MONTHLY REVIEW: A bumpy road at the top

September 2017

Global stockmarkets were mixed in September with Developed Markets outperforming Emerging Markets for the first time this year largely due to a slightly stronger US$, a drop in commodity prices and a rise in crude oil. Markets also shrugged off geopolitical concerns in North Asia, hurricanes in the US and worries over liquidity tightening with many equity indices reaching all-time highs.

EQUITIES

- A slightly firmer US dollar was behind the outperformance of developed markets as prospects of tax reform progressed in the US and Fed Reserve policymakers hinted at further rate rises. Confirmation that the Fed was beginning to reduce its balance sheet also supported the dollar.
- Chancellor Merkel was returned in elections in Germany which gave stability to eurozone markets. UK indices underperformed again.
- Emerging Europe was the worst performing EM region although Russia was strong as crude price rose. Brazil continued its recovery while the Philippines hit record highs. Among the decliners were South Africa, Greece and Turkey.
- In Asia, the MSCI Asia Pacific ex Japan index was down 0.3% in September to record its first monthly loss for the year however the performance of individual markets was mixed.

FIXED INCOME

- US: 2- and 10-year UST bond yields moved higher post hawkish Fed comments. The market is now pricing a 70% probability of a rate increase.
- Eurozone inflation again failed to pick up however ECB President Mario Draghi still said details of the bank’s taper programme would be announced on 26th October.
- The Asian USD bond market, measured by JPM Asia Credit Index, was flat with the return year to date now totaling 5.34%.

COMMODITIES

- Brent Oil increased 7.5% in September to US$56.8/bbl while West Texas Intermediate rose 7.7% to US$51.7/bbl; both prices are the highest in two years. The strength was down to solid demand figures, an appearance of cohesion among OPEC members on supply issues as well as the hurricanes in the Gulf of Mexico disrupting supply.
- Gold fell 3.1% weighed by a stronger US dollar
- Iron ore fell 21.4% ending the quarter at US$62/t ahead of China’s National People’s Congress in October.

Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 September 2017. For representative indices and acronym details please refer to notes in the appendix.
CURRENCIES

- The **US dollar** reversed its year-long decline in September as Fed Chair Yellen said soft inflation figures supported gradual rate rises.

- **UK Sterling** had a volatile month, at first rising to highs not seen since the day after the European referendum before falling back on concerns over the possibility of a ‘hard Brexit’.

- In **Asia**, the Malaysian ringgit (+1%), the Philippine peso (+0.5%) and the Hong Kong dollar (+0.2%) were the best-performing currencies. The Indian rupee and the Korean won were the worst-performing currencies.

- The **euro** fell against the US dollar for the first time in seven months as the market began to price in a Fed Reserve rate hike, US tax reform and the return of political risk following the German elections.

ECONOMICS

- **Global**: Economic data during September was broadly supportive for markets with few material surprises.

- **US**: The 2Q annualized GDP came in at 3.1% vs 1.2% in 1Q. Retail sales contracted 0.2% mom in August. CPI was at 0.4% mom in August; the ISM survey was at 60.8. New orders for durable goods expanded 1.7% in Aug vs a contraction of -6.8% in July. The Unemployment rate came in at 4.4% in August.

- **Eurozone**: PMI came in at 58.1. IP increased 3.2% in July vs +2.8% in June. Retail sales contracted 0.3% vs 0.6% expansion in June. Consumer confidence was at -1.2 for September. The core CPI figure for September came in at 1.1% vs 1.2% in August.

- **China**: Manufacturing PMI came at 51.0 vs 51.6 in August. August CPI came in at 1.8% vs 1.4% in July. PPI expanded 6.3% in August. New loan creation increased to 1,090 billion yuan in August.

CENTRAL BANKS

- The **Fed** announced initiation of balance sheet normalisation in October while keeping the benchmark interest rate constant at 1.0-1.25%.

- **Bank of Japan** held policy rates: 10-year JGB yields at 0% and short-term policy rate at -0.1%.

- The **PBoC** announced targeted Reserve Ratio cuts on 30 September, the first since October 2015. The move is regarded as largely neutral and aimed at fine tuning liquidity.

- In **Emerging Markets**, Brazil lowered its Selic rate by 100bps to 8.25%; Peru and Indonesia lowered rates by 25bps each to set rates at 3.5% and 4.25% respectively; Russia lowered its key policy rate by 50bps to 8.5%.

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Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 September 2017. For representative indices and acronym details please refer to notes in the appendix.
Fig 7. Key Regional Price to Earnings Valuations (x)

MSCI U.S.A 12M Forward PE

Average
2 standard deviation

Source: Thomson Reuters Datastream, 16/09/2017

MSCI EUROPE 12M Forward PE

Average
2 standard deviation

Source: Thomson Reuters Datastream, 16/09/2017

MSCI JAPAN 12M Forward PE

Average
2 standard deviation

Source: Thomson Reuters Datastream, 16/09/2017

I/B/E/S MSCI APXJ 12M Forward PE

Average
2 standard deviation

Source: Thomson Reuters Datastream, 05/03/2017

Fig 8. Key Bond Yields (%)

US 10 Year Yield
JP 10 Year Yield
UK 10 Year Yield
Germany 10 Year Yield

Source: Thomson Reuters Datastream

Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 September 2017. For representative indices and acronym details please refer to notes in the appendix.
### Key Terms

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<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tr>
<td>CA</td>
<td>Current Account</td>
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<tr>
<td>CBR</td>
<td>Central Bank of Russia</td>
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<td>COPOM</td>
<td>Central Bank of Brazil</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<td>DM</td>
<td>Developed Markets</td>
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<td>ECI</td>
<td>Employment Cost Index</td>
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<td>EM</td>
<td>Emerging Markets</td>
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<td>EM Currencies</td>
<td>MSCI Emerging Markets Currency Index</td>
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<td>EM Equities</td>
<td>MSCI Emerging Markets Index</td>
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<tr>
<td>EM Local Currency Bonds</td>
<td>JP Morgan Emerging Local Currency Bond Index</td>
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<td>EM USD Bonds</td>
<td>JP Morgan Emerging Market Bond Index</td>
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<td>EMU</td>
<td>European Monetary Union</td>
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<td>EU</td>
<td>European Union</td>
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<td>Fed</td>
<td>The Federal Reserve Board of the United States</td>
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<td>FOMC</td>
<td>Federal Open Market Committee</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>Global Developed Equities</td>
<td>MSCI Developed Markets Index</td>
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<td>Global Equities</td>
<td>MSCI All Country World Index</td>
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<td>Global Government Bonds</td>
<td>Citigroup World Government Bond Index</td>
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<td>IP</td>
<td>Industrial Production</td>
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<td>M2</td>
<td>M2 Money</td>
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<td>mom</td>
<td>Month on month</td>
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<td>PBoC</td>
<td>Peoples Bank of China</td>
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<td>qoq</td>
<td>Quarter on quarter</td>
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<td>Repo</td>
<td>Repossession</td>
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<td>SDRs</td>
<td>Special Drawing Rights</td>
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<tr>
<td>SELIC</td>
<td>Sistema Especial de Liquidação e Criação de Credito (Sistema de Liquidação e Custódia)</td>
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<td>Tankan</td>
<td>Japan Large Business Sentiment Survey</td>
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<td>TSF</td>
<td>Total Social Financing</td>
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<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>y/y</td>
<td>Year on year</td>
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### Representative Indices

- **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 Treasury
- **U.S. 30 Year Treasuries**: Datastream U.S. 30 Year Treasury
- **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

Source: Eastspring Investments
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