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Global markets rebounded in January

Global Monthly Outlook

February 2019 (covering January 2019)

Index	January (%)	YTD (%)
MSCI World	USD 7.8	7.8
S&P 500	USD 8.0	8.0
MSCI Europe	EUR 6.2	6.2
MSCI Asia Pac ex Japan	USD 7.3	7.3
Hong Kong Hang Seng	HKD 8.1	8.1
Hang Seng China Enterprises (H-shares)	HKD 9.0	9.0
Topix	JPY 4.9	4.9

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as of January 31, 2019. YTD refers to year-to-date.

Global Outlook

January was the best month for global equity markets in more than seven years. Global equity markets were boosted by strong corporate earnings results across the board and optimism over US-China trade talks. The US equity market posted its best month in three years, the UK equity market recorded the first month of positive returns since the third quarter of 2018 and European equity markets also rallied. Asia also performed well with sentiment towards China bolstered by the diffusion of tensions surrounding the US-China trade talks.

United States

- The US equity market posted its best month in three years in January on the back of less aggressive US Federal Reserve (Fed) comments and optimism over US-China trade talk.
- We have trimmed our exposure in view of trade tension uncertainty and how the political tug of war with China will unfold. The yoy earning tailwind from Trump's tax reform will fade in 2019, and tighter liquidity condition from ongoing interest rate normalization.

Europe (including UK)

- European and UK equity markets rose in January. All areas of the market, apart form communication services, posted positive returns with the best performing sectors being real estate, consumer discretionary and Information technology.
- We concern that QE may come to an end as the European Central Bank (ECB) sees early signs of recovery.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equities reversed year-end declines to close higher in January. Investor sentiment was buoyed by the Federal Reserve's (Fed) decision to leave interest rates unchanged and the diffusion of tensions surrounding the US-China trade talks.
- Asian markets may regain favor from international investors in 2019. We believe Asian equities are trading at attractive valuation, offering a good entry point for long-term investors.

Hong Kong and Mainland China (H-shares)

- Offshore Chinese equities was the best performing market in Asia. It registered a strong return. Upbeat sentiments towards emerging market equities boosted by the Fed's dovish comments, easing trade tension and improved economic data provide favorable tailwinds.
- We believe the Chinese economy is on a sustainable path now towards high quality growth and will continue to rebalance away from traditional growth drivers into new growth drivers of consumption and services. In Hong Kong, private consumption growth has been strong this year and we expect it to remain well supported by a healthy labor market.

Japan

- Japanese equities lagged over January as weaker Chinese growth and US-China trade disruption saw a drop in December exports. Factory output was also lower in December, down 0.1% month-on month- the seventh monthly drop in nine months – which weighed further on investor confidence.
- We believe the near-term business cycle remained subdued because of unfavorable corporate earnings. Corporate governance reform continues to progress slowly but improvements in capital efficiency and profitability.

Fixed Income

- Corporate bond markets had a positive start to 2019, while European currency high yield corporate bonds had their best January since 2012. Given the market's attraction towards riskier assets, government bonds were generally weaker, with both Bunds and Treasuries delivering negative returns.
- The 10Y UST yield has levelled off meaningfully from the 3% threshold following expectation that Fed will pause its rates normalization action in 1H 2019. We see limited value in government bonds after years of prolonged rally.

Emerging Markets

- Global emerging equity markets enjoyed a strong start to the year with all regions registering gains. Latin America led the advance, followed by EMEA (Europe, Middle East and Africa). Asia also performed well with market sentiment towards China bolstered by the diffusion of tensions surrounding the US-Sino trade talks.
- We believe global growth differential will favor Emerging Markets. Even as valuations have adjusted, the market is monitoring tightening financial conditions via higher US rates and stronger USD while paying less credence to supportive Emerging Markets fundamentals.

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated February 25, 2019, unless otherwise stated.

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