Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	3.9	3.8	6.4	0.5	-1.9	27.2
MSCI World	3.8	3.6	5.6	-0.2	-1.8	29.9
MSCI Emerging Markets	4.6	5.1	12.9	6.1	-2.4	5.5
MSCI USA	3.3	5.8	7.1	1.9	2.9	44.2
MSCI Canada	2.7	0.2	14.9	12.5	-0.7	5.4
MSCI Europe	3.8	-1.2	-0.2	-6.1	-11.4	10.0
MSCI Japan	6.8	4.0	3.6	-4.0	-4.9	22.1
MSCI Australia	7.5	6.0	15.1	5.7	3.6	15.8
MSCI AC Asia Ex-Japan	4.4	6.1	9.5	1.7	-3.2	16.3
MSCI Latin America	5.1	4.7	31.1	25.7	4.5	-12.7
MSCI EMEA	5.2	0.4	16.2	11.9	-6.4	-8.7

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 29 July 2016.

The MSCI AC World Index rose in July 2016 with the emerging markets (EM) outperforming developed markets (DM). Within DM, only Japan outperformed while the US market underperformed and Europe was in line. In the EM, Latin America (LATAM) and Eastern Europe, Middle East and Africa (EMEA) markets outperformed mainly on the back of a strong rally in Brazil and Hungary while Asia ex-Japan underperformed.

Materials and technology were the best performing sectors as investors turned bullish on the back of better than expected economic data which showed that contagion risks of Brexit was largely limited to the UK. Other cyclical sectors such as consumer discretionary also rallied hard in the month. On the other hand, defensive sectors such as telecommunications, consumer staples and utilities underperformed as investors rotated out of these sectors. The energy sector also underperformed as oil prices retreated on the back of increased anxiety with the building up of gasoline and crude inventory despite US crude production continuing to decline.

The US market underperformed the broader market though economic data was better than expected. The Purchasing Managers' Index (PMI) moved lower with a reading of 52.6 in July but was better than market expectations. Retail sales also came in above expectations while labour and housing markets continued to improve although at a slower pace.

Europe outperformed the global index as economic data came in better than expected showing Brexit contagion risks largely limited to Britain. The Eurozone manufacturing PMI moved lower to 52.0 which was better than market expectations while the German IFO business confidence index ticked down marginally to 108.3. Meanwhile, the Eurozone consumer price index (CPI) improved marginally to 0.2% in June.

The Japan index outperformed the other regions as investors were hopeful of more quantitative easing measures from the Bank of Japan (BOJ) as the yen strengthened with the Brexit outcome. 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.

Global Equity

EM performance was strong in the month with LATAM and EMEA outperforming Asia ex-Japan. Within LATAM, Brazil continues its strong rally on the back of a Presidential impeachment trial being passed by Congress. In Asia ex-Japan, performance across various regions was mixed. The top performers were Thailand followed by Hong Kong while Malaysia and Singapore were soft on energy prices and energy related corporate insolvency in the latter.

Outlook and Strategy

In terms of our 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 comparison basis. Valuations are fair but we believe earnings could surprise on the upside with a 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. In Europe, we think 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 inflows 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; valuations are also less supportive than before and earnings revisions are turning negative with a strengthening yen. Overall, we believe the market should continue to 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 increasing affluent consumers, 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 expectation that the US Federal Reserve will eventually increase interest rates 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 flows and proven track records.

All statistics quoted in the write-up are sourced from Bloomberg as at 29 July 2016 unless otherwise stated.

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