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	5.0	7.4	6.1	26.1	24.7
MSCI Far East Free Ex-Japan	2.3	4.7	7.9	6.1	26.2	23.5
MSCI China	2.7	3.5	8.2	6.9	30.7	28.9
MSCI Hong Kong	1.2	0.4	6.5	6.3	23.4	32.3
MSCI India	4.6	8.0	3.5	7.1	25.3	40.1
MSCI Indonesia	1.5	5.7	-0.7	-0.5	10.6	19.0
MSCI Korea	1.5	10.0	9.5	7.1	30.7	14.5
MSCI Malaysia	1.0	3.0	-4.0	1.5	-0.4	-19.2
MSCI Philippines	-1.9	3.6	-11.3	0.7	2.9	16.8
MSCI Singapore	1.7	6.5	11.6	7.5	19.0	9.2
MSCI Taiwan	3.7	6.6	14.4	7.4	32.4	45.3
MSCI Thailand	-0.4	4.2	1.8	1.1	21.3	27.8

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 February 2017.

Asia ex-Japan equities rose in February, outperforming global equities and emerging markets slightly, even as futures indicate a high probability that the US Federal Reserve (Fed) would hike interest rates in March. US stocks outperformed emerging markets (EM) amid signs of optimistic data including US manufacturing expansion and news of President Trump's broad plans to boost infrastructure spending.

Across markets, India, Taiwan and China outperformed, while Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand underperformed. With the exception of telecommunications services, all other sectors across Asia ex-Japan rose. Consumer discretionary, financials, real estate, healthcare, industrials, and materials outperformed. Meanwhile consumer staples, energy, IT and utilities underperformed.

Global leading economic indicators largely painted an optimistic picture in February. China's manufacturing activity picked up despite the Chinese New Year holiday period, as the official Purchasing Managers' Index (PMI) inched up to 51.6 from 51.3 the previous month while the private sector Caixin PMI jumped to 51.7. PMI numbers across major economies, the Eurozone, US and India strengthened while UK declined.

The China market outperformed emerging markets with more evidence of improving economic activity and moderating capital outflows from the mainland. Consumer discretionary was the best performing sector while the energy sector lagged. The China Securities Regulatory Commission announced it would allow a larger supply of IPOs to attract capital and boost market liquidity. The Taiwan markets continued its strong performance led by gains in the technology sector.

The Korea market underperformed for the month after manufacturing PMI fell and unemployment rates rose. The India market outperformed as growth concerns from demonetization receded. The Reserve Bank of India (RBI) kept rates on hold, signalling a neutral liquidity stance and an end to the easing cycle.

All ASEAN markets underperformed the benchmark. Indonesia saw the sixth consecutive month of outflows as foreign investors sold down equities. Voting for the next Jakarta governor did not result in a clear winner and the voting will proceed to a second round in April. Malaysia retreated despite some rebound in oil prices. Thai stocks also underperformed its peers with weak commodity prices while the Philippines showed the worst performance after a series of disappointing corporate earnings. Singapore emerged as the best ASEAN performer, lifted by better than expected fourth quarter economic growth

Asia ex-Japan Equity

Outlook and Strategy

Asia is a beneficiary of global growth recovery and reflation. Recent economic indicators have shown improvement, including purchasing manager indices (PMI) and exports led by an overall commodity price rebound. This should lead to improving earnings and profitability. Inflation has also picked up, putting an end to the monetary easing cycle for Asian central banks. However, we believe it is too early for monetary tightening as inflation is coming up from a low base and still within central banks' target ranges.

Despite the strong start to Asian markets, valuations remain reasonable, below the mean level on a price-to-book basis. Earnings revisions have also turned positive led by cyclicals in Korea and Singapore. 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.

As the Fed raises interest rates, we expect the US dollar to strengthen against Asian currencies, and this could be a short term headwind to Asian markets. However as global economic recovery broadens out, Asian economies should benefit and history has shown that there are many periods where Asian markets have performed well despite US dollar strength. We prefer export-oriented North Asian markets vs domestic-led ASEAN economies. The key risk is the impact of US President Trump's trade policies on Asian exports.

In China, recent improvements in economic activity and earnings growth, coupled with renewed focus on debt deleveraging give comfort that the slowdown in GDP growth will be manageable and asset quality risks will be contained. Rebound in the Producer Price Index (PPI) should be positive overall for industrial profits, but will pass through to higher consumer price inflation albeit to a smaller and manageable extent. Regulators have already taken early action to tighten monetary conditions to control financial leverage and prevent overheating. We turn positive on China and favour technology, financials, industrial, energy and materials which benefit from improving macro conditions.

We maintain our cautious view on Hong Kong due to headwinds for the property sector from rising interest rates and property tightening. Taiwan has been upgraded to neutral as the anticipation of a popular smartphone should benefit the component supply chain. We note however that first quarter corporate results tends to be seasonally weak.

We are positive on Korea as the economy is leveraged to global cyclical recovery and reflation themes. Exports and imports have exhibited improving trend, in line with upward revisions for corporate earnings. India remains underweight as the market has bounced on improving cash liquidity after a demonetisation exercise in previous quarter. We continued to expect a negative impact on GDP in coming quarters.

In ASEAN, we are positive on Singapore as valuations are attractive and corporate earnings should post mild recovery in 2017. Singapore is also leveraged to global economic recovery and in particular the beleaguered offshore and the marine sector should see stabilisation from recovery in oil prices. We are tactically underweight on Indonesia from political risks going into the April run-off for the Jakarta governor election. However we remain structurally positive on Indonesia which should benefit from higher commodity prices. We are neutral in Thailand which should see a broad-based recovery in GDP from government spending and consumption recovery. Philippines remains an underweight due to policy risks, in particular tax reform and labour laws which could impact corporate earnings.

All statistics quoted in the write-up are sourced from Bloomberg as at 28 February 2017 unless otherwise stated.

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