

Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	0.8	6.2	-8.5	-8.5
MSCI World	0.9	6.6	-6.7	-6.7
MSCI Emerging Markets	-0.2	3.6	-19.6	-19.6
MSCI USA	1.9	10.5	0.9	0.9
MSCI Canada	-1.1	3.9	-13.3	-13.3
MSCI Europe	-0.5	4.4	-13.0	-13.0
MSCI Japan	1.7	-4.5	-15.3	-15.3
MSCI Australia	-0.6	6.0	-14.0	-14.0
MSCI AC Asia Ex-Japan	1.6	2.6	-18.4	-18.4
MSCI Latin America	-0.8	7.3	-21.1	-21.1
MSCI EMEA	-5.5	2.0	-21.8	-21.8

Returns in Singapore dollars. Source: Bloomberg, 31 December 2011

Equity markets mostly declined in December 2011, but most were still up from their September 2011 lows. However, performance for the full year was disappointing, with European sovereign debt challenges, and banking system concerns weighing on sentiments. The US clearly diverged in terms of equity market performance from the rest of the world, with investors taking comfort that both the economic outlook and corporate earnings are showing relative strength compared with the rest of the developed world.

For the full year, equity markets were down by 9.4%, with most regions posting double digit declines. Emerging markets performed poorly, weighed down by both concerns over growth and heightened levels of inflation. For this reason, the MSCI Emerging Market Index was off by some 20% during the period. As mentioned above, the only region to hold up favourably was the US, which was flat for the year.

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. It now appears that Euro zone economies will contract into 2012 as the region deals with its ongoing fiscal challenges described above.

Meanwhile, growth expectations in Emerging Markets and in Asia have also 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), domestic indicators have also turned less positive. 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.

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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.

Conversely, 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.

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, but that further policy easing will be increasingly likely to help off-set the slowdown.

Corporate earnings continue to track favourably, although earnings expectations are being reduced. While risk indicators are starting to moderate and equity valuations are very compelling, we believe that the upside to equities will be limited by macroeconomic uncertainties and a less favourable earnings backdrop. We expect that during the course of 2012, assuming that Euro zone issues are successfully resolved and that the overheating challenges in emerging markets abate, that more sustained equity performance will result. We will be monitoring the earnings season closely to try to gain better visibility into 2012 earnings. Our equity investment strategies continue to focus on high quality growth companies that are more insulated from a more volatile and less predictable 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.

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	Policy	Change	Comment
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.
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, especially for investors with a time horizon that extends out a few years.

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