REGIONAL MARKETS UPDATE

US MARKET (2.0 STARS – UNATTRACTIVE)

- ISM Manufacturing PMI came in at 59.3 in Mar 18, down from 60.8 in Feb 18
- ISM Non-Manufacturing came in at 58.8 in Mar 18, down from 59.5 in Feb 18
- Nonfarm payrolls rose 103,000 in Mar 18, after an upward-revised 326,000 gain in Feb 18
- Private payrolls rose 102,000 in Mar 18, after an upward-revised 320,000 gain in Feb 18
- Unemployment rate unchanged at 4.1% in Feb 18
- Factory orders rose 1.2% m-o-m in Feb 18, after an upward-revised -1.3% decline in Jan 18
- Advance retail sales rose 0.6% m-o-m in Mar 18, after a -0.1% m-o-m drop in Feb 18
- Excluding autos and gas, retail sales rose 0.3% m-o-m in Mar 18, similar to Feb 18's 0.3% change
- Industrial production rose 0.5% m-o-m in Mar 18, after a downward-revised 1.0% m-o-m gain in Feb 18
- Leading index posted a 0.3% m-o-m increase in Mar 18, after an upward-revised 0.7% gain in Feb 18
- Housing starts registered a 1.319 million annual rate in Mar 18, after an upward-revised 1.295 million annual rate in Feb 18
- Building permits registered a 1.354 million annual rate in Mar 18, after an upward-revised 1.321 million rate in Feb 18
- Existing home sales rose 1.1% m-o-m in Mar 18 to a 5.60 million annual rate, after a 3.0% m-o-m rise in Feb 18
- Consumer confidence index at 128.7 in Apr 18, up from a downward-revised 127.0 reading in Mar 18
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 6.80% y-o-y in Feb 18, after an upward-revised 6.43% gain in Jan 18
- Fed Funds Rate: 1.50% – 1.75%

MARKET OUTLOOK

It's earnings season once more and so far, 267 out of the 500 companies of the S&P 500 Index have reported their revenue and earnings results for 1Q 18. 71% of the reported firms have beaten their revenue targets for the first quarter of the year, while more than 81% of the reported firms have beaten earnings targets. At this juncture, the information technology (IT) sector has the most number of positive revenue and earnings surprises, followed by the industrials and health care sectors. The big banks of Wall Street like Bank of America, Morgan Stanley, JPMorgan Chase and Goldman Sachs have beaten both revenue and earnings expectations, while energy-related players such as Valero Energy, Helmerich & Payne, Halliburton and Schlumberger have beaten both their 1Q 18 sales and earnings targets. General Motors, Netflix, Amazon, Expedia and Harley-Davidson have also reported positive earnings surprises. Positive earnings momentum continues to dominate the US equity market, boosting investor sentiment in this current quarter.

Earnings estimates of American corporations (as represented by the S&P 500 Index) on aggregate saw upward revisions over the month, with 2018's and 2019's estimates revised 0.9% and 0.5% higher respectively (as of 27 April 2018). Year-to-date, 2018's and 2019's earnings estimates have been raised 8.0% and 7.4% respectively, with the bulk of the upgrades made back in January as sell-side analysts grew more confident of stronger corporate earnings prospects stemming from the recent change in the tax code. The largest amount of earnings revisions was seen in the energy sector, whereby the sector as a whole saw a 4.8% upgrade in earnings for 2018 as crude oil prices rose. The consumer discretionary sector and industrials sectors also saw upgrade to aggregate earnings, while the IT sector saw 2018's EPS and 2019's EPS upgraded by 1.3% and 0.5% respectively. Year-to-date, the cyclical sectors such as the energy, financials, consumer discretionary and industrials sectors have seen the strongest upgrades.

With regards to recently-released economic data from the US, leading indicators such as the ISM manufacturing PMI came in at 59.3 in March, down from a prior 60.8. A breakdown of the data's components revealed that most of them fell in March after rising in February, including employment, new orders, new export orders as well as inventories. Backlogs remained unchanged. Additionally, the prices-paid index rose to 78.1, which is the highest reading since April 2011, indicating that input price increases have been sustained, which could lead to inflationary pressures working through value chains into consumer inflation in the near future. The ISM has reported that more than 30% of the feedback revolved around tariff-related concerns and issues surrounding availability around production schedules. The services counterpart, the ISM non-manufacturing PMI, came in at 58.8 for March, falling short of the consensus forecast of 59.0 and slowing from February's 59.5. While the recent data fell short of consensus expectations, the overall outlook for manufacturing and services in the US remains supported for 2018. In terms of employment numbers, March's nonfarm payrolls came in at 103,000 as compared to a February's upward-revised 326,000. The unemployment rate remained at 4.1%, while wages rose 2.7% year-on-year, higher than the prior 2.6% year-on-year gain (wages rose 0.3% month-on-month). We maintain our view that the pace of job growth in the US will gradually moderate to a lower pace, as the US enters the later stages of its business cycle.

April was a choppy month for US equities as market participants refocused their attention from Sino-American trade tensions to micro fundamentals of US companies for earnings season. The S&P 500 Index seesawed over the month to end April with a 1.1% gain in USD price terms (2.1% in SGD terms) as of 27 April 2018. Some of the top performing stocks include Chipotle, Baker Hughes, SVB Financial Group and Occidental Petroleum, while Nektar Therapeutics, Philip Morris, Bristol-Myers Squibb and American Airlines were some of the bottom performers. Despite an increasingly protectionist Trump administration, we do not think that a full-blown trade war would materialise, as the outcome of the tariffs and potential negotiations are not set in stone yet. With the recent sell-off, valuations have become slightly more attractive than before. At this juncture, American equities trade at 17.0X and 15.4X 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.**