



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-10.4	-9.7	-12.7	-34.5
Nikkei 225	-11.1	-11.3	-15.3	-34.4
Topix	-10.5	-9.6	-12.7	-32.6
Jasdaq	-10.8	-6.6	-14.2	-24.3

Returns in Singapore dollars. Source : Bloomberg

The TOPIX fell 12.5% mom (in Yen terms) in February to close at 756 points. Poor macroeconomic data announced for Japan and overseas weighed on the market. 3Q earnings in Japan also saw massive downward revisions. Furthermore, widening losses at US financials triggered fears of a steeper financial crisis and prolonged recession. News that the Japan government was considering using public funds to purchase equities, and sharp depreciation of the Yen against the US Dollar and Euro, lent some support to equity prices towards month-end.

The best performers during the month were Rubber Products, Oil & Coal Products, Transportation Equipment, Nonferrous Metals, and Precision Instruments. The worst performers were Other Financing Business, Securities & Commodities Futures, Real Estate, Pulp & Paper and Construction.



OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Neutral	–	Turned less positive on mega and regional banks, on expectations of rising credit costs.
	Neutral	–	Prefer consumer staples and specialty retailers. Underweight autos.
IT Hardware	Neutral	–	Demand remains weak, but inventory adjustments is over for certain sub-sectors.
Industrials	Underweight	–	Like companies in services and transportation.
Pharmaceuticals	Neutral	↓	Slow pace of new product approval, negative new developments within the US healthcare sector, and the next biennial NHI price cut scheduled in April 2010 for Japan are expected to weigh on the sector.
Materials	Neutral	↑	Demand remains weak for electronic materials and chemicals. Nonetheless, inventory adjustment period could likely bottom out in 1H for certain segments.
Info Communications	Overweight	–	Like companies with high dividend yields.

Range-bound and volatile market conditions could continue in the near-term until a clear easing of global financial conditions, and a bottoming out in the earnings revision momentum. We would continue to be highly selective, favouring companies with strong, competitive franchise and brands and solid balance sheets.

We are overweight in Consumer Staples and Info-Communications. We have brought down our weighting in the Pharmaceuticals sector to neutral and raised Materials to a neutral position. Elsewhere, we are neutral on Consumer Discretionary (ex-Autos), Banks, Real-Estate, Utilities and Technology. We remain underweight in Industrials and Autos.



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