



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	0.9	5.5	2.3	20.0
Nikkei 225	1.1	6.8	-0.1	34.1
Topix	1.1	4.9	2.5	18.5
Jasdaq	-0.2	8.8	8.6	21.3

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

The TOPIX fell 0.78% to 894.1 in February. Japan equity prices were volatile because of external events. The month started off on an upbeat note, in response to improved US economic data. However, renewed concerns over fiscal woes in some European countries caused the market to be sold down sharply. The Fed's move to raise the discount rate also spooked investors. Later, stability returned on news that the European Union will support Greece. Towards month-end, yen appreciation sent Japanese stocks south again.

The five best performing sectors in February were Rubber Products, Oil & Coal Products, Metal Products, Electric Power & Gas, Insurance, Air Transport, and Maritime Transport. The five worst performers were Other Products, Securities & Commodity Futures, Transport Equipment, Non-Ferrous Metal, and Real Estate.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	–	Prefer real estate to banks and non-banks. There are signs that office property vacancy rates are peaking out.
Consumer	Neutral	–	Like selected companies within the specialty retail sector given growth potential and relative valuations.
Technology	Overweight	–	Revival in corporate IT spending, and new product launches are expected to drive growth.



Energy	Overweight	–	Valuations are undemanding.
Industrials	Overweight	–	Positive on the sector given recovery in Japan's industrial production, and positive earnings revision momentum. Sector valuations are also undemanding relative to the market. Like beneficiaries of Asia growth.
Pharmaceuticals	Underweight	–	Slow pace of product approval remains a negative for the sector.
Materials	Overweight	–	More positive on electronic materials, particularly those leveraged to LCD theme, as inventory correction has now run its course. For petrochemicals, the worst appears to be over.
Info Communications	Underweight	–	Anaemic top-line growth makes the sector relatively unattractive.
Utilities	Underweight	–	Unexciting medium-term prospects.

Although policy uncertainty will linger in the coming week, we believe the market has been pricing these risks and will return its focus to fundamentals. The global economy, including Japan, continues to recover and corporate earnings are likely to improve over the course of 2010. We see the current market correction as an opportunity to accumulate long-term global winners.

We maintain our preference for cyclicals over defensives. We are overweight Industrials, Materials, Technology, and Energy. We are neutral on Consumer Discretionary, Autos, Consumer Staples, and Real Estate, and underweight Info-Communications, Pharmaceuticals, Utilities, Banks and Non-Banks.



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