

Global Equity

| EQUITIES | 1 Mth | 3 Mth | YTD | 12 Mth |
|-----------------------|--------------|--------------|------------|---------------|
| MSCI AC World | 0.8 | 1.7 | 2.8 | 3.6 |
| MSCI World | 0.9 | 1.5 | 3.3 | 3.4 |
| MSCI Emerging Markets | -0.2 | 2.8 | -0.4 | 5.3 |
| MSCI USA | -0.1 | 1.4 | 3.4 | 2.9 |
| MSCI Canada | -2.2 | 3.5 | 3.3 | 7.4 |
| MSCI Europe | 4.2 | 4.7 | 8.4 | 8.3 |
| MSCI Japan | -2.7 | -9.8 | -9.8 | -10.8 |
| MSCI Australia | 2.6 | 6.8 | 4.0 | 4.6 |
| MSCI AC Asia Ex-Japan | 0.5 | 0.9 | -0.5 | 6.0 |
| MSCI Latin America | -2.9 | 0.6 | -4.3 | -0.1 |
| MSCI EMEA | 0.8 | 8.9 | 3.6 | 11.1 |

Returns in Singapore dollars. Source: Bloomberg, 29 April 2011

Equity markets bounced back strongly in May after the sell-off in April due to the Japan earthquake and tsunami. All markets, with the exception of Japan, were in positive territory for the month of April in US dollar terms. In fact, Europe showed the sharpest increase followed by Australia. Japan suffered due to ongoing concerns arising from the Tokyo Electric Power nuclear crisis in Fukushima, and broader economic disruption.

Inflationary pressures continue to plague emerging markets. Meanwhile, concerns are growing over the strength of the recovery in the US and resolve of the Euro zone to cohesively deal with problems in the periphery. All of the above concerns have started to feature more into financial market behaviour and will likely continue to do so for the foreseeable future.

Emerging market inflation concerns are expected to only abate in the latter part of the year. China's headline CPI came in at 5.3% in April, with producer prices up 6.8%. 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.

India, too, is facing inflationary challenges. CPI in April remained at 8.8%. The Reserve Bank of India has left policy rates unchanged at 6%, leaving real interest rates in negative territory. However, the State Bank of India Prime Lending Rate has risen to 14% from 11.75% at the start of the year.

Meanwhile, CPI inflation in Brazil came in at 6.5% in April, up from 6.3% in March. The positive news is that Brazil's central bank had been early to act and raise interest rates, and growth in monetary aggregates are showing signs of moderating.

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OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|-----------------|-------------|--------|--|
| US | Overweight | – | The corporate sector is in solid shape and a weaker dollar is 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. OVERWEIGHT. |
| 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. NEUTRAL. |
| 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. NEUTRAL. |
| Japan | Underweight | ↓ | The sharp pull back in Japan's 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 consumer staples and capital goods. UNDERWEIGHT. |
| 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 OVERWEIGHT. |

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| | Policy | Change | Comment |
|------|-------------|--------|---|
| EMEA | Underweight | ↓ | 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. UNDERWEIGHT. |

The developed world appears to be on a firm path of sustained recovery. However, the recovery continues to be supported by rehabilitation treatment dispensed by central bankers. We note a de-coupling of policy between the US and Europe, both real and perceived. Market perception is that US policy decidedly more accommodative, and arguably, with the exception of the UK, it is. Markets also view Euro zone policy, both monetary and fiscal as being far more hawkish. Were it not for the ongoing need to support peripheral Euro zone members, we might agree. Peripheral financing challenges and ongoing Euro zone banking regulatory reform, will limit the extent to which any tightening can be effected. We continue to prefer the US over the Europe and Japan.

Inflation remains the greatest challenge for the emerging world, and should not be taken lightly. However, we believe that policy makers are taking more decisive steps to contain inflation, even at the expense of some growth. We are still, nonetheless, trading carefully, as profit margins could bear the brunt of the pressures over the near term. 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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