

Short term rebound on policy hope

- In the US, both headline and core inflation came in better than expected. This together with upward revision to US 4Q GDP data pushed US yields higher and USD stronger while raising concerns about rate hikes in 2016.
- Despite resilient US growth, Citi analysts have cut their 2016 global growth forecast to 2.5% from 2.7% and see rising risks of a global growth recession. They define a global recession as global GDP growth of less than 2% and believe “genuine” global growth in 2016 may probably be barely above 2% YoY given probable mismeasurement in China’s GDP data.
- Finally, G20 meeting in Shanghai ended with no new coordinated action. The summit suggested a consensus that monetary policy may not be enough and laid emphasis on the need for fiscal support and structural reforms. The summit may help trim some tail risk priced in markets if economic data deteriorated sharply. However, it is unlikely to provide a bullish boost to risk sentiment given the build-up of expectations going into it. Now focus is shifting to China’s National People’s Congress, which will begin on March 5.

Performance

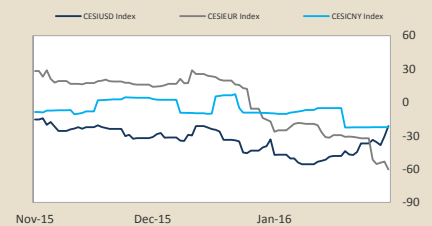
- Global equities continue to post a positive gain for the week with the MSCI World Index higher 0.94%. In the US, the Dow Jones Industrial Average and the S&P 500 Index added 1.51% and 1.58% respectively and the Nasdaq Composite Index also gained 1.91%. European equities, as measured by Stoxx Europe 600 Index, rose 1.58% while Japanese equities advanced as the Yen strength faltered (Nikkei 225: +1.39% and Topix index: +1.51%).
- Finally, the MSCI Emerging Markets index finished the week mixed (-0.13%). Asia underperformed other EM peers with the MSCI Asia ex-Japan dropping -0.1% dragged by China’s local shares (Shanghai Composite: -3.25% and Shenzhen A: -6.17%).

Asset Allocation

- Equities** — While we believe it is too early to call the beginning of the next major bear market, we no longer expect global equity indices to make new highs in 2016.
- Credit** — We forecast spread tightening and see HY outperforming IG to end-2016, in both Europe and US.
- Rates** — Across the major government bond markets, forecasts to end-2016 are mostly for higher yields from here. Japanese bonds are the exception.
- Commodities** — We expect elevated volatility and heavy balances to continue weighing on oil prices this winter and spring, with some green shoots to end-2016.

US growth remains resilient

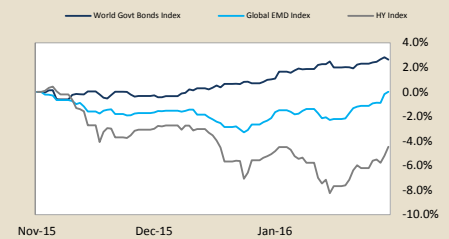
Citi Economic Surprise Index



Source: Bloomberg as of 26 February 2016

Bonds rallied on growth concerns

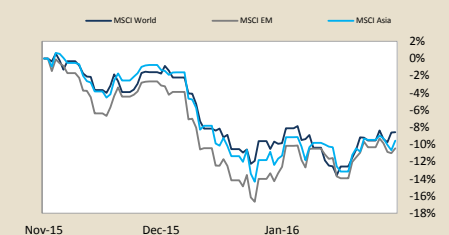
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 26 February 2016

Markets rebounded led by DM

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 26 February 2016

Week Ahead Key Data and Event

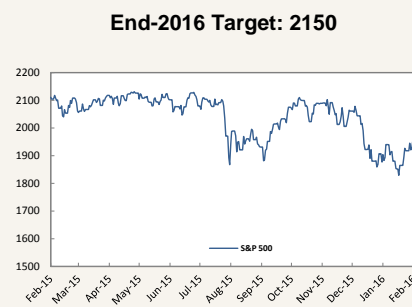
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
29-Feb	JN	Industrial Production YoY	Jan	-3.8%	-1.9%	-4.0%
29-Feb	EC	CPI Estimate YoY	Feb	0.0%	0.3%	-0.1%
29-Feb	JN	Retail Trade YoY	Jan	0.1%	-1.2%	0.9%
29-Feb	US	Chicago Purchasing Manager	Feb	52.5	55.6	...
1-Mar	EC	Unemployment Rate	Jan	10.4%	10.4%	10.3%
1-Mar	SK	Exports YoY	Feb	-16.6%	-18.5%	17.2%
1-Mar	CH	Manufacturing PMI	Feb	49.4	49.4	49.4
1-Mar	EC	Markit Eurozone Manufacturing PMI	Feb	51.0	51.0	52.3
1-Mar	US	ISM Manufacturing	Feb	48.5	48.2	...
3-Mar	SK	CPI YoY	Feb	0.9%	0.8%	1.1%
3-Mar	EC	Markit Eurozone Services PMI	Feb	53.0	53.0	53.0
4-Mar	US	Nonfarm Payrolls	Feb	185K	158K	200K

Source: Bloomberg as of 26 February 2016

Drivers and Risks by Market

United States

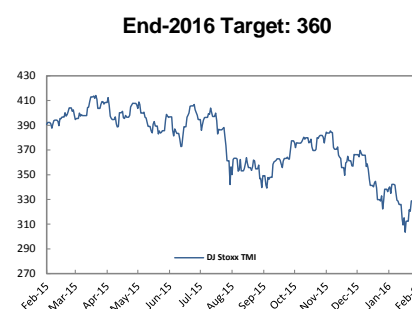
- **Driver:** Better hiring and capital spending intentions (outside of the oil patch) are encouraging as is M&A activity and stock buyback activity has been resilient. For 2016, market trends should be driven by a 5%-type earnings pickup.
- **Risk:** Weaker commodity prices still are acting as a drag on aggregate corporate profits. Also, we envision restraint owing to the impact of additional Fed rate hikes and the uncertainty surrounding the US presidential elections.
- **Implication:** In this respect, Citi analysts trim our year-end 2016 S&P 500 objective of 2,200 to 2,150 and our mid-2016 target back to 2,100 given tighter credit backdrop and low crude prices. Selectivity will remain key in 2016 as it was in 2015 with a preference for large caps, value and higher quality.



Source: Bloomberg as of 26 February 2016

Europe

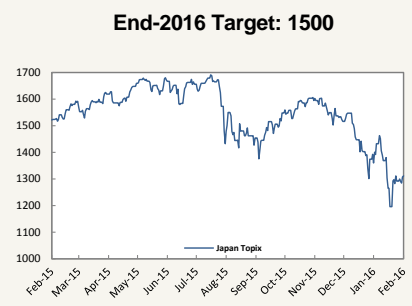
- **Driver:** At the upcoming March 10 meeting, the ECB is likely to seek to address two major challenges: (1) slowing euro area activity, persistent low-inflation and overly-low inflation expectations; and (2) market worries about the health of the euro area banking system.
- **Risk:** On balance, we see a significant risk of the ECB underwhelming once again. The recalibration exercise may probably be modest in our view.
- **Implication:** We doubt that the policy stance may be loosened enough now to change investors' and economic agents' perceptions of the muted inflation outlook. Citi analysts expect more easing in 2016 and beyond, and suspect that alternative policy options such as fiscal or quasi-fiscal policies could be required to fulfil the ECB's commitment to doing "whatever it takes".



Source: Bloomberg as of 26 February 2016

Japan

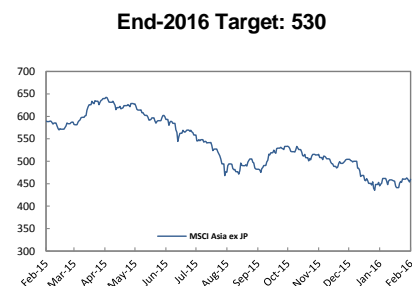
- **Driver:** We think share prices have recently been at levels that already price in a 2016 EPS recession. We forecast that they may stage a near-term rebound, in part on expectations for the upcoming G20 meeting of finance ministers and central bank governors and for a policy response from the government and BoJ.
- **Risk:** TOPIX EPS is beginning to slide off an August 2015 peak and FY15 cumulative EPS growth through January has come down to 9%. We anticipate a considerable loss of steam for EPS growth in FY16, down to 2.7% from an anticipated 9.0% in FY15.
- **Implication:** Citi analysts lower our end-December TOPIX target to 1,500 from 1,650. We significantly revise our 2016 forex assumptions in favour of yen strength, taking our FY16 average assumption to ¥112/\$ from ¥122.5/\$.



Source: Bloomberg as of 26 February 2016

Asia

- **Driver:** The annual NPC meeting in China will kick off soon with key points of government proposals available on March 5th, and approx. 10 days remaining for proposals' discussion/approval. Citi's economists expect 2016 targets of 6.5%-7.0% for GDP growth, 2.5% for CPI, 13% for M2, and 3.5% for fiscal deficit. Basically, 2016 will see continued macro slowdown with fiscal/monetary easing as painkillers and with continued gradual structural reform.
- **Risk:** 1H16 will be likely muddle-through (range trade with alpha rather than beta focus) given lack of fundamental catalysts and meanwhile limited downside given surgery challenges mostly in the price (close to 1997 Crisis trough P/B), unless there is an unexpected China Crisis.
- **Implication:** Sector wise, we continue to position with new-economy bias including I.T., Health Care, and Consumer Discretionary given transition belief. We stay UW on Consumer Staples given lack of growth amid consumption upgrade, and suggest taking profit of Energy and Materials as the multi-year de-capacity is not able to drive a sustainable price rebound. Within financials, we prefer Property & Insurance over Banks & Brokers.



Source: Bloomberg as of 26 February 2016

Currency Forecast

Currency	Last price 26-Feb-16	Forecasts					
		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
G10-US Dollar							
Euro	EURUSD 1.09	1.13	1.12	1.11	1.11	1.11	1.11
Japanese yen	USDJPY 114	111	111	112	112	112	112
British Pound	GBPUSD 1.39	1.35	1.36	1.38	1.39	1.38	1.38
Swiss Franc	USDCHF 1.00	0.97	0.98	0.99	0.99	0.99	1.00
Australian Dollar	AUDUSD 0.71	0.70	0.70	0.71	0.71	0.71	0.71
New Zealand	NZDUSD 0.66	0.66	0.66	0.65	0.65	0.65	0.65
Canadian Dollar	USDCAD 1.35	1.37	1.37	1.37	1.36	1.35	1.34
EM Asia							
Chinese Renminbi	USDCNY 6.54	6.72	6.91	7.10	7.18	7.14	7.10
Hong Kong	USDHKD 7.78	7.79	7.80	7.81	7.82	7.81	7.81
Indonesian Rupiah	USDIDR 13,382	13,824	14,010	14,198	14,318	14,358	14,398
Indian Rupee	USDINR 68.63	68.5	68.7	68.9	68.9	68.7	68.5
Korean Won	USDKRW 1,238	1,233	1,253	1,274	1,277	1,260	1,244
Malaysian Ringgit	USDMYR 4.21	4.31	4.41	4.50	4.53	4.48	4.43
Philippine Peso	USDPHP 47.46	48.0	48.4	48.8	48.9	48.7	48.5
Singapore Dollar	USDSGD 1.41	1.45	1.47	1.49	1.49	1.48	1.47
Thai Baht	USDTHB 35.74	36.5	36.9	37.2	37.4	37.3	37.2
Taiwan Dollar	USDTWD 33.34	34.1	34.6	35.2	35.4	35.2	35.0
EM Europe							
Russian Ruble	USDRUB 76.32	79.0	76.0	73.1	71.2	70.7	70.2
South African Rand	USDZAR 16.17	16.54	16.84	17.14	17.25	17.16	17.06
EM Latam							
Brazilian Real	USDBRL 4.00	4.16	4.26	4.35	4.38	4.33	4.28
Mexican Peso	USDMXN 18.27	18.1	18.2	18.3	18.3	18.1	18.0

Source: Citi Research and Bloomberg as of 26 February 2016

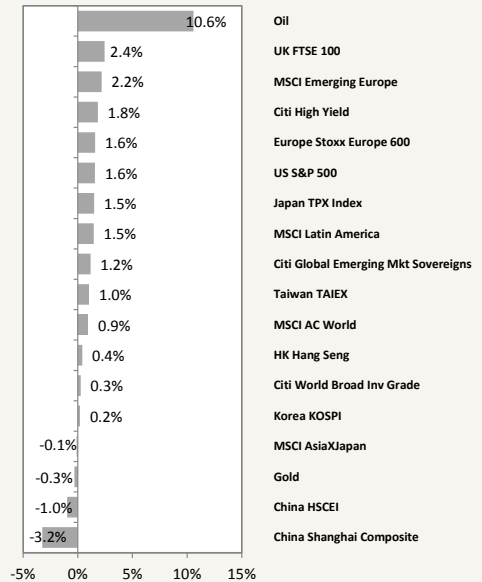
Short Rates and 10-Year Yield Forecasts

	Last price 26-Feb-16	Forecasts				
		2Q16	3Q16	4Q16	1Q17	2Q17
Short Rates (End of Period)						
US	0.50	0.75	0.75	1.00	1.00	1.25
Japan	-0.10	-0.10	-0.30	-0.30	-0.30	-0.30
Euro Area	0.05	0.05	0.05	0.05	0.05	0.05
10-Year Yield (Period Average)						
US	1.76	2.25	2.30	2.30	2.33	2.35
Japan	-0.06	-0.10	-0.15	-0.15	-0.20	-0.20
Euro Area	0.15	0.30	0.40	0.50	0.60	0.60

Source: Citi Research and Bloomberg as of 26 February 2016

Weekly Market Performance

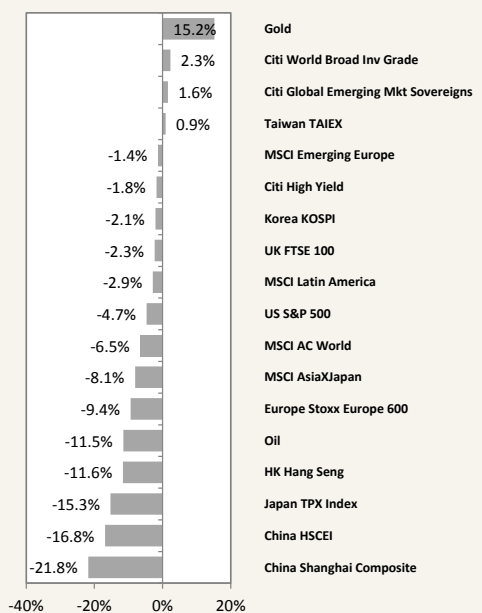
(22 - 26 February 2016)



Source: Bloomberg as of 26 February 2016

Market Performance (Year-To-Date)

(As of 26 February 2016)



Source: Bloomberg as of 26 February 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	26-Feb-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	373.23	443.98	351.25	0.94%	1.52%	-13.78%	-6.54%	-6.54%
Dow Jones Industrial Average	16639.97	18351.36	15370.33	1.51%	2.92%	-8.64%	-4.51%	-4.51%
S&P 500	1948.05	2134.72	1810.10	1.58%	2.33%	-7.71%	-4.69%	-4.69%
NASDAQ	4590.47	5231.94	4209.76	1.91%	0.50%	-7.97%	-8.33%	-8.33%
Europe								
MSCI Europe	375.79	478.94	355.54	0.05%	-1.27%	-18.39%	-8.56%	-8.56%
Stoxx Europe 600	331.54	415.18	302.59	1.58%	-2.26%	-15.14%	-9.37%	-8.88%
FTSE100	6096.01	7122.74	5499.51	2.45%	3.12%	-12.28%	-2.34%	-8.03%
CAC40	4314.57	5283.71	3892.46	2.17%	-0.97%	-12.14%	-6.95%	-6.45%
DAX	9513.30	12390.75	8699.29	1.33%	-3.15%	-16.01%	-11.45%	-11.33%
Japan								
NIKKEI225	16188.41	20952.71	14865.77	1.39%	-3.12%	-13.83%	-14.95%	-9.95%
Topix	1311.27	1702.83	1193.85	1.51%	-3.60%	-13.83%	-15.25%	-10.28%
Emerging Markets								
MSCI Emerging Market	740.02	1069.13	686.74	-0.13%	4.47%	-25.54%	-6.81%	-6.81%
MSCI Latin America	1777.57	2776.68	1550.47	1.46%	9.68%	-32.87%	-2.85%	-2.85%
MSCI Emerging Europe	108.84	159.85	91.09	2.18%	9.77%	-20.14%	-1.37%	-1.37%
Brazil Bovespa	41593.08	58574.79	37046.07	0.12%	10.92%	-19.64%	-4.05%	-4.93%
Russia RTS	757.45	1092.52	607.14	4.33%	10.89%	-16.94%	0.05%	0.05%
Asia								
MSCI Asia ex-Japan	459.62	644.14	434.84	-0.10%	3.22%	-22.06%	-8.06%	-8.06%
Australia S&P/ASX 200	4879.96	5996.90	4706.70	-1.47%	-2.53%	-17.41%	-7.85%	-9.96%
China HSCEI (H-shares)	8034.30	14962.74	7498.81	-0.96%	1.76%	-34.29%	-16.84%	-17.10%
China Shanghai Composite	2767.21	5178.19	2638.30	-3.25%	0.63%	-16.10%	-21.81%	-22.41%
Hong Kong Hang Seng	19364.15	28588.52	18278.80	0.41%	2.67%	-22.24%	-11.64%	-11.92%
India Sensex30	23154.30	30024.74	22600.39	-2.34%	-5.44%	-19.45%	-11.35%	-14.73%
Indonesia JCI	4733.15	5524.04	4033.59	0.76%	4.94%	-13.18%	3.05%	6.55%
Malaysia KLCI	1663.44	1867.53	1503.68	-0.68%	2.26%	-8.65%	-1.72%	0.32%
Korea KOSPI	1920.16	2189.54	1800.75	0.20%	2.59%	-3.66%	-2.10%	-7.32%
Philippines PSE	6771.30	8136.97	6084.28	-0.31%	7.28%	-12.79%	-2.60%	-3.83%
Singapore STI	2649.38	3549.85	2528.44	-0.28%	4.08%	-22.67%	-8.09%	-7.51%
Taiwan TAIEX	8411.16	10014.28	7203.07	1.03%	7.44%	-12.58%	0.88%	-0.32%
Thailand SET	1343.07	1594.44	1220.96	1.73%	5.91%	-15.72%	4.27%	5.22%
Commodity								
Oil	32.78	62.58	26.05	10.59%	4.23%	-31.95%	-11.50%	-11.50%
Gold spot	1222.65	1263.47	1046.43	-0.30%	9.17%	1.09%	15.19%	15.19%

Source: Bloomberg as of 26 February 2016

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