



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-11.8	-21.9	-32.6	-37.2
Nikkei 225	-14.9	-23.6	-34.1	-38.5
Topix	-10.9	-20.7	-30.9	-35.8
Jasdaq	-6.4	-12.5	-28.5	-33.3

Returns in Singapore dollars. Source : Bloomberg

In October, the TOPIX plunged to a low of 721 points before ending the month at 867 points (down 20% for the month). The slide was fueled by the release of weak US and Japan economic indicators, and also evidence that the credit crunch has now spread to the non-finance sector as well as the emerging economies. Carry trade unwinding caused a sharp spike in the Yen, which in turn triggered a major sell-off of Japanese stocks, particularly the exporters. Announcements from Japanese companies of 1H profit declines and full-FY08 earnings downgrades further dampened sentiment. Expectations that the Bank of Japan was considering a rate cut led to a temporary rebound in stock prices.

The best performers during the month were Electric Power & Gas, Air Transportation, Land Transportation, Construction, and Retail Trade. Among the worst performers included Marine Transportation, Mining, Nonferrous Metals, Banks, and Precision Instruments.



OUTLOOK AND STRATEGY

EQUITIES	Policy	Change	Comment
Financials	Neutral	–	Prefer insurance companies. Turned less positive on mega and regional banks, on expectations of rising credit costs.
Consumer	Neutral	–	Consumption indicators still weak. Prefer consumer staples.
IT Hardware	Neutral	–	Benefits from weakening Yen.
Industrials	Neutral	–	Like companies with exposure to the emerging economies, and relatively more defensive on domestic names 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	Negative	↓	Concerns about the impact of high energy and commodity prices on margins

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 corporate profits for Japanese companies. Thus, while the Japanese market seems more attractively valued (TOPIX trading at just 1x price-to-book value), we expect upside to be capped. We would maintain our defensive stance, preferring undervalued stocks with the potential to withstand negative macroeconomic pressure.

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



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