

## REGIONAL MARKETS UPDATE

### EUROPE (3.0 STARS – ATTRACTIVE)

#### EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 56.8 in May 17, as compared to a finalised 56.4 in Apr 17
- Advance Consumer Confidence at -3.3 in May 17, up from a finalised -3.6 reading in Apr 17
- Retail sales rose 2.3% y-o-y in Mar 17, up from a downward-revised 1.7% y-o-y gain in Feb 17
- ZEW survey (expectations) at 35.1 in May 17, up from 26.3 in Apr 17
- Sentix Investor Confidence came in at 27.4 in May 17, up from 23.9 in Apr 17

#### GERMANY

- Advance composite PMI at 57.3 in May 17, down from a finalised 56.7 level in Apr 17
- Factory orders rose 2.4% y-o-y in Mar 17, after an upward-revised 4.7% rise in Feb 17
- ZEW readings rose for both the current situation and expectations surveys in May 17
- IFO surveys recorded an increase for the current assessment, business climate and expectations surveys in May 17

#### FRANCE

- Preliminary PMI composite rose to 57.6 in May 17, up from a finalised 56.6 level in Feb 17
- Industrial production rose 2.0% y-o-y in Mar 17, up from a -0.7% decline in Feb 17
- Bank of France business sentiment at 104 in Apr 17, INSEE business confidence at 105

#### UNITED KINGDOM

- Preliminary PMI Composite at 56.2 in Apr 17, up from 54.8 in Mar 17
- Retail sales ex auto fuel rose 4.5% y-o-y in Apr 17, up from an upward-revised 2.8% rise in Mar 17
- Retail sales ex auto fuel rose 2.0% m-o-m in Apr 17, up from an upward-revised -1.2% increase in Apr 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 May – with 2017's estimated earnings revised by -0.4% lower and 2018's estimated earnings revised -0.7% downwards (as of 26 May 2017). On a sector basis, European real estate companies as a whole saw the largest upgrades (by 2.7%) to their 2017 earnings month-to-date, while the resources sector on aggregate saw the most earnings downgrades (by -2.2%). This sector includes steel-related companies like Finland-based Outokumpu, Austrian corporate Voestalpine, and Italian manufacturer Tenaris, with the changing outlook of the global steel industry weighing on their EPS prospects. On the other hand, other cyclical sectors like European automobile companies and banks saw a slight upgrade in their respective sector EPS over the month. Year-to-date, the resources sector has seen the strongest earnings upgrades.

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 (including the periphery countries) 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 continuously beating expectations and 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.

Pro-EU centrist candidate Emmanuel Macron has presided over his far-right populist counterpart Marine Le Pen, becoming France's youngest president since famous general Napoleon Bonaparte. France's parliamentary elections will take place in June, and it remains to be seen if Macron's party can have a sizable majority in the new parliament in order to give him enough legislative leverage to carry out his intended plans for the country. Across the English Channel, the Bank of England (BOE) kept benchmark policy rates unchanged (at 0.25%) and opted to retain the current amount of its asset purchases programme. In its statement release, the BOE mentioned that "consumption growth will be slower in the near term than previously anticipated before recovering in the latter part of the forecast period as real income picks up." The central bank acknowledged that the effects of a weaker Sterling has begun to feed through to consumer prices, and that "wage growth has been notably weaker than expected", and expects inflation to rise further in the next 2 quarters above target. Overall, guidance was slightly more hawkish this time around as compared to March's policy update, with the committee stating that "some modest withdrawal of monetary stimulus" may be appropriate. However, it remains to be seen if policy-makers will indeed tighten monetary policy going forward as focus is now on the EU negotiations and the uncertainty hanging over Britain's transition.

Following Macron's victory, political risk premiums have declined, sparking a rally in risk assets across Europe's financial markets and a strengthening of the EUR against many currencies including the SGD. Over the course of May, the benchmark Stoxx 600 Index has risen 1.1% in EUR terms as of 26 May 2017 (2.7% in SGD price terms), with Electricite de France, Ocado Group United Internet and EasyJet being the top performers and Petrofac, UCB, Outokumpu and Pandora some of the underperformers this time round. Currently, the European equity market trades at 16.0X and 14.7X 2017's and 2018's estimated earnings, as compared to its fair PE ratio of 13.5X. European corporations are projected to see their earnings grow by 11.7% this year and by 9.3% in 2018. Although a certain level of political uncertainty remains over the continent (Brexit negotiations and elections in core EU members like Germany), various indicators and data points suggest that the ongoing recovery is increasingly entrenched. **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.**