

## Global Equity

EQUITIES	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	3 Yrs (%)
MSCI AC World	1.8	7.6	9.8	7.6	3.9
MSCI World	2.3	8.9	10.6	8.9	6.0
MSCI Emerging Markets	-1.6	-0.4	4.4	-0.4	-9.1
MSCI USA	3.8	11.8	10.4	11.8	19.5
MSCI Canada	0.5	1.9	1.6	1.9	-8.9
MSCI Europe	-0.3	3.7	10.1	3.7	-7.0
MSCI Japan	4.3	12.5	18.3	12.5	-8.0
MSCI Australia	-0.8	9.5	15.4	9.5	1.3
MSCI AC Asia Ex-Japan	-1.9	0.8	5.9	0.8	-1.5
MSCI Latin America	0.0	2.1	5.0	2.1	-18.8
MSCI EMEA	-1.8	4.4	0.4	-4.4	-13.1

Returns in Singapore dollars. Source: Datastream, data as at 28 March 2013

The MSCI AC World Index returned 1.6 per cent in US dollar terms in March on gains in the US and Japan equity markets. Conversely, the emerging and other developed markets were relative underperformers on renewed Eurozone tensions that were triggered by Cyprus and Italy. The preference for defensive and quality stocks continued to play out with the healthcare, consumer staples and utilities sectors outperforming in the MSCI AC World Index. The materials and energy sectors were the laggards.

Positive economic indicators and continued liquidity support helped pushed US equities higher. The \$85 billion mandatory US budget cuts, that were effective from 1 March, were ignored by the market. Sentiment was bolstered by continued recovery in the US housing market and manufacturing sector. The US “flash” Purchasing Managers’ Index (PMI) rose to a stronger than expected 54.9 in March from 54.3 previously, underpinned by continued strength in the new orders and employment sub-components. Similarly, the US housing market continued to strengthen as home prices rose amid falling inventories. The permits for future construction rose by 4.6 percent in February – the strongest increase since June 2008. Nonetheless, the US recovery remains modest with continued restraints in hiring as indicated by the Federal Reserve’s Beige Book which provides a summary of the commentary on current economic conditions. Thus, the Federal Open Market Committee’s decision to maintain a highly accommodative monetary policy stance was unsurprising given the country’s elevated unemployment.

In Japan, optimism was further fuelled by the official appointment of Haruhiko Kuroda as the new Bank of Japan (BOJ) governor in March. The latter has set a 2 per cent inflation target to be achieved within two years. However, we remain cautious that the optimism could be short-lived given that Japan’s weak competitive position and ageing population require both fiscal and monetary interventions but are limited by the country’s weak fiscal position. The IMF estimates Japan’s public debt at 245 per cent of GDP in 2013 but has upside risk under the ruling Liberal Democratic Party administration.

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Concerns over the Eurozone crisis re-emerged as Cyprus negotiated a bailout package with the Troika (the European Central Bank (ECB), the European Union (EU) and the IMF) for its collapsing banking sector. The aid initially involved a one-off tax on all bank deposits but was later rejected by the Cypriot government and people. The authorities finally agreed on a €10 billion deal that involved uninsured depositors with above €100,000 at Laiki Bank and Bank of Cyprus suffering steep losses. The country also imposed tight capital controls including a €1000 limit on the amount travellers can take overseas, as well as a daily withdrawal limit of €300. Cyprus' bailout will push up the country's debt-GDP to 140 per cent and the Cypriot government expects the economy to contract by 13 per cent this year. In particular, this episode awakens contagion risk for other depositors in the peripheral Eurozone countries as potential funding sources for future bailouts. It also signals a growing willingness of the European creditor countries like Germany to make demanding bailout conditions on debtor nations that can potentially put depositors, bond holders and equity investors at risk. Meanwhile, Italy's inconclusive elections and continued deterioration in France and Spain suggest more risks ahead in Europe.

Emerging market equities continued to underperform the developed markets, dragged by EMEA and Asia ex-Japan. In Asia ex-Japan, the MSCI China Index and MSCI South Korea Index fell by 4.6 per cent and 4.4 per cent respectively in US dollar terms. China implemented additional measures to cool the property market including increasing the down payment for second time home buyers and imposing a 20 per cent capital gains tax on second hand home sales. As a result, the finance and real estate related shares took a hit in the Chinese equity market. There are also increasing concerns over the proliferation of wealth management products which could have a destabilising influence on the Chinese banking sector. These are sizeable (estimated at 13 trillion yuan in 2012 by Fitch Ratings) and have a funding mismatch problem. They are also unregulated although the China Banking Regulatory Commission (CBRC) had recently introduced some measures in an attempt to rein in growth. Meanwhile, South Korean equities were weighed down by concerns over the strengthening Won relative to the Yen.

EMEA was the worst performing emerging market with the Eastern European markets including Hungary and Poland as the relative underperformers. Turkey was the only performing market in the region aided by Standard & Poor's upgrade to 'BB+', up from 'BB' (one level below investment grade).

Emerging Latin America outperformed the emerging markets, led by gains in the Mexican equity market. Investor sentiment was lifted when Mexico's rating outlook was lifted to positive from stable by Standard & Poor's. Mexico has not had a rating upgrade since 2007. Investor sentiment was further boosted by an interest rate cut to a record low of 4 per cent from 4.5 per cent. Strong foreign investments and positive structural reforms continue to underpin the Mexican equity market.

### Outlook and Strategy

Global economic growth remains intact but it is weak and uneven, resulting in a widening differential between countries and companies alike. In fact, there is increasing indication that the US economy, which has been holding up better than elsewhere, is also moderating rapidly as the effect of sequestration kicks in. In such an environment, we expect top line growth to become increasingly challenged in the months ahead as margin compression risks rise. Therefore, we remain focused on higher growth regions and businesses that can deliver sustainable and quality growth. Among the developed markets, we prefer the US over Europe and Japan on more attractive risk-reward trade-offs.

We continue to hold a positive view on emerging markets but our preferences are Latin America and Asia ex-Japan. Bottom-up stock selection in these markets is important as there are growing challenges such as excess capacity and inflation risks. China, for example, continues to grapple with a resurgence in property market prices and the sharper than expected increase in non-bank lending. Meanwhile, Brazil also faces a slowing economy coupled with rising inflation risks. Nonetheless, these emerging markets offer structural and attractive investment opportunities especially in the consumer related sectors.

## Global Equity

Asset Allocation		
REGIONS	MSCI AC WORLD (%)*	POLICY
US	47.24	Overweight
Europe	23.56	Underweight
Asia (ex-Japan)	9.23	Overweight
Japan	7.78	Underweight
Australia & New Zealand	3.42	Underweight
Canada	3.97	Underweight
Latin America	2.68	Overweight
EMEA	2.12	Neutral
<b>TOTAL</b>	<b>100.00</b>	

\*As at 28 March 2013

All statistics quoted in the write-up are sourced from Bloomberg as at 28 March 2013 unless otherwise stated.

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