



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	0.1	8.5	0.1	1.2
Nikkei 225	-1.0	8.0	-1.0	0.9
Topix	0.2	8.9	0.2	1.5
Jasdaq	2.2	11.7	2.2	5.4

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

TOPIX rose 1.26% to 910.08 in January. The Japan equity market began the year on a strong note, due to favourable macro factors such as improvement in US economic indicators and the yen's depreciation against the dollar. However, in the latter half of the month, stock prices corrected because of concerns about China's monetary tightening, and heightening geopolitical turmoil in the Middle East.

The five best performing sectors included Mining, Textiles & Apparel, Transportation Equipment, Other Financing Business, and Glass & Ceramics. The worst performers were Securities & Commodities Futures, Iron & Steel, Other Products, Insurance, and Marine Transportation.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	-	Prefer real estate sub-sector given peaking out of office vacancy rates and recovery in housing starts. Also selected regional banks that have high capital adequacy ratios.
Consumer	Overweight	-	Turned more upbeat on autos given trough valuations and ¥/US\$ reversal. Also like selected companies within the specialty retail sector which have the potential to gain market share, and increase overseas sales.



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BEST MIXED ASSETS FUND GROUP



Technology	Overweight	–	Bottoming out of inventory cycle in various sub-sectors like PCs, and LCDs. Demand in 2011 to benefit from new tablet PCs and smart-phones, and a replacement phase for corporate PCs.
Energy	Neutral	–	Valuations are undemanding, and prospect of stronger oil price in the near term bodes well for the sector.
Industrials	Overweight	–	Remain upbeat on companies which are beneficiaries of structural growth, e.g. automation, and those with leverage to mining activities/capex.
Pharmaceuticals	Neutral	–	Like generic companies because of the Japanese government's push for more affordable drugs.
Materials	Overweight	–	Compelling valuations, especially those of glass, steel, and chemical companies. Expect restocking process to take place post bottoming out of inventory cycle.
Info Communications	Neutral	–	Anaemic top-line growth makes the sector relatively unattractive, but valuations and dividends provide downside support.
Utilities	Underweight	–	Unexciting medium-term prospects and fair valuations.

We maintain our view that the exporters will continue to lead the earnings recovery in 2011. The US/global recovery is likely to translate into stronger Japanese exports growth. The latest results reporting season also confirms that the exporters have become better able to cope with a strong yen. The recent merger announcement in the Japan steel sector is another positive development, and may well be the beginning of future consolidations in other industries. At the current TOPIX level of 935.36, FY2012 PER remains attractive at 13.8x and forward PBR ratio is only 1.0x.

We are overweight on Technology, Industrials, Materials, Real Estate and Consumer Discretionary; neutral on Info-Communications, Pharmaceuticals, and Consumer Staples; and underweight on Utilities, Banks and Non-banks.



Contact Details

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
24-hour Hotline 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

Regional Offices

Singapore

Institutional Investments
Dennis Siew
Senior Director

Retail Investments
Norman Wu
Senior Director

Regional Investments
Faizal M. Fazluddin
Senior Director

Structured Investments
Chong Jiun Yeh
Executive Director

International Business (China)
Jasmine Lim
Senior Director

Brunei

Kamal Muhd
General Manager

Japan

Masashi Ohmatsu
Chief Executive Officer

Malaysia

Lim Suet Ling
Chief Executive Officer

Taiwan

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General Manager

Thailand

Vana Bulbon
Chief Executive Officer



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