



EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	8.0	8.7	2.9	9.3
MSCI Far East Free ex-Japan	7.3	8.8	2.1	8.3
MSCI China	5.5	3.7	-4.7	4.1
MSCI Hong Kong	10.4	14.1	7.5	10.5
MSCI India	16.2	15.0	17.1	25.8
MSCI Indonesia	10.8	10.0	24.3	29.9
MSCI Korea	8.7	10.2	4.1	6.3
MSCI Malaysia	2.3	10.8	19.0	25.8
MSCI Philippines	15.9	20.7	26.9	38.5
MSCI Singapore	4.9	8.1	4.5	13.7
MSCI Taiwan	7.7	9.0	-5.5	1.9
MSCI Thailand	10.3	23.4	33.7	34.8

Returns in Singapore dollars. Source: Bloomberg, 30 September 2010

Asian equity markets rose as Asian growth remained resilient in the face of a US slowdown in 2Q10. Domestic demand contribution to growth in Asia has risen significantly in recent quarters with the support of accommodative monetary policies. On the global front, the US Federal Reserve kept its benchmark fed funds target rate unchanged at a range of 0.00% to 0.25%, in line with consensus expectations, and maintained the extended period language. The Fed will provide additional quantitative easing (QE) in the future “if necessary” to support the economic recovery.



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OUTLOOK AND STRATEGY

	Policy	Change	Comment
Industrials and Utilities	Overweight	–	The alternative energy sector is set to grow strongly as countries hasten their efforts to diversify energy sources. We favour Nuclear and Wind energy plays due to favourable long term dynamics. Growth potential is the strongest in Asia, with China, India and Korea leading the way. In Water & Waste Management, companies specialising in turning waste to energy look interesting, especially in China.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and we expect government policies to remain very favourable.

We expect Asian economic growth momentum to slow as we enter the second half of the year. Purchasing manufacturing indices in the United States and China have peaked and are pointing to a moderation in exports growth over the next two quarters. Nonetheless, we remain sanguine as this moderation typically happens a year into the economic recovery.

The 2Q10 earnings season has been encouraging with the majority of Asian corporates continuing to beat analysts' projections. Earning revisions have thus remained positive, albeit growing at a slower pace than at the beginning of the year. In our opinion, an overall downward earnings revision is not likely given that we do not expect a double-dip recession.

In Europe, concerns over its sovereign debt issues and government efforts to reduce the debt burden may weigh on global demand. However, we think faster growing Asian economies should continue to fuel trade in the region. While we think policy normalization in Asia will persist, we believe the market is pricing these worries in and will focus again on fundamentals.

Our key strategy going forward is to maintain our growth bias and focus on Asia's robust domestic demand, which in our view will drive corporate earnings growth and valuation expansion.



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