



Market Insights - Global Monthly Outlook

Global equities advance at a slow pace

May 2016 (covering April 2016)

Index	April	YTD
MSCI World	USD 1.6%	1.5%
S&P 500	USD 0.4%	1.7%
MSCI Europe	EUR 2.1%	-5.0%
MSCI Asia Pac ex Japan	USD -0.1%	1.9%
Hong Kong Hang Seng	HKD 1.5%	-3.4%
Shanghai Composite (A-shares)	CNY -2.2%	-17.0%
Hang Seng China Enterprises (H-shares)	HKD -0.7%	-7.4%
Topix	JPY -0.5%	-12.5%

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

Global Outlook

Following a buoyant March, many market participants were bracing themselves for a sharp pullback in April. However, global equity markets in aggregate continued to advance at a slow pace, fuelled by a better-than-expected corporate earnings season, some positive data coming out of China and higher commodity prices.

While liquidity conditions may be favorable, global equities are expected 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

- In the US, market participants were preparing for a tough corporate earnings season in the lead up to April. However, a significant number of companies have managed to beat market expectations, which led to the US equity markets moving higher.
- We are positive on US equities given the underlying strength 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)

- The European equity markets benefitted from some positive company and sector news, as well as the release of further information about the European Central Bank's corporate bond purchase program.
- 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)

- The Asian equity markets declined slightly in April after strong rebounds in March.
- 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)

- China's equity market declined. The Chinese economy appears to have stabilised, but its economic recovery is still deemed to be on shaky ground.
- Although accommodative policy measures may benefit certain sectors, 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 was the sole developed equity market that generated a slight negative return over the month. The region's equity market was hit by a stronger yen and further rattled by a series of earthquakes that brought production at the factories of many major manufacturers to a standstill.
- 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

- Corporate bond markets continued to rally as the European Central Bank released further details of its quantitative easing program.
- Global government bonds are expected to continue to benefit from limited inflation risk. At the same time, periods of high volatility will likely lead to a 'flight to safety' in bonds.

Emerging Markets

- Following March's strong rally, the upswing in global emerging equity markets continued into April, albeit at a much slower pace. Latin America was the best performing region, followed by EMEA (Europe, Middle East and Africa), with emerging Asia being the laggard.
- Expectations of political change in Brazil, following parliament's lower house vote to impeach President Dilma Rousseff, drove equity returns in the country.

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