Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	2.3	3.7	10.4	2.3	19.0	26.7
MSCI Japan	0.7	3.1	10.5	0.7	14.4	29.4
MSCI AC Asia Ex-Japan	3.5	2.3	9.8	3.5	20.2	24.7
MSCI Australia	1.7	8.8	10.8	1.7	27.5	23.8

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 January 2016.

Asia Pacific equities gained in January 2016, outperforming both global markets and the emerging markets (EM), shrugging off concerns that a newly elected US President Trump would pursue isolationist policies which would dent global trade. Within the region, Australia and Japan underperformed and Asia ex-Japan outperformed.

Materials emerged as the best performing sector amid signs of higher demand for metals in China. Other outperformers included energy, industrials, information technology and telecommunication services. Healthcare underperformed clouded by woes over drug pricing issues. Real estate, utilities, consumer staples, consumer discretionary and financials also underperformed. Gold posted positive returns in January while Energy retracted.

Across the Greater China markets, materials was the best performing sector, buoyed by sentiments of a reflation trade. The biggest underperformance came from the financials sector as banks lagged after Chinese authorities stepped up policy actions to reduce capital outflows from the country.

China’s manufacturing activity saw a decline with the official Purchasing Managers’ Index (PMI) ticking down to 51.3 from 51.4 the previous month while the private sector Caixin PMI slid to 51.0. Chinese authorities stepped up policy actions to reduce capital outflows from the country. Data for 2016 showed leverage kept growing and total credit to GDP ratio increased.

Performance across the ASEAN markets were positive with the exception of Indonesia, as the timeline to elect a Jakarta Governor drew closer. Malaysian stocks lagged with underperformance in the defensive utilities and healthcare sector. Thailand underperformed slightly as oil and gas stocks benefitted from rising oil and commodity prices. Philippines outperformed on positive data including a recovery in remittances and sustained loans growth. Meanwhile Singapore emerged as the strongest performer for the month as investors anticipated rising interest rates would add upsides to the margins of local banks which comprise the lion’s share of the index. An advance estimate of real GDP growth in the city state for the fourth quarter of 2016 also revealed better than forecasted numbers.

The Korea market outperformed for the month, driven by a rally in the technology sector as the price of display panels and semiconductors rose. A political scandal continues to weigh on consumer sentiment, amid efforts to raise chaebol reform to the top of political agenda. Over in India, the NIFTY underperformed after export numbers lagged.

The Japan index underperformed the broader index and the rest of Asia with data providing a mixed economic picture. Industrial production rose and improving export numbers have aided a modest recovery even as household spending fell and wage growth remains tepid.

Australian equities underperformed in the month, dragged down by REITS and industrials. Inflation came in weaker than expected while trade data swung into surplus for the first time since 2014. Retails sales fell slightly short of expectations and unemployment rates rose.

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 31 January 2017 unless otherwise stated.

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