

Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-0.9	3.1	-9.2	-5.4
MSCI World	-0.4	4.2	-7.6	-3.6
MSCI Emerging Markets	-4.5	-4.3	-19.5	-16.2
MSCI USA	1.8	8.8	-1.0	2.5
MSCI Canada	-0.5	-2.5	-12.4	-8.6
MSCI Europe	-2.6	1.0	-12.5	-7.9
MSCI Japan	-2.2	-0.9	-16.7	-13.2
MSCI Australia	-5.3	-2.1	-13.5	-7.1
MSCI AC Asia Ex-Japan	-6.2	-5.3	-19.7	-17.6
MSCI Latin America	-4.0	-3.5	-20.5	-18.1
MSCI EMEA	0.9	-3.4	-17.2	-10.7

Returns in Singapore dollars. Source: Bloomberg, 30 November 2011

Equity markets fell again in November following a brief respite in October as investor concerns over the Euro fiscal crisis intensified. Market sentiments continued to be driven by the perceived ability of policy makers to devise a plan to resolve the European sovereign debt and banking system problems.

Beyond the fiscal and banking systems issues evident in Europe, investors have refocused their attention on growth expectations and risks. In Europe, there was a significant re-basing of growth forecasts both in peripheral Europe, but also in the core. Concurrently, with mounting signs of a slowdown in Europe, expectations for growth expectation in Emerging Markets and in Asia have been tempered. On top of concerns over weakening external demand, domestic indicators in Emerging Markets have also started to slip.

The most notable change in outlook has been in China. Besides weaker external numbers, exports have softened and trade surpluses have started to contract. At the same time, domestic indicators have also turned down. Following a period of rapid investment and price gains in the housing sector, the government announced a series of tightening measures. These measures are now having visible impact, with both transaction volumes and prices falling.

The slowdown in China's housing sector and a moderation in infrastructure investment have raised questions over the overall growth outlook for China, and has had an impact on the resources sector, which has started to correct.

Despite the growing fiscal concerns in Europe, data out of the US has been surprisingly robust, especially against a backdrop of weaker external demand. Leading indicators, consumption data and even jobs data have surprised favourably, albeit still not overly bullish.

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Inflation concerns in the Emerging World are abating quickly. A combination of slower growth rates and falling food prices should alleviate some of the pressures that were building due to excessive monetary stimulus, and over-heated fixed asset investment. Our view is that both inflation and growth expectations will moderate further into 2012 for the Emerging Markets.

Corporate earnings continue to track favourably, although there are signs that earnings are being reduced at a faster than normal pace due to the uncertain growth outlook into 2012. We believe that the upside to equities is fairly limited due to the highly uncertain macroeconomic and earnings backdrop. Companies have noted the loss of visibility on final demand into the final quarter of year. Notably, early cyclical companies like airfreight and shipping companies have reported weakness in both pricing and demand. 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.

Outlook and Strategy

	Policy	Change	Comment
US	Overweight	↑	The corporate sector is in solid shape and a weaker US dollar is adding upside to profit estimates over the medium term. Economic data has stagnated, and this points to 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. OVERWEIGHT.
Europe	Underweight	↓	The outlook in Europe is increasingly bleak, as signs that the challenges of the periphery may contaminate the core. The fact that European policy makers have not brought forward credible plans to deal with the periphery, and that regulators continue to coddle many of Europe's largest banks does not instill any confidence. The lack of visibility over fundamentals warrants caution. Valuations do not compensate for the lack of policy clarity and cohesion. UNDERWEIGHT.
Asia (ex-Japan)	Overweight	↑	Inflation data has improved. This is coming at a time when growth is starting to moderate, and may put corporate profits under pressure. Although there are still some concerns over growth, we have started to add back some exposure to more defensive areas that had corrected sharply. We remain defensive in our positioning focused on longer term structural opportunities. NEUTRAL.

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	Policy	Change	Comment
Japan	Underweight	–	Japan continues to face a number of challenges due to the disruption from the March Tsunami, weaker external demand, and the strong Yen. We have looked for opportunities in more defensive sectors like consumer staples and capital goods. UNDERWEIGHT.
Latin America	Overweight	–	Inflation remains a challenge in Brazil. However, broader economic backdrop for the region is generally buoyant and the region should fare well as global growth moderates. Valuations, especially in Brazil after the market fell in early 2011 are again compelling. We are gradually increasing our exposure. OVERWEIGHT.
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. We continue to monitor Eastern Europe for the impact of a potential slowdown in Western Europe. UNDERWEIGHT.

The growth outlook is mixed. While leading indicators in the US have remained resilient, significant weakness is now evident in Europe, Asia and Japan. A multi-year fiscal adjustment process is underway, suggesting that growth will remain below potential level for the foreseeable future. We continue to monitor developments in Europe closely. Ongoing de-leveraging of the financial sector may adversely impact the real economy. Given these concerns, we prefer the US over Europe.

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

As seen in the debt ceiling debate in the US and the Greek debt saga, political developments can be both unpredictable and destabilizing to markets. While the markets did not demand an immediate fiscal adjustment in the US, the political debate will focus squarely on this issue well into November next year. 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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