Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	0.5	7.3	13.9	9.0	6.2	18.1
MSCI Far East Free Ex-Japan	0.4	7.7	14.0	9.5	6.5	16.5
MSCI China	0.1	11.9	16.1	4.8	1.1	21.1
MSCI Hong Kong	0.9	7.3	14.4	9.1	7.7	32.9
MSCI India	1.7	3.2	12.8	4.9	3.5	39.7
MSCI Indonesia	2.0	7.3	20.0	26.1	32.3	28.3
MSCI Korea	-1.9	3.7	10.2	9.3	4.9	4.1
MSCI Malaysia	1.7	2.0	-1.7	3.0	6.1	-16.3
MSCI Philippines	-1.2	-6.6	4.4	2.9	0.9	22.5
MSCI Singapore	-2.0	-0.9	-0.9	-0.9	-4.4	-6.4
MSCI Taiwan	3.5	10.2	26.0	22.1	18.2	36.2
MSCI Thailand	-0.5	1.0	10.6	24.3	11.8	6.8

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 October 2016.

Asia ex-Japan equities moved slightly higher in October 2016, underperforming most other emerging markets, but performed slightly better compared to global markets. Investors remained bullish on a Clinton win in the lead up to election day as markets priced in expectations that global trade would remain business-friendly.

Asia ex-Japan markets climbed after releases of U.S. economic data generated optimism about the health of the world's largest economy. Gold prices gained with higher demand for safe haven assets, on sentiments that Republican candidate Donald Trump may prevail over Hillary Clinton in the US Presidential elections. Energy prices meanwhile retreated on a lack of consensus from OPEC countries to agree on output quotas.

Most markets across Asia ex-Japan saw a modest performance on an upbeat corporate earnings season and improvements in manufacturing activity worldwide. Thailand, Philippines, Singapore and Korea posted losses while China, Hong Kong, India, Indonesia, Malaysia and Taiwan outperformed. Sector performance was mixed in October. The energy sector emerged as the best-performing despite declining energy prices, while financials, industrials, materials and information technology outperformed. Consumer discretionary, consumer staples, real estate, healthcare, telecommunications and utilities underperformed.

Economic indicators across the region mostly painted a positive outlook. China's manufacturing activity saw a pickup with both the official Purchasing Managers' Index (PMI) the private sector Caixin PMI edging up to 51.2 from the previous month. PMI numbers in Japan, Eurozone, US, and India strengthened while PMI in the UK declined, though still in expansionary territory.

Across the Greater China markets, the Taiwan market was the best-performing bolstered by the IT and materials sector. Cement names rallied with expectations of price hikes from China while the technology supply chain saw a boost from higher PC demand. China underperformed on weak exports, coal output reduction and further property tightening measures.

Korea was one of the worst performing markets on recalls of large volumes of handsets. Over in India, the NIFTY outperformed for the month as the new central bank monetary policy committee voted to cut benchmark rates amid weak growth indicators.

Performance across the ASEAN market was mixed with policy and political headlines taking centrestage. Indonesia outperformed even with slowing rates of take-up from its tax amnesty program while Malaysia saw

Asia ex-Japan Equity

shares bolstered by announcement of its 2017 government budget. Thai equities tumbled as the nation mourned the loss of its monarch，while the Philippine market saw a reversal in a rally after media reports questioned the quality of deals brokered by President Duterte with China. Meanwhile Singapore underperformed as policy makers in the city state adjusted quarterly economic growth statistics downward citing growth headwinds.

Post US elections note: Asia equities retreated on bets that the US Federal Reserve would raise interest rates in anticipation of higher inflation from President elect Donald Trump's fiscal stimulus plans.

Outlook and Strategy

Growth in Asia has been slower this year led by China while domestic-oriented economies including India, Indonesia, Philippines and Thailand have enjoyed stronger growth. Against the backdrop of subdued global growth, Asian corporate earnings for the last quarter have been mixed with downwards earnings revisions in ASEAN and India. On a positive note, there have been earnings upgrades in North Asia including Korea, Taiwan and China.

Investors turned more cautious in Asia as the US Presidential elections drew nearer in the month. Expectations for the US Federal Reserve Bank to raise rates by the end of the year have also led to recent weakness in Asian currencies. Within the region, central banks have kept rates on hold with the exception of India which cut rates last month. Given that inflation and growth are still below the target range, monetary policy is still expected to remain accommodative next year.

In China, macroeconomic indicators suggest some stabilisation in the economy even as China continues its focus on corporate deleveraging and reform. Economic restructuring will result in short-term slowdown but is an important step towards building medium-term resilience of China's economy. The current positioning of the Asia strategy is to be neutral on China, and to favour technology and internet related sectors which are seeing stronger growth.

Valuations in Asia are still attractive, below the mean level on a price-to-book basis. In the near term, an appreciating US dollar presents headwinds to Asia markets but this is will be beneficial for exporters and allows Asia to regain cost competitiveness. As the fiscal positions of emerging Asian economies including Indonesia and India have improved, currency weakness should be limited. Notwithstanding short-term challenges, Asia's favourable demographic trends and rising incomes underpin the long-term fundamental growth potential of the region, making it an attractive investment destination.

We maintain a neutral position in Hong Kong as property prices and visitor arrivals are stabilising. In Korea and Taiwan, we are focused on bottom-up investment opportunities in the technology sector which saw improvements in earnings driven by new products and technologies. In ASEAN, we remain optimistic on Indonesia as lower interest rates and improvement in confidence should flow through to spending and investment, in particular with the passing of the tax amnesty bill.

The key risks are a disorderly capital outflow, currency volatility and a worse-than-expected slowdown in China.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 October 2016 unless otherwise stated.

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