# Asia ex-Japan Equity

| Equities - Asia Ex-Japan | 1 Mth | 3 Mth | 6 Mth | YTD | 1 Yr | 3 Yrs |
|---|---|---|---|---|---|---|
| MSCI AC Asia Ex-Japan | 3.5 | 2.3 | 9.8 | 3.5 | 20.2 | 24.7 |
| MSCI Far East Free Ex-Japan | 3.7 | 2.8 | 10.8 | 3.7 | 21.5 | 23.8 |
| MSCI China | 4.1 | 2.6 | 14.7 | 4.1 | 22.6 | 27.8 |
| MSCI Hong Kong | 5.0 | 0.5 | 7.9 | 5.0 | 20.3 | 36.2 |
| MSCI India | 2.4 | -1.8 | 1.3 | 2.4 | 9.9 | 37.8 |
| MSCI Indonesia | -2.0 | -6.5 | 0.3 | -2.0 | 13.9 | 28.5 |
| MSCI Korea | 5.5 | 7.5 | 11.4 | 5.5 | 24.6 | 15.1 |
| MSCI Malaysia | 0.5 | -4.0 | -2.2 | 0.5 | -4.4 | -17.3 |
| MSCI Philippines | 2.7 | -3.7 | -10.1 | 2.7 | 3.6 | 30.0 |
| MSCI Singapore | 5.7 | 10.1 | 9.1 | 5.7 | 19.6 | 10.0 |
| MSCI Taiwan | 3.5 | 3.2 | 13.7 | 3.5 | 31.6 | 41.3 |
| MSCI Thailand | 1.5 | 6.1 | 7.2 | 1.5 | 25.4 | 33.5 |

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

Asia ex-Japan equities rose in January 2017, outperforming global equities and emerging markets, shrugging off concerns that a newly elected US President Trump would pursue isolationist policies which would dent global trade. Within developed markets, US stocks fell into the red for the month as investors priced in future uncertainties from Trump's executive order on an immigration ban which led to confusion and widespread protests at American airports.

Sector performance across Asia ex-Japan markets were mostly positive, with the exception of healthcare. Materials, real estate, and information technology outperformed. Consumer discretionary, consumer staples, energy, financials, healthcare, industrials, telecommunications and utilities underperformed. Across markets, India, Indonesia, Malaysia, Philippines and Thailand underperformed. China and Hong Kong, Korea and Singapore outperformed, while Taiwan was in line with the market.

Global leading economic indicators were mixed for January. China's manufacturing activity came down with the official Purchasing Managers' Index (PMI) ticking down to 51.3 from 51.4 the previous month while the private sector Caixin PMI slid to 51.0. PMI numbers across major economies, the Eurozone, US and India strengthened while UK declined.

Across the Greater China markets, materials was the best performing sector, buoyed by sentiments of a reflation trade. In China, the biggest underperformance came from the financials sector as banks lagged after Chinese authorities stepped up policy actions to reduce capital outflows from the country. Data for 2016 showed leverage kept growing and total credit to GDP ratio increased.

The Korea market outperformed for the month, driven by a rally in the technology sector as the price of display panels and semiconductors rose. A political scandal continues to weigh on consumer sentiment, amid efforts to raise chaebol reform to the top of political agenda. Over in India, the NIFTY underperformed after export numbers lagged.

Performance across the ASEAN markets were positive with the exception of Indonesia, as the timeline to elect a Jakarta Governor drew closer. Malaysian stocks lagged with underperformance in the defensive utilities and healthcare sector. Thailand underperformed slightly as oil and gas stocks benefitted from rising oil and commodity prices. Philippines outperformed on positive data including a recovery in remittances and sustained loans growth. Meanwhile Singapore emerged as the strongest performer for the month as investors anticipated rising interest rates would add upsides to the margins of local banks which comprise

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the lion's share of the index. An advance estimate of real GDP growth in the city state for the fourth quarter of 2016 also revealed better than forecasted numbers.

## Outlook and Strategy

Against expectations for global reflation and strength in US dollar, inflation in Asia is also expected to accelerate in 2017. January headline inflation has already rebounded in various countries including Indonesia, Thailand and Korea, led by energy and food prices. Central banks in Asia seem to have reached the tail end of the monetary easing cycle. Economic growth forecasts have been trimmed to more sustainable levels with stronger growth in Indonesia and Thailand.

Asian markets and currencies rebounded last month from the sell-down late last year after a Trump's victory, as expectations on his policies toward Asia appear to be overly negative. US growth recovery is usually positive for global cyclicals, US dollar earners, selected banks and financials in Asia. Valuations remain attractive, close to one standard deviation below the mean level on a price-to-book basis. Asian economies are also on better footing today compared to 'taper tantrum' in 2013. Current account positions have improved, except in China, Malaysia and Philippines. The key risk is the impact of US President Trump's trade policies on Asian exports.

In China, recent improvements in manufacturing activity provide some comfort that the slowdown in GDP growth from reform and economic restructuring is manageable. Regulators have been tightening monetary conditions to control financial leverage, particularly in the interbank funding market. We are neutral on China and favour technology, insurance and telecoms sectors which are witnessing stronger growth.

We maintain our cautious view on Hong Kong due to our negative outlook for the property sector. While January is usually as seasonally weak period for Taiwan earnings, sentiment has been lifted by positive outlook on new product launches. Korea is trimmed to neutral due to political uncertainty. India has been on an underweight as the cash liquidity crunch from demonetisation has negative impact on GDP in coming quarters.

In ASEAN, we are positive on Singapore as valuations are attractive and corporate earnings should post a mild recovery in 2017. We remain optimistic on Indonesia and Thailand as lower interest rates and improvement in confidence should flow through to spending and investment. The key risks are a disorderly capital outflow, currency volatility and worse-than-expected slowdown in China.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 January 2017 unless otherwise stated.

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