

Topics

Equity Strategy for 2017

US Equity Market

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2017 global macro outlook

A Shift in Sentiment

Pei Sai Teng

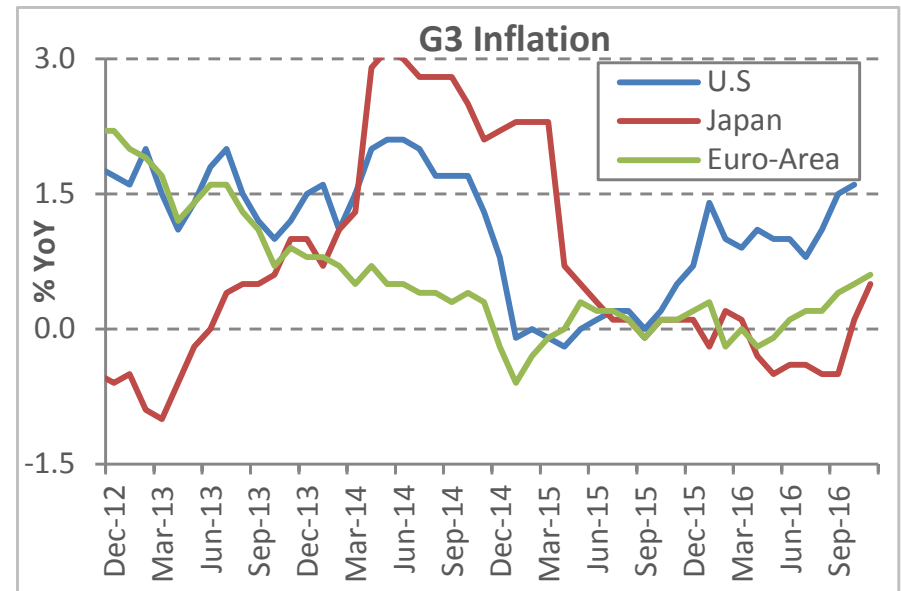
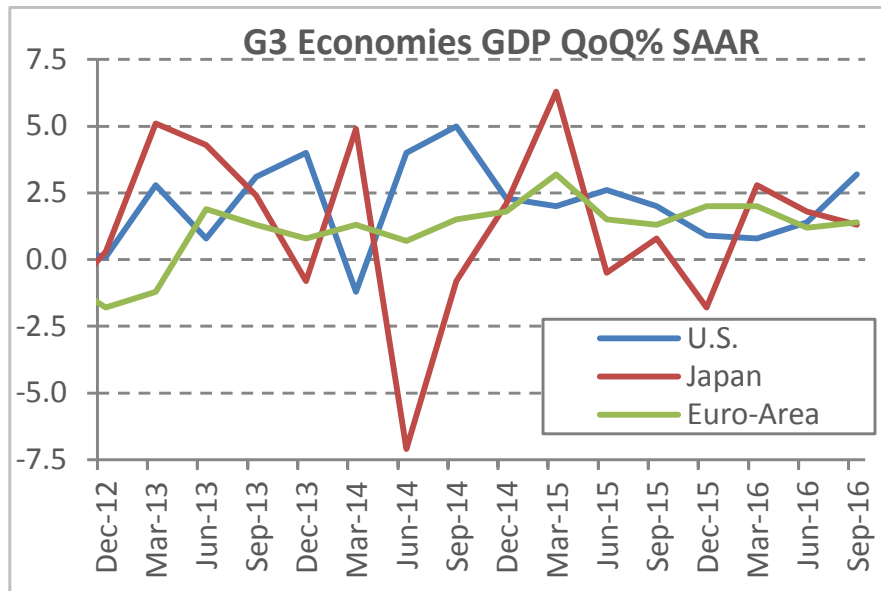
Phillip Securities Research Pte Ltd

9 January 2017

Global Economy Review

G3 Economies

- Growth and Inflation are improving, indicating a supportive environment for financial markets.
- G3 economies have not suffered any contraction in the past 3 quarters
- Inflation of G3 economies have also been threading higher

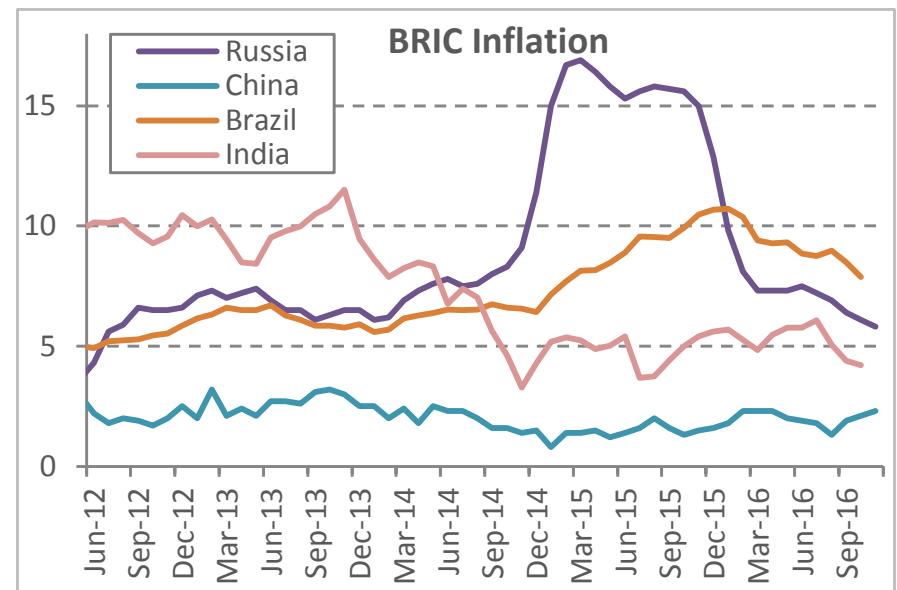
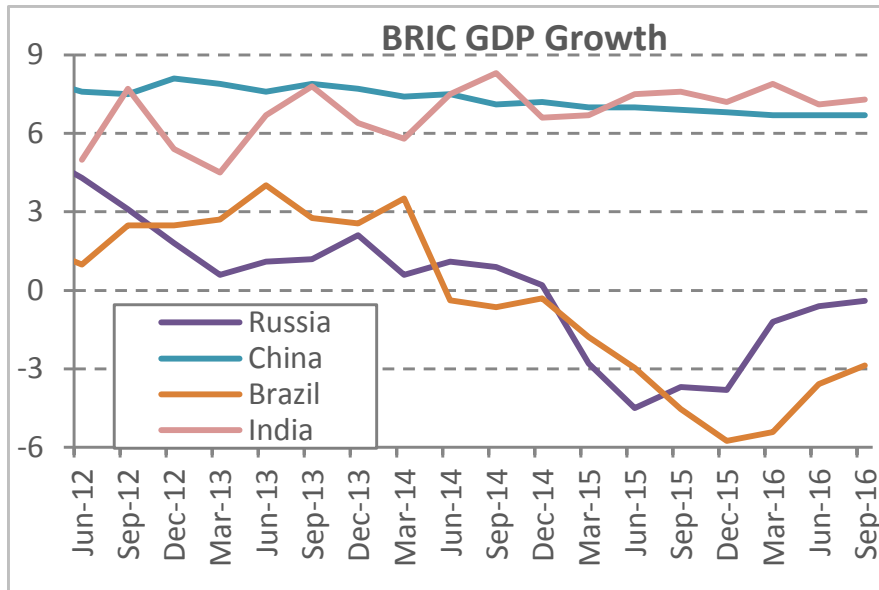


Source: CEIC, PSR

Global Economy Review

BRIC Economies

- Russia and Brazil economies is recovering from a recession and look set to return to possible growth in 2017.
- Inflation for all four BRIC countries are positives and should remain stable at the range of 2%-5%



Source: Blo, PSR

GDP & inflation forecast

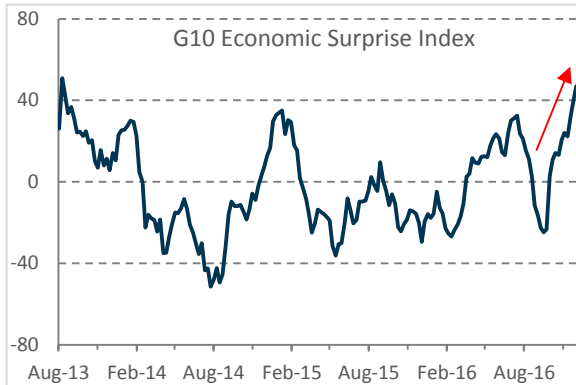
- All major economies are expected to have positive growth and inflation in 2017 and 2018.

Consensus Forecasts	GDP growth (YoY%)			CPI inflation (YoY%)		
	2016	2017	2018	2016	2017	2018
United States	1.6	2.2	2.3	1.3	2.3	2.4
Eurozone	1.6	1.4	1.5	0.2	1.3	1.5
Japan	0.9	1.0	0.9	-0.2	0.6	1.0
China	6.7	6.5	6.1	2.0	2.2	2.2
India	7.5	7.3	7.6	4.9	4.8	5.0
Brazil	-3.4	0.9	2.2	8.8	5.1	4.7
Russia	-0.6	1.1	1.5	7.1	5.1	4.4

Source: Bloomberg, PSR

Sentiments have turned

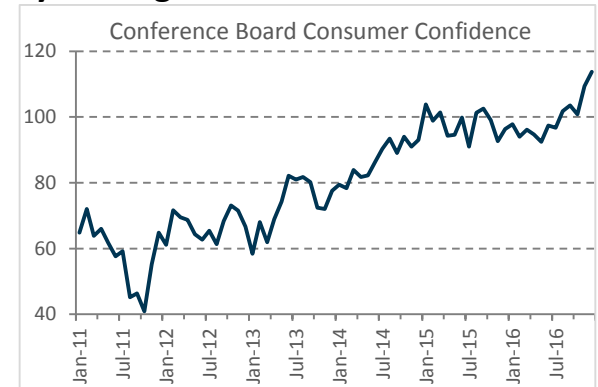
G10 Economic Surprise Index is at 3-year high



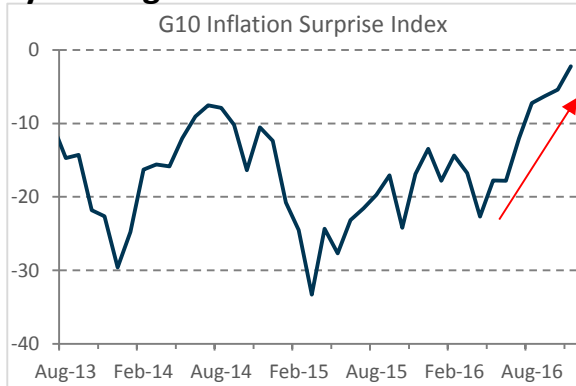
Global Manufacturing PMI is at 2 years high



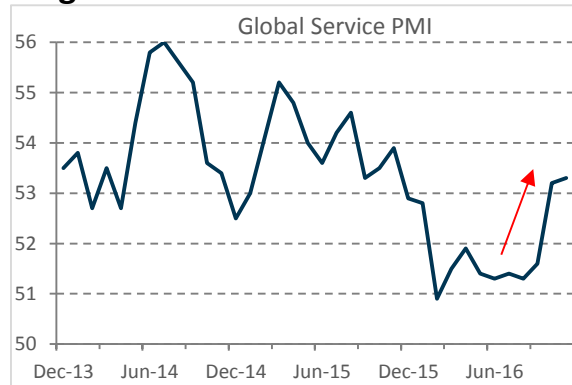
CB Consumer Confidence at 9 years high



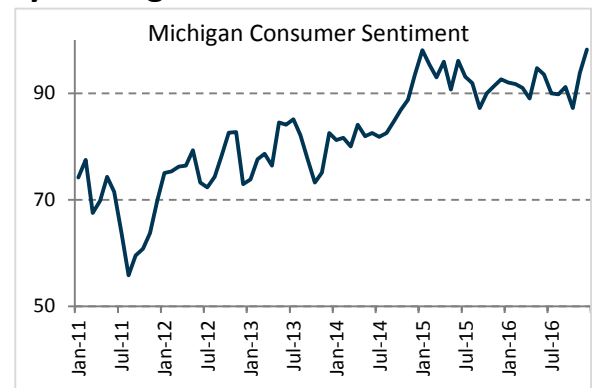
G10 Inflation Surprise Index is at 4 years high



Global Service PMI is at 1 year high



Michigan Consumer Sentiment at 2 years high



Source: Bloomberg, PSR

Sentiment of Fear & Greed

Point of Maximum Financial Risk

We are Here

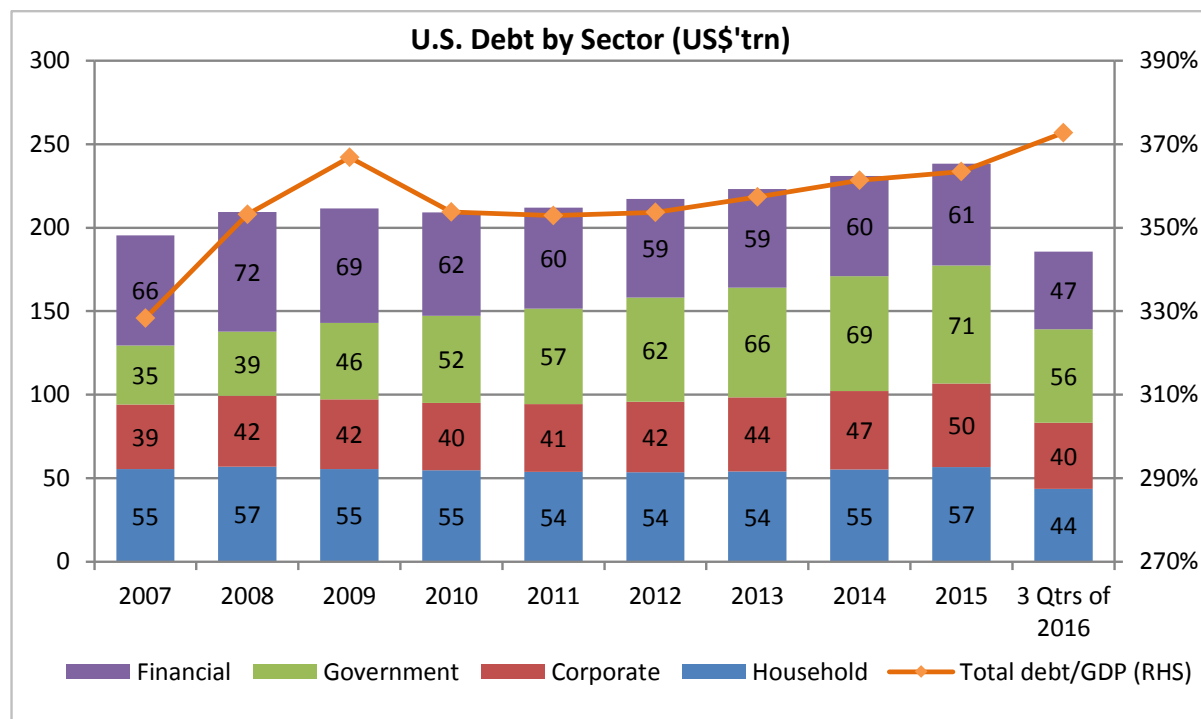


Point of Maximum Financial Opportunity

Biggest Risk

Excess Credit

- U.S households and financial institutions have de-leveraged to a certain extent but the credit binge was taken over by the federal government and Corporate America.
- Total outstanding debt over GDP for U.S. has grown larger than what we saw in 2009.



Source: Bloomberg, PSR

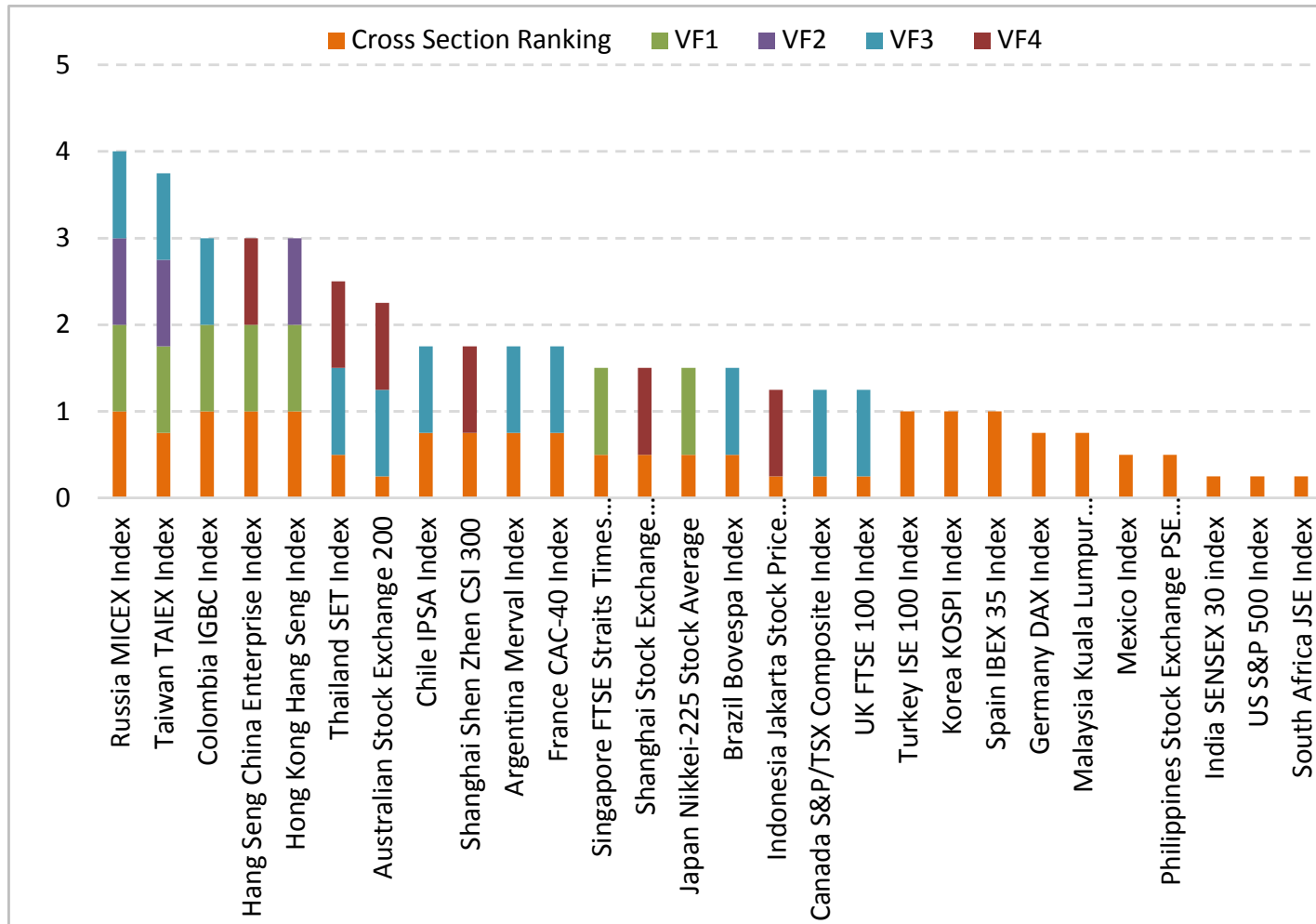
Top Pick

- Russia
- China

	Underweight	Neutral	Overweight
Asia ex Japan	○	→	●
Latin America	○	●	○
U.S.	→	●	○
Japan	→	●	○
Europe	●	○	○
EEMEA	●	←	○

- We are slightly overweight on equity as we believe it has a relatively higher upside compared to other asset classes.
- The overweight on Asia ex Japan region stem from our positive view on China.
- The rest of Asia, specifically Southeast Asia, are doing well relative to other emerging markets albeit an outflow of investment from emerging markets back to developed markets.

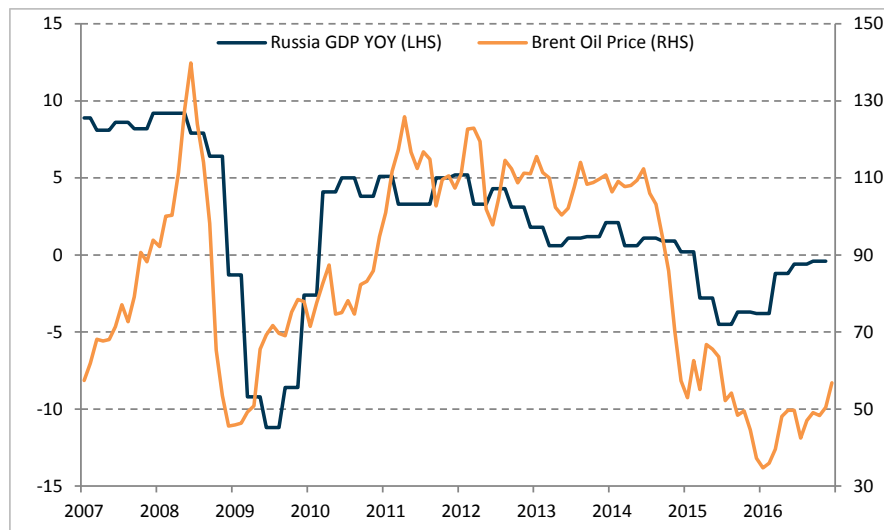
Equity indices valuation ranking



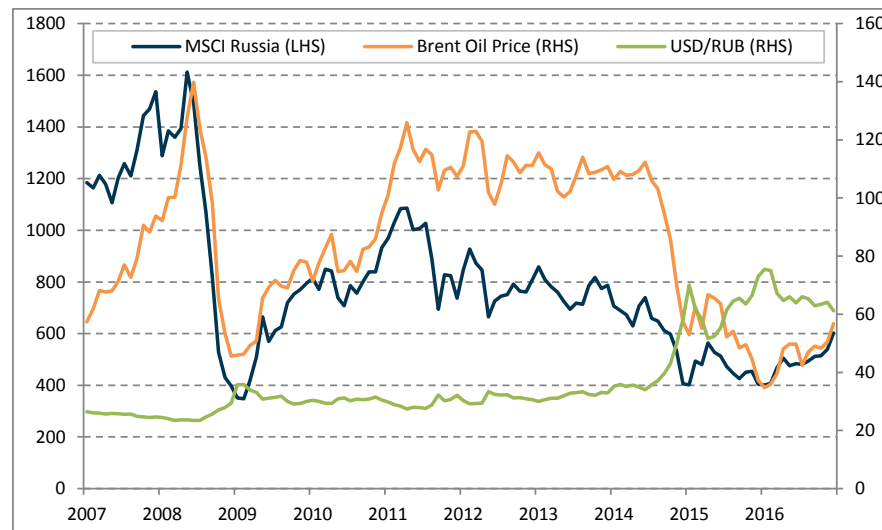
Source: Bloomberg, PSR

Russia – Investment merits

- Russia's economy was hit by trade sanction and falling oil prices in 2014
- The equity markets index was badly hit by falling oil prices too as a huge weightage of the index is oil companies.
- We believe with a recovering oil prices and a Russia-friendly U.S. President, their economy and equity market will continue its recover.

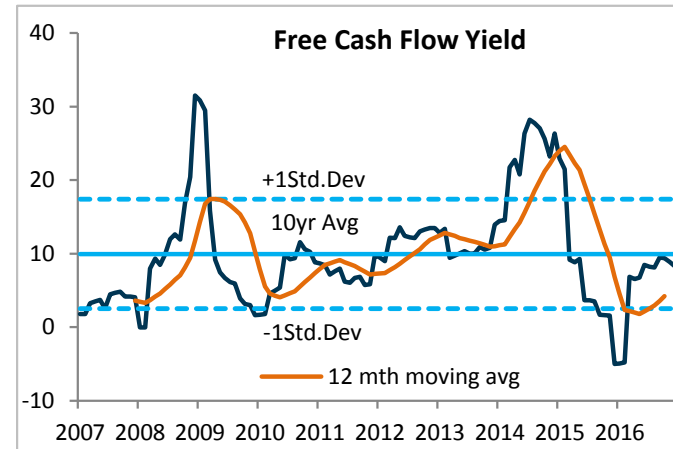
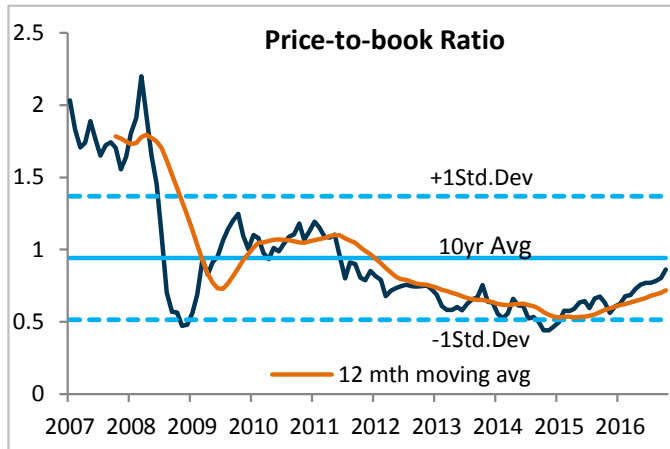
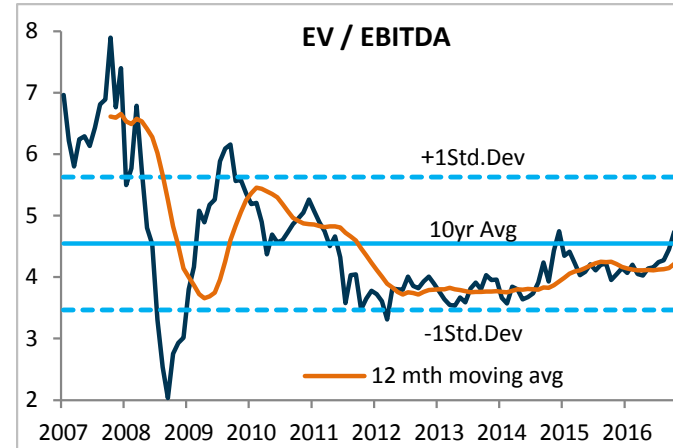
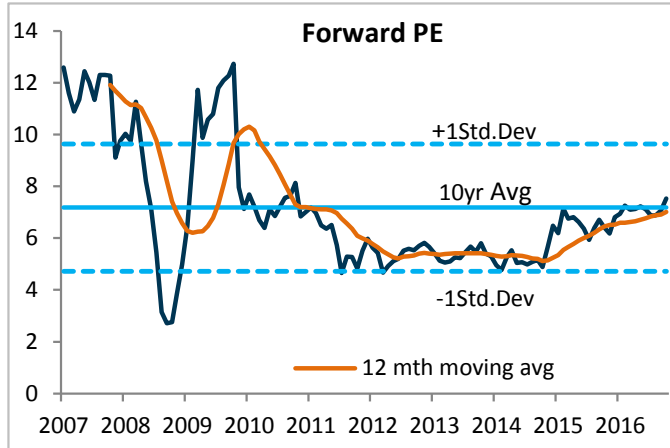


Source: Bloomberg, PSR



Source: Bloomberg, PSR

Russia - Valuation

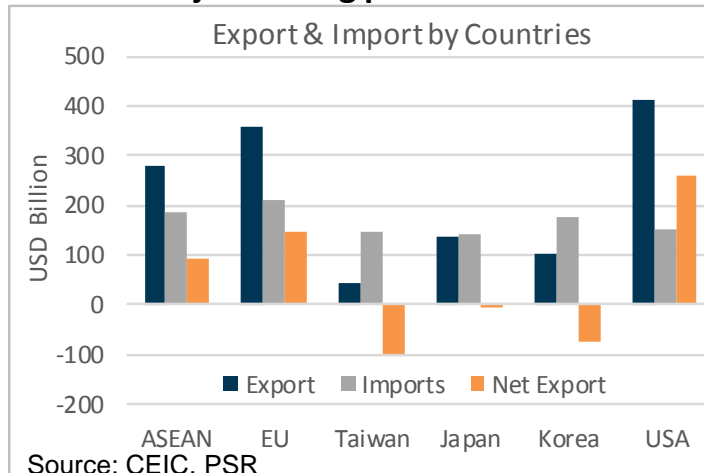


Source: Bloomberg, PSR

China – Investment merits

- The failure of the **Trans Pacific Partnership (TPP)** spells good news for China. (China was not involve in the trade deal)
- Alternative Trade deal in discussion
 - **Free Trade Area of Asia Pacific (FTAAP)**
 - **Comprehensive Economic Partnership (RECP)**
- However we will be closely monitoring the inauguration speech by president-elected Trump to catch any hint of going forward with imposing an import tariffs for China goods.

China's major trading partners



China's exports to US is still expanding



Controlling capital outflow will be vital for China

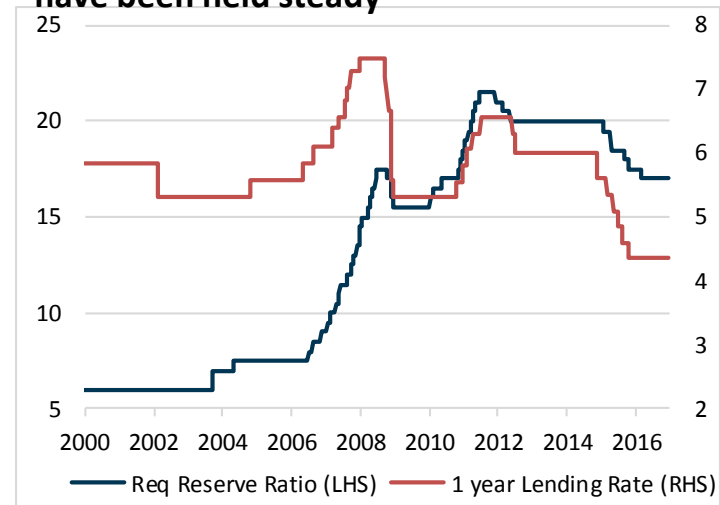
- The weakness in Chinese yuan (RMB) is causing a huge rush of capital outflow on of the country.
- The government is aware of the capital flight and has maintained its monetary policy by holding the Required Reserve Ratio at 17% and the lending rate at 4.35%.

PBOC successfully defended the USDCNH from reaching 7



Source: CEIC, PSR

Required reserve ratio and lending rate have been held steady



Source: Bloomberg, PSR

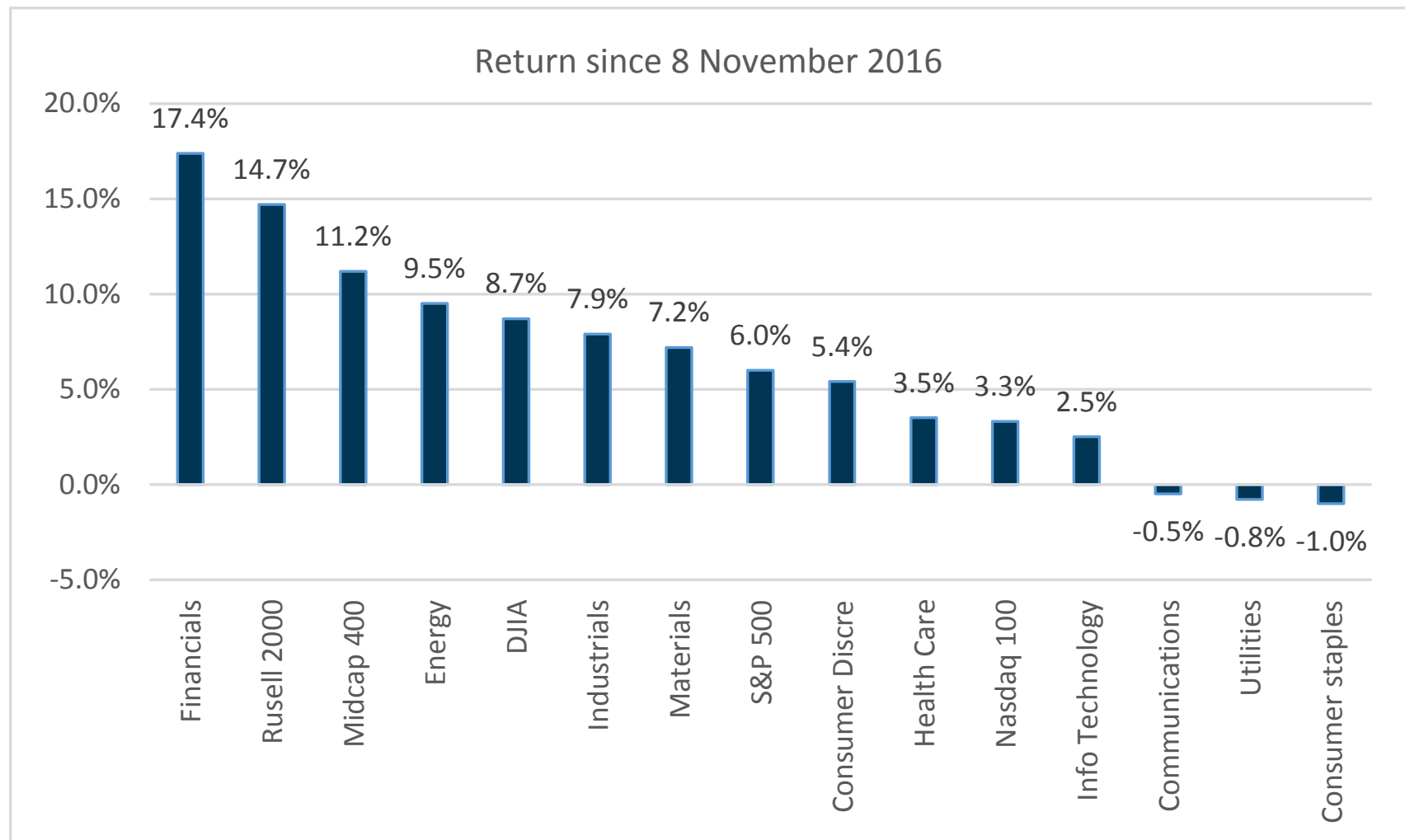
US Equity Market Election Cycle

Jeremy Ng

Phillip Securities Research Pte Ltd

9 January 2017

Equity performance since 8 Nov 2016



Source: Bloomberg

Drivers of the rally post election

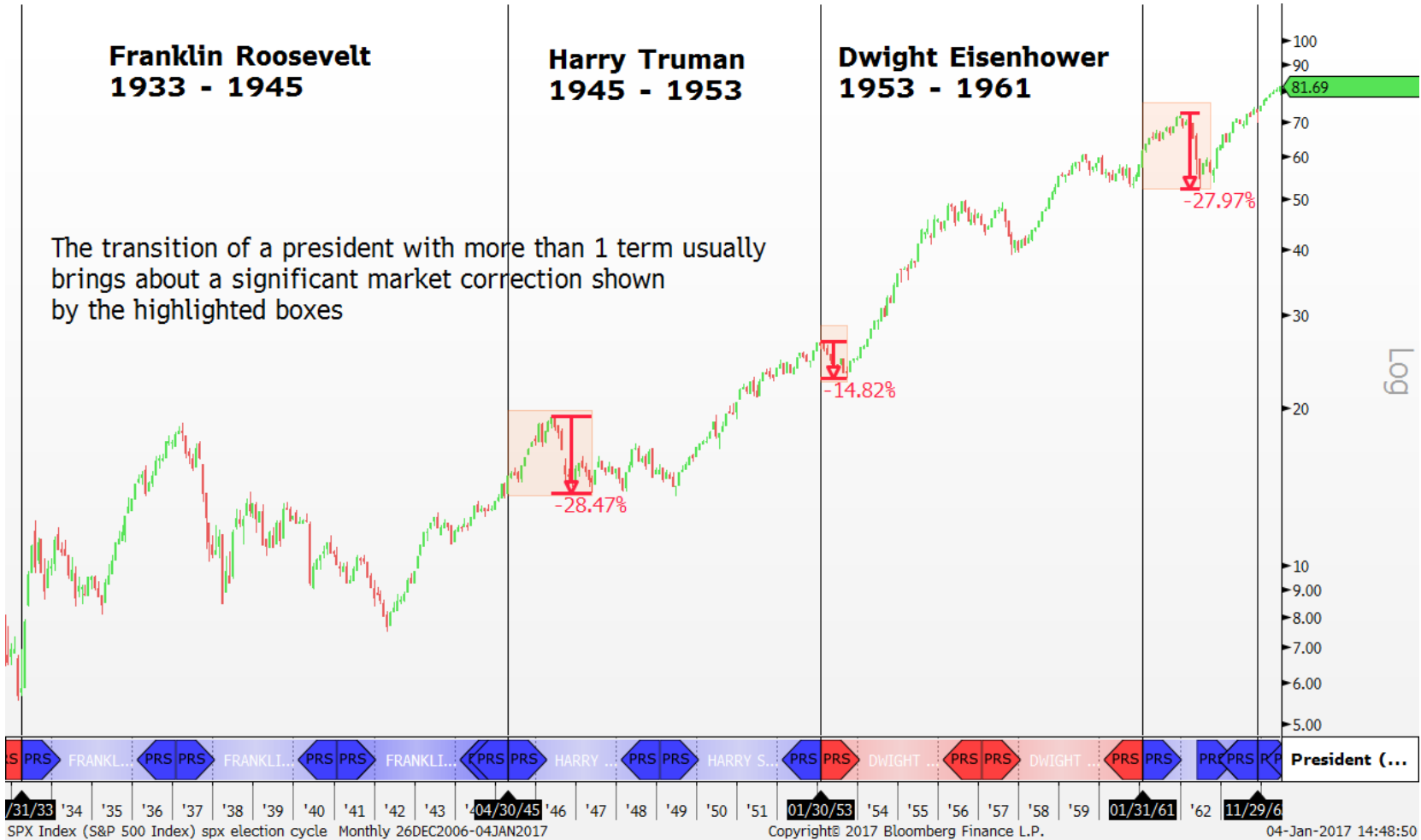
- Broad base tax cut
- Business deregulation
- Fiscal stimulus (infrastructure spending)

US election cycle

- S&P 500 index tends to top out near the US presidential inauguration day.
- The pattern is more pronounced when we get a change in regime of presidents with more than one term.
- Obama's two term cycle is ending in 20 January 2017 where President-elect Trump would take over.

US election cycle

S&P 500 price action 1933 - 1963

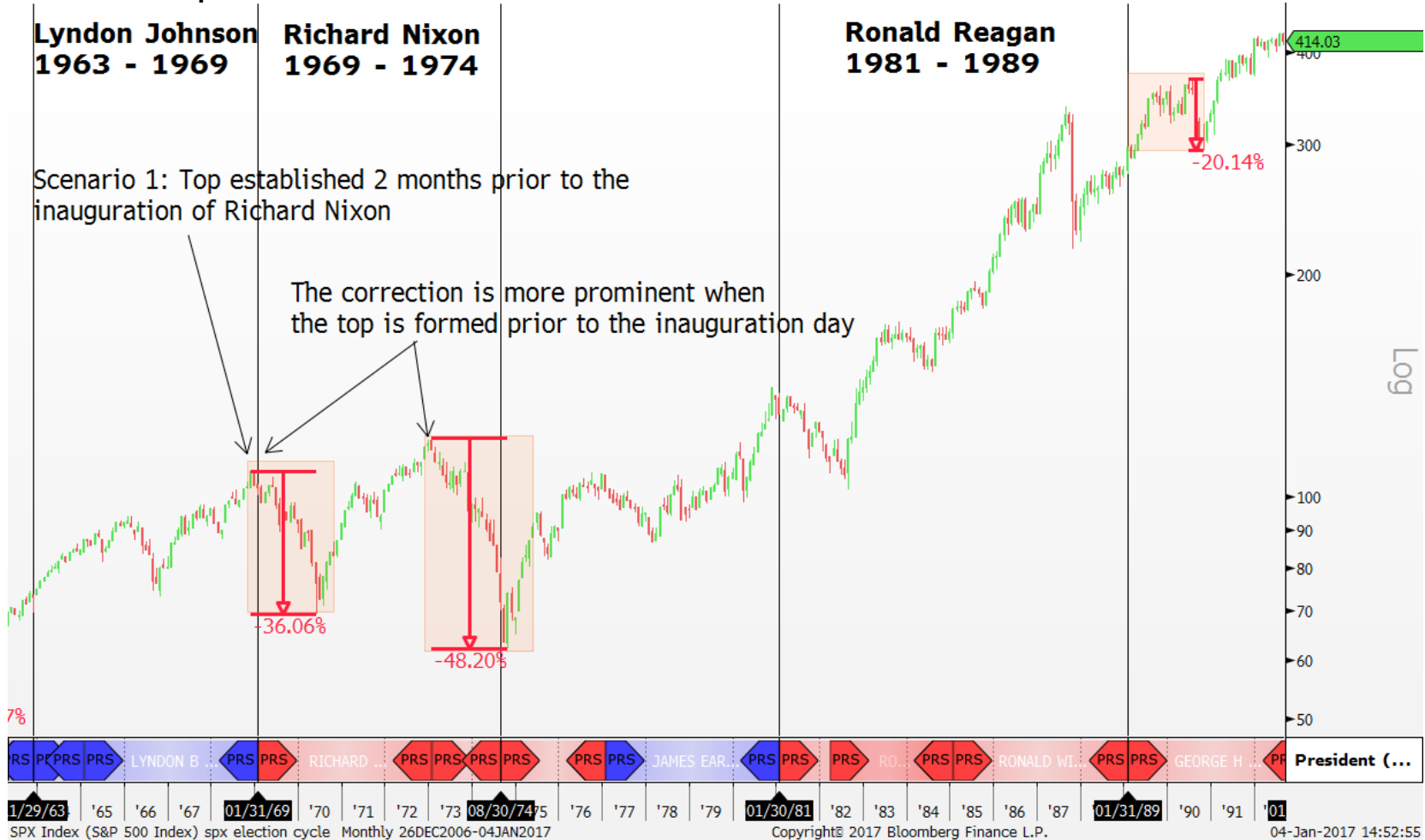


*Vertical line demarcates the respective inauguration day

Source: Bloomberg

US election cycle

S&P 500 price action 1963 - 1991

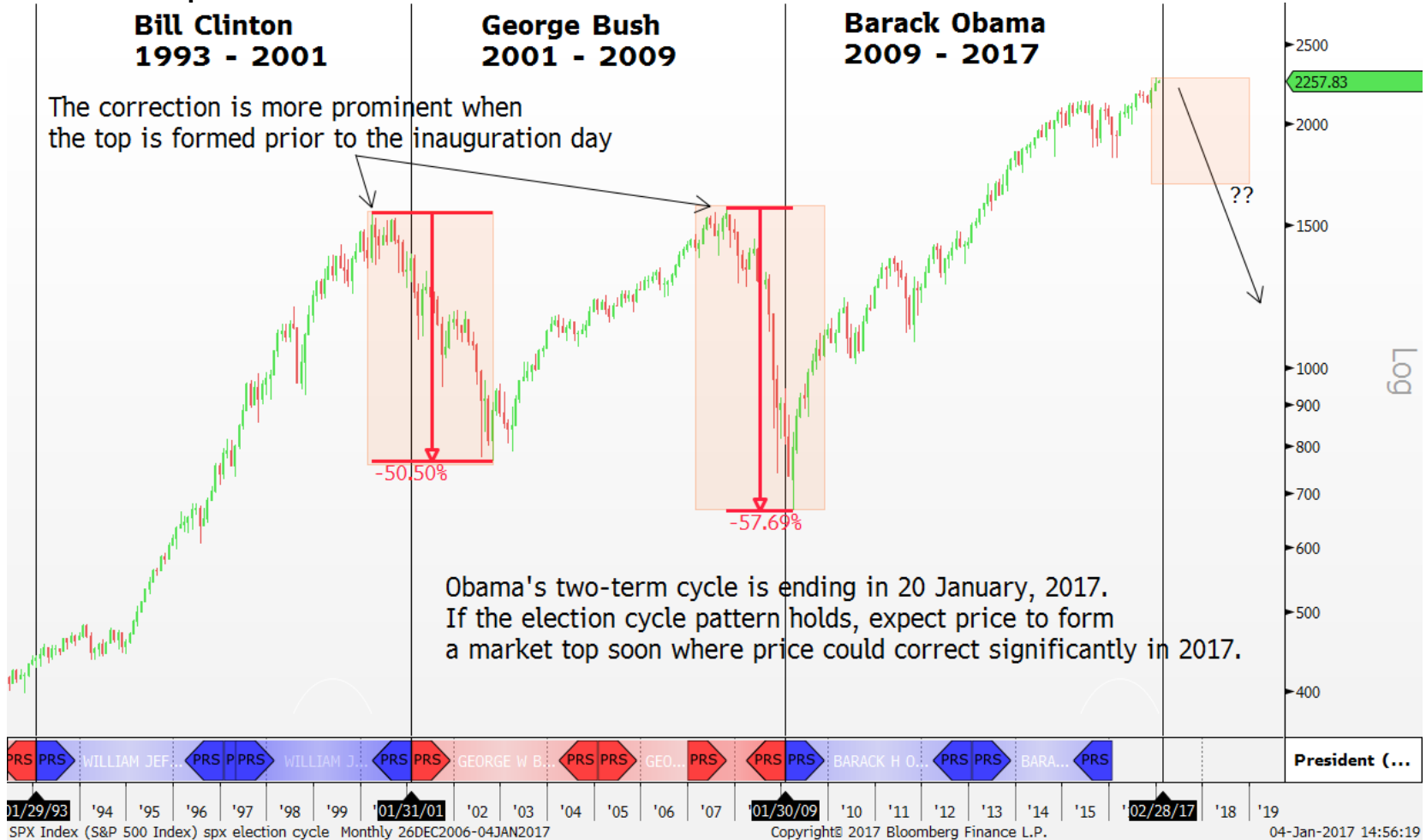


*Vertical line demarcates the respective inauguration day

Source: Bloomberg

US election cycle

S&P 500 price action 1993 - 2017



*Vertical line demarcates the respective inauguration day

Source: Bloomberg

US election cycle – Outcome?

Scenario 1 – **immediate correction**

- If the S&P 500 index forms an all-time high before 20 January 2017 (inauguration day)
- Expect the correction to be significant in the range of 36% - 50%

Scenario 2 – **delayed correction**

- If the S&P 500 index continues to break new record high after 20 January 2017
- Expect the rally to get extended in 2017

US election cycle - Summary

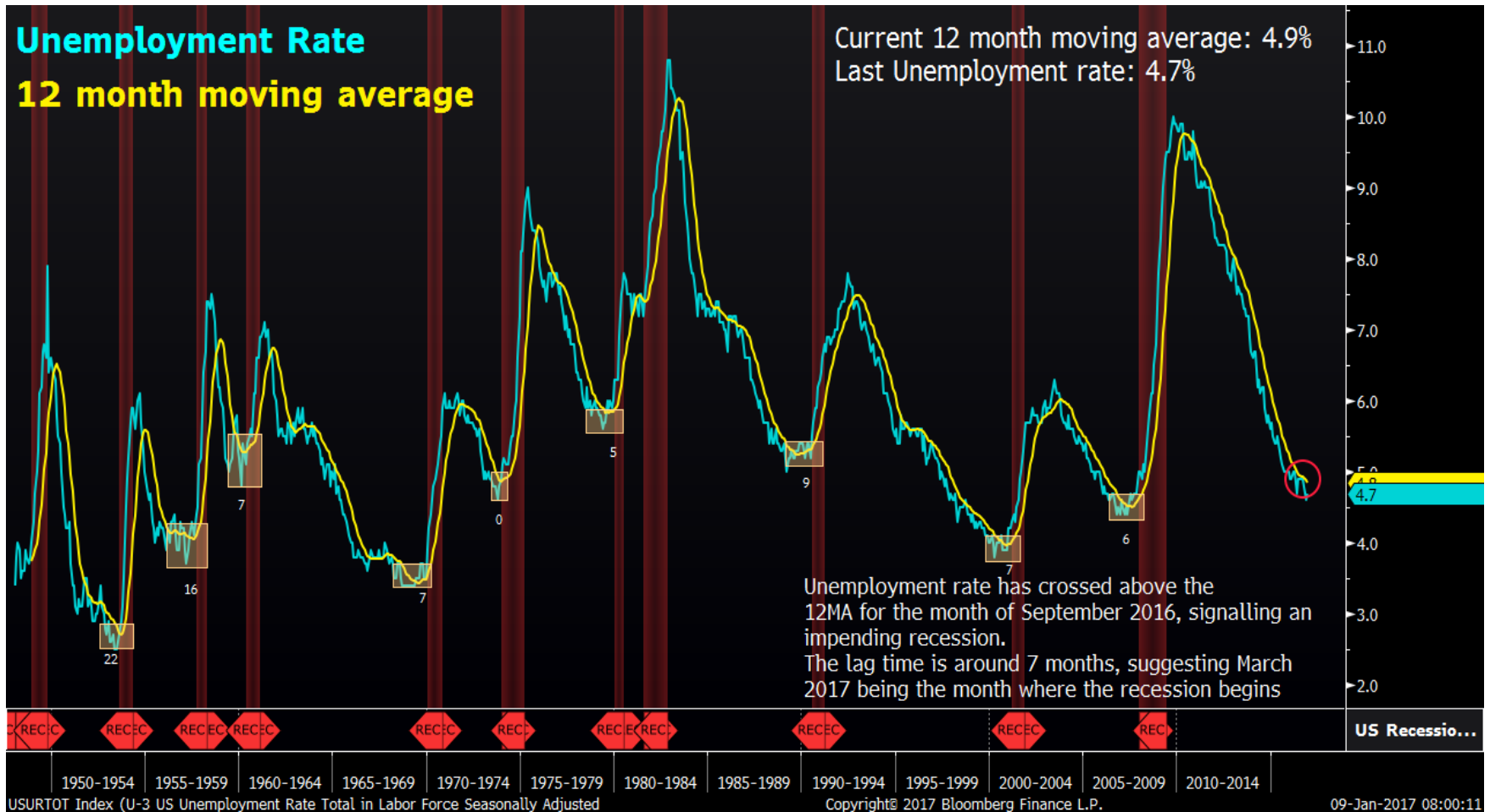
President	Years in office	# of terms served	Peak relative to inauguration day of the following president	Peak to trough correction
Franklin Roosevelt	1933 – 1945	4	+13 month	28%
Harry Truman	1945 – 1953	2	-1 month	14%
Dwight Eisenhower	1953 – 1961	2	+11 month	28%
Lyndon Johnson	1963 – 1969	2	-2 month	36%
Richard Nixon	1969 – 1974	2	-19 month	48%
Ronald Reagan	1981 – 1989	2	+18 month	20%
Bill Clinton	1993 – 2001	2	-10 month	50%
George Bush	2001 – 2009	2	-15 month	57%
Barack Obama	2009 – 2017	2	?	?

*Omitted data from presidents with 1 term

Source: Bloomberg

Labour market starting to weaken

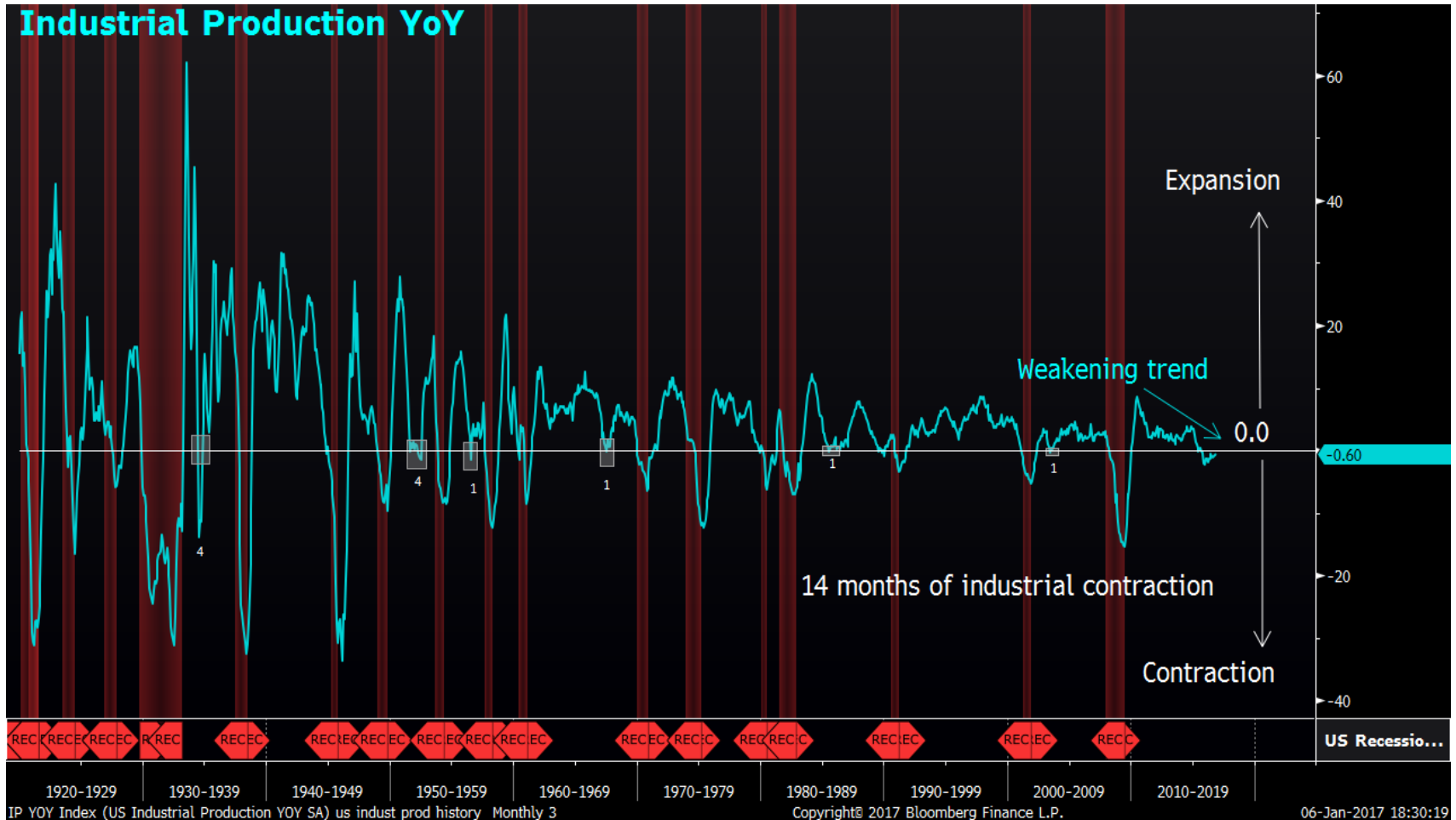
US unemployment rate signalling a looming recession in Q1 2017



Source: Bloomberg

Weakness persists in Industrial Production

US Industrial Production – longest non-recessionary contraction in history



Source: Bloomberg

US economic growth cycle

US is currently in its third longest economic expansion in history

Economic Expansion	Duration of Economic Expansion	Economic Contraction	Duration of recession
1933 - 1937	51 month	1937 - 1938	12 month
1938 - 1945	81 month	1945 - 1945	7 month
1945 - 1948	38 month	1948 - 1949	10 month
1949 - 1953	46 month	1953 - 1954	9 month
1954 - 1957	40 month	1957 - 1958	7 month
1958 - 1960	25 month	1960 - 1961	9 month
1960 - 1970	107 month	1970 - 1970	10 month
1970 - 1973	37 month	1973 - 1975	15 month
1975 - 1980	58 month	1980 - 1980	6 month
1980 - 1981	12 month	1981 - 1982	16 month
1982 - 1990	92 month	1990 - 1991	9 month
1991 - 2001	119 month	2001 - 2001	8 month
2001 - 2007	73 month	2007 - 2009	18 month
2009 -?	92 month and counting	?	?

Source: Bloomberg

US election cycle – Bonus chart

S&P 500 index performance: Bill Clinton vs Barack Obama



Source: Bloomberg

Remain bearish on the US Equity markets

Tradable Instruments :

ETF

Short Dow30 Proshares – (AMEX : DOG)
Proshares Short QQQ – (AMEX : PSQ)
Proshares Short S&P 500 – (AMEX : SH)

CFD

Wall Street Index USD1 CFD – YMH17
US Tech 100 Index USD5 CFD – NQH17
US SP 500 Index USD5 CFD – ESH17

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