Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	1.4	6.6	16.1	23.2	24.8	29.7
MSCI Far East Free Ex-Japan	1.7	6.9	16.5	23.6	25.7	30.1
MSCI China	4.3	14.1	24.5	33.2	34.8	44.6
MSCI Hong Kong	1.8	4.2	13.2	20.3	20.6	35.4
MSCI India	-0.7	4.0	13.0	21.0	17.0	26.6
MSCI Indonesia	-0.3	0.4	10.2	9.6	9.4	17.3
MSCI Korea	-1.9	0.0	13.5	21.5	24.6	22.8
MSCI Malaysia	1.2	-0.6	6.6	8.2	2.3	-17.4
MSCI Philippines	-2.2	-3.0	5.6	6.3	-6.4	10.4
MSCI Singapore	-0.6	3.8	9.2	17.4	21.9	8.4
MSCI Taiwan	2.0	7.5	12.3	20.6	28.4	39.8
MSCI Thailand	4.7	6.6	11.3	12.5	13.2	19.2

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 August 2017.

Asia ex-Japan equities rose in the month of August, outperforming global equities. Strong gains in commodity producers led markets higher, shrugging off concerns over a cauldron of tensions with North Korea. A meeting of central banker at Jackson Hole provided little clarity for investors into the future timing of US Federal Reserve (Fed) and European Central Bank (ECB) monetary tightening.

Across markets, China, Hong Kong, Taiwan and Thailand outperformed with India, Indonesia, Philippines and Singapore posting losses. Amongst the sectors, materials were the strongest outperformer with base metals rallying hard on optimism over the outlook for higher supply and demand. Other outperformers included energy, real estate, consumer staples and information technology. Telecommunications services performed in line with the market. Consumer discretionary, healthcare, industrials and utilities fell into the red.

Economic indicators for August generally strengthened across the board, suggesting global growth is tracking a bullish recovery. In the US, the manufacturing index for August hit 58.8, the highest level year-to-date. China's official Purchasing Managers' Index (PMI) ticked up to 51.7, with the private sector Caixin PMI strengthening to 51.6. India's PMI rebounded from a contraction as it signaled expansion at 51.2 in August. Over in Europe, manufacturers saw the index up to 57.4 amid an economy with job creation.

Chinese stocks saw its consumer staples sector surging on higher volumes. The IT sector advanced with the solid performance of an e-commerce giant, and the bulk of company earnings on the index either met or exceeded analyst expectations. The Li Keqiang index, a weighted proxy for the world's second largest economy, rose to levels seen in mid-2013. Though Hong Kong outperformed the index, it lagged behind China even as companies presented good earnings results and a tightening labour market.

Geopolitical tensions over North Korea spilled over into South Korean markets as they sank in August. The US dialed up its provocative rhetoric after the hermit kingdom fired missile over Japan. Other negative headlines reported the jail sentencing of an heir to a large business empire. For India, the NIFTY underperformed, reversing returns from the previous month.

With the exception of Thailand, all ASEAN markets underperformed the benchmark. Thai markets which lagged in previous months gained momentum in August on net foreign buying and gains of large cap stocks. During the month, an arrest warrant was issued for former Prime Minister, Yingluck Shinawatra, after she failed to attend a hearing. Numbers reported for second quarter growth came in stronger than anticipated. Indonesia continued another month of underperformance amid a new economy policy package that was unveiled to create a special investment task force in guiding prospective investors. Malaysia underperformed slightly despite headline GDP

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growth surprising on the upside. In Manila, the central bank governor indicated he was comfortable with a weaker currency amid a rally of Asian emerging market currencies which has left the Philippine peso out. Singapore markets were dragged lower with all sectors booking losses as economists forecast slower manufacturing growth for the city-state.

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 have 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 2nd 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.

Within ASEAN, we are upgrading Thailand to an overweight positioning as we believe Thai corporate earnings are showing quarterly improvement, and should remain strong for Q4-2017. We have reduced our exposure to Malaysia as indications that the upcoming election to be delayed till next year. We are neutral in 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 are underweight on the Philippines due to valuation concerns, mixed corporate earnings outlook and policy risk.

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