Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	0.6	2.9	13.7	7.4	7.4	19.4
MSCI Japan	2.1	6.1	17.1	5.3	5.3	24.1
MSCI AC Asia Ex-Japan	-1.3	-0.8	10.5	7.6	7.6	15.4
MSCI Australia	3.1	6.7	17.1	15.1	15.1	17.1

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

Asia Pacific equities gained in December 2016, underperforming global markets but outperforming the emerging markets. Australia outperformed alongside the developed markets (DM) as pessimistic sentiments of a contraction in the country's economy and consumer confidence were offset by rallies in the commodities and oil sector.

Energy and materials emerged as the best performing sector while others showed only modest gains compared to the benchmark. Energy prices extended gains with the looming OPEC production cut while gold lost its lustre after interest rates and yields moved higher after a rate hike from the US Federal Reserve (Fed). Other outperformers included financials, telecommunication services and utilities. Real estate and IT underperformed.

Asia ex Japan equities rose in December amid the Fed continuing its rate hike cycle during the month on the back of strong economic data. Markets are expecting the central bank to raise interest rates three times for 2017. Fixed income markets saw a rally in the US 10 year bond yield that dented emerging market (EM) performance across equities and bonds.

Across the Greater China markets, energy was the best performing sector, avoiding the losses that plagued all others which dragged down the index. The biggest underperformance came from the consumer discretionary and real estate sector as authorities in China took steps to cool the property market.

The ASEAN market as a whole outperformed the rest of the EM buoyed by Indonesia's strong performance. Equities turned positive before Christmas for Indonesia led by financials and consumer discretionary sectors, reversing losses in the aftermath of the US Presidential election outcome. The country also closed the second phase of its tax amnesty program. Meanwhile Philippines closed stronger for the month despite a weak performance for most of December. In Thailand, the uptick in global oil prices supported the energy sector while the government announced tax-related spending campaigns and cash handouts for low income earners.

The Korea market outperformed, reversing losses from the previous month as the South Korean parliament voted on President Park's impeachment and a handover of duties to the Prime Minister. Meanwhile in India, the NIFTY outperformed, reversing losses from a post Trump victory and as the country continued to face a demand slowdown from its demonization policy.

The Japan index outperformed the broader index and the rest of Asia as foreign investor appetite returned with the Yen depreciating against the stronger dollar. Data showed that the trade surplus widened with a pickup in exports that was bolstered by yen weakness.

Australian equities outperformed in the month bolstered by utilities, REITS and energy. The Reserve Bank of Australia keeping the cash rate unchanged while numbers for GDP in the third quarter showed a contraction. Retails sales came in 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 December 2016 unless otherwise stated.

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

Important Notice & Disclaimers

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd ("UOBAM") and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. Please note that the graphs, charts, formulae or other devices set out or referred to in this document cannot, in and of itself, be used to determine and will not assist any person in deciding which investment product to buy or sell, or when to buy or sell an investment product. UOBAM does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. **You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.**

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