

MONTHLY REVIEW: NOVEMBER'S TRUMPCARD

December 2016

Trump's election victory took most of the headlines and impacted markets in a large way. Developed market Equities surged while Bonds sold off as investors bet on Trump's possible inflationary policies. Oil prices jumped at the end of the month as production curbs became a possible reality. The US Dollar rose supported by stronger economic data and a possible Fed rate hike. Global PMIs are synching upwards.

EQUITY

- Donald Trump and the Republicans secured the US Administration by a convincing margin, prompting investors to drop Bonds in favor of Equities. US Equity markets were led by cyclicals, banks, mid and small caps.
- European Equities underperformed as investors blighted by the then-up-coming Italian referendum and its associated banking sector risks.
- Emerging markets underperformed as the US Dollar strengthen.
- In Asia, Equities were weaker on concerns of a stronger US Dollar. Chinese Equities gained on higher yield expectations and a weaker Yen boosted Japanese Equities in local currency, while Indian Equities had a volatile week amid continued concerns over the demonetization impact.

FIXED INCOME

- 10 Year UST yields rose 53 basis points over the month on inflationary belief and an impending Fed rate hike. Yields in other major Bond markets also rose in tandem.
- US high yield initially declined as Equities and energy was lackluster. However, it ended the month outperforming similar duration US treasuries as Trump's election resulted in increased market expectations in regards to economic growth and inflation.
- The Asian USD Bond market in November (represented by the JP Morgan Asia Credit Index) turned its largest month-on-month decline over the year. The sharp rise in US Treasury yields was the key driver of negative returns in the Asian USD Bond market as overall Asian credit spreads closed the month moderately lower.

COMMODITIES

- The oil price rallied sharply on the last day of the month as OPEC and Russia finally agreed to cut production for the first time since 2008, in an effort to support prices.
- The gold price was also impacted by the 'Trump reflation trade', falling heavily during the month.
- Base metals which are used in manufacturing, construction and production, continued to surge as copper was the best performing commodity during the month, rising almost 20%. Iron ore ended the month more than double digits up.

Fig.1. Equity Indices Performance in USD (%)

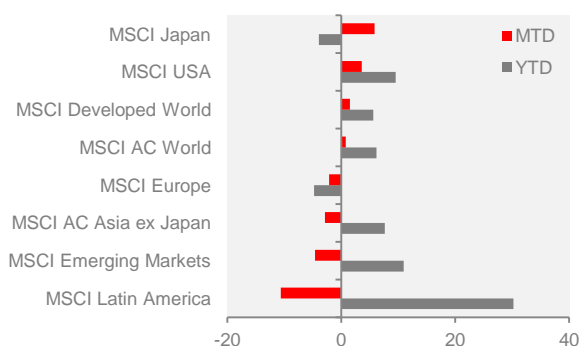


Fig.2. Bond Indices Performance in USD (%)

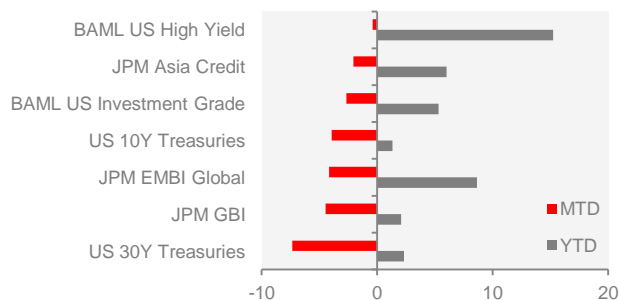
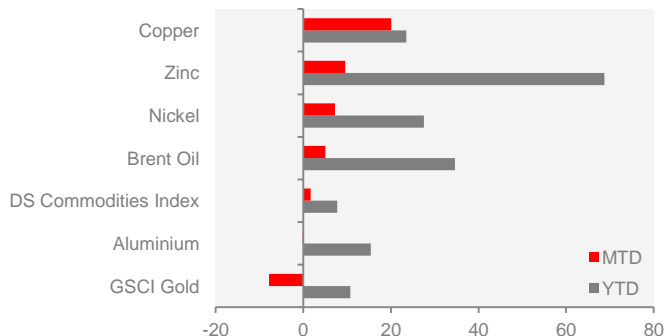


Fig.3. Commodities Performance in USD (%)





CURRENCIES

- ▶ The US Dollar surged against most major currencies, propelled both by the Trump Presidential win and rising interest rate expectations.
- ▶ The Chinese Yuan continued to weaken, hitting its lowest level against the US dollar since June 2008.
- ▶ The British Pound rallied strongly while the Japanese Yen and Euro weakened.
- ▶ EM currencies depreciated against the US dollar as Trump's victory raised concerns of outflows from EM Bonds amid uncertainties surrounding US fiscal, monetary and trade policies.
- ▶ The Korean Won was noticeably weaker as investors grew nervous over the uncertainty surrounding the on-going presidential political scandal.

ECONOMICS

- ▶ U.S. economic data released during the month was almost uniformly strong. The ISM index for both manufacturing and non-manufacturing remained strong. Payroll figures rose while unemployment rate fell. Retail sales also rose as the prices of homes also increased. Actual GDP for Q32016 was also revised up to a stronger than expected 3.2% growth from the year before.
- ▶ Chinese manufacturing PMI's beat expectations with the October print stronger than expected. Industrial production rose while house prices also gained double digits from a year ago.
- ▶ European flash PMIs for November were well over 54. The Euro area Markit manufacturing PMI came in at 53.7 in November. In addition, German unemployment fell to a record low of 6.0%.

CENTRAL BANKS

- ▶ US FOMC minutes indicated that an interest-rate increase was possible "relatively soon" if incoming data continued to show an improving economy.
- ▶ ECB's Mario Draghi commented that the current monetary support is still needed to sustain the recovery in Europe and boost inflation. At the time of writing (14 December), the central bank's decided to extend quantitative easing to the end of 2017 but reduce monthly purchases to €60bn next April from €80bn.
- ▶ Mexico raised the benchmark rate by 50 basis points in an effort to shore up the country's currency, which has collapsed following Donald Trump's election as US president.
- ▶ Brazil cuts SELIC Rate by 25 basis points in hopes of reviving inflation as the country continues to remain in recession.
- ▶ In Asia, the Chinese central bank injected liquidity to counter seasonal demand for funds and weakness in the Chinese currency. While Indian monetary authorities withdrew the legal tender status of ₹ 500 and ₹ 1,000 denominations of banknotes of the Mahatma Gandhi Series in a move to counter black money and curb terrorism.
- ▶ The Bank of Japan in November offered to buy unlimited Bonds for the first time under a revamped policy framework. They were also countering a surge in domestic Bond yields following upwards moves in US treasuries.

Fig.4. Currencies Performance versus USD (%)

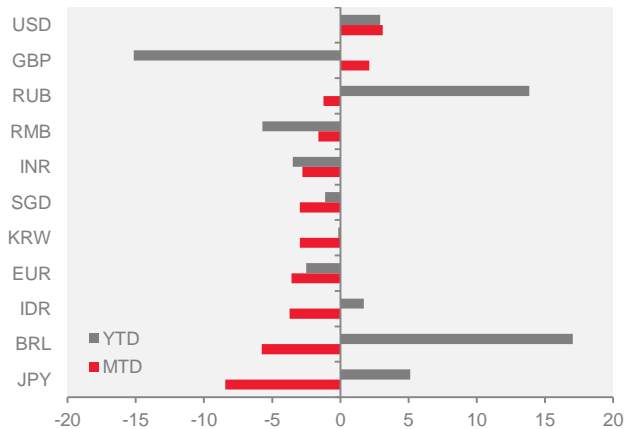


Fig.5. Global Leading Indicator

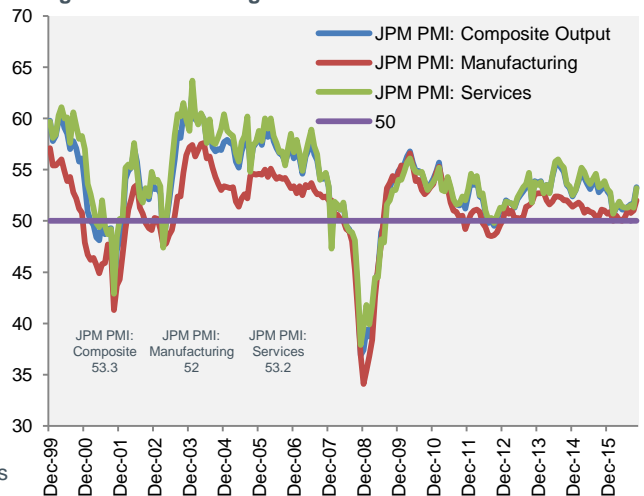


Fig.6. Central Banks Interest Rate (%) (Upper Band)

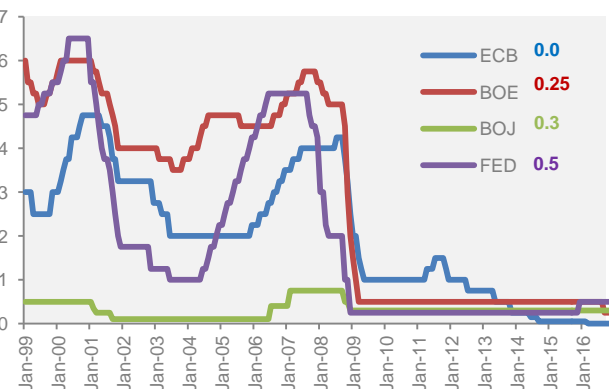




Fig.7. Key Regional Price to Earnings Valuations (x)

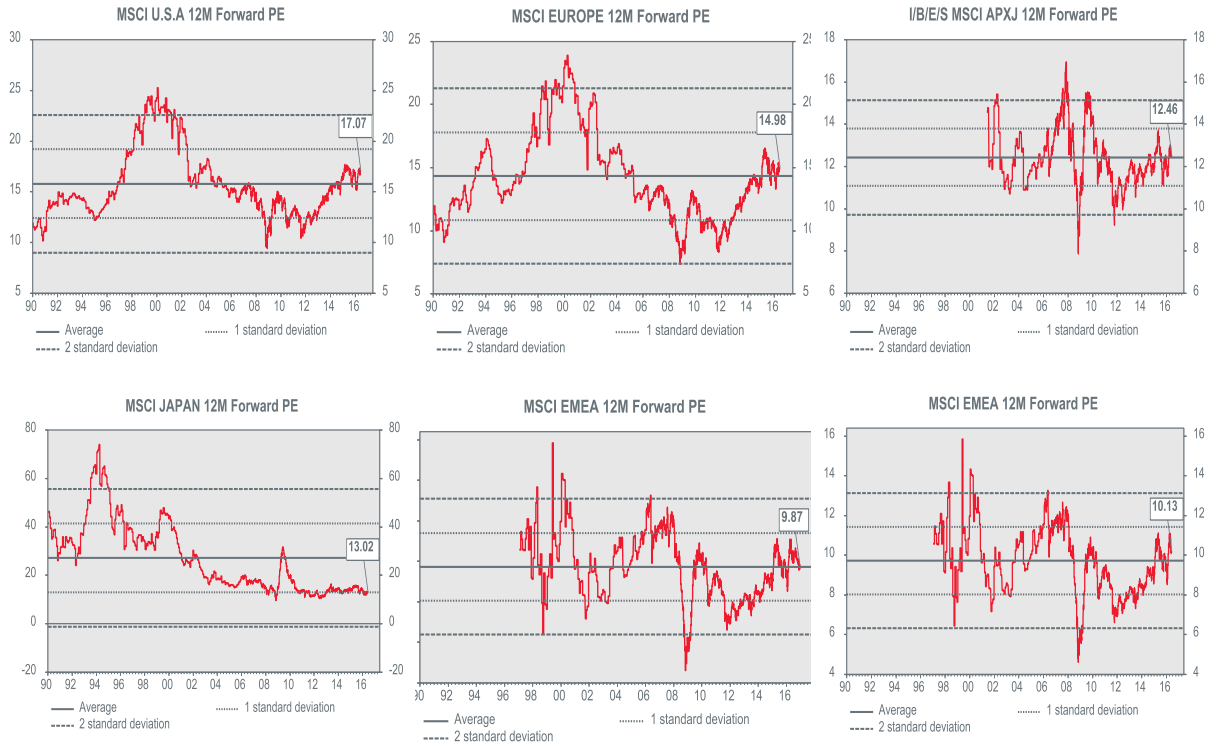
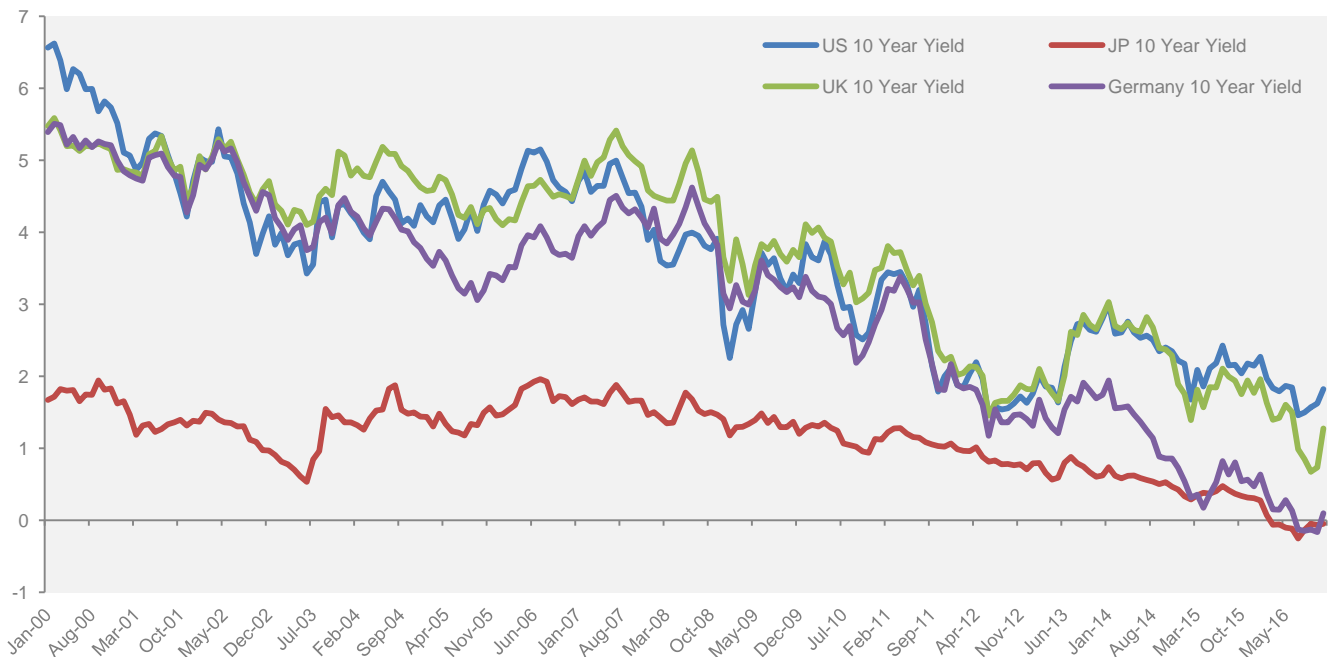


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 November 2016. For representative indices and acronym details please refer to notes in the appendix.

**KEY TERMS**

CA	Current Account
CBR	Central Bank of Russia
COPOM	Central Bank of Brazil
CPI	Consumer Price Index
DM	Developed Markets
ECI	Employment Cost Index
EM	Emerging Markets
EM Currencies	MSCI Emerging Markets Currency Index
EM Equities	MSCI Emerging Markets Index
EM Local Currency Bonds	JP Morgan Emerging Local Currency Bond Index
EM USD Bonds	JP Morgan Emerging Market Bond Index
EMU	European Monetary Union
EU	European Union
Fed	The Federal Reserve Board of the United States
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
Global Developed Equities	MSCI Developed Markets Index
Global Equities	MSCI All Country World Index
Global Government Bonds	Citigroup World Government Bond Index
IP	Industrial Production
M2	M2 Money
mom	Month on month
PBoC	Peoples Bank of China
qoq	Quarter on quarter
Repo	Repossession
SDRs	Special Drawing Rights
SELIC	Sistema Especial de Liquidação e CU.S.todia (SELIC) (Special Clearance and Escrow System)
Tankan	Japan Large Business Sentiment Survey
TSF	Total Social Financing
UK	United Kingdom
y/y	Year on year

REPRESENTATIVE INDICIES

Aluminum	S&P GSCI Aluminum Index
Asia Local Bond (ALBI)	HSBC Asia Local Bond Index
Brent Oil	Cash settlement price for the InterContinental Exchange (ICE) Brent Future based on ICE Futures Brent index
Commodities	Datastream Commodities Index
Copper	S&P GSCI Copper Index
EMU 10 Year	Datastream EMU 10 Year
Global Emerging Bond	JPM Global Emerging Bond Index
Gold	S&P GSCI Gold Index
Japan 10 Year	Datastream Japan 10 Year
JACI	JP Morgan Asia Credit Index
MSCI Dev World	MSCI Developed Markets Index
MSCI EM	MSCI Emerging Markets Index
MSCI Europe	MSCI Europe Index
MSCI Japan	MSCI Japan Index
MSCI Latam	MSCI Latin America Index
MSCI Russia	MSCI Russia Index
MSCI U.S.	MSCI U.S. Index
MSCI World	MSCI All Country World Index
Steel (HRC)	TSI Hot Rolled Coil Index
UK 10 Year	Datastream UK 10 Year
U.S. 10 Year Treasuries	Datastream U.S. 10 Year Treasuries
U.S. 30 Year Treasuries	Datastream U.S. 30 Year Treasuries
U.S. High Yield	BAML U.S. High Yield Constrained II
U.S. Investment Grade	BAML Corporate Master
DXY	U.S. Dollar Index
Zinc	S&P GSCI Zinc Index



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