

## MONTHLY REVIEW: THE FEBRUARY BEAR

February 2016

Global markets digested a global sell-off in banks, a weakening economic picture of China, European deflation fears and worries over Brexit. Metals and Oil had a better month as commodities bounced back from oversold levels.

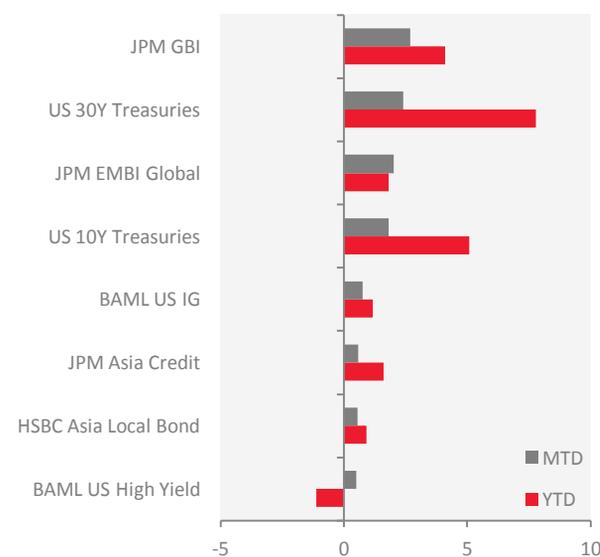
**EQUITY:** Global equity markets continued to be weak over February as negative sentiment reflected the tepid start to the year dominated by poor global growth and geopolitical issues. However, sentiment improved as the month progressed but equities in general finished the month lower with the exception of Latin American equities which rallied on the back of a possible truce between oil producers and recovering Mining and Metals names. Against this backdrop, Emerging Markets outperformed Developed Markets, led primarily by Peru, Indonesia and Brazil. The US declined the least within Developed Markets while weakness in banking stocks and the rise of the Yen hit Japanese equity hard as it recorded a relatively large monthly decline. .

**FIXED INCOME:** Volatility in commodity prices and the slower growth of China's economy saw tightening in credit conditions. BoJ's surprise move to push interest rates to negative territory saw credit markets underperforming government issues. Despite Brazil's downgrade to Ba2 by Moody's, a weaker US dollar and a modest recovery in oil prices helped emerging markets outperform. High-yield corporates enjoyed a recovery led by USD-denominated issuers. Higher commodity prices as well as inflows into the asset class combined with limited supply led to improved technicals, which supported prices in the secondary market. The J.P. Morgan Asia Credit Index gained ground over the month driven by a bull-flattening yield curve as investors reduced expectations of a March Fed rate hike. The HSBC Asia Local Bond Index also saw positive performance across all markets, driven by strong domestic demand versus waning external interest.

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



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



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 29 February 2016. For representative indices and acronym details please refer to notes in the appendix.



**COMMODITIES:** Gold performed the best amongst the commodities as investors flocked to the yellow metal with increasing volatility in global markets. Zinc prices continued to be driven by sentiment and momentum in the short term but on a longer-term basis it is also being driven by the expectation that production will be cut and benefit from China's stimulus programme. Crude oil was also a big winner over February as Saudi Arabia, Russian, Qatar and Venezuela agreed to freeze production, albeit at January 2016 levels. The US Energy Information Administration also continued to warn of increasing supply and waning demand. Some market skeptics have even attributed the bounce in Crude oil to traders covering their short trades.

**CURRENCIES:** There was no surprise as the Japanese Yen continued its rise as investors shrugged off weak economic data and negative interest rates and poured into the safe haven currency amid increased market uncertainty. The Indonesian Rupiah has also risen largely due to expectations of an outperformance in the domestic economy ahead as well as on expectations that the Fed could pause amid concerns about global growth and financial market volatility, which would lessen fears of capital outflows. The British Pound fell against most major currencies on 'Brexit' fears. The Korean Won also depreciated during February as it reflected rising global risk aversion, a slowdown in China and a bleaker domestic economic outlook. Rising tensions with North Korea in recent weeks further reduced the attractiveness of Korean assets.

Fig. 3. Commodities Performance in USD (%)

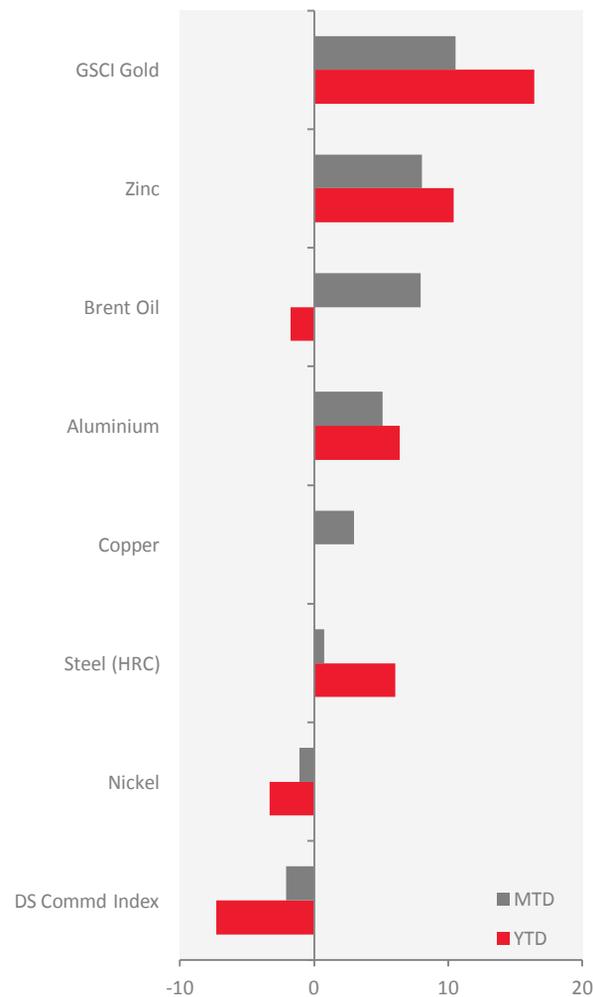
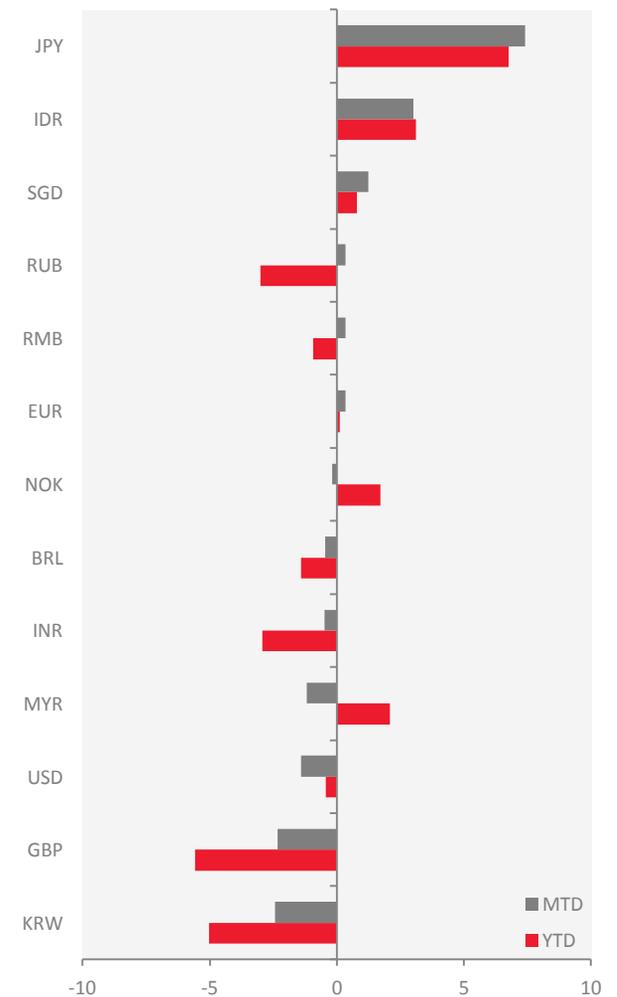


Fig.4. Currencies Performance versus USD (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 29 February 2016. For representative indices and acronym details please refer to notes in the appendix.



## ECONOMICS:

In the U.S., the employment report for January came in with fewer new jobs than expected (151,000, when 190,000 were expected), as the previous month was revised downward. The unemployment rate, however, improved, declining to 4.9% from 5.0%, which was the lowest level in eight years. Additionally, the average work week hours increased (to 34.6 from 34.5), with average hourly wages increasing (up 0.5%; up 2.5% YOY). The January CPI came in at 1.4% year-over-year, and the Core CPI ex-food and energy came in up 2.2%, closer to the Fed's desired inflation rate. The February Consumer Confidence report came in at 92.2, when a level of 97.2 was expected, and January was revised downward to 97.8 from the originally reported 98.1. The January Durable Orders report posted 1.8% year-over-year, and the ex-transportation component came in at -0.6% for the one-year period. The January Trade report showed that exports declined 2.9% and imports declined 1.5%. Housing continued on a positive path as the December S&P/Case-Shiller Home Price Index came in up 5.7% for 2015, with January Existing Home Sales up 11.0% YOY and the December FHFA Home Prices up 5.7% YOY. January housing starts, however, came in down 3.8%, as permits declined 0.2% and Pending Home Sales posted a 2.5% decline. The second report on fourth quarter 2015 GDP came in stronger than expected, at 1.0%, when a lower 0.4% gain was expected.

Eurozone fourth quarter 2015 GDP came in at 0.3%, as consumer prices declined 0.2% in February, with core prices up 0.7%. The ECB said it was ready to discuss an increase in stimulus at its policy meeting scheduled for March 10, 2016. The Euro area Markit manufacturing PMI came in at 51 in February. Consumer confidence was at -8.8 for February. The core CPI figure for February came in at 0.7% compared to 1%YoY in January.

In China, the official January Manufacturing Purchasing Managers Index (PMI) declined to 49.4 from December's 49.7—its sixth consecutive reading below 50 (contraction), as the government set an official growth rate range for 2016 of 6.5% to 7.0%. CPI inflation accelerated in January: CPI inflation went up in January, and PPI inflation also turned less negative compared with last December. The adverse weather condition and Chinese New Year holiday effect pushed up food prices (especially the price of fresh vegetables and fruits), which contributed to the increase in overall CPI. Non-food inflation also accelerated from December both sequentially and in YoY terms. Core CPI (excluding food and energy) was up 1.5% YoY (vs. December: 1.5% YoY), which implies sequential inflation of 1.6% MoM annualized (vs. 1.5% mom annualized in December).

## CENTRAL BANKS:

Sweden's Riksbank reduced its negative interest rates again, lowering them to -0.50% from -0.35% as it battles to revive inflation and keep the Krona from appreciating.

Bank Indonesia (BI) cut the benchmark policy rate, overnight deposit rate (FASBI) and lending rate by 25bps to 7.00%, 5.00% and 7.50%, respectively. Along with the rate cuts, BI also lowered the reserve-requirement ratio by 100bps to 6.50%, a more aggressive cut than the decision that took place last November.

PBoC announced a 50 bps cut in the reserve ratio requirement, releasing CNY 690bn of liquidity. The cut came into effect on March 1, 2016. This is the fourth cut since April 2015.

Abe Adviser, Honda, says the BOJ may consider further QE amid market turmoil. He also says the government should delay a sales-tax increase and consider another fiscal stimulus package.

Fed Chairman Yellen testified before Congress, saying the Fed is concerned over international growth (China) and oil (lower inflation), and it is monitoring central bank actions (stimulus, negative rates).

At the time of writing (11 March 2016), The ECB reduced the eurozone's main interest rate from 0.05% to zero, also cut its two other interest rates, expanded its quantitative easing (QE) programme and announced new ultra-cheap, four-year loans to banks, allowing them to borrow from the ECB at negative interest rates.



Fig.6. Key Regional Price-to-book Valuations (x)

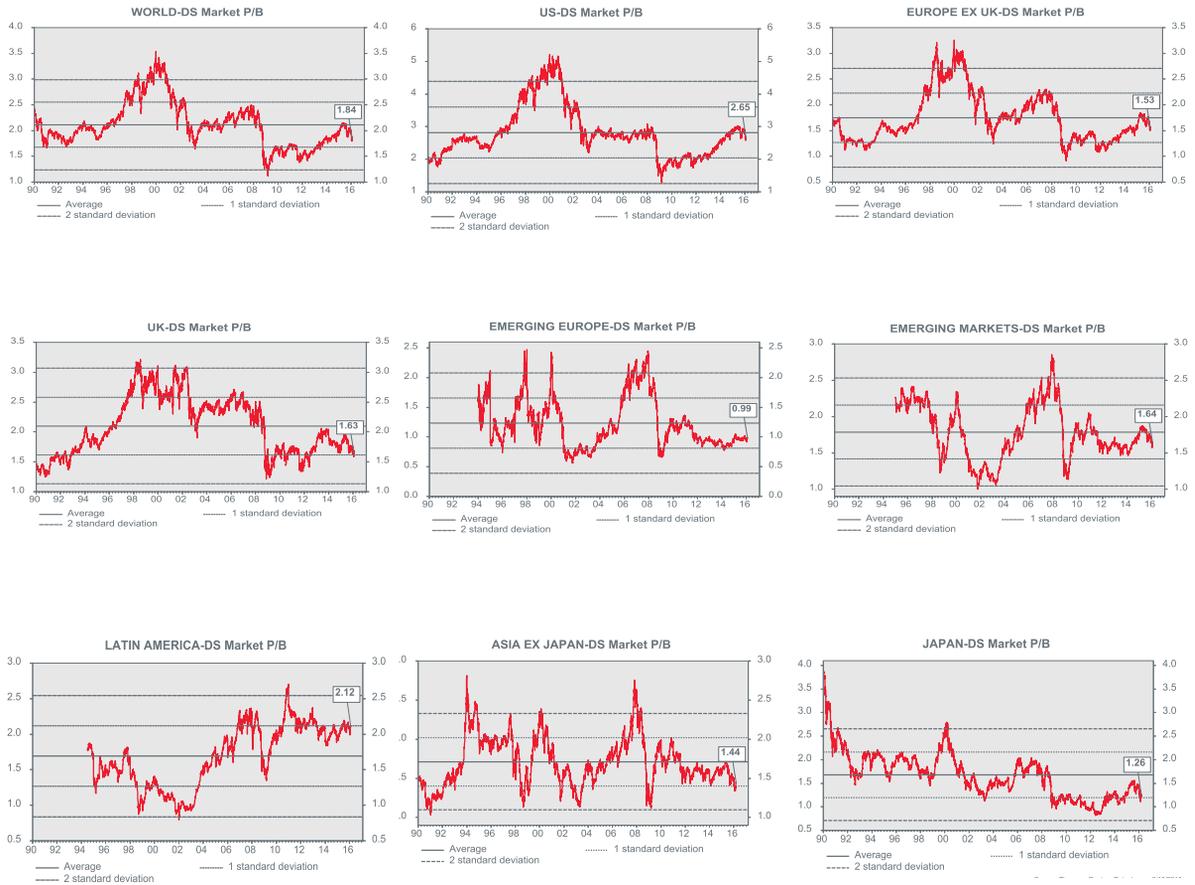


Fig.7. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 29 February 2016. For representative indices and acronym details please refer to notes in the appendix.



Fig.8. Selected Economic Data

Developed Markets	Real GDP Growth (QoQ)	Real GDP Growth (YoY)	Manufact. PMI	CPI Headline (YoY)	CPI Core (YoY)	Policy Rate	Current Acct % of GDP	FX Reserves (USD, Mn)	Govt. Budget % of GDP	Equity (YTD LC, %)	10Y Govt. Bond Yield (YTD, %)	Currency vs. USD (YTD, %)
United States of America	1.0	1.9	51.3	0.7	2.1	0.5	-2.5	106147	-2.6	-5.5	-23.6	-0.5
Euro Area	0.3	1.6	51.2	0.2	0.9	0.1	3.0	244822	-2.6	-8.7	-83.0	-0.2
Australia	0.6	3.0	53.5	1.7	2.1	2.0	-5.2	35318	-1.9	-7.4	-16.7	2.3
Japan	-0.3	0.7	50.1	0.2	0.8	0.0	3.3	1193330	-6.0	-15.8	-122.6	6.8
Hong Kong	0.2	1.9	46.4	2.5	2.5	0.8	3.1	358706	1.9	-12.8	-16.2	0.3

Emerging Markets	Real GDP Growth (QoQ)	Real GDP Growth (YoY)	Manufact. PMI	CPI Headline (YoY)	CPI Core (YoY)	Policy Rate	Current Acct % of GDP	FX Reserves (USD, Mn)	Govt. Budget % of GDP	Equity (YTD LC, %)	10Y Govt. Bond Yield (YTD, %)	Currency vs. USD (YTD, %)
Brazil	-1.5	-5.9	44.5	10.7	9.5	14.3	-3.2	349811	-9.7	-1.3	-2.8	1.4
Russia	-0.6	-3.7	49.3	8.1	8.9	11.0	5.3	309770	-3.4	4.5	8.8	3.7
India	1.7	7.3	51.1	-0.7	-1.4	7.8	-1.1	327840	-3.5	-12.3	-1.4	3.5
China	1.6	6.8	48.0	1.6	1.5	4.4	2.7	3345190	-3.5	-22.9	1.4	0.9
Korea	0.6	3.0	48.7	1.3	2.4	1.5	7.7	358514	0.0	-2.3	-14.3	5.5
Taiwan	0.5	-0.5	49.4	0.1	0.8	1.6	14.6	426	-0.2	0.9	-9.0	1.4
Thailand	0.8	2.8	-3.3	-0.9	0.7	1.5	8.9	33029	-2.3	4.6	-15.8	-1.1
Indonesia	-1.8	5.0	48.7	3.4	4.0	7.5	-2.1	96702	-2.1	3.9	-5.6	-3.3
Philippines	2.0	6.3	-1.1	1.5	2.1	4.0	3.3	72352	-0.5	-4.0	-11.9	1.3
Singapore	6.2	1.8	51.6	-0.6	0.3	1.2	19.7	247534	0.6	-7.5	-12.4	-0.4
Malaysia	3.1	4.5	47.8	2.5	3.9	3.3	3.0	91675	-3.4	-2.2	-6.0	-2.1
Vietnam	6.8	6.7	50.3	#N/A N/A	1.9	6.5	0.7	22074	0.1	-3.4	0.0	-0.9

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 10 February 2016. Please contact us for source and definitions of individual data points.

**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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