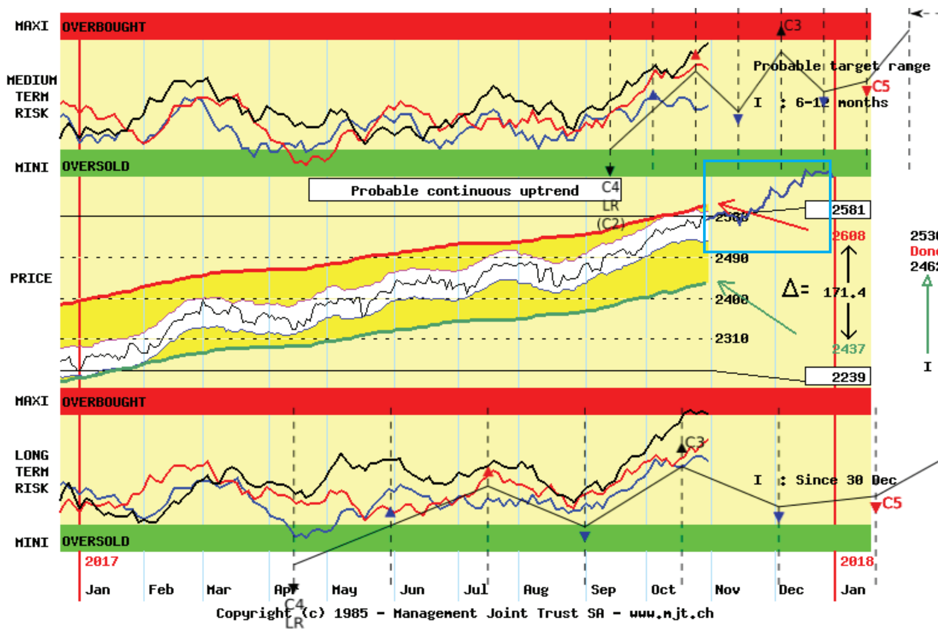
46 / Splicing the markets – Strong markets with a rotational bias should continue towards H1 2018, yet short term risk/reward still looks extended

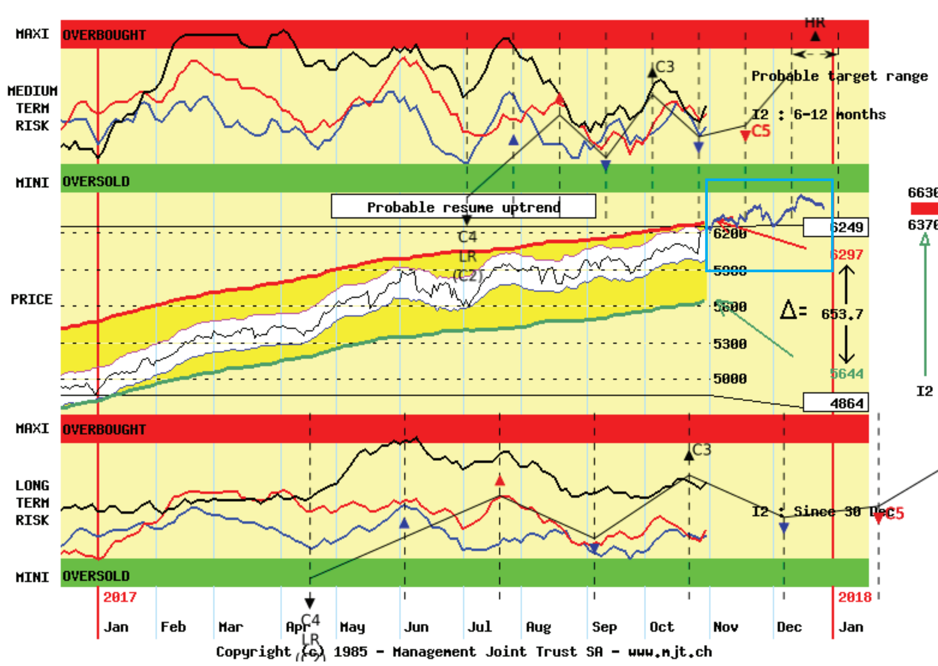
Linear markets are a challenge for medium term markets timers. We had mailed the equity bottom in late August, yet advised to shift back to prudence towards the end of the first week of October. Our shorter term risk reward was then getting extended and our oscillators were already showing important exaggerations. The window for retracement, we had then envisaged was between end October and possibly mid November. Three weeks down the line, equity markets are still extending up and growth rotations are kicking in, bringing further support. Yet, our oscillators are still in exaggeration, risk/reward is still extended and the timing window for some retracement (although it may be benign) is still open over the next couple of weeks. We hereby review the markets main equity indices.

S&P500 - Daily graph or the perspective over the next 2 to 3 months



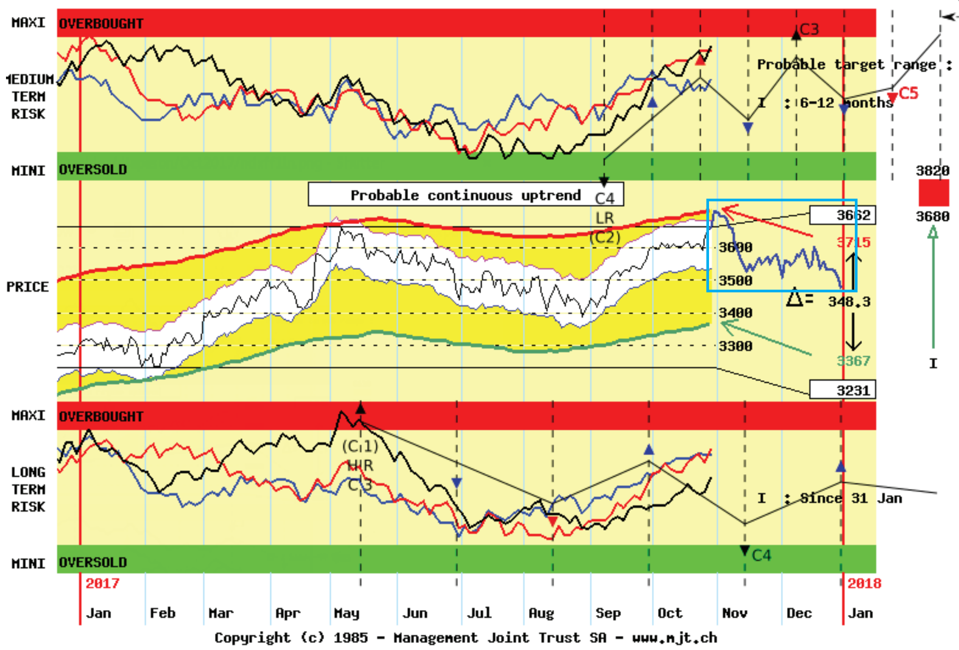
Our 'I' Impulsive targets to the upside (right-hand scale) have been reached and over-run, and our standard deviation envelopes are touching each other again (middle rectangle). Both are indications of **extended risk/reward**. On our long term oscillators (lower rectangle), we had reached an intermediate top mid October. It would theoretically imply a possibly consolidation window until end November. On our medium term term oscillators (upper rectangles), we could possibly map a number of further extensions to the upside, yet the latest to date does lead into **some consolidation over the next 2 to 3 weeks**. We will remain prudent as to the scope of this **retracement** and would conservatively calculate it as 0.5 of historical volatility measure "delta" (here at 171.4, middle rectangle; right hand side) or **possibly 85 points.**

NASDAQ 100 - Daily graph or the perspective over the next 2 to 3 months



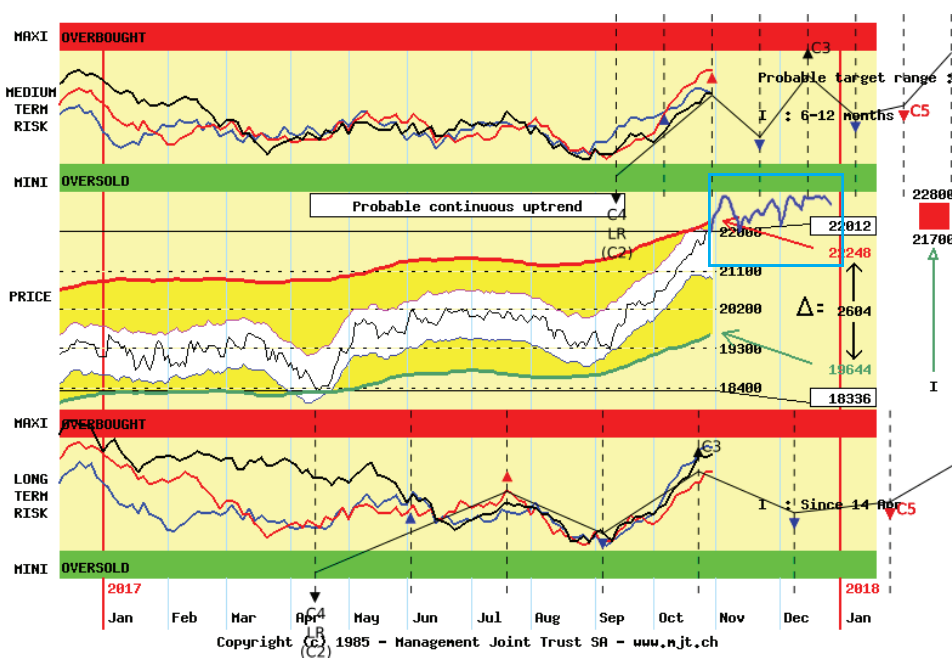
The recent short term extension in equity markets is being led by further rotation into Growth and especially the Nasdaq 100. This is a phenomenon we have seen many times this year and it has prevented any widespread market consolidation. On our medium term oscillators, the Nasdaq 100 seems to be making yet another push higher (upper rectangle). It may last into December, yet could see **a slight retest towards mid November, before it accelerates higher thereafter.** Our "I" Impulsive targets up have been met and we are now eying our extended measure of targets "I2" Impulsive 2. Historically, using our methodology, only about 10% of moves make it that high, so that we are already in extended territory. We also use a conservative measure to assess the scope of a possible **retracement** or 0.5 of historical volatility measure "delta" (here at 653.7, middle rectangle; right hand side) or **possibly 327 points.**

EuroStoxx 50 – Daily graph or the perspective over the next 2 to 3 months



The EuroStoxx 50 did stop momentarily early October, yet it is pushing ahead once more on the back of the weak Euro, following the ECB's policy guidance last week. Our view throughout this document, is that the current reflationary push since early September should retrace somewhat during November. This may weigh to a certain extend on the Dollar and reverse this advantage for European markets. On our long term oscillators, the downtrend which was in place since May is now invalidated, yet a pull-back could still materialize to meet the cyclical low that could have been expected mid November (lower rectangle). On our medium term oscillators (upper rectangle), the intermediate top made early October may justify a sequence were **some retracement is expected over the next couple of weeks**. Risk/Reward is still very much neutral at this stage as there is still room to move higher over the next few months on our "I" Impulsive targets up (tight-hand scale). We would probably expect some retracement back to the **breakout last week**.

Nikkei 225 – Daily graph or the perspective over the next 2 to 3 months



The Nikkei 225 has been gliding higher and has now reached into its "I" Impulsive targets to the upside (right-hand scale). Another 3% potential would theoretically still be possible before these become really extended. Our long term oscillators are approaching an intermediate top (lower rectangle) that theoretically could see them consolidate until early December. Our medium term oscillators are also in exaggeration and showing an intermediate high that could **retrace for 2 to 3 weeks until mid November** (upper rectangle). Also here, we would conservatively calculate the scope of a possible **retracement** using 0.5 of historical volatility measure "delta" (here at 2'604, middle rectangle; right hand side) or **possibly 1'300 points.**

Concluding remarks

The above consolidation targets may appear quite benign, yet the time window for the consolidation we had then expected early October, and still expected today, is still open for another couple of weeks. This is indeed a short term market positioning call. If you think about it, what would you do today if you were receiving net new money. In our view, you would probably wait a bit for a better opportunity to enter. Longer term, as we have done over the last few months and quarters, we reiterate our positive bias on equity markets towards Spring next year.