Manulife Asset Management

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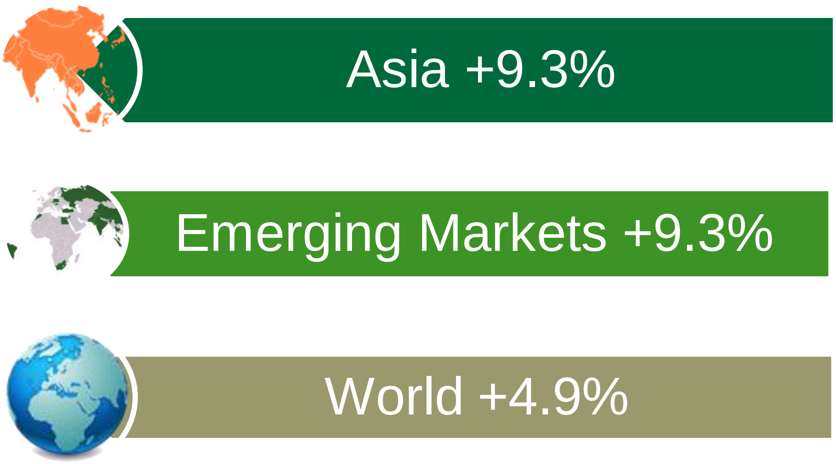
Markets are off to a good start!

Global equity markets had a positive start in January. This was also true for emerging markets (EM) and Asian equities. Emerging markets have survived numerous threats, including a strong dollar, to outperform. In this edition, Geoff Lewis, Senior Asia Strategist, believes Asian equities will likely present robust opportunities in 2017, with positive corporate earnings and cheap regional markets. Lewis thinks the jury on Trump's influence on the markets is out: Trump may have a positive impact on US economic growth in 2017/18, but with some potential risks for the longer term.

Highlights for this edition[1]:

- Global equity markets off to a good start
- Emerging markets in the lead as the U.S. dollar takes a breather
- Trump's potential impact on the markets

Chart: Emerging markets in the lead year-to-date[1] as the U.S. dollar takes a breather



[1] Source: Bloomberg, as of 15 February 2017, total return in U.S. dollar. Global equities are represented by MSCI World Index, Asia equities are represented by MSCI Asia ex Japan Index; Emerging market equities are represented by MSCI Emerging Market Index.

Global equity markets off to a good start[1]

Global equity markets are off to a good start. Global equities increased by 2.4% in January; the first positive start to the year since 2013. Asian and Emerging Market (EM) equities also posted over 5% gains. Does a positive start mean a good year for investors? Research suggests that when markets start positively in January, there is a greater probability that global equities will post positive gains for the year[2].

Emerging markets in the lead as the U.S. dollar takes a breather

Lewis sees investment opportunities in EM equities and bonds and Asian equities. EM outperformance has materialized due to improved economic performance and the following factors: A weaker dollar, stable US Treasury yields and calmer markets. Although EM has done well thus far in 2017, a highly selective approach is suggested as EMs are more exposed to market changes, particularly coming from developed markets. The outperformance of emerging market stock and bond markets supports the contrarian view Lewis has taken in recent editions of Monthly Macro View: better to ignore the political noise from Washington and focus on the improving economic fundamentals, at least for now.

For investors in Asian equities, Lewis believes the current environment looks highly supportive. Corporate performance in Asia looks optimistic in 2017 as numerous firms have reported positive earnings. He also sees opportunities in a number of specific markets that are considered cheap, notably China, Hong Kong, and South Korea.

Trump's potential impact on the markets

Lewis thinks that Donald Trump may be positive for global growth and Asia starting from mid-2017. This is unless Trump talks about or enacts policies that hurt investor sentiment and economic activity. Even if Trump does adopt trade sanctions, however, the region may be less exposed than commonly thought: Over 50% of large Asian companies (outside of Japan)

[2] Source: Societe Generale, Global Equity Market Arithmetic, 1 February 2017.

make 80% or more of their revenues locally[3]. Conversely, only 20% of large Asian companies earn more than 20% of revenues from sales to North America. Lewis does not see the US adopting a border tax as probable. This policy would substantially increase the cost of Asian exported goods in the U.S. through assessing a tax on imported goods to the country.

Lewis concludes that Trump might well be tough with China in specific areas like steel or aluminium. He may employ tactical policies such as antidumping measures and countervailing duties. However, a trade war is unlikely to happen as it is in nobody's interests.

[3] Source: CLSA, 'Bits and Pieces,' 3 February 2017

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Market Snapshot

Markets are off to a good start!

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Asian and Emerging Market equities posted over 5% gains

Research suggests that when markets start positively in January, there is a greater probability that global equities will post positive gains for the year[2].

Emerging markets in the lead as the dollar takes a breather

EM outperformance has materialized due to improved economic performance and the following factors: a weaker US dollar, stable US Treasury yields and calmer markets.

Trump's potential impact on the markets

Even if Trump does adopt trade sanctions, however, the region may be less exposed than commonly thought:

- Over 50% of large Asian companies (outside of Japan) make 80% or more of their revenues locally.
- Conversely, only 20% of large Asian companies earn more than 20% of revenues from sales to North America[3].

"Asian equities will likely present robust opportunities in 2017, with positive corporate earnings and cheap regional markets. We believe the jury on Trump's influence on the markets is out: Trump may have a positive impact on US economic growth in 2017/18, but with some potential risks for the longer term."

Geoff Lewis, Senior Asia Strategist, Manulife Asset Management

Sources:

1. Bloomberg, as of 31 January 2017, total return in U.S. dollar. Global equities are represented by MSCI World Index, Asia equities are represented by MSCI Asia ex Japan Index; emerging market equities are represented by MSCI Emerging Market Index.
2. Societe Generale, Global Equity Market Arithmetic, 1 February 2017.
3. CLSA, 'Bits and Pieces,' 3 February 2017.