Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-2.5	-1.4	5.3	-1.4	18.3	25.3
MSCI Far East Free Ex-Japan	-2.3	-0.5	5.8	-0.5	20.1	27.4
MSCI China	-4.2	-0.2	5.9	-0.2	30.5	29.5
MSCI Hong Kong	-3.6	-3.4	1.6	-3.4	11.1	23.0
MSCI India	-4.4	-8.7	0.6	-8.7	3.4	7.8
MSCI Indonesia	-7.5	-8.5	-2.6	-8.5	1.9	3.0
MSCI Korea	1.8	-2.4	7.6	-2.4	18.4	38.0
MSCI Malaysia	1.5	7.0	13.3	7.0	17.8	1.4
MSCI Philippines	-7.0	-13.2	-8.9	-13.2	-2.3	-15.7
MSCI Singapore	-2.3	0.8	9.3	0.8	15.3	13.4
MSCI Taiwan	1.5	6.6	5.1	6.6	15.4	28.1
MSCI Thailand	-2.2	7.1	15.5	7.1	27.3	33.9

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 March 2018.

Though Asia ex-Japan equities outperformed their global counterparts, Asian stocks followed the direction of US declines which were triggered by a technology selloff. The month saw the US Federal Reserve (Fed) hiking interest rates, and a risk-off sentiment crept in as trade tensions escalated between the US and China.

Sector performance across Asia ex-Japan markets saw a rotation away from the cyclical sectors. Materials, consumer discretionary, financials and the information technology sector sank into the red. The defensive sectors such as consumer staples, healthcare and utilities outperformed the market. Across markets, Korea, Malaysia, Taiwan and Thailand outperformed.

Global economic fundamentals across the world weakened slightly. The official Purchasing Managers' Index (PMI) for the US dipped to 59.3 from a record the previous month. Other major economies including the Eurozone, Japan and India also saw manufacturing numbers ticking down. Conversely, the manufacturing PMI in China rose to 51.5 from 50.6 as exporters shrugged off looming US trade tariffs.

Chinese equities meanwhile reacted negatively to the US-China trade spat and underperformed the benchmark. Consumer discretionary and industrials fared poorly, and information technology slumped after the Trump administration initiated a case against Chinese technology licensing practices. Other highlights during the month included a removal to the country's presidential term limits and a conclusion to the National People's Congress meeting announcing new reforms. The Hong Kong market saw a volatile month while Taiwan remained resilient on a positive outlook for the semiconductor sector.

Over in Korea, stocks were lifted by positive sentiment with a planned meeting between the US and North Korea, stoking hopes of denuclearisation in the North. In India, the NIFTY saw a weak month, weighed down by a looming domestic political campaign and fears of protectionist trade measures from the US.

Market performance in ASEAN was mixed. Malaysia registered gains during the month as the market typically maintains a defensive stance amidst any regional sell down. Reports surfaced that the country's Prime Minister Najib Razak could dissolve parliament in the coming weeks which would pave the way for a general election. Thailand outperformed regional peers with investors rotating into defensive sectors including healthcare, telcos, and consumer staples. Financials fell as with as Thai banks faced revenue pressures from slashed online transaction fees. Indonesia had all sectors in the red as market jitters surfaced from the US-China trade dispute. The Philippines witnessed the sharpest drop in the region over inflation concerns which came up above the central

Asia ex-Japan Equity

bank target, alongside a reluctance to hike rates. Singapore outperformed the index slightly, buoyed by optimism in the real estate sector.

Outlook and Strategy

The ongoing US-China trade tensions in March have rattled market sentiment. However, the economic impact should be limited for China. We have assessed that if the full impact of US section 301 is implemented, it would dent China's exports by just 1% and GDP by just over 0.1%. The theoretical market impact quite muted too. Just 1.3% of MSCI China's total revenues is exposed to the US. The semi-conductor sector bears the brunt of the potential tariffs, but its market weight is just 3%. In fact, the US stands to lose more from a trade war with over 4% of S&P500 companies' revenues exposed to China. Our base case is that the initial tariffs will not be fully implemented. Both sides know very well that they stand to lose in a trade war. The US is giving 60 days for public hearing before implementation and leaving the door open for further negotiations.

With better economic growth and corporate earnings, this has given more breathing room for the government to step up on economic rebalancing, financial deleveraging and reforms. The National Peoples' Congress in March concluded with a near unanimous endorsement of President Xi's new leadership with unlimited term and key appointments in the central bank and finance ministry that ensures continuity and stability in policy setting. With an improving macro outlook, stable political backdrop, and positive earnings revisions, we should expect China's rerating momentum to continue.

We are overweight on China where we favour cheap cyclicals and believe stock prices have not kept up with the structural and earnings improvement. We are also overweight on financials, particularly the banks. We expect corporate de-leveraging, profits recovery and consequently lower non-performing loans to drive a major re-rating for the banks. The large banks are trading below book value but with returns well above cost of capital and with improving earnings momentum. We are also overweight the materials sector. We see better capacity discipline in the sector as a result of government supply slide reforms continuing for the foreseeable future.

We are underweight on Hong Kong. The residential property market faces headwinds from rising interest rates and stretched affordability, even as tight demand and supply now are keeping prices elevated. Within property, we are underweight the residential segment, and prefer the office and retail landlords, given strong office rental trends and recovering retail sales.

We are currently underweight on Taiwan, given disappointment in iPhoneX sales and potential tariffs from Trump targeted at high technology components from China. Hence, Taiwan technology companies with significant manufacturing bases in China may be adversely impacted. Within Taiwan, we have positioned ourselves more in non-technology sectors like consumer and materials.

We maintain our underweight position in Korea. In the month of March, we are already starting to see some positive data points on DRAM prices driven largely by growing server demand. Month on month charges to DRAM and NAND prices are better than expected and this should be positive for Samsung Electronics and Hynix. Financials were also under selling pressure as we saw US Treasury prices retreat after a strong month in February. The valuation of Korean banks in general is still cheap and the sector remains relatively underowned.

While we maintain our constructive view on the Singapore market given the broad based economic growth momentum and relatively attractive valuation, we are mindful of the risks posed by the ongoing trade dispute between the US and China, which may have an adverse impact on open economies like Singapore. In Malaysia, as the General elections draw nearer, we have reduced our underweight position. For Thailand, while the economic growth outlook remains positive, valuations have caught up and we continue to keep the market as Neutral. In Indonesia, we maintain our Neutral stance as early signs of stronger economic growth are offset by consumption demand remaining depressed. We continue to stay underweight on the Philippines given the higher likelihood of rate hikes this year due to rising inflation and the weak peso.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 March 2018 unless otherwise stated.

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