INVESTMENT INSIGHT - April 2017

Investment Services Department

Altruist®

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As vagaries in the market continue

Since his winning of the U.S. Presidential election, President Donald Trump ("Trump") has been the constant source of drama and surprises that led the twists and turns in the investment market. His bold and daring agenda, including immigration policy reform, corporate tax cuts, withdrawal from free trade agreements, an expansive infrastructure program and reform on the nation's healthcare system…made not only headlines on the papers but also immediate impact across different asset classes around the globe. The "Trump rally" in the stock markets continued into the first quarter of 2017, but as his attempts on travel ban and healthcare reform failed one after the other, the post-election euphoria seemed to die down. Once against Obama's intervention on Syria's issue, Trump ordered the launch of missile strikes to Syria without warning; then shortly after, several aircraft carriers and warships were rerouted to Korea Peninsula in a show of force by the U.S. As the Federal Reserve gradually came to consensus that the economy was ready for further rate hikes and possibly an unwinding of the balance sheet within the year, Trump suddenly expressed that the U.S. Dollar was too strong, and he would prefer a low interest rate environment. This contradicted with his statements during the election.

For emerging markets, the first quarter was a quarter of revival. A return of 11.45% was recorded in the first quarter of 2017 for the MSCI Emerging Market index, while the MSCI AC Asia Pacific Ex Japan delivered a stunning 12.91% return over the same period, both by far out beat the corresponding figure for MSCI World Index at 6.53%. Wave of fund flows were attracted towards the emerging markets, in particular Asian markets, as investors pursued assets with higher yields and lower valuation. China, India, Korea, Singapore and Taiwan were countries of favor as evidenced by their fund inflows and gains on their benchmark indexes.

As with the fixed income assets, most classes posted positive return as at end of March after a bumpy 4th quarter of 2016, with lower-credit quality bonds performing better against their investment-grade counterparts. Credit spreads were squeezed in emerging-markets debts and corporate-high-yield debts, as their prices were supported by local currency gains and solid earnings reports respectively. This trend may maintain throughout the year as default rates for high-yield debts have lowered in general while the normalization of the interest rates in developed economies will continue to put pressure of the prices of their interest-sensitive investment-grade bonds.

Returns were mixed for various sectors of commodities. We anticipate that the investment environment would be friendly to commodity prices in 2017, as China, one of the largest commodity importers, is getting back on her feet with solid economic fundamentals (e.g. improving manufacturing and servicing PMIs), and Trump is prepared to roll out his major infrastructure building projects. Geopolitical uncertainties are likely to linger on for some time which would naturally buoy prices of precious metals and crude oil. Last but not least, Trump’s latest rhetoric on preference of a weaker dollar would mean tail wind to commodity prices in general.

Our opinion with regard to the investment market and preference on asset allocation for the rest of the year remain more or less unchanged from our previous edition, in that we prefer emerging markets equities over that of developed economies due to their more attractive valuations and improved fundamentals. A mix of dollar-denominated emerging market investment-grade bonds with corporate high-yield bonds could be an effective strategy in providing consistent medium-to-long term downside protection. A modest investment in precious metals and / or natural resources may bring not only diversification, but also positive surprises to the overall portfolio.

Despite political and economic vagaries, there is no substitute for a balanced and well-planned investment strategy tailored to the needs and risks appetite of an individual investor in the long term. As Warren Buffett, paraphrasing his mentor, Benjamin Graham, stated in his 1993 Berkshire Hathaway shareholder letter: "In the short-run, the market is a voting machine — reflecting a voter-registration test that requires only money, not intelligence or emotional stability — but in the long-run, the market is a weighing machine."

TABLE 1: Global Stock Markets Performance

	2017Q1 Return		2016 Return	
	Local Currency	USD	Local Currency	USD
Dow Jones Industrial Average	5.19%	5.19%	16.50%	16.50%
Euro STOXX 50	6.96%	8.48%	4.83%	1.76%
Euro STOXX 600	6.30%	7.81%	2.30%	-0.70%
German Stock Index DAX	7.25%	8.77%	6.87%	3.30%
CAC 40	5.58%	7.08%	7.87%	4.27%
Nikkei 225	-0.38%	4.39%	2.35%	5.83%
Hong Kong Hang Seng Index	10.14%	9.89%	4.28%	4.23%
Hang Seng China Enterprises Index	9.35%	9.11%	1.44%	1.39%
Shanghai Stock Exchange Composite Index	3.85%	4.79%	-10.50%	-16.33%
Shanghai Shenzhen CSI 300 Index	4.44%	5.38%	-9.25%	-15.16%
Singapore FSSTI	10.71%	14.69%	3.78%	1.65%
Korea KOSPI	6.60%	15.09%	3.44%	0.98%
Taiwan TWSE	6.03%	13.15%	15.49%	17.36%
India SENSEX	11.50%	16.85%	3.47%	0.81%
Indonesia JCI	5.55%	7.26%	17.52%	20.34%
Thailand SET	2.96%	7.50%	23.90%	24.64%
Russia RTS	-3.31%	-3.31%	59.40%	59.40%
Brazil IBOV	7.90%	12.07%	38.93%	69.07%
S&P Pan Arab Composite Index	0.92%	0.92%	7.93%	7.93%
MSCI World Index	6.53%	6.53%	8.18%	8.18%

Source: Bloomberg (as at 31/3/2017)

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

	Change in 2017 Q1	Change in 2016
	In terms of USD	
Euro Dollar	1.28%	-3.18%
British Pound	1.70%	-16.26%
Japanese Yen	5.00%	2.79%
Hong Kong Dollar	-0.19%	-0.07%
Chinese Renminbi (CNY)	0.84%	-6.50%
Australian Dollar	5.84%	-1.07%
New Zealand Dollar	1.04%	1.51%
Singapore Dollar	3.56%	-1.96%
Korean Won	8.00%	-2.93%
Taiwanese Dollar	6.35%	2.10%
Indian Rupee	4.74%	-2.61%
Indonesian Rupiah	1.10%	2.34%
Thai Baht	4.17%	0.79%
Russian Ruble	8.89%	20.12%
Brazilian Real	4.09%	21.97%

Source: Bloomberg (as at 31/3/2017)

Review Hightlights and outlook around the globe:

United States

- The Federal Reserve raised the target range for its federal fund rate by 25bps to 0.75% to 1% during its March 2017 meeting, which was in line with market expectation. Analysts in general agreed that another two rate hikes within the year will be likely.

EXHIBIT 1: Implied Fed Fund Target Rate from FOMC Dot Plot

Source: Bloomberg (as at 31/3/2017)

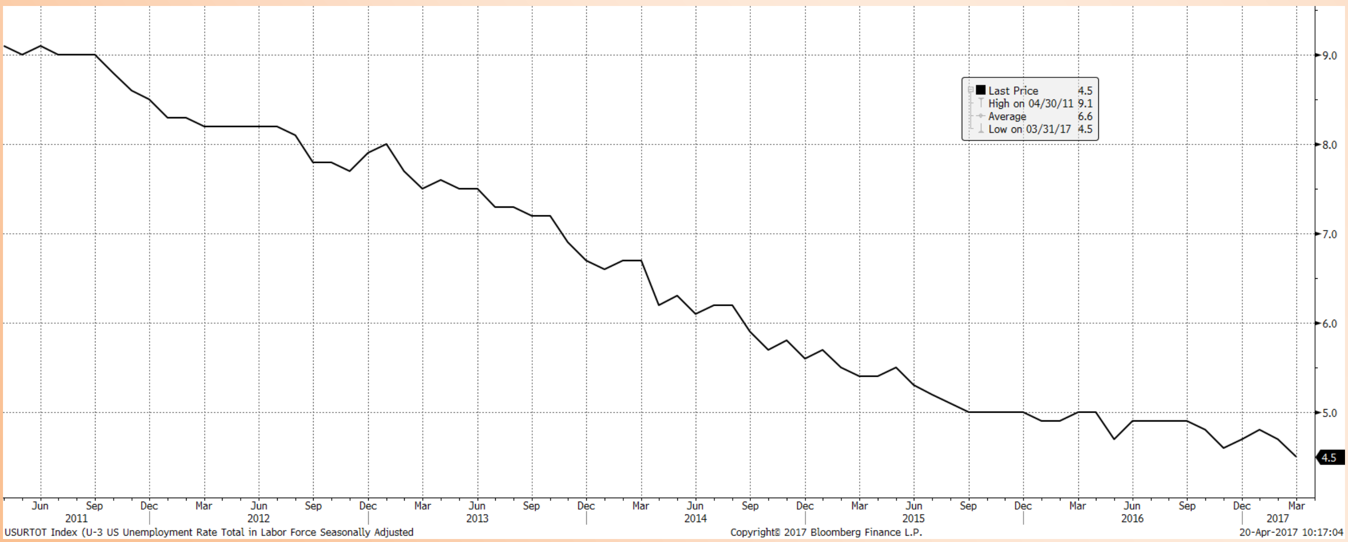
- Nearly all FOMC members agreed that the economy is close to full employment and the core PCE index shall hit their 2% target within the year, among them about half the members factored in an expectation of higher government spending. All the above point towards a more hawkish stance from Federal Reserve in 2017. The winding down of the Federal Reserve's USD4.5 trillion balance sheet was also discussed and the members anticipated that it will commence sometime this year, via a change in their reinvestment program.

- The "Xi-Trump meeting" (meeting between the leader of China and U.S.) took place in early April and was concluded with a friendly and optimistic note. Trade tension between the two countries was on top of the agenda and both agreed to set up a "100-day plan" to address the trade issues. Response to the nuclear threat from North Korea remained divided between Xi and Trump, but Trump expressed his readiness to act on the problem without China as necessary.

- GDP annualized growth rate was revised upwards to 2.1% for the final quarter of 2016, but the same for the entire year of 2016 remained at a modest 1.6%, which was the lowest since 2012.

- Statistics from the labor market were encouraging, with March unemployment rate at 4.5% which was the lowest in 10 years. Average monthly increase of non-farm payroll in the first quarter still managed to maintain at 178,000 despite a sharp drop in March. Initial jobless claims remained under 300,000 for 109 weeks which was the longest streak since 1970. Labor participation rate however, came down to 63%.

EXHIBIT 2: U.S. unemployment rate improved continuously since the great recession



Source: Bloomberg (as at 31/3/2017)

- The preliminary Michigan University of consumer sentiment index rose to a three-month high of 98 in April, as boosted by an improvement in the current financial and economic situation. Retail sales for March on the other hand, decreased by 0.2% and brought the figure to the first consecutive two-month drop in more than two years, and this could be attributed to a delay of tax refund in 2017, according to some analysts.

- The U.S. stock market remained strong in the first two months of the year as investors expected that Trump's pro-growth policies will come through shortly. However, as he failed to unite even the Republicans to support his reform of U.S. healthcare system, there appeared doubt from the market as to whether he can push through on the rest of the policies as declared during the election. For the month of March, the S&P500 closed almost flat, while the Dow lost 0.72 % and the Nasdaq gained 1.48 %, but wrapping up the first quarter, the three indexes still managed to gain 6.07%, 5.19% and 10.13% respectively.

- During early April, Trump has unexpectedly ordered air strikes in Syria in response to a chemical weapons attack to the civilians allegedly by the Damascus Government; and soon after, warships were sent to Korean Peninsula as North Korea pushed ahead with their nuclear weapon testing. Military tension is on the rise between the two nations, and countries like China, Japan and South Korea prefer peaceful resolution as geographically they can easily be drawn into war. Despite the hostility and aggression shown by both parties, it is believed that war outbreak is unlikely at this stage, but we will definitely see more defensive plays as geopolitical tension grows.

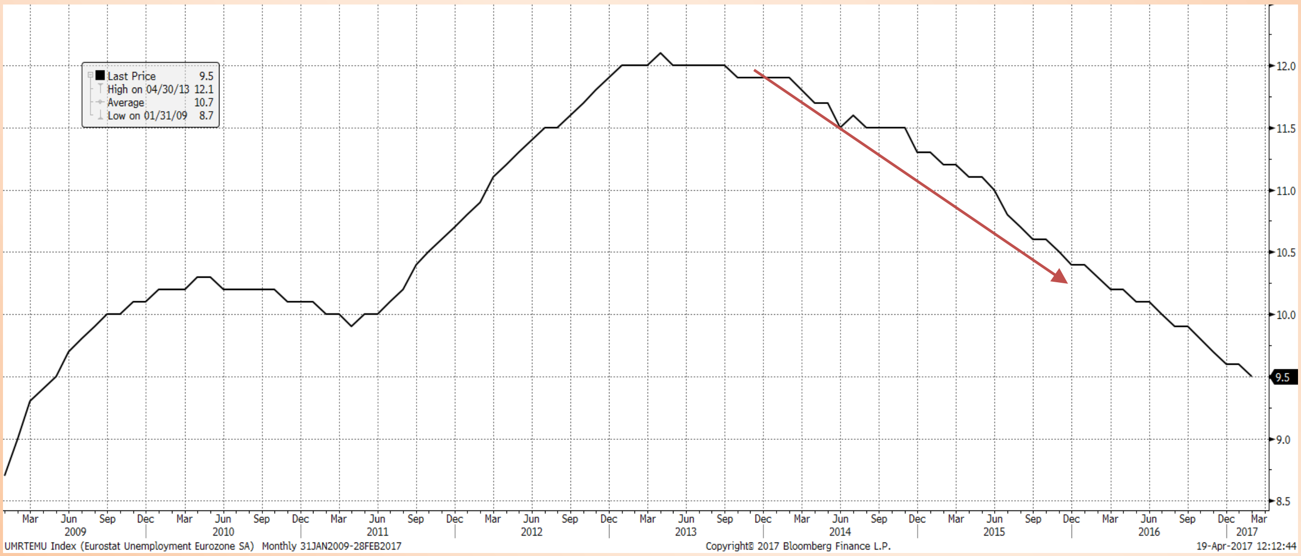
- Trump has recently backtracked from a number of his signature campaign statements. During an interview with Wall Street Journal in mid-April, he said the U.S. dollar was too strong and would prefer it to be weaker to increase competitiveness for U.S. export, and he likes a low-interest rate environment. He also said that U.S. would not label China as a currency manipulator. The U-turn on his policies shocked the market and had an immediate impact on the U.S. dollar. The Dollar Index, after surging to a record high since 2002 in the beginning of the year, tumbled afterwards and wrapped up the quarter with a loss of 2.02%.

Europe

- The Eurozone's economy grew at the fastest pace in six years during the first three months of 2017. The Eurozone composite Purchasing Managers Index rose to 56.7 in March from 56.0 in February, reaching its highest level since April 2011. The surveys suggest that a faster rate of expansion is likely to be sustained over coming months, since new orders also surged and businesses hired additional workers at the fastest pace in close to a decade.

- The employment data was also encouraging, the unemployment rate in the Eurozone dropped to 9.5% in February 2017 from 9.6 percent in January and it was the lowest level since May 2009. At the height of the financial crisis, unemployment in the Eurozone peaked at 12.1% and a year earlier, the unemployment was at 10.3%. Among all Eurozone members, the lowest unemployment rates in February were in the Czech Republic (3.4%) and Germany (3.9%), while the highest were in Greece (23.1%) and Spain (18%).

EXHIBIT 3: The Eurozone unemployment rate fell gradually



Source: Bloomberg (as at 31/3/2017)

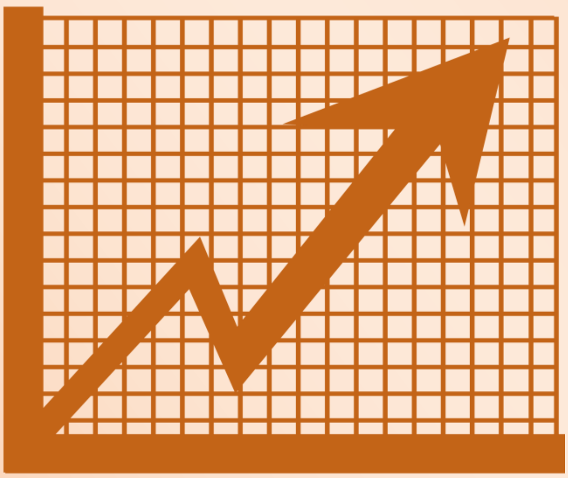
- As widely expected, the European Central Bank ("ECB") left the monetary policy unchanged in the meeting held on March 9. The policymakers confirmed the monthly asset purchases will run at the current monthly pace of €80 billion. Starting from April, they are intended to continue at a monthly pace of €60 billion until the end of the year.

- The European economy has shown signal of steady economic growth, but it is believed that the ECB may not have any dramatic move on its quantitative stimulus in the near term. Firstly, the inflationary pressure was still weak in the Eurozone and the rise of consumer price in the previous months might mainly be due to the recovery of energy price. The recently released March CPI fell sharply to 1.5% from 2% in February. More importantly, the core inflation rate, which excludes volatile prices of energy, food, alcohol and tobacco, slowed to 0.7% from 0.9% in previous month, which was the lowest rate since April last year.

- Apart from the above, the political environment in Europe is still highly uncertain. In late March, the UK Prime Minister, Theresa May, triggered "Article 50" of the Lisbon Treaty to formally launch the process for Britain to leave the European Union. The article allows for a two-year period of negotiations of the withdrawal, and it is believed that both parties are not easy to compromise over the terms.

- There was no big surprise in the result of the Dutch parliament election on March 15 and that the European far right populist lost its first important election this year. However, the Dutch election might just be the starter; France will follow to have 2 rounds of presidential election on April 23 and May 7. Although it is expected that the right wing candidate, Marine Le Pen, will finally lose in the second round of the voting, the negative impact towards the investment markets may be far bigger than the previous Trump's victory and "Brexit" vote outcome if this black swan event happens.

- The Euro STOXX 600 Index rose over 6% in the first quarter of 2017. The fundamental of the European economy seems improving while the valuation of the equity markets looks cheap relative to the U.S. However, it may be more prudent to consider raising the European equity exposure after the French presidential election as there are politically unknown factors yet to be resolved.



Asia

- Most of the Asian equity markets delivered positive returns in the first quarter of 2017. Among all, India SENSEX Index performed the best and it gained over 10% during the period. The sudden launch of demonetization by Modi Government in November last year caused the market to drop over 4% in the last quarter and it provided a good buying opportunity for investors. Besides, the foreign fund inflow also helped the Index in climbing to historical high level. According to the data from National Securities Depository Limited, foreign investors have purchased USD 5.23 billion net in Indian stocks in March and it was the biggest monthly inflow ever.

- Since the negative impact of demonetization has now passed and the PMIs also rebounded to expansionary zone, it is expected the Indian economic growth will accelerate in the coming quarters. Currently, the price-earnings ratio of the SENSEX Index is over 20 times and the valuation of the market may be relatively high; however, we are still positive towards the investment outlook of Indian equity market due to its long term growth potential.

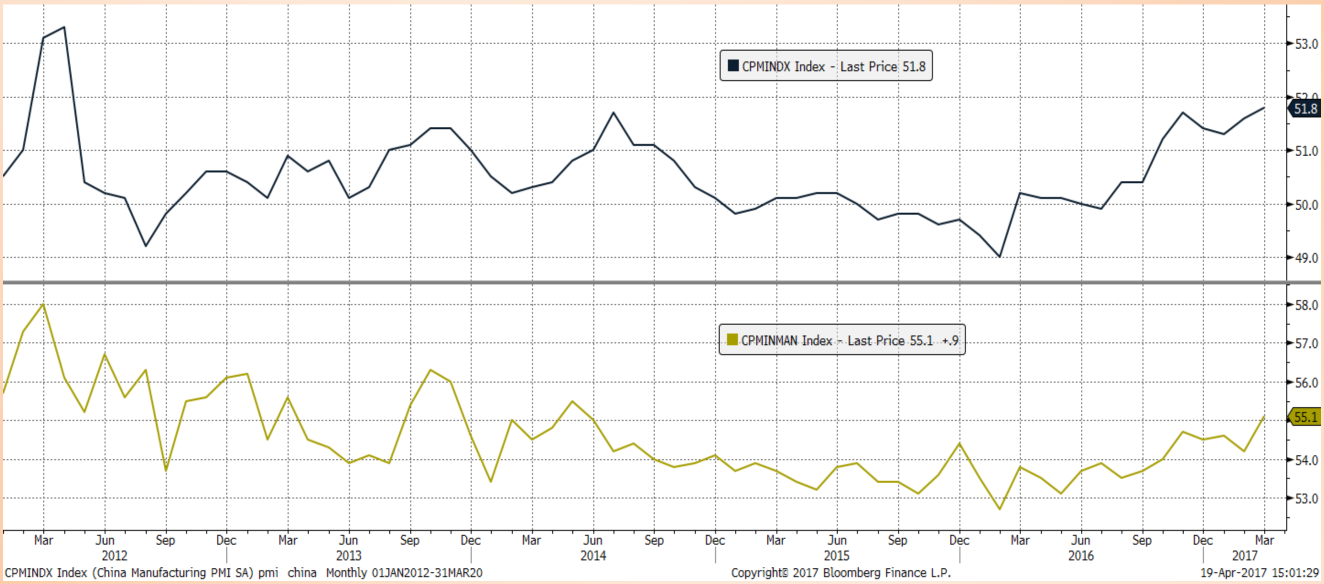
- Apart from India, Hong Kong stock market also delivered robust return in the first 3 months of 2017 and the Hang Seng Index climbed to the highest level since August 2015. Mainland China investors have played an active role in this round of rally. The Southbound inflow from Stock Connects programs accelerated and boosted the market turnover to HKD 81.2 billion and HKD 82.6 billion in February and March respectively, which were the highest levels over the past 12 months. The Hang Seng Index rose over 10% in the first quarter and climbed over the 24,000 psychological level and resistance for further rising was seen. It is believed the market volatility may also increase in the near term since the pullback pressure of the U.S. stock markets is increasing. For these reasons, we prefer to increase Hong Kong equity exposure only when market correction takes place.

EXHIBIT 4: Hang Seng Index faced resistance at 24000 level

Source: Bloomberg (as at 31/3/2017)

- Recently released economic data reflected that China's economic growth has stabilized, with initial signs showing solid growth. Both China's official Manufacturing Purchasing Managers' Index and Non-Manufacturing Purchasing Managers' Index rose to the highest since April 2012 and May 2014 respectively. Headline retail sales growth slowed to 9.5% year-on-year in January and February which was the first time when growth has come in below 10% since 2003, but consumer demand remained strong. Auto sales, a key retail component, fell 1.1% from last year, after the Government raised taxes on small-engine cars. However, stripping out the auto sales component showed that retail sales grew 10.6% year-on-year, with online retail growing 31.9% from last year, indicating that consumer sentiment remained solid.

EXHIBIT 5: Both Manufacturing and Non Manufacturing PMIs are on the rising trend



Source: Bloomberg (as at 31/3/2017)

- However, the housing bubbles problem may still be worrying. According to the National Bureau of Statistics, the average new home prices in China's 70 major cities was up 11.3% in March from the year before, and up 0.6% from the previous month.

- Beijing recorded a housing price jump of as much as 19% year-on-year in March, forcing the municipal government to launch additional curbing measures to cool the red-hot property market, which included raising down payment on second home purchases (as high as 80% of the house price) and tightening the policy on buyers who fake divorce to avail of first-home down payment rates. Across China, more than 30 cities, including Hangzhou, Xiamen, Fuzhou, Guiyang, Changzhou, and Changchun, announced new property curbs in March, targeting multiple-home buyers and non-local investors.

- One of the market focuses of Chinese stock market in the coming quarter will be the decision of MSCI on the inclusion of mainland Chinese A-shares into its Emerging Market Index in June. In March, MSCI published a new consultation paper and proposed cutting the number of A-share companies listed in the MSCI Emerging Market Index to 169 from 448 under last year's proposal, while the weighting would fall to 0.5% from 1%. The new proposal may increase the chances for inclusion after three years of failure but the impact of the inclusion is going to be very trivial.

- The market sentiment of the Chinese A-shares turned more positive in recent months as the fundamental of the economy improved. As the current market valuation is still at reasonable level, it is believed that aggressive investors may consider accumulating Chinese shares now for medium-to-long term investment.

Fixed Income

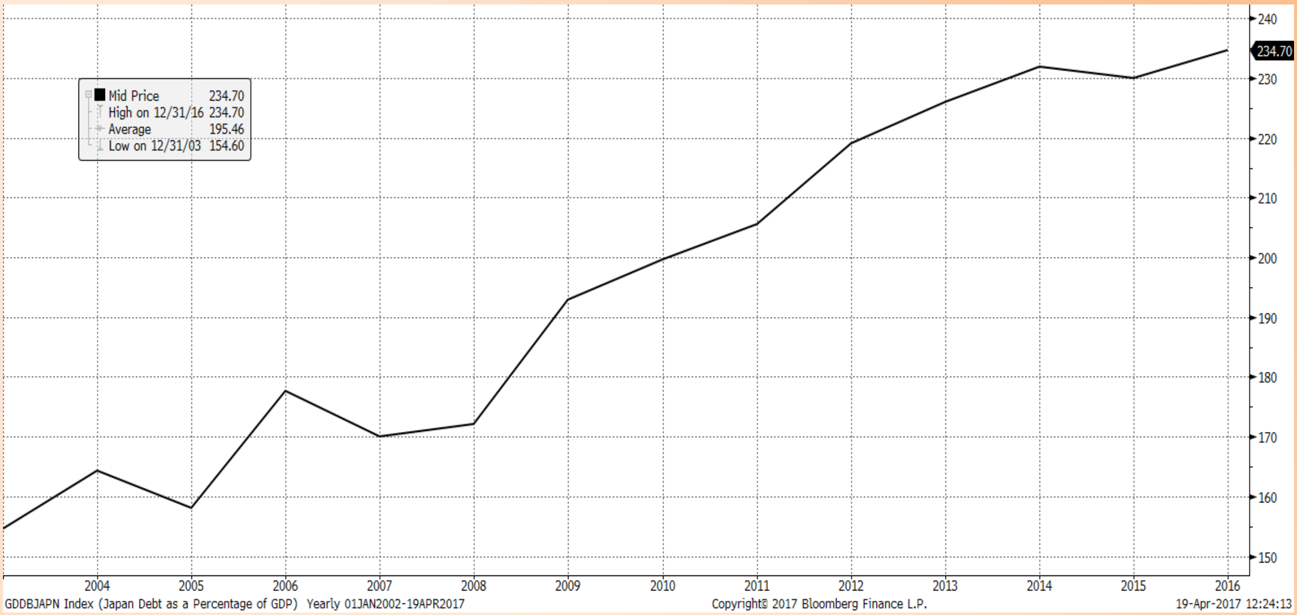
- The Federal Reserve raised the target range for its federal funds rate by 25bps to 0.75% to 1% during its March 2017 meeting. According to the meeting minutes of Federal Open Market Committee, most participants anticipated that gradual increases in the federal funds rate would continue. More importantly, the policymakers also considered to reduce the Fed's $4.5 trillion balance sheet by the end of this year as long as the economic data holds up.

- Despite more interest rate hikes and monetary tightening were expected, the U.S. Treasury bond yields dropped in the first quarter. It might reflect that the market has already priced in the impact of rising interest rate cycle and the heightening geographical risk in Syria and North Korea may also have supported the bond price.

- As mentioned earlier, the European Central Bank kept the interest rate unchanged in its March meeting and will reduce the debt buying size to 60 billion euro per month starting from April. Since the inflationary pressure was still low and political uncertainty remained high in Eurozone, the ECB may not change its loose monetary policy drastically in the near term. However, it is believed that the negative government bond yield environment in Europe will gradually be replaced by one of a more normal status of positive yield in the near future.

- In Japan, The Bank of Japan left its key short-term interest rate unchanged at -0.1% and kept its 10-year government bond yield target at around 0% through aggressive asset purchases in its March 2017 meeting. Bank of Japan Governor Haruhiko Kuroda reiterated that the central bank resolved to maintain its massive monetary stimulus until inflation is stably above its 2% target.

EXHIBIT 6: Japan's public debt to GDP



Source: Bloomberg (as at 31/3/2017)

- The Bank of Japan started its quantitative and qualitative easing in 2013. After four years, the inflation rate is low and its 2% target is far way. The private consumption is weak and the economy is still stagnant. On the other hand, due to massive asset purchases, the Japan piled up huge public debt and it seems that such trend may continue since it is still difficult to anticipate the end date of quantitative and qualitative easing.

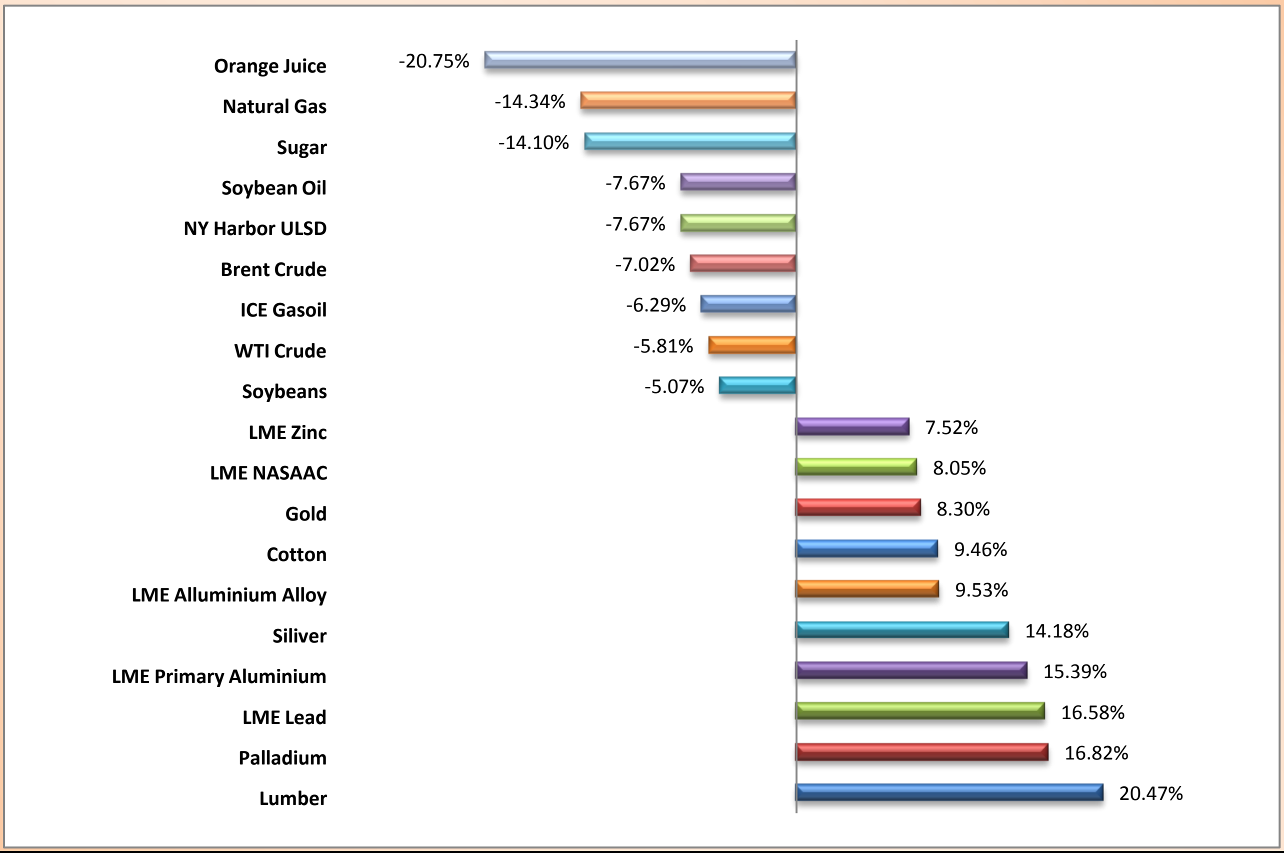
- We would hold a neutral view on the investment outlook of the government bonds of developed markets. Although global inflationary pressure seems increasing, the magnitude is relatively mild so far. Besides, the increasing tensions in North Korea and Syria and the political instability in Europe may also attract inflow to safe haven assets. In case if investor would like to avoid the interest rate risk and hedge against inflation, inflation-linked bonds issued by developed governments could be a good investment choice.

- High yield bonds delivered robust return in the first quarter of 2017. According to the Bloomberg Barclays Global High Yield Index, it rose 3.18% during the period. Since global economic recovery is expected to go on in 2017 and it will improve the overall business environment, the default rate of high yield bond should remain at a low level. Although the yield spread between high yield bond and U.S. treasury has already narrowed to 3.45%, we continue to hold our neutral view on the investment outlook of high yield bond sector.

Commodities

- The Bloomberg Commodity Index was down 2.47% for the first quarter which was to the disappointment of investors after a year of double-digit growth in 2016. Precious metal was the winner among commodities asset class, among which, palladium, gold and silver were notable gainers. Base metals also achieved fair gains. Meats and grains remained flat, while losers include natural gas, coal and oil.

EXHIBIT 7: Commodity Futures Ranked Returns 12/30/2016 – 03/31/2017



Source: Bloomberg (as at 31/3/2017)

- Lumber surged over the reporting period by 20% during the same period as trade war is developing between U.S. and Canada on lumber. Several U.S. producers filed a petition with the U.S. Department of Commerce requesting the "imposition of antidumping and countervailing duties" on Canadian lumber imports, with decision pending in April; in addition, the very strong demand from the highest level of single family home construction in the last decade is pushing the lumber price up further.

- Efforts from OPEC's production cut since their agreement towards end of 2016, despite high compliance, was counteracted by an increased supply of shale oil from U.S. A rise in oil price in 2016 has enabled U.S. oil rigs to get back to operation thus increased the U.S. crude inventories since 2017, and possible deregulation agenda from Trump on the energy industry may add to the situation. As a result, prices of crude oils have fell slightly throughout the quarter but stayed above USD50 per barrel most of the time. The decisions by the OPEC members in May on whether to extend the production curb would be critical, but apparently they may be facing a lose-lose situation. If they do not extend the cut, the price will go down which would mean erosion on their revenue; if they do, then the non-OPEC producers will increase their production (in particular the U.S.) and reap the benefit from their curb.

- Precious metals continued their rally from 2016 into the first quarter for obvious reasons. An increasing inflationary expectation around the globe led investors to seek hedge from gold as it is traditionally a protection against rising prices. The slower-than-expected pace of dollar strengthening also contributed to the situation. The unexpected strike on Syria by U.S. and the aggression shown between U.S. and North Korea lifted the gold price further.

- Looking forward, commodity prices will be highly dependent on myriad factors, including trade policies among the major players, the realization of the mega infrastructure programs in U.S., the improving and sustaining of economic recovery of the key economies, and the geopolitical risks among nations.