

## Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-7.5	-13.0	-11.9	-1.1
MSCI World	-7.3	-12.9	-11.3	-0.4
MSCI Emerging Markets	-9.2	-13.8	-15.9	-5.4
MSCI USA	-5.8	-11.7	-9.0	3.7
MSCI Canada	-3.4	-11.0	-10.2	2.2
MSCI Europe	-10.3	-17.4	-13.3	-5.2
MSCI Japan	-8.2	-6.0	-16.0	-7.4
MSCI Australia	-5.3	-11.0	-11.7	3.1
MSCI AC Asia Ex-Japan	-10.2	-14.1	-15.1	-4.9
MSCI Latin America	-5.9	-12.0	-17.7	-9.3
MSCI EMEA	-8.5	-12.5	-14.3	-0.8

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

Equity markets declined sharply in August on renewed concerns over global growth and heightened risk aversion due to the European sovereign debt issue. Key economic indicators started to soften into the summer months, and leading indicators across most key regions concurrently pointed towards weaker growth ahead. Meanwhile, the debate on how to deal with debt problems in the European periphery continued to dominate the headlines and affected confidence. European markets fell sharply in August as did Asian markets, due to their sensitivity to a changing growth backdrop.

While economists and investors anxiously awaited news from Jackson Hole that the Federal Reserve might soon embark on quantitative easing III (QE3), they were given a rude shock when Christine Lagarde, the new head of the IMF, publicly stated the unthinkable, namely, that the European banks urgently needed to raise capital. These comments were of no surprise to us, as we have held that view for some time, but this is the first time that a senior policy maker has raised this issue so publicly. This quickly shifted attention back to Europe. Not surprisingly, both regulators and banks alike continue to state that her comments are off-the mark and that the banks are healthy. This is reminiscent of the comments made by the SEC and Lehman in the last days of summer in 2008.

This European sovereign debt and banking situation is clearly the greatest risk to our slow recovery scenario. Hopefully, wisdom will prevail this time around, and policy makers and banks will change tack before it is too late.

Meanwhile, inflation concerns continued to linger in the emerging world. China's headline CPI inflation came in at 6.5% in July, while producer prices rose by 7.5%, both above expectations. Similarly, Indian and Brazilian inflation levels remained uncomfortably high at over 8% and 6.87% respectively.

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While corporate earnings on balance continue to track favourably, there are now growing signs of margin pressure, and companies have guided on the loss of visibility in final demand into the second half of the year. With a growing divergence in operating performance, as some companies post record levels of profitability, while others suffer, volatility levels have increased. 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. <b>OVERWEIGHT.</b>
Europe	Underweight	–	The outlook in Europe is increasingly bleak, as signs that the challenges of the periphery may contaminate the core continue to build. 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. <b>UNDERWEIGHT.</b>
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 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. <b>NEUTRAL.</b>
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. <b>UNDERWEIGHT.</b>

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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. <b>OVERWEIGHT.</b>
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. <b>UNDERWEIGHT.</b>

The growth outlook deteriorated appreciably over the past few months. A multi-year fiscal adjustment process is underway, suggesting that growth will remain below potential level for the foreseeable future. We continue to prefer the US over Europe given the vulnerability of the European banking system and core Europe to challenges in the periphery.

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 increases, so too does the possibility of a hard landing. 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 and peripheral European debt saga, political developments can be both unpredictable and destabilizing to markets. While markets were not imposing the need for fiscal adjustment in the US, the political debate has centred squarely on this issue. 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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