REGIONAL MARKETS UPDATE

US MARKET (2.0 STARS – UNATTRACTIVE)

- ISM Manufacturing PMI came in at 59.5 in Oct 17, down from 60.8 in Sep 17
- ISM Non-Manufacturing came in at 59.8 in Sep 17, up from 55.3 in Aug 17
- Nonfarm payrolls rose 261,000 in Oct 17, after an upward-revised 18,000 gain in Sep 17
- Private payrolls rose 252,000 in Oct 17, after an upward-revised 15,000 increase in Sep 17
- Unemployment rate at 4.1% in Oct 17 from 4.2% in Sep 17
- Factory orders rose 1.4% m-o-m in Sep 17, after a 1.2% increase in Aug 17
- Advance retail sales rose 0.2% m-o-m in Oct 17, after an upward-revised 1.9% m-o-m gain in Sep 17
- Excluding autos and gas, retail sales rose 0.3% m-o-m in Oct 17, after an upward-revised 0.6% m-o-m rise in Sep 17
- Industrial production rose 0.9% m-o-m in Oct 17, after an upward-revised 0.4% m-o-m rise in Sep 17
- Leading index posted a 1.2% m-o-m increase in Oct 17, after an upward-revised 0.1% increase in Sep 17
- Housing starts registered a 1.29 million annual rate in Oct 17, after an upward-revised 1.135 million annual rate in Sep 17
- Building permits registered a 1.297 million annual rate in Oct 17, after an upward-revised 1.225 million rate in Sep 17
- Existing home sales rose 2.0% m-o-m in Oct 17 to a 5.48 million annual rate, after a downward-revised 0.4% m-o-m rise in Sep 17
- Consumer confidence index at 129.5 in Nov 17, up from an upward-revised 126.2 reading in Oct 17
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 6.19% y-o-y in Sep 17, after a downward-revised 5.82% gain in Aug 17
- Fed Funds Rate: 1.00% – 1.25%

MARKET OUTLOOK

Earnings season is almost over, with 67% of the S&P 500 Index's companies having beaten their revenue targets for 3Q 17. In terms of earnings targets, 77% of the reported companies have beaten their targets, illustrating the continued positive earnings momentum in America. The Information Technology (IT) sector continued to show the most number of positive surprises, alongside the financials, industrials and consumer-related sectors. US energy firms also enjoyed the round of positive surprises in both revenue and earnings for the third quarter, contributing to overall positive momentum.

Earnings estimates of US companies (as represented by the S&P 500 Index) on aggregate saw minor upgrades over the month of November. 2017's estimated earnings were revised 0.5% higher, while 2018's estimates were revised 0.3% higher month-to-date as of 24 November 2017 (2019's earnings estimates were unchanged from the end of October). Year-to-date, 2017's, 2018's and 2019's earnings estimates were revised 2.6%, 0.9% and 0.4% higher respectively. On a sector basis, the US IT sector continued to enjoy earnings upgrades, with 2017's, 2018's and 2019's estimates bumped 2.3%, 1.7% and 0.5% higher respectively (buoyed by secular digitisation trends, the current cyclical upturn in the semiconductor industry and the positive outlook over the year-end holiday season). Earnings trends in the health care sector this time round were rather mixed, while the US energy sector remained a bright spot, enjoying earnings upgrades over the month (2018's and 2019's earnings were revised 3.7% and 1.7% respectively) after consecutive downgrades throughout most of the year.

With regards to recently-released economic data from the US, leading indicators such as the ISM PMI surveys and the Conference Board's data continued to suggest that business and consumer confidence remain strong and positive. The ISM Manufacturing PMI's subcomponents of new orders, production, employment as well as new exports are firmly in an uptrend, illustrating strong manufacturing momentum and positive external demand. On the other hand, despite a lower headline number for the services reading (ISM Non-Manufacturing PMI), its vital subcomponents such as new orders, new export orders, employment and production are also all firmly in an uptrend. Additionally, the NFIB's smaller-sized companies survey also showed that confidence among domestically-orientated firms is also resilient following the aftermath of the hurricanes in the south. Both manufacturing and services in the US remain robust, which should continue to support growth momentum as global economic momentum continues to accelerate. In terms of employment numbers, October's nonfarm payrolls rebounded from the initially negative print in September (since revised to a positive 18,000), with the US economy adding 261,000 jobs as compared to the consensus forecast of 313,000. The largest area of job gains came from leisure and hospitality, which added 106,000 jobs, while hiring in the professional and business services sector was up by 50,000. The unemployment rate also edged down to 4.1% from September's 4.2%. Meanwhile, wage pressures also remained scant as average hourly earnings grew 2.4% in annualised terms, below the 2.7% consensus estimate. Moving forward, we expect the pace of job creation in the US economy to moderate lower as the business cycle matures.

Over the month of November, the S&P 500 Index continued to march higher (by 1.0% in USD terms), recording a new all-time high of 2604.24 during 'Black Friday'. Qualcomm, Mattel, Michael Kors, Macy's and Micron were some of the top performing stocks this time round, while Envision Healthcare, Signet Jewelers, Symantec Corp and Henry Schein were found among the bottom performers. Consequently, the US equity market trades at 17.7X and 16.1X 2018's and 2019's estimated earnings, at premium to its fair PE ratio of 15.0X. **The potential upside of the US market is now the lowest among the markets that we cover, and as such, we maintain our rating of 2.0 Stars "Unattractive" for the US.** Despite our view on the equity market, we are not pessimistic on economic prospects, as the US economy remains robust and leading indicators continue to point to growth at this juncture. Additionally, 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 trading partners in Europe and in Asia.