Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	4.8	10.3	17.4	6.6	9.3	23.7
Consumer Discretionary	4.1	6.6	10.6	1.3	6.4	-6.7
Consumer Staples	2.1	2.4	12.1	5.1	6.0	26.5
Energy	3.6	6.5	16.4	10.9	8.8	-7.6
Financials	5.7	12.0	20.3	3.6	6.1	27.7
Healthcare	2.0	3.4	5.1	-5.1	-4.3	51.0
Industrials	3.7	6.2	8.9	-2.0	-4.7	8.7
Materials	4.0	11.9	15.9	13.5	16.9	12.8
Information Technology	7.2	15.3	25.0	15.4	24.5	49.6
Telecommunications Services	0.0	6.5	11.2	7.0	3.1	20.5
Utilities	2.4	5.3	11.1	5.1	8.1	30.5

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 August 2016.

Asia ex-Japan equities rose in August 2016, outperforming other emerging markets and developed markets. Asia markets benefited from fund inflows as investors looked outside the developed markets for opportunities amid political uncertainty surrounding Brexit. Fixed income markets were mixed as high yield bonds outperformed investment grade bonds. Energy reversed losses in August while Gold retreated after strong gains.

Across Asia ex-Japan markets, performance varied as most markets posted gains except Philippines and Singapore. China H-shares were the best performer despite weak July macro data. Thailand outperformed while Philippines and Singapore posted losses.

Most sectors rose in August with the exception of telecommunications services, which posted losses. The information technology sector was the best-performing, followed by financials. Other underperforming sectors include consumer staples, healthcare and utilities.

Economic indicators across the region were mostly also mixed. Manufacturing activity in China remained in expansion territory as the official Purchasing Managers' Index (PMI) rose to 50.4 from 49.9 even as the private sector Caixin PMI dipped to 50.0 from 50.6. PMI numbers in Japan, UK and India also strengthened while PMI in the US and Eurozone declined. Industrial production and exports were weak across Asia while inflation picked up slightly in India.

Across the Greater China markets, the China H-share market was the best-performing despite broad disappointment in July activity and credit data. The long awaited Shenzhen-Hong Kong stock connect announced in August is expected to begin operating in November. Corporate earnings reported in the first half of 2016 were mostly in line with expectations owing to fewer earnings downgrades. Low interest rates in Hong Kong eased concerns in the property sector while Taiwan technology companies performed well on the back of higher exports numbers.

Korea posted small gains as Bank of Korea kept policy rates on hold despite headline inflation slowing. India was largely flat even though the NIFTY finished at a 52 week high with positive news on the appointment of a new central bank governor and progress on a goods and services tax (GST) bill offset by lowered expectations of a rate cut with inflation trending up.

The ASEAN market as a whole underperformed the broader Asia market but performance diverged widely across markets. Thailand outperformed, benefitting from fund inflows as corporate earnings came in above expectations

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and earnings were revised upwards. The vote to accept the new constitution in August paves the way for a national election in late 2017. Indonesia's market continued to post gains as GDP growth came in above expectations with investors awaiting the progress on collection of additional tax revenue from the tax amnesty program. Malaysia also posted small gains even as the outlook for corporate earnings looks challenged. Philippines underperformed as corporate earnings were underwhelming despite strong GDP growth numbers while the Singapore market was rattled by concerns of distress in the oil and gas sector with ramifications possibly in the banking sector.

Outlook and Strategy

Growth in Asia is expected to be slower this year led by China while 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 revise 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.

Global growth concerns have delayed rate hikes from the US Federal Reserve (Fed). While the Fed 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 with inflation and growth still below the target range.

Asian markets have rebounded post-Brexit but valuations are still at attractive levels, below the mean level on a price-to-book basis. In spite of 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. There is also potential for more fiscal measures to support growth.

In China, there have been early signs of improved credit discipline and corporate deleveraging as reform efforts come into focus. Economic restructuring will result in short-term slowdown but is an important step towards building medium-term resilience of the Chinese economy. We are neutral on China within our Asia strategy positioning and favour technology and telecoms sectors as these sectors are witnessing stronger growth.

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

In summary, the key risks in Asia would be a disorderly capital outflow, currency volatility and a worse-than-expected slowdown in China.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 August 2016 unless otherwise stated.

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