Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	0.5	3.7	8.3	14.5	17.9	33.1
MSCI Japan	1.9	2.4	6.0	7.3	13.8	34.0
MSCI AC Asia Ex-Japan	-0.2	5.2	12.3	23.0	22.3	34.7
MSCI Australia	-0.9	2.0	-1.1	7.0	14.2	21.9

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 29 September 2017.

Asia Pacific equities gained in September 2017 although it underperformed against the broader global market index. Within the region, Asia ex-Japan and Australia underperformed while Japan outperformed. Asia's stocks reversed their longest winning streak with tensions between the US and North Korea ratcheting up and the US Federal Reserve (Fed) steering toward hawkish policy rhetoric as it announced its balance sheet reduction plans.

Performances within the various sectors were mixed. Defensive sectors such as telcos and utilities underperformed while materials detracted with the commodities prices rolling over from recent highs. Consumer discretionary was the best performer while real estate, healthcare, industrials, and information technology sectors outperformed. Energy producers caught up with the gains in oil prices for the month while gold tumbled.

Chinese stocks outperformed the index in September with real estate stocks driving the performance despite further tightening measures on resale properties by the policymakers on 12 cities. Towards the end of the month, the country's central bank announced a targeted reserve ratio requirement cut for banks to boost lending to smaller firms which saw the banking sector rallied in tandem. On the other hand, the Hong Kong market corrected with real estate developers and infrastructure names which detracted with the increasing probability of a Fed rate hike in December. For Taiwan, names associated with the iPhone supply chain detracted on expectations of weaker sales demand.

Australian equities underperformed the Asia Pacific index as defensive telcos, materials and utilities sectors trailed downward. The numbers for second quarter GDP came in below expectations while retail sales figures contracted.

For Japan, the stock markets outperformed the index, gaining as reports showed the economy continued to recover. Better corporate governance, higher dividends and a weaker yen had helped to boost profits for companies. The country's inflation hit a two year high for August amid a jobless rate that dropped to the lowest in 23 years. Household spending rose and industrial production climbed.

The overall ASEAN markets underperformed the Asia Pacific index in the month. Thailand benefitted from better than expected economic data as exports jumped and private consumption increased. Philippines also set a new high for the month as it cheered a tax reform and a 2018 budget approved by the Senate Ways and Means Committee. Consumption related names in Philippines rallied on expectations of higher disposable income as a result of the policies. Malaysia performed in line as economists forecast that growth would accelerate while Indonesia stocks underperformed as foreign investors continued to selloff as the country faces a slow execution of infrastructure projects and a tax amnesty program that failed to register higher property sales. The Singapore bourse underperformed with all sectors posting losses despite the strongest expansion to manufacturing growth since 2014 and real estate prices reversing its declining trend.

Asia Pacific Equity

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. 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 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 is experiencing slower growth and implementing reforms.

All statistics quoted in the write-up are sourced from Bloomberg as at 29 September 2017 unless otherwise stated.

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