



MARKET BRIEFING

FEBRUARY EQUITY MARKET REVIEW:

Markets continue to rally but economic data points to softness ahead

February 2019

The World in five bullet points

- ▶ **Equity markets** continued to rally in February but the gains were more muted than in January. The key drivers for stocks continued to be optimism over a positive outcome of the trade negotiations between the US and China, as well as the dovish comments from the US Federal Reserve in January. China's markets saw a week of strong gains on comments from the White House that it would extend a 1 March deadline for a trade deal to materialise but by the end of the month, momentum had slowed notably with markets beginning to drift lower again.
- ▶ In the final week, investors began to look nervously at increasing tension between **India and Pakistan**. The trouble flared after 40 Indian paramilitary police died in a suicide bombing probably carried out by Pakistan militants inside Indian-controlled Kashmir. The risk of conflict rose after India then launched an air strike with Pakistan shooting down two of its planes, and capturing one of the pilots. Pakistan retaliated with airstrikes of its own, with global powers then urging both sides for restraint.
- ▶ **Britain's** torturous exit from the EU took another turn this month when Prime Minister May first delayed another attempt at passing the exit agreement in parliament, then offered MPs the chance to delay the exit and to prevent a "no-deal" exit in a series of votes in March. Meanwhile, the UK's opposition party said it would back a second referendum under certain circumstances. Combined, the news sent sterling up to six-month highs and dollar earners on the FTSE 100 index lower.
- ▶ The **White House** declared a state of emergency on its southern border with Mexico, saying the influx of illegal immigrants had reached a crisis point. Detractors disagreed, quoting [statistics](#) that showed illegal crossing into the US were at forty-year lows. The House of Representatives voted to end the SoE, while California and 15 other states promptly initiated lawsuits in an attempt to block the move, which would allow the administration access to funds set aside for the military and emergencies.
- ▶ A summit between the **US and North Korea** to discuss denuclearization broke up without a formal agreement. Each side gave their opinions on why the talks failed with the consensus being that North Korea was asking for the ending of sanctions that the US was unwilling to give. Optimists almost instantly compared the early break up of talks to that between Mikhail Gorbachev and President Ronald Reagan in Iceland in 1986; pessimists pointed out the gulf in views at the respective press conferences.

Fig.1. Regional Equity Indices Performance, US\$ %

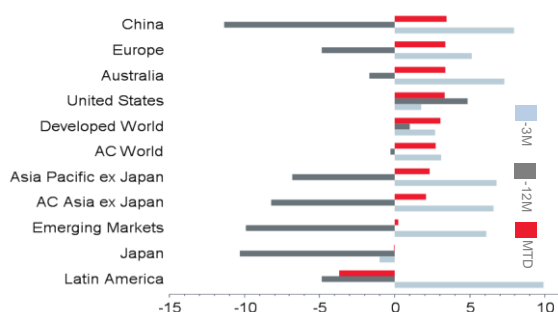
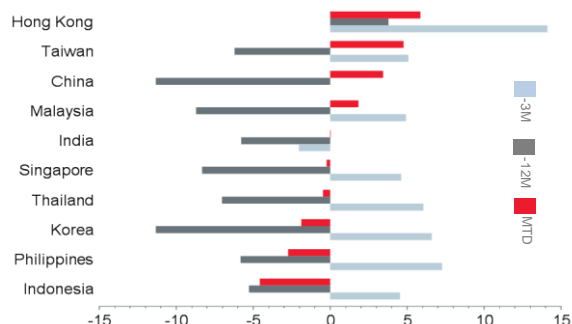


Fig.2. Asia Equity Indices Performance, US\$ %



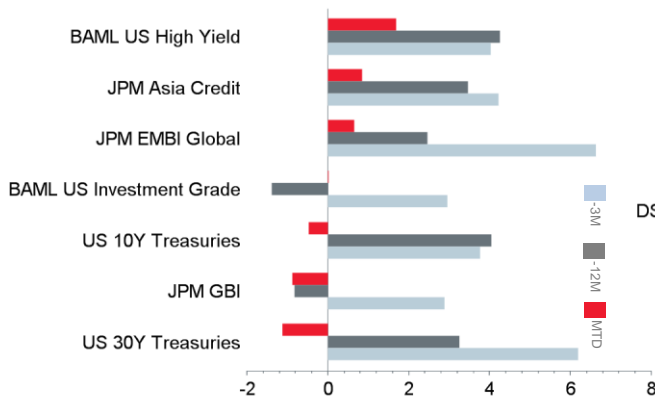
Equity Markets

- ▶ **Global equity markets** were again firmer in February to follow on from January's stellar performance but gains were more muted and a dip in the final week took the shine off an otherwise solid month. The MSCI All Country World Index rose 3.1% with the US (up 3.6%) and Europe (up 3.2%) leading the gains. Consequently, Developed Markets outperformed Emerging ones with the latter dragged back by a falls in EMEA and Latin America, offsetting gains made in Asia.
- ▶ Among the **Developed Markets**, the US was once again the strongest, in a pattern that dominated monthly performances in 2018. The MSCI US index added 3.6% as a mix of optimism on trade negotiations and the Fed's dovish comments on interest rates supported stock prices, while Q4 corporate earnings showed more companies beat estimates than missed. Europe wasn't far behind but Germany underperformed as its economy narrowly avoided recession and its large auto exporters faced the threat of more tariffs. The UK market outperformed despite sterling rallying on Brexit news (see below).



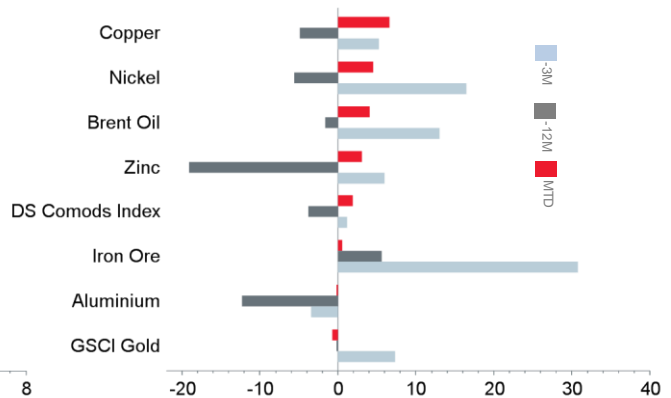
- ▶ **Emerging Markets** returned just 1.2% but within the bloc, Asia was a notable outperformer with China leading the gainers with a 4.2% return on hopes the trade dispute with the US would end in agreement sooner rather than later. Latin America took a breather from recent gains with Brazil ending lower on profit taking while EMEA was weak, losing 2.8%, as Turkey and Russia weighed on performance once again. South Africa was another laggard with the rand falling on an uninspiring Presidential state of the Union address, as well as some profit taking after a very strong January.
- ▶ Comments from the White House added support to **Asia** stocks when it said it would let a deadline of 1 March slip before a new set of tariffs were introduced. This propelled MSCI **Hong Kong** (+6.1%) and MSCI **China** (4.2%) higher, (and China's domestic A Share market substantially higher), while **Taiwan** also posted a strong 4.8% return.
- ▶ **Korea** initially followed suit and made gains before ending the month almost flat as stocks dipped on the final day of trading after the disappointing end to the US-North Korea denuclearization talks. South-east Asia markets were mixed with the currency-sensitive **Philippines** and **Indonesia** markets falling modestly and Malaysia the only SEA market showing above region-average gains with a 2.5% return. **India** flatlined ahead of elections in March and as geopolitical tensions increased.

Fig 3. Bond Indices Performance, USD %



Source: Thomson Reuters Datastream

Fig 4. Commodities Performance in USD (%)



Source: Thomson Reuters Datastream

Fixed Income

- ▶ Developed market bond yields rose marginally in February as investors weighed the economic impetus from positive China-US trade talks against still-accommodative central bank policy. The US yield curve shifted higher over the course of the month, with the 2- and 10-year US Treasury yields rising six and nine basis points respectively to end the month at 2.51% and 2.72%.
- ▶ In Asia, India cut rates by 25 basis points in the month, while central banks in South Korea and Indonesia left key benchmark rates unchanged. Local bond yields were appreciably lower in Indonesia and Malaysia, which led to outperformance of their respective local bond markets in February.
- ▶ With risk sentiment on the uptick, riskier fixed income outperformed as credit spreads narrowed further, driving returns for credit. Non-investment grade Asian credit continued to outperform on a more significant tightening of credit spreads versus their investment-grade counterparts, while broader Emerging Market bonds remained in favour on the back of strong sustained fund flows into the asset class.

Commodities

- ▶ Commodity prices rose again over the month, in line with the modest easing of the US dollar, and the rising equity markets just as they did in January. **Crude oil** prices rose but with conflicting forces at work: on the one hand, OPEC countries, led by Saudi Arabia, continued to cut supply; but on the other, crude production out of the US hit a record high during the month, and an inventory build that initially ticked higher also served to cap gains. But at the end of the month, inventories in the US then pivoted sharply downward, leading to a sharp spike of crude prices into the month's close.
- ▶ **Iron ore** prices continued to spike in the first couple of weeks in February before settling at levels it ended at in January but the three-year upward trajectory in prices remains firmly in place. High inventory levels in China and concerns over the downturn facing the global auto industry offset the drop in supply caused by the collapse of the tailing dam in Brazil last month.
- ▶ Other metals also had a strong month. **Palladium** hit a record high in the final week to reach \$1,550 per ounce as a threat of a strike by South African miners added to already tight supply. The metal, used in auto catalysts, is up almost 25% ytd. **Copper** prices also rose to touch eight-month highs on evidence of dwindling stocks and positive trade talks. **Aluminium** and **nickel** were volatile during the month but ended slightly higher, while **zinc** was buoyed by reports that inventory levels had hit ten-year lows.
- ▶ **Gold** rose again – albeit off its highs of the month – as evidence of retail and central government buying supported prices, probably as a reaction to the volatility in other asset classes seen in late December.

Source: Eastspring Investments. Chart data from Thomson Reuters Datastream as at 28 February 2019. For representative indices and acronym details please refer to notes in the appendix.



Currencies

- The **US dollar** regained momentum in February after a lacklustre start to year. The **UK pound** (sterling) was the only currency among the G10 countries that outperformed the dollar, gaining nearly 1% on hopes that a “no-deal” exit can be avoided, an extension to the 29 March deadline can be gained, or even a second referendum arranged. Scandinavian currencies were the biggest underperformers while the Australian dollar lost more than 1% after the central bank changed its position from hawkish to neutral. The central bank downgraded its growth forecasts and noted that the next move could be a hike or a cut.
- The **euro** was down just 0.5% over the month and the **Japanese yen** declined about 1.5% after comments from Bank of Japan chief Kuroda that it may need to increase stimulus if yen appreciation starts to hurt the economy.
- Many **emerging market currencies** gave back most of the gains they made in January. The South African rand and Argentine peso were the biggest losers, declining more than 4%. South African data released in February highlighted the weakness in the economy with growth remaining tepid. The budget in South Africa revealed that the debt dynamics is likely to worsen in the near term as they provide support for the SOEs. The Brazilian real lost more than 2% against the dollar despite the announcement on pension reform.
- In **Asia**, FX performance was more mixed. The Malaysian ringgit gained nearly 1% against the dollar, in line with the rally in oil. The Chinese yuan gained nearly a quarter of a percent with sentiment on the Chinese currency improving following positive headlines on China-US trade negotiations. Also in Asia, after a rough start to the year, the Indian rupee ended the month nearly flat. The market is now pricing in almost two rate cuts from the central bank over the next year. The risk for the INR continues to be the upcoming elections scheduled for March.

Fig 5. Currencies Performance versus USD (%)

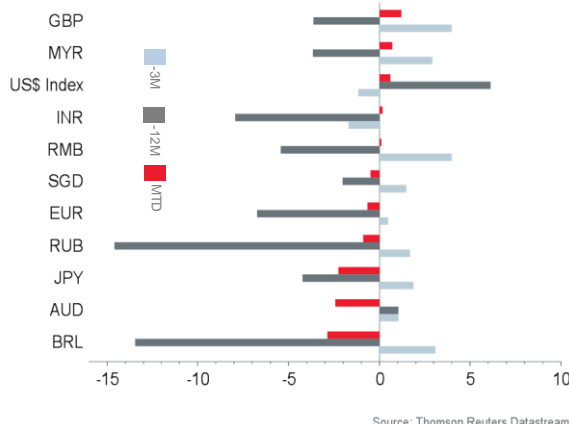
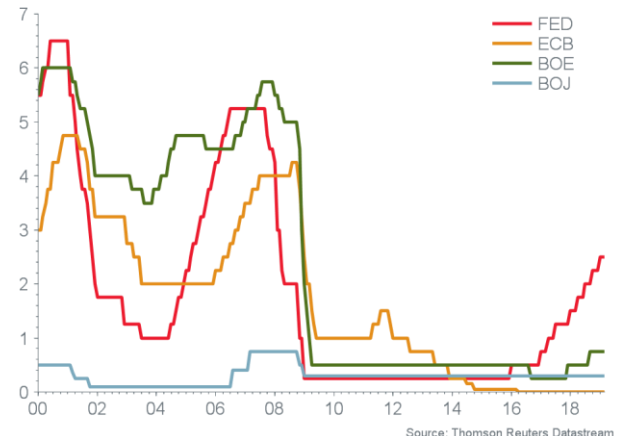


Fig 6. Central Banks Interest Rate (%)



Economics

- US** economic data continued to give conflicting clues on the direction of the US economy. Existing Home sales fell in January but the Housing Market Index rose; Durable Goods orders increased to 1.2% in December but Core Orders fell 0.7%. Consumer confidence fell a smidge and jobless claims also edged higher, both a likely consequence of the government shutdown in January. Inflation remained subdued but Retail Sales was the big negative surprise, falling 1.2% in December. GDP growth for the Q4 was 2.6% leading to a 2.9% growth for the full year, providing a relief to some who were predicting worse. Finally, the Fed meeting minutes were released showing consensus among members for patience with future rate hikes.
- European** economic data points were equally mixed. Eurozone Service Sector PMI improved but manufacturing confidence fell to its lowest level in six years; Germany's IFO business confidence survey fell below 100, indicating continued weakness ahead, but the economy missed a technical recession by the skin of its teeth by posting GDP growth of almost exactly zero. UK GDP growth slowed by more than expected in December as business investment fell for the fourth quarter in a row, almost certainly because of Brexit uncertainty.
- Japan's** economic datapoints were at least consistent but mostly soft. Industry activity fell 0.4%, core machinery orders fell 0.1%, and PMI also fell in February. Q4 GDP growth was higher than Q3 at 0.3% qoq but below market expectations.
- China's** economic figures continued to point south. Factory data contracted to a three-year low in February as export orders fell at the fastest pace since the GFC. The PMI factory reading fell to 49.2 from 49.5, well below market expectations, while non-manufacturing data also fell. New export orders fell for the ninth straight month although total orders edged back to a positive reading suggesting some improvement in domestic demand.
- Elsewhere, **India's** Q4 GDP growth came in at 6.6%, a smidge below consensus expectations. **Brazil's** central bank held its policy rate on hold and hinted they would stay on hold until progress was made on economic reform. **Australia's** central bank signaled a shift away from its recent hawkish stance toward a more neutral one.

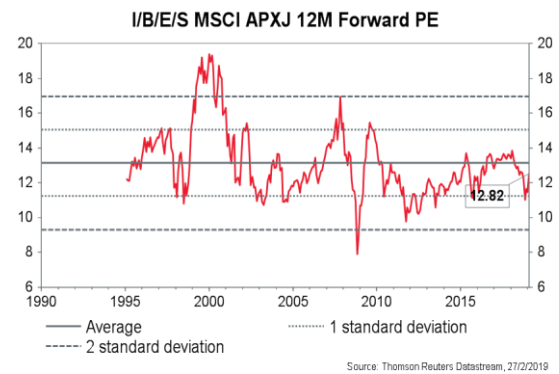
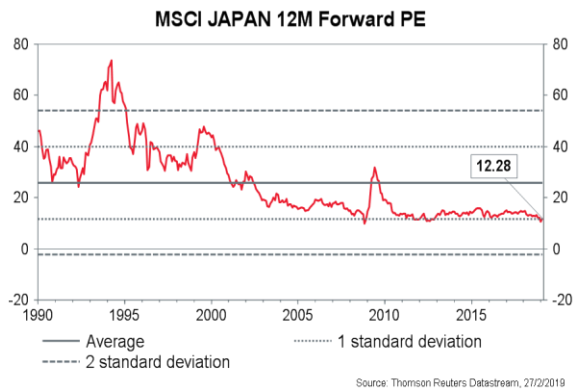
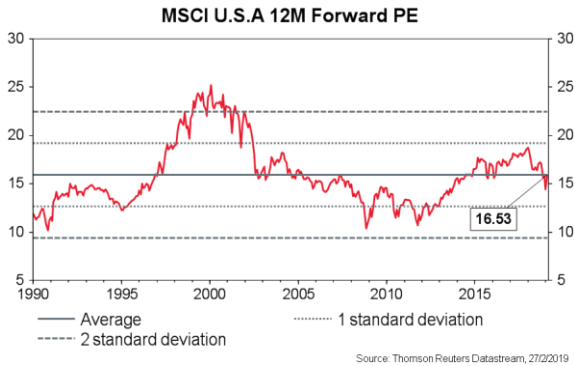
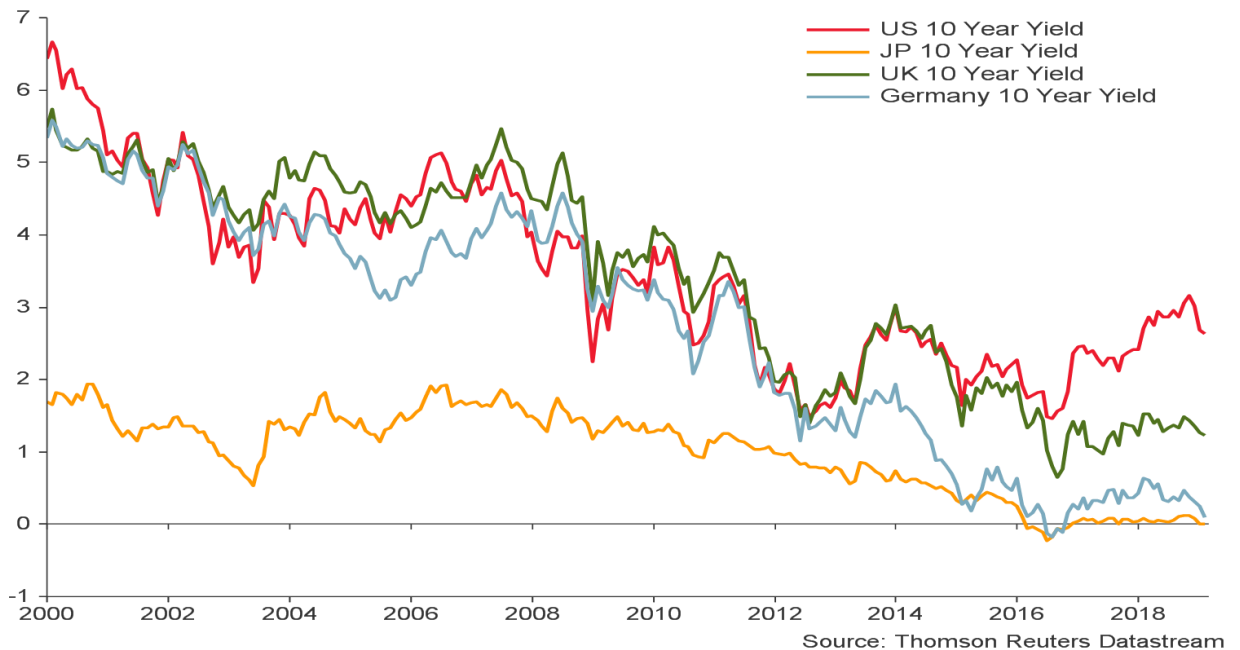


Fig 8. Key Bond Yields (%)





MSCI monthly, quarterly and year-to-date data

	Feb-19	QTD	Jan-19	Q4 18	Q3 18	Q2 18	Q1 18	2018
World	3.1	11.3	7.9	-12.7	4.4	0.7	-0.8	-8.9
Developed World	3.3	11.4	7.8	-13.3	5.1	1.9	-1.2	-8.2
United States	3.6	12.1	8.2	-13.7	7.5	3.5	-0.6	-4.5
Europe	3.2	10.1	6.6	-12.7	0.8	-0.9	-1.9	-14.3
Japan	1.2	7.4	6.1	-14.2	3.8	-2.8	1.0	-12.6
Emerging Markets	1.2	10.1	8.8	-7.4	-0.9	-7.9	1.5	-14.2
Asia Pac Ex Japan	3.0	10.5	7.3	-8.8	-1.3	-3.5	-0.6	-13.7
Asia Ex Japan	2.9	10.4	7.3	-8.6	-1.5	-5.3	0.7	-14.1
Latin America	-1.8	12.9	15.0	0.5	4.9	-17.7	8.1	-6.2
Brazil	-2.4	15.0	17.8	13.6	6.2	-26.4	12.5	-0.2
EMEA	-2.8	7.7	10.8	-4.0	-1.4	-10.0	-0.9	-15.5
	Feb-19	QTD	Jan-19	Q4 18	Q3 18	Q2 18	Q1 18	2018
Australia	3.3	10.7	7.2	-10.0	-0.9	5.3	-6.1	-11.8
New Zealand	4.1	10.2	5.8	-6.5	2.6	5.8	-4.9	-3.5
Hong Kong	6.1	14.4	7.8	-4.5	-0.9	-1.2	-1.4	-7.8
China	4.2	15.7	11.1	-10.7	-7.4	-3.4	1.8	-18.7
Korea	0.3	10.6	10.3	-12.8	0.7	-9.1	-0.4	-20.5
Taiwan	4.8	6.6	1.7	-13.7	7.2	-6.1	5.7	-8.2
Thailand	1.0	10.8	9.7	-10.2	13.7	-14.9	9.0	-5.3
Malaysia	2.5	3.9	1.4	-5.8	3.8	-11.4	8.5	-6.0
Singapore	0.8	6.7	5.8	-6.7	2.2	-7.5	2.8	-9.4
Indonesia	-2.4	5.9	8.6	9.8	2.0	-12.2	-7.1	-8.7
India	-0.0	-2.0	-1.9	2.5	-2.3	-0.6	-7.0	-7.3
Philippines	-0.9	7.6	8.6	5.4	1.1	-11.1	-11.4	-16.1
	Feb-19	QTD	Jan-19	Q4 18	Q3 18	Q2 18	Q1 18	2018
Mexico	-2.8	6.7	9.8	-18.7	7.0	-3.5	0.9	-15.3
Chile	-0.4	11.9	12.3	-8.6	-1.9	-11.0	1.6	-18.9
Hungary	-0.6	5.0	5.6	5.9	4.7	-14.4	-1.0	-6.1
Poland	-3.7	1.4	5.3	-2.9	11.1	-11.6	-8.2	-12.5
Czech Republic	1.1	7.7	6.6	-8.7	4.0	-3.2	6.4	-2.2
Russia	-1.7	11.6	13.6	-8.5	6.6	-5.8	9.4	0.5
Turkey	-3.3	14.0	18.0	4.8	-20.5	-25.7	-4.8	-41.1
South Africa	-4.4	7.3	12.3	-3.7	-7.2	-11.8	-4.0	-24.3
Qatar	-4.4	-0.9	3.7	8.4	12.8	3.5	2.5	29.8
Saudi Arabia	-0.5	9.9	10.5	-0.7	-2.9	9.3	13.1	19.2
United Kingdom	4.0	11.4	7.1	-11.8	-1.6	3.0	-3.9	-14.1
Germany	1.4	8.2	6.7	-15.5	-0.6	-3.4	-3.5	-21.6
France	3.6	9.7	5.9	-15.0	2.9	0.3	0.4	-11.9
Netherlands	4.4	11.9	7.3	-11.0	-1.4	-1.6	1.0	-12.8
Austria	0.4	9.7	9.3	-18.9	0.8	-8.4	2.7	-23.2
Italy	2.6	11.6	8.7	-11.8	-4.3	-6.8	5.4	-17.0
Spain	1.2	7.9	6.6	-8.5	-2.3	-4.1	-1.6	-15.7

Source: Thomson-Reuters Datastream, MSCI. All data Total Returns, in US dollar terms, as of 28 February 2019

**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
yoy	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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