Global Monthly Outlook

The December slump was among the worst in history

January 2019 (covering December 2018)

Index	December (%)	YTD (%)
MSCI World	USD -7.6	-8.2
S&P 500	USD-9.0	-4.4
MSCI Europe	EUR -5.5	-10.0
MSCI Asia Pac ex Japan	USD -2.7	-13.7
Hong Kong Hang Seng	HKD -2.5	-10.5
Hang Seng China Enterprises (H-shares)	HKD-4.7	-9.9
Topix	JPY -10.2	-16.0

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as of December 31, 2018. YTD refers to year-to-date.

Global Outlook

Global equity markets fell in December to round off their worst year since the global financial crisis. Markets were rattled by a myriad of concerns. Global equity markets were led lower by the US and political turmoil in Washington which unsettled markets further. UK and European equity markets also fell in December impacted by global concerns such as the possibility of a global economic slowdown, falling Brent crude oil prices, and Brexit uncertainty.

United States

- Volatility returned to the US equity market with stocks dropping to the brink of a bear (slow growth) market in December. Sectors such as utilities, real estate, healthcare and consumer staples didn't fall as sharply as energy or financials; the worst performers over the month.
- Coming into the first quarter 2019, the outlook for US equity markets is neutral as our indicators (valuation, trend, economic environment, and risk aversion) deliver mixed signals.

Europe (including UK)

- European and UK equity markets continuing the downward trend that characterised the second half of the year. The investor sentiment continued to be weighed down by political noise – Brexit, trade tensions and weaker oil prices.
- The domestic demand continues to drive the European economy. Valuations are attractive in many sectors.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equities fell, finishing the year in negative territory. The initial optimism towards a truce on trade conflict between China and the US was challenged and market volatility continued throughout the month.
- We believe Asian markets may regain favor from international investors in 2019. We believe economic fundamentals in most countries are expected to be robust on the back of healthy labour markets and governments' pro-growth policies.

Hong Kong and Mainland China (H-shares)

- Offshore Chinese equities registered a negative return in December, among the worst performing markets in Asia over the month. Slower economic growth and doubts over whether China and the US can make concrete progress over trade conflict through negotiations dragged down market performance.
- We believe consumption and service will continue to be key drivers to economic growth as the government strives for high quality growth and continues with economic rebalancing.

Japan

- Japan's equity market ended the year just off its 2018 lows amidst growing concerns over a global economic downturn, lingering US-China trade tensions, oil price weakness and yen strength relative to the US dollar.
- Looking forward to 2019, although we are aware of the increased macro and market uncertainties externally, Japan's sustained recovery may not be derailed given several ongoing structural changes.

Fixed Income

- Corporate bond returns were mixed during December. Amid an uncertain backdrop, investment grade bonds generally outperformed high yield bonds, with the former benefitting from higher sensitivity to interest rates.
- In the US, we believe peak levels of growth are behind us and expect to see slowing in the second half of 2019. Outside the US, there are also signs of softening growth.

Emerging Markets

- In December, emerging equity markets were not immune to the broad sell-off either, but losses were much smaller than those in developed markets. Asia was the weakest performing region, dragged lower by China and India.
- Over the medium term, our outlook for emerging markets is cautiously optimistic. Economic and corporate fundamentals remain solid, and these economies remain the biggest driver of global growth.

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated January 21, 2019, unless otherwise stated.

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