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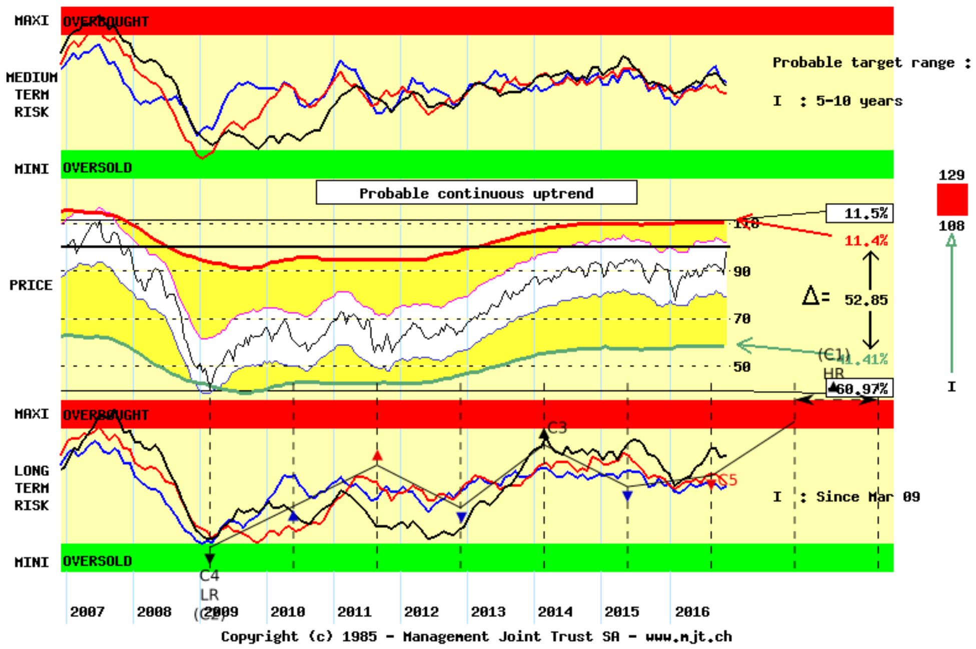
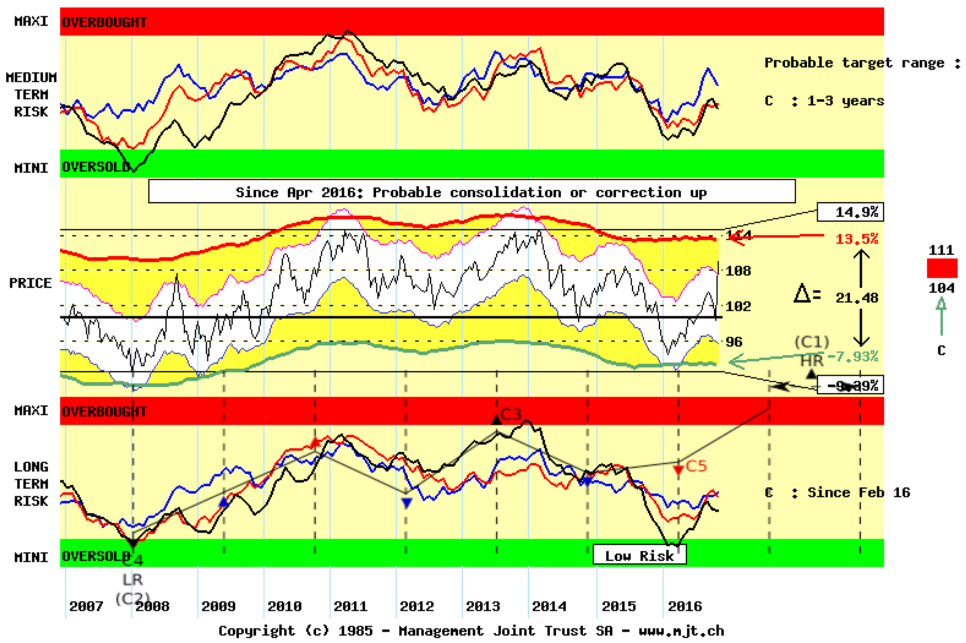
Our cross-asset timing suggests that reflation drivers should continue their current uptrend into January or February next year. Longer term, following a consolidation period into 2Q2017, these could reaccelerate again into end 2017, early 2018. Below, we look at several bi-monthly charts, which we believe highlight some key investment focus points for the next 12 to 18 months.



S&P500 vs Treasury Note 10Y Futures contract (Dec) (Bi-monthly chart or the perspective over the next 1 to 2 years):

Following a consolidation period from 2014 to early 2016 (a dis-inflationary period), this Equity to Bond ratio is now back in an uptrend (reflation). The sequence on our long oscillators (lower rectangle) would imply that equities continue to outperform long term government bonds until late 2017 / early 2018.



IWM iShares Russell 2000 ETF vs S&P500 Index (Bi-monthly chart or the perspective over the next 1 to 2 years):

This small cap to large cap proxy ratio offers similar perspectives as the equity vs government bond ratio above. Following a Low Risk position in early 2016 on our Long term oscillators (lower rectangle), small caps should now continue to outperform until end 2017 / early 2018.

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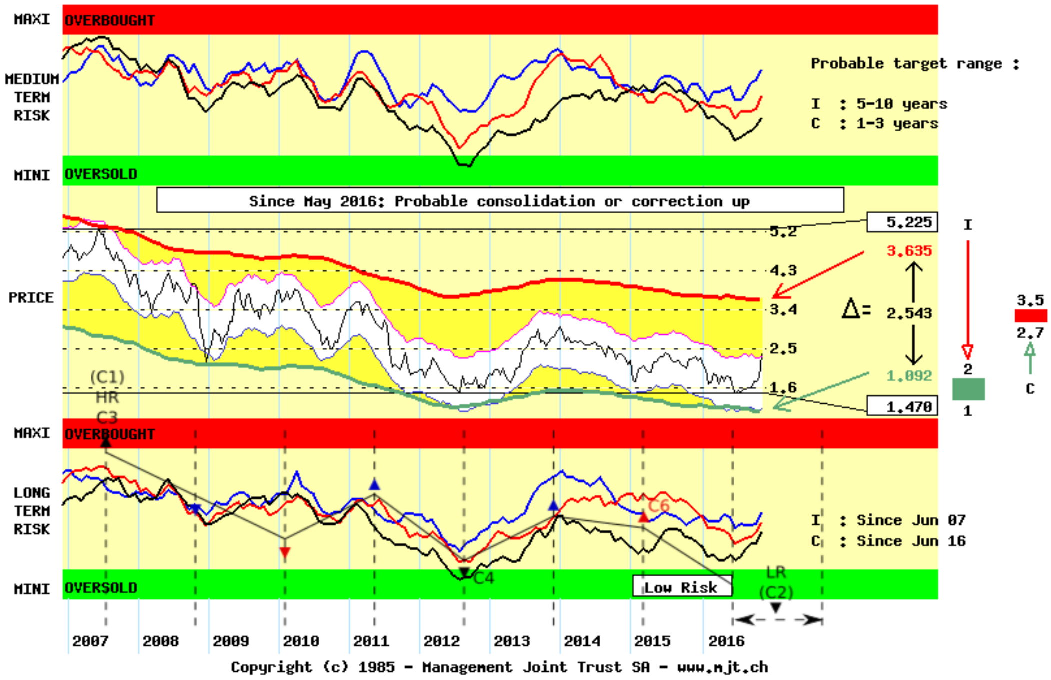
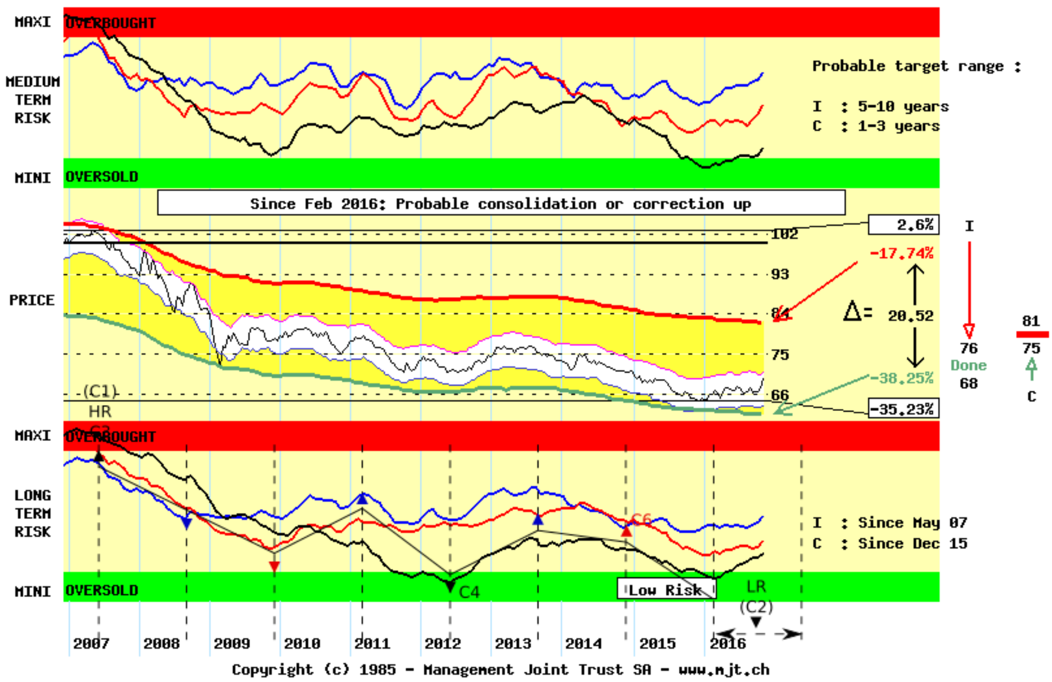
Continued...



US 10Y Treasury Benchmark Bond yield (Bi-Monthly graph or the perspective over the next 1 to 2 years):

The downtrend sequence in place since 2007 on our long term oscillators (lower rectangle) has now reached a Low Risk position. Without being able to call a secular reversal yet, typically, such situations are usually followed by 5 to 7 quarters of correction up. Possible targets for the US 10 Year treasury yields towards end 2017: between 2.7% and 3.5% (right hand scale).



IVE iShares S&P500 Value ETF vs IVW iShares S&P500 Growth ETF (Bi-Monthly graph or the perspective over the next 1 to 2 years):

The chart of this Value to Growth ratio is extraordinarily similar to the US 10Y Treasury Benchmark Bond Yield. Indeed, as interest rates correct up, typical Value stocks with short duration or positive interest rate sensitivity (cyclicals and financials) should outperform longer duration Growth stocks and high yielding defensive stocks. Corrective potential over the next year: 10 to 15% (right hand scale, basis for calculation: start of chart)until Brent moves up again towards year end.

Concluding remarks:

Rising interest rates and inflation anticipations are bringing differentiation back to the markets. Previously shunned assets such as value, small & mid caps or cyclicals are coming back in favour as investors start hunting again for bargains and trading opportunities rather than yield and carry.