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Taking a snapshot of the globe and we can see chaos everywhere.

In U.S., the twist and turn of the presidential election and rate hike probability occupy the headlines of global financial news most of the time. In Europe, investors are guessing whether the European Central Bank (ECB) will extend its asset purchase program beyond March 2017 - a double-edged sword which theoretically would boost growth, but at the same time add further pressure on the European banks' profitability. The Deutsche Bank crisis, the referendum in Italy and the possibility of a "Hard Brexit" from U.K. are equally unnerving. In China, property prices are surging through the roof, with new house prices in top-tier cities rose 20% to 40% year-to-date, and this may lead to a tightening of monetary policy by the government. In Japan, Bank of Japan's latest twist in its monetary policy seems to reflect that it is running out of tools in stimulating the inflation and the anemic growth of their economy, yet it is unable to stop the rapid appreciation of yen which is hurting its stock market. The Organization of the Petroleum Exporting Countries (OPEC) has managed to strike a last minute deal in September to reduce oil output which is the first cut for many years, stimulating the oil price to rise above USD50 per barrel. Despite the agreement, compliance among members would be difficult, and in addition, the rise of oil price as a result of the deal may also stimulate the shale oil supply from U.S.

Over the last quarter, we see price increasing across main asset classes including equities, bonds, real estate and various key commodities. These increases, however, were not supported by healthy fundamental factors. As suggested by International Monetary Fund, global economic growth will remain subdued in 2016. The global investment environment is relying on the central banks' policies to maintain status quo, but the efficacies of the same is diminishing. Price-to-earnings ratios for key stock markets indices have increased and there are views that global investment market is at the verge of bubble due to excessive liquidity. Benchmark Interest rates have bottomed-out across

developed countries in general, thus the price of fixed income assets could have peaked already. As suggested by both Jeffrey Gunlach and Bill Gross (famous veterans in bond market), the risk-return ratio for many investment grade government bonds are no longer justifiable given the low or even negative yield (currently around USD13 trillion worth of government bonds are offering negative yields). More importantly, this crowding-out effect is spreading to other risk assets including high-quality stocks, US and European corporate bonds and emerging market bonds. In fact, the cash level of fund managers and many professional portfolio managers was at 14-year high in July 2016, according to the latest regular surveys by Bank of America Merrill Lynch, indicating the increased vigilance towards the current stock and bond prices.

As suggested in our previous editions of Investment Insight, our views remained unchanged for 2016 that the emerging markets are to outperform developed markets and all countries overall. U.S. stock market will need strong earnings in order to continue its rally as value of which has been fully, if not overly, reflected by its current price. Europe will continue to be influenced by both its structural and political problem, and we are not seeing the light at the end of the tunnel for Japan either. A distinct feature of the investment environment would be one of low volume and high volatility. The continuation in yield compression around the globe is making the environment treacherous for investors, especially the ones with low risk appetite. Price of developed countries sovereign bonds may have plateau-off; and while their counterparts in emerging markets are offering relatively better return, such yield would be diminishing too. As with currencies, we anticipate a stronger U.S. dollar towards the end of the year regardless of the result of the presidential election, which will have corresponding impact to the rest of the currencies, as well as majority of the commodity prices. Overall, we would suggest an underweight of both equities, a neutral position in bonds while maintaining a relatively higher cash level. We are currently in a complex environment of unusual macroeconomic phenomena, being influenced by prolonged governmental policy interference and political uncertainties. Therefore, it would pay off to take defensive positioning and be well prepared in case of a substantial market downturn. After all, the opportunity cost of holding cash is a lot lower now given the low inflation environment around the globe.

TABLE 1: Global Stock Markets Performance

	2016 Q3 Return		2016 YTD Return	
	Local Currency	USD	Local Currency	USD
Dow Jones Industrial Average	2.78%	2.78%	7.21%	7.21%
Euro STOXX 50	5.16%	6.63%	-4.74%	-1.56%
Euro STOXX 600	4.41%	5.88%	-3.25%	-0.03%
German Stock Index DAX	8.58%	10.10%	-2.16%	0.68%
CAC 40	5.21%	6.68%	-1.68%	1.18%
Nikkei 225	6.33%	8.18%	-12.12%	4.50%
Hong Kong Hang Seng Index	12.86%	12.92%	10.09%	10.01%
Hang Seng China Enterprises Index	10.60%	10.65%	3.45%	3.38%
Shanghai Stock Exchange Composite Index	3.76%	3.58%	-13.36%	-15.69%
Shanghai Shenzhen CSI 300 Index	4.49%	4.31%	-10.82%	-13.21%
Singapore FSSTI	2.71%	1.62%	2.97%	7.01%
Korea KOSPI	3.72%	8.70%	4.28%	11.75%
Taiwan TWSE	8.87%	12.06%	14.38%	20.33%
India SENSEX	3.58%	4.98%	8.12%	7.47%
Indonesia JCI	7.06%	8.37%	18.80%	26.51%
Thailand SET	3.71%	5.30%	18.86%	23.87%
Russia RTS	9.36%	9.36%	35.88%	35.88%
Brazil IBOV	13.27%	11.19%	34.64%	64.12%
S&P Pan Arab Composite Index	-3.28%	-3.28%	-4.11%	-4.11%
MSCI World Index	4.99%	4.99%	5.20%	5.20%

Source: Bloomberg (as at September 30, 2016)

TABLE 2: Major Currencies Performance (In terms of USD)

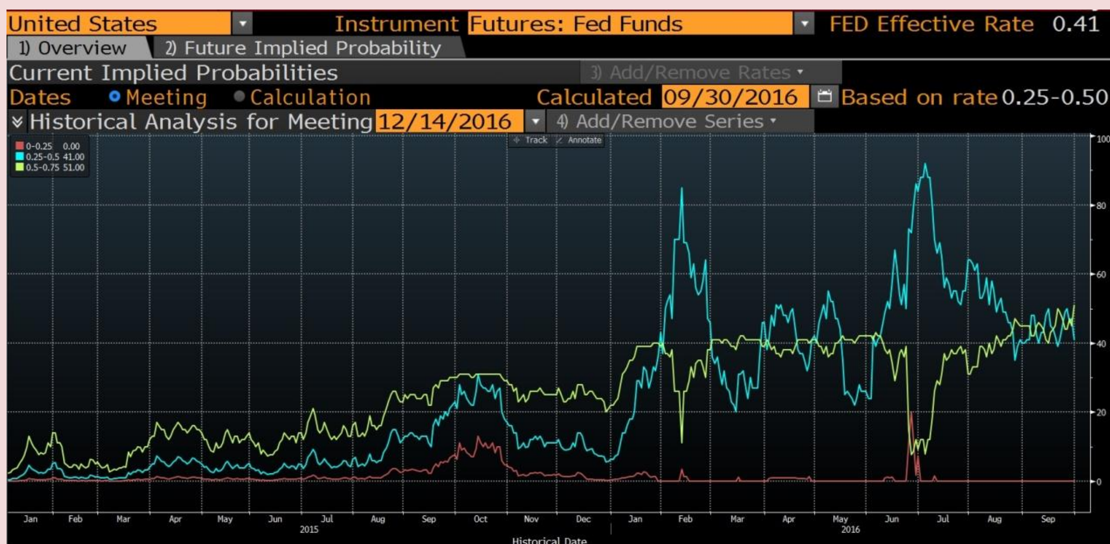
	Change in Q3 2016	2016 YTD change
	In terms of USD	
Euro Dollar	1.16%	3.43%
British Pound	-2.55%	-11.97%
Japanese Yen	1.83%	18.62%
Hong Kong Dollar	0.03%	-0.07%
Chinese Renminbi (CNY)	-0.36%	-2.67%
Australian Dollar	2.86%	5.19%
New Zealand Dollar	2.13%	6.66%
Singaporean Dollar	-1.17%	4.06%
Korean Won	4.59%	6.47%
Taiwanese Dollar	2.93%	5.00%
Indian Rupee	1.37%	-0.69%
Indonesian Rupiah	1.29%	5.65%
Thai Baht	1.34%	4.07%
Russian Ruble	1.78%	17.10%
Brazilian Real	-1.49%	21.55%

Source: Bloomberg (as at September 30, 2016)

U.S.

- The benchmark interest rate was still on hold after the decision from FOMC meeting held in September. According to the statement as released by the FOMC, it is the members' view that the labor market has continued to strengthen and the growth of economic activity has picked up; near-term risks to the economic outlook appear roughly balanced, but they have decided to wait for further evidence of continued progress toward its objectives. According to the calculation of figures from the Fed Funds Futures as at September 30th, the probability of rate hike in November and December is only 17% and 59% respectively, indicating that the market is not exactly confident that there will be a hike within 2016. We expect that there will be a high chance of rate hike in December unless a black swan event emerges, but the raise will be very modest, most probably only 0.25%.

EXHIBIT 1: World Interest Rate Probability for rate hike in December 2016, calculated as at September 30th, 2016



Source: Bloomberg (as at Sep 30, 2016)

- Annualized GDP growth rate for the second quarter was revised upwards to 1.4%. Business investment expanded at annual rate of 1% which was better than expected. Consumer spending, which accounts for more than 2/3 of the country' s economic activity, was rising at an annual rate of 4.3%. Exports rose faster than expected, which brought a positive contribution of 0.18% to the growth rate. The picture was rosier overall for the country as growth seemed to be making its way back on firmer ground.

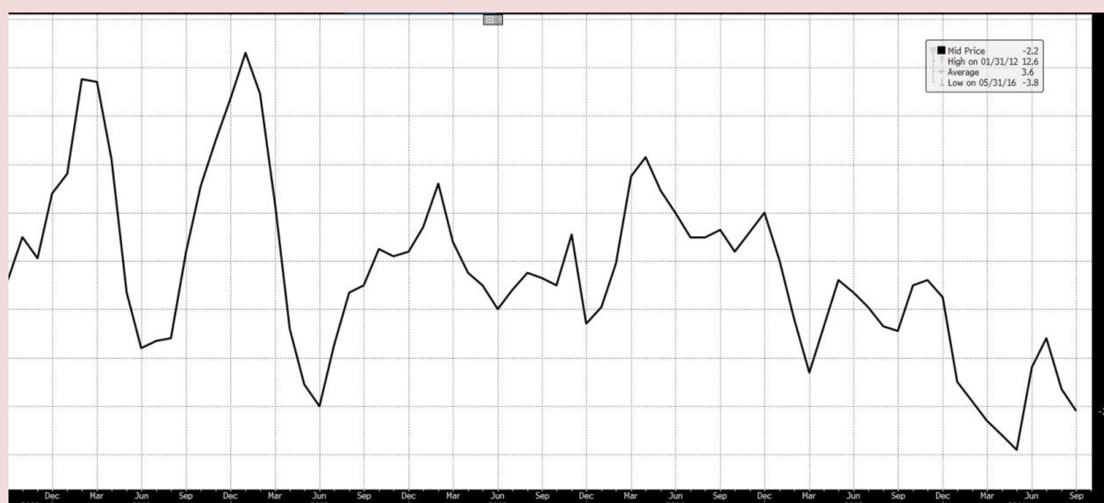
- The Institute for Supply Managements (ISM) Non-Manufacturing PMI came in at 57.1 in September after plunging to a 6-1/2 year low of 51.4 in August. Supported by growth in business activity, new orders and employment, it was the highest reading in 11 months and exceeded the market expectation of 53. The corresponding figure for manufacturing sector rose to 51.5% after a slump to the contractionary region in August, with detailed sub-indexes broadly supportive of continued expansion in manufacturing activity.

- The final reading of the University of Michigan's consumer sentiment in September rose to 91.2. As per the chief economist of the survey, the larger recent gains was due to a rise of the sentiment index from the upper income households, partly because of continued declines in their inflation expectations.

- The budget surplus for the government in September was USD33 million, which represented a fall of 63.7% from a year ago. For the fiscal year of 2016 ended September 30th, the budget deficit has grown to USD587billion or 3.2% of the country's GDP. It was an increase of 34% from the previous fiscal year and the highest in three years. The budget deficit increased for the first time in five years, reversing the trend of falling deficits as the economy recovered in recent years.

- The Labor Market Conditions Index (LMCI), which is a composite index designed by the Federal Reserve to track the primary variation from 19 labor market indicators, declines 2.2 in September. The subdued reading has somehow suggested possible underlying slack in the labor market, and could be one of the reasons for added caution from the Federal Reserve on the pace of monetary tightening.

EXHIBIT 2: Labor Market Condition Index 2010 - 2016



Source: Bloomberg (as at Sep 30, 2016)

Europe

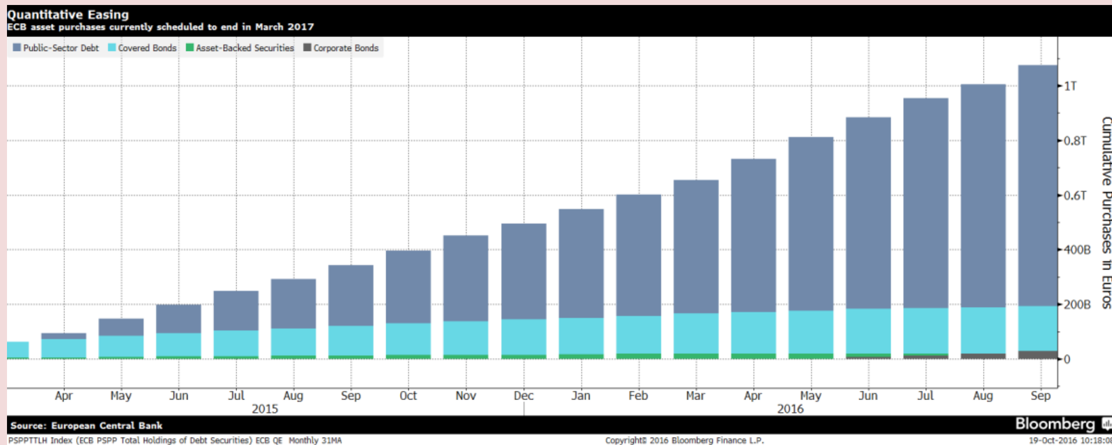
- Eurozone GDP growth slowed to 0.3% in the second quarter, which matched with the initial estimation published in July and was less than the 0.5% first quarter growth. Disparity was recorded among member countries. Germany's growth weakened to 0.4% from 0.7%, while GDP in France and Italy stagnated in the second quarter. At the same time, Spain's growth rate remained unchanged at 0.8%.

- It was widely expected that the Eurozone's economic growth was unlikely to pick up dramatically in the third quarter as survey data showed business activities failed to gain strong upward momentum. According to the September Markit Eurozone PMI, the rate of economic expansion across the Eurozone eased to a 20-month low in September. It dropped to 52.6 in September from 52.9 in August which was the lowest figure since January 2015. Contrasting growth trends were seen from manufacturers and service providers. Service sector was at a 21-month low while the manufacturing sector expanded at the quickest pace since December of last year and was at 3-month high.

- Eurozone inflation accelerated at the fastest rate since late 2014, the consumer prices in the Eurozone were 0.4% higher in September than a year earlier. However, it was still well below the European Central Bank's 2% target, despite a series of stimulus packages launched by the ECB to boost demand across the 19-nation euro area in the past years.

- The European Central Bank ("ECB") kept its stimulus program unchanged during the September meeting. The benchmark refinancing rate remained at 0%, the deposit rate and the lending rate were also left steady at -0.4% and 0.25% respectively. The monthly asset purchases program was remained at €80 billion and the policy maker also reiterated that it was intended to run until the end of March 2017, or beyond, if necessary. The asset purchasing program was run by the ECB for almost 2 years, investors are starting to guess when and how the program will end. Since the pace of economic recovery and inflation are still slow in Europe, it is believed that the program may only be wound down gradually in the future.

EXHIBIT 3: Cumulative Asset Purchase of European Central Bank



Source: Bloomberg (as at Sep 30, 2016)

- Deutsche Bank was the market focus towards the end of the third quarter. The largest German Bank came under significant financial pressure since the U.S. Department of Justice asked the bank to pay USD 14 billion to settle claims over its issuance of misleading residential mortgage-backed securities before the 2008 financial crisis. The $14 billion fine is nearly three times as much as the $5 billion which Goldman Sachs has recently agreed to pay, though not as much as the record high $16.65 billion penalty as agreed to be paid by Bank of America in 2014 as a settlement for the claims of financial fraud before and during the financial crisis. The share price of Deutsche Bank fell to historical low and its additional tier-one bonds also crashed as the probability of a conversion/write-off jumped.

EXHIBIT 4: The share price of Deutsche Bank is at historical low

Source: Bloomberg (as at Sep 30, 2016)

- However, it is believed that the European banking industry may remain weak as the business environment is very tough right now. Banks are facing high legal and regulatory cost. Competition on pricing between banks is keen and the profit margin is small due to the ultra-low interest rate environment. Not surprisingly, those European big banks such as Commerzbank, ING, ABN Amro, Deutsche Bank have announced massive job cuts recently in order to save cost.

- On 4th December, Italy will hold the Constitutional Reform Referendum. As described by the analyst from Citi, the referendum may pose an even higher risk for EU stability than the Brexit vote. If the Prime Minister Renzi loses, his government would likely fall, and the outcome is highly unpredictable.

- The Euro area is full of uncertainties with political and economic issues in the near future. We would remain cautious towards the investment outlook of the European equity market.

Asia

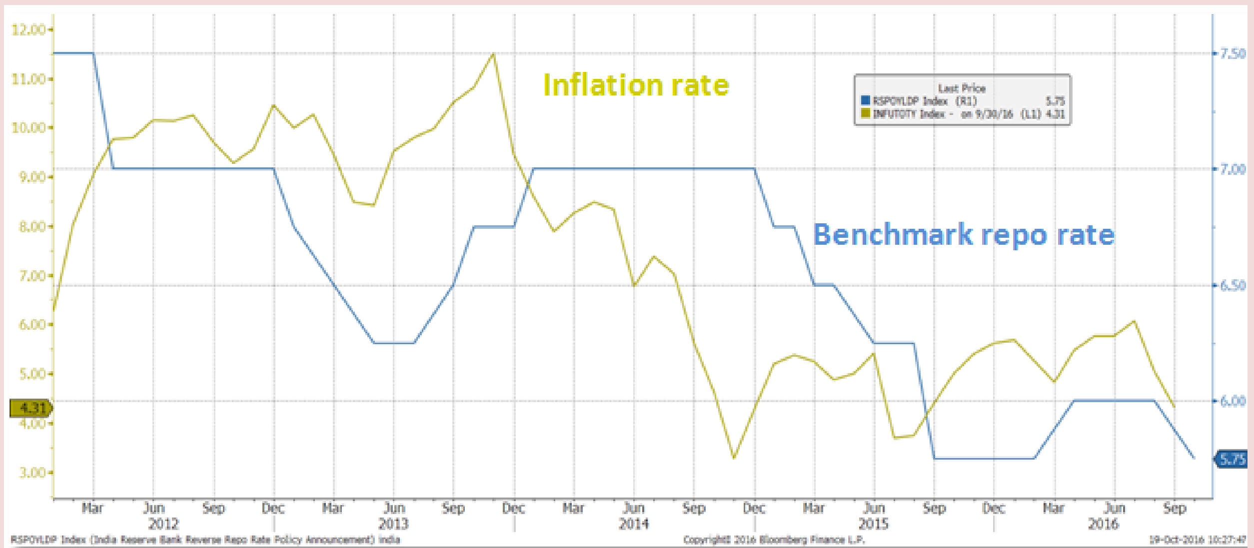
- Recent economic data indicated that the Chinese economy was stabilizing. The Caixin and China official Manufacturing PMI Index were recorded at 50.1 and 50.4 respectively which remained stable and met market expectation. However, the over-heat housing market may be the main threat to the economy. According to the National Bureau of Statistics, the average new home prices in China's 70 major cities rose 9.2% in August from a year ago and it seems that a bubble has obviously emerged in those first-tier cities. The data showed that the prices in Beijing, Shanghai, Shenzhen and Guangzhou were up 23.5%, 31.2%, 36.8%, 21.1% respectively compared to a year ago. Not surprisingly, the government imposed several tightening measures in order to dampen speculative buying and curb soaring prices. These included higher mortgage down-payment or banning the purchase of second and third homes in more than 20 cities recently.

- Hong Kong was one of the best performing global major stock markets in the third quarter of 2016. Both Hang Seng Index and Hang Seng China Enterprise Index rose over 10% in the past three months. In the fourth quarter, the Hong Kong stock market may benefit from the launch of Shenzhen-Hong Kong Stock Connect and the expectations of Southbound fund flows from the Chinese insurers. However, since the indexes have recorded substantial gain recently, we prefer to increase Hong Kong equity exposure only when market correction takes place.

- The CSI 300 index only gained 3.76% in the third quarter which has underperformed the Hong Kong stock market. If the market sentiment continues to be stable, the A-share market may catch up later this year.

- As of 30 September 2016, Indian S&P BSE Sensex was up around 8% this year, which was 6% below its all-time closing high as set in January 2015. Foreign investors have allocated around US$7 billion this year into Indian stock market, amount of which doubled the figure for the same period last year. The fundamentals of India kept improving in the past years. Due to stable food, energy and commodity price, India's inflation rate eased to 4.31% in September which was the lowest level in the past 13 months. Currently, the interest rate was at 6-year low and more rate-cut is expected if the consumer price continues to rise mildly. Apart from this, the passing of tax reform in August was encouraging to the economy. It is believed that the new simplified tax structure would reduce retail prices and boost household consumption. It will also improve the ease of doing business in general.

EXHIBIT 5: Falling Inflation and interest rate in India



- The S&P BSE Sensex has delivered more than 40% return over the past 3 years and one concern is that stock market might become overvalued as the current P/E ratio is around 20 times, which is above its long run average. However, since high growth of corporate earning is expected, it may justify for a higher valuation. In medium-to-long term, it is believed the Indian stock market is still an attractive investment choice.

Fixed Income

- The Bank of Japan ("BOJ") introduced a new "Quantitative and Qualitative Monetary Easing with Yield Curve Control" framework at its September meeting. The central bank kept its deposit rate unchanged at -0.1 % while it would target to maintain the 10-year government bond yield at around 0% by buying long-term Japanese government bonds at annual pace of about 80 trillion yen ($781 billion). The Bank also emphasized that it would continue expanding the monetary base until the country achieves 2% annual inflation rate target.

- The changes will help the BOJ to manage the impact of its bond purchases and negative interest rates on Japanese banks, profits of which have been squeezed by compression of short-term and long-term yields. Japan's 10-year government bond yields hit positive territory for the first time since March and had climbed to 0.005% after the announcement of the new policy.

- Fixed income investment has been one of the popular investment asset classes in 2016. As of 30 September 2016, the Bloomberg Barclays Global Aggregate Index and Bloomberg Barclays Global High Yield Index rose 9.85% and 14.49% respectively this year. However, the outlook of fixed income, especially for those developed countries' government bonds, may turn negative as it is expected that the global ultra-low interest rate environment may not be sustainable, and some investment grade bonds have been overvalued. The U.S. Fed Reserve is very likely to continue its rate hike soon and the rising interest rate cycle may carry on to next year. Apart from this, the attitude of the European and Japanese Central banks on further quantitative easing also seemed obscure. Not surprisingly, the 10-year bond yield of major developed countries rose in the third quarter and the trend is likely to continue.

TABLE 3: Change of 10-year Government bond yield of major developed countries in the past 3 months

Country	10-year Government Bond Yield (Local currency) 30/6/2016	10-year Government Bond Yield (Local currency) 30/9/2016	Change
US	1.470%	1.594%	↑ 0.124%
Germany	-0.132%	-0.124%	↑ 0.008%
France	0.179%	0.181%	↑ 0.002%
Japan	-0.227%	-0.099%	↑ 0.128%

Source: Bloomberg (as at Sep 30, 2016)

- Regarding the high yield bonds, we have a neutral view on its investment outlook. Since February this year, the yield spread between US high Yield Bond and 10-year US treasury fell from the peak at 8.4% to the latest 4.58%. It reflected the high yield bond price has rebounded significantly from the bottom. It is true that the high yield bond price is not as low as before; however, the yield spread right now is only at the average level since 2010. As the overall economy and business environment have improved, it is believed that the default rate of high yield bond may be maintained at a lower level and it will support the related bond price even though interest rate may be raised soon.

EXHIBIT 6: Yield Spread between US high Yield Bond and 10-year US treasury dropped back to the historical average level

Average (1/1/2010 – 30/9/2016)	Highest	Lowest	Now
4.61%	8.40%	2.21%	4.58%
	(11/2/2016)	(23/6/2014)	(30/9/2016)

Source: Bloomberg (as at Sep 30, 2016)

Commodities

- Gold has rallied almost 24% this year as at September 30th after three years of losses, as investors sought a haven amid uncertainties and volatility. In the third quarter, however, it was rather flat for the yellow metal. Pressure was on gold over past months as the expectation of rate hike was on the increase as we approach year end. There are opposing forces on the price outlook for gold. On one hand, the market's concern on the inefficacy of the central banks' policies to revive economies, the financial and geopolitical problems worldwide, and delay of interest rate increases will all give support to gold price in general; on the other hand, the reduction in consumption from India and China – the two major consumers of bullion, will have major impact on the demand. Latest surveys on participants of London Bullion Market Association showed that they expect gold to be trading in the range of USD1350 an ounce in a year's time from now.

EXHIBIT 7: Gold price for the year ending September 30th, 2016

Source: Bloomberg (as at Sep 30, 2016)

- A deal was struck on September 28th among the OPEC members in Algiers to cut production to a range of 32.5 million to 33 million barrels a day, though production allocations for respective countries will be decided in a separate meeting on November 30th. Oil price has plunged by more than 75% between June 2014 and February 2015. After a steady rise from the trough over the last eight months, crude oil price has climbed to above USD50 per barrel, getting closer to levels which the oil majors are willing to reinvest in the industry again. In fact, the plummet of oil prices has led to thousands of job losses, operational streamlining and spending cuts. The industry is now a lot leaner from the extreme cost-cutting exercise and if the oil price can be maintained in the range of USD50-55 per barrel in months ahead, it should attract investment once again.

- We do not expect a sharp rise of oil price in the next six months as the rise in price may encourage non-OPEC countries to increase supply which may cancel out the effect of cutting-back from the Algiers deal; execution of the deal among the members would also be a difficult task; and above all, demand is the key driver of oil price but we do not see signs of robust revival in global economic growth in the short future.

- The Bloomberg Commodity Index has grown by 8.6% as at the end of third quarter this year. As expressed by some largest mining companies, there are early signs that commodity markets are rebalancing. Iron ore and metallurgical coal prices have appreciated more than expected. We believe the demand for raw materials may come across broad-based modest recovery in 2017 as economic indicators in China – being the biggest buyer of commodities, continue to improve, but supply will still outgrow demand given the current output capacity and weak global growth.

EXHIBIT 8: Bloomberg Commodity Index year-to-date performance as at September 30th, 2016

Source: Bloomberg (as at Sep 30, 2016)

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