

## Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	4.7	6.1	11.8	19.9	21.6	36.9
MSCI Japan	5.1	7.0	10.3	12.8	15.4	41.9
MSCI AC Asia Ex-Japan	5.2	6.5	15.6	29.3	28.0	37.9
MSCI Australia	1.9	1.1	1.6	9.0	16.6	16.9

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 October 2017.

Asia Pacific equities gained in October outperforming the broader global market index. Within the region, Australia underperformed while Japan outperformed. During the month, markets turned their focus toward potential changes in monetary policies with the appointment of US Federal Reserve's (Fed) Chairman and the European Central Bank (ECB) announced trimming of its asset purchases.

Defensive sectors including telcos, utilities and materials underperformed the index. Other underperformers were consumer discretionary, consumer staples, financials, and real estate. Outperformers were healthcare as well as the technology sector which saw strong third quarter results. The energy sector rallied from US crude and gasoline stockpiles dwindling alongside rising geopolitical risks in the Middle East.

Australian equities underperformed the Asia Pacific index even as all sectors witnessed positive returns. The month of October registered the best on record for the year as technology names led the advance. Retail sales declined while the trade surplus widened.

China underperformed against the backdrop of the 19<sup>th</sup> party congress showcasing its new leadership team for the next five years. The congress elevated President Xi Jinping's power with his philosophy enshrined alongside the thoughts of previous leaders. Hong Kong lagged as traders cited a lack of concrete messaging from the congress. Taiwan outperformed as technology names lifted the index with strong sales numbers reported in September.

Korea was the best performing market with the stocks closing in at records high amid strong foreign buying as the won appreciated against the greenback. The improving market demand from Chinese consumers continued to drive strength in cosmetics, autos and retail. In India, the NIFTY outperformed the region on better than expected earnings results in the telecommunications sector. Meanwhile, price increases in crude oil fueled the energy sector and a substantial government package to re-capitalise state-owned banks added to the rally.

The Japan index outperformed the Asia Pacific index after Prime Minister Shinzo Abe and his coalition partners secured their super majority win in parliament signaling that the country's easy monetary policy would be prolonged. Abe pledged to keep to the timeline to increase the sales tax in October 2019 and half of the funds generated from the sales tax hike will be channeled to social security measures like subsidies to childcare and education. During the month, the Bank of Japan kept its stance and iterated that inflation was skewed to the downside.

With the exception of Singapore, all other markets in ASEAN underperformed. Singapore stocks edged slightly ahead of the benchmark, supported by local banks. A fresh fervor of redevelopment deals in the city state spread to commercial projects after a series of residential sector deals transacted at a hefty premium. Indonesia's underperformance was driven by soft earnings in the third quarter, persistent outflows, rising bond yields and a weaker rupiah. Malaysia underperformed even as the Prime Minister announced an expansionary budget ahead of political elections in 2018. The Philippines saw strong remittances growth offset by weak car sales while the government relaxed foreign investment restrictions into mass media and other sectors. In Thailand, the end of the year-long mourning period for the former King lifted stocks slightly as economists forecast a revival of consumer spending.

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### Outlook and Strategy

We believe that the Asia Pacific markets continue to offer exciting investment opportunities for growth investors over the long term. Valuations for Asia Pacific equities are attractive. The aggregate market performance has been encouraging especially in Asia Ex Japan as the region resonates with the global economic upcycle. However, we remain mindful that 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 and technology sectors. 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. The financials sector should also benefit from the reflation trade that is occurring across the world as inflation starts to normalise. We are also underweight on the materials sector due to concerns over incremental demand from China, which appears to be rolling over from peak demand earlier in the year.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 October 2017 unless otherwise stated.

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