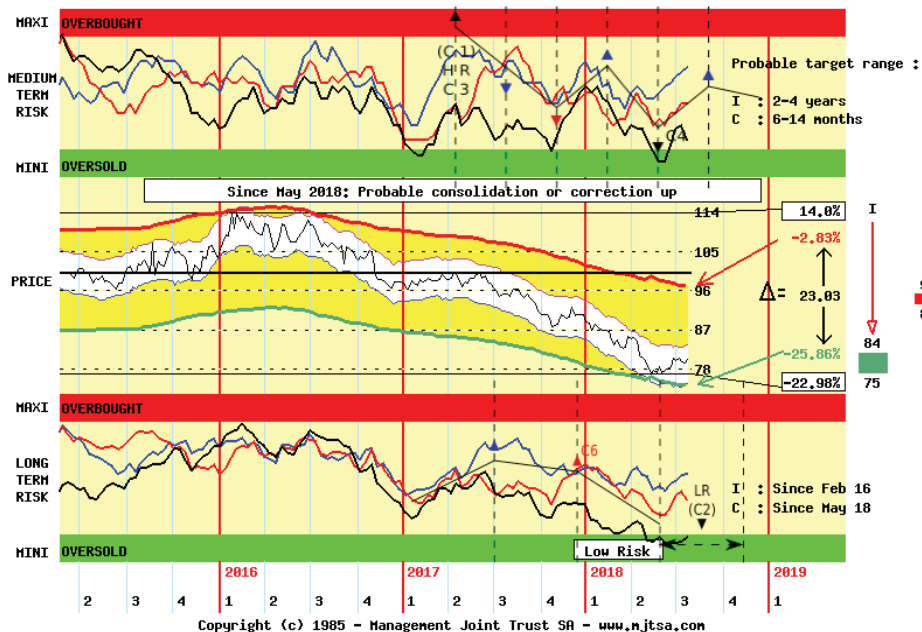


Further down in this issue, as part of our US yield curve analysis (page 52), we compare the Value to Growth relationship within the S&P500 and conclude that Growth will probably continue to outperform Value at least into Q4 this year. In this graph, we push this comparison to an extreme, by comparing Big Growth (the S&P500 growth constituents) vs Small Value (the Russell 2000 value constituents). **The resulting ratio is rather defensive, or at the least quite counter-cyclical.** On both oscillators series (lower and upper rectangles), it

is still clearly in an uptrend, possibly until late Q4 and perhaps even into 2019. Our I impulsive targets to the upside (right-hand scale) are pointing to **compelling upside potential for Big Growth vs Small Value during this period.**

US Consumer Staples / S&P500

Weekly graph or the perspective over the next 2 to 4 quarters

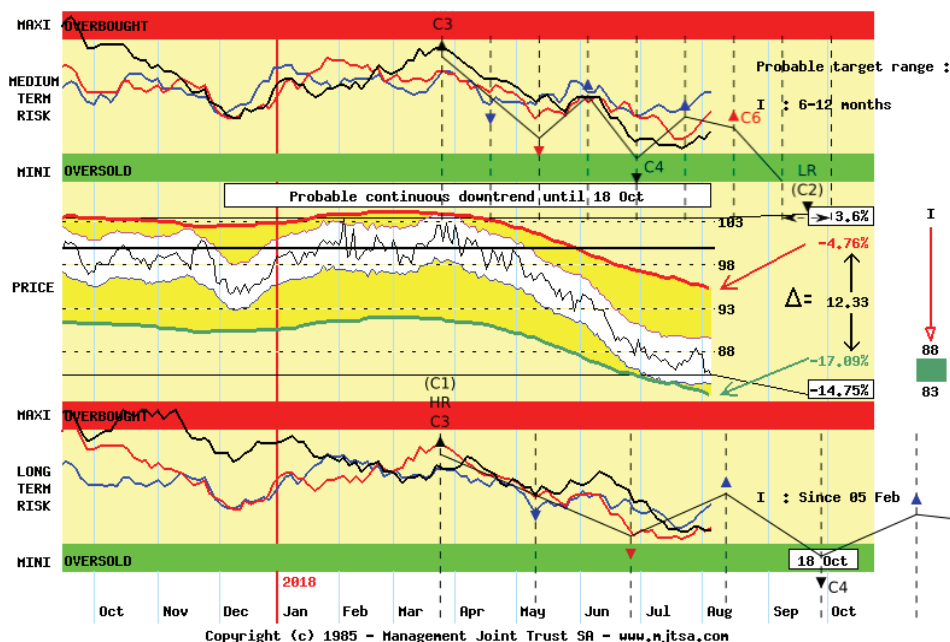


We now move further into the defensive spectrum and compare the US Staples sector vs the S&P500 Index. Both oscillators series (lower and upper rectangles) have probably reached "Low Risk" situation and we are anticipating that **US Staples outperform the market, probably during the next 6 to 12 months**. Their underperformance risk is pretty much exhausted, i.e. our I Impulsive targets to the downside (right-hand scale) have been achieved, and our C Corrective targets to the upside are suggesting that **even in the case of**

a temporary rebound, Staples may outperform the S&P500 by 10 to 20% over the next few quarters. This ratio certainly calls for a much more defensive environment for risk assets into late 2018 and 2019 (also see its bi-monthly graph on page 16 of this edition).

MSCI Emerging Markets / S&P500 Index

Daily graph or the perspective over the next 2 to 3 months

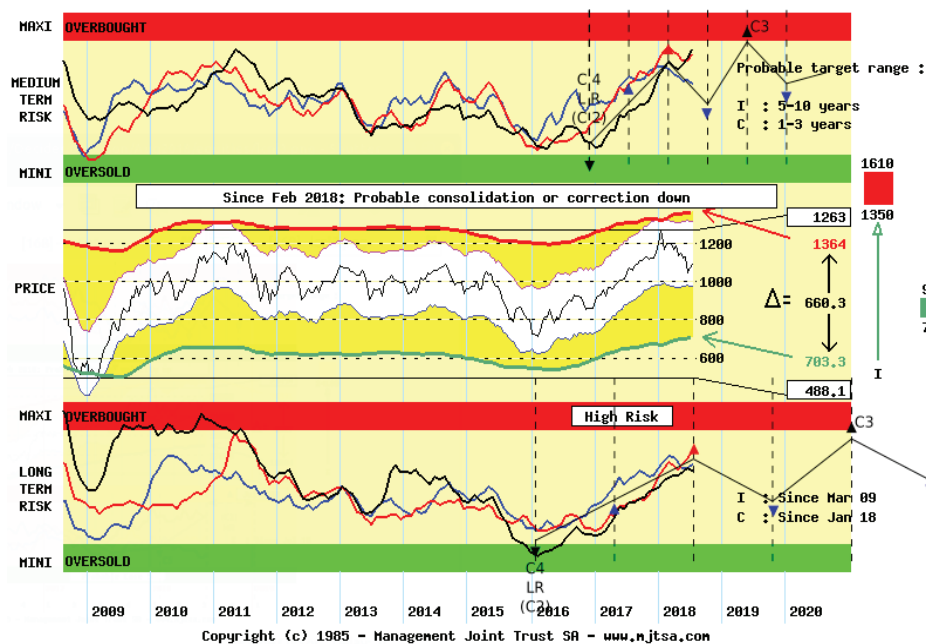


We now turn to emerging markets which have seen most of the suffering since the US Dollar started to rise, first vs the Euro in May, and then vs the Yuan since June. In a way, this has been quite a reversal of fate for Emerging markets, which were quite resilient vs developed markets during the February and March equity markets sell-off. According to both our oscillators series (lower and upper rectangles), **Emerging markets should continue to underperform the S&P500, probably until mid/late September and perhaps**

even early October. Their I Impulsive potential to the downside, is however rather exhausted and we would hence consider that most of their underperformance vs the S&P500 is behind us for now. That said, Emerging markets still appear to be under pressure which is usually defensive.

MSCI Emerging Markets

Bi-monthly graph or the perspective over the next 1 to 2 years

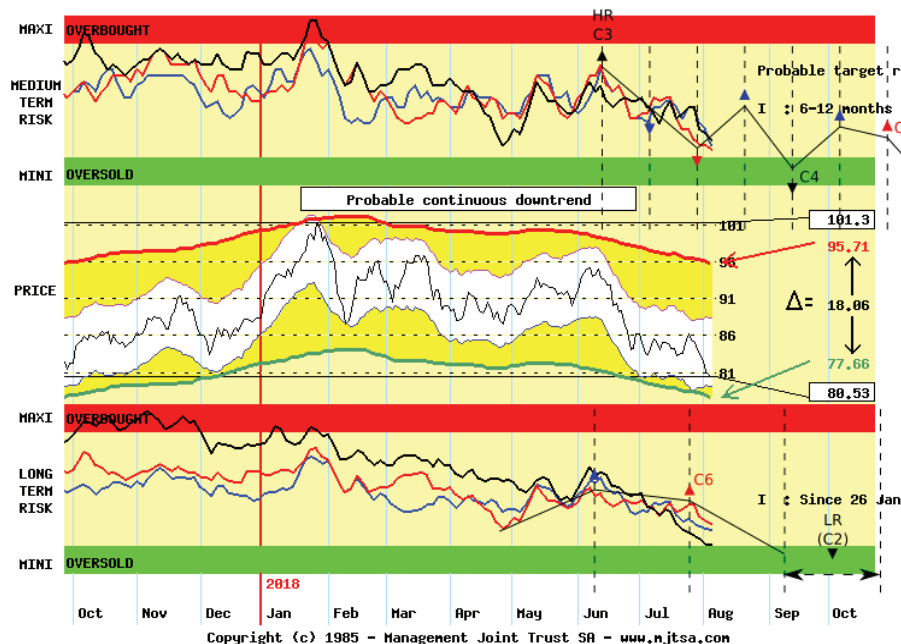


Long term, some chartists may be arguing that the move up since early 2016 on emerging markets, doesn't seem finished yet, and that a last leg up is probably missing. This scenario would correspond to the one we show on our medium oscillators (upper rectangle), which together with our I Impulsive targets to the upside (right-hand side) would confirm that there is quite a bit of potential left. That said, for now it has failed to materialize, and we believe that the current downside correction since January is probably the start of a

more substantial reversal. This prudent view on Emerging Markets is confirmed by the sequence we show on our long term oscillators (lower rectangle), as well as our automatic messaging, which are both confirming a High Risk situation. Our view is hence that **Emerging markets have probably already topped out and started to correct down for this cycle.**

MSCI China

Daily graph or the perspective over the next 2 to 3 months

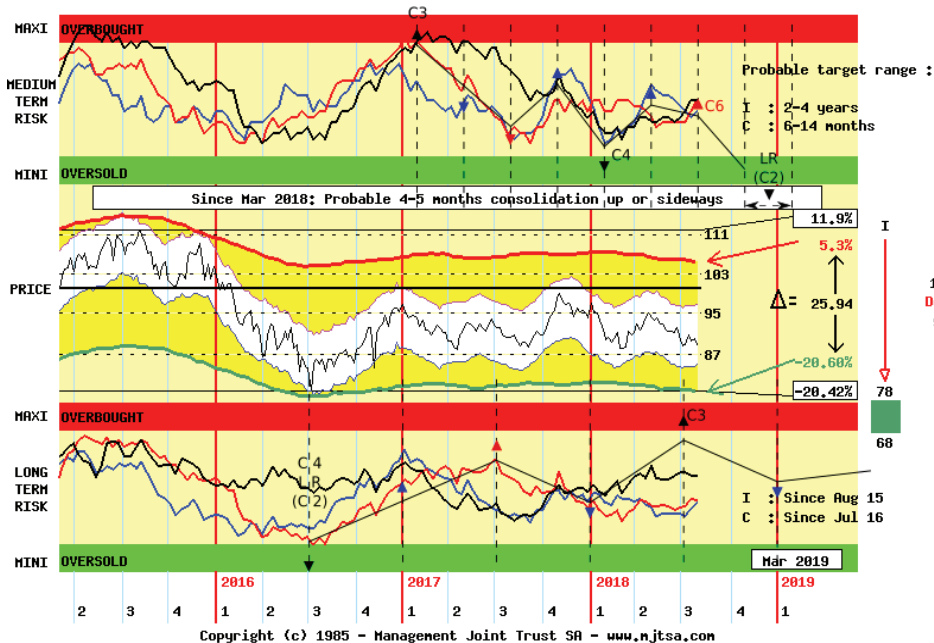


The MSCI China is by far the largest constituent of the Emerging Markets index, and over the next few months at least, it still seems to be **headed lower**. Our long term oscillators (lower rectangle) are probably **still downtrending, probably towards late September / October**, while our I Impulsive targets to the downside suggest 5 to 10% of additional downside potential (right-hand scale). Our medium term oscillators (upper rectangle) do point to a slight bounce over the next couple of weeks, yet the trend then re-

sumes lower into early/mid September at least.

Nikkei 225 Index / S&P500 Index (hedged currency ratio)

Weekly graph or the perspective over the next 2 to 4 quarters

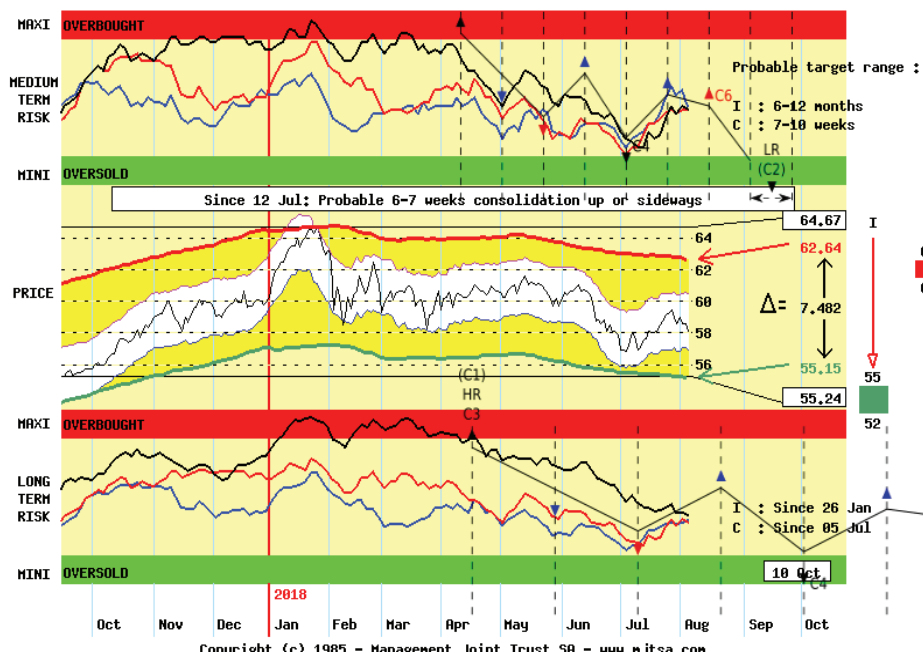


When comparing the Nikkei 225 Index to the S&P500 Index, the projections we show on both oscillator series (lower and upper rectangle), now seem to be in favour of the US index. This probably implies that the Yen could soon strengthen as it usually does in a risk-off environment. In such cases, the Japanese markets suffers vs the rest of the world on a hedged currency basis. **Going forward, the downside risk for the Nikkei vs the S&P500 is quite compelling, between 10 and 25% if the compensating ef-**

fect of the falling USD/JPY is excluded (I Impulsive targets to the downside; right-hand scale). Hence, whatever you invest into in Japan over the next couple of quarters, **we would recommend not to hedge the USD/JPY exposure, as it may compensate for some of the shortfall in Japanese stock performance.**

EWJ - iShares MSCI Japan Index Fund (denominated in USD)

Daily graph or the perspective over the next 2 to 3 months

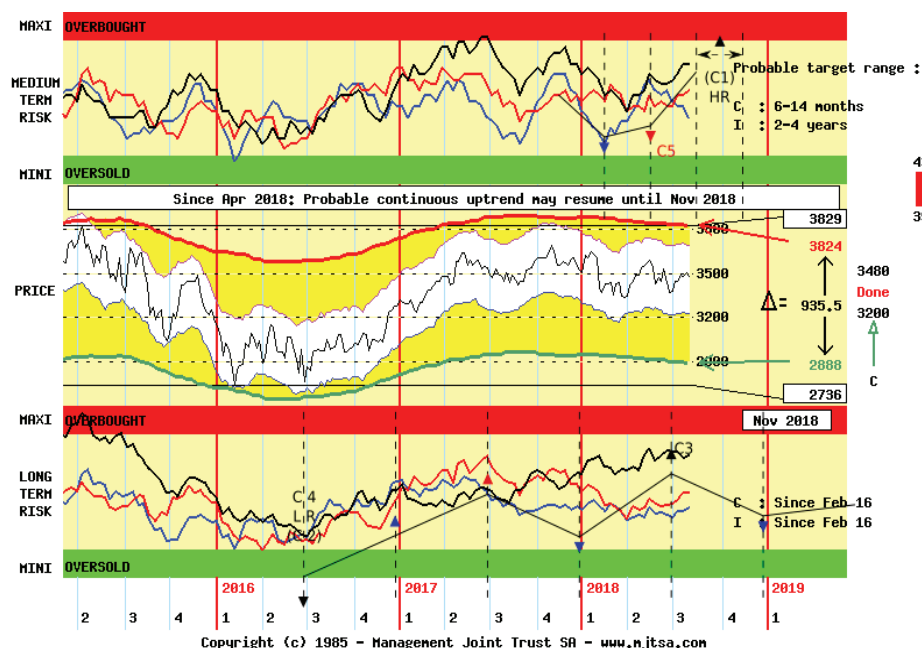


We will hence consider the Japanese market in US Dollar terms, using the EWJ ETF as a proxy. Both oscillator series (lower and upper rectangles) would suggest **further weakness going forward, probably from early/mid August into early, perhaps late September.** Our I Impulsive targets to the downside (right-hand scale) are pointing towards the 55 – 52 USD range, or circa 5 to 10% lower that today. This is relatively benign and probably confirms that **not hedging the Yen exposure could offer some welcome compensation**

for declining Japanese markets (i.e. it's now probably too late in the cycle to hedge your JPY currency exposure when you invest in Japan).

EuroStoxx 50 Index

Weekly graph or the perspective over the next 2 to 4 quarters

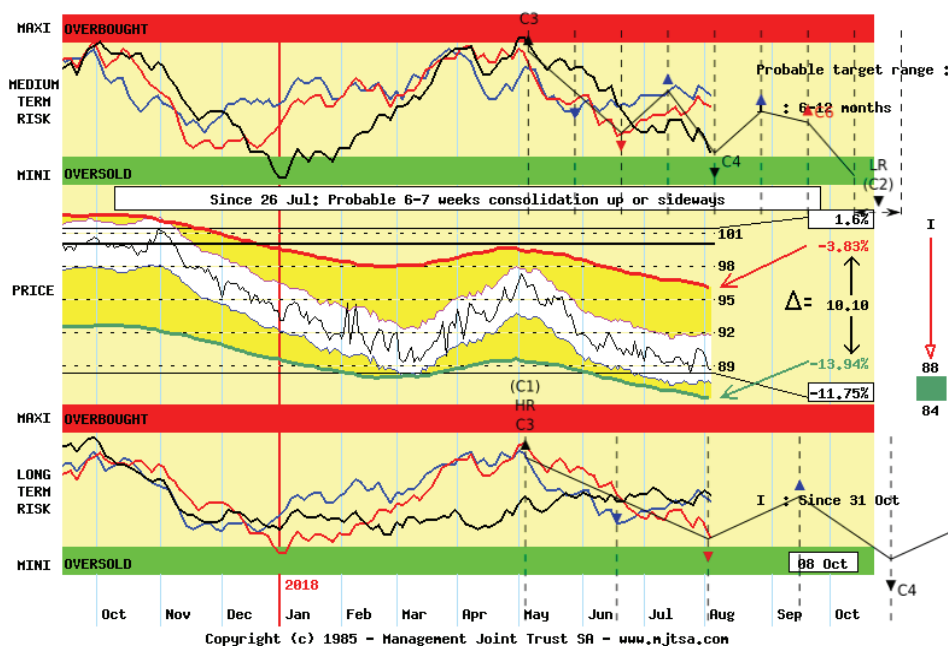


The EuroStoxx 50 has widely deceived since Spring last year. This is mainly because of the strong Euro exchange rate. The fact that the index hasn't managed to break out to new highs in 2018, as the Euro started to weaken again, is in our view a sign of weakness. Indeed, on both our oscillator series (lower and upper rectangles), **the EuroStoxx 50 may have already reached important tops** (lower rectangle), or at best, could be reaching them soon (upper rectangle). As with other indexes, we may expect a first sell-off into late August / September, then a bounce towards October, and then further weakness towards year-end. The downside risk over the next couple of quarters is between

10 and 20% as shown by our C Corrective targets to the downside (right-hand scale). Yet, if their support was to break (a break below their lower end, i.e. below 2'940), the next level of targets is quite scary in the 2'600 – 2'200 range.

EuroStoxx 600 / S&P500 Index (currency hedged ratio)

Daily graph or the perspective over the next 2 to 3 months



We now look at the EuroStoxx 600 vs the S&P500 on a hedged currency basis. The ratio did bounce during March and April as the US Dollar started to rise, yet sold off again, along with EUR/USD as the Italian political crisis started to hit. Since late May, it has been falling again, as EUR/USD has stabilized. Hence, our view is currently that the EuroStoxx 600 can only outperform the S&P500 when EUR/USD declines, and that this will only be the case, if the negative newsflow does not come from Europe. Hence, **a global equity sell-off where the US Dollar acts as a Flight to Quality recipient, may lead to some temporary outperformance for the EuroStoxx 600 vs**

S&P500. This is what both our oscillator series (lower and upper rectangles) may be suggesting between now and late August, perhaps early September.

Concluding remarks

We believe that while US markets are on the verge of topping out, other markets such as Emerging markets, Europe or Japan are getting ready to resume lower again. The fact that the ratio of the Nasdaq 100 vs the S&P500 Index is also topping out, is probably a consequence of the higher beta of the Nasdaq 100 vs the S&P500 rather than the beginning of a wider shift out of Growth and into Value. Indeed, when comparing both, our models do suggest that Growth continues to outperform Value probably into mid Q4 and even perhaps into early 2019. Hence, we expect equity markets to start a first leg down from now into late August / early September, then bounce into October, perhaps even until early November, before they start to sell-off again towards year-end and then Spring next year.