REGIONAL MARKETS UPDATE

US MARKET (2.0 STARS – UNATTRACTIVE)

- ISM Manufacturing PMI came in at 59.7 in Dec 17, up from 58.2 in Nov 17
- ISM Non-Manufacturing came in at 55.9 in Dec 17, down from 57.4 in Nov 17
- Nonfarm payrolls rose 148,000 in Dec 17, after an upward-revised 252,000 gain in Nov 17
- Private payrolls rose 146,000 in Dec 17, after an upward-revised 239,000 increase in Nov 17
- Unemployment rate unchanged at 4.1% in Dec 17
- Factory orders rose 1.3% m-o-m in Nov 17, after an upward-revised 0.4% increase in Oct 17
- Advance retail sales rose 0.4% m-o-m in Dec 17, after an upward-revised 0.9% m-o-m gain in Nov 17
- Excluding autos and gas, retail sales rose 0.4% m-o-m in Dec 17, after an upward-revised 1.2% m-o-m rise in Nov 17
- Industrial production rose 0.9% m-o-m in Dec 17, after a downward-revised -0.1% m-o-m decline in Nov 17
- Leading index posted a 0.6% m-o-m increase in Dec 17, after an upward-revised 0.5% gain in Nov 17
- Housing starts registered a 1.192 million annual rate in Dec 17, after an upward-revised 1.299 million annual rate in Nov 17
- Building permits registered a 1.302 million annual rate in Dec 17, after an upward-revised 1.303 million rate in Nov 17
- Existing home sales rose 5.57% m-o-m in Dec 17 to a 5.78 million annual rate, after a downward-revised 5.1% m-o-m rise in Nov 17
- Consumer confidence index at 125.4 in Jan 18, up from an upward-revised 123.1 reading in Dec 17
- Based on the S&P/Case-Shiller Composite 20, US home prices rose 6.41% y-o-y in Nov 17, after a downward-revised 6.32% gain in Oct 17
- Fed Funds Rate: 1.25% – 1.50%

MARKET OUTLOOK

Earnings estimates of US companies (as represented by the S&P 500 Index) on aggregate started 2018 with a bump up across the board (as of 29 January 2018). 2018's earnings estimates were raised 4.9% higher, while 2019's estimates were upgraded by 4.3% over the month. The energy sector saw the strongest upgrades, with 2018's and 2019's estimates raised 13.9% and 7.7% respectively (on the back of rising crude oil prices), while the telecommunications sector trailed closely behind, with 2018's earnings upgraded by 11.5%. Other cyclical sectors such as the industrials and the financials sectors also saw relatively strong upgrades over the month, as sell-side analysts attempt to price in the benefits of the recent fiscal package. Only the real estate sector saw minor earnings downgrades in January.

With regards to recently-released economic data from the US, leading indicators such as the ISM PMI came in at 59.7 in December 2017, the second highest reading registered in 2017, and up from a prior 58.2. The data's various components revealed that both new orders and new export orders rose, suggesting accelerating domestic demand and external demand. On the other hand, services did not perform as well, with the non-manufacturing reading coming in at 55.9, below the consensus forecast of 57.6. Readings on new orders and new export orders fell, but employment rose. Overall, the data still suggests that momentum in the US remains supported, buoyed by improving global demand and better growth from emerging markets. In terms of employment numbers, nonfarm payrolls came in at 148,000, missing the consensus forecast. The biggest gains came from healthcare, construction and manufacturing segments. Wages rose 2.5% year-on-year in December 2017 (0.3% month-on-month), up from a prior downward-revised 2.4% year-on-year rise. We expect the pace of job growth to moderate to a lower pace, as the US is entering the maturing stages of its business cycle.

Regarding leading indicators, the Conference Board's consumer confidence readings continue to surprise to the upside, with January's headline reading beating the consensus forecast and rising from December 2017's upward-revised number. While there was a dip in the present situations survey, the expectations gauge rose more than expected. Consumers are increasingly sanguine about economic conditions and business prospects, which bodes well for the outlook for domestic consumption.

The recent events surrounding Davos and President Trump's first State of the Union speech may suggest that the President is still willing to carry out certain protectionist policies, injecting uncertainty and volatility once again into financial markets. With the upcoming mid-term elections, the Trump administration may be doing this to secure support from their home territories, as the Democrats are expected to reclaim more support this time round.

Since the start of 2018, the S&P 500 Index surged (by 6.7% in USD terms) to make new all-time highs as markets get increasingly positive about both domestic and international growth. The new fiscal package signed in December 2017 supports the near term outlook for consumption and business investment, as American households enjoy some tax savings and American businesses generally see a lower effective corporate tax rates. Investments could be fully expensed, with the Trump Administration hoping that would incentivise more companies to invest in the domestic economy. The benefits as a whole are heavily front-loaded, and as such, wage growth and inflation are expected to accelerate moving forward. At this juncture, American equities trade at 18.7X and 17.0X PE ratios based on 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.**

RECOMMENDED FUNDS:
FIDELITY FUNDS - AMERICA FUND
BLACKROCK US SMALL AND MIDCAP OPP A2 USD (SMALL CAP EXPOSURE)