

REGIONAL MARKETS UPDATE

US MARKET (2.5 STARS – NEUTRAL)

- ISM Manufacturing PMI came in at 54.8 in Apr 17, down from 57.2 in Mar 17
- ISM Non-Manufacturing came in at 57.5 in Apr 17, up from 55.2 in Mar 17
- Nonfarm payrolls rose by 211,000 in Apr 17, after a downward-revised 79,000 increase in Mar 17
- Private payrolls rose by 194,000 in Apr 17, after a downward-revised 77,000 increase in Mar 17
- Unemployment rate decreased to 4.4% in Apr 17 from 4.5% in Mar 17
- Factory orders rose 0.2% m-o-m in Mar 17, after an upward-revised 1.5% gain in Jan 17
- Advance retail sales rose 0.4% m-o-m in Apr 17, after an upward-revised 0.1% m-o-m increase in Mar 17
- Excluding autos and gas, retail sales rose 0.3% m-o-m in Apr 17, after an upward-revised 0.4% m-o-m change in Mar 17
- Industrial production rose 1.0% m-o-m in Apr 17, after a downward-revised 0.4% m-o-m increase in Mar 17
- Leading index posted a 0.3% m-o-m change in Apr 17, after a downward-revised 0.3% increase in Mar 17
- Housing starts registered a 1.172 million annual rate in Apr 17, after a downward-revised 1.203 million annual rate in Mar 17
- Building permits registered a 1.229 million annual rate in Apr 17, after a 1.26 million rate in Feb 17
- Existing home sales fell -2.3% m-o-m in Apr 17 to a 5.57 million annual rate, after a downward-revised 4.2% m-o-m increase in Mar 17
- Consumer confidence index at 117.9 in May 17, down from a downward-revised 119.4 reading in Apr 17
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 5.89% y-o-y in Mar 17, after a 5.85% increase in Feb 17
- Fed Funds Rate: 0.75% – 1.00%

MARKET OUTLOOK

Earnings estimates for US companies (as represented by the S&P 500 Index) on aggregate saw little change over the month of May – with 2017's and 2018's estimated earnings revised 0.3% and 0.1% respectively (as of 30 May 2017). On a sector basis, America's industrial sector saw the largest earnings upgrades over the month, with the sector's 2017's and 2018's earnings estimates revised 0.9% and 0.7% higher respectively. Companies from this sector include 3M, Caterpillar, Union Pacific Corp and Deere & Co, all of which saw upgrades to their 2017's EPS estimate. The information technology (IT) sector continued to see minor earnings upgrades on aggregate, while US energy-related companies saw mixed results, with firms like Chevron, Exxon Mobil, ConocoPhillips, Valero Energy, Tesoro Corp seeing their EPS estimates lowered on the back of oversupply concerns in the global crude oil market. Year-to-date, the IT sector enjoyed the highest broad-based earnings upgrades on aggregate on the back of improving global demand for various electronics and technological services.

With regards to recently-released economic data from the US, the ISM Manufacturing PMI came in at 54.8 in the month of April, down from a prior 57.2 and falling short of consensus estimates of a 56.5 reading. A breakdown of the data's various components revealed that new orders fell to 57.5 from a prior 64.5, but new export orders rose slightly (to 59.5 from a prior 59.0), suggesting that global demand remains supported. Customer inventories declined to the lowest level since July 2015, indicating that bookings and production may remain strong. On the other hand, services (ISM Non-Manufacturing PMI) came in above expectations at 57.5 in April (consensus was for 55.8), indicating that the tertiary sector in the US is robust and will continue to contribute to overall growth. The labour market data in April bounced back from a disappointing March, with nonfarm payrolls coming in at 211,000 as compared to a prior downward-revised 79,000. Leisure and hospitality saw the largest job gains. Consequently, the unemployment rate edged downward to 4.4% (from a prior 4.5%), which is the lowest since May 2007. Wages rose 2.5% year-on-year, slower than March's downward-revised 2.6% year-on-year increase. Despite the data bouncing back strongly, we expect job creation to moderate lower as the business cycle matures in the US.

The release of the US Federal Open Market Committee's (FOMC) minutes for its May meeting suggests that the committee has started discussing its balance sheet policy (system open market account reinvestment policy), with the minutes stating that "the committee would announce a set of gradually increasing caps, or limits, on the dollar amounts of Treasury and agency securities that would be allowed to run off each month, and only the amounts of securities repayments that exceeded the caps would be reinvested each month." The Fed also mentioned that this cap would be set at low levels and adjusted on a quarterly basis to gradually reduce the size of the central bank's balance sheet. The timing of its implementation by policy-makers remains to be seen.

As of 30 May 2017, the US equity market (as represented by the benchmark S&P 500 Index) trades at PE ratios of 18.6X and 16.6X for 2017's and 2018's estimated earnings respectively, as compared to its fair PE ratio of 15.0X. Earnings of American companies are thus projected to grow by 9.6% this year and by 11.9% in 2018. The S&P 500 Index rose 1.2% in USD price terms over the month, recording an all-time high (of 2416.73) in the process. While lower than before, expectations remain for Trump's administration to deliver fiscal expansion (either in the form of corporate tax cuts or infrastructure spending), which if implemented successfully, could provide strength to domestic growth in the US. However, there is still an element of uncertainty regarding the new administration's attitude and possible policies regarding trade relations with emerging markets like Mexico and in Asia. **We are monitoring overall valuations at the moment and may review our rating of 2.5 Stars "Neutral" for the US market going forward.**