

Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	6.4	-3.8	-8.4	-5.0
MSCI World	6.0	-3.0	-7.2	-3.6
MSCI Emerging Markets	8.7	-9.0	-15.7	-12.9
MSCI USA	6.6	0.7	-2.7	2.6
MSCI Canada	5.6	-5.3	-11.9	-5.4
MSCI Europe	7.7	-7.0	-10.2	-11.1
MSCI Japan	-4.0	-7.0	-14.9	-7.6
MSCI Australia	12.5	-2.2	-8.7	-4.1
MSCI AC Asia Ex-Japan	7.6	-9.3	-14.4	-11.8
MSCI Latin America	12.6	-5.5	-17.3	-16.2
MSCI EMEA	7.0	-12.5	-18.0	-13.3

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

Equity markets recovered strongly in October following the sharp falls registered in September and August. Changes in sentiment linked to plans to contain the European sovereign debt crisis continue to influence both credit and equity markets. The rally in October that was supported by expectations that policy makers and creditors had been getting close to a workable and durable solution.

However, we remain cautious given the multiple and ongoing risks in dealing with to what have become very formidable fiscal challenges. This is true in the US, and takes centre stage in Europe. The European sovereign debt and banking situation is clearly the greatest risk to our slow recovery scenario. In early November, Prime Minister Papandrea announced plans to hold a no-confidence vote and put the austerity plans to a referendum. Subsequently he was forced to resign and a caretaker government has taken office. It is hoped that this government will quickly put into place previously agreed plans with the Troika and that further disbursements will follow. A general election is scheduled for next year, so there are still risks. Meanwhile, Italian spreads have suffered with the yield on the Italian 10-year rising to above 6.5%, and putting pressure on Italian finances. As we write, there are increased signs that the Euro zone's effort to contain the fiscal fall-out from a Greek restructuring (voluntary or otherwise) are not convincing creditors. We will need to monitor developments closely.

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 continued to linger. However, market participants and policy makers are expecting inflationary pressure to moderate sharply into 2012. A combination of slowing growth rates and falling food prices should alleviate some of the pressures that were building due to excessively monetary stimulus, and over heated fixed asset investment. Our expectation is that both inflation and growth expectations will moderate further into 2012 for the Emerging World.

Corporate earnings continue to track favourably, with margins at or near record levels. However, we believe that upside is fairly limited against a more subdued growth backdrop, with excess productive capacity still to be absorbed. 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)	Neutral	↑	Inflation data in Asia is a problem, and further policy tightening is inevitable in some countries. 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.

While leading indicators have bounced slightly and are generally pointing to expansion, the risk to the outlook remains negatively biased due to macro/policy uncertainties. 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. We prefer the US over Europe given this vulnerability.

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 markets did not demand a near-term fiscal adjustment in the US, the political debate will place this issue squarely at the centre of attention into November. 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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