Market Commentary

January 2010

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	5.8	6.2	64.6	64.6
MSCI Far East Free ex-Japan	5.9	6.1	61.4	61.4
MSCI China	1.9	9.3	55.3	55.3
MSCI Hong Kong	3.5	2.8	51.8	51.8
MSCI India	4.9	7.3	96.1	96.1
MSCI Indonesia	7.0	4.5	115.9	115.9
MSCI Korea	9.9	2.1	65.7	65.7
MSCI Malaysia	1.5	5.8	44.5	44.5
MSCI Philippines	4.2	9.1	56.7	56.7
MSCI Singapore	6.6	8.8	63.6	63.6
MSCI Taiwan	10.1	7.9	71.3	71.3
MSCI Thailand	8.9	0.8	66.3	66.3

Returns in Singapore dollars. Source: Bloomberg, 31 December 2009

Asian equity markets managed to post healthy gains during the quarter even as Dubai World's debt problems triggered a brief bout of risk aversion. With the US ISM Purchasing Manager Index expanding further to 55.9 points in December 2009, Asia saw its exports recover to finally register positive year-on-year growth numbers. Central banks have also remained accommodative during the quarter, despite inflation showing signs of creeping up. Overall, the Asian equity markets outperformed the global equity market for the month.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Consumer discretionary	Overweight	-	High savings rates and urbanisation underpin sustained domestic consumption growth in China. Effects of government stimulus package could trickle down to consumers.
Technology	Overweight	↑	Improving outlook for technology companies from 1Q10 which could lead to positive earnings surprises from (1) strong demand in the run-up to the Chinese New Year (2) inventory re-stocking (3) recovery of corporate IT and capex spending and (4) strong take up of e-book readers.
Energy	Overweight	↑	Recovery in economic activity and oil supply discipline will support oil prices. In the coal sector, the economic-led demand recovery bodes well for the industry.

As Asian economies emerge from recession in 2010, we expect corporates in the region to record sizeable earnings growth. Although valuations are not as cheap as before, we believe in selecting stocks driven by strong earnings growth and surprises, which we think will be key to generating further returns. We remain optimistic as historical experience has shown that Asian equity returns in the second year of recovery are usually positive. We also continue to hold the belief that Asian markets could re-rate and trade up to peak valuations over the next few years.

Our key strategy going forward will be to focus on Asia's robust domestic demand which we believe will drive corporate earnings growth and valuation expansion. We maintain our domestic consumption theme and overweight Consumer and Energy sectors, with a more positive view on Technology. We are underweight Industrials and relatively defensive sectors like Utilities and Telecoms.

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