



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	1.3	1.5	1.3	6.5
Nikkei 225	-1.3	1.4	-1.3	17.9
Topix	1.4	0.5	1.4	4.9
Jasdaq	8.8	5.8	8.8	8.4

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

The TOPIX fell 0.71% to 901.12 in January. Share prices of exporters, especially marine transporters, and resource stocks, rose in the early part of the month in response to the release of favourable economic data from the US and China. The financial sector also saw buying interest, as the major banks' equity financing announcements were taken as a sign that negatives have played out. However, in the latter half of the month, weak earnings release from US banking major JPMorgan dampened sentiment. Concerns over the possibility of monetary tightening in China, and tougher financial regulations in the US, also dragged the prices of Japanese shares lower. The appreciation of the yen to the 90 level against the US dollar added to the selling pressure.

The five best performing sectors in January were Marine Transportation, Other Financing Business, Other Products, Banks, and Information & Communication. The five worst performers were Air Transportation, Rubber Products, Iron & Steel, Transportation Equipment, and Warehousing & Harbor Transportation Services.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	–	Prefer real estate to banks and non-banks. There are signs that office property vacancy rates are peaking out.
Consumer	Neutral	–	Like selected companies within the specialty retail sector given growth potential and relative valuations.
Technology	Overweight	–	Revival in corporate IT spending, and new product launches are expected to drive growth.



Energy	Overweight	–	Valuations are undemanding.
Industrials	Overweight	–	Positive on the sector given recovery in Japan's industrial production, and positive earnings revision momentum. Sector valuations are also undemanding relative to the market. Like beneficiaries of Asia growth.
Pharmaceuticals	Underweight	–	Slow pace of product approval remains a negative for the sector.
Materials	Overweight	–	More positive on electronic materials, particularly those leveraged to LCD theme, as inventory correction has now run its course. For petrochemicals, the worst appears to be over.
Info Communications	Underweight	–	Anaemic top-line growth makes the sector relatively unattractive.
Utilities	Underweight	–	Unexciting medium-term prospects.

For now, Greece's debt problem is adding to the volatility in global equities. Our base case scenario is that the Eurozone policymakers will place the issue of systemic risk over moral hazard and that a solution will soon be found for Greece. Fundamentally, the global economy, including Japan, continues to recover and corporate earnings are likely to improve over the course of 2010. We see the current market correction as an opportunity to accumulate long-term global winners.

We maintain our preference for cyclicals over defensives. We are overweight Industrials, Materials, Technology, and Energy. We are neutral on Consumer Discretionary, Autos, Consumer Staples, and Real Estate, and underweight Info-Communications, Pharmaceuticals, Utilities, Banks and Non-Banks.



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