Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.9	10.5	11.6	4.4	11.2	19.6
MSCI Japan	1.5	10.3	11.1	-0.9	7.4	20.9
MSCI AC Asia Ex-Japan	1.8	11.4	12.2	8.5	12.2	21.3
MSCI Australia	2.8	9.7	11.1	7.8	18.9	9.7

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

Asia Pacific equity markets gained in September on modest gains driven by North Asia and flow funds continuing strongly with investors moving capital out from Europe to Asia Pacific region. Australia outperformed, leading the gains for the region while Japan and the rest of Asia ex-Japan underperformed.

Real estate, healthcare and consumer staples were the best performing sectors. The energy sector trended higher on news with Organisation of the Petroleum Exporting Countries (OPEC) announcing plans to curb production while returns for gold prices remains range bound through the month. Financials, consumer discretionary, utilities and materials underperformed in the month of September.

Asia ex-Japan equities rose in September 2016, performing in line with most other emerging markets, and outperforming global markets as a whole. Despite market expectations of an interest rate hike toward the end of the year by the US Federal Reserve which should see capital outflows from the region, Asia ex-Japan markets conversely benefited from inflows as a result of capital outflows from Europe seeking yields and safety.

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.

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 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.

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 Japan index underperformed the broader index on investor concerns over the efficacy of Japanese monetary policy. The Bank of Japan shifted away from adhering to a rigid target for money supply expansion to controlling the shape of the yield curve as it keep benchmark rates steady to revive growth. Japanese retail sales continue to remain soft as both households and corporate retain a conservative approach to spending.

Australian equities outperformed in the month as the market attracted inflows with its low sovereign debt, monetary policy flexibility and high dividend yields. The Purchasing Managers' Index (PMI) declined to 51.4 from 52.0 in the previous month. The Reserve Bank of Australia is expected to put interest rates on hold for the remainder of the year after cutting rates in August.

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 in 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 discretionary, healthcare, energy and utilities sectors. We retain an overweight position in utilities as the valuation for sector remains attractive amidst strong secular growth in the sector. We are also overweight in energy given strong demand response as a result of low oil prices and improving global demand supply balance. We believe the longer term trend for the technology sector remain positive as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies but are tactically underweight currently due stretched valuation in the near term. We are also underweight on the materials sector due to concerns over incremental demand from China, which is experiencing slower growth and implementing reforms.

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

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