



<b>EQUITIES - JAPAN</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>YTD</b>	<b>12 Mth</b>
MSCI Japan	8.2	14.4	-0.1	-26.9
Nikkei 225	9.1	20.6	2.1	-22.3
Topix	8.4	13.7	-0.7	-25.4
Jasdaq	8.4	0.6	-13.7	-20.7

Returns in Singapore dollars. Source: Bloomberg, 29 May 2009

TOPIX rose for the third consecutive month. The Japan market was buoyed by easing financial concerns and growing prospects of a bottoming in domestic and overseas economies. Results of the stress test for US banks were not as bad as expected and lent weight to the view that the worst problems for the financial system are over.

The best sector performers were Mining, Real Estate, Securities & Commodity Futures, Marine Transportation and Other Financial Business. The five worst-performing sectors were Air Transportation, Electric Power & Gas, Textiles & Apparel, Transportation Equipment and Rubber Products.




**OUTLOOK AND STRATEGY**

	Policy	Change	Comment
Financials	Neutral	–	Overweight real estate, at the expense of non-banks. Neutral on the banks. Credit costs for banks will increase as NPLs rise. Regardless, relative to longer term value, the shares are undervalued.
Consumer	Overweight	–	Rising unemployment remains a headwind to households. However, government support could lift consumer spending in the upcoming months. Raised weighting in autos and consumer, and reduced weighting in consumer staples.
IT Hardware	Neutral	–	Orders and share price momentum could decelerate in the near term as the completion of restocking within the handset and PC supply chain appears to be completed. Look to buy on any pull-back.
Industrials	Overweight	–	Raised rating given signs that Japan's industrial production has bottomed out.
Pharmaceuticals	Neutral	–	Slow pace of product approval, negative new developments within the US healthcare sector, and the next biennial National Health Insurance price cut scheduled in April 2010 for Japan are expected to weigh on the sector.
Materials	Neutral	–	More positive on electronic materials, particularly those leveraged to LCD theme, as inventory correction has now run its course. For petrochemicals, the worst appears to be over.
Info Communications	Neutral	–	Downgraded to neutral. Unlikely to outperform TOPIX in a recovery scenario given the sector's defensive characteristics.
Utilities	Underweight	–	Unlikely to outperform TOPIX in a recovery scenario given the sector's defensive characteristics.

Our preference is for cyclicals over defensives, particularly Industrials, Energy, Real Estate and selected companies within Consumer Discretionary. We have reduced Consumer Staples and Info Communications to neutral. We remain neutral on Pharmaceuticals, Materials, Banks and Technology, and underweight in Utilities and Autos.



### 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

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Lim Suet Ling  
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Vana Bulbon  
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Kamal Muhd  
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Senior Director

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Juang San Tay  
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#### Japan

Masashi Ohmatsu  
Chief Executive Officer



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