

PHILLIP SECURITIES PTE LTD

Asset Class Update

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If Trend Ain't Broken Don't Change It. Gold is likely to remain in high interest.

Equities – Prices losing upward momentum and market seems to realize that prices have gotten ahead of fundamental valuation. Corporate earnings will be key driver of market performance moving forward.

Commodities – Performance has been mixed among commodities. Interest in Gold remains high whereas oil price remain weak.

Fixed income – High yields continues to be in demand as risk appetite returns.

Equities – Signs of losing steam

As many would have expected, price action on equities has been sluggish as we approach the year end holiday season. We are seeing wading market interest in major equities as trading volume stays below average. On a side note, we view that policy stimulus measures cannot continue forever and are expected fade out in 2010 as the global economy recovers. Performance has been mixed across global equities and Brazil continues to be the best performing market. Japan equities staged a strong rebound on the back of a depreciating yen. Table 1 below shows the overall monthly performance of selected global indices.

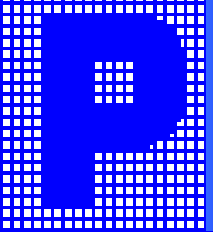
Table 1: Selected Equity Stock Market Index Returns

| Rank | Country | Index | Dec. 16 | 1-month gain/loss | 3-month gain/loss | 6-month gain/loss | 52 week High | 52 week Low |
|------|-----------|----------------|----------|-------------------|-------------------|-------------------|--------------|-------------|
| 1 | Brazil | Bovespa | 69310.81 | 4.03% | 14.73% | 35.36% | 69785.41 | 35721.83 |
| 2 | Japan | Nikkei 225 | 10177.41 | 3.94% | -0.91% | 4.35% | 10767 | 7021.28 |
| 3 | Singapore | Straits Times | 2796.1 | 0.45% | 4.58% | 22.25% | 2812.19 | 1455.47 |
| 4 | U.S. | S&P 500 | 1107.93 | -0.12% | 3.66% | 21.49% | 1119.13 | 666.79 |
| 5 | World | MSCI World | 1157.84 | -1.49% | 1.71% | 20.61% | 1183.33 | 684.07 |
| 6 | Australia | All ordinaries | 4676.1 | -2.05% | 0.50% | 18.15% | 4897.5 | 3090.8 |
| 7 | Hong Kong | Hang Seng | 21611.74 | -5.81% | 0.98% | 18.97% | 23099.57 | 11344.58 |

Source: Bloomberg, as of 16 December 2009

Report Highlights

Performance of global equities has been mixed and Brazil continues to outperform other major indices.

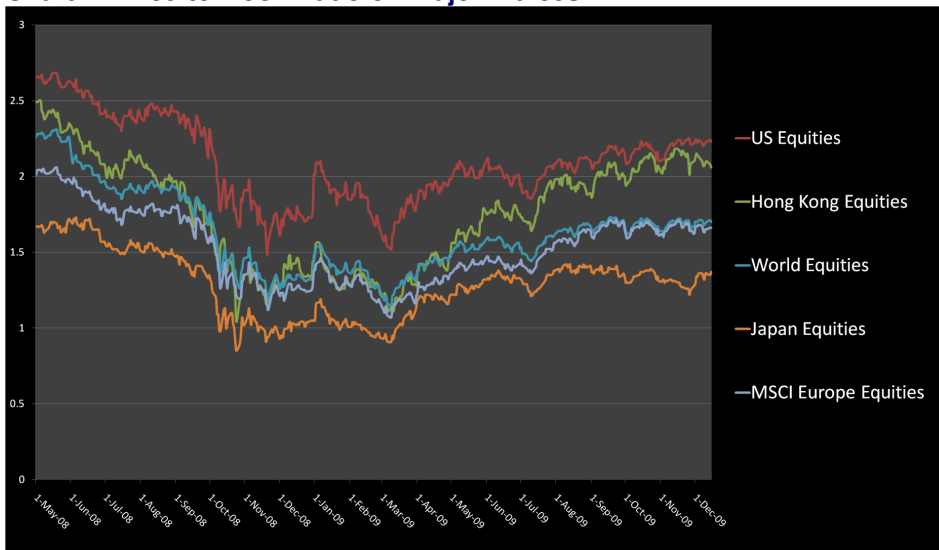


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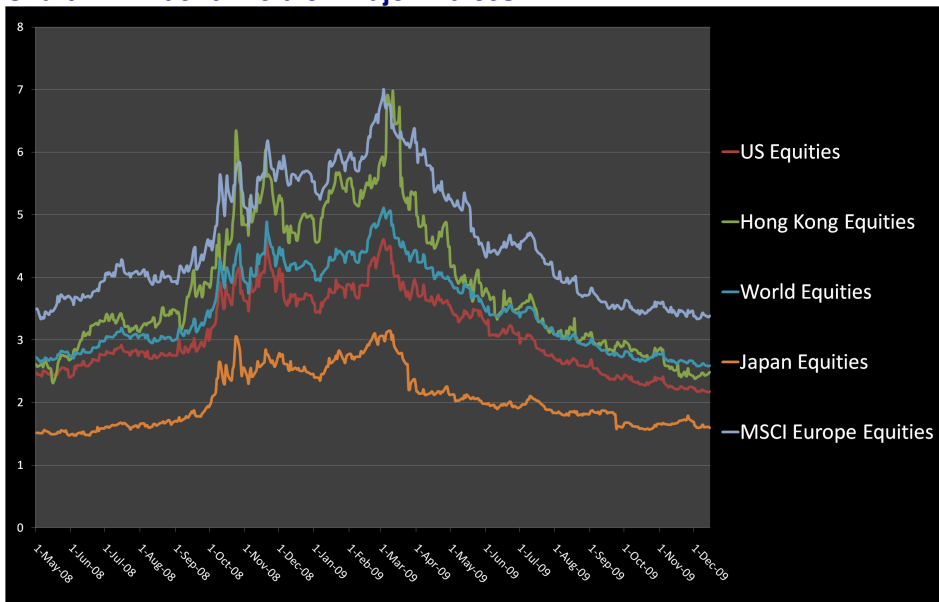
Relating back to our previous month outlook, we mentioned that equities are expected to stay sideway on the back of low trading volumes. Moving forward, we would expect market interest to gradually return at the start of the year as institutional players take up positions for the year 2010. At the current price levels, prices seem to have gotten ahead of fundamental valuation. The Price-to-Book ratio on major indices indicates that valuation is approaching the pre-crisis levels although further upside is still a possibility. Likewise, dividend yields have been trending down since March this year which is a sign of increasing overvaluation. Chart 1 and 2 below gives a detailed graphical illustration.

Chart 1: Price-to-Book Ratio on major indices



Source: Bloomberg, as of 16 December 2009

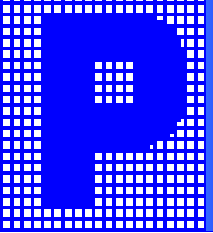
Chart 2: Dividend Yield on major indices



Source: Bloomberg, as of 16 December 2009

Price Book ratio trends up on the back of stock price recovery.

Dividend yields returning to pre-crisis levels.

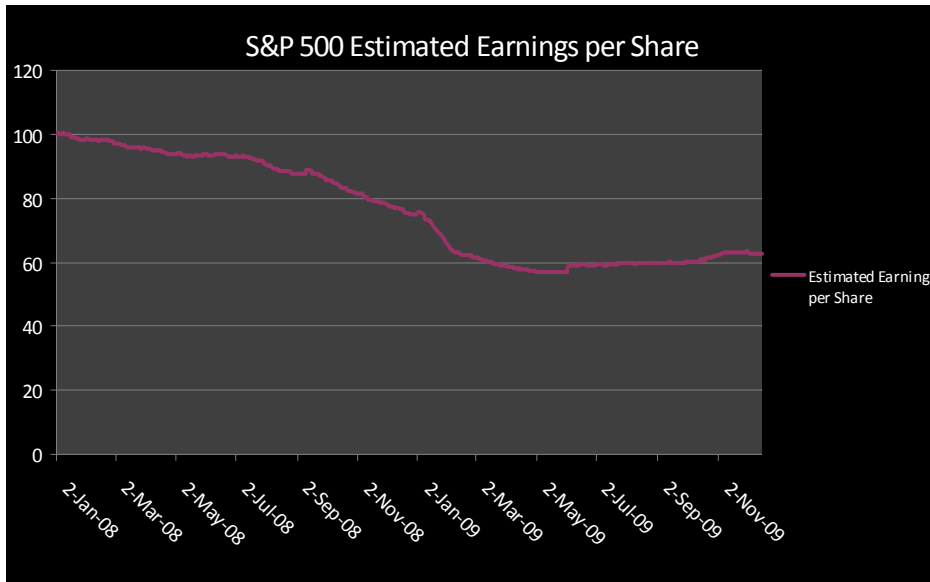


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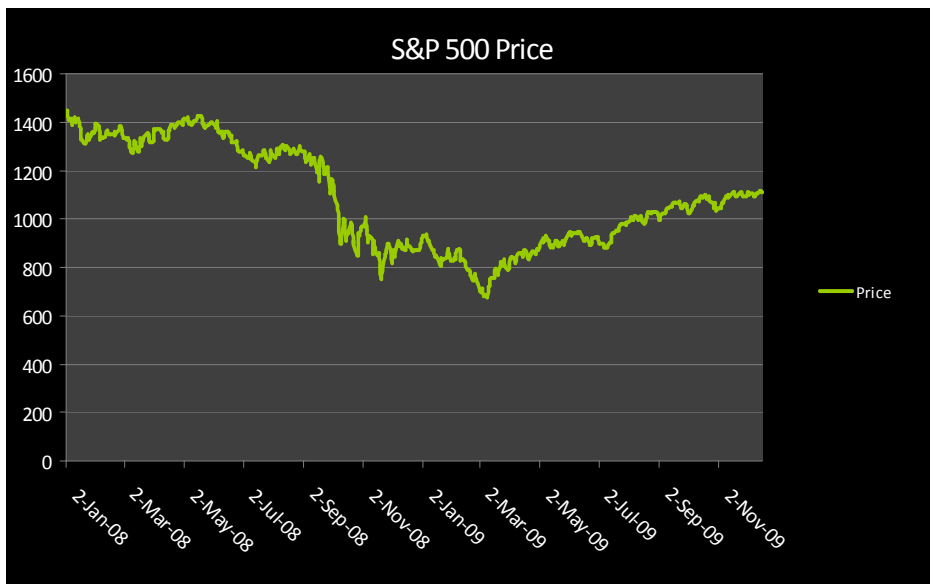
We are not suggesting a major correction for the time being and reiterate our neutral stance. However, we see that corporate earnings will be a key driver of market performance in the near term. On Chart 3, the estimated earnings per share on the S&P 500 have not increased as significantly as the recent 9 month run-up in stock prices (Chart 4). As such, this will eventually be a sign of concern when investors realized that prices have gone ahead of earnings. However, on a bigger picture, earnings numbers should improve moving forward given the improvement in the overall economic environment.

Chart 3: S&P 500 Index Estimated Earnings per Share



Source: Bloomberg, as of 16 December 2009

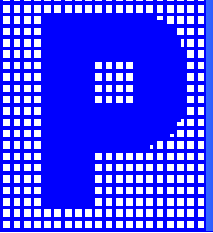
Chart 4: S&P 500 Index Price Performance



Source: Bloomberg, as of 16 December 2009

Estimated Earnings has not went up as significantly as the stock prices.

S&P 500 Index moves sideways. Neutral view in near term until new developments provides clearer signals.



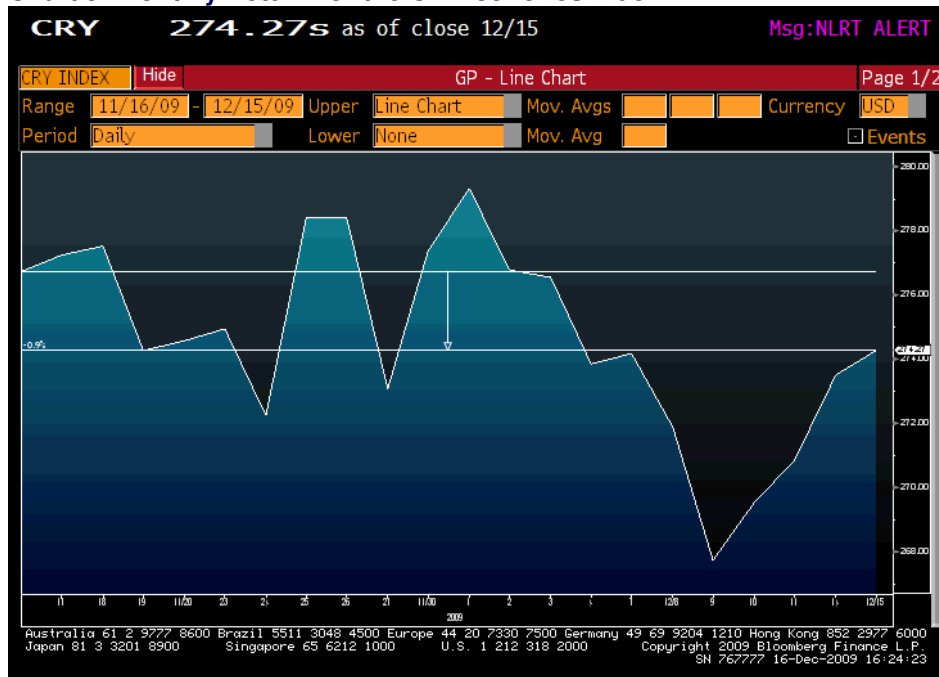
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Commodities – Mixed performance

The CRB Jefferies Index went down 0.9 percent reflecting a bearish sign on the overall commodities market. Gold price went up to a high of 1227 before retracing part of its earlier gains. Oil price is in a more bearish tone as it falls below the \$70(USD/bbl.) mark.

Chart 5: Monthly Return for the CRB Jefferies Index



Source: Bloomberg, as of 16 December 2009

There has been a high level of speculative activities in the gold futures market. Fundamentally, gold remains to be in high demand with concerns on US dollar still lingering. The upward channel in Chart 6 tells us that underlying trend is still to the upside. On a technical basis, we would expect gold prices to find support at 1100 region with upside target at 1350. Crude oil price has been heading south for the past month. With the crude oil inventory remaining high, we maintain a bearish view on energy prices on a whole. Also, the OPEC has reiterated during the month that it is comfortable with the current oil price and is unlikely to make changes to the oil supply any time soon. On a whole, the \$60 (USD/bbl.) mark is still a realistic target in the medium term.



CRB index went down on a MoM basis. Performance is mixed among the various commodities.

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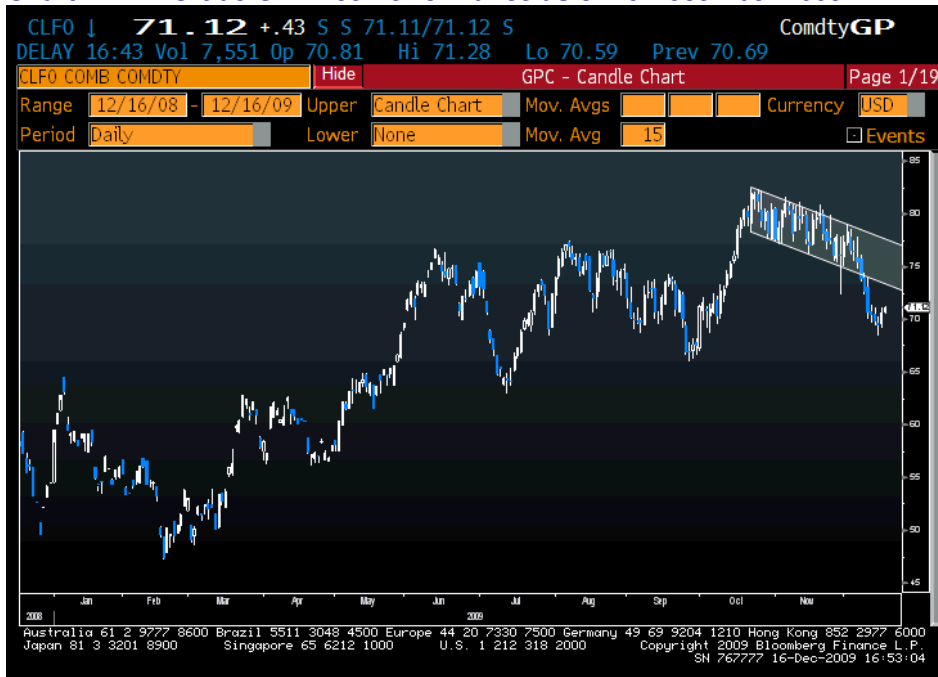
Chart 6: Gold Price Performance as of 16 December 2009



Source: Bloomberg, as of 16 December 2009

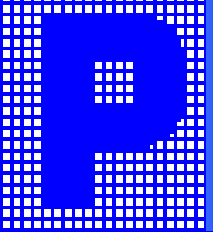
Gold price is in an upward channel. Near term target is at \$1350 (USD/t oz.)

Chart 7: WTI Crude Oil Price Performance as of 16 December 2009



Source: Bloomberg, as of 16 December 2009

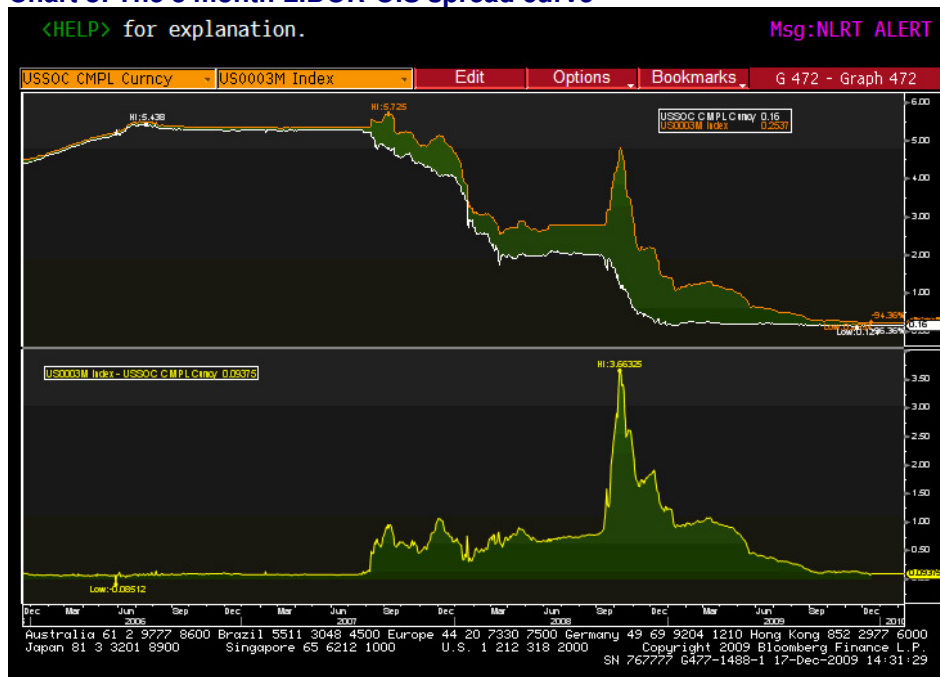
Oil price heads south on the back of abundant supply and low market interest.



Fixed Income – Tactical selection will be vital

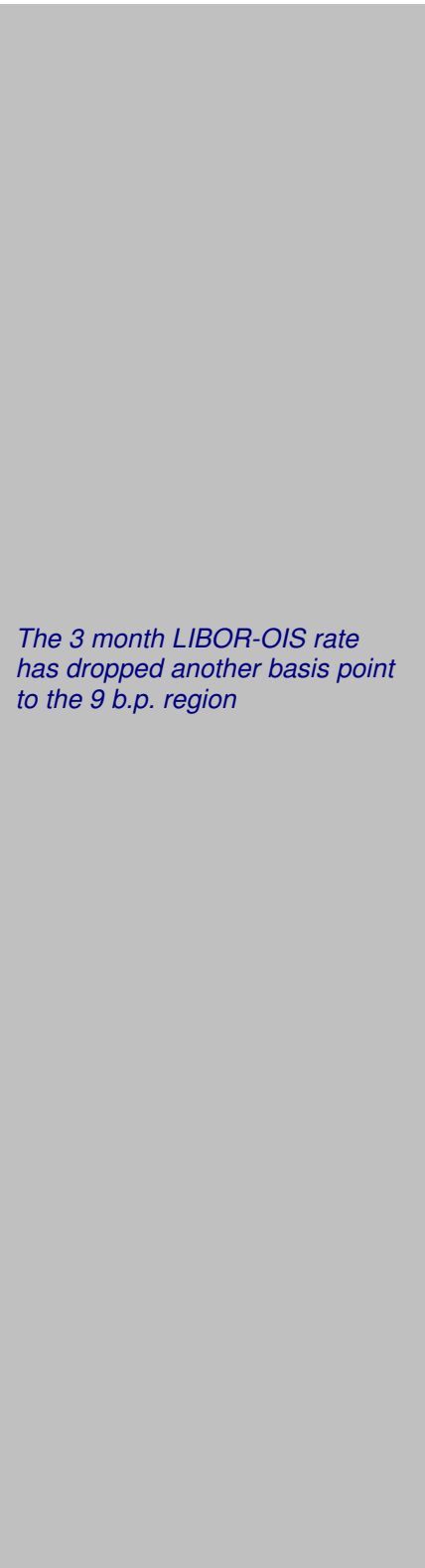
The US Fed rate has been kept at the lowest level in recent history and the US Fed Reserve mentioned on 17 Dec. that it is still wary of raising rates as economy stays fragile. Nevertheless, the US government bond market is likely to experience a heavy supply in 2010 as the US deficit is expected to swell by another US\$3.5 trillion over the next 3 years. High yields and emerging market bonds took in a cumulative inflow of more than US\$5.0 billion since the start of the year. Increasing risk appetite continues to favor the high yielding bonds.

Chart 8: The 3 month LIBOR-OIS spread curve



Source: Bloomberg, as of 16 December 2009

The LIBOR and OIS rate has reached pre crisis levels (Chart 8) and is indicating the highly liquid condition on the overall credit market. We feel that performance among the various bond categories will differ moving forward. With the current liquid credit market, high yield bonds are likely to continue to be in favor among the high yield seekers. Performance on the various global bond funds has been mixed recently and prudent selection on the various bond funds will be necessary moving forward.



The 3 month LIBOR-OIS rate has dropped another basis point to the 9 b.p. region



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