



## SECTOR REVIEW

MONTHLY MORNING MEETING JANUARY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

### REGIONAL MARKETS UPDATE

#### US MARKET (4.0 STARS – VERY ATTRACTIVE)

- ISM Manufacturing PMI rose to 53.9 in Dec 11, up from 52.7 in Nov 11, a second consecutive monthly increase
- ISM Non-manufacturing composite fell marginally to 52.0 in Nov 11, down from 52.9 in Oct 11
- Factory orders saw a -0.4% m-o-m decline in Oct 11, after a downward-revised -0.1% decline in Sep 11
- Nonfarm payrolls rose by 120,000 in Nov 11, following an upward-revised 100,000 increase in Oct 11
- Private payrolls rose by 140,000 in Nov 11, after an upward-revised 117,000 increase in Oct 11
- Unemployment rate fell to 8.6% in Nov 11, down from 9% in Oct 11
- Consumer credit expanded by USD 7.65 billion in Oct 11, after a downward-revised USD 6.88 billion increase in Sep 11
- Advance retail sales rose 0.2% m-o-m in Nov 11, after an upward-revised 0.6% m-o-m increase in Oct 11
- Excluding autos, retail sales were 0.2% higher m-o-m in Nov 11, after a 0.6% increase in Oct 11
- Business inventories rose 0.8% m-o-m in Oct 11, after being unchanged m-o-m in Sep 11
- Consumer prices rose 3.4% y-o-y in Nov 11, after a 3.5% y-o-y increase in Oct 11
- US producer prices increased 0.3% m-o-m in Nov 11, after a -0.3% decline in Oct 11
- Industrial production declined -0.2% m-o-m in Nov 11, after a 0.7% increase in Oct 11
- Leading indicators rose 0.5% m-o-m in Nov 11, after a 0.9% increase in Oct 11
- Existing home sales rose 4% m-o-m in Nov 11, after a 1.4% increase in Oct 11
- Housing starts rose 9.3% m-o-m to a 685,000 annualised rate in Nov 11, up from a revised 627,000 rate in Oct 11
- New home sales rose 1.6% m-o-m in Nov 11, after a 1.3% m-o-m increase in Oct 11
- Consumer confidence spiked to 64.5 in Dec 11, up from a downward-revised 55.2 in Nov 11
- US 3Q 11 GDP revised lower to 1.8% q-o-q annualised growth in 3Q 11 after 1.3% growth in 2Q 11

#### MARKET OUTLOOK

The US market (as represented by the S&P 500) managed to end 2011 at almost the same level as it started the year – 1257.60 on 30 December 2011, compared with 1257.64 on 31 December 2010. Nevertheless, a 1% return in SGD terms meant US equities outperformed most other equity markets as stocks were roiled by persistent Eurozone debt crisis concerns, as well as a potent combination of soaring energy and commodity prices which crimped consumer spending and hurt economic growth. Growth expectations for 2011 were as high as 3.2% in February 2011, but consensus forecasts are now for full-year growth of 1.8% (as of 31 December 2011).

High unemployment and a weak housing market have continually been cited as issues weighing on the economy, but there has been much more cause for optimism as data improves on both fronts. Payrolls data indicates that jobs have continued to be created despite ongoing global economic uncertainty, with fourteen consecutive months of net job creation so far. Conditions also appear ripe for a housing market rebound, given that affordability is extremely high while current depressed new housing activity is (in our estimates) insufficient to cope with normalised demand due to population growth. While housing starts have risen in recent months, the measure still remains at depressed levels, a hint of further improvements to come. In addition, with commodity prices having eased off their 2011 highs, we think the US economy may surprise on the upside in 2012, which has positive implications for corporate earnings and the stock market.

Economic data has remained resilient and appears to be gathering strength, and we believe that our initial concerns about contagion from a slowdown in Europe may be too pessimistic. **We have thus reverted to utilising consensus estimates earnings for our US market forecasts**, given the consistent positive surprises logged by US companies over the year. As of 30 December 2011, US earnings are expected to post 15.8% growth from 2010, a figure which appears easily achievable given that only 4Q 11 earnings have yet to be reported. With the market unchanged since the end of 2010, the strong growth in earnings has correspondingly made the US equity market cheaper, driving valuations down from 14.7X at the end of 2010 to 12.7X as of 30 December 2011. Consensus expectations are for further growth of 13.7% and 10.4% in 2012 and 2013, which will drive down valuations further. We expect the US equity market to re-rate to a significantly higher multiple of earnings which will provide considerable upside, and retain a 4.0 star “very attractive” rating on the US equity market.