

# Global Monthly Outlook

## Global markets embraced the first round of French presidential election

May 2017 (covering April 2017)

Index	April	YTD
MSCI World	USD 1.5%	8.2%
S&P 500	USD 1.0%	7.2%
MSCI Europe	EUR 1.8%	8.0%
MSCI Asia Pac ex Japan	USD 1.6%	14.6%
Hong Kong Hang Seng	HKD 2.1%	12.5%
Shanghai Composite (A-shares)	CNY -2.1%	1.6%
Hang Seng China Enterprises (H-shares)	HKD -0.5%	8.8%
Topix	JPY 1.3%	1.9%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as at 30 April 2017. YTD refers to year-to-date.

### Global Outlook

Markets globally responded positively to the first round of the French presidential election. Coupled with positive – albeit moderate – economic growth, the MSCI AC World index extended its run of positive performances in April.

With monetary policy on hold across the globe, past efforts of loose policies are feeding through to lift growth conditions. However, the uncertainty over policies and structural matters may keep markets somewhat volatile. In terms of regional allocations, we continue to favor developed markets over emerging markets.

### United States

- US equities were somewhat volatile as the Fed revealed its intention to start unwinding its sizable balance sheet later this year, but with encouraging corporate earnings releases and Trump announcing its tax reform plans, US equities ended the month in a positive note.
- US equities continue to be favored given the underlying strength of the US economy. The pace of growth remains positive with limited signs conditions will weaken. The US should still be able to remain the driver of growth and one of the few countries able to tighten.

### Europe (including UK)

- European equities rallied in relief following the first round of the French presidential election. Sterling rose strongly against the US dollar with the announcement of a snap general election.
- European markets' macro conditions are improving but the outlook remains unclear given the series of political elections. The French election shed some light on the German election later in the year but it will still need to be closely monitored. Structural headwinds surrounding Brexit, as well as high levels of excess leverage and negative geopolitical developments, are likely to constrain growth in the region.

### Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity markets generally had a positive month in April, with some stronger-than-expected economic data helping brush off concerns over geopolitical issues in Europe and North Korea.
- While fundamentals appear to be improving across the region, markets remain vulnerable to global developments. Monetary policies appear to be on hold while greater fiscal measures are limited to select economies. The region needs to address the potential headwinds from excess leverage and capacity at home that will constrict domestic demand.

### Hong Kong and Mainland China (A-shares and H-shares)

- China's quarter one GDP growth was slightly better than expected. Diminishing fears on capital outflows and RMB depreciation were offset by concerns over policy tightening. Banks performed poorly as regulators tightened restrictions on shadow banking.
- In China, consumer prices are starting to trend higher as demand strengthens, but a number of challenges such as rising non-performing loans in the banking sector and high corporate leverage may weigh on growth. In Hong Kong, economic conditions continue to be influenced by developments overseas and in China.

### Japan

- Driven by the strengthening yen amid heightened geopolitical risk and uncertainty surrounding the French presidential election, Japanese equities finished the month slightly higher after a disappointing start.
- Companies are still focusing on cleaning up their balance sheets, where progress continues to be gradual. The loose monetary policy is likely to continue for some time, but the yen currency is more driven by developments overseas which will likely limit the yen's depreciation and imported inflation.

### Fixed Income

- Political uncertainties weighed on bonds in the first half of April, but sentiment improved in the second half amid reports of relatively strong corporate earnings and a more market-friendly outcome to the French presidential election.
- Global government bonds are likely to face some headwinds from stepped up fiscal spending globally and cyclical recovery emerging as a result of more aggressive accommodative policies.

### Emerging Markets

- Emerging equity markets edged past their counterparts in the developed world for the fourth consecutive month. Technology and consumer discretionary performed well, while materials and utilities were the only sectors that ended in negative territory.
- Given the challenges China (the largest emerging market) faces, the outlook for commodity-exporting emerging economies will remain mediocre at best through 2017.

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