# REGIONAL MARKETS UPDATE

## US MARKET (2.5 STARS – NEUTRAL)

- ISM Manufacturing PMI came in at 57.8 in Jun 17, up from 54.9 in May 17
- ISM Non-Manufacturing came in at 57.4 in Jun 17, up from 56.9 in May 17
- Nonfarm payrolls rose by 222,000 in Jun 17, after an upward-revised 152,000 increase in May 17
- Private payrolls rose by 187,000 in Jun 17, after an upward-revised 159,000 increase in May 17
- Unemployment rate rose to 4.4% in Jun 17 from 4.3% in May 17
- Factory orders fell -0.8% m-o-m in May 17, after a downward-revised -0.3% decrease in Apr 17
- Advance retail sales fell -0.2% m-o-m in Jun 17, after an upward-revised -0.1% m-o-m fall in May 17
- Excluding autos and gas, retail sales fell -0.1% m-o-m in Jun 17, after a 0.0% m-o-m change in May 17
- Industrial production rose 0.4% m-o-m in Jun 17, after an upward-revised 0.1% m-o-m rise in May 17
- Leading index posted a 0.6% m-o-m increase in Jun 17, after a downward-revised 0.2% increase in May 17
- Housing starts registered a 1.215 million annual rate in Jun 17, after an upward-revised 1.122 million annual rate in May 17
- Building permits registered a 1.254 million annual rate in Jun 17, after a 1.168 million rate in May 17
- Existing home sales fell -1.8% m-o-m in Jun 17 to a 5.52 million annual rate, after 1.1% m-o-m increase in May 17
- Consumer confidence index at 121.1 in Jul 17, down from a downward-revised 117.3 reading in Jun 17
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 5.69% y-o-y in May 17, after an upward-revised 5.77% increase in Apr 17
- Fed Funds Rate: 1.00% – 1.25%

## MARKET OUTLOOK

Earnings season is in high swing once again, as market participants and investors brace themselves for a slew of reports over the coming days and weeks. Thus far, 105 out of 500 companies of the S&P 500 Index have reported their results for 2Q 17; and among them, 76% have beaten their second quarter sales targets, while 81% of them have beaten their earnings targets. Semiconductor titan Micron Technology beat both its 2Q 17 revenue and earnings targets, as well as other tech giants like Microsoft, Qualcomm Inc and Oracle Corp. Among the financials, the big banks of Wall Street like Goldman Sachs, Bank of America, Morgan Stanley, JPMorgan Chase, Citigroup and Wells Fargo all beat their targets in 2Q 17. General Electric, Union Pacific Corp and Lockheed Martin Corp from the industrials sector also beat consensus estimates. On the other hand, the results of US energy companies are still a mixed bag at this juncture.

Earnings estimates for US companies (as represented by the S&P 500 Index) on aggregate saw little change over the month of July. 2017's estimated earnings were bumped 0.2% higher, while 2018's earnings were revised -0.1% lower over the month (as of 24 July 2017). Year-to-date, US companies as a whole saw their 2017 earnings estimates revised 0.1% higher, while 2018's and 2019's earnings were revised -0.1% and -0.4% respectively. On a sector basis, American energy companies bore the brunt of downgrades, with the energy sector seeing aggregate earnings for 2017 downgraded -9.7% and earnings for 2018 slashed -11.6% over the month as sell-side analysts lowered their revenue and earnings expectations for 3Q 17. On the other hand, the consumer staples sector enjoyed the strongest earnings upgrades over the month, followed by the IT sector and US health care companies.

With regards to recently-released economic data from the US, the ISM Manufacturing PMI came in at 57.8 in June (the highest since April 2014), up from May's 54.9 and trouncing consensus estimates of 55.3. A breakdown of the data's various components revealed that the increase was broad-based, with production, new orders, new export orders and employment seeing an increase in June. Inventories dipped slightly, while backlogs rose. On the other hand, services (ISM Non-Manufacturing) came in at 57.4 in June, up from a prior 56.9 and beating the consensus forecast of 56.5. Readings of new orders and new export orders rose, while backlogs fell, indicating that external and domestic demand is robust. Both US manufacturing and services remain robust, which should continue to support growth moving forward. In terms of employment numbers, June's nonfarm payrolls print came in stronger than expected (at 222,000), with the largest gains coming from the health care sector and professional and business services. However, wage inflation remained scant (2.5% year-on-year as compared to an expected 2.6% year-on-year). We maintain our view that the pace of job creation is expected to moderate lower as the business cycle matures in the US.

Over the month of July, the S&P 500 index rose 0.8% higher (1.9% in USD price terms), making new highs once again (as of 24 July 2017). The overall market has rebounded following a correction among popular technology stocks (Facebook, Amazon, Apple, Alphabet, Microsoft) in June. The cyclical sectors of financials, and industrials that have initially benefitted following Donald Trump's victory at the Presidential Elections last year, have underperformed sectors like technology. All these movements have left the US equity market to trade at 18.9X and 17.0X for 2017's and 2018's estimated earnings, at a premium to its fair PE ratio of 15.0X. Corporate earnings are projected to grow by 9.9% this year and by 11.7% in 2018. Consequently, the expected return of the US is now the lowest among the markets that we cover. 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.**