Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.4	4.8	8.7	7.2	21.1	31.5
MSCI Japan	1.0	1.3	4.5	2.1	16.4	38.8
MSCI AC Asia Ex-Japan	2.2	8.1	10.7	11.9	26.1	30.5
MSCI Australia	-0.9	5.5	14.8	7.3	23.9	16.1

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 April 2017.

Asia Pacific equities gained in April 2017, underperforming both global markets and the emerging markets (EM) as investors priced in the prospect of geopolitical uncertainties from France to North Korea. Within the region, Japan and Australia underperformed.

Information technology came out as the best performing sector. The only other outperformer was real estate, while all others underperformed, with materials and energy tumbling into the red. Gold posted positive returns for the month.

Greater China outperformed the benchmark, buoyed by strong performance in the IT sector across the mainland, Hong Kong and Taiwan. Investor sentiment also weighed a positive outcome from the meeting between US President Trump and China's President Xi, the leaders of the world's two largest economies. The Hong Kong market outperformed, amid the Special Administrative region announcing further steps to cool the property market as residential housing prices continue to set historical highs.

The Korea market underperformed for the month as geopolitical tensions with North Korea crept into a risk-off sentiment. Returns were also dented by a depreciation of the won against the greenback. Over in India, the NIFTY underperformed slightly, dragged down by the IT sector that drove gains for the rest of the Asia market.

Performance across the ASEAN markets was mixed. The Philippines outperformed led by the telco and consumer sectors on a slew of positive events including announced reforms of a tax reform bill and Duterte's infrastructure plan. The Indonesian market outperformed after the winner of Jakarta's gubernatorial election pledged to work with the country's President on reforms. Malaysia outperformed on optimism that a Middle Eastern oil giant would purchase a stake in a local refining project and sentiments that a global reflation trade would benefit the financial industry. Singapore underperformed the index despite a pickup with industrial output. The Thai market was flat from the previous month. During the month, the country's central bank reduced bond issuances on expectations that foreign investor demand would decline.

Japan underperformed the index with weak industrial production even as exports grew at the fastest rate in over two years for March amid soft domestic demand. Inflation numbers remains subdued with the Bank of Japan sticking to its accommodative monetary easing plan.

Australian equities dragged down the Asia Pacific index, with telcos as the key laggard. Commodities including iron ore and base metals across the board declined. Retail sales fell with annual sales growing the slowest pace in 4 years while the unemployment rate was unchanged from the previous month.

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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