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FROM THE EQUITY DESK

Monthly Outlook

Summary

- Asia ex Japan equities rose by 4.8% in USD terms in July, outpacing global equities. Hopes for monetary and fiscal stimulus led to strong buying of Asian equities.
- Thailand was the strongest performing market over the month. The central bank's easy monetary policy stance, along with the government's development of planned Mass Rapid Transit lines, has helped boost domestic activity and sentiment.
- Indonesia also did well, buoyed by the passage of the tax amnesty law in late June. Better-than-expected trade data and auto sales boosted domestic demand orientated sectors.
- Elsewhere in ASEAN, Malaysia and Singapore were the biggest laggards. Appetite for Malaysian equities was curbed by weaker oil prices and a fresh lawsuit against the 1Malaysia Development Berhad (1MDB) fund. In Singapore, an offshore marine company filed for liquidation, re-igniting concerns about credit risk in the sector.
- Taiwan and Korea outperformed, led by a resilient technology sector. Conversely, Chinese and Hong Kong stocks ended the month mixed, with energy stocks underperforming the telecom and auto sectors.
- The Asia ex Japan index remains attractively valued for long-term investors. Asia is ultimately a net beneficiary of lower commodity prices and governments appear willing to act on reforms and infrastructure investment.
- 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.

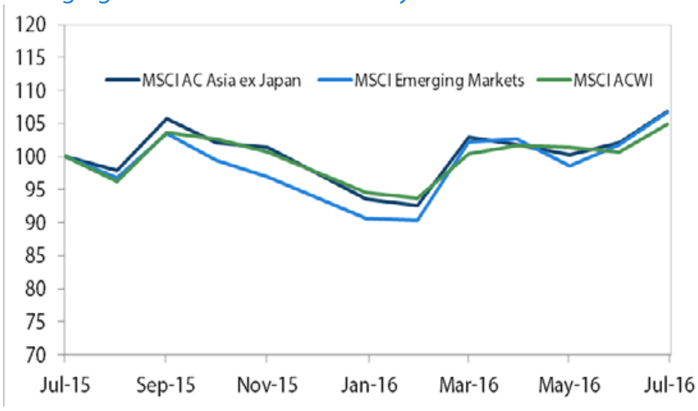
Asian Equity

Market Review

- Asia ex Japan equities extended their rally into July

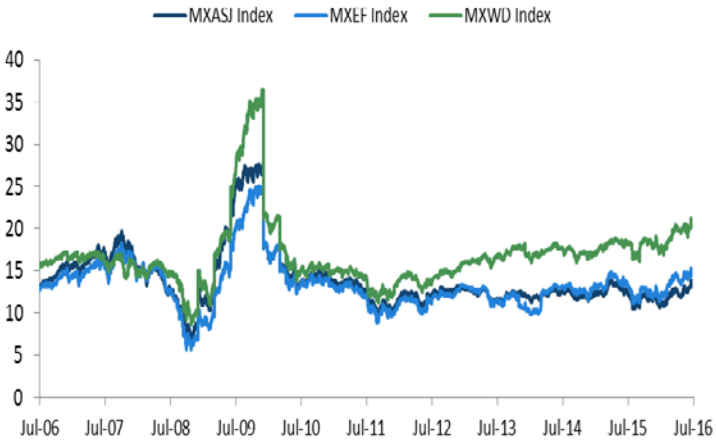
MSCI Asia ex Japan rose by 4.8% in USD terms in July, outperforming global equities by 0.6%. Hopes for monetary and fiscal stimulus led to strong buying of local equities. July also saw some global rotation back to Asian equities given the prospect of more conventional monetary easing and a number of reformist governments in place which contrasted with slower growth in the western world and increasing political risk.

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



Source: Bloomberg, 31 July 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 July 2016. Returns are in USD. Past performance is not necessarily indicative of future performance.

- Thailand and Indonesia outperformed

Thailand was the strongest performing market during the month with MSCI Thailand returning 7.3% in USD terms. Muted inflationary pressure has allowed the central bank to maintain an easy monetary policy stance, while the military-led government has accelerated development of planned Mass Rapid Transit lines, helping to boost domestic activity and sentiment. Elsewhere in ASEAN, Indonesian equities were buoyed by the passage of the tax amnesty law in late June, while better than expected trade data and auto sales helped boost domestic demand orientated sectors.

- Malaysia and Singapore were the biggest laggards

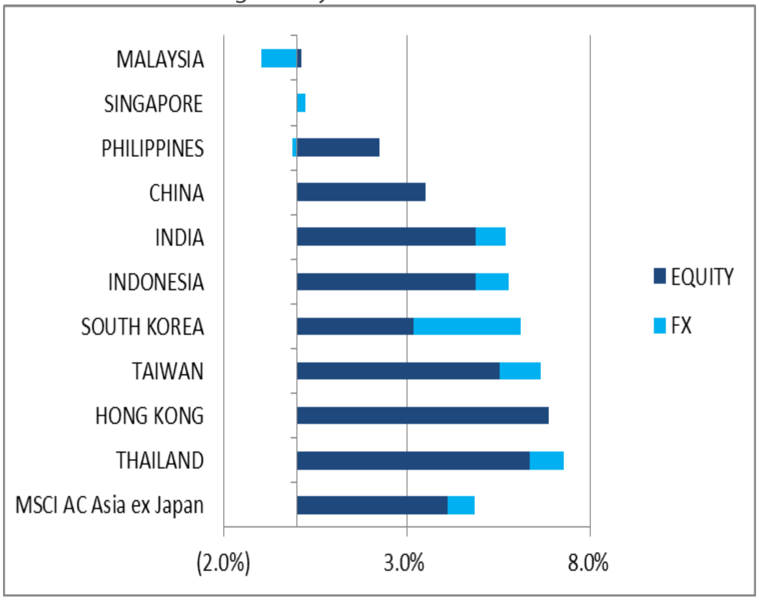
Conversely, there was little demand for Malaysian equities given weaker oil prices over the month and a fresh civil lawsuit raised by the US against Malaysia's troubled 1Malaysia Development Bhd (1MDB) fund. The Malaysian ringgit depreciated by 1% against the US dollar. MSCI Singapore rose a mere 0.2%, held back largely by bank stocks as a local offshore marine company filed for liquidation, re-igniting concerns about lingering credit risk.

- Taiwan and Korea buoyed by technology sector; China and Hong Kong mixed

MSCI Taiwan and Korea outperformed, finishing up 6.6% and 6.1% in USD terms respectively. Resilient prices in technology memory markets, less bad guidance from Apple and a stronger Japanese yen helped boost demand for technology stocks including benchmark heavyweights Samsung Electronics and TSMC. Chinese and Hong Kong stocks had a mixed month with energy stocks witnessing some profit taking, while telecoms and auto sectors saw strong demand.

MSCI AC Asia ex Japan Index

For the month ending 31 July 2016

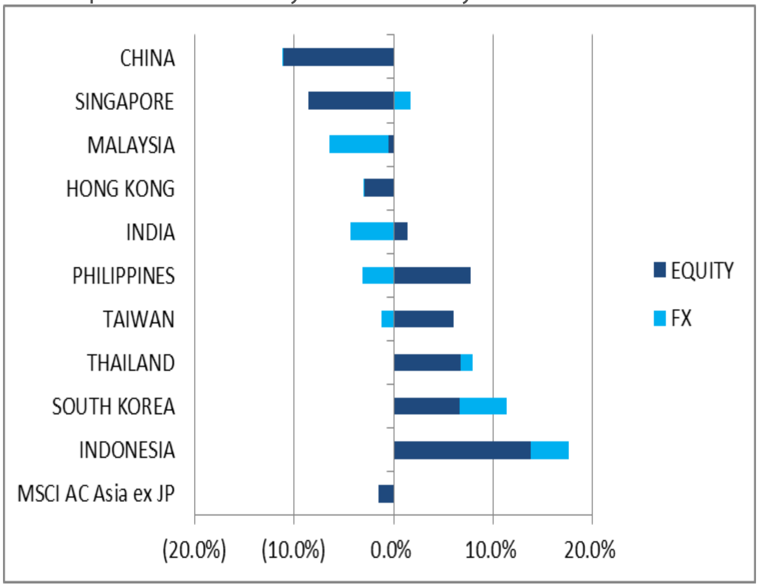


Source: Bloomberg, 31 July 2016

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 31 July 2015 to 31 July 2016



Source: Bloomberg, 31 July 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

The recent resurgence of interest in Asia globally does not come as a surprise to us and despite the recent rally we continue to see good value in Asia ex-Japan equities for long-term investors. Asia still has considerable room at both the monetary and fiscal levels to stimulate economies if needed and governments appear willing to act on reforms and infrastructure investment. We continue to advocate that Asia is ultimately a net beneficiary of lower-for-longer commodity prices and that this is starting to filter through into investment. India remains our biggest overweight stance as we believe it offers the best structural growth profile in Asia over the medium term. Near term, optimism has picked up ahead of key parliamentary debates on the much-anticipated GST bill. 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. 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 note moves by regulators to further tighten up the wealth management space, something that is long overdue. We continue to favour stocks in "new economy" sectors of healthcare, environment and internet.

- A mixed bag in developed Asia

In Korea, the agreement with the US on terminal high-altitude area defense (THAAD) deployment will create some near term headwinds, especially for sectors benefiting from stronger Chinese demand, but we believe this will prove temporary. There have been concerns that the fallout from the UK's decision to leave the European Union could spell the reversal of globalisation and thus more pressure on export dependent economies. While this is feasible we don't see this happening for intra-Asian trade which continues to increase at pace and we expect Korea will continue to be a major beneficiary.

Taiwan has recently seen a revival in demand for technology stocks while domestic orientated and textile stock performance continues to languish. We continue to focus on technology leaders and stocks in niche areas that are less threatened by competitive pressures from China's technology industry. We are also on the lookout for stocks that will benefit from long-term structural technology trends such as virtual reality and automation.

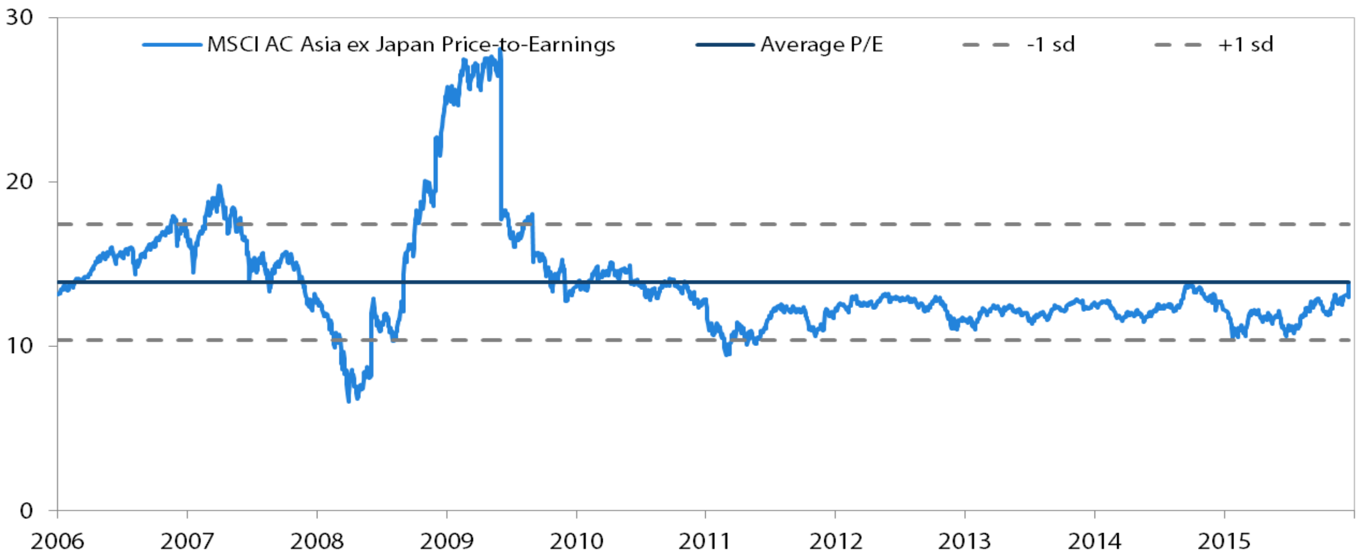
Hong Kong and Singapore both face multiple headwinds in the form of higher US interest rates, a slowing Chinese economy, potential property price correction and oil and gas related exposure of the banking sector. Hence, we prefer companies with regional business models and long-term growth.

- Favour Thai, Indonesian and Philippine equities but mindful of valuations

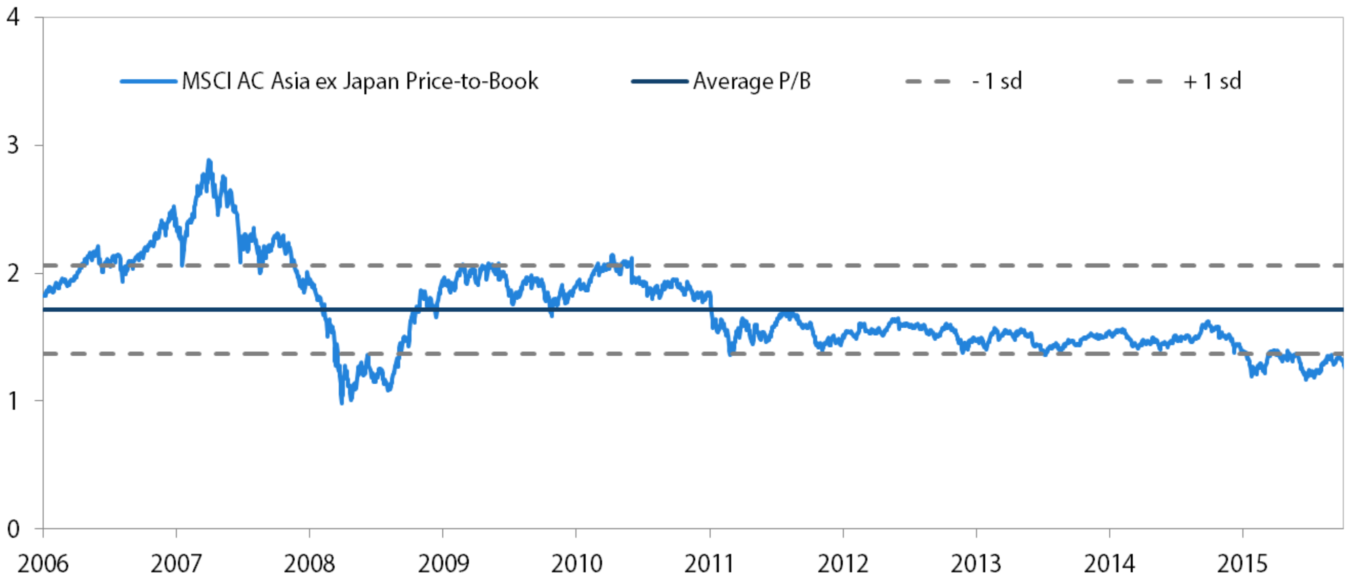
The majority of ASEAN markets have performed well throughout the year, rebounding from heavily oversold levels as fears over US rate hikes have subsided and domestic stimulus efforts have supported activity. We continue to favour Thai, Indonesian and Philippine equities but are mindful that some stock prices have increased significantly ahead of earnings and this has implications for our stock selection. The Philippine economy continues to witness strong growth and we see good credit availability driving investment and earnings, hence we have continued to add to our positions there. We maintain a zero weight to Malaysian equities.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 31 July 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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