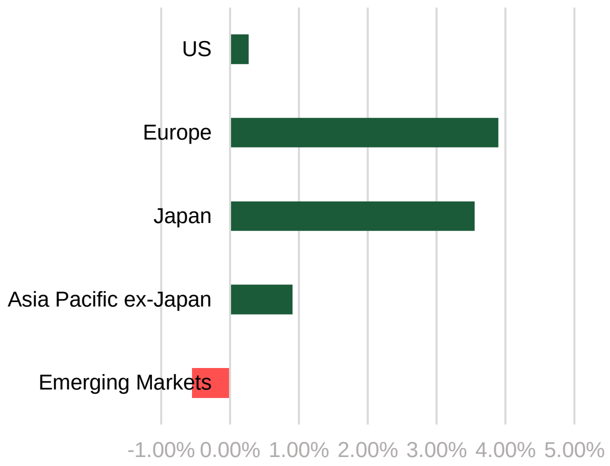
Monthly Commentary

All data as at 30 April 2018 May 2018

EQUITY MARKETS

Global Equity Return: 0.8%



Source: Bloomberg

Asia Pacific ex Japan 0.9% (USD)

Emerging Markets -0.6% (USD)

Concerns over the US-China trade conflict prompted early weakness in Asia, though the region firmed up towards the end of the month. Tech was the worst performing sector with a loss of almost 2% - Taiwan Semiconductor declined 9% on weak chip demand from Apple's iPhones; a major source of revenue. Sluggish tech performance detracted from the performance of the growth-bias indices.

Returns were varied amongst the emerging market economies. In USD terms, Russia fell more than 7% as their currency buckled under geopolitical pressure from the US. Similarly, weakness in the Brazilian Real (-6%) more than offset the 0.9% gain in Brazil's IBOV index. This was despite robust commodities prices, which is supposedly favourable for their resource-dependent economies. India, which has been a laggard, saw outsized gains with tech and financials leading the way.

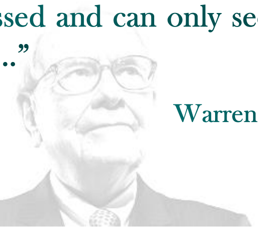
United States 0.3% (USD)

Energy stocks rallied as oil prices rose, offsetting losses from the consumer staples and industrials sectors. Financials were down marginally despite reporting strong Q1 earnings, perhaps reflecting concerns about longer-term growth. Corporate earnings have remained robust in general, with more than two-thirds of the companies reporting better than expected numbers so far.

Europe 3.9% (EUR)

The region saw positive returns as there was broad-based gains across every sector. Energy and financials emerged the main contributors – Shell +11.3%, BP +10.3%, HSBC 7%. The euro fell about 2% as the dollar rallied, offsetting gains for un-hedged foreign investors. Eurozone economic data showed that Q1 growth moderated from their previous blistering pace.

"...Mr Market, a man with incurable emotional problems. At times he feels euphoric and can only see the favourable factors, while at other times he is depressed and can only see nothing but trouble ahead..."



Warren Buffett

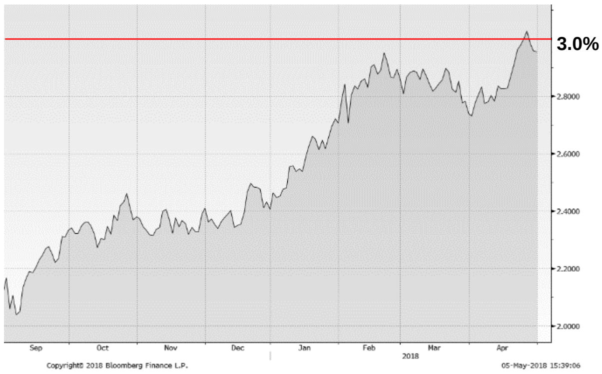
Japan 3.6% (JPY)

All sectors saw positive gains, with utilities and energy leading the way. The information technology sector was the worst performer, though still up by 0.7%. The negative equity-currency correlation continued to take effect in April. A weaker yen benefitted Japan equities, while negatively impacting our currency un-hedged positions.

FIXED INCOME

Sovereign bonds declined as ten-year treasury yields breached 3% towards the end of the month. Concerns over the US-China trade skirmish subsided, as President Xi Jinping reaffirmed China's commitment to open its market. President Trump reciprocated with a friendly response which further boosted the risk appetite for equities. Inflation expectations also increased as reflected by a higher break-even inflation rate, supporting bond yields (and putting pressure on bond prices).

Ten-year treasury yields move up, pressuring bond prices



Source: Bloomberg

Investment Grade (IG) bonds fell sharply as one of the worst performers within the fixed income space. Being highly correlated to sovereign bonds, IG bonds declined as yields rose. Credit spreads tightened slightly (a positive for bond prices) after weeks of widening, but not sufficient to offset the negative impact of higher rates. We managed to minimise losses from IG as we recently further reduced our exposure to underweight.

Hard currency (USD-denominated) **Asian bonds** declined. In addition to the negative impact of rising sovereign bonds yields, Asian bonds faced higher supply amidst lower appetite for leveraging with the rising LIBOR, i.e. higher borrowing cost. The increase in Asian credit spreads added to declines.

Emerging Market (EM) debt also experienced losses, with few markets and sectors spared from the declines. Coupon gains were offset by declines from the yield curve and spread increase. Despite the rise in commodities prices including energy, there was a general decline in risk appetite for emerging market assets.

Our positioning in short duration EM debt mitigated most of the negative contribution from the interest rate impact.

High Yield (HY) bonds were the star performer amid the broader bond market sell-off. High yield credit spreads tightened, providing additional returns for investors. Additionally, the high levels of coupon offered by HY bonds managed to offset the negative impact from higher interest rates. Generally, high yield assets across the duration curve held up during the April bond sell-off.

OUTLOOK AND STRATEGY

The US-China trade skirmish may become less of a driver for markets moving forward. As the various parties begin negotiations, the base case is for any trade sanctions to be relatively well-managed. A full-blown trade war is detrimental to both US and China, and the two countries would prefer to avoid the worst-case scenario. Geopolitical risks out of the Korean peninsula has also been more positive as of late; with North Korea promising to shut down their nuclear test sites. These developments are generally positive for risk assets. In the meantime, both equity and bond markets remained volatile as jittery investors weighed higher interest rates and expensive valuations, against continued strong earnings growth.

US energy stocks reacted strongly to higher oil prices, surpassing other sectors and landing in the green for the year. Subsequently, value-indices nudged higher, though there were also bright spots around growth sectors such as in consumer discretionary and tech – Facebook +7.6%, Amazon +8.2%. We are positioned to benefit from a rise in interest rates through financials, at the same time gaining exposure to the earnings potential of the high growth small-cap segment of the market.

The lack of prominent tech names in **Europe** means that the main stock indices are less driven by a concentrated group of tech stocks, such as in the US. A rotation out of growth would benefit the region, as there is an outsized weighing to the current value sectors i.e. financials and energy. At the same time, we evaluate the recent tapering of growth data – which has not been ideal for our euro un-hedged positions –, with an eventual tightening of monetary conditions from the European Central Bank (ECB).

Earnings growth through structural improvements in corporate **Japan,** coupled with attractive valuations, is a definite positive for the market moving forward. This may present an opportunity for us. Though the Bank of Japan (BoJ) has so far maintained an accommodative monetary policy, an eventual tightening would have to be on the cards; as the other two major central banks are already far ahead the tightening cycle. Together with improving economic prospects, we view these as tailwinds for Japanese equities and currency.

The US-China trade skirmish remained a key concern for **Asia**. However, recent developments have become more encouraging, with both parties agreeing to negotiate. Geopolitical risks around North Korea have also diminished, supporting the growth story in the region. While these are positive for Asia's growth, we remain alert to any developments that may threaten our investment thesis.

EM equities continue to experience volatility and dispersion. Economic activity has continued to improve, albeit more unevenly. Oil prices rose sharply in April on larger than expected supply disruptions from Venezuela and the Middle East, further buoyed by OPEC's commitment to limit production. Despite the market turbulence, the region continues to be supported by firmer commodity prices and more favourable valuations compared to the developed markets. These drivers have supported our overweight in this region. Within the commodities space, base metals experienced large swings throughout the month, eventually retracing back to price support levels as concerns over tariffs eased.

Global fixed income markets are also expected to exhibit higher volatility going forward. As the major central banks embark on monetary policy tightening, bond prices may experience further declines. In addition, higher funding costs as indicated by the LIBOR rate would reduce demand from bond investors. On the other hand, bonds - especially safe-haven **sovereigns** - tend to provide much needed protection in an adverse market scenario.

For the second time this year, sovereign bonds were spooked by fears of higher than expected inflation. Fresh evidence of inflationary pressure may cause yields to rise more quickly. In the meantime, we saw some growth momentum and inflationary pressures tapering off recently. In the US, wage gains continue to disappoint in April. In Europe, the latest ZEW survey (a leading indicator for gauging growth momentum in the euro area) is pointing to further declines. Going by these indicators, central bankers would have little incentive to tighten more quickly than what the market is expecting.

We continue to be bearish on **IG bonds**. This segment generally tend to track the movements of sovereign bonds, but without their safe-haven properties. In addition, spreads are extremely tight, offering little cushion to compensate for higher interest rates. At the same time, there is also less demand as central bankers withdraw from their large bond purchases.

Fundamentals for **Asian bonds** fare better than IG. China's central bank (PBOC) cut its reserve requirement ratio by one percent, injecting liquidity to small cities and rural banks. At the same time, the PBOC has been gradually removing excessive leverage in the financial

system. The delicate balancing act of deleveraging while avoiding negatively impacting smaller businesses is encouraging. Consequently, we witnessed stronger revenue growth and declining leverage in various countries and sectors. Lower levels of leverage reduces the risk of default for corporate bonds.

We remain positive on **EM bonds.** Fundamentals in both the sovereign and corporate sectors are intact. Inflationary pressures continue to be benign, and thus positive for fixed income assets. Notwithstanding the overweight positions, we continue to keep duration short to mitigate any negative impact from rising interest rates.

High Yield (HY) remains one of the more attractive segments within fixed income. Default rates remain low, while investors continue to earn relatively attractive coupon. We had recently increased our exposure back to slight overweight, and subsequently benefitted from the tightening in spreads. We look to review the exposure if spreads tighten to unattractive levels, or where deterioration in the economy creates stress in the high yield markets.

MARKET PERFORMANCE

Regional Equity	MTD	YTD
Global	0.8%	-0.7%
US	0.3%	-1.0%
Europe	3.9%	-1.0%
Japan	3.6%	-2.2%
Asia Pacific ex-Japan	0.9%	-0.1%
Emerging Markets	-0.6%	0.5%

Fixed Income	MTD	YTD
Global Aggregate	-1.6%	-0.3%
High Yield	0.6%	-0.6%
Asia	-0.7%	-1.9%
Emerging Market Debt	-1.0%	-2.5%

Currencies	MTD	YTD
USD/SGD	1.1%	-0.8%
EUR/SGD	-0.9%	-0.2%
JPY/SGD	-1.7%	2.2%

Commodity	MTD	YTD
Gold	-0.7%	0.9%
WTI Crude	5.6%	13.5%

Source: Bloomberg. All returns in index currency terms.

Country	MTD	YTD
Australia	3.9%	-1.4%
Brazil	0.9%	12.7%
China “A”	-3.6%	-6.8%
China “H”	2.8%	5.3%
Hong Kong	2.4%	3.0%
India	6.6%	3.2%
Indonesia	-3.1%	-5.7%
Korea	2.8%	1.9%
Malaysia	0.4%	4.1%
Russia	1.6%	9.4%
Singapore	5.4%	6.2%
Taiwan	-2.4%	0.1%
Thailand	0.2%	1.5%

Sector	MTD	YTD
Gold equity	1.7%	-3.9%
Energy equity	9.3%	2.1%
Technology	0.0%	3.2%
Healthcare equity	0.9%	-0.9%
Financial equity	-0.5%	-1.9%

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