

MONTHLY REVIEW: An August plateau

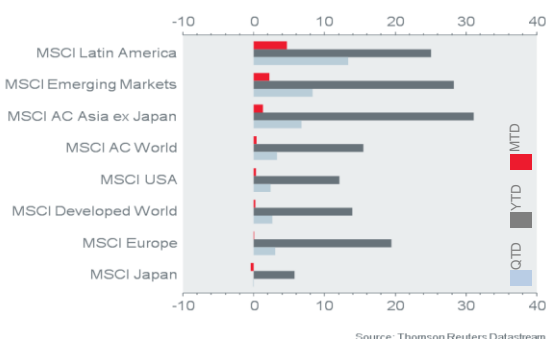
August 2017

Rising political tensions with North Korea, a terrorist attack in Barcelona and a hurricane hitting the oil-refining coast of Texas was not enough to derail global equity markets in August but they did plateau somewhat with many showing only modest gains. Economic data was broadly supportive of equities while the geopolitical worries boosted gold and the Japanese yen.

EQUITIES

- Global stockmarkets were mixed in August with many developed markets rising in the first few days only to give up those gains in the second week, giving way to a directionless second half of the month.
- Generally positive earnings and economic news was offset by rising tensions in Korea, increasing political instability in the US, a terror attack in Barcelona and a major hurricane hitting the Texas coast.
- Emerging Markets outperformed developed markets as measured by the MSCI indices for the eighth month in a row with Peru, Russia and Hungary outperforming other EM markets.
- In Asia, the MSCI Asia Pacific ex Japan index rose 1% to marginally outperform the MSCI AC World Index. Among the sectors to outperform in Asia were China consumer staples, IT and Financial stocks, along with India and Korea materials.

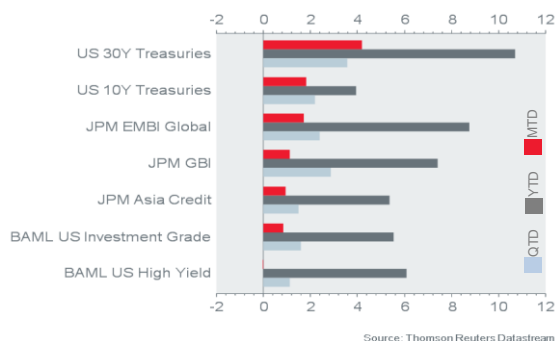
Fig.1. Equity Indices Performance in USD (%)



FIXED INCOME

- Developed market government yields declined during August with US Treasury 10-year yields narrowing from 2.29% to 2.12%.
- Ten-year UK gilt yields fell from 1.23% to 1.03% after the Bank of England said it had restarted its quantitative easing programme and despite talk that interest rates may rise by year end.
- Ten-year Bund yields in Germany eased from 0.54% to 0.36%.
- The Asian USD bond market, measured by JPM Asia Credit Index, rose 0.9% as the region continued to attract high-yield investors. Latin American bond indices outperformed on a more stable economic outlook and commodity picture.

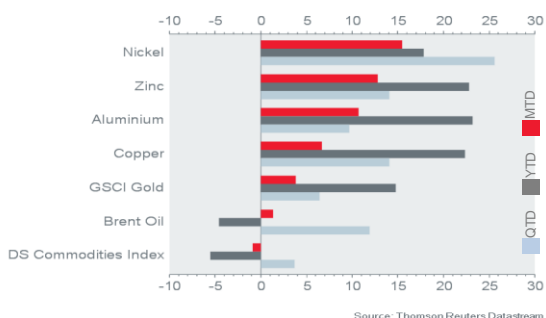
Fig.2. Bond Indices Performance in USD (%)



COMMODITIES

- Oil prices were mixed in August with WTI down but Brent up slightly amid disruption in the Gulf of Mexico caused by Hurricane Harvey. The storm also had a positive effect on gas prices as several fields in the Gulf had to close down ahead of the storm's arrival.
- Iron ore and coal prices also rose strongly on Chinese industrial data. Base metals were the best performing commodity as a falling US dollar and positive industrial production figures from China continued to add support. Nickel, zinc and copper prices all rose.
- Gold rallied on a flight to safety on an increase in geopolitical tensions in north Asia as well as doubts about the US debt ceiling and the slow progress of tax reform in the US.

Fig.3. Commodities Performance in USD (%)

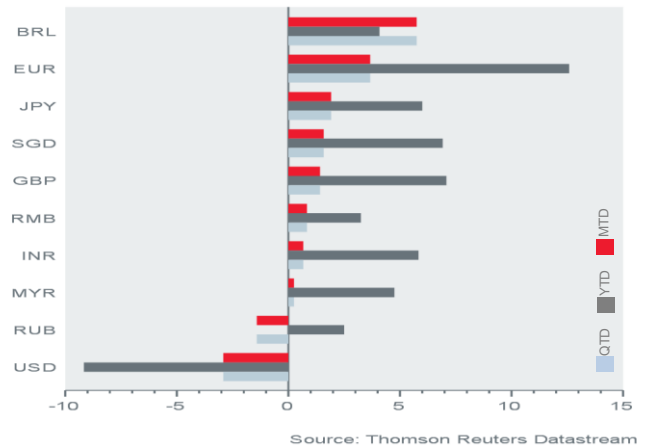




CURRENCIES

- ▶ The US dollar continued its decline in August even amid risk-off episodes driven by the elevated geopolitical concerns. The dollar has lost ground against all G10 currencies so far this year.
- ▶ A strengthening euro proved to be a headwind for European equities this month. The currency was buoyed by GDP data that rose slightly in Q2 from Q1 while other economic indicators also remained robust.
- ▶ The UK pound weakened again during August as sentiment toward the domestic UK economy became more negative as a second round of Brexit negotiations proved difficult.
- ▶ The yen gained on a flight to safety trade as political tensions in Asia rose. The currency is often seen as a safe haven as funds are repatriated during critical geo-political periods.

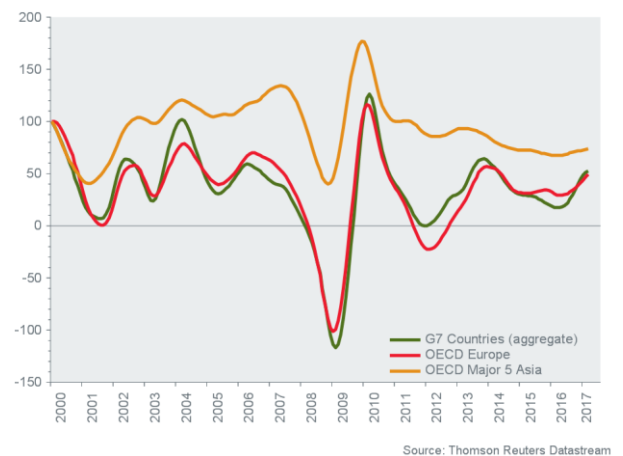
Fig.4. Currencies Performance versus USD (%)



ECONOMICS

- ▶ US activity data continued to be strong with the Philadelphia Fed Survey, University of Michigan Consumer Sentiment and Richmond Fed Manufacturing Survey all positively surprising. Q2 GDP growth was also upwardly revised on more robust personal consumption data.
- ▶ July retail sales were also better than expected offering further support to a rebound in consumer confidence while US consumer sentiment surveys in August also recovered.
- ▶ Supportive economic news from eurozone in August comes ahead of a likely policy statement from the ECB on its quantitative easing programme in September. Investors will be looking for evidence that the QE programme will be scaled back.
- ▶ Japan Q2 GDP growth came in much stronger than consensus expectations with evidence within its composition of the domestic economy taking up demand.

Fig.5. OECD Composite Leading Indicator



CENTRAL BANKS

- ▶ The European Central Bank kept policy unchanged at its monthly meeting while lowering its forecast for headline inflation for both 2018 and 2019.
- ▶ The Bank of England kept its interest rate policy unchanged, instead concentrating on inflation figures, a weakening pound, slowing consumer sentiment and difficult Brexit negotiations.
- ▶ The annual Jackson Hole conference came and went with little colour being added by central bankers on future monetary policy.
- ▶ RBI reduced the repo rate by 25 bps to 6% in August, citing a reduction in inflation risks. The rate cut was the first in ten months and brought policy rates to a near seven-year low.
- ▶ Indonesia and Colombia eased policy rates during August. Elsewhere there was little movement in central banks' rates during the month.

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

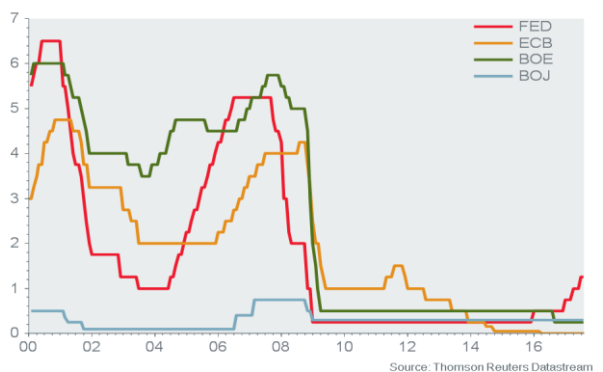




Fig.7. Key Regional Price to Earnings Valuations (x)

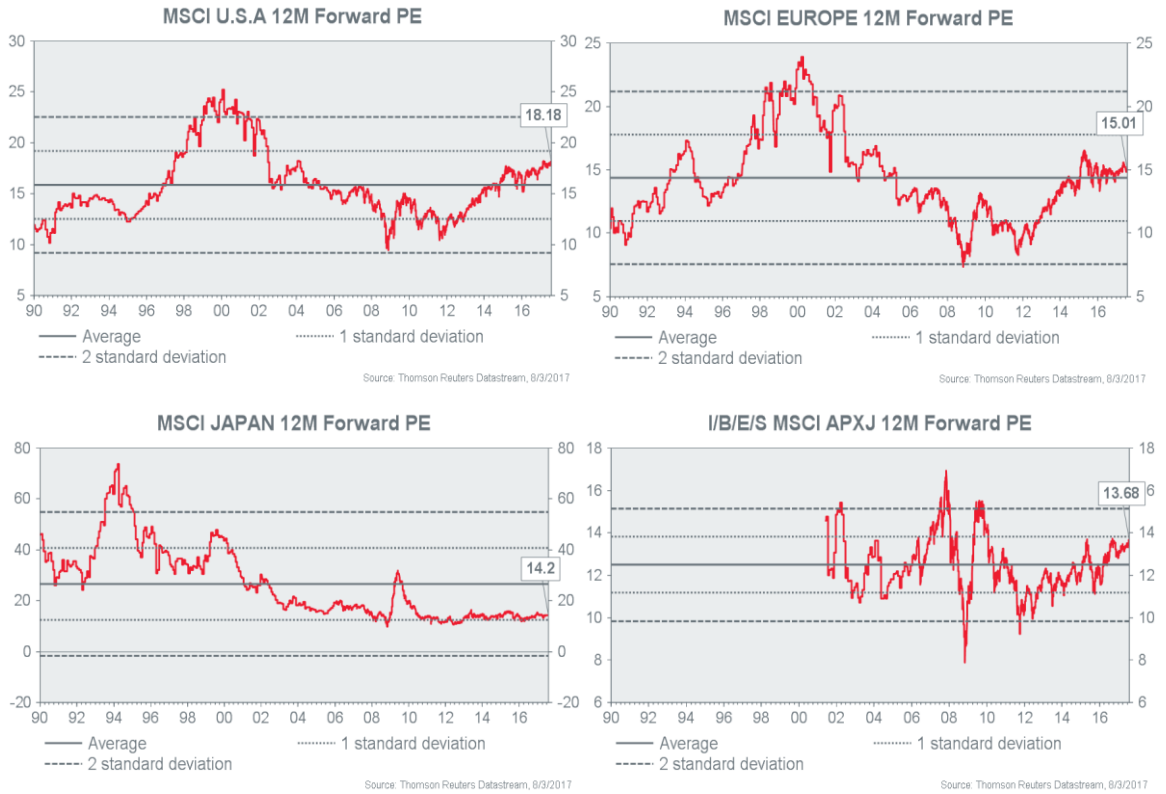
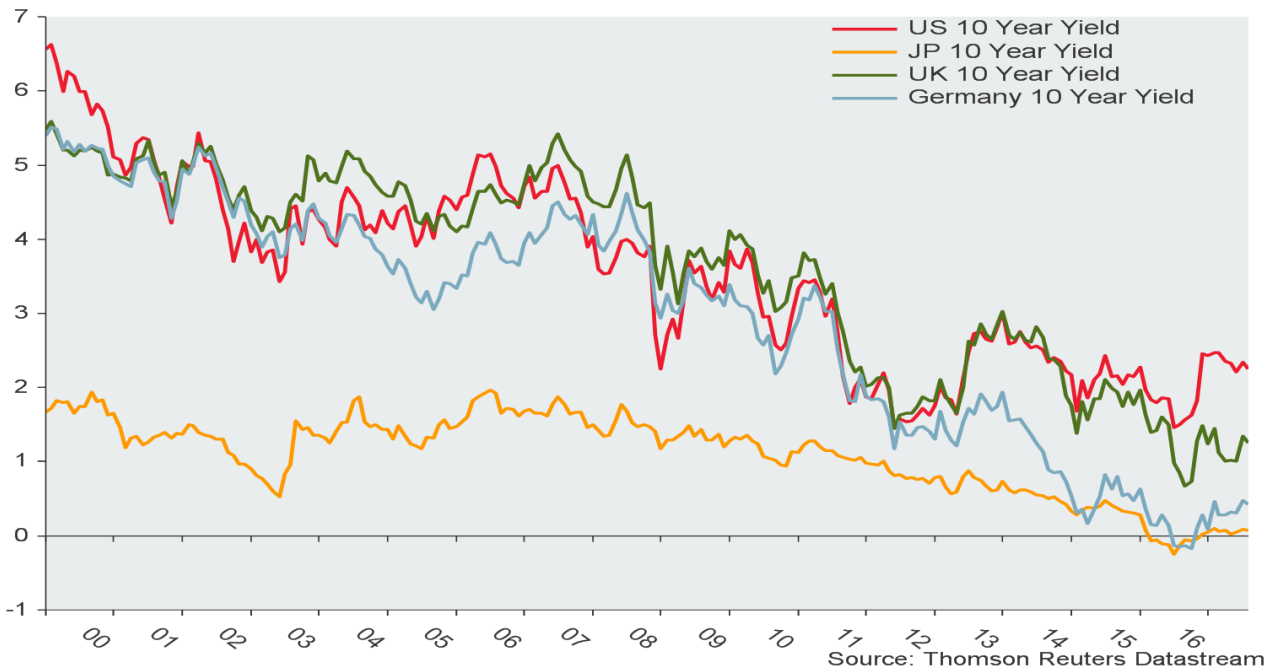


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 August 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 C.U.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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