Market Insights – Global Monthly Outlook
The global rally was in part supported by US economic data

June 2016 (covering May 2016)

Index	May	YTD
MSCI World	USD 0.7%	2.1%
S&P 500	USD 1.8%	3.6%
MSCI Europe	EUR 2.5%	-2.6%
MSCI Asia Pac ex Japan	USD -1.6%	0.3%
Hong Kong Hang Seng	HKD -0.5%	-3.8%
Shanghai Composite (A-shares)	CNY -0.7%	-17.6%
Hang Seng China Enterprises (H-shares)	HKD -2.4%	-9.6%
Topix	JPY 2.9%	-9.9%

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

Global Outlook

In what appeared to be a recurring theme, gains on most developed equity markets for 2016 were erased by mid-May. However, equity markets did bounce back to pare losses – albeit barely – towards month end, and the MSCI World index turned positive year-to-date. The global rally was in part supported by better-than-expected economic data out of the US, rising oil prices as well as the renewed possibility of a near-term US interest rate hike this summer.

While liquidity conditions may be favorable, global equities are expected to face cyclical and structural challenges. There is the risk that uncertainty over growth and structural problems may keep markets somewhat volatile. In terms of regional allocations, our preference continues to be for developed markets over emerging markets.

United States

- Despite a bumpy start, the US equity market rallied at the end of May to record a third consecutive month of gains. A surge in April US single family home sales, rising home prices and a rebound in retail sales point to a pick-up in US economic growth.
- We are positive on US equities given the underlying strength of the US economy. Although the US dollar has reversed course since the start of the year as expectations for tightening were scaled back, the US is one of the few countries that has the ability to tighten without undermining growth in its economy.

Europe (including UK)

- European equity markets were up in May, as investors grew more comfortable with the prospect of an interest rate hike by the US Federal Reserve (Fed) at the next policy meeting, and the ability of the global economy to withstand such move.
- There are concerns over that the positive impact of monetary policy is diminishing. Moreover, structural headwinds, such as high levels of excess leverage and negative geopolitical developments, may weigh on growth.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity markets were generally weaker during May, amid concerns over the sustainability of China's economic recovery and increased expectations that that the US Federal Reserve (Fed) will raise interest rates this summer.
- Although accommodative policies are starting to feed through to supporting growth, the economies in Asia will continue to face challenges with leverage and capacity, such that we remain cautious toward Asia. Further policy efforts can be expected in the months ahead if economic conditions require action.

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

- China's equity market ended the period lower as economic indicators for both industrial activity and consumption in April were weaker-than-expected.
- Although accommodative policy measures may benefit certain sectors, there are a number of external and domestic challenges that will continue to weigh on growth, such as leverage, capacity and slow external demand. In Hong Kong, the weaknesses in consumer spending and housing demand are unlikely to turn around on a sustainable basis any time soon as mainland China demand weakens.

Japan

- Japanese equities gained due to an anticipated delay of a planned consumption tax hike which later materialized.
- The negative interest rates adopted by the central bank may have limited impact on turning growth and sentiment around at a time that various economic indicators are suggesting further economic weakness. However, the underlying improvement in corporate governance continues to be one of the positive fundamental points for Japan.

Fixed Income

- The month began with bond markets adopting a "risk off" tone amidst economic data that pointed toward further weakness in the global economy.
- Global government bonds are expected to continue to benefit from limited inflation risk. Moreover, periods of high volatility could lead to a 'flight to safety' in bonds.

Emerging Markets

- Global emerging equity markets retreated lower in May as local currencies came under pressure versus the strengthening US dollar.
- Elsewhere in emerging Europe, Fitch ratings agency returned Hungary back to investment-grade status by raising its long-term rating to BBB- from BB+ with a stable outlook.

All data are sourced from Invesco dated 15 June 2016 unless otherwise stated.

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