Global Monthly Outlook

Global equities could benefit from expectations of policy stimulus

January 2017 (covering December 2016)

Index	December	2016
MSCI World	USD 2.4%	8.2%
S&P 500	USD 2.0%	12.0%
MSCI Europe	EUR 5.9%	3.2%
MSCI Asia Pac ex Japan	USD -1.1%	7.1%
Hong Kong Hang Seng	HKD -3.5%	4.3%
Shanghai Composite (A-shares)	CNY -4.5%	-12.3%
Hang Seng China Enterprises (H-shares)	HKD -4.5%	1.5%
Topix	JPY 3.5%	0.3%

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

Global Outlook

Improving commodity prices and encouraging core economic data prints helped the MSCI AC World index to rally in December. Having initially hinted at the prospects of four gradual increases, the US Federal Reserve's (Fed) growing confidence in its outlook of the US economy and inflation underpinned its decision to finally raise the interest rate by 25 basis points in December.

Overall, global equities could benefit from expectations of policy stimulus but structural problems still exist. A shift in policy focus to greater fiscal spending will likely continue to weigh on bonds.

United States

- Although the Fed's renewed hawkish tone about the future path of US interest rates took some steam out of the post-US election stock market rally, US equities managed to post solid returns in December, amid release of encouraging economic data prints.
- We have a positive outlook for US equities given the underlying strength of the US economy. The pace of growth appears to be improving with limited signs that conditions will start to weaken. We will continue to monitor how policy developments unfold with the new administration currently. Expectations are for greater fiscal spending which could lift rates at a faster pace.

Europe (including UK)

- In Europe and the UK, equity markets advanced in December in the aftermath of the Italian referendum. The European Central Bank (ECB) will extend its quantitative program to December 2017, and the universe of bonds eligible for purchase is also widened.
- 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)

- In Asia Pacific, Australia joined the broader post-US election rally. Higher commodity prices helped support Australia's equity market performance.
- 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 their impact is likely to be limited as Asia will continue to face challenges with leverage and capacity.

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

- China shares (A and H-shares) fell as investor sentiment in China was impacted by an apparent shift in policymakers' focus from prioritizing growth to concentrating on credit risks.
- We are moderately tilted away from Hong Kong and Mainland China H-shares. 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 rallied on a combination of a better outlook for global growth in 2017 and yen weakness versus the US dollar post the US election.
- 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

- US government bond yields were higher following the hike in US interest rates, but the pace of the increase was more modest than recent months with the yield of the 10 year US Treasury rising.
- 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 EMEA (Europe, Middle East and Africa) region came out on top with all countries gaining for December. Russia's equity market led advances, drawing support from higher oil and gas prices.
- We are currently finding the EMEA region particularly interesting because we believe it offers a wide range of diversified companies with strong management teams operating in areas of growth.

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