Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI Asia Pacific	5.5	4.7	7.8	-0.3	-3.0	18.7
MSCI Japan	6.8	4.0	3.6	-4.0	-4.9	22.1
MSCI AC Asia Ex-Japan	4.4	6.1	9.5	1.7	-3.2	16.3
MSCI Australia	7.5	6.0	15.1	5.7	3.6	15.8

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

Asia Pacific equity markets gained in July 2016 as markets digested the surprise results of the United Kingdom's vote to leave the European Union at the end of June, with investors assessing that the contagion risks are largely limited to Britain. Within the region, Australia and Japan outperformed while Asia ex-Japan underperformed.

Materials and consumer discretionary were the best performing sectors as investors turned bullish on the back of better than expected economic data. Other cyclical sectors such as technology and financials also rallied hard in the month. On the other hand, defensive sectors such as telecommunications, consumer staples and utilities underperformed as investors rotated out of these sectors. The energy sector also underperformed as the oil price retreated on the back of increased anxiety with the building up of gasoline and crude inventories despite continuing declines in US crude production.

Asia ex-Japan equities rose in July as risk appetite returned to financial markets and the region benefited from inflows as investors looked outside the developed markets for opportunities amid the political uncertainty arising from Brexit. Regionally, performances were mixed, with Malaysia being the only country posting losses while Singapore, the Philippines and China underperformed. Thailand, Taiwan, Hong Kong, Korea, India and Indonesia outperformed.

Across the Greater China markets, Taiwan was the best-performing as foreign inflows continued in July with net buying in the month surpassing inflows for the whole of 2015. The technology sector saw the most inflows and was one of the top performing sectors as the hardware producers in the Apple supply chain benefited from Apple's better than expected second quarter results. China underperformed in July with regulatory headwinds crimping performance. The Chinese authorities were reportedly looking to issue new regulations on banks' wealth management products and property companies' usage of proceeds from additional share sales. The Hong Kong market outperformed on the back of inflows as its currency drew investors looking for alternative destinations relatively unaffected by the political uncertainty in Europe.

The ASEAN market as a whole underperformed the broader Asia market but performance diverged widely across the countries. Indonesia's outperformance came on the back of positive expectations of additional tax revenue for the government from the Tax Amnesty Bill and a Cabinet reshuffle which saw the appointment of well-regarded World Bank managing director Sri Mulyani as the new Minister of Finance. The Thailand market continued its outperformance for the year with headline inflation coming in below expectations as food costs remained subdued. The Malaysia market posted losses as the energy sector languished even as the Central Bank cutting rates by 25 basis points (bps) in July, ahead of market expectations. The Singapore market was negatively impacted by one sizeable oil and gas company filing for judicial management. The incident saw ripple effects on other companies in the sector and banks with exposure to the company.

The Japan Index outperformed the other regions as investors were hopeful of more quantitative easing measures from the Bank of Japan (BOJ) as the yen strengthened following the Brexit outcome. 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.

Asia Pacific Equity

Australian equities also outperformed in the month. The recent macroeconomic releases were mixed with the trade balance and retail sales coming in below market expectations while the Purchasing Managers' Index (PMI) reading improved to 56.4 from 51.8 in the previous month. 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 remain 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.

We are overweight on Asia ex-Japan and Australia in our current Asia Pacific strategic positioning. The position is funded from an underweight position in Japan. This is a result of a 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 the energy sector given strong demand response as a result of low oil prices and an 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 position 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 29 July 2016 unless otherwise stated.

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