Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	3.7	5.4	10.7	3.7	19.2	38.0
MSCI World	3.3	5.1	10.2	3.3	17.7	37.9
MSCI Emerging Markets	6.3	8.2	14.6	6.3	31.4	36.9
MSCI USA	3.8	6.0	11.5	3.8	17.4	45.3
MSCI Canada	-1.3	1.3	5.5	-1.3	5.4	19.5
MSCI Europe	3.0	3.0	7.2	3.0	21.0	25.5
MSCI Japan	2.4	4.3	11.7	2.4	16.8	38.7
MSCI Australia	0.6	4.2	5.4	0.6	11.7	28.5
MSCI AC Asia Ex-Japan	5.5	6.9	13.9	5.5	33.6	38.9
MSCI Latin America	11.1	10.5	13.7	11.1	21.4	31.8
MSCI EMEA	4.2	13.1	15.2	4.2	21.1	24.5

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 January 2018.

Global equities rallied into the first month of 2018 even as wariness over market exuberance began to creep in. The MSCI AC World Index rose in January with the emerging markets (EM) outperforming the developed markets (DM). A synchronised global growth and US dollar weakness lifted exports in the EM.

Within EM, Latin America, Eastern Europe, Middle East and EMEA outperformed while Asia ex-Japan underperformed. Government bond yields rose as markets priced in growth and inflation expectations.

The technology sector was the top performer for the month. Consumer discretionary and financials outperformed, healthcare and industrials were in line with the market. Meanwhile the underperformers were energy, consumer staples real estate, materials, telecoms and the utilities sector.

The US market outperformed the broader market slightly as developments surrounding US tax reforms led to optimistic expectations of a boost to future corporate earnings. The official Purchasing Managers' Index (PMI) for the month came in at 59.1, alongside an economy which benefitted from gains in consumer spending and business investment. A pickup in wage growth, retail sales and inflation fuelled expectations of further US Federal Reserve monetary policy tightening.

Europe underperformed the global index. In Germany, the Social Democratic Party of Germany (SPD) party agreed to begin coalition talks with Angela Merkel's party. Eurozone manufacturing PMI moderated slightly to 59.6, down from its previous 68 month high at 60.6, while the IFO business confidence index rose to 117.6. The Eurozone consumer price index (CPI) saw a 1.3% year-on-year increase.

The Japan index underperformed even as manufacturing activity climbed to a four year high. Data showed the country's exports rose for the 2017 year while the central bank expressed confidence that inflation was gradually rising toward its target of 2%.

Eastern Europe, Middle East and Africa (EMEA) saw a record performance. Over in Asia ex-Japan, China saw a rally from banks and tech companies as well as better-than-expected GDP growth numbers buoyed the market. Thailand and Malaysia mustered outperformance while the Philippines was the laggard, partly owing to peso weakness.

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Global Equity

Outlook and Strategy

For 2018, our broad framework for equities is that earnings growth will need to drive equity returns for the year. Global equities are trading at about 1 standard deviation above average and thus we argue that there is not a lot of room for valuations to stretch further and market gains must come from earnings. The good news is that the outlook for corporate earnings growth with consensus forecasts for the MSCI World Index averaging 15% growth in forecast earnings for 2018. If these earnings come through we think the global index could produce returns between 10 to 15%.

The strong January rally put the MSCI World AC Index up 3.7% in SGD terms. This was an outsized portion of the annual returns we had been expecting, and may have been a sign the market was moving “too far too fast”. As of writing, much of these strong January returns are being given up in a wave of market volatility. Economic indicators and earnings revisions have trended positively over the past month and thus our fundamentally positive outlook remains intact. The correction so far in early February appears to be in line with bull market corrections that happen frequently in multi-year market rallies. So far we deem the correction to be a healthy one that helps moderate the exuberance of markets as was witnessed in January.

We continue to note that the current cycle is mature by historical standards and at a stage when market observers are monitoring for signs of a slowdown. As it is into its ninth year, and veering close to the record of 10 years of expansion set in the 1990’s, some investors view this as a cause for concern and reason to cut risk exposure. However, our checklist of indicators are telling us that the cycle has not yet peaked nor about to come to an end. The checklist includes the shape of the yield curve, momentum of leading indicators, recession probability models, excessive credit expansion, financial stress indicators, market indicators such as asset correlations, as well as spreads between investment grade and high yield bonds, with none signaling that recession is imminent.

We had previously opined that both equities and bonds would perform well in a world of modest growth and low inflation. However, continued confidence in growth with modest increases in inflation probability would tilt the investment environment to favour risk assets that benefit from the continued upcycle, over safe assets. Major commodities, particularly oil, have performed well over the year and we think the outlook remains positive. While we continue to monitor geopolitical risks, we see no near term catalyst that might disrupt the current expansion, and hence no reason to raise our cash levels.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 January 2018 unless otherwise stated.

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