Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	-2.6	2.5	8.5	1.2	18.8	28.4
MSCI Japan	-0.5	2.3	11.3	1.9	15.6	29.7
MSCI AC Asia Ex-Japan	-4.2	3.0	7.7	1.1	25.1	30.2
MSCI Australia	-1.8	2.9	3.3	-1.2	6.1	16.2

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 28 February 2018.

Asia Pacific equities outperformed the broader global market index amid a period of equity sell-offs that began as a systematic correction in US stocks. Investors sought justification to the sell-offs including a systematic correction in US stocks, a surge in the 10-year US Treasury yield, a nearing of US Federal Reserve (Fed) tightening measures and mounting risks from US fiscal deficits. Within the region, Asia ex-Japan underperformed while Japan and Australia underperformed.

With the exception of the healthcare sector, all sectors booked losses for the month. Energy, financials, real estate, technology, materials and telecommunication services underperformed. Utilities, consumer discretionary and consumer staples outperformed.

Australian equities outperformed the index on improving business confidence index levels. During the month, retail sales pulled back and the trade deficit worsened from a surge with import values of fuel. Healthcare and consumer staples were the best performers, while telcos and energy stocks lagged.

China stocks were particularly one of the hardest hit markets in the region despite a good set of earnings results and solid fundamentals. The defensive nature of consumer staples performed as the best sector. For Hong Kong, the index fared better than the benchmark buoyed by banks on a good set of earnings results and the increasingly probability of a Fed rate hike. A technology driven sell-off dragged Taiwan stocks lower as tech giants reported weaker-than-expected sales revenue and earnings results.

Similarly in Korea, global flows rather than fundamental drivers sank equities into the red. With the exception of healthcare, all sectors remained in negative territory. India was the worst performing market as the biggest banking fraud case hit the nation.

The Japan index fared considerably better against Asian counterparts as stocks led the rebound after the global correction. The country's largest banks signalled confidence in the central bank's ability to control the yield curve and cap interest rates by purchasing a record sum of government bonds.

Overall, the ASEAN market did better than the benchmark. Thailand was the only market to register gains for the month. Thai stocks were sheltered from the global rout in part due to demand from local retail investors and improving economic figures. Meanwhile the Philippines did worse as investors were spooked by a peso depreciation which was spurred by a record trade deficit. Malaysia's defensive energy sector helped to cushion the global sell-down. Singapore's losses were kept low as three local banks, comprising the lion's share of the market remained in the green. For Indonesia, the materials and utilities sector led the market. The country announced plans to reintroduce sugar tax and President Jokowi nominated a deputy governor at Bank Indonesia, as the sole candidate to replace Governor Agus Martowardojo whose term ends in May.

Asia Pacific Equity

Outlook and Strategy

February has been a challenging month. There had been increased volatility in the market in general and saw selling pressure across the board for Asia Pacific equities with North Asian markets taking the brunt of the sell down. Our positions China and Korea in particular were more impacted by the selling. With Korea and Taiwan, technology stocks continue to show lackluster performance as the first quarter would normally be the low season for the year.

We remain positive in general on the outlook for Asia Pacific equities for the rest of the year. We do expect the markets to be more volatile this year after a relatively peaceful 2017. The sell down witnessed in February can be seen as a healthy pullback for markets. We have taken the opportunity to re-position the Fund and to buy stocks that have been sold off excessively relative to their fundamentals. We still like the North Asian markets and are closely monitoring several companies there that are likely to enjoy strong growth this year for possible entry points.

We are currently underweight on Japan which we think might underperform when the market corrects in the short term. However, should the market go through a meaningful correction in the near term, we will most likely increase our positions there. For ASEAN markets, our preference is for Singapore given the resilience of the companies and the relatively lower valuations.

All statistics quoted in the write-up are sourced from Bloomberg as at 28 February 2018 unless otherwise stated.

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