Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	1.7	-4.9	1.9	0.4	17.8	23.2
MSCI Far East Free Ex-Japan	1.4	-4.8	2.3	0.9	19.2	23.2
MSCI China	1.0	-8.7	2.4	0.7	28.4	16.1
MSCI Hong Kong	4.4	-1.7	5.1	0.9	12.5	21.8
MSCI India	5.3	-5.2	-2.0	-3.9	6.8	26.5
MSCI Indonesia	-3.8	-13.1	-6.8	-12.0	-5.2	13.7
MSCI Korea	3.1	-0.6	2.0	0.8	21.0	39.4
MSCI Malaysia	0.0	0.8	13.1	7.0	13.4	1.5
MSCI Philippines	0.3	-10.2	-9.9	-12.9	-7.2	-9.8
MSCI Singapore	7.3	3.8	11.3	8.2	23.3	17.8
MSCI Taiwan	-3.9	-5.4	-4.3	-0.5	7.7	26.6
MSCI Thailand	0.5	1.3	12.9	7.7	27.8	39.3

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 April 2018.

Asia ex-Japan underperformed the broader market in April as investors digested the implications of 10-year US Treasury (UST) yields breaching the 3 percent mark. The month was punctuated by noteworthy headlines including a conciliatory stance between the US and China on trade issues and an unprecedented meeting between the leaders of two Koreas.

Across the sectors, energy was the top performer as falling US stockpiles and Middle East production cuts stoked gains in oil. Defensive sectors including consumer staples, industrials, materials, telecommunications and utilities outperformed. The underperforming sectors were consumer discretionary, as well as healthcare. Even as industry giants reported a raft of positive earnings results, sentiment on high valuations and security issues weighed on investor headaches.

Economic fundamentals pointed to global growth moderating for the month. The official Purchasing Managers' Index (PMI) for the US declined to 57.3 from 59.3 the previous month. Elsewhere, the Chinese manufacturing PMI figure inched downward to 51.4 from 51.5, while the Caixin factory gauge upped slightly to 51.1. Eurozone manufacturing PMI dipped to 56.2 as the economy cooled and the IFO business confidence index dived to 102.1. Meanwhile, other major economies, Japan and India saw PMI numbers strengthening.

Though trade tensions alleviated after the leaders of US and China made conciliatory remarks, investors remained cautious on the second largest economy and stocks underperformed. Concerns over rising UST yields also dented market performance, alongside downgrade risks from large cap internet names. During the month, the central bank trimmed the reserve requirement ratio for banks to reduce funding costs. Taiwan markets dropped with low margins from mobile handset suppliers in the tech sector. Over in Hong Kong, local banks and Macau casinos led the index to outperform.

In Korea, the index outperformed the broader market thanks to solid tech earnings, strong retail support and perception that Korean companies would benefit on closer relations over the long term between the two Koreas. The momentous inter-Korean summit saw both sides agreeing on steps towards denuclearisation and cooperation to ease tensions. Forecasts of a regular monsoon season buoyed up sentiment in India for the NIFTY.

Asia ex-Japan Equity

Market performance in ASEAN was mixed. Singapore was the standout performer and the local bourse jumped to a 10-year record, primarily on gains from the three large banks that comprise the bulk of the index. Most sectors booked profits and the Singapore dollar strengthened against the US dollar. Malaysia was flat for the month, as investors dismissed positive trade data results and turned cautious after Parliament dissolved ahead of the general elections. Thailand underperformed on baht depreciation and the country's finance minister publicly voiced support for banking consolidation to support competition in the regional markets. Despite an upgrade from Standard and Poor's on its credit rating outlook, the Philippines underperformed. Indonesia sank into the red, weighed down by industrials, utilities and financials.

Outlook and Strategy

China industrial profits and corporate earnings rebounded strongly in 2017 helped by capacity rationalisation, improving utilisation and a rebound in producer price inflation. The producer price index reflation was largely driven by government-led supply side reforms and capacity rationalisation. Thus far, this year 2018, China continues to have one of the strongest positive earnings revisions in the region. With better economic growth and corporate earnings, this has given more breathing room for the government to step up on economic rebalancing, financial deleveraging and reforms. With a stable macro outlook, political backdrop and positive earnings revisions, we should expect China's rerating momentum to continue.

While China's fundamentals continue to look strong, the ongoing US-China trade tensions since March have rattled market sentiment. While we assess the growth and earnings impact on the market is muted, a long drawn out trade war and escalating retaliation beyond trade is damaging for both countries and all market participants. Our base case remains that there should not be a full on trade war as both sides know very well that they stand to lose in such a scenario. The US and China should eventually come to a deal with some tariffs and undertakings from China to further open its market to the US.

We are overweight on China. In China, we favour cheap cyclicals where we believe stock prices have not kept up with the structural and earnings improvement. We are also overweight on the financial sector, particularly the banks. We expect corporate de-leveraging, profits recovery and consequently lower non-performing loans to drive a major re-rating for the banks. The adoption of the IFRS 9 puts the Chinese banks on global best practice accounting standards, and we believe the greater transparency and clarification should allay investors' concerns. The large banks are trading below book value but with returns well above cost of capital and with improving earnings momentum. We are also overweight on the materials sector. We see better capacity discipline in the sector as a result of government supply slide reforms continuing for the foreseeable future. Earnings should be less cyclical than before. Stock prices have not caught up with the improvement in earnings, and the sector is still very cheap despite its much improved profitability.

We are underweight on Hong Kong. The higher HIBOR rates are catching up with LIBOR, alongside liquidity withdrawals from the market as the government defends the HK dollar peg which could weigh on the market. The residential property market faces headwinds from rising interest rates and stretched affordability, even as tight demand and supply now are keeping prices elevated. Within property, we have an underweight position on the residential segment, and prefer the office and retail landlords, given strong office rental trends and recovering retail sales. We are also overweight on the HK retail sector given the strong revival of inbound tourism.

We are currently underweight on Taiwan, given the headwinds with disappointment in iPhoneX sales and weak guidance from a major semiconductor manufacturer. The US ban and ongoing investigations on other major giants have cast a cloud on the entire communication sector, impacting other tech stocks. We are underweight on technology and more overweight on non-tech sectors like materials and consumer. Nonetheless, when the dust has settled, we look to re-position in some of the Taiwan tech names again as we should expect a seasonal pick up in the third quarter of the year.

As for Korea, positive sentiments generated by the North Korea-South Korea summit, and better than expected results that were announced from the financial and consumer staple sector. The technology sector, have also done well this month after recovering from fears earlier in the year that DRAM/NAND and OLED panel prices might drop

Asia ex-Japan Equity

drastically this year. On the contrary, we saw higher DRAM prices in the first quarter and firmer than expected NAND prices and higher utilisation rates for their OLED plants.

We continue to maintain our constructive view on the Singapore market given the broad based economic growth momentum and relatively attractive valuation. We expect the Singapore banks to benefit from rising interest rates which should positively impact interest margins and hence earnings growth. For Thailand, while the economic growth outlook remains positive, valuations have caught up and we continue to keep the market as neutral. In Indonesia we have become more concerned over the weakening rupiah which could lead to fund outflows. We have turned slightly more positive on the Philippines given expectations that the central bank will hike rates in order to control inflation. This should help to stabilise the peso and reduce fund outflows.

All statistics quoted in the write-up are sourced from Bloomberg as at 30 April 2018 unless otherwise stated.

Contact Details

SINGAPORE
UOB Asset Management Ltd

Address	80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
Tel	1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax	(65) 6532 3868
Email	uobam@uobgroup.com
Website	uobam.com.sg

MALAYSIA
UOB Asset Management (Malaysia) Berhad

Address	Level 22, Vista Tower, The Intermark No. 348 Jalan Tun Razak, 50400 Kuala Lumpur
Tel	(03) 2732 1181
Fax	(03) 2732 1100
Website	uobam.com.my

THAILAND
UOB Asset Management (Thailand) Co., Ltd

Address	23A, 25 Floor, Asia Centre Building, 173/27-30, 32-33 South Sathon Road, Thungmahamek, Sathon, Bangkok 10120, Thailand
Tel	(66) 2786 2000
Fax	(66) 2786 2377
Website	uobam.co.th

BRUNEI
UOB Asset Management (B) Sdn Bhd

Address	FF03 to FF05, The Centrepoint Hotel, Gadong, Bandar Seri Begawan BE 3519, Brunei Darussalam
Tel	(673) 2424806
Fax	(673) 2424805

TAIWAN
UOB Asset Management (Taiwan) Co., Ltd

Address	Union Enterprise Plaza, 16th Floor, 109 Minsheng East Road, Section 3, Taipei 10544
Tel	(886)(2) 2719 7005
Fax	(886)(2) 2545 6591

JAPAN
UOB Asset Management (Japan) Ltd

Address	13F Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo 100-6113 Japan
Tel	(813) 3500-5981
Fax	(813) 3500-5985

Important Notice & Disclaimers