Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	3.2	7.5	14.5	10.8	10.8	27.9
MSCI World	3.4	8.2	14.8	10.5	10.5	30.5
MSCI Emerging Markets	1.0	1.5	12.0	13.6	13.6	6.8
MSCI USA	2.8	9.9	15.6	13.9	13.9	46.9
MSCI Canada	2.2	9.2	16.1	27.2	27.2	12.0
MSCI Europe	6.4	5.9	13.1	2.2	2.2	5.7
MSCI Japan	2.1	6.1	17.1	5.3	5.3	24.1
MSCI Australia	3.1	6.7	17.1	15.1	15.1	17.1
MSCI AC Asia Ex-Japan	-1.3	-0.8	10.5	7.6	7.6	15.4
MSCI Latin America	1.9	5.3	12.1	34.2	34.2	-8.5
MSCI EMEA	8.3	8.1	15.7	23.1	23.1	-5.1

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 December 2016.

The MSCI AC World Index rose in December with the developed markets (DM) outperforming emerging markets (EM). The US Federal Reserve (Fed) continued its hiking cycle with a rate hike as economic conditions continue to show further improvements. Markets are now pricing in three rate hikes by the Fed for 2017. Fixed income markets also saw a rally in the 10-year US Treasury bond yields that dented emerging market (EM) performance across equities and bonds.

In the developed markets, European equities rose as investor confidence returned to banks' profit outlook with a steeper yield curves and stronger global growth outlook led by a US economic recovery. Meanwhile in the EM, Latin America, Eastern Europe, Middle East and Africa EMEA outperformed while Asia ex-Japan underperformed.

All sectors gained for the month with telecommunications emerging as the stellar performer that also saw energy, utilities and materials outperforming. The energy sector rose as the Organization of the Petroleum Exporting Countries (OPEC) announced their commitment to supply cuts. Consumer discretionary, industrials, materials and IT underperformed.

The US market underperformed the broader market despite strong economic data that indicated consumer confidence at its highest since 2001. The Purchasing Managers' Index (PMI) jumped to 54.7 in December from 53.2 the previous month. Retail sales jumped year on year with a stronger job market and spending during the holiday season.

Europe outperformed the global index even as uncertainty continues to brew over the upcoming busy political calendar. Italy saw a new prime minister after incumbent Matteo resigned on the back of losing the referendum on constitutional change. Eurozone manufacturing PMI moved higher in line with forecasts to 54.9, hitting a 68 month high, while the German IFO business confidence index edged up slightly from the previous month. The Eurozone consumer price index (CPI) saw a 1.1% year-on-year increase in December.

The Japan index underperformed the broader index but outperformed the rest of Asia as foreign investor appetite returned with the Yen depreciating against the stronger dollar. Data showed that the trade surplus widened with a pickup in exports that was bolstered by yen weakness.

Eastern Europe, Middle East and Africa (EMEA) saw the best performance on higher oil prices, and improving financial ratios with banks. Within EM, performance was worse for Asia than Latin America as the latter was cushioned by a rally in commodity prices. In Brazil, high unemployment and a recession continues to

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Global Equity

weigh on performance. In Asia ex-Japan, performance across various regions was mixed. The top performers were Indonesia followed by Thailand and Philippines. China and Hong Kong underperformed the market.

Outlook and Strategy

Across regions, we have increased our regional exposure in Developed Markets (DM) and decreased Emerging Markets (EM). This is largely due to our expectations of a stronger US dollar which should see capital outflows from the latter. Trump's rhetoric on global trade protectionism will also be an overhang on the EM region.

Within DM, we remain overweight on the US which we expect earnings growth to pick up again with improving economic conditions. Meanwhile, the tightening labour force will result in higher wage inflation but the higher disposable income along with lower gasoline prices will support the retail sector, which remains a larger part of the economy. We retain the view that the economy remains on a strong recovery trajectory, and the US remains attractive for selective value plays.

We hold an underweight position in Europe despite the potential for further economic recovery. A weaker euro has helped to lift confidence and boost economic activities. The region also has significant operating leverage to an upturn in economic activity with profit margins currently at trough levels. However, we are cautious against the backdrop of increasing geopolitical risks in the region.

Concerns in Japan continue to linger. Economic data remains mixed but we believe that the Bank of Japan (BoJ) will remain accommodative, which would help to support the market. Despite disappointments on policy and the anaemic economic backdrop, there are some positive developments in corporate governance and corporate performance. A weaker Yen also should be beneficial to the exporters and corporate earnings and hence we have retained our overweight position in Japan.

We maintain EM on an underweight position but see selective value plays within the region. Challenges are expected to persist due to domestic imbalances and the build-up of excess credit in the period following the Global Financial Crisis. The slowdown in China continues to weigh heavily on the demand and prices of resources. The abrupt shift in the resources sector has dampened investments and growth in much of the developing world. We believe that EM still presents good multi-year opportunities from a structural and macro standpoint but face challenges from a cyclical standpoint. Growth is falling short of expectations and corporate earnings could face further downward pressures unless productivity levels can continue to rise. There are interesting bottom-up opportunities and stock selection is increasingly critical.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 December 2017 unless otherwise stated.

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