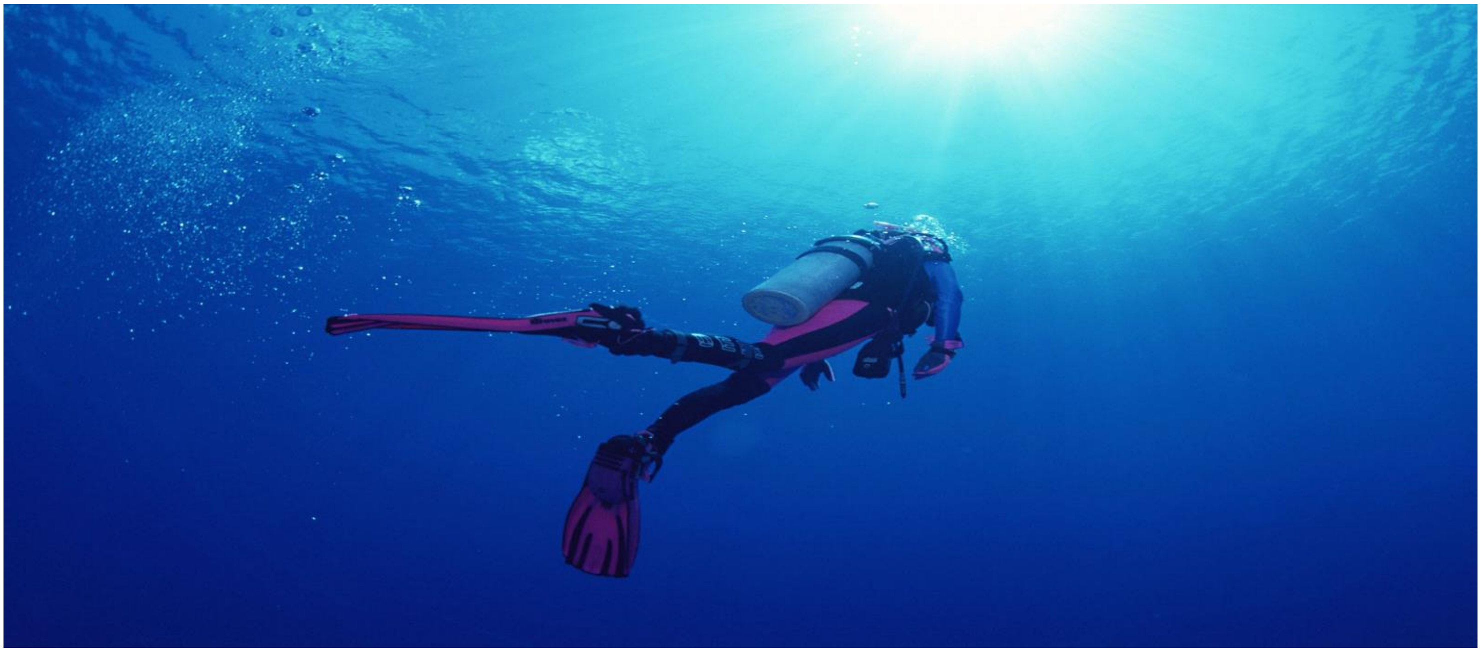

CLOSE TO BOTTOMING OUT

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Our regional equity markets are close to bottoming out.

In the last 12 to 15 months, we have been affected by the sharp sell-down in China stock markets and both regional and global economic growth have also been hurt by the slowdown in the Chinese economy and aggravated by fears over an impending Brexit.

The concerns, including that of a hard landing in China, have not evaporated and we should be more prepared now than any time in close to a decade after the Global Financial Crisis of 2007 – 2008 for a sustained period of low economic activity. However, long-term investors should be accumulating good companies at a time when investment sentiment is subdued.

Stock markets are leading indicators with investors discounting ahead the unfolding of economic and stock market cycles vis-à-vis stock valuations.

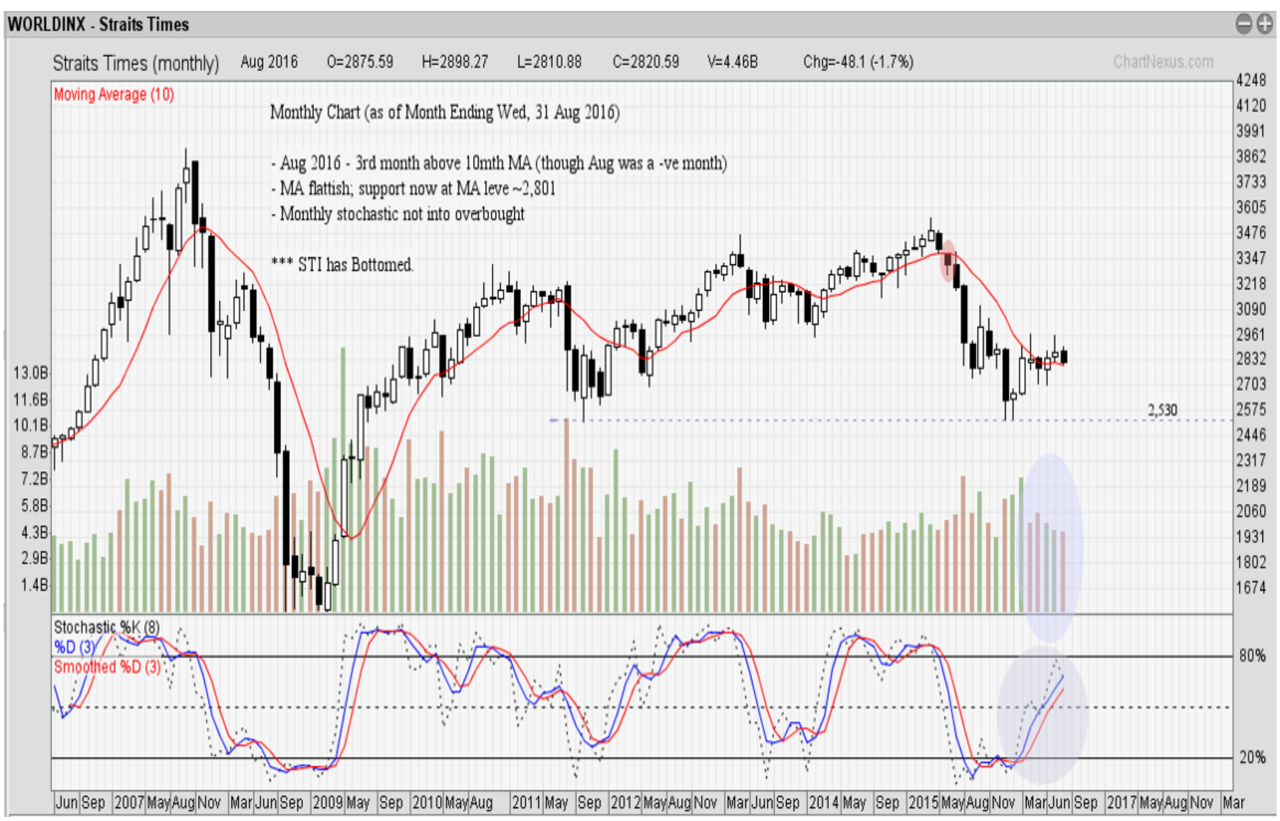
The Caixin Manufacturing PMI, a closely-followed leading indicator tracking the Chinese economy and previously compiled by HSBC, has given promise that the economy could be stabilising. The Index – derived from a survey of 430 private industrial companies – was below the 50 level in June and showed that manufacturing activity was contracting. However, since July, manufacturing activity has been expanding – July was the first month of expansion since February 2015 - but at a slower pace with the Index at 50.0 in August and 50.1 in September 2016.

Caixin Manufacturing PMI
Source: http://www.tradingeconomics.com

Meanwhile, based on the latest available data, the Chinese economy expanded by 6.7% for the April – June quarter compared with the year before. This was a 1.8% improvement over the first quarter of 2016. The GDP growth for the January – March quarter was also 6.7% compared to the year before and was the slowest pace since the global financial crisis. The government is targeting a range of 6.5% - 7% for 2016.

Source: http://www.tradingeconomics.com | National Bureau of Statistics of China

On the charts, the long-term charts of several stock markets have turned positive. These include Singapore's Straits Times Index and Hong Kong's Hang Seng Index.



Source: http://www.chartnexus.com

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Before our next issue of MA Insights in early January next year, some key events would have occurred:

1) US Presidential Elections on 8 November 2016
2) Two meetings held by the US Federal Reserve (US Fed) – 1 & 2 November 2016 and 13 & 14 December 2016.

US Presidential Elections

As of today, there is still no clear winner between Hillary Clinton (Democrat party) and Donald Trump (Republican party) in the coming elections, although Clinton seems to have gained an edge over Trump after their first debate. Putting aside the criticisms of these two candidates, both of whom are reportedly not being favoured, we may like to revisit the question "Would the stock market perform better in a so-called "business friendly" Republican administration compared with a Democrat administration?" Apparently, it doesn't matter, going by the "studies" I read on the internet. I think the point is that outside of social and political rhetoric and decisions, any administration must take upon itself to ensure the economic well-being of the country. I think both are likely to be pro-business – and this could be a reason for the US stock markets recently reaching new highs - although Trump's strong rhetoric seems to suggest that he wants much more and which may be a concern to us if the US Federal Reserve keeps to its guidance on inflation at a 2% cap.

I think Clinton will win – and this will provide much continuation to the Obama administration and hence, no added risk aversion to the current investment climate. However, it appears that we are unlikely to have the same party with a majority in both houses of the United States Congress.

Over the years, there have been studies on how the 4-year US presidential cycle affect the US stock market. Here again, we find the "findings" not conclusive, hence we would read it with interest but with a pinch of salt:

(1) first year of new administration – weak stock market as the new administration takes unpopular measures

(2) first year of incumbent – positive 70% of the time since 1945 with no new significant administrative measures

(3) third year – when the monetary conditions are especially conducive for economic growth and the incumbent prime pump the economy

US Fed Funds Rates

We read that the US Fed is now more eager to raise interest rates. At their last meeting in September, three out of the 10 voting members have preferred an immediate increase.

So, would there be a rate hike at the next decision on 2 November? Is the Fed truly independent and not affected by politics? In this instance, I think this question is currently not important. Instead, the Fed is likely to avoid a hike just before the US Presidential Elections on 8 November – given the current lacklustre economic conditions and mindful of the likely market volatility before and after the Presidential Elections. A rate hike is more likely in December, perhaps with a bigger amount. More importantly, going into next year, investors are likely to remain concerned over the pace of interest rate hikes – that there could be several rounds of increases and by bigger quantum.

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