Global Monthly Outlook

Favoring developed markets over emerging markets

March 2017 (covering February 2017)

Index	February	YTD
MSCI World	USD 2.8%	5.3%
S&P 500	USD 4.0%	5.9%
MSCI Europe	EUR 2.9%	2.6%
MSCI Asia Pac ex Japan	USD 3.5%	9.5%
Hong Kong Hang Seng	HKD 2.0%	8.3%
Shanghai Composite (A-shares)	CNY 2.6%	4.4%
Hang Seng China Enterprises (H-shares)	HKD 5.0%	9.6%
Topix	JPY 0.9%	1.2%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 28 February 2017. YTD refers to year-to-date.

Global Outlook

February saw global stocks climb to record peaks mid-month, setting a fresh record for the first time since 2015. MSCI AC World index held on to gains from January, with most sectors enjoying positive returns.

With central banks expected to remain relatively accommodative, growth conditions should gradually improve. However, the uncertainty over policies and structural matters may keep markets somewhat volatile. In terms of regional allocations, we continue to favor developed markets over emerging markets.

United States

- Optimism over Trump's reflationary ambitions remained firm despite some surprising mishaps in the formation of his cabinet, while the mixed economic data did little to jeopardize the ongoing trend of rising inflation or the hawkishness of the US Fed.
- We continued to be positive on US equities given the underlying strength of the US economy. The pace of growth appears to be improving with limited signs that conditions will start to weaken. With private sector balance sheets continuing to strengthen, the US is expected to be a driver of growth and one of the few countries able to tighten its monetary policy.

Europe (including UK)

- European equities rose in February with corporate earnings estimates continuing to rise. Data confirmed the resilient and broadening base of the economic recovery, underpinned by an accommodative monetary policy, less austerity, a favorable exchange rate and some structural reforms.
- We are moderately tilted away from European equities as the outlook remains unclear despite encouraging macro developments. Political elections throughout Europe will be closely monitored as there are concerns that the results could shake up the European Union.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Most Asian equity markets recorded decent gains in February, largely due to better-than-expected economic data. Asian currencies were broadly stable against the US dollar, in part due to easing fears that US trade policy will take a strongly protectionist turn under President Trump.
- While fundamentals appear to be stabilizing, growth is slow and exports remain weak. Accommodative monetary policies are providing support and more fiscal steps are being adopted, but their impact is likely to be limited as Asia will need to address the headwinds from excess leverage and capacity.

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

- China and Hong Kong shares continued their strong start to the year. Economic indicators in China showed conditions strengthening while earnings were also favorable. Hong Kong equities gained due to positive developments in the property market and some encouraging economic data.
- We are moderately tilted away from Hong Kong and China. Mainland China's economy is improving with solid consumer spending and output, but external and domestic challenges such as high corporate leverage and the possibility of trade friction with the US may weigh on growth. In Hong Kong, economic conditions continue to be influenced by developments overseas and in China.

Japan

- Japanese equities ended the month higher, with fourth quarter real GDP growth of 1% (quarter-on-quarter) driven primarily by strong net exports. Consumer confidence continued to improve as a result of high labor participation rates, which led to gains in employment income.
- We are neutral on Japan. Economic conditions and earnings are gradually improving. Companies have focused on cleaning up their balance sheets, while also raising the level of corporate governance. The loose monetary policy environment is likely to continue for some time, which should also limit gains in the yen in an effort to curb deflationary pressures.

Fixed Income

- During February, bond markets rallied as investors re-evaluated some of their previous assumptions about Donald Trump's reflation policies and political risk in the eurozone. Bonds within the financial sector underperformed relative to those issued by non-financial companies.
- Global government bonds are likely to face some headwinds from stepped up fiscal spending globally and cyclical recovery emerging as a result of more aggressive accommodative policies.

Emerging Markets

- It was a positive month for emerging equity markets with all the regions registering gains, supported by encouraging economic news with a breadth of forward-looking indicators suggesting strong nominal growth going forward.
- The fundamental conditions for an improving outlook – including higher commodity prices, stabilizing growth in China and recovery of growth in the economies of Russia and Brazil – remain in place.

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