Market Insights – Global Monthly Outlook
Developed market equities look more favorable

January 2016 (covering December 2015)

Index	December	YTD
MSCI World	USD -1.7%	-0.3%
S&P 500	USD -1.6%	1.4%
MSCI Europe	EUR -5.3%	8.8%
MSCI Asia Pac ex Japan	USD 0.4%	-9.1%
Hong Kong Hang Seng	HKD -0.4%	-3.9%
Shanghai Composite (A-shares)	CNY 2.7%	9.4%
Hang Seng China Enterprises (H-shares)	HKD -1.3%	-16.9%
Topix	JPY -1.9%	12.1%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 31 December 2015. YTD refers to year-to-date.

Global Outlook

Global equity markets were mixed. In the US, equity markets ended the month lower. Eurozone indexes were the most volatile.

Global equities are under review by investors as growth prospects are reassessed. We recognize the risk that cyclical challenges may not be easy to be ignored but at the same time, policymakers will continue to provide measures to support growth on a global scale. In terms of regional allocations, our preference continues to be for developed markets over emerging markets.

United States

- The US equity market ended the month of December lower, as volatile crude oil prices and an unexpected jump in initial jobless claims. The US Federal Reserve (Fed) announced that it would raise interest rates for first time in nearly a decade.
- We continue to be positive on the relative strength of the US economy. The US dollar is expected to remain strong as many countries remain accommodative at a time the US is able to pull in the reins on liquidity.

Europe (including UK)

- In December, European equity markets retreated. The European Central Bank (ECB) cut deposit rates and extended its quantitative easing (QE) program to March 2017.
- Economic conditions remain reasonably favorable given the benefits of easy monetary policy and euro weakness. However, the economic recovery may face some structural hurdles as debt problems continue.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity markets were mixed in December as investor confidence was rattled by further weakness in crude oil prices and the first US interest rate hike in almost 10 years.
- As global economic conditions remain under pressure with growth prospects trending lower and developing economies looking to address structural issues, we are cautious toward Asia. There will be a need for greater policy measures to support demand in various countries.

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

- China's equity market ended the year on a positive note. Remarkably, even though it witnessed a strong sell-off over the summer, it still ended the year up 9.4%.
- In China, some recent indicators have suggested growth may be improving slowly, but it is important that structural reform continues for the quality of economic growth to improve and disinflationary pressures to subside. In Hong Kong, consumer spending has remained a key driver of growth, but it may wane as wage growth moderates.

Japan

- Japanese equity markets suffered during the month. The country's exporting companies were hurt by a stronger yen that resulted in an increase of the cost of their products overseas.
- A weaker currency and improvements in corporate governance are certainly positive for Japanese equities. However, macro conditions are still subject to global developments in areas such as consumption and manufacturing.

Fixed Income

- US treasury yields rose as markets began to price in further rate increases in 2016, while 10-year yields in Europe and the UK also moved higher.
- Global government bonds are expected to benefit from flight to safety by investors given the cyclical growth challenges continue, as seen in weak exports and credit demand. However, most non-developed market currencies are likely to depreciate further as the dollar stays strong with the US tightening policy while there is still a need for further easing in Asia and other emerging markets.

Emerging Markets

- Global emerging equity markets capped off a disappointing year by losing further ground in December, although the long-awaited decision by the US Federal Reserve (Fed) to finally raise US interest rates triggered little additional market reaction.
- We remain cautious to emerging markets. Combined with broader emerging market weakness and sliding commodity prices, 'riskoff' market sentiment has come to dominate.