



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	1.1	0.0	-3.3	40.7
MSCI World	1.3	0.1	-3.0	37.3
MSCI USA	2.9	2.5	-0.8	36.5
MSCI Europe	-2.2	-5.3	-8.0	38.0
MSCI Japan	0.9	5.5	2.3	20.0
MSCI AC Asia ex-Japan	0.4	-0.3	-5.7	63.6
MSCI Emerging Markets	0.3	-0.4	-5.4	70.5

Returns in Singapore dollars. Source: Bloomberg, 26 February 2010

World equity markets recovered in February after falling sharply in late January, with the MSCI AC World Index up 1.1% in US dollar terms. The US was the best performing region followed by Japan. Europe registered negative returns, as concerns about Greece and the 'PIGS', an acronym to describe Portugal, Ireland, Greece and Spain, weighed on the European currency and created concerns around growth prospects for the broader Euro-zone.

While economic indicators continue to suggest that the broader economy is in the early phase of recovery, public opinion has recently shifted away from supporting longer term objectives in favour of addressing shorter term concerns, namely jobs. The Obama administration responded to this change in the public mood by announcing a shift in spending priorities.

Government policies that are viewed as being unsustainable have also been placed under the microscope by investors, who started to question the financing (re-financing) needs of countries that have been running large deficits and have racked up large debts. Greece has become the poster child of the mounting fiscal challenges faced in the developed world.

In response to renewed efforts by China's policy makers ahead of the National People's Congress to slow down property investment and limit riskier credit expansion, Asian and Emerging Markets equities remained range-bound.

Concerns over overheating are not limited to China, but rather appear to be a broader challenge faced by the BRIC economies. Building inflation pressures in India and Brazil will likely result in further tightening in Emerging Markets. By contrast, and against a backdrop of more rapid fiscal adjustment, growth expectations in some of the most indebted developed economies are moderating



and concern of deflation linger. This is a significant concern in the UK and the Euro-zone. In the UK the pound has been under pressure due to concerns that the coming election may result in a hung Parliament.

Emerging Markets, which had been a bright spot in terms of performance in 2009, have seen a lack-lustre start to the year. Concerns over inflation and overheating have capped performance and raise concerns over the need for tightening. Despite these concerns, we continue to find good opportunities in Emerging Markets.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Overweight	↑	The US economy has bottomed and there are strong signs that the industrial recovery is broadening out. The housing market appears to be stable as does the job market. Having moved aggressively to manage costs during the downturn, the US corporate sector is poised to benefit from the gradual recovery in final demand. The US appears to be the first-in/first-out (FIFO) of the Developed Markets. Relative valuations vs. growth prompt us further increase our Overweight.
Europe	Underweight	–	Leading indicators in Europe have rebounded sharply, but fiscal headwinds may constrain growth. Consensus estimates for Euro-zone growth continue to be reduced. Despite the fact that European valuations are amongst the cheapest in the world, structural concerns prompt us to stay Underweight.
Asia (ex-Japan)	Overweight	↑	Growth in Asia has rebounded. However, China’s decision to tighten monetary conditions in the face of a weaker than normal recovery, added confusion to the equation, and highlighted the inflation risk that may surface across a number of economies. This has prompted us to adopt a more defensive stance, focused more on stable growth sectors.
Japan	Underweight	–	The Japanese market has benefitted from a stronger Yen in terms of its performance in US dollar terms. Recent policy shifts targeted at weakening the Yen, should help the export sectors, the key driver of Japanese growth. The bad news is that corporate profitability has to recover a long way to warrant meaningful capital allocation. We are slightly Underweight.
Latin America	Overweight	↑	Latin America has recovered strongly due to buoyant domestic demand. There are some near term risk due to higher inflation levels. However, this should not derail the region’s rebound. The region continues to offer strong long term investment opportunities for equity investors. We retain our Overweight position.



Market Commentary

March 2010

While financial markets are not de-coupled, there are clear signs of de-coupling in terms of economic trends and risks. The developed world appears poised for modest recovery, while the developing world is facing increased overheating pressures, exacerbated by portfolio and capital flows.

In the developed world, growth is unlikely to snap back to above trend rates, and in some cases may remain below potential due to the debt overhang. Extended debt levels are not only a constraint to consumer spending and consumption growth, but also to public sector expenditures. The UK and the Euro-zone are likely to experience the greatest near term fiscal adjustments due to a combination of political pressures and market discipline. This leaves the developed world still on the cusp of asset price deflation, which remains a risk into 2010.

The emerging world, having adopted highly stimulative monetary and fiscal policies in 2009, is at risk of overheating. Having been the most aggressive in terms of pump-priming the economy last year China is perhaps the most visible instance of policy tightening. Given the extensive period of credit growth and fixed asset investment, there appear to be real concerns over the misallocation of capital across the economy. Recent policies have been designed to remedy this risk, although the outcome will only become clear in time. While the longer term prospects for Emerging Markets remain favorable, expectations of further tightening measures are likely to be a constraint to near term performance. We continue to focus our investment strategies more on structural growth opportunities in Emerging Markets, with a view that policy measures will constrain near term opportunities in more cyclical sectors.

In order to stave off depression, governments undertook unconventional actions and have rapidly accumulated debt. A clear but gradual exit strategy is essential in order to avoid a potential shock to confidence as governments step back from guaranteeing deposits and debt, divest from investment holdings, lift policy rates, balance budgets and implement structural changes to avoid any potential threats to confidence into the recovery.

The industrial world benefitted in 2009 from a rundown of low cost inventories and efforts to rein in operating costs. And while production and sales are slated to rebound in 2010, the key challenge and question is where margins will come in. Aligning supply and demand curves may prove a challenge.



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