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LE COIN TECHNIQUE

An environment of residual risk

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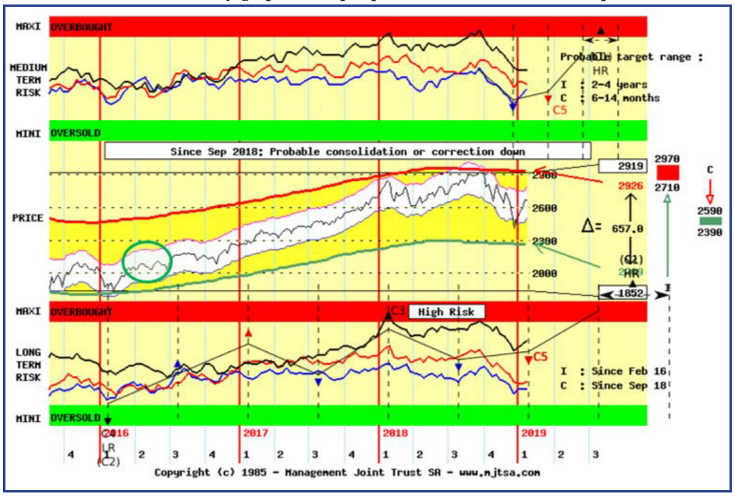
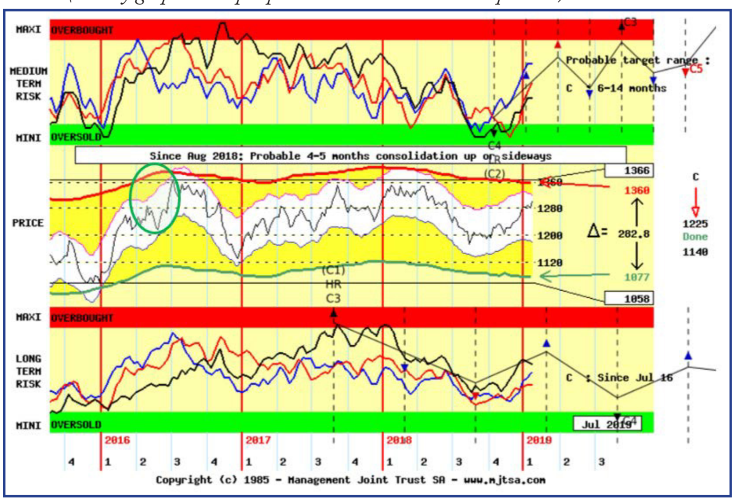
While Defensive Assets such as Gold and Treasuries are breaking out to the upside, since Christmas Eve, Equities have also been rebounding strongly. These cross-asset moves may represent a bit of a conundrum, yet can widely be explained by the recent dovish U-turn signalled by the FED. Indeed, this accommodative shift is removing, an important risk out of Equities markets, while shifting the whole US yield curve lower, and lifting prospects for non-interest bearing monetary deflators such as Gold. Obvious negative catalysts for equity markets have receded, yet some residual risks remain *(the US-China Trade War, the Brexit deadline, the French Yellow Vests protests, the back and forth of current US politics, Venezuela)*. This period reminds us of another period in the past, from mid-April to June 2016, when following a 7 months sell-off of circa 15%, a strong rebound had materialized into April, the FED was then also on "halt", while a couple of months ahead, the Brexit vote was looming.

S&P 500 Index *(Weekly graph or the perspectives over the next 2 to 4 quarters)*



In this graph we've circled Q2 2016 in green. On the S&P500 index, it was a period of stabilization and mild retracement. It followed the strong January/February 2016 sell-off, and the equally strong March/early April rebound. Looking to today, the sell-off since October has been even stronger, yet the rebound is also compelling. For now, while our long term oscillators (lower rectangle) may be signalling the all clear, our medium term ones (upper rectangle) are still pointing to a period of residual risk, which could last into March. Following that, we expect both sequences (lower and upper rectangles) to move up towards midyear and perhaps the Summer. We would hence, for now, remain relatively prudent for another month or so, before eventually shifting to a more risk-ON strategy. Indeed, the situation is also different from Spring 2016 in that Equity markets, last Fall, were very much Overbought (a High Risk on our Automatic messaging), and that the uptrend move since 2016 was pretty much exhausted in terms of price targets (Our I Impulsive targets to the upside we achieved; right-hand scale). This would imply that the top made last year was probably of far greater magnitude than the one made in 2015, and that it may continue to negatively impact equity markets, probably beyond the residual risk period we expect into March, probably beyond the rally we expect into Summer, and possibly into mid/late next year.

Gold *(Weekly graph or the perspectives over the next 2 to 4 quarters)*



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On this Weekly graph of Gold, we've also circled the Q2 2016 period in green, when following some consolidation during March and April, Gold shot up aggressively into mid year. Today, both oscillator series (lower and upper rectangles) may be suggesting a similar move, probably towards late Q1 (March). Price targets are probably towards our upper envelope (middle rectangle) into the mid/high 1'300s. Following that, however, we expect Gold to retrace quite substantially as risk assets continue to accelerate up, thereby gradually lifting long term yields with a negative impact on Gold. Therefore,we expect the current rally to continue another month or so towards the mid/high 1'300s, before Gold reverses down towards its C Corrective target range between 1'225 and 1'140 (right-hand scale). This would be similar to what also happened in H2 2016.

Concluding Remarks: Historical Analog situations are interesting, yet hard to utilize as History often repeats itself, yet with a slightly different twist. That said, the current environment, with Centrals Banks having turned accommodative again, and some residual risks still outstanding is quite similar to the one that prevailed from mid April to June 2016. Back then, Equity markets treaded sideways until June while Gold and Treasuries shot up. We expect a similar environment could develop into March with some residual risk on Equities, and a further push up in Defensive Assets. Then, from mid/late March, we could start to consider a much more aggressive stance.