



EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	8.2	6.0	1.8	-36.0
MSCI World	7.7	4.2	-0.1	-35.6
MSCI USA	6.2	3.8	0.1	-31.2
MSCI Europe	9.9	5.7	-1.2	-42.6
MSCI Japan	6.5	-5.3	-7.7	-30.5
MSCI AC Asia ex-Japan	13.1	21.0	20.2	-35.9
MSCI Emerging Markets	12.9	22.5	20.3	-39.4

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

World equity markets continued to rally strongly in April, nearly reversing the losses in the early part of the year. Investor sentiment improved notably following the coordinated effort on the part of the G-20 countries to mitigate the slump in private sector demand, and with expectations that financial sector support initiatives are underpinning the banking system. The stress tests helped to remove the fear of the “unknown”, as most banks were reported to have more moderate capital needs than previously thought. While the economy faces continued challenges, there are some signs that business conditions are starting to stabilise. We are now in the midst of a relief rally that is re-pricing assets from being at risk of failure to being considered a going concern. While this rally may persist for a period, we are nonetheless remaining more defensive in our positioning, given the continued weakness in final demand. The timing and shape of a recovery will be heavily influenced by the evolving economic backdrop and corporate earnings. The next major signpost that will influence investors behavior are the mid-year earnings reports and subsequent guidance for 2009 performance. We anticipate a mixed picture, with continued challenges and continued differentiation becoming increasingly evident. 2009 and perhaps even 2010 will likely be a stock picker’s market.

The Japan market remains the weak link so far. A sharp decline in industrial activity and trade has weighed heavily on the export oriented sectors. The recently reported loss at Toyota Motor, the benchmark in the auto sector, underscores the severity of the challenge faced by the industrial sector. European markets have also suffered due to concerns over their financial systems, currency pressure and investor concerns about contagion from an economically troubled Eastern Europe.

Emerging markets have been the stand-out in terms of performance, up sharply on a monthly basis and also on a year-to-date basis. This is broadly justified as the emerging countries do not face the same challenge to growth and do not have the domestic debt overhang that is evident in the developed world. There is clear differentiation between developed and developing countries on the issue of both growth and leverage, which is fully warranted.





In the developed regions, the more recent market recovery has seen a sharp out-performance among more cyclical and growth sensitive sectors and companies. Unlike prior cycles, where the consumer provided the signal of a return to confidence, this time it will be the corporate sector that we have to monitor, especially given the level of excess capacity still evident. The duration of this rally remains a question that will only be answered in full with earnings confirmation, and a recovery in investment, which would signal that the monetary easing is translating into end demand, and that business confidence is returning.

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. This, along with continued pressure on asset prices, will be a significant headwind for certain Asian economies. However, domestic fundamentals in Asia are generally on favourable footings, creating some opportunities. While we remain defensive in terms of the type of businesses in which we are invested, we remain slightly overweight.
Japan	Underweight	↓	In the face of softening external demand and falling production levels the fundamentals for Japan appear challenged. While valuations appear more attractive at the moment, Japan remains a heavily export-oriented market and earnings face significant risks.
Latin America	Overweight	↑	Despite its proximity to the US, Latin America appears to offer the best prospects of any region. Latin America is the least 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.

The political transition in the US did not progress as smoothly as hoped in the initial weeks. A combination of weakening economic conditions, concerns of over-reaching on policy, and the apparent lack of a consistent and coherent economic policy fuelled investor concerns. However, as previously announced programmes started to be fleshed out via more detailed programmes, as a more synchronised response to the crisis started to be shaped at the G-20 meeting, and the bank stress tests results were reported (leaked), investor confidence returned.

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 the rally will be sustained so long as earnings remain weak. Our strategy is to continue to focus on the high quality companies that are well positioned to respond to today's challenges. We continue to favour less cyclical sectors including Consumer Staples, Healthcare and Telecommunications but are finding good opportunities in virtually all sectors. 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 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 and 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 de-leveraging 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 continued 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 are largely limited, leverage within the region's 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 to **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.



Market Commentary

May 2009

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. We see significant risk to earnings into 2010 as capping future expectations.

Although markets had clearly sold down to distressed levels, economic and financial conditions 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.



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