



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	2.8	2.6	24.4	22.3
MSCI World	2.7	1.7	20.4	17.9
MSCI USA	4.5	3.2	17.5	12.8
MSCI Europe	1.5	1.9	24.8	24.7
MSCI Japan	-3.0	-9.7	-0.2	2.6
MSCI AC Asia ex-Japan	1.5	6.5	55.6	62.3
MSCI Emerging Markets	3.1	9.1	62.1	65.7

Returns in Singapore dollars. Source: Bloomberg, 30 November 2009

World equity markets recovered in November, with the MSCI AC world index down rising by nearly 4% in US dollar terms. The recovery in markets was underpinned by a pick-up in earning expectations following generally favourable third quarter earnings reports. Improving macroeconomic indicators, stabilising housing prices, recovering consumer confidence and leading indicators, and stabilising employment data also helped to buoy market sentiment. Emerging Markets and Asia (ex-Japan) continued to perform strongly, adding to earlier gains. Meanwhile, the US market picked up sharply after lagging for the better part of the year.

Asia and Emerging Markets continued to perform strongly in November and have racked up impressive gains this year. Developed Markets, with the exception of Japan have all registered respectable gains as well. Among the Developed Markets, the US has been the laggard due mainly to a weaker dollar - the Euro and the Sterling Pound having appreciated by 7% and 12% respectively.

The Japanese market continues to drift lower, and remains the laggard on a year to date basis. The corporate sector, with its export orientation, is a leveraged play on global recovery. The key challenge is the thin levels of profitability and poor return on capital generated by the corporate sector. The transition to a new government has not helped to provide any encouragement either, with policy direction largely deemed to be negative for the market.

European markets are up 29% this year, in US dollar terms. While the European corporate sector is a potential beneficiary of a recovery in global growth, its financial sector remains a risk due to likely regulatory changes. A stronger Euro is also a significant headwind moving into 2010. A weaker recovery could challenge operating margins and may necessitate an acceleration of corporate restructuring. Valuations for the Eurozone remain cheap compared to other regions.





Emerging Markets remain the bright spot in terms of performance. This is broadly justified as Emerging economies do not face the same challenge to growth and do not have the domestic debt overhang that is evident in the Developed world. With continued signs that we are in the early innings of recovery, the outlook for Emerging Markets remains positive. However, there is an underlying need to re-tool the economic models of much of the developing world to achieve a better balance. Until this happens, growth may remain well below potential. Valuations are less supportive than they were previously and earnings will be the key driver of market performance moving forward.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Underweight	↓	The US economy has bottomed and there are strong signs of a broadening recovery from housing, construction, to industrial output. The corporate sector looks set to benefit from a recovery in demand with earnings and profitability is projected to rebound. However medium term growth is likely to be modest and we return to an Underweight.
Europe	Underweight	↓	Leading indicators in Europe rebounded sharply, setting the stage for a recovery in earnings. European valuations are amongst the cheapest in the world and markets should benefit from re-rating. However, structural concern both in terms of the credit outlook, the need for financial sector reform, and the need for companies to serve public policy agenda, suggest that some of the perceived upside may be missed. We also move to Underweight.
Asia (ex-Japan)	Overweight	↑	Growth in Asia has rebounded sharply as have earning expectations. A combination of aggressive monetary easing along with fiscal stimulus has helped to underpin growth in much of the region. Moving forward, as stimulus is removed, external demand will be a key driver to growth. The region is no longer cheap but we see the potential for earnings upgrades and we restore our Overweight.
Japan	Underweight	↓	Even after a decade of under-performance, Japan was not immune to the global slowdown. The Japanese market has a large concentration of export oriented and cyclical companies that should benefit from the recovery. The bad news is that corporate profitability has to recover a long way to warrant meaningful capital allocation. We increase our Underweight.



Latin America	Overweight	↑	Like the rest of the world, Latin America has suffered a decline in GDP, but is recovering quickly due to strong domestic demand. Latin America still continues to represent the best long term investment opportunity for equity investors, with its strong growth and the highest return on capital of any region. However, following strong price gains, the region is no longer cheap. We nevertheless further increase our Overweight position.
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3Q GDP data has confirmed that the global economy has exited recession. More recent labour market data provided confirmation that the recovery is entrenched and that growth will continue to gather momentum into 2010. However, with continued need for de-leveraging across the Developed world, both among consumers and financial institutions, it is clear that the pace of growth is unlikely to exceed trend for some time. Policy makers are likely to maintain accommodative monetary policies through the better part of 2010, although there are risks that given fiscal constraints, there may be some effort to reduce fiscal stimulus.

In order to stave off depression, governments undertook unconventional actions and have rapidly accumulated debt. A clear but gradual exit strategy is essential in order to avoid a potential shock to confidence as governments step back from guaranteeing deposits and debt, divest from investment holdings, lift policy rates, balance budgets and implement structural changes to avoid any potential threats to confidence and the recovery.

The industrial world benefitted in 2009 thanks to a run down of low cost inventories and efforts to rein in operating costs. And while production and sales are slated to rebound in 2010, the key question is where will margins come in? Aligning supply and demand curves may prove a challenge, given sub-par recovery expectations.

We continue to have a significant asset allocation in Emerging Markets. With monetary policy likely to remain accommodative, we believe that the prospect for growth to surprise on the up-side is greater in the developing world, and in particular in economies with latent but expanding domestic demand as is evident in places like Brazil and India.

Our **US** exposure has been reduced slightly - Underweight. The recovery in the broader economy is gaining traction, but the medium term growth trajectory is likely to remain modest given debt constraints on all levels. While the market does have a large share of globally diversified industry leading companies that will benefit from global growth, there are more direct beneficiaries in some Emerging Markets.

We cut our exposure to **Europe** to Underweight. While, ceteris paribus, the Eurozone appears to be the cheapest region, structural challenges and financial risks prevent us from being more aggressive. The region faces twin headwinds of a significantly changing financial sector landscape and a strong currency that will cap earnings gains into the recovery.



We have retained **Japan** as Underweight. The Japanese market is expected to remain a laggard against a backdrop of moderate cyclical recovery. The corporate sector, with its export orientation, is a leveraged play on the global recovery, but has significant structural challenges. The key challenge is the thin level of profitability and poor return on capital generated by the corporate sector. The policies of the new Democratic Party of Japan (DPJ) government may have negative implications on domestic growth.

We remain Overweight **Latin America**. We continue to view the region as offering the best risk adjusted prospects of any major region. The region remains underpinned by strong domestic demand and yields an abundance of good investment opportunities. We continue to overweight sectors that should benefit from a structural increase in domestic demand.

We have moved our exposure to **Asia-ex-Japan** back to Overweight. Opportunities in Asia will be aided by the global recovery, with earnings expected to continue to enjoy upgrades. Stock selection is likely to be more critical as valuations offer less upside than before after a strong re-rating. As many of the economies around the region step back from prior stimulus initiatives targeted at boosting domestic demand, we are increasingly looking for opportunities among the export sectors that should benefit from global recovery, and where valuations are more reasonable. We also continue to like Asia from a longer term growth standpoint.

We retain **Canada** and **Australia** as Neutral exposures. Both regions have performed well through the downturn. Given the composition of their markets, which is heavily skewed to the resources sector and financial services, we view these markets as more late cycle and more deep cyclical. Hence, against the expectation of a moderate economic recovery we are at best Neutral.



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