REGIONAL MARKETS UPDATE

EUROPE (2.5 STARS – NEUTRAL)

EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 54.1 in May 18, as compared to a finalised 55.1 in Apr 18
- Advance Consumer Confidence at 0.2 in May 18, decreasing from a finalised 0.3 reading in Apr 18
- Retail sales rose 0.8% y-o-y in Mar 18, slowing from a 1.8% y-o-y gain in Feb 18
- ZEW survey (expectations) at 2.4 in May 18, down from 1.9 in Apr 18
- Sentix Investor Confidence came in at 19.2 in May 18, down from 19.6 in Apr 18

GERMANY

- Advance composite PMI at 53.1 in May 18, down from a finalised 54.6 in Apr 18
- Factory orders rose 3.1% y-o-y in Mar 18, after a downward-revised 3.0% rise in Feb 18
- ZEW readings fell for both the current situation and expectations surveys in May 18
- IFO survey for current assessment rose, expectations survey fell but business climate remained unchanged in May 18

FRANCE

- Preliminary PMI composite at 54.5 in May 18, down from a finalised 56.9 in Apr 18
- Industrial production rose 1.8% y-o-y in Mar 18, down from a downward-revised 3.8% rise in Feb 18
- Bank of France business sentiment at 102 in Apr 18, INSEE business confidence at 106 in May 18

UNITED KINGDOM

- Preliminary PMI Composite at 53.2 in Apr 18, up from a downward-revised 52.4 in Mar 18
- Retail sales ex auto fuel rose 1.5% y-o-y in Apr 18, rising from an upward-revised 1.3% rise in Mar 18
- Retail sales ex auto fuel rose 1.3% m-o-m in Apr 18, down from a -0.5% fall in Mar 18

MARKET OUTLOOK

Earnings season in Europe is nearly over, and thus far, slightly more than half of the reported companies have reported negative revenue surprises for the first quarter of 2018. Earnings have done better, with more than half of the reported companies reporting positive surprises. The telecommunications, financials and information technology sectors have seen the most number of positive revenue surprises, while financials and industrials led the way for positive earnings surprises. The aggregate sales and earnings growth for 1Q 18 on a year-on-year basis was 1.6% and 3.0% respectively. Thus far, the cyclical sectors have seen higher earnings growth as compared to the defensive sectors on average, which is in line with the recovery in growth momentum on the continent and a supportive external environment.

European corporations on aggregate (as represented by the benchmark Stoxx 600 Index) saw earnings upgrades over the month of May, with 2018's and 2019's earnings estimates both revised upwards by 1.7% (as of 29 May 2019). Year-to-date, 2018's and 2019's earnings were revised 1.6% and 1.5% higher respectively. On a sector basis, the retail industry and the banks saw earnings upgrades as a whole over the month, while travel-related companies saw earnings estimates revised -0.5% lower. The oil and gas industry saw the strongest upgrades in May, followed by the resources industry, as sell-side analysts continue to grow more positive over supply side developments.

In terms of economic data, Eurozone advance GDP estimates for 1Q 18 came in at a 2.5% year-on-year rate, down from a prior upward-revised 2.8% year-on-year increase. On a quarter-on-quarter basis, the economy grew by 0.4% (in line with consensus estimates), slowing from 4Q 17's upward-revised 0.7% growth rate. On a per-country basis, the Eurostat's data showed that growth slowed in Germany, France and in Britain, while Italy and Spain saw a similar quarter-on-quarter growth rate in 1Q 18 as compared to 4Q 17. Leading indicators such as the preliminary PMIs from Markit for the month of May were softer than expected across the core countries such as Germany and France, while Britain's composite PMI reading stabilised in the month of April. With data generally weaker than expected, investor optimism has declined correspondingly, and this is reflected in lower ZEW readings in Germany and lower Sentix readings for the Eurozone. We do not think that overall growth will slow down significantly at this juncture, and as such, any positive surprise going into the second half of 2018 will benefit risk assets given that investors' expectations have been lowered.

European equities managed a rally for most of May (registering a 3.0% surge in EUR terms) before concerns over Italian anti-establishment parties forming a coalition government spooked financial markets towards the end of the month, with the Stoxx 600 Index declining -0.2% month-to-date in EUR terms (-3.0% in SGD terms as of 29 May 2018). Altice, Ocado Group, Lundbeck and J Sainsbury were some of the top performing stocks over the month, while Italian banks such as Mediobanca Banca di Credito, UniCredit, Unione di Banche Italiane and Intesa Sanpaolo were some of the bottom performers. European equities consequently trade at 14.6X and 13.5X 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