



| EQUITIES - JAPAN | 1 Mth | 3 Mth | YTD | 12 Mth |
|------------------|-------|-------|-----|--------|
| MSCI Japan | 3.7 | 6.0 | 6.0 | 25.4 |
| Nikkei 225 | 3.7 | 3.5 | 3.5 | 33.6 |
| Topix | 3.6 | 6.2 | 6.2 | 23.6 |
| Jasdaq | -0.2 | 8.3 | 8.3 | 26.6 |

Returns in Singapore dollars. Source: Bloomberg, 31 March 2010

The TOPIX rose 9.47% to 978.8 in March. The strong market performance was attributed to improved investor confidence on the back of better economic data in Japan and overseas, and expectations of additional monetary easing by the Bank of Japan, which caused the yen to weaken. This in turn sparked off a broad-based rally led by exporters, and financials.

The five best performing sectors in March were Other Products, Other Financial Businesses, Maritime Transport, Iron & Steel, Electric Appliances, Non-Ferrous Metals, and Glass & Ceramics. The five worst performers were Air Transport, Pharmaceutical, Electric Power & Gas, Oil & Coal Products, and Info & Comm.

OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|-------------|-------------|--------|--|
| Financials | Underweight | – | Neutral on real estate and banks. Underweight non-banks. |
| Consumer | Neutral | – | Like selected companies within the specialty retail sector given growth potential and relative valuations. |
| Technology | Overweight | – | Revival in corporate IT spending, and new product launches are expected to drive growth. |
| Energy | Overweight | – | Valuations are undemanding. |
| Industrials | Overweight | – | Positive on the sector given recovery in Japan's industrial production, and positive earnings revision momentum. Sector valuations are also undemanding relative to the market. Like beneficiaries of Asia growth. |



| | | | |
|---------------------|-------------|---|---|
| Pharmaceuticals | Underweight | – | Slow pace of product approval remains a negative for the sector. Like generic companies. |
| Materials | Overweight | – | More positive on electronic materials, particularly those leveraged to LCD theme, as inventory correction has now run its course. For petrochemicals, the worst appears to be over. |
| Info Communications | Underweight | – | Anaemic top-line growth makes the sector relatively unattractive. |
| Utilities | Underweight | – | Unexciting medium-term prospects. |

With the Toraku Index at an “overbought” level of 140, the Japan equity market could experience a near term correction. We, however, remain tactically positive given our expectations of a cyclical economic recovery, additional fiscal and monetary stimulus, further yen weakness, and continued profit expansion through FYMar12.

We maintain our preference for cyclicals over defensives. We are overweight Industrials, Materials, Technology, and Energy. We are neutral on Banks, Consumer Discretionary, Autos, Consumer Staples, and Real Estate, and underweight Info-Communications, Pharmaceuticals, Utilities, and Non-Banks.



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