Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-1.3	-0.8	10.5	7.6	7.6	15.4
MSCI Far East Free Ex-Japan	-1.6	-0.6	11.2	8.4	8.4	14.2
MSCI China	-3.2	-1.4	13.6	3.2	3.2	15.9
MSCI Hong Kong	-5.5	-3.4	9.3	4.4	4.4	23.6
MSCI India	0.9	-2.4	4.4	0.6	0.6	31.2
MSCI Indonesia	6.3	-2.8	7.6	20.2	20.2	38.0
MSCI Korea	1.3	-1.0	11.2	10.3	10.3	1.8
MSCI Malaysia	1.4	-3.0	-4.2	-1.7	-1.7	-21.2
MSCI Philippines	2.9	-7.4	-10.7	-3.5	-3.5	27.6
MSCI Singapore	-0.9	2.1	3.3	3.3	3.3	-1.5
MSCI Taiwan	-0.7	3.1	17.1	21.7	21.7	33.4
MSCI Thailand	3.0	4.0	12.9	30.0	30.0	29.7

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 December 2016.

Asia ex-Japan equities slipped in December 2016, underperforming global equities. The US Federal Reserve (Fed) continued its hiking cycle with a rate hike during the month that saw interest rates rising by a quarter percentage point (0.25%) to 0.75%. Fixed income markets saw a rally in the US 10 year bond yield that dented emerging market (EM) performance across equities and bonds. Energy prices continued trending upward while Gold prices tumbled.

Sector performance across Asia ex-Japan markets were mostly in the red with the exception of the materials and energy sector. Across markets, China and Hong Kong underperformed, while India, Korea, Malaysia, Singapore, Taiwan and Thailand outperformed. Indonesia was the strongest performer for the month amid a revised rating outlook to positive from Fitch.

Global leading economic indicators strengthened for the month. China's manufacturing activity remained in expansionary territory even as the official Purchasing Managers' Index (PMI) dipped slightly to 51.4, while the private sector Caixin PMI rose to 51.9 from the previous month. PMI numbers across major economies, the Eurozone, UK and the US strengthened while India declined.

Across the Greater China markets, energy was the best performing sector, avoiding the losses that plagued all others which dragged down the index. The biggest underperformance came from the consumer discretionary and real estate sector with authorities in China taking steps to cool the property market.

The Korea market outperformed, reversing losses from the previous month as the South Korean parliament voted on President Park's impeachment and a handover of duties to the Prime Minister. Meanwhile in India, the NIFTY outperformed, reversing losses from a post Trump victory and as the country continued to face a demand slowdown from its demonization policy.

The ASEAN market as a whole outperformed the rest of the EM buoyed by Indonesia's strong performance. Equities turned positive before Christmas for Indonesia led by financials and consumer discretionary sectors, reversing losses in the aftermath of the US Presidential election outcome. The country also closed the second phase of its tax amnesty program. Meanwhile Philippines closed stronger for the month despite a weak performance for most of December. In Thailand, the uptick in global oil prices supported the energy sector while the government announced tax-related spending campaigns and cash handouts for low income earners.

Asia ex-Japan Equity

Outlook and Strategy

Against expectations for global reflation and strength in US dollar, inflation in Asia is also expected to rise. Economic growth forecasts have been trimmed to more sustainable levels with stronger growth in Indonesia and Thailand. Most Asian economies have reached the tail end of the monetary easing cycle.

Current expectations of the impact of US President Trump's trade policies on Asian exports appear to be overly negative. US growth recovery is usually positive for global cyclicals, US dollar earners, selected banks and financials in Asia. However, uncertainty is likely to cap short term market performance.

Asian markets and currencies have pulled back since Trump was elected. Valuations are attractive 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.

In China, the focus on reform and economic restructuring has led to a manageable slowdown in GDP growth. We are neutral on China and favour technology and telecoms sectors which are witnessing stronger growth.

We turn cautious on Hong Kong due to our negative outlook for the property sector, as well as Taiwan due to seasonally weak period for tech earnings. Korea is trimmed to neutral due to political uncertainty. India is also trimmed to underweight as the cash liquidity crunch from demonetisation has negative impact on GDP in coming quarters.

In ASEAN, we turn positive on Singapore as valuations are attractive and corporate earnings should post 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 30 December 2016 unless otherwise stated.

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