Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	-1.3	9.3	-0.7	-1.1	-12.1	4.5
MSCI Japan	0.4	8.9	-2.6	-2.6	-7.7	14.2
MSCI AC Asia Ex-Japan	-1.3	8.8	-0.9	-0.5	-17.2	-1.6
MSCI Australia	-1.9	13.3	6.5	2.9	-7.4	-2.6

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 May 2016.

Asia Pacific equity markets were lower in May as investors were cautious following a strong performance from the previous month. Within the region, Japan outperformed while Australia underperformed.

The technology and healthcare sectors were the best-performing sectors as risk appetite turned cautious with markets focusing its attention on the US Federal Reserve's (US Fed) guidance on interest rates. Deep cyclicals sectors such as energy and materials gave back some of its gains as the dollar strengthened. Meanwhile, interest rates sensitive sectors such as telecommunications and utilities lagged the broader market as expectations of an earlier interest rate hike rose with better than expected economic data.

Within Asia ex Japan, the Philippines was the best-performing market as the market rallied after Rodrigo Duterte was elected as President, winning by a strong mandate. President Duterte reiterated plans to stream bureaucracy, cut red tape and fight crime. India also outperformed as GDP came in better than expected while corporate earnings rebounded strongly. China's official PMI was flat at 50.1 while the private sector Caixin PMI fell to 49.2 from 49.4. Inflation and retail sales continued to be soft alongside weak commodity prices and subdued global growth. Meanwhile, Malaysia and Singapore detracted as investors weighed the impact of further US Fed rate hikes on economic growth and currencies.

The Japan Index outperformed the other regions as the yen weakened on the back of dollar strength. The Japanese market had benefited from a weaker yen and relatively favourable earnings revisions and we are now starting to see negative earnings revisions as a result of a stronger yen. However, economic data remains mixed with both retail sales and industrial production tracking below expectations.

Australian equities also underperformed in the month. The recent macroeconomic releases were mixed with trade balance better than expected while retail sales came in below market expectations. However, the Purchasing Managers' Index (PMI) reading moved lower to 51.0 from 53.4 in April. The macro outlook remains challenging, with weaker commodity prices continuing to be a headwind for the economy.

Outlook and Strategy

We believe that the Asia Pacific markets continue to offer exciting investment opportunities for growth investors over the long term. Valuations for Asia Pacific equities are attractive. However, the aggregate market performance continues to be challenged due to slower economic growth, tighter liquidity conditions and potential headwinds to corporate earnings. Growth within the region remains uneven and fundamental sector/country and stock selection will remain crucial.

The current positioning of the Asia Pacific strategy is to be overweight on Asia ex Japan and Australia. The position is funded from an underweight position in Japan. This is a result of bottom-up securities selection and does not necessarily reflect our view on the respective regions. The overweight position in Asia ex Japan is mainly due to the relative attractiveness of Indonesia and India financials against the rest of the region. Similarly, the underweight position in Japan reflects our concern on the operating prospects of Japanese financial companies.

Asia Pacific Equity

In terms of sector allocation, our strategy is overweight on the consumer discretionary, healthcare and energy sectors. We have increased our weights in healthcare recently as some selective value plays emerged with the recent correction in the last quarter. Similarly, we have also increased our weights in energy given strong demand response as a result of low oil prices and improving global demand supply balance. We remain positive on the longer term trend for the consumer and technology sectors as it provides exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies. We are underweight on the materials sector due to concerns over incremental demand from China, which is experiencing slower growth and implementing reforms.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 May 2016 unless otherwise stated.

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