Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.1	4.3	10.3	10.3	25.7	27.7
MSCI Japan	0.7	3.5	4.7	4.7	22.7	31.1
MSCI AC Asia Ex-Japan	1.1	6.8	16.9	16.9	29.6	28.9
MSCI Australia	2.7	-3.1	4.9	4.9	22.8	13.2

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

Asia Pacific equities gained in June 2017, outperforming global markets and against the broader emerging markets (EM). Within the region, Australia outperformed against the benchmark while Japan underperformed.

Performances across the various sectors were mixed with cyclical sectors such as financials, materials and technology outperforming. Defensive sectors such as staples, utilities and telcos underperformed. Energy continued to lag the broader market as investors weighed the disappointments from a retreat in crude oil prices despite OPEC's move to prolong production cuts as well as a fading reflation theme post Trump's election.

Within Asia ex-Japan, North Asian markets continued to lead the performance, lifted by strong earnings and gains in technology. Taiwan gained the most led by positive momentum for the handset supply chain and panel plays. Financials rose on expectations of increased 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 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.

Australian equities rebounded in the month as the materials sector outperformed. Commodities in general rebounded post the sell-down in the previous month. The manufacturing PMI inched higher to 55.0 from 54.8 the previous month, while retail sales numbers reported in May beat expectations

Japan underperformed the index despite emerging signs that the economy was heading towards expansion. A surge in industrial production for the month, and wages that rose the fastest in decade injected confidence for stronger demand. The country's nominal GDP saw its first record high since the 1990s while consumer inflation gained.

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Outlook and Strategy

We believe that the 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.

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

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