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EQUITIES	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	3 Yrs (%)
MSCI AC World	3.1	-5.5	1.9	1.9	11.5
MSCI World	3.3	-5.0	2.2	2.2	12.2
MSCI Emerging Markets	1.8	-9.2	0.0	0.0	7.7
MSCI USA	2.1	-2.7	5.9	5.9	29.9
MSCI Canada	0.8	-7.5	-5.2	-5.2	5.8
MSCI Europe	6.0	-8.3	-2.3	-2.3	-4.3
MSCI Japan	3.3	-6.3	-0.2	-0.2	-13.0
MSCI Australia	5.1	-5.1	-1.2	-1.2	13.5
MSCI AC Asia Ex-Japan	0.9	-7.1	2.2	2.2	8.6
MSCI Latin America	2.1	-13.5	-4.4	-4.4	3.6
MSCI EMEA	6.5	-9.3	1.5	1.5	10.9

Returns in Singapore dollars. Source: Bloomberg, 29 June 2012

Investor sentiment was buoyed by better-than-expected policy responses from Europe, the pro-bailout New Democracy's victory at the second Greek polls and prospects of fresh stimulus from the Federal Reserve and the European Central Bank (ECB). In particular, there was optimism that a credible roadmap leading to a resolution of the European debt crisis will be reached at the EU Leaders Summit at the end of the month. But the rally was neither strong nor sustainable as economic indicators deteriorated globally. In June, the MSCI AC World Index rose 4.7 percent in US dollar terms, with the EMEA and Europe ranked at the top. The worst-performing market was Asia Ex-Japan. The top performing sectors year-to-date are Technology, Consumer Discretionary and Financials. The Energy and Material sectors were the top underperformers.

European equities recovered in June mainly in anticipation of a convincing policy agreement at the European Union (EU) Summit on 28 and 29 June 2012 to resolve the European debt crisis. But the summit was not a game-changer as it lacked key details and carried significant implementation risks. For example, although the EU leaders agreed upon a single supervisory system that will eventually permit the European Stability Mechanism (ESM) to directly recapitalize the banks, this could be stymied by the long-drawn parliamentary approval process in each member state. Meanwhile, the economic momentum in Europe continues to spiral downwards with the Economic Sentiment Indicator dropping to 89.9 in June, or down 0.6 point from a month ago. In addition, business expectations remained pessimistic about final demand while manufacturers regarded their inventory levels as being above optimal levels. We now expect the Euro area GDP to contract by around 0.6 per cent in the second quarter from almost zero growth in the first quarter. Thus, the rally started to fizzle out as we enter July and the yields on peripheral countries are also heading up again. Europe remains a risk in our view.

US equities underperformed the global benchmark index in June on growing evidence that the economic recovery is weakening as a result of the deteriorating external environment and the financial stresses from the European sovereign debt problem. Moreover, the recovery in the US domestic demand is not robust enough to offset the slack in the external

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environment. Indeed, the American economy was growing at below-potential level of 1.9 per cent (revised down from 2.2 per cent initially) in the first quarter of this year. Additionally, the labour market also softened in the past few months and unemployment remains high at 8.2 per cent in May compared with 8.1 per cent in April. The Conference Board consumer confidence index softened to 64.9 in May from 68.7 in April, dampened by concerns over jobs. It is noteworthy that 41 per cent of the respondents said that it was difficult to find work, up from 38.1 per cent in April, while the proportion of respondents who were optimistic about job prospects declined from 16.9 per cent to 15.8 per cent. Meanwhile, core retail sales (excluding gasoline, cars and food services) were down by 0.1 per cent in May after April's 0.2 per cent decline. Although the manufacturing new orders component of the ISM Index improved to 60.1 in May, up from 58.2 in April and 54.5 in March, we think that this is not sustainable given the rapidly slowing European and Chinese economies which are key export markets for US manufacturing goods. The market was further disappointed by the US Federal Reserve's decision to extend Operation Twist by another US$267 billion instead of embarking on QE3. The market was further concerned that the Fed confirmed a sluggish economy by adjusting sharply downwards US's 2012 GDP growth and unemployment rate projections from estimates made two months ago. In 2012, the former expects the US economy to expand by between 1.9 per cent and 2.4 per cent compared with the previous estimates of between 2.4 per cent and 2.9 per cent.

While the major Asian markets of Korea, Taiwan, China and Malaysia were flat to weaker this month, most other markets posted gains on the back of a recovery in European equities. India was the best performing market as valuations have started to turn more favourable. Nevertheless, India's GDP growth slowed sharply to 5.3 per cent in the first quarter - the slowest pace in nine years. Given India's high fiscal deficit of 5.8 per cent presently against a target of 4.6 per cent and a public debt-GDP ratio of 68 per cent, the government has fewer policy options to cushion the downturn and to correct the increasingly serious supply-side problems that are constraining the economy. China was one of the weakest performing Asian markets as the government tries to engineer a soft landing without re-igniting a property bubble. Generally, the market was not excited by Bank of China's 25 bps cut in interest rate, the first since 2008. Other stimulus measures included speeding up infrastructure projects and offering tax incentives to buy energy-efficient home appliances. Overall, Asia is expected to post one of the highest growth rates globally and we continue to be overweight in the region. But our preference is on high-quality growth companies that are exposed to Asian consumption as opposed to export-related sectors.

In Japan, equities were lifted by improvement in European equities and better-than-expected economic data from Japan. In particular, domestic demand continues to be supported by the government's reconstruction demand. Retail sales advanced by 3.6 per cent in May compared with a year ago. Consumption is also likely to be boosted by pre-buying ahead of the consumption tax hike in April 2014. In 2012, real GDP growth is expected to average around 2.5 per cent, the bulk of which is from the one-off post-quake reconstruction efforts. But, Japan's potential growth rate is estimated at around 0.75 per cent which represents a weak level. Although we remain Neutral on Japan owing to its below-average returns on capital, we are positive on both the Consumer Staples and Consumer Discretionary sectors.

EMEA equities also did well in tandem with European equities. In particular, Poland, Hungary and Russia equity markets rallied. Our exposures are mainly to the Financial and Consumer Staples sectors in Poland while our exposures in Russia are mainly to the Energy, Consumer and Industrial sectors. We remain selective in these markets as they are relatively more vulnerable to any downturn in Europe.

The Latin American (Latam) market underperformed the MSCI AC World Index in June as the Brazilian Central Bank's (BCB) aggressive pursuit of expansionary monetary and fiscal policies to stimulate growth and domestic demand have not impacted the real economy yet. Nonetheless, the government's relatively healthy fiscal position and low public debt suggest the government can afford more stimulation ahead. For example, the Brazilian Selic interest rate has been lowered by 400 bps to 8.5 per cent since last August, but Brazil still has one of the highest real interest rates in the world. Thus, we can

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expect more interest rate cuts ahead. Overall, we continue to be Overweight Latam as a combination of rising consumption, growing urbanization and significant infrastructural spending indicates scope for positive earnings momentum ahead.

We continue to see a synchronized downturn in corporate earnings momentum across all markets in June especially in Europe and Latam. In Japan, the earnings per share (EPS) upgrades are not likely to be sustainable as the post-quake reconstruction effects wear off going forward. Thus, our earlier view of sub-par global growth and weak final demand remains. In addition, the European contagion risk remains material. Accordingly, we remain focused on more stable regions such as the US and continue to raise our exposures in the more stable and higher dividend-yielding sectors such as the Consumer Staples, Healthcare and Telecommunication. We continue to downsize our exposures in the more cyclically exposed sectors on liquidity-driven rallies.

Outlook and Strategy

	Policy	Change	Comment
US	Overweight	–	The Q1 2012 earnings season ended on a positive note with upward earnings revisions seen in April 2012. But management guidance is becoming cautious with companies like Cisco, Joy Global and Tiffany all giving negative outlook statements. Information Technology and Consumer Discretionary saw the biggest EPS upgrades while Energy and Materials have the poorest EPS revisions. Valuations in the US equity market remain attractive as the Price-Earnings Multiple of 13.42x is below long-term average while Earnings Yield gap stays high. We continue to favour the US over other developed regions. **OVERWEIGHT**.
Europe	Underweight	–	Earnings downgrades continued in Europe as consumer and investment spending are affected by the sovereign debt problem. Earnings momentum remains negative with EPS growth projected at 3.6% in 2012 and 11.9% in 2013 compared with 7.4% and 9.7% respectively at the start of the year. Given the deepening economic recession in Europe, we believe that earnings estimates are too optimistic and have significant downside risks for 2012 and 2013 estimates. **UNDERWEIGHT**.

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	Policy	Change	Comment
Asia (ex-Japan)	Overweight	–	Earnings momentum continues to stall in Asia with EPS growth estimates at 16.2% and 14.3% in 2012 and 2013 respectively, unchanged from a month ago. Asia remains vulnerable to the deepening European recession and the slowing China economy. Nevertheless, Asia continues to offer positive structural growth factors such as a burgeoning middle income class and growing urbanization, both of which should help support earnings. We have further increased our weights in Defensive sectors including Consumer Staples and Telecoms. **OVERWEIGHT**.
Japan	Underweight	–	Negative earnings revisions in Japan continue but at a moderating pace for FY 2012. The Bank of Japan extended its asset purchasing programme by ¥5 trillion which initially weakened the currency temporarily. Overall, however, we remain Underweight Japan given its less attractive longer-term growth profile. **UNDERWEIGHT**.
Latin America	Overweight	–	Earnings momentum continues to moderate with EPS growth projected at 5.1% in 2012 and 12.2% in 2013. Although the region, especially Brazil, is not immune to a slowing Chinese economy, it continues to be supported by positive structural factors such as a healthy debt position, rising domestic consumption and growing urbanization. Moreover, the 2014 World Cup and 2016 Olympics will spur substantial infrastructure developments ahead of these major world events. **OVERWEIGHT**.
EMEA	Underweight	–	The outlook for EMEA (Eastern Europe, Middle East & Africa) varies by region. Growth prospects in Eastern Europe remain uncertain owing to their close financial and trade links with Western Europe. The outlook in Africa and Middle East is clouded by growing political risks there. **UNDERWEIGHT**.

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