Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-1.0	3.2	-6.7	-4.2	-17.0	7.5
MSCI Far East Free Ex-Japan	-1.1	3.6	-6.6	-3.9	-18.1	6.7
MSCI China	-0.3	2.9	-12.9	-9.8	-29.3	11.7
MSCI Hong Kong	0.9	4.6	-5.8	-4.7	-12.4	20.9
MSCI India	0.1	-0.7	-8.2	-7.0	-5.2	17.2
MSCI Indonesia	-2.4	1.5	10.3	5.1	-2.4	-18.0
MSCI Korea	-1.2	5.1	-4.9	-0.9	-10.6	4.9
MSCI Malaysia	-3.6	1.4	8.0	4.8	-12.2	-10.8
MSCI Philippines	-3.6	3.1	-3.4	-1.4	-7.9	7.5
MSCI Singapore	0.4	9.6	-3.5	0.1	-16.0	-6.6
MSCI Taiwan	-5.5	1.3	-6.2	-3.1	-15.3	14.8
MSCI Thailand	0.5	6.8	1.1	12.4	-10.4	-13.4

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 29 April 2016.

Asia ex-Japan equities fell in April, underperforming global equities. Emerging markets (EM) underperformed developed markets (DM) even as energy, commodities and gold moved higher over the month. Fixed income markets rose with high yield bonds being the best-performing market, supported by dovish comments from the chairman of the US Federal Reserve (Fed). Japan’s pause in monetary easing also weighed on investor sentiment as consensus expectations were for additional easing.

Sector performance across Asia ex-Japan was mixed with consumer staples, energy, materials, telecommunications services and financials being the best-performing sectors. On the other hand, information technology, healthcare, utilities, consumer discretionary and industrials underperformed.

Across markets, Hong Kong, Thailand, Singapore, India and China were the best-performing markets while Taiwan, the Philippines, Malaysia and Indonesia underperformed.

Global leading indicators were mixed in April 2016. In the DM, the Purchasing Managers’ Index (PMI) in the Eurozone strengthened while the PMI in US, UK and Japan declined. In EM, China’ official PMI fell to 50.1 from 50.2 while the private sector Caixin PMI fell to 49.4 from 49.7. Inflation and retail sales continued to be soft alongside weak commodity prices and subdued global growth.

In Asia, Hong Kong was the best-performing market as the risk of higher interest rates eased. Higher interest rates would have had a negative impact on the economy and property sector. Macroeconomic data in China improved marginally due to the impact of monetary and fiscal stimulus. However, these failed to boost market sentiment as corporate bond defaults highlighted underlying asset quality risks.

The performance of ASEAN markets was mixed, with Thailand rising slightly as growth in exports and imports was stronger than expectations. The Singapore market was flat even as the Monetary Authority of Singapore (MAS) set the Singapore dollar appreciation rate at zero percent, removing the modest and gradual appreciation path that was in place previously. The Philippines and Malaysia underperformed on political uncertainty while the Indonesia market plummeted as corporate earnings showed that economic improvement was slower than expected despite monetary easing.

Asia ex-Japan Equity

Outlook and Strategy

The outlook for growth in Asia has deteriorated alongside global growth concerns and China's macro challenges. Growth in China has decelerated with wide reaching economic impact on the region. There have been marginal improvements in economic data including PMI, housing starts and foreign exchange reserves, but it remains to be seen whether the recovery is sustainable. We continue to stay cautious on China's economy but expect growth to stabilise with the impact of earlier monetary loosening, government spending and a property market pick-up. Structural challenges in terms of overcapacity and high debt levels remain, but on a positive note, economic rebalancing is accelerating.

On a positive note, the strength of the US dollar has moderated as expectations for US rate increases have been lowered with the subdued global growth outlook. Oil markets have also rebounded from their lows. This removes a headwind for Asia markets and allows policymakers in Asia more room for monetary easing and fiscal pump priming. There is also potential for more fiscal measures to support growth, for instance higher government spending in Indonesia, Malaysia and Thailand on infrastructure.

We have tactically reduced our overweight position in China as the weak economy has impacted corporate earnings. We have also cut exposure in Hong Kong due to the challenging outlook for retail and residential property. In Taiwan, we are more constructive on the technology sector due to improving inventory and product cycles. We are overweight on Indonesia as we expect accelerating GDP growth and monetary easing to drive investor sentiment.

Asia markets have corrected in the lead up to the US interest rate lift-off before a slight recovery in the last month. Asian equity valuations are still attractive at around one standard deviation below the mean level on a price-to-book basis – a level that was last seen during the 2008 Global Financial Crisis. Asia's demographic trends, which are mostly favourable, and rising incomes underpin the long-term fundamental growth potential of the region, making it an attractive investment destination. Our strategy is to take advantage of these structural opportunities by investing in companies that have sound business models, are positioned in segments offering attractive growth and that have demonstrated operational and financial discipline in the way they manage their businesses.

China's transition in the structure of its economic growth model has wide-reaching implications across the region and will create winners and losers. Even as overall growth remains modest, we seek to identify attractive niches including internet, healthcare, education and tourism which enjoy stronger growth prospects. Rising internet and smartphone penetration will accelerate technological disruption across sectors including retail, financial services, travel and transportation. This trend presents bottom-up investment opportunities in the e-commerce, information technology services and financial technology sectors.

All statistics quoted in the write-up are sourced from Bloomberg as at 29 April 2016 unless otherwise stated.

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