



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-7.9	-13.1	-11.5	-44.0
MSCI World	-8.4	-14.0	-12.2	-42.8
MSCI USA	-8.5	-15.3	-11.8	-38.4
MSCI Europe	-8.4	-14.5	-14.4	-49.7
MSCI Japan	-10.4	-9.7	-12.7	-34.5
MSCI AC Asia ex-Japan	-4.5	-1.1	-5.1	-50.2
MSCI Emerging Markets	-3.5	-3.1	-5.3	-52.6

Returns in Singapore dollars. Source : Bloomberg

The slide in World equity markets accelerated in February, compounding the already sharp declines experienced in 2008. Investor behavior continues to be driven by fear as economic softness broadens into areas that were perceived as being immune to the slowdown and as questions over the efficacy and coordination of policy response linger. Increased caution over the earnings outlook has prompted market observers to stay on the sidelines and look for evidence that demand is stabilising. So far the jury is hung, with indicators pointing to continued weakness ahead. The timing and shape of a market recovery will be heavily influenced by the evolving economic backdrop and corporate earnings. As we exit earnings reporting season, and as companies provide guidance for 2009, it is becoming clearer that investors will need to be selective in what will remain a challenging operating environment. However, what is also becoming clearer is that some of the better place companies which have been sold down with the broader market, are in an excellent position to weather the storm and emerge even stronger.

European markets had the weakest start to the year, due in part to systemic weaknesses in their financial systems as well as currency pressure. There are continued signs that the market is differentiating between business based on perceptions of earnings risk due to cyclical, financial, and/or credit pressures. The more stable sectors, regions and companies have assumed market leadership and are showing greater price stability. The stronger performance of emerging markets is a good reflection of this differentiation. Financial stability remains the immediate priority for policy makers across the world. The recent measures to stabilise liquidity and to inject capital into the financial sector should help to set the stage for a more orderly clearing process for troubled assets. This, along with anticipated fiscal stimulus measures, should help to contain the disruptions in the real economy.



OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Slight Overweight	↑	Policy response has been the most aggressive. The Troubled Asset Relief Program, along with broader liquidity support measures, should help limit the economic fallout 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 high degree of European financials and the risk of ongoing deleveraging.
Asia ex-Japan	Slight Overweight	↑	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 continue to put downward pressure on asset prices, which is a significant headwind for certain Asian economies. We have reduced our allocation to Asia and remain very defensive in terms of the type of businesses in which 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.
Latin America	Overweight	↑	Despite its proximity to the US, Latin America appears to offer the best prospects of any region. Latin America is in lease integrated investible region into the global economy with limited trade linkages and modest capital linkages. The region continues to benefit from growth domestic demand fuelled by rising purchasing power.

January brought political transition in the US, with President Obama entering office amidst anticipation of more aggressive and decisive policy action to addressing the financial crisis. As the new president entered office against a backdrop of deteriorating economic indicators, investors looked forward to a bold fiscal policy and hoped for strong bi-partisan support and a rapid implementation. However, as often the case in politics expectation and reality diverge, particularly when it comes to translating vision into policy. The first weeks of the new administration has led to a new series of concerns, with protectionist biases embedded in the House's version of the stimulus package bringing back memories of what went wrong in the 1930s.



We remain in the midst of a global recession that is on a scale not witnessed in decades. Earnings visibility remains poor, and corporate profitability is expected to remain under pressure for some time. While valuations do provide some support, we do not believe they will prove a catalyst over the short term, and we remain defensive in our investment approach. Our strategy is to continue to focus on the less cyclical sectors including Consumer Staples, Healthcare and Telecommunications. However, recently announced healthcare reform measures have necessitated that we re-evaluate our positions in healthcare given likely longer term headwinds for the sector.

We've lifted our exposure in the **US** to Slightly Overweight and may further increase our exposure there. Expectations in the US have already been lowered significantly. The US Treasury & US Federal Reserve are likely to continue to provide an accommodative monetary stance. Fiscal policy under a new Obama-led administration is likely to be aggressive, with spending targeted in a two pronged fashion, firstly toward structural objectives of enhancing public infrastructure, and secondly toward enhancing the social safety net, which should stabilise demand. 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 an underweight position in **Europe** as the valuation argument is not strong enough to mitigate the risk to earnings. 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. A sharp deterioration in financial and economic conditions will increase the risk that earning expectations are lowered further.

We have continue to overweight in **Latin America** which appears to offer the best risk adjusted prospects of any major region. Latin America's trade linkages and exposure to the global slowdown is largely limited, leverage in the regions economies is also modest and external positions are comparatively strong. The region continues to benefit from strong domestic demand, and while growth may moderate a bit it should continue to yield opportunities for investors.

We have lifted our exposure in **Asia ex-Japan** but remain defensive in terms of sector/stock selection focused on beneficiaries of domestic demand. 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 focused on companies that benefit from sustained growth in domestic demand.

We remain more cautious on the outlook for **Japan** and remain underweight. Corporate sector profits remain under pressure, particularly among export sectors that are more exposed to discretionary consumer spending. Whilst Japan equities have held up more favorably, we see significant risk to earnings into 2009 as capping future expectations.

Economic and financial conditions remain a challenge, and are not supportive of a broad and sustained recovery in equity markets. However, there are pockets of opportunities out there that we seek to capitalise on into 2009. We expect continued divergence in performance at the sector and company level through this period. We continue to focus on high-quality bottom-up investments which will perform better in an environment of heightened uncertainty and risk. We continue to sow the seeds today to benefit from recovery in the years ahead.



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



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