Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	1.2	6.5	10.6	22.1	22.1	38.5
MSCI Japan	0.4	7.0	9.7	15.0	15.0	41.6
MSCI AC Asia Ex-Japan	1.6	6.5	12.0	31.0	31.0	37.8
MSCI Australia	4.2	5.6	7.6	12.9	12.9	28.2

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

Asia Pacific equities rose in December, outperforming the broader global market index. Within the region, Australia and Asia ex-Japan outperformed while Japan underperformed.

The energy sector led gains for the month over strong crude inventory draws in the US as well as record breaking low temperatures for the winter season which raised demand for natural gas and electricity. Other outperformers were consumer discretionary, consumer staples, financials, real estate, healthcare, industrials and materials. Underperforming sectors were information technology, telecommunication services and utilities which also sank into the red.

Australia equities outperformed the index, amid rising employment, rising retail sales and better consumer confidence. Energy and material gains buoyed the index, while its currency appreciated against the US dollar.

China stocks underperformed the benchmark during the month where financial regulators tightened bank liquidity management. The country concluded its Central Economic Work Conference and outlined steps to tackle financial risks and signalled a will to rein in credit growth. Taiwan underperformed as its tech sector continued to witness outflows as investors rotated allocation to non-tech sectors. Hong Kong was lifted by Macau casino names while property stocks shrugged off the higher interest rates and climbed upward.

Korean equities underperformed amid investors who sold off for profit taking. Over in India, the NIFTY turned positive from the previous month and outperformed on the back of gains in the consumer discretionary, telecoms and the materials sector.

The Japan index underperformed despite positive headlines. The country's manufacturing activity expanded at the fastest pace in nearly four years while the unemployment rate fell to its lowest levels since 1993 and household spending rose more than expected. A survey from the central bank showed that business confidence shot to a 11-year high, with signs of strengthening exports and rising corporate profits.

Overall, the ASEAN markets fared better than the benchmark. Indonesia was the top performer for Asia ex-Japan as the country saw its second sovereign rating upgrade, with all sectors booking absolute gains for the month. Thailand rose as the central bank raised GDP forecasts higher with a rally led by energy, tourism, consumer and telecom sectors. The Philippines gained as President Duterte approved the first tax reform package slated to boost revenues that will spur infrastructure spending. Malaysia outperformed, notably on bank performance, healthcare and consumer staples. Singapore was the only underperformer despite stronger than expected growth numbers for the fourth quarter of 2017.

Asia Pacific Equity

Outlook and Strategy

We believe that the Asia Pacific markets continue to offer exciting investment opportunities for growth investors over the long term. Valuations for Asia Pacific equities are attractive. The aggregate market performance has been encouraging especially in Asia ex-Japan as the region resonates with the global economic upcycle. However, we remain mindful that growth within the region remains uneven and fundamental sector, country and stock selection will remain crucial.

The current positioning of the Asia Pacific strategy is to be overweight on Asia ex-Japan and Australia. The position is funded from an underweight position in Japan. This is a result of bottom-up securities selection and does not necessarily reflect our view on the respective regions. The overweight position in Asia ex-Japan is mainly due to the relative attractiveness of Indonesia and India financials against the rest of the region. Similarly, the underweight position in Japan reflects our concern on the operating prospects of Japanese financial companies.

In terms of sector allocation, our strategy is to be overweight on the financial and technology sectors. We believe the longer term trend for the technology sector remains positive as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies. The financials sector should also benefit from the reflation trade that is occurring across the world as inflation starts to normalise. We are also underweight on the materials sector due to concerns over incremental demand from China, which appears to be rolling over from peak demand earlier in the year.

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

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