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2015 Equity Market – Opportunities for Investment

BANGKOK – Citi continues to favour equity markets over fixed income, especially in Europe and Japan. Meanwhile global economic growth remained uneven and tentative in the first half of 2015, resulting in a divergence in monetary policy among the major central banks.

Haren Shah, Citi's Chief Investment Strategist, Wealth Management of Asia Pacific, says, "At the beginning of this year, based on Citi's base case economic outlook, we favoured global equities. While we think the bull market is maturing, it is too early to call its end, given the positive earnings cycle.

The equity markets have performed well so far. Citi analysts expect the global economy to continue recovering and on the heels of that, interest rate hike expectations are likely to rise, especially in the US. However, economic outlook still looks uneven. Growth in China is still slowing, while Greece and political uncertainties remain in the Eurozone. The key to the second half is to remain invested in the themes of 2015 but there will be a need to rebalance portfolios, take some of the gains and redeploy to areas of relative value.

Although sentiment levels in EM remain weak, we reiterate our overweight position in Asia over CEEMEA and LatAm. Indeed, Asia is the only region within EM that continues to trade below its mean (Current P/E of 14.2x vs Avg P/E of 15.9x). At the same time, earnings in Asia are actually 26% above their pre GFC peak and have outperformed those of the US. As such, we are sticking to our end-2015 MSCI Asia (ex Japan) target of 630 and within the region, we are overweight on China, Hong Kong, Taiwan and Singapore. Financials, Consumer Discretionary., Utilities and Technology are the preferred sectors.

Citi analysts expect 2.7% global real GDP growth in 2015 and 3.3% for 2016, after 2.7% in 2014. In Developed Markets (DM), we forecast an acceleration in the GDP growth rate from 1.7% in 2014 to 1.9% in 2015 and 2.4% in 2016. However, there is a wide divergence in expectations. In the US, our economists have recently cut their 2015 growth projections to 2.4% YoY. This lower growth forecast rests on a temporary slowdown in the first quarter. In contrast, we have revised Japan's economic outlook upwards. They now forecast real GDP to grow by 0.6% in 2015 and 1.8% in 2016 and expect above-trend growth in coming quarters. Finally, in the Euro Area, Citi economists expect 1.5% GDP growth in 2015 and have raised their 2016 GDP forecast to 1.9%. The combination of a much weaker euro and growing signs of improving demand and supply for bank credit should support a cyclical recovery.

Meanwhile in Emerging Markets (EM), we forecast 3.8% GDP growth in 2015 and 4.6% in 2016, after 4.2% growth in 2014. Citi's economists worry about China's medium-term outlook. In their view, growth is likely to remain below potential for a couple of years, with excess capacity and high leverage constraining investment. They now expect China GDP growth to drop slightly below 7% in 2015, its lowest level since 1999.

Thus, as we move into the second half of the year, keep a close watch on events which may redefine the dynamics of the markets. This especially relates to growth in China and the US as this could change the outlook for financial markets. More importantly, as we position the portfolios for the second half, we need to start looking beyond this year and make adjustments for the longer term, remaining focused on the expectations and management of volatility." Shah concludes.

Table below shows the Economic Growth & Inflation Forecasts

	GDP			Inflation		
	2014	**2015F**	**2016F**	**2014**	**2015F**	**2016F**
Global	2.7%	2.7%	3.3%	2.6%	2.1%	2.6%
US	2.4%	2.4%	2.9%	1.3%	0.5%	1.8%
Europe	0.9%	1.5%	1.9%	0.4%	0.2%	1.5%
Japan	-0.1%	0.6%	1.8%	2.7%	0.6%	0.7%
Latin America	0.8%	0.2%	1.3%	7.4%	9.2%	8.3%
Emerging Europe	1.5%	-0.1%	2.5%	6.1%	9.4%	5.2%
Middle East & North Africa	3.8%	3.1%	2.4%	4.4%	4.5%	4.6%
Asia	6.3%	6.1%	6.2%	2.8%	2.1%	2.6%
China	7.4%	6.8%	6.7%	2.0%	1.5%	1.9%
Hong Kong	2.5%	2.6%	3.0%	4.4%	3.0%	3.2%
India	7.3%	7.9%	8.1%	5.9%	5.0%	4.8%
Indonesia	5.0%	4.7%	5.0%	6.4%	6.7%	5.5%
Malaysia	6.0%	5.0%	4.8%	3.1%	2.2%	3.0%
Philippines	6.1%	6.3%	6.1%	4.2%	1.5%	2.6%
Singapore	2.9%	2.3%	2.8%	1.0%	-0.3%	1.0%
South Korea	3.3%	2.8%	3.1%	1.3%	1.0%	2.2%
Taiwan	3.8%	3.4%	3.8%	1.2%	-0.1%	2.0%
Thailand	0.9%	3.5%	4.0%	1.9%	-0.6%	1.6%

Source: Forecasts from Citi Research, as of July 15, 2015.

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