

### Stocks finish short week lower

- Last week, global markets scaled back recent risk rally in light volume after terrorist attacks in Belgium and ahead of Easter holidays. Rebounding USD contributed to this process, while oil prices also retraced some gains.
- Eurozone data on the other hand, were positive. Composite PMI rose 0.7 to 53.7 for March, with stronger gains in services. The Eurozone IFO survey showed marked improvements, while the German ZEW was a bit more subdued. The surveys show that domestic demand remains supportive on rising real incomes and improving employment.
- After the Easter holiday, Yellen is due to speak at the Economic Club of NY on Tuesday. Also, the US economic calendar will yield a plethora of reports with the March nonfarm payrolls report likely to garner much attention on Friday.
- In Citi's view, earnings will likely play a large part in market movements in the coming months after a couple of quarters of negative earnings growth, with investors looking for any increase in profits momentum.

### Performance

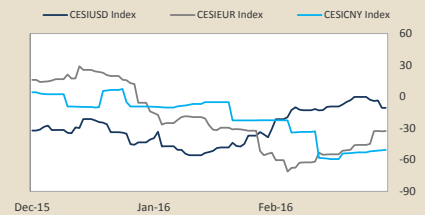
- Equity markets finished the holiday-shortened week lower with the MSCI World Index falling 1.37%. In the US, the Dow Jones Industrial Average and the Nasdaq Composite decreased roughly 0.5% while the S&P 500 Index lost 0.6%. European equities, as measured by Stoxx Europe 600 Index, fell 1.93%. Meanwhile, Japanese equities staged a rebound as the yen weakened. (Nikkei 225: 1.66% and Topix index: 1.56%).
- EM assets also ended mostly lower as the US dollar resumed strength. The MSCI Emerging Markets index dropped 1.75% led by losses in the MSCI Emerging Europe (-4.01%) and the MSCI Latin America (-3.22%). The MSCI Asia ex-Japan also posted a weekly loss of 1.11%. Within Asia, India's Sensex30 was the best performer, gaining 1.54% for the week on increasing prospects of RBI lowering interest rates and continued foreign capital inflows.

### Asset Allocation

- **Equities** — ECB and Fed dovishness has produced a second reflation wave. There is still upside, but it is unlikely that global indices will make new highs in 2016.
- **Credit** — Citi analysts forecast spread tightening in both € IG and HY driven by the ECB. In \$ credit, our forecasts are more mixed.
- **Rates** — Across the major government bond markets, forecasts to end-2016 are fairly mixed. EMU bonds may outperform.
- **Commodities** — Volatility likely to persist through Q2. In 2H16, prices may stabilize around diverging market fundamentals across commodities.

### Mixed US economic data

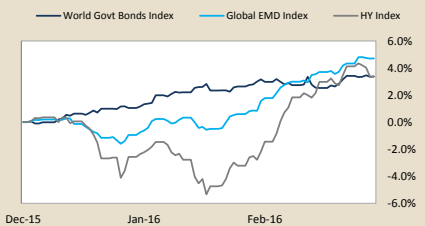
#### Citi Economic Surprise Index



Source: Bloomberg as of 25 March 2016

### HY retraced some gains

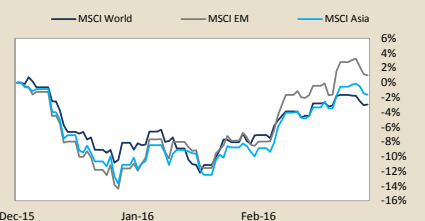
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 25 March 2016

### Markets finished lower in short week

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 25 March 2016

#### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
28-Mar	US	Personal Income	Feb	0.1%	0.5%	0.1%
29-Mar	HK	Exports YoY	Feb	-5.8%	-3.8%	-5.4%
29-Mar	HK	Imports YoY	Feb	-7.0%	-9.0%	-1.5%
29-Mar	JN	Retail Trade YoY	Feb	1.6%	-0.1%	1.8%
30-Mar	EC	Economic Confidence	Mar	103.8	103.8	104.0
30-Mar	JN	Industrial Production MoM	Feb P	-5.9%	3.7%	-4.5%
31-Mar	EC	CPI Estimate YoY	Mar	-0.1%	-0.2%	0.1%
1-Apr	US	Change in Nonfarm Payrolls	Mar	208K	242K	215K
1-Apr	EC	Markit Eurozone Manufacturing PMI	Mar F	51.4	51.4	51.4
1-Apr	CH	Manufacturing PMI	Mar	49.3	49.0	49.2
1-Apr	CH	Non-manufacturing PMI	Mar	--	52.7	--
1-Apr	CH	Caxin China PMI Mtg	Mar	48.3	48.0	--

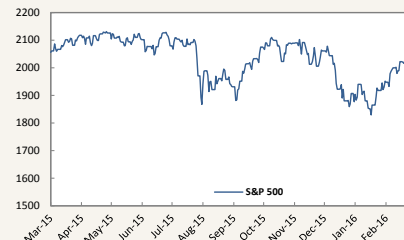
Source: Bloomberg as of 25 March 2016

## Drivers and Risks by Market

### United States

- **Driver:** S&P 500 companies will start reporting 1Q16 numbers in the next couple of weeks and reported earnings may be down year on year again. While profits could slide near 9%, led by a more than 90% decline in oil patch results, ex-Energy EPS trends probably may show a roughly 5% dip given weaker Materials net income (off more than 20%) and tougher conditions for Financials.
- **Risk:** Margins have been weaker and this gives investors a new cause for alarm. In the face of continued skepticism, the pain trade could still be higher for the broad equity indices.
- **Implication:** Earnings revision momentum suggests that beaten up areas like Materials and Financials could get a further bounce. It appears as if Banks, Diversified Financials, Materials and Pharma & Biotech as well as Tech Equipment & Hardware could see some positive surprises given their poor expectations.

End-2016 Target: 2150

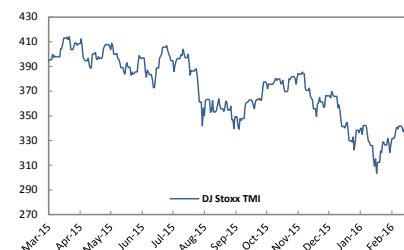


Source: Bloomberg as of 25 March 2016

### Europe

- **Driver:** Value has been widely under-owned and many investors have not enjoyed recent outperformance. Citi analysts continue to see various supports for further performance by Value: 1) commodity prices, 2) ECB actions, 3) Economic surprises, 4) stabilising CPI.
- **Risk:** Citi analysts identified three negative feedback loops – Oil, central bank credibility, liquidity – and suggested that a combination of a more stable US\$, two-way moves in oil prices and a central bank fight-back was needed to help to break these feedback loops.
- **Implication:** Citi analysts position for further performance in Value and continue to overweight sectors such as Oil & Gas, Insurance and Autos while remaining neutral Banks, given headwinds from negative deposit rates.

End-2016 Target: 380

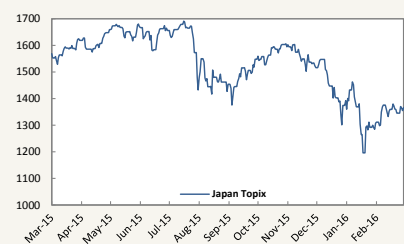


Source: Bloomberg as of 25 March 2016

### Japan

- **Driver:** While ¥110/\$ appears to be the support level for currency authorities, Citi analysts expect the BoJ to ease further via rate cuts deeper into negative territory (to -0.3% from -0.1%) in July or thereafter.
- **Risk:** Interest rates deeper in negative territory produce strongly asymmetric impacts on creditors and debtors. At the sector level, Citi analysts believe that expanded negative rates may be negative for banks and insurers and positive for electric power & gas, real estate, J-REITs, transportation, and basic materials.
- **Implication:** With deeper negative rates in Citi's base case, we prefer 1) "bond refugees" which may receive inflows given lower interest rates, 2) cash-rich names for which we can expect enhanced shareholder returns, and 3) stocks likely to be supported by fiscal policy.

End-2016 Target: 1500

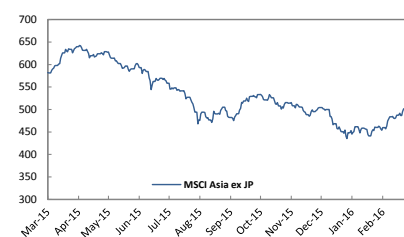


Source: Bloomberg as of 25 March 2016

### Emerging Markets

- **Driver:** Citi GEMS sentiment indicator is back in neutral territory at -0.44. Sentiment has recovered sharply since mid-Jan, when levels were at -1.34 near GFC-low levels. The climb back into neutral ended the indicator's 15-weeks of buy signal.
- **Risk:** For EM sentiment to see further upside, two factors still need to see a turnaround: the US\$ and the Risk-Quality trade differential. US\$ weakness is still needed to bring back risk appetite for EM equities.
- **Implication:** Within EM, the Asia and EMEA sentiment indicators have also recovered but are still flashing buy signals at levels of -0.54 and -0.55 respectively. Citi LatAm sentiment index is at -0.50 and has ended over a year's streak of buy signal. In the past month, MSCI LatAm rose 19% (in US\$ terms), led by the massive risk-on mood in Brazil, which gained 29%.

End-2016 Target: 530



Source: Bloomberg as of 25 March 2016

## Currency Forecast

Currency	Last price 25-Mar-16	Forecasts					
		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>G10-US Dollar</b>							
Euro	EURUSD 1.1167	1.13	1.13	1.11	1.10	1.10	1.10
Japanese yen	USDJPY 113.09	110	110	110	111	111	111
British Pound	GBPUSD 1.41	1.43	1.43	1.44	1.45	1.43	1.42
Swiss Franc	USDCHF 0.98	0.97	0.98	0.99	1.00	1.00	1.00
Australian Dollar	AUDUSD 0.75	0.77	0.77	0.75	0.73	0.73	0.73
New Zealand	NZDUSD 0.67	0.68	0.67	0.66	0.65	0.65	0.65
Canadian Dollar	USDCAD 1.33	1.30	1.30	1.30	1.30	1.30	1.30
<b>EM Asia</b>							
Chinese Renminbi	USDCNY 6.52	6.52	6.65	6.73	6.81	6.85	6.89
Hong Kong	USDHKD 7.76	7.76	7.78	7.79	7.80	7.80	7.80
Indonesian Rupiah	USDIDR 13,254	13,214	13,485	13,654	13,811	13,891	13,971
Indian Rupee	USDINR 66.6	66.9	67.8	68.4	69.0	69.2	69.4
Korean Won	USDKRW 1,169	1,172	1,195	1,209	1,219	1,215	1,211
Malaysian Ringgit	USDMYR 4.04	4.11	4.24	4.30	4.35	4.34	4.33
Philippine Peso	USDPHP 46.4	46.5	47.3	47.9	48.5	48.4	48.3
Singapore Dollar	USDSGD 1.37	1.37	1.41	1.45	1.48	1.47	1.47
Thai Baht	USDTHB 35.3	34.9	35.5	36.1	36.6	36.7	36.8
Taiwan Dollar	USDTWD 32.7	32.7	33.6	34.1	34.5	34.3	34.1
<b>EM Europe</b>							
Russian Ruble	USDRUB 68.4	70.6	72.9	72.3	71.7	71.1	70.5
South African Rand	USDZAR 15.46	15.64	16.30	16.68	16.99	16.95	16.91
<b>EM Latam</b>							
Brazilian Real	USDBRL 3.68	3.57	3.68	3.91	4.10	4.08	4.06
Mexican Peso	USDMXN 17.5	17.5	17.9	18.0	18.1	18.0	17.8

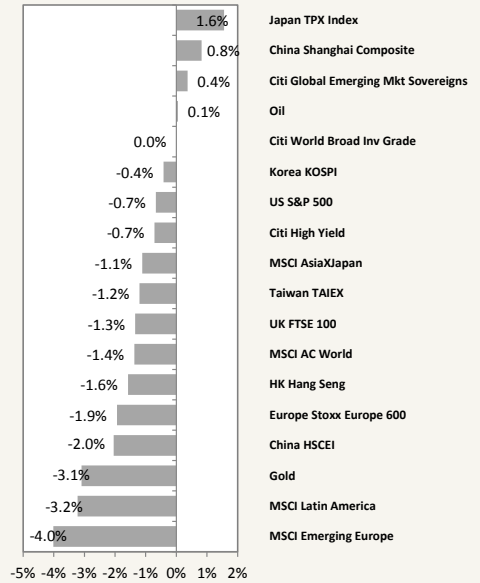
Source: Citi Research and Bloomberg as of 25 March 2016

## Short Rates and 10-Year Yield Forecasts

	Last price 25-Mar-16	Forecasts				
		2Q16	3Q16	4Q16	1Q17	2Q17
<b>Short Rates (End of Period)</b>						
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	0.00	0.00	-0.05	-0.10	-0.25	-0.25
<b>10-Year Yield (Period Average)</b>						
US	1.90	1.80	1.90	2.00	2.10	2.15
Japan	-0.10	-0.10	-0.15	-0.15	-0.20	-0.15
Euro Area	0.18	0.15	0.15	0.20	0.20	0.30

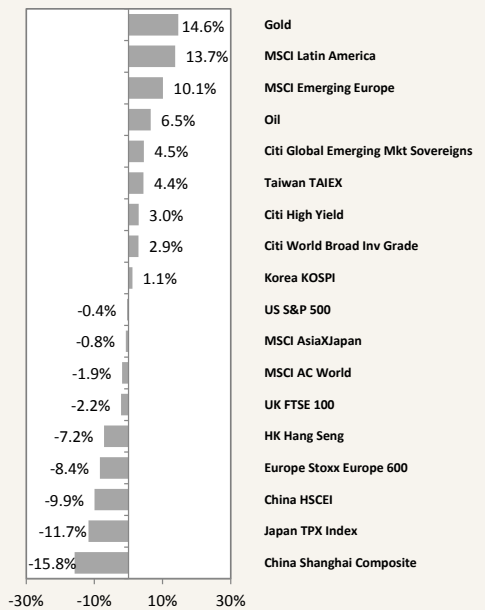
Source: Citi Research and Bloomberg as of 25 March 2016

## Weekly Market Performance (21 - 25 March 2016)



Source: Bloomberg as of 25 March 2016

## Market Performance (Year-To-Date) (As of 25 March 2016)



Source: Bloomberg as of 25 March 2016

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	25-Mar-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
<b>US / Global</b>								
MSCI World	391.77	443.98	351.25	-1.37%	5.07%	-8.52%	-1.90%	-1.90%
Dow Jones Industrial Average	17515.73	18351.36	15370.33	-0.49%	4.90%	-1.14%	0.52%	0.52%
S&P 500	2035.94	2134.72	1810.10	-0.67%	4.32%	-1.22%	-0.39%	-0.39%
NASDAQ	4773.51	5231.94	4209.76	-0.46%	4.17%	-2.11%	-4.67%	-4.67%
<b>Europe</b>								
MSCI Europe	388.92	478.94	355.54	-3.12%	4.11%	-15.29%	-5.37%	-5.37%
Stoxx Europe 600	335.10	415.18	302.59	-1.93%	2.62%	-15.79%	-8.40%	-5.70%
FTSE100	6106.48	7122.74	5499.51	-1.34%	1.56%	-12.65%	-2.18%	-5.85%
CAC40	4329.68	5283.71	3892.46	-2.98%	1.91%	-13.77%	-6.63%	-3.88%
DAX	9851.35	12390.75	8699.29	-1.00%	5.57%	-16.97%	-8.30%	-5.99%
<b>Japan</b>								
NIKKEI225	17002.75	20952.71	14865.77	1.66%	5.34%	-13.89%	-10.67%	-4.76%
Topix	1366.05	1702.83	1193.85	1.56%	4.47%	-14.19%	-11.71%	-5.88%
<b>Emerging Markets</b>								
MSCI Emerging Market	812.32	1069.13	686.74	-1.75%	10.47%	-16.78%	2.29%	2.29%
MSCI Latin America	2080.52	2776.68	1550.47	-3.22%	16.43%	-16.59%	13.70%	13.70%
MSCI Emerging Europe	121.53	159.85	91.09	-4.01%	12.54%	-9.69%	10.13%	10.13%
Brazil Bovespa	49657.39	58574.79	37046.07	-2.28%	18.55%	-4.24%	14.55%	22.87%
Russia RTS	862.22	1092.52	607.14	-2.59%	15.65%	-2.25%	13.89%	13.89%
<b>Asia</b>								
MSCI Asia ex-Japan	496.07	644.14	434.84	-1.11%	9.28%	-15.53%	-0.77%	-0.77%
Australia S&P/ASX 200	5084.21	5996.40	4706.70	-1.91%	4.16%	-14.88%	-4.00%	-0.81%
China HSCEI (H-shares)	8701.13	14962.74	7498.81	-2.05%	10.53%	-27.30%	-9.94%	-10.05%
China Shanghai Composite	2979.43	5178.19	2638.30	0.82%	8.69%	-18.61%	-15.82%	-16.24%
Hong Kong Hang Seng	20345.61	28588.52	18278.80	-1.58%	7.71%	-17.05%	-7.16%	-7.27%
India Sensex30	25337.56	29094.61	22494.61	1.54%	10.28%	-9.87%	-2.99%	-3.89%
Indonesia JCI	4827.09	5524.04	4033.59	-1.20%	3.62%	-10.70%	5.10%	9.56%
Malaysia KLCI	1703.79	1867.53	1503.68	-0.73%	2.75%	-6.34%	0.67%	7.58%
Korea KOSPI	1983.81	2189.54	1800.75	-0.42%	3.40%	-2.89%	1.15%	1.96%
Philippines PSE	7360.05	8136.97	6084.28	0.73%	8.73%	-6.08%	5.87%	7.01%
Singapore STI	2847.39	3549.85	2528.44	-2.04%	9.37%	-16.72%	-1.23%	2.28%
Taiwan TAIEX	8704.97	10014.28	7203.07	-1.20%	4.05%	-9.96%	4.40%	5.61%
Thailand SET	1394.78	1575.39	1220.96	0.85%	4.60%	-7.80%	8.29%	9.60%
<b>Commodity</b>								
Oil	39.46	62.58	26.05	0.05%	19.32%	-19.81%	6.53%	6.53%
Gold spot	1216.47	1285.18	1046.43	-3.09%	-1.34%	1.76%	14.61%	14.61%

Source: Bloomberg as of 25 March 2016

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