

MONTHLY REVIEW: WALKING ON EGGSHELLS

NOVEMBER 2015

November was a tepid month and investors took money out of riskier assets anticipating the US Fed raising rates in December. Weaker oil and geo-political events also weighed on sentiment. US economic data was mostly positive while Japan slipped back into a recession. China showed signs of stabilization while Europe continued to trudge along.

EQUITY: November was a tepid month and investors took money out of riskier assets anticipating the US Fed raising rates in December. Weaker oil and geo-political events also weighed on sentiment. US economic data was mostly positive while Japan slipped back into a recession. China showed signs of stabilization while Europe continued to trudge along. Against this backdrop, Developed Markets (DM) equity outperformed Emerging Markets (EM) equity. Within DM, Equity in Japan gained on plans for further stimulus while US stocks was encouraged by better than expected Q3 earnings. Within EM, Hungary led on clearer regulatory policies while Malaysia outperformed on better than expected economic data. China was a major underperformer as investigations of major brokerages, tighter financing rules and mixed economic data unnerved investors.

FIXED INCOME: Global bond returns were mixed with European bonds posting strong positive returns while US bonds were negative. US High-yield corporate bonds underperformed. Volatility in global bond markets continued in November. US Treasury yields rose and the yield curve flattened as market expectations of a December fed funds rate hike increased. Despite modestly stronger Eurozone economic data, European yields fell and peripheral markets outperformed as expectations increased that the European Central Bank (ECB) would announce a further reduction in the deposit rate as well as an expansion of its asset purchase program in December. The J.P. Morgan Asia Credit Index (JACI) lost ground over the month driven by a bear-flattening of the US Treasury (UST) curve and widening spreads across some Asian bond sectors. The HSBC Asia Local Bond Index (ALBI) saw also losses driven in part by losses in Asian currencies.

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

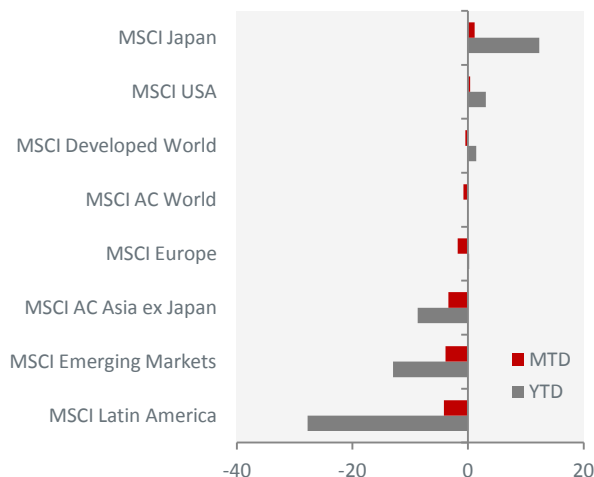
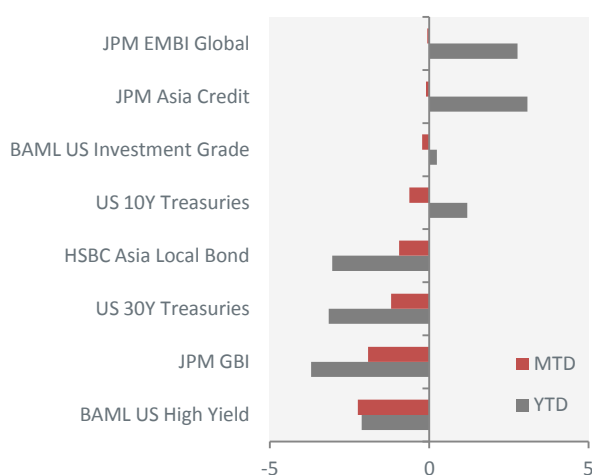


Fig. 2. Bond Indices Performance in USD (%)



COMMODITIES: Commodities was mostly down in November with Nickel and Copper leading the losses. Nickel, a corrosion resistant metal, used to make stainless steel, is the worst performing metal on the bourse this year, with a drop of 42 per cent. Like most commodities, supply is currently outpacing demand and but Nickel's price decline also reflects the small and illiquid of the nickel market. Even as volatility increased, Gold was again not a preferred destination and lost ground as well. Over the month, diverging opinions with OPEC and increased US oil production continue to add to the global energy glut and the Brent Oil lost 10% over the month and even fell US\$35/b at one stage. Aluminum prices fell the least this month as China Hongqiao announced that it would reduce aluminum output. A stronger US dollar over the month also kept commodities prices from rising.

CURRENCIES: The US Dollar continued to gain against its major trading partners while EM currencies took a hit on the back of an impending Fed rate hike in December. The IDR weakened on fears of capital flight in December while the Russian ruble fell to its weakest level against the dollar in three and a half months on Monday as crude-oil prices dropped in the wake of OPEC's decision not to cut production. The JPY and the Euro continued to weaken against the USD as the markets began to price in additional stimulus measures by the BOJ and the ECB. The US Dollar is also expected to gain against most currencies as the US economy does relatively better than global counterparts.

Fig. 3. Commodities Performance in USD (%)

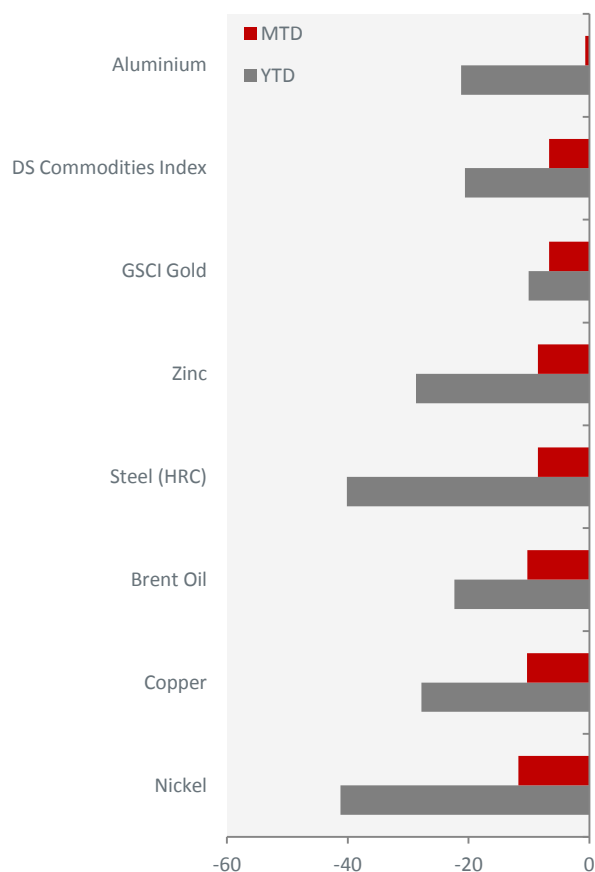
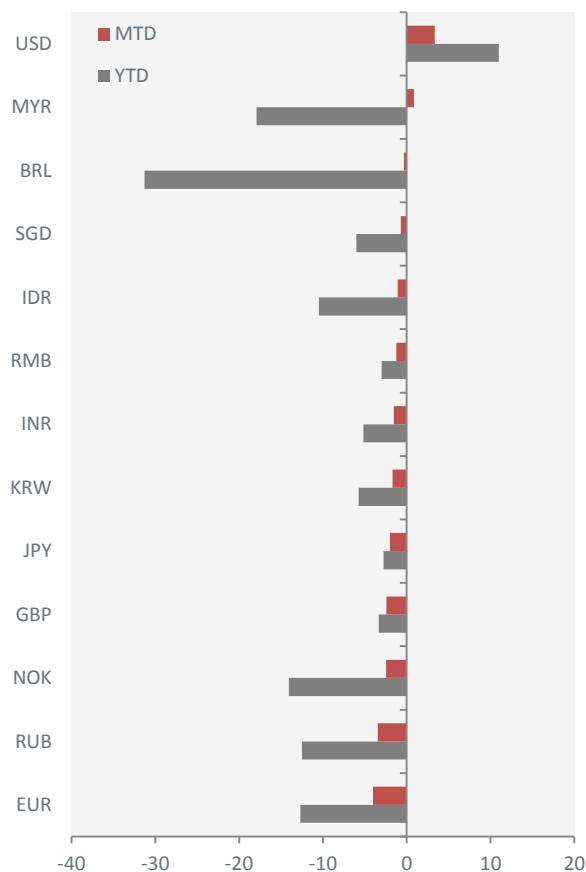


Fig.4. Currencies Performance versus USD (%)



ECONOMICS: U.S. economic data was mixed but some key headline data points surprised positively. Q3 GDP was revised up to 2.1% annualized from 1.5% due to higher inventories and better fixed investment at 3.4% although consumption was lowered to 3.0%. The ISM manufacturing declined slightly to 50.1, however services rose 2.2 to 59.1; the composite PMI rose 1.1 to 56.1; small business, which employees close to two thirds of the work force expressed confidence at 96.1. Employment figures were also good as non-farm payrolls rose 271,000 while unemployment fell to 5.0%. Average hourly earnings rose 2.5% y/y but industrial production and factory orders declined, presumably on a stronger US dollar. From a consumption point of view, headline retail sales rose 0.1% m/m but consumer confidence fell -8.7 to 90.4, with the savings rate reaching multi year highs. CPI rose 0.2% both m/m and y/y; core CPI ex food and energy rose 0.2% m/m and 1.9% y/y. Durable goods orders rose 3.0% m/m and but capital goods shipments fell -0.4% m/m. On the housing front, house prices in the top 20 cities as measured by the shiller index, rose 0.6% m/m and 5.1% y/y; housing starts fell -11.0% m/m; building permits rose 4.1% m/m; new home sales rose 10.7% m/m while existing home sales fell -3.4% m/m

Eurozone data was also mixed but improvement in the headline PMI gave investors confidence that the Euro area is slowly getting back in shape. Eurozone Q3 GDP rose 0.3% q/q but below the 0.4% in Q2. The composite PMI rose 0.5 to 54.4, a four and a half year high and this was reflected in the Sentix business sentiment which rose 3.4 to 15.1. Industrial production continued to fall 0.3% m/m. Retail sales fell -0.1% m/m but consumer confidence rose 1.8 to -5.9. Liquidity in the Euro also improved with M3 money supply growth improving 0.4% to 5.3% y/y. CPI rose 0.1% y/y while core inflation ex food and energy rose 1.1% y/y. Meanwhile German Q3 GDP rose 0.3% q/q with the composite PMI rising 0.7 to 54.9. The much watched IFO business climate rose 0.8 to 109.0 but consumer behavior continued to be anemic with retail sales and consumer confidence falling. Factories were also lukewarm as industrial production and factory orders fell m/m.

Chinese data showed signs of stabilization but was still a far cry from the growth of yester-year. PMI surveys mostly improved and retail sales were better although other hard data was weaker. Exports and imports continued to be weak while retail sales growth continued its upward trend. Industrial production was noticeably weak as growth slipped to 5.6% y/y from 5.7%. Fixed asset investments also grew at a slower pace of 10.2%. The Caixin manufacturing PMI rose 1.1 to 48.3 while services rose 1.5 to 52.0.

CENTRAL BANKS: Global central banks remain supportive, committing to keep interest rates relatively low, facilitated by low levels of inflation. When rate tightening cycles finally begin in the US and UK, they are expected to be gradual. G4 (Eurozone, US, Japan, UK) central banks balance sheets are expanding more rapidly in 2015 than 2014 due to increased stimulus in Japan and the Eurozone.

In the US, minutes from the Federal Reserve's 10 November FOMC meeting released on 16 December revealed that policy makers wrestled with the best way to foreshadow the course of short-term interest rates. In November, some members said decisions on interest rates would probably become increasingly dependent on what economic data said. Consumers have so far been resilient, while unemployment was at a multi year low. PCE was not at the 2% level (most attribute it to energy prices) but the signs of steady growth was encouraging. with the markets pricing in a 75% chance of a December rate hike.

In Europe, rhetoric from the ECB remained dovish and if anything contributed to increased expectations regarding the level of additional easing measures expected to be announced in December. In addition to anticipations of increased levels of asset purchases by the ECB, expectations grew regarding the possibility of a further cut to the already negative deposit rate of -0.2% with a tiered system of rates possible, based on sums deposited by banks with the ECB.

In UK, on November 4, the MPC voted by a majority of 8-1 to maintain Bank Rate at 0.5%. The Committee voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion, and so to reinvest the £6.3 billion of cash flows associated with the redemption of the December 2015 gilt held in the Asset Purchase Facility.

In Japan, at the meeting on October 30, the BOJ pushed back the timing of meeting its 2 percent target by six months to the second half of fiscal 2016 due to weak oil prices. A few members added that the projected delay in the timing of reaching 2 percent had also been partly attributable to a somewhat slow improvement in the output gap while the majority view was the delay in hitting the target was due to weak oil price, the minutes showed.

Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 November 2015. For representative indices and acronym details please refer to notes in the appendix.

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

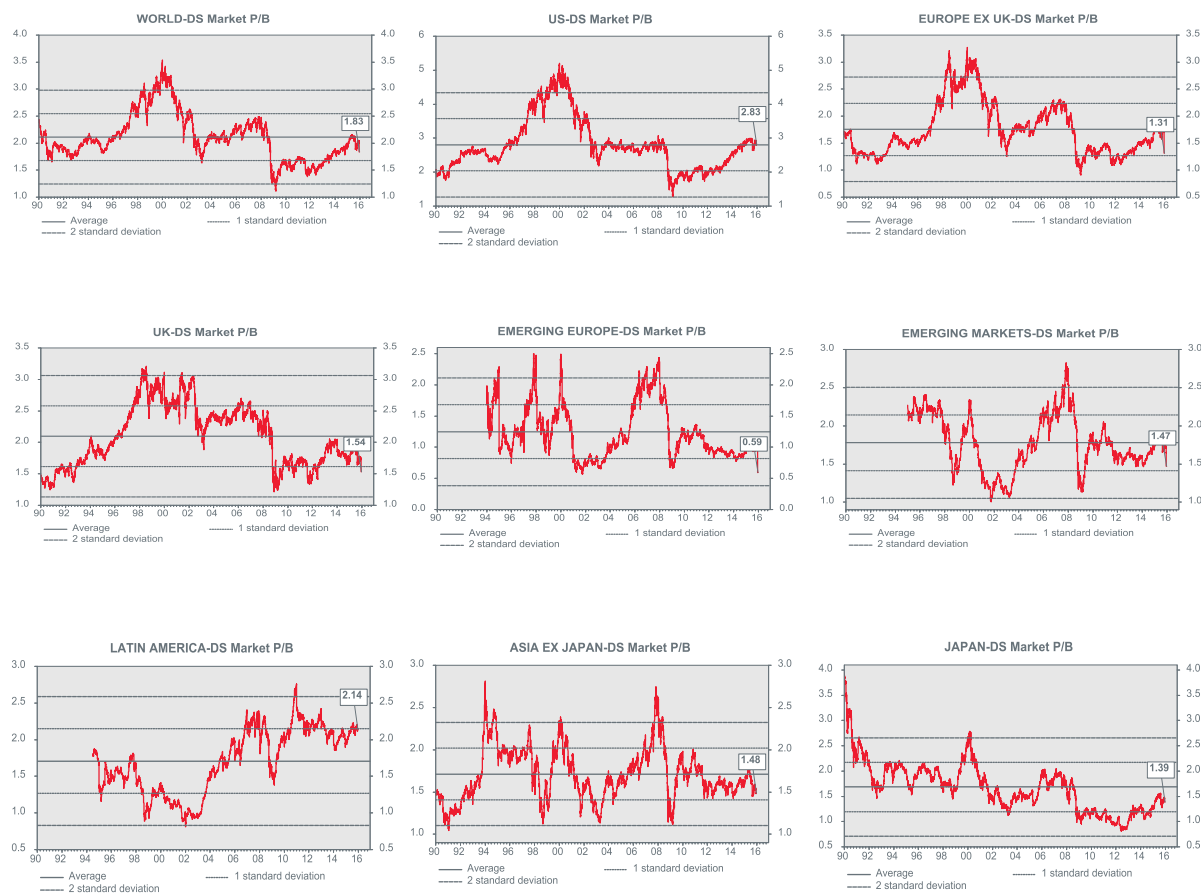
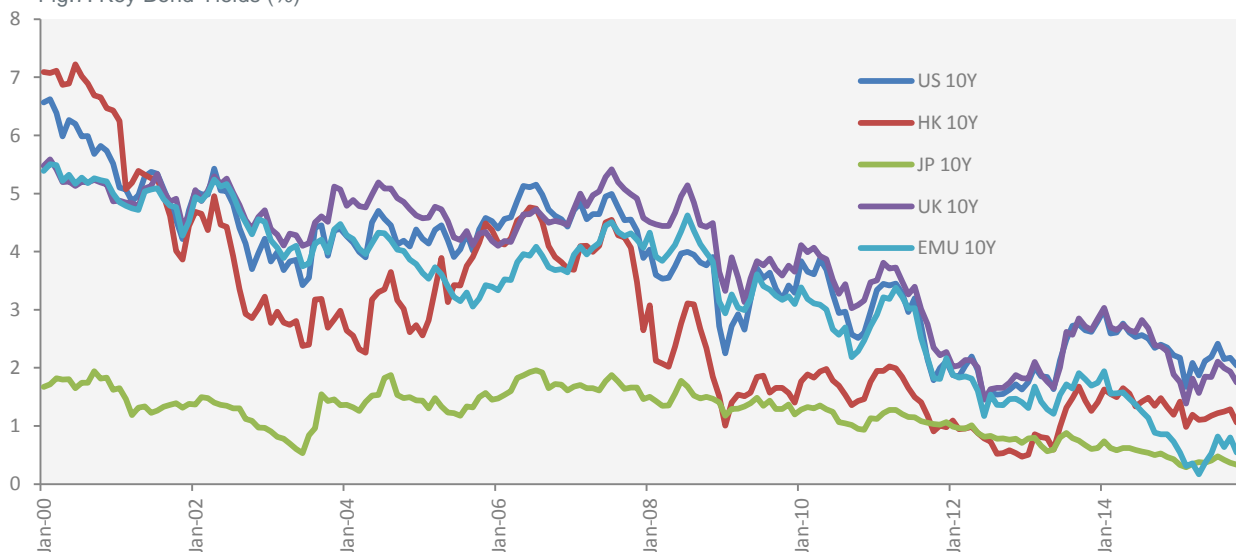


Fig.7. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 November 2015. 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	2.1	2.2	52.8	0.0	1.9	0.3	-2.4	108225	-2.4	1.0	1.6	11.0
Euro Area	0.3	1.6	52.8	-0.1	0.9	0.1	2.9	234957	-2.6	12.5	-12.5	14.6
Australia	0.9	2.5	52.5	1.5	2.1	2.0	-4.7	36928	-2.1	-3.2	1.7	13.2
Japan	0.3	1.6	52.6	0.0	0.9	0.1	3.0	1188290	-7.1	13.2	-6.7	-2.7
Hong Kong	0.9	2.3	46.6	2.0	2.0	0.5	2.5	345662	2.2	-6.8	-17.5	0.0
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	-1.7	-4.5	43.8	9.5	9.1	14.3	-3.9	353389	-9.1	-9.8	28.3	45.5
Russia	-0.6	-3.7	50.1	15.0	15.9	11.0	5.1	308504	-3.4	26.8	-9.0	14.9
India	1.6	7.4	50.3	-4.5	-1.7	7.8	-1.3	326767	-3.4	-4.2	-1.2	5.2
China	1.8	6.9	48.6	1.6	1.6	4.6	2.1	3529280	-1.8	0.9	-14.4	3.1
Korea	1.3	2.7	49.1	0.6	2.1	1.5	7.8	358419	0.9	4.0	-13.7	5.8
Taiwan	-1.7	-0.6	49.5	0.3	0.6	1.8	14.7	424	-0.3	-10.6	-26.9	3.3
Thailand	1.0	2.9	-3.3	-1.1	1.0	1.5	7.5	-82167	-2.3	-13.1	-0.1	8.7
Indonesia	3.2	4.7	46.9	6.8	5.1	7.5	-2.2	95173	-2.1	-14.9	10.1	11.8
Philippines	1.1	6.0	3.0	0.4	1.4	4.0	4.0	71902	-0.5	-4.2	-7.2	5.6
Singapore	1.9	1.9	52.2	-0.6	0.6	1.1	23.4	251425	1.0	-15.1	10.2	6.6
Malaysia	3.2	4.7	47.0	2.5	3.9	3.3	2.5	90122	-3.5	-5.1	2.9	21.8
Vietnam	6.8	6.5	49.4	0.0	1.9	6.5	4.9	21835	4.6	5.1	1.4	5.2

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 14 December 2015. 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 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



For more information contact content@eastspring.com | Tel: (65) 6349 9100

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Eastspring Investments (Singapore) Limited (UEN. 199407631H)

10 Marina Boulevard

#32-01 Marina Bay Financial Centre Tower 2

Singapore 018983

Tel: 6349 9711 | Fax: 6509 5382

eastspring.com.sg