

MONTHLY REVIEW: MARCHING ON

March 2017

Trump's unsuccessful healthcare bid slapped the brakes on the furious US market rally. Other regions fared better, with Europe's steady recovery efforts finally bearing fruit, allowing markets to remain resilient as Britain formally began its 2-year divorce negotiations. Asia also acquitted itself well, with healthy foreign inflows on the back of a weak USD. Commodities generally closed in the red on waning expectations of global demand.

EQUITY

- US equities eked out marginal gains after two months of rallying. The healthcare bill failure raised concerns over Trump's ability to enact his promised suite of pro-growth policies.
- Europe emerged triumphant this month, even as the UK officially commenced Brexit proceedings. The region's economic engines are gradually revving up again, while populism fears have receded with the moderate Dutch elections outcome and dwindling odds of a Le Pen win in France.
- India led gains in Asia ex Japan, on the back of the BJP's electoral victories and considerable progress on the GST's legislation. Korea came in second, with Samsung's and Apple's new handsets spurring spikes in related sectors. China, last month's winner, took a step back as Beijing's liquidity-tightening raised concerns on its growth outlook.
- Latin America lagged this month, as commodity prices broadly weakened.

FIXED INCOME

- US fixed income prices fell across the board this month on mixed economic sentiment. The Fed rate hikes and sharp upward revision to 4Q GDP turned investors away from treasuries; while dampened expectations of tax reforms and financial deregulations quelled appetites for US High Yields and Investment Grades.
- In emerging markets (EM), fixed income rose as the weaker USD, stronger signs of a global recovery and softer trade rhetoric from the US boded well for EM growth.
- The Asian USD bond market edged up in March as overall US treasury yields and credit spreads closed the month flat.

COMMODITIES

- March turned out to be a poor month for commodities, in the face of a tepid global demand outlook.
- Base metals slumped, after pessimism towards Trump's \$1-trillion infrastructure agenda sprouted following the healthcare bill collapse. A growing number of Chinese cities have also been implementing property curbs, fastening shackles on the nation's real estate boom.
- Aluminium was the lone gainer after China, the world's largest aluminium supplier, passed an "Air Pollution Control" order that would substantially cut aluminium production; copper prices were further tugged down in light of a rise in London Metal Exchange stockpiles.
- Oil fell as the unprecedented increase in US rig count exacerbated the global supply glut.

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

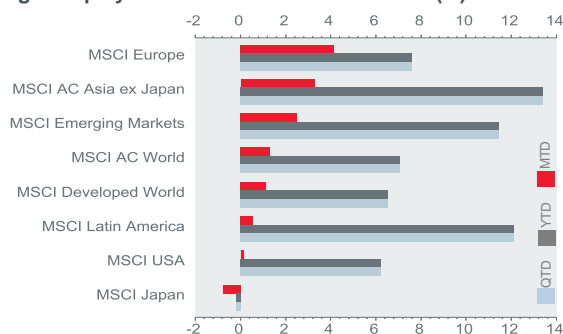


Fig.2. Bond Indices Performance in USD (%)

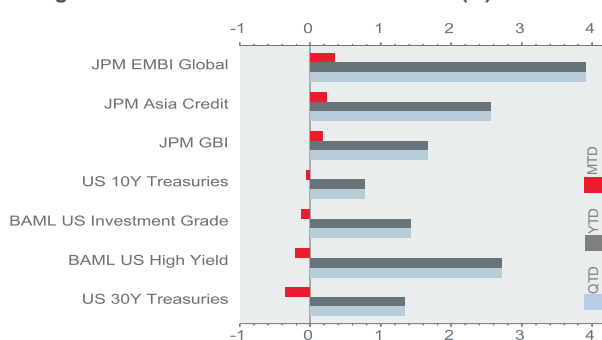
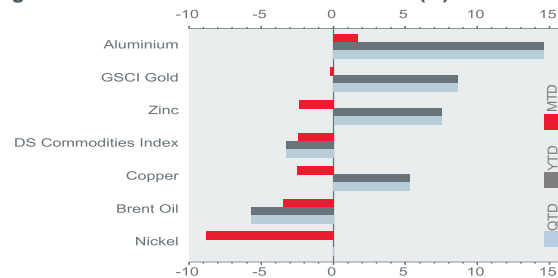


Fig.3. Commodities Performance in USD (%)

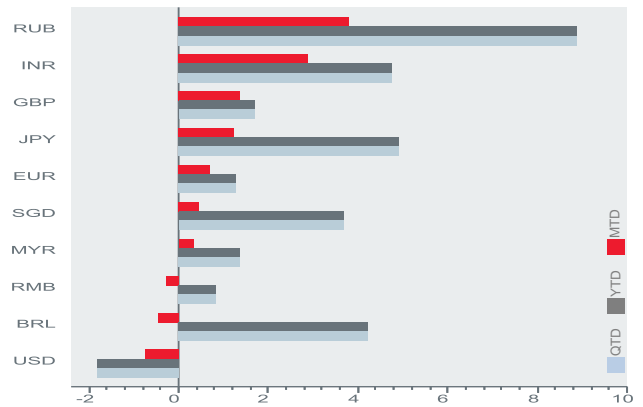




CURRENCIES

- ▶ The Russian Ruble strengthened as Russia's inflation fell to 5-year lows, making it poised to reach the central bank's 4% target soon.
- ▶ The Indian Rupee's rise was driven by a surge in foreign buying as the BJP's victories and GST progress boosted investor confidence. The Japanese yen rose as a safe-haven asset as investors moderated their previous expectations of blistering US growth.
- ▶ The British Pound was lifted by better-than-expected retail sales and inflation numbers, while the Euro rose on reassuring inflation and growth data.
- ▶ The Brazilian Real slipped on worries that an expanding corruption probe would undermine the ruling coalition's reform efforts.
- ▶ The US dollar slumped following doubts over Trump's ability to materialize his pro-growth agenda, and the Fed's dovish tones.

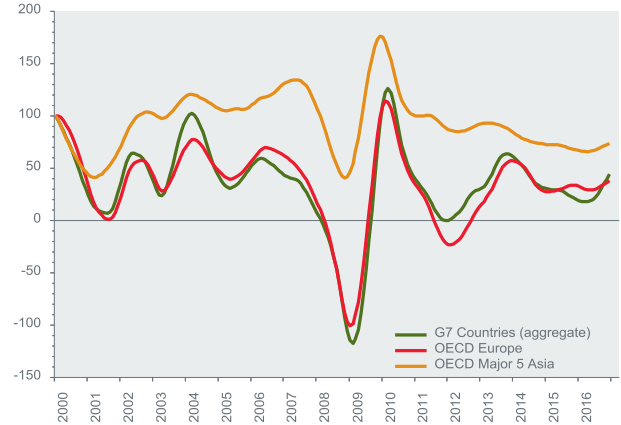
Fig.4. Currencies Performance versus USD (%)



ECONOMICS

- ▶ Global recovery continued its momentum, judging by March's economic data releases. The US saw a stronger-than-expected revision to Q4 GDP. February's consumer expenditure, CPI and retail sales came in within expectations; while gains in the ISM manufacturing and non-manufacturing indices surpassed consensus expectations. The labor market saw strength in February with a stronger-than-expected increase in non-farm payrolls and low unemployment.
- ▶ In Europe, March's manufacturing and services PMI exceeded expectations, capping one quarter of straight PMI gains, and portending well for future growth. The final Q4 GDP print also did not fall short. The HICP fell in March, however, as energy and food inflation decreased.
- ▶ China's official manufacturing PMI outstripped forecasts, driven by increases in both production and demand. However, the Caixin manufacturing PMI, which more closely tracks export-oriented companies, posted an unexpected fall. PPI accelerated on rising commodity prices while CPI slowed from falling food prices.

Fig.5. OECD Composite Leading Indicator



CENTRAL BANKS

- ▶ In light of strong employment and inflation data, the Fed raised rates by 0.25%, to a target range of 0.75-1.00%.
- ▶ As expected, the Bank of England and Bank of Japan kept rates unchanged at 0.25% and -0.10% respectively.
- ▶ The ECB also held the main refinancing and deposit rate steady, while Draghi affirmed the continuance of monetary stimulus until a sustainable Eurozone recovery was evident.
- ▶ The PBOC increased borrowing costs following the Fed's rate hike, in ongoing moves to tighten liquidity.
- ▶ Russia's central bank unexpectedly reduced its rate by 0.25% to 9.75%, citing excessive disinflation and a promising economic recovery.
- ▶ In a bid to rein in inflation, Turkey's central bank lifted its late liquidity window rate by 0.75% to 11.75%, while keeping its main interest rates steady.
- ▶ During their March meetings, central banks in Australia, New Zealand, Canada, Switzerland and Denmark voted to keep rates steady.

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

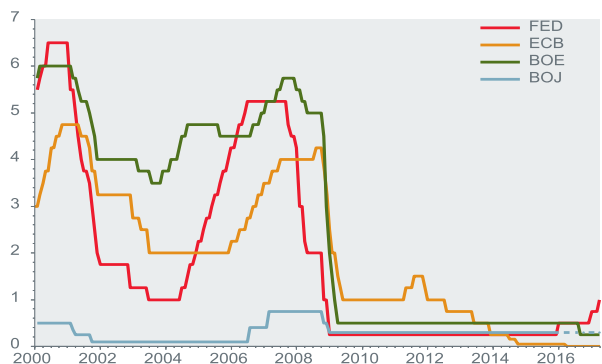




Fig.7. Key Regional Price to Earnings Valuations (x)

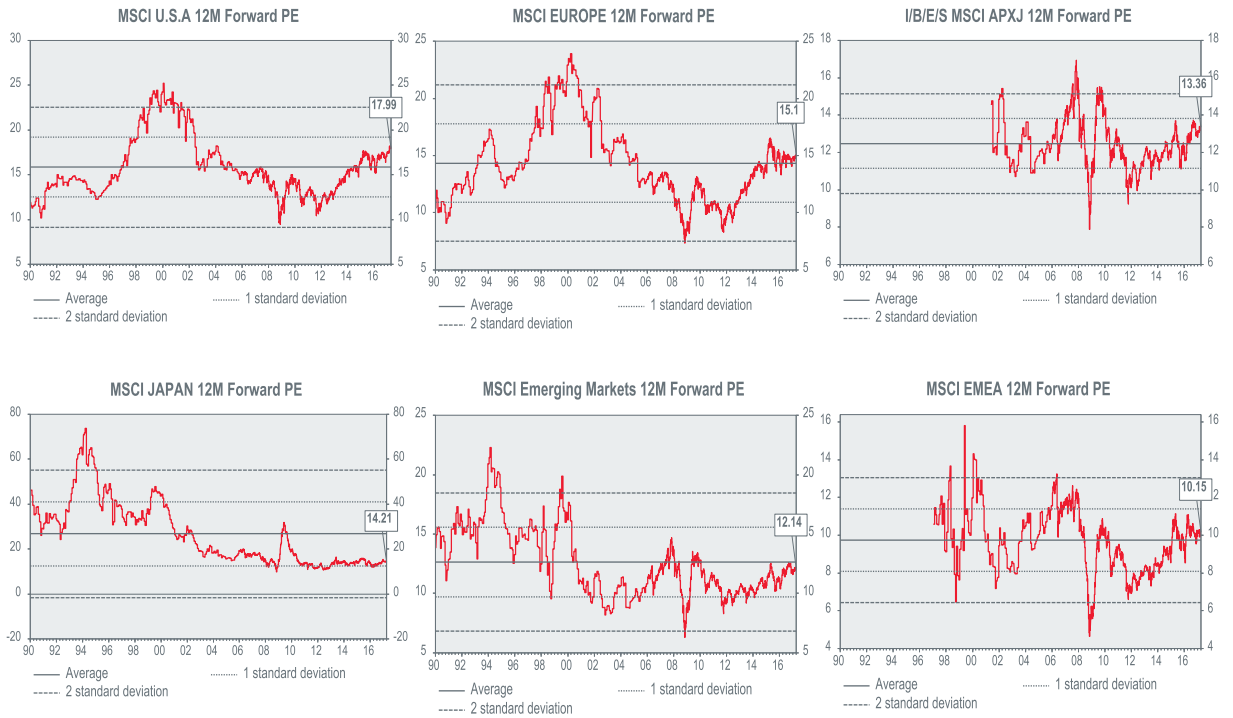
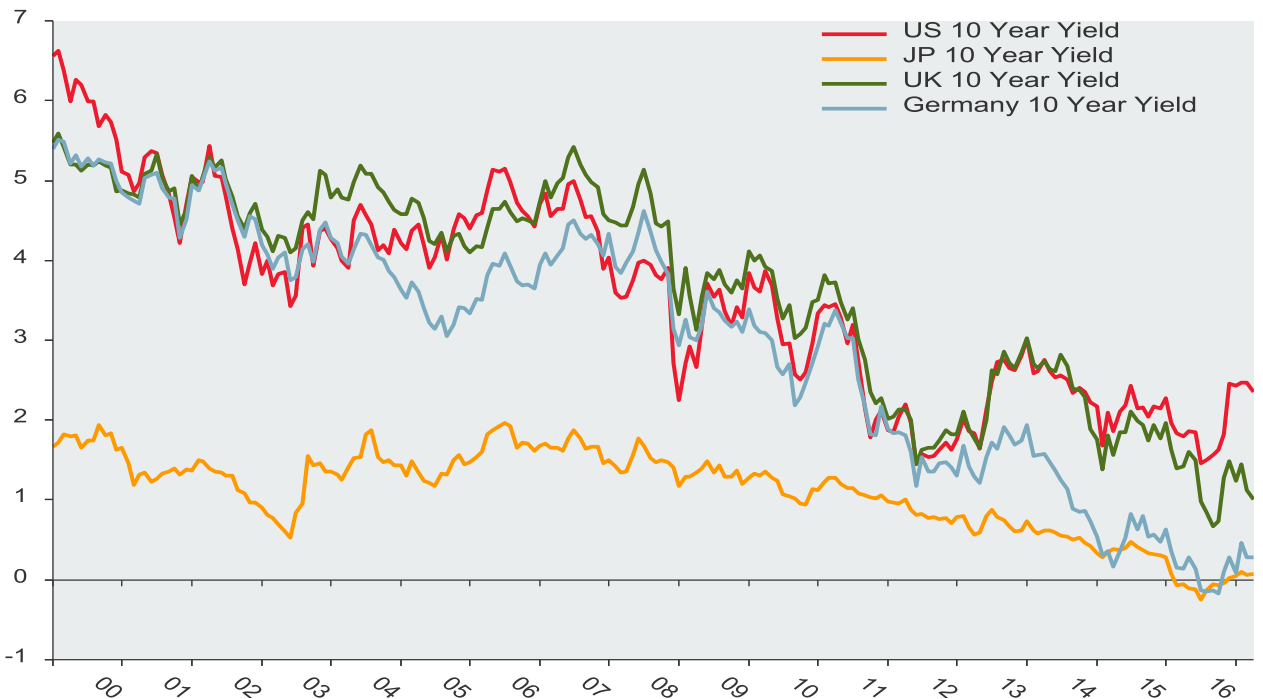


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 March 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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