

## Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-1.2	2.0	2.0	0.7
MSCI World	-2.1	2.4	2.4	0.2
MSCI Emerging Markets	4.8	-0.2	-0.2	4.4
MSCI USA	-0.9	3.6	3.6	2.5
MSCI Canada	-0.9	5.7	5.7	8.6
MSCI Europe	-2.0	4.0	4.0	-1.3
MSCI Japan	-10.9	-7.2	-7.2	-10.4
MSCI Australia	0.8	1.3	1.3	-0.7
MSCI AC Asia Ex-Japan	5.2	-0.9	-0.9	5.3
MSCI Latin America	2.3	-1.4	-1.4	0.0
MSCI EMEA	3.8	2.8	2.8	7.6

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

Developed equity markets fell in March after starting the year on firm footing. A massive 9.0-magnitude earthquake struck Miyagi Prefecture in Japan, triggering a major Tsunami that left widespread damage. Damage to nuclear reactors in Fukushima compounded the challenge. Japan equities fell by 10% in March. Conversely, Emerging Markets rebounded strongly in March, as investor concerns over inflation abated due to the crisis in Japan. MSCI Asia (ex. Japan) was the best performing region, followed by MSCI EMEA.

US Manufacturing PMI and Non-Manufacturing PMI continue to point to expansion at 61.2% and 57.3% respectively in March. Meanwhile, non-farm payrolls expanded for the sixth consecutive month reaching 216k in March, and capacity utilization continued to firm to 77%. Expectations are that a comprehensive corporate tax reform bill could pass by the end of 2011. The inflation outlook is mixed. While consumer price inflation rose due to higher food and energy prices core remains in check. Meanwhile, producer prices are on the rise with finished goods prices up 5.6% in February compared to a year earlier. Excluding the impact of food and energy, core PPI prices were up by 1.8%.

Europe continues to face macro economic challenges. In the UK, growth expectations continue to be reduced due to austerity measures and expectations of further monetary tightening. GDP growth is forecast to be 1.7% in 2011. Meanwhile Eurozone continues to be plagued by debt challenges in the periphery. Eurozone growth expectations have also been tempered, with 2011 GDP expected to be 1.7%. Peripheral challenges remain acute, Spanish growth is projected to be a pedestrian 0.6% this year, while Portugal is forecast to contract by up to 1.7%.

Meanwhile, Inflation concerns intensified, with February CPI rising to 2.4%, and expectations are that CPI will reach 2.6% in March. Higher inflation is expected to lead to further ECB tightening. The ECB refinancing rate was increased by 25bps to 1.25% in April, and given current inflation reading, further tightening is anticipated. Similar expectations are building in the UK, where CPI inflation hit 5.5% in February. UK monetary indicators continue to contract, with M4 money supply down by 1.5%.

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Divergent policy response to inflationary challenges is having significant impact on currency movement. The perception of a bifurcation of policy response is impacting currency markets. The Euro gained 1% against the Dollar in March to end at 1.4158. In contrast, the Pound weakened by about 1% to the Dollar. After initially appreciating to 78.9 to the Dollar, the Yen then drifted to end the period at 84.1.

Emerging markets still feeling the heat. China's CPI inflation is expected to drift higher from the 4.9% registered in February. Recent surges in food and energy prices only exacerbate the challenge, and point to an upward bias in expectation and the need for additional tightening measures. Economists are expecting up to 75bps in further tightening.

Meanwhile, CPI inflation in Brazil came in at 6.3% in March, up from 6.0% in February. Broad money growth of 18%, suggests that further tightening may be needed. The picture in India is broadly similar, with India CPI (rural) still uncomfortably high at 6.0% in February (down from 8.4% in January).

The China data continues to point to price risks with input prices rising faster than output prices. In February, purchasing prices advanced by 10.4%, while Producer Prices rose by 7.2% and CPI rose by 4.9%. Meanwhile the National People's Congress outlined plans to both tackle price rises and lift wages. This has implications on corporate profits that will need to be monitored.

## OUTLOOK AND STRATEGY

	Policy	Change	Comment
US	Overweight	–	The corporate sector is in solid shape and weaker dollar is only adding upside to profit expectations over the medium term. Meanwhile, employment data has picked up and consumption data has been favourable, suggesting that the recovery is pretty well entrenched. The corporate sector is in a strong position to grow into recovery. We continue to favour the US over other developed regions. <b>OVERWEIGHT.</b>
Europe	Neutral	↑	The outlook in Europe is increasingly divergent, with the peripheral countries' problems weighing on the broader region and the Euro. While employment in the core has held up favourably, the situation in the periphery looks increasingly dire. We have nonetheless increased our exposure to the region given its attractive valuations and opportunities outside of the financial sector. <b>NEUTRAL.</b>
Asia (ex-Japan)	Neutral	–	Inflation data in Asia is a problem, and further policy tightening is inevitable, especially in China and India. The shift in policy bias is coming at a time when the cyclical recovery is moderating due to base effects. Although the longer term growth outlook still remains favourable, the policy shift could pose a significant headwind to market performance. We remain more defensive, focused on sectors where pricing power should be stronger. <b>NEUTRAL.</b>

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	Policy	Change	Comment
Japan	Underweight	↑	The sharp pull back in Japanese markets has created a tactical buying opportunity. However, longer term headwinds have been exacerbated by the earthquake and subsequent power crisis. Furthermore the strong Yen continues to be a challenge for exporters. We have looked for opportunities in more defensive sectors like a consumer staples and capital goods. <b>UNDERWEIGHT.</b>
Latin America	Overweight	↓	Inflation is a challenge in Brazil, and we have moved incremental capital to Mexico and other countries. The region's need to replenish and enhance its capital stock is both a positive and a negative and may put additional pressure on inflation in the near term before long term productivity gains can be realized. We still like the region but have reduced the <b>OVERWEIGHT.</b>
EMEA	Neutral	↓	EMEA (Eastern Europe, Middle East & Africa) outlook varies by region. Growth prospects in Eastern Europe remain favourable, while the outlook in Africa is deteriorating. The outlook for the more industrialised parts of Eastern Europe (Czech Republic and Poland) remain favourable as do prospects for resource rich Russia. <b>UNDERWEIGHT.</b>

The Developed world now appears to be on a firm path of sustained recovery. However, we note a de-coupling of policy between the US and Europe, with US policy decidedly more accommodative. Ongoing challenges faced by the periphery countries materially clouds prospects for the core, due to inter-relationships through the financial sector and via trade flows. Our investment strategy is bias towards sectors that are benefiting from a renewed investment cycle. We prefer the US to Europe and Japan, but have increased our exposures to all the developed regions.

Inflation remains the greatest emerging world challenge. Against a backdrop of further policy tightening, and given uncertainties over the strength and breadth of the economic recovery in the developed world, the risk to growth expectation is to the downside. Meanwhile, inflation and wage pressures have the potential to erode corporate earnings and undermine asset values. We have adopted more defensive strategies and have focused our attention on sectors and companies with greater pricing power. Our favoured region remains Latin America, where policy rates have been lifted aggressively.

Against a backdrop of accelerating growth in the developed world, equity valuations remain attractive. However, the evolving operating environment may bring additional challenges in 2011 and test business models. We continue to focus on high quality franchises that have sufficient pricing power to manage in an environment where input costs may rise.

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