

# FROM THE EQUITY DESK

## MONTHLY OUTLOOK

April 2015



Peter Sartori  
Head of Asian Equity  
Nikko AM Asia Limited

### Summary

- The MSCI Asia-Pacific ex-Japan returned -0.3% in March after shrugging off initial weakness and outperformed the MSCI AC World by 1.3% in March in USD terms.
- Investors were nervous at the start of the month about the end of the US Fed's zero interest rate policy (ZIRP) and the MSCI Asia-Pacific ex-Japan index was down 3.5% in the first half of the month. Global equities rebounded following the US Fed's meeting and dovish statement from the US Fed Chairperson Janet Yellen.
- China was the best performing market and continued to outperform in March. Indonesia was the second best performing market despite a weaker currency. India was the worst-performing market, followed by Australia and Malaysia.
- Performance was mixed across the rest of Asia.
- Asia ex-Japan markets are expected to do well in the near term. The sharp and significant decline in oil price will benefit India and Indonesia and continued easing in multiple markets will have a positive impact on the equity markets.
- In the North Asia region, we remain underweight in Hong Kong, and we are slightly more positive on Taiwan and Korea now. Meanwhile within Southeast Asia, we remain selective in specific markets in the region. In Australia, we are turning more constructive.



## ASIAN EQUITIES

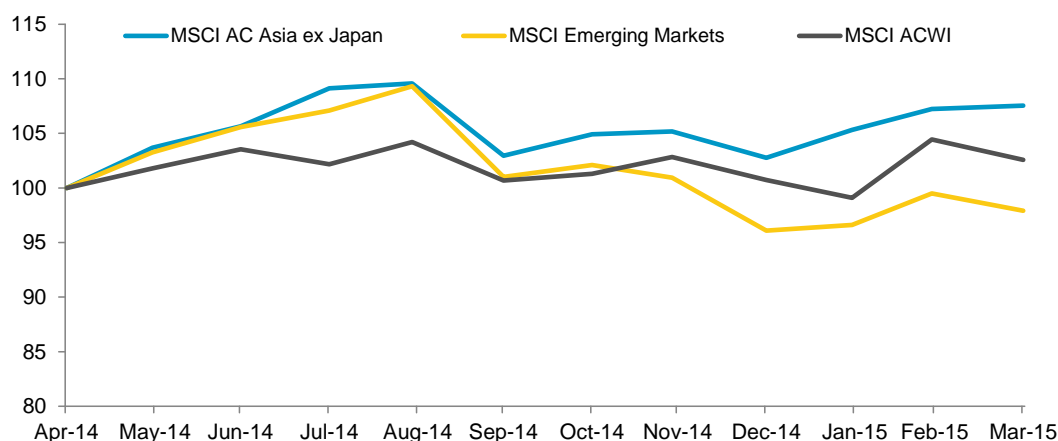
ASIA PACIFIC  
EQUITY MARKETS  
OUTPERFORMED  
MSCI AC WORLD IN  
MARCH

### Market Review

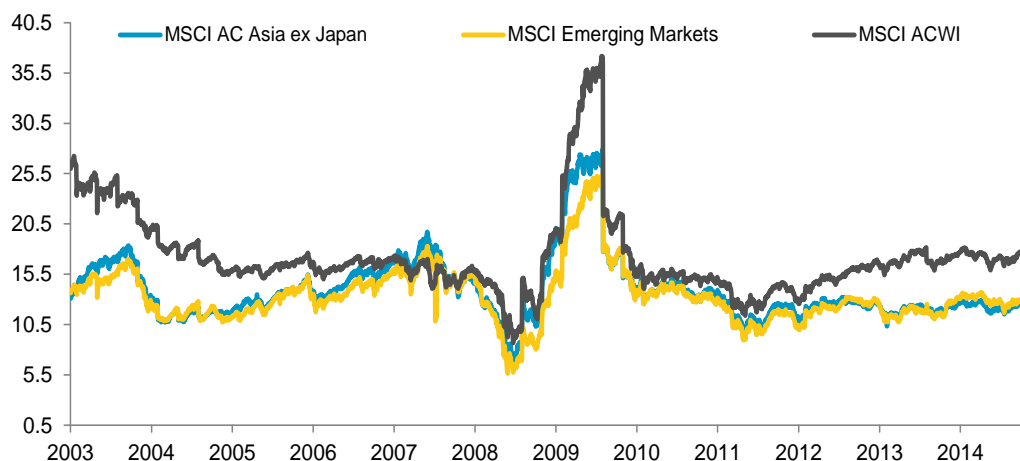
#### ■ Asia-Pacific ex-Japan markets fell in March

MSCI Asia-Pacific ex-Japan returned -0.3% in March after shrugging off initial weakness and outperformed MSCI AC World by 1.3% in March in USD terms. Investors were understandably nervous at the start of month about the end of the US Fed's zero interest rate policy (ZIRP); the MSCI Asia-Pacific ex-Japan index was down 3.5% in the first half. Global equities rebounded following the US Fed's meeting and dovish statement from the US Fed Chairperson Janet Yellen. China was the best performing market and continued to outperform in March. India was the worst-performing market, followed by Australia and Malaysia. Gold continued its fall from last month due to the low inflation environment in the U.S. and the strengthening U.S. dollar. Apart from the Chinese yuan (+1.1%) and the Taiwanese dollar (+0.6%), all major Asian currencies depreciated. Asian central banks continued on the path of weaker currencies to maintain export competitiveness.

1-Year Market Performance of MSCI Asia ex Japan vs  
Emerging Markets vs All Country World Index



MSCI Asia ex Japan vs Emerging Markets vs All Country World Index Price-to-earnings

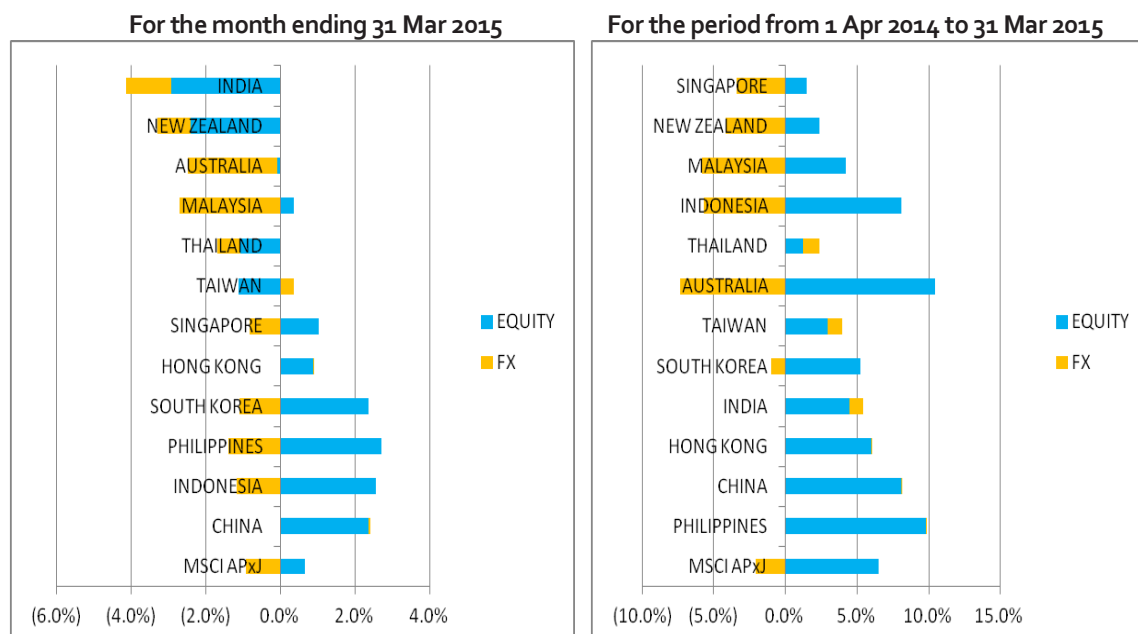


Source: Bloomberg, 31 March 2015. Returns are in USD. Past performance is not necessarily indicative of the future performance.



■ **China outperformed the Asia-Pacific ex-Japan region**

MSCI China rose 2.4% in USD terms, outperforming the region. The SHCOMP index rallied 13% month-on-month (MoM). China IT rallied 9%, driven by better earnings and an improving outlook. Industrials rose 8%, encouraged by the deployment of the One Belt & One Road plan. Materials rose 7%; Consumer discretionary advanced 7%, driven by auto names, and Healthcare and utilities outperformed MSCI China by 4% and 2% respectively. Financials was up 1% MoM and lagged the market. Profit growth at China banks dropped to 8% year-on-year (YoY) in 2014, the slowest since listing in Hong Kong. The State Council announced the Deposits Insurance Scheme (DIS), effective 1st May 2015 in a sign that financial reforms may be speeding up.



Source: Bloomberg, 31 March 2015

Note: Equity returns are single country MSCI indexes and are in local currencies while FX and MSCI APxJ returns are in USD. Returns are based on historical prices. Past performance is not necessarily indicative of the future performance.

■ **Indonesia emerged as the second best performing market despite a weaker currency**

After trading sideways most of the month, the Jakarta Composite Index (JCI) rallied by 2.8% in last 4 days, closing March at 5519, another record high. Notwithstanding a weaker Rupiah, the MSCI Indonesia (+1.4% in USD terms) was the 2nd best performing market in the region. After pouring in over SGD 800m in February, foreign investors pulled out SGD 413m in the month. Consumer Discretionary, Financial and Industrial are ahead of the country index.

■ **India and Australia were the worst market performers**

India was the worst-performing market in the region with the MSCI India Index declining 4.1% over the month in USD terms. Growth continues to be weak in India. Inflation saw an uptick, led by unseasonal rainfall, and February's CPI was higher than consensus expectations. Foreign Institutional Investors (FIIs) remained buyers of Indian equities over March and invested USD 1.6bn. Consensus earnings estimates for the broad market (MSCI India) were cut by 1.1% for FY 16. All eyes were on the Reserve Bank of India's (RBI) bi-monthly credit policy that was due on April 7th. The first half of the Parliament's budget session was productive, with some of the pending bills getting approved.



Australia was the 2nd worst market in the region with the MSCI Australia giving up 2.5% in USD terms. Iron ore has now declined 28% YTD as Chinese demand continues to weaken. The Aussie dollar was down 2.6%, making it the worst-performing APxJ currency. Malaysia continued to be hurt (MSCI Malaysia: -2.3% in USD terms) as Brent crude oil fell 14%, to USD 55.2/bbl, in March after rallying 22% in February.

#### ■ *Performance was mixed across the rest of Asia*

It was a mixed bag across the rest of Asia. The Philippine Stock Exchange (PSE) Composite Index in the Philippines closed the month at another all-time high of 7,940.49 (MSCI Philippines +1.3% in USD terms). Strong market earnings growth of 19% YoY in 4Q14 supported the market's rich valuations. The decline in oil prices after the February rally also helped. The Hong Kong market rebounded on positive China news flow (deposit insurance scheme and broadened access to the southbound link), returning 0.9% in USD terms for the month. The Monetary Authority of Singapore (MAS) started the year off with a surprise and moved to ease by reducing the slope of the SGD NEER policy band. We expect further policy easing in the April MAS meeting, which will pressure USD returns in the months to come as the SGD weakens further. MSCI Singapore returned 0.2% for the month. Taiwan was the worst performing markets in the Greater China region, posting -0.7% in USD terms and lagging the Greater China region's 1.2% return. Semiconductor stocks in Taiwan took their lead from the Global Philadelphia Stock Index which headed lower due to an earnings miss by Intel Corp and cut back by Micron on their profit guidance. The biotechnology sector in Taiwan also corrected due to the delays of approvals of generics filed by Taiwanese companies. The MSCI Thailand also did poorly in March, giving up 1.7% in USD terms, on the back of a weakening domestic economy and deteriorating terms of trade.

ASIAN EQUITY  
MARKETS  
EXPECTED TO DO  
WELL IN THE NEAR  
TERM

## Market Outlook

#### ■ *Asia ex-Japan markets expected to do well in the near term*

Our prognosis for Asia Pacific ex-Japan markets remains optimistic for 2015. The sharp and significant decline in oil price will benefit two of the largest economies in the region (India, Indonesia) and continued easing in multiple markets will have a positive impact on the equity markets. Reforms in the three largest economies should underscore a fundamental positive shift, auguring well for equities. A nascent recovery in the US economy is a positive for Asian export; that some of the other large emerging markets are facing significant issues – both political and economic – suggests that the region will show up firmly on investors' screens.

#### ■ *Reforms in India and China underpin our positive stance*

Across the region, we are partial to the two giant economies of India and China on the back of ongoing, and likely, reforms.

A budget that balanced interests of multiple stakeholders, and another inter-meeting rate cut by the Reserve Bank of India early in the month, the different elements required for a structural improvement in the Indian economy are gradually falling in place. The on-going session of the parliament should provide greater evidence of the government's ability to pass through unpopular-but-necessary policy reforms that have been initiated as ordinances. Any delay in the passage of the key land acquisition reform however will give enough ammunition to the naysayers and make for a choppy ride over the near term. We remain believers in the significant medium-term prospects that the Indian market has to offer patient investors.

Reform remains our key theme for China too, and should provide a strong tailwind for the Chinese equity market in 2015. The domestic markets have been rallying strongly for a few months now and, sooner or later, the underweight stance of sceptical foreign investors will change. In this regard, we fall in the camp of the believers rather than the naysayers. We have long held that view that China's hitherto breakneck rate of growth was going to be unsustainable. That 5-7% growth has now been defined as the "new normal" by the Chinese government reflects cognisance of reality. It also implies that the quality of growth is likely to be better, and gradually shift towards domestic consumption.



We remain positive on sectors that are likely to be key beneficiaries of this shift – insurance, technology, healthcare and consumer staples.

■ *Nothing to get excited about in Hong Kong, slightly more positive on Taiwan & Korea now*

Corporate Hong Kong has few competitive advantages and its economy is increasingly reliant on China's benevolence. With the Xi Jinping-led government making fledgling moves to open up China's capital account, the Hong Kong-Shanghai connect is one such example, Hong Kong's hegemony as China's international financial centre will diminish. We remain underweight, focusing on well-run companies trading on attractive valuations.

Taiwan's niche, high-end technology manufacturing has yet again demonstrated its dominance by being one of the largest suppliers of components for the iPhone6. In the longer term, this aspect of the Taiwan economy could lead to a recovery. As such, we prefer the semiconductor high-end electronic components sectors; we also like textile manufacturing. The bearish impact of the JPY/KRW cross rate on Korean exports has weighed on the market, making it the worst performing stock market on a 1-year basis. Valuations now appear reasonably attractive, and leading indicators are turning positive. With more interest rate cuts likely, this ought to stimulate the domestic economy, and drive a recovery in housing in particular. We are now less bearish on Korea but remain underweight overall, given our negative view on the sizable contribution to the economy from exports.

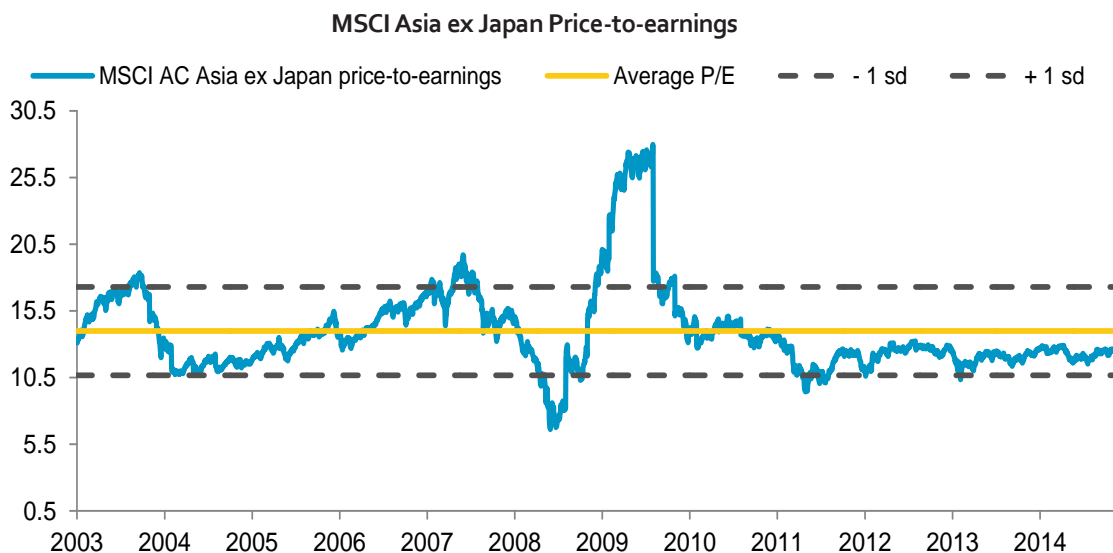
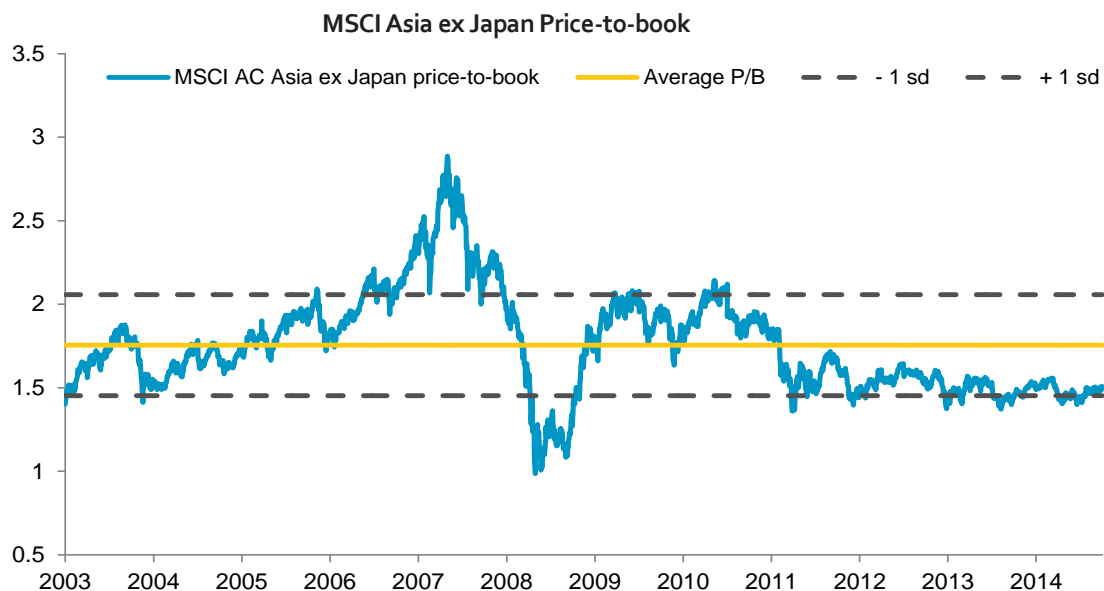
■ *Remain selective in Southeast Asia*

Malaysia's heavy fiscal dependence on oil revenue, coupled with our view that an oil price recovery is not imminent, makes us particularly wary of prospects there; our long-held underweight stance has been downgraded further. Lofty valuations and potential political uncertainties thrown up by the presidential elections due next year underpin our cautious stance vis-à-vis the Philippines. In Thailand, disconnect between valuations and economic prospects, especially with the significant political overhang, leave us lukewarm. Political hiccups for President Widodo, and the challenge of juggling growth, higher-than-desired inflation, and a current account deficit while making unpopular reforms, warrants a patient approach towards Indonesia. Lower oil price certainly help but does not leave us overly enthused. We are turning more positive on Singapore in its 50th year of independence with stocks pricing in the negatives and some national champions showing signs of large-scale business restructuring. However, some of this benefit will be absorbed by a weaker SGD.

■ *Turning more constructive on Australia*

The Reserve Bank of Australia (RBA) cut rates in February 2015, and another rate cut is likely in April given the deteriorating Purchasing Managers Index (PMI) and the dislocation between the currency and the terms of trade; this is more bearish for the AUD and likely to offset local currency returns. Given the heavy resources bias of the export economy, we remain partial to domestic plays, particularly in sectors such as tourism, education & healthcare which are otherwise unaffected by, or are beneficiaries of, a weaker currency. With the budget due in April and given the uncertain political landscape, we remain underweight on Australia but with a view to increase our exposure to this market.

## Appendix



Source: Bloomberg, 31 March 2015. Ratios are computed in USD. The horizontal lines represent the average (the middle line) and one standard deviation (sd) on either side of this average for the period shown. Past performance is not necessarily indicative of the future performance.

### Important Information:

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