Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	-3.0	-2.8	1.4	-2.8	8.3	22.7
MSCI World	-3.1	-3.1	0.9	-3.1	7.2	22.3
MSCI Emerging Markets	-2.8	-0.6	5.3	-0.6	17.6	24.4
MSCI USA	-3.4	-2.6	2.3	-2.6	7.0	29.0
MSCI Canada	-1.9	-9.1	-6.6	-9.1	-1.2	5.5
MSCI Europe	-1.9	-3.7	-2.6	-3.7	8.2	12.0
MSCI Japan	-2.9	-1.1	5.9	-1.1	12.4	22.6
MSCI Australia	-6.2	-7.4	-2.2	-7.4	-3.3	10.6
MSCI AC Asia Ex-Japan	-2.5	-1.4	5.3	-1.4	18.3	25.3
MSCI Latin America	-1.9	6.0	2.1	6.0	12.3	28.6
MSCI EMEA	-5.8	-2.8	7.1	-2.8	13.3	12.5

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 March 2018.

Global equities witnessed a choppy month as a slew of negative headlines plagued the markets. Fears of a trade war between US and China escalated, sending markets globally into a defensive mode just as US investors were caught off guard by White House senior level staff departures. Despite the US Federal Reserve (Fed) enacting an interest rate hike of 25 basis points (bps) as widely expected, a risk-off sentiment crept in and 10-year US Treasury yields declined.

The developed markets (DM) underperformed the emerging markets (EM). Within EM, Latin America and Asia-ex-Japan outperformed while Eastern Europe, Middle East and EMEA underperformed. With the exception of the utilities and real estate sector, all other sectors witnessed losses, particularly cyclicals including financials and technology. Technology shares were slammed over privacy issues surrounding a social media data breach, US Presidential criticisms against an e-commerce giant and concerns that the US government could construe Chinese technologies to pose national security risks.

Amid the equities rout, economic fundamentals fell slightly. The official Purchasing Managers' Index (PMI) for the US dipped to 59.3 from a record the previous month. Meanwhile Eurozone manufacturing PMI figures dropped to 56.6, while the IFO business confidence index dipped slightly down to 114.7. The Eurozone consumer price index (CPI) saw a 1.1% year-on-year increase. Other major economies like Japan and India also saw manufacturing numbers declining slightly. Chinese exporters dismissed the trade war concerns as the manufacturing PMI rose to 51.5 from 50.6 the previous month.

Over in China, equities reacted negatively to the US-China trade spat and underperformed the benchmark. Consumer discretionary and industrials fared poorly, and information technology slumped after the Trump administration initiated a case against Chinese technology licensing practices. Other highlights during the month included a removal to the country's presidential term limits and a conclusion to the National People's Congress meeting announcing new reforms. The Hong Kong market saw a volatile month while Taiwan remained resilient on a positive outlook for the semiconductor sector.

In India, the NIFTY saw a weak month, weighed down by a looming domestic political campaign and fears of protectionist trade measures from the US.

Conversely in Korea, stocks were lifted by positive sentiment with a planned meeting between the US and North Korea, stoking hopes of denuclearisation in the North. The Japan index outperformed even as the economy continues to face headwinds and signs that its longest run of expansion could end. ASEAN markets were mixed as Indonesia had all sectors in the red while Malaysia outperformed in a defensive stance amid the regional selldown.

Global Equity

Outlook and Strategy

Consensus forecasts for 2018 corporate earnings growth for the MSCI World Index remain at 15% yoy growth. We expect realisation of this earnings growth forecast will enable the global index to produce an annual return of between 10 to 15%. Yet despite this positive macro earnings outlook, March 2018 saw the majority of regional equity indices decline for a second consecutive month, with the MSCI World Index now down 2.8% year to date, in SGD terms. While this correction in global equities is relatively minor by historical standards, there is a growing risk that trade tensions could escalate. Recent weeks have seen a modest weakening in economic data (albeit from relatively elevated levels), there has been a flattening of the US yield curve, and other geopolitical issues have the potential to deteriorate and negatively impact financial markets.

We argue that markets in February and March were affected by back to back corrections first over inflation concerns and after global equities recovering 2/3 of the February losses there was a second correction over trade war fears. Our views have been relatively sanguine over the inflation concerns and our main concern relates to US-China trade matters. However, we believe financial markets are beginning to price in the growing potential for a major policy misstep.

The trade tariffs announced so far should not materially affect the overall global trade and GDP outlook. Additionally, continued market fears and further equity market declines could prove self-fulfilling as it may lead to weaker consumer confidence and weaker wealth effects. There is also a risk that the trade tariffs would be higher inflation, as prices for affected items rose in the two respective markets, and globally. This could result in pressure on the Federal Reserve to raise US interest rate towards the high end of current expectations, with a possible negative effect on company earnings and bond prices. The longer the negative trade rhetoric continues, the greater the possibility that the “animal spirits” awoken by the Trump tax cuts will peter out, and that companies and consumers reduce spending plans. While our base case remains that negotiations are likely to reduce tensions, we continue to monitor the US-China trade dispute.

Meanwhile, the Fed remains on its “quantitative tightening” path of both raising US policy rates and shrinking its balance sheet. We have previously noted the negative implications that higher borrowing costs will have on corporate earnings. While investor sentiment should be supported by continuing strong economic growth, there will be periods of concern that interest rates and monetary conditions may be tightened too quickly, thereby causing economic growth to falter.

We continue to note that the current cycle is mature by historical standards and at a stage when market observers are monitoring for signs of a slowdown. As it is into its ninth year, and veering close to the record of 10 years of expansion set in the 1990’s, some investors view this as a cause for concern and reason to cut risk exposure. However, our checklist of indicators are telling us that the cycle has not yet peaked nor about to come to an end. The checklist includes the shape of the yield curve, momentum of leading indicators, recession probability models, excessive credit expansion, financial stress indicators, market indicators such as asset correlations, as well as spreads between investment grade and high yield bonds, with none signaling that recession is imminent.

Despite the volatility in equities in February and March our view remains that we should overweight equities over fixed income. The February correction at this stage fits the parameters of a bull market correction which can occur frequently in the midst of a bull market. In the bull market from 2003 to 2007 there were 7 bull market corrections and in each case equity markets were setting new highs again within 2 months. Major commodities, particularly oil, have performed well over the year and we think the outlook remains positive. While we continue to monitor geopolitical risks, we see no near term catalyst that might disrupt the current expansion, and hence no reason to raise our cash levels.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 March 2018 unless otherwise stated.

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