
# Market Commentary

February 2010



| EQUITIES – Asia ex-Japan | 1 Mth | 3 Mth | YTD | 12 Mth |
|---|---|---|---|---|
| MSCI AC Asia ex-Japan | -6.1 | 0.8 | -6.1 | 55.7 |
| MSCI Far East Free ex-Japan | -6.2 | 0.1 | -6.2 | 53.1 |
| MSCI China | -8.6 | -5.6 | -8.6 | 47.2 |
| MSCI Hong Kong | -6.6 | -5.9 | -6.6 | 34.2 |
| MSCI India | -5.3 | 6.5 | -5.3 | 80.4 |
| MSCI Indonesia | 2.0 | 11.5 | 2.0 | 128.0 |
| MSCI Korea | -4.8 | 4.2 | -4.8 | 57.5 |
| MSCI Malaysia | -0.9 | 0.8 | -0.9 | 39.3 |
| MSCI Philippines | -5.9 | 1.6 | -5.9 | 43.4 |
| MSCI Singapore | -6.0 | 3.7 | -6.0 | 55.1 |
| MSCI Taiwan | -6.5 | 5.8 | -6.5 | 69.3 |
| MSCI Thailand | -5.3 | 2.6 | -5.3 | 56.0 |

Returns in Singapore dollars. Source: Bloomberg, 29 January 2010

Asian equity markets in January corrected as monetary policy normalisation took place earlier than the market had anticipated. Among the larger Asian economies, the People's Bank of China raised the reserve requirement ratio by 50 basis points in the middle of the month, while the Reserve Bank of India hiked the cash reserve ratio by 75 basis points at the end of the month. The market decline happened even as Asian economies continued their positive growth trajectory amidst strong export and private consumption numbers. Overall, the Asian equity market underperformed the global equity market.

## OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|---|---|---|---|
| Consumer discretionary | Overweight | – | High savings rates and urbanisation underpin sustained domestic consumption growth in China. Effects of government stimulus package could trickle down to consumers. |
| Technology | Overweight | ↑ | Improving outlook for technology companies from 1Q10 which could lead to positive earnings surprises from (1) strong demand in the run-up to the Chinese New Year (2) inventory re-stocking (3) recovery of corporate IT and capex spending and (4) strong take up of e-book readers. |

We view the decline in equities as a bull market correction and not a resumption of the bear market. The rise in policy uncertainty in both the Emerging Markets and the Developed Markets is likely to keep volatility relatively high for the near term. Although we have turned tactically more cautious, we still see strong reasons for the equity market to move higher over the course of 2010. Support for equities will come from the continuing recovery of the global economy, improving earnings, the Fed remaining on hold, a large amount of cash still on the sidelines earning practically zero interest and the high free cash flow in the corporate sector.

After the rally in 2009, markets were no longer cheap and at the start of the year, Asia ex-Japan was trading modestly about its long term averages. The correction is making the market more attractive and we believe that Asia ex-Japan could soon find valuation support.

Our strategy is not to time the bottom of the selldown but to look for opportunities to increase our positions in the companies with good fundamentals. We continue to like Asia's robust domestic demand story which we believe will drive corporate earnings growth. In terms of sector allocation, we continue to overweight the Consumer sector on its lower exposure to policy risk and look to upgrade the Information Technology sector as we expect a strong pickup in PC demand. We lower our overweight position on Energy and underweight other cyclical sectors like Industrials and Materials. We also underweight defensive sectors like Telecoms and Utilities with a preference to hold cash for the time being, to position ourselves for the upturn.

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