Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	0.7	4.3	9.5	13.9	19.6	29.0
MSCI Japan	-0.1	1.1	3.8	5.3	13.4	33.8
MSCI AC Asia Ex-Japan	1.4	6.6	16.1	23.2	24.8	29.7
MSCI Australia	0.2	5.7	2.8	8.0	18.5	11.6

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

Asia Pacific equities gained in August 2017, outperforming the broader market index. Within the region, Asia ex-Japan and Australia outperformed against the benchmark while Japan underperformed. Strong gains in commodity producers led markets higher, shrugging off concerns over a cauldron of tensions with North Korea. A meeting of central bankers at Jackson Hole provided little clarity for investors into the future timing of US Federal Reserve (Fed) and European Central Bank (ECB) monetary tightening.

Performances within the various sectors were mixed with utilities and healthcare underperforming while consumer discretionary and financials falling into the red. Energy was the strongest performer for the month as refiners led the rally on the back of strong gasoline prices which were at its highest levels in two years with Hurricane Harvey shutting in refining capacity in the US. Other outperformers include consumer staples, real estate, industrials, information technology and materials.

Within the North Asia region, the Chinese market was boasted by the staples sector surging on higher volumes. The IT sector also advanced with strong earnings reports from the internet related companies in China. Sentiments were positive as the Li Keqiang index, a weighted proxy for the world's second largest economy, rose to levels seen in mid-2013. Geopolitical tensions over North Korea affected investors' sentiments towards the South Korean market as it retraced in August. The US dialed up its provocative rhetoric after the hermit kingdom fired a missile over Japan.

Most of the ASEAN markets underperformed the benchmark with the exception of Thailand and Malaysia. The Thailand market which had lagged in previous months rallied in August on net foreign buying and stronger than anticipated growth numbers reported for the second quarter. Indonesia retraced in the month as the 16th economic policy package in a bid to facilitate business activity and lure more investment to the country was delayed. Malaysia outperformed with headline GDP growth surprising on the upside. In Manila, the central bank governor indicated he was comfortable with a weaker currency against a rally of Asian emerging market currencies year to date. Singapore markets were dragged lower with all sectors booking losses as economists forecast slower manufacturing growth for the city-state.

Australian equities underperformed the Asia Pacific index as the ASX 200 fell, mainly dragged down by the telco sector. The reporting season in August for companies was dismal as earnings disappointed against expectations. On the hand, retail sales grew despite consumer confidence declining.

The Japan market also retreated for the month as second quarter growth was revised downward with a lower reading on business investment. On the other hand, data for GDP showed the country was on the way to the longest run of economic expansion since 2001. Economic data was mixed as industrial production slowed while retail sales rose more than expected during the summer months.

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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.

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