Market Insights – Global Monthly Outlook
Prefer developed markets over emerging markets

April 2016 (covering March 2016)

Index	March	YTD
MSCI World	USD 6.9%	-0.2%
S&P 500	USD 6.8%	1.4%
MSCI Europe	EUR 1.4%	-6.9%
MSCI Asia Pac ex Japan	USD 11.6%	1.9%
Hong Kong Hang Seng	HKD 9.2%	-4.7%
Shanghai Composite (A-shares)	CNY 11.8%	-15.1%
Hang Seng China Enterprises (H-shares)	HKD 13.7%	-6.8%
Topix	JPY 4.8%	-12.0%

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

Global Outlook

Global equity markets regained a lot of ground in March, as investor confidence returned to the market. The new-found optimism came in the wake of further economic stimulus measures announced by the ECB, improving US economic data and some respite from the downward spiral that had plagued oil prices.

While liquidity conditions may be favourable, global equities are expected to continue to face cyclical and structural challenges. There is the risk that slower growth and structural problems may keep markets somewhat volatile. In terms of regional allocations, our preference continues to be for developed markets over emerging markets.

United States

- The US equity market reclaimed the steep declines incurred earlier this year. The combination of fresh gains for oil prices and a dovish US Federal Reserve (Fed) had helped to boost sentiment.
- We are positive on US equities given the relative durability of the US economy. Although the US dollar has reversed course since the start of the year as expectations for tightening get scaled back, with rising inflation and employment, the US is one of the few countries that has the ability to tighten without undermining overall growth.

Europe (including UK)

- European equity markets advanced in March, posting the first monthly gain of 2016. The larger-than-expected monetary stimulus by the European Central Bank (ECB) and more dovish signals from the Fed on the outlook for rate hikes, supported the rally in equity markets.
- We have a neutral position in European equities as there continue to be positive economic signs thanks to extremely accommodative monetary policy. However, structural headwinds, such as high levels of excess leverage and negative geopolitical developments may weigh on growth.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity markets gained following the Fed's dovish stance on US interest rates.
- Although accommodative policies are starting to feed through to supporting growth, the economies in Asia will continue to face challenges with leverage and capacity, such that we remain cautious toward Asia.

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

- The Chinese and Hong Kong equity markets were the region's strongest markets in March. Chinese policymakers signalled a looser fiscal stance.
- Although accommodative policy measures may help lift parts of the economy, there are a number of external and domestic challenges that will continue to weigh on growth, such as leverage, capacity and slow external demand. In Hong Kong, the weaknesses in consumer spending and housing demand are unlikely to turn around on a sustainable basis any time soon as mainland China demand retreats.

Japan

- Japan's equity market ended the month higher, as global macroeconomic concerns receded, showing some signs of stability after a rocky start to the year.
- The negative interest rates adopted by the central bank may have limited impact on turning growth and sentiment around at a time that various economic indicators are suggesting further economic weakness. However, the underlying improvement in corporate governance continues to be one of the positive points for Japanese equities.

Fixed Income

- Perceived 'risky assets' rebounded strongly from February lows.
- Global government bonds are expected to benefit from slow growth and limited inflation risk outlook. At the same time, periods of high volatility will likely lead to a 'flight to safety' in bonds.

Emerging Markets

- Emerging equity markets had their best month since October 2011, this March. Gains were led by Brazil as political developments overrode economic news.
- With expectations growing that the next hike in US interest rates could be somewhat delayed, the US dollar fell in value against all emerging market currencies, except the Egyptian pound.