



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	0.3	-21.0	-32.4	-35.7
Nikkei 225	4.0	-21.0	-31.4	-34.2
Topix	0.9	-19.3	-30.2	-33.9
Jasdaq	6.4	-6.9	-23.9	-28.0

Returns in Singapore dollars.
Source: Bloomberg

The TOPIX continued to fall in November, extending the current decline to six months. The TOPIX strengthened temporarily to a month's high of 966.91 points on 4 November on news of interest rate cuts in the US and Japan, and in reaction to Barack Obama's victory in the US presidential election. However, negative earnings announcements (e.g. a 1 trillion yen downward earnings revision by Toyota Motors), poor economic data from Japan and overseas, and appreciation of the yen against the US dollar and the Euro, led to renewed market weakness.

The best performers during the month were Pulp & Paper, Mining, Machinery, Services, and Information & Communications. The worst performers were Transportation Equipment, Other Financial Business, Securities & Commodity Futures, Insurance, and Real Estate.



OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Neutral	–	Turned less positive on mega and regional banks, on expectations of rising credit costs.
Consumer	Neutral	–	Prefer consumer staples and specialty retailers. Underweight autos.
IT Hardware	Neutral	–	Negative in Euro sensitive stocks.
Industrials	Underweight	–	Like companies in services and transportation.
Pharmaceuticals	Overweight	–	Like cash-rich companies with strong drug pipeline. Looking for investment opportunities in the medical equipment space where visibility is better.
Materials	Underweight	↓	Concerns about the impact of high energy and commodity prices on margins.
Info Communications	Overweight	–	Like companies with high dividend yield.

Global growth is decelerating rapidly, and equity markets are likely to remain volatile. The strengthening yen, along with weakening demand, are likely to cause further downgrades of profits for Japanese companies. Thus, while the Japanese market seems more attractively valued (TOPIX trading at just 1x price-to-book), we expect upside to be capped in the near term. We maintain our defensive stance, preferring undervalued stocks with the potential to withstand negative macroeconomic pressure. As we expect the yen to continue appreciating, we prefer domestic sectors to exporters.

We are overweight in Pharmaceuticals, Consumer Staples, and Info-Communications, and are neutral on Consumer Discretionary (ex-Autos), Banks, Real-Estate, Utilities and Technology. We are underweight in Industrials, Materials, and Autos.



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