Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	5.5	6.9	13.9	5.5	33.6	38.9
MSCI Far East Free Ex-Japan	6.0	7.3	14.7	6.0	34.4	41.2
MSCI China	10.3	12.1	23.3	10.3	51.1	53.5
MSCI Hong Kong	2.6	7.0	9.3	2.6	23.0	33.0
MSCI India	1.4	3.4	6.8	1.4	27.1	19.3
MSCI Indonesia	1.3	7.3	6.5	1.3	19.5	20.6
MSCI Korea	1.5	2.1	11.2	1.5	30.6	48.7
MSCI Malaysia	6.1	12.1	14.3	6.1	21.5	3.2
MSCI Philippines	-3.1	0.3	2.4	-3.1	8.5	-1.4
MSCI Singapore	4.2	7.2	10.7	4.2	23.8	19.1
MSCI Taiwan	5.2	1.2	6.4	5.2	21.5	41.8
MSCI Thailand	6.3	11.5	23.6	6.3	30.8	33.4

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 January 2018.

Asia ex-Japan equities rose, outperforming their global peers as the exuberant market momentum from 2017 spilled over to the month of January. Investors grew more optimistic in the region as data continued to post strong exports numbers and sentiment that healthy global growth would further bolster corporate earnings. With the exception of telecommunications, all sectors booked gains. The financial sector saw the highest returns while energy and healthcare names rallied hard.

Global economic growth continued on a synchronised upturn. The official Purchasing Managers' Index (PMI) for the US came in at 59.1, alongside an economy which benefitted from gains in consumer spending and business investment. A pickup in wage growth, retail sales and inflation fuelled expectations of further US Federal Reserve (Fed) monetary policy tightening. Over in China the manufacturing PMI printed at 51.3 while the Caixin factory gauge was unchanged from the previous month. For Japan, the index rose with strengthening exports and a weaker Yen. In the Eurozone and India, manufacturing activity remained in expansionary territory.

China stocks registered stellar returns against the benchmark on positive fundamentals including better-than-expected economic growth numbers for 2017. Financials were the best performing sector as corporate deleveraging and a recovery in bank profit recovery drove upward re-ratings. Taiwan underperformed slightly despite a technology rally supported by an improving outlook for the semiconductor sector. Hong Kong underperformed despite the Hang Seng Index climbing to the highest levels in over a decade.

Korean equities underperformed over concerns of weakening handset demand and production cuts which weighed on companies operating in the technology component space. For India, the NIFTY underperformed with selling pressures hitting the telecommunications sector.

Overall, the ASEAN benchmarks underperformed. Thailand was the best performer from gains in energy names and an upward revision in economic indicators. Malaysia surged ahead of the benchmark amid financial names which benefitted from an increase in interest rates. Singapore underperformed with industrials and financials leading higher while telecoms and consumer discretionary lagged. Despite printing new highs, Indonesian stocks paled against the rest of the Asian peers. The country announced a new tax on e-commerce and its trade balance fell into deficits on rising oil and gas imports. The Philippine market sank into losses alongside peso weakness against the US dollar, inflation concerns and potential negative impact from possible tax hikes.

Asia ex-Japan Equity

Outlook and Strategy

Against the backdrop of a market plunge in the first week of February, the macro fundamentals remain strong. Data showed synchronised global growth still continues and inflation at benign levels, making only modest upticks in recent months. With the Fed on the path to hiking interest rates, long term interest rates have been increasing which steepens the yield curve and implies markets are pricing in improving prospects for long term structural growth. In addition, since a flattening yield curve foretells an impending recession, the current steepening of the yield curve signals the opposite effect and is a bullish indicator. We see this as a healthy pullback in the context of the surge over the past year. Consider the time period from 2003 to 2007, where the S&P 500 had 7 corrections of 5% or more, and markets proved to be resilient as they surged to new highs each time after the corrections. Over in Asia during the same period, the bulls were even stronger as the market recovered from 3 corrections of about 20%.

We believe there is room for global expansion to run. In the US, inflation is still contained, while the expansion is just getting started in Europe, with accelerating growth in developing regions. Equity valuations are attractive enough to withstand the moderate upward shift in risk free rates. And investors have been slow to shift their allocation to equities from fixed income in the current cycle. For now, we see any near term correction is an opportunity to buy during this bull market. We see good investment opportunities across all Asian markets. The region has seen improving returns on equity and upward revisions in corporate earnings for the first time in 2017 after 6 years of decline.

We are overweight on China. We favour structural growth areas which benefit directly from China's rebalancing, such as the consumer sector which are seeing strong earnings momentum and healthcare which enjoys strong policy support. We are also overweight on financial names. We expect corporate de-leveraging, lower non-performing loans and profits recovery to drive a continued re-rating for the banks. The insurers are seeing strong premium growth and benefit from higher bond yields. We are also overweight on the materials sector. We see better capacity discipline in the sector as a result of government supply slide reforms to stay for the foreseeable future. We have further pared down the technology sector to be slightly underweight. The sector has rerated very strongly last year and it will be difficult to continue beating earnings expectations to the same degree as they achieved last year. Slower smartphone sales are also a headwind for hardware component suppliers. We are underweight the defensive sectors including telecoms and utilities. We are neutral on Hong Kong. While the property market may face some headwinds from rising interest rates, the demand and supply balance remains tight. Hence, prices have remained resilient at lofty levels. Retail sales have stabilised and Macau gross gaming revenues continue to improve with the opening of new casinos on the Cotai strip and the recovery in VIP customers. In Taiwan, we maintain our neutral positioning. We like financial names which are under owned and trading at the lower end of historical valuations. Taiwanese financials should benefit from a rise in US bond yields and Fed rate hikes this year.

We remain on an overweight position in Korea. We believe that valuations in Korea are still attractive. However, given that the market has historically witnessed higher volatility other Asian markets, we should expect a little more fluctuations going into the recent corrections. The fundamentals of our holdings are still intact for the year. We are overweight financials which we think should benefit from higher net interest margins this year as we expect the Bank of Korea to hike rates later this year.

Over in ASEAN, we expect Singapore economy to continue to strengthen in 2018 after a robust 2017 as Singapore is a direct beneficiary of improving global economic growth. We believe consensus earnings upgrades could support further upside. We have reduced our underweight in Malaysia ahead of the coming general elections. For Thailand, we expect economic growth momentum to continue and benefit consumption demand. In Indonesia, early signs of stronger economic growth should be positive to consumption and business spending. We are seeing weaker trends in overseas foreign worker remittances for the Philippines and higher likelihood of rate hikes in 2018 due to rising inflation and the weak peso; we remain underweight on this market.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 January 2018 unless otherwise stated.

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