Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	3.9	8.6	17.3	21.5	28.9	29.1
MSCI Far East Free Ex-Japan	3.6	9.0	17.1	21.5	29.9	28.8
MSCI China	7.4	14.0	22.6	27.6	40.7	39.2
MSCI Hong Kong	2.2	4.7	12.5	18.2	21.4	32.0
MSCI India	6.1	5.5	19.0	21.9	20.5	31.9
MSCI Indonesia	-2.2	2.4	12.2	10.0	12.5	16.7
MSCI Korea	1.3	8.9	17.4	23.8	31.8	24.6
MSCI Malaysia	-1.2	-1.6	6.3	6.9	4.0	-17.1
MSCI Philippines	0.7	0.8	5.9	8.7	-4.8	16.7
MSCI Singapore	3.8	7.3	11.8	18.1	22.0	7.9
MSCI Taiwan	1.3	6.9	14.2	18.2	29.8	43.0
MSCI Thailand	1.1	2.2	5.8	7.4	13.5	20.6

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 July 2017.

Asia ex-Japan equities rose in the month of July, outperforming global equities as markets digested sentiment that the US Federal Reserve (Fed) was pivoting to a more accommodative stance with weak US inflation data. Asian markets rallied amid a flurry of strong corporate earnings in the region and as gains oil and commodity prices signalled an improving outlook for the global economy.

Across markets, only China and India outperformed, while the rest underperformed. Amongst the sectors, energy rallied as the strongest performer with investors shifting capital into cyclicals that saw financials, real estate, materials, information technology outperforming. Underperformers include consumer discretionary, industrials, telecommunications and utilities. Consumer staples and healthcare fell into the red.

Despite the robust outlook globally, economic indicators for July mostly dialled back from the previous month. In the US, the manufacturing index dipped to 56.3 from the 2017 high of 57.8 recorded in June. China's official Purchasing Managers' Index (PMI) scaled down to 51.4 from 51.7, even as the private sector Caixin PMI registered the second month of increase to 51.1. India's PMI descended into contractionary territory, hitting an 8 year low, weighed down by the roll out a nationwide sales tax. Japan, Brazil and the Eurozone declined while UK manufacturing strengthened.

Sentiments for Chinese stocks were underpinned by stronger than expected economic data. The country's property sector continued to witness strong sales while data showed broad based strength in industrial production, retail sales and fixed asset investment, suggesting that growth momentum remained solid and stable. Hong Kong underperformed with weakness coming from Macau gambling names while the Taiwan index underperformed amid outflows from technology companies.

The Korea market underperformed with foreign investors selling down to take profit on technology names that rallied for over the past year. Over in India, the NIFTY outperformed, lifted by a favourable monsoon season and as the country embarked on single tax rate for good and services.

All ASEAN markets underperformed the Asia ex-Japan benchmark. Indonesian markets suffered as foreign investors rotated capital out of the country on weaker than expected consumer spending. Malaysia saw lacklustre performance with little positive news on the macro front. The Philippines managed to limp a tepid performance with martial law extended in the Mindanao region until year end. Thailand underperformed as a selloff in banking stocks offset gains from energy names. Despite printing the best returns for the region, Singapore underperformed with private residential prices falling for the 15th straight quarter.

Asia ex-Japan Equity

Outlook and Strategy

Asia is seeing improving returns on equity (ROEs) and upward revisions in corporate earnings after many years, led by cyclicals as global growth recovers. China's economic recovery looks to have stabilized with the PMI above 50 and the rebound in the producer price index (PPI) after many years in negative territory. Despite the Fed raising rates, the US dollar has weakened slightly as questions arise over the execution of Trump's fiscal stimulus policies and economic indicators point to a mild recovery. This has helped Asian currencies and markets.

Despite the strong run this year, Asian market valuations are still reasonable, trading at the mean level on a price-to-book basis, though slightly above mean on price to earnings. The strong performance in the first half of the year has largely been driven by earnings revisions rather than valuation expansion.

Despite relatively soft US economic data, President Trump's recent legal troubles and elevated valuations, the US market has remained resilient. China economic growth activity has remained resilient in spite of the authorities tightening monetary conditions to control financial leverage, as PPI reflation and the strong property market has started a virtuous cycle. We are still in the first year of earnings recovery after many years of suppressed profit growth. Hence, we remain constructive on Asian markets.

Within Asia, we are overweight on North Asia over South East Asia as the region is seeing stronger positive earnings momentum and cheaper valuations. We like Korea. The market is seeing strong positive earnings revisions led by technology and cyclicals. A new change in Korean leadership that seeks to restructure the Korean chaebols and more shareholder friendly policies by corporates also bodes well for a market rerating. We are also constructive on China, particularly in the new economy sectors like technology and consumer which are seeing strong positive earnings momentum and structural tailwinds as China rebalances from an investment driven to a more services driven economy. We remain neutral on Hong Kong. Property prices look to be peaking as affordability becomes stretched. Nonetheless, primary property sales continue to remain robust despite government policy measures to cool demand due to tight supply. Retail sales and Macau gross gaming revenues have been recovering after 2 to 3 years of decline. We are also positive on Taiwan. Technology continues to enjoy tailwinds ahead of the new iPhone8 launch and rising applications in cloud computing and artificial intelligence. Moreover, Taiwan corporates have strong free cash flow, balance sheets and high dividend yields. We remain with an underweight position in India due to its stretched valuations. Moreover, the new goods and services tax could cause some temporary disruption to economic activity and earnings momentum.

We are underweight on ASEAN. The region's valuation is relatively expensive and has weaker earnings momentum compared to North Asia. Within ASEAN, we reduced our exposure to Malaysia as indications that the upcoming election to be delayed. We are neutral on Singapore. Valuations are relatively expensive and we believe the Singapore banks' re-rating from reflation optimism has already played out. Singapore's economic growth could also likely moderate in the later part of the year after a strong first half. We are neutral in Indonesia. The country's trade surplus, foreign reserves and fiscal balance have improved on stronger resource prices and improved tax collection. However, consumption trends have been weak following a series of electricity tariff hikes. We are underweight on Thailand and the Philippines due to valuation concerns, mixed corporate earnings outlook and policy risk.

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

Important Notice & Disclaimers

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd ("UOBAM") and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. Please note that the graphs, charts, formulae or other devices set out or referred to in this document cannot, in and of itself, be used to determine and will not assist any person in deciding which investment product to buy or sell, or when to buy or sell an investment product. UOBAM does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. **You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.**

UOB Asset Management Ltd Co. Reg. No. 198600120Z