Market Insights – Global Monthly Outlook
Positive on US equities

March 2016 (covering February 2016)

Index	February	YTD
MSCI World	USD -0.7%	-6.6%
S&P 500	USD -0.1%	-5.1%
MSCI Europe	EUR -2.2%	-8.2%
MSCI Asia Pac ex Japan	USD -0.9%	-8.6%
Hong Kong Hang Seng	HKD -2.9%	-12.8%
Shanghai Composite (A-shares)	CNY -1.8%	-24.1%
Hang Seng China Enterprises (H-shares)	HKD -3.9%	-18.0%
Topix	JPY -9.3%	-16.1%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 29 February 2016. YTD refers to year-to-date.

Global Outlook

February was a month of two halves for global equity markets with many stocks posting another month of losses, despite a strong rally in the second half of the month. Prospects for global growth were again in focus, with market reaction characterized by diminished expectations for further interest rate hikes in the US.

Global equities continue to face both cyclical and structural challenges. We recognize the risk that concerns over the slower growth and structural problems may keep markets somewhat volatile. Policymakers are expected to seek ways to support short-term growth, which actually may leave structural issues unresolved. In terms of regional allocations, our preference continues to be for developed markets over emerging markets.

United States

- Sentiment drove the US equity market lower in February. Wariness persisted amid uncertainty over the outlook for the US economy and the impact of Fed policy on the banking sector in particular.
- We are positive on US equities given the relative durability of the US economy. Although the US dollar has reversed trend since the start of the year as expectations for tightening get pared back, the fact remains that the US has the ability to tighten without undermining overall growth unlike most other countries.

Europe (including UK)

- In local currency terms, European equity markets fell in February, ending a month marked by high levels of volatility. Concerns over a weakening global output, an oil rout and bad bank loans led to a sharp sell-off at the start of the month.
- We have a neutral position in European equities as there continue to be signs suggesting macro conditions remain favorable thanks to accommodative monetary policy. However, structural headwinds remain unaddressed, such as high levels of excess leverage.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Some stability returned to Asian equity markets in February, after a rocky start to the year, as oil prices stabilized and investors pushed back their expectations for the next interest rate hike in the US.
- As the economies continue to face challenges with excess leverage and capacity such that growth prospects are trending lower, we remain cautious toward Asia. Greater policy measures to support demand will be necessary in various countries at some point.

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

- Investor sentiment toward China remained fragile, with confidence having been sapped by the government's policy missteps in recent months. Equities in HK & Mainland China fell.
- In China, the policy stimulus measures may help to lift parts of the economy but overall, both external and domestic, challenges remain. Structural issues in China are expected to continue to weigh on growth. In Hong Kong, the weaknesses in consumer spending and housing demand are unlikely to improve any time soon as mainland demand retreats.

Japan

- Japan's equity market weakens and the yen strengthens despite negative interest rate policy.
- Improvement in corporate governance continues to be evident but at the same time overall growth conditions remain sluggish due to weakness overseas and slow improvements at home.

Fixed Income

- February provided a mixed month of returns for bond investors. Core government bonds such as Gilts and Bunds delivered positive returns, whilst riskier parts of the corporate bond market such as high yield and subordinated financials were generally lower.
- Global government bonds are expected to benefit from the flight to safety by investors and limited inflationary threat as long as commodity price inflation remains subdued. Most non-developed market currencies are unlikely to appreciate much as US monetary policy continues to lean toward further tightening, while some Asian countries still need to ease further.

Emerging Markets

- Emerging equity markets stabilized in February after overcoming a weak start.
- Commodity prices rallied, with Brent crude oil now up more than 30% since its January lows. The US dollar lost ground on perceptions that the US Federal Reserve are in no rush to raise interest rates.

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