

Japan Equity

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-2.7	-9.8	-9.8	-10.8
Nikkei 225	-0.0	-7.1	-8.0	-7.9
Topix	-3.0	-9.7	-9.5	-10.8
Jasdaq	0.2	-7.3	-5.3	-4.5

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

TOPIX fell 2.02% to 851.85 in April. The Japan market continued to be weighed down by the crisis at the Fukushima nuclear plant, and clouded corporate earnings outlook. The appreciation of the Yen during mid-month also dampened sentiment. The market subsequently rebounded as certain manufacturing plants affected by the disaster resumed operations, and several US companies announced robust earnings results.

The five best performing sectors included Food, Information & Communication, Rubber Products, Other Financing Business, and Retail. The worst performers were Other Products, Electric Power & Gas, Pulp & Paper, Marine Transportation, and Securities & Commodities Futures.

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	Underweight	-	Prefer consumer staples to autos and retail. Production disruptions are weighing heavily on auto maker's earnings. Protracted weakness in consumption is also negative for retailers.
Technology	Underweight	-	Production disruptions are likely to hurt earnings. Prefer tablet PC and smart-phone plays for the medium term.
Energy	Neutral	-	Valuations are undemanding, and prospect of stronger oil price in the near term bodes well for the sector.
Industrials	Overweight	-	Particularly upbeat on companies which are beneficiaries of re-construction, and higher commodity prices.

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Pharmaceuticals	Neutral	–	Like generic companies because of the Japanese government's push for more affordable drugs.
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	–	Unexciting medium-term prospects, and fair valuations. Prefer gas companies to electric power companies.

While the latest earnings season saw companies either project weak forecasts, or not come out with any earnings projections for FY11, the market's muted reaction to the announcements could suggest that a significant amount of bad news have already been reflected in equity prices. As activity levels normalize, and reconstruction demand kicks in around 2HFY11, we expect the economy to recover steadily and corporate earnings to rebound in a V-shaped pattern.

We are maintaining our sector weightings for now, but would look to add beta as we see more evidence that the worst is over. We are underweight Consumer Discretionary, Technology, and Utilities; neutral Materials, Telecommunications, Pharmaceuticals and Financials, and overweight Consumer Staples, and Industrials.

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