Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.7	4.8	9.2	4.0	24.6	26.8
MSCI Japan	0.6	3.5	9.2	1.4	20.1	31.6
MSCI AC Asia Ex-Japan	2.5	5.0	7.4	6.1	26.1	24.7
MSCI Australia	3.3	8.4	15.3	5.1	34.2	19.9

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 February 2017.

Asia Pacific equities gained in February 2017, underperforming against both global markets and the emerging markets as concerns arose that the US Federal Reserve (Fed) would hike interest rates in March. Within the region, Australia outperformed, while Asia ex-Japan and Japan underperformed.

Financials and healthcare tied for the best performing sector. The former surged after an executive order from Trump indicated plans to relax Dodd- Frank measures. Other outperformers included consumer staples, real estate and utilities. Consumer discretionary, energy, industrials, information technology, and materials underperformed, with telecommunications as the biggest laggard. Gold rose in February while Energy was little changed.

Across the Greater China markets, consumer discretionary was the best performing sector while the energy sector performed the worst. China's manufacturing activity picked up despite a Chinese New Year holiday period, as the official Purchasing Managers' Index (PMI) inched up to 51.6 from 51.3 the previous month while the private sector Caixin PMI jumped to 51.7. The China Securities Regulatory Commission announced it would allow a larger supply of IPOs to attract capital and boost market liquidity. Over in Taiwan, the index continued its strong performance especially with gains from companies that are in the components supply chain within the technology space.

All ASEAN markets underperformed the benchmark with the exception of Singapore that was in line with the market. Indonesia saw the sixth consecutive month of outflows as foreign investors sold their holdings in equities. Malaysia underperformed even as oil prices rose while its neighbor Singapore saw its currency lifted by an appreciation against the US dollar. Thai stocks significantly underperformed its peers with weak commodity prices and the Philippines showed the worst performance in the region as the peso fell to a 10 year low against the greenback.

The Korea market underperformed for the month after manufacturing PMI fell and unemployment rates rose. With India, the NIFTY outperformed as growth concerns from demonetization receded. The Reserve Bank of India (RBI) kept rates on hold, signalling a neutral liquidity stance and an end to the easing cycle.

Japan underperformed the broader index and the rest of Asia after posting a wider than forecasted trade deficit owing to declining auto exports. The prospect of rising protectionism continues to cloud the outlook even as the country began new talks on trade and investment with the US following Trump's withdrawal from the Trans-Pacific Partnership.

Australian equities led gains for Asia Pacific as it bounced back to outperform the index in February thanks to consumer staples and banks. Inflation was little changed as economists describe rates to be at low levels. Trade data rose to new highs after registering a surplus for the first time in the previous month since 2014. Retails sales rose accompanied by unemployment rates that ticked downward slightly.

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, technology 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. We believe the longer term trend for the technology sector remains positive as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies. We are also underweight on the materials sector due to concerns over incremental demand from China, which is experiencing slower growth and implementing reforms.

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