

REGIONAL MARKETS UPDATE

EUROPE (3.0 STARS – ATTRACTIVE)

EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 56.7 in Apr 17, up from a finalised 56.4 in Mar 17
- Advance Consumer Confidence at -3.6 in Apr 17, up from a finalised -5.0 reading in Mar 17
- Retail sales rose 1.8% y-o-y in Feb 17, up from an upward-revised 1.5% y-o-y gain in Jan 17
- ZEW survey (expectations) at 26.3 in Apr 17, up from 25.6 in Mar 17
- Sentix Investor Confidence came in at 23.9 in Apr 17, up from 20.7 in Mar 17

GERMANY

- Advance composite PMI at 56.3 in Apr 17, down from a finalised 57.1 level in Mar 17
- Factory orders rose 4.6% y-o-y in Feb 17, after an upward-revised 0.0% change in Jan 17
- ZEW readings rose for both the current situation and expectations surveys in Apr 17
- IFO surveys recorded an increase for the current assessment and business climate surveys, but a slight decline in expectations in Apr 17

FRANCE

- Preliminary PMI composite rose to 57.4 in Apr 17, up from a finalised 56.8 level in Mar 17
- Industrial production fell -0.7% y-o-y in Feb 17, down from an upward-revised -0.2% decline in Jan 17
- Bank of France business sentiment at 103 in Mar 17, INSEE business confidence at 104

UNITED KINGDOM

- Preliminary PMI Composite at 54.9 in Mar 17, up from 53.8 in Feb 17
- Retail sales ex auto fuel rose 2.6% y-o-y in Mar 17, down from a 4.1% rise in Feb 17
- Retail sales ex auto fuel fell -1.5% m-o-m in Mar 17, down from an upward-revised 1.6% increase in Feb 17

MARKET OUTLOOK

European companies on aggregate (as represented by the benchmark Stoxx 600 Index) saw minor changes to their earnings estimates over the course of April – with 2017's estimated earnings revised by 0.3% and 2018's estimated earnings revised 0.6% higher (as of 24 April 2017). On a sector basis, European financial services continued to enjoy upgrades, with the sector's 2017 and 2018's earnings estimates revised 9.5% and 21.9% respectively month-to-date. This sector includes companies like UK-based Hargreaves Lansdown, Schroders and Jupiter Fund Management. European telecommunications companies also enjoyed minor EPS upgrades month-to-date, while European oil and gas firms saw a -2.6% downgrade in aggregate EPS following a minor decline in crude oil prices. On the other hand, the travel-related sector has enjoyed gradual earnings upgrades year-to-date after a relatively tough 2016.

Recently released economic data continues to reinforce our view that economic recovery in the Euro-region is increasingly entrenched. Industrial production is still on an overall uptrend, and retail sales data across the Eurozone indicates is moderately improving. Various leading indicators point to continued expansion in the region as well, with advance PMI readings of various core countries like Germany and France still firmly within expansionary territories and those of the periphery (like Spain and Italy) on a gradual ascent. Investment sentiment and business confidence have also been unaffected by uncertainty stemming from politics, suggesting that European corporates have taken the heavy political calendar in their stride thus far.

With the first round of France's presidential elections over, markets are shifting their attention to economic and corporate fundamentals once again. The expected situation of En Marche's Emmanuel Macron and Front National's Marine Le Pen as the final two candidates for the second round of the presidential election materialised, sparking a brief rally in asset markets globally. Both candidates do not have a majority in the French legislative system, as such, the parliamentary elections in June may be vital for French politics as well.

Over the course of April, the benchmark Stoxx 600 Index has risen 1.3% in EUR terms as of 24 April 2017 (2.6% in SGD price terms), with a variety of consumer-related stocks being the top performers and the big banks and pharma lagging this time round. Currently, the European equity market trades at 15.8X and 14.4X 2017's and 2018's estimated earnings, as compared to its fair PE ratio of 13.5X. European corporates are projected to see their earnings grow by 12.0% this year and by 9.8% in 2018. Although the region has a heavy political calendar (Brexit schedule and negotiations, elections in core EU-members France and Germany), various indicators and data points suggest that the recovery on the continent is increasingly entrenched. We advocate investors not to speculate on the outcomes of these political events as they remain difficult to anticipate. **We are keeping a watchful eye on overall valuations at the moment as we retain a 3.0 Stars "Attractive" rating for the European equity market.**

RECOMMENDED FUNDS:
TA EUROPEAN EQUITY FUND