CAPITAL WATCH

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Wrapping Up

False Dawn

We are already at the end of the year! What a ride! 2018 started off brightly with the U.S.markets rising as high as 7.5% in January, as a follow through from the euphoria of tax cuts initiated by President Trump at end 2017. Just when we think that 2018 will turn out to be all but blue skies, the market turned for the worse as it redirected its attention to the fear of rising interest rates by the U.S. Federal Reserve Board. In February, the Dow dropped into correction territory of -10% in reaction to a good set of economic data.

Trade War – 1st Launch

President Trump launched his first salvo of trade tirade on steel and aluminium in February. The uncertainty of where Trump was heading, exacerbated the fragile confidence in the markets. The markets went further into correction zone in March before rebounding.

Amazing U.S. economy

The U.S. economy continues to defy conventional wisdom and surges ahead with Trump's market friendly policies. Conventional wisdom of a normalised unemployment rate at 5.5% has been torn to shreds. Now, academics scurry to lower their long term sustainable unemployment target to 4.5%. The U.S. unemployment rate currently stands at 3.7%. The latest U.S. GDP growth figure (3Q2018) is 3.5%. The strong U.S. economy is reflected in the stock market as it helped the stock market to recover from its correction in the first quarter and rise to new highs in September.

Trade War – 2nd Launch

President Trump's second trade salvo was aimed at China. It is a fierce battle as China is not fond of being bullied, a harsh lesson they learned at the turn of last century. The trade war dampened the Asian markets, sending them down to bear market territory. While the U.S. markets were affected, it was not impacted as much as the Asian markets. China and greater China markets went into a tail spin from June to November. It was harsh.

Mid-term elections

Towards the end of the year, much of the attention was diverted to the U.S. mid-term election of the House of Representatives and the Senate. Many expected a 'blue wave' - Democrats rebounding from the 2016 U.S. Presidential race defeat. And it came - of sorts. Democrats crushed the Republicans in the House races but failed to make meaningful impact in the Senate, providing President Trump a relief in his quest to continue his policies. The markets were tentative before the elections and it showed as the markets declined from September highs. Post elections, the market is still unsure of the impact of a divided Congress, even though many analysts think that it is ideal for the economy and the markets.

A Message from IPP

Rising Interest Rates

The Fed had been busy. For the year of 2018, they raised the Federal Funds target rate three times to 2.00 – 2.25 percent as of end November and they are poised to increase another 0.25 percent in December this year. The rapid raising of rates is in response to the strong U.S. economy. Raising of interest rates has its issues. While it is good to control inflation, it also dampens the vibrancy of the economy. It is a delicate balance and the Feds needs to be careful as so not to over calibrate and send the economy spiralling downwards. The rapid rise in interest rates affected bond prices and many bond funds register negative returns this year.

Our Tactical Moves

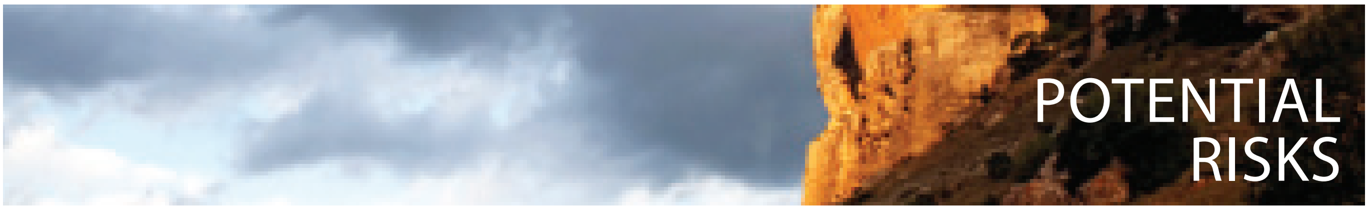
We made three moves this year; 1) To move out of interest rate sensitive bond funds in March, 2) Partially de-risk our equity allocation in September, and 3) Return to risk for our equity portion in November. The first two moves were timely. The latest tactical call is still too soon to have a clear assessment of the impact of the call. Notwithstanding, it closes the partial risk off call in September and gains have already been made.

Looking Ahead

We are already thinking about 2019. We are under no illusion that it will be an easy ride. We still have to make a big decision of when to return to normalcy for our bond allocation. It is highly likely that we will switch back to traditional bond funds in first half of the year as we see the interest rate hikes tapering off in a more gradual manner in response to the U.S. economy. This is less disruptive to the valuation of bond funds.

At this juncture, our company and the investment team would like to take this opportunity to thank you for journeying with us throughout 2018. We are performing better than many others due to our timely tactical calls and we are thankful. 2019 will be another exciting year and we look forward to it. In the meantime, have a blessed Christmas and a wonderful new year!

David Mok, CFA, MBA
IPP Head of Investment & Research



Global Equity Markets Volatility and Economic Growth

As investors move on post-U.S. midterm elections with the results coming out as expected with the Democrats taking the House while the Republicans winning the Senate, the abrupt equity market correction in the month of November brought a new wave of fear in the global market. For the whole of this year, the U.S. markets have shown to be very resilient and have braved the broad markets selloffs only to come out on top. Therefore, we remain disciplined and stick to our core houseview approach when deciding our investment asset allocation to brace for the ups and the downs. As we march towards the end of 2018, these bouts of volatility will no doubt present challenges; but within our expectations. What is important, however, is to remain objectively invested, hold steadfast and brace for markets in 2019.

Risks of Full-Blown Global Trade War

The rise in economic nationalism in the U.S. through threats and actual implementation of trade tariffs against other major economic powerhouses may risk spurring a global trade war. These tariffs are allowed by Section 232 of the U.S. law to safeguard “National Security Interest”. As of 1 October 2018, U.S. has already levied tariffs on $250 bn worth of Chinese goods while China’s retaliatory tariffs sit at $110 bn worth of U.S. goods. Currently, the Chinese government has shown to be softening their stance in their retaliatory efforts as the Chinese markets are currently getting the short end of the stick and are more negatively impacted than the U.S. markets. All in all, the Sino-U.S. trade feud has seen tit-for-tat actions from both sides, setting up a volatile ground for the global stock markets while investors fear a full-blown trade war being played out. All eyes are on the G20 summit happening at the end of November in hopes of positive updates with regards to the lingering Sino-U.S. trade tensions.

Interest Rates Hikes

The U.S. Federal Reserve has concluded during the September Federal Open Market Committee (FOMC) meeting with another round of rate hike bringing the current Fed rate to 2.25 percent. This is all in line with the Fed’s aim to continue tightening and normalizing the monetary policy; with the objective of shrinking the Fed’s balance sheet. However, as we were about to approach the end of November, an abrupt change in the Fed’s stance brought some positivity to the global markets as Jerome Powell, Chair of the Federal Reserve, mentioned that the current fed rate is just below the neutral rate (The interest rate at which real GDP is growing at a steady rate with inflation being stable.). Investors hence took it as a signal that the Fed’s stance has since changed from hawkish to dovish with fewer expected rate hikes coming next year in 2019. Considering how interest rate changed can impact both the bonds and equity markets, the FOMC and interest rate schedule will be on our radar as we trek cautiously in the ever-changing market conditions.

Emerging Markets Woes

The irrational emerging market slump and selloff which started in August 2018 is starting to recover from the rampant selloff. As observed in the market data, we do see some upwards momentum in some emerging markets like Brazil, which is recovering from the selloff. But a key thing to note will be that the emerging markets may find it hard to take a breather as further U.S. Fed rate hike will only add to the downward pressure on emerging market currencies as investors shift to U.S. higher-quality and higher-yielding assets. The stronger U.S. dollar will also put additional pressure on the credit fulfillment ability of Emerging Markets with a large amount of U.S. denominated debt. Valuations and yields from EM markets remain very attractive; however, we continue to remain objective that “Cheap” may not be “Good”.

NOV 2018

U.S. markets continue to grow strong with positive fundamentals.

Fed's rate hike stance has abruptly changed from hawkish to dovish.

The Sino-U.S. trade war has now amounted $360 bn worth of tariffs from both sides.

	Nov	YTD
S&P 500	1.79% ▲	3.24%
Dow Jones	1.68% ▲	3.31%
NASDAQ	0.34% ▲	6.19%

KEY ECONOMIC DATA POINTS	ACTUAL	EXPECTED
U.S. Markit PMI Composite (Oct 18)	54.9	54.8
U.S. Nonfarm Payrolls (Oct 18)	250K	190K
U.S. Unemployment Rate (Oct 18)	3.7%	3.7%
U.S. Average Hourly Earnings (YoY) (Oct 18)	3.1%	3.1%
U.S. Producer Price Index ex Food & Energy (YoY) (Oct 18)	2.6%	2.3%
U.S. Consumer Price Index ex Food & Energy (YoY)(Oct 18)	2.1%	2.2%
U.S. Core Personal Consumption Expenditures - Price Index	1.8%	1.9%

Data source: FXStreet Economic Calendar

Our opinion on the U.S.:
U.S. continues to lead the way and is one of the strongest market drivers for global growth with very good economic data and very good market sentiments. However, valuations remain over-valued.

- The three major U.S. market indices, the S&P 500, Dow Jones, and Nasdaq ended the month of November in the green. After the U.S. midterm election ended with results coming up as expected with the Democrats taking the House and Republican winning the Senate, the global equity market correction happened shortly after. However, investors were delighted when Jerome Powell, Chair of the Federal Reserve, did a 180 degrees change in Fed rate stance from hawkish to dovish as his comments that the current Fed rate is just below the neutral rate. Investors hence took it as a signal that although the December rate hike is a probably a certainty, there might be fewer rate hikes going forward in 2019, bolstering the broad global equity markets.

- U.S. Treasury yields fell across the board and clocked a net decrease at the end of November. Yields were heavily weighted amid the global equity markets correction post-U.S. midterm election. Investors' sentiments were also heavy as concerns regarding the global market outlook were dragged lower by the lingering global trade tensions and a slowdown in the demand of commodities. The 10-year U.S. Treasury bond yield reached the high of 3.238% on the 8 November 2018 before declining as demand for safe-haven assets surged; bringing down yields.

- The Bloomberg Dollar Spot Index, which tracks the U.S. currency against 10 of its major peers, continues its bull run in the month of November. The index closed marginally higher at 97.27. Italy's budget deficit drama, the possibility of Brexit "no-deal", Emerging Market woes, coupled with the upcoming December affirmative Federal rate hike provided additional support to the demand for USD, though the switch to a dovish stance by the Fed did cause the dollar to have a slight setback.

NOV 2018

Key events to watch out for are the Italy's fiscal debt deficit, Brexit, US-Euro trade tensions and the 2019 European election.

Investors' sentiments were lifted by positive updates on Brexit and Italy's fiscal debt fisaco.

10-year German bund yield spread continues to widen.

	Nov		YTD
FTSE 100	-2.07%	▼	-9.20%
Euro Stoxx 50	-0.76%	▼	-9.44%
DAX	-1.66%	▼	-12.85%
CAC 40	-1.76%	▼	-5.81%

KEY ECONOMIC DATA POINTS	ACTUAL	EXPECTED
EUR Markit PMI Composite (Oct 18)	53.1	52.7
EUR Unemployment Rate (Oct 18)	8.1%	8.0%
EUR Producer Price Index (YoY) (Sep 18)	4.5%	4.2%
EUR Consumer Price Index – Core (YoY) (Oct 18)	1.1%	1.1%
GBP BoE Interest Rate Decision	0.75%	0.75%
GBP Markit Manufacturing PMI (Oct 18)	51.1	53.0
GBP Markit Services PMI (Oct 18)	52.2	53.3
GBP Core Consumer Price Index (YoY) (Oct 18)	1.9%	2.0%
GBP Gross Domestic Product (MoM) (Sep 18)	0.0%	0.1%

Data source: FXStreet Economic Calendar

Our opinion on the UK & EMU:

A possibility of a "no-deal" Brexit, Italy's Fiscal Budget Deficit drama and potential revival of trade tensions with the U.S. and the 2019 European Elections remains the key events to watch while we still believe the economic data and sentiments are still resonable and fair with reasonable valuation.

- European markets ended mostly lower for the month of November. European economic data has been reasonable with fair sentiments while valuation remained reasonable. Currently, Italy's budget deficit issue and Brexit "no deal" remained as the current key issues brewing in the Eurozone. However, as we approach the end of November, positive updates regarding Brexit and Italy’s fiscal deficit issue lifted investors’ sentiments; the former being United Kingdom (UK) and European Union (EU) officials having agreed on the draft text of a Brexit agreement after months of negotiations while the latter pertaining to the populist Italian government giving in and working to lower its fiscal debt deficit in the face of looming EU sanctions should it fail to meet the EU rules. Furthermore, as President Trump proceeds with his economic agenda, market watchers are also keeping a close eye on the U.S. and EU trade talks progress.

- The 10-year German government bund yield stood at 0.328 percent at the end of November, declining from the 2018 start-of-year yield of 0.430 percent. The spread over the equivalent 10-year U.S. Treasury bond yield contracted slightly to minus 266 basis points from last month minus 274 basis points.

- The Euro rose slightly in the month of November 2018 with the EUR/USD trading at 1.13165 at the start of November and closed at 1.13909 at month end. News on positive negotiations between parties in both Brexit and Italy’s Fiscal Debt standoff helped to prop up both the Eurozone markets and the Euro. Additionally, the switch to a dovish tone by the Fed helped to slow the dollar bull run, enabling the Euro currency pair to recover.

NOV 2018

China's government aims to provide unwavering support to maintain economic growth.

China's markets set to suffer even more as the full brunt of the Sino-U.S. trade feud come into play in 2019. All eyes on G20 summit.

As of the end of November, only India SENSEX index's YTD performance remains in the green.

	Nov		YTD
MSCI Asia Pacific ex Japan	4.27%	▲	-13.65%
MSCI Emerging Markets	4.06%	▲	-14.13%
Nikkei 225	1.96%	▲	-1.82%
Hang Seng	6.11%	▲	-11.41%
Shanghai SE Composite	-0.56%	▼	-21.74%
STI Index	3.27%	▲	-8.38%
India SENSEX	5.09%	▲	6.28%

KEY ECONOMIC DATA POINTS	ACTUAL	EXPECTED
CNY Caixin Manufacturing PMI (Oct 18)	50.1	49.9
CNY Caixin Services PMI (Oct 18)	50.8	53.1
CNY Trade Balance USD (Oct 18)	$34.01B	$35.00B
CNY Consumer Price Index (YoY) (Oct 18)	2.5%	2.5%
CNY Producer Price Index (YoY) (Oct 18)	3.3%	3.4%
JPY Unemployment Rate (Oct 18)	2.4%	2.3%
JPY Tokyo CPI ex Fresh Food (YoY) (Nov 18)	1.0%	1.0%
JPY National Consumer Price Index (YoY) (Oct 18)	1.4%	1.4%
HKD Gross Domestic Product (YoY) (Q3)	2.9%	3.5%
HKD Consumer Price Index (Oct 18)	2.7%	2.7%
SGD Gross Domestic Product (YoY) (Q3)	2.2%	2.4%
SGD Consumer Price Index (YoY) (Sep 18)	0.7%	0.8%

Data source: FXStreet Economic Calendar

Our opinion on Asia & the Emerging Markets:
Extended period pertaining to the Sino-U.S. trade feud might result in collateral damage in regional economies; though we can see that China is now taking a "softer" stance in its retaliatory efforts. We remain watchful of any updates on trade issues following the G20 summit. Both Asia and Emerging Markets exhibit fair positive data, poor sentiments and are generally trading testing the support. Valuation in Asia ex-Japan and Emerging Markets are attractive.

- The major Asian bourses closed higher for the month of November, led by positivity from the US markets. Investors' equity holding initially took a beating as the contagion U.S. market equity correction spread to Asia markets. Weaker-than-expected corporate earnings and economic data also brought much negativity to the markets as investors remained worried about global economic growth outlook amid the unsettled Sino-U.S. trade feud. The US equity market rally towards the end of November and ahead of the G20 summit helped prop up the Asian markets.

- China's trade balance in USD for the month of October was lower compared to the expected amount. This result was expected as most of the rush of imports from the U.S. before additional tariffs kick in, which will increase the supply costs, have already been taken into account. The adjustment from 10 percent to 25 percent tariffs on Chinese goods by the U.S. at the start of 2019 will hurt China's export even more as the higher cost of imported Chinese goods will likely result in U.S. manufacturers seeking out relatively cheaper local domestic US suppliers and producers. Investors are hence looking forward to positive news in the November G20 summit where Trump and Xi are set to meet and hopefully, a positive settlement could be reached.

- Based on data obtained from the Coinbase website, Bitcoin price ended the month of November at USD $3946.84 per coin. Digital assets took a severe beating with Bitcoin leading the way downwards. Bitcoin price reached the record high of USD $19,783.21 on 17 December 2017 last year and has since fallen by about 80 percent to its current end of November price within a span of close to 1 year. Currently, retail Bitcoin investors are hoping for institutional investors to join in to bump up trading volume and price.