



EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	13.0	43.2	35.8	-25.2
MSCI Far East Free ex-Japan	10.9	40.3	33.1	-25.9
MSCI China	13.6	37.4	31.3	-20.1
MSCI Hong Kong	14.5	32.0	35.8	-21.5
MSCI India	33.6	71.3	61.7	-18.1
MSCI Indonesia	8.5	63.9	47.2	-28.0
MSCI Korea	1.8	49.2	25.2	-32.6
MSCI Malaysia	4.5	15.8	20.0	-19.7
MSCI Philippines	13.6	23.5	30.0	-13.5
MSCI Singapore	21.1	45.9	31.5	-28.3
MSCI Taiwan	12.7	46.6	47.5	-24.9
MSCI Thailand	14.1	31.4	29.2	-32.4

Returns in Singapore dollars. Source: Bloomberg, 29 May 2009

Asian equity markets surged in May supported by favourable economic data such as improvement in regional exports growth, global Purchasing Managers Index (PMI) and housing volume. Expectations for a recovery were raised when the US banks' stress test results came in without any surprises. Asian economies recorded a sharp economic slowdown in the first quarter and the near-term economic outlook will continue to remain weak. However, the implementation of large stimulus measures in various Asian countries has increased the prospects for economic conditions to improve in the second half of the year.





OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials & Real Estate	Overweight	↑	Increased liquidity should benefit asset reflation trades such as financials, properties and energy.
Consumer discretionary	Overweight	–	High savings rates and urbanisation underpin sustained domestic consumption growth in China. Effects of government stimulus package could trickle down to consumers.

Globally synchronised rate cuts and liquidity injections, the positive market response to G-20 meetings and the much touted US stress tests appear to have improved risk appetite and overall credit conditions. The recent GDP data releases affirm that the growth rates have bottomed for China, Indonesia, Korea, Taiwan and Singapore, and this is also likely to be the case for Malaysia and Thailand. We are of the view that the massive injection of liquidity into the global system could continue to keep equity markets buoyant in the short term. Over the medium to longer term there is a risk that inflation makes a comeback before growth normalises. The authorities may then have to restrain fiscal and monetary expansion.

We favour the asset reflation trades that will benefit from increased liquidity, in particular Financials, Properties and Energy. Hence, we raise our position in Financials and Real Estate to overweight. We also maintain our overweight position in the Consumer sector as demand remains resilient, for instance in China. We have also raised Energy, Industrials and Materials to neutral as these sectors would benefit from a recovery in the economy and from the fiscal stimulus programmes, and trimmed our positions in the defensive sectors like Telecom and Utilities. We keep our underweight position in Technology as we are not convinced that the final sell-through will materialise.



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) 6534 3909
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

Alternative Investments
Ho Yew Weng
Director

Malaysia

Lim Suet Ling
Chief Executive Officer

Thailand

Vana Bulbon
Chief Executive Officer

Brunei

Kamal Muhd
General Manager

China

Jasmine Lim
Senior Director

Taiwan

Juang San Tay
General Manager

Japan

Masashi Ohmatsu
Chief Executive Officer



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