REGIONAL MARKETS UPDATE

EUROPE (2.5 STARS – NEUTRAL)

EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 57.5 in Nov 17, as compared to a finalised 56.0 in Oct 17
- Advance Consumer Confidence at 0.1 in Nov 17, up from a finalised -1.1 reading in Oct 17
- Retail sales rose 3.7% y-o-y in Sep 17, up from an upward-revised 2.3% y-o-y gain in Aug 17
- ZEW survey (expectations) at 30.9 in Nov 17, up from 26.7 in Oct 17
- Sentix Investor Confidence came in at 34.0 in Nov 17, up from 29.7 in Oct 17

GERMANY

- Advance composite PMI at 57.6 in Nov 17, up from a finalised 56.6 in Oct 17
- Factory orders rose 9.5% y-o-y in Sep 17, after an upward-revised 8.3% rise in Aug 17
- ZEW readings rose for both the current situation and expectations surveys in Nov 17
- IFO surveys for current assessment declined a little, but business climate and expectations surveys rose in Nov 17

FRANCE

- Preliminary PMI composite at 60.1 in Nov 17, up from a finalised 57.4 in Oct 17
- Industrial production rose 3.2% y-o-y in Sep 17, up from a downward-revised 1.0% rise in Aug 17
- Bank of France business sentiment at 106 in Oct 17, INSEE business confidence at 111 in Nov 17

UNITED KINGDOM

- Preliminary PMI Composite at 55.8 in Oct 17, as compared to 54.1 in Sep 17
- Retail sales ex auto fuel fell -0.3% y-o-y in Oct 17, down from a 1.6% rise in Sep 17
- Retail sales ex auto fuel rose 0.1% m-o-m in Oct 17, up from an upward-revised -0.6% decline in Sep 17

MARKET OUTLOOK

European companies on aggregate (as represented by the benchmark Stoxx 600 Index) saw minor downgrades over the month, with 2017's, 2018's and 2019's earnings estimates revised -0.7%, -0.9% and -0.7% respectively (as of 27 November 2017). On a sector basis, European insurers saw the heaviest earnings downgrades as a whole month-to-date, with 2017's earnings estimates revised -2.7% lower, while 2018's and 2019's estimates were lowered a smaller -0.3% and -0.5% respectively. European chemical companies on the other hand, saw earnings upgrades for all fiscal year periods, while the basic resources sector trailed behind with minor earnings upgrades on aggregate. Year-to-date, the strongest upgrades for both 2017 and 2018 estimates have been seen among specific cyclical industry groups such as travel-related companies, automobiles, and resource companies, reflecting improving external demand conditions seen thus far.

In terms of economic data, the trend 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). Leading indicators have been particularly strong, with composite PMIs of the major European countries on a firm uptrend and sentiment supported by an improving outlook. Consumer confidence has also continued to improve, lending support to the outlook for domestic consumption. In particular, we have noticed that economic momentum in France has been strong, with recent 3Q 17 GDP data indicating that gross fixed capital formation as well as household consumption improving healthily. Various leading indicators such as corporate and consumer confidence are also at cycle-highs (with some at all-time highs), indicating a positive outlook and robust momentum on the continent alongside Germany.

In latest monetary policy updates in Europe, the Bank of England (BOE) made its first rate hike (of 25 basis points) since July 2007 (before the end of the Global Financial Crisis), bringing the benchmark rate to 0.50%. This move was done to rein on the effects of imported inflation, as the UK's CPI rate rose by 3.0% year-on-year in September. While acknowledging that investment continues to grow at a moderate pace, the BOE also mentioned that "the decision to leave the European Union is having a noticeable impact on the economic outlook", and that "uncertainties associated with Brexit are weighing on domestic activity, which has slowed even as global growth has risen significantly." While the latest move was unprecedented, it was largely expected by market participants as policymakers have turned hawkish in the past two months before the latest policy meeting. Initial market reactions include a broad-based weakening of the Sterling, and yields in the UK sovereign bond market moved lower across the board. We opine that this may not be the start of a continuous tightening cycle as policymakers focus on Brexit-related uncertainties affecting Britain's commercial outlook moving forward.

Over the month of November, the Stoxx 600 Index fell -2.2% in EUR price terms as of 27 November 2017 (-1.1% in SGD terms). Deutsche Bank, Axel Springer, Porsche Automobil and Vivendi were some of the top performing stocks over the month, while Vestas Wind Systems, Leonardo, Babcock International and health care player Fresenius were some of the bottom performers. The European equity market thus trades at 14.9X and 13.6X 2018's and 2019's estimated earnings respectively, as compared to its fair PE ratio of 13.5X, indicating that valuations are currently premium to where we deem it fair. European companies are projected to see their earnings grow by 8.7% in 2018 and by 8.9% in 2019, which is fairly reasonable given that various indicators and data points suggest that the ongoing recovery is increasingly entrenched (barring any unforeseen adverse political developments). **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