Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	0.5	1.9	6.0	8.3	17.4	30.2
MSCI World	0.3	1.1	5.0	6.9	16.5	31.5
MSCI Emerging Markets	2.3	7.6	14.8	20.6	24.6	17.9
MSCI USA	0.4	1.1	2.6	5.2	15.9	42.2
MSCI Canada	0.2	5.6	2.8	1.6	12.7	0.6
MSCI Europe	-0.1	0.1	12.2	12.0	19.4	17.2
MSCI Japan	-0.1	1.1	3.8	5.3	13.4	33.8
MSCI Australia	0.2	5.7	2.8	8.0	18.5	11.6
MSCI AC Asia Ex-Japan	1.4	6.6	16.1	23.2	24.8	29.7
MSCI Latin America	4.7	12.0	8.8	17.3	22.6	-7.3
MSCI EMEA	4.5	6.2	10.5	9.2	21.8	3.3

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 August 2017.

The MSCI AC World Index rose in August with the emerging markets (EM) outperforming developed markets (DM). In the developed markets, the US stocks extended their climb, shrugging off concerns of tensions surroundings North Korea. Within the EM, Latin American and Eastern Europe, the Middle East and Africa (EMEA), outperformed while Asia ex-Japan lagged.

The energy sector was the worst performer with weakness stemming from speculation that an abundant oil supply would weigh on the market. Other sectors in the red were consumer discretionary, financials and telco. Consumer staples also underperformed. Information technology and healthcare continue to lead rallies globally across markets.

US equities inched higher in the month despite the departures of senior executives in the White House business advisory groups. The manufacturing factory gauge rebounded to a six year high of 58.8 in August easing fears on slowdown. On the other hand, Europe retraced as investor sentiments turned negative on the back of a stronger Euro. This purchasing managers' index (PMI) moved higher to 57.4 while the German IFO business confidence index was little changed from July. The Eurozone consumer price index (CPI) saw a 1.5 % year-on-year increase for the month.

Australian equities underperformed the Asia Pacific index as the ASX 200 fell, mainly dragged down by the telco sector. The reporting season in August for companies was dismal as earnings disappointed against expectations. On the hand, retail sales grew despite consumer confidence declining.

The Japan market also retreated for the month as second quarter growth was revised downward with a lower reading on business investment. On the other hand, data for GDP showed the country was on the way to the longest run of economic expansion since 2001. Economic data was mixed as industrial production slowed while retail sales rose more than expected during the summer months.

Eastern Europe, Middle East and Africa (EMEA) markets outperformed the benchmark with second quarter growth coming in stronger than forecasted for Poland, Czech Republic, Romania and Bulgaria. Over in Latin America, an improving sentiment in Brazil lifted the Ibovespa amid a more stable political scenario paving the way for a reform agenda.

Performances within the ASEAN region were mixed. The Thailand market which had lagged in previous months rallied in August on net foreign buying and stronger than anticipated growth numbers reported for the second quarter. Indonesia retraced in the month as the 16th economic policy package in a bid to facilitate business activity

Global Equity

and lure more investment to the country was delayed. Malaysia outperformed with headline GDP growth surprising on the upside. In Manila, the central bank governor indicated he was comfortable with a weaker currency against a rally of Asian emerging market currencies year to date. Singapore markets were dragged lower with all sectors booking losses as economists forecast slower manufacturing growth for the city-state.

Outlook and Strategy

Across regions, we maintained our neutral position in both DM and EM. This is largely due to our expectations of a range bound US dollar which should ease investor concerns regarding capital outflow from the latter region. Trump's rhetoric on global trade protectionism could continue to be an overhang on the EM region although the rhetoric more recently seems to have rescinded.

Within DM, we are now neutral on the US on valuation. However, we expect earnings growth to pick up again with improving economic conditions. Meanwhile, the tightening labour force will result in higher wage inflation but the higher disposable income along with lower gasoline prices will support the retail sector, which remains a larger part of the economy. We retain the view that the economy remains on a strong recovery trajectory, and the US remains attractive for selective value plays.

We have an overweight position in Europe on the back of further economic recovery. A weaker euro has helped to lift confidence and boost economic activities. The region also has significant operating leverage to an upturn in economic activity with profit margins currently at trough levels. The backdrop of increasing geopolitical risks in the region appears to be subsiding and this would remove any overhang on the region. However, we are watchful of any further strengthening of the Euro which could possibly derail the recovery of the region.

Concerns in Japan continue to linger. Economic data remains mixed but we believe that the Bank of Japan (BoJ) will remain accommodative, which would help to support the market. Despite disappointments on policy and the anaemic economic backdrop, there are some positive developments in corporate governance and corporate performance. A weak Yen also should be beneficial to the exporters and corporate earnings. However, we remain sceptical about any structural improvement in the economy in the longer term and hence we have an underweight position in Japan.

We retain EM on neutral as we are seeing selective value plays within the region. Challenges are expected to persist due to domestic imbalances and the build-up of excess credit in the period following the global financial crisis. The slowdown in China continues to weigh heavily on the demand and prices of resources. The abrupt shift in the resources sector has dampened investments and growth in much of the developing world. We believe that EM still presents good multi-year opportunities from a structural and macro standpoint but challenges from a cyclical standpoint remain. Growth is falling short of expectations and corporate earnings could face further downward pressures unless productivity levels can continue to rise. There are interesting bottom-up opportunities and stock selection is increasingly critical.

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