

MONTHLY REVIEW: APRIL ON THE EDGE

April 2017

Overcast with geopolitical tensions, April had investors on the edge. Safe haven assets gained but reversed after the first round of French elections played out as expected. Earnings season saw generally better results, which kept optimism afloat. Save for gold, commodities closed in the negative on mounting stockpiles and a weaker demand outlook.

EQUITY

- Europe strode to the forefront of this month's gains, being the largest beneficiary in the global rally spurred by Macron's lead in first phase of French presidential voting. The EU's release of draft guidelines for Brexit negotiations, Draghi's assurances of continued ECB stimulus, and solid support for Theresa May's snap election call pushed the region up further.
- US equities inched forward this month. Strong corporate earnings and details of a new tax reform plan boosted sentiment, but the Fed's plans for a balance sheet reduction and geopolitical strains kept any rally in check.
- Latin America closed flat this month as tumbling commodity prices weighed markets down.
- ASEAN markets fuelled Asian performance in April, with Philippines, Malaysia and Indonesia leading the pack. China notched a modest gain as Beijing's policy and credit tightening tempered strong macro data.

FIXED INCOME

- Fixed income recovered from their poor showing last month.
- Investors sought refuge in US treasuries at the start of the month, as weak US economic data and geopolitical frictions dominated headlines. US investment grade and high yield picked up in the latter half of April as robust 1Q17 corporate earnings and Trump's tax agenda lifted sentiment.
- Emerging market assets also took over in the second half of the month as global risk appetite returned after an EU dismantlement was deemed to have been averted and other international tensions receded.
- The Asian USD bond market rose in April, driven by positive US Treasury return as Asian credit spreads closed the month moderately higher.

COMMODITIES

- Gold winded up being the lone gainer this month due to accumulating geopolitics. These included a Russian metro blast, tough talks from Trump in the lead-up to the China-US summit, US missile strikes in Syria, France electoral nerves, and protracted tensions in the Korean Peninsula.
- Base metals posted losses this month on news of massive Chinese inventories and a poor demand outlook in light of China's liquidity-tightening and signs of a slowdown in manufacturing growth. A US probe into aluminum imports also weighed on commodities.
- Oil extended falls amidst record-high US rig counts, growing shale production, resumption of Libyan production, and a lack of confirmation regarding an extension of OPEC cuts.

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



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

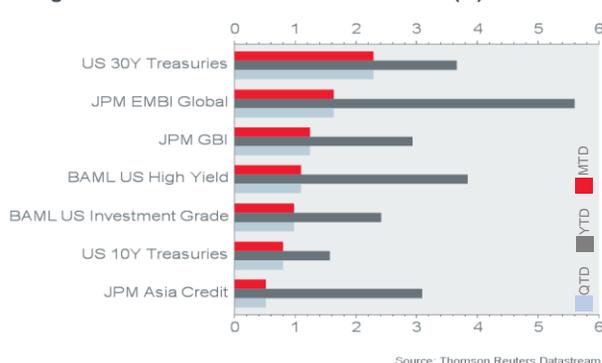
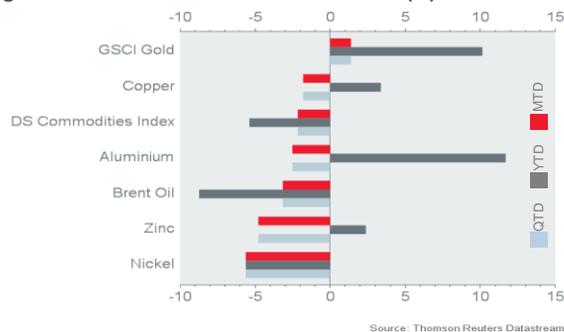


Fig.3. Commodities Performance in USD (%)

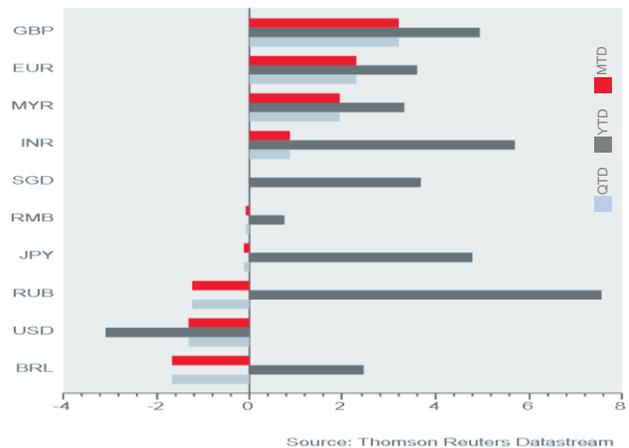




CURRENCIES

- ▶ The Pound and Euro notched the strongest gains as Macron's first-round lead left muted concerns of an EU breakup. Subsequent polls that reaffirmed a clear lead for the pro-EU candidate in the finals continued to prop up demand for these currencies. An announcement of a UK snap election in June to strengthen Theresa May's Brexit mandate gave the Sterling an further boost.
- ▶ The Malaysian Ringgit gained as the country disclosed plans to develop and expand onshore financial markets.
- ▶ The Brazilian Real suffered heavy losses this month over President Temer's uphill struggle to pass a key pension reform that would alleviate their massive budget deficit.
- ▶ The Russian Ruble tumbled on souring Russia-US relations after the US launched strikes against Syria. Weak oil prices further depressed the Ruble.
- ▶ The USD fell on lingering concerns of an economic slowdown, mixed signals on the pace of hikes, and uncertainty towards the potency of the current administration. Trump's comments on the dollar strength also unsettled investors.

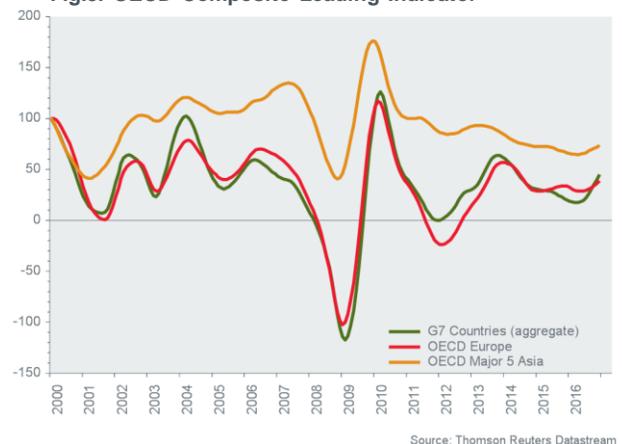
Fig.4. Currencies Performance versus USD (%)



ECONOMICS

- ▶ The US labor market presented a mixed picture in April. Non-farm payrolls fell significantly short of expectations, but both manufacturing and non-manufacturing sectors continued to expand, based on ISM figures. Q1 real GDP growth disappointed, dragged down by sluggish consumer spending in services and autos.
- ▶ The HICP, Eurozone's headline inflation, beat year on year consensus estimates in April. The composite PMI peaked at a six-year high, propelled by robust employment and incoming new business growth. Foreign demand, notably from Asia, have also bolstered new export orders.
- ▶ Over in China, March retail sales, industrial production, trade balances, imports and exports, and Q1 GDP all came in stronger than expected. However, CPI inflation remain subdued, weighed down by falling food prices; while manufacturing and service sector growth slowed. In Japan, headline inflation softened in spite of a taut labor market and stable industrial activity.

Fig.5. OECD Composite Leading Indicator



CENTRAL BANKS

- ▶ The ECB maintained rates and policy during its April meeting, while acknowledging that economic recovery has strengthened. Sweden's Riksbank left its key rate unchanged, but unexpectedly extended its QE program and adopted a dovish stance, citing global political uncertainty.
- ▶ The BoJ held rates steady in April, but lifted economic growth forecasts and trimmed inflation targets. India left its key repo rate unchanged, but hiked its reverse repo rate by 0.75% to 6.00% to reduce excess liquidity.
- ▶ Brazil slashed its benchmark rate by 1.00% to 11.25%, as the country continued its aggressive rate cuts to spur its failing economy.
- ▶ Russia's central bank shaved its key rate by 0.50% to 9.25%, stating that inflation was on track to meeting targets.
- ▶ Turkey, on the other hand, lifted one of its policy rates for the second consecutive month, while holding the other three steady. The late liquidity window rate was raised by 0.50% to 12.25% in efforts to curtail inflation.

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

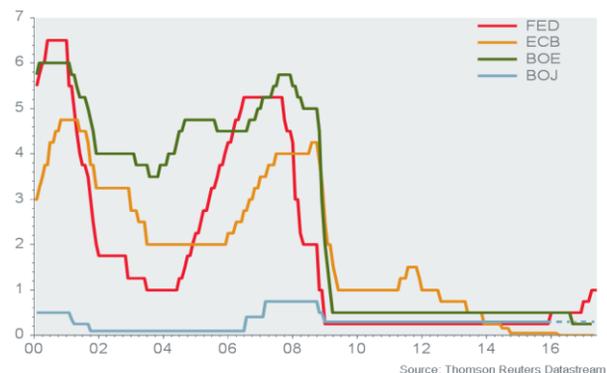




Fig.7. Key Regional Price to Earnings Valuations (x)

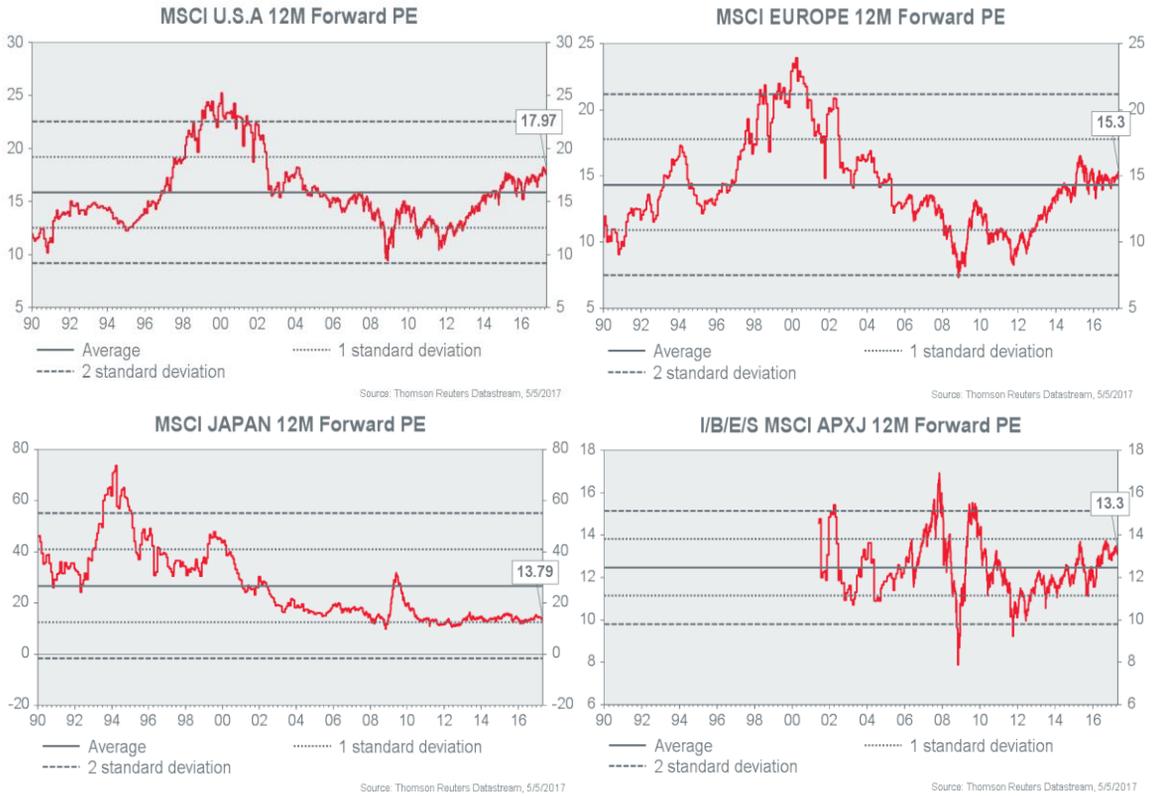
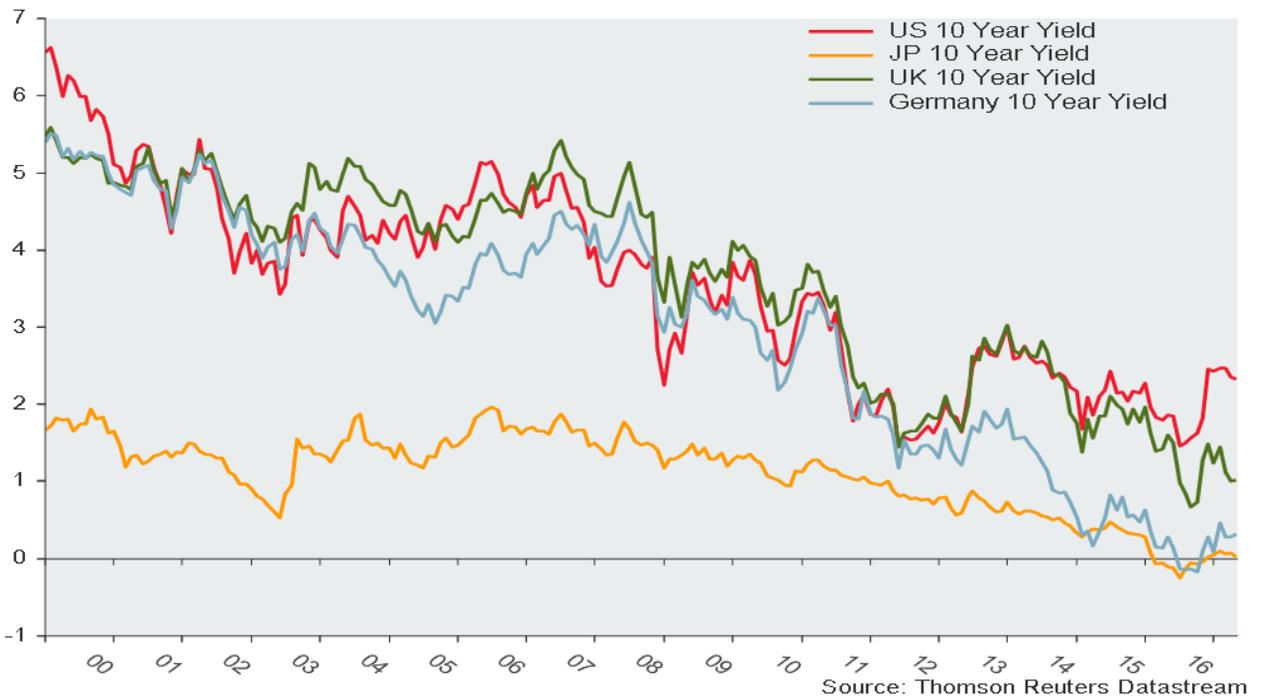


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 28 April 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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