Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-2.2	-3.0	-1.1	12.0
MSCI World	-2.2	-2.8	-0.5	12.4
MSCI Emerging Markets	-2.4	-4.6	-4.7	9.8
MSCI USA	-2.4	-2.8	0.7	13.3
MSCI Canada	-3.5	-7.8	-2.5	12.4
MSCI Europe	-2.6	-1.8	2.1	16.1
MSCI Japan	1.3	-2.2	-9.3	-2.3
MSCI Australia	-1.8	-3.9	-2.6	18.9
MSCI AC Asia Ex-Japan	-3.2	-3.4	-4.3	8.0
MSCI Latin America	-1.0	-6.1	-7.4	7.8
MSCI EMEA	-1.7	-6.4	-3.8	17.7

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

While equity markets ended the month of June only marginally down, that masked a significant correction experienced during the month. During the first half of the period, concerns revolved around the broad-based weakness in economic data, the resurgence of concerns over the peripheral Europe and the end of QE2. By the last week of June, sequential better than expected manufacturing data, notably out of Japan and US provided relief to the equity markets.

Meanwhile, inflation concerns continued to linger in the emerging markets. Indeed, China's headline CPI came in at 6.4% in June, with producer prices up 7.1%. However, towards the latter half of the month, the market reacted more favourably on speculation that inflation would decelerate within the next several months and that economic growth might sustain earnings.

India, too, is facing inflationary challenges. Its CPI inflation in May stayed high at 8.7%. However, the RBI Bank Rate remained at 6%, leaving real interest rates in negative territory.

Brazil CPI inflation came in at 6.71% in June, up from 6.55% in May. Brazil's central bank continues to maintain positive real interest rates, but inflation remains stubbornly high. Expectations are for inflation to gradually moderate into the year.

Global Equity

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. Meanwhile, employment data has picked up and consumption data has been favourable, suggesting that the recovery is pretty well entrenched. The corporate sector is in a strong position to grow into recovery. We continue to favour the US over other developed regions. **OVERWEIGHT**.
Europe	Underweight	↓	The outlook in Europe is increasingly divergent, with the peripheral countries' problems weighing on the broader region and the Euro. While employment in the core Europe has held up favourably, the situation in the periphery looks increasingly dire. We have, nonetheless, increased our exposure to the region given its attractive valuations and opportunities outside of the financial sector. **UNDERWEIGHT**.
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. **NEUTRAL**.
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. **UNDERWEIGHT**.
Latin America	Overweight	↑	The region's need to replenish and enhance its capital stock is both a positive and a negative and may put additional pressure on inflation in the near term before long term productivity gains can be realized. We still like the region. **OVERWEIGHT**.

Global Equity

	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 propects for resource rich Russia. **UNDERWEIGHT**.

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, this does not imply that central bankers should become any less vigilant. With expectation that inflation will abate later this year, we have stepped up our exposure to emerging markets.

Macro-economic and operating conditions present multiple challenges and pose several risks that are difficult to predict due to the political dynamics at play. Against this backdrop, we continue to broadly "de-risk" our investment portfolio and focusing on less cyclical sectors. While equity valuations remain very attractive, there is increased earnings risk given the environment of decelerating growth and persistent inflation. We continue to focus on high quality franchises that have sufficient pricing power to manage in an environment where input costs may rise.

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