

## Japan Equity

EQUITIES - JAPAN	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	3 YRS (%)
MSCI Japan	4.3	12.5	18.3	12.5	-8.0
Nikkei 225	5.5	11.4	17.0	11.4	-1.4
Topix	4.3	12.4	17.4	12.4	-6.8

Returns in Singapore dollars. Source: Datastream, data as at 28 March 2013

In March, the MSCI Japan Index rose 4.1 per cent month on month (m-o-m) in USD terms, bringing the year-to-date increase to 10.7 per cent and making Japan the best-performing equity market globally.

Global equities, including Japanese equities, came under selling pressure mid-month due to concerns over the Cyprus bailout and worries about the political situation in Italy. However, expectations for monetary easing measures increased again ahead of the Bank of Japan's (BOJ) first monetary policy meeting on 4-5 April 2013 under the leadership of its new governor Haruhiko Kuroda. This helped the market to recover some ground.

Prime Minister Shinzo Abe's announcement that Japan would join the Trans-Pacific Partnership (TPP) talks also lifted sentiment. The move is significant as it is a demonstration of the government's intent to pursue structural reforms, namely deregulation in areas such as agriculture, healthcare and financial services. According to the Cabinet Office, participating in the TPP is estimated to add Y3trn to Japan's potential GDP, or 0.6 to 0.7 per cent of GDP.

The best performing sectors in March were the utilities, telecommunications and financials sectors. The worst performers were the energy, materials and information technology sectors.

### Outlook and Strategy

The strong momentum in Japan equities may continue for a while longer. The BOJ's decision to implement massive monetary easing at its first monetary policy meeting was a major positive as this has dispelled doubts about it sticking to its commitment of achieving a 2 per cent inflation target. The BOJ is now planning to double its balance sheet over the coming 18-24 months, and this would most likely sustain downward pressure on the Yen, thereby providing a tailwind for the exporters.

Another encouraging signal is the increased signs of an economic recovery. In March, Japan's Purchasing Managers' Index (PMI) rose for the third consecutive month, rising by 1.9 points to 50.4. Notably, new orders rose sharply by 4 points to 52.8, while new export orders surged 6.5 points to 53.9.

Going forward, corporate results announcements in May and the roll-out of the government growth strategies in June ahead of the July Upper House Elections will likely influence the direction of the market.

Risk factors for Japan equities include the fiscal cliff in the US and renewed financial turmoil in the Eurozone. We are currently overweight consumer discretionary, consumer staples and industrials, neutral financials, telecommunications and technology and underweight materials and utilities.

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<b>Asset Allocation</b>		
<b>SECTORS</b>	<b>MSCI JAPAN (%)*</b>	<b>POLICY</b>
<b>Consumer Discretionary</b>	20.72	Overweight
<b>Consumer Staples</b>	6.64	Overweight
<b>Energy</b>	1.34	Underweight
<b>Financials</b>	21.00	Neutral
<b>Health Care</b>	6.87	Neutral
<b>Industrials</b>	19.27	Overweight
<b>Information Technology</b>	10.65	Neutral
<b>Materials</b>	6.40	Underweight
<b>Telecommunication Services</b>	4.44	Neutral
<b>Utilities</b>	2.67	Underweight
<b>TOTAL</b>	<b>100.00</b>	

\*As at 28 March 2013

All statistics quoted in the write-up are sourced from Bloomberg as of 28 March 2013 unless otherwise stated.

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