Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	-3.3	1.0	6.6	0.3	13.0	25.7
MSCI World	-3.3	0.5	6.4	0.0	11.6	25.3
MSCI Emerging Markets	-3.8	5.1	7.9	2.3	23.8	27.3
MSCI USA	-2.8	1.0	7.9	0.8	10.7	32.7
MSCI Canada	-6.1	-4.4	-1.2	-7.3	1.6	5.1
MSCI Europe	-4.6	-0.8	2.4	-1.8	14.9	12.3
MSCI Japan	-0.5	2.3	11.3	1.9	15.6	29.7
MSCI Australia	-1.8	2.9	3.3	-1.2	6.1	16.2
MSCI AC Asia Ex-Japan	-4.2	3.0	7.7	1.1	25.1	30.2
MSCI Latin America	-2.7	11.9	5.6	8.0	14.9	22.3
MSCI EMEA	-0.9	9.5	9.3	3.2	20.8	17.0

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 February 2018.

Market volatility spiked during the month amid a global rout of equities. A systematic correction in US stocks sparked the global sell-off as the 10-year US Treasury yield surged. Investors priced in prospects of nearing US Federal Reserve (Fed) tightening measures and mounting risks from US fiscal deficits.

The developed markets (DM) outperformed the emerging markets (EM). Within EM, Latin America, Eastern Europe, Middle East and EMEA outperformed while Asia ex-Japan underperformed. The technology sector was the top performer for the month. Consumer discretionary and financials outperformed, while healthcare, industrials consumer staples, real estate, materials, telecoms and the utilities sector underperformed. The energy sector suffered the worst losses.

The US market outperformed the broader market with the Fed guiding an optimistic outlook on economic growth. The official Purchasing Managers' Index (PMI) for the US hit a record 60.8, the fastest rate since May 2004, and the 18th straight month of expansion, as factories showed difficulty in keeping up with demand.

Europe underperformed the global index with the Eurozone manufacturing PMI figure declining to 58.6, while the IFO business confidence index dipped slightly down to 117.2. The Eurozone consumer price index (CPI) saw a 1.2% year-on-year increase.

The Japan index outperformed and fared considerably better as stocks led the rebound after the global correction. The country's largest banks signalled confidence in the central bank's ability to control the yield curve and cap interest rates by purchasing a record sum of government bonds. Manufacturing numbers for the month declined slightly.

Greater China stocks weathered significant declines in Asia. Chinese stocks tumbled despite a good set of earnings results and solid fundamentals. The defensive nature of consumer staples performed as the best sector. A technology driven sell-off dragged Taiwan stocks lower as tech giants reported weaker-than-expected sales revenue and earnings results.

Over in India, stocks were pummelled as authorities widened the probe to the country's biggest banking fraud cases. Meanwhile ASEAN markets held up better than their regional counterparts. Thai stocks remained resilient and posted a gain for the month while Singapore's losses were kept low as the three local banks, comprising the lion's share of the market, remained in the green.

Global Equity

Outlook and Strategy

February 2018 was a relatively volatile month with the MSCI World Index declining 3.1%, leaving the Index now only up 0.3% year to date (both figures in SGD terms). However, the correction in global equities at the start pf the month was relatively small by historical standards, with underlying economic data remaining largely positive as the month progressed. As such, there is no change to our broad framework for equities in 2018. The consensus forecast for corporate earnings growth for the MSCI World Index in 2018 remains for approximately 15% growth. If this forecast earnings growth rate is realised, we would expect the global index to produce an annual return of between 10 to 15%.

The probable cause for the spike in equity market volatility in February 2018 appeared to be the sharp pick-up in US hourly earnings growth in January 2018. This raised concerns that the Fed would raise the Fed Funds rate at a faster rate than expected by the market, and the resulting negative implications that higher borrowing costs could have on corporate earnings. We expect such nervousness around key economic data points will be repeated throughout 2018. While investor sentiment should be supported by continuing strong economic growth, there will be periods of concern that interest rates and monetary conditions may be tightened too quickly, thereby causing economic growth to falter. The “Goldilocks” market conditions are unlikely to prevail at all times.

One potential negative development that emerged in February 2018 was the Trump administration’s proposal to impose tariffs on steel and aluminium imports into the United States. The monetary amounts involved to date are insignificant in relation to overall global trade, particularly as exemptions will be granted to Canada and Mexico. However, the concern is that this will be just the first of a series of announcements that may disrupt relations between the US and its main trading partners, particularly China. At the current time this is an issue to watch, and is not sufficient to change our positive view on global equity markets.

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.

Despite the volatility in equities in February, our view remains that we should overweight equities over fixed income. The February correction at this stage fits the parameters of a bull market correction which can occur frequently in the midst of a bull market. In the bull market from 2003 to 2007 there were 7 bull market corrections and in each case equity markets were setting new highs again within 2 months. 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 28 February 2018 unless otherwise stated.

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