



# Market Insights - Global Monthly Outlook

## Global government bonds poised to benefit from limited inflation risk

September 2016 (covering August 2016)

Index	August	YTD
MSCI World	USD 0.1%	5.5%
S&P 500	USD 0.1%	7.8%
MSCI Europe	EUR 0.7%	-2.8%
MSCI Asia Pac ex Japan	USD 2.1%	10.5%
Hong Kong Hang Seng	HKD 5.2%	8.1%
Shanghai Composite (A-shares)	CNY 3.6%	-12.8%
Hang Seng China Enterprises (H-shares)	HKD 6.5%	2.9%
Topix	JPY 0.6%	-13.0%

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

### Global Outlook

Global equity markets rose in August as markets surprised investors having rallied strongly to reach new all-time highs on several occasions.

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

- Despite historic highs, S&P 500 index remained mostly flat in August. US Federal Reserve (Fed) sees case for interest rate rise has strengthened, but uncertainty over policy remains.
- We continue to be positive on the relative 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)

- After oscillating between weekly gains and losses, European equity markets ended up in positive territory for a second consecutive month. The Bank of England's 0.25% cut in interest rates met general market expectations but the broader stimulus package went further than many anticipated.
- There are concerns about the 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)

- Many Asian equity markets made solid gains in August as the Fed's comment on the increased likelihood of a US interest rate hike had limited impact on global risk appetite.
- 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)

- Over the course of August, China's equity markets rose on better-than-expected corporate earnings results for the first half of 2016, with the approval of the Shenzhen-Hong Kong stock connect and some economic data showing signs of improvement.
- In China, economic indicators show some areas of the economy are contributing favorably to growth, such as in consumption, but fixed asset investment growth continues to wane as private investment remains lackluster. 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 August marginally higher in local currency terms. Although Prime Minister Shinzō Abe's 28 trillion yen fiscal stimulus package fell short of expectations, investor sentiment was supported by market expectations that further QE could be implemented by the Bank of Japan, if it is considered necessary to stimulate the economy.
- The loose monetary policy adopted by the central bank may have a limited impact on turning growth and sentiment around at a time various economic indicators are suggesting further economic weakness. Further Bank of Japan easing and the improvement in corporate governance are some of the positive developments taking place in Japan.

### Fixed Income

- Sterling bond markets were the stand out performers amongst global bond markets. Helping to fuel returns for this sector was the Bank of England's announcement of a series of quantitative easing measures.
- 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 extended their winning ways for the year by gaining further ground during August.
- After five decades of war, a ceasefire was announced in Colombia. Colombia is expected to hold a national referendum on 2 October 2016 to give voters the chance to approve the deal.

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