



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-2.2	-10.3	-4.9	-4.6
Nikkei 225	-1.4	-10.9	-7.7	-1.2
Topix	-1.9	-9.4	-3.8	-5.1
Jasdaq	3.3	1.0	9.4	10.2

Returns in Singapore dollars. Source: Bloomberg, 30 June 2010

TOPIX fell 4.43% to 841.42 in June 2010. In addition to the European financial crisis, the release of several weak US economic indicators ignited fears of a “double dip”. There were also concerns that the Group of 20’s pledge to cut deficits will weigh on the global recovery. The Yen continued to appreciate due to risk aversion, leading to a sell-off in exporters.

The best performing sectors in June were Electric Power & Gas, Air Transportation, Pharmaceuticals, Fishery, Agriculture & Forestry, and Information & Communications. The five worst performers were Mining, Securities & Commodity Futures, Insurance, Oil & Coal Products, and Glass & Ceramics.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	–	Neutral on real estate and banks. Underweight non-banks.
Consumer	Neutral	–	Like selected companies within the specialty retail sector given growth potential and relative valuations.
Technology	Overweight	–	Valuations are becoming more compelling. Buying opportunity for long-term global winners.
Energy	Overweight	–	Valuations are undemanding.



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Industrials	Overweight	–	Japan’s industrial production growth momentum has slowed but remains positive. 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. Like generic companies.
Materials	Overweight	–	Valuations at lower-end of historical levels for steel, glass & ceramics, and petrochemicals.
Info Communications	Underweight	–	Anaemic top-line growth makes the sector relatively unattractive.
Utilities	Underweight	–	Unexciting medium-term prospects.

Deflation fears could continue to weigh on global equities. In Japan, the policy outlook remains unclear and is dependent on the outcome of the upcoming Upper House Elections. While Japanese equity fundamentals are increasingly mixed, market valuations are undemanding. The price-to-book ratio for TSE1 companies has dropped to 1.0x, close to the lower end of the historical range. FY10 expected dividend yield of 2.1% exceeds the 10-year JGB yield of almost 1%. Valuations of exporters are undemanding, and share prices could rise if the yen starts to weaken. For now, we would remain cautious and selective, favoring companies with strong pricing power, minimal Euro exposure, and structural growth drivers.

We are overweight Industrials, Materials, Technology, and Energy. We are neutral on Banks, Consumer Discretionary, Consumer Staples, and Real Estate, and underweight Info-Communications, Pharmaceuticals, Utilities, and Non-Banks.



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