



Market Insights - Global Monthly Outlook

Global government bonds poised to benefit from limited inflation risk

August 2016 (covering July 2016)

Index	July	YTD
MSCI World	USD 4.3%	5.3%
S&P 500	USD 3.7%	7.7%
MSCI Europe	EUR 3.5%	-3.4%
MSCI Asia Pac ex Japan	USD 5.6%	8.2%
Hong Kong Hang Seng	HKD 5.3%	2.8%
Shanghai Composite (A-shares)	CNY 1.7%	-15.8%
Hang Seng China Enterprises (H-shares)	HKD 3.2%	-3.4%
Topix	JPY 6.2%	-13.5%

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

Global Outlook

Global equity markets for the most part rose in July, as markets participated in the post-EU Referendum equity rally. Investors' risk-on sentiment was supported by the prospect of global central banks keeping interest rates lower for an extended period, encouraging core economic data releases and a more confident view of the global economy.

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

- US equity markets achieved new heights in post-EU Referendum rally. US Federal Reserve kept the interest rate on hold in July, remaining cautious on future hikes.
- 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, however, the US remains one of the few countries that has the ability to tighten without undermining growth in its economy.

Europe (including UK)

- European equity markets rose in July, posting their best monthly gain of 2016. An initial reading published by the European Union (EU)'s statistics office showed that the eurozone GDP grew by 0.3% in Q2 2016.
- 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)

- Asian equity markets made solid gains in July, as global macro concerns eased, while further signs of stabilization in China's economy also helped improve investor sentiment.
- Accommodative monetary policies are starting to feed 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)

- Despite the improved outlook for corporate earnings, the Chinese equity market lagged the broader region, pulling back toward the end of the month amid news that the banking regulator is planning to crack down on the country's huge market for wealth management products.
- Although in China, economic indicators show areas of the economy contributing favorably to growth, such as in infrastructure investment and consumption, growth has yet to be strong enough to suggest a change in trend. In Hong Kong, growth conditions continue to be influenced by developments overseas and in China where recent signs of stability do not necessarily portend a turnaround.

Japan

- Japanese equity markets have fallen year-to-date on concerns about the strength of the yen and question marks about the effectiveness of the Bank of Japan's monetary policy in stemming yen strength and boosting inflation.
- 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 fiscal measures and the improvement in corporate governance are the positive developments in Japan.

Fixed Income

- Bond markets continued to rebound from their initial post Brexit sell off during July. In the UK, investment grade corporate bonds enjoyed their strongest month since August 2009.
- Global government bonds should continue to benefit from limited inflation risk. Periods of high volatility could lead to a 'flight to safety' in bonds.

Emerging Markets

- Global emerging equity markets registered healthy gains during the month, in anticipation that interest rates in the developed world will remain low for longer, particularly in Europe, the UK and Japan.
- The US Federal Reserve still appears to be in no rush to raise US interest rates, although the Federal Open Market Committee minutes were slightly hawkish in tone by saying that "near-term risks to the economic outlook have diminished".

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