Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	3 Yrs
MSCI AC World	6.2	6.5	10.4	6.9	54.6
MSCI World	6.5	6.9	11.7	6.9	61.9
MSCI Emerging Markets	3.6	3.4	0.1	6.6	9.2
MSCI USA	6.4	7.1	15.7	5.7	79.5
MSCI Canada	6.7	-0.3	-5.4	0.0	15.6
MSCI Europe	6.6	6.4	6.9	9.1	48.9
MSCI Japan	6.4	11.6	14.8	11.2	43.4
MSCI Australia	8.6	8.3	-0.8	9.0	33.3
MSCI AC Asia Ex-Japan	2.4	6.8	7.4	7.3	29.4
MSCI Latin America	4.8	-7.2	-19.9	0.5	-25.0
MSCI EMEA	5.4	-1.0	-3.5	8.0	-5.4

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 February 2015.

Equity markets rallied strongly in February, with developed markets (DM) outperforming emerging markets (EM). Australia was the strongest market within the DM having reversed its losses from the previous month. Within EM, Eastern Europe, Middle East and Africa (EMEA) and Latin America (LATAM) were the best-performing markets. The strong rebound in oil prices helped to reverse much of the losses previously seen in major oil-exporting markets.

In terms of sector performance, cyclical sectors such as materials, consumer discretionary and technology outperformed while interest rate sensitive sectors such as telecommunications and utilities underperformed. Defensive sectors such as consumer staples and healthcare also underperformed against the broader index. Share prices of energy companies rebounded from the previous month in response to the rebound in oil prices. The utilities sector remained under pressure as the market remained fixated on the US Federal Reserve's (US Fed) expected rate hikes in the coming quarters.

The US market outperformed the broader global equity market marginally in February. However, the market remains cautious over the US Fed's impending rate hike amidst a stronger US dollar which has dampened overseas corporate earnings as seen in last quarter's earnings reports. Leading indicators such as the Purchasing Managers' Index (PMI) continue to register a positive reading of 52.9 in February, albeit being marginally below consensus expectations. Meanwhile, the US labour market continues to strengthen with non-farm payrolls coming in above expectations.

Europe outperformed in February with the European Central Bank (ECB) announcing a EUR1.1 trillion quantitative easing package scheduled to commence in March 2015. In conjunction with a modest pick-up in economic data, this buoyed the market. The Eurozone manufacturing PMI remains unchanged at 51.0 in February. Meanwhile, deflationary pressures in the currency bloc continued with the Consumer Price Index (CPI) coming in at -0.2% albeit improving against a -0.6% reading in the previous month. While this is mainly attributed to lower oil prices, price trends will need to be monitored closely.

Japan outperformed the broader market as investor sentiment was supported by the recent announcement of portfolio allocation shift within the Government Pension Investment Fund (GPIF) towards domestic equities. Meanwhile, economic data remained mixed with the country coming out of recession but industrial production and retail sales dipping back into contraction in the month of January. We continue to hold the view that deeper reforms are needed at both corporate and economy-wide levels before turning more constructive on the market.

Global Equity

The EM performance was mixed with LATAM and EMEA outperforming Asia ex-Japan. The improvement in LATAM was due to strong performance from Mexico which is seen as a beneficiary of the US economy while EMEA benefited from Russia which rebounded as oil prices recovered from its recent low. Within Asian markets, the Chinese market rallied in response to more monetary easing and improved local investor sentiment while Malaysia rebounded from its recent low along with the oil price as it is a net oil exporter.

Outlook and Strategy

In terms of equity asset allocation, we have moved to neutralise DM and EM. Among the DM, we have reduced our weight in the US although we retain our overweight position. We remain positive on the region in the longer term but have dialled back our exposure due to a stronger dollar and rising wage growth hurting corporate profits in the near term. The positive market outlook continues to be underpinned by better labour market trends and resilient corporate earnings. In contrast, we remain concerned about growth challenges in Japan and believe deeper structural reforms are required in the country. On the other hand, we believe Europe should continue to benefit from a weaker currency but we are mindful of continuing geopolitical risks with rising anti-austerity opposition parties.

In the emerging world, we are overweight on Asia ex-Japan where we have identified some good bottom-up investment opportunities. However, the aggregate market performance continues to be challenging due to slower economic growth, tight liquidity conditions and potential headwinds from corporate earnings. Growth within the region remains uneven and fundamental sector/country and stock selection will remain crucial.

The pending rate hike by the US Fed and fiscal and monetary adjustments globally could adversely impact EM growth, corporate earnings and capital flows. Stock selection is paramount to driving investment outperformance. This backdrop should be favourable for active managers. We continue to allocate capital to high-quality and sustainable growth companies that are reasonably priced. Our focus is on companies with strong competitive advantages, healthy cash flow and proven track record.

All statistics quoted in the write-up are sourced from Bloomberg as at 28 February 2015 unless otherwise stated.

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