Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	0.7	0.7	-2.7	-2.7	-11.6	14.0
MSCI Far East Free Ex-Japan	0.8	0.3	-2.6	-2.6	-12.2	12.6
MSCI China	-0.8	0.4	-9.1	-9.1	-23.1	18.3
MSCI Hong Kong	-1.1	1.1	-4.5	-4.5	-10.7	26.6
MSCI India	-1.0	3.7	-3.7	-3.7	-6.6	31.1
MSCI Indonesia	7.4	3.8	11.7	11.7	7.1	-7.5
MSCI Korea	1.7	-1.3	-0.9	-0.9	-3.0	10.3
MSCI Malaysia	2.7	-5.5	2.7	2.7	-5.7	-15.9
MSCI Philippines	2.3	5.7	8.1	8.1	1.5	28.5
MSCI Singapore	2.0	0.3	0.0	0.0	-11.5	0.1
MSCI Taiwan	2.7	1.3	3.9	3.9	-7.6	22.5
MSCI Thailand	-0.1	2.9	15.1	15.1	-6.6	-2.1

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 June 2016.

Asia ex-Japan equities rose in June, outperforming the global equity markets where Developed Markets (DM) underperformed Emerging Markets (EM). Fixed income markets rose in June with G7 bonds being the best performing. Energy reversed its gains in June while gold rose on increased global risk aversion following Britain's vote by referendum to leave the European Union (Brexit).

Across markets, Indonesia was the stand-out performer with strong gains, while Taiwan, Malaysia, the Philippines, Singapore and Korea also outperformed. On the other hand, Hong Kong, India, China and Thailand underperformed. Most sectors across Asia ex-Japan rose in June (in SGD terms) while consumer discretionary, industrials and healthcare posted losses. Consumer staples, information technology, telecommunication services, financials and energy outperformed while consumer discretionary, industrials, healthcare, utilities and materials underperformed.

Global leading indicators strengthened in June. In the DM, the Purchasing Managers' Index (PMI) in the US, UK, Eurozone and Japan strengthened. In the EM, China's official PMI dipped slightly to 50.0 from 50.1 while the private sector Caixin PMI fell to 48.6 from 49.2. Inflation and retail sales continued to be soft alongside weak commodity prices and subdued global growth.

The ASEAN market as a whole outperformed the rest of the EM as the region is seen to be most insulated from the global fallout from Brexit. In ASEAN, Indonesia's strong performance was boosted by the approval of a long-awaited tax amnesty bill and is expected to garner substantial additional tax revenue for the government from the newly-declared funds. This is expected to boost public and private investment spending and hence GDP growth in 2017.Indonesia's central bank also reduced policy rate by 25 basis points (bps). Malaysia Prime Minister Najib Razak announced a Cabinet reshuffle in a bid to strengthen the Barisan Nasional coalition. The Philippines market continued to gain on the back of optimism on the newly-inaugurated Duterte administration's ability to execute on policies, particularly in infrastructure. In Thailand, the central bank held policy rates unchanged as it viewed that current monetary conditions were conducive for economic recovery, while inflation climbed on higher food prices.

The India market underperformed with the Reserve Bank of India (RBI) governor Rajan announcing that he will leave when his term ends in September. Meanwhile, the government approved liberalisation of foreign direct investment in nine sectors and the RBI kept policy rates unchanged. In South Korea, the central bank reduced policy rates by 25 bps.

Asia ex-Japan Equity

The China market held up relatively well amid Brexit concerns as there appeared evidence of economic stabilisation and improving sentiments with May industrial activity data showing sequential growth. Liquidity conditions continued to be tighter in May compared to the first quarter while headline export and import growth rebounded on seasonal effects.

Outlook and Strategy

The outlook for growth in Asia remains challenging due to the deceleration of growth in China. China remains in a conundrum of rising debt and slower growth. There have been marginal improvements in economic data including PMI, housing starts and foreign exchange reserves but it remains to be seen whether the recovery is sustainable. We continue to stay cautious on China's economy but expect growth to stabilise with the impact of earlier monetary loosening, government spending and a property market pick-up. Structural challenges in terms of overcapacity and high debt levels remain, but on a positive note economic rebalancing is accelerating.

We have tactically reduced our overweight position in China as the weak economy has impacted corporate earnings. We have also cut exposure in Hong Kong due to the challenging outlook for property which faces the headwinds of slowing China and potentially higher interest rates. In Taiwan, we are more constructive on the technology sector due to improving inventory and product cycles. We are overweight on Indonesia as we expect lower interest rates to flow through to spending and investment. We are also more optimistic on India as moderate inflation and rising incomes could boost consumption. Renewed infrastructure spending and passing of the Bankruptcy Act could also boost investor confidence.

Asia markets are largely flat from the beginning of the year, as the economic outlook for the region faces challenges from higher US interest rates, weak exports and slowing growth in China.

Asian equity valuations are attractive at around one standard deviation below the mean level on a price-to-book basis – a level that was last seen during the 2008 Global Financial Crisis. Asia's demographic trends, which are mostly favourable, and rising incomes underpin the long-term fundamental growth potential of the region, making it an attractive investment destination. Our strategy is to take advantage of these structural opportunities by investing in companies that have sound business models, are positioned in segments offering attractive growth and that have demonstrated operational and financial discipline in the way they manage their businesses.

China's transition in restructuring its economic growth model means that overall growth will remain modest. We see investment opportunities in niche segments relating to the new economy. Rising internet and smartphone penetration will accelerate technological disruption across various sectors including retail, financial services, travel and transportation. This trend presents bottom-up investment opportunities across the whole ecosystem of e-commerce including information technology services and financial technology sectors.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 June 2016 unless otherwise stated.

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