

## Investment Insights



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# Forward-looking - Market Review & Forecast in 2016

2016 was the year of the unexpected, with the Brexit vote and US election results going against market predictions. Consequently, financial markets have been volatile as investors attempt to understand the implications of these surprising outcomes. We take stock of the year that was and the outlook for the next 12 months.

## Q1: What are some of the key lessons of 2016?

History has shown us again and again the importance of staying invested when markets turn volatile. 2016 was no different. Equity markets do not react well to surprises, so it was unsurprising that equities sold off immediately after the Brexit vote and Donald Trump's victory. However, in both cases, markets quickly recovered from their correction and rose even higher. Investors who stayed invested were able to benefit fully from the rebound.

## Q2: Where should investors look in 2017?

In terms of global equity markets, the US market is likely to lead as investors re-focus on economic and corporate earnings growth. Fiscal spending to encourage economic growth and corporate tax cuts are expected to be priorities for the Trump administration. A corporate tax rate cut – even from 35% to 25% – would boost earnings by 10% and make the US the standout stock market for earnings growth and returns on equity. In terms of equity sectors, pharmaceutical and financials will both benefit from a more favourable regulatory environment.

## Q3: How about the outlook for Asia?

There has been a lot of media coverage about the impact that Donald Trump's trade policies may have on Asia. His policies still remain largely unknown but even if the US does become more protectionist it is likely that Asia can hold up well. Asia is benefitting from growth within the region as it moves from being a region that primarily manufactures and exports goods to other regions, to one that is based on domestic demand. This demand is supported by the huge growth in Asia's middle class. We are seeing the same thing happening in China as companies there continue to move toward their huge domestic market and more sophisticated forms of production.

## Q4: How should investors prepare for the year ahead?

Markets are likely to experience further episodes of volatility in 2017, which sees several key political elections in Europe, as well as China's five-yearly Communist Party congress. A tried and tested way of dealing effectively with market volatility is for investors to practice investment discipline, tune out the market noise and stay the course by focusing on their long term investment goals.