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FROM THE EQUITY DESK

Monthly Outlook

Summary

- Asia ex Japan (AxJ) equities declined by 0.9% in USD terms in April, largely on the back of currency weakness. Oil markets reached their highest levels since last November, while activity data in China improved. The market continued to price the risk of US monetary policy tightening conservatively, on the back of dovish comments from US Federal Reserve chair Janet Yellen.

- The Hong Kong equity market continued its upward trend in April, buoyed by a robust property sector. Conversely, the MSCI China Index returned -0.2%. Concerns about the bond market persisted, as a significant number of issuances scheduled for April were delayed or cancelled.

- Performance in ASEAN was mixed. MSCI Thailand outperformed the region owing entirely to THB strength. Although Malaysia and Indonesia were among the worst performers in April, their year-to-date performance remains solid.

- The Philippine equity market was weighed down by pre-election jitters, while Taiwan was hampered by a weak IT sector.

- The Asia ex Japan index is attractively valued for long-term investors. Asian economies have relatively stronger underlying growth and are largely beneficiaries of lower commodity prices, while authorities have greater room to stimulate growth through monetary and fiscal channels.

- India offers the best medium-term investment returns, in our view, premised on steady policy reform. While China's path to reform is non-linear and requires difficult compromises, it continues to offer selected opportunities. ASEAN appears more interesting, while we are cautious on North Asia.

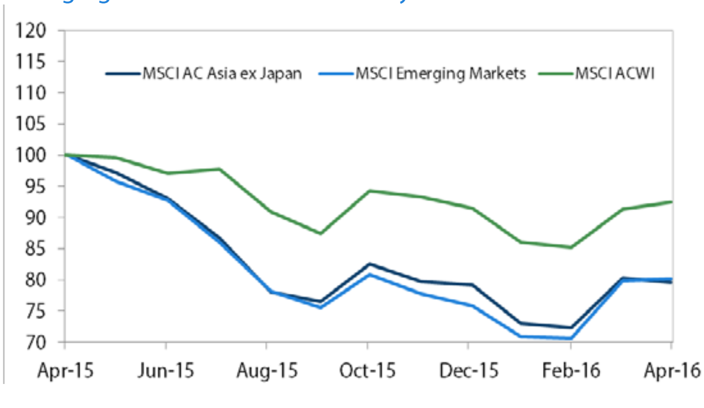
Asian Equity

Market Review

- Asia ex Japan edged lower in April, most currencies depreciated against the USD

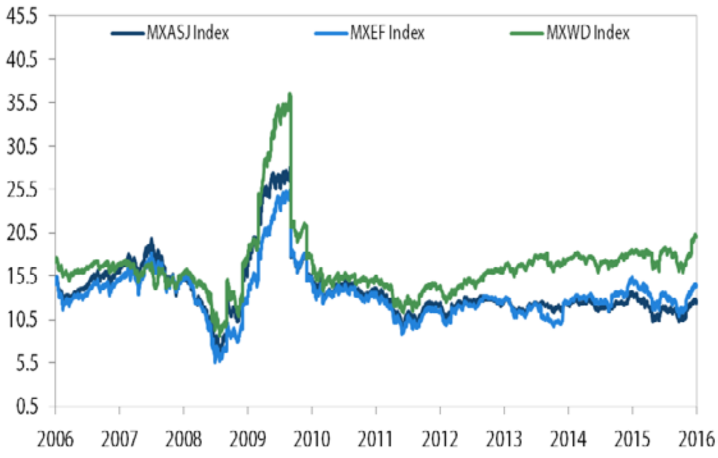
MSCI Asia ex Japan declined by 0.9% in USD terms and underperformed the MSCI World's 1.6% gain in April. All AxJ currencies depreciated against the USD, except the THB and SGD. Oil markets rallied, owing to the increased supply outages and strategic stock builds in the past few weeks. A couple of noteworthy developments have been favourable for equity markets. First, activity data in China has improved in response to substantial monetary and fiscal stimulus. Second, encouraged by dovish comments from US Federal Reserve (Fed) Chair Janet Yellen, the market continues to price the risk of US monetary policy tightening conservatively suggesting that the benign combination of roughly 2% US GDP growth and a dovish Fed could persist for longer than earlier anticipated.

1-Year Market Performance of MSCI Asia ex Japan versus Emerging Markets versus All Country World Index



Source: Bloomberg, 30 April 2016. Returns are in USD. Past performance is not necessarily indicative of future performance.

MSCI Asia ex Japan versus Emerging Markets versus All Country World Index Price-to-Earnings



Source: Bloomberg, 30 April 2016. Returns are in USD. Past performance is not necessarily indicative of future performance.

- **Hong Kong outperformed, whereas China declined marginally**

The Hong Kong equity market continued its upward trend in April. MSCI Hong Kong rose 0.9% and was the best performing Asian market. The property sector stayed robust amid improving residential primary sales volumes and stabilising secondary market residential prices. In China, all commodities moved significantly higher over the month. A simple explanation for the commodity rally in China could potentially be lack of opportunities in the credit, equities and real estate spaces, leading to some liquidity moving into the commodities market. A more nuanced look would suggest that supply curbs are working and there are signs of demand picking up in pockets. Concerns about the bond market remain as 103 issuances worth over RMB100bn for April have been cancelled or delayed, according to Bloomberg. MSCI China Index returned -0.2% in USD terms.

- **Performance in ASEAN was mixed**

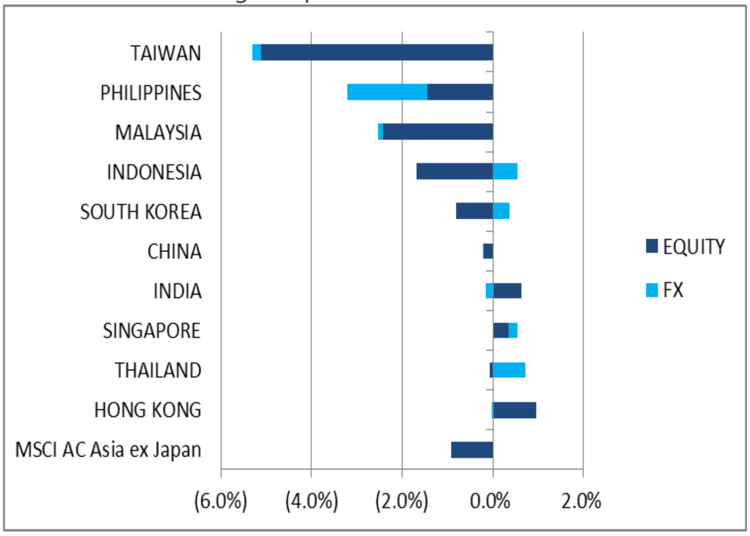
Within ASEAN, some of the strongest year-to-date performers took a breather in April. MSCI Thailand returned 0.6% and outperformed the region thanks entirely to the THB holding its own against the USD, bringing year-to-date (YTD) gains to 17.7%. Malaysia and Indonesia remain among the best performing markets YTD returning 10.4% & 10.0% respectively although both were among the worst performers in April. Pre-election jitters hurt the performance of the Philippines, the second worst performing market in the region. Davao City Mayor Duterte widened his lead over number two candidate Grace Poe, the erstwhile frontrunner.

- **Taiwan was the worst-performing market**

The Taiwanese equity market fell by 5% in April. IT was a key underperformer, led by semiconductors. TSMC announced weaker 2Q guidance due to slower restocking and weaker momentum for its 16 nanometer chips, which suggests sluggish demand post iPhone SE launch. Tech hardware declined, led by Apple supply chain names.

MSCI AC Asia ex Japan Index

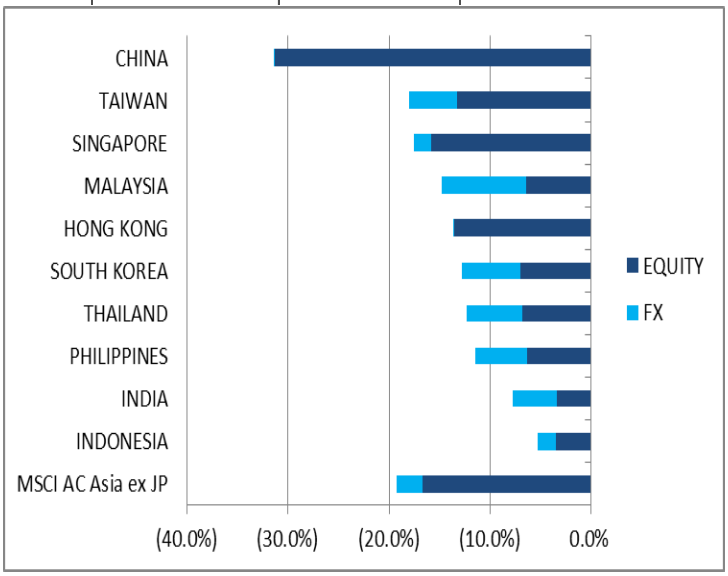
For the month ending 30 April 2016



Source: Bloomberg, 30 April 2016
Note: Equity returns are single country MSCI indexes and are in local currencies while FX and MSCI Asia ex Japan returns are in USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

MSCI AC Asia ex Japan Index

For the period from 30 April 2015 to 30 April 2016



Source: Bloomberg, 30 April 2016
Note: Equity returns are single country MSCI indexes and are in local currencies while FX and MSCI Asia ex Japan returns are in USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

Market Outlook

- Asia ex-Japan markets should outperform global emerging market peers

We continue to see good value in Asia ex-Japan equities for long-term investors. Notwithstanding a volatile start to the year owing in no small measure to a sharp bounce in cyclicals, notably energy and materials, we remain of the view that owning superior long-term growth compounders will be beneficial for returns. A sub-par economic growth outlook across major global economies in the next year or two implies lower commodity prices. AxJ economies have stronger underlying growth, are largely beneficiaries of lower commodity prices and have greater room both through monetary and fiscal channels to stimulate local economies. India remains our biggest overweight stance, while select ASEAN markets look more promising.

- Policy reform in India to underpin growth

We continue to view India as the market with the best structural growth profile in Asia over the medium term. The government has managed to make a number of improvements in governance even as it has devolved greater power to the states. This is under-appreciated but will reduce 'frictional' costs for businesses in the medium term. The Reserve Bank of India continues to tread the fine line between driving banking system reform, fiscal prudence and politics with considerable aplomb. While economic data has been less than exciting, the prognosis for normal monsoons for the first time in a few years, and the likely passage of the Bankruptcy Bill, will nudge the economy in the right direction. Although unlikely, any progress on the Goods & Services Tax bill will be positive for both the economy as well as financial markets.

- China is Hobson's choice

China's attempt to transition to a consumption led economy has been fraught with pitfalls; thus, it has resorted to the familiar modus operandi of fixed asset investment to attempt maintaining economic growth. Consequently, financial leverage continues to rise from already alarming levels. Any desire to protect the Renminbi will prove a headwind for monetary easing. In such an environment, our preference for healthcare, environment and internet-related stocks remains.

- A mixed bag in developed Asia

In Korea, we remain content to wait on the sidelines for better value to emerge particularly in benchmark-heavy sectors such as technology, industrials and autos. That said, we are still able to find select ideas in the consumer and utilities sectors that benefit from structural advantages or a positive fundamental change in underlying business conditions.

We remain watchful in Taiwan. The new President and DPP government have maintained the status quo on cross-Strait trade agreements and focused on efforts to revive the stagnant economy. However, there is increased political and diplomatic risk with the new DPP government from 20 May. We have also become more discerning in stock selection noting the slowing growth and emerging Chinese competition in the technology sector.

Hong Kong and Singapore both face multiple headwinds in the form of higher US interest rates, a slowing Chinese economy, potential property price correction and oil & gas related exposure of the banking sector. Hence, we prefer companies with regional business models and long-term growth.

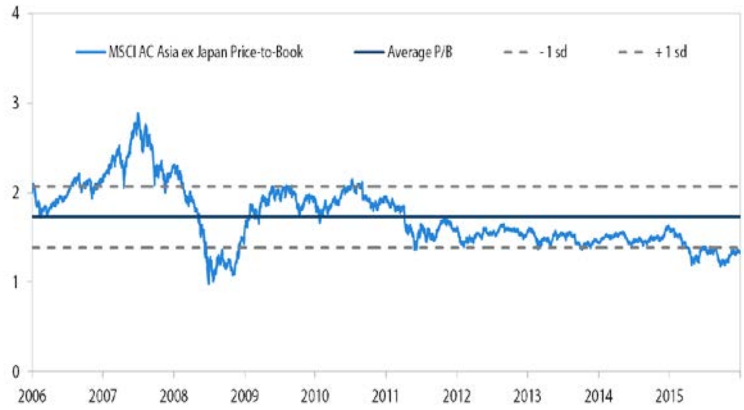
- Selectively positive on ASEAN

We have raised our exposure to the region while being cognisant of the risks relating to currency depreciation. In pockets of Thailand and Indonesia, we find companies with robust and enduring business models and franchises priced attractively. In the Philippines, the economy has been robust even as the imminent presidential election proves uncertain to call. We continue to dislike the Malaysian equity market.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings

MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 30 April 2016. Ratios are computed in USD. The horizontal lines represent the average (the middle line) and one standard deviation on either side of this average for the period shown. Past performance is not necessarily indicative of future performance.

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