

Ineichen Research and Management ("IR&M") is a research firm focusing on investment themes related to absolute returns and risk management.

**25 November 2016**

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*"We will show that capitalism and free markets continue to be the best way to create prosperity, spread opportunity and give people the chance to a better life.*

*But if we believe in capitalism, free markets and free trade, we must be prepared to adapt."*

—Theresa May, [Financial Times](#),  
21 November 2016

## Risk management research

# Preparations to adapt

- |  | page  |
|--|---|
| • <b>Summary:</b> Overall changes were again positively biased.  | <a href="#">4</a>   |
| • <b>Economic momentum</b> is now mostly positive and improving further. Preliminary PMIs remain above 50 and are rising. Business and consumer sentiment remain rising.   | <a href="#">4-9</a><br><a href="#">10-11</a>  |
| • <b>Earnings momentum</b> is quite stable. Earnings estimates in the UK continue to rise from a low level. Earnings momentum in Europe could be picking up.   | <a href="#">12-15</a>   |
| • <b>Risk:</b> CPI and PPI are rising. The rises are too strong to trivialise. Financial risk has eased a bit. Bond risk is rising continuously.   | <a href="#">61-64</a>   |
| • <b>Notable:</b> US GDP forecasts stopped falling. Europe improving economically is a possibility. The DAX is roughly where it should be. All is well in China. Seasonality looks good for equities. A 15% corporate tax rate is to CEOs what Nutella is to kids. | <a href="#">18</a><br><a href="#">31</a><br><a href="#">34</a><br><a href="#">47-50</a><br><a href="#">60</a><br><a href="#">23</a> |

# Some random remarks

- *We're quite certain that there are more differences between Donald Trump and [Theresa May](#) than there are commonalities. But one thing they seem to share in common is a good understanding of Wriston's Law of Capital. Both are aggressively contemplating to reduce corporate tax.*
- *Brexit and the Trump victory are interesting crowd phenomena. A very optimistic assessment of Brexit and the Trump victory is that there is wisdom in crowds, as it is sometimes claimed, and the continuous stagnation/low growth is reversed. It is well known that when one is in a hole, one ought to stop digging. This means changing the variables, institutions and political establishment that caused the fall into the hole is a good starting point for reform. This would mean changing the socio-economic structure in a way that capital is not ousted but embraced; to allow that capital can move towards opportunity and not towards governmental dependence; towards freedom, and not more repression. This would result in the reformer's productivity—the ultimate source of prosperity—to improve.*
- *There is an element of discomfort of us being positive on China over the past weeks. Many investors name China collapsing as the biggest risk. However, most of what we look at is improving. Our model, PPI (a proxy for investments), the famous Li Keqiang Index, price momentum in equities, etc. We do understand that there is a debt problem and a property craze. However, we also remember investors being bearish on JGBs, starting around 1996. Shorting JGBs has since been named "the widow maker." That call has been wrong for decades, despite the economic rational being sound. We believe there is a parallel. Yes, there might indeed be a day of reckoning in Japan. But, so far, all such forecasts have failed.*

*"Capital will always go where it's welcome and stay where it's well treated... Capital is not just money. It's also talent and ideas. They, too, will go where they're welcome and stay where they are well treated."*

—[Wriston's Law of Capital](#)

# Main messages and important changes

Table lists the most recent main messages from our research reports as well as the most important changes.

IR&M publications	Frequency per year	Page count
Risk management update	20-25	60-100
Flash update	25-50	1-20
Earnings momentum monitor	25-40	3
Price momentum monitor	45-50	5-7
Special report	3-4	20-80

Date	Publication				Main messages and/or important changes	Good news* ?
	Update		Momentum mon.			
	Main	Flash	EPS	Price		
25-Nov	✓				Overall changes were positively biased; both fundamentals and technicals.	Y
25-Nov	✓				US CEO confidence has risen sharply.	Y
25-Nov	✓				Europe doing well economically is difficult to fathom but not entirely unthinkable.	Y
25-Nov	✓				Nearly everything we look at in China is positive.	Y
21-Nov		✓			Economic momentum reaches new peak since March 2011.	Y
21-Nov		✓			The "EU blow-up trade" is gaining momentum.	N
21-Nov		✓			The move from government bonds into hedge funds is starting to pay off.	
21-Nov			✓		EPS momentum in China's CSI 300 index turned positive.	Y
21-Nov				✓	Switzerland's SMI, Frontier markets and the Philippines turned negative.	N
14-Nov		✓			Political risks have risen.	N
14-Nov		✓			Economic momentum in the four BRICs remains positive.	Y
14-Nov		✓			Business and consumer confidence continues to rise, generally.	Y
14-Nov			✓		EPS momentum in Spain and Switzerland turned positive.	Y
14-Nov				✓	US election week was a non-event; what's rising continues to rise.	Y
07-Nov		✓			A global economic risk gauge implies all is well.	Y
07-Nov		✓			According to our interpretation, US non-farm payrolls do not imply recession.	Y
07-Nov			✓		EPS momentum in US Industrials turned negative.	N
07-Nov				✓	US: Long-term price momentum has started to turn negative in the US.	N
03-Nov	✓				Overall changes were positively biased; mainly the fundamentals but not the technicals.	
03-Nov	✓				Economic momentum in UK, Italy, China and Japan turned positive.	Y
31-Oct		✓			Economic, business, and consumer confidence continues to rise, generally.	Y
31-Oct		✓			Europe/Eurozone: Many economic data points continue to surprise positively.	Y
31-Oct		✓			European banks: turned positive 12-17 weeks after point of maximum bearishness.	Y

Source: IR&M. \*Good news from an economic point of view and/or from the perspective of the investor who is long equities, bonds, commodities, etc.

# Changes: strong positive bias

Table shows a summary of IR&M's economic models, macro surprises, earnings, IR&M's perceived economic trend, and some technical stock market trend indicators. Changes vs. last update are circled. The insert shows recent history of the "positive-negative change ratio".

The relationship between positive and negative changes was 14:4, i.e., a strong positive bias. The ratio compares to 9:8 in our last update. Note that "100" means highest level since 2006. In our last risk management update the EPS column was all green. We don't think that happened very often. See also next page.

Update from:	Positive-negative ratio	
03-Nov	9:8	↑
14-Oct	18:3	↑
28-Sep	14:6	↑
08-Sep	8:8	=
18-Aug	6:7	↓
29-Jul	1:6	↓
14-Jul	20:1	↑
29-Jun	11:11	=
10-Jun	9:8	↑
27-May	15:8	↑
13-May	16:7	↑
28-Apr	17:3	↑
12-Apr	6:5	↑
30-Mar	10:2	↑

	Fundamentals				IR&M's perceived economic trend			Technicals		
	IR&M Models				Surprises*	EPS**		Moving averages****		
	Percentile 2006-)	Change*** (3 Nov)	Average (100-day)	Above aver.?		Change (3M)		50D	200D	50D> 200D?
25 Nov 16										
Global	77	5.3	Rising	Yes	Positive	0.2%	Improving.	Rising	Rising	Yes
US	95	3.5	Rising	Yes	Positive	2.0%	Improving.	Rising	Rising	Yes
Europe	100	7.4	Rising	Yes	Positive	5.1%	Improving.	Rising	Rising	Yes
Germany	99	6.7	Rising	Yes	Negative	2.3%	Improving.	Rising	Rising	Yes
France	49	0.1	Rising	Yes	Negative	4.0%	Improving (change from inflection point)	Rising	Rising	Yes
Italy	67	2.4	Rising	Yes	Positive	6.8%	Improving.	Falling	Falling	No
UK	79	-0.4	Rising	Yes	Positive	10.3%	Improving.	Rising	Rising	Yes
Switzerland	89	5.5	Rising	Yes	Positive	2.6%	Improving.	Falling	Rising	No
Japan	87	3.1	Rising	Yes	Positive	1.8%	Improving.	Rising	Rising	Yes
China	13	1.2	Rising	Yes	Positive	0.6%	Improving.	Rising	Rising	Yes
Australia	24	2.3	Falling	Yes	Negative	4.7%	At inflection point.	Rising	Rising	Yes
EmMa	40	1.2	Rising	Yes	Negative	-1.0%	Improving.	Falling	Rising	Yes

Notes: EmMa stands for Emerging Markets. \* Surprises (of top-down macro factors) are from Citigroup except Germany, France, and Italy (which are our own). \*\* Change in 12-month forward earnings estimates since last update. \*\*\* Change in percentile points since last update. \*\*\*\* Moving averages of main equity indices. Equity indices: FTSE World, S&P 500, Europe STOXX 600, DAX, CAC, FTSEMIB, FTSE 100, SMI, Nikkei 225, Shanghai Composite, S&P/ASX 200, MSCI Emerging Markets.

# Changes page in March 2016

This is how the previous page looked in March of this year. This means “all red” is good. What is important is the change, i.e., whether the situation is “improving” or “worsening”. If “all red” is good,” then, analogously, “all green” is bad. The thing to watch now is when page four starts to turn red again. At the moment, page 4 is still “improving”.

Risk Management Research Update

Economy

Valuation

Risk

# Changes: small negative bias

Table shows a summary of IR&M's economic models, macro surprises, earnings, IR&M's perceived economic trend, and some technical stock market trend indicators. Changes vs. last update are circled. The insert shows recent history of the "positive-negative change ratio".

The relationship between positive and negative changes was 2:4, i.e., a small negative bias. This ratio compares to 2:12 in our last update. Note that the percentile column shows you whether something is falling from a high or from a low. From risk management point of view, falling out of the window from the first or tenth floor is a big difference.

Update from:	Positive-negative ratio	
05-Feb	2:12	↓
05-Feb	1:8	↓
22-Jan	1:7	↓
07-Jan	7:13	↓
17-Dec	3:16	↓
25-Nov	17:4	↑
06-Nov	10:4	↑
23-Oct	4:8	↓
09-Oct	4:14	↓
24-Sep	3:6	↓
11-Sep	1:11	↓

	Fundamentals	IR&M's perceived economic trend	Technicals						
	IR&M Models	Surprises*	EPS**	Moving averages****					
	Percentile (2006-)	Change*** (25 Feb)	Average (100-day)	Above aver.?	Change (3M)		50D	200D	50D> 200D?
10 Mar 16									
Global	63	-1.9	Falling	No	Negative	-2.6%	Declining.	Falling	No
US	82	1.0	Falling	No	Negative	-2.4%	Declining.	Falling	No
Europe	69	-5.9	Falling	No	Negative	-5.7%	Declining.	Falling	No
Germany	57	1.4	Falling	No	Positive	-2.0%	Declining.	Falling	No
France	70	-4.1	Falling	No	Negative	-2.9%	Declining (change from inflection point)	Falling	No
Italy	81	1.4	Rising	No	Negative	-6.0%	Inflection point.	Falling	No
UK	64	-7.6	Falling	No	Positive	-4.9%	Declining.	Falling	No
Switzerland	61	0.2	Falling	No	Positive	-6.1%	Declining.	Falling	No
Japan	80	-5.6	Falling	No	Negative	-3.1%	Declining.	Falling	No
China	2	-0.9	Falling	No	Negative	-6.0%	Declining.	Falling	No
Australia	6	-0.8	Falling	No	Negative	-4.7%	Declining.	Falling	No
EmMa	30	-0.2	Falling	No	Negative	-4.0%	Declining.	Falling	No

Notes: EmMa stands for Emerging Markets. \* Surprises (of top-down macro factors) are from Citigroup except Germany, France, and Italy (which are our own). \*\* Change in 12-month forward earnings estimates since last update. \*\*\* Change in percentile points since last update. \*\*\*\* Moving averages of main equity indices.

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# Summary

Table shows tick-the-box approach to three types of momentum and the sum of positive ticks. Changes since last update are circled. Small inserted table shows summary as of 25 February 2016. For markets, change of circumstances is more important than status quo.

For as long as we can remember, the US had always more points than the Eurozone. No more. (It's probably because we use latest PMI for this which includes November preliminary PMI for Eurozone but not for the US.)

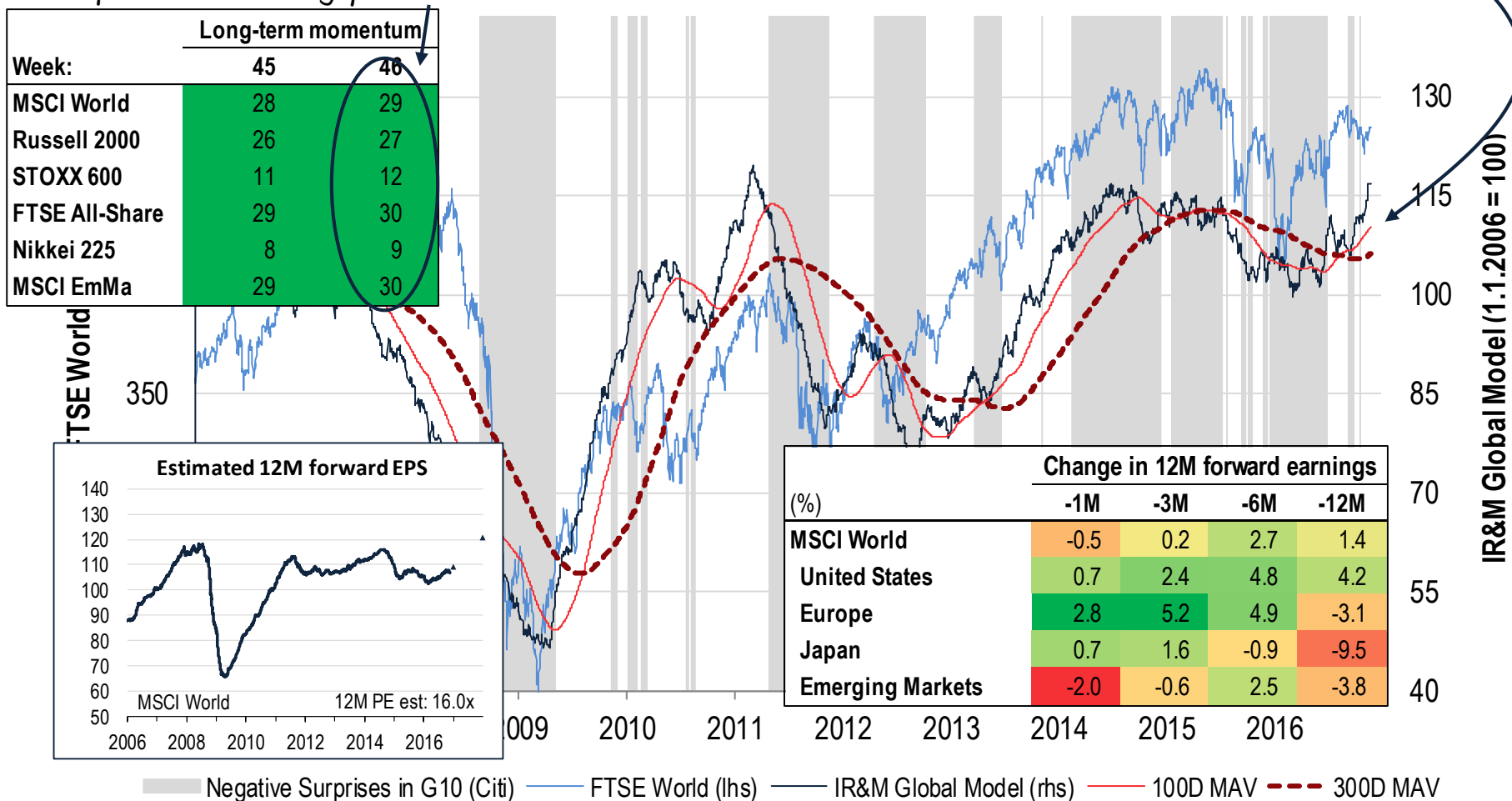
As of 25 Feb 2016	US	UK	Eurozone*	Germany	Japan	China
<b>Price momentum</b>						
Long-term momentum main index positive						
Long-term momentum Financials positive						
Long-term momentum 10-year yields falling	✓	✓	✓	✓	✓	✓
Long-term momentum 5-year CDS spreads falling	✓	✓	✓	✓	✓	✓
Long-term FX momentum rising	✓				✓	
<b>Economic momentum</b>						
IR&M economic momentum (average) rising						
GDP y/y growth > 2%						✓
Industrial y/y production > 2%						✓
PMI 3-month moving average rising						✓
<b>Earnings momentum</b>						
Long-term momentum country index positive					✓	
Long-term momentum Financials positive						
<b>Bottom line</b>						
Sum of ticks (=13)	2	1	1	1	4	4

As of 25 Nov 2016	US	UK	Eurozone*	Germany	Japan	China
<b>Price momentum</b>						
Long-term momentum main index positive	✓	✓	✓	✓	✓	✓
Long-term momentum Financials positive	✓	✓	✓	✓	✓	✓
Long-term momentum 10-year yields falling		✓				✓
Long-term momentum 5-year CDS spreads falling		✓	✓			✓
Long-term FX momentum rising	✓				✓	
<b>Economic momentum</b>						
IR&M economic momentum (average) rising	✓	✓	✓	✓	✓	✓
GDP y/y growth > 2%		✓				✓
Industrial y/y production > 2%						✓
PMI 3-month moving average rising		✓	✓	✓	✓	✓
<b>Earnings momentum</b>						
Long-term momentum country index positive	✓	✓		✓		
Long-term momentum Financials positive	✓	✓	✓	✓	✓	
<b>Bottom line</b>						
Sum of ticks (=41)	6	9	6	6	6	8

Source: IR&M, Bloomberg. \*Momentum in Financials (price and earnings) and IR&M economic momentum refer to Europe.

# Global economy: improving

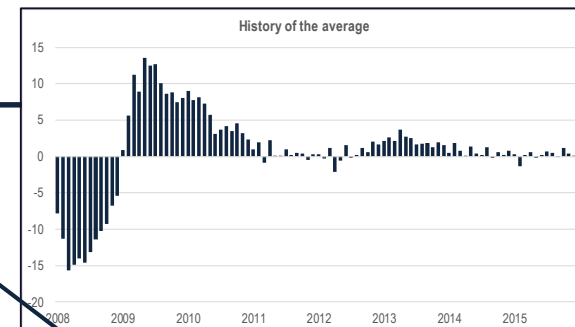
Our main gauge for global economic momentum, the thin red line in the chart, remains rising. Macro surprises at the G10 level are positive. The earnings momentum table has improved in Europe and worsened in Emma since our last update. Price momentum in equities is mostly positive.



Source: IR&M, Bloomberg. Model consists of 20 indicators and is designed to give a data point nearly every day. The model is work in progress. Earnings are based on consensus estimates. EPS is based on MSCI indices. The two dots in the lower left chart are estimates for 2017 and 2018.

# Industr. production: flat

Industrial production (IP) is perceived as a coincident economic indicator but is of higher frequency than GDP data.



Nov 2008 to Jul 2016

	Aug	Sep	Oct	△	SD
Average	1.2	0.4	0.1	↓	
US	-1.1	-1.0	-0.9	↑	
Canada	-1.3	-0.5	n.a.	↑	
Brazil	-5.0	-4.8	n.a.	↑	
Mexico	0.2	-1.3	n.a.	↓	
Eurozone	2.2	1.2	n.a.	↓	
Germany	2.4	1.2	n.a.	↓	
France	0.4	-1.1	n.a.	↓	
Italy	4.4	1.8	n.a.	↓	
Spain	4.2	0.6	n.a.	↓	●
Netherlands	1.8	2.4	n.a.	↑	
UK	0.7	0.3	n.a.	↓	
Turkey	2.2	-3.1	n.a.	↓	●
Sweden	-5.0	1.5	n.a.	↑	●
Norway	-7.5	-5.6	n.a.	↑	
China	6.3	6.1	6.1		
Japan	4.5	1.5	n.a.	↓	
India	-0.7	0.7	n.a.	↑	
Russia	0.7	-0.8	-0.2	↑	
South Korea	2.2	-2.0	n.a.	↓	
Indonesia	6.1	-0.5	n.a.	↓	●
Taiwan	7.8	4.6	3.7	↓	
Singapore	0.8	7.7	1.2	↓	●

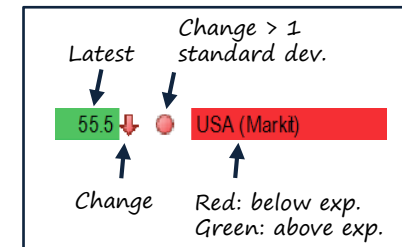
Lower and below expectations of +5.3%.

Sharp fall to +1.2% but above expectations of +1.0% and October was revised upwards.

Source: IR&M, Bloomberg. Notes: Based on y/y industrial production. Industrial production is generally perceived as a lagging indicator. The average is equal weighted. In the case of a figure not available, the previous one is used to calculate the latest average. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot. If name is green/red, latest figure is better/worse than expected.

# PMI: above 50 and rising

Some preliminary PMI were released. The most extreme figure was a two standard deviation rise of Eurozone's services PMI.



## Manufacturing

3-year		Dec 2013 to Sep 2016				Oct	Nov	Δ *	
High	Low								
55.7	48.1					52.7	52.7		Average
58.1	48.0					51.9	n.a.		USA (ISM)
57.9	50.7					53.4	53.9	↑	USA (Markit)
55.3	47.5					51.1	n.a.		Canada (Markit)
54.4	50.6					53.4	n.a.		EU (Markit)
54.0	50.1					53.5	53.7	↑	Eurozone (Markit)
56.5	49.5					55.0	54.4	↓	Germany (Markit)
52.1	46.9					51.8	51.5	↓	France (Markit)
57.7	48.2					54.3	n.a.		UK (Markit)
57.0	51.7					55.7	n.a.		Netherlands (Markit)
55.6	48.4					50.9	n.a.		Italy (Markit)
55.8	50.8					53.3	n.a.		Spain (Markit)
56.8	47.0					54.7	n.a.		Switzerland (CS)
58.4	50.7					58.4	n.a.		Sweden (Swedbank)
54.0	43.5					52.7	n.a.		Norway (Danske Bank)
56.6	47.7					51.4	51.1	↓	Japan (Markit/JMMA)
58.1	44.2					50.9	n.a.		Australia (AIG)
58.8	49.8					55.2	n.a.		New Zealand (BoNZ)
56.1	46.1					52.7	n.a.		Taiwan (Markit)
51.1	46.1					48.0	n.a.		South Korea (Markit)
53.3	44.4					48.2	n.a.		Hong Kong (Markit)**
51.9	48.5					50.0	n.a.		Singapore (SloPMM)

## Services

3-year															
High	Low	Dec 2013 to Sep 2016										Oct	Nov	△ *	
57.2	49.4											53.3	53.6	↑	Average
59.6	51.4											54.8	n.a.		USA (ISM Non-Man.)
61.0	49.7											54.8	n.a.		USA (Markit)
55.4	51.5											53.3	n.a.		EU (Markit)
54.4	51.0											52.8	54.1	↑	Eurozone (Markit)
56.7	50.9											54.2	55.0	↑	Germany (Markit)
54.1	47.2											51.4	52.6	↑	France (Markit)
60.5	47.4											54.5	n.a.		UK (Markit)
55.3	47.9											51.0	n.a.		Italy (Markit)
60.3	52.7											54.6	n.a.		Spain (Markit)
59.8	52.6											57.6	n.a.		Sweden (Swedbank)
53.7	46.4											50.5	n.a.		Japan (Markit)
55.6	43.6											50.5	n.a.		Australia (AIG)

Source: IR&M, Bloomberg. Notes: PMI stands for Purchasing Manager Index and is a diffusion index. A figure above 50 means the economy is improving, below 50 means the economy is worsening. The average is equally weighted. \*The direction of the latest change is shown with an arrow. Changes larger than one standard deviation are marked with a red or green dot. A green/red highlight means figure was better/worse than expected.

# Business sentiment: rising

*The most important thing  
Sentiment is rising.*

Table shows a selection of indicators for business sentiment. The average is measured as average percentile of the indicators. A 4-point move of the average represents one standard deviation.

The average rose by 0.7 standard deviation (sd) in July and fell by 1.2 sd in August. The September rise was 1.2 sd and the October rise was a 0.2 sd rise. November is a 0.2 sd rise so far. The most recent peak of the average was at 73.1 in April 2014.

Dec 2007 to Aug 2016

	Sep	Oct	Nov	△	SD	
	67.2	68.2	69.1	↑		Average
Higher by 1.7 sd and above expectations.	-2.0	-6.8	1.5	↑		US: Empire State Fed
	12.8	9.7	7.6	↓		US: Philadelphia Fed
	-8.0	-4.0	4.0	↑	●	US: Richmond Fed
	-3.7	-1.5	n.a.	↑		US: Dallas Fed
Non-events.	-0.2	-0.1	n.a.	↑		US: Chicago Fed
	94.1	94.9	n.a.	↑		US: NFIB small biz opt.
	12	12	n.a.	↑		Canada: BoC
	53.7	52.3	n.a.	↓		Brazil: CNI
	0.44	0.55	n.a.	↑		Eurozone: EC
	109.5	110.4	110.4			Germany: IFO
	103	103	103			France: INSEE
	102.1	103.0	n.a.	↑		Italy: ISEA
	-2.2	-1.8	-1.8			Belgium: NBB
	24	37	n.a.	↑	●	UK: Lloyds
	2.7	5.2	8.9	↑		Switzerland: ZEW/CS
	-5.0	-6.0	n.a.	↓		Russia: FSSS
	50.4	51.2	n.a.	↑		China: CFLP
	47.7	48.3	n.a.	↑		Japan: Small biz (SCB)
	6.0	4.0	n.a.	↓		Australia: NAB Conf.
	74	75	72	↓		South Korea: BoK
	27.9	24.5	n.a.	↓		New Zealand: NBNZ

Source: IR&M, Bloomberg. Notes: The average is equal weighted and is calculated from percentiles. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot.

# Consumer sentiment: rising

*The most important thing  
Sentiment is rising.*

Table shows a selection of indicators for consumer sentiment. The average is measured as average percentile of the indicators. A 4-point move of the average represents one standard deviation.

The average has peaked at 78 in March 2015 and oscillated downwards since then. May and June were both 0.7 standard deviation (sd) rises. July was a 1.0 sd fall, and August a 0.3 sd rise. September was a 0.5 sd rise and October and November are +0.01 sd and +0.3 rises so far.

Jan 2008 to Sep 2016

	Oct	Nov	Dec	△	SD	
	70.8	71.8	n.a.	↑		Average
	87.2	93.8	n.a.	↑		● US: UoMichigan
	98.6	n.a.	n.a.	↓		US: Conf Board
	99.6	n.a.	n.a.	↓		● Canada: OECD
	82.4	79.1	n.a.	↓		● Brazil: FGV
	85.0	n.a.	n.a.	↑		Mexico: INEGI
	-8.0	-6.1	n.a.	↑		● Eurozone: EC
	10.0	9.7	9.8	↑		Germany: GfK
	98	98	n.a.			France: INSEE
	108.0	n.a.	n.a.	↓		Italy: ISTAT
	-4.8	n.a.	n.a.	↑		Spain: EC
	12	12	n.a.			Netherlands: CBS
	1.2	0.9	n.a.	↓		Denmark: DNB
	97.3	n.a.	n.a.	↓		Ireland: IIB
	-63.6	n.a.	n.a.	↑		Greece: EC
	-3	n.a.	n.a.	↓		UK: GfK
	n.a.	n.a.	n.a.	↑		Switzerland: UBS
	104.8	105.8	n.a.	↑		Sweden: NIER
	n.a.	n.a.	n.a.	↓		China: NBSC
	42.3	n.a.	n.a.	↓		Japan: ESRI
	102.4	101.3	n.a.	↓		Australia: Westpac
	101.9	n.a.	n.a.	↑		South Korea: BoK
	122.9	127.2	n.a.	↑		New Zealand: ANZ

*The final figure for November was revised upwards to 93.8 for a 1.6 sd rise in November.*

*A 1.1 sd rise.*

*Smallest of upticks.*

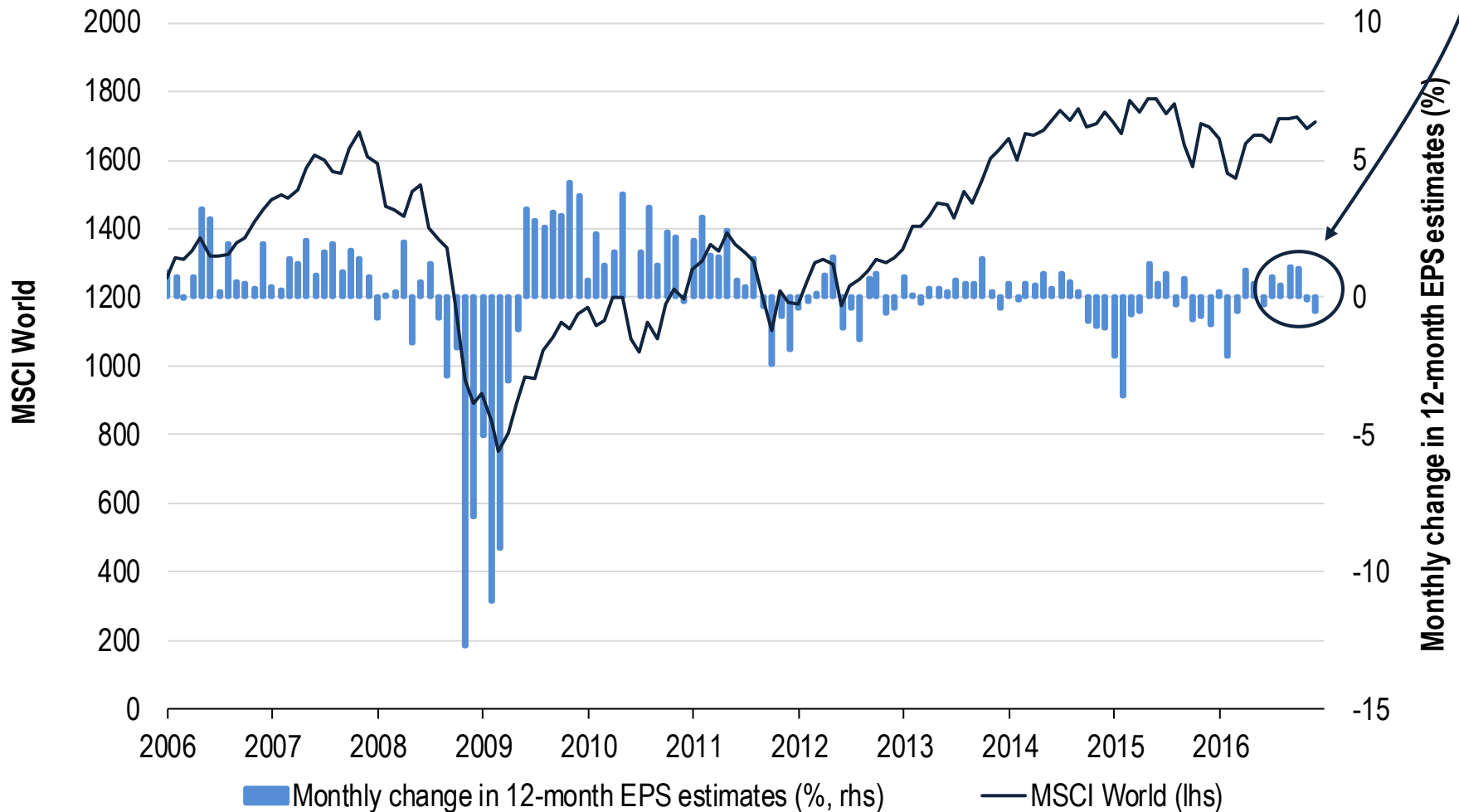
*Falling continuously.*

*Rising continuously.*

Source: IR&M, Bloomberg. Notes: The average is equal weighted and is calculated from percentiles. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot.

# Earnings estimates: rising moderately

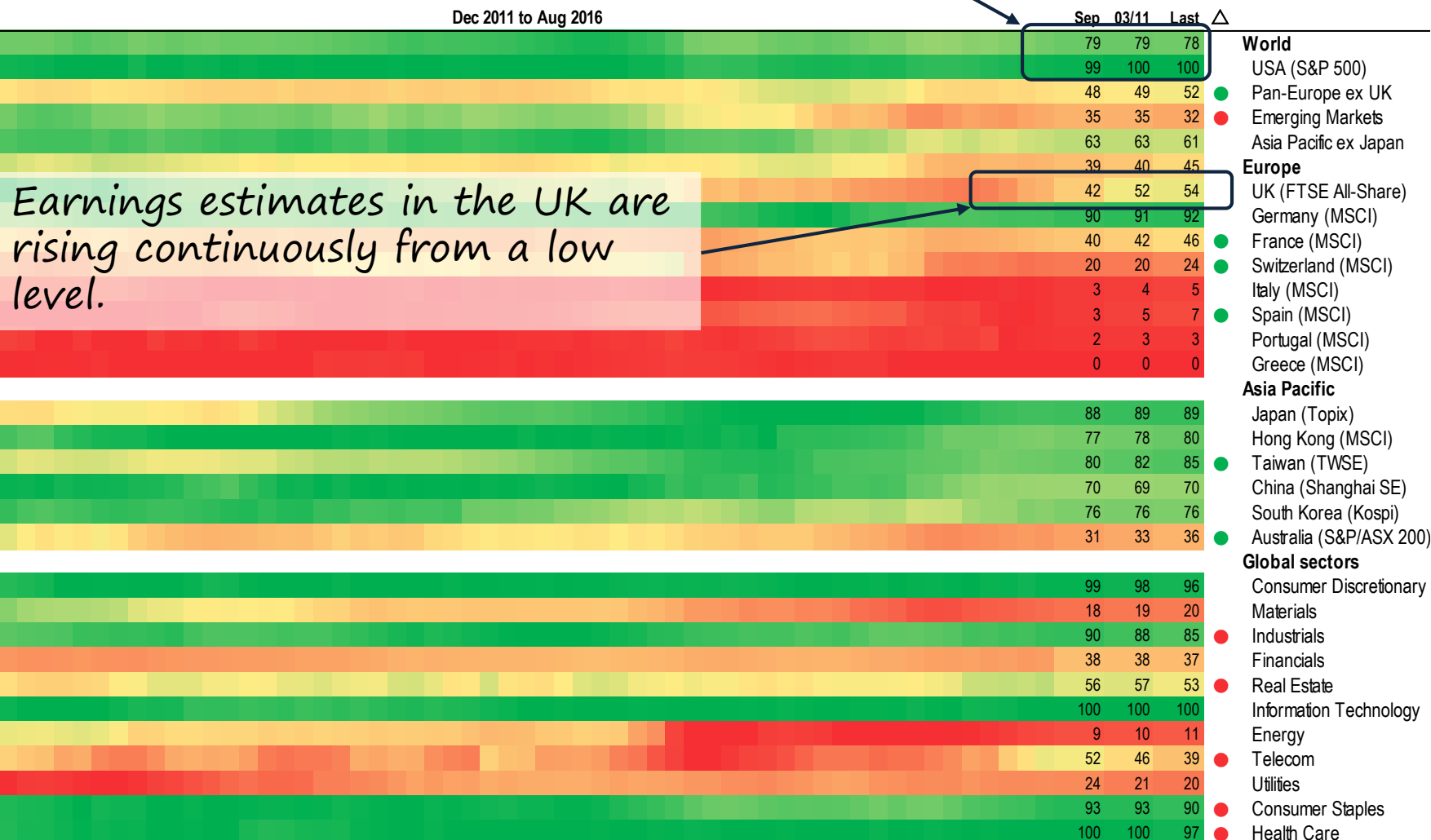
*We do not spot any red flags emanating from an MSCI World earnings estimates perspective.*



Source: IR&M, Bloomberg. Notes: Based on 12-month consensus earnings estimates.

# Earnings estimates: reasonably stable

Dec 2011 to Aug 2016



Source: IR&M, Bloomberg. Notes: Based on 12-month consensus earnings estimates. Data is shown in percentile terms. 0=5-year low; 100=5-year high. Dots mark changes > two percentile points. Real Estate was split from Financials as of 1<sup>st</sup> September 2016 to form the 11<sup>th</sup> GICS sector.

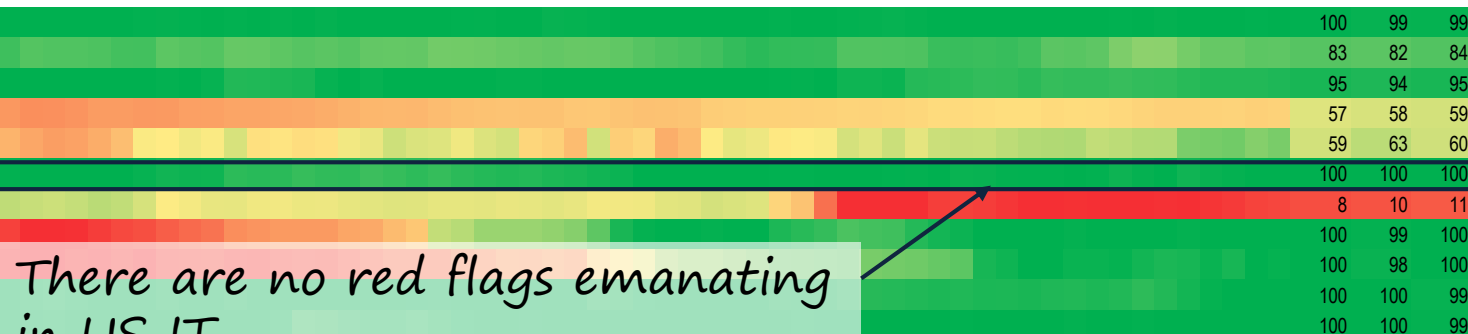
# Earnings sector comparison

Dec 2011 to Aug 2016

Sep 03/11 Last  $\Delta$ 

## US sectors

Consumer Discretionary  
Materials  
Industrials  
Financials  
Real Estate  
Information Technology  
Energy  
Telecom  
Utilities  
Consumer Staples  
Health Care



There are no red flags emanating in US IT.

## European sectors

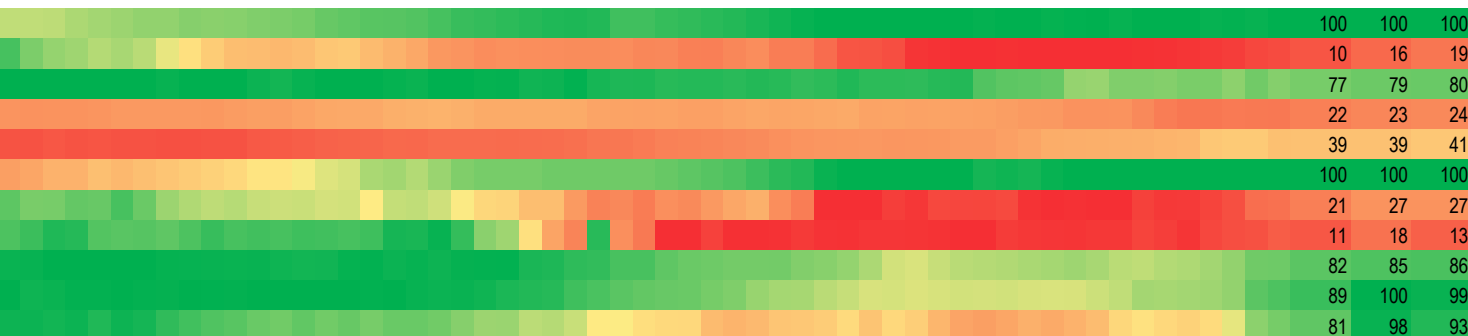
Consumer Discretionary  
Materials  
Industrials  
Financials  
Real Estate  
Information Technology  
Energy  
Telecom  
Utilities  
Consumer Staples  
Health Care



Earnings estimates have risen mainly in Europe since our last update.

## UK sectors

Consumer Discretionary  
Materials  
Industrials  
Financials  
Real Estate  
Information Technology  
Energy  
Telecom  
Utilities  
Consumer Staples  
Health Care



Source: IR&M, Bloomberg. Notes: Based on 12-month consensus earnings estimates. Data is shown in percentile terms. 0=5-year low; 100=5-year high. Dots mark changes > two percentile points. Real Estate was split from Financials as of 1<sup>st</sup> September 2016 to form the 11<sup>th</sup> GICS sector.

# US vs Europe sector comparison

There were two changes since our last update from 3<sup>rd</sup> November. Earnings momentum in Industrials is positive in Europe and negative in the US (which is a bit inconsistent with the market's immediate response to the Trump victory). Price momentum in Consumer Staples turned both negative over the past three weeks.

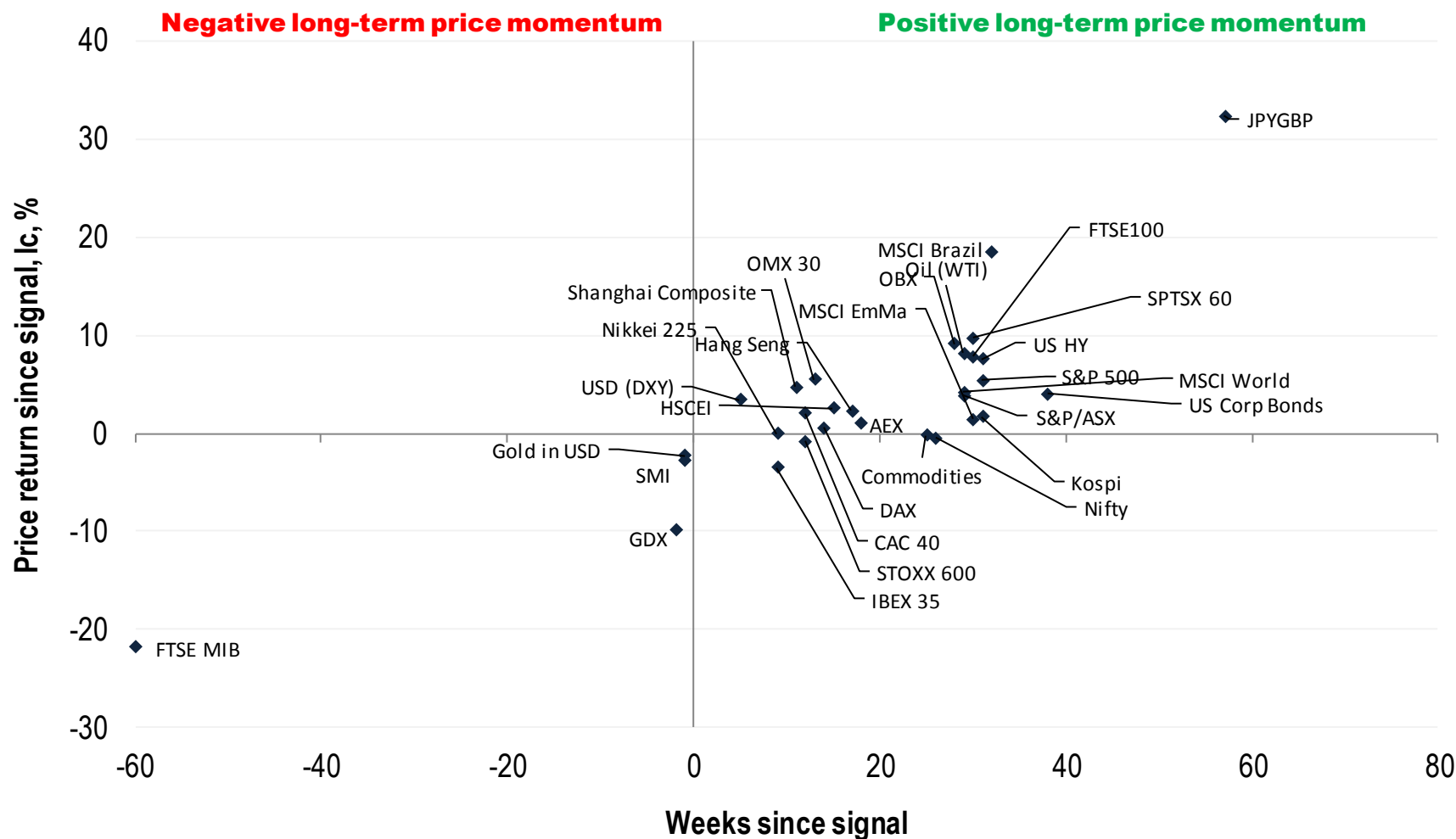
		Earnings momentum			Price momentum			YTD Performance			Sector weights, %**	
Week no:		45	46	Winner	45	46	Winner	TR, %*	Winner	Weight	Diff.	
High ↑ Cyclicality	Cons. Discretionary	USA	385	386	USA	30	31	USA	<div></div> 6.2	USA	12.7	
		Europe	8	9		7	8		<div></div> -6.7		13.2	0.5
	Materials	USA	21	22	USA	31	32	USA	<div></div> 14.4		2.7	
		Europe	16	17		27	28		<div></div> 25.4	Europe	8.3	5.6
	Industrials	USA	-2	-3		33	34	USA	<div></div> 17.7	USA	9.8	
		Europe	10	11	Europe	14	15		<div></div> 5.8		13.5	3.7
	Financials	USA	8	9	USA	25	26	USA	<div></div> 16.6	USA	14.2	
		Europe	-52	1		4	5		<div></div> -5.9		18.5	4.3
	Real Estate	USA	-7	-8		-2	-3	USA	<div></div> -4.1	USA	2.6	
		Europe	11	12	Europe	-3	-4		<div></div> -8.4		1.6	-1.0
↓ Low	IT	USA	19	20	USA	31	32	USA	<div></div> 11.3	USA	23.1	
		Europe	9	10		14	15		<div></div> 0.0		3.9	-19.1
	Energy	USA	13	14		29	30	USA	<div></div> 23.1	USA	6.7	
		Europe	17	18	Europe	26	27		<div></div> 19.4		6.5	-0.2
	Telecom	USA	77	78	USA	-4	-5	USA	<div></div> 13.8	USA	2.3	
		Europe	14	15		-60	-61		<div></div> -17.5		4.2	1.9
	Utilities	USA	26	27	USA	-4	-5	USA	<div></div> 9.1	USA	2.8	
		Europe	-60	-61		-6	-7		<div></div> -11.5		3.8	1.0
	Consumer Staples	USA	28	29	USA	-2	-3		<div></div> 1.5	USA	10.0	
		Europe	18	19	Europe	-1	-2		<div></div> -5.3		14.7	4.7
Low	Health Care	USA	381	382	USA	-1	-2	USA	<div></div> -3.6	USA	13.1	
		Europe	15	16		-5	-6		<div></div> -14.6		11.8	-1.3
US wins:		73%			91%			91%				

Source: IR&M, Bloomberg. Momentum is based on IR&M methodology using sector indices from S&P for US and MSCI for Europe and measured in weeks since signal occurred. Earnings momentum for US Real Estate is based on MSCI US Real Estate Index. \*TR=Total return in local currency. \*\*Sector weights are approximations and are based on market cap from stocks in S&P 500 and STOXX Europe 600 indices.

# Price momentum vs performance

Chart compares long-term price momentum in weeks (horizontal axis) and price return in local currency since signal for a selection of investments.

When we showed this graph on 3<sup>rd</sup> November, the lower left quadrant was only populated by one. Currently there are four investments in that quadrant. We suspect that there is a trend towards the “population” of that lower left quadrant.

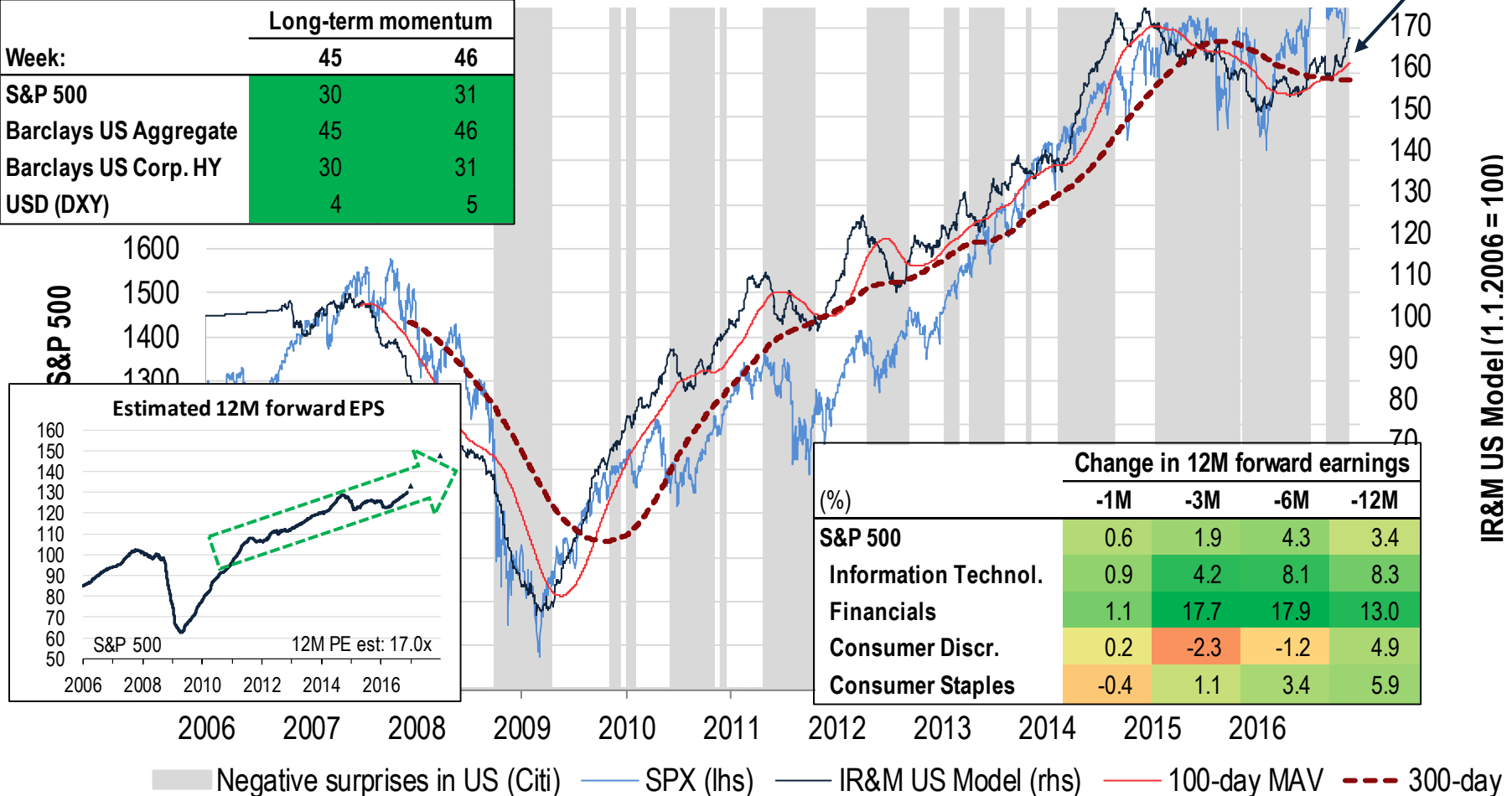


Source: IR&M, Bloomberg. Long-term momentum is based on IR&M methodology whereby weeks are counted since signal.

# US economy: improving

Our gauge for economic momentum, the thin red line, remains rising. Macro surprises are on and off lately, most often negative, but positive at the time of writing. The earnings estimates table has not changed much since our last update. (Something “bad happening” in IT is the thing to watch out for.) Price momentum for the three main asset classes remains positive, the USD having turned positive just recently.

	Long-term momentum	
Week:	45	46
S&P 500	30	31
Barclays US Aggregate	45	46
Barclays US Corp. HY	30	31
USD (DXY)	4	5

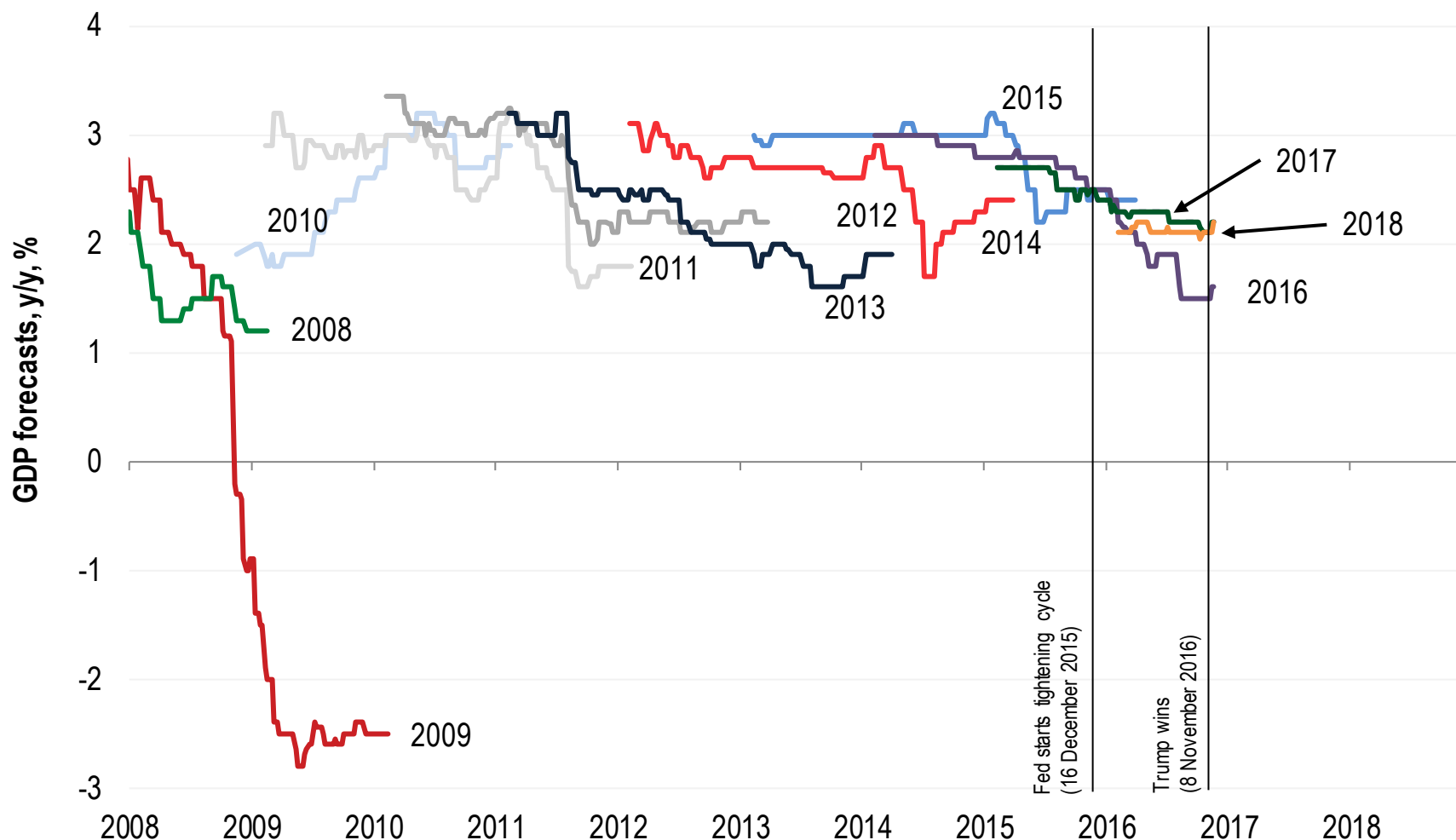


IR&amp;M US Model (1.1.2006 = 100)

Source: IR&M, Bloomberg. Note: Model consists of 31 indicators and is designed to give a data point nearly every day. Earnings are based on consensus estimates. The two dots in the lower left chart are estimates for 2017 and 2018.

# US GDP forecasts: **stopped falling?**

*Optically, it looks as if GDP forecasts stopped falling.*

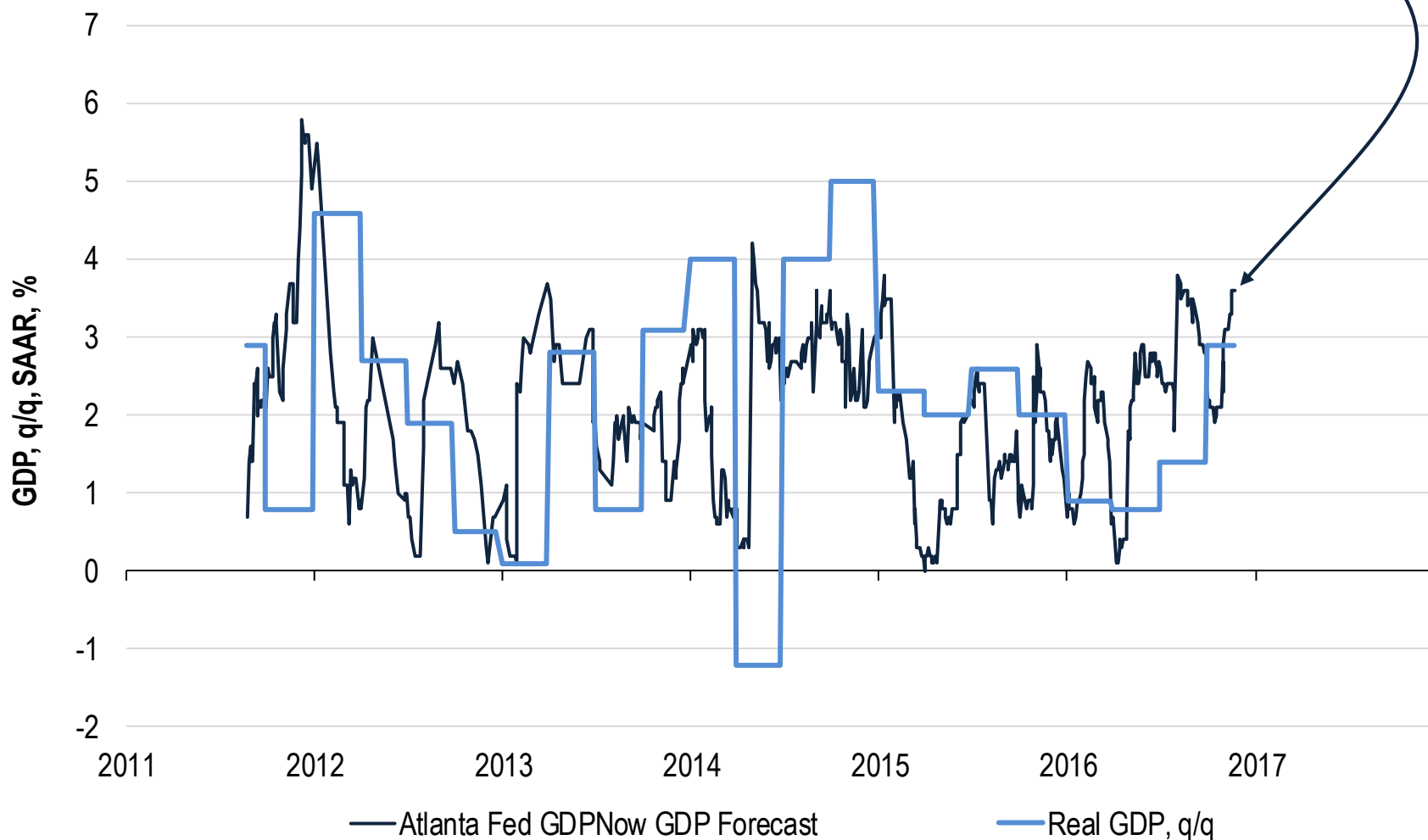


Source: IR&M, Bloomberg. Chart shows consensus real GDP growth estimates (QoQ, SAAR).

# US GDPNow\* forecast: rising

Chart contrasts real GDP growth with GDPNow, a nowcasting model.

*This model has been rising since mid-October, i.e., independent from Trump's victory.*

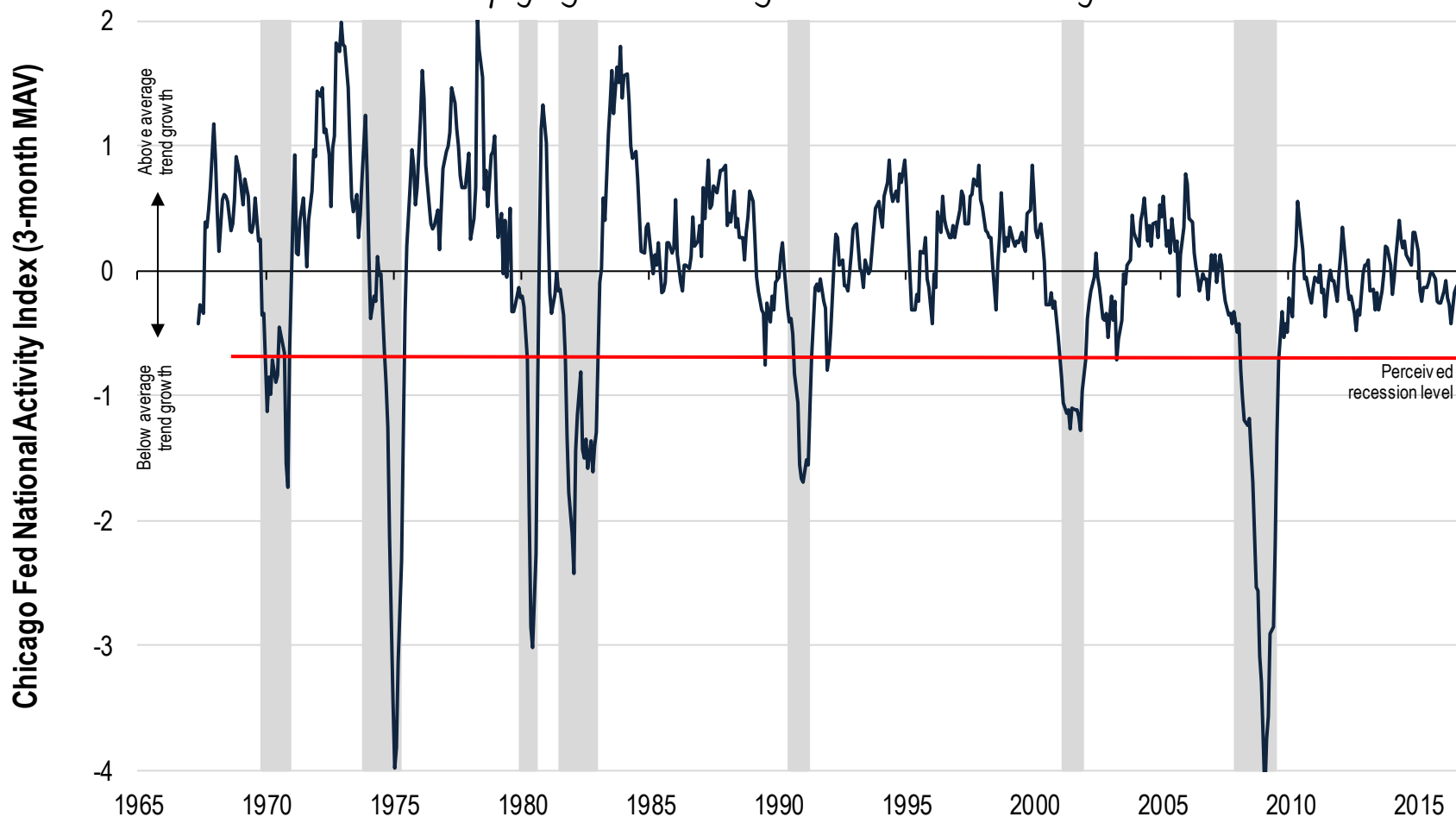


Source: IR&M, Bloomberg, Federal Reserve Bank of Atlanta. \*Atlanta Fed's GDPNow forecasting model provides a "nowcast" of the official estimate prior to its release.

# National Activity Ind.: **sub-trend growth**

A negative number means growth is below trend; below  $-0.7$  the economy is perceived to be in recession.

(The three-month moving average of) this indicator at  $-0.27$  for October is below zero but up from  $-0.42$  in May. The actual figure was  $-0.08$  (not shown) which was a bit below expectations of  $0.0$ . This slide has been implying sub-trend growth since February 2015.

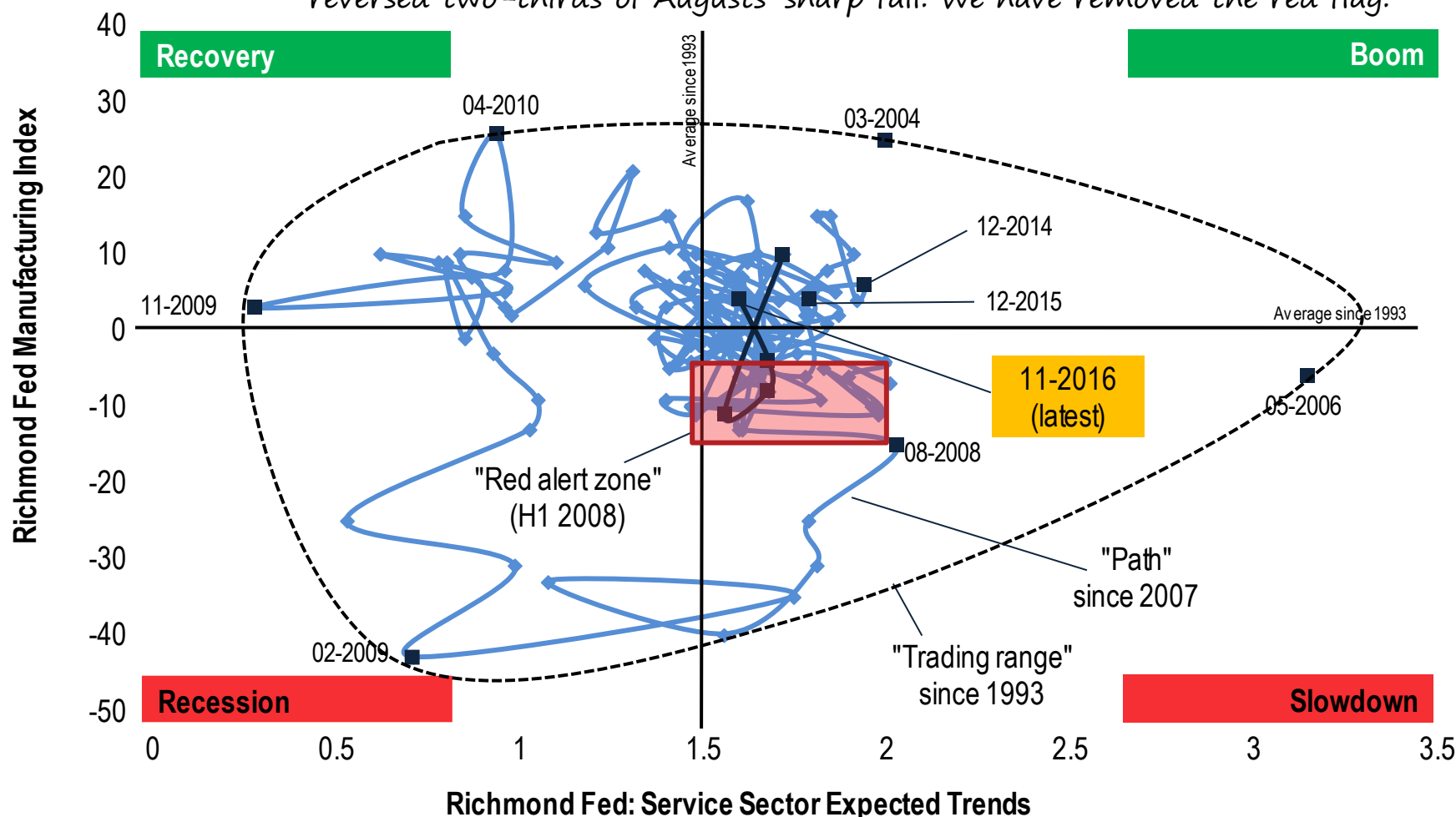


Source: IR&M, Bloomberg. Note: The Chicago Fed National Activity Index are based on 85 national economic indicators. The insert relates the index (CFNAI) with real y/y GDP since 1967.

# Richmond Fed: no red flag

Indicator (vertical axis) is a diffusion index and above 0 means economic expansion.

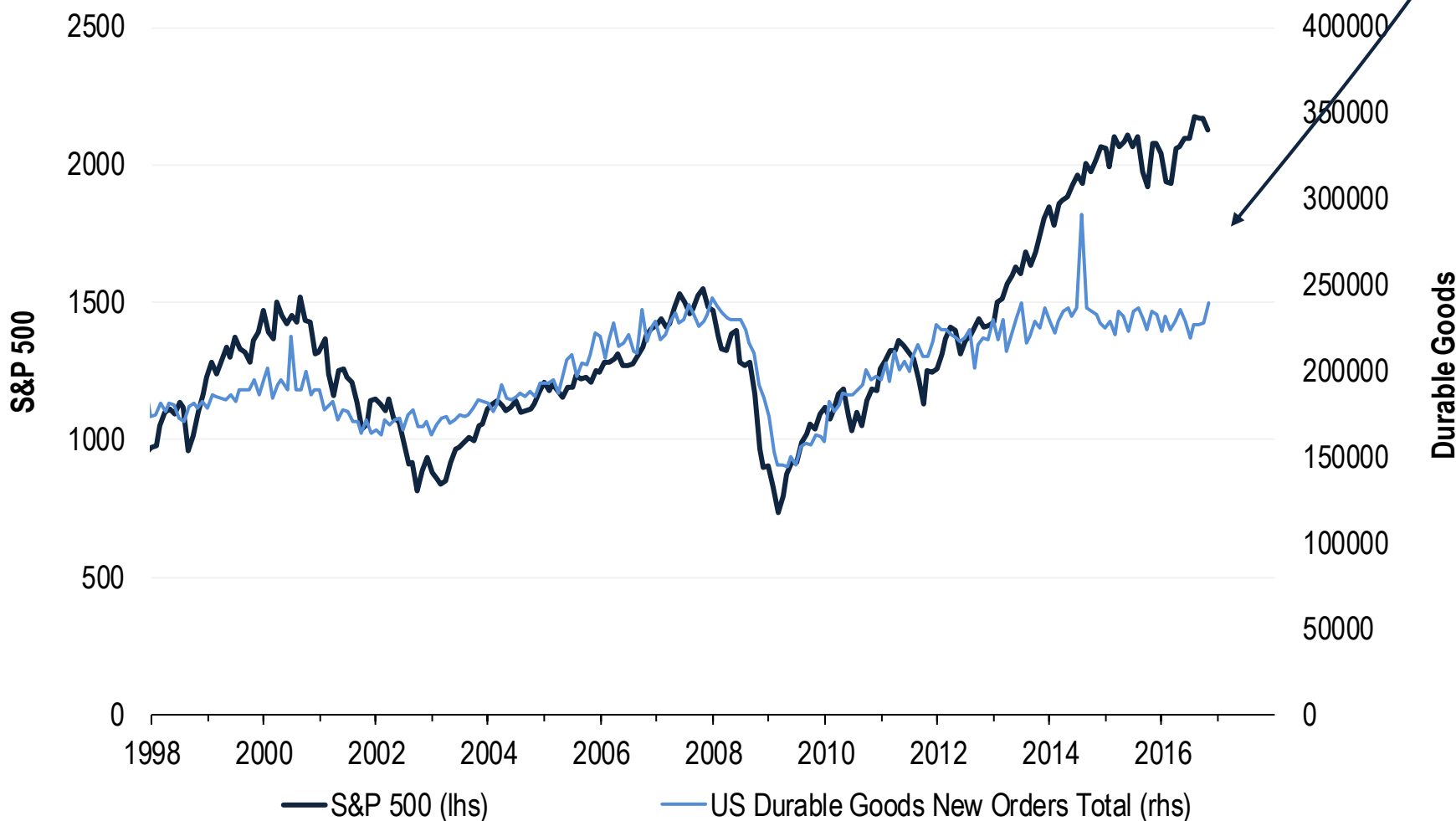
*This set of (sometimes very erratic) indicators “spent” January and February and then June in the “red alert zone”. It jumped out of that zone in July and back into the red alert zone in August. September to November figures reversed two-thirds of August’s sharp fall. We have removed the red flag.*



Source: IR&M, Bloomberg. Dotted line shows “trading range” since 1993, blue-dotted lines show path since 2007. “Red alert zone” refers to six observations in the first half of 2008.

# US durable goods: mind the gap

*Durable goods in October were high at +4.8% with +1.7% being expected and September being revised upwards.*



Source: IR&M, Bloomberg. Notes: Both time series based on monthly data.

# CEO confidence: big boost

The CEO Confidence Index measures CEO confidence in the economy one year from now and is a diffusion index.

CEO confidence rose by 1.5 standard deviation in November; thus reversing the previous downward trend. A potential 15% corporate tax rate is like a new dawn. (A 15% corporate tax rate is to CEOs what Nutella is to kids. Both, a 15% corporate tax rate and Nutella, can excite.)

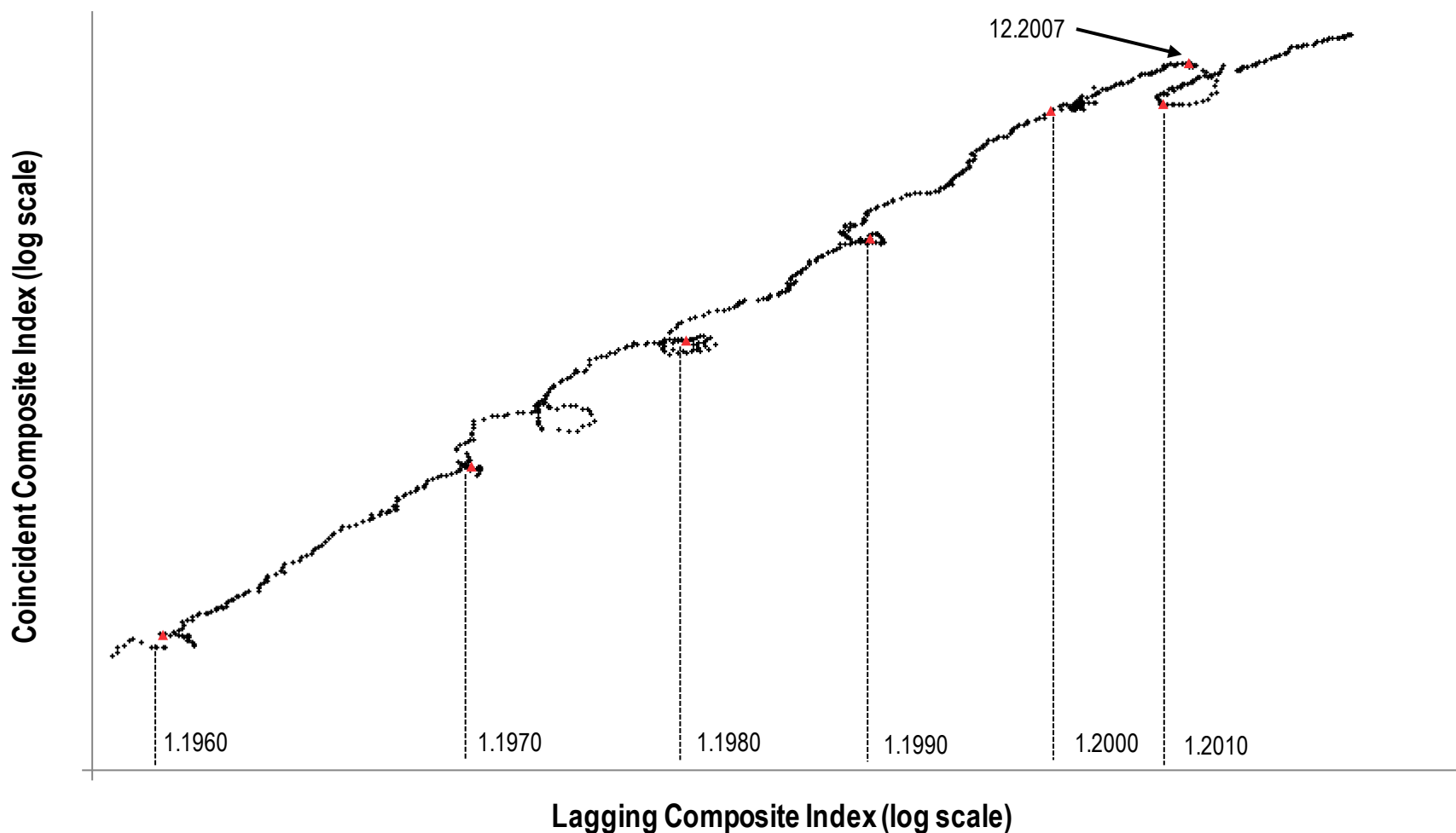


Source: IR&M, Bloomberg, Chief Executive Magazine. \*Marks a fall worse than -1.5 standard deviation.

# US recession probability: **very low\***

This “curly” graph shows the path of the US economy since 1959. It has been a good couple of decades; hence the movement from the lower left to the upper right. The “curls” show recessions.

*The current trend is towards the upper right and remains unchanged at the moment.*

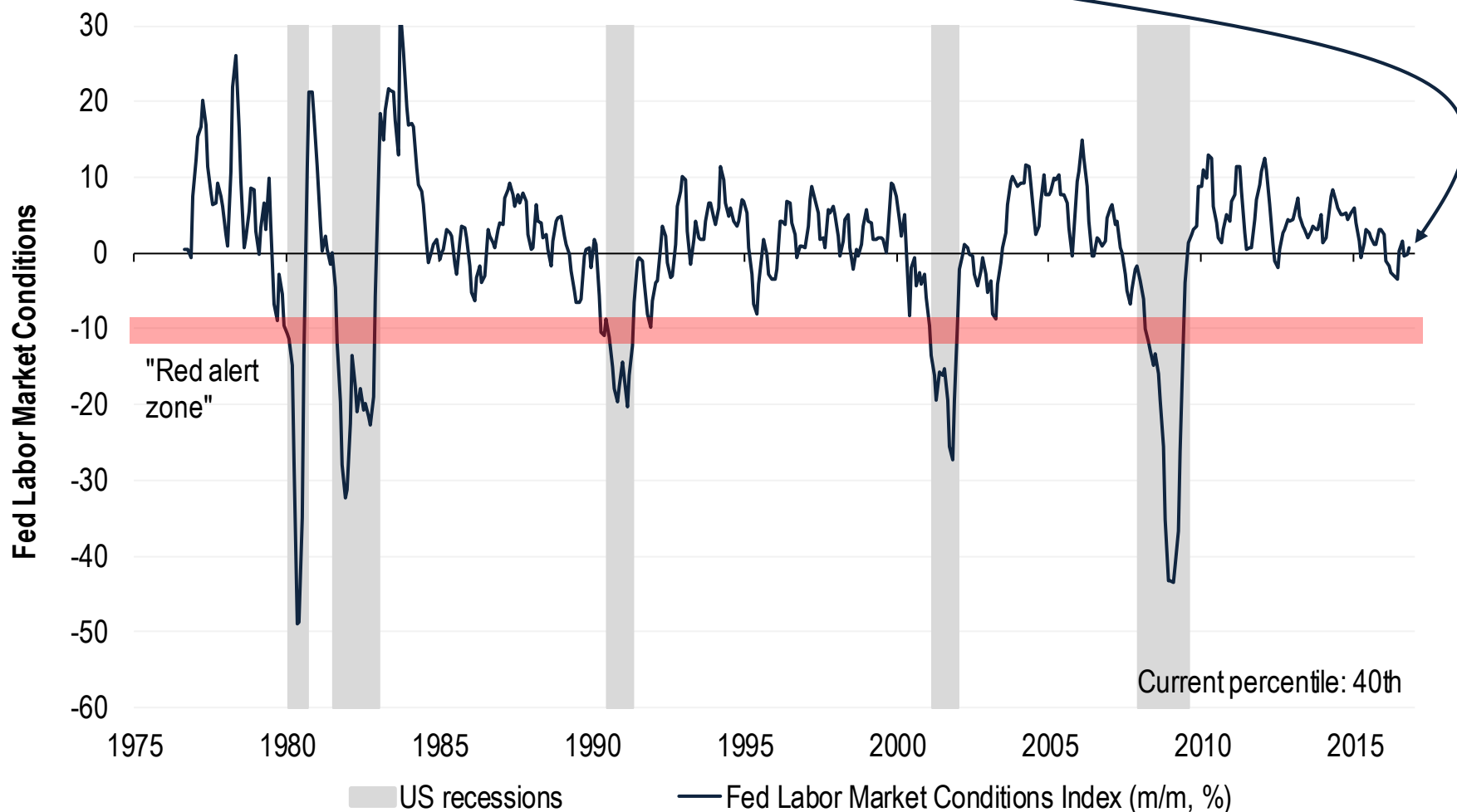


Source: IR&M, Bloomberg. Based on Coincident Composite Index and Lagging Composite Index from The Conference Board. The falling ratio between these two measures is perceived as an indicator for a pending recession. \* For, say, the next 12 months.

# US labour market: red alert no more

A positive number means US labour market is improving.

*This indicator fell into what we defined as a “red alert zone” when we showed this in our flash update from 20<sup>th</sup> June 2016. We mentioned that this indicator underwent a major re-adjustment in our update from 14<sup>th</sup> July 2016. We thought at the time that the revision was actually quite “timely” ahead of the elections. The latest figures do not trigger any alarm bells.*

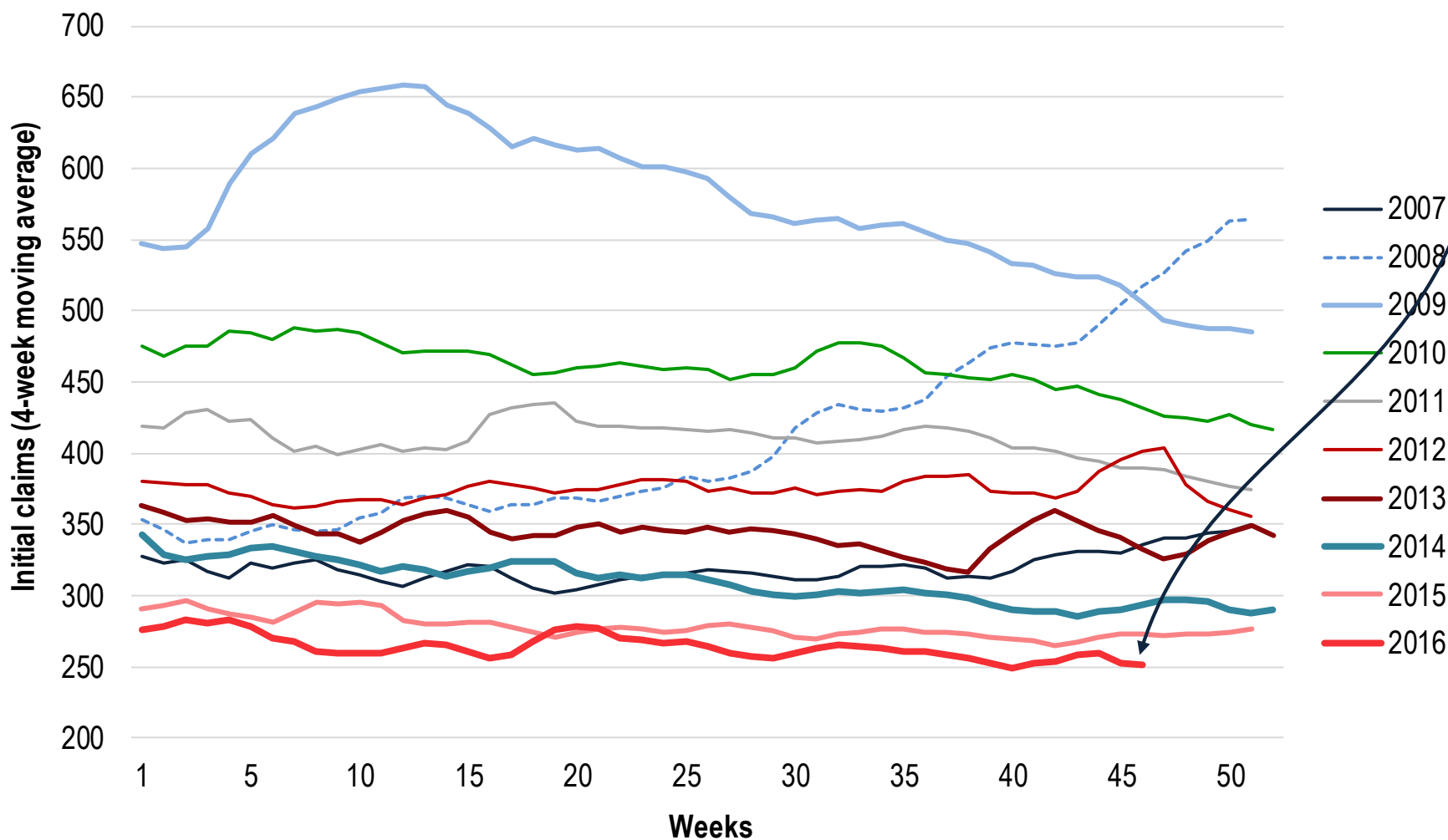


Source: IR&M, Bloomberg. The Federal Reserve Labor Market Conditions Index is calculated as a weighted average based on 19 monthly labour market indicators to gauge improvements in the labour market.

# US labour market: **nothing to worry about**

The more the 2014 line resembles the 2008 line, the higher becomes the probability of a recession.

yet. We've pencilled in 350k as the level to start worrying. Or 300k.



Source: IR&M, Bloomberg. Note: Graph shows 4-week moving averages per calendar year.

# US high frequency indicators: **improving**



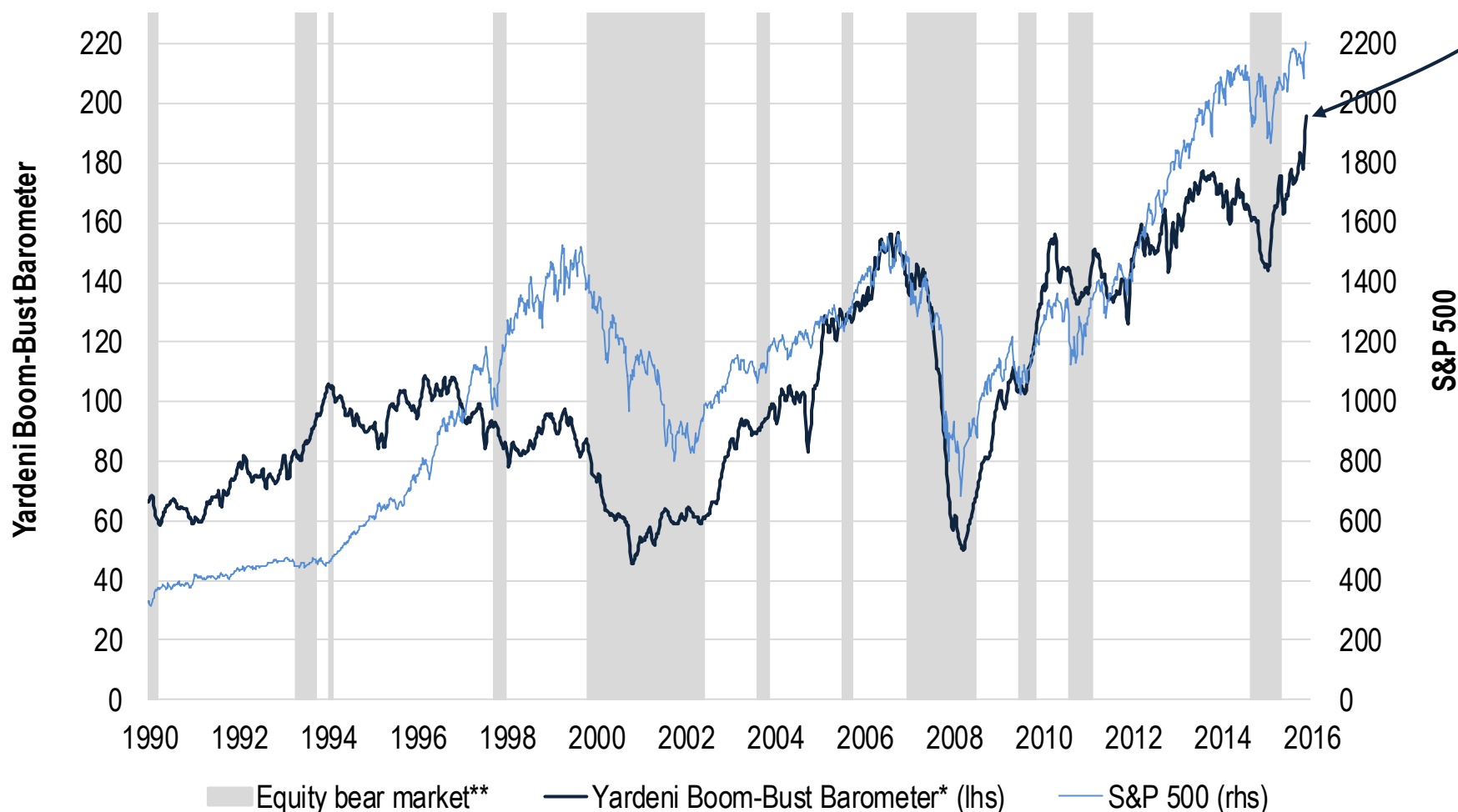
This gap is big. It's a proxy for the portion of stock market performance that was liquidity driven. This implies a S&P 500 level of 1000-1100 without the central planners generosity.

2007-			Aug				Sep				Oct				Nov				Last	Economic proxy			
High	Low	Median	W28	W29	W30	W31	W32	W33	W34	W35	W36	W37	W38	W39	W40	W41	W42	W43			W44	W45	W46
80	26	52	53	52	51	52	51	52	51	50	52	50	49	51	52	50	48	50	51	53	57	57	Average percentile
98	-117	-5	22	37	16	21	11	5	11	1	-5	-3	-4	-5	-2	-8	-23	-9	-13	-6	8	9	US Surprise Index
289	75	169	88	86	80	87	81	83	79	82	89	93	86	83	89	96	91	99	99	124	129	121	US Yield curve (10-2Y)
48	23	33	45	43	43	43	42	44	45	43	44	42	41	42	41	42	41	44	45	45	45	45	Bloomberg Cons Comfort
1.28	0.88	1.12	1.13	1.14	1.16	1.16	1.16	1.15	1.16	1.14	1.15	1.15	1.16	1.16	1.18	1.17	1.18	1.15	1.15	1.22	1.25	1.26	Cons Discret vs. Staples
0.93	-2.97	-0.14	0.12	0.06	0.00	-0.07	-0.14	-0.20	-0.25	-0.29	-0.32	-0.33	-0.33	-0.31	-0.30	-0.27	-0.23	-0.18	-0.13	-0.11	-0.11	-0.11	Aruoba Diebold Scotti
665	233	345	254	252	266	267	266	262	261	263	259	260	251	254	246	247	261	259	266	254	233	251	US Jobless claims
5.5	-1.7	2.6	2.5	1.5	1.6	2.5	2.7	3.1	2.3	2.5	3.0	2.0	1.4	2.7	2.9	1.5	1.1	1.3	2.3	-0.1	1.5	1.5	US chain store sales, YoY
638	316	488	461	460	459	461	456	456	455	457	458	454	457	461	462	457	459	465	472	488	486	490	CRB RIND
463	127	322	223	224	222	215	214	217	208	208	209	216	220	221	216	211	209	219	227	251	247	265	Copper
81	-33	1	14.7	19.5	19.6	17.3	17.6	17.7	20.4	18.2	19.3	21.3	17.7	22.0	21.6	19.5	18.1	17.3	16.0	13.2	20.2	22.6	JoC-ECRI Industrial Price
1022	237	376	330	328	326	325	322	321	319	318	317	315	314	312	310	309	308	305	304	302	299	298	Container Ship Index

Source: IR&M, Bloomberg. Table shows eleven variables that are of higher frequency and supposedly have predictive power for the US (and or global) economic cycle. "W" stands for calendar week number.

# Boom-bust barometer: rising

*This barometer does indeed at times have leading qualities. Currently it is rising strongly.*



Source: IR&M, Bloomberg. Notes: The Yardeni Boom-Bust Barometer is a ratio comprised of two high frequency variables from the previous slide, raw commodities and initial claims. \* CRB raw industrials spot price index divided by initial unemployment claims, four-week moving average. \*\* 10-week moving average below 40-week moving average.

# US equities checklist: **improving**

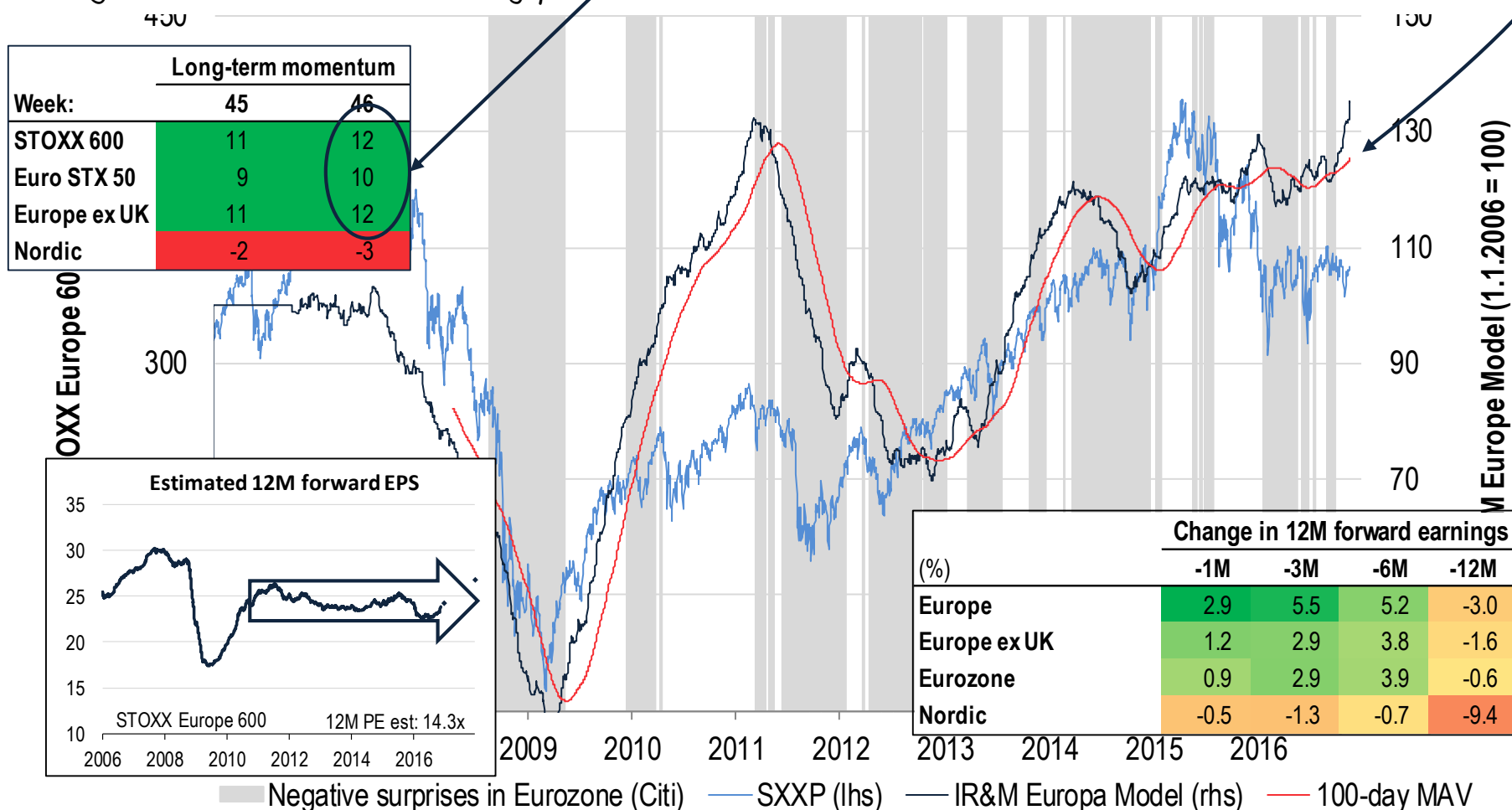
This checklist compares previous peaks with now. Changes since our last regular or flash update are circled.

This checklist has improved by net one notch since last shown on 3<sup>rd</sup> November. The trailing P/E ratio is currently oscillating around the 20x level that we have chosen as threshold.

	LTCM July 1998	TMT Bubble March 2000	Great Recession October 2007      June 2008		Double dip July 2011	Now November 2016
<b>Sum of red flags</b>	7	11	5	13	4	5
<b>Price momentum</b>						
Long-term momentum S&P 500 positive	✓	✓	✓	🔴	✓	✓
Long-term momentum Financials positive	✓	🔴	🔴	🔴	🔴	✓
5Y annual S&P 500 TR Index return < 25%	✓	🔴	✓	✓	✓	✓
<b>Stock market related factors</b>						
Trailing P/E ratio < 20x	🔴	🔴	✓	✓	✓	🔴
EPS estimates rising (over 3-months)	✓	✓	🔴	🔴	✓	✓
Price-to-book value < 3x	🔴	🔴	✓	✓	✓	✓
NYSE margin debt/GDP < 2.5%	✓	🔴	✓	✓	✓	🔴
<b>Macro</b>						
Real y/y GDP > 1.5%	✓	✓	✓	🔴	✓	🔴
ISM PMI > 50	🔴	✓	✓	🔴	✓	✓
Non-farm payrolls > 0	✓	✓	✓	🔴	✓	✓
Jobless claims < 350k and falling	✓	✓	✓	🔴	🔴	🔴
Unemployment rate falling	✓	✓	✓	🔴	✓	✓
<b>Monetary policy</b>						
Fed easing	🔴	🔴	✓	✓	✓	🔴
Yield curve positively sloped	✓	🔴	✓	✓	✓	✓
<b>Risk</b>						
High yield spreads < 450bps	✓	🔴	✓	🔴	✓	✓
High yield spreads < 450bps and not rising	🔴	🔴	🔴	🔴	✓	✓
TED spread < 50bps	🔴	✓	🔴	🔴	✓	✓
St. Louis Fed's Financial Stress Index < 0	✓	🔴	🔴	🔴	🔴	✓
VIX < 20%	🔴	🔴	✓	🔴	🔴	✓

# Europe: improving

Economic momentum (the thin red line) remains positive. Macro surprises turned positive at the end of September. (Surprises are for the Eurozone which we herein use as a proxy for Europe.) The earnings estimates table has improved a bit since our last update. Price momentum for regional indices remains mostly positive.

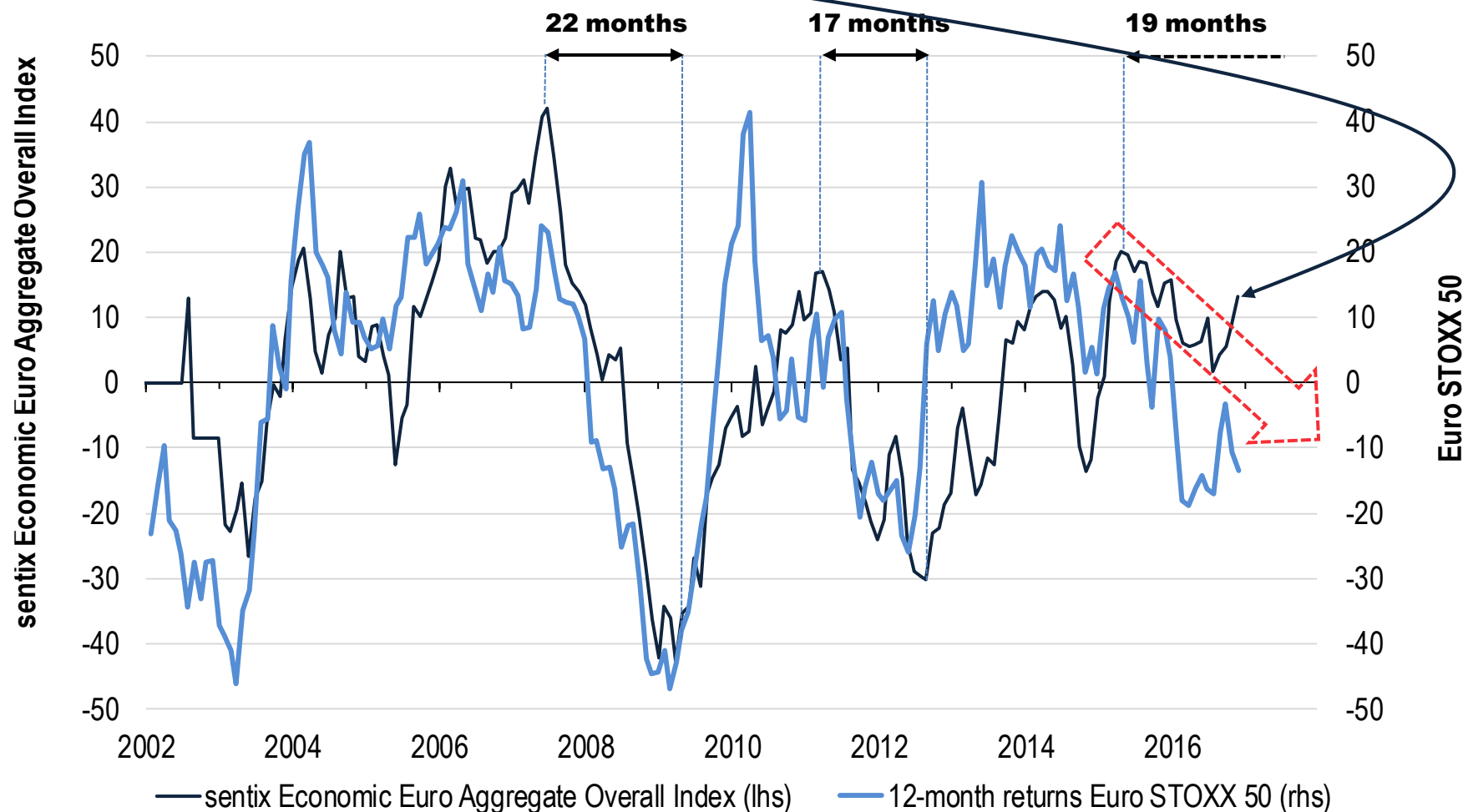


Source: IR&M, Bloomberg. Note: Model consists of 26 economic variables. The model is for Europe, the surprise index is for the Eurozone only. Earnings are based on consensus estimates. The two dots in the lower left chart are estimates for 2017 and 2018

# Eurozone econ. sent.: break-out

One-year returns in the Euro STOXX 50 are often negative when this indicator is below zero.

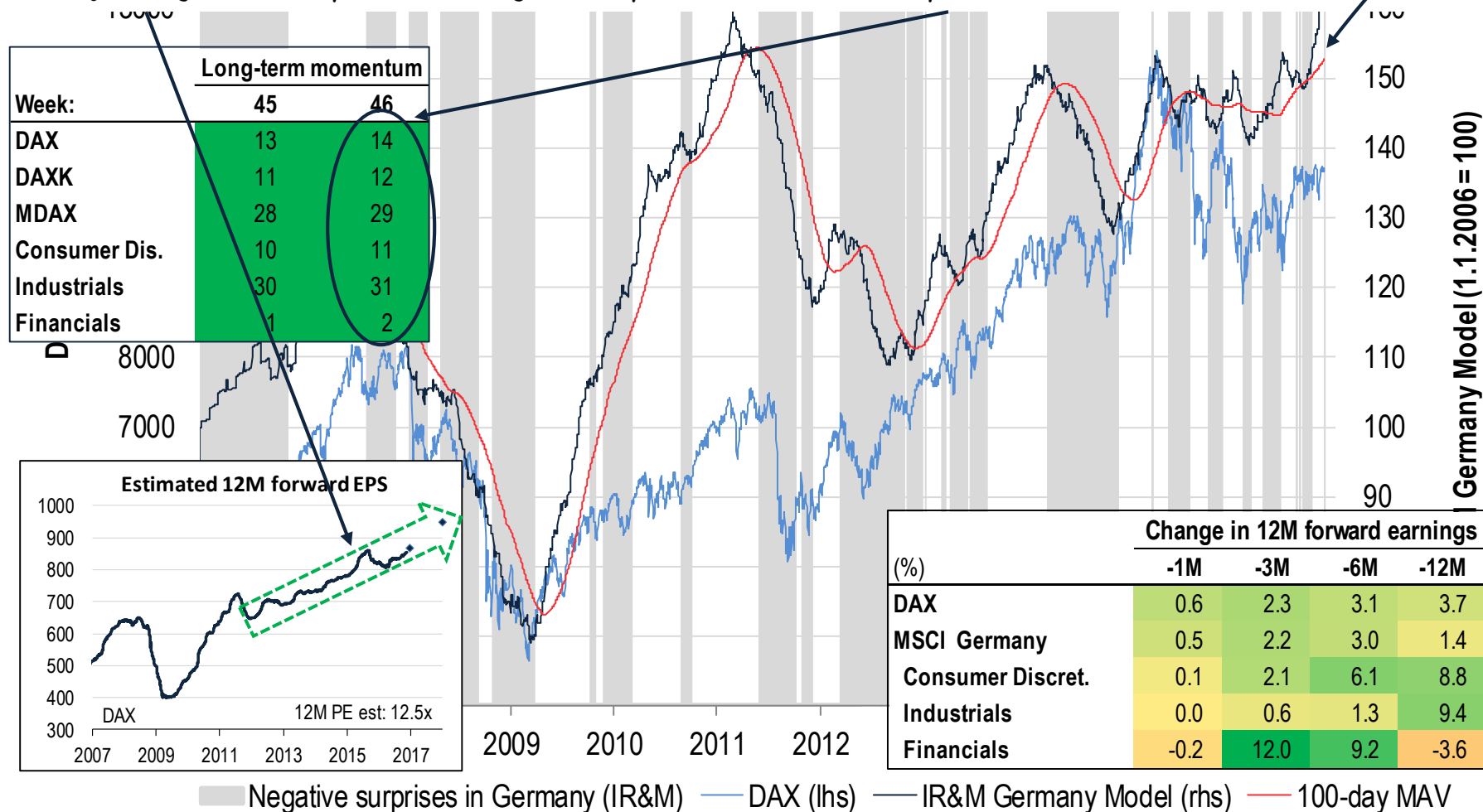
Based on this survey alone, economic sentiment in the Eurozone broke out of our trajectory just recently; with a 0.8 standard move on the upside.



Source: IR&M, Bloomberg

# Germany: improving

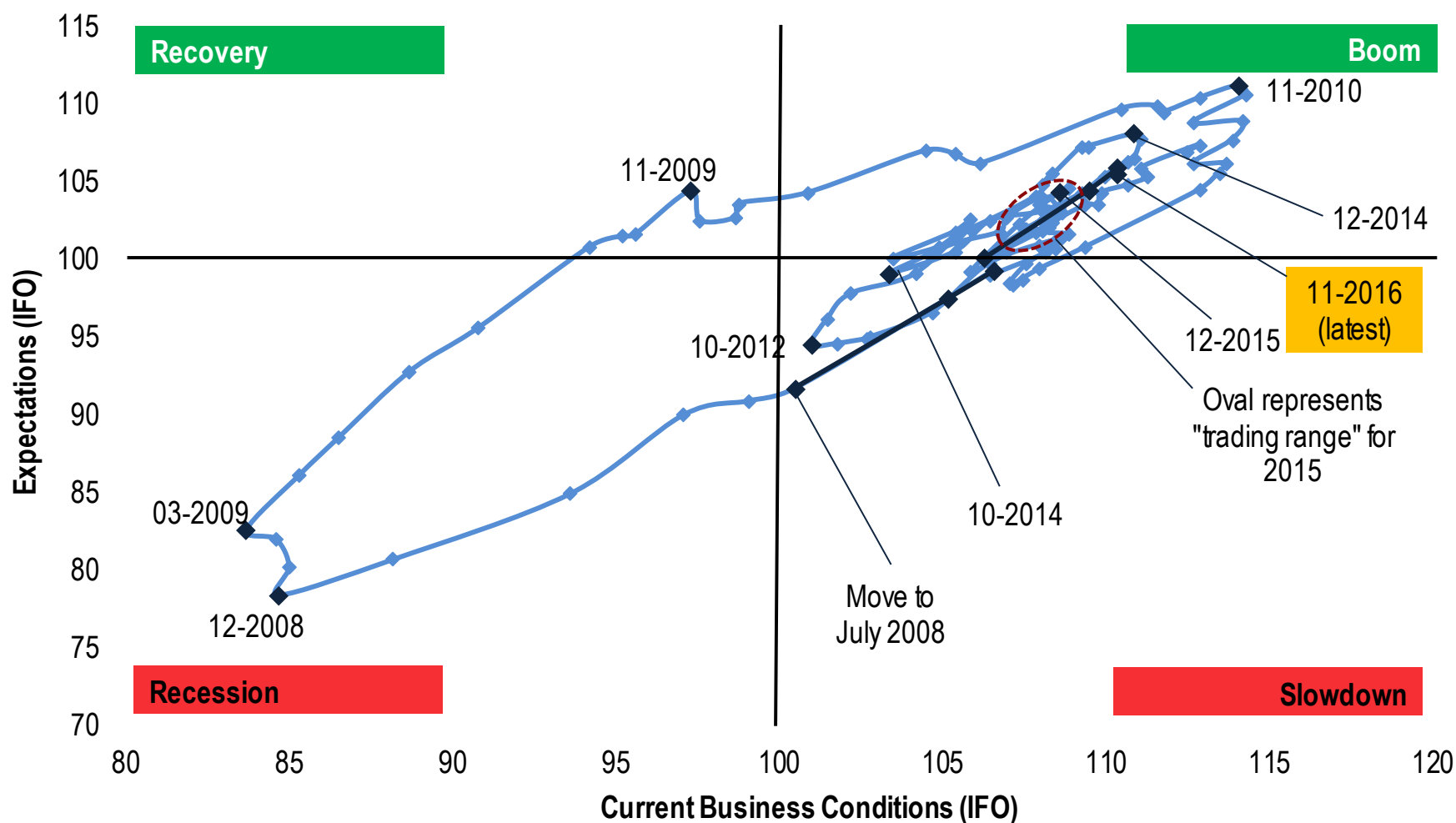
Economic momentum remains improving with macro surprises being generally positive during October and most of November but just turned negative recently, as far as we can judge. The earnings estimates table below has not worsened materially since our last update. The earnings trajectory remains positive. Long-term price momentum is positive, even Financials.



Source: IR&M, Bloomberg. Note: Model consists of 15 economic variables. Surprises index is our own. Earnings are based on consensus estimates. The two dots in the lower left chart are estimates for 2017 and 2018. DAXK is the price index of the DAX, a total returns index.

# Germany: booming continuously

The latest move was a non-event, i.e., the expectations component fell by 0.3 standard deviation and the current conditions component was unchanged.

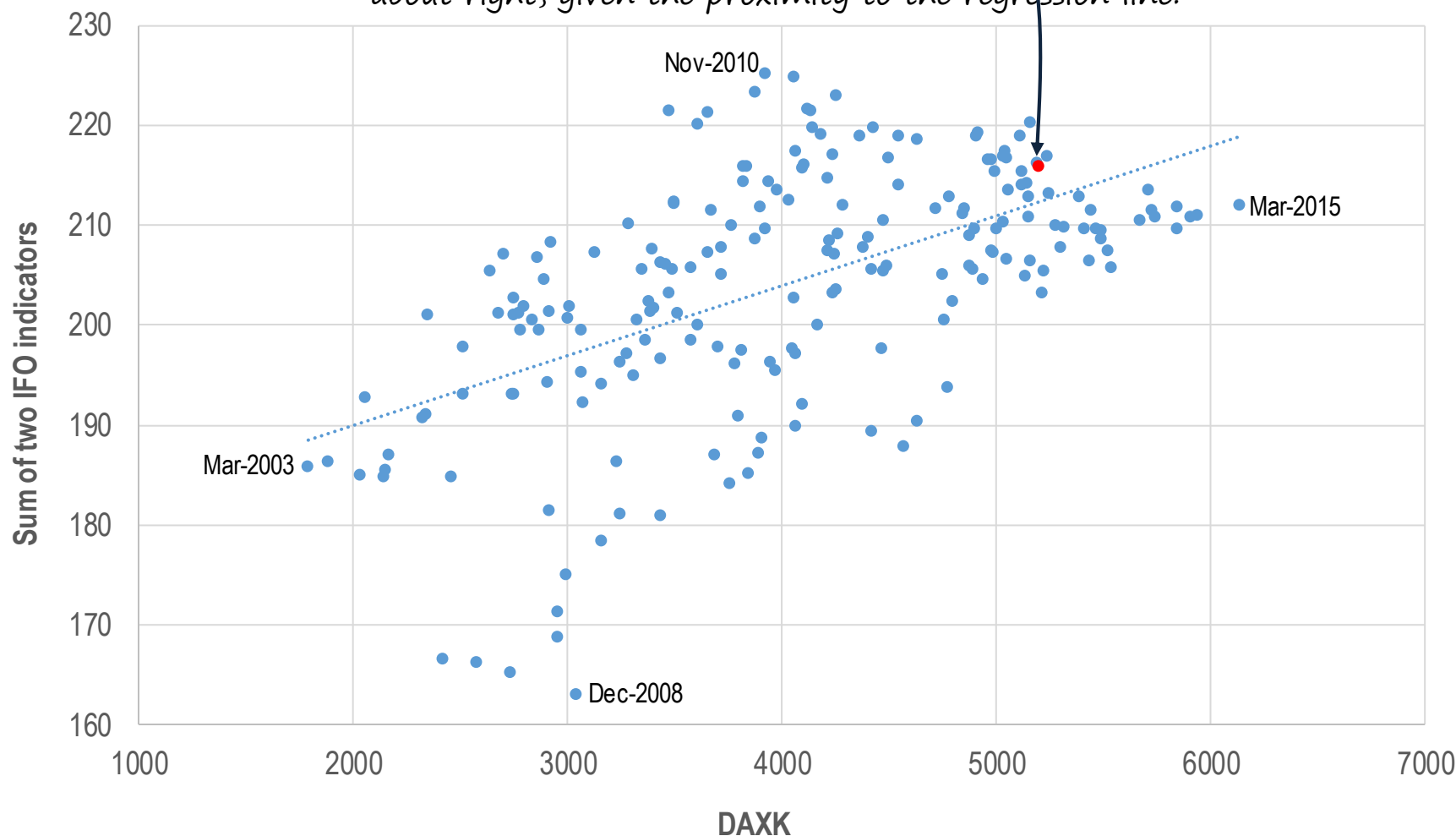


Source: IR&M, Bloomberg, IFO (Institut für Wirtschaftsforschung).

# Germany: all is well

Charts shows DAX\* level with corresponding sum of two IFO economic indicators\*\* since January 2000. The red dot marks the latest observation.

Based on the sum of the two economic indicators shown here (and on the previous page), Germany is in the 90<sup>th</sup> percentile (100<sup>th</sup>=best) since 1991. DAX is around 18% below its peak from April 2015. This seems about right, given the proximity to the regression line.



Source: IR&M, Bloomberg, IFO (Institut für Wirtschaftsforschung). \*DAX is the price index of the DAX, which is a total returns index. \*\* IFO Business Climate and IFO Expectations for Germany.

# DAX health check: all seems well

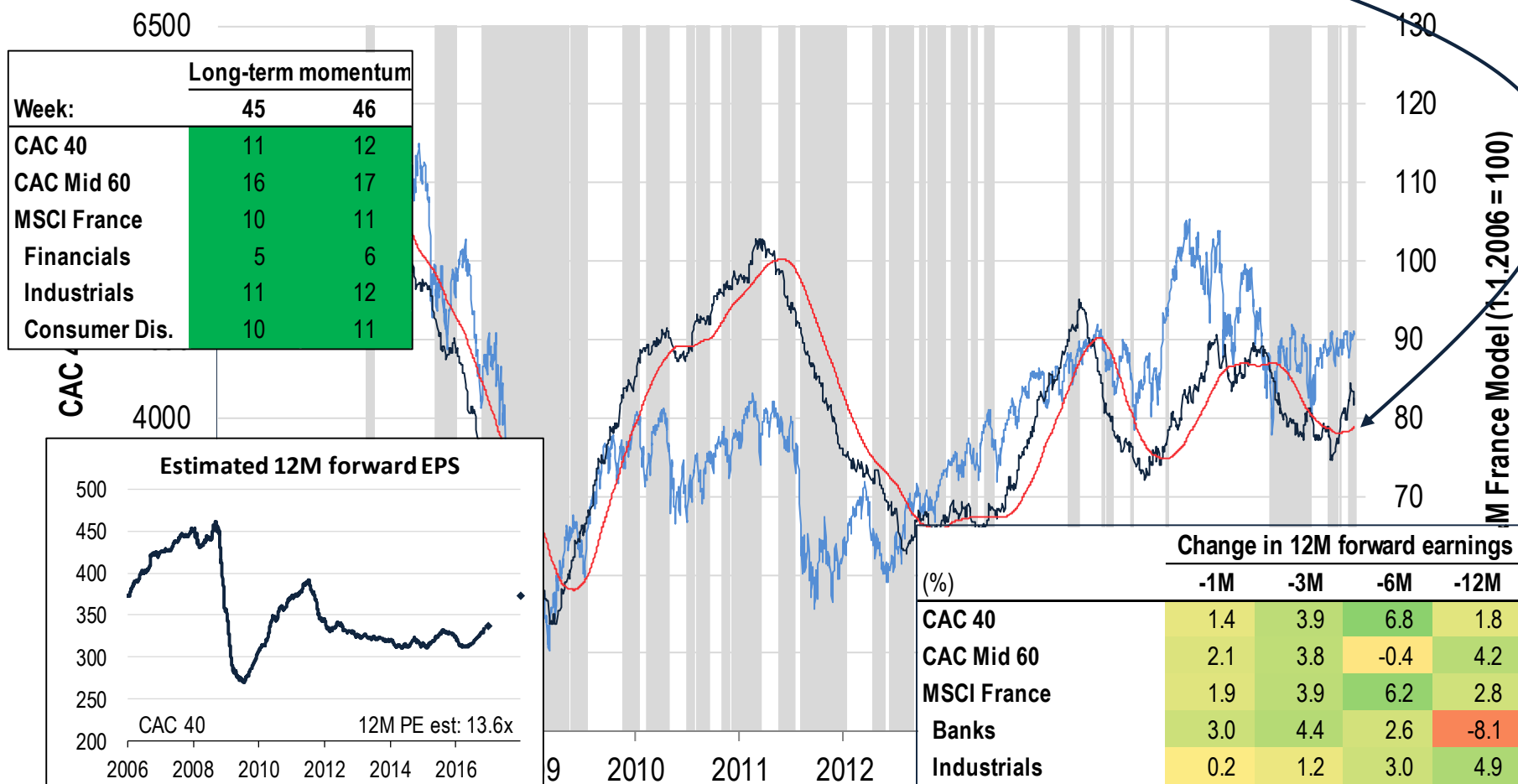
*This tick-the-box-approach to risk management compares previous peaks with now. Changes since our last update are circled.*

	TMT Bubble March 2000	Great Recession December 2007	Correction July 2011	Now November 2016
<b>Sum of red flags</b>	8	12	6	1
<b>Price momentum</b>				
Long-term momentum MDAX positive	✓	💣	✓	✓
Long-term momentum Financials positive	✓	💣	💣	✓
Long-term momentum Consumer Discr. positive	💣	✓	✓	✓
Long-term momentum Europ. HY bonds positive	✓	💣	✓	✓
5Y annual DAX Index return < 25%	💣	💣	✓	✓
<b>Stock market related factors</b>				
Trailing P/E ratio < 20x	💣	✓	✓	✓
EPS estimates rising		✓	✓	✓
Price-to-book value < 3x	💣	✓	✓	✓
<b>Macro</b>				
IR&M economic momentum rising (mov. average)		💣	💣	✓
Real y/y GDP > 1.5%	✓	✓	✓	✓
PMI > 50		✓	✓	✓
PMI > 50 and rising		💣	💣	✓
ZEW Assessment of Current Situation rising	✓	💣	✓	✓
IFO Assessment of Current Situation rising	💣	💣	✓	✓
OECD Leading Indicator rising	✓	💣	💣	✓
Industrial Production > 5% y/y and rising	💣	💣	✓	💣
<b>Monetary policy</b>				
ECB easing	💣	💣	💣	✓
<b>Risk</b>				
Euro OIS spread < 50bps	✓	💣	✓	✓
VDAX < 20%	💣	✓	💣	✓

Source: IR&amp;M

# France: improving

Our gauge for economic momentum, the thin red line, has reversed just recently and is now rising. Macro were negative over the past three weeks but were positive this week. The earnings estimates table has improved a bit since our last update. Price momentum remains positive.



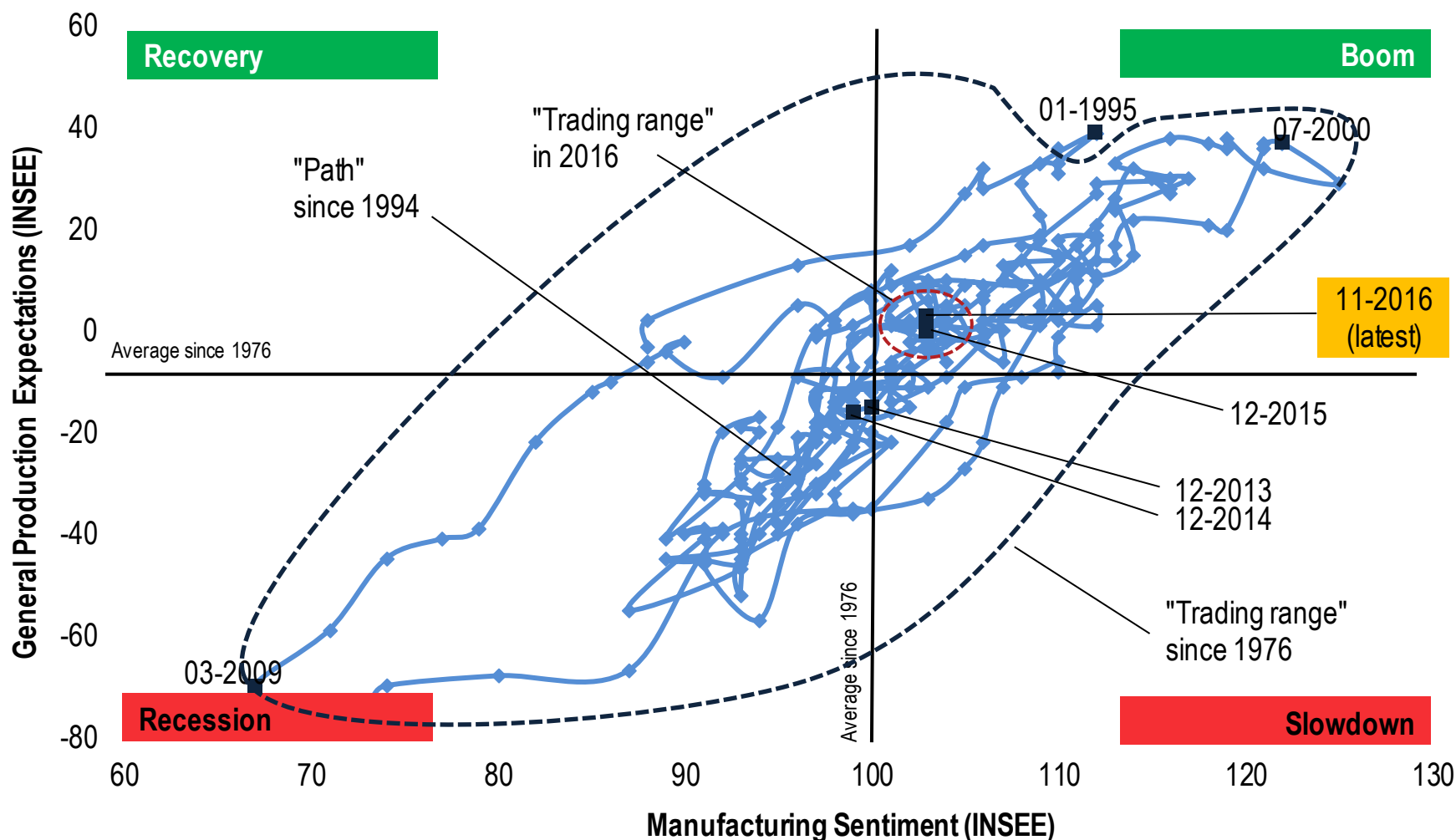
■ Negative surprises in France (IR&M) — CAC 40 (lhs) — IR&M France Model (rhs) — 100-day MAV

Source: IR&M, Bloomberg.

Note: Model consists of 16 economic variables and is work in progress. Surprises index is our own. Earnings are based on consensus estimates. The two dots in the lower left chart are estimates for 2017 and 2018.

# France: boom quadrant

*These two indicators have been implying stability throughout most of 2016. The latest move was a non-event. The latest reading is nearly identical to December 2015.*

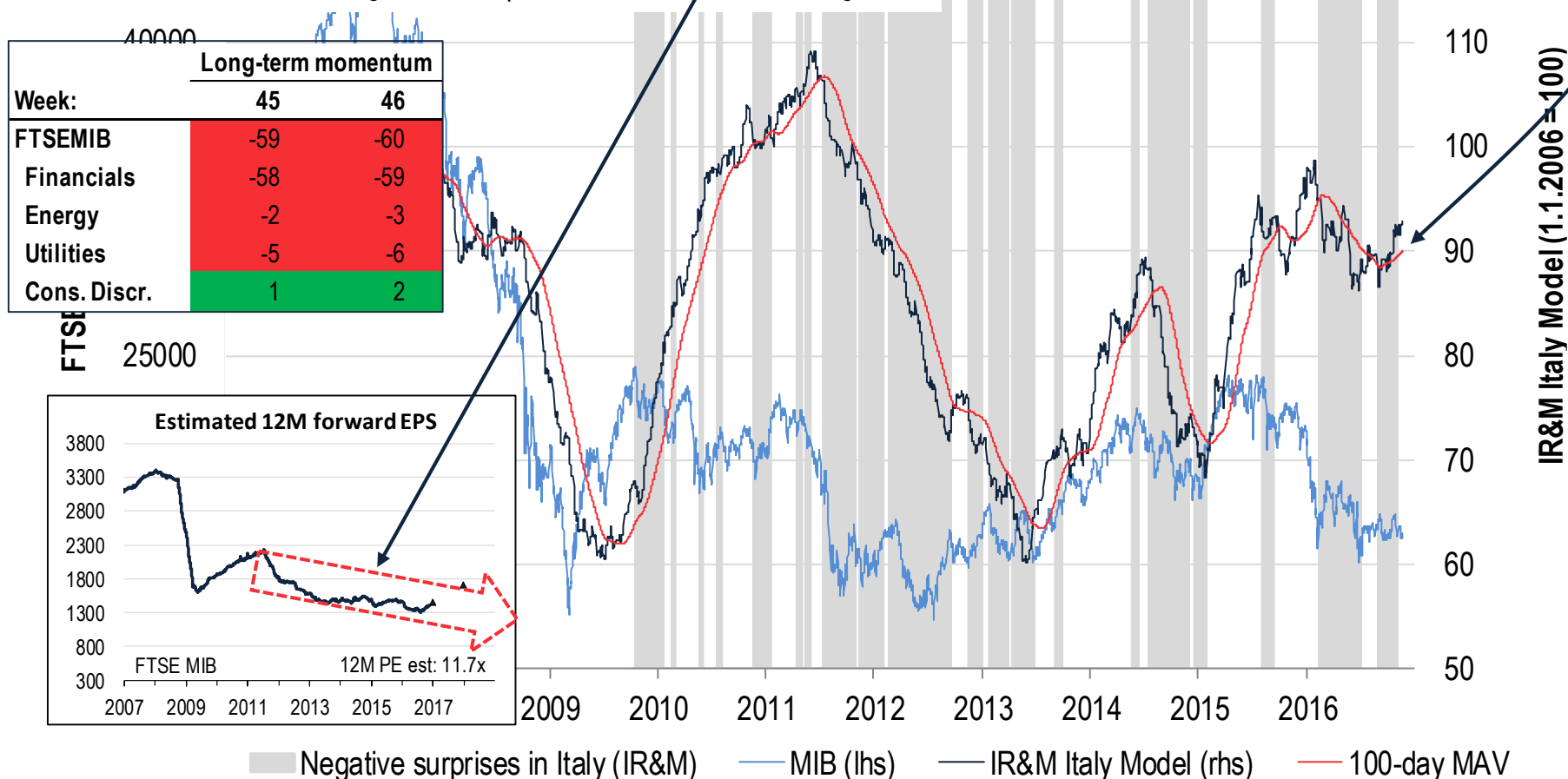


Source: IR&M, Bloomberg. The dotted line shows "trading range" of these two indicators since March 1976. The blue line shows the "path" since January 1994.

# Italy: improving

Our gauge (the moving average) for economic momentum remains improving. Prior to 4<sup>th</sup> December (referendum) this seems quite trivial though. Macro surprises are positive too. The earnings momentum table in the upper right has improved quite a bit since our last update, especially the lower three lines. The multi-year trend of earnings estimates remains negative. Price momentum remains negative except Consumer Discretionary.

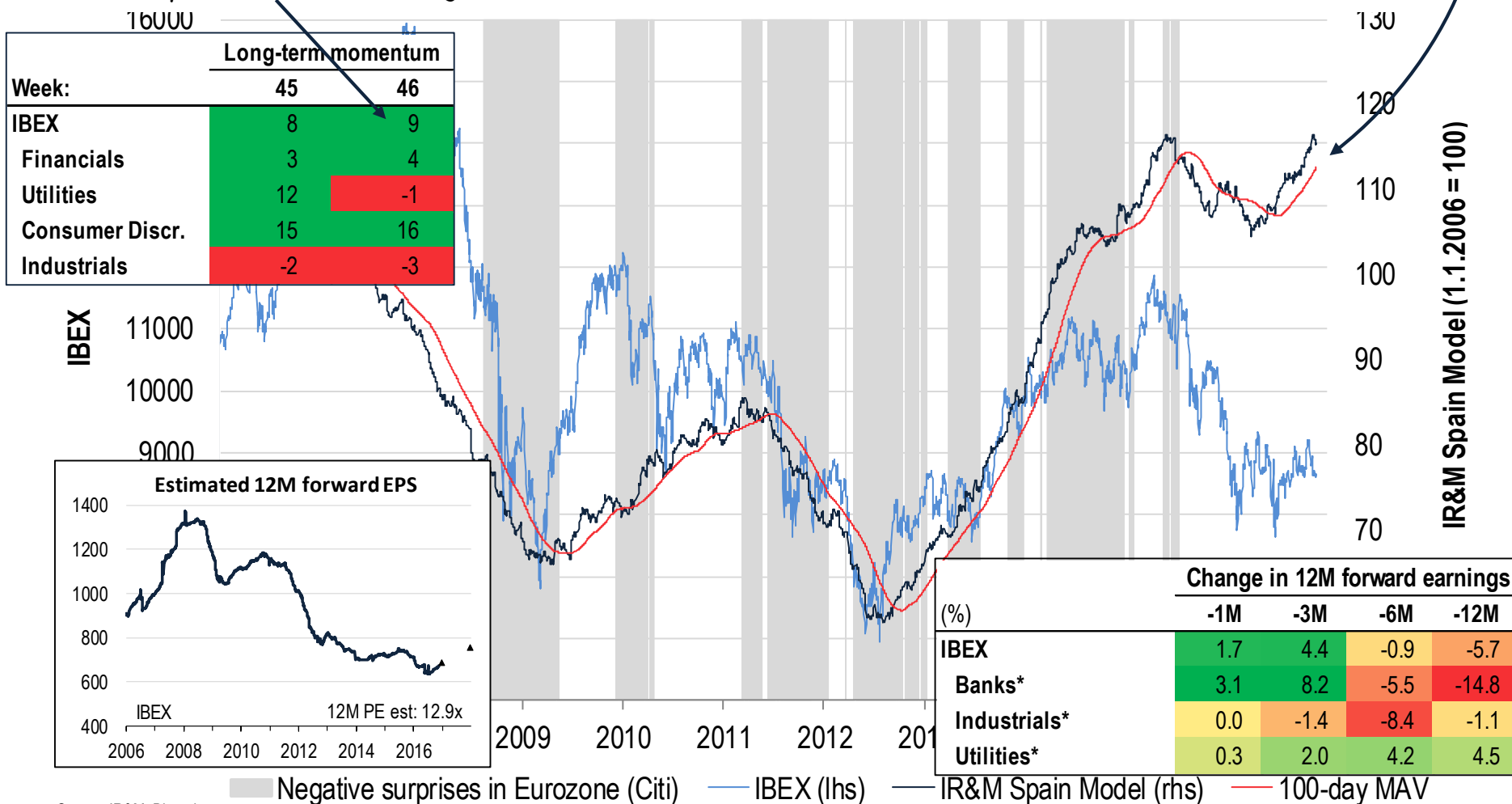
	Change in 12M forward earnings			
(%)	-1M	-3M	-6M	-12M
FTSEMIB	1.9	6.4	5.4	-3.3
Financials*	-0.4	4.5	1.1	-15.5
Energy*	11.0	23.8	58.6	1.4
Utilities*	7.9	7.7	10.5	18.2
Consumer Discret.*	3.8	5.9	10.5	22.2



Source: IR&M, Bloomberg. Note: Model consists of 12 economic variables. The surprise index is our own. The two dots in the lower left chart are estimates for 2017 and 2018. \*Based on MSCI Italy sector indices.

# Spain: improving

Economic momentum in Spain remains positive. (This is inconsistent with the earning momentum derived from OECD leading indicators, as outlined in our report from 12<sup>th</sup> October.) Earnings estimates for the IBEX in the table has improved a bit since last shown on 14<sup>th</sup> October. IBEX price momentum turned positive nine weeks ago.



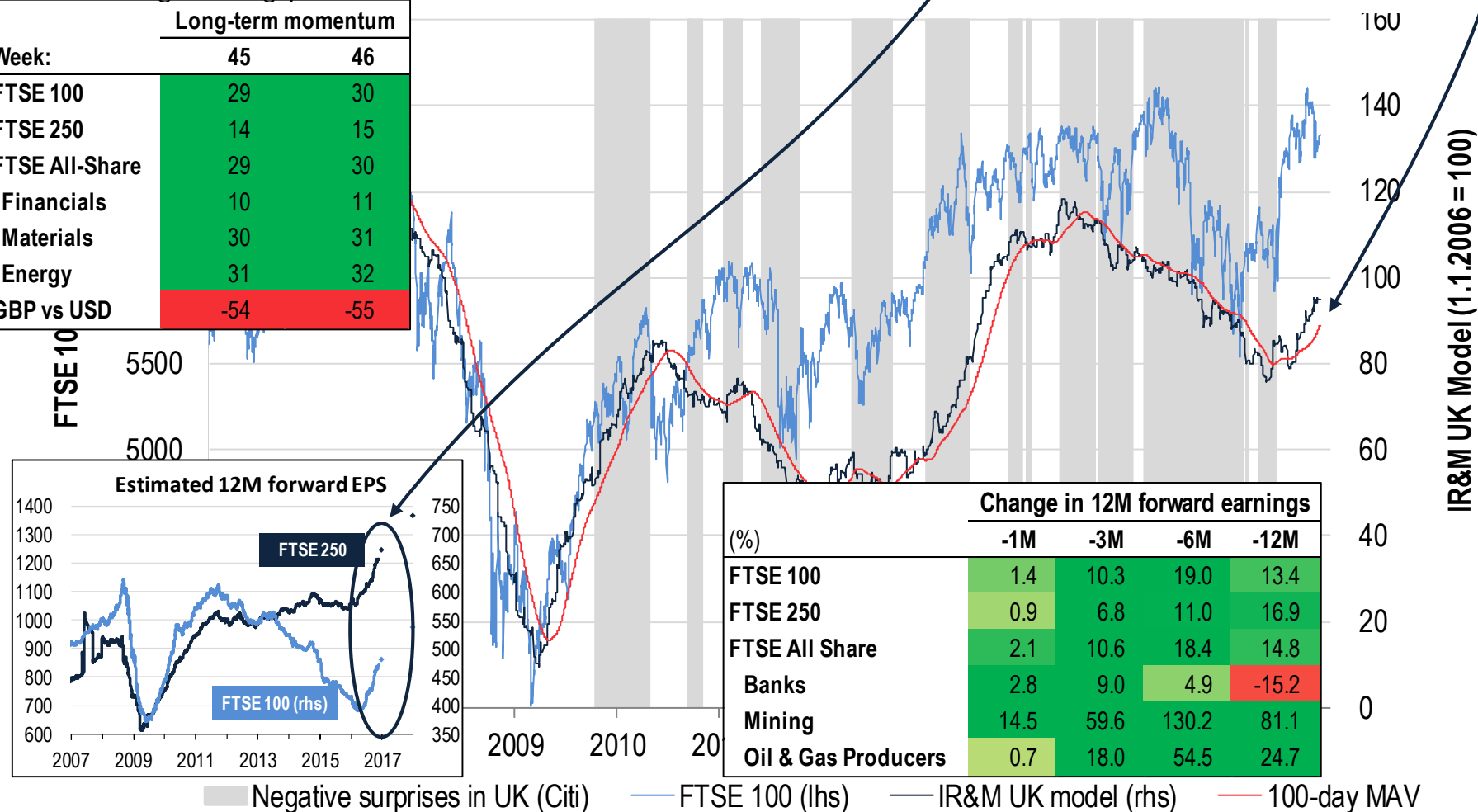
Source: IR&M, Bloomberg.

Model consists of 18 economic indicators. Surprise index is from Citigroup and is for the whole Eurozone. \*Based on MSCI Spain sector indices. The two dots in the lower left chart are estimates for 2017 and 2018.

# UK: improving

Economic momentum remains positive. Macro surprises have been positive since mid June. The earnings estimates momentum table has "lightened" a bit over one month but is still nearly all-deep-green (deep green meaning the standard deviation of the rise is high). Both earnings as well as price momentum remain generally positive.

	Long-term momentum	
Week:	45	46
FTSE 100	29	30
FTSE 250	14	15
FTSE All-Share	29	30
Financials	10	11
Materials	30	31
Energy	31	32
GBP vs USD	-54	-55



Source: IR&M, Bloomberg. Model consists of 16 indicators. Model is work in process, last revised July 2015. Earnings are based on consensus estimates. The two dots in the lower left chart are estimates for 2017 and 2018.

# Country ranking

Table mixes cyclical and structural indicators to come up with a ranking (last column).

The US has one of the worst corporate tax rates. It's actually quite impressive that there's still business there. Trump is taking of a 15% corporate tax rate. Theresa May is aiming at 17% by 2020. This means both want to move northwards in this table.

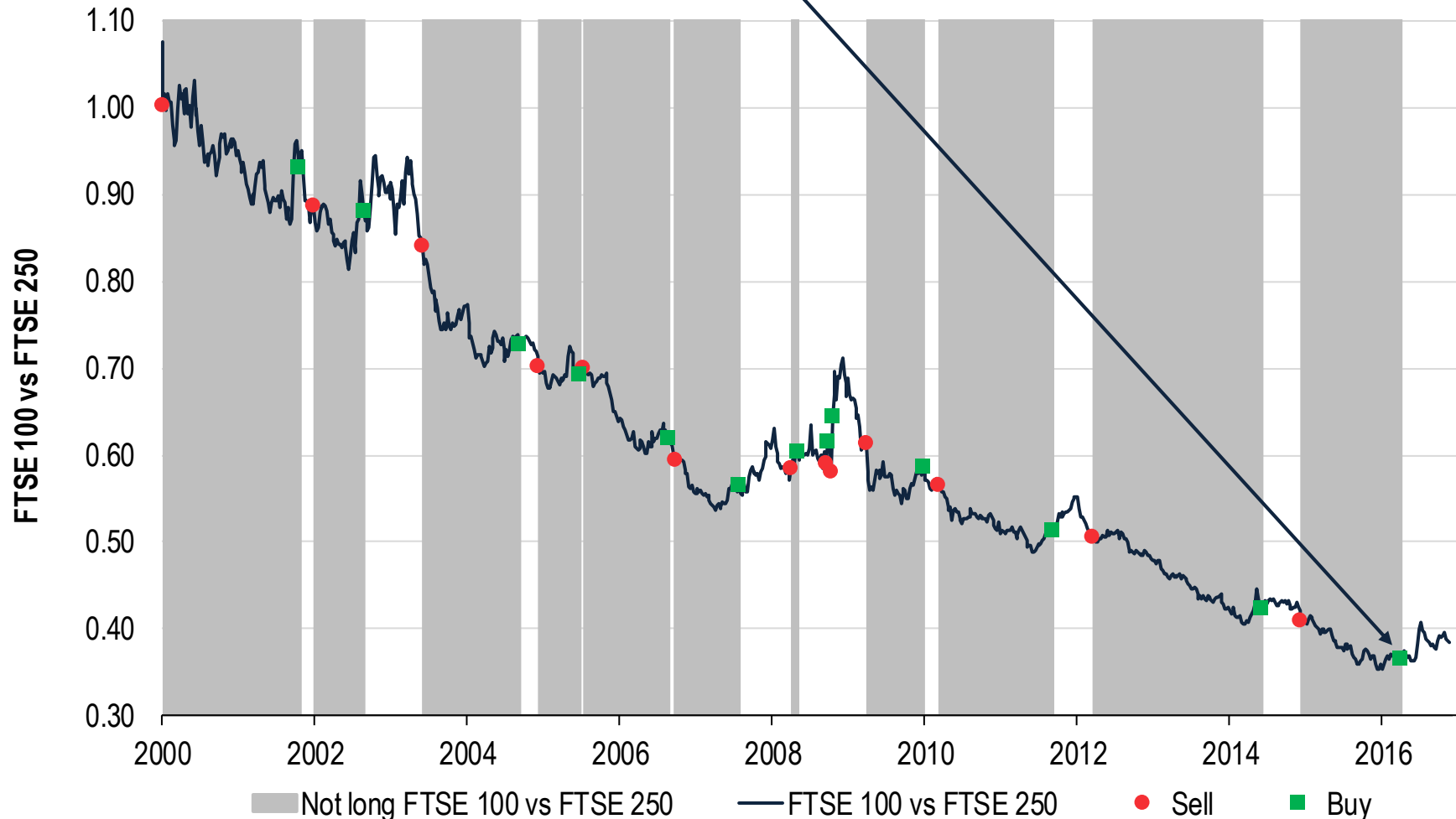
Country	Region	GDP, \$bn (BB)	GDP, real, yoy (BB)	Unempl, % (BB)	Inflation (CPI), % (BB)	Misery Index, (IR&M)	Fertility rate, kids/w (CIA)	Rate nominal, % (BB)	Rate real, % (IR&M)	BoP, % GDP (BB)	Trade, % GDP (BB)	Budget, % GDP (BB)	Debt, public, % GDP (HF)	Debt, external, % GDP (CIA)	Property rights, (HF)	Corrupt (CPI), (TI)	Corp. tax rate, (TE)	Govt. expend., (HF)	Business freedom, (HF)	Global competit. Index (WEF)	Rank (IR&M)
Columns used for ranking:																					
Hong Kong	Asia	0.3	1.9	3.4	1.2	4.6	1.2	0.3	-1.0	0.6	-1.8	1.9	7	397	90	75	17	18	97	9	1
Switzerland	Alps	0.7	2.0	3.2	-0.2	3.0	1.6	-0.8	-0.6	2.6	0.4	0.4	46	242	90	86	18	34	82	1	2
Singapore	Asia	0.3	1.1	2.1	-0.1	2.0	0.8	0.1	0.2	3.6	-12.0	8.6	99	603	90	85	17	18	95	2	3
Sweden	Europe	0.5	3.4	6.4	1.2	7.6	1.9	-0.5	-1.7	0.8	0.1	0.2	42	233	90	89	22	53	90	6	4
Norway	Europe	0.4	-1.0	2.8	3.7	6.5	1.9	0.5	-3.2	1.2	0.3	10.8	30	0	90	87	27	44	90	11	5
Taiwan	Asia	0.4	2.1	4.0	1.7	5.7	1.1	1.4	-0.3	4.8	9.4	1.2	38	48	70	62	17	19	93	14	5
Netherlands	Europe	0.8	2.4	7.2	0.4	7.6	1.8	2.8	2.4	1.8	0.8	-2.0	68	336	90	87	25	47	80	4	7
Germany	Europe	3.4	1.7	6.0	0.8	6.8	1.4	0.3	-0.6	0.8	0.8	0.7	73	165	90	81	30	44	90	5	8
Australia	Asia	1.3	3.3	5.6	1.3	6.9	1.8	1.5	0.2	-0.9	-0.1	-0.9	34	104	90	79	30	36	89	22	9
South Korea	Asia	1.4	2.7	3.4	1.3	4.7	1.3	1.3	-0.1	0.6	-3.2	0.0	36	31	70	56	24	32	91	26	10
United Kingdom	Alone now	2.8	2.3	4.8	0.9	5.7	1.9	0.3	-0.7	-1.3	-0.2	-4.3	90	337	90	81	20	45	86	7	10
Finland	Europe	0.2	0.4	8.1	0.5	8.6	1.8	2.3	1.8	-0.1	0.0	-2.8	60	61	90	90	20	58	91	10	12
Canada	Americas	1.6	1.3	7.0	1.5	8.5	1.6	0.5	-1.0	-0.9	-0.2	-1.3	87	96	90	83	27	41	82	15	13
China	Asia	10.9	6.7	4.1	2.1	6.2	1.6	4.4	2.3	1.6	0.5	-3.4	41	15	20	37	25	29	54	28	14
Indonesia	Asia	0.9	5.0	5.5	3.3	8.8	2.2	6.5	3.2	-0.5	4.6	-1.8	25	35	30	36	25	19	54	41	15
United States	Americas	17.9	1.5	4.7	1.6	6.3	1.9	0.5	-1.1	-0.7	-0.2	-3.1	105	100	80	76	39	39	85	3	16
Turkey	Europe	0.7	3.1	11.3	7.2	18.5	2.1	6.5	-0.7	-0.2	-0.6	1.5	33	56	40	42	20	38	65	55	17
Eurozone*	Europe	11.5	1.6	10.0	0.5	10.5	1.6	0.0	-0.5	3.3	0.2	-2.1	94	194	78	69	29	49	81	21	18
Japan	Asia	4.1	0.9	3.0	-0.5	2.5	1.4	0.1	0.6	0.4	0.1	-5.0	246	69	80	75	32	42	83	8	19
Russia	Europe	1.3	-0.4	5.4	6.1	11.5	1.6	8.3	2.2	0.1	1.9	0.8	18	45	20	29	20	38	72	43	20
Belgium	Europe	0.5	1.2	8.6	1.8	10.4	1.8	3.1	1.3	0.0	0.2	-2.5	106	283	80	77	33	54	85	17	21
India	Asia	2.1	7.1	7.1	4.1	11.2	2.5	5.8	1.6	0.0	9.6	-6.9	65	23	55	38	35	27	48	39	22
Mexico	Americas	1.1	2.0	3.9	3.1	6.9	2.3	5.3	2.2	-0.7	-0.1	-4.0	50	31	50	35	30	28	71	51	23
France	Europe	2.4	1.1	10.3	0.4	10.7	2.1	2.9	2.5	0.0	-0.2	-3.5	95	237	80	70	33	57	78	21	24
Portugal	Europe	0.2	1.6	10.5	0.9	11.4	1.5	3.6	2.7	0.1	-0.5	-4.4	130	276	70	63	21	50	85	46	25
Spain	Europe	1.2	3.2	19.4	0.7	20.1	1.5	3.0	2.3	0.3	-0.2	-5.1	98	192	70	58	28	44	76	32	25
Italy	Europe	1.8	0.9	11.7	-0.2	11.5	1.4	0.9	1.1	0.2	0.2	-2.6	132	146	50	44	31	51	70	44	27
Brazil	Americas	1.8	-3.8	8.2	7.9	16.1	1.8	14.0	6.1	-0.2	0.1	-9.4	65	24	45	38	34	39	61	81	28
Greece	Europe	0.2	1.5	23.4	-0.5	22.9	1.4	4.8	5.2	0.5	1.2	-7.5	177	184	40	46	29	60	74	86	29

Source: IR&M, Bloomberg (BB), Heritage Foundation (HF), Central Intelligence Agency's World Factbook (CIA), Transparency International (TI), KPMG (KP), World Economic Forum (WEF). Notes: BoP: Balance of payments, External debt: total public and private debt owed to non-residents repayable in internationally accepted currencies, goods, or services, CPI: Consumer Price Inflation and Corruption Perceptions Index. \* Last eight measures are GDP-weighted averages of the 13 largest economies in the Eurozone.

# Relative valuation: FTSE 100 vs. FTSE 250

The chart shows the (multi-national) FTSE 100 index vs the (UK-centric) FTSE 250. Both indices were around 6000 around the year 2000.

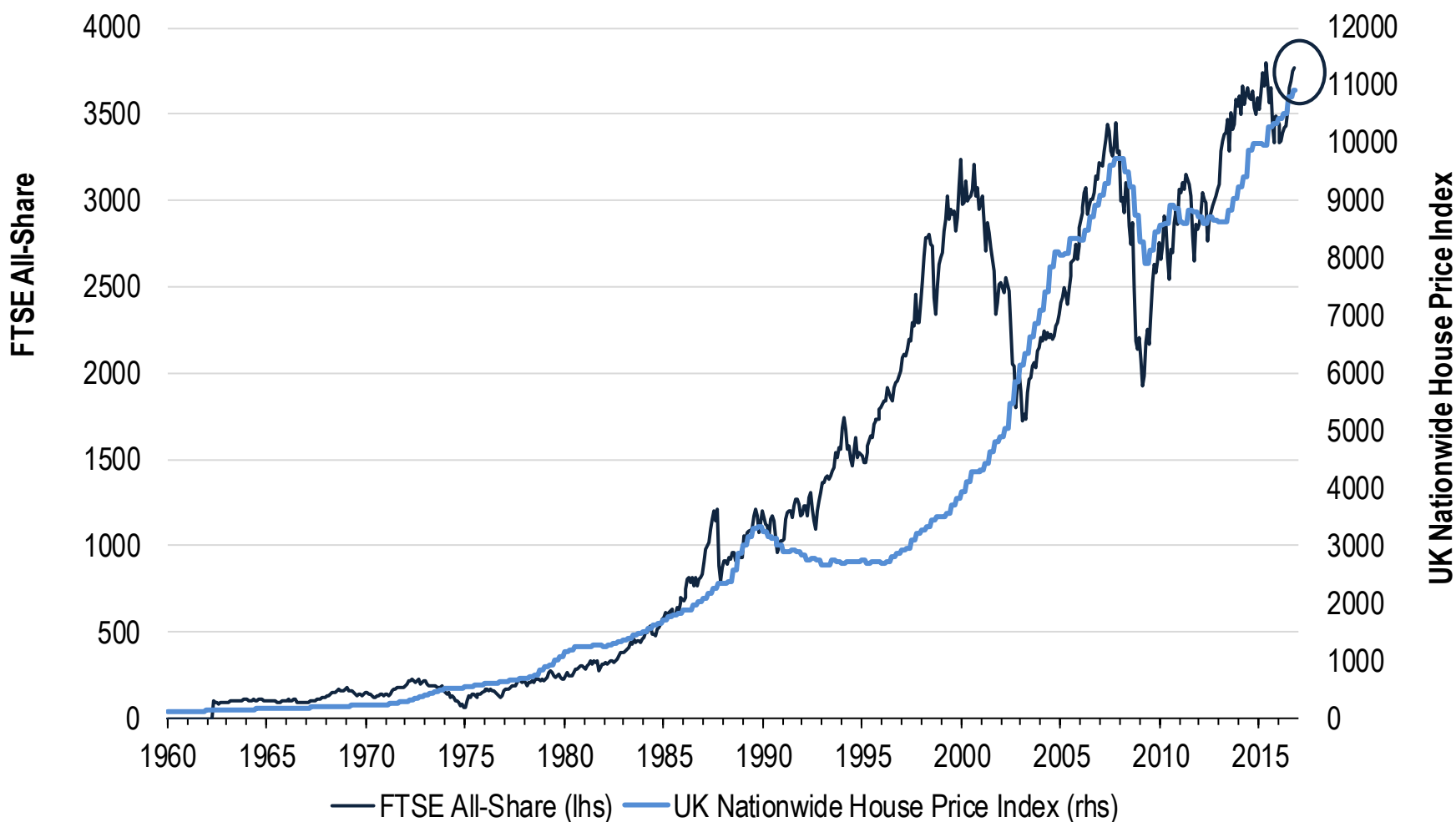
The signal from April 2016 suggesting FTSE 100 outperformance vs FTSE 250 is still holding.



Source: IR&M, Bloomberg. Buy and sell signals are based on IR&M momentum methodology.

# UK asset inflation: new all-time high

*House prices and equities in the UK, when measured in GBP, are at an all-time high or within 2% of the all-time high.*



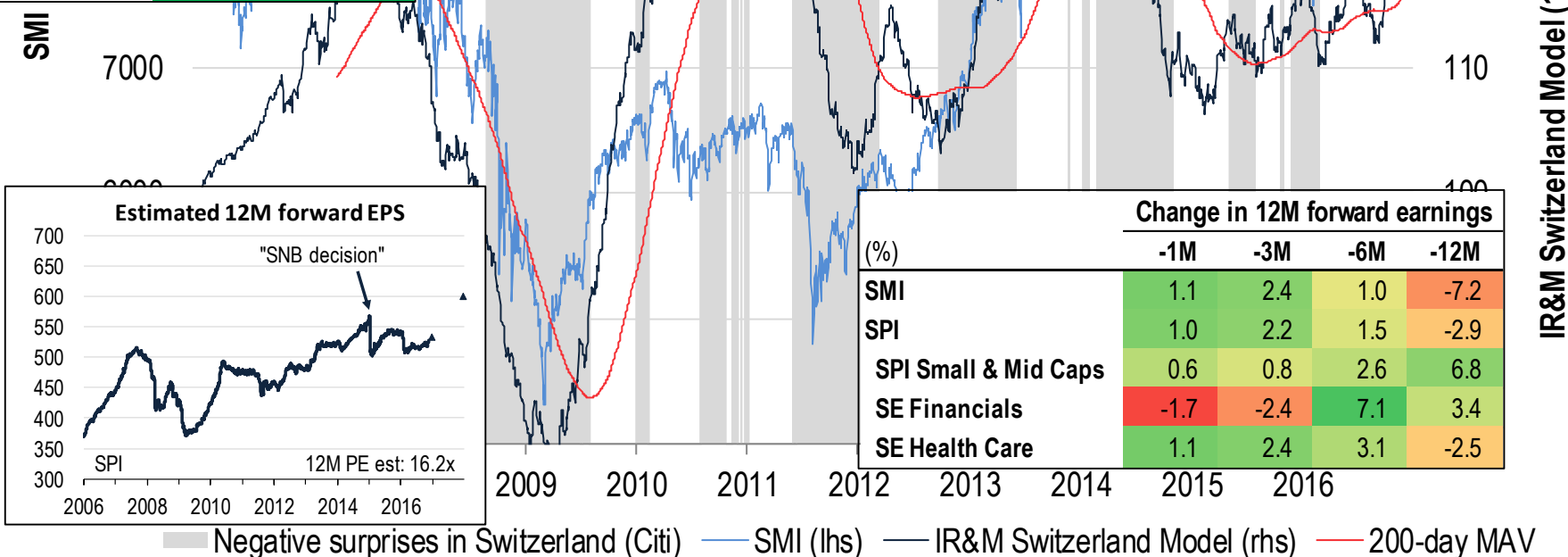
Source: IR&M, Bloomberg. Equities based on monthly data, house prices based on quarterly data.

# Switzerland: improving

Economic momentum remains improving with macro surprises being positive since February. The earnings estimates table has improved since our last update but has worsened a bit in Financials. Long-term price momentum for the SMI turned negative last Friday. The SMI can hardly do well when Nestle is not doing well.

## Long-term momentum

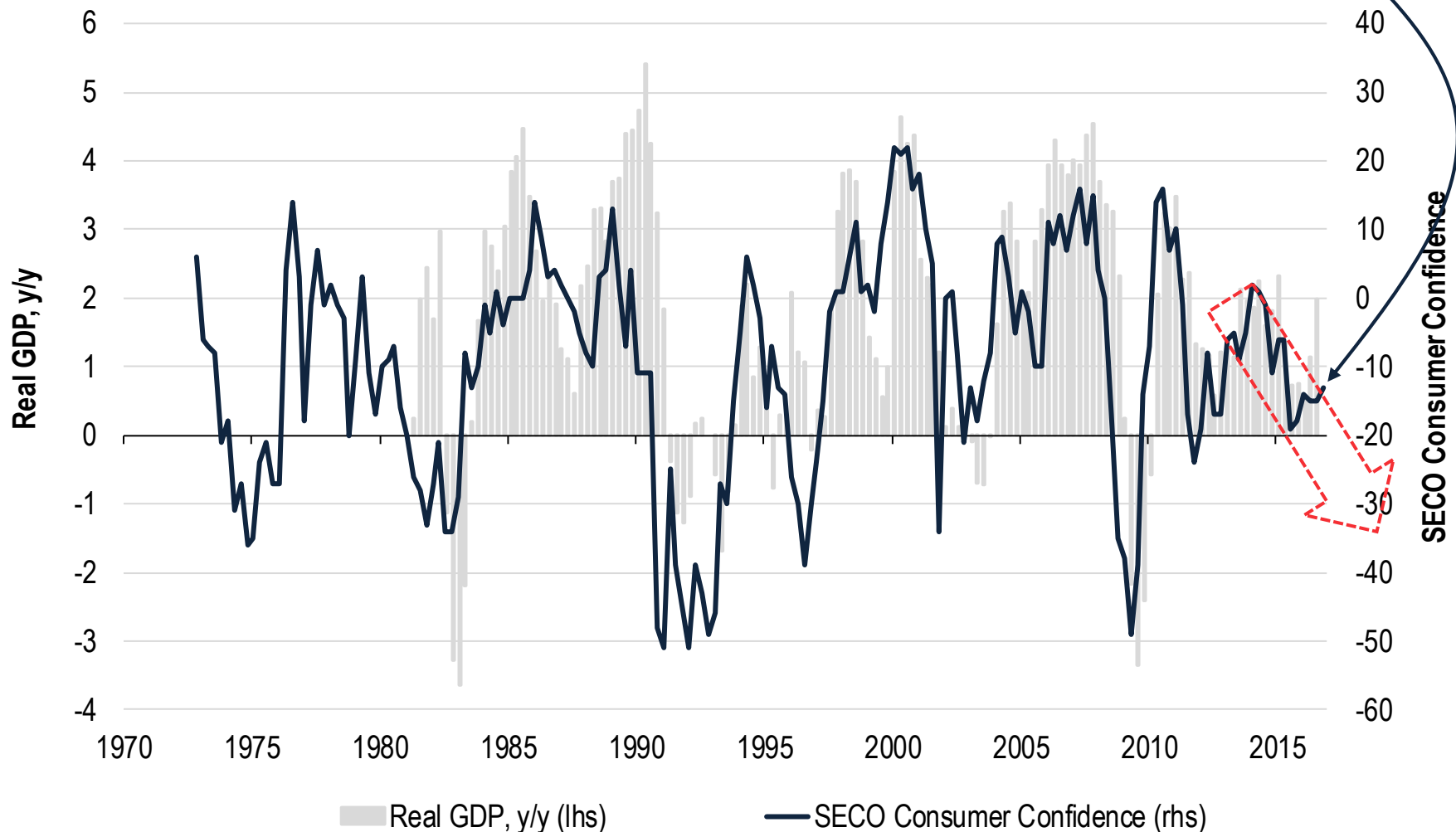
Week:	45	46
SMI	11	-1
SPI	18	19
Health Care	-4	-5
Cons. Staples	19	-1
Financials	4	5
Industrials	33	34



Source: IR&M, Bloomberg. Model consists of 14 economic indicator. Surprise index is from Citigroup. Earnings are based on consensus estimates. The two dots in the lower left chart are estimates for 2017 and 2018.

# Swiss consumer sentiment: uptick

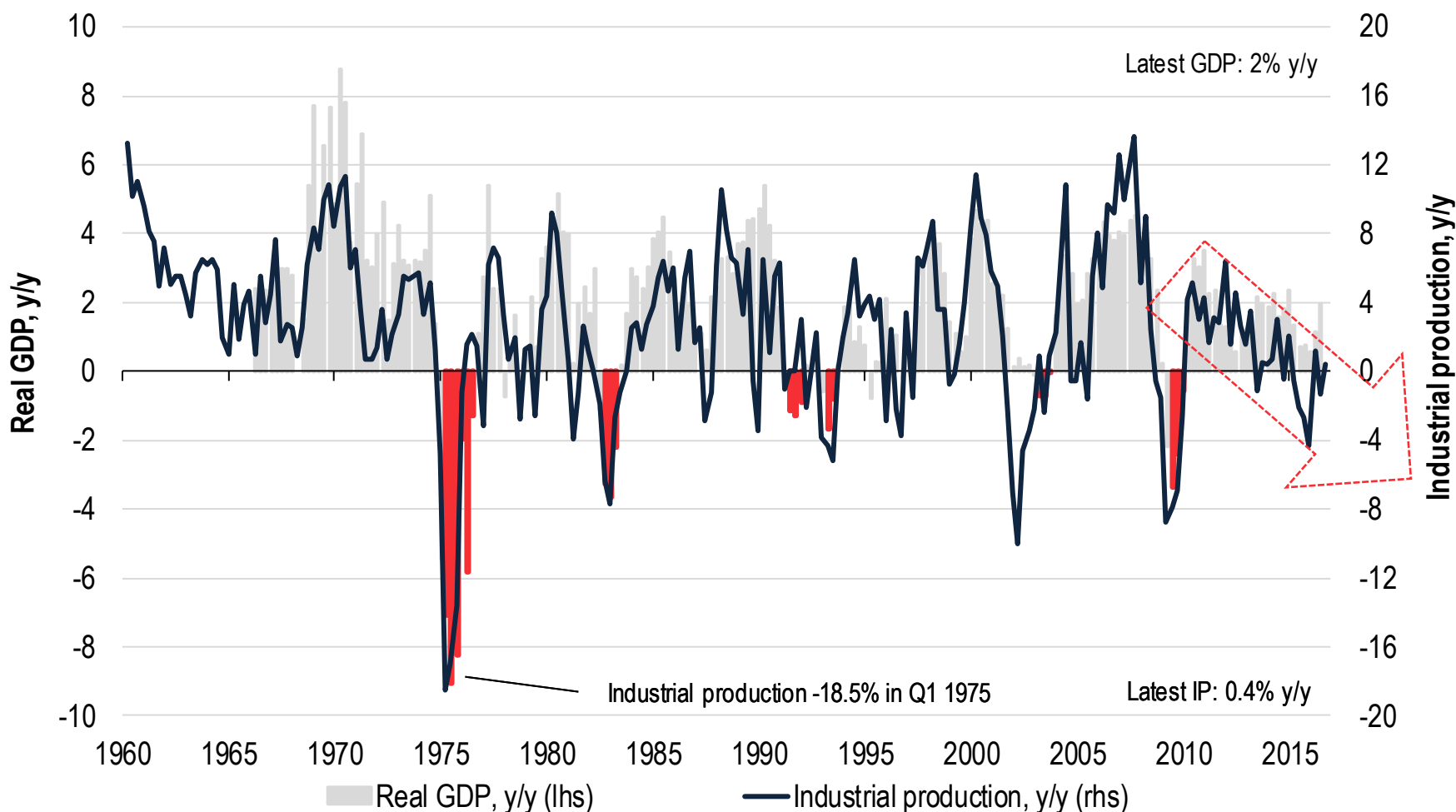
*This quarterly survey of consumer sentiment fell by 1.3 standard deviation in September 2015 and has not yet recovered from that fall. However, it seems to be breaking out of our (steeply-drawn) negative trajectory.*



Source: IR&M, Bloomberg. Based on quarterly data.

# Swiss industrial production: **negative**

*The trajectory of this quarterly IP data remains negative. The latest observation was a minor rise though.*

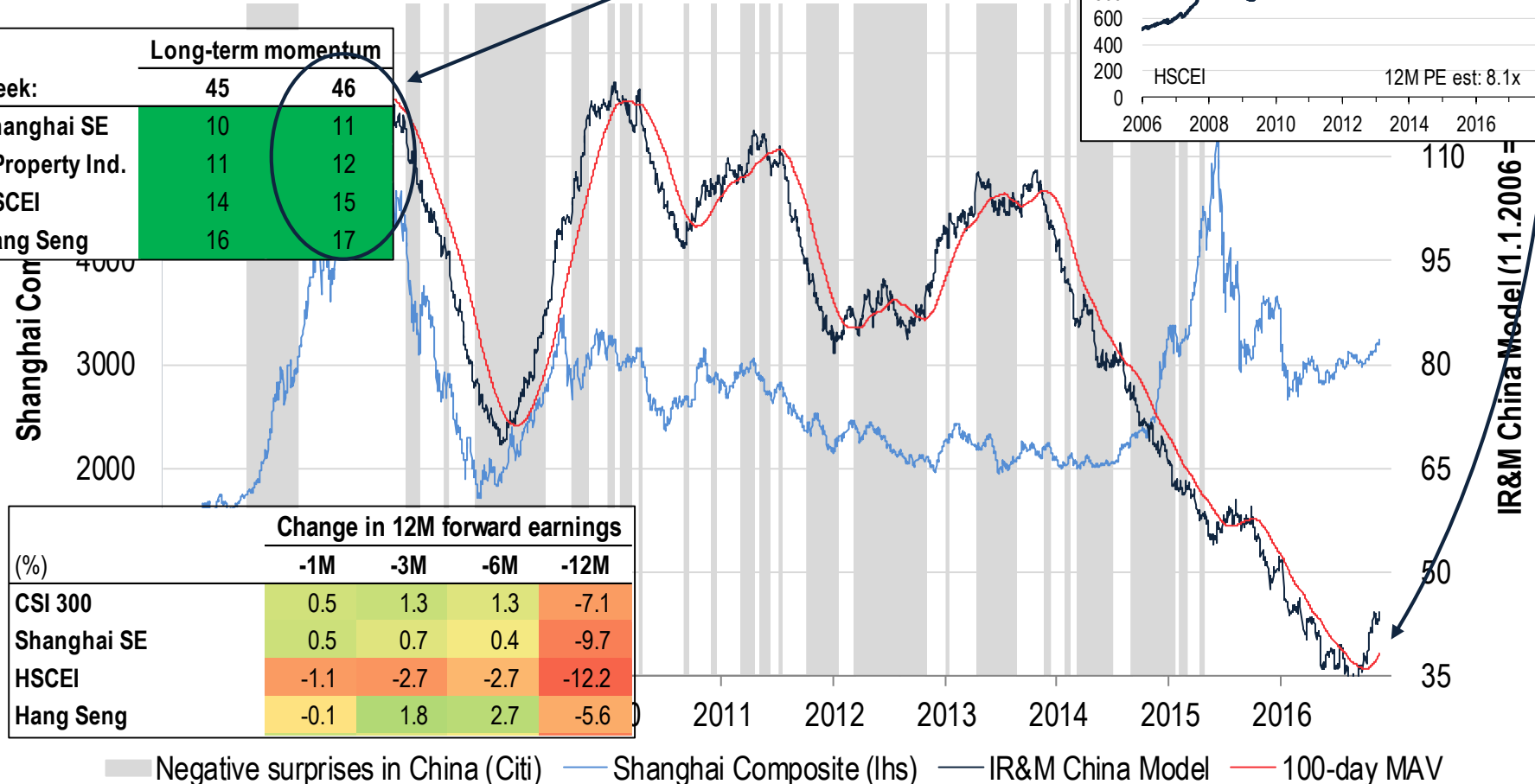


Source: IR&M, Bloomberg. Industrial production: IMF (1960-2004), Federal Statistics Office of Switzerland (2005-). GDP: IMF (1966-1980), State Secretariat for Economic Affairs (1981-). Based on quarterly data. Recessions (two consecutive negative quarters of y/y GDP) are marked.

# China: improving

Our gauge for economic momentum, that has fallen in a near straight line since 2013, has reversed to positive just recently and remains so. (China was on “improving” in our report from 12<sup>th</sup> October based on OECD indicators.) As so often, price momentum was the first to change positive 11-17 weeks ago. Earnings momentum in the earnings table below has not changed much since our last update.

	Long-term momentum	
Week:	45	46
Shanghai SE	10	11
Property Ind.	11	12
HSCEI	14	15
Hang Seng	16	17

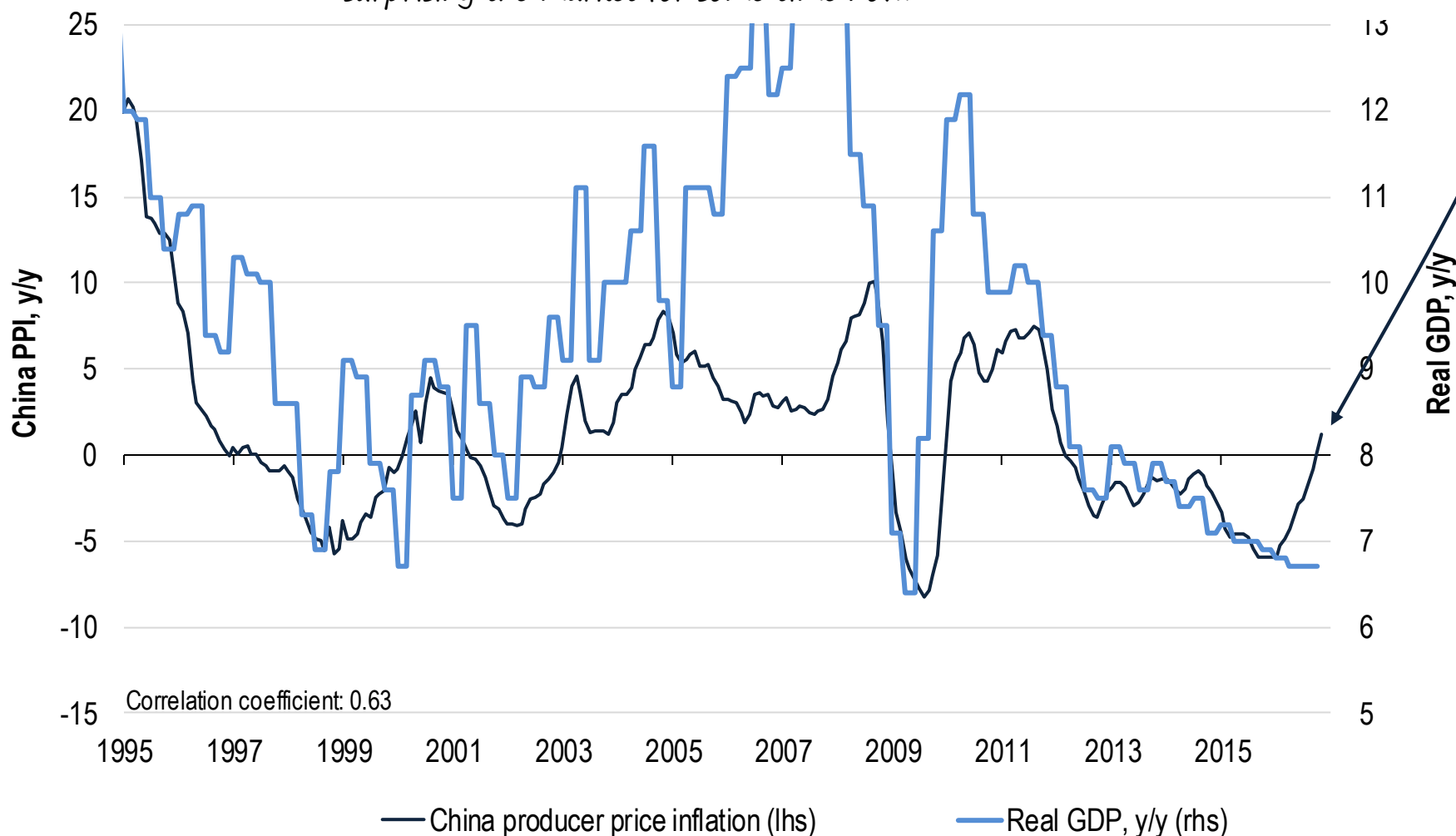


Source: IR&M, Bloomberg. Note: Model consists of 20 indicators. Earnings are consensus earnings. The two dots in the upper right chart are estimates for 2017 and 2018. Note that we had China-data problems in the past.

# China PPI: rising

Graphs shows China PPI vs real GDP growth. The PPI is perceived as a proxy for the investment side of the Chinese economy.

The investment side of the Chinese economy hit a trough in Q4 2015 and bounced off those lows and is now rising. October y/y PPI at +1.2% was positive and better than the +0.9% that were expected. This measure has been rising and surprising the market for some time now.



Source: IR&M, Bloomberg. Note: Correlation coefficient is based on quarterly observations since 1995.

# China business conditions: improving?

When October/September are compared to March/April/May and May, things are improving. However, the October survey was a sharp fall. November was a minor rise.

## China's November MNI Business Indicator Rises to 53.1 (Table)

By Myungshin Cho

(Bloomberg) -- Following is a table for MNI China Business Indicator in November released by Market News International in New York.

The survey includes around 200 companies listed on either the Shanghai or Shenzhen stock exchanges. The companies chosen are a mix of manufacturing and service sector firms.

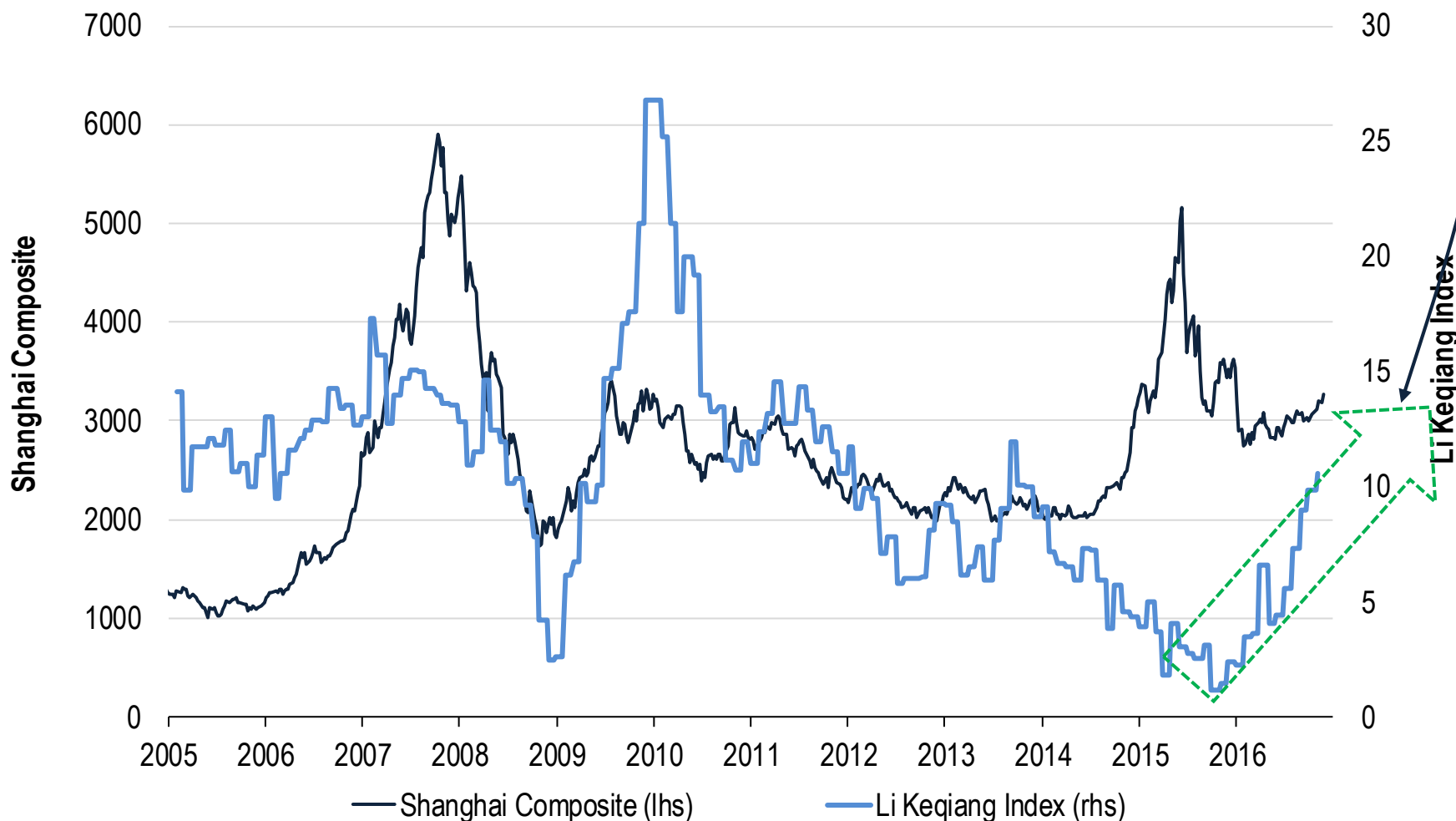
	Nov. 2016	Oct. 2016	Sept. 2016	Aug. 2016	July 2016	June 2016	May 2016	April 2016
Overall business condition	53.1	52.2	55.8	54.1	55.5	54.5	50.0	50.5
Change	0.9	-3.6	1.7	-1.4	1.0	4.5	-0.5	0.6

Note 1: This index is a diffusion indicator, which is calculated by adding share of positive responses to half the percentage of those respondents reporting no change.

Note 2: A reading above 50 shows expansion, below 50 indicates contraction

# Li Keqiang Index: **positive trajectory**

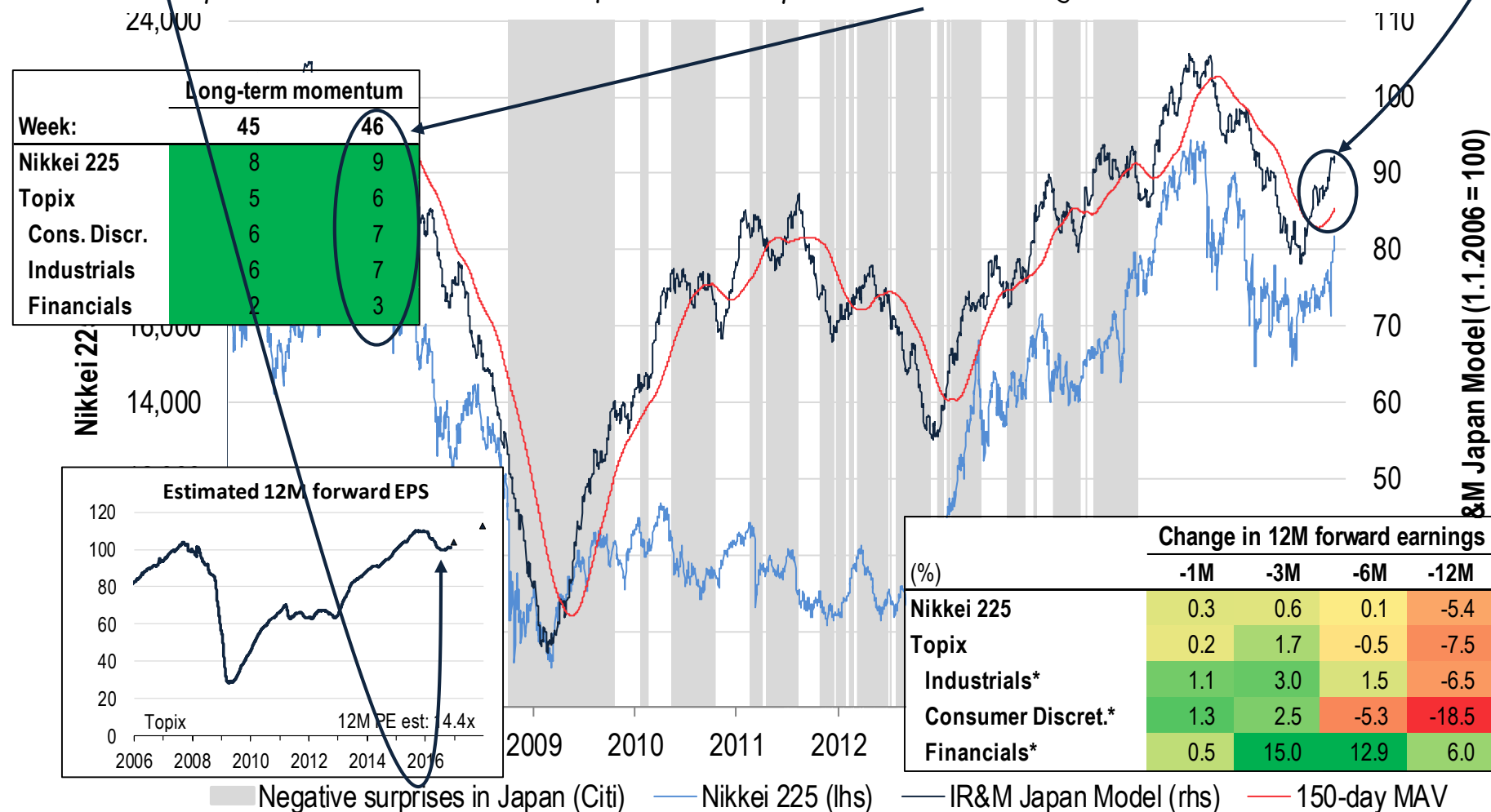
*The Li Keqiang Index has been rising consistently over the past couple of months and continues to do so.*



Source: IR&M, Bloomberg. Note: Chinese Premier Li Keqiang once remarked to a U.S. diplomat that China's GDP data was 'man made'. To track growth he preferred to look at change in bank lending, rail freight, and electricity consumption. This index takes a weighted average of annual growth rates in outstanding bank loans (40%), electricity production (40%), and rail freight volume (20%).

# Japan: improving

Economic momentum in Japan remains positive. This is consistent with our report from 12<sup>th</sup> October as well as price momentum having turned positive as well as earning momentum having stopped falling and now rising. Macro surprises remain positive. The earnings momentum table has improved a bit since our last update. Price momentum in equities turned positive 3-9 weeks ago.



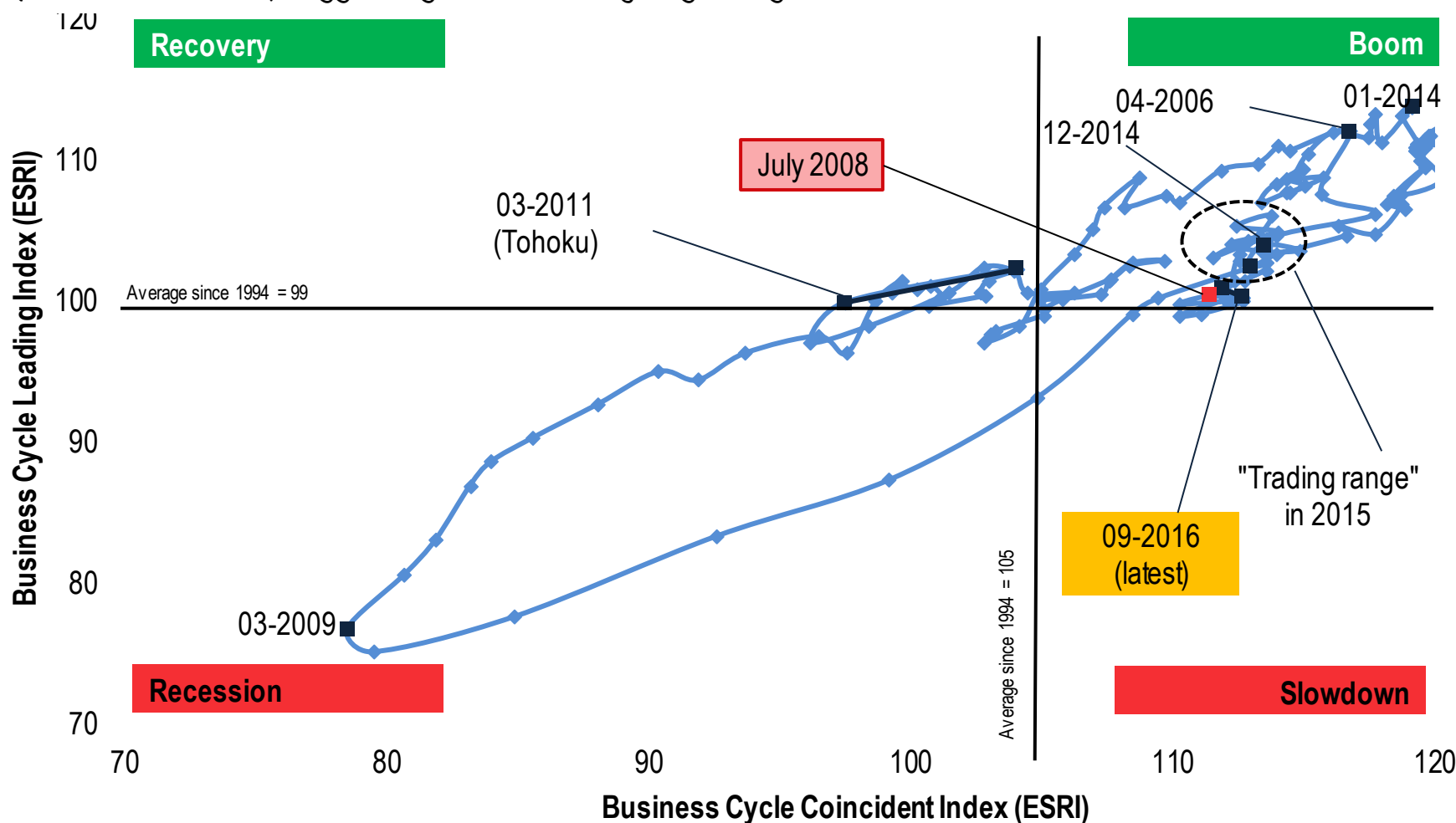
Source: IR&M, Bloomberg.

Note: Model consists of 22 indicators. Earnings are based on consensus estimates. \*Sector earnings estimates are based on MSCI indices. The two dots in the lower left chart are estimates for 2017 and 2018.

# Japan: July 2008 levels



The combination of these two indicators are at nearly the exact same level as in July 2008. The latest four changes were non-events though. The fact that these set of indicators stopped worsening could be interpreted as a positive. This survey is also inconsistent with other surveys (shown elsewhere) suggesting the economy is gaining momentum.



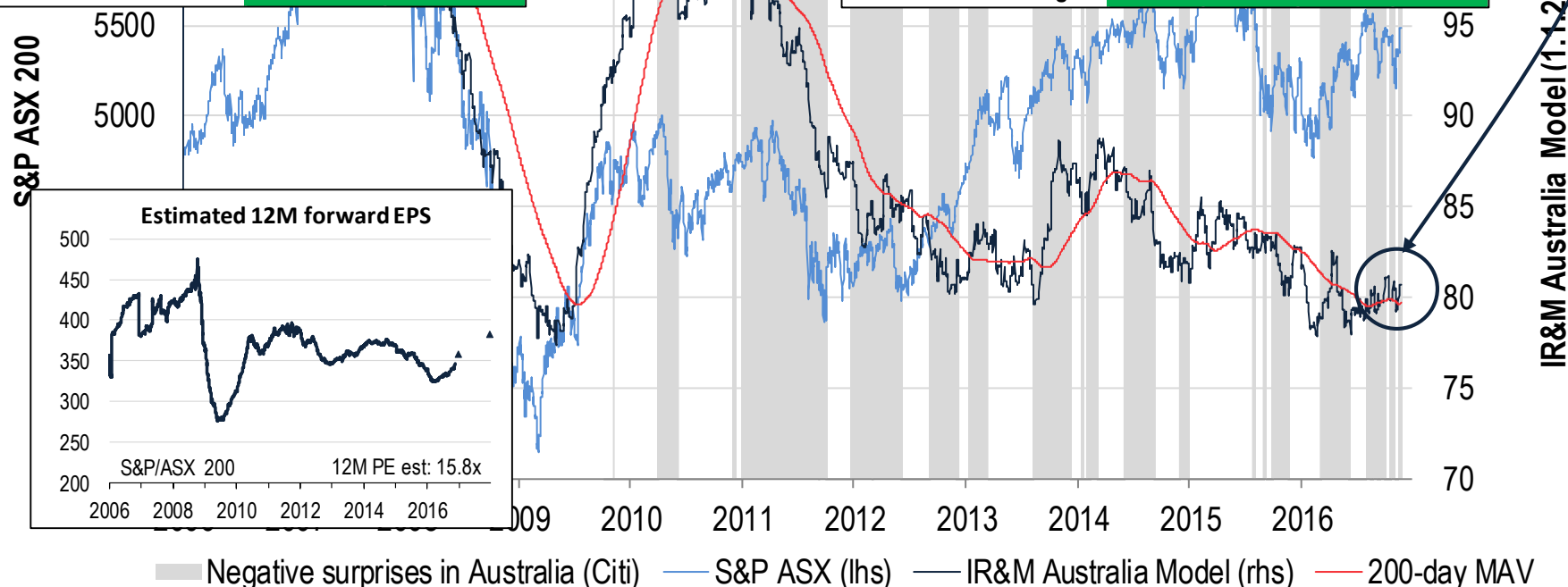
Source: IR&M, Bloomberg. Notes: Cross bars are based on averages since 1994. The path since Jan 2005 is shown.

# Australia: at inflection point

Economic momentum seems to have stopped falling. (In our report from 12<sup>th</sup> October Australia is on “worsening”.) Macro surprises are on and off but were negative at the time of writing though. The earnings estimates table has improved a bit since our last update from 3<sup>rd</sup> November. Long-term price momentum in 10-year govt yields has reversed to positive (i.e., rising yields), together with many other bond markets, as mentioned elsewhere.

Week:	Long-term price mom.	
	45	46
Equities	28	29
Govt. bond yields (10Y)	-42	1
Corp. bond yields	-26	-27
AUD vs. USD	34	35

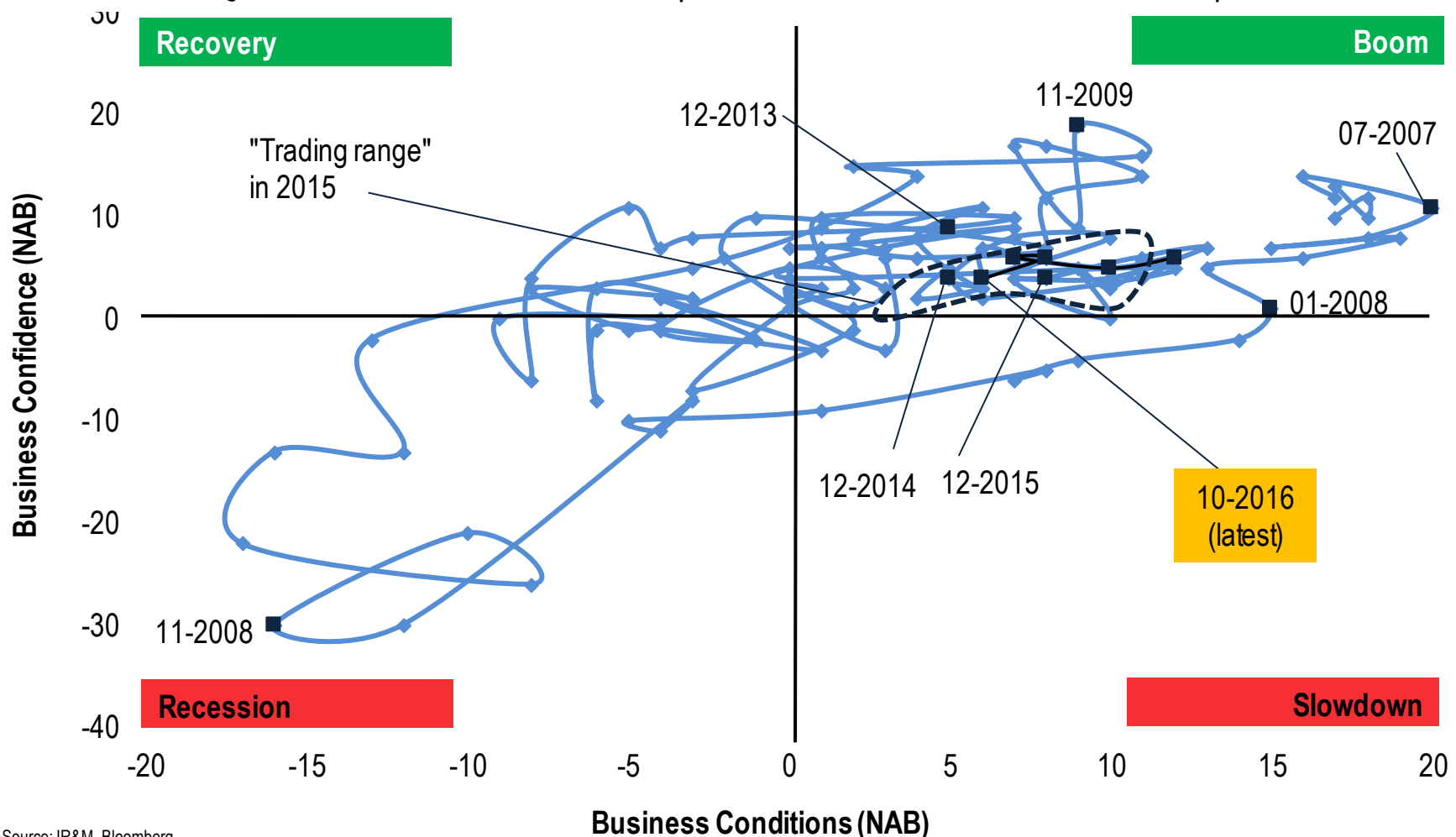
S&P ASX 200	Change in 12M forward earnings (%)			
	-1M	-3M	-6M	-12M
S&P ASX 200	1.7	4.4	5.3	1.1
Financials	-0.2	5.0	3.6	0.5
Materials	10.1	26.9	49.4	26.6
Metals and Mining	13.8	35.6	77.8	39.5



Source: IR&M, Bloomberg. Note: Model consists of 18 indicators and is designed to give a data point nearly every day. Earnings are based on consensus estimates from ASX 200, except Metals and Mining (ASX 300). The two dots in the lower left chart are estimates for 2017 and 2018. Price momentum is measured in weeks since signal and is based on our long-term price momentum methodology.

# Australia: in boom quadrant

The moves of these two indicators were minor over the past couple of months. The trend is sort of from right to left though, even if not in a straight line. Based on the sum of these two measures, Australia is in its 38<sup>th</sup> percentile (100=best) since 1997, which compares to 73<sup>rd</sup> in March of this year, the most recent interim peak. Year-end 2015 was the 47<sup>th</sup> percentile.



Source: IR&M, Bloomberg.

Note: NAB ([National Australia Bank](http://www.nab.gov.au)) indicators are diffusion indices, available since 1997, and published on the second Tuesday of the month for the previous month. Graph shows path since January 2007.

# Real estate bubble: **about to pop**



Graph shows S&P/ASX 200 Real Estate Index divided by S&P/ASX 200 Index.

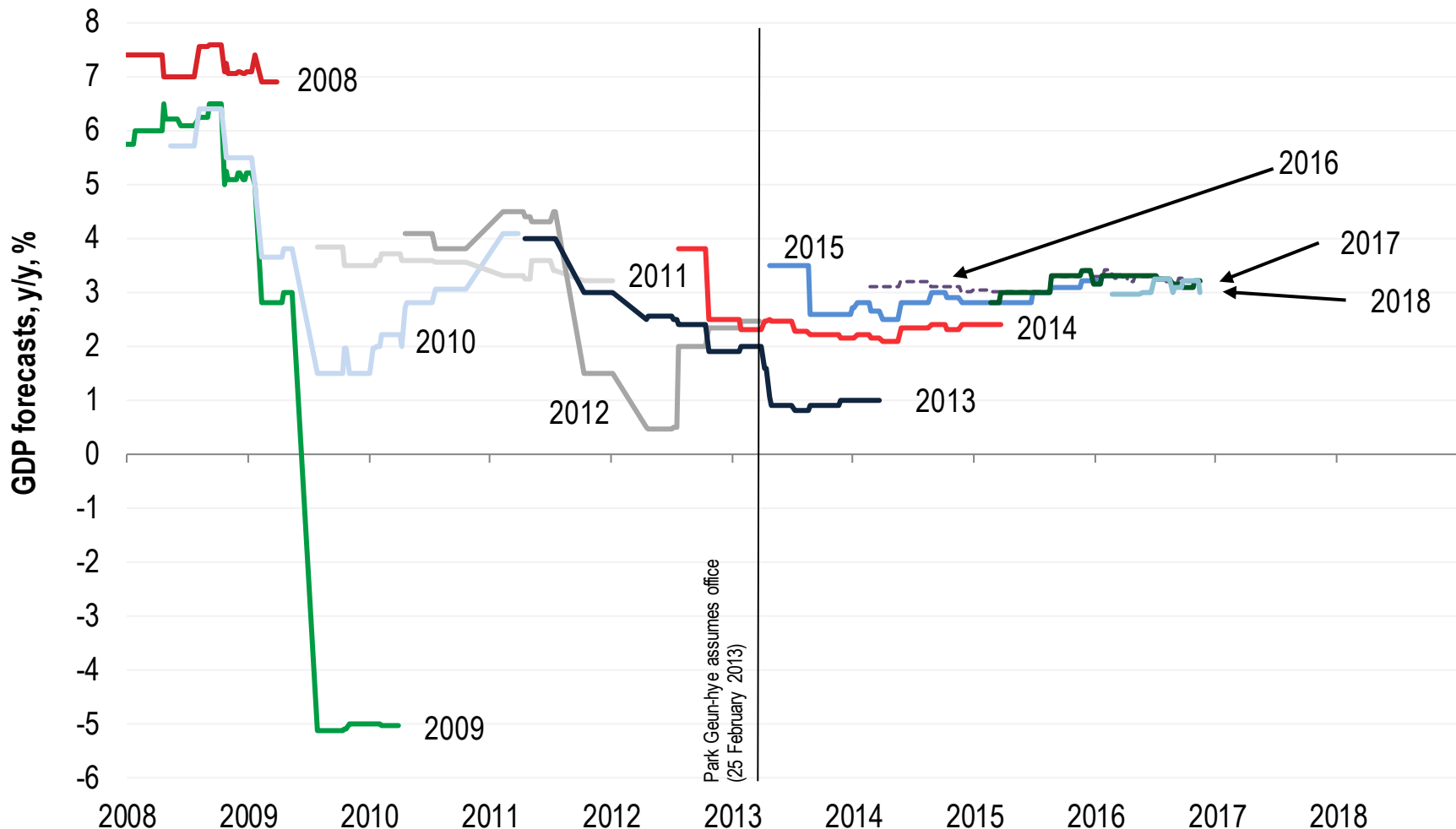
*The sell signal from 7<sup>th</sup> October is still in place. Given that the potential popping of a real estate bubble affects everything, this is a red flag.*



Source: IR&M, Bloomberg. Notes: Buy and sell signals are based on our long-term [momentum methodology](#).

# South Korea GDP forecasts: **stable**

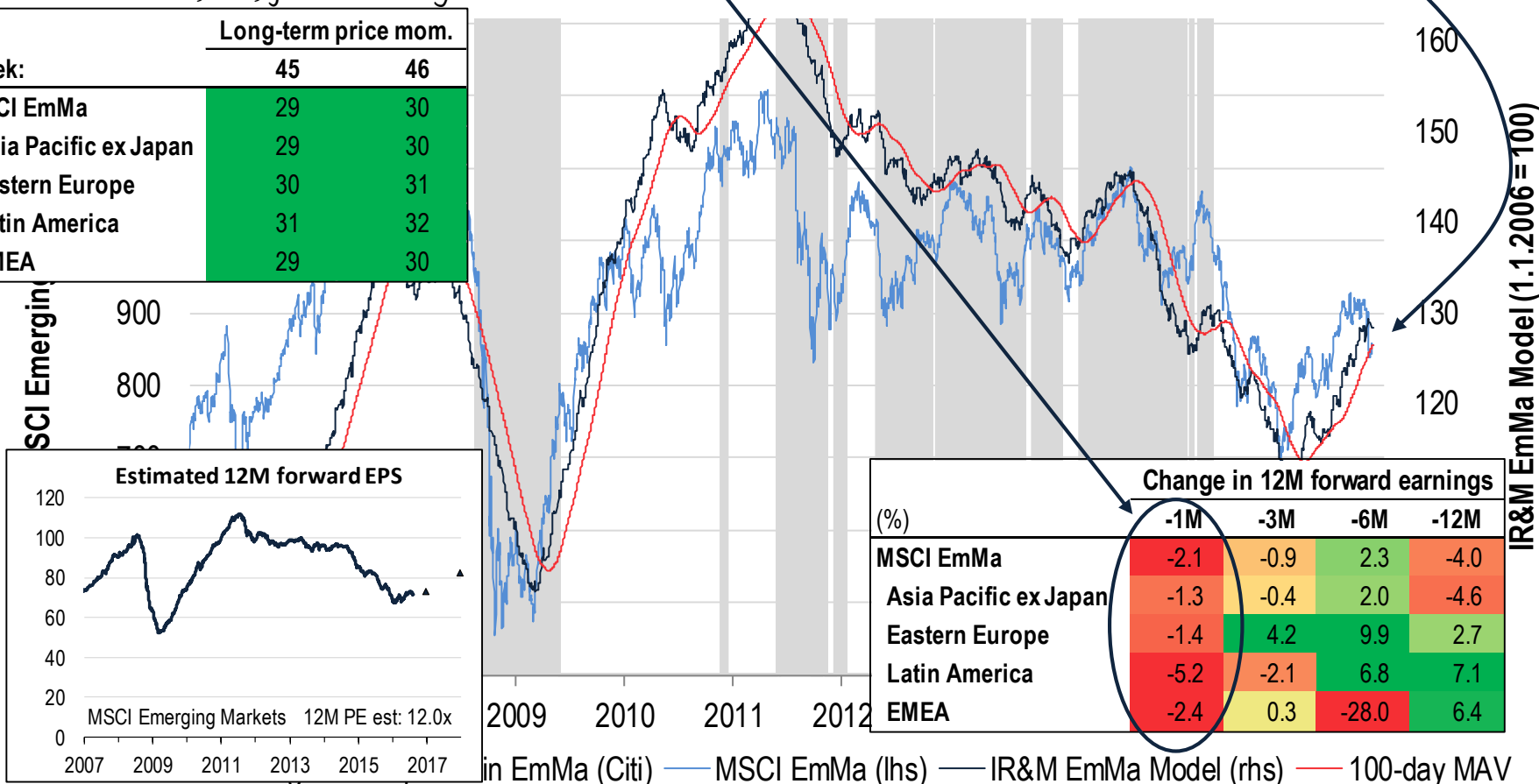
*The political turmoil does not seem to impact GDP forecasts at the moment.*



Source: IR&M, Bloomberg. Note: Graph shows consensus y/y GDP consensus forecasts.

# Emerging markets: improving

Trump and strong USD is not good for Emma. On this page this is only reflective in the one month change of earnings estimates. Economic momentum turned positive in April 2016 and remains positive. Macro surprises have been negative since mid-June though. The earnings estimates table has worsened since our last update. Price momentum remains mainly positive. The MSCI Frontier markets index, not shown here but shown in our momentum monitor publication from 21<sup>st</sup> November, turned negative in week no 46, i.e., just recently.



Source: IR&M, Bloomberg. Model consists of 15 indicators and is work in progress. Surprises are from Citigroup. The two dots in the lower left chart are estimates for 2017 and 2018.

# EmMa economic growth: **falling**

The average GDP growth rate is positive, i.e., > 0%, is falling moderately and remains far below its long-term average of 4.2%.

12 2001 to 12 2015	Q1 16	Q2 16	Q3 16	△	SD
	2.72	2.51	2.41	↓	Average
	1.02	0.41	0.46	↑	Average Latam
	2.21	2.29	1.97	↓	Average Europe
	5.38	5.30	5.26	↓	Average Asia
	0.4	-3.4	n.a.	↓	Argentina
	-5.4	-3.8	n.a.	↑	Brazil
	2.0	1.4	1.5	↑	Chile
	2.5	2.0	n.a.	↓	Colombia
	2.3	2.6	2.0	↓	Mexico
	4.4	3.7	4.4	↑	Peru
	2.7	2.8	n.a.	↑	Croatia
	3.0	2.6	1.9	↓	Czech Republic
	1.1	2.8	2.0	↓	Hungary
	3.0	3.1	2.5	↓	Poland
	-1.2	-0.6	-0.4	↑	Russia
	4.7	3.1	n.a.	↓	Turkey
	6.7	6.7	6.7	↑	China
	7.9	7.1	n.a.	↓	India
	4.9	5.2	5.0	↓	Indonesia
	4.2	4.0	4.3	↑	Malaysia
	3.2	3.5	3.2	↓	Thailand

Source: IR&M, Bloomberg. Notes: Based on real GDP, y/y, SAAR (seasonally adjusted annual rate) when available. The averages are equally weighted. △=Direction of latest change. SD=Latest change that exceeds one standard deviation is marked with a green or red dot.

# Hitting the proverbial nail on its head

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***“The biggest risk to the global economy is the acute and impending **political crisis** in Europe, which monetary policy does not have the tools to resolve.”***

—Hugh Hendry, Reuters, 15 November 2016

***“If he [Trump] is in office for eight years, he will successfully be the first US president to lead America’s economy from number one in the world to number two. Yes he can!”***

—Zhang Zhaozhong, Chinese military commentator, Weibo, The Economist, 12 November 2016

[Editor’s note: The US at \$18.0tr growing at, say, 2% per year will be a \$21.1tr economy in eight years. China, a \$10.9tr economy, would need to grow at a rate of 8.6% to catch up over eight years.]

***“Unfortunately the politicians and press are still demonising Brexit and Trump supporters rather than recognising the failing system.”***

—Andy Lees, Macro Strategy Partnership, 10 November 2016

***“They (central banks) have taken on massive interventions in the market, you could almost say that central banks are now the central counterparties in many markets. They are the **ultimate buyer**.”***

—Axel Weber, UBS, CNBC, 10 October 2016

***“I think one of the first priorities is to get straight who our friends and our adversaries are. And I think President Obama got that mixed up. I think it's important, for example, to let the world know that Israel is our friend and Iran is not a country that we have a nice, sound nuclear agreement with.”***

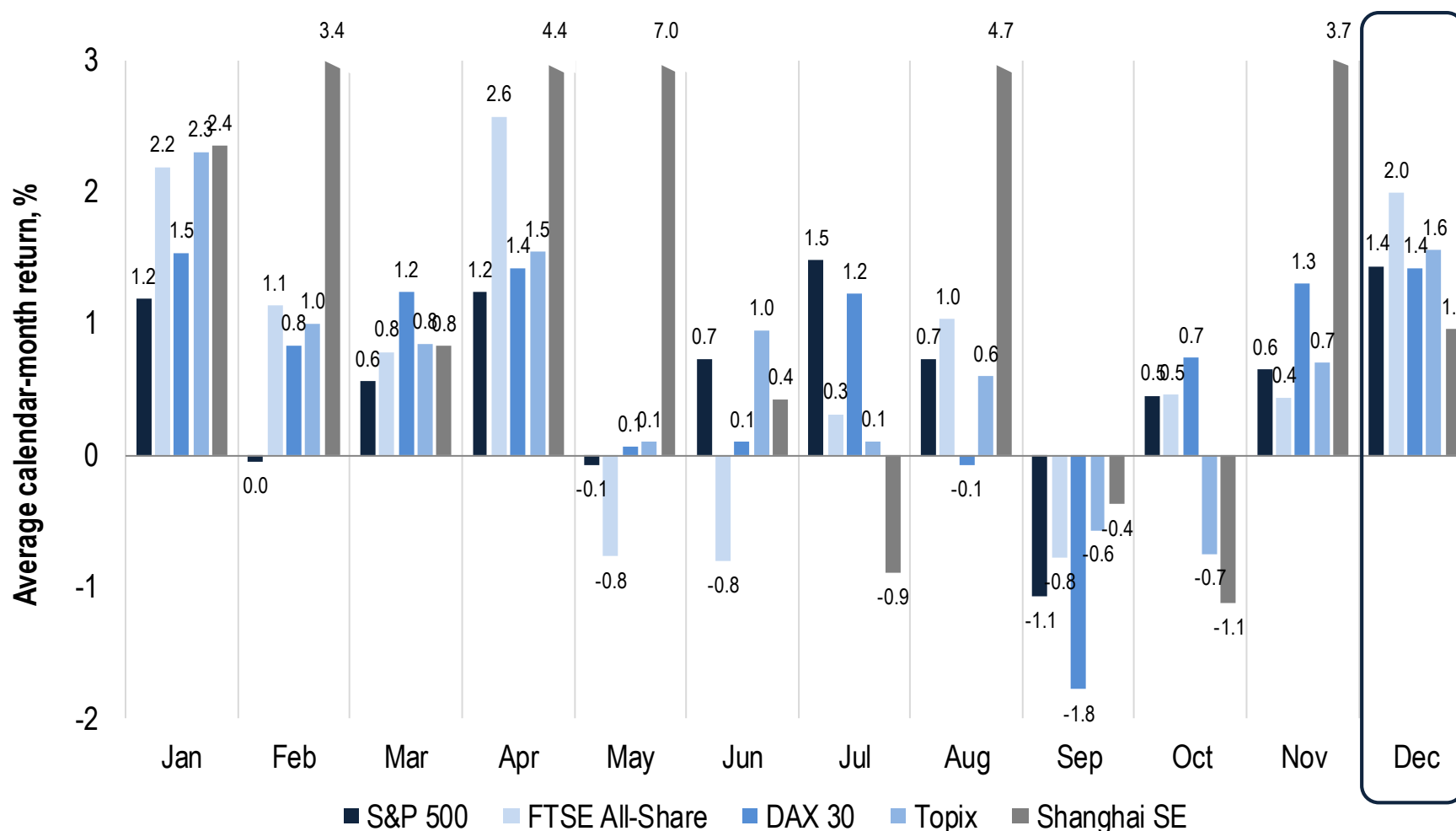
—James Woolsey on Trump’s first priority, former CIA director, CBC, 9 November 2016

Emphasis are our own. Some quotes are hyperlinked and might or might not require registration/subscription. These quotes might or might not be consistent with the rest of the document.

# Equities seasonality: positive

Graphs measures average calendar-month returns since index inception.

*From a seasonality point of view, December is great. And January too.*



Source: IR&M, Bloomberg. Notes: Bars show average of nominal returns in local currency since inception. S&P 500 since 1927, FTSE All-Share since 1962, DAX since 1959, Topix since 1949, and Shanghai SE since 1990.

# 10Y yields: rising

10-year yields have risen sharply nearly everywhere. The question as to whether this is “the big one,” i.e., the reversal of the multi-decade bond bull market is quite literally a trillion-dollar-question. It sort of looks as if this turn is the big one. However, we’ve been fooled before. (We remain quite confident that predicting interest rates is the single most foolish thing to do in finance.)

Nov 2008 to Aug 2016	Sep	Oct	Last	△	SD
	1.92	2.11	2.35	↑	● Average ex. Brazil
	1.59	1.83	2.37	↑	● United States
	1.00	1.20	1.59	↑	● Canada
	11.58	11.40	11.89	↑	● Brazil
	6.06	6.28	7.48	↑	● Mexico
	0.19	0.47	0.78	↑	● France
	-0.12	0.16	0.24	↑	● Germany
	8.28	8.29	6.93	↓	● Greece
	1.19	1.66	2.12	↑	● Italy
	3.33	3.32	3.63	↑	● Portugal
	0.88	1.20	1.56	↑	● Spain
	1.21	1.39	1.64	↑	● Norway
	0.17	0.26	0.53	↑	● Sweden
	-0.55	-0.39	-0.16	↑	● Switzerland
	0.75	1.25	1.43	↑	● United Kingdom
	1.91	2.35	2.76	↑	● Australia
	2.74	2.74	2.87	↑	● China
	1.06	1.10	1.48	↑	● Hong Kong
	6.82	6.79	6.24	↓	● India
	-0.09	-0.05	0.04	↑	● Japan
	1.78	1.89	2.42	↑	● Singapore
	1.42	1.68	2.20	↑	● South Korea
	0.72	1.00	1.26	↑	● Taiwan

Source: IR&M, Bloomberg. Note: Table is based on month-end 10-year yields; except “last”. Colour coding: red applies to high yields (low bonds). SD: Change of more than one standard deviation are highlighted.

# CPI: rising\*

\* A move by 0.28 is one standard deviation.

The rises of the average inflation measure in the table for June to October measured in standard deviation were: +0.7, +0.0, +0.1, +0.5, and +0.5. The important thing is the “+”. Inflation is rising.

*The most important thing  
Inflation is rising.*

High	Low	Nov 2007 to May 2016					Jun	Jul	Aug	Sep	Oct	Trend*	
3.1	-0.1						0.45	0.46	0.48	0.62	0.78	↑	Avg. ex Rus.&Bra.
3.9	-2.1						1.0	0.8	1.10	1.50	1.60		United States
3.0	-0.7						0.1	0.2	0.20	0.40	0.50		Eurozone
6.5	-1.8						1.9	1.8	1.30	1.90	2.10		China
3.7	-2.5						-0.4	-0.4	-0.50	-0.50	0.10		Japan
5.2	-0.1						0.5	0.6	0.60	1.00	0.90		United Kingdom
2.4	-0.5						0.3	0.4	0.40	0.70	0.80		Germany
3.4	-0.7						-0.2	-0.6	0.10	-0.10	0.30		Netherlands
2.5	-0.7						0.2	0.2	0.20	0.40	0.40		France
3.8	-0.5						-0.2	-0.2	-0.10	0.10	-0.10		Italy
3.8	-1.4						-0.8	-0.6	-0.10	0.20	0.70	↑	Spain
4.2	-1.7						0.6	0.6	0.72	0.63	0.88		Portugal
3.2	-6.6						0.4	0.5	-0.10	0.00	-0.30		Ireland
5.6	-2.9						-0.7	-1.0	-0.95	-0.97	-0.48		Greece
1.4	-1.4						-0.4	-0.2	-0.10	-0.20	-0.20		Switzerland
4.4	0.2						3.7	4.4	4.00	3.60	3.70		Norway
3.0	-1.6						1.0	1.1	1.14	0.91	1.18		Sweden
5.7	-1.6						-0.7	-0.7	-0.30	-0.20	-0.10	↑	Singapore
3.7	-0.9						1.5	1.3	1.10	1.30	1.50		Canada
4.7	0.4						0.8	0.7	0.40	1.20	1.30		South Korea
16.9	3.6						7.5	7.2	6.9	6.4	6.1	↓	Russia
10.7	4.2						8.8	8.7	9.0	8.5	7.9	↓	Brazil

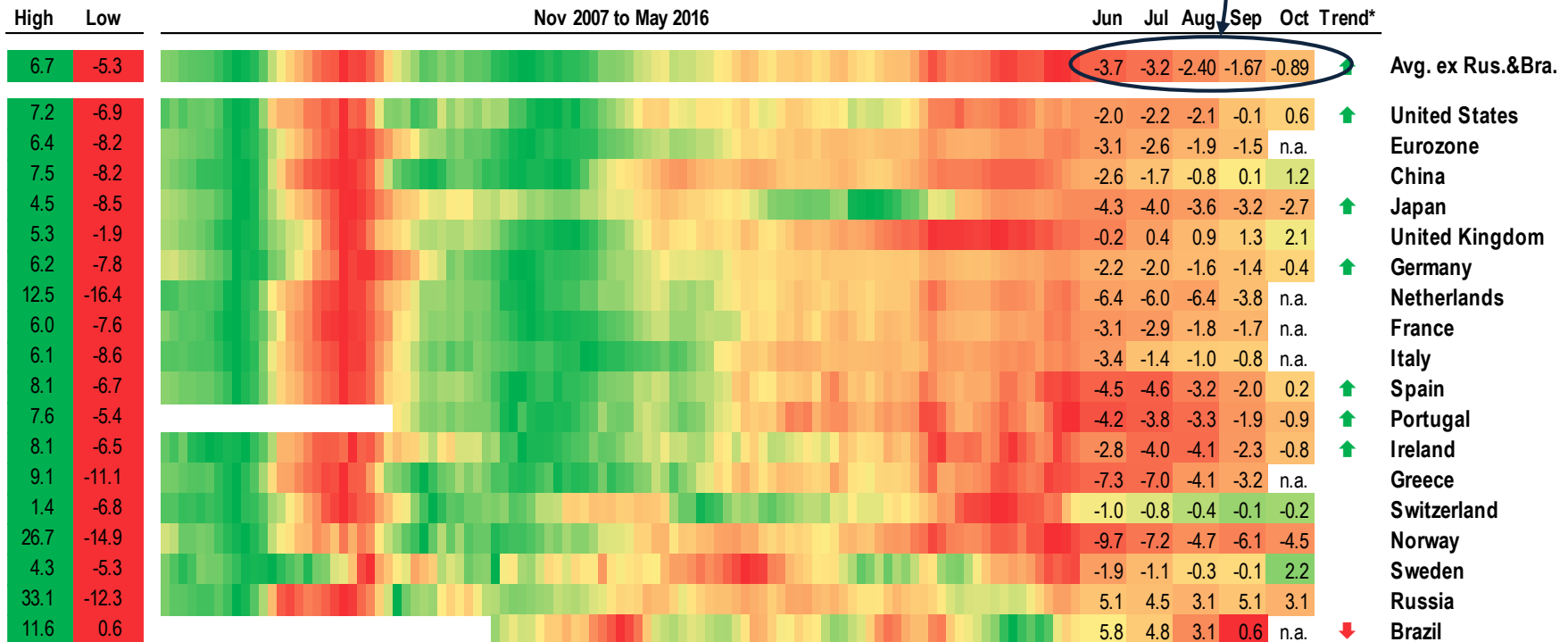
Source: IR&M, Bloomberg. Based on official y/y CPI. Average is equally weighted excluding Russia and Brazil. \*Trend: three consecutive changes in the same direction.

# PPI: rising\*

\* A move by 0.97 is one standard deviation.

The average is rising. The rises measured in standard deviation (sd) for May to October were +0.6, +0.9, +0.5, +0.8, +0.7 and +0.8 sd. Again, as with CPI, the important bit is the “+”.

*The most important thing PPI is rising.*



Source: IR&M, Bloomberg. Average is equally weighted excluding Russia and Brazil; a 1.05 change is one standard deviation. \*Trend: three consecutive changes in the same direction.

# Financial risk: easing

Risk, generally speaking, as eased a bit since our last update. VIX collapsed. Note that MOVE, a proxy for bond risk, is rising continuously.

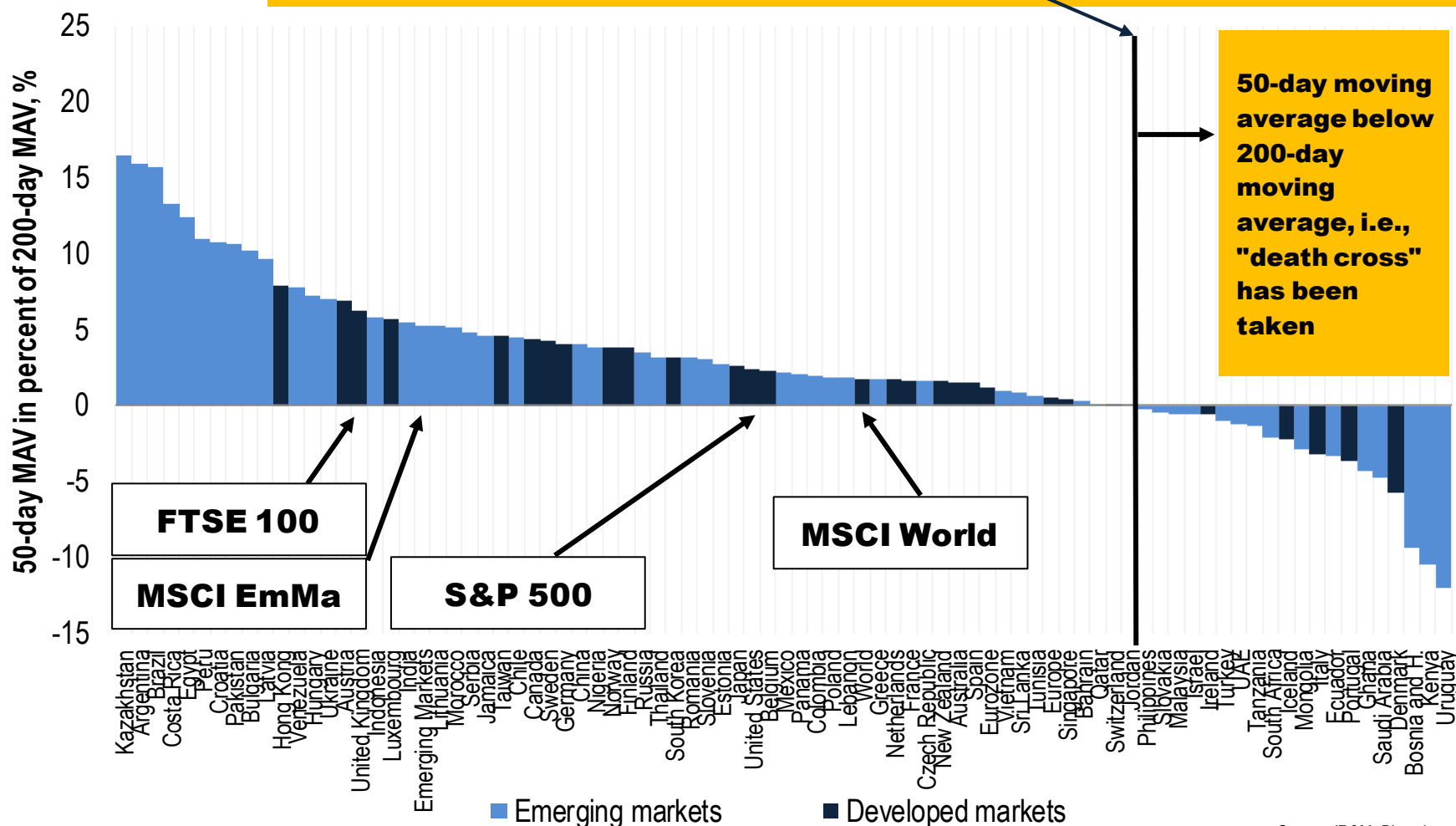
Market	Risk proxy	10-year*			2015								2016												Δ	>Avg.?
		High	Low	Median	03	04	05	06	07	08	09	10	11	12	01	02	03	04	05	06	07	08	09	03-11		
Composite	St. Louis Fed Stress	5.5	-1.7	-0.8	-1.3	-1.4	-1.3	-1.2	-1.2	-0.7	-0.9	-1.0	-1.0	-0.7	-0.6	-0.6	-0.9	-1.0	-1.1	-1.0	-1.2	-1.1	-1.1	-1.2	-1.1	●
	BB Financial Conditions	1.4	-12.6	-0.3	0.3	0.3	0.3	-0.1	0.3	-0.7	-0.7	0.0	0.0	-0.5	-0.6	-0.7	-0.3	-0.2	0.1	-0.3	-0.2	-0.2	-0.4	-0.6	0.0	●
	Citi Macro Risk	0.99	0.0	0.47	0.78	0.72	0.69	0.74	0.52	0.81	0.87	0.52	0.53	0.64	0.82	0.82	0.60	0.57	0.44	0.55	0.43	0.43	0.47	0.57	0.37	●
Liquidity	LIBOR 1M OIS Spread	338	0	9	5.6	4.9	5.6	5.4	5.6	1.8	5.5	5.9	2.0	8.0	5.8	9.5	6.9	7.1	4.7	9.1	10.3	11.1	13.5	12.6	7.7	●
	Euro Libor-OIS Spread	196	3	20	11	10	11	11	10	10	10	12	16	10	14	15	11	9	9	8	5.8	5.3	3.8	3.7	3.4	●
	Euro Basis Swap Spread	3	-300	-27	-24	-20	-22	-22	-20	-22	-28	-29	-55	-19	-22	-30	-24	-22	-29	-41	-47	-40	-42	-45	-56	●
Credit	TED Spread	464	11	29	24	28	28	28	25	33	35	26	25	45	30	32	43	43	36	39	51	51	56	51	44	●
	AAA Spread	298	63	179	157	171	182	184	189	193	196	184	178	177	213	211	194	180	180	185	180	166	182	184	164	●
	HY Spread	2055	220	488	426	392	380	422	469	504	600	527	581	647	725	729	642	554	546	584	526	473	470	470	425	●
	Municipals spread	127	-38	21	4	11	14	-2	7	5	14	1	-4	-16	-1	17	13	0	1	10	16	8	22	19	24	●
	EmMa Spread	865	204	334	402	377	383	394	404	411	443	392	390	410	443	438	397	383	392	376	374	350	350	363	379	●
	CDX.NA.IG	151	55	84	65	63	64	70	70	82	93	79	84	88	102	108	78	77	77	81	72	73	75	81	74	●
	iTraxx 5Y Europe	208	48	92	56	61	66	75	62	71	91	71	70	77	93	100	73	73	71	87	68	68	73	75	81	●
	iTraxx 5Y E. Crossover	1150	171	413	262	273	283	327	284	323	377	298	290	315	369	408	313	310	305	377	319	309	335	336	341	●
Sovereign	iTraxx 5Y E. Sovereign	386	23	83	24	25	25	28	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	●
CDS (5Y)	Ireland	1192	5	131	49	50	51	59	49	51	50	47	43	39	43	67	58	64	65	65	65	65	65	65	68	●
	Portugal	1527	21	263	136	150	162	195	169	173	173	171	183	171	218	304	264	254	261	324	270	286	303	274	277	●
	Spain	641	23	112	93	92	88	110	95	101	109	89	83	90	92	112	94	87	93	119	87	83	82	71	83	●
	Italy	592	24	142	114	123	112	136	116	115	122	103	94	97	114	142	124	119	127	161	134	136	147	146	174	●
	Belgium	406	3	51	43	46	39	43	38	39	39	35	34	32	35	46	47	49	49	49	49	49	49	49	32	●
	France	249	11	52	42	37	31	36	33	34	32	29	27	26	27	38	33	42	37	44	33	29	28	30	40	●
	Japan	560	48	106	58	50	55	61	58	62	82	67	76	74	84	100	90	70	65	72	58	51	58	57	56	●
Bonds	MOVE (bond volat.)	265	49	83	86	75	83	92	76	88	82	73	70	68	74	83	71	65	67	72	64	69	58	73	79	●
Equities	VIX (equity volat.)	81	10	18	15	15	14	18	12	28	25	15	16	18	20	21	14	16	13	16.6	11.9	13.4	12.4	22.1	12.6	●
	Skew Index (CBOE)	154	106	122	122	116	123	124	124	129	114	126	127	124	121	118	129	126	130	136	128	129	127	141	125	●
FX	VXY (G7 FX volat.)	24	5.1	10	11	10	10	10	9	10	10	9	10	9	10	11	11	11.0	9.8	10.9	9.5	10.5	10.0	9.9	10.6	●

Source: IR&M, Bloomberg. \*Note: 10-year history where available. Changes larger than 0.5 standard deviation are marked with a red or green dot. A green flag stands for the variable being within lowest 5 percentiles.

# Graph of the week – for what it's worth...

Graph shows whether a stock market is in a bull/bear market\* based on 50-day and 200-day moving averages.

From a selection of 85 equity indices, 76% are "officially" in a bull market. This percentage has been rising continuously but just recently started to fall again. When last shown on 17<sup>th</sup> October it was 80%. Over long periods of time, the divider (vertical line) moves slowly from right to left and then back again. The new trend seems now from right to left.



\*Death cross: A crossover resulting from a short-term moving average breaking below its longer term moving average.

Source: IR&M, Bloomberg

# Selected publications\*

IR&M's risk management research consists of 20-25 risk management updates, 20-40 flash updates, 45-50 momentum monitors and around 3-4 thematic reports per year. A pitch-book-style introduction can be found [here](#).

A scent of panic in the air	3 November 2016	Deciphering monetary rhetoric difficult	23 October 2015
Political risk becoming unfathomable	14 October 2016	<b>Going in cycles (report)</b>	<b>14 October 2015</b>
<b>Winter is coming (report)</b>	<b>12 October 2016</b>	Monetary police remains unrestful	9 October 2015
Preparing for the jump	28 September 2016	Goal posts keep shifting	24 September 2015
It's not yet complicated	8 September 2016	Not in the ropes	11 September 2015
Extravagantly too bearish	18 August 2016	China bashing overdone	28 August 2015
No near term risk to economic outlook?	29 July 2016	Tapering unthinkable	13 August 2015
Persistent downside risks	14 July 2016	Light at the end of the austerity tunnel	30 July 2015
Inherently uncertain	29 June 2016	...	
<b>Negative outliers (report)</b>	<b>24 June 2016</b>	<b>Sector momentum (report)</b>	<b>25 June 2015</b>
Still a bear market	10 June 2016	<b>Nowcasting and financial wizardry (report)</b>	<b>13 January 2015</b>
Crisis fighters rejoice	30 May 2016	<b>The 4% rule applied (report)</b>	<b>26 September 2014</b>
Lower for longer	13 May 2016	<a href="#">Economic World Cup 2014 (report)</a>	<b>6 June 2014</b>
Inert horse not drinking monetary H <sub>2</sub> O	28 April 2016	<b>Sleeper pins (report)</b>	<b>11 April 2014</b>
Still encouraging excessive leverage	12 April 2016	<b>Walking a tightrope (report)</b>	<b>6 November 2013</b>
Proceeding asymmetrically cautious	30 March 2016	<a href="#">Change spotting (report)</a>	<b>19 September 2013</b>
Things aren't terrific	10 March 2016	<b>Highly accommodative (report)</b>	<b>17 July 2013</b>
Too big to fail isn't a movie	25 February 2016	<b>IR&amp;M momentum monitor (inaugural issue and tutorial)</b>	<b>3 May 2013</b>
Risks asymmetrically skewed	5 February 2016	<b>A new dimension (report)</b>	<b>19 April 2013</b>
Central planers not surrendering	22 January 2016	<b>Repressionomics (report)</b>	<b>18 January 2013</b>
Another 'whatever it takes' moment	7 January 2016	<b>No risk (report)</b>	<b>26 October 2012</b>
<b>Sector rankings (report)</b>	<b>4 January 2016</b>	<a href="#">Wriston's Law of Capital (report)</a>	<b>10 July 2012</b>
No limits	17 December 2015	<b>What makes bears blush (report)</b>	<b>11 April 2012</b>
Awaiting normalisation	25 November 2015	<b>Relatively difficult (report)</b>	<b>16 January 2012</b>
No taboos	6 November 2015	<a href="#">Europe doubling down (inaugural report)</a>	<b>3 October 2011</b>

Source: IR&M

\* IR&M's risk management research is subscription based. Research related to "absolute returns" in general is freely available under [www.ineichen-rm.com](http://www.ineichen-rm.com)

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