

## Japan Equity

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-0.8	-14.0	-10.5	-5.7
Nikkei 225	-0.8	-10.8	-8.8	-2.0
Topix	-0.8	-13.9	-10.2	-5.9
Jasdaq	0.8	-7.7	-4.5	1.2

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

TOPIX fell 0.8% to 838.48 in May. The rebound in equity prices proved to be short-lived as the market came under renewed selling pressure on concerns over a clouded outlook for the US economy, the European fiscal crisis, and a slowdown in emerging economies. In addition, a decline in international commodity prices triggered selling of resource-related stocks. Depreciation of the Yen towards end-May capped the market's losses.

The five best performing sectors included Air Transportation, Rubber Products, Precision Instruments, Pulp & Paper, and Retail Trade. The worst performers were Electric Power & Gas, Oil & Gas Products, Iron & Steel, Mining, and Nonferrous Metals.

### OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Neutral	–	Post-earthquake re-construction could help bring forward loans growth. Office real estate sector outlook is dampened as the earthquake may delay the recovery in office rentals although negatives are largely discounted.
Consumer	Neutral	↑	Less negative on autos on signs of supply chain recovery. Like selective opportunities within the retail space, e.g. niche players with room to gain share within the domestic market, and those with growing overseas exposure.
Technology	Neutral	↑	Less negative on technology on signs of supply chain recovery. Prefer tablet PC and smart-phone plays for the medium term.
Energy	Neutral	–	Further correction possible given weakening energy prices on "global soft patch".
Industrials	Overweight	–	Particularly upbeat on companies which are beneficiaries of re-construction, and with exposure to the emerging markets.

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Pharmaceuticals	Underweight	↑	Like generic companies because of the Japanese government's push for more affordable drugs. Pipeline risks and upcoming NHI price revisions in 2012 make the sector unattractive as a whole.
Materials	Neutral	–	Electric arc furnace companies could benefit from post-earthquake re-construction. Also like selected specialty chemicals and electronic materials stocks.
Info Communications	Neutral	–	Anaemic top-line growth makes the sector relatively unattractive, but valuations and dividends provide downside support.
Utilities	Underweight	–	Regulatory risks in the new term post-nuclear crisis. Unexciting medium-term prospects; and fair valuations. Prefer gas companies to electric power companies.

There are encouraging signs that the manufacturing supply chain, which was disrupted by the Great Eastern Japan Earthquake, is recovering rapidly. Normalization in industrial production is expected to help the Japanese economy emerge from the recession in 2QFY11 or 3QFY11. As reconstruction takes place, the Japanese economy should experience stronger growth through 2HFY11 and FY12. This will in turn drive a V-shaped rebound in corporate earnings. Weaker-than-expected global growth and delays in passing the supplementary budget aimed at reconstruction are among risk factors that could derail the recovery.

We have raised our weighting in Consumer Discretionary (mainly autos) and technology sectors to reflect our more optimistic view that the supply-chain recovery will lead to a sharp second-half earnings rebound. Against this, we have reduced our weighting in real estate as we believe the earthquake has delayed recovery in rentals for office properties. We are overweight Industrials, neutral Materials, Technology, Financials, Energy, and Consumer, and underweight Utilities, Pharmaceuticals.

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