Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	2.8	6.6	14.1	2.5	5.6	23.6
MSCI Japan	1.8	3.1	9.9	-2.3	-0.2	27.2
MSCI AC Asia Ex-Japan	4.8	10.3	17.4	6.6	9.3	23.7
MSCI Australia	-0.7	4.9	16.4	4.9	11.4	12.7

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

Asia Pacific equity markets gained in August with strong fund inflows on the back of Brexit as global investors moved capital out from Europe. Global earnings revisions also turned positive after months of negative revisions resulting in risk on trades which historically benefitted Asia Pacific. Within the region, Asia ex Japan outperformed while Australia and Japan underperformed.

Discretionary, materials and technology were the best performing sectors as investors rotated into cyclical sectors at the expense of defensive sectors. The energy sector also outperformed as oil prices gained on the back of increased expectations that the September Organisation of the Petroleum Exporting Countries (OPEC) meeting will achieve success with production curbs. Unsurprising, defensive sectors such as Utilities, Telecommunications and Healthcare sectors underperformed in the month of August.

Asia ex-Japan equities rose in August as risk appetite returned to the financial markets and the region benefited from fund inflows as investors looked outside the developed markets for opportunities amid the political uncertainty arising from Brexit. Performances within the region were mixed with China leading the rally followed by Thailand and Korea while Philippines and Singapore being the only two countries to post losses. Economic indicators across the region were mixed with the official Chinese Purchasing Managers' Index (PMI) rising to 50.4 from 49.9 despite the private sector Caixin PMI dipping to 50.0 from 50.6. Industrial production and exports were generally weak across Asia while inflation picked up slightly in India.

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 lowered consensus numbers. 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 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.

The Japan index underperformed the broader index on investors' concerns over the efficacy of "Abenomics". Foreign capital continues to move out of the country but the market continues to be supported by government buying through exchange traded funds "ETF"s. The Japanese market had benefited earlier from a weaker yen and relatively favourable earnings revisions and we are now starting to see negative earnings revisions as a result of a stronger yen. However, economic data remains mixed with both retail sales and industrial production tracking below expectations.

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Australian equities also underperformed in the month. The recent macroeconomic releases were mixed with retail sales coming in below market expectations while the trade balance was better than expected. The Purchasing Managers' Index (PMI) reading went into contraction at 46.9 against 56.4 in the previous month. The macro outlook remains challenging, with weaker commodity prices continuing to be a headwind for the economy.

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 have upgraded to an overweight position in utilities recently as some selective value plays emerged. We have also increased our weights in energy given strong demand response as a result of low oil prices and improving global demand supply balance. We remain positive on the longer term trend for the technology sector as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies but have moved to a tactical underweight position currently due to stretched valuations 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.

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

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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