

Asia ex-Japan Equity

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	7.6	-9.3	-14.4	-11.8
MSCI Far East Free ex-Japan	8.0	-9.5	-13.2	-10.3
MSCI China	10.7	-10.2	-17.2	-20.4
MSCI Hong Kong	8.1	-8.9	-15.3	-14.2
MSCI India	4.3	-7.7	-23.4	-23.6
MSCI Indonesia	4.1	-6.5	4.3	-0.4
MSCI Korea	10.7	-9.7	-7.6	1.8
MSCI Malaysia	8.0	-3.5	-3.9	-3.1
MSCI Philippines	5.8	-0.9	-2.7	-8.7
MSCI Singapore	6.2	-11.5	-13.4	-11.7
MSCI Taiwan	2.7	-10.3	-19.7	-9.1
MSCI Thailand	8.1	-11.4	-7.0	-4.3

Returns in Singapore dollars. Source: Bloomberg, 31 October 2011

Asian equity markets rose during the month amid stronger economic data in the US economy and the Euro zone's latest plan to resolve its sovereign debt crisis. On the global front, US 3Q GDP grew sequentially, reflecting strong positive contributions from personal consumption expenditure and non-residential fixed investment. European leaders agreed on plans to expand a bailout fund and private creditors agreed to a voluntary write-down of 50% on Greek debt. A surprisingly strong preliminary reading of China's HSBC PMI for October, which rose to 51.1 from 49.9 for September also helped to boost the market. In Asia, while growth has moderated amid weaker external demand, domestic economic activity continues to provide strong support to growth momentum.

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Outlook and Strategy

	Policy	Change	Comment
Consumer	Overweight	–	Domestic consumption growth across Asia is expected to provide support for growth in the region. We favour consumer staples which provide defensive growth.
Telecommunications	Overweight	–	We prefer telecom stocks that provide a sustainable dividend stream and are cashflow generative.
Healthcare	Overweight	–	The healthcare sector provides defensive growth in a volatile macroeconomic environment.

Economic data in the US have largely rebounded and beaten expectations, indicating that fears of a US recession will moderate even as macro risks remain. In the case of Europe, deep structural problems remain, but there is a chance that the authorities will have made progress further down the road on resolving some of the bank recapitalisation challenges. The 2012 outlook is still fairly cloudy, but we view that the near-term risks have been reduced and the outlook for the year end has improved.

Our base case is now that the US will likely avoid a recession but still only have modest growth of 1.5% to 2%. Europe will mostly likely muddle through the sovereign debt crisis, with growth more likely to be 0% or slightly negative. We expect that European risks will need to be continuously monitored over the next year for signs of sovereign spreads in the periphery widening again.

If we accept that the US is probably not headed for a recession, and progress is made on the European front, then we believe that there is a chance for Asian equities to sustain the rebound. Our view is that if the developed markets are not heading for a recession then the slow patch of the past several months may turn out to be a blessing for Asia as it has helped to cool off overheated growth. In Asia, we have managed our risks by investing in the top quality stocks for each industry. These are the ones that are better positioned to weather the storm and in doing so, we hedge our risks against further downside.

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