

5/ Mapping the markets (part I)

General comment

Since December, we had been anticipating that by mid Q1 2017, the Dollar and Reflation trades should start to retrace their H2 2016 run-up. We confirmed these projections in late February as the Dollar was failing to make new highs and Oil was getting ready to sell-off. At the time (mid January), we also recommended a shift out of Small Value and Cyclical sectors back into Big Growth and Defensives. By and large, these projections have proven correct, although due to rotation dynamics, top line equity indices have proven very resilient to the upside (we advocated some take profiting towards end April / early May). Today, 3 to 6 months down the line, we are looking to re-enter the Dollar as well as these reflation trades. The inflexion points we are considering range between now and early July (for the Dollar) and early / mid August (for Commodities, Value plays, Cyclical sectors or Financials). We expect strong potential to the upside for these trades from mid Summer to year-end.

In the meantime, top line equity indexes seem stretched for now and breadth is deteriorating. Hence, although rotation at high levels may continue, we believe that risk/reward on equities is clearly disadvantageous at this stage and would look for safer entry points potentially towards August.

Equity markets

Volatility VIX is still retesting at all time lows, the risk of a rebound is mounting, especially from mid July.

World markets We are still very positive on equity markets towards year-end and early 2018, yet in the meantime risk/reward seems stretched and we would advocate prudence until early/mid August.

Regional picks We expect the Dollar to rebound into August, possibly September. We would hence favor Europe and Japan vs the US.

Emerging markets EEM has reached an intermediate top. Although Asian Growth may linger on during early July (India, South Korea, Taiwan), these markets are at risk going into August as the Dollar rebound is confirmed. Commodity producers should also remain weak into August as Oil initiates one last sell-off. China may provide an interesting alternative, as it is positively correlated to the Dollar and has reached worthwhile intermediate lows vs other emerging markets.

Relative Sectors Growth (Technology and Consumer Discretionary) seems exhausted, Defensives and Healthcare especially could continue to outperform into August, Cyclicals and Financial have rebounded, yet could see further retests into August (among these reflationary sectors, where we see strong potential towards year-end, Industrials may be an early starter).

Profiles/Themes Value could probably retest once more to the downside into August before it starts to reverse up towards year-end. Growth and long duration seems exhausted. Small caps in the US may start to bounce with the Dollar. In general. Low volatility remains in favor until mid Summer.

Interest rates

US rates and Yield curve The consolidation on US Yields and the flattening of the US Yield curve are approaching their downside targets. This move to the downside may extend into August.

Other countries Yields and Yield curves in other developed countries are also retracing down, yet the correction is milder than in the US: consolidation at high levels that probably also extends into the Summer.

Credit High Yield has reached intermediate tops and could consolidate mildly into the Summer.

Rate Differentials US vs Eurozone and Japan rate differentials have consolidated at high levels and may retest their highs during the Summer

Tips Tips may have reached an intermediate low vs Treasuries and could bounce on a relative basis, yet in absolute terms, they do seem capped for now (an intermediate top was just made).

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Commodities

Oil	Oil is Oversold and could bounce a bit into early July, yet we expect one last retest into early August before it resumes its uptrend and accelerates up into year-end.
Base metals	following their mild consolidation from February / March, we expect strong upside potential for Base metals towards year-end. We still see some risk into August for now.
Gold & PMs	Gold has reached an intermediate top during June, we expect limited potential over the Summer. The Dollar rebound we expect may lead it to consolidate possibly into end Summer. Silver has been weaker and is still under pressure. It will probably resume its uptrend from mid/end Summer along with other commodities.
Agriculture	Agricultural commodities have seen renewed pressure in June. If the Dollar rebound we expect materializes, they should continue to be under pressure. We will reconsider them towards late Summer.

Foreign Exchange

Dollar Index	The Dollar may be approaching an intermediate low which could see it bounce into August, possibly September.
Euro	The Euro should take a Summer break vs the Dollar. The tops may have been done early June, yet a last retest cannot be excluded during the first half of July. We expect EUR/USD to strengthen again from end Summer.
Yen	The Yen has been slightly firmer since May, yet it has failed to accelerate up. We believe that it is reaching important tops vs the Euro and the Dollar and could weaken substantially towards year-end.
Sterling	Sterling is weakening again vs the Euro and the Dollar and will probably remain weak until Q4 2017.
Commodities currencies	Oil related currencies have followed oil and commodities lower. We expect them to find lows towards mid Summer and would then expect them to strengthen substantially towards year-end (BRL, RUB, CAD, NOK). We are neutral on AUD and ZAR given the rebound we expect on the Dollar and its potential incidence of Gold prices.
Asian currencies	INR, KRW or TWD are following similar dynamics vs the USD than EUR/USD. We expect them to consolidate during the Summer before they move up again towards year-end.