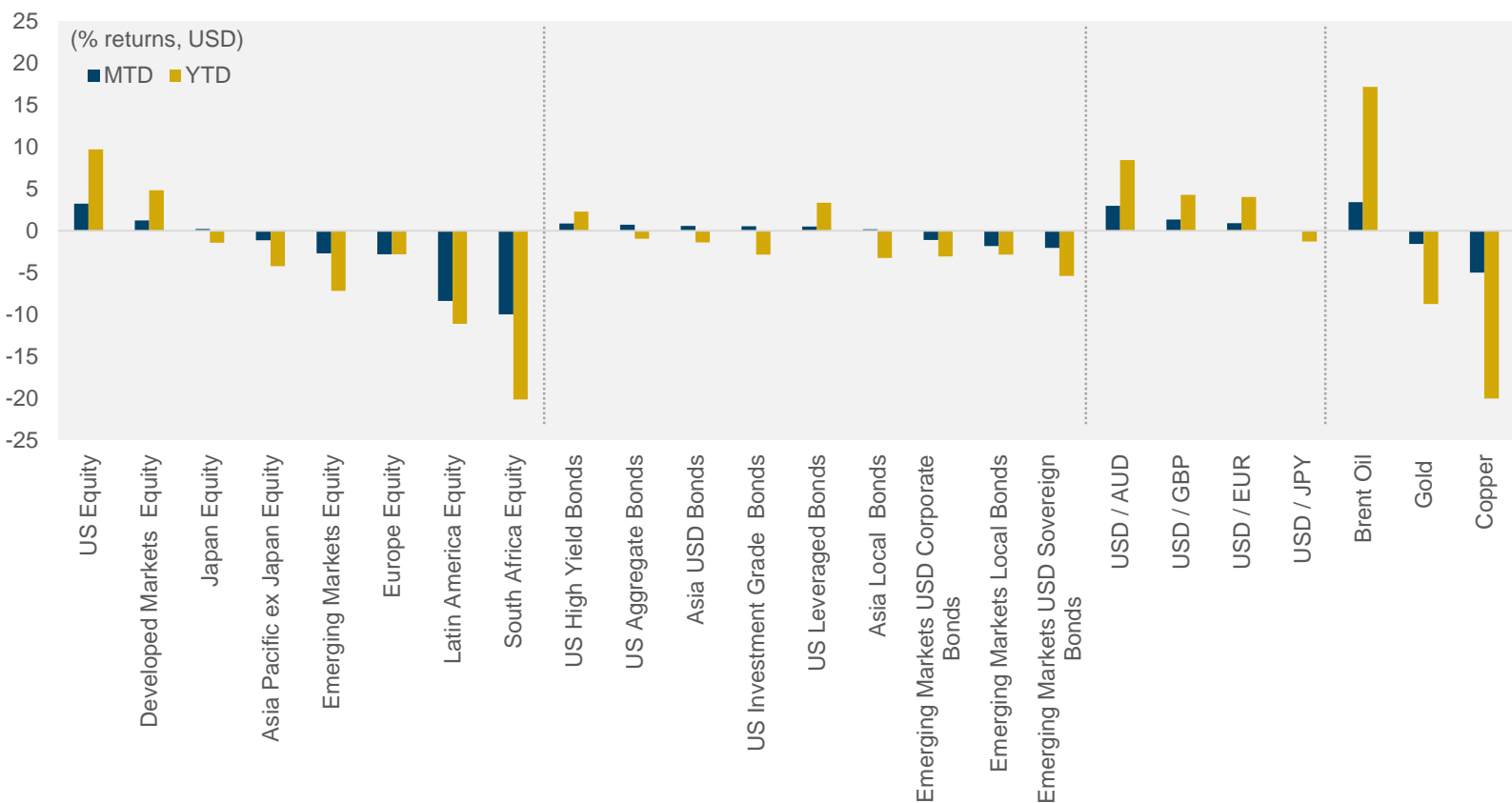


201808

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Key takeaway: US equities breached new heights while Emerging Market equities deepened losses. Appetite for US bonds continue but investors remained sidelined for Emerging Market fixed income. The US dollar strengthened its grip on major rivals except for the Yen. Brent Oil adds to its year to date gains and Gold loses more luster.



Asset Class

- EQUITIES:** Developed markets outperformed Emerging Markets over the month, led by US equities as firm economic and corporate data overwhelmed political fighting. Risk appetite for US equities was also buoyed by the impending resolution of a new North Atlantic Treaty Agreement. European equities were generally weaker as trade negotiations and limp economic data weighed. Potential debt trouble out of Italy and the lack of significant Brexit developments also dampened risk taking. Emerging market equities were again at the forefront as economic weakness in Turkey and Argentina threatened to spread to equities, bonds and currencies of peers. Asia Pacific ex Japan equities performed better than its Latin American and South African counterparts. Despite currency concerns, India and Asean excluding Singapore grinded out positive returns while China lost close to 4%.
- BONDS:** US bonds were in favor as investors turned to US debt markets in light of Emerging Market troubles. US treasuries and investment grade bonds continued to receive flight to quality while yield seekers supported demand for high yield and leveraged issues. The US 10-2 yield curve continued to flatten as US 10 year bond yields remained well below 2.9% while US 2 year bonds rose to over the 2.65% mark. Emerging Market bonds reversed last month's gains as risk sentiment was rocked by crumbling currencies in Turkey and Argentina. Asian local bonds were relatively flat over the month as healthy current accounts and economic strength fended off contagion from other Emerging Markets.

CURRENCIES: The US Dollar added to its year to date gains against its major rivals. A strong domestic economy, the looming rise in US rates, decreasing supply of US dollars and increasing demand for US assets are continually fueling the strength. However, idiosyncratic factors are also weakening rival currencies such as AUD (falling demand of commodities), GBP (Brexit negotiations), EUR (weak economic prospects). In contrast, uncertainty in the divergence in global growth, Emerging Market issues and continued trade tensions are supporting the interest in the Japanese Yen. In Asia, the Chinese Yuan found support in the form of government interventions and stronger than expected PMI data but the India Rupee and Indonesian Rupiah slid on deficit and capital flight concerns.

COMMODITIES: Oil prices gained over the month rising US inventory was offset by strong US GDP figures. Sanctions on Iran have also limited the production excess in the near term. Copper, as a barometer of global growth, remained weak. Concerns over weaker Chinese demand and a strong US dollar continue to be a drag on prices. Demand for gold has also been weakened by a stronger US dollar. Increased production and lower demand has also kept a lid on prices.

Source: Legg Mason, Bloomberg, as at 31 August 2018 unless otherwise stated. **Past performance is no guarantee of future results.** Please refer to the appendix for definitions and representative indices.

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201808

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Economy

- The **Global** Composite Purchasing Managers Index expanded at a slower pace when compared to June (June 53.0 vs. July 52.5). According to IHS Markit, the slowdown reflected less new orders and employment. Growth in the US and Europe was firm but was softer across emerging markets.
- **US** GDP rose 4.2% quarter on quarter in Q2 2018 and 2.9% over Q2 2017. Business spending grew and less goods were imported. The Fed's preferred measure of inflation, the core PCE, hit 2%, the first time since 2012. The unemployment rate fell to 3.9% in July while declining unemployment claims between July and August suggest further upcoming improvement. Retail trade increased 6.4% year-on-year and consumer sentiment as measured by the University of Michigan, rose slightly from 97.1 in July to 97.6 in August. New home sales fell again (-1.7%) in July as mortgage rates rose amid less supply.
- In **Europe**, composite PMI figures showed a mild acceleration from 54.3 in July to 54.5 in August; boosted by the private sector. Economic sentiment as measured by the ECB dipped slightly to 111.6, dragged by manufacturers, service providers and consumers. Core inflation rose 1% in August 2018 over August 2017. Headline inflation, however, rose 2% but below expectations. **Germany's** annual inflation is expected to remain unchanged at 2.0% in August from July, driven primarily by energy related inflation. Unemployment remained at 3.4% in July. In North Asia, while managing risks from tariffs and deleveraging, **China's** official manufacturing PMI reading came in at 51.3 for August, driven by a rise in production. However, new export orders fell. The service PMI also expanded at 54.2 but similarly saw weakness in new orders. Inflation rose by 2.1% year on year driven by food and energy. Core inflation stood at 1.9% from a year ago.
- **Indian** inflation eased to 4.17% in July (4.92% June), still above the government's medium target of 4%; driven by food and fuel costs. India's growth was an annualized 8.2% as at the end of Q2 2018, as household spending and activities in financials, real estate and manufacturing picked up.
- **South Korea** grew 2.8% year on year in Q2 2018 (2.8% Q1 2018). Weaker manufacturing, construction and **gross fixed capital formation** were softer. Year on year inflation rose at 1.4% year on year in August (slightly lower than the 1.5% from July). Transport, housing and utilities contributed to the muted growth.
- In **ASEAN-5**, growth was generally positive but slower than the pace of previous quarters. Year on year ending Q2 2018, Thailand grew 4.6%, Indonesia grew at 5.27%, Philippines grew 6%, Singapore grew 3.9%, Malaysia grew 4.5%.

Central Banks

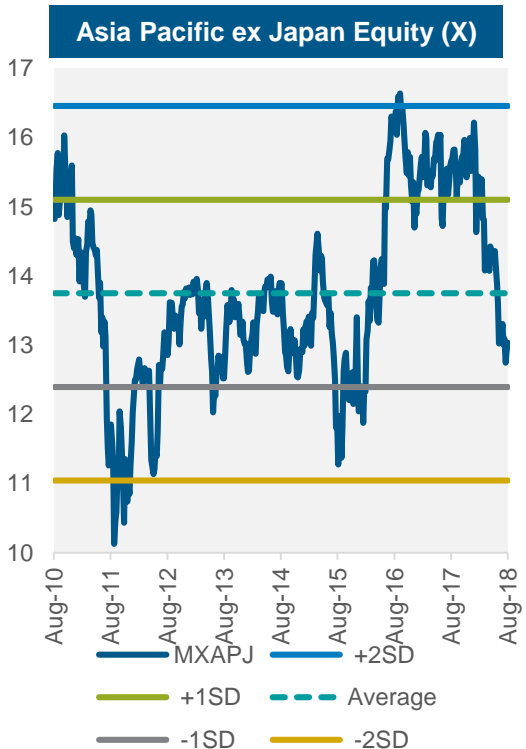
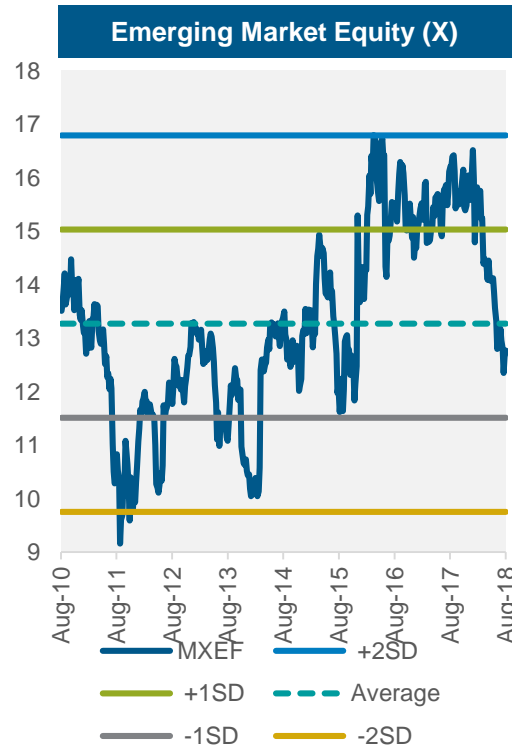
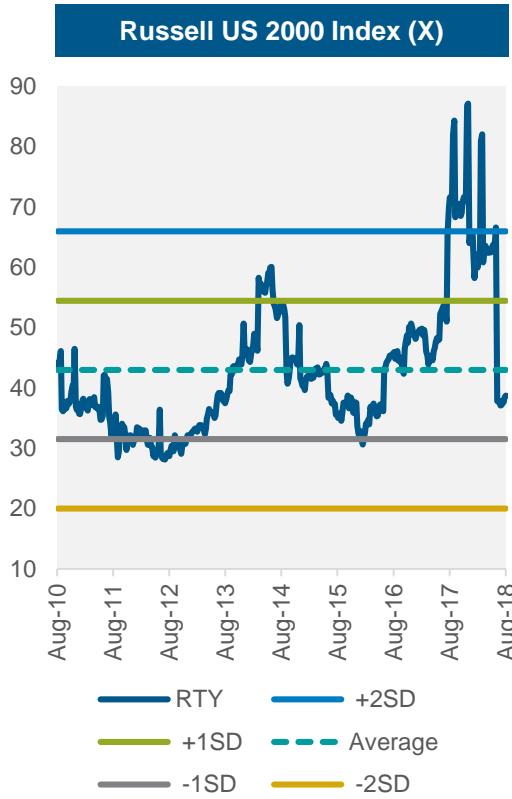
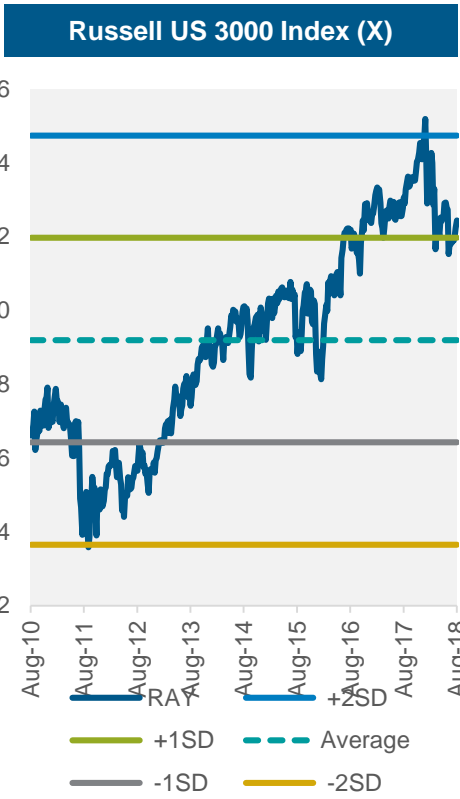
- There was no notable **Fed** activity during August but the Fed is widely expected to raise rates a couple more times going into 2019 as domestic inflationary pressures start to build up as evidenced by the August jobs reports.
- There was no change in tone for the ECB as it maintained its asset purchasing program to end by December.
- In early August, the **Bank of England** (BOE) raised rates by 25 basis points to 0.75% responding to rising wage pressure and a recovering economy. However, the BOE was quick to add that they could adjust the policy should it be needed in the event of an "Brexit" economic fallout.
- **Bank of Japan** Chief, Haruhiko Kuroda, maintained the BOJ's preference for no rate hikes in the immediate term during an end August interview with Yomiuri newspaper.
- To combat a weaker currency, the **Peoples Bank of China** (PBOC) introduced a pricing factor to shore up RMB strength. Investors are focusing on the PBOC's actions to calm investors over the coming months and trade tensions rise along with liquidity needs.
- Elsewhere in Asia, **Indonesian** authorities have raised interest rates four times since May by 125 basis points as contagion from other Emerging Markets unnerve investors.
- Towards the end of August, **Argentina** raised rates to 60% in response to a falling currency while **Turkey** signalled that it would most likely add to its over 700 basis points increase since December of 2017.

END

201808

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EQUITY VALUATIONS – Price to Earnings Ratio (PE Ratio) (Since 2010)



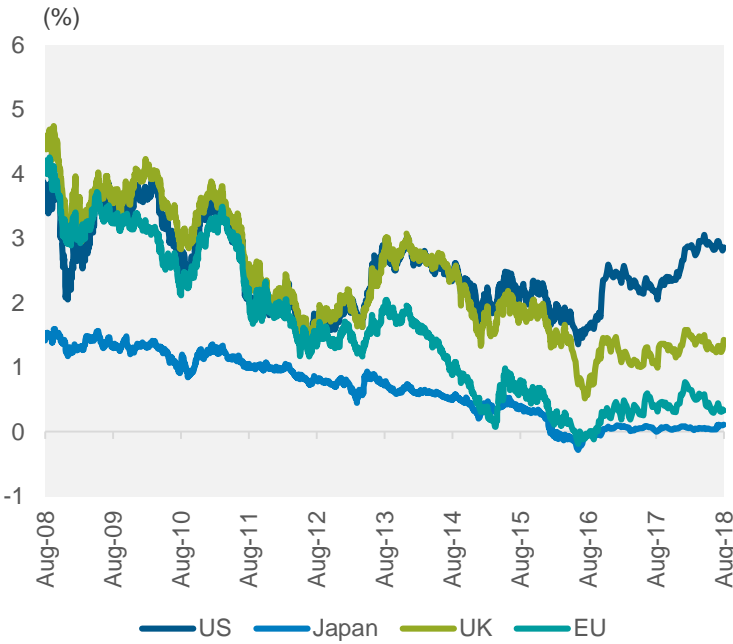
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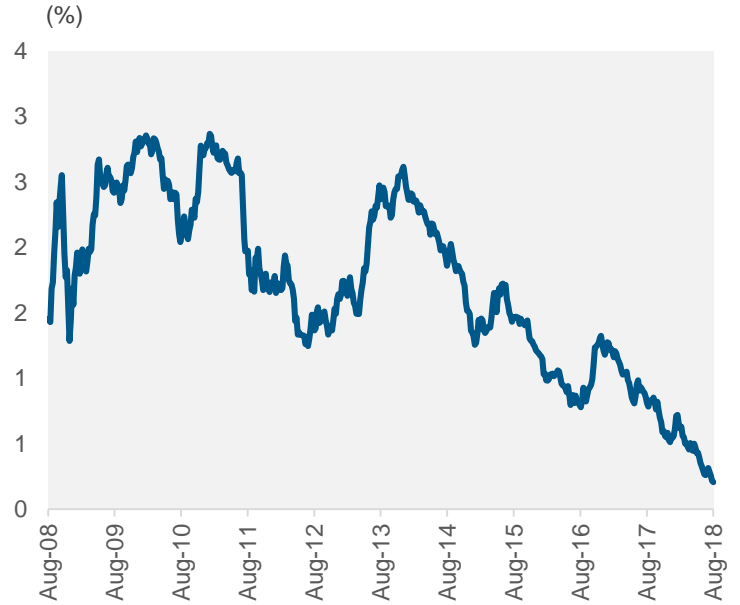
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BOND VALUATIONS

Global Government 10 Year Bond Yields



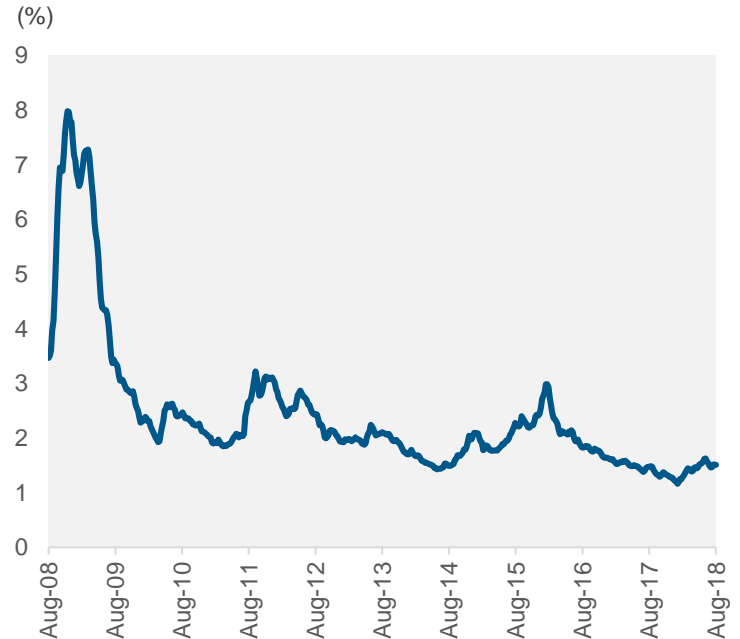
US Treasury Spread 10 years – 2 years



US High Yield Option Adjusted Spread



US Investment Grade Option Adjusted Spread



Source: Legg Mason, Federal Reserve Economic Data, ICE BofAML. Figures are not seasonally adjusted, Bloomberg, USD, data as at 31 August 2018 unless otherwise stated. **Past performance is no guarantee of future results.** Please refer to the appendix for definitions and representative indices. ONLY FOR USE WITH ALL INVESTORS IN HONG KONG AND SINGAPORE, THE PRC INVESTORS INVESTING IN THE QDII PRODUCT OFFERED BY PRC'S COMMERCIAL BANK, DISTRIBUTORS AND EXISTING INVESTORS IN KOREA, DISTRIBUTORS IN MACAU AND ALL INVESTORS IN TAIWAN. PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

201808

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DEFINITIONS

Abbreviation	Full Form
ASEAN	The Association of Southeast Asian Nations
ASEAN-5	Thailand, Indonesia, Philippines, Singapore, Malaysia
Asia Local Bonds	Markit Iboxx ALBI
Asia Pacific ex Japan Equity or MXAPJ	MSCI AC Asia Pacific ex Japan Net Total Return USD Index
Asia USD Bonds	Markit Iboxx ADBI
Brent Oil	Generic 1st 'CO' Future
BOJ	Bank of Japan
Copper	Generic 1st 'HG' Future
Developed Markets Equity	MSCI World Net Total Return USD Index
ECB	European Central Bank
Emerging Markets Equity or MXEF	MSCI Emerging Net Total Return USD Index
Emerging Markets Local Bonds	J.P. Morgan Global Bond Index Emerging Markets Global Diversified IG 15%CAP
Emerging Markets USD Corporate Bonds	J.P. Morgan CEMBI Broad Diversified Core Index
Emerging Markets USD Sovereign Bonds	J.P. Morgan EMBI Global Core Index
Europe Equity or MXEU	MSCI Europe Net Total Return USD Index
FED	United States Federal Reserve Board
GDP	Gross Domestic Product
Gold	Generic 1st 'GC' Future
Japan Equity	MSCI Japan Net Total Return USD Index
Latin America Equity	MSCI Emerging Latin America Net Total Return USD Index
PBOC	People's Bank of China
PCE	Personal Consumption Expenditure
PE	Price to Earnings Ratio
PMI	Purchasing Managers' Index
RAY	Russell US 3000 Index
RIY	Russell US 1000 Index
RMB	Chinese Yuan Renminbi
RTY	Russell US 2000 Index
SD	Standard Deviation
South Africa Equity	MSCI Emerging Markets Africa South Africa Net Total Return USD Index
US Aggregate Bonds	Bloomberg Barclays US Agg Total Return Value Unhedged USD
US Equity	MSCI USA Net Total Return USD Index
US High Yield Bonds	iBoxx USD Liquid High Yield Index
US Investment Grade Bonds	iBoxx USD Liquid Investment Grade Index
US Leveraged Bonds	Markit iBoxx USD Liquid Leveraged Loans Total Return Index
USD / AUD	USDAUD Spot Exchange Rate - Price of 1 USD in AUD
USD / EUR	USDEUR Spot Exchange Rate - Price of 1 USD in EUR
USD / GBP	USDGBP Spot Exchange Rate - Price of 1 USD in GBP
USD / JPY	USDJPY Spot Exchange Rate - Price of 1 USD in JPY

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