



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-0.4	7.7	-3.2	0.1
MSCI World	-0.4	7.7	-4.0	-1.0
MSCI USA	1.9	10.1	-0.1	3.2
MSCI Europe	-6.0	3.9	-12.4	-9.8
MSCI Japan	4.2	5.8	-1.5	1.6
MSCI AC Asia ex-Japan	0.4	9.4	4.3	10.3
MSCI Emerging Markets	-0.8	8.1	2.2	7.6

Returns in Singapore dollars. Source: Bloomberg, 30 November 2010

After posting strong gains in September and October, stock markets pulled back in November following renewed concerns over public debt in the Euro zone. The MSCI AC World Index fell by 2.4% in November, measured in US dollar terms. All major regions are now in positive territory for the year.

Public sector debt concerns came to a head in November, and the Irish government was eventually forced to tap the Economic Financial Stability Facility (EFSF) to deal with budgetary and liquidity challenges. The MSCI Europe Index fell by 7.8% in November in US dollar terms. The decline was mainly due to currency weakness as the Euro fell by 7% against the dollar. Investor sentiment continues to reflect concerns that further financial support will be needed to support countries like Portugal and Spain, and that conditions attached to any support will, as in Ireland's case, be accompanied by sharp fiscal adjustment. This could potentially push some Euro zone economies back into recession.

Meanwhile, the US mid-term elections also contributed to uncertainties as the swing in the composition of Congress resulted in concerns that key legislation related to tax extensions could stall. Given the significant philosophical stance between the Republicans and the Democrats on the tax issue, many observers felt that any compromise during the lame duck session of the House would be all but impossible. However, as we now approach the Christmas season, it is clear that the Obama administration has managed to pull an early surprise from the bag and delivered a legislation that should prevent an upward adjustment in tax rates in 2011.



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BEST FUND GROUP (OVERALL)



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On the economic front, growth has been recovering and appears to be stabilizing. US GDP growth for 3Q was revised up to 2.5%, up notably from the 1.7% growth registered in the 2Q (although still down from 1Q's 3.7% growth). The growth outlook for 2011 remains modest, with developed world forecasts to post growth in the 2-3% range. While expectations for US growth have risen slightly, many Euro zone countries and Japan have seen expectations revised downwards.

Additionally, the developing world has seen rising inflationary pressures due to higher energy and input costs as well as tight labour markets. China reported CPI inflation of 5.1%, while Brazil registered CPI inflation of 5.6% in November. Meanwhile, India posted a number of 9.7% in October. The need for policy tightening is becoming increasingly evident across the Emerging World. This could pose both a downside risk to growth and a headwind for Emerging Market Equities.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Overweight	↑	The growth outlook for the US economy has improved. Concern that an abrupt fiscal adjustment may destabilise growth has diminished. Employment data has picked up and consumption data has been favourable, suggesting that the recovery is pretty well entrenched at this stage. Meanwhile, the US corporate sector is in a strong position to grow into recovery. Given the more mixed data emanating from the Emerging world, we have opted to increase our exposure to the US. OVERWEIGHT.
Europe	Underweight	–	Leading indicators in Europe have rebounded sharply. And while consensus growth estimates are being raised, Europe can count itself lucky if it can deliver a strong rate of growth into 2011. European unemployment has held up better than in the US, largely due to the stronger core economies. The outlook for the more distressed parts of Europe remain bleak, and the contagion risk to the broader Eurozone through the currency union and banking system linkages is a real concern. UNDERWEIGHT.
Asia (ex-Japan)	Neutral	↓	Inflation data in Asia has been a concern, and further policy tightening appears to be inevitable, especially in China. The shift in policy bias is coming at a time when the cyclical recovery is moderating due to declining base effects. Although the longer term growth outlook still remains favourable, this policy shift could pose a significant headwind to market performance and we have opted to reduce our exposure through this transition phase. We remain more defensive, focused on sectors where pricing power should be stronger. NEUTRAL.



Japan	Underweight	–	While Japanese corporate profits are projected to rebound sharply in the current year and next, core operating performance leaves much to be desired. Recent Yen strength has weighed on exporters, and will likely result in earnings downgrades. Corporate profitability still needs to recover further before we can justify further capital allocation. UNDERWEIGHT.
Latin America	Overweight	–	Latin America remains our preferred region, underpinned by strong domestic growth. And while Brazil Central Bank has moved policy rates up earlier, inflationary pressures remain stubbornly strong. While the region continues to offer strong long term investment opportunities, inflationary concerns cause us to temper our positive view slightly. OVERWEIGHT.
EMEA	Overweight	↓	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 longer term story for the industrial parts of Eastern Europe (Czech Republic and Poland) remain favourable as do prospects for resource rich Russia. OVERWEIGHT.

In the Developed world, household and public sector deleveraging will be a threat to growth, and while we are hopeful that business investment will pick up, we do not believe that net export growth will be able to fully mitigate the domestic de-leveraging headwinds. Our investment strategy, with a bias towards companies that are positioned to sell into fast-growing Emerging markets, reflects this view. We favour the US to Europe and Japan.

Growth rates in the Emerging world have decelerated sharply, although they should remain well above developed world growth rates. However, inflationary pressures add significant risk to the Emerging market story and have prompted us to rein in our overweight position. Our favoured region is Latin America, where policy rates have been lifted aggressively to address some of the inflationary concerns and where exchange rates have adjusted more freely to stem imported inflation.

Despite some of the above challenges, equity valuations remain very attractive. However, the evolving operating environment may bring additional challenges in 2011 and test business models. We continue to focus on high quality franchises that have sufficient pricing power to manage through and environment where input costs may rise.



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