Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	1.8	11.4	12.2	8.5	12.2	21.3
MSCI Far East Free Ex-Japan	2.1	11.9	12.3	9.1	13.4	19.2
MSCI China	2.7	15.2	15.7	4.7	8.4	22.7
MSCI Hong Kong	3.8	13.1	14.4	8.1	14.0	33.0
MSCI India	-0.9	7.0	11.0	3.1	1.4	49.3
MSCI Indonesia	2.7	10.7	14.8	23.7	47.6	35.1
MSCI Korea	1.8	12.4	11.0	11.4	17.0	9.3
MSCI Malaysia	-2.5	-1.3	-6.7	1.4	8.3	-14.0
MSCI Philippines	-4.9	-3.6	1.9	4.2	3.1	32.3
MSCI Singapore	1.7	1.2	1.5	1.2	5.3	-2.2
MSCI Taiwan	3.3	13.5	15.1	18.0	18.9	35.7
MSCI Thailand	-3.2	8.6	11.7	25.0	16.6	12.7

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

Asia ex-Japan equities rose in September 2016, performing in line with most other emerging markets, and outperforming global markets as a whole.

Amid the US Federal Reserve revived speculation of an interest rate hike toward the end of the year, Asia ex-Japan markets benefited from inflows as a series of monetary easing measures from the Bank of Japan to the European Central Bank sent global yields to record lows. Energy prices trended higher while Gold prices held steady for the month.

Most markets across Asia ex-Japan gained. Thailand, Philippines, India and Malaysia posted losses while Singapore underperformed. China, Hong Kong, Indonesia and Taiwan outperformed. Sector performance was mixed in August. Real estate emerged as the best-performing, while consumer discretionary, energy, information technology, outperformed. Consumer staples, financials, healthcare, industrials, materials, telecommunications and utilities underperformed.

Economic indicators across the region were mostly also mixed. Manufacturing activity in China remained in expansion territory as the official Purchasing Managers' Index (PMI) stood identical at 50.4 from the previous month as the private sector Caixin PMI edged up slightly to 50.1 from 50.0. PMI numbers in Japan, UK and Eurozone strengthened while PMI in the US and India declined.

Across the Greater China markets, the Hong Kong market was the best-performing bolstered by flows through an exchange trading link with Shanghai that hit a record. The Special Administrative Region also saw exports and imports returning to positive growth for the first time in over a year from a technology production cycle. Taiwan's outperformance also suggested a pickup in tech activity which is positive for regional trade flows.

Korea performed in line with the market with a recovery of domestic demand while India underperformed after a sharp correction from an early month rally to all time highs. The NIFTY retreated in response from news of possible further monetary easing from central banks in developed markets and a surgical strike by the Indian Army across the border with Pakistan.

The ASEAN market as a whole underperformed the broader Asia market with the exception of Indonesia even as repatriated funds from the tax amnesty program fell short of government targets. The Philippine market underperformed along a flurry of controversial comments from President Duterte on foreign relations and concerns

Asia ex-Japan Equity

of declining remittances from overseas foreign workers. Malaysia underperformed despite a rise in crude oil prices, Thailand's performance underperformed due to sentiments that fiscal spending boosts in the second quarter are ending while the Singapore market lagged from recent lackluster GDP growth.

Outlook and Strategy

The outlook for growth in Asia is expected to be slower led by the deceleration of growth in China. Domestic-oriented economies including India, Indonesia, Philippines and Thailand should see stronger growth. Corporate earnings for the last quarter were mostly in line, but earnings continue to be revised downwards. Fund flows into Asia in the first half of 2016 have been strong, accelerating post-Brexit as the region is not directly impacted by uncertainties in UK and Europe. There is also potential for more fiscal measures to support growth.

Global growth concerns have delayed US interest rate hikes. While the US Federal Reserve Bank is expected to raise rates by the end of the year, rates are expected to remain lower for longer, which is positive for Asian markets. Within the region, central banks are expected to keep monetary policy accommodative as inflation and growth are still below the target range.

Asian markets have rebounded post-Brexit but valuations are still attractive, below the mean level on a price-to-book basis. Notwithstanding short-term challenges, Asia's favourable demographic trends and rising incomes underpin the long-term fundamental growth potential of the region, making it an attractive investment destination.

In China, there have been early signs of improved credit discipline and corporate deleveraging as the focus turns to reform. Economic restructuring will result in short-term slowdown but is an important step towards building medium-term resilience of China's economy. The current positioning of the Asia strategy is to be neutral in China, favouring technology and telecoms sectors which see stronger growth.

We also raise Hong Kong to neutral as property prices and visitor arrivals are stabilising. In Korea and Taiwan, we are focused on bottom-up investment opportunities in the technology sector which see improvement in earnings driven by new products and technologies. In ASEAN, we remain optimistic on Indonesia as lower interest rates and improvement in confidence should flow through to spending and investment, in particular with the passing of the tax amnesty bill.

The key risks are a disorderly capital outflow, currency volatility and worse-than-expected slowdown in China.

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

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