REGIONAL MARKETS UPDATE

EUROPE (2.5 STARS – NEUTRAL)

EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 55.3 in Mar 18, as compared to a finalised 57.1 in Feb 18
- Advance Consumer Confidence at 0.1 in Mar 18, unchanged from a finalised 0.1 reading in Feb 18
- Retail sales rose 2.3% y-o-y in Jan 18, up from an upward-revised 2.1% y-o-y gain in Dec 17
- ZEW survey (expectations) at 13.4 in Mar 18, down from 29.3 in Feb 18
- Sentix Investor Confidence came in at 24.0 in Mar 18, down from 31.9 in Feb 18

GERMANY

- Advance composite PMI at 55.4 in Mar 18, down from a finalised 57.6 in Feb 18
- Factory orders rose 8.2% y-o-y in Jan 18, after an upward-revised 7.9% rise in Dec 17
- ZEW readings fell for both the current situation and expectations surveys in Mar 18
- IFO surveys for current assessment, business climate and expectations surveys fell in Mar 18

FRANCE

- Preliminary PMI composite at 56.2 in Mar 18, down from a finalised 57.3 in Feb 18
- Industrial production rose 1.2% y-o-y in Jan 18, down from a downward-revised 3.9% rise in Dec 17
- Bank of France business sentiment at 105 in Feb 18, INSEE business confidence at 109 in Mar 18

UNITED KINGDOM

- Preliminary PMI Composite at 54.5 in Feb 18, down from 53.5 in Jan 18
- Retail sales ex auto fuel rose 1.1% y-o-y in Feb 18, slowing from a downward-revised 1.3% rise in Jan 18
- Retail sales ex auto fuel rose 0.6% m-o-m in Feb 18, up from a downward-revised -0.2% fall in Jan 18

MARKET OUTLOOK

European corporations on aggregate (as represented by the benchmark Stoxx 600 Index) saw minor changes over the month of March, with 2018's and 2019's earnings estimates revised -0.4% and -0.3% respectively (as of 26 March 2018). Year-to-date, 2018's and 2019's earnings revisions have been somewhat flat, with the former seeing a 0.1% change and the latter a -0.1% change. On a sector basis, healthcare-related companies saw earnings downgrades as a whole once more, while the personal and household goods industry also saw downgrades. The European oil and gas sector bore the brunt of downgrades month-to-date (-2.2%), while the real estate industry saw the strongest upgrades this time round (2.3%). Changes were more muted among banks, financial services, insurers and companies from the technology and construction sectors. Year-to-date, the resources, financial services and automobiles industries saw the strongest earnings upgrades thus far.

In terms of economic data, trends in the labour markets across Europe remain constructive, with continued job gains and unemployment generally improving (with the periphery seeing a faster rate of recovery than the core). Preliminary composite PMI numbers from core countries such as Germany and France for March came in below consensus expectations, but they remain firmly in expansionary territory. The situation is similar in Italy, but only February's PMIs for Spain is above expectations, and all components suggest positive momentum for both the manufacturing and services segments in the Iberian economy. In Britain, PMI numbers have diverged from the overall improving trend on the continent since last year (they have been on a downtrend), but February's numbers saw a rebound, led by services, and have come in above forecasts. A continued deceleration in leading indicators in the UK may start to show up in hard data, whereby capex and consumption on the British Isles may slow as Brexit uncertainties continue to linger.

In its latest policy meeting, the European Central Bank (ECB) left key policy rates unchanged, but modified a portion of its statement, stating that its current programme of asset purchases will continue through September, "or beyond, if necessary", without mentioning that purchases will be stepped up if the outlook deteriorates. In its press conference, ECB President Mario Draghi reiterated that policy is still expected to be accommodative, and that rates will still remain low "for an extended period of time, and well past the horizon of the net asset purchases." While the exact timing is uncertain, we believe that monetary policy in the Euro-region will gradually be normalised as economic recovery is increasingly entrenched.

In political developments, markets are taking Brexit developments in their stride. Both the UK and the European Union (EU) have agreed on the length of the transition period. This period will last from the official day the UK leaves the EU (29 March 2019) to 31 December 2020, and the UK will be able to negotiate, sign and ratify its own trade deals during this period. As of this juncture, further discussions are on the table for a host of other matters. The situation is dynamic and ongoing, and as such, it is difficult to predict what the eventual result would be. In such an environment, investors are best advised to opt for actively-managed strategies in order to navigate the challenges and capturing the opportunities that may present themselves along the way.

Risk aversion came back to markets worldwide as trade tensions (from an increasingly protectionist US) rose, with a rise in volatility seen in European equities. The Stoxx 600 Index fell -3.4% in EUR terms over the month of March (-2.5% loss in SGD price terms), resulting in a year-to-date loss of -5.8% (as of 26 March 2018). Some of the top performing stocks in March include Hammerson PLC, Elekta, Aeroports de Paris, Lundbeck and Antofagasta, while WPP, Kingfisher PLC and AXA were some of the bottom performers. European equities consequently trades at 14.1X and 13.0X 2018's and 2019's estimated earnings respectively, as compared to its fair PE ratio of 13.5X, indicating that valuations are still at premium to where we deem them to be fair. **We maintain a 2.5 Stars "Neutral" rating for Europe, and advocate investors to remain an underweight exposure to European equities in their portfolios.**

RECOMMENDED FUNDS:
TA EUROPEAN EQUITY FUND

Europe (2.5 Stars – Neutral)

Why we like it

1. International Companies Are Sound
    - MNC giants such as BMW, Siemens, Adidas, Carrefour and other well-known large caps are in good financial health and possess strong balance sheets
    - MNCs have exposure to overseas markets, benefiting from the pickup in growth momentum in other developed and emerging markets

2. Domestic Demand Is Recovering, Supporting Growth
    - Data continues to suggest that domestic demand and corporate investment remain supported; growth momentum picking up
    - Composite PMIs are firmly in expansionary territory and at cyclical highs
    - The ECB's Bank Lending Surveys indicate that loan demand from both households and corporations are healthy

Why we don't like it

1. Existing And New Reforms Need To Be Implemented
    - Not all countries have implemented all the reforms previously promised
    - Some countries, e.g. Italy, need to implement reforms to restructure their industries and work force and improve their efficiency and competitiveness

2. Valuations Not The Most Attractive
    - Valuations remain at premium relative to our estimated fair value
    - Against an estimated fair PE ratio of 13.5X earnings, 2018's estimated PE of 14.1X is above fair value, 2019's estimated PE ratio is 13.0X (as of 26 March 2018)
    - Projected returns are one of the lowest among the markets we cover

3. Political Uncertainty In The European Union (EU)
    - Despite the agreement on the transition period, a cloud of uncertainty still hangs over Britain's commercial fate. Being the second largest economy in the EU, the likely eventual departure of the UK could hurt the EU as well
    - Although pro-EU centrist politicians have prevailed in elections in core EU countries thus far, there is still a whiff of populist sentiment in some parts (like Italy) which could affect investor sentiment and affect corporate decision-making