Market Review (Jun 2019)

Asia Pacific (ex. Japan)

Asia Pacific ex Japan equities declined in May. The re-escalation of trade tensions between the US and China and decelerating earnings expectations for 2019 dampened investor confidence. All sectors ended in negative territory, with consumer discretionary and telecommunication service providers among the key laggards. Sentiment towards Chinese equities weakened amid risk-off sentiment as a series of actions and counter actions by the two countries unnerved investors. Furthermore, weaker than expected economic data subdued investor confidence towards China. In key developments, Chinese President Xi Jinping announced that he is likely to restrict exports of rare earth to the US in retaliation against US sanctions. Separately, US President Donald Trump announced trade sanctions against Huawei and is considering sanctions on Chinese video surveillance firms. On the monetary policy front, the People's Bank of China announced that it would cut reserve requirement ratios (RRRs) for small and medium-sized banks to cushion escalated worries over a trade war with the US. On the economic front, exports, retail sales and new bank lending missed estimates in April. The Hong Kong market was hurt by Macau-based gaming companies and consumer staples stocks. The country's first quarter GDP expanded at a weaker than expected pace as a slowdown in global growth weighed on domestic and external demand. Selling activity by foreign institutional investors amid heightened trade tensions between their trading partners - the US and China - weighed on Taiwanese and South Korean equities. The Singaporean market was also subdued during the month. Its 2019 growth forecast was downgraded given the muted performance of the economy in the first quarter, as well as the weak external demand outlook. On a positive note, sentiment towards Indian and Australian equities received support from election wins for conservative incumbents in both countries. In India, investors welcomed the stable, singleparty led majority government at the Centre on expectations of political stability and business friendly economic policies. For the January–March 2019 period, India's GDP growth slowed to below 6%, mainly due to the lacklustre performance of the agriculture and manufacturing sectors. Meanwhile, in Australia, the recent federal elections resulted in the surprise re-election of the incumbent Liberal-National coalition.

Indonesian stocks fell due to declines in the utilities and energy sectors. Losses were partially offset by a recovery in the second half of the month on news of policy support by the Bank of Indonesia to ensure ample liquidity in the banking sector. Thai equities slid due to weakness in the IT sector. On a positive note, gains in telecommunication service providers and consumer staples stocks supported the Philippines market. Malaysian equities outperformed the broader market, due to gains in the communication services and energy sectors.

Japan

The Japanese market fell in May. Stocks suffered a sell-off at the start of the month, after trading resumed in the new Reiwa Era after an unprecedented 10-day break for the Golden Week holidays to celebrate Crown Prince Naruhito's coronation as the new emperor. The market met with risk-averse selling from the outset, following the escalation of trade tensions between the US and China. There was a brief respite from selling on the back of unexpectedly robust first-quarter GDP growth data in Japan. However, this was short-lived given the yen's strength against the US dollar. Moderated FY2018 earnings results also weighed on investor sentiment. Overall market losses were spread across the style spectrum, with both large-cap, growth-oriented companies and value names recording sharp declines. Most sectors ended in negative territory, with mining, marine transportation and iron & steel companies among the leading decliners. The defensive real estate sector was the only one to end in positive territory during the month, albeit marginally, reflecting the share buyback announced by a major real estate company for the first time.

Japan's real GDP unexpectedly grew by 2.1% in the first quarter of 2019, compared to the same period last year, according to the government's preliminary estimates. The rise in GDP follows a revised 1.6% expansion in October–December 2018. The increase in the official GDP figure was fuelled primarily by a faster decline in imports compared to exports. However, declines in consumer and business spending underscored an uncertain recovery. The latest monthly trade data also showed that exports contracted for the fifth month in April due to a slump in shipments of chip-making equipment to China. Manufacturing activity slumped in May as export orders fell at their fastest rate in four months. The latest Nikkei-Markit flash manufacturing PMI slipped to 49.8, down from 50.2 in April. A figure below 50 indicates a contraction.

United States

US equities fell sharply in May due to renewed fears of US-China trade tensions and President Trump's threat to impose punitive tariffs on all imports from Mexico. The market witnessed risk-averse selling from the outset, following Trump's threats to raise tariffs on $200 billion worth of Chinese goods from 10% to 25%. The Chinese government retaliated by announcing that it will raise tariffs on US products to up to 25%. Trade concerns rose further after Trump signed an executive order forbidding US companies from using telecommunications equipment made by foreign companies that are deemed a national security threat. On the policy front, the US Federal Reserve (Fed) held interest rates steady and kept the target rate range unchanged at between 2.25% and 2.50%. All sectors generated negative returns, with energy, information technology (IT) and materials stocks declining the most. Crude oil prices gained sharply through May, but were pressured towards the end of the month on global growth fears, which is likely to dampen demand. These factors weighed on shares of energy companies.

Macroeconomic indicators were largely positive. The second estimate of first-quarter GDP came in at 3.1% as against the first estimate of 3.2%, but was better than consensus expectations of 3.0%. The decrease was due to the downward revision to non-residential fixed and private inventory investment. The unemployment rate fell to 3.6% in April, while the participation rate fell to 62.8%. Meanwhile, the University of Michigan's consumer sentiment index was lower than expected in May, although it was the highest reading since September 2018. The ISM manufacturing PMI also fell to its lowest levels since October 2016 in May, amid a subdued recovery in new orders and as a backlog of orders started to contract for the first time since January 2017.

Continental Europe

European equities declined in May, primarily due to an escalation of trade tensions between the US and China. Late in the month, sentiment was also hurt by US President Donald Trump's threat to raise tariffs on Mexican imports, with automotive companies leading the sell-off. US-Europe trade talks have also stalled over US threats against European automakers. Meanwhile, the European Parliament elections took place during the month; the result was generally positive for the stability of the union. While populist or Eurosceptic parties gained seats compared to 2014, they underperformed expectations. Centrist parties Group of the European People's Party (EPP) and Progressive Alliance of Socialists and Democrats (S&D) remain the two largest parties in Parliament, despite losing their combined majority. Most sectors posted negative returns in the risk-off environment, with cyclicals underperforming defensives. Materials and financials were among the key decliners.

Economic growth momentum in the region remained muted during the month. The region's flash composite Purchasing Managers' Index (PMI) came in at 51.6 in May, up only fractionally from 51.5 in April. Manufacturing activity contracted for a fourth consecutive month in May, as the US-China trade war, deteriorating automotive demand, Brexit and wider geopolitical uncertainty weighed on new orders and exports. The service sector continued to grow, but the rate of expansion was the weakest since January. On a positive note, economic sentiment in the region took a surprise upward turn in May, rising for the first time in almost a year. Consumer confidence also remains strong.

United Kingdom

UK equities fell in May in a risk-off environment. Investor sentiment weakened mainly due to an escalation in the US-China trade tensions. On the political front, Prime Minister Theresa May announced that she will resign on 7 June, after failing to get parliamentary support for the legislation needed to implement the Brexit deal she had agreed with the European Union (EU). This could increase the likelihood of either a 'no-deal' exit from the EU if a hard-line Brexiteer were to succeed May, or a general election that could pave the way for a potentially less market-friendly Labour government. As a result, sterling was weak versus the US dollar. At a sector level, health care and technology stocks performed strongly, while telecommunications, industrials and basic materials underperformed the broader market.

The UK manufacturing sector contracted in May as the PMI fell below the neutral level of 50.0 for the first time since July 2016. New order inflows deteriorated from both domestic and overseas sources. Inflation rose to 2.1% in April, which is above the Bank of England's 2% target, following an uptick in energy prices and airfares. This was, however, slightly below market expectations of 2.2%. Meanwhile, UK wage growth declined slightly, despite the tight labour market.

Emerging Markets

Emerging market equities declined in May as renewed concerns over US-China trade tensions led to risk-off sentiment. US President Donald Trump's threat to impose punitive tariffs on all imports from Mexico also dampened sentiment. In Asia, Thai equities were weaker despite easing political uncertainties, while the Indian market benefited in the wake of the general elections, which saw the re-election of the incumbent National Democratic Alliance government led by Prime Minister Narendra Modi. Latin American stocks fell, but Brazil outperformed. The market was supported by the advance of social security and tax reforms, coupled with public manifestations in favour of the government. Equities in the emerging Europe, Middle East and Africa (EMEA) region also fell. South African stocks and the rand slid, shedding election-inspired gains. However, Russian markets recorded gains as investors looked for attractively valued segments of the market, particularly those that are relatively insulated from the trade war.

Economic data across the developing world was mixed. Malaysia's central bank reduced its key interest rate for the first time in almost three years in light of slowing growth concerns arising from the global slowdown. The Philippines also eased its monetary policy amid weak macroeconomic concerns and increasing global tensions. Meanwhile, the country's GDP growth slowed to a four-year low at 5.6% in the first quarter of 2019. In Latin America, Brazil's economy shrank 0.2% in the first three months of the year, pushing it closer to a doubledigit recession.

Bond

Fixed income markets posted mixed returns over the month, with government bonds outperforming corporate bonds. US Treasury yields edged to their lowest levels since September 2017 as risk appetite faded amid continued concerns about global growth and a worsening trade conflict between the US and China. Furthermore, US President Trump's intention to impose a tariff on Mexican goods sparked risk aversion among investors. German government bonds rallied, mirroring broader government bond markets, and US Treasuries in particular. They were further supported by the worsening tone between Italy and its European partners around upcoming budget negotiations. German bund yields ventured into negative territory in the last few days of the month, reaching new lows. UK government bond yields also touched their lowest level since October 2006, amid growing worries that Theresa May's successor may pursue a no-deal Brexit, which could harm the economy. Meanwhile, in credit markets, corporate bond spreads widened as oil prices slid amid the risk-off sentiment. Emerging market bonds also posted positive returns as a fall in US Treasury yields supported hard currency bond returns.

Source: Fidelity, (Economic data) Reuters, Bloomberg, FT.com, Marketwatch, as at 31/5/2019.