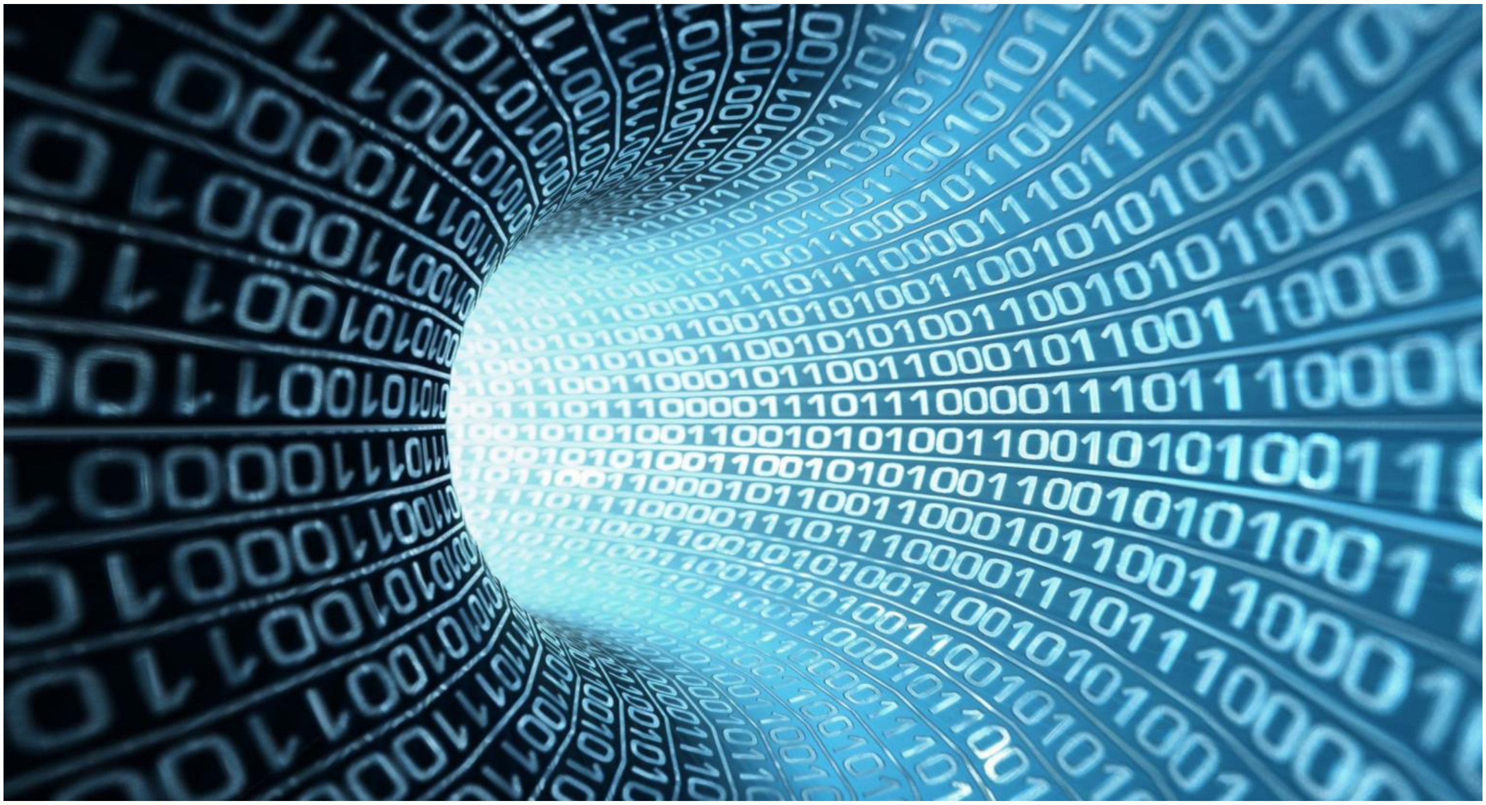

A synchronized recovery

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2017 In Review

It has been a good year for equity investing. More importantly, it has been an excellent year to remain invested. Let us review with seemingly verbose flattery, the main bourses which broke one record after another. In the United States, the Dow Jones Industrial Average, NASDAQ Composite Index as well as the wider barometer S&P 500 Index all reached new highs on 18 December 2017. Reflecting a year when technology stocks performed well, the NASDAQ Composite was up by 28.2%. The Dow and S&P 500 were not far behind with gains of 25.1% and 19.4%, respectively.

Europe also enjoyed a 6.5% gain (in its own currency, the Euro) in the Euro Stoxx 50 Index – this index comprises 50 leading blue-chip companies from 12 Eurozone countries. United Kingdom's FTSE 100 Index closed the year at a record high.

Over in Asia, Japan's Nikkei 225 Stock Average rose 19.1% (after having reached an all-time high on 25 December 2017) and the MSCI AC Asia Pacific Ex-Japan Index (in US Dollar terms) rose 33.5% to close at a 10-year high.

Broadly speaking, the US and Asian stock markets have continued their uptrends since early 2009 following the recovery from the Global Financial Crisis of 2007-2008. Europe and Japan, both of which were previously laden by their struggling economies, have only started to recover since late 2012.

A global equity index, the MSCI ACWI Index which includes both emerging and developed world markets, gained 21.6% (in US Dollar terms) and closed at a shade off its all-time which was reached a day earlier.

Looking Forward

I shared my thoughts in our last MA Insights of September 2017 that we are in a multi-year uptrend for equity investing on the back of continuing economic improvement and corporate earnings growth.

We are seeing a more broad-based global economic recovery. We have been waiting for this synchronized recovery for quite a while now after the effects of the Global Financial Crisis. The table below is extracted from the latest International Monetary Fund (IMF)'s World Economic Outlook published in October 2017. In the words of the

IMF, "the global upswing in economic activity is strengthening, with global growth projected to rise to 3.6 percent in 2017 and 3.7 percent in 2018."

While the IMF noted that "the recovery is not complete" and that growth is still weak in many countries and medium-term risks persist, it has made upward revisions to economic growth in the major economies of the Euro area, Japan, Emerging Asia, Emerging Europe and Russia. It shaved its projections made in April 2017 for the United States and the United Kingdom.

We are often asked: Is it time to be cautious? Yes, I am cautiously optimistic going into the New Year. We have been talking about a search for a new "normal". We have to continue to grapple with sub-par economic growth for the foreseeable future. Economists also grapple with what the new "normal" for US Federal Funds Rates would likely be. As of today, we are probably looking at a range of 1.5% to 3%.

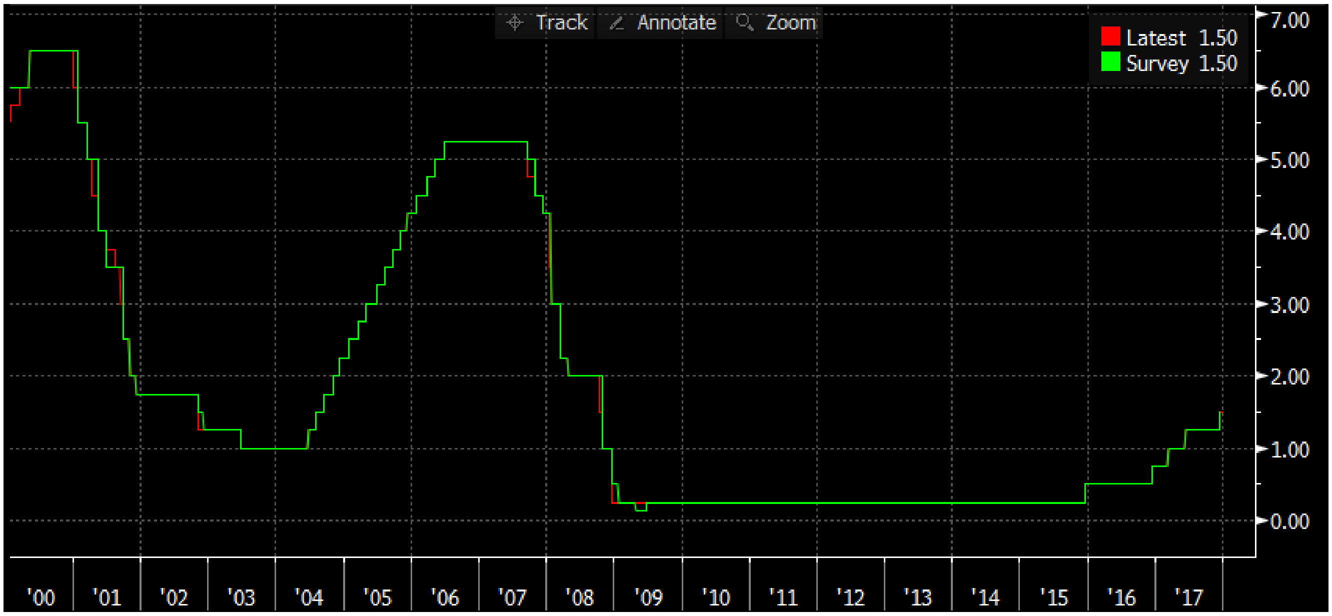
Overview of the World Economic Outlook Projections

(Percent change, unless noted otherwise)

		Projections		Difference from July 2017 *WEO Update*[1]	
	2016	2017	2018	2017	2018
World Output	**3.2**	**3.6**	**3.7**	**0.1**	**0.1**
Advanced Economies	**1.7**	**2.2**	**2.0**	**0.2**	**0.1**
United States	1.5	2.2	2.3	0.1	0.2
Euro Area	1.8	2.1	1.9	0.2	0.2
Germany	1.9	2.0	1.8	0.2	0.2
France	1.2	1.6	1.8	0.1	0.1
Italy	0.9	1.5	1.1	0.2	0.1
Spain	3.2	3.1	2.5	0.0	0.1
Japan[2]	1.0	1.5	0.7	0.2	0.1
United Kingdom	1.8	1.7	1.5	0.0	0.0
Canada	1.5	3.0	2.1	0.5	0.2
Other Advanced Economies[3]	2.2	2.6	2.5	0.3	0.1
Emerging Market and Developing Economies	**4.3**	**4.6**	**4.9**	**0.0**	**0.1**
Commonwealth of Independent States	0.4	2.1	2.1	0.4	0.0
Russia	–0.2	1.8	1.6	0.4	0.2
Excluding Russia	1.9	2.9	3.3	0.4	–0.2
Emerging and Developing Asia	6.4	6.5	6.5	0.0	0.0
China	6.7	6.8	6.5	0.1	0.1
India[4]	7.1	6.7	7.4	–0.5	–0.3
ASEAN-5[5]	4.9	5.2	5.2	0.1	0.0

Source: International Monetary Fund's World Economic Outlook October 2017

US Federal Funds Target Rate – Upper Bound



Source: Bloomberg

All said, we are likely to plod along, before we find that we can start to jog happily with the rest of the world. Much of the present cautious comments by analysts and economists are focused on concerns over political unease, particularly over the nuclear threats from the Korean Peninsula and threats to the United States economy from an over-tightening by the US Federal Reserve – both of which, in my view, are too alarmist. Investors also continue to watch up north for possible further tightening on the financial sector by Chinese policy makers.

Another major issue to take note of in the months ahead is that in a world where the US Dollar – the US currency lost 7.7% against the Singapore Dollar in 2017 - remains a dominant currency and affects not just trade but also investments and commodity prices, investors would need to manage the combined roles of price change, dividend or income and foreign exchange to achieve returns in their base currencies.

Uptrend to continue for several years

The uptrend in equity markets is likely to continue for several years into 2020. That said, market indices such as the Straits Times Index (up 18.3% in 2017) and Hang Seng Index (up 36%) which are still below their 2007's peaks, should be able to easily surpass their highs in the first half of 2018.

I remain positive on the US stock markets. US corporates, including technology companies, are growing. As I wrote in the previous issue, I take the view that traditional measures Price-to-Earnings, Price-to-Book or Price-to-Cash Flow are poor yardsticks of determining valuation in technology stocks. Other corporate earnings have also been strong and both consumer and business confidence levels have improved in the US.

Fast growing Asian economies

Of greater interest this year would be Asian equities. Our regional economies remain fast growing economies and with our young demographics and bountiful infrastructural projects, there will continue to be opportunities aplenty in the years ahead. The IMF has projected that Indonesia, Malaysia, Philippines, Thailand and Vietnam as a group would grow by 5.2% in 2018.

Wishing you a Happy New Year and looking forward to sharing more with you at our next Managed Accounts Quarterly Seminar on 30 January 2018.

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