Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-0.2	5.2	12.3	23.0	22.3	34.7
MSCI Far East Free Ex-Japan	0.2	5.6	13.5	23.8	23.4	36.2
MSCI China	1.0	13.1	23.3	34.4	32.5	52.6
MSCI Hong Kong	-0.4	3.6	9.4	19.8	15.7	42.5
MSCI India	-3.7	1.4	2.7	16.5	13.6	21.5
MSCI Indonesia	-0.9	-3.5	4.6	8.6	5.6	17.3
MSCI Korea	1.7	1.2	9.9	23.6	24.5	33.4
MSCI Malaysia	0.5	0.5	4.0	8.7	5.5	-15.2
MSCI Philippines	2.9	1.4	7.2	9.4	1.4	10.8
MSCI Singapore	-1.3	1.7	5.5	15.8	18.2	9.1
MSCI Taiwan	-3.6	0.2	8.7	13.4	21.1	33.4
MSCI Thailand	3.0	9.0	10.2	15.9	20.5	19.7

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 29 September 2017.

Asia ex-Japan equities slipped in September, underperforming global equities. Asia's stocks reversed their longest winning streak with tensions between the US and North Korea ratcheting up and the US Federal Reserve (Fed) steering toward hawkish policy rhetoric as it announced its balance sheet reduction plans.

Across markets, China, Korea, Malaysia, Philippines and Thailand outperformed while Hong Kong, India, Indonesia, Singapore and Taiwan posted losses. Amongst the sectors, healthcare was the strongest performer. Consumer discretionary, real estate, and information technology outperformed. Other sectors in the red were consumer staples, energy, financials, materials, telecommunication services and utilities. Energy gained and gold prices tumbled as the US dollar strengthened.

Economic indicators generally painted a picture of overall global growth. In the US, the manufacturing index hit fresh highs of 60.8. China's official Purchasing Managers' Index (PMI) ticked up to 52.4, even as the private sector Caixin PMI slipped to 51.0, though both readings remain at healthy levels. Eurozone and Japan PMIs also hit year highs. India's PMI has rebounded from a contraction in July as it signalled expansion at 51.2 in August and September

The Asia ex-Japan index was mainly dragged down by India and Taiwan during the month of September. The India market saw the largest fund outflows during the year in August and September and monsoon disappointed with less rainfall than normal. Corporate earnings are still being revised down and the good and services tax rollout has likely disrupted economic activity. Meanwhile the Taiwan supply chain succumbed to profit taking after the launch on the new iPhone, a similar pattern in previous years. There was muted response to the new launch and potential component shortages could likely hamper production.

China outperformed. Real estate stocks were one of the strongest performers, and resisted the further tightening measures on resale properties which policymakers placed on 12 cities. Toward the end of the month, the country's central bank announced a targeted reserve ratio requirement cut for banks to boost lending to smaller firms. The Hong Kong market corrected. Real estate developers and infrastructure names were impacted by the increasing probability of a Fed rate hike later in the year. The Korea market outperformed as the IT and healthcare sector lifted the index.

ASEAN markets showed a mixed performance. The Thai markets continued to climb upward after breaking a resistance level the previous month. Broad macro data signalled optimism for the economy as exports and private consumption jumped. Philippine equities set a new high for the month as it cheered a tax reform and a 2018

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budget approved by the Senate Ways and Means Committee. Consumption related names rallied on expectations of higher disposable income. Malaysia outperformed as economists forecast that growth would accelerate. Indonesia stocks underperformed the index as foreign selling accelerated. The country faces a slow execution of infrastructure projects. Consumption remains weak and property sales slow despite the tax amnesty program. The Singapore bourse underperformed despite the strongest expansion in manufacturing growth since 2014 and stabilizing real estate prices.

Outlook and Strategy

Asia continues to see improving returns of equity (ROE) for the first time in 6 years and upward revisions in corporate earnings that outpace global markets. Moreover, these improving ROEs have been achieved with rising margins and sales and lower corporate gearing. In 3 other previous periods over the last 20 years that Asia's earnings revisions have outpaced global markets, 2002, 2004 and post November 2008, the Asian markets had outperformed global markets significantly for the next 18 months. Despite the Fed raising rates, the US dollar has remained weak as the US economic recovery remains mild and inflation trends remain soft. This has helped Asian currencies and markets.

Despite the strong run year to date, Asian market valuations are still reasonable, at the 10 year historical mean level on a price-to-book basis, though above mean on price to earnings. Foreign fund inflows into the regions have been strong for the second year in a row, but the Asian markets still remain far from historical overbought levels, with net foreign buying just 0.3% of market capitalization.

Barring a catastrophic war in the Korean Peninsula 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. However, despite the regions' robust fundamentals, we are tactically paring down our equity exposure, given rising geopolitical tensions in the Korean Peninsula. Hence, we cut our overweight position in Korea to neutral, remain underweight on Southeast Asia and India, and hold more cash now in our portfolios in anticipation of more market volatility.

Hong Kong and China continue to seeing improving ROEs and upward revisions in corporate earnings. We expect economic growth in China to be stable leading up to the National Party Congress in October. The PMI, Producer Price Index (PPI) and industrial profitability continue to show improvement in the latest August and September data. There may be some uncertainty about economic policy direction with respect to the extent of tightening and deleveraging the government wants to push through. This should be clarified during the Central Economic Work Conference in November. Nonetheless, we do not expect the government to make drastic changes from the status quo, which is striking a balance between stable growth and gradual financial deleveraging of the corporate sector.

The Hong Kong property market may face some headwinds from a rising US dollar and interest rates. However, the demand and supply balance remains tight. Property prices and primary sales continue to remain robust despite government policy measures to cool demand. Retail sales have stabilised and Macau gross gaming revenues continue to improve with the opening of new casinos on the Cotai strip and the recovery in VIP customers.

Within ASEAN, we have upgraded Thailand to an overweight positioning since September as we believe Thai corporate earnings are showing quarterly improvement, and should remain strong for the fourth quarter of 2017. We have reduced our exposure to Malaysia over possible delays to the upcoming election. We are neutral on Singapore. Valuations are relatively expensive and we believe the Singapore banks' re-rating from reflation optimism has already played out. Singapore's economic growth could also likely moderate in the later part of the year after a strong first half. We are neutral on Indonesia. The country's trade surplus, foreign reserves and fiscal balance have improved on stronger resource prices and improved tax collection. However, consumption trends have been weak following a series of electricity tariff hikes. We have an

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underweight position in the Philippines due to valuation concerns, mixed corporate earnings outlook and policy risk.

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

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UOB Asset Management Ltd Co. Reg. No. 198600120Z