Market Insights – Global Monthly Outlook

Global equities are expected to face cyclical and structural challenges

October 2016 (covering September 2016)

Index	September	YTD
MSCI World	USD 0.6%	6.1%
S&P 500	USD 0.0%	7.8%
MSCI Europe	EUR 0.0%	-2.8%
MSCI Asia Pac ex Japan	USD 1.8%	12.5%
Hong Kong Hang Seng	HKD 1.8%	10.1%
Shanghai Composite (A-shares)	CNY -2.6%	-15.1%
Hang Seng China Enterprises (H-shares)	HKD 0.6%	3.5%
Topix	JPY 0.3%	-12.7%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 30 September 2016. YTD refers to year-to-date.

Global Outlook

For the most part, market uncertainty about the path of global monetary policy dominated trading during the month. While major developed market central banks, particularly the US Federal Reserve (Fed), were reluctant to raise interest rates in September – due to concerns over a global growth slowdown and rising financial market volatility – the prospect of continued monetary easing, improving commodity prices and encouraging economic news out of China lifted market sentiment.

While liquidity conditions may be favorable, global equities are expected to face cyclical and structural challenges. The uncertainty over growth and structural problems may also keep markets somewhat volatile. In terms of regional allocations, our preference continues to be for developed markets over emerging markets.

United States

- Towards month end, market nervousness about the upcoming corporate earnings season and the uncertainty surrounding the outcome of the tightly contested US presidential race further added to the market's volatile moves.
- We maintained to favor US equities given the underlying strength of the US economy. While economic conditions may be showing signs of slowing, the pace of growth remains relatively steady. The US dollar has weakened since the start of the year as expectations for tightening were scaled back. With private sector balance sheets continuing to strengthen, the US remains one of the few countries with the ability to tighten without undermining growth in its economy.

Europe (including UK)

- European equity markets were broadly unchanged in September, following two months of consecutive gains. The European Central Bank (ECB) kept its stimulus program unchanged this month, but reiterated that quantitative easing will run until March 2017 "or beyond if necessary" to spur growth in the eurozone.
- We do not favor 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)

- Asian equity markets ended September with positive momentum intact, albeit with some volatility given mixed signals from developed market central banks in their monetary policy announcements.
- Accommodative monetary policies are feeding through to supporting growth, and fiscal steps are being adopted such that we are more positive on prospects in Asia. While Asia will continue to face challenges with leverage and capacity, further policy measures can be expected to provide support when necessary.

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

- Fears about the health of China's economy continued to recede, with economic data in line with or ahead of expectations.
- We are moderately tilted away from Hong Kong and China. There are still a number of external and domestic challenges that will continue to weigh on the growth in China, such as rising bank non-performing loans, excess corporate leverage, capacity and slow external demand. In Hong Kong, economic conditions continue to be influenced by developments overseas and in China. Although property markets have been resilient, consumer demand remains weak.

Japan

- The Japanese equity market ended the month marginally lower in local currency terms, as investor sentiment was dampened due to uncertainty about the outcome of the Bank of Japan's (BoJ's) policy review.
- We are moderately tilted away from Japan. The ongoing loose monetary policy adopted by the central bank appears to be having a limited impact on turning growth and sentiment around at a time various economic indicators are suggesting further economic weakness. The improvement in corporate governance is one of the positive developments taking place in Japan.

Fixed Income

- September was a generally weaker month for bond markets, with sterling bonds giving back some of their recent strong returns.
- Global government bonds should continue to benefit from limited inflation risk and investors searching for yield. Periods of high volatility could lead to a 'flight to safety' in bonds.

Emerging Markets

- Global emerging equity markets edged higher in September, drawing benefit from higher commodity prices and reluctance from the US Federal Reserve (Fed) to raise US interest rates.
- US interest rates remained unchanged, but the door is still open for a hike later this year.

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