Market Insights - Global Monthly Outlook
Growth conditions should overcome the cyclical challenges ahead
December 2016 (covering November 2016)

Index	November	YTD
MSCI World	USD 1.5%	5.6%
S&P 500	USD 3.7%	9.8%
MSCI Europe	EUR 1.1%	-2.5%
MSCI Asia Pac ex Japan	USD -2.2%	8.2%
Hong Kong Hang Seng	HKD -0.5%	8.0%
Shanghai Composite (A-shares)	CNY 4.8%	-8.2%
Hang Seng China Enterprises (H-shares)	HKD 2.9%	6.3%
Topix	JPY 5.5%	-3.1%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 30 November 2016. YTD refers to year-to-date.

Global Outlook

Donald Trump's unexpected election win took investors by complete surprise. In US, Trump's pro-growth, deregulation and reflationary policy stance renewed investors' risk-on sentiment and fuelled the move into more cyclical areas of the market. However, his policy views on trade and immigration, US dollar strength and political developments in Europe and Asia weighed on global equity markets.

With liquidity conditions expected to remain favorable, growth conditions should gradually improve, overcoming the cyclical 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

- The ensuing post-US election rally led the market to a new all-time high, in particular those segments more sensitive to the health of the economy, with additional support from a slew of positive core economic data releases and continued strong consumer spending prints.
- We continue to favor US equities given the underlying strength of the US economy. We will continue to monitor how policy developments unfold with the new administration currently expected to step up fiscal spending which could also lift rates at a faster pace. 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 flat in local currency terms. With the US presidential election out of the way, investors' attention turned to political events in Europe and to the potential shift in stimulus policies globally, from monetary to fiscal.
- 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)

- Most Asian equity markets fell in November as investors digested the news of Donald Trump's victory in the US presidential election. Investor sentiment was dampened by Trump's proposal to stimulate the US economy through expansionary fiscal policies.
- 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 there 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)

- Economic data was mixed as consumption growth disappointed due to slowing auto and residential sales growth. Majority of Chinese companies announced better-than-expected quarterly earnings. Both Hong Kong-listed China shares and domestic A-shares surged.
- We are moderately tilted away from Hong Kong and China. Economic indicators continued to show the economy remains steady with consumption and output on the rise, helping to offset any areas where property demand is slowing. In Hong Kong, although property markets have been resilient, recent tightening measures are expected to impact demand.

Japan

- The Japanese equity market ended the month higher, buoyed by the yen's weakness versus the US dollar post the US election. The improving economic data relieved some pressure on the Bank of Japan's monetary easing programme, and in combination with the government's new fiscal measures, provided support to the Japanese equity market.
- 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

- The recent weakness in government bond markets continued in November. The key influence on returns was Donald Trump's surprise election as President of the US.
- 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

- The prospect of higher US interest rates and concerns about US President-elect Trump's trade and immigration policies soured confidence towards emerging equity markets in November. Equity performance varied greatly between countries.
- Emerging market currencies were under pressure from a strengthening US dollar.

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