

Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	5.2	6.5	15.6	29.3	28.0	37.9
MSCI Far East Free Ex-Japan	4.9	6.9	16.5	29.9	29.0	39.4
MSCI China	4.4	10.0	25.4	40.4	38.3	51.7
MSCI Hong Kong	0.8	2.2	7.0	20.8	15.6	33.6
MSCI India	8.1	3.3	8.9	25.9	20.7	25.2
MSCI Indonesia	0.6	-0.7	1.7	9.2	4.1	16.6
MSCI Korea	9.0	8.8	18.5	34.8	38.4	49.4
MSCI Malaysia	0.2	1.9	0.3	8.9	4.0	-15.3
MSCI Philippines	1.4	2.1	2.9	11.0	4.1	12.2
MSCI Singapore	5.4	3.3	10.8	22.0	27.2	15.3
MSCI Taiwan	7.0	5.2	12.5	24.3	23.9	47.3
MSCI Thailand	2.8	10.8	13.2	19.1	24.4	22.9

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 October 2017.

Asia ex-Japan equities rose in October, outperforming global equities after a series of optimistic data reports bolstered confidence on global growth while investors awaited the outcome of the next US Federal Reserve (Fed) chairman. The dollar pared down its advance after reports surfaced that Governor Jerome Powell emerged as the frontrunner to lead the Fed. Energy rallied ahead of equities as US crude and gasoline stockpiles dwindled alongside a Middle East conflict that threatened to constrict supply.

Across markets, India, Korea, Singapore and Taiwan outperformed while China, Hong Kong, Indonesia, Malaysia, Philippines and Thailand underperformed. The healthcare sector was the strongest performer. Other outperformers included consumer staples, and information technology. Underperformers were consumer discretionary, financials, real estate, industrials, materials, telecommunications and utilities.

Economic data moderated from the previous month, though the growth momentum continued. In the US, the manufacturing index slipped to 58.7 after the previous peak of 60.8. China's official Purchasing Managers' Index (PMI) scaled down to 51.6, although the private sector Caixin was flat from the previous month. Japan went down to 52.8, while the UK strengthened slightly to 56.3.

Despite PMI in India slowing to 50.3, the benchmark outperformed the region on better than expected earnings results in the telecommunications sector. Meanwhile price increases in crude oil fueled the energy sector and a substantial government package to recapitalize state-owned banks added to the rally.

Korea stocks closed in at records as the best performer, amid foreign investors returning to the market as the won appreciated against the greenback. The improving market demand from Chinese consumers continued to drive strength in cosmetics, autos and retail.

China underperformed in the backdrop of the 19th party congress showcasing its new leadership team for the next five years. The congress elevated President Xi Jinping's power with his philosophy enshrined alongside the thoughts of previous leaders. Hong Kong showed a poor performance with traders citing a lack of concrete messaging from the congress. Taiwan outperformed as technology names lifted the index with strong sales numbers.

With the exception of Singapore, all other markets in ASEAN underperformed. Singapore stocks edged slightly ahead of the benchmark, supported by local banks. A fresh fervor of redevelopment sales in the residential sector spread to commercial projects. Indonesia's underperformance was driven by soft earnings in the third quarter, persistent outflows, rising bond yields and a weaker rupiah. Malaysia underperformed even with an expansionary

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budget was announced ahead of political elections in 2018. The Philippines saw strong remittances growth offset by weak car sales while the government relaxed foreign investment restrictions into mass media and other sectors. In Thailand, the end of the year-long mourning period for the former King lifted stocks slightly as economists forecast a revival of consumer spending.

Outlook and Strategy

Asia continues to see improving returns on equity (ROE) for the first time in 6 years and upward revisions in corporate earnings that outpace global markets. Moreover, these improving ROEs have been achieved with rising margins and sales and lower corporate gearing. Despite the strong run year to date, Asian market valuations are still reasonable, at the 10 year historical mean level on a price-to-book basis, though above mean on price to earnings. Foreign fund inflows into the regions have remained strong for the 2nd year in a row.

We continue to prefer North Asia over Southeast Asia and India on stronger earnings momentum and cheaper valuations. China's economic growth remains steady and corporate earnings have been surpassing expectations and are on an uptrend. We expect more state-owned enterprise (SOE) reforms post the 19th Party Congress that will focus on state capital supervision and mixed ownership.

Korea was one of the strongest performing markets in the month of October, as threat of a war at the Korean Peninsula receded. Market sentiment for Asian Technology stocks was buoyed by rally in US Nasdaq and strong corporate results. The portfolio has increased its exposure in Korean and Taiwan Technology names since the recent consolidation.

In India, market sentiment was given a boost when its Ministry of Finance announced public sector banks' recapitalisation program of USD32 billion, amounting to 1.3% of GDP over the next 2 years. Indian state-owned banks and other private banks with huge non-performing loans (NPLs) were given a lift as investors believed that the NPL cycle could have peaked. Basic material stocks were also given a boost as the India government announced mega plans for the construction of 83,667 km of road network over 5 years. We are selective in India due to its rich valuation, and are positioned in banks and material sectors.

The ASEAN market performance was driven primarily by Singapore and Thailand in recent months, while Malaysia, Indonesia and the Philippines underperformed. The strength in the Singapore market was led by the property, banks and industrials sectors. The Property Price Index showed the first positive growth in 15 quarters and the onslaught of en-bloc activities further boosted sentiments for the physical market. The banks also performed well as loans growth was strong. In Thailand, expectations of improving economic growth and recovering consumption demand led the market higher.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 October 2017 unless otherwise stated

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