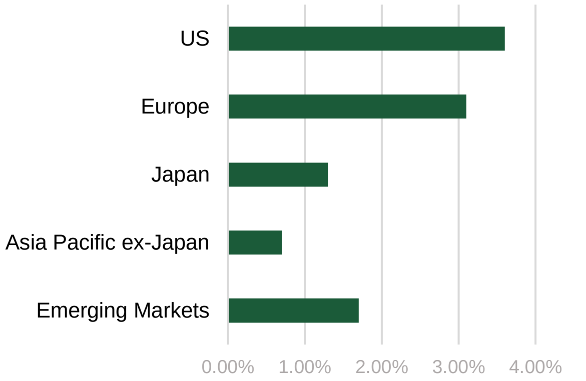
Monthly Commentary

All data as at 31 July 2018 August 2018

EQUITY REVIEW

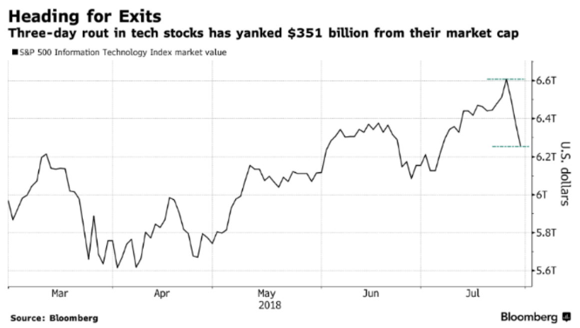
Global Equity Return 2.9% (USD)



Source: Bloomberg

United States 3.6% (USD)

The US S&P 500 index gained the most since January as earnings took centre stage. We observed a rotation into value sectors, such as financials and industrials, which gained strongly. Tech stocks declined towards the end of the month on concerns over earnings growth. Facebook (the 'F' in FANG) fell more than 18 percent in a day as it failed to match investor's sky-high expectations.



Asia Pacific ex Japan 0.7% (USD)

Emerging Markets 1.7% (USD)

There was meaningful dispersion of performance across the region in July. Tencent, a tech-focused conglomerate, declined close to 10 percent in July, and detracting from China's tech sector. On the other hand, a 13 percent gain from Taiwan Semiconductor contributed to the strong performance of Taiwan's tech sector.

Emerging markets observed a meaningful rebound in July. Brazil's IBOV index was the biggest beneficiary of this rally, gaining more than 12 percent in USD terms as their currency gained. Broad commodities continued to falter in July, but did not have an outsized impact on commodities exporters like Brazil or South Africa. The Bloomberg Commodities Index continued to decline as both oil and gold fell over the past month.

Europe 3.1% (EUR)

Europe saw a broad-based rally led by the financial and healthcare sectors. Financial stocks, which have lagged year-to-date, were boosted by positive earnings surprises – Deutsche Bank rose more than 21% as it reported better than expected Q2 results. Volatile energy stocks lagged as oil prices declined on supply concerns.

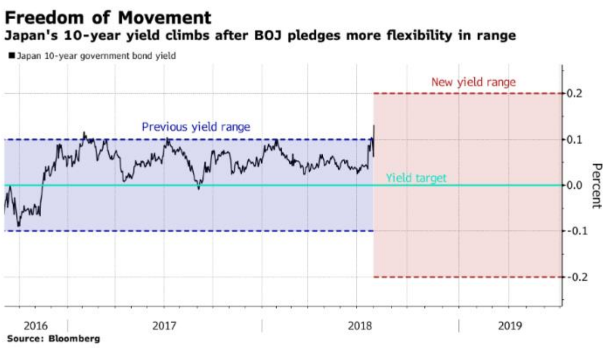
Japan 1.3% (JPY)

Equities rose as the Japanese currency fell about 1 percent. Echoing other regions, Japan financials rebounded after falling close to 10 percent the prior two months. The energy sector posted strong returns driven by M&A activities – Japanese oil refiners Idemitsu Kosan and Showa Shell rose on news of a merger. The more defensive consumer staples and utilities sectors detracted from performance.

FIXED INCOME REVIEW

Sovereign

Sovereign bonds declined as equity markets rose. The safe-haven asset had enjoyed strong rallies prior to July on fears of a growth slowdown amidst a worsening trade spat. These fears were more muted the past month, as markets turned their attention to the prospect of higher yields (which would lead to lower bond prices). Speculation that the Bank of Japan (BoJ) would start to seriously consider removing some of their accommodative monetary policy measures also added to the negative sentiment around sovereign bonds.



Investment Grade

Investment Grade (IG) bonds rallied alongside other spread products. Like high yield bonds, strong corporate earnings were positive, though gains were relatively smaller as IG valuations (as indicated by historically tight spreads) remain more unattractive.

High Yield (HY)

High Yield (HY) bonds performed the best among the various spread products (non-government bonds) in the fixed income space. Strong corporate earnings, together with continued low default rates continue to benefit the segment. Relatively high coupon, with the tightening of spread contributed to most of the gains over the past month, and benefitting our outsized allocation to this segment.

Asian bonds

Asian bonds rallied in tandem with EM bonds. Although economic indicators (such as the Purchasing Manager Index) out of China were weaker than expected, it reflected a moderation of economic activity, rather than a sharp slowdown of the second largest economy in the world. Dollar-denominated bonds rose meaningfully after declining for most of the year, and as valuations may have become more attractive to investors.

Emerging Markets Debt (EMD)

Emerging Market (EM) bonds rose. Latin American bonds, which were battered severely over the previous months, bounced back strongly led by Brazilian bonds – mimicking the rally in Brazilian equities. A generally risk-on sentiment was conducive for EMD alongside the other riskier bond segments and benefitting our overweight versus investment grade bonds (which we have zero exposure to).

OUTLOOK AND STRATEGY

Markets were more optimistic in July, even as the US announced that it was considering more than US$200bn of tariffs on China, in a continuation of the trade skirmish that has plagued the markets for most of the year. On the whole, markets continue to balance a potential deterioration in globalisation (and the next global slowdown), with robust corporate fundamentals that are still supporting financial markets.

Equities

US equities have continued to benefit from strong economic data and corporate earnings growth. That said, we note that earnings forecasts, especially around the more richly-valued sectors, are increasingly at risk of getting too far ahead of themselves. The massive declines in Facebook and Netflix were a stark reminder of the risks that are involved when investing into companies where expectations leave little room for error. Our strategy of allocating to financials was predicated on valuations that are relatively more attractive, and yet still benefitting from favourable tailwinds (higher interest rates are positive for banks). At the same time, we maintain our exposure to the earnings potential of the high growth small-cap segment of the market.

Growth has continued to moderate in **Europe**, as indicated by July's Eurozone Purchasing Manager's Index (PMI). Despite the moderation, the European Central Bank (ECB) has been firm in pulling back on their accommodative policies as the economy continues to expand, albeit at a slower pace. That said, the positive performance of European equities over the past month, boosted by positive earnings surprises, may present opportunities if they are more sustainable.

Japanese corporates continue to report encouraging earnings, though equity markets continue to be largely driven by currency movements. The latest from the Bank of Japan (BoJ) is largely more of the same accommodative policies, though they gave themselves some flexibility in adjusting these measures. We are on the lookout for catalysts that would prompt us to review our neutral allocation to Japan.

As markets adjusted to the prospect of a protracted trade skirmish, we observed a larger dispersion of performance across the **Asia Pacific ex-Japan** region. While most of the region's markets were positive in July, China was down 2.7 percent in USD terms. That said, we believe that valuations are at attractive levels at this point, and should help to limit any downside.

Emerging market equities got some respite from the recent sell-off as market participants adjust to the commentary coming out of the US-China trade spat. Weakening commodity prices, along with the prospect of a stronger dollar continues to be the main considerations for the region. We expect heightened volatility around the EM markets until the prevalent risk factors become clearer.

Fixed income

Interest rates continue their trend upwards. The Fed is expected to continue raising rates until at least 2019, while the ECB looks to wind down its QE program completely by the end of 2018. Though the BoJ has kept their monetary policy unchanged, they are also expected to tighten their policy eventually. Our allocation to **sovereign bonds** is premised on rising uncertainty around global markets today – as a safe-haven asset, sovereign bonds would help cushion any potential losses from the riskier equity and fixed income segments in a risk-off scenario.

Investment Grade (IG) bonds continue to be unattractive from a risk to reward perspective. The spreads (risk premium) between IG bonds and sovereign bonds are tight from a historical perspective, and would not provide a sufficient cushion when interest rates rise, or in a risk-off scenario. For the same reason, IG bonds are also unlikely to outperform in a risk-on environment, since there is not much room for spreads to tighten further. It is for these reasons we have no exposures to this segment today.

Emerging market debt enjoyed a meaningful recovery in July. Despite a slowdown in China, overall fundamentals in the EM have not yet deteriorated significantly. Furthermore, there is still room for credit spreads tighten in the near term. Exposure to EM bonds are kept to the shorter duration to minimise the negative impact from rising interest rates, while still enjoying relatively high coupons.

Asian bonds performed fairly well in July after a lacklustre first half of the year. As there is still room for credit spreads to tighten, Asian bonds have become increasingly attractive. That said, we have taken a more cautious approach as China and US have embarked on tit-for-tat tariffs; and are paying close attention to the relevant risk indicators. A short duration bias would help to dampen volatility and reduce interest rate risks.

High Yield bonds are expected to remain buoyant as corporate earnings are expected to remain strong in the US, with default rates still at low levels – a majority of companies in the US have reported better than expected

earnings in Q2. Similar to EMD and Asian bonds, we maintain a short duration bias to the high yield segment.

MARKET PERFORMANCE

Regional Equity	MTD	YTD
Global	2.9%	1.3%
US	3.6%	5.3%
Europe	3.1%	0.6%
Japan	1.3%	-3.5%
Asia Pacific ex-Japan	0.7%	-4.7%
Emerging Markets	1.7%	-6.1%

Fixed Income	MTD	YTD
Global Aggregate	-0.2%	-1.6%
High Yield	1.3%	1.0%
Asia	0.7%	-1.7%
Emerging Market Debt	1.7%	-2.2%

Currencies	MTD	YTD
USD/SGD	-0.1%	1.9%
EUR/SGD	0.0%	-0.8%
JPY/SGD	-1.1%	2.6%

Commodity	MTD	YTD
Gold	-2.3%	-6.1%
WTI Crude	-7.3%	13.8%

Source: Bloomberg. All returns in index currency terms.

Country	MTD	YTD
Australia	1.4%	3.5%
Brazil	8.9%	3.7%
China “A”	0.2%	-12.7%
China “H”	-0.4%	-5.8%
Hong Kong	-1.3%	-4.5%
India	6.2%	10.4%
Indonesia	2.4%	-6.6%
Korea	-1.3%	-7.0%
Malaysia	5.5%	-0.7%
Russia	1.1%	10.0%
Singapore	1.6%	-2.4%
Taiwan	2.0%	3.9%
Thailand	6.7%	-3.0%

Sector	MTD	YTD
Gold equity	-4.4%	-8.3%
Energy equity	1.4%	6.7%
Technology	1.9%	11.0%
Healthcare equity	6.1%	6.7%
Financial equity	5.1%	0.0%

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