Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	3.9	5.7	12.2	3.9	24.0	38.3
MSCI Japan	2.4	4.3	11.7	2.4	16.8	38.7
MSCI AC Asia Ex-Japan	5.5	6.9	13.9	5.5	33.6	38.9
MSCI Australia	0.6	4.2	5.4	0.6	11.7	28.5

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 January 2018.

Asia Pacific equities rose in January outperforming the broader global market index. Within the region, Asia ex-Japan outperformed while Japan and Australia underperformed.

The energy sector led gains for the month as winter temperatures in the Northern hemisphere continued to set new lows. Outperforming sectors included financials, real estate, and information technology. Healthcare was in line with the market while the underperformers were consumer discretionary, consumer staples, industrials, materials, telecommunication services and utilities.

Australia equities underperformed the index despite positive data including business confidence which strengthened to the highest level, a labour market which expanded and retail sales that increased. Healthcare and technology stocks were the best performers while utilities lagged.

China stocks registered stellar returns against the benchmark on positive fundamentals including better-than-expected economic growth numbers for 2017. Financials were the best performing sector as corporate deleveraging and a recovery in bank profit recovery drove upward re-ratings. Taiwan outperformed as an improving outlook for the semiconductor sector supported a technology rally. Hong Kong underperformed despite the Hang Seng Index climbing to the highest levels in over a decade.

Korean equities underperformed over concern of weakening handset demand and production cuts which weighed on technology components. For India, the NIFTY underperformed as selling pressures hit the telecommunications sector.

The Japan index underperformed even as manufacturing activity climbed to a four year high. Data showed the country's exports rose for the 2017 year while the central bank expressed confidence that inflation was gradually rising toward its target of 2%.

Overall, the ASEAN benchmarks underperformed. Thailand was the best performer from gains in energy names and an upward revision in economic indicators. Malaysia surged ahead of the benchmark amid financial names which benefitted from an increase in interest rates. Singapore outperformed with industrials and financials leading higher while telecoms and consumer discretionary lagged. Despite printing new highs, Indonesian stocks paled against the rest of the Asian peers. The country announced a new tax on e-commerce and its trade balance fell into deficits on rising oil and gas imports. The Philippine market sank into losses alongside peso weakness against the US dollar, inflation concerns and potential negative impact from potential tax hikes.

Asia Pacific Equity

Outlook and Strategy

We remain positive on the outlook for Asia Pacific equities this year. We believe that a near term correction in the markets are healthy and a good opportunity to re-enter the markets for those who have missed the earlier rally or have taken profits along the way. Our views are underpinned by what we see as healthy growth in the major developed economies and in emerging economies like China.

During the month we have made some adjustments to the portfolio. We have reduced our underweight position in Japan and are now selectively overweight on sectors such as Japanese REITs (which we see value) and consumer staples (where the growth rates of some of the companies should see higher growth than peers). With the recent correction we will also be taking the opportunity to add to other sectors that have been sold down despite good growth prospects in the coming years. In addition, we have moved our overweight position in Australia to a tactical underweight in the short term. We believe that stocks in the materials sector had a good run and should see a short term correction before resuming its long term growth path.

In the rest of Asia, we have increased our weights in Korea which is one of the cheapest markets in Asia and reduce our substantial overweight positions in ASEAN financials after their stellar performance in 2017 and in January 2018. We have turned slightly cautious in the technology sector especially on the news of slower than expected handset demand reported by Apple and major Chinese handset players. We are taking selective exposures to specific areas in software companies rather than hardware companies that have done well for the past few years. These include companies that are involved in gaming or ecommerce for instance.

With the latest portfolio adjustments, we remain confident that Asia Pacific equities should continue to benefit from the long term growth prospects offered by Asia-Pacific companies.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 January 2018 unless otherwise stated.

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