REGIONAL MARKETS UPDATE

US MARKET (2.0 STARS – UNATTRACTIVE)

- ISM Manufacturing PMI came in at 54.1 in Dec 18, down from 59.3 in Nov 18
- ISM Non-Manufacturing came in at 57.6 in Dec 18, down from 60.7 in Nov 18
- Nonfarm payrolls rose 312,000 in Dec 18, after an upward-revised 176,000 gain in Nov 18
- Private payrolls rose 301,000 in Dec 18, after an upward-revised 173,000 gain in Nov 18
- Unemployment rate at 3.9% in Dec 18, up from 3.7% in Nov 18
- Factory orders data postponed due to government shutdown
- Retail sales postponed due to government shutdown
- Industrial production rose 0.3% m-o-m in Dec 18, after a downward-revised 0.4% m-o-m increase in Nov 18
- Leading index posted a -0.1% m-o-m decline in Dec 18, after a 0.2% increase in Nov 18
- Housing starts data postponed due to government shutdown
- Building permits registered a 1.328 million annual rate in Nov 18, after an upward-revised 1.265 million rate in Oct 18
- Existing home sales registered a -6.4% m-o-m decrease in Dec 18 to a 4.99 million annual rate, after an upward-revised 2.1% m-o-m increase in Nov 18
- Consumer confidence index at 120.2 in Jan 19, down from a downward-revised 126.6 in Dec 18
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 4.7% y-o-y in Nov 18, after a downward-revised 5.0% gain in Oct 18
- Fed Funds Rate: 2.25% – 2.50%

MARKET OUTLOOK

Corporate America is once again undergoing earnings season, with 56 out of the 500 companies of the S&P 500 Index having reported their results for 4Q 18. Among those who have reported thus far, 55% of them have recorded positive revenue surprises, while 80% of them have beaten their earnings targets. The Wall Street big banks such as Bank of America and Goldman Sachs have beaten both sales and earnings targets, while Citigroup only beaten its earnings target for 4Q 18. Nike and Carnival Corp also bested their estimates, along with CSX Corp and FedEx. In the information technology (IT) sector, Oracle has reported 4Q 18 results that came in above estimates, while semiconductor manufacturer Micron only beat its earnings target this time round.

Earnings estimates of American corporations (as represented by the S&P 500 Index) on aggregate saw downgrades over the month, with 2019's earnings revised -1.9% lower and 2020's earnings revised by -2.0% (as of 28 January 2019). On a sector basis, the energy sector saw the heftiest downgrades to their earnings estimates, with 2019's and 2020's estimates revised -13.4% and -10.7% respectively (as of 25 January 2019). The consumer discretionary, health care and materials sectors also saw earnings downgrades month-to-date since the start of 2019. American financials saw earnings for 2019 and 2020 revised lower as well. Sell-side analysts have started to lower earnings estimates on expectations of slower growth momentum in the US. We do not expect earnings growth to contract, barring an outright economic recession, but a positive number for 2019.

With regards to recently-released economic data, leading indicators such as the ISM Manufacturing PMI softened in December 2018, coming in at 54.1 as compared to a prior 59.3 and falling way short of the consensus forecast of 57.5. The services counterpart, the ISM non-manufacturing PMI, also fell short of expectations in December last year, coming in at 57.6 as compared to a prior 60.7 reading. Growth expectations have moderated downwards, and the latest ISM numbers corroborates this picture of a moderation in momentum. US manufacturers however, continue to face supply bottlenecks and remain concerned about the effects of Sino-US trade tensions on supply chains and on their input costs. In terms of the US labour market, nonfarm payrolls came in at 312,000 in December, beating the consensus forecast of 184,000 and higher than a prior upward-revised 176,000 print. Manufacturing payrolls also rose more than expected and came in higher than November 2018's number. The headline unemployment rate rose to 3.9%. Wages rose 0.4% month-on-month, as compared to a prior 0.2% gain, but on a year-on-year basis, wages rose 3.2%, accelerating slightly from a prior 3.1% increase. At this current juncture, the labour market remains tight but robust, supporting the outlook for domestic consumption in the US.

After going through one of the worst Decembers in its financial market history, the S&P 500 Index rebounded spectacularly in January, recording a 6.3% gain in USD price terms as of 25 January 2019 (5.6% in SGD price terms). Some of the month's top performing counters include tech giants such as Amazon, Microsoft, Facebook and Netflix, while the bottom performers include companies such as Macy's, AbbVie, Altria Group and Bristol-Myers Squibb. Consequently, valuations have re-rated higher and rebounded in January after falling last year, with the S&P 500 Index trading at 15.8X and 14.3X 2019's and 2020's estimated earnings as compared to its fair PE ratio of 15.0X. We believe that the US economy is in the later stages of its business cycle, and **we maintain our rating of 2.0 Stars "Unattractive" for the US equity market.**