Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-0.4	4.6	11.5	28.9	27.6	35.0
MSCI Far East Free Ex-Japan	-0.2	4.9	12.2	29.6	28.0	36.8
MSCI China	0.5	6.0	20.9	41.2	36.7	47.9
MSCI Hong Kong	2.3	2.7	7.0	23.6	16.8	33.7
MSCI India	-2.0	2.0	6.0	23.4	24.4	19.3
MSCI Indonesia	-1.5	-1.9	-1.5	7.5	14.3	12.4
MSCI Korea	-1.0	9.9	9.9	33.5	37.6	49.5
MSCI Malaysia	0.7	1.4	0.8	9.7	11.3	-11.9
MSCI Philippines	-0.6	3.7	0.6	10.3	13.5	8.4
MSCI Singapore	2.7	6.8	10.8	25.3	24.2	15.4
MSCI Taiwan	-4.5	-1.5	5.9	18.8	18.0	36.7
MSCI Thailand	0.9	6.8	13.9	20.1	23.8	20.5

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 November 2017.

Asia ex-Japan equities slid downward in November, and underperformed global equities. Markets paused a record rally as investors locked in profits and priced in uncertainties including an investigation into Russian interference in the 2016 US Presidential election. Putting the brakes on Asian equities was also due to aggressive profit taking in technology and a rotation to other sectors such as global financials.

Across markets, India, Indonesia, Korea, Taiwan and Philippines fell into the red, while China, Hong Kong, Malaysia, Singapore and Thailand outperformed. The healthcare sector was the strongest performer. Other outperformers included consumer discretionary, consumer staples, and financials. Almost every other sector saw losses with industrials suffering the most.

The global growth continued to paint an overall picture of expansion. In the US, the economic momentum remained strong, even as the manufacturing index moderated down to 58.2. China's official Purchasing Managers' Index (PMI) inched upward to 51.68, although the private sector Caixin dropped slightly from the previous month. Japan rose to 53.6, the Eurozone climbed to 60.1 and India surged to 52.6.

China stocks rose during the month as policymakers issued guidelines on regulating the asset management business and opened up access to the financial services sector. Hong Kong outperformed the benchmark with the financial sector rallying and a rebound in Macau gaming. Taiwan was the biggest underperformer in the region. A technology selloff triggered by profit taking saw a rotation into other sectors including global financial names which investors positioned to possibly benefit from US tax reforms.

Korea stocks underperformed amid foreign investors who sold down on the technology sector into the end of the month. India sank into the red as the healthcare and materials sector weighed down on the NIFTY.

The ASEAN markets showed mixed performance for the month. Singapore was the best performer against the benchmark, as the open economy benefited from strengthening global external demand and a surge in manufacturing activity. Malaysia performed better than the benchmark on stronger-than-expected GDP growth for the third quarter and an appreciation of the ringgit ahead of anticipated interest rate hikes in 2018. Thailand outperformed with positive upside from exports, a rise in private consumption and broad based optimism from tourism. The Philippines retreated despite strong growth number for the third quarter and focused on a weak consumption and a decline in remittances from overseas workers. Indonesia tumbled with net foreign outflows and investors moved the country to an underweight position on fears of political uncertainties ahead of the 2019 general election.

Asia ex-Japan Equity

Outlook and Strategy

Asia's fundamentals have improved significantly this year. 2017 is just the first year of improving returns on equity (ROE) after 6 years of decline. Moreover, these improving ROEs have been achieved with rising margins and sales and lower corporate gearing. Furthermore, Asia's earnings revisions have outpaced global markets since the beginning of the year. In the 3 other periods that Asia's earnings revisions have outpaced global markets over the last 20 years, 2002, 2004 and post-November 2008, the Asian markets have outperformed global markets significantly for the next 18 months.

Despite the strong run year-to-date, Asian market valuations are still reasonable. Asia ex-Japan is now trading at the 10-year historical mean level on a price-to-book basis, though above mean on a price-to-earnings basis. On a global comparison, Asia ex-Japan's is at discount of over 20% to global markets average on price to earnings and price to book vs ROE. In the last Asian equities bull run in 2007, it traded as high as at an 18% premium to the global markets.

Foreign fund inflows into the regions have been strong for the second year in a row, but we believe the Asian markets still remain far from overbought. There had been sizeable outflows in August and September which removes some froth in the market before inflows resumed in October and November. Net foreign buying is just 0.4% of market capitalisation compared to well above 1% during previous period of Asian markets' euphoria.

Underpinning Asia's strong performance this year is North Asia, particularly China. Despite expectations of slowing economic growth in China, we are seeing improving macro and micro fundamentals in the markets. Industrial profits and corporate earnings have positively surprised significantly in 2017, helped by capacity rationalisation, improving utilisation and a rebound producer price inflation following the government's supply side reforms. China's rebalancing continues to accelerate with growth in consumption and services outstripping manufacturing and investments with further support from improving wage growth this year and consumer leverage. The debt to GDP build up has slowed down and corporates have begun to deleverage. Banks' non-performing loan rates are also improving with better loan mix and overall corporate profitability. As we see the macro risks subsiding and continued strong corporate earnings, China's historical discount to global markets should continue to narrow. Barring a catastrophic war with North Korea or sharp correction in the US market, the stage is set for Asian markets to continue their trend of outperformance. We continue to prefer North Asia over Southeast Asia and India on stronger earnings momentum and cheaper valuations. We have raised China to overweight from neutral. We keep our overweight position in Korea and remain underweight in India and Southeast Asia.

Within ASEAN, we are overweight on Thailand as we forecast economic growth to accelerate in the 4th quarter and consequently lead to improving corporate earnings. Net foreign inflows and government infrastructure investments should pick up in 2018. We are also overweight on Singapore. We expect economic strength to continue in 2018 after a robust 2017 as Singapore is a direct beneficiary of improving global economic growth. While valuations have reflected increased optimism, we believe consensus earnings upgrades could support further upside. We continue to be underweight on Malaysia due to the overhang from the delay in the general elections. We are neutral on Indonesia. Despite the benefit from higher commodity prices, the broader economy has remained lacklustre due to weak consumption and business spending while electricity tariff hikes had impacted consumption 2017. Political uncertainty ahead of the 2018 election has held back corporate investments. Nonetheless, there could be some recovery in consumption in 2018 as the government dishes out financial aid and improves job creation for the lower income class. We should also see some political clarity in the lead up to and after the 2018 elections. Indonesia has rarely underperformed 2 years in a row and so we could see the market catch up after a disappointing 2017. We remain underweight on the Philippines due to valuation concerns and weak corporate earnings. We are also seeing weaker trends in remittances from overseas and higher likelihood of rate hikes due to rising inflation and the weak peso.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 November 2017 unless otherwise stated

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