Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	0.7	-0.6	-4.3	-0.6	7.4	27.2
MSCI Japan	0.4	-0.7	-2.0	0.4	9.5	20.4
MSCI AC Asia Ex-Japan	0.8	-2.5	-7.3	-2.1	5.8	32.1
MSCI Australia	2.0	8.3	3.1	3.8	8.7	32.3

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

Asia Pacific equities underperformed the global markets in July with the region's sensitivity from the ebb and flow of trade rhetoric from the Trump administration. Japan underperformed while Australia outperformed. Risks from emerging markets abated while US Treasury yields rose on the back of concerns that global central banks were leaning increasingly less accommodative.

The energy sector was the best performer, even as prices retreated from expectations that potential trade wars would threaten demand. Outperformers were financials, materials, telecommunication services and utilities. The underperforming sectors were consumer discretionary, consumer staples, real estate, healthcare, industrials, and technology.

Markets in Australia outperformed as the bourse hit a near 10-year high. Energy companies led the advance alongside technology names. Employment increased, while consumer confidence and retail sales rose. The April trade report showed a surplus helped by higher exports.

The Japan index underperformed as the Bank of Japan (BOJ) announced policy changes that saw more flexibility for the Japan Government Bond yield to move around 0%. Investors interpreted the move to be accommodative, overturning sentiments that the BOJ would soon undertake policy normalisation.

Markets in China sank into the red amid a slow of developments on the mainland. While policymakers signalled more support to stimulate economic growth, the tightening financing conditions for businesses and clampdown on debt dented the overall market sentiment. The trade tensions with the US escalated as another US$200 billion worth of tariffs were announced. Hong Kong was in better shape as the defensive sectors led while Taiwan was supported by large cap technology names including semiconductors that saw strong earnings and guidance from major companies.

Korean markets also saw a negative month with the overall lack of strong catalysts and a correction in healthcare stocks. The index ended on a mixed set of results after technology component names delivered a set of upbeat earnings. For India, the NIFTY outperformed and rallied with crude oil price declines and cuts in taxes for a set of consumer items which boosted sentiment.

All ASEAN markets outperformed, reversing fortunes from a lacklustre performance the previous month. In Indonesia, energy stocks rallied and the leaders of six political parties supporting President Joko Widodo's reelection bid agreed on a vice presidential candidate. The Philippines bounced back from declines, alongside hawkish comments from the central bank signaling strong monetary policy action. Malaysia followed the lead of its neighbours and announced it would revive a plan for high speed rail with Singapore. Over the causeway, the STI managed to stay in the black, despite a new surprise round of property measures to cool the market. Thailand was the best performing market in Asia as the Thai banks beat market consensus with improving loan growth and expanding net interest margins.

Outlook and Strategy

We continue to see a drag from China this month following further depreciation of the RMB. This is despite the fact that many of the companies we own in China are reporting very strong profit growth. As a result of the recent sell-

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Asia Pacific Equity

down, many of these stocks are now trading at very attractive levels and we will be looking to add to our positions selectively at current levels. We are also seeing detraction in performance from South Korea, where our overweight in consumer staples have been hurt recently following the unexpected announcement by the government to increase minimum wages just many small-medium enterprises (SMEs) are already struggling with increased costs and a subdued growth environment. Here again, we are seeing valuations that are at multi-year lows and trading at much lower valuations than regional peers.

Given the current pessimistic sentiments, investors have been reacting to any negative macro-economic news flow by selling down their holdings in stocks without much regard to fundamentals or valuations. For investors with a medium to longer term horizon, we believe that many companies are already trading at very attractive earnings multiples. Although it may not go up immediately from current levels in the coming weeks or months, we believe that patience in holding on to good companies trading at attractive prices will eventually pay off. Meanwhile, we just have to endure the volatility and uncertainty in the short term.

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