REGIONAL MARKETS UPDATE

EUROPE (2.5 STARS – NEUTRAL)

EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 50.7 in Jan 19, as compared to a finalised 51.1 in Dec 18
- Advance Consumer Confidence at -7.9 in Jan 19, up from a finalised -8.3 in Dec 18
- Retail sales rose 1.1% y-o-y in Nov 18, down from an upward-revised 2.3% y-o-y gain in Dec 18
- ZEW survey (expectations) at -20.9 in Jan 19, up from -21.0 in Dec 18
- Sentix Investor Confidence came in at -1.5 in Jan 19, down from -0.3 in Dec 18

GERMANY

- Advance composite PMI at 52.1 in Jan 19, up from a finalised 51.6 in Dec 18
- Factory orders fell -4.3% y-o-y in Nov 18, after a downward-revised -3.0% decrease in Oct 18
- ZEW Current Situation Survey decreased while ZEW Expectations Survey improved in Jan 19
- IFO survey for current assessment, business climate and expectations surveys declined in Jan 19

FRANCE

- Preliminary PMI composite at 47.9 in Jan 19, down from a finalised 48.7 in Dec 18
- Industrial production fell -2.1% y-o-y in Nov 18, down from an upward-revised -0.6% decrease in Oct 18
- Bank of France business sentiment at 103 in Dec 18, INSEE business confidence at 102 in Jan 19

UNITED KINGDOM

- Preliminary PMI Composite at 50.7 in Nov 18, declining from a finalised 52.1 in Oct 18
- Retail sales ex auto fuel rose 3.8% y-o-y in Nov 18, up from an upward-revised 2.8% rise in Oct 18
- Retail sales ex auto fuel rose 1.2% m-o-m in Nov 18, up from a -0.4% fall n in Oct 18

MARKET OUTLOOK

Just like their American peers across the Atlantic, European corporations are starting to report their 4Q 18 sales and earnings results. Thus far, banks such as Bankia and UBS Group have missed their 4Q 18 targets, while Logitech, STMicroelectronics and ASML Holding have beaten their sales and earnings targets for the fourth quarter of last year. Consumer discretionary companies such as Richemont and Carnival also managed to slightly beat their targets. While the bar has been lowered over the past few weeks, market participants remain jittery about sales and earnings results at this current juncture.

European corporations on aggregate (as represented by the benchmark Stoxx 600 Index) saw aggregate earnings estimates being lowered over the month, with 2019's and 2020's earnings revised -1.4% and -0.9% lower respectively (as of 28 January 2019). From an industry perspective, the European automobiles, financial services, technology and banks saw downward earnings revisions as a whole. The materials sector also saw downgrades to both their 2019 and 2020 earnings estimates month-to-date, while the energy sector also saw earnings estimates revised lower on the back of subdued energy prices.

In terms of hard economic data, aggregate industrial production data for the Euro-zone region fell in the month of November 2018 (by -3.3% year-on-year), after making gradual increases in 3Q 18. Retail sales came in at a positive 1.1% year-on-year gain in the same month, but it was a slower pace than the prior upward-revised 2.3% year-on-year gain in October 2018. In terms of leading indicators, preliminary readings of composite PMIs continue to display weakness, with the Eurozone composite coming in at 50.7 in January as compared to a finalised 51.1 in December 2018. On a country basis, Germany's leading indicators have stopped declining from last year, although business confidence readings such as the IFO surveys still indicate tepid sentiment. In France, various sentiment readings are still weak after the fallout from the *Gilets Jaunes* protests, whereas in the British Isles, Brexit concerns remain and continue to weigh on investor sentiment on both sides of the English Channel.

European equities rebounded along with the rest of the world's markets in the start of the year, with the Stoxx 600 Index rallying 4.9% in EUR price terms as of 28 January 2019 (4.0% in SGD price terms). German e-commerce player Zalando, e-finance company Wirecard, retailer Ocado Group and logistics provider DSV were some of the month's top performing stocks, while Metro Bank, Henkel AG, Vodafone Group and Telefonica Deutschland were some of the bottom performers this time round. Consequently, European equities as a whole saw a slight rebound in valuation multiples, currently trading at 12.9X and 11.9X 2019's and 2020's estimated earnings respectively, as compared to its fair PE ratio of 13.5X. Growth momentum has cooled thus far but we do not expect overall growth to fall off the cliff**. For the moment, we are maintaining a 2.5 Stars "Neutral" rating for Europe.**

**RECOMMENDED FUNDS:
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