Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	8.7	-1.6	5.3	-1.6	-9.3	3.8
MSCI Japan	4.8	-6.3	2.1	-6.3	-7.0	13.0
MSCI AC Asia Ex-Japan	11.2	1.7	5.7	1.7	-11.6	1.1
MSCI Australia	12.4	2.1	13.1	2.1	-9.1	-10.6

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 March 2016.

Asia Pacific equity markets were higher in March as risk aversion dissipated with better than expected global economic data. Within the region, Australia outperformed while Japan and Asia ex-Japan underperformed.

The materials and energy were the best performing sectors as risk appetite returned with investors turning positive on the manufacturing cycle. Defensive sectors such as healthcare and consumer staples sectors lagged the broader market on the back of risk-on trades and value sectors such as financials rallied along with the broader market.

Within Asia ex Japan, China's official Purchasing Managers' Index (PMI) rose from 49.0 to 50.2 while the private sector Caixin PMI rose from 48.0 to 49.7. Inflation and retail sales continued to be soft alongside weak commodity prices and subdued global growth. There were signs of improvement in property transactions and increased investment activities. Concerns over capital outflows in China also eased as the currency stabilised.

Korea was the best performing market in the month with strong investor flows into the country. India also gained as inflation expectations abated allowing central bank to cut interest rates. There was also progress on policy reform during the Budget session of Parliament.

Performance of ASEAN markets were mixed, with Malaysia outperforming the region as higher oil prices and delay in the Federal Reserve rate increase led to inflows in the equity and bond markets. The market was also buoyed by the award of major infrastructure projects. The Philippines market rebounded as consumer sentiment proved to be resilient going into the election season while Singapore market's recovery was led by banks. The Indonesia market lagged after the central bank cut interest rates for the third time this year as anticipated.

The Japan Index underperformed the other regions in March as the yen remained strong on the back of dollar weakness. The Japanese market has benefited earlier from a weaker yen and relatively favourable earnings revisions. However, the economic data remains soft with both retail sales and industrial production tracking below expectations.

Australian equities outperformed in the month. The recent macroeconomic releases were strong with better-than-expected trade balance and the improved PMI reading of 58.1 from 53.5 in the prior month. However, retail sales came in below market expectations. The macro outlook remains challenging, with weaker commodity prices continuing to be a headwind for the economy.

Outlook and Strategy

We believe that the Asia Pacific markets continue to offer exciting investment opportunities for growth investors over the long term. Valuations for Asia Pacific equities are attractive. However, the aggregate market performance continues to be challenging due to slower economic growth, tighter liquidity conditions and potential headwinds to corporate earnings. Growth within the region remains uneven and fundamental sector/country and stock selection will remain crucial.

The current positioning of the Asia Pacific strategy is to be overweight on Asia ex-Japan. The position is funded from an underweight position in Japan. We retain a neutral position on Australia. This is a result of bottom-up securities selection and does not necessarily reflect our view on the respective regions. The overweight position on

Asia Pacific Equity

Asia ex-Japan is mainly due to the relative attractiveness of Indonesia and India financials against the rest of the region. Similarly, the underweight position in Japan reflects our concern on the operating prospects of Japanese financial companies.

In terms of sector allocation, our strategy is overweight on the consumer discretionary, healthcare and information technology sectors. We have increased our weights in healthcare recently as some selective value plays emerged with the recent correction in the last quarter. We remain positive on the longer-term trend for the consumer and technology sectors as it provides exposure to the continued strong growth of domestic demand and e-commence in the emerging economies. We are underweight on the materials sector due to concerns over incremental demand from China, which is experiencing slower growth and implementing reforms. On the other hand, we retained a neutral position in energy given strong demand response as a result of low oil prices and improving global demand-supply balance.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 March 2016 unless otherwise stated.

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