Global Equity

Equities	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC World	1.8	3.0	10.3	2.2	4.1	32.1
MSCI World	1.5	2.2	9.3	1.3	3.6	34.7
MSCI Emerging Markets	3.9	10.9	19.1	10.3	8.3	11.5
MSCI USA	1.5	3.1	10.3	3.5	8.0	50.5
MSCI Canada	1.9	3.2	14.4	14.7	4.1	8.1
MSCI Europe	2.1	-1.0	5.2	-4.1	-5.8	13.5
MSCI Japan	1.8	3.1	9.9	-2.3	-0.2	27.2
MSCI Australia	-0.7	4.9	16.4	4.9	11.4	12.7
MSCI AC Asia Ex-Japan	4.8	10.3	17.4	6.6	9.3	23.7
MSCI Latin America	2.1	17.2	30.6	28.3	15.8	-8.1
MSCI EMEA	-1.3	5.2	13.9	10.4	-3.3	-8.1

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

The MSCI AC World Index rose in August with the emerging markets (EM) outperforming developed markets (DM). Within DM, Europe outperformed while the US market underperformed. In the EM, Asia ex Japan outperformed on the back of strong capital inflows into the region while Latin America (LATAM) and Eastern Europe, Middle East and Africa (EMEA) markets underperformed on profit taking.

Financials and technology were the best performing sectors as investors rotated into cyclical sectors at the expense of defensive sectors. The energy sector also outperformed as oil prices gained on the back of increased expectations that the September Organisation of the Petroleum Exporting Countries (OPEC) meeting will achieve some success with production curbs. Unsurprisingly, defensive sectors such as Utilities, Telecommunications and Healthcare sectors underperformed in the month of August.

The US market underperformed the broader market as economic data came in lower than expectated. The Purchasing Managers' Index (PMI) moved in to contractionary mode with a reading of 49.4 in August against 52.6 in July. Retail sales also came in below expectations while labour and housing markets continued to improve although at a slower pace.

Europe outperformed the global index despite mixed economic data. The Eurozone manufacturing PMI moved lower to 51.7 but was in line with market expectations. Retail sales came in below expectations while the German IFO business confidence index ticked down to 106.2 from 108.3 in the previous month. The Eurozone consumer price index (CPI) was stable at 0.2% in August.

The Japan index was roughly in line with the other regions as the market continues to be supported by government buying through exchange traded funds (ETFs). 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 strong in the month with Asia ex Japan outperforming LATAM and EMEA. . In Asia ex-Japan, performance across various regions was mixed. The top performers were China followed by Thailand while Philippines was softer on investors' concerns on the newly elected president's prosecution of drug traders. Singapore was also lower on the back of energy related corporate insolvency issues. Within LATAM, Brazil continues its strong rally on the back of a Presidential impeachment trial being passed by Congress.

Global Equity

Outlook and Strategy

In terms of equity asset allocation, we have neutralised our position in 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 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. 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 inflow, 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 be supported by favourable monetary conditions.

Within the emerging world, we are overweight 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 continue to 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 record.

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

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