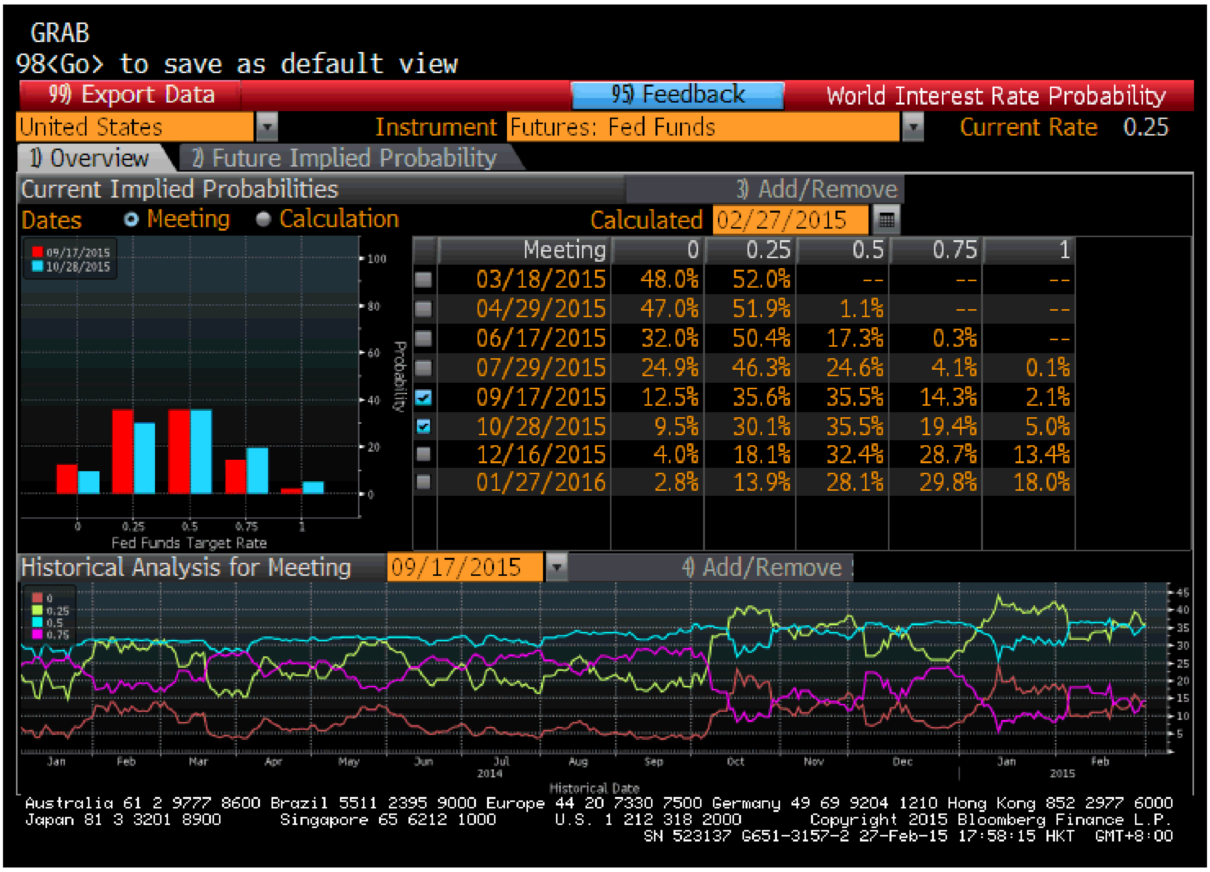
The galore of good news that greeted the Year of the Wood Goat underpinned a rally in risk assets in February. The Russian-Ukraine ceasefire accord, the Greece 4-month bailout extension, and a solid +18.10% rebound in Brent oil price saw the MSCI World Equity Index gained +5.4% in February. Risk apettite was further fueled after FED Chair Janet Yellen downplayed expectation that the FOMC would hike rate soon. Mrs Yellen's comment that "too many Americans remain unemployed, wage growth is still sluggish and inflation remains well below our longer-run objectives" pushed back market's expectation of FOMC first rate hike to 3Q'2015 (please see table below).



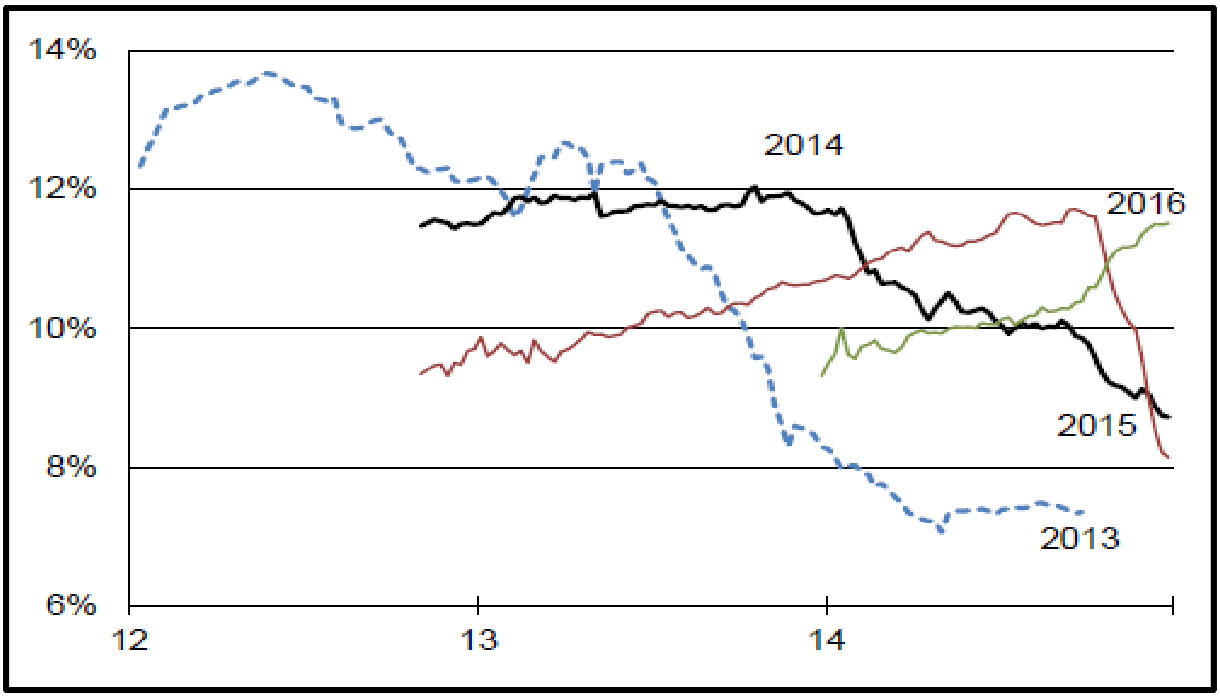
Meeting	0	0.25	0.5	0.75	1
03/18/2015	48.0%	52.0%	--	--	--
04/29/2015	47.0%	51.9%	1.1%	--	--
06/17/2015	32.0%	50.4%	17.3%	0.3%	--
07/29/2015	24.9%	46.3%	24.6%	4.1%	0.1%
09/17/2015	12.5%	35.6%	35.5%	14.3%	2.1%
10/28/2015	9.5%	30.1%	35.5%	19.4%	5.0%
12/16/2015	4.0%	18.1%	32.4%	28.7%	13.4%
01/27/2016	2.8%	13.9%	28.1%	29.8%	18.0%

The slew of good news dispersed the risk aversion that engulfed the financial markets in January. As a result, safe havens such as US Treasury (UST) and Gold were sold off in favour of equity. Hence for the month of February, yield on 10-year UST jumped +35 basis points while gold suffered -5.49% drop. Over the same period, the Bloomberg USD-denominated Investment Grade Corporate Bond Index declined -0.99% and the Continuous Commodity Index ended the month up +0.97% on the back of oil price gain. Global equity outperformed with a monthly gain of +5.40% on the back of strong performances of Japanese and European stocks.

Amidst the flurry of good news and the risk-loving sentiment, it is interesting to note that recent economic data released out of the US has come in below expectation since the beginning of 2015 (please see chart below); suggesting that financial markets may be a tad too optimistic about US' economic outlook. On the contrary, the European recent economic data has surprised on the upside (please see chart below).

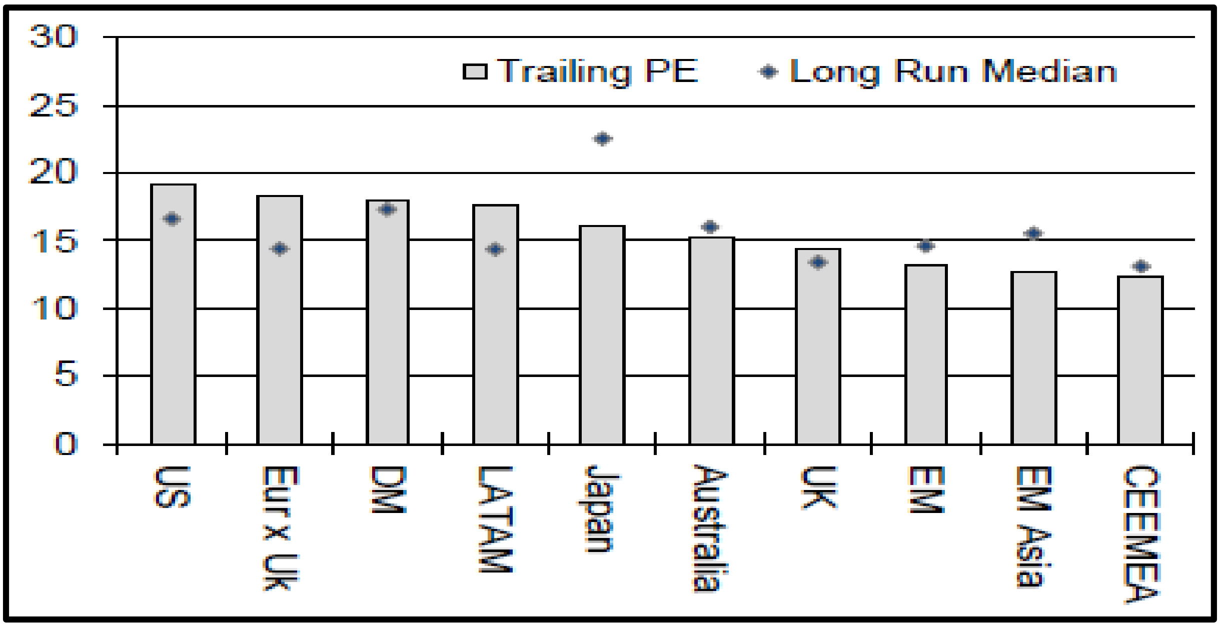
Meanwhile, 2015 earning forecast for global equity has been revised lower sharply in recent months (please see chart below).

Consensus Global EPS Growth



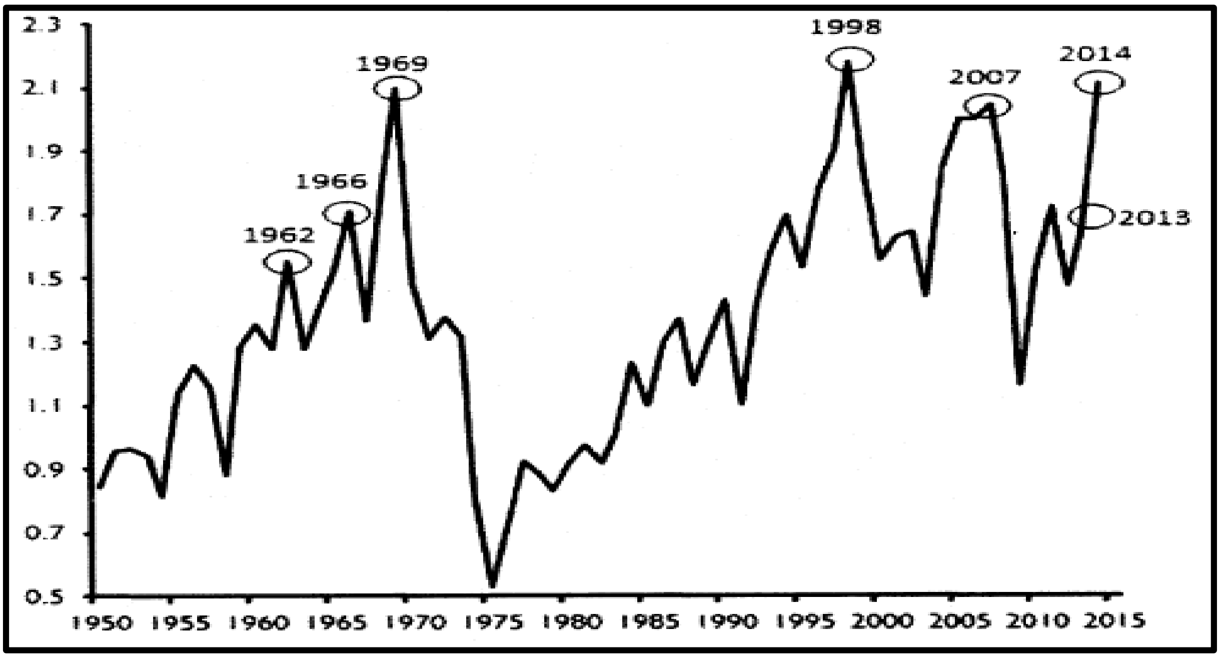
And this earning downgrade has occurred when global equity valuation is no longer cheap. In particular, US' equity market valuation is currently above its long-term median though valuations of Japanese and Emerging Market equities remained generally inexpensive (please see chart below).

MSCI Regional Trailing PE

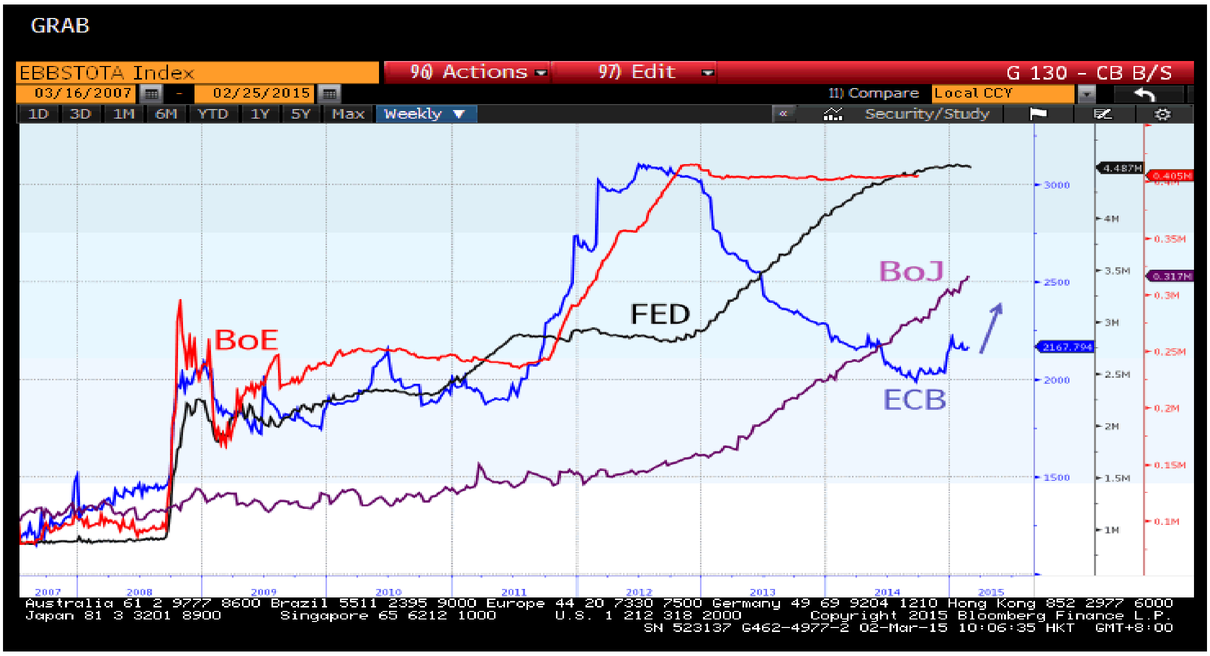


In addition, the median price/book value multiple for US stocks has inched toward historical peak (please see chart below). In fact, Professor Robert Shiller who popularised the cyclically adjusted price earnings (CAPE) ratio declared mid-February that the CAPE ratio has surpassed 2007 high.

Median Price/Book Value Multiple for US Stocks

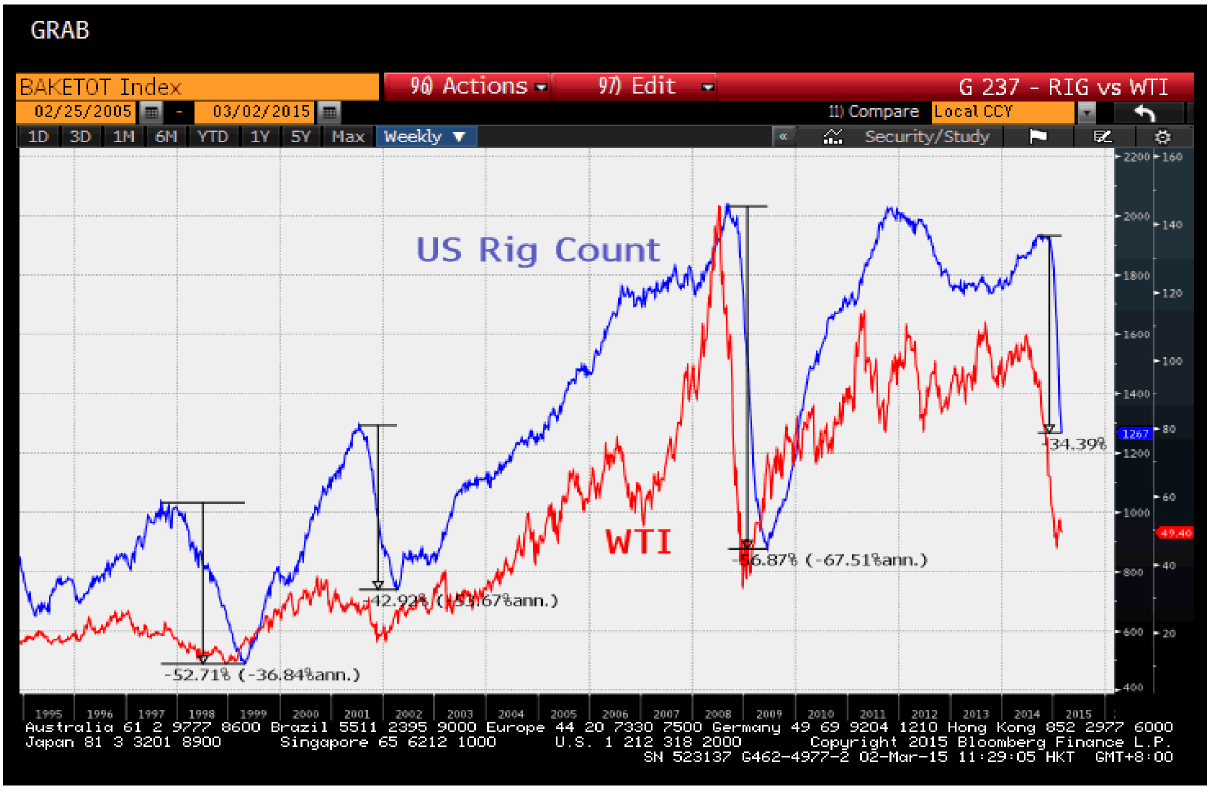


While high valuation multiples make US stocks look incresingly vulnerable, global liquidity that has played such an importatnt role in propping up financial assets since the Great Financial Crisis should remain in abundance. The Bank of Japan and European Central Bank's unconventional monetary policies should mitigate the adverse impact on global liquidity which resulted from the Bank of England and the FED's decision to halt their respective quantitative easing programs (please see chart below).



As the European Central Bank kick starts its quantitative easing in March, it is interesting to note that the price of precious metal seemed to be moving in tendam with the size of European Central Bank's balance sheet (please see chart below).

Finally turning to oil, we maintained our view stated in our previous letter where we wrote, "***we reckon that crude oil is trying to find a bottom after the almost 60% decline over the past 6 months. While the near-term supply-demand condition remain unfavourable, we suspect most of the bad news has been discounted. In addition at current level, oil is oversold. Meanwhile the oil contango has deepened to levels last seen in early 2009***." Despite having rebounded, past cycles suggested that a firm botom in oil price would be found after the US rig count has corrected by an average of 50% (please see chart below).



Source: Bloomberg, Citigroup, CLSA, 'The Guru Investor'

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