

REGIONAL MARKETS UPDATE

US MARKET (2.5 STARS – NEUTRAL)

- ISM Manufacturing PMI came in at 57.2 in Mar 17, down from 57.7 in Feb 17
- ISM Non-Manufacturing came in at 55.2 in Mar 17, down from 57.6 in Feb 17
- Nonfarm payrolls rose by 98,000 in Mar 17, after a downward-revised 219,000 increase in Feb 17
- Private payrolls rose by 89,000 in Mar 17, after a downward-revised 221,000 increase in Feb 17
- Unemployment rate decreased to 4.5% in Mar 17 from 4.7% in Feb 17
- Factory orders rose 1.0% m-o-m in Feb 17, after an upward-revised 1.5% gain in Jan 17
- Advance retail sales rose 0.1% m-o-m in Feb 17, after an upward-revised 0.6% m-o-m increase in Jan 17
- Excluding autos and gas, retail sales rose 0.1% m-o-m in Mar 17, after a downward-revised 0.1% m-o-m change in Feb 17
- Industrial production came in at a 0.0% m-o-m change in Feb 17, after an upward-revised -0.1% m-o-m decrease in Jan 17
- Leading index posted a 0.4% m-o-m change in Mar 17, after a downward-revised 0.5% increase in Feb 17
- Housing starts registered a 1.215 million annual rate in Mar 17, after an upward-revised 1.303 million annual rate in Feb 17
- Building permits registered a 1.26 million annual rate in Mar 17, after an upward-revised 1.216 million rate in Feb 17
- Existing home sales rose 4.4% m-o-m in Mar 17 to a 5.71 million annual rate, after a downward-revised -3.9% m-o-m decrease in Feb 17
- Consumer confidence index at 120.3 in Apr 17, down from a downward-revised 124.9 reading in Mar 17
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 5.85% y-o-y in Feb 17, after a downward-revised 5.66% increase in Jan 17
- Fed Funds Rate: 0.75% – 1.00%

MARKET OUTLOOK

Earnings estimates for US companies (as represented by the S&P 500 Index) on aggregate saw minor changes over the month of April – with 2017's and 2018's estimated earnings revised 0.02% and 0.01% respectively (as of 24 April 2017). On a sector basis, American energy companies saw the most earnings downgrades following a slight fall of crude oil prices to below USD 50 per barrel, with the sector seeing its 2017's and 2018's estimated EPS lowered -3.0% and -2.5% respectively month-to-date. On the other hand, the health care sector enjoyed minor EPS upgrades, while companies from the industrials sector saw 2017's and 2018's estimated EPS revised 0.3% and 0.4% higher respectively over the month. Year-to-date, the IT sector enjoyed the highest broad-based earnings upgrades on aggregate on the back of improving global demand.

With regards to recent economic data from the US, the ISM Manufacturing PMI came in at 57.2 in March, down slightly from February's 57.7 and meeting consensus estimates. A breakdown of the data's various components revealed that new orders fell slightly but new export orders rose, indicating rising global demand. Input prices that US manufacturers pay for rose in March (ISM Prices Paid Index rose to 70.5 from a prior 68.0). Over in services, the ISM Non-Manufacturing PMI came in below expectations at 55.2 in March, down from February's 57.6 reading. The ISM reported that there were rising concerns among respondents about the impact of new legislation, particularly health care, accommodation and food services. The labour market data also came in softer than expected, with nonfarm payrolls coming in at 98,000 for the month, below consensus estimates of 180,000 and down from a prior downward-revised 219,000. The largest area of job gains were from professional and business services, while hiring in mining was up by 11,000. Wages rose 2.7% year-on-year, slower than February's 2.8% rise (0.2% month-on-month). Despite the underwhelming number, job creation remains relatively modest, and moderation is expected as the business cycle matures in the US and as a gradual rise in inflation is expected going forward.

The recently-released minutes of the Federal Reserve's meeting in March indicated that policy-makers have begun to discuss about the balance sheet policy, which has not been highlighted since August 2010 when Ben Bernanke was still the head of the Fed. Since then, the US central bank has maintained its policy of reinvesting principal payments from agency and agency mortgage-backed securities and rolling over existing holdings of Treasury securities. A change in the Fed's balance sheet policy could include either passively allowing matured debt to roll off or actively disposing securities of their balance sheet or a combination of both. While no concrete course of action has been decided, it remains to be seen what policy-makers would enact given that interest rate normalisation is underway.

As of 24 April 2017, the US equity market (as represented by the benchmark S&P 500 Index) trades at PE ratios of 18.4X and 16.4X for 2017's and 2018's estimated earnings respectively, as compared to its fair PE ratio of 15.0X. Earnings of US companies are expected to grow by 8.9% this year and by 12.3% in 2018. The index has risen 0.5% in USD price terms month-to-date, but is still below all-time highs (of 2396) achieved in March. Expectations run high 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 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.**