Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-4.2	3.0	7.7	1.1	25.1	30.2
MSCI Far East Free Ex-Japan	-4.0	3.4	8.5	1.8	26.4	32.6
MSCI China	-5.6	5.3	11.6	4.1	39.0	39.6
MSCI Hong Kong	-2.4	2.1	4.8	0.2	18.7	29.8
MSCI India	-5.8	-0.6	1.4	-4.5	14.5	9.2
MSCI Indonesia	-2.4	6.4	4.4	-1.1	15.0	14.8
MSCI Korea	-5.6	-2.1	7.6	-4.1	22.1	38.9
MSCI Malaysia	-0.6	10.6	12.2	5.4	19.6	-1.3
MSCI Philippines	-3.7	-2.8	0.8	-6.7	6.5	-7.2
MSCI Singapore	-1.0	3.4	10.4	3.2	20.5	17.4
MSCI Taiwan	-2.4	3.3	1.8	2.6	14.3	32.3
MSCI Thailand	3.0	13.9	21.6	9.5	35.3	35.9

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 February 2018.

Asia ex-Japan equities fell in February, underperforming global stocks. Asian stocks erased gains from the prior month as volatility levels spiked, alongside wild gyrations amid a global rout of equities. Investors sought justification to the sell-offs including a systematic correction in US stocks, a surge in the 10-year US Treasury yield, a nearing of US Federal Reserve (Fed) tightening measures and mounting risks from US fiscal deficits.

Global growth remained firm with manufacturing numbers signalling a continuing expansion. The official Purchasing Managers' Index (PMI) for the US hit a record 60.8, the fastest rate since May 2004, and the 18th straight month of expansion. Over in China the manufacturing PMI printed at 50.3 while the Caixin factory gauge rose to 51.6 from the previous month. Other major economies like Japan, the Eurozone and India saw manufacturing numbers declining slightly.

North Asia stocks including China weathered more significant declines. Chinese stocks tumbled despite a good set of earnings results and solid fundamentals. The defensive nature of consumer staples performed as the best sector. For Hong Kong, the index fared better than the benchmark led by banks on a good set of earnings results and the increasingly probability of a Fed rate hike. A technology driven sell-off dragged Taiwan stocks lower as tech giants reported weaker-than-expected sales revenue and earnings results.

Similarly in Korea, global flows rather than fundamental drivers sank equities into the red. With the exception of healthcare, all sectors remained in negative territory. India was the worst performing market as authorities widened the probe into the nation's biggest ever banking fraud case.

All ASEAN markets outperformed the benchmark. Thailand was as the only market to register gains for the month in Asia ex-Japan. Thai stocks were sheltered from the global rout in part due to demand from local retail investors and improving economic figures. Malaysia's defensive energy sector helped to cushion the global sell-down. Across the causeway, Singapore's losses were kept low as the three local banks, comprising the lion's share of the market, remained in the green. For Indonesia, the materials and utilities sector led the market. The country announced plans to reintroduce sugar tax and President Jokowi nominated a deputy governor at Bank Indonesia, as the sole candidate to replace Governor Agus Martowardojo whose term ends in May. Philippines registered as the worst performing market in ASEAN, as investors were spooked by a peso depreciation which was spurred by a record trade deficit.

Asia ex-Japan Equity

Outlook and Strategy

The recent market plunge in the first week of February led by the sell down in US markets may cause some jitters. However, we see this as a healthy pullback in the context of the surge over the past year. The correction is considered small by historical standards especially in the larger context of the present bull market. In fact, this cycle is unusual because it has been over 410 days since the US market has corrected by 5%, something that has not occurred in 40 years. Consider the time period from 2003 to 2007, where the S&P 500 had 7 corrections of 5% or more, and markets proved to be resilient as they surged to new highs each time after the corrections. Over in Asia during the same period, the bulls were even stronger as the market recovered from 3 corrections of about 20%.

Against the backdrop of a market plunge, the macro fundamentals remain strong. Data suggests that the synchronised global growth continues and inflation stays at benign levels, making only modest upticks in recent months. With the Fed on the path to hiking interest rates, long term interest rates have been increasing which steepens the yield curve and implies markets are pricing in improving prospects for long term structural growth. In addition, since a flattening yield curve foretells an impending recession, the current steepening of the yield curve signals the opposite effect and is a bullish indicator.

We believe there is room for global expansion to continue. In the US, inflation is contained, while the expansion is just getting started in Europe, with accelerating growth in developing regions. We believe equity valuations are attractive enough to withstand the moderate upward shift in risk free rates, and investors have been slow to shift their allocation to equities from fixed income in the current cycle. For now, we see any near term correction is an opportunity to buy during this bull market. We see good investment opportunities across all Asian markets. The region has seen improving returns on equity and upward revisions in corporate earnings for the first time in 2017 after 6 years of decline.

We are overweight on China. In China, we favour structural growth areas which benefit directly from China's rebalancing, such as the consumer sector which are seeing strong earnings momentum and healthcare which enjoys strong policy support. We are also overweight on financials in China. We expect corporate de-leveraging, lower non-performing loans and profits recovery to drive a continued re-rating for the banks. The insurers are seeing strong premium growth and benefit from higher bond yields. We are also overweight the materials sector. We see better capacity discipline in the sector as a result of government supply slide reforms to stay for the foreseeable future. We have further pared down technology to slightly a underweight position. The sector has rerated very strongly last year and it will be difficult to continue beating earnings expectations to the same degree as they achieved last year. Slower smartphone sales are also a headwind for hardware component suppliers. We have an underweight position in the defensive sectors such as telecoms and utilities.

We are neutral on Hong Kong. The property market may face some headwinds from a rising interest rates. However, the demand and supply balance remains tight. Hence, prices have remained resilient at lofty levels. Retail sales have stabilized and Macau gross gaming revenues continue to improve with the opening of new casinos on the Cotai strip and the recovery in VIP customers.

Going into the second quarter, we reduced exposure to Korea. While we believe that valuations in Korea are still attractive, the market has historically had a higher level of volatility versus other Asian markets, and we should expect a little more fluctuation of returns into the recent corrections. The fundamentals of our holdings are still intact for the year. We are overweight on financials which we think should benefit from higher net interest margins this year as we expect the Bank of Korea to hike rates later this year. We maintain overweight in Samsung Electronics despite the recent weakness as we believe that analysts are too pessimistic in their forecast of DRAM prices for the full year and too conservative in the volume growth and margin assumptions for NAND prices.

We tactically moved Taiwan to an underweight position. In Taiwan we also like financial companies which are underowned and trading at the lower end of historical valuations. Taiwanese financials should benefit from a rise in US bond yields and Fed rate hikes this year.

Asia ex-Japan Equity

Over in ASEAN, we expect the Singapore economy to continue to strengthen in 2018 after a robust 2017 as Singapore is a direct beneficiary of improving global economic growth. We believe consensus earnings upgrades could support further upside. We have reduced Malaysia to an underweight position ahead of the coming general elections. For Thailand, we expect economic growth momentum to continue and benefit consumption demand. In Indonesia, early signs of stronger economic growth should be positive to consumption and business spending. We are seeing weaker trends in overseas foreign worker remittances for the Philippines and higher likelihood of rate hikes in 2018 due to rising inflation and the weak peso; we remain underweight this market.

All statistics quoted in the write-up are sourced from Bloomberg as at 28 February 2018 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) 2732 1100
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