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EQUITIES	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	3 Yrs (%)
MSCI AC World	-5.6	-7.3	-0.4	-1.1	7.6
MSCI World	-5.3	-6.4	-0.1	-1.1	8.2
MSCI Emerging Markets	-8.0	-13.3	-1.9	-1.7	4.4
MSCI USA	-2.6	-1.1	5.6	3.6	27.5
MSCI Canada	-7.0	-10.3	-6.9	-5.9	-1.0
MSCI Europe	9.5	-13.6	-8.3	-7.8	-11.5
MSCI Japan	-4.5	-8.6	-1.8	-3.5	-14.0
MSCI Australia	-10.1	-11.9	-6.5	-6.0	13.2
MSCI AC Asia Ex-Japan	-6.3	-10.2	2.9	1.3	7.1
MSCI Latin America	-10.0	-17.7	-7.1	-6.4	-0.7
MSCI EMEA	-11.9	-18.1	-10.0	-4.7	0.8

Returns in Singapore dollars. Source: Bloomberg, 31 May 2012

An onslaught of disappointing economic data across major economies plunged equity markets into negative territory. Risk aversion was further heightened by the possibility of a Greek exit from the Euro zone and the contagion risk to the other peripheral European countries. As a result, the European market was one of the worst performing markets after EMEA and Australia. Meanwhile, China's increasingly weak economic data intensified worries over a possible hard landing. In contrast, the US market continued to hold up better in terms of both economic data and market performance. The MSCI USA Index fell by 6.4% in US dollar terms, making it the best performing market in the period under review. There was also a rotation of funds into defensive sectors such as Consumer Staples, Utilities and Telecommunications, away from the cyclical sectors especially Industrials and Materials.

Europe's problems worsened in May this year. The outcome of the Greek general election on 6 May signaled an uncooperative electorate that was frustrated with fiscal austerity and wanted to renegotiate the conditions of the second bailout. Consequently, the need for a second election, which will be held on 17 June, undermined the stability of the entire Euro zone. A Greek exit will increase contagion risk in the other peripheral countries where both sovereigns and banks would be threatened. Indeed, spreads on the peripheral European markets have widened again, with the Spanish and Italian benchmark 10-year government bond yields close to their pre-LTRO (Long Term Refinancing Operation) levels again.

Depositors have also started to move their funds from these peripheral European countries to safer markets in the core countries such as Germany. This is worrying as it could lead to bank failures if it becomes uncontrolled as in the case of UK's Northern Rock which collapsed in 2007. Meanwhile, the Spanish government's poor handling of the bailout of Bankia, the country's fourth largest bank, fuelled speculation that Spain would need to seek aid from the EC, IMF and ECB. At the time of writing, Spain will be given a loan of up to €100 billion to recapitalize its banks, but this is well above the initial estimate of €30 billion. Given the distressed real estate market, we believe that Spain remains at risk of eventually coming under EU's aid

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program. The deepening recession across Europe makes it tougher for European debtor nations to deleverage both at the state and banking levels. Germany's Purchasing Managers' Index ("PMI") fell again in May to 45.0 from 46.2 in April.

The US leading indicators are signalling that the US economic recovery is weakening but is not at risk of a recession. The pace of employment expansion moderated further in May, with US nonfarm payroll employment at over 69,000, which was below the market expectation of about 150,000. Meanwhile, the unemployment rate ticked up slightly to 8.2%. The flash US Manufacturing PMI fell to 53.9 in April from 56.0 previously, representing the weakest expansion in three months. However, we believe that the US economy's growth should continue to hold up better than that of many other economies. Although consumer and corporate confidence levels are weakening, they are well above 2011 levels. Household finances have been improving and the housing data is firming, with new home sales up by a better-than-expected 3.3% in April after a decline of 7.3% in March. Overall, the US 2012 GDP growth forecasts have been stable in contrast to those of Europe, which have seen continual downgrades. We expect the US economy to grow by around 2.0-2.5% in 2012.

Asian markets were similarly sold off, with the MSCI AC Asia ex-Japan Index dropping by 10% in US dollar terms. The sell-off was led by Indonesia, India, Thailand and China. Malaysia and Philippines were the most resilient. Citi's Asia Pacific Economic Surprise Index has fallen to minus 43, the lowest level since 25 January. This sell-off reflects Asia's vulnerability to a global economic slowdown. Intensifying growth concerns over China and India further dampened sentiment. Chinese data released in April, including power consumption, rail cargo volume and bank loans, all slowed sharply in recent months, hence stoking fears of a hard landing. China is unlikely to initiate a stimulus program that is on a similar scale as that rolled out in 2008 given the country's credit excesses. Generally, many Asian countries have room for some fiscal and monetary stimulus to cushion their economies. Moreover, some countries such as Indonesia have supportive urbanisation trends.

Latin America markets continued to underperform with the MSCI Latin America Index falling by 13.5% in US dollar terms. The region was hit by softening commodity prices and slower external demand. However, moderating inflation and healthy fiscal positions allow the governments to pursue counter-cyclical fiscal and monetary policies. Brazil, for example, has cut its benchmark Selic rate for the seventh time since August last year to a record low of 8.50% in May this year. The country has also embarked on fairly aggressive fiscal measures to jumpstart investment and consumption. There are some tentative signs that domestic demand should recover in the second half of this year given the strong wage gains in a tight labour market. We remain positive on Latin America given its growing middle class, underleveraged population and healthy government finances. For example, the region's debt to GDP ratio is at a reasonable level of 37.9%.

Our view of sub-par global GDP growth remains. Additionally, we expect central banks around the world to inject more liquidity into the system over the next several months to mitigate the fallout from the growing crisis in Europe and the rapidly slowing global economy. However, such liquidity injections will result in short-lived rallies and cannot solve the debt problem in Europe. The latter requires fiscal transfers and deep structural reforms in the peripheral European countries. In the meantime, markets will stay volatile and range-bound. Thus, our strategy remains unchanged. We continue to target quality growth and at reasonable prices. We continue to target our allocation towards more stable regions such as the US and more stable sectors (Consumer Staples, Healthcare and Telecommunications). We have been downsizing our exposure to the more cyclical sectors.

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Outlook and Strategy

	Policy	Change	Comment
US	Overweight	–	The Q1 2012 earnings season ended on a positive note with upward earnings revisions seen in April 2012. However, management guidance is becoming cautious with companies such as Cisco, Joy Global and Tiffany all giving negative outlook statements. Information Technology and Consumer Discretionary saw the biggest earnings per share ("EPS") upgrades while Energy and Materials have the poorest EPS revisions. Valuations in the US equity market remain attractive as Price-Earnings Multiple of 13.42x is below long-term average while Earnings Yield gap stays high. We continue to favour the US over other developed regions. **OVERWEIGHT**.
Europe	Underweight	–	Earnings downgrades continued in Europe as consumer and investment spending are affected by the sovereign debt problem. Earnings momentum remains negative with EPS growth projected at 3.6% in 2012 and 11.9% in 2013, compared with 7.4% and 9.7% respectively at the start of the year. Given the deepening economic recession in Europe, we believe that earnings estimates are too optimistic and have significant downside risks for 2012 and 2013 estimates. **UNDERWEIGHT**.
Asia (ex-Japan)	Overweight	–	Earnings momentum continues to stall in Asia with EPS growth estimates at 16.2% and 14.3% in 2012 and 2013 respectively, unchanged from a month ago. Asia remains vulnerable to the deepening European recession and the slowing China economy. Nevertheless, Asia continues to offer positive structural growth factors such as a burgeoning middle income class and growing urbanization, both of which should help support earnings. We have further increased our weights in Defensive sectors including Consumer Staples and Telecoms. **OVERWEIGHT**.
Japan	Underweight	–	Negative earnings revisions in Japan continue but at a moderating pace for FY 2012. The Bank of Japan extended its asset purchasing programme by ¥5 trillion which initially weakened the currency temporarily. Overall, however, we remain Underweight Japan given its less attractive longer-term growth profile. **UNDERWEIGHT**.

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	Policy	Change	Comment
Latin America	Overweight	–	Earnings momentum continues to moderate with EPS growth projected at 5.1% in 2012 and 12.2% in 2013. Although the region, especially Brazil, is not immune to a slowing Chinese economy, it continues to be supported by positive structural factors such as a healthy debt position, rising domestic consumption and growing urbanization. Moreover, the 2014 World Cup and 2016 Olympics will spur substantial infrastructure developments ahead of these major world events. **OVERWEIGHT**.
EMEA	Underweight	–	The EMEA (Eastern Europe, Middle East & Africa) outlook varies by region. Growth prospects in Eastern Europe remain uncertain owing to their close financial and trade links with Western Europe. The outlook in Africa and Middle East is clouded by growing political risks. **UNDERWEIGHT**.

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