

Japan Equity

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-2.2	-0.9	-16.7	-13.2
Nikkei 225	-3.5	-1.0	-13.6	-11.2
Topix	-1.9	-0.6	-15.1	-11.4
Jasdaq	-1.3	-2.8	-6.5	-0.5

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

In November, TOPIX ended at 728.46, 4.66% lower than a month ago. Risk aversion was elevated as the Euro zone debt crisis intensified. There are now concerns that the crisis will spread from Italy and Spain to France. In Japan, corporate earnings continued to be revised downwards due to the slowdown in the overseas economies, the yen's strength, and the flooding in Thailand; and this in turn weighed on the equity market.

The five best performing sectors included Oil & Coal Products, Electric Power & Gas, Wholesale Trade, Air Transportation, and Retail Trade. The worst performers were Maritime Transportation, Securities & Commodity Futures, Iron & Steel, Metal Products, and Non-ferrous Metals.

Outlook and Strategy

	Policy	Change	Comment
Financials	Neutral	–	Post-earthquake re-construction could help bring forward loans growth. Office real estate sector outlook is dampened as the earthquake may delay the recovery in office rentals, although negatives are largely discounted.
Consumer	Neutral	–	Overweight consumer staples at the expense of consumer discretionary. Like selective opportunities within the retail space, e.g. niche players with room to gain share within the domestic market, and those with growing overseas exposure.
Technology	Neutral	–	Excess inventory overbuild is weighing on demand. Like tablet PC, ultra-book and smart-phone plays for the medium term.

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Energy	Neutral	–	Energy prices seen stabilizing following the recent weakness.
Industrials	Neutral	–	Selective exposure to companies which are beneficiaries of re-construction, and the trend towards automation.
Pharmaceuticals	Underweight	–	Like generic companies because of the Japanese government's push for more affordable drugs. Pipeline risks and upcoming NHI price revisions in 2012 make the sector unattractive as a whole.
Materials	Neutral	–	Electric arc furnace companies could benefit from post-earthquake re-construction. Also like selected specialty chemicals and electronic materials stocks.
Info Communications	Neutral	–	Anaemic top-line growth makes the sector relatively unattractive, but valuations and dividends provide downside support.
Utilities	Underweight	–	Regulatory risks in the new term post-nuclear crisis. Unexciting medium-term prospects; and fair valuations. Prefer gas companies to electric power companies.

Although the market appears undervalued, any sustained rebound would require a bottoming out of both economic and earnings indicators. We are also watchful of any positive developments such as credible measures agreed at the EU summit meeting on 9 Dec 11, and further monetary loosening policies in China and the rest of Asia.

In view of the highly uncertain macro outlook, we would maintain our defensive stance for now. We are overweight Consumer Staples, neutral Industrials, Materials, Technology, Financials, Energy, and underweight Utilities, Pharmaceuticals, and Consumer Discretionary.

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