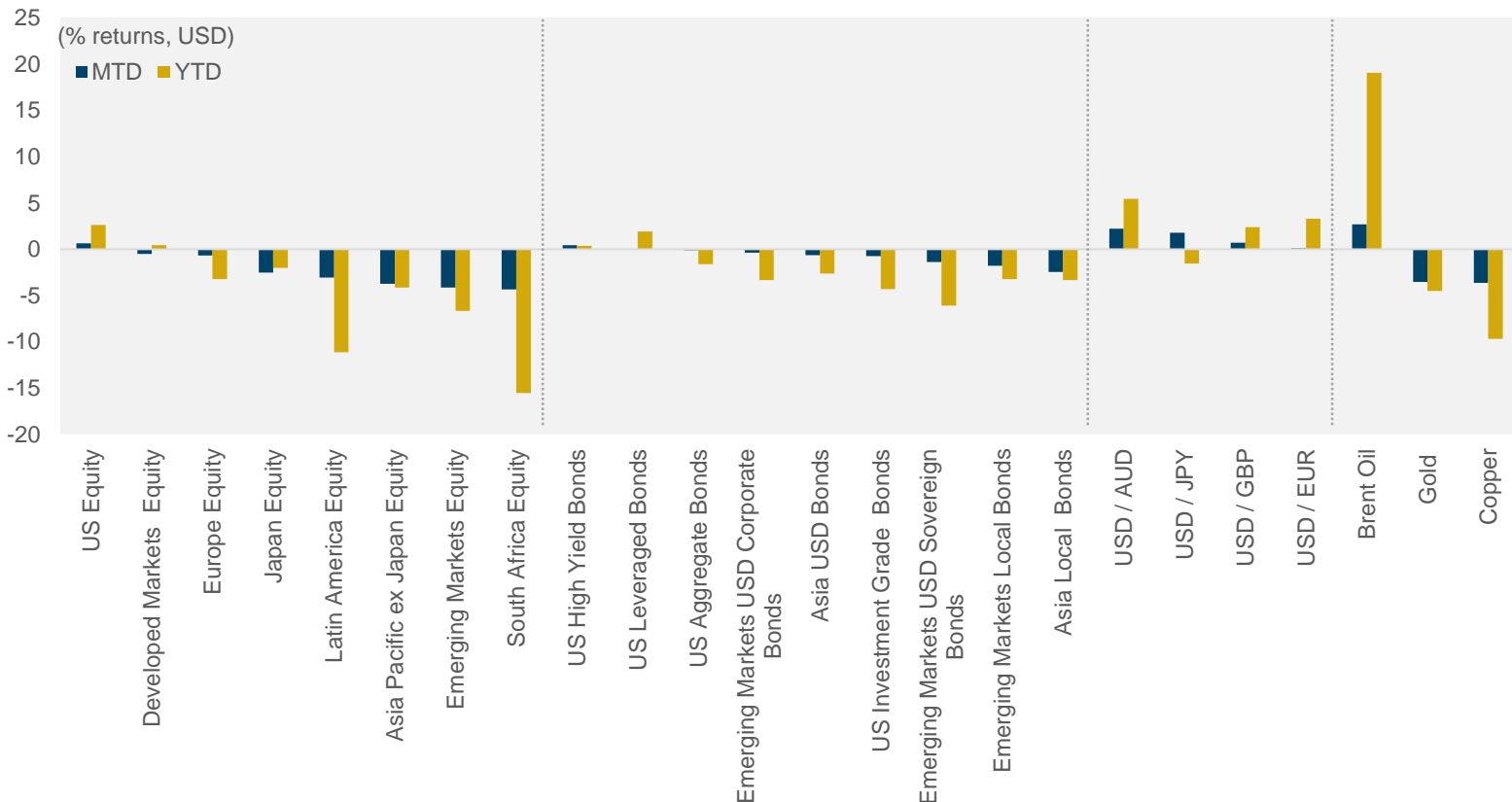


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# ASIA MARKETS & MACRO

*“Trade tensions ratchet up a notch. US assets show resilience. Greenback strength questions emerging markets. Black gold betters yellow gold. Central banks move in opposite directions.”*



## Asset Class

- EQUITIES:** Equities globally were mostly in the red as emerging market equities continued to fall led by South Africa and Asia Pacific ex Japan. A combination of positive corporate health, a growing economy and flight to safety led to outperformance of US consumer sectors and small capitalization stocks. Within Asia, Thailand, Indonesia, Korea and China experienced the deepest selloff. In Latin America, Brazil was the worst performer while Mexican equities bucked the global trend as elections concluded as expected with Andrés Manuel López Obrador's one-sided presidential victory.
- BONDS:** The US 10-Year minus 2-Year yield curve saw its smallest spread in 10 years as investors bought into more longer dated US government bonds on concerns of the impact of increased trade tensions. The US 10-Year yield was further kept in check by haven seekers following political stress in Europe. US High Yield bonds continued to experience support as investors feel more confident about the US economy. Leveraged loans continued its year to date strength as investors look to hedge against duration risks and corporate stress. Elsewhere, faltering currencies and poor sentiment led to the relative underperformance of emerging market and Asian local bonds. Thai, Indonesian and Indian local bonds were the worst hit while Chinese local bonds outperformed.
- CURRENCIES:** Driven by a combination of domestic strength and external frailty, the durability of the US Dollar continue unabated over June against major rivals. Acknowledging increased growth prospects in the US, the Fed raised short-term rates in June and signaled for two more by year end, prompting flows back into the US. Consequently, commodity currencies were also weaker against the US Dollar. Weak Eurozone area data kept the Euro in check while the Sterling experienced more weakness on Brexit negotiation stress. In spite of increased global political uncertainty, weaker domestic sentiment meant the Yen did not see haven flows over June.
- COMMODITIES:** In the month where most commodities felt the brunt of a stronger US Dollar and uncertain growth prospects, Brent oil increased its year-to-date gains as disruptions, coordinated cuts and sanctions limited supply. Gold failed as the haven of choice weighed by a strong US Dollar and less demand from key gold consumers like China and India. Copper continue to slide on weaker than expected Chinese economic data. The easing of South American supply constraints (Escondida) did not help pricing as well.

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## Economy

- The **Global** Composite Purchasing Managers Index remained in expansion mode at the end of June but was at multi-month lows as optimism amongst Emerging Market manufacturers dragged.
- **US** GDP was revised lower from 2.2% annualized growth to 2.0 in Q1 2018, limited by services and inventory. Inflation talk was increased as the Core PCE rose 2% year on year in May while core CPI also rose 2.2% over the same period. The unemployment rate fell to 3.8%, the lowest since 1969 while the participation rate remained steady. Retail sales edged up but consumer sentiment as measured by the University of Michigan, declined slightly. Home sales remained brisk driven by new single families.
- In **Europe**, composite PMI figures showed slight growth to 54.8 as economic sentiment as measured by the ECB dipped slightly to 112.3, still above the 100 mark. This decline in sentiment was corroborated by weaker consumer confidence and poorer industrial production. Core inflation remain benign at 1%.
- **German** unemployment remained at 3.4% in May while inflation rose 2.1% year-on-year in June, lower than May's reading of 2.2%. Energy prices supported while services did not rise as fast as the month prior (1.5% vs. 1.9%).
- **France's** inflation rose by 2.4% year on year in June as increases in food prices and energy related items fed through. INSEE, the French national statistics agency, estimated that economic growth in France might cool down to 1.7% in 2018, hindered by a possibly stronger euro, oil prices and general geopolitical uncertainty. France's GDP rose 2.3% in 2017.
- In North Asia, **China's** Caixin Manufacturing Purchasing Managers Index reading of 51 in June signaled continued expansion but at a slower rate than the previous month. Lesser exports had impacted manufacturing negatively. May's inflation as measured by the Consumer Price Index grew at 1.8% year on year, equaling April. Cheaper food neutralized price increases in industrial and service consumer prices. This figure is inline with the authorities' inflation target of 3% in 2018.
- **Indian** inflation rose by 4.87%, faster than expected, driven by food and fuel while growth was an annualized 7.7% as at the end of Q1 2018. **Taiwan's** unemployment remained at 3.69% while inflation eased to 1.64% from 1.98% in the previous month. **South Korea's** unemployment rate rose to 4% in May 2018, higher than expected. Inflation remained benign at 1.5% year on year in June. Food prices fell while transport related costs increased.
- In **ASEAN**, inflation was mixed as prices fell in Indonesia and Thailand and picked up in Philippines, Malaysia and Singapore. Exports rose in Indonesia, Singapore and Thailand but slowed in Malaysia and Philippines.

## Central Banks

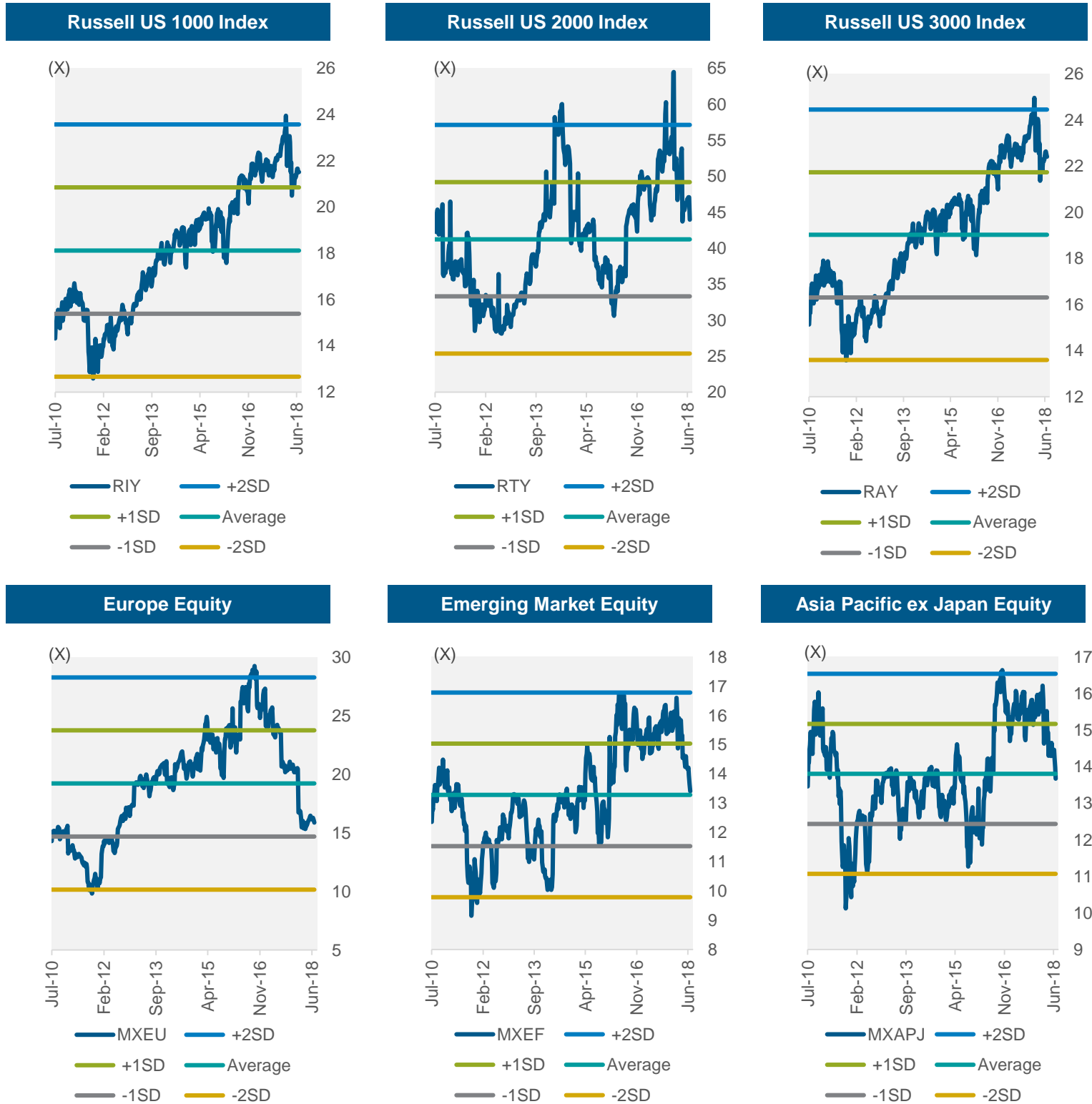
- The **US Fed**, raised short term rates by 25 basis points to the 1.75-2.00% range over June. The Fed also signaled one more hike by the end of this year, one more than previously communicated. This comes on the heels of sustained economic growth, higher inflation expectations and a fiscal boost by the Trump administration.
- Over the month, the **ECB** stated that quantitative easing will cease by year-end. A reduced pace of monthly purchases in Q4 2018 will precede the halt. Key interest rates however, will remain accommodative to facilitate inflation.
- The **Bank of England** held rates steady over June but the manner of the split (6-3) suggested that there was a growing chance of hike sooner rather than later.
- The **Bank of Japan** also kept rates the same but its statement was less enthusiastic and suggested that officials had yet to be convinced of inflation.
- In the midst of trade related uncertainty, The **PBOC** announced a reduction in the reserve ratio (effective 5 July 2018) by 50 basis points which equated to liquidity of RMB 700 billion. The Chinese central bank wanted to encourage lending and support growth.
- Elsewhere in Asia, the **Philippine** central bank, raises benchmark rates by 25 basis points to combat a 5-year high inflation and support the domestic currency. **India** also raised rates to support the Indian Rupee as foreign investors sold Indian assets on inflation and fiscal worries. **Indonesia** followed suit and raised rates by 50 basis points towards the end of June to also stabilise a falling domestic currency as foreign investors left.

END

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# ASIA MARKETS & MACRO

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



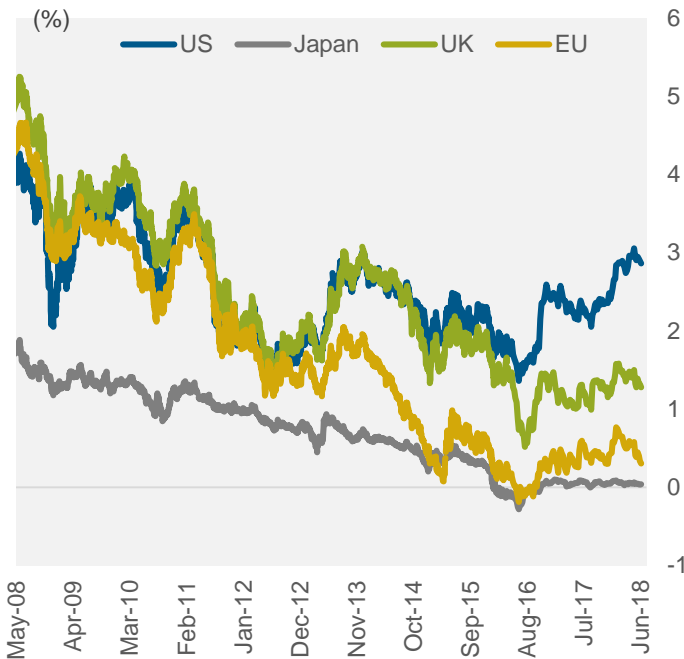
Source: Legg Mason, as at 30 June 2018 unless otherwise stated. Please refer to the appendix for definitions and representative indices FOR EXISTING DISTRIBUTORS IN SINGAPORE, HONG KONG AND TAIWAN, QUALIFIED DOMESTIC INSTITUTIONAL INVESTORS IN CHINA ONLY, NOT TO BE DISTRIBUTED TO THE PUBLIC. PLEASE REFER TO IMPORTANT INFORMATION ON THE FINAL PAGE.

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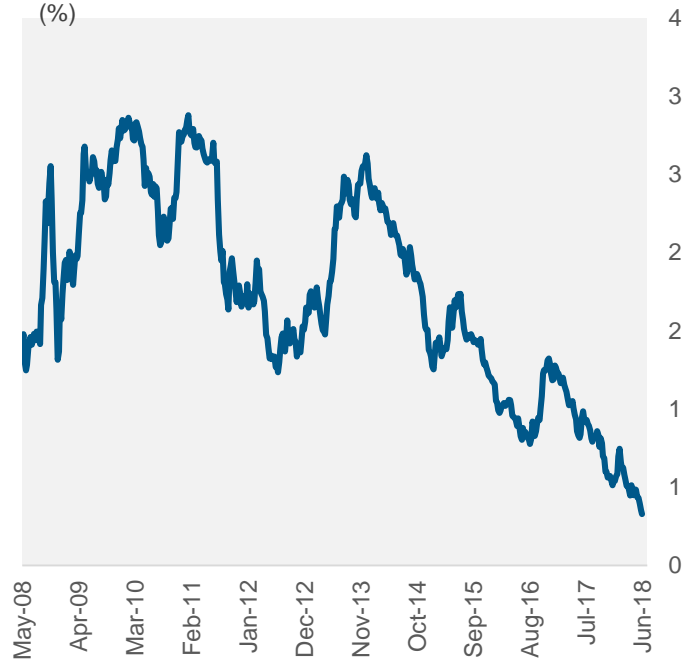
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## BOND VALUATIONS

**Global Government 10 Year Bond Yields**



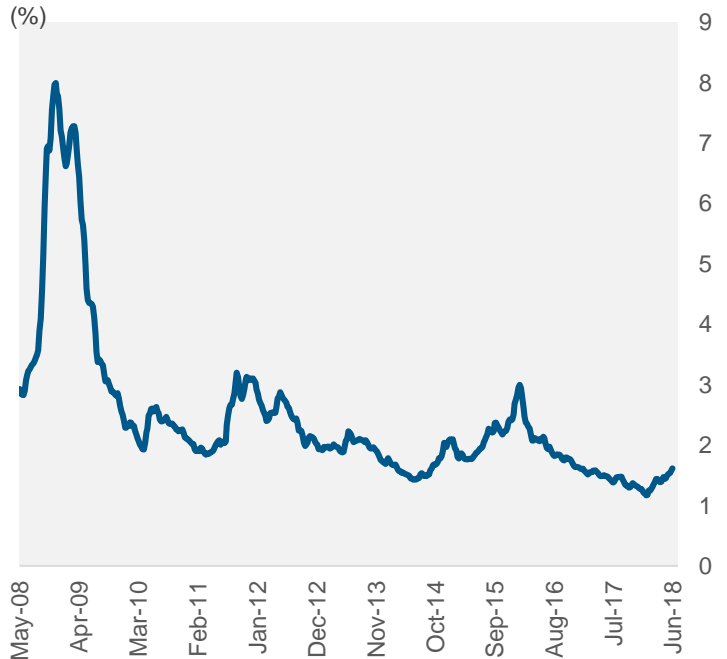
**US Treasury Spread 10 years – 2 years**



**US High Yield Option Adjusted Spread**



**US Investment Grade Option Adjusted Spread**



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## DEFINITIONS

Abbreviation	Full Form
ASEAN	The Association of Southeast Asian Nations
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
Copper	Generic 1st 'HG' Future
CPI	Consumer Price Index
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
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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