Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	1.1	6.8	16.9	16.9	29.6	28.9
MSCI Far East Free Ex-Japan	1.4	7.4	17.2	17.2	30.7	29.3
MSCI China	1.9	9.1	18.9	18.9	35.0	40.2
MSCI Hong Kong	0.2	5.6	15.7	15.7	26.4	37.1
MSCI India	-1.2	1.4	14.9	14.9	20.0	25.0
MSCI Indonesia	3.1	8.3	12.5	12.5	21.1	28.6
MSCI Korea	0.4	8.4	22.0	22.0	38.1	24.4
MSCI Malaysia	-0.6	3.5	8.2	8.2	3.6	-16.5
MSCI Philippines	-1.5	5.8	8.0	8.0	-3.6	16.3
MSCI Singapore	0.7	3.7	13.8	13.8	17.6	8.4
MSCI Taiwan	4.1	7.6	16.7	16.7	36.6	41.2
MSCI Thailand	0.8	1.1	6.3	6.3	20.0	20.9
MSCI Pakistan	-6.6	-3.5	-8.7	-8.7	21.6	27.2

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 June 2017.

Asia ex-Japan equities rose in June, outperforming global equities, led by strong gains in technology stocks and positive sentiment following MSCI's inclusion of China 'A' shares into the index starting from June 2018. Despite another US rate hike in June, the US dollar remained benign as data continued to point to a mild economic recovery in the US. Nonetheless, comments by the US Federal Reserve (Fed) that the market and economy could withstand higher rates led to a steepening of the yield curve.

Across markets, Taiwan, Korea, China and Indonesia outperformed, while India, Malaysia and, Philippines underperformed. Amongst the sectors, information technology and healthcare outperformed, while the energy and consumer sector underperformed. Oil prices fell after the OPEC meeting decision in May to continue with the current production cut level of 1.8 million barrels per day.

Economic indicators showed some stability after correcting in the past month. China's official Purchasing Managers' Index (PMI) improved to 51.7 from 51.2 in the previous month, while the private sector Caixin PMI rebounded to 50.4 after briefly falling below 50 the previous month. Over in the US, the ISM rebounded to 57.8 from 54.9 the previous month. Consumer confidence and retail spending also remained steady. Meanwhile, India, Japan and Brazil's PMI declined, while the Eurozone continued to strengthen.

North Asian markets continued to lead the performance, lifted by strong earnings and gains in the technology sector. Taiwan gained the most led by positive momentum for the handset supply chain and panel plays. Financials rose on expectations of dividends. The Korean market continued to perform strongly, led by technology.

The China market also out-performed in June. Strong revenue guidance from a technology giant had a positive spillover effect on earnings upgrades on the sector. Tightening concerns reduced after the deputy governor of the central bank said "financial deleveraging" achieved preliminary results. The Chinese Yuan appreciated 0.5% versus the US dollar in June, paring all losses versus the dollar since Trump's victory as US President. Industrial profits accelerated to 16.7% year on year in May versus April's 14% even with the Producer Price Index (PPI) decelerating to 5.5% from April's 6.4%. In addition, MSCI announced inclusion of China A-shares in June 2017.

India underperformed in June. Policy news flow remains supportive given progress on the roll out of good and services tax (GST), increasing expectations of monetary easing and steps towards resolution of asset

Asia ex-Japan Equity

quality issues by the Reserve Bank of India (RBI). However, the market has been consolidating given growth uncertainty in the wake of GST transition challenges and demanding valuations.

ASEAN markets continued to underperform North Asia, with the exception of Indonesia. Indonesia's Central bank upgraded 2Q17 GDP supported by a stronger resource sector, while the trade balance and foreign reserves continued to improve. Malaysia started the month well in the first week, but gave back gains later before the market closed for the Hari Raya holidays. Lower oil prices led to underperformance in the energy/petrochemicals sector.

Outlook and Strategy

Asia is seeing improving returns on equity and upward revisions in corporate earnings after many years, led by cyclicals as global growth recovers. China's economic recovery looks to have stabilized with the PMI above 50 and the rebound in the PPI after many years in negative territory. Despite the US Federal Reserve raising rates, the US dollar has weakened slightly as questions arise over the execution of Trump's fiscal stimulus policies. This has helped Asian currencies and markets.

Despite the strong run this year, Asian market valuations are still reasonable, slightly below the mean level on a price-to-book basis, though above mean on price to earnings.

In spite of the above positives, we are taking a more defensive stance in Asia. Relatively soft US economic data, President Trump's recent political troubles and the US market's high valuations raises the probability of a correction. Despite China's recent improvements in economic activity and earnings growth, growth will moderate going forward as the government refocuses on financial deleveraging. The Asian markets index is also approaching a 10 year resistance high.

Within Asia, we continue to be overweight on Korea. The market is seeing strong positive earnings revisions led by technology and cyclicals. A new change in Korean leadership that seeks to restructure the Korean chaebols and more shareholder friendly policies by corporates also bodes well for a market rerating. We are underweight on China given our expectations for moderating economic growth amidst tighter monetary policy. We remain neutral on Hong Kong amidst a soft US dollar and interest rate outlook. Property prices and primary sales continue to remain robust despite government policy measures to cool demand. Retail sales and Macau gross gaming revenues have been recovering. We are neutral on Taiwan. Technology has done well ahead of the new iPhone cycle launch. Corporates have strong free cashflow and net cash. Dividend payouts in the coming quarter could lift the high yield Taiwan stocks. We remain with an underweight position in India position even as the economy rebounds post de-monetization and positive progress on the GST rollout as valuations continue to be expensive.

In ASEAN, we are overweight on Malaysia. We see upside to earnings growth expectations from strong construction orders, growth in palm oil volumes and drop in bank provisions as non-performing loans (NPLs) peak. FDI from HK and China has risen significantly as Malaysia is a key destination for China's 'One Belt One Road' projects. The upcoming elections early next year is also another positive catalyst as the market has historically done well in the run up to elections. We remain neutral on Singapore after reducing weights last month. Valuations are no longer attractive and we believe the reflation trade has already played out for the Singapore banks. GDP growth could likely moderate in the later part of the year after picking up in the first half this year. We remain on a neutral position in Indonesia, having raised it from underweight position in the previous month. The macro environment is improving with 2nd quarter GDP accelerating, as the trade balance and foreign reserves have improved. We remain neutral on Thailand which should see a broad-based recovery in GDP from government spending and consumption, and keep Philippines on an underweight position due to valuation concerns and policy risks.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 June 2017 unless otherwise stated.

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