Global Equity

EQUITIES	1 Mth	3 Mth	YTD	12 Mth
MSCI AC World	-2.2	-12.9	-13.9	-9.0
MSCI World	-1.3	-12.1	-12.5	-7.4
MSCI Emerging Markets	-7.8	-18.6	-22.4	-19.0
MSCI USA	0.3	-9.3	-8.7	-1.7
MSCI Canada	-7.2	-14.4	-16.6	-9.0
MSCI Europe	-3.8	-18.4	-16.6	-15.4
MSCI Japan	5.5	-2.0	-11.4	-3.4
MSCI Australia	-8.1	-16.7	-18.8	-13.8
MSCI AC Asia Ex-Japan	-6.3	-16.9	-20.4	-17.4
MSCI Latin America	-10.7	-20.6	-26.5	-24.6
MSCI EMEA	-10.5	-20.3	-23.3	-17.8

Returns in Singapore dollars. Source: Bloomberg, 30 September 2011

Equity markets posted further declines in September on continued concerns over the European sovereign debt issue and renewed fears about the solvency and funding position of European banks. Key economic indicators started to soften into the summer months, while leading indicators across most key regions concurrently pointed to weaker growth ahead. European markets fell further in September as did Emerging markets, due to their sensitivity to a changing growth backdrop.

The debate about how to deal with sovereign challenges in Europe was kicked off by Christine Lagarde in her Jackson Hole comments, and both bankers and policy makers soon weighed in with their views. Treasury Secretary Timothy Geithner lectured his European counterparts at the G-20 meeting in Poland about the need to put in place contingency plans to deal with the fall out from Greece. The IMF and several respected bankers further added to the debate, by trying to quantify the capital support required, and assess the impact of the on-going financial sector de-leveraging.

The European sovereign debt and banking situation is clearly the greatest risk to our slow recovery scenario. Hopefully, wisdom will prevail this time around, and policy makers and banks will change tack before it is too late.

Meanwhile, in the emerging world, inflation concerns continued to linger. China's headline CPI inflation came in at 6.1% in September, suggesting that any immediate hope of policy easing will have to wait. Meanwhile financing conditions in China remain tight, and small businesses continue to face severe liquidity problems. The real estate sector has weakened do to a combination of tighter financing conditions. Prospects for China will increasingly hinge on how effectively policy makers will be able to balance the need to contain inflation and to free up liquidity to segments of the economy that are facing a squeeze. The outcome remains uncertain and near term risks are to the downside.

Global Equity

Meanwhile, Indian and Brazilian inflation levels remained uncomfortably high at 9% and 7.3% respectively. On August 31, the Brazil Central Bank lowered the Selic Rate by 50 basis points to 12%. Markets reacted negatively to the easing, with both the currency and equity market selling off. Markets have subsequently stabilized as indicators have suggested a moderation in economic activity may have warranted the policy shift. We take heart as real policy rates in Brazil are still tight.

While corporate earnings on balance continue to track favourably, there are now growing signs that margin pressure is intensifying. Companies have noted the loss of visibility on final demand into the final quarter of year. Notably, early cyclical companies like airfreight and shipping companies have reported weakness in both pricing and demand. In our equity investment strategies, we continue to focus on high quality growth companies that are more insulated from a more volatile and hostile operating environment.

Outlook and Strategy

	Policy	Change	Comment
US	Overweight	–	The corporate sector is in solid shape and a weaker US dollar is adding upside to profit estimates over the medium term. Economic data has stagnated, and this points to a renewed risk of a double-dip. Despite this uncertainty, the corporate sector is in a strong position to grow into recovery, modest as it may be. We continue to favour the US over other developed regions. **OVERWEIGHT**.
Europe	Underweight	–	The outlook in Europe is increasingly bleak, as signs that the challenges of the periphery may contaminate the core. The fact that European policy makers have not brought forward credible plans to deal with the periphery, and that regulators continue to coddle many of Europe's largest banks does not instill any confidence. The lack of visibility over fundamentals warrants caution. Valuations do not compensate for the lack of policy clarity and cohesion. **UNDERWEIGHT**.
Asia (ex-Japan)	Neutral	↑	Inflation data in Asia is a problem, and further policy tightening is inevitable in some countries. This is coming at a time when growth is starting to moderate, and may put corporate profits under pressure. Although there are still some concerns over growth, we have started to add back some exposure to more defensive areas that had corrected sharply. We remain defensive in our positioning focused on longer term structural opportunities. **NEUTRAL**.

Global Equity

	Policy	Change	Comment
Japan	Underweight	–	Japan continues to face a number of challenges due to the disruption from the March Tsunami, weaker external demand, and the strong Yen. We have looked for opportunities in more defensive sectors like consumer staples and capital goods. **UNDERWEIGHT**.
Latin America	Overweight	–	Inflation remains a challenge in Brazil. However, broader economic backdrop for the region is generally buoyant and the region should fare well as global growth moderates. Valuations, especially in Brazil after the market fell in early 2011 are again compelling. We are gradually increasing our exposure. **OVERWEIGHT**.
EMEA	Underweight	–	EMEA (Eastern Europe, Middle East & Africa) outlook varies by region. Growth prospects in Eastern Europe remain favourable, while the outlook in Africa is deteriorating. We continue to monitor Eastern Europe for the impact of a potential slowdown in Western Europe. **UNDERWEIGHT**.

While leading indicators have stabilized somewhat and activity indicators continue to point to modest expansion, the risk to the outlook remain negatively biased. A multi-year fiscal adjustment process is underway, suggesting that growth will remain below potential level for the foreseeable future. We continue to monitor developments in the Euro zone closely. Ongoing de-leveraging of the financial sector may adversely impact the real economy. We prefer the US over Europe given this vulnerability.

The slowdown in global growth should help to allay some of the inflation concerns in the emerging markets. However, as the risk of a double-dip recession rises, so too does the possibility of a hard landing in emerging markets. We have already adopted a more defensive stance and continue to monitor macro trends closely.

As seen in the debt ceiling debate in the US and the Greek debt saga, political developments can be both unpredictable and destabilizing to markets. While markets did not demand a near-term fiscal adjustment in the US, the political debate will place this issue squarely at the centre of attention into November. We continue to focus on high quality franchises that have sufficient pricing power to manage in an environment where growth and profitability could deteriorate. Despite this uncertain outlook, equities still look attractive.

Contact Details

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
24-hour Hotline 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

Business Offices

Singapore
Institutional Business
Dennis Siew
Senior Director

Retail Business
Norman Wu
Senior Director

New Strategic Markets & Private Banks
Rachel Ong
Director

Brunei
Kamal Muhd
General Manager

Japan
Masashi Ohmatsu
Chief Executive Officer

Malaysia
Lim Suet Ling
Chief Executive Officer

Greater China/Taiwan
William Wang
Chief Executive Officer

Thailand
Vana Bulbon
Chief Executive Officer

Important Notice & Disclaimers

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. UOB Asset Management Ltd ("UOBAM") does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. **You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.**

UOB Asset Management Ltd Co. Reg. No. 198600120Z