# Asia Pacific Equity

| Equities - Asia Pacific | 1 Mth | 3 Mth | 6 Mth | YTD | 1 Yr | 3 Yrs |
|---|---|---|---|---|---|---|
| MSCI Asia Pacific | -1.7 | 1.0 | -5.6 | -5.6 | -9.1 | 14.7 |
| MSCI Japan | -5.2 | 0.7 | -10.1 | -10.1 | -9.2 | 15.6 |
| MSCI AC Asia Ex-Japan | 0.7 | 0.7 | -2.7 | -2.7 | -11.6 | 14.0 |
| MSCI Australia | -1.7 | 1.3 | -1.7 | -1.7 | -2.8 | 11.6 |

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 30 June 2016.

Asia Pacific equity markets were lower in June on the back of the UK referendum outcome where it voted to exit the European Union. Within the region, Asia ex-Japan outperformed while Australia and Japan underperformed.

Telecommunications and consumer staples were the best-performing sectors as investors sought defensive names with good dividend yields. The energy sector also outperformed as dividends remained resilient with the oil price remaining stable amid the Brexit outcome. On the other hand, cyclical sectors such as financials and consumer discretionary were hard hit as they bore the brunt of the sell-down

Within Asia ex-Japan, the ASEAN region outperformed the rest of the Emerging Markets (EM) as the region is seen to be most insulated from the global fallout from Brexit. Indonesia's strong performance was boosted by the approval of a long-awaited tax amnesty bill, which is expected to garner substantial additional tax revenue for the government from newly-declared funds. This is expected to boost public and private investment spending and hence GDP growth in 2017. Indonesia's central bank also reduced policy rate by 25 basis points (bps). The Philippines market continued to gain on the back of optimism on the newly-inaugurated Duterte administration's ability to execute policies, particularly in infrastructure. In Thailand, the central bank held policy rates unchanged as it viewed that current monetary conditions were conducive for economic recovery, while inflation climbed on higher food prices. The India market underperformed with the Reserve Bank of India (RBI) governor Rajan announcing that he will leave when his term ends in September. Meanwhile, the government approved liberalisation of foreign direct investment in nine sectors and the RBI kept policy rates unchanged. The China market held up relatively well amid Brexit concerns as there appeared evidence of economic stabilisation and improving sentiment with May industrial activity data showing sequential growth. Liquidity conditions continued to be tighter in May compared to the first quarter while headline export and import growth rebounded on seasonal effects.

The Japan Index underperformed the other regions on the back of yen strengthening on the outcome of the UK Referendum. The Japanese market had benefited earlier 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 and retail sales coming in below market expectations while the Purchasing Managers' Index (PMI) reading improved to 51.8 from 51.0 in May. The macro outlook remains challenging, with weaker commodity prices continuing to be a headwind for the economy.

## Outlook and Strategy

We believe that 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.

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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.

In terms of sector allocation, our strategy is to be overweight on the healthcare, energy and utilities sectors. We have upgraded to an overweight position in utilities recently as some selective value plays emerged. 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 but have moved to a tactical underweight currently due to foreseeable headwinds on corporate earnings in the near term. We are also 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 30 June 2016 unless otherwise stated.

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