



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-5.0	-30.5	-42.6	-43.6
MSCI World	-4.9	-29.2	-40.9	-42.1
MSCI USA	-5.9	-26.2	-36.1	-36.9
MSCI Europe	-5.4	-34.0	-48.2	-49.4
MSCI Japan	0.3	-21.0	-32.4	-35.7
MSCI AC Asia ex-Japan	-4.3	-36.8	-55.6	-56.1
MSCI Emerging Markets	-5.8	-41.2	-55.5	-55.6

Returns in Singapore dollars.  
Source: Bloomberg

World equity markets continued their slide in November as risk aversion coupled with weaker economic data continued to push investors away from equities. Due to the adverse shift in operating conditions, not only is the outlook for corporate earnings looking poor, but the limited availability of credit is making solvency a real concern for less favourably positioned businesses.

This adverse shift in outlook weighed heavily on all regions, with Japan being a slight exception due to a strengthening yen. Investor behavior continues to be driven by fear - fear over the housing market, fear over the growth outlook, fear over employment and fear of contagion risk. Financial stability remains the immediate priority for policy makers across the world. The recent measures to stabilise liquidity and inject capital into problem sectors should help to set the stage for a more orderly clearing process for troubled assets. This will likely help to mitigate the disruption in demand, assuming policy makers bring forward fiscal stimulus plans.



**OUTLOOK AND STRATEGY**

	Policy	Change	Comment
US	Slight Overweight	↑	Policy response has been the most aggressive. The TARP along with broader liquidity support measures should help limit more adverse consequences in terms of economic fall out and help to stabilise asset prices into 2009. Valuations are now supportive, and relative expectations are low.
Europe	Underweight	–	We see significant economic and earnings risk ahead and continue to adopt a very defensive stance in Europe. We are somewhat concerned that policy response has been slow to adjust to the shift in liquidity and note the increased leverage of European financials and the risk of ongoing deleveraging.
Asia ex-Japan	Neutral	↓	The sharp deterioration in external factors has led us to slash our expectations for growth in Asia. The shock to confidence and more adverse liquidity conditions continues to put downward pressure on asset prices, which is a significant headwind from certain Asian economies. We have reduced our allocation to Asia and remain very defensive in terms of the type of businesses we are invested in.
Japan	Underweight	↓	In the face of softening external demand, it is difficult to overweight Japan. While valuations appear more attractive at the moment, Japan remains a heavily export-oriented market.

We continue to closely monitor financial conditions in both the US and Europe in search of signs of stabilisation. The passing of the Troubled Asset Relief Program and Term Asset-Backed Securities Loan Facility in the US, along with temporary guarantees for financial sector debt in Europe along with Government-led recapitalisation efforts and the purchase of Commercial Paper and distressed mortgage securities are significant steps in stabilising markets.

Tight credit conditions and weak consumer and business confidence will nonetheless result in a significant slowdown of global growth into 2009. Against this backdrop we continued to adopt defensive investment strategies aimed at riding through the turmoil to benefit from the recovery into 2009 and beyond. Our strategy is to continue to focus on the less cyclical sectors including consumer staples, healthcare and telecommunications.



## Market Commentary

December 2008

As we write, it is increasingly apparent that we are in the midst of a global recession. We had previously commented on the diminished visibility over earnings as a clear concern and because of this we remain extremely defensive in our investment approach. While valuations do provide some support, we do not believe they will prove a catalyst over the short term.

We have lifted our exposure to the **US** to Slightly Overweight and may further increase our exposure there. Expectations in the US have already been lowered significantly. The US Treasury & Fed are likely to continue to provide an accommodative monetary stance, and aggressive pump priming measures should contain downside risk for the economy and for earnings. We have positioned our portfolios for a protracted period of sub-par growth, and have built in a margin of safety to contend with the risk of a hard landing.

We keep our underweight in **Europe** as the valuation argument, when superimposed against the sharp deterioration in financial and economic conditions is tenuous. Weaknesses in the financial system is adversely impacting the real economy. We see significant need for deleveraging across many of the largest financial institutions in Europe. This will likely be accompanied by an extended period of upward re-pricing of risk for borrowers, which will exert a drag on growth.

We have tempered our earlier optimism in **Asia ex-Japan**. Growth is slowing faster than previously feared, credit is being rationed, confidence is being adversely impacted and asset prices are falling sharply. As such, we have adopted an increasingly defensive strategy in terms of the type of companies targeted, with domestic demand plays featuring prominently.

We have turned more negative on **Japan**. Corporate sector profit growth is uninspiring, particularly among export sectors that are dependent on a robust global economy to drive growth. Whilst Japan has held up as a risk aversion trading market we see significant risk to earnings due to an uncompetitive exchange rate.

Current conditions are negative for the equity markets, and will likely continue to dampen performance for the next couple of quarters. We continue to focus on high-quality bottom-up investments which will perform better in an environment of heightened uncertainty and volatility. And we are sowing the seeds today to benefit from recovery in the years ahead.



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