# Market Insights – Global Monthly Outlook

## Growth conditions are overcoming the cyclical and structural challenges ahead

**November 2016 (covering October 2016)**

| Index | October | YTD |
|---|---|---|
| MSCI World | USD -1.9% | 4.0% |
| S&P 500 | USD -1.8% | 5.9% |
| MSCI Europe | EUR -0.8% | -3.6% |
| MSCI Asia Pac ex Japan | USD -1.7% | 10.7% |
| Hong Kong Hang Seng | HKD -1.4% | 8.6% |
| Shanghai Composite (A-shares) | CNY 3.2% | -12.4% |
| Hang Seng China Enterprises (H-shares) | HKD -0.2% | 3.3% |
| Topix | JPY 5.3% | -8.1% |

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

### Global Outlook

While no action was taken by the US Federal Reserve (Fed) ahead of the hotly contested US presidential elections in November this year (along with central banks in the UK, Europe and Japan), October's better than-expected core economic growth data saw expectations for a December US interest rate hike firm-up among market participants.

With liquidity conditions expected to remain favorable, growth conditions are likely to gradually improve, overcoming the cyclical and structural challenges ahead. The uncertainty over growth and structural issues may keep markets slightly volatile. In terms of regional allocations, we continue to favor developed markets over emerging markets.

### United States

- Burdened with heightened market uncertainty about the outcome of the closely contested US presidential race, the market posted negative returns in October.
- We continued to favor US equities given the underlying strength of the US economy. While economic conditions may not all be showing signs of improving, the pace of growth remains relatively steady. We will continue to monitor developments as they unfold. With private sector balance sheets continuing to strengthen, the US remains one of the few countries with the ability to tighten without undermining growth in its economy.

### Europe (including UK)

- European equity markets remained broadly unchanged in October as investors awaited the outcome of the US presidential election, the future of the European Central Bank's (ECB's) stimulus program and the timing of the US Federal Reserve's (Fed's) next interest rate increase.
- We are moderately tilted away from European equities considering the potential negative repercussions of the UK's exit from the EU and limited benefits of extremely loose monetary policy. Structural headwinds surrounding Brexit, as well as the high levels of excess leverage and negative geopolitical developments, will continue to weigh on growth in the region.

### Asia Pacific (ex Hong Kong ex China ex Japan)

- The performance of the Asian equity markets was mixed in October on the back of increasing expectations of a US interest rate hike in December and mounting concerns about the outcome of the US presidential election.
- While fundamentals appear to be stabilizing, growth is slow and exports remain weak. Accommodative monetary policies are providing support and more fiscal steps are being adopted, but the impact is likely to be limited as Asia will continue to face challenges with leverage and capacity.

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

- The trade data from China disappointed as exports slowed down, although the economy remains on track to reach its 2016 target. Hong Kong-listed China shares dropped, while the domestic A-shares rallied in October.
- We are moderately tilted away from Hong Kong and China. Economic indicators are showing some areas of the economy are contributing favorably to growth in China. There are also still a number of external and domestic challenges that will continue to weigh on growth. In Hong Kong, although property markets have been resilient, consumer demand remains weak.

### Japan

- The Japanese equity market ended the month higher, buoyed by the yen's weakness versus the US dollar and more visibility surrounding monetary policy following the Bank of Japan's (BoJ's) policy review.
- We are neutral on Japan. The loose monetary policy environment in Japan is likely to continue for some time. Corporate balance sheets have improved and growth is finding some footing.

### Fixed Income

- Government bond yields were sharply higher over the month. The terms of the UK's departure from the European Union (EU) increasingly came into focus.
- Global government bonds are likely to face some headwinds from stepped up fiscal spending globally and the potential for inflation risk emerging as a result of more aggressive accommodative policies.

### Emerging Markets

- Global emerging equity markets paused for breath during October. Regional performances are diverse, with favorable market sentiment toward Brazil when the central bank cut interest rates.
- The mood remained cautious ahead of the final build-up to the US presidential election in emerging markets.

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