

Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	3.3	8.9	14.4	15.6	29.1	29.7
MSCI Far East Free Ex-Japan	3.6	8.9	14.1	15.5	30.0	29.6
MSCI China	4.3	9.2	13.0	16.7	31.5	41.3
MSCI Hong Kong	2.3	8.7	9.1	15.5	24.8	37.0
MSCI India	0.7	8.7	17.4	16.3	20.3	31.4
MSCI Indonesia	1.7	9.7	16.0	9.2	26.2	22.8
MSCI Korea	6.8	13.5	25.2	21.5	39.9	24.4
MSCI Malaysia	0.2	7.3	10.4	8.9	7.1	-15.7
MSCI Philippines	1.7	8.9	12.9	9.7	0.2	20.9
MSCI Singapore	2.7	5.2	12.1	13.1	19.2	6.9
MSCI Taiwan	1.4	4.4	11.4	12.1	34.8	41.6
MSCI Thailand	0.3	4.3	8.7	5.5	19.0	27.6

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

Asia ex-Japan equities rose in May, outperforming global equities, and in line with the emerging markets. France's election of mainstream pro-EU candidate Macron and continued strong corporate earnings in Asia boosted investors' sentiment. The US dollar remained weak as data continued to indicate a mild economic recovery in the US.

Across markets, China and Korea outperformed. Amongst the sectors, consumer discretionary, consumer staples, real estate, and information technology outperformed. Financials, materials, telecommunications and utilities underperformed. Industrials performed in line with the market, while energy and healthcare fell into the red.

Economic indicators showed mixed signs after a stronger performance in the first quarter. China's official Purchasing Managers' Index (PMI) was unchanged at 51.2 from the previous month, but the private sector Caixin PMI tumbled to contractionary territory at 49.6. Over in the US, manufacturing numbers were little changed at 54.9 from the previous month, even as most manufacturing industries reported growth. Meanwhile India and UK's PMI declined, while the Eurozone strengthened.

Greater China outperformed the benchmark, with the bulk of the rally lifted by real estate names. Market fears alleviated after the PBOC, China's central bank clarified that financial deleveraging did not amount to monetary tightening. Hong Kong underperformed alongside trade activity that slowed more than expected as exports and imports eased momentum from the first quarter. The Taiwan market performed the weakest in the Greater China region, dragged down by material and financials but the Taiwan stock exchange did hit the 10,000 point level for the first time since the peak of the dot-com bubble in 2000.

The Korea market was the best performer after the election of President Moon and a tougher government stance on family owned conglomerates that led to the downfall of his predecessor. India underperformed, dragged down by the healthcare sector that saw steep pricing pressures on generic US drugs.

ASEAN markets underperformed North Asia. Indonesian markets eased gains after the index gained fresh highs from a Standard and Poor's credit rating upgrade to investment grade status. Malaysia traded sideways despite strong GDP growth number for the first quarter, and having signed 9 agreements with China at the 'One Belt One Road' forum. In the Philippines, mixed earnings and GDP growth for the first quarter disappointed markets. Singapore performed best within ASEAN. Weak domestic demand was offset by strong external growth in the manufacturing and technology sector. The Thai market saw a slew of negative headlines including disappointing first quarter 2017 corporate earnings.

Asia ex-Japan Equity

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 economic recovery looks to have stabilized with the PMI above 50 and the rebound in the Producer Price Index (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 for the coming quarter. Relatively soft US economic data, President Trump's recent political troubles with possible impeachment 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 and tightens monetary policy. The Asian markets index is also approaching a 10 year resistance high.

Within Asia, we have raised our overweight position in 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 moving China to underweight from overweight. China economic data has begun to moderate after a strong first quarter, with April economic data coming in below expectations and the Caixin May PMI slipping below 50 again after 10 months of expansion. An environment of moderating economic growth and tighter monetary policy has historically been headwinds for the China market. We have raised Hong Kong to neutral 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 remain neutral on Taiwan. Technology has done well ahead of the new iPhone 8 cycle launch. Corporates have strong free cash flow and net cash. Dividend payouts in the coming quarter could lift the high yield Taiwan stocks. We remain underweight in India position even as the economy rebounds post de-monetization as valuations continue to be expensive.

In ASEAN, we are moving Malaysia from an underweight position to overweight. We see upside to earnings growth expectations from strong construction orders, growth in palm oil volumes and drop in bank provisions as 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 are trimming our overweight position in Singapore to neutral. Valuations are no longer attractive after the strong performance year to date. We are also less positive on the deflation trade now which have thus far been a key driver for the Singapore banks. We have raised Indonesia back to neutral from underweight previously after the Jakarta governor election. We expect inflationary pressures to subside and increased portfolio inflows post the S&P credit upgrade, which should lower bond yields and funding costs. We remain neutral on Thailand which should see a broad-based recovery in GDP from government spending and consumption, and underweight Philippines due to policy risks. The recent Marshall law declared in Mindanao could deter foreign investors and market valuations continue to be on the high side in ASEAN.

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

Contact Details

SINGAPORE

UOB Asset Management Ltd

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
Tel 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

MALAYSIA

UOB Asset Management (Malaysia) Berhad

Address Level 22, Vista Tower, The Intermark
No. 348 Jalan Tun Razak, 50400 Kuala Lumpur
Tel (03) 2732 1181
Fax (03) 2164 8188
Website uobam.com.my

THAILAND

UOB Asset Management (Thailand) Co., Ltd

Address 23A, 25 Floor, Asia Centre Building, 173/27-30, 32-33
South Sathon Road, Thungmahamek, Sathon, Bangkok 10120, Thailand
Tel (66) 2786 2000
Fax (66) 2786 2377
Website uobam.co.th

BRUNEI

UOB Asset Management (B) Sdn Bhd

Address FF03 to FF05, The Centrepoint Hotel, Gadong,
Bandar Seri Begawan BE 3519, Brunei Darussalam
Tel (673) 2424806
Fax (673) 2424805

TAIWAN

UOB Asset Management (Taiwan) Co., Ltd.

Address Union Enterprise Plaza, 16th Floor, 109 Minsheng East Road, Section 3,
Taipei 10544
Tel (886)(2) 2719 7005
Fax (886)(2) 2545 6591

JAPAN

UOB Asset Management (Japan) Ltd

Address 13F Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku,
Tokyo 100-6113 Japan
Tel (813) 3500-5981
Fax (813) 3500-5985

Important Notice & Disclaimers

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd ("UOBAM") and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. Please note that the graphs, charts, formulae or other devices set out or referred to in this document cannot, in and of itself, be used to determine and will not assist any person in deciding which investment product to buy or sell, or when to buy or sell an investment product. UOBAM does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. **You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.**

UOB Asset Management Ltd Co. Reg. No. 198600120Z