



### Global Summary

- ▶ The lower flash Purchasing Managers' Index (PMI) numbers across China and Europe added to growth concerns
- ▶ The US Leading Economic Indicator Index increased 0.7% month-over-month in February, higher than the revised 0.2% in January
- ▶ Despite their recent strong run in performance, equities continue to trade at attractive forward price/earnings (PE) ratios, and so we maintain our moderate overweight position
- ▶ Our key recommendation continues to be to remain well diversified

### Economic and market developments (19-23 Mar 2012)

Equity markets continued to wobble throughout the week over global growth concerns, as dips were reported in both the eurozone and Chinese PMIs. There is a lack of a dominant theme in the markets as worries and hopes around soft Chinese data, weakness in the Spanish bond market, elevated oil prices and greater confidence in the US recovery all remain equally prominent. With most central banking injections behind us — particularly the European Central Bank's Long-Term Refinancing Operation (LTRO) and the U.S. Federal Reserve's quantitative easing — there is a greater prevalence of a "remains to be seen" attitude.

In macroeconomic news, the flash PMI numbers across China and the eurozone added to growth concerns. In China, weakening domestic demand continues to detract from growth, as the HSBC PMI (flash) manufacturing fell to a four-month low of 48.1 in March, from 49.6 in February. This combined with softer growth during this month has added impetus to the call for the People's Bank of China to cut its policy rate and accelerate other easing measures. In the eurozone, the flash manufacturing PMI estimate for March slipped further into the contractionary region to 47.7 (vs. consensus expectations for 49.5) from 49.0 in February. The number fell below the pre-LTRO level and brought into question the sustainability of the relationship between increased liquidity and actual growth in the economy. Although the full country breakdown will not be released until early April, the flash estimates for Germany and France displayed steeper declines than the estimate for the eurozone as a whole.

In other developed markets, economic data releases remain mixed. In the US, the Conference Board's Leading Economic Indicator Index increased 0.7% month-over-month (vs. consensus expectations for 0.6%) in February, higher than 0.2% in January. In the US labour market, initial weekly jobless claims fell by 5,000 to 348,000 (vs. consensus expectations for 350,000), continuing the downward trend seen in the past six months. Both the parameters and the trend over past few months point towards improved health in the US economy. In the UK annual budget announcement, Chancellor George Osborne reaffirmed the government's fiscal policy and intention to eliminate the structural deficit by 2014. On an overall basis, the budget was largely fiscally neutral, with tax cuts balanced by tax rises. Elsewhere in the UK, annual Consumer Price Index (CPI) inflation fell to 3.4% year-over-year (vs. consensus expectations for 3.3%) in February from 3.6% in January. The largest downward contribution came from a combination of the announced cuts in gas and electricity prices and from base effects. However, the recent high oil prices may increase inflation in the next couple of months. In the retail sector, UK retail sales (excluding fuel) saw their largest monthly decline in nine months, down 0.8% month-over-month from a downwardly revised +0.6% in January.

In other emerging markets, Russia reported gains in industrial production, most likely driven by severe weather and a pre-election public spending spree. Industrial production increased by 6.5% year-over-year (vs. consensus expectations for 4.4%) in February, up from 3.8% in January. Also, in the consumer market, February retail sales growth improved to 7.7% year-over-year (vs. consensus expectations for 7.3%) from 6.8% in the previous month. Most of the economic data in Russia continues to beat consensus expectations and point towards robust economic growth momentum. In Brazil, the February unemployment rate inched up to 5.7% from 5.5% in January — still close to record lows.

We continue to see improvement in the global economic situation and a reduction in tail risks. The positive policy developments in the eurozone have gone a long way in reassuring investors that financial assets are attractive and that the risks of a significant double-dip recession in the developed world have abated. However, changes to the framework of political decision-making and adjustments to government fiscal balances are likely to persist and fuel volatility in the markets. Furthermore, the recent increase in oil prices could pose additional concerns for global growth prospects. Government bond yields in developed countries remain low and continue to reflect a weak economic environment and low interest rates. Given the prospects of negative real returns, it is hard to envisage value in developed-market government bonds over the medium term, except as a portfolio stabilizer and moderator of risk. However, the same is not true for corporate issuers, particularly at the higher-yielding end of the spectrum, and so we continue to favour these over government bonds. Despite their recent strong run in performance, equities continue to trade at attractive forward price/earnings (PE) ratios, and so we maintain our moderate overweight position. Our key recommendation continues to be to remain well diversified.

**Weekly Economic Calendar (26- 30 March 2012)**

	<b>United States</b>	<b>Europe</b>	<b>Japan</b>	<b>Asia ex Japan</b>
<b>Mon</b>	Pending Home Sales Index, Feb	(26th–30th) UK Nationwide House Price Index, Mar		Singapore, Industrial Production, Feb Taiwan, Money Supply, Feb (tentative 26-31) Vietnam, GDP constant prices
<b>Tue</b>	S&P Case-Shiller Home Price Index, Jan Consumer Confidence, Mar	Confederation of British Industry Realized Sales, Mar		Philippines, Trade Balance, Jan China, Industrial Profits YTD, Feb Taiwan, Leading Indicators, Feb HK, Trade Balance, Feb (tentative 27-28) Thailand, Customs Trade Balance, Feb
<b>Wed</b>	Durable Goods Orders, Feb	Eurozone M3 Money Supply, Feb UK Current Account, Q4 UK GDP, Q4 final	Retail Sales, Feb	
<b>Thu</b>	GDP, Q4 final	Bank of England Credit Conditions Survey, Q1 UK Net Lending to Individuals, Feb	Household Spending, Feb Consumer Price Index, Mar Industrial Production, Feb preliminary	HK, Retails Sales, Feb
<b>Fri</b>	Personal Income and Outlays, Feb Consumer Sentiment, Mar	Eurozone Consumer Price Index, Mar flash		South Korea, GDP South Korea, Industrial Production, Feb China, MNI March Business Condition Survey

Source: Bloomberg.

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