Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	-3.1	-2.0	4.6	-2.0	13.3	22.7
MSCI Japan	-2.9	-1.1	5.9	-1.1	12.4	22.6
MSCI AC Asia Ex-Japan	-2.5	-1.4	5.3	-1.4	18.3	25.3
MSCI Australia	-6.2	-7.4	-2.2	-7.4	-3.3	10.6

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

Asia Pacific equities underperformed the broader global market index as fears mounted over escalation of protectionist US rhetoric that would dent the export-reliant region. Despite the US Federal Reserve (Fed) hiking interest rates by 25 basis points (bps) as widely expected, a risk-off sentiment crept in and investors rotated allocation into defensive sectors from cyclical plays.

Defensive sectors including consumer staples , healthcare, and utilities outperformed during the month while cyclicals such as materials, consumer discretionary, and financials underperformed. Energy also underperformed. Within the region, Asia ex-Japan and Japan outperformed while Australia underperformed.

Australian equities underperformed in a challenging month. All sectors slid into losses with the exception of real estate investment trusts. Data released in March showed growth came in below expectations and unemployment rose.

Over in China, equities reacted negatively to the US-China trade spat and underperformed the benchmark. Consumer discretionary and industrials fared poorly, and information technology slumped after the Trump administration initiated a case against Chinese technology licensing practices. Other highlights during the month included a removal to the country's presidential term limits and a conclusion to the National People's Congress meeting announcing new reforms. The Hong Kong market saw a volatile month while Taiwan remained resilient on a positive outlook for the semiconductor sector.

In India, the NIFTY saw a weak month, weighed down by a looming domestic political campaign and fears of protectionist trade measures from the US.

Conversely in Korea, stocks were lifted by positive sentiment with a planned meeting between the US and North Korea, stoking hopes of denuclearisation in the North.

The Japan index outperformed even as the economy continues to face headwinds and signs that its longest run of expansion could end. The yen strengthened slightly against the greenback.

Market performance in ASEAN was varied even as it performed in line with the benchmark. Malaysia registered gains during the month as the market typically maintains a defensive stance amidst any regional sell down. Reports surfaced that the country's Prime Minister Najib Razak could dissolve parliament in the coming weeks which would pave the way for a general election. Thailand outperformed regional peers with investors rotating into defensive sectors including healthcare, telcos, and consumer staples. Financials fell as Thai banks faced revenue pressures from slashed online transaction fees. Indonesia had all sectors in the red as market jitters surfaced from the US-China trade dispute. The Philippines witnessed the sharpest drop in the region over inflation concerns which came up above the central bank target, alongside a reluctance to hike rates. Singapore outperformed the index, buoyed by optimism in the real estate sector.

Asia Pacific Equity

Outlook and Strategy

Japan was one of the biggest positive contributors for the month as our underweight and defensive positioning in Japan helped us when the markets were selling off. We were also helped by our overweight on Hong Kong and China which had proven to be more resilient in the downturn than expected. More specifically, our holdings in the materials sector contributed meaningfully to the performance this month as cement companies reported much better than expected 4Q17 results. We remain overweight in the sector as we believe that investors are still underestimating the earnings growth for the sector this year. Valuations are cheap and this should give us good upside going into the next few quarters.

Malaysia, on the other hand, had not done as well this month. We saw heavy selling in many of the midcap stocks in the markets and these have significantly underperformed the index stocks. We are confident that the fundamentals and growth prospects for these companies remain intact and might be looking to buy into this sell down in the short term. We will also be keeping a close watch as Malaysia approaches the general elections, which is widely expected to be held in the coming months.

South Korea had also detracted from performance this month as weaker seasonality for technology companies weighs on stock prices. A similar weakness technology stocks was also seen in Taiwan. This period of share price in the sector is not unusual but we think this could reverse soon as we enter into the traditional peak season for the sector starting from May. We are comfortable with the business performances of our holdings currently and their share prices should pick up in the coming months.

Going forward, in the next couple of months, the markets are likely to be volatile especially caused by concerns on a brewing trade war between China and the US. It is still a little too early to conclude if the trade war itself will actually materialize and hence it is unclear what impact it might have on the companies that we have invested in. However, we remain cautiously optimistic, after reviewing our holdings, that most of the companies we have in the portfolio should not see major disruption in their business should there be an actual trade war. We will continue to monitor the developments closely and will react accordingly should the external environment turn unfavourable.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 March 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

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