Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.9	-3.8	1.8	-0.1	13.9	23.5
MSCI Japan	1.9	-1.4	2.8	0.9	13.5	25.1
MSCI AC Asia Ex-Japan	1.7	-4.9	1.9	0.4	17.8	23.2
MSCI Australia	3.4	-4.8	-0.8	-4.2	0.8	16.6

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 April 2018.

Asia Pacific equities underperformed the broader global market index slightly as investors digested the implications of 10-year US Treasury (UST) yields breaching the 3 percent mark. The month was punctuated by noteworthy headlines including a conciliatory stance between the US and China on trade issues and an unprecedented meeting between the leaders of two Koreas.

Amongst the sectors, energy outperformed as falling US stockpiles and Middle East production cuts stoked gains in oil. With the exception of consumer discretionary, healthcare, and technology which fell into the red, all sectors outperformed. Within the region, Japan performed in line, Asia ex-Japan underperformed, and Australia outperformed.

Australian equities outperformed led by strong gains in energy and materials. Unemployment was unchanged from the previous month, inflation numbers were soft for the first quarter while trade data showed a surplus for the month of February.

Though the leaders of US and China made attempts to diffuse trade tensions, investors remained cautious on the second largest economy and stocks underperformed. Concerns over rising UST yields also dented market performance, alongside downgrade risks from large cap internet names. During the month, the central bank trimmed the reserve requirement ratio for banks to reduce funding costs. Taiwan markets dropped with low margins from mobile handset suppliers in the tech sector. Over in Hong Kong, local banks and Macau casinos led the index to outperform.

In Korea, the index outperformed the broader market thanks to solid tech earnings, strong retail support and perception that Korean companies would benefit over closer relations over the long term between the two Koreas. The momentous inter-Korean summit saw both sides agreeing on steps towards denuclearisation and cooperation to ease tensions. Over in India, forecasts of a regular monsoon season buoyed up sentiment for the NIFTY.

The Japan index was in line with the market even as a report from the International Monetary Fund showed the economy would slow with a planned hiked in the sales tax. The country held the first economic dialogue in 8 years with China amid a climate of trade threats from the US. Inflation dipped down for the month of March.

Market performance in ASEAN was mixed. Singapore was the standout performer and the local bourse jumped to a 10-year record, primarily on gains from the three large banks that comprise the lion's share of the index. Most sectors booked profits and the Singapore dollar strengthened against the US dollar. Malaysia was flat for the month, as investors dismissed positive trade data results and turned cautious after Parliament dissolved ahead of the general elections. Thailand underperformed on baht depreciation and the country's finance minister publicly voiced support for banking consolidation to support competition in the regional markets. Despite an upgrade from Standard and Poors on its credit rating outlook, the Philippines underperformed. Indonesia sank into the red, weighed down by industrials, utilities and financials.

Asia Pacific Equity

Outlook and Strategy

For the month of April, Japan was the largest detractor in terms of performance. Japan had outperformed the regional markets and we are underweight on the market. Moreover, we were positioned in defensive sectors that did not do as well as the general market during the rally. Our Japan portfolio also saw a few of our holdings underperform this month when the company guided for a lower than expected growth in the new financial year (starting April 2018). We believe that the share price retreat should be temporary in these cases as these companies have historically guided very conservatively at the start of the year and then gradually increased their guidance as the quarters go by.

Taiwan also contributed to the underperformance this month. First, some of the technology stocks within the iPhone supply chain suffered from negative sentiments when some of their peers reported worse than expected quarterly earnings. We believe that these earnings are backward looking and we already know that the iPhone X disappointed in terms of sales so far. Instead, we are focusing on the new models that will be launched later this year and sales momentum should be picking up towards the end of 2Q18. With much lowered expectations on the sales of the new iPhone models, we think that many of the component suppliers in Taiwan stand a good chance of reporting much better than expected earnings in the second half of 2018. Second, the news of the ban of sales of components to a Chinese communication company and the investigation of another company affected the share price of one of the optical component maker that we own. The impact from the ban, in our assessment, is limited. Meanwhile, the stocks of these companies have been sold down due to the fear and uncertainty surrounding the issue. We expect this to have a short term impact in terms of negative sentiments toward the sector but over the time, this negative sentiment should dissipate as well as these companies announce results and prove to investors that there is really no impact on their immediate earnings in the short term.

Korea and China were the top performance contributors this month. Aside from the positive sentiments generated by the North Korea-South Korea summit, we saw some of our stock beginning to perform on better than expected results that were announced. These include companies in the financial and consumer staple sector. The technology sector, have also done well this month after recovering from fears earlier in the year that DRAM/NAND and OLED panel prices might drop drastically this year, hurting the company's profitability for the year. In fact, the opposite happened as we saw higher DRAM prices in 1Q18 and firmer than expected NAND prices and higher utilisation rates for their OLED plants.

ASEAN markets struggled this month as the Philippines and Indonesia were under pressure from foreign funds outflow, triggered in turn by weaker currencies and current account deficits. Foreign investors also turned cautious on Malaysia as the ruling party faced unprecedented challenge in the run up to the election. Singapore appeared to be the best performing market this month as banks reported better than expected earnings.

Markets remained choppy in general. However, we see pockets of strength and opportunities across the region despite this volatility. With a little patience, we believe that our investments should bear fruit over time barring unforeseen circumstances.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 April 2018 unless otherwise stated.

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