

# Global Equity

| Equities | 1 Mth | 3 Mth | 6 Mth | YTD | 1 Yr | 3 Yrs |
|---|---|---|---|---|---|---|
| MSCI AC World | 2.0 | -4.3 | 0.9 | -0.8 | 8.8 | 26.0 |
| MSCI World | 2.2 | -4.1 | 0.7 | -0.9 | 7.9 | 26.5 |
| MSCI Emerging Markets | 0.6 | -5.9 | 1.9 | 0.0 | 15.7 | 20.4 |
| MSCI USA | 1.4 | -4.8 | 1.0 | -1.2 | 7.3 | 34.3 |
| MSCI Canada | 3.6 | -4.6 | -3.3 | -5.8 | 4.6 | 5.5 |
| MSCI Europe | 3.9 | -2.8 | 0.0 | 0.1 | 8.3 | 15.2 |
| MSCI Japan | 1.9 | -1.4 | 2.8 | 0.9 | 13.5 | 25.1 |
| MSCI Australia | 3.4 | -4.8 | -0.8 | -4.2 | 0.8 | 16.6 |
| MSCI AC Asia Ex-Japan | 1.7 | -4.9 | 1.9 | 0.4 | 17.8 | 23.2 |
| MSCI Latin America | -0.3 | -4.8 | 5.2 | 5.7 | 11.9 | 20.5 |
| MSCI EMEA | -1.4 | -7.9 | 4.1 | -4.1 | 7.0 | 6.0 |

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 April 2018.

Global equities recovered into gains in April after a tumultuous first quarter. Market volatility eased during the month after US President Trump and Chinese President Xi reiterated conciliatory comments that relieved trade tensions between the two largest economies. A successful meeting between the leaders of the two Koreas allayed concerns of geopolitical risk. Markets turned to a risk-on mode that saw the 10-year US Treasury yield breaching the 3 percent mark, on higher inflation and bets that the US Federal Reserve would further hike rates.

The developed markets (DM) outperformed the emerging markets (EM), weighed down by Latin America, Eastern Europe, Middle East and EMEA which underperformed and slid into losses. Within EM, Asia-ex-Japan outperformed. Aside from consumer staples, all other sectors saw positive returns.  For the DM, European stocks extended rallies on profit momentum.

Energy was the best performer with falling US stockpiles and Middle East production cuts stoking gains in oil prices. The other outperformers were defensive plays including utilities, telecommunications, materials and consumer discretionary. The technology sector underperformed with pessimism on high valuations, outweighing quarterly earnings that showed solid profits and sales growth at the world's most valuable companies. Financials, real estate, and healthcare also underperformed.

Economic fundamentals pointed to growth moderating for the month. The official Purchasing Managers' Index (PMI) for the US declined to 57.3 from 59.3 the previous month. Eurozone manufacturing PMI also dipped to 56.2 as the economy cooled and the IFO business confidence index dived to 102.1. The Eurozone consumer price index (CPI) saw a 1.4% year-on-year increase in March. The Chinese manufacturing PMI figure inched downward to 51.4 from 51.5 the previous month. Across the other major economies, Japan and India saw PMI numbers strengthening.

Though the leaders of US and China made attempts to diffuse trade tensions, investors remained cautious on the second largest economy and stocks underperformed. Concerns over rising UST yields also dented market performance, alongside downgrade risks from large cap internet names. During the month, the central bank trimmed the reserve requirement ratio for banks to reduce funding costs. Taiwan markets dropped with low margins from mobile handset suppliers in the tech sector. Over in Hong Kong, local banks and Macau casinos led the index to outperform.

For India, forecasts of a regular monsoon season buoyed up sentiment for the NIFTY. In Korea, the index outperformed the broader market thanks to solid tech earnings, strong retail support and perception that Korean

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companies would benefit over closer relations over the long term between the two Koreas. The momentous inter-Korean summit saw both sides agreeing on steps towards denuclearisation and cooperation to ease tensions. Singapore was the standout performer in ASEAN and the local bourse jumped to a 10-year record, primarily on gains from the three large banks that comprise the lion's share of the index. All other markets in South-East Asia registered a lacklustre performance.

## Outlook and Strategy

Global markets appeared to be consolidating in the past month and digesting the mixed messages on the future outlook. Consensus growth forecasts remain for broad based global growth and global GDP growth of 3.7% which remains the highest level in the past 7 years. At the same time, leading indicators such as regional PMI which have been very strong have eased off the highs that were hit in the past few months. Corporate earnings growth remains very robust with the average MSCI World Index earnings growth remaining at growth rates of 15% year-on-year, but 1Q results were slightly mixed with the US exceeding expectations and Europe slightly missing. Geopolitics were both potentially encouraging with improving outlook in the Korean talks but at the same time, there were signs of rising tensions in the middle east. We continue to view the fundamental outlook as being strong and healthy for growth assets such as equities, while monitoring the various issues such as trade, rate hikes and Middle East tensions.

Broad markets for equities and fixed income remain lacklustre however we see signs that market confidence is improving. We argue that many asset prices are showing signs of "risk on" or "growth focused" behaviour. In most markets, growth assets are outperforming safe assets on a year to date basis. Overall, global equities have been outperforming global fixed income even though both have seen muted returns. In the US, the small cap Russell 2000 index has outperformed the broader S&P500 Index. The US IPO index has outperformed the S&P500. Consumer discretionary has outperformed consumer staples. The Momentum index has outperformed the Minimum Volatility Index. High yield bonds have outperformed investment grade bonds. Market breadth and the number of stocks hitting 50 day highs have also shown bullish trends. While the broad markets have not provided significantly positive returns year-to-date, we take confidence that many of the market internal dynamics seem to be responding the strong economic and corporate earnings fundamentals.

We continue to think trade tensions, turmoil in the Middle East and central bank tightening measures all remain potential risks that could undermine the strong global growth fundamentals. We currently assess each of the risks as a tail risk but not a base case expectation. We calculate the current trade sanctions to have only minor economic impact and the negative effects are much smaller that the simulative effect of US tax cuts. We expect negotiations to achieve new trade agreements, but continue to monitor for risks to change our base case view. We think tensions between Iran and Israel are higher than we have seen in years and further hostilities could seriously disrupt global oil supply and potentially could broaden to wider Middle East and global tensions. We continue to maintain the view that most of the moves in long term yields have been priced in already. We expect 10-year US Treasury (UST) yields to fall somewhere between 3% to 3.25% in the second half of 2018. Since the 10-year UST yield has surged to 3%, we think fixed income headwinds will moderate.

Overall, our views point to a fairly constructive outlook for both equities and fixed income over the second half of 2018. While fixed income markets have struggled so far in 2018 due to rate rises and spread widening. We would expect the yield increases to ease from here and the spreads start to modestly tighten again, both of which should contribute to positive fixed income returns over the course of the year. Global equities remain well supported by healthy global growth and strong double digit earnings growth across all the major regions. We continue to be overweight on equities and underweight on fixed income. Within fixed income we are targeting a more neutral duration level and seek relative credit valuation opportunities.

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



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