

## Asia ex-Japan Equity

<b>EQUITIES – Asia ex-Japan</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>YTD</b>	<b>12 Mth</b>
MSCI AC Asia ex-Japan	-0.7	5.0	-1.2	13.0
MSCI Far East Free ex-Japan	-0.4	5.3	0.4	15.2
MSCI China	0.7	3.3	-0.1	2.5
MSCI Hong Kong	0.8	0.0	-2.6	16.0
MSCI India	-3.5	2.0	-13.8	-3.7
MSCI Indonesia	1.3	12.1	6.0	18.4
MSCI Korea	-2.6	11.4	5.3	28.6
MSCI Malaysia	0.5	3.1	0.8	16.9
MSCI Philippines	-3.4	6.4	-6.9	7.7
MSCI Singapore	-1.7	3.9	-2.5	12.9
MSCI Taiwan	0.5	4.9	-2.2	19.3
MSCI Thailand	-3.3	5.6	0.7	32.4

Returns in Singapore dollars. Source: Bloomberg, 31 May 2011

Asian equity markets were choppy on renewed concerns over sovereign credit risks of peripheral European countries and weaker-than-expected recovery in the US. However, the markets managed to recover some losses in the later part of the month amid speculation that the ECB, IMF and various EU governments will provide additional aid to Greece. In Asia, while growth has moderated on weaker external demand and on the impact of Japan supply disruptions, domestic economic activity continues to provide strong support to the growth momentum. On the global front, the Federal Reserve confirmed that it would end QE2 at end June 11 and the Fed funds rate would be kept around zero for an extended period.

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### OUTLOOK AND STRATEGY

	Policy	Change	Comment
Consumer	Overweight	–	Domestic consumption growth across Asia is expected to provide cushion for moderation in exports growth in the region. We favour companies that sell to higher income groups, have strong brand names and are more likely to be able to pass on cost increases to customers.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and the long term structural trend for healthcare demand is positive.
Industrials	Overweight	–	The alternative energy sector is set to grow strongly as countries hasten their efforts to diversify energy sources. We favour Nuclear and Wind energy plays due to favourable long term dynamics.
Technology	Overweight	–	The outlook is positive given the move towards hi-tech lifestyle goods, and the growing prevalence of smartphones and mobile computing. In particular, we expect strong demand for tablet PCs in 2011 and 2012, benefitting component suppliers.

The sharper than expected slowdown in both global and Asia economies has become a concern. On the other hand, inflation remains in focus as continued political unrest in Africa and the Middle East keeps oil prices at elevated levels, adding to price pressures already faced by many Asian economies. The inflation pressure stems from rising food and commodities prices, the output gap closing, foreign fund inflows and asset price appreciation. We believe that governments in Asia will try to combat the rise in inflation with higher interest rates and currencies, as well as using administrative measures to target specific segments of the market.

We are cautiously optimistic on Asian equity markets as we do not expect a high likelihood of an energy supply shock destabilising the global economic recovery. Inflation is still the focus but we expect these concerns to ease by the second half of 2011. We also do not expect an economic hard landing as a result of the current slowdown.

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