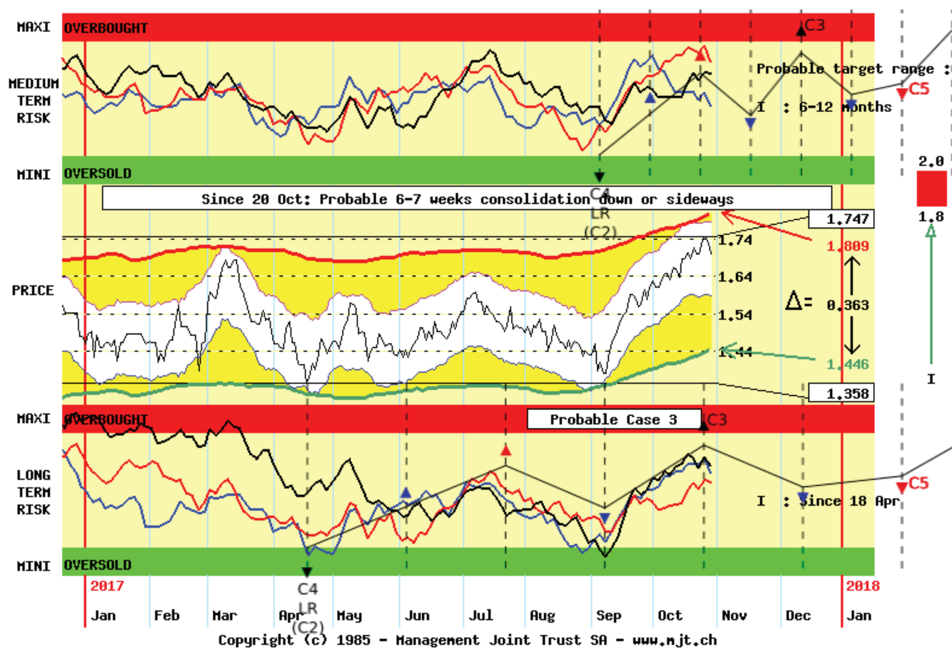
20 / MJT - TIMING AND TACTICAL INSIGHT

The Yield Curve is still flattening, yet a short term bounce may materialise from late November into early 2018

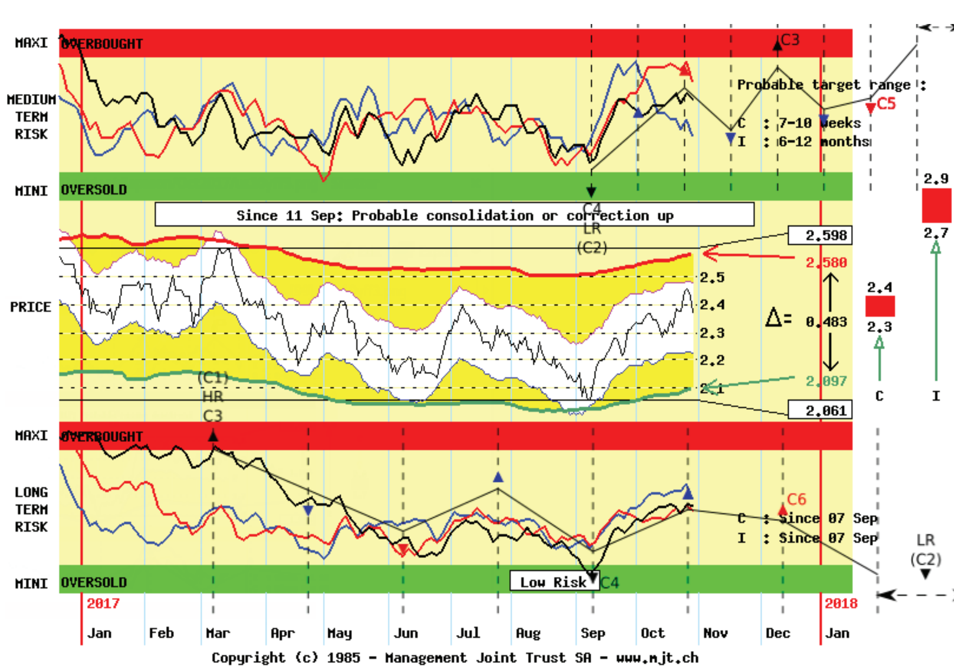
With US 3 Year Treasury yields at year-to-date highs and the US 10Y close to 2.5%, it seems that the reflation theme is back in full force. Indeed, the acceleration up in yields over the last 2 months is impressive and it was accompanied by similar moves in the Dollar, Equity Markets and Oil. We believe this is a good time to pause and reconsider. In this article, we will focus on yields, the yield curve and the internal structure of the market.

US 3 years Benchmark Bond Yield
Daily Graph or the perspective over the next 2 to 3 months



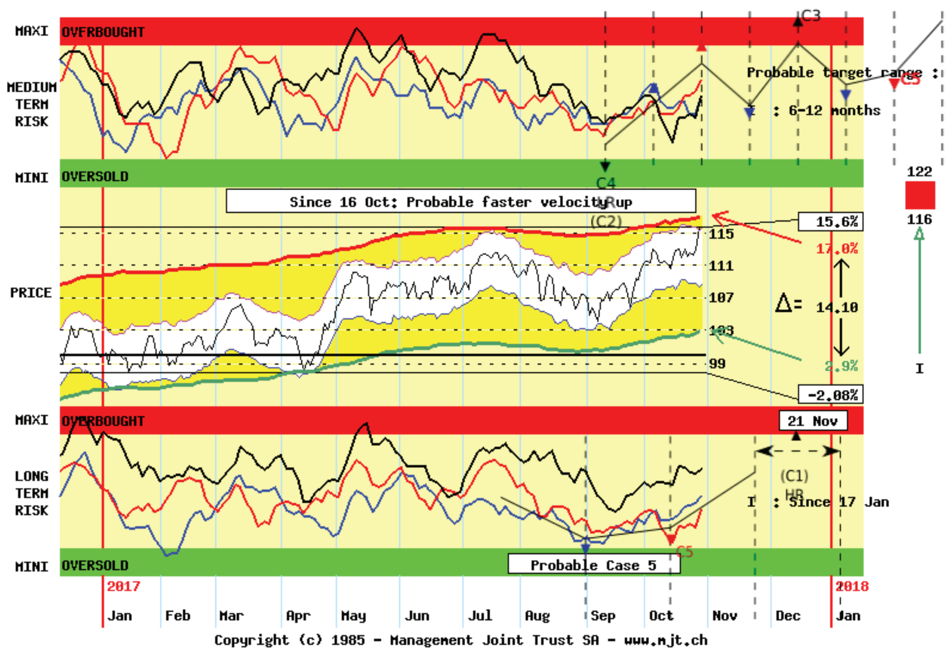
US 3Y Treasury yields just made new year-to-date highs. Apart from this Spring, these levels have not been seen since the early stages of the recovery in mid 2009. The rally has been impressive and on both our oscillators series (lower and upper rectangles), **US 3Y Treasury Yields have probably just made intermediate tops**. The oscillator sequences we project suggest between 3 to 6 weeks of consolidation to the downside or towards a period which ranges between mid November and early December. Following that, our "I" Impulsive targets up (right-hand scale) would suggest further upside just below 2.0%. Yet, in the meantime**, we could await a worthwhile correction that may amount to between 0.5 to 0.8 times our historical volatility measure delta (0.363; middle rectangle; right-hand side) or between 18 and 29 bps.**

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



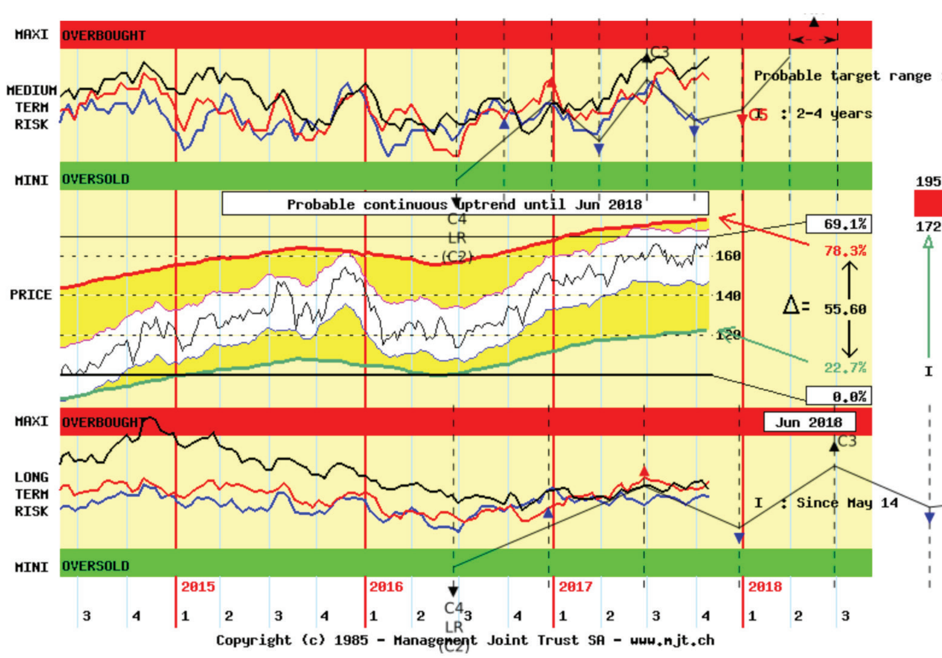
US 10Y Treasury Yields also saw a strong move to the upside. It fell short of new year-to-date highs, yet inched above our "C" Corrective targets to the upside (right-hand scale), which potentially opens the door to our "I" Impulsive targets up towards the 2.7 – 2.9 range. Before we can consider these, we first expect some retracement. Indeed, as with the US3Y yields, US10Y has now reached intermediate tops on both our oscillator series (lower and upper rectangles). **The correction could last into mid/late November** (our medium term oscillators; upper rectangle) and in worst cases extend towards year-end on our long term oscillators (lower rectangle). **Given our current measure of historical volatility delta (0.483; middle rectangle; right-hand side), US10Y may now retrace between 29 and 38 bps, or 0.5 to 0.8 times delta, i.e. in a worst-case scenario US10Y may even retest its September lows.**

QQQ – PowerShares Nasdaq 100 ETF / Gold Spot (USD)
Daily Graph or the perspective over the next 2 to 3 months



In order to get a better indication of forthcoming risk-off situations (rather than mere Cyclical to Growth rotations), **we compare the Nasdaq 100 to Gold (a defensive asset). In 2017, this ratio has synchronized quite well with risk-on / risk off periods**. On our long term oscillators (lower rectangle), the Nasdaq is **still heading up vs Gold, possibly into December** and its "I" Impulsive target potential to the upside is not extended yet (right-hand scale). That said, our medium oscillators (upper rectangle) **may have reached a short term intermediate top. It could imply 2 to 3 weeks of consolidation to the downside (a short risk-off period).**

QQQ – PowerShares Nasdaq 100 ETF / Gold Spot (USD)
Weekly Graph or the perspective over the next 2 to 4 quarters



We now look at the Nasdaq 100 vs Gold ratio on a longer term basis. On both our oscillators series (lower and upper rectangles), **the Nasdaq 100 is till trending up vs Gold, possibly into mid 2018.** The potential to the upside for this ratio is still comfortable as indicated by our "I" Impulsive targets up (right-hand scale). This remains positive for equity markets and risk assets more generally.

Concluding remarks

Despite the rise in yields over the last 2 months, the US Yield Curve is still flattening. It may continue to do so over the coming weeks. Value to Growth indicators, Breadth, or the Small cap to Big cap ratio also indicate so. More generally, the US Yield Curve may continue to flatten well into 2018. Shorter term however, it may find an intermediate low mid/late November and initiate a 2 to 3 months bounce.