Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	0.6	4.2	11.1	6.8	7.7	19.0
MSCI Japan	0.2	5.5	8.8	3.1	3.5	24.0
MSCI AC Asia Ex-Japan	0.0	2.3	12.8	9.0	9.2	16.7
MSCI Australia	3.7	6.4	11.6	11.6	16.0	12.4

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

Asia Pacific equities gained in November 2016, underperforming global markets while avoiding losses that plagued the emerging markets. Australia outperformed even as the AUD depreciated against the USD. Investors shifted capital to developed markets after a Trump victory that jolted the greenback higher on optimism of planned fiscal expansion.

Financials emerged as the best performing sectors amid other outperformers which only saw modest gains including materials, energy and industrials. The financials sector rose on expectation that rising interest rates would bolster net interest margins while materials stayed buoyant on bets of a recovery in global demand. Energy prices extended gains after OPEC countries agree on output cuts to supply and gold prices slumped as demand for the bullion rescinded. All other sectors underperformed on a cautious stance ahead of an anticipated rate hike from the US Federal Reserve (Fed).

For the month of November, investors scaled back on Asian equities, diverting capital and optimism to US stocks on the back of an appreciating US dollar and solid economic data pointing toward a rate hike from the Fed in December.

Across the Greater China markets, gains were led by names from the mainland with strong rallies in the materials and industrials sector. Strong copper commodity prices and capacity reductions led to materials as the top performer while industrials increased from higher freight rates, strong new orders and new machinery sales.

Singapore was the only in the ASEAN market to outperform post US elections while Thailand managed to avoid losses despite an emerging markets outflow. All other markets including Indonesia, Malaysia and Philippines meanwhile suffered as a capital flight into the US erased much of gains made earlier prior to the US election outcome.

The Korea market underperformed as the political scandal surrounding President Park continued to unfold and as US protectionist sentiment weighed negatively on auto part exports. Over in India, the NIFTY underperformed with a demonetisation policy culminating in a liquidity squeeze and shocks to the country's money supply.

The Japan index underperformed the broader index but outperformed the rest of Asia. Amid a weakening Yen on dimmer growth prospects for trade with protectionist US sentiment, recovery in the economy remains weak on limited wage growth and a cautious sentiment on spending.

Australian equities outperformed in the month bolstered by financials, energy and utility stocks. The Reserve Bank of Australia kept the cash rate unchanged while numbers for GDP in the third quarter were revised upwards with an increase in corporate profits driven by financial profits. Retails sales rose above expectations and unemployment rates ticked down.

Asia Pacific Equity

Outlook and Strategy

We believe that Asia Pacific markets continue to offer exciting investment opportunities for growth investors over the long term. Valuations for Asia Pacific equities are attractive. However, the aggregate market performance continues to be challenged due to slower economic growth, tighter liquidity conditions and potential headwinds to corporate earnings. Growth within the region remains uneven and fundamental sector/country and stock selection will remain crucial.

The current positioning of the Asia Pacific strategy is to be overweight on Asia ex-Japan and Australia. The position is funded from an underweight on Japan. This is a result of bottom-up securities selection and does not necessarily reflect our view on the respective regions. The overweight position in Asia ex-Japan is mainly due to the relative attractiveness of Indonesia and India financials against the rest of the region. Similarly, the underweight position in Japan reflects our concern on the operating prospects of Japanese financial companies.

In terms of sector allocation, our strategy is to be overweight on the financials, healthcare and energy sectors. We are overweight on energy given strong demand response as a result of low oil prices and improving global demand supply balance. Healthcare is another sector that we like which should continue benefit from the increasing wealth of the population and ageing demographical trend in the region. We believe the longer term trend for the technology sector remain positive as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies but are tactically underweight currently due to stretched valuations in the near term. We are also underweight on the materials sector due to concerns over incremental demand from China, which is experiencing slower growth and implementing reforms.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 November 2016 unless otherwise stated.

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