Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	2.5	7.0	-2.1	-0.8	-2.9	29.0
MSCI World	3.0	7.0	-2.0	-0.8	-1.3	33.8
MSCI Emerging Markets	-1.5	7.3	-2.2	-0.6	-15.6	-5.6
MSCI USA	4.2	7.0	-0.8	0.4	3.1	48.7
MSCI Canada	-1.1	10.8	4.5	11.1	-7.0	5.0
MSCI Europe	2.0	6.3	-5.1	-3.1	-7.6	16.9
MSCI Japan	2.7	6.6	-4.9	-5.2	-5.8	24.3
MSCI Australia	0.6	11.3	4.3	0.3	-5.2	6.4
MSCI AC Asia Ex-Japan	0.9	6.5	-3.2	-3.3	-15.5	7.1
MSCI Latin America	-8.7	11.4	5.4	9.5	-14.3	-30.9
MSCI EMEA	-5.8	8.2	-2.1	4.9	-14.5	-15.7

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as 31 May 2016.

The MSCI AC World Index was higher in May with the developed markets (DM) outperforming emerging markets (EM). Within DM, only the US market outperformed while the Europe and Japan markets underperformed. In the EM, Asia ex Japan outperformed while Latin America (LATAM) and Eastern Europe, the Middle East and Africa (EMEA) regions underperformed, reversing much of the year-to-date gains.

The technology and healthcare sectors were the best-performing sectors as risk appetite turned cautious with markets focusing its attention on the US Federal Reserve's (US Fed) guidance on interest rates. Deep cyclicals sectors such as energy and materials gave back some of its gains as the dollar strengthened. Meanwhile, interest rates sensitive sectors such as telecommunications and utilities lagged the broader market as expectations of an earlier interest rate hike rose with better than expected economic data.

The US market outperformed the broader market on the back of better than expected economic data. The Purchasing Mangers' Index (PMI) moved higher with a reading of 51.3 in May which was better than the April at 50.8. Retail sales also came in above expectations in May while labour and housing markets continued to improve although at a slower pace.

Europe underperformed the global index despite better than expected economic data. The Eurozone manufacturing PMI inched lower from 51.7 to 51.5 while the German IFO business confidence index ticked up marginally to 107.7 from 106.7. Meanwhile, the Eurozone consumer price index (CPI) improved marginally to -0.1% in May as compared to -0.2% in April.

The Japan Index underperformed the other regions despite the yen weakening on the back of dollar strength. The Japanese market had benefited earlier from a weaker yen and relatively favourable earnings revisions and we are now starting to see negative earnings revisions as a result of a stronger yen. However, economic data remains mixed with both retail sales and industrial production tracking below expectations.

EM performance was weak in the month with Asia ex-Japan outperforming LATAM and EMEA. Within Asia ex-Japan, performances across various regions were mixed. The top performers were the Philippines followed by India while Malaysia and Singapore gave up most of its recent gains on currency weakness and weaker than expected economic data.

Global Equity

Outlook and Strategy

In terms of equity asset allocation, we continue to be overweight on DM. Among the DMs, we retain our overweight position in the US as the stronger US dollar, which was a headwind to corporate earnings, abated on a year-on-year basis. Valuations are fair but we believe earnings could surprise on the upside with the recovery in oil prices. Last but not least, our positive market outlook in the longer term continues to be underpinned by better labour market trends and resilient corporate earnings. We retain our neutral position in Europe as the region should benefit from a weaker currency and steady improvement in domestic economic conditions. European corporate earnings have been resilient although we are starting to see some slowdown in economic momentum. We are mindful and continue to monitor geopolitical risks associated with refugee influx, as well as the rise of anti-establishment political parties across the region. We retain our neutral position in Japan. While there are some notable improvements in corporate performance, the macroeconomic outlook is mixed, and valuations are less supportive than before. Overall, we believe the market should be supported by favourable monetary conditions.

Within the emerging world, we are neutral on Asia ex-Japan, but remain underweight on EMEA and LATAM. Asia ex-Japan equities continue to offer good investment opportunities driven by the rise of the region’s consumer class, and valuations are broadly supportive. However, the aggregate market performance may continue to be challenged due to slower economic growth, tighter liquidity conditions and potential headwinds if corporate margins and earnings are revised lower. Growth prospects across the globe remain uneven and fundamental sector/country and stock selection will remain crucial.

The impending rate tightening by the US Fed in the coming quarters could trigger fiscal and monetary adjustments globally. This could adversely impact corporate earnings, capital flows and EM growth in the future. Stock selection will be paramount in driving investment performance during this period of adjustment which would reinforce the need for an active approach to portfolio management. We continue to allocate capital to high-quality and sustainable growth companies that are reasonably priced. Our focus is on companies with strong competitive advantages, healthy cash flow and proven track record.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 May 2016 unless otherwise stated.

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