

MONTHLY REVIEW: DECEMBER RIDES THE TRUMP TRAIN

January 2017

Optimism over a pro-growth, pro-business US government spurred developed market equities. The US Fed moved short term interest rates higher and the US dollar strengthened. Oil rallied as OPEC and Non-OPEC agreed on production cuts. Global economic indicators continued to look up while Chinese money market liquidity concerns weighed on North Asia.

EQUITY

- Developed markets outperformed emerging markets in December as the "Trump" inspired rally marched on in developed markets. Broad equity indices in the US, Europe and Japan notched gains with the S&P500 and the FTSE100 hitting all time highs.
- Emerging markets eked out positive absolute returns as oil prices rose even as the US dollar strengthened.
- In Asia ex Japan, equities were generally weaker as Chinese equities lagged following the sharp bond market decline after authorities announced more stringent monetary policies. Indian equities also had a volatile month as the impact of demonetisation continued to unnerve investors. Bucking the downward trend, ASEAN equities generally rose, led by Indonesia, Thailand and Philippines.

FIXED INCOME

- Bond markets were less volatile in December than in November. US and Japanese government 10-year bond yields finished the month slightly higher. However, Eurozone and UK government bond yields fell during the month.
- US High Yield bonds rose in tandem with energy prices and a growing belief that the business environment for US high yield issuers will improve under the Trump administration.
- The Asian USD Bond market dipped in December, primarily due to weakness in US Treasuries across the curve. With spreads remaining largely range-bound over the month, performance across sectors was driven mainly by sensitivity to interest rates. Correspondingly, the higher duration investment grade bonds underperformed high yield bonds on the whole.

COMMODITIES

- Oil was the standout commodity during the month, rallying strongly as OPEC and non-OPEC agreed for the first time since 2001 to cut production.
- The gold price fell as investors' risk appetite increased.
- Base metals also fell, with Nickel particularly hard hit on reports that Indonesia's government was drafting regulations that could relax an imminent export ban, increasing global supply.

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

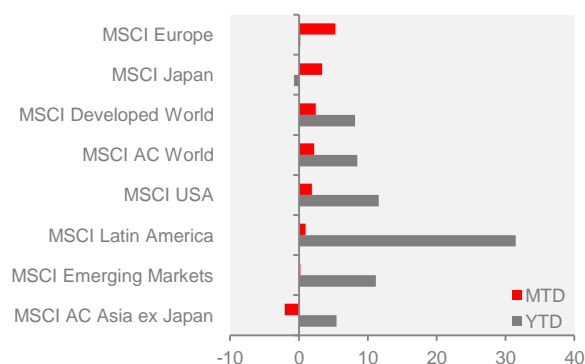


Fig.2. Bond Indices Performance in USD (%)

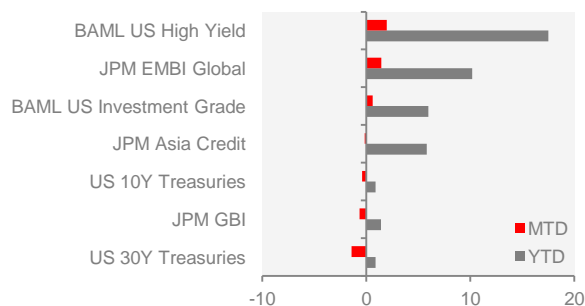
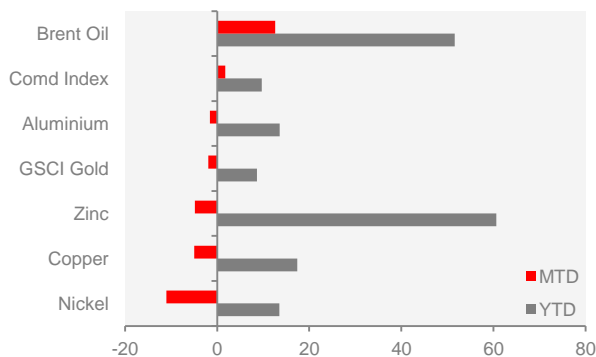


Fig.3. Commodities Performance in USD (%)





CURRENCIES

- ▶ The US dollar strengthened against most major currencies as the US Fed raised short term rates.
- ▶ Oil sensitive currencies like the Ruble and Real rose as oil prices strengthened on a coordinated production cut between OPEC and Non-OPEC.
- ▶ The Chinese Yuan's weakening continued as officials strengthened belief that the Renmimbi (RMB) would be more flexible following a revamp of the RMB currency basket..

ECONOMICS

- ▶ US economic data continued to strengthen as the ISM index for both manufacturing and non-manufacturing rose stronger-than-expected. Payroll data was also strong and the unemployment rate fell to a 9 year low of 4.6%. Housing data, retail sales and industrial production were slightly weaker but corporate and consumer confidence levels remained elevated.
- ▶ European PMI remained in expansionary mode boosted by manufacturing. The German IFO business sentiment index was also sharply higher as domestic factory orders rose. UK inflation for November posted a higher than expected gain and third quarter GDP was restated upwards.
- ▶ In China, manufacturing PMI rose better than expected in contrast to the Caixin manufacturing PMI which fell. Industrial production, producer prices and retail sales were stronger while housing prices rose again across several regions.
- ▶ In Japan, third quarter growth was revised downward to an annual rate of 1.3% from the initial reading of 2.2%.

CENTRAL BANKS

- ▶ As expected, the FOMC increased interest rates by 0.25%, (like it did in December 2015) and furthermore signaled 3 possible rate hikes in 2017.
- ▶ The ECB left its rates unchanged but confused the market slightly as it extended its bond-buying period to December 2017 from the previous March 2017 while reducing the extended period's buying to USD 64 billion from USD85 billion per month.
- ▶ The Bank of England left its interest rates and buying unchanged in the face of rising inflation figures. The BOE said it now predicted a "slightly lower path" for inflation, although it is still expected to overshoot the 2% target next year.
- ▶ Reserve Bank of India kept its rates unchanged (at 6.25%), when many expected a 0.25% cut to assist liquidity in the country.
- ▶ The Bank of Japan held policy rate at -0.1% and 10-year Japanese government bond (JGB) yield rate at zero, as expected.
- ▶ In China, the People's Bank of China has kept in tandem with pledges made during December's Central Economic Work Conference and announced that its monetary policy will remain neutral and maintain sufficient liquidity.

Fig.4. Currencies Performance versus USD (%)

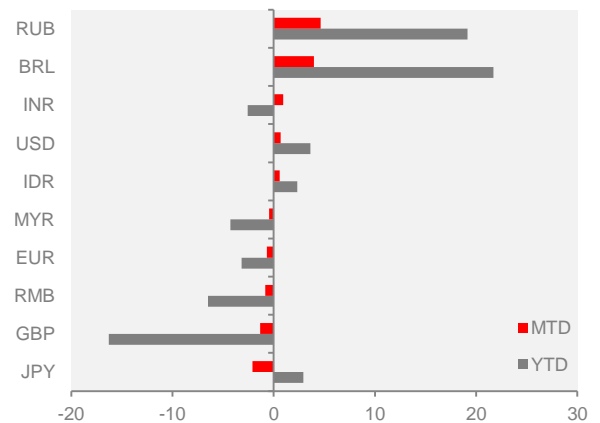


Fig.5. Global Leading Indicator

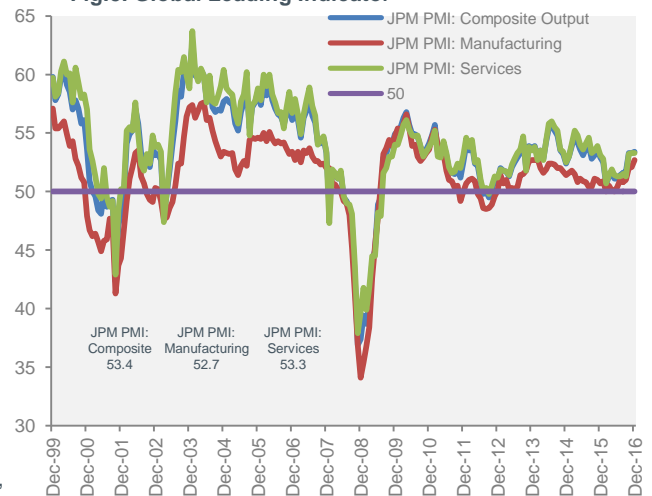


Fig.6. Central Banks Interest Rate (%) (Upper Band)

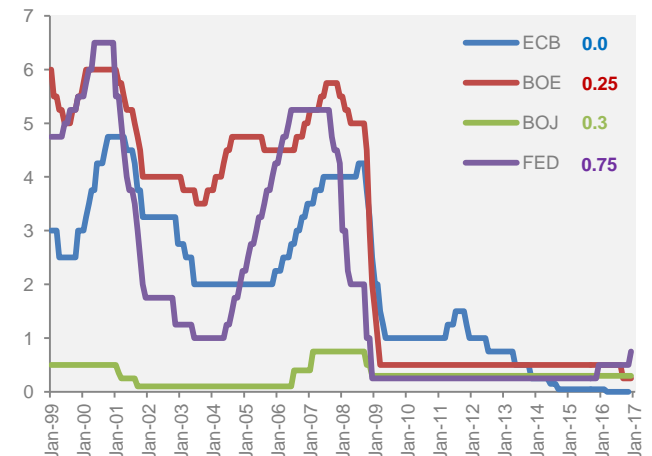




Fig.7. Key Regional Price to Earnings Valuations (x)

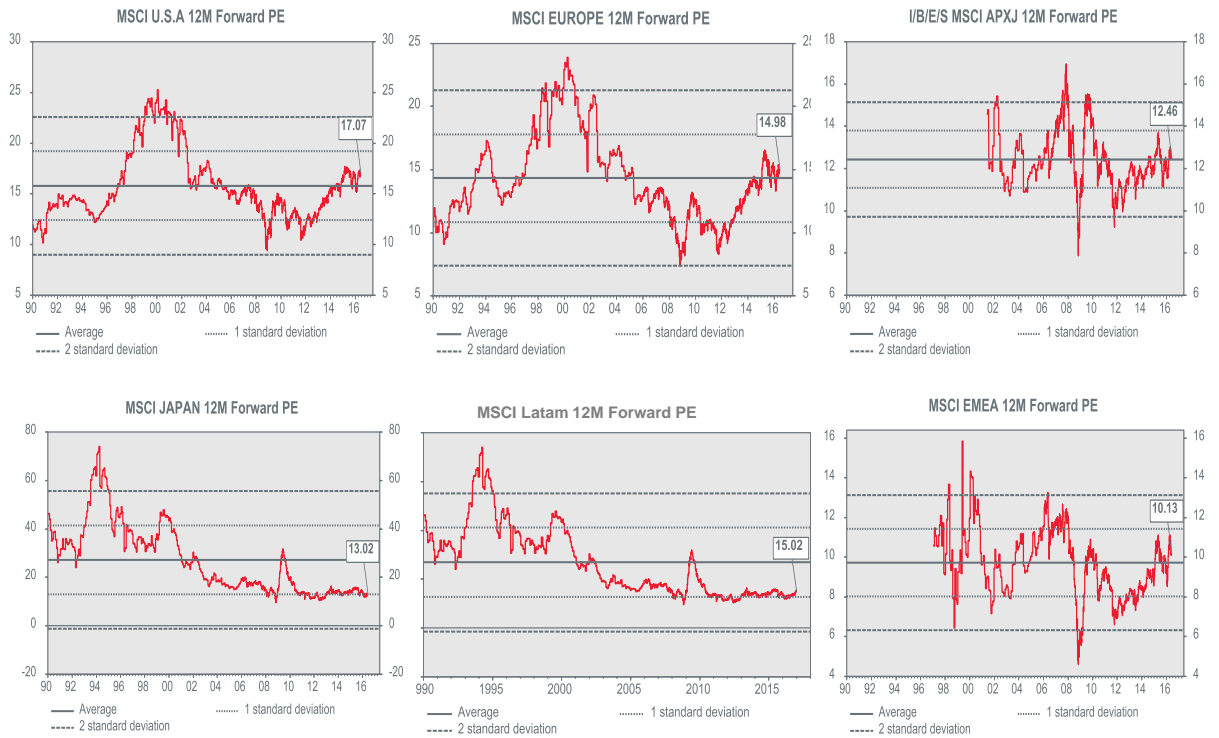
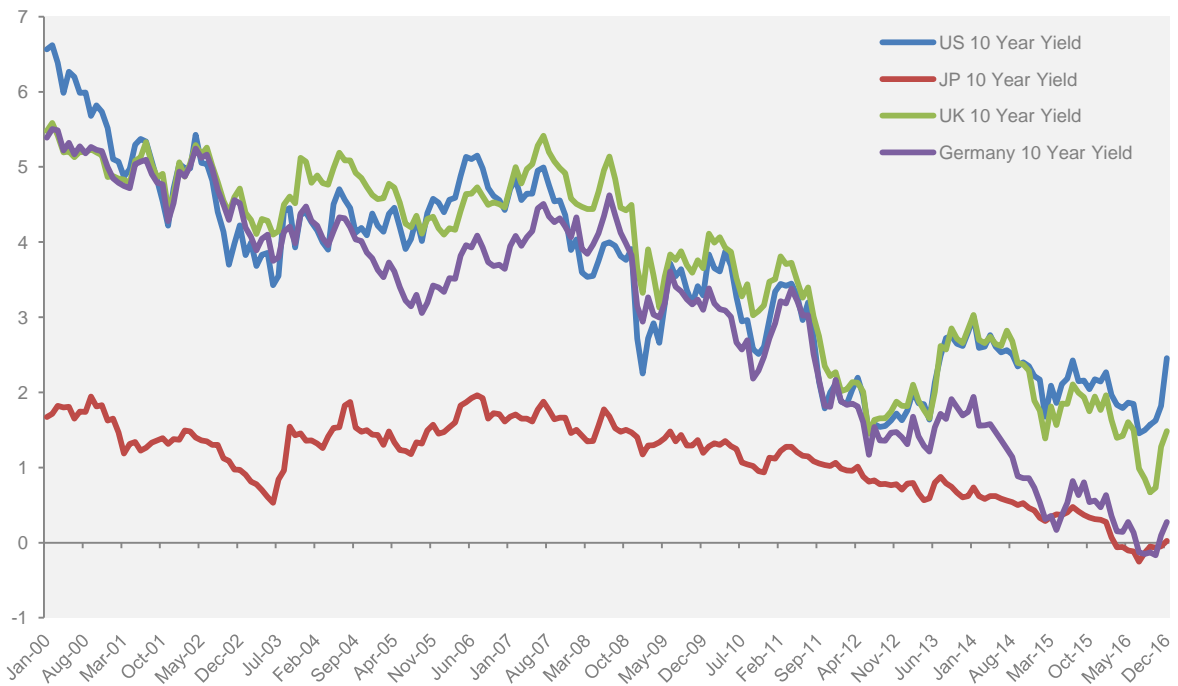


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 December 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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