A tough month for global equities

November 2018 (covering October 2018)

Index	October (%)	YTD (%)
MSCI World	USD -7.3	-1.9
S&P 500	USD-6.8	3.0
MSCI Europe	EUR -5.3	-3.9
MSCI Asia Pac ex Japan	USD -10.3	-15.0
Hong Kong Hang Seng	HKD-10.0	-13.7
Hang Seng China Enterprises (H-shares)	HKD-8.0	-9.8
Topix	JPY-9.4	-7.6

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

Global Outlook

October was the worst month for global equity markets in more than six years. Markets grew cautious in the face of a cocktail of factors including signs that trade tensions are fuelling a global economic slowdown, disappointing earnings from 'big tech' companies and a budget row between Italy and the European Union. Meanwhile increase in US interest rates have signalled the end of cheap money that has driven a near decade-long bull market for global equities.

United States

- The US equity market ended October in negative territory as technology shares fell out of favor and markets grew concerned about US-China trade tensions. Consumer discretionary, energy and industrials were the weakest sectors over the month.
- There are concerns about the US mid-term elections in early November, as investors worry about what it may mean for policy. Therefore, we think the episodic downdrafts in stock prices will end until after mid-terms.

Europe (including UK)

- European and UK equity markets fell in October. Markets were driven lower along with concerns around geopolitical factors such as Brexit and the escalating trade war between the US and China continued.
- The Eurozone economy growth is slowing down, but expected to remain above trend. Domestic consumption leading recovery. Brexit outcome remains a key uncertainty to European and UK equities.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity markets suffered a sharp sell-off in October. A spike in US government bond yields, resurgent dollar strength and escalating trade tensions combined with some soft economic data from China, raising concerns over a slowdown in the global economy, further fueling investor risk aversion.
- We believe market correction this year has offered a good buying opportunity for Asia ex Japan equities given solid market and economic fundamentals in the region.

Hong Kong and Mainland China (H-shares)

- Offshore Chinese market fell in October. Ongoing trade tension, rising yields and concerns over economic growth have all led to broad sell-off across major markets. Hong Kong market performed in line with China market registered a negative return.
- We expect the equity markets remain on a solid path on the back of resilient consumption. In China, we believe consumption will play an increasingly important role in leading economic growth.

Japan

- Japan's equity market also fell sharply as the risk of a global economic downturn increased with the deterioration in investor sentiment.
- We believe growth remains weak in Japan's equity market relative to other major economies. Inflation struggling to return to 2% target and the stimulative monetary policy remains in place.

Fixed Income

- In October, return of volatility to financial markets with 'risk-off' the dominant sentiment. Against this backdrop, government bonds outperformed corporate bonds with investment grade in turn outperforming high yield bonds.
- Our global growth view is still positive but caution is warranted given downside risks and recent volatility. We expect the US to go ahead with a hike in December and two more hikes in 2019. In Europe the ECB is not expected to hike until Q4 2019.

Emerging Markets

- Emerging equity markets fell sharply in October with only two countries – Brazil and Qatar – posting gains. Undermining market confidence was a spike in global bond yields and further negative headlines on the US-China trade war. Asia was the weakest performing region, led by Korea, Taiwan and China.
- We are cautious on emerging equity markets though due to increasing geopolitical surprises, antagonistic US foreign policy especially regarding sanctions, and expanding rhetoric regarding US trade polices with China.

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated November 19, 2018, unless otherwise stated.

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