Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	4.4	6.1	9.5	1.7	-3.2	16.3
MSCI Far East Free Ex-Japan	4.3	5.9	9.7	1.7	-3.0	14.3
MSCI China	3.1	3.8	6.8	-6.3	-12.7	16.6
MSCI Hong Kong	6.4	6.6	11.6	1.7	-5.0	28.7
MSCI India	5.6	9.3	8.6	1.7	-4.9	41.5
MSCI Indonesia	5.2	11.9	13.6	17.5	15.7	3.7
MSCI Korea	6.3	6.3	11.8	5.4	9.4	12.8
MSCI Malaysia	-1.6	-3.6	-2.3	1.0	-7.8	-15.7
MSCI Philippines	2.0	11.8	15.2	10.2	2.9	27.7
MSCI Singapore	0.0	0.0	9.6	0.0	-8.6	-3.9
MSCI Taiwan	6.6	14.3	15.7	10.7	4.1	28.8
MSCI Thailand	6.9	9.5	17.0	23.1	5.5	7.1

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

Asia ex-Japan equities rose in July 2016, performing in line with most other emerging markets, and outperforming global markets as a whole. Risk appetite returned to financial markets after the sell-off at the end of June when the United Kingdom voted to leave the European Union (EU) against market expectations. Asia markets also benefited from inflows as investors looked outside the developed markets for opportunities amid the political uncertainty. Fixed income markets similarly traded higher, though lagging behind equity markets, as high yield bonds emerged as the best performing asset. Energy prices continued posting losses in July while Gold prices trended higher..

While most markets across Asia ex-Japan gained, their performance varied. Malaysia was the exception, posting losses while Singapore, the Philippines and China underperformed. Thailand, Taiwan, Hong Kong, Korea, India and Indonesia outperformed. Most sectors rose in July with the exception of consumer staples, which posted losses. The materials sector emerged as the best-performing, while information technology, consumer discretionary, telecommunication services and financials outperformed. Consumer staples, energy, utilities, healthcare and industrials underperformed.

Economic indicators across the region were mostly stable with the leading purchasing managers' index (PMI) picking up in most major economies and staying above the expansion 50-level. The exception was China's official PMI which dipped slightly to 49.9 from 50.0, deviating from the private sector. The Caixin PMI which rose to 50.6 from 48.6– showed expansion for the first time in 17 months. In the Developed Markets, PMI in Japan strengthened while PMI in the US, UK and Eurozone declined. Industrial production and exports were weak across Asia while inflation picked up slightly in India.

Across the Greater China markets, Taiwan was the best-performing market 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 hardware producers along the Apple supply chain benefited from Apple's better than expected second quarter results. China underperformed in July with regulatory headwinds denting 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.

Asia ex-Japan Equity

The ASEAN market as a whole underperformed the broader Asia market but performance diverged widely across markets. 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 cut 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 Philippines saw headline inflation picking up at 1.9% year-on-year in June from 1.6% in May.

Outlook and Strategy

The outlook for growth in Asia remains challenging due to the deceleration of growth in China. China remains in a conundrum with 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 if the recovery is sustainable. We continue to stay cautious on China's economy but expect growth to stabilise should there be loosening monetary policy, more government spending and a pick up in the property market. Structural challenges in terms of overcapacity and high debt levels remain, but on a positive note economic rebalancing is accelerating.

China's transition in restructuring its economic growth model means that overall growth levels will remain modest. We see investment opportunities in niche segments relating to the new economy. Wider 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 ecommerce including information technology services and financial technology sectors.

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 in the property sector facing headwinds from slowing Chinese growth and potentially higher interest rates. In Taiwan, we are more optimistic on the technology sector due to improving inventory and product cycles. We are overweight on Indonesia as we expect lower interest rates to boost 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 last seen during the 2008 Global Financial Crisis. Asia's mostly favourable demographic trends 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, that are positioned in segments offering attractive growth and that have demonstrated operational and financial discipline in the way they manage their businesses.

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

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