Asia ex-Japan Equity

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	-10.2	-14.1	-15.1	-4.9
MSCI Far East Free ex-Japan	-9.9	-14.0	-13.6	-3.1
MSCI China	-9.4	-16.4	-16.4	-13.5
MSCI Hong Kong	-6.4	-10.7	-13.0	-2.3
MSCI India	-12.3	-15.5	-27.2	-18.2
MSCI Indonesia	-7.9	-3.1	2.8	9.8
MSCI Korea	-13.4	-15.9	-11.4	6.0
MSCI Malaysia	-8.0	-9.2	-8.4	-4.7
MSCI Philippines	-4.6	0.6	-6.4	1.8
MSCI Singapore	-10.6	-10.3	-12.5	-5.0
MSCI Taiwan	-9.8	-17.5	-19.3	-0.6
MSCI Thailand	-8.0	-4.1	-3.5	9.7

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

Asian equity markets fell sharply on concerns about the global economy with increased downside risks on the US economic outlook and the fiscal crisis in Europe. Standard & Poor's (S&P) downgrade of the US long-term sovereign credit rating by one notch from AAA to AA+ and earlier political wrangling over the US debt ceiling contributed to uncertainty on the global front. The Federal Reserve announced that it would keep the US Federal Funds Target Rate at 0-0.25% and the ultra low policy interest rate could be held through mid-2013. 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 tourism stocks and luxury goods retailers, hotels, high-end auto distributors and alternate retail channels.
Energy	Overweight	–	The energy sector is driven by ongoing shortage of oil on the back of demand from emerging economies. We like exploration companies, coal producers and offshore & marine industry.
Technology	Overweight	–	The tech sector driven by the adoption of smart-gadgets provides investment opportunities. We like component suppliers, panel producers and camera lens producers.

We view the recent spate of weak global economic data as indicative of a more persistent slowdown rather than a temporary soft patch. Growth in the US is likely to come in at the lower end of subpar range at a "stall" level of between 0 and 2 per cent GDP growth, which is likely negative for risk assets.

The risk of a recession and market anxiety of a new recession is increasing. As expansion and job hiring has faltered and with austerity coming sooner than expected in the US, we think the risk that the economy has not achieved "escape velocity" has increased significantly.

With such a view of a more protracted macro slowdown, we look to position our portfolio more defensively. We favour countries with a strong domestic consumption story and pare our exposure to export-oriented markets. We also favour more defensive sectors such as the telecommunication sector.

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