

## REGIONAL MARKETS UPDATE

## US MARKET (2.0 STARS – UNATTRACTIVE)

- ISM Manufacturing PMI came in at 59.8 in Sep 18, down from 61.3 in Aug 18
- ISM Non-Manufacturing came in at 61.6 in Sep 18, down from 55.7 in Aug 18
- Nonfarm payrolls rose 134,000 in Sep 18, after an upward-revised 270,000 gain in Aug 18
- Private payrolls rose 121,000 in Sep 18, after an upward-revised 254,000 gain in Aug 18
- Unemployment rate declined to 3.7% in Sep 18, down from 3.9% in Aug 18
- Factory orders rose 2.3% m-o-m in Aug 18, after an upward-revised -0.5% decline in Jul 18
- Advance retail sales rose 0.1% m-o-m in Sep 18, similar to a prior 0.1% rate in Aug 18
- Excluding autos and gas, retail sales was unchanged with a 0.0% m-o-m rate in Sep 18, after a downward-revised 0.1% m-o-m rise in Aug 18
- Industrial production rose 0.3% m-o-m in Sep 18, after a 0.4% m-o-m gain in Aug 18
- Leading index posted a 0.5% m-o-m increase in Sep 18, after a 0.4% rise in Aug 18
- Housing starts registered a 1.201 million annual rate in Sep 18, after a downward-revised 1.268 million annual rate in Aug 18
- Building permits registered a 1.241 million annual rate in Sep 18, after an upward-revised 1.249 million rate in Aug 18
- Existing home sales registered a -3.4% m-o-m decline in Sep 18 to a 5.15 million annual rate, after a downward-revised -0.2% m-o-m fall in Aug 18
- Consumer confidence index at 137.9 in Oct 18, up from a downward-revised 135.3 in Sep 18
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 5.5% y-o-y in Aug 18, after a downward-revised 5.9% gain in Jul 18
- Fed Funds Rate: 2.00% – 2.25%

## MARKET OUTLOOK

Earnings season for the third quarter are well underway, with 250 out of 500 companies of the S&P 500 Index having reported their 3Q results thus far. Among the reported, 58% of companies have beaten their revenue targets, while 82% of them have beaten their earnings targets. Microsoft beat both third quarter revenue and earnings targets but Alphabet slightly missed its revenue targets. E-commerce titan Amazon, while beating earnings targets but missed on revenue. The Wall Street banks such as Goldman Sachs, Morgan Stanley, Bank of America and JPMorgan Chase all beat their targets for revenue and earnings, but Citigroup and Wells Fargo missed disappointed investors by falling short of their 3Q sales targets.

Earnings estimates of American corporations (as represented by the S&P 500 Index) on aggregate saw earnings upgrades over the month, with 2018's and 2019's estimates raised 1.1% and 0.5% higher respectively (as of 29 October 2018). Year-to-date, 2018's and 2019's earnings estimates have been raised 11.9% and 11.1% higher respectively. On a sector basis, the health care sector saw aggregate earnings revised higher by 0.7% over the month, contributing positively to the index's headline overall earnings revisions. US energy-related companies also saw slight earnings upgrades, with 2019's estimates raised as well. On the other hand, the real estate sector is seeing downgrades for both their earnings estimates for 2018 and 2019 as sell-side analysts are pricing in conditions of slower demand in the US market.

With regards to recently-released economic data, advance estimates indicated that the US economy expanded by 3.5% year-on-year in 3Q 18 as compared to a prior 4.2% year-on-year rate, and higher than the consensus estimate of a 3.3% rate. The main driver of the increase came from the strong rise in personal consumption (which rose 4.0% year-on-year in 3Q 18), while inventory accumulation also drove overall headline data. On the other hand, net exports weighed on the data and trimmed 1.78 percentage points off growth. In terms of leading indicators, the ISM Manufacturing PMI came in at 59.8 in September, declining from a prior 61.3 and falling short of consensus estimates (reading of 60.0). However, the services counterpart, the ISM non-manufacturing PMI, rose from the previous month by registering a reading of 61.6 and beating the consensus forecast of 58.0. Thus far, business sentiment has remained robust and trade tensions between the US and her major trading partners have yet to dampen overall confidence among corporations.

Wall Street was rocked in October as volatility struck and equity markets sold off, with the S&P 500 Index plunging to end the month with a loss of -8.3% in SGD terms (-9.4% in USD terms). Twitter, Philip Morris and Hormel Foods were some of the month's top performers, while Nektar Therapeutics, Advanced Micro Devices, NVIDIA Corp and Mohawk Industries were some of the month's bottom performers. At this juncture, American equities trade at 16.2X and 14.7X 2018's and 2019's estimated earnings as compared to its fair PE ratio of 15.0X. While we acknowledged the benefits of the fiscal package on overall growth this year, we are less sanguine on prospects for 2019 and beyond as positive effects gradually wean off. **We maintain our rating of 2.0 Stars "Unattractive" for the US equity market.**