Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.6	5.7	8.8	5.7	21.5	28.9
MSCI Japan	-0.4	1.0	7.2	1.0	19.2	33.6
MSCI AC Asia Ex-Japan	3.1	9.4	8.9	9.4	22.1	28.3
MSCI Australia	3.0	8.2	15.5	8.2	28.4	19.1

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

Asia Pacific equities gained in March 2017, outperforming global markets as investors sought refuge from US markets after Republicans in Congress failed to pass a healthcare bill intended to replace Obamacare. The index underperformed emerging markets (EM), dragged down by Japan. Within the region, Asia ex-Japan and Australia outperformed.

Information technology came out as the best performing sector. Other outperformers included defensive sectors in utilities and energy. Consumer discretionary, consumer staples, financials, real estate, healthcare, industrials, and telecommunications underperformed, with materials tumbling into the red. Gold rose for the month while Energy prices retracted.

Across the Greater China markets, China outperformed Asia ex-Japan, as markets remained skeptical of strong data numbers from the mainland. In addition to record PMI numbers, the country's non-manufacturing PMI rose to a two year high, with surging producer prices. The materials sector suffered the worst loss while real estate emerged as the top performer, fueling sentiments of an overheated property market. Meanwhile, Macau gaming companies and Hong Kong property names led the Hang Seng higher.

The Korea market underperformed for the month after manufacturing PMI fell and unemployment rates rose. The India market outperformed as growth concerns from demonetization receded. The Reserve Bank of India (RBI) kept rates on hold, signaling a neutral liquidity stance and an end to the easing cycle.

Performance across the ASEAN markets was mixed. The Philippines underperformed amid signs of macro softness. Singapore underperformed the index amid a soft residential rental market and slumping real estate prices for 14 consecutive quarters. The Malaysia market underperformed slightly, even with positive sentiment of a major Chinese e-commerce company establishing its first hub outside of China. The Thai market was lifted after the country's central bank raised 2017 GDP forecasts higher. The Indonesia market outperformed as foreign investors turned net buyers of Indonesian equities.

Japan fell into the red, underperforming the broader index despite improving data including a weakening yen which boosted manufacturing exports. The large jump in exports for February registered the highest trade surplus since 2010. Concerns over US trade protectionism heightened after Prime Minister Shinzo Abe grew increasingly vocal over the importance of free trade.

Australian equities led gains for Asia Pacific, with the ASX hitting a two year high lifted by defensive sectors including utilities. Higher unemployment figures and the slide in oil prices failed to dent the country's stock performance in the energy sector. Retails sales rose while real GDP growth for the fourth quarter of 2016 was revised upward driven by consumer spending.

Asia Pacific Equity

Outlook and Strategy

We believe that Asia Pacific markets continue to offer exciting investment opportunities for growth investors over the long term. Valuations for Asia Pacific equities are attractive. However, the aggregate market performance continues to be challenged due to slower economic growth, tighter liquidity conditions and potential headwinds to corporate earnings. Growth within the region remains uneven and fundamental sector/country and stock selection will remain crucial.

The current positioning of the Asia Pacific strategy is to be overweight on Asia ex-Japan and Australia. The position is funded from an underweight on Japan. This is a result of bottom-up securities selection and does not necessarily reflect our view on the respective regions. The overweight position in Asia ex-Japan is mainly due to the relative attractiveness of Indonesia and India financials against the rest of the region. Similarly, the underweight position in Japan reflects our concern on the operating prospects of Japanese financial companies.

In terms of sector allocation, our strategy is to be overweight on the financials and technology sectors. We believe the longer term trend for the technology sector remains positive as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies. The financials sector should also benefit from the reflation trade that is occurring across the world as inflation starts to normalise. We are also underweight on the materials sector due to concerns over incremental demand from China, which is experiencing slower growth and implementing reforms.

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