Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-1.3	8.8	-0.9	-0.5	-17.2	-1.6
MSCI Far East Free Ex-Japan	-1.7	8.0	-1.2	-0.5	-18.2	-2.9
MSCI China	-0.8	10.8	-6.9	-5.7	-28.3	2.4
MSCI Hong Kong	-0.9	9.8	0.3	-0.5	-14.0	11.7
MSCI India	2.3	15.7	2.4	0.2	-7.5	13.9
MSCI Indonesia	-3.2	-1.7	11.9	6.9	-9.6	-24.3
MSCI Korea	-3.9	8.6	-1.4	0.2	-10.3	-8.1
MSCI Malaysia	-6.7	2.0	3.1	2.9	-14.4	-26.2
MSCI Philippines	4.8	14.2	9.5	8.3	-4.0	6.5
MSCI Singapore	-4.2	7.4	1.8	0.9	-16.3	-13.9
MSCI Taiwan	2.1	4.9	3.1	4.1	-14.4	7.5
MSCI Thailand	0.2	8.6	9.1	18.4	-8.1	-14.3

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

Asia ex-Japan equities fell in May, underperforming global equities but outperforming other emerging market equities. Emerging markets (EM) underperformed developed markets (DM) even as energy moved higher over the month. Fixed income markets were mixed with non-investment grade (non-IG) bonds outperforming investment-grade (IG). The US Federal Reserve (US Fed) turned slightly more hawkish and the market is now pricing in a higher probability of a rate hike in the coming months.

All sectors across Asia ex-Japan fell in May with the exception of information technology which posted gains. The telecommunication services, utilities, healthcare and consumer staples sectors outperformed while the materials, energy, industrials, financials and consumer discretionary sectors underperformed. Across markets, the Philippines, India, Taiwan and Thailand were the best-performing markets. In contrast, Malaysia, Korea, Singapore and Indonesia underperformed.

Global leading indicators were mixed in May. In the DM, the Purchasing Managers' Index (PMI) in the US and UK strengthened while PMI in Eurozone and Japan declined. In the EM, 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.

India rose as GDP growth for the first quarter of 2016 came in at 7.9% year on year (yoy), the highest in the region. Corporate earnings also rebounded and beat expectations. Taiwan rose slightly even as foreigners continued to be net sellers after MSCI cut Taiwan's weight in the indices. The Taiwan government trimmed 2016 GDP growth forecast on weak external demand and investments.

China corrected as economic data remained soft, and concerns rose as government policy are less pro-growth than anticipated with an emphasis on reform. Korea market turned down even as May exports turned up, with the Bank of Korea keeping policy rates on hold.

Asia ex-Japan Equity

The performance of ASEAN markets was mixed. 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 streamline bureaucracy, cut red tape and fight crime. The Thailand market was flat and yet retained its position as the best-performing Asian market on a year-to-date basis, as first quarter GDP accelerated to 3.2% yoy driven by higher services, in particular, tourism. Indonesia market retreated as corporate earnings showed that economic recovery was still weak despite monetary easing. Singapore and Malaysia markets also pulled back as investors weighed the impact of further US Fed rate hikes on economic growth and currencies.

Outlook and Strategy

The outlook for growth in Asia remains challenging due to the deceleration of growth in China. Expectations for the US Fed to resume rate hikes in the second half of 2016 could present headwinds for Asian currencies. Although inflation remains low, central banks will have less room to cut interest rates as the risk to currency stability and capital outflows need to be balanced against growth concerns.

China remains in a conundrum of rising debt and slower growth. 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.

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 property which faces the headwinds of slowing China and potentially higher interest rates. 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 lower interest rates to flow through to spending and investment. We are also more optimistic on India as moderate inflation and rising incomes could boost consumption. Renewed infrastructure spending and passing of the Bankruptcy Act could also boost investor confidence.

Asia markets are largely flat from the beginning of the year, as the economic outlook for the region faces challenges from higher US interest rates, weak exports and slowing growth in China.

Asian equity valuations are 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 restructuring its economic growth model means that overall growth will remain modest. We see investment opportunities in niche segments relating to the new economy. Rising internet and smartphone penetration will accelerate technological disruption across various sectors including retail, financial services, travel and transportation. This trend presents bottom-up investment opportunities across the whole ecosystem of e-commerce including information technology services and financial technology sectors.

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

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