Global Monthly Outlook

February 2020 (covering January 2020)

Index	January (%)	YTD (%)
MSCI World	USD -0.6	-0.6
S&P 500	USD 0.0	0.0
MSCI Europe	EUR -1.2	-1.2
MSCI Asia Pac ex Japan	USD -3.7	-3.7
Hong Kong Hang Seng	HKD -6.7	-6.7
Hang Seng China Enterprises (H-shares)	HKD -8.3	-8.3
Topix	JPY-2.1	-2.1

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as of January 31, 2020. YTD refers to year-to-date.

Global Outlook

The first half of January saw the US and China reaching 'Phase One' of an economic and trade agreement, which provided some much-needed assurance to market participants following months of uncertainty. Economic data also showed signs of improvement globally and Brexit did eventually happen on 31 January 2020, the transition period essentially resulted in everything remaining the same – for now. However, this initial optimism was eventually dampened by a 'black swan' event nobody saw coming: the outbreak of the novel coronavirus that swiftly spread from China to other regions of the world.

United States

- The US equity market extending the strong gains made in 2019 before succumbing to a bout of weakness in the final week of January as an outbreak of coronavirus in China knocked market confidence. Against this backdrop commodity prices, led by oil and copper, lower. The energy and materials sectors were the weakest performers.
- We favor the growth and tech stocks and believe record high levels with economic momentum remains solid. Market remains cautious on US-China trade tension and forward looking to second phase timeline and agenda.

Europe (including UK)

- European and UK markets started off the month well, buoyed by positive economic data and the signing of the Phase One trade deal. However, increasingly negative news about the spread and severity of the coronavirus led to a large sell-off across stock markets. Utilities stocks were the strongest performers, whilst energy stocks detracted most.
- With BREXIT behind, market should re-focus on company fundamentals. Majority of European companies reporting results beating expectation in Q3. The renewed QE programme from ECB is supportive to asset markets.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equities performance was negative as optimism around the Phase One trade deal was overshadowed by the coronavirus outbreak in China. Most markets had a strong start to the year but sold off sharply as the speedy spread of the virus was beginning to be perceived as a threat to global growth.
- We believe the recent outbreak of coronavirus will indeed pose some short-term challenges to growth and market performance.

Hong Kong and Mainland China (H-shares)

- Chinese and Hong Kong equities fell in January. Markets were initially up thanks to the phase-one trade deal and recovering economic data, but the outbreak of coronavirus triggered a broad risk-off mode and sent markets into negative territory. Information technology and healthcare stocks ended in positive territory. Energy and real estate stocks were among underperformers given the macro pressure due to the coronavirus.
- We believe the coronavirus will remain in focus. The sudden short-term correction/deceleration is expected to be sharp. We believe long-term structural drivers and direction of the Chinese economy remains intact despite these short-term challenges.

Japan

- The Japanese equity market was also dragged lower on fears surrounding the potential impact of the coronavirus outbreak on the Chinese economy. In particular, investor sentiment was dampened by the travel restrictions on Chinese tour companies, which is anticipated to negatively impact the Japanese tourism industry.
- Market remains cautious on how the coronavirus could impact the summer Olympics. However, JPY exchange rates has been stabilized which would help Japanese exporters.

Fixed Income

- Driven by falling government bond yields, investment grade (IG) corporate bonds enjoyed a strong start to the year. Geopolitical concerns in the Middle East and concerns about the emergence of the coronavirus in China led to increased demand for the perceived relative safety of government bonds.
- We expect positive growth surprises in 2020 led by reduced trade tensions and easier global monetary policy. The outbreak of the new virus raised local market concerns over the seriousness of contagion, we think this outbreak could in the near term put downward pressure on yield curves, given the probable impact on the economic, market performance and sentiment.

Emerging Markets

- Buoyed by encouraging economic data and the signing of the Phase One trade deal, global emerging equities started the year in good spirits. However, sentiment soon turned sour following the outbreak of the coronavirus. All emerging market sectors fell with real estate and energy being the weakest performers. Losses in defensive sectors such as health care were less marked.
- We believe a weaker US dollar and low interest rates globally will allow emerging markets central banks to be more aggressive with monetary easing. With this backdrop, we think EM equities, which are already relatively inexpensive, will recover.

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated February 20, 2020, unless otherwise stated.

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