Market Insights - Global Monthly Outlook
Positive on the relative strength of the US economy

February 2016 (covering January 2016)

Index	January	YTD
MSCI World	USD -6.0%	-6.0%
S&P 500	USD -5.0%	-5.0%
MSCI Europe	EUR -6.2%	-6.2%
MSCI Asia Pac ex Japan	USD -7.8%	-7.8%
Hong Kong Hang Seng	HKD -10.2%	-10.2%
Shanghai Composite (A-shares)	CNY -22.6%	-22.6%
Hang Seng China Enterprises (H-shares)	HKD -14.7%	-14.7%
Topix	JPY -7.4%	-7.4%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 31 January 2016. YTD refers to year-to-date.

Global Outlook

Rekindled concerns over global growth and the state of China's economy, coupled with the fresh lows seen in commodity prices, resulted in one of the worst results for global equity markets recorded in the month of January.

Global equities will continue to face pressure from investors as growth prospects are reassessed. We recognize the risk that cyclical challenges may not be easy to be ignored but at the same time, we expect policymakers will continue to provide measures to support growth. In terms of regional allocations, our preference continues to be for developed markets over emerging markets.

United States

- The US equity market had a gloomy start to the year. Fears of a slowdown in global economic growth were driven by concerns over China and plunging commodities prices, markets were rattled in what some commentators likened to the volatility of the 1930s.
- We are positive on the relative strength of the US economy. The US dollar is expected to remain relatively strong as many countries need to ease policy at a time the US is able to restrict liquidity.

Europe (including UK)

- Like global markets, European Equities had a poor start to the year. Encouraging central bank policy announcements helped to improve market sentiment in the second half of the month, yet the rebound was not enough to bring markets back into positive territory.
- Economic conditions remain relatively positive given the benefits of easy monetary policy and euro weakness. However, the economic recovery may face some structural headwinds as debt problems increase.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity market performance declined due to China's economic slowdown and falling oil prices.
- As global economic conditions remain under pressure with growth prospects trending lower and developing economies needing to address structural issues, we remain cautious toward Asia. Greater policy measures to support demand will be necessary in various countries.

Hong Kong and China (A-shares and H-shares)

- Investor sentiment suffered from concerns surrounding the depreciation of the RMB. Unfortunately, the Chinese government's decision in December to change the currency's pricing regime, so as to measure it against a trade-weighted basket, was poorly communicated. This allowed talk of declining FX reserves and capital flight to heighten investor risk-aversion.
- There are ongoing challenges associated with dealing with structural issues in China. While government policy, both fiscal and monetary, is expected to remain accommodative, growth is expected to continue gradually trending lower. In Hong Kong, there are concerns over the recent weakness in consumer spending and housing demand.

Japan

- Japanese equity markets ended the month lower. The Bank of Japan (BoJ) revised its growth and inflation projections downwards, before surprising investors with the introduction of a three-tier system of interest on deposits held at the central bank.
- Improvement in corporate governance is positive for Japanese equities but overall growth remains sluggish due to weakness overseas and slow improvements at home.

Fixed Income

- Core government bond markets benefitted from the uncertainty, along with continuing signs of low inflation and dovish policy and rhetoric from the European Central Bank (ECB), BoJ and Bank of England (BoE), and have delivered strong returns.
- Global government bonds are expected to benefit from the flight to safety by investors as cyclical growth faces some hurdles. However, most non-developed market currencies are likely to depreciate further with the US tightening policy and the need for further easing in Asia and other emerging markets.

Emerging Markets

- A sharp decline in oil prices and jitters about the Chinese economy drove market tumult during January. No emerging market region posted a positive performance in January.
- Low levels of inflation and a weaker growth outlook in emerging markets, led the ECB to emphasize its commitment to a very loose monetary policy setting.