

## Global Equity

<b>EQUITIES</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>YTD</b>	<b>12 Mth</b>
MSCI AC World	-3.7	-7.4	-4.8	2.6
MSCI World	-3.9	-7.4	-4.3	2.7
MSCI Emerging Markets	-2.8	-7.0	-7.4	1.5
MSCI USA	-4.1	-6.6	-3.4	4.5
MSCI Canada	-4.6	-10.0	-7.0	2.9
MSCI Europe	-5.4	-10.9	-3.4	1.1
MSCI Japan	1.2	1.6	-8.3	-2.3
MSCI Australia	-4.2	-10.3	-6.7	4.3
MSCI AC Asia Ex-Japan	-1.3	-5.1	-5.5	4.0
MSCI Latin America	-5.5	-8.5	-12.5	-6.4
MSCI EMEA	-2.6	-9.5	-6.3	4.6

Returns in Singapore dollars. Source: Bloomberg, 29 July 2011

Equity markets ended moderately down during the month of July. Indeed, markets started to pull back sharply into the final week of the month due to renewed concerns over economic growth and due to reduced visibility about corporate profits. Once again, the withdrawal of stimulus added volatility as the Federal Reserve's QE2 program lapsed in June, and both economic outlook and earnings expectations started to deteriorate shortly thereafter. Adding to market concerns was the debt ceiling issue which intensified as well as the need to restructure and impose haircut Greek debt. A post mortem of both suggests that neither is a durable solution to what are still formidable policy challenges.

Meanwhile, inflation concerns continued to linger in the emerging markets. Indeed, China's headline CPI came in at 6.5% in July, above expectations. Meanwhile inflation in India continued to track at over 8% and Brazil inflation stood at 6.87%.

Markets got whipsawed by concerns over costs and margins at a time where top-line growth expectations are rolling off. In our equity investment strategies, we continue to focus on high quality growth companies that are more insulated from a more volatile and hostile operating environment.

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## Outlook and Strategy

	Policy	Change	Comment
US	Overweight	–	The corporate sector is in solid shape and a weaker dollar is adding upside to profit estimates over the medium term. Economic data has stagnated, suggesting a renewed risk of a double-dip. Despite this uncertainty, the corporate sector is in a strong position to grow into recovery, modest as it may be. We continue to favour the US over other developed regions. <b>OVERWEIGHT.</b>
Europe	Underweight	↓	The outlook in Europe is increasingly divergent, with the peripheral countries' problems weighing on the broader region and the Euro. The Euro crisis has entered a new phase, where weak political resolve and poor coordination are adversely impacting confidence. While valuations support opportunities outside of the financial sector. <b>UNDERWEIGHT.</b>
Asia (ex-Japan)	Neutral	–	Inflation data in Asia is a problem, and further policy tightening is inevitable in some countries. This is coming at a time when the cyclical recovery is moderating due to base effects. Although the longer term growth outlook still remains favourable, the policy shift could pose a significant headwind to market performance. We remain more defensive, focused on sectors where pricing power should be stronger and added to such positions during the month. <b>NEUTRAL.</b>
Japan	Underweight	↓	The sharp pull back in Japan's markets has created a tactical buying opportunity. However, longer term headwinds have been exacerbated by the earthquake and subsequent power crisis. We have looked for opportunities in more defensive sectors like consumer staples and capital goods. <b>UNDERWEIGHT.</b>
Latin America	Overweight	–	Inflation remains a challenge in Latin America. However, domestic demand remains buoyant and the region should fare well as global growth moderates. We will continue to monitor inflation and productivity trends, but we still like the region. <b>OVERWEIGHT.</b>

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	Policy	Change	Comment
EMEA	Underweight	–	EMEA (Eastern Europe, Middle East & Africa) outlook varies by region. Growth prospects in Eastern Europe remain favourable, while the outlook in Africa is deteriorating. The outlook for the more industrialised parts of Eastern Europe (Czech Republic and Poland) remain favourable as do prospects for resource rich Russia. <b>UNDERWEIGHT.</b>

The growth outlook deteriorated appreciably over the past few months. The start of a multi-year fiscal adjustment process suggests that the below potential growth will likely persist in the developed world for some time. The outlook for Europe continues to be clouded by the challenges of the periphery and the risk of contagion via the European banks. We continue to prefer the US over Europe given the vulnerability of the European banking system.

The slowdown in global growth should help to allay some of the inflation concerns in the emerging world. However, as the risk of a double-dip recession increases, so too does the possibility of a hard landing. We have already adopted a more defensive focus and continue to monitor macro trends closely.

As seen in the debt ceiling debate in the US and the Greek and peripheral European debt problems, political developments can be both unpredictable and destabilizing to markets. While markets were not imposing the need for fiscal adjustment in the US, the political debate has centred squarely on this issue. We continue to focus on high quality franchises that have sufficient pricing power to manage in an environment where growth and profitability could deteriorate. Despite this uncertain outlook, equities still look attractive.

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