REGIONAL MARKETS UPDATE

US MARKET (2.0 STARS – UNATTRACTIVE)

- ISM Manufacturing PMI came in at 59.1 in Jan 18, down from a downward-revised 59.3 in Dec 17
- ISM Non-Manufacturing came in at 59.9 in Jan 18, up from an upward-revised 56.0 in Dec 17
- Nonfarm payrolls rose 200,000 in Jan 18, after an upward-revised 160,000 gain in Dec 17
- Private payrolls rose 196,000 in Jan 18, after an upward-revised 166,000 increase in Dec 17
- Unemployment rate unchanged at 4.1% in Jan 18
- Factory orders rose 1.7% m-o-m in Dec 17, after an upward-revised 1.7% increase in Nov 17
- Advance retail sales fell -0.3% m-o-m in Jan 18, after a downward-revised 0.0% m-o-m change in Dec 17
- Excluding autos and gas, retail sales fell -0.2% m-o-m in Jan 18, after a downward -revised 0.0% m-o-m change in Dec 17
- Industrial production fell -0.1% m-o-m in Jan 18, after an upward-revised 0.4% m-o-m rise in Dec 17
- Leading index posted a 1.0% m-o-m increase in Jan 18, after a 0.6% gain in Dec 17
- Housing starts registered a 1.326 million annual rate in Jan 18, after an upward-revised 1.209 million annual rate in Dec 17
- Building permits registered a 1.396 million annual rate in Jan 18, after a downward-revised 1.30 million rate in Dec 17
- Existing home sales fell -3.2% m-o-m in Jan 18 to a 5.38 million annual rate, after an upward-revised -2.8% m-o-m fall in Dec 17
- Consumer confidence index at 130.8 in Feb 18, up from a downward-revised 124.3 reading in Jan 18
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 6.30% y-o-y in Dec 17, after a downward-revised 6.36% gain in Nov 17
- Fed Funds Rate: 1.25% – 1.50%

MARKET OUTLOOK

As earnings season draw to a close, with a majority of US companies beating their revenue and earnings targets for 4Q 17. About 76% of companies have beaten their 4Q revenue targets; with regards to earnings targets, about 78% of them have performed better than expectations. The information technology (IT) sector saw the most number of positive revenue and earnings surprises, followed by industrials, financials and the health care sector. US energy companies also saw many positive earnings surprises thus far. Positive earnings momentum dominates the US market, buoying investment sentiment and supporting equity prices thus far.

Earnings estimates of American corporations (as represented by the S&P 500 Index) on aggregate saw slight upgrades over the month of February (as of 26 February 2018). 2018's earnings estimates were raised 1.0%, while 2019's earnings estimates were raised 1.2% over the month. Year-to-date, 2018's and 2019's earnings estimates have been raised 7.2% and 6.8% respectively, with the bulk of the upgrades made back in January. The consumer discretionary sector saw the strongest upgrades as a whole, with 2018's and 2019's earnings upgraded 4.9% and 2.0% respectively month-to-date. Other cyclical sectors such as the industrials also enjoyed earnings upgrades on aggregate. Revisions in financials were minimal, while the popular IT sector, continued to enjoy earnings upgrades, with estimates for 2018 and 2019 raised 1.5% and 3.4% respectively month-to-date.

With regards to recently-released economic data from the US, leading indicators such as the ISM manufacturing PMI came in at 59.1 in January 2018, declining from a prior downward-revised 59.3 reading but still beating consensus estimates and firmly in an uptrend. While production and new orders slowed a little in February, new export orders, backlogs and supplier deliveries rose. Additionally, the prices paid index rose to 72.7, the highest reading since June 2011. With higher demand, increasing backlogs as well as sustained price increases in inputs, inflationary pressures could work through value chains and into consumer inflation in the near future. The non-manufacturing PMI came in above expectations (of 56.7) at 59.9 in January, rising from a prior 56.0. Readings on new orders, new export orders and employment rose in the month. As a whole, the ISM surveys suggests that momentum in services and manufacturing in the US remains supported, boding well for the outlook for growth in 2018. In terms of employment numbers, nonfarm payrolls came in at 200,000, rising from a prior upward-revised 160,000. The unemployment rate remained at 4.1%, while wages rose 2.9% year-on-year, higher than the consensus estimate of a 2.6% rise (wages rose 0.3% month-on-month in January). We maintain our view that the pace of job growth in the US will moderate to a lower pace, as the US is entering the maturing stages of its business cycle.

US equities underwent a correction in the first half of February, as risk aversion rose in financial markets. The S&P 500 Index fell -8.6% before rising 7.7% since its low in February, with the market registering a -1.6% loss in USD price terms (-1.1% in SGD terms) month-to-date as of 26 February 2017. The new fiscal package signed in December 2017 supports the near term outlook for consumption and business investment, as American households enjoy some tax savings and American businesses generally see a lower effective corporate tax rates. Investments could be fully expensed, with the Trump Administration hoping that would incentivise more companies to invest in the domestic economy. The benefits as a whole are heavily front-loaded, and as such, wage growth and inflation are expected to accelerate moving forward. At this juncture, American equities trade at 17.8X and 16.0X 2018's and 2019's estimated earnings as compared to its fair PE ratio of 15.0X. **We acknowledge the near-term benefits of the fiscal package, but are cognisant of relatively stretched valuations that limit the potential upside to any long term investor. We maintain our rating of 2.0 Stars "Unattractive" for the US equity market.**