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FROM THE EQUITY DESK

Monthly Outlook

Summary

- Asia ex Japan equities rose by 2.7% in USD terms in June, outpacing global equities. The Brexit shock proved short-lived for regional markets as investors started to price in greater monetary and fiscal stimulus across major economies.

- ASEAN markets were key outperformers over the month. MSCI Indonesia was the best performing market in June, returning 9.5% in USD terms. Equities there were well bid following the passage of a tax amnesty bill and an unexpected 25 basis point (bps) cut in key policy rates by the central bank.

- Philippine equities surged to fresh year-to-date highs on the back of an optimistic outlook on the newly inaugurated Duterte administration, while Malaysian stocks were buoyed by ruling alliance Barisan Nasional's resounding two by-election wins.

- RBI Governor Dr. Raghuram Rajan indicated he will not continue for a second term at the Reserve Bank. The Indian government further liberalised foreign direct investment (FDI) across nine sectors.

- The majority of Asian currencies appreciated against the US dollar except marginal declines in the Indian rupee, the Philippine peso, and the Chinese yuan. The Korean won posted a monthly gain of 3.5%, the biggest gain since March.

- The Asia ex Japan index is attractively valued for long-term investors. Asia is ultimately a net beneficiary of lower commodity prices and offers significant growth opportunities led by infrastructure development, albeit contingent on positive government action.

- 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, selected opportunities remain.

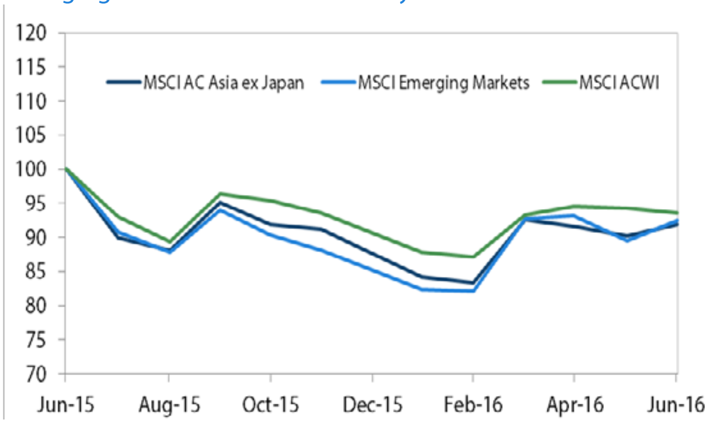
Asian Equity

Market Review

- Asia ex Japan rose in June as Brexit shock proved short-lived

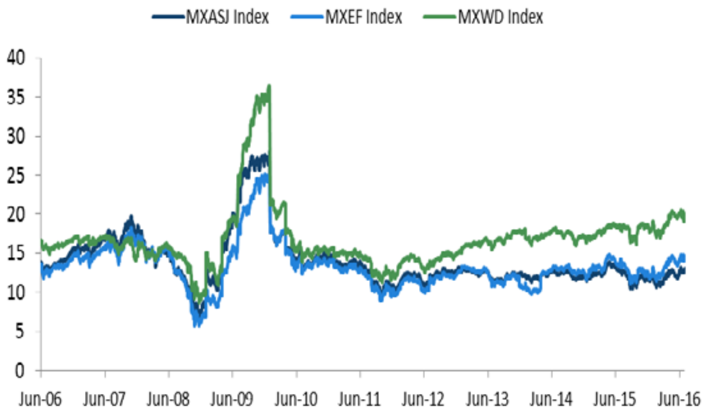
MSCI Asia ex Japan rose by 2.7% in USD terms in June, outperforming global equities by 3.8%. The Brexit shock proved short-lived for Asian markets as investors started to price in greater monetary and fiscal stimulus across G7 economies. The majority of Asia ex Japan currencies appreciated against the USD, with the only exceptions being the Philippine peso and Indian rupee.

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



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

- **Indonesia, Philippines and Malaysia buoyed by political developments**

The passage of the tax amnesty law lifted Indonesian equities, currencies and bonds higher. The central bank cut policy rate by another 25bps in June helping boost demand for property and yield-sensitive stocks. Philippine equities surged to fresh year-to-date highs on the back of an optimistic outlook on the newly inaugurated Duterte administration, with high hopes set on his ability to execute, particularly on infrastructure. The Malaysian ringgit appreciated by 3% versus the US dollar. The ruling alliance Barisan Nasional's (BN) resounding two by-election wins prompted market speculation of earlier elections.

- **China underperformed on MSCI's decision to delay the inclusion of A shares into its indices**

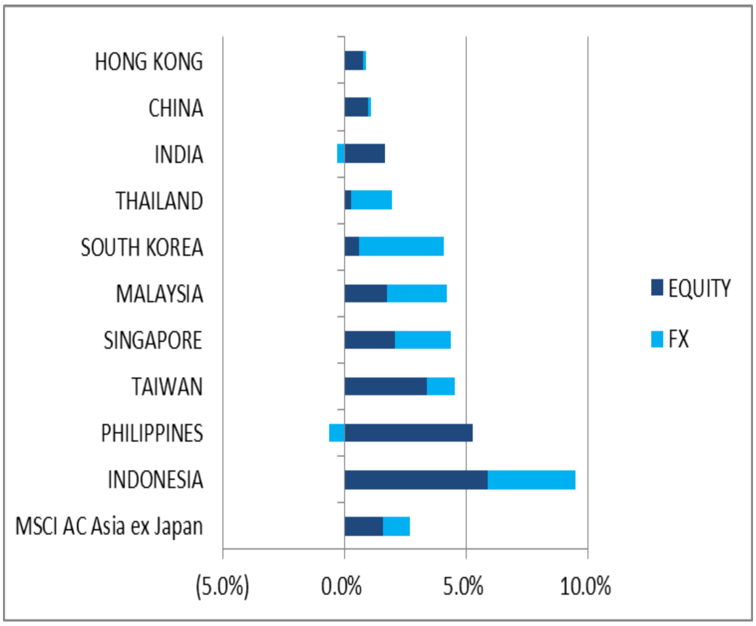
MSCI China rose 1.1% in June in USD terms. Investors fear that economic stabilization was achieved via a temporary stimulus resulting in a decline in cyclicals from mid-April. MSCI's decision to further delay the inclusion of A shares into its indices did not help matters.

- **Indian government further liberalised FDI**

The Indian government further liberalised foreign direct investment (FDI) across nine sectors including defense, pharmaceuticals, civil aviation, and single brand retail. The reforms included increasing the FDI cap in some sectors, moving from governmental approval to automatic routes in others, and easing preconditions in others. MSCI India modestly underperformed during the month returning 1.3% in USD terms. Separately, RBI Governor Dr. Raghuram Rajan indicated he will not continue for a second term at the Reserve Bank and will return to academia when his term ends on September 4, 2016.

MSCI AC Asia ex Japan Index

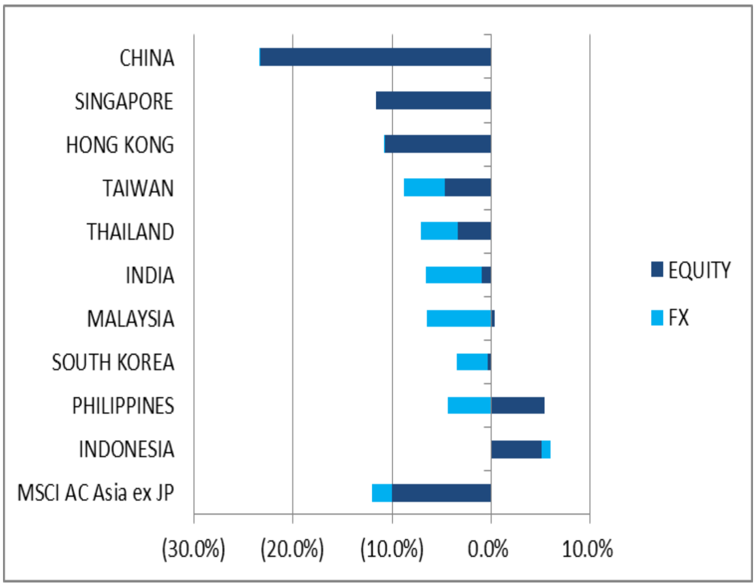
For the month ending 30 June 2016



Source: Bloomberg, 30 June 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 June 2015 to 30 June 2016



Source: Bloomberg, 30 June 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, led by India

We continue to see good value in Asia Pacific ex-Japan equities for long-term investors. We continue to advocate that Asia is ultimately a net beneficiary of lower-for-longer commodity prices and offers significant growth opportunities led by infrastructure development, albeit contingent on positive government action. India remains our biggest overweight stance as we believe it offers the best structural growth profile in Asia over the medium term. Victories by the BJP in recent state elections have bolstered its position in the upper house, and should lead to a more productive legislative environment. While Rajan's steady hand at the helm of the RBI will be missed, the groundwork laid in terms of the monetary policy framework should ensure continued stability on this front. We continue to favour domestic demand oriented consumer, healthcare and private banks within the country.

- Remain selective in China

China's attempt to transition to a consumption led economy has been fraught with pitfalls. Resorting to long–favoured fixed asset investment to maintain economic growth has led to financial leverage rising from already alarming levels. We continue to favour stocks in "new economy" sectors of healthcare, environment and internet.

- 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. We are invested selectively in consumer and utilities sectors.

Taiwan has evolved into a 2–tier market where semiconductor related stocks have done well while other sectors, notably textiles, have underperformed. We are of the view that the Taiwanese competitive edge in these sectors remains intact and see value emerging in the textile sector. We are also on the lookout for stocks that will benefit from long-term structural technology trends such as virtual reality and automation.

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.

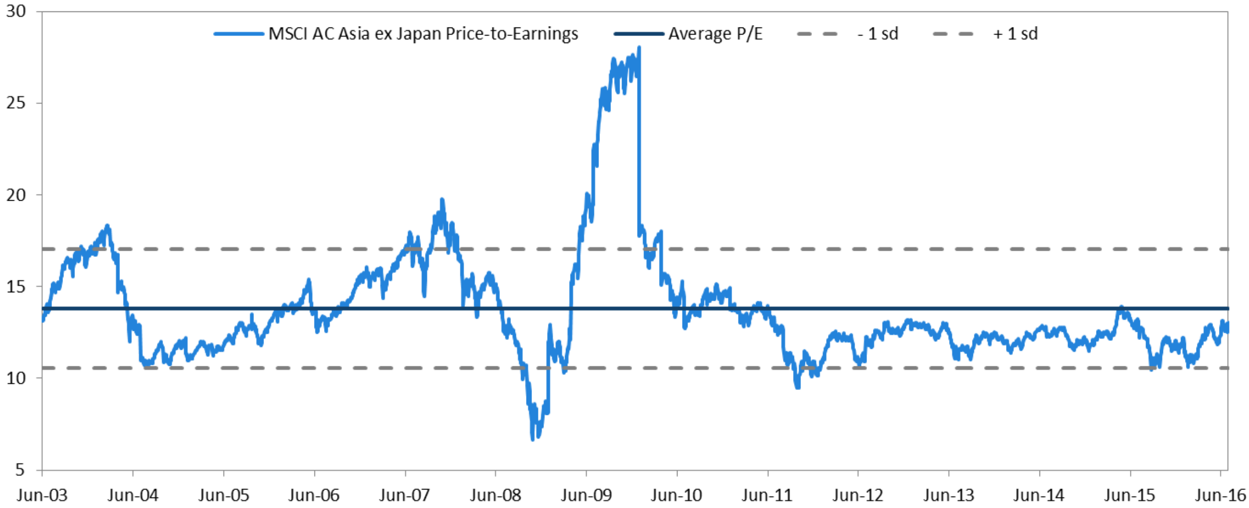
- More positive on ASEAN

We have raised our exposure to the ASEAN region while being cognisant of the risks relating to currency depreciation. In Thailand and Indonesia, we find a few companies with robust and enduring business models and franchises priced attractively and are encouraged by incremental developments on infrastructure projects in both countries. A recent trip to Thailand provided evidence of incremental improvements in both consumer and corporate confidence, aided by the military government's push for much needed infrastructure projects to get underway.

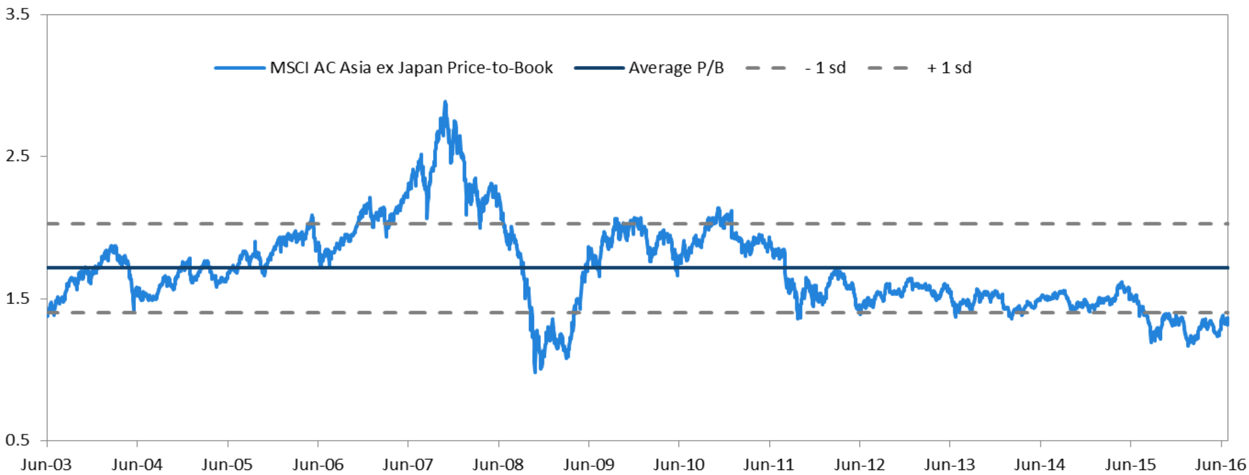
In the Philippines, the improvement in political outlook warranted adding positions there given the favourable longer term outlook and potential for infrastructure led investment cycle. We continue to avoid the Malaysian equity market altogether.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 30 June 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.

Important Information