



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	5.7	2.2	2.2	39.8
MSCI World	5.4	2.3	2.3	37.0
MSCI USA	5.3	4.5	4.5	34.7
MSCI Europe	5.7	-2.7	-2.7	38.8
MSCI Japan	3.7	6.0	6.0	25.4
MSCI AC Asia ex-Japan	6.7	0.6	0.6	55.8
MSCI Emerging Markets	7.4	1.7	1.7	62.9

Returns in Singapore dollars. Source: Bloomberg, 31 March 2010

World equity markets rallied strongly in March, with the MSCI AC World Index up 6.2% in US dollar terms. Emerging Markets were the best performing region, driven by a strong recovery in Latin America and Emerging Asia. This was followed by a recovery in Europe, which rebounded after Greece managed to successfully refinance a portion of maturing debt. The Euro strengthened by nearly 2% from its low on 25 March to close the period at 1.35 to the US dollar. Japan lagged, although it is still the best performing region on a year to date basis.

Economic indicators suggest the recovery is consolidating on a firmer base. Key sentiment surveys point towards continued industrial recovery, expanding trade flows, with additions to inventories in preparation of future demand. Fixed asset investment levels have started to recover from suppressed levels, suggesting gradual and steady gains to employment should be anticipated in subsequent months. Having successfully pushed through health care reform initiatives, the Obama administration's attentions are now focused on putting through financial sector reforms and creating jobs.

While the economic backdrop has continued to improve, Government policy continues to be placed under the microscope, with the markets wary of any policies that are viewed as being unsustainable. And while markets appear to be poised to continue their strong performance into the year, public sector debt challenges are expected to remain the bogeyman that periodically scares markets and create volatility.

Overheating remains a challenge in the Emerging world. Economic policy in China has shifted away from encouraging fixed asset investment toward broadening demand, and putting more money in the hands of consumers. This will likely continue and will have significant implications on our investment strategy in the year's ahead.



Similarly, other BRIC economies have experienced building inflation pressures, driven in part by higher fuel and food prices, but also due to wage inflation. India and Brazil have already responded to this challenge by raising policy rates. Further tightening can be expected.

By contrast, and against a backdrop of more rapid fiscal adjustment, growth expectations in some of the most indebted developed economies are moderating and concern of deflation linger. This is a significant concern in the UK and the Euro-zone. In the UK the pound has been under pressure due to concerns that the coming election may result in a hung Parliament.

## OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Overweight	–	The US economy has bottomed and there are strong signs that the industrial recovery is broadening out. The housing market appears to be stable as does the job market. Having moved aggressively to manage costs during the downturn, the US corporate sector is poised to benefit from the gradual recovery in final demand. The US appears to be the first-in/first-out (FIFO) of the Developed Markets. Relative valuations vs. growth prompt us further increase our Overweight.
Europe	Underweight	–	Leading indicators in Europe have rebounded sharply, but fiscal headwinds may constrain growth. Consensus estimates for Euro-zone growth continue to be reduced. Despite the fact that European valuations are amongst the cheapest in the world, structural concerns prompt us to stay Underweight.
Asia (ex-Japan)	Overweight	–	Growth in Asia has rebounded. However, China's decision to tighten monetary conditions in the face of a weaker than normal recovery, added confusion to the equation, and highlighted the inflation risk that may surface across a number of economies. This has prompted us to adopt a more defensive stance, focused more on stable growth sectors.
Japan	Underweight	–	The Japanese market has benefitted from a stronger Yen in terms of its performance in US dollar terms. Recent policy shifts targeted at weakening the Yen, should help the export sectors, the key driver of Japanese growth. The bad news is that corporate profitability has to recover a long way to warrant meaningful capital allocation. We are slightly Underweight.
Latin America	Overweight	–	Latin America has recovered strongly due to buoyant domestic demand. There are some near term risk due to higher inflation levels. However, this should not derail the region's rebound. The region continues to offer strong long term investment opportunities for equity investors. We retain our Overweight position.



## Market Commentary

April 2010

While financial markets are not de-coupled, there are clear signs of de-coupling in terms of economic trends and risks. The developed world appears poised for modest recovery, while the developing world is facing increased overheating pressures, exacerbated by surging portfolio and capital inflows.

In the developed world, growth is recovering, albeit modestly. Unlikely typical economic cycles where growth typically surges to above trend levels following a contraction, this time growth is only expected to approach trend due to debt headwinds. Extended debt levels are expected to constrain both consumer spending and consumption growth, as well as public sector expenditures. The UK and the Euro-zone face potentially the sharpest near term adjustments due to a combination of political pressures and market imposed discipline. This will leave the developed world close to the cusp of asset price deflation, the key risk into 2010.

In contrast the emerging world faces overheating pressures. Having put into place highly stimulative monetary and fiscal conditions in 2009, many countries are implementing exit strategies now. China is perhaps the most visible instance of policy tightening. Given the extensive period of credit growth and fixed asset investment, there appear to be real concern over the misallocation of capital across the Chinese economy. Recent policies have been designed to remedy this risk, although the outcome will only become clear in time. While the longer term prospects for Emerging Markets remain favorable, expectations of further tightening measures will likely constrain near term performance. We continue to focus our investment strategies structural growth opportunities in Emerging Markets.

In 2009, the corporate sector benefitted from a rundown of low cost inventories and efforts to rein in operating costs. This enabled many to post surprisingly robust margins and earnings. In 2010, the focus will shift back to the top line. And while production and sales are slated to rebound in 2010, the key uncertainty remains around margins, as input costs have risen, or are rising. The key issue investors will need to monitor is the degree to which pricing power across industries and companies as the recovery unfolds.



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