

Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	3.1	9.4	8.9	9.4	22.1	28.3
MSCI Far East Free Ex-Japan	2.8	9.0	8.7	9.0	22.1	27.5
MSCI China	2.0	9.0	7.5	9.0	24.3	34.6
MSCI Hong Kong	3.0	9.5	5.7	9.5	20.9	40.4
MSCI India	5.9	13.4	10.6	13.4	22.8	38.3
MSCI Indonesia	4.4	3.9	1.0	3.9	16.0	18.9
MSCI Korea	4.9	12.4	13.1	12.4	25.7	20.6
MSCI Malaysia	3.0	4.6	1.4	4.6	-5.4	-17.4
MSCI Philippines	1.4	2.1	-5.5	2.1	-3.7	18.9
MSCI Singapore	2.1	9.8	12.1	9.8	13.7	9.5
MSCI Taiwan	1.0	8.4	11.8	8.4	28.6	43.4
MSCI Thailand	4.0	5.1	9.3	5.1	22.1	27.7

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 March 2017.

Asia ex-Japan equities rose in March, outperforming global equities and emerging markets, after the US Federal Reserve (Fed) provided certainty on monetary policy that strengthened investor confidence on US economic outlook. Emerging markets (EM) outperformed the US market, as investors sought refuge in the former after Republicans failed to pass a healthcare bill to replace Obamacare in Congress.

Across markets, Korea, India, Indonesia and Thailand outperformed, while Taiwan, Singapore, Philippines, Malaysia, Hong Kong and China underperformed. All sectors across Asian ex-Japan gained. Consumer discretionary, energy, real estate, industrials, and information and technology outperformed. Consumer staples, healthcare, telecommunication services and utilities underperformed.

Global leading economic indicators were mixed after consecutive months of improvement across the board. China's factory gauge climbed to the highest in nearly five years, with the official Purchasing Managers' Index (PMI) at 51.8, even as the private sector Caixin PMI slipped to 51.2. PMI numbers across major economies, the Eurozone, and India strengthened while the US and UK declined.

China underperformed within Asia, even as economic data continued to improve post Chinese new year. In addition to record PMI numbers, the country's non-manufacturing PMI rose to a two year high, with surging producer prices. The PBOC signalled more prudent monetary policy and more cities implemented home purchase restrictions. The materials and banks corrected, while property stocks continued to surge on strong sales volume. In Hong Kong, Macau gaming and retail companies led the market higher.

The Korea market outperformed for the month after the manufacturing sector began a new production cycle on upcoming mobile handsets from major technology players. Over in India, the NIFTY outperformed as the economy demonstrated a resiliency and recovery to the shock caused by the demonetisation policy introduced in 2016.

Performance across the ASEAN markets was mixed. The Philippines underperformed amid signs of macro softness. Singapore underperformed the index amid a soft residential rental market and slumping real estate prices for 14 consecutive quarters. The Thai market was lifted after the country's central bank raised 2017 GDP forecasts higher. The Indonesia market outperformed as foreign inflows returned.

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Outlook and Strategy

Asia is a beneficiary of global growth recovery and reflation. Recent economic indicators have shown improvement, including purchasing manager indices (PMI) and exports led by an overall commodity price rebound. This should lead to improving earnings and profitability. Inflation has also picked up, putting an end to the monetary easing cycle for Asian central banks. However, we believe it is too early for monetary tightening in general as inflation is coming up from a low base and still within central banks' target ranges. Only China has signalled more prudent monetary policy to rein in financial leverage and control the property bubble.

Despite the strong start to Asian markets, valuations remain reasonable, below the mean level on a price-to-book basis. Earnings revisions have also turned positive led by cyclicals in Korea and Singapore. As the global economic recovery broadens out, Asian economies should benefit. At this point, we prefer the export oriented North Asian markets. The key risk is the impact of US President Trump's trade policies on Asian exports.

Despite the Fed raising rates in March, the US dollar has weakened slightly as questions arise over Trump's fiscal stimulus being passed through congress. This has helped Asian currencies and markets. Nonetheless, even if the US dollar does strengthen, Asian economies are also on better footing today compared to the 'taper tantrum' period in 2013. Current account positions have improved, except in China, Malaysia and Philippines. History has shown that there are many periods where Asian markets have performed well despite US dollar strength.

In China, recent improvements in economic activity and earnings growth, coupled with renewed focus on debt deleveraging give comfort that the slowdown in GDP growth will be manageable and asset quality risks will be contained. The rebound in the Producer Price Index (PPI) should be positive overall for industrial profits, but will pass through to higher consumer price inflation albeit to a smaller and manageable extent. Regulators have already taken early action to tighten monetary conditions to control financial leverage and prevent overheating. We are positive on China and favour technology, financials, industrial, energy and materials which benefit from improving macro conditions.

We maintain our cautious view on Hong Kong due to headwinds for the property sector from rising interest rates and property tightening. We have raised weights in Taiwan as the manufacturing component supply chain should benefit from the upcoming iPhone 8 launch. We note however that first quarter corporate results tends to be seasonally weak. We are positive on Korea as the economy is leveraged to global cyclical recovery and reflation themes. Exports and imports have exhibited improving trends, in line with upward revisions for corporate earnings. India remains on an underweight position. The market has bounced on improving cash liquidity after a demonetisation exercise in previous quarter, but valuations remain expensive. We continue to expect a soft GDP numbers in coming quarters.

In ASEAN, we are positive on Singapore as valuations are attractive and corporate earnings should post a mild recovery in 2017. Singapore is also leveraged to global economic recovery and in particular the offshore and the marine sector should see stabilisation from recovery in oil prices. We are tactically underweight on Indonesia from political risks going into the April run-off for the Jakarta governor election. However we remain structurally positive on Indonesia which should benefit from higher commodity prices. We are neutral on Thailand which should see a broad-based recovery in GDP from government spending and consumption recovery. Finally, we have a underweight position in the Philippines due to policy risks, in particular tax reform and labour laws which could impact corporate earnings.

All statistics quoted in the write-up are sourced from Bloomberg as at 31March 2017 unless otherwise stated.

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