

MONTHLY REVIEW: THE JANUARY JUMPSTART

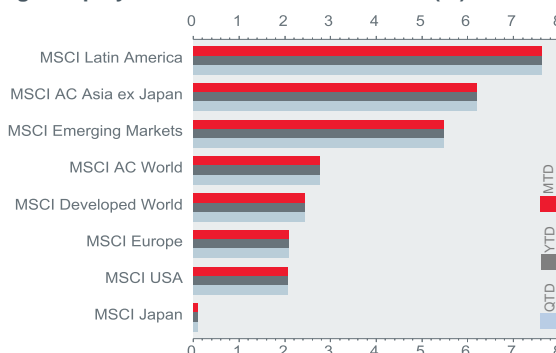
February 2017

Currency and trade banter from the new US administration weakened the US dollar. As a result, emerging market equities surged while developed market sovereign yields continued to rise. Commodities pushed higher in tandem as Gold gained on increasing geopolitical uncertainty surrounding President Trump's executive actions, Brexit discussions and a looming French election.

EQUITY

- Developed markets underperformed emerging markets in January as the "Trump rally" faded. US, Europe and Japan eked out positive gains.
- Emerging markets gained steam on the back of a weaker US dollar and rising commodity prices. A higher-than-expected rate cut in Brazil helped sentiment in Latin America.
- In Asia ex Japan, equities were generally stronger, led by export heavy Korea, Singapore and Hong Kong. In addition to a recovering global economy, earnings in domestic corporates also seemed to be improving. China started strong but remained relatively muted in spite of a reserve rate cut by seasonal liquidity pressure as investors packed up for the Chinese New Year.

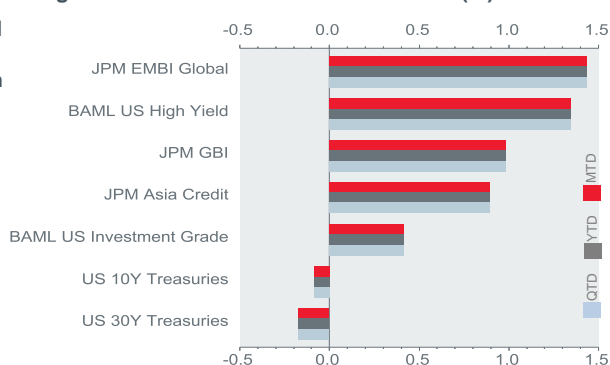
Fig.1. Equity Indices Performance in USD (%)



FIXED INCOME

- As risk appetites rebounded, higher yielding bonds performed better than its sovereign counterparts.
- US 10-year Treasury yield was little changed over the month while European and UK 10-year bond yields rose on strong economic data as well as political uncertainty arising from the upcoming French election and UK exit from the European Union.
- US High Yield bonds benefited from higher oil prices, the prospect of favourable regulatory actions in 2017, fiscal stimulus and strong inflows.
- The Asian USD bond market registered a positive return in January. Tightening spreads was the key driver of positive returns as US Treasury yields ended the month slightly higher than the previous month.

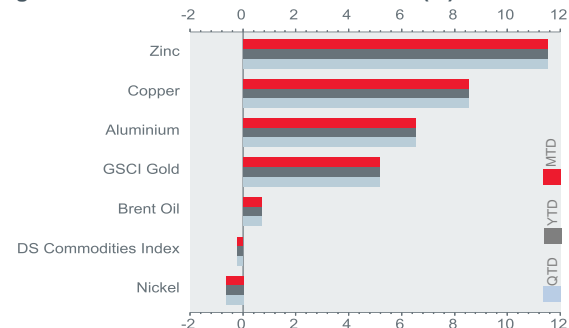
Fig.2. Bond Indices Performance in USD (%)



COMMODITIES

- Commodity prices generally rose over the month, propelled by the continuing 'Trump reflation' refrain and a falling US Dollar.
- Gold price rose on increasing geopolitical uncertainty surrounding President Trump's executive actions, Brexit discussions and a looming French election.
- Rising construction activity meant that base metal prices were strong, although Nickel bucked the trend, due to a partial reversal of Indonesia's ore export ban.
- Oil was volatile as markets weighed OPEC led cuts against rising US output.

Fig.3. Commodities Performance in USD (%)





CURRENCIES

- ▶ US Dollar weakened on comments from the Trump administration that appeared to favour a weaker US Dollar.
- ▶ Resource sensitive currencies like the Brazilian Real, Russian Ruble and Malaysian Ringgit rallied against most major currencies on rising commodity prices.
- ▶ The British Pound gained over the month supported by stronger economic data and increased clarity on Brexit.
- ▶ The Japanese Yen strengthened amid stronger economic data and modest upward adjustment of the 10y target rate by authorities.
- ▶ The Singapore Dollar gained on the back of better-than-expected 2016 growth figures and improving manufacturing conditions.

ECONOMICS

- ▶ US activity indices continued to suggest a strengthening economy. The ISM manufacturing index and non-manufacturing index for December rose stronger-than-expected. The NFIB Small Business Index, industrial production and housing starts for December were also stronger-than-expected. Non farm payrolls and real GDP was slightly weaker.
- ▶ Eurozone economic data appeared to be strengthening as well. The flash CPI estimate for January was stronger-than-expected, real Q4 GDP also printed stronger while unemployment fell to the lowest level since mid-2009.
- ▶ Chinese data was similarly stable as the Markit/Caixin Manufacturing PMI for December rose better-than-expected. The producer price index and the consumer price index both rose all well. Growth in real GDP and industrial production rounded out the good economic data.

CENTRAL BANKS

- ▶ The FOMC notes on the Dec 2016 meeting, in which the FOMC raised the rates for the only time in 2016, revealed the Fed's "considerable uncertainty" over expected future policy.
- ▶ The European Central Bank left its benchmark interest rate and bond-buying program unchanged.
- ▶ Trying to stem a decline in the Lira, Turkey increased its overnight lending rate by 75 bps.
- ▶ The Bank of Japan held policy rate at -0.1% and 10-year Japanese government bond yield rate at zero as expected.
- ▶ A Chinese reserve rate cut at the big 5 banks eased seasonal liquidity in time for Chinese New Year.
- ▶ The Bank of Korea left base interest rate steady at 1.25% in line with expectations and cut its GDP forecast for 2017 to 2.5% from previous projection of 2.8%.
- ▶ Brazil's central bank cut interest rates by 75bp, above market expectations. According to the COPOM the rate move was justified by falling inflation and weaker economic activity. They also indicated that the 75bp pace is likely to remain in place for the next several meetings.

Fig.4. Currencies Performance versus USD (%)

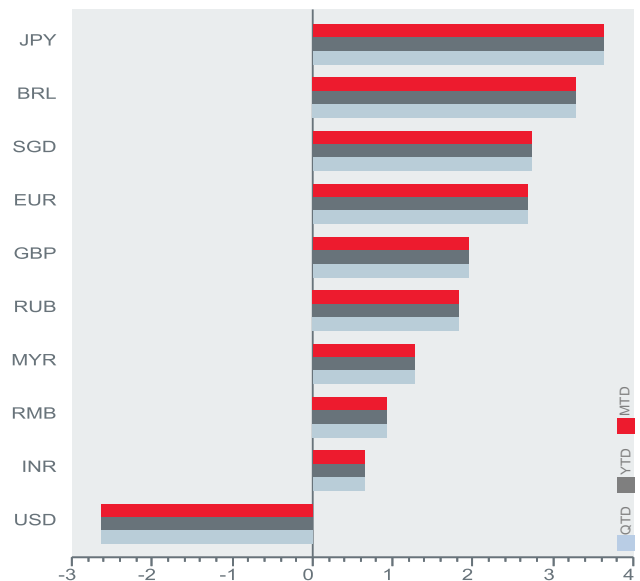


Fig.5. OECD Composite Leading Indicator

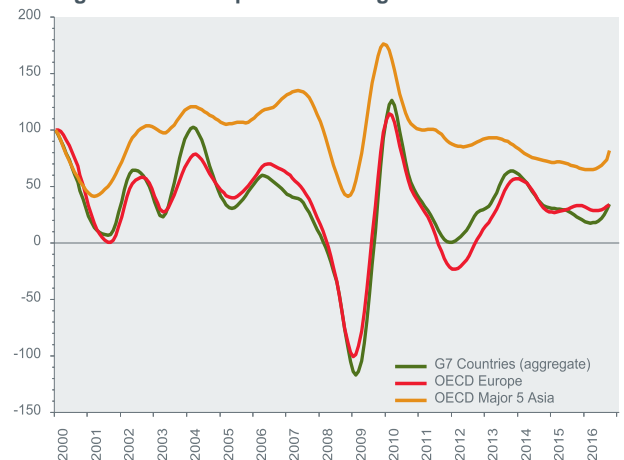


Fig.6. Central Banks Interest Rate (%) (Upper Band)

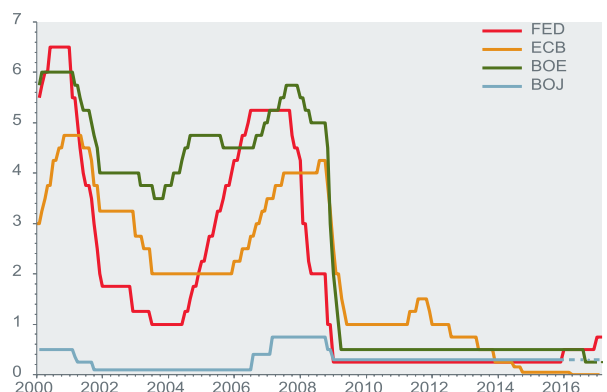




Fig.7. Key Regional Price to Earnings Valuations (x)

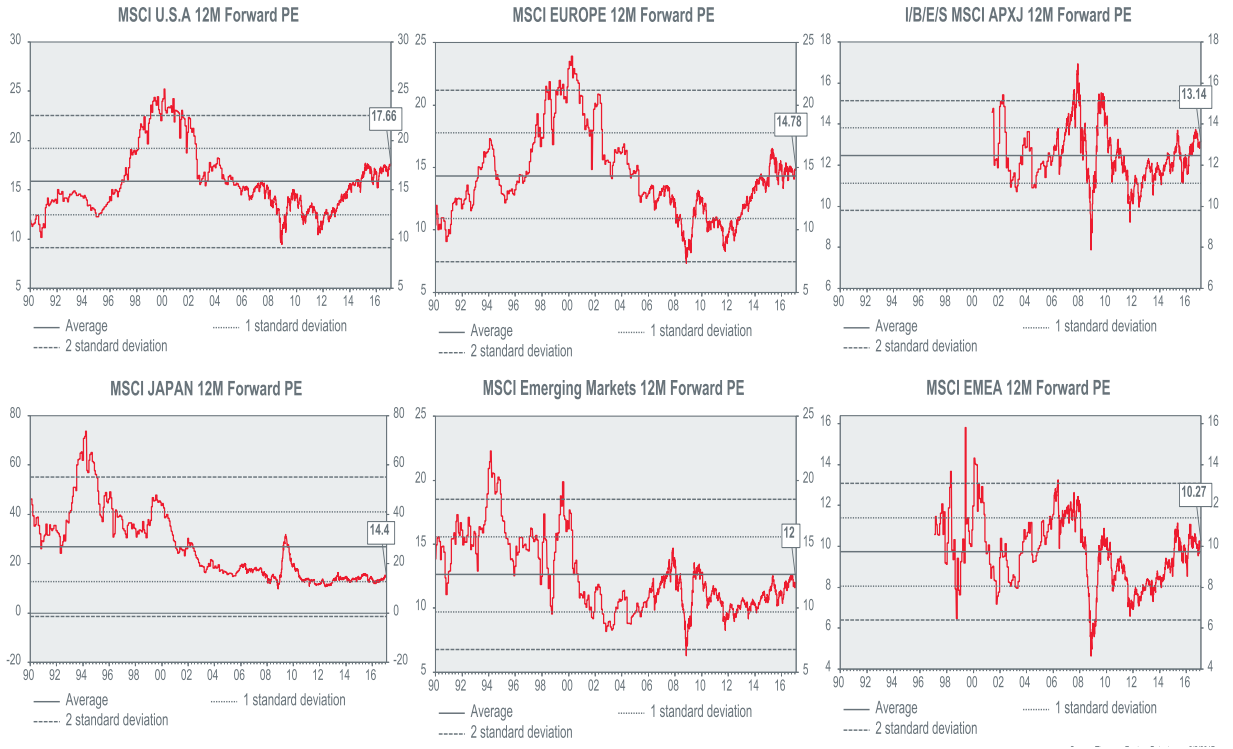
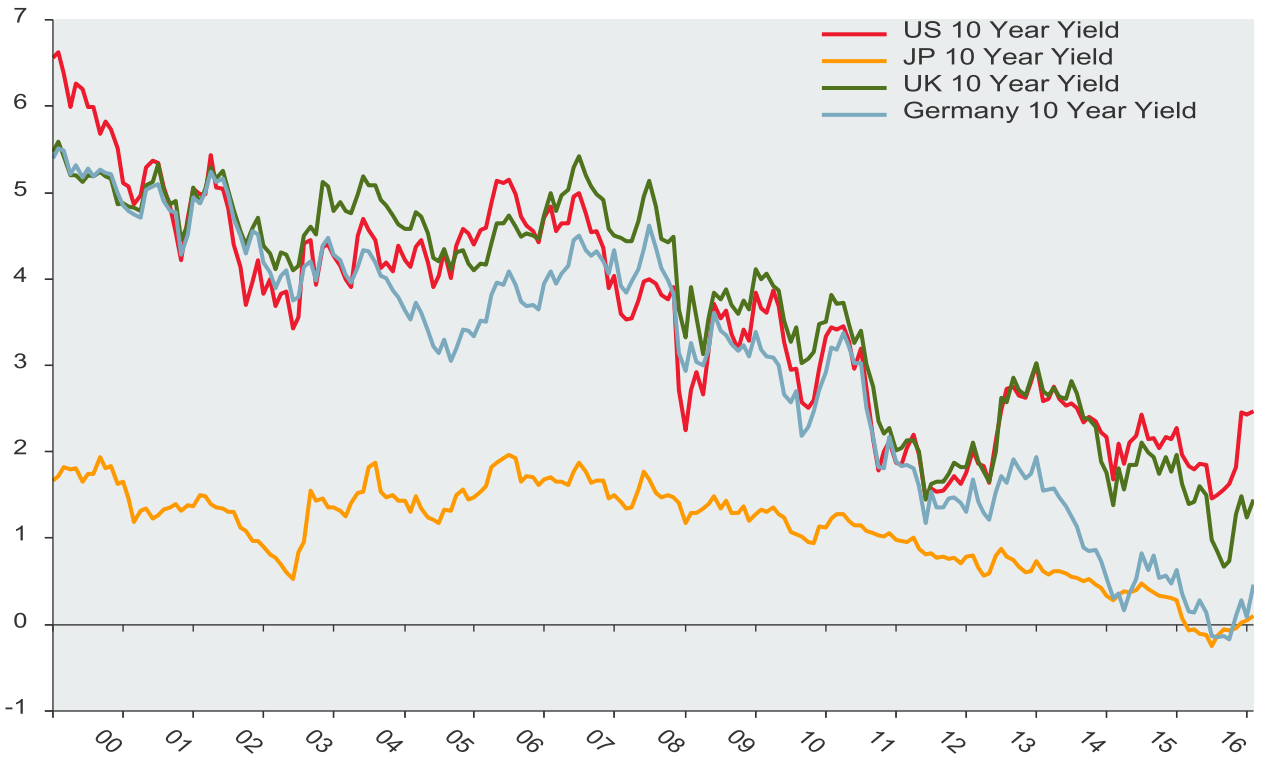


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 January 2017. 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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