



FROM THE EQUITY DESK

Monthly Outlook

Summary

- MSCI Asia ex Japan (AxJ) was up another 2.2% in USD terms, outperforming the MSCI AC World. All AxJ markets ended higher in April. Robust economic data from China offset concerns over President's Trump's ability to pass through sweeping corporate tax cuts in the US.
- MSCI Philippines was the best performing market during the month. A pause in the global deflation theme and improving economic data led investors to buy into some emerging ASEAN stock markets. Malaysia and Indonesia also outperformed. Local business conditions in Malaysia and Philippine markets benefited from improving trade and Chinese direct investment.
- China was supported by better than expected trade and retail sales data while Hong Kong gained on the back of better than expected quarterly results from benchmark heavyweight AIA. Meanwhile, Singapore and Thai equities lagged peers.
- Despite the recent re-rating, valuations across AxJ are still in-line with five year averages and should be well supported by earnings upgrades across major sectors. China's resilient economic recovery and India's resurgence following demonetisation have resulted in an outperformance of Asian markets versus developed peers.
- We maintain an overweight to China, with a preference to sectors such as Internet, Tourism, Healthcare and Consumer. We also continue to favour India on the back of growing confidence in the government's ability to manage the economy. Meanwhile, we remain constructive on Taiwan and Korea. Within ASEAN, we are also more constructive towards Indonesia, while reducing our exposure to Thailand.

Asian Equity

Market Review

- **Asia ex-Japan equities continued their rally in April**
Asian equities continued their upward trajectory, with the MSCI Asia ex Japan (AxJ) Index rising by another 2.2% in US dollar (USD) terms and outperforming the MSCI AC World Index by 0.7%. This brings year-to-date (YTD) returns to 15.9% in USD terms, outperforming the MSCI World Index by 7.9%. All AxJ markets ended higher in April, led by emerging ASEAN and Greater China. Robust economic data from China offset concerns over President's Trump's ability to pass through sweeping corporate tax cuts in the US.

In currency markets, the Indian Rupee continued its appreciation trend, rising by 0.9% versus the USD. The Malaysian ringgit bounced back during the month, finishing up 2% after several weak quarters. Conversely, the Korean won, which had been one of the strongest currencies in Asia YTD, gave some of those gains back in April on rising North Korea risk.

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



Source: Bloomberg, 30 April 2017. 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 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

Emerging ASEAN led gains

MSCI Philippines was the best performing market during the month, returning 5.7% in USD terms. MSCI Malaysia and MSCI Indonesia also outperformed with returns of 3.9% and 3.3% respectively. A pause in the global deflation theme and improving economic data led investors to buy into some emerging ASEAN stock markets. Malaysia and Philippine markets were amongst the poorest performers over the past year, but improving trade and Chinese direct investment have been giving a boost to local business conditions. Former education minister Anies Baswedan won the race for Jakarta governor, ousting the incumbent in what was seen as a largely peaceful campaign.

China buoyed by improving PMIs and stronger earnings

In China we witnessed better than expected trade and retail sales data, which helped support demand for Asian equities more broadly. Imports rose another 20.3% versus estimates of 15.5% while retail sales growth registered 10.9% versus estimates of 9.7%. MSCI China increased by 2.7% while MSCI Hong Kong rose 3.1%, led by better than expected quarterly results from benchmark heavyweight AIA Group. MSCI Taiwan rose 2.1%, in line with returns of the broader index. Although MSCI Korea was a relative laggard during the month, the local headline index, the KOSPI, broke through its 2200 level which marked a new all-time high.

Singapore and Thailand lagged

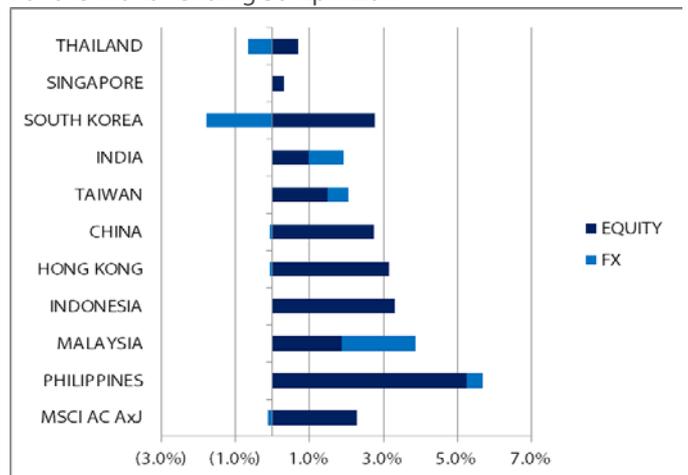
On the flip-side, Singapore and Thai equities were less sought after, with the respective MSCI indices returning 0.3% and 0.0%. Singapore was dragged lower by banks, on the back of easing deflation optimism, and by Singtel, as rival TPG Telecom's acquisition of additional spectrum in key markets accentuated concerns of elevated competition. In Thailand, disappointing bank results and profit taking in the Telecommunications space led the index lower.

- IT and Consumer Discretionary were the best-performing sectors

At the sector level, Information Technology and Consumer Discretionary were the best performing segments for a second month in a row. Chinese internet giants Tencent and Alibaba reported solid first quarter results and their share prices rose 9% and 11% respectively. Additionally, guidance for stable margins going forwards helped to allay some concerns. Samsung Electronics also rose 8.3%. This comes on the back of a strong set of results aided by higher memory prices and the announcement of the cancellation of its existing stock of treasury shares. Conversely, Materials stocks registered negative returns overall for the month, following base commodity prices lower.

MSCI AC Asia ex Japan Index

For the month ending 30 April 2017

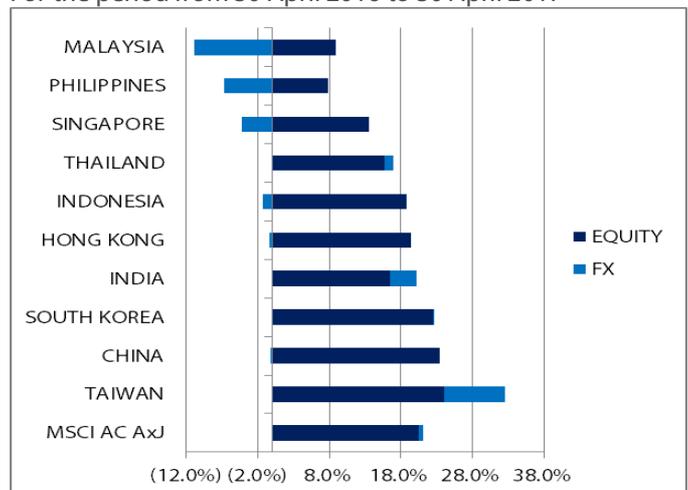


Source: Bloomberg, 30 April 2017

Note: Equity returns refer to MSCI indices quoted in local currencies while FX refers to local currency movement against 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 2016 to 30 April 2017



Source: Bloomberg, 30 April 2017

Note: Equity returns refer to MSCI indices quoted in local currencies while FX refers to local currency movement against USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

Market Outlook

- **Broader rally seem for Asian markets in 2017**

Although valuations across AxJ have re-rated this year, they are still in-line with five year averages and should be well supported by earnings upgrades across major sectors. We note that the rally has broadened out in 2017 compared to 2016, with all markets and sectors registering positive absolute performance. The resilience of China's economic recovery, together with India's resurgence following the November demonetisation event, have resulted in an outperformance of Asian markets versus developed regions. MSCI AxJ Index trades on a 1.5x forward price-to-book (P/B) multiple compared to a 2.2x P/B multiple for MSCI World Index.

- **Maintain overweights to China and India**

China's economy has positively surprised YTD despite more targeted tightening and deleveraging in the financial sector. We expect some moderation in the near term as slower loan growth and receding Producer Price Index filters through to the broader economy. This should be partially offset by rising domestic demand ahead of the 19th National Congress later in the year. The government continues to push public-private partnership programs as a means of attracting private capital. We maintain an overweight stance to Chinese stocks, with a preference for new economy sectors including Internet, Tourism and Healthcare while also adding positions in the consumer sector in recent months.

India also remains a key overweight. A credible Union Budget and convincing victory in local state elections have instilled confidence in the government's ability to manage the economy. This has led to positive foreign inflows into the Indian market. Domestic liquidity has been very strong since demonetisation with much of it flowing into mutual funds, unit-linked investment products and hence the stock market. We are mindful that stock prices and valuations in some areas are starting to run well ahead of fundamentals.

- **More constructive on Taiwan and Korea**

We remain constructive on Asia's major tech hubs and key export economies of Korea and Taiwan. In Korea, the country will elect a new president on May 9. The current front runner, Moon Jae-in, has been promising greater fiscal spending and corporate reform, which will be welcomed by investors. Despite persistent geopolitical risks relating to North Korea and the Terminal High Altitude Area Defense (THAAD), we are optimistic that the improvement in earnings across the majority of Korean companies can continue. In Taiwan, we remain selective with holdings spread across niche segments of the Technology sector and companies with good long term cross-strait franchises.

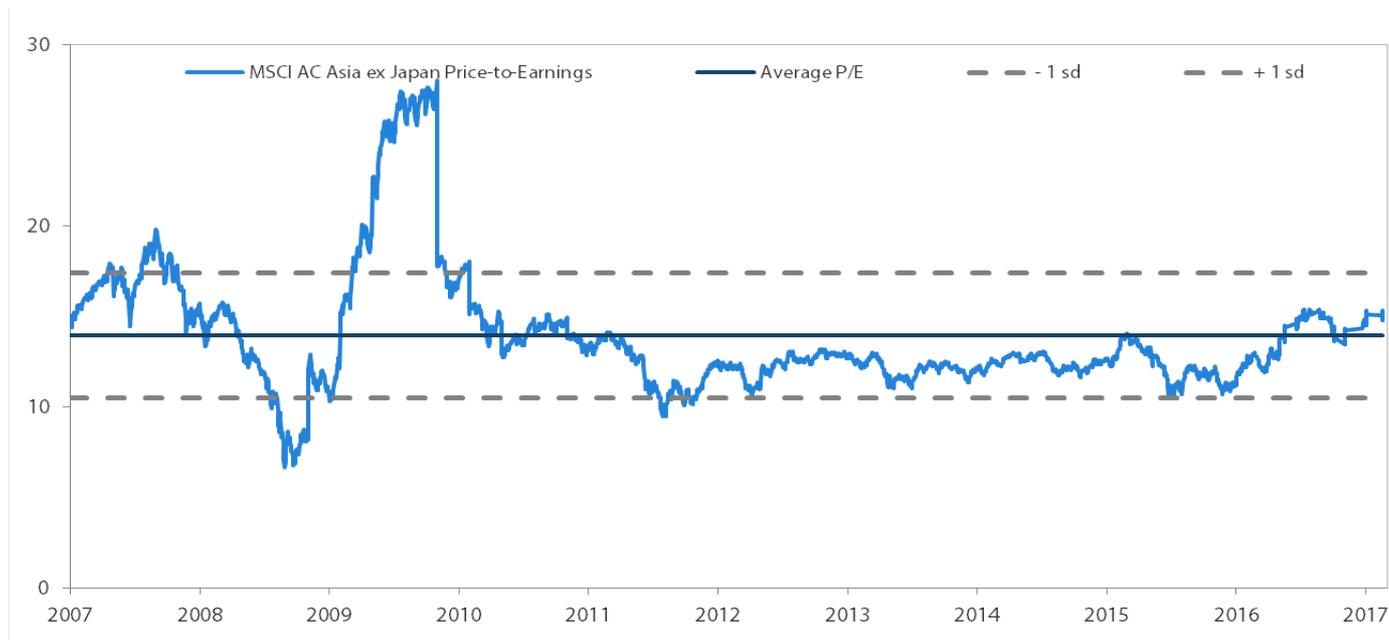
- **Constructive on Indonesia and less exposure to Thailand**

Within ASEAN, we have become more constructive towards Indonesia as domestic activity picks up, banks deal with bad debt problems and Chinese demand helps fuel better exports. We were pleased to see that the election for the Mayor of Jakarta was carried out peacefully given the religious tensions at stake. In Thailand, while some sub-sectors have performed well, we find overall economic conditions rather stagnant and

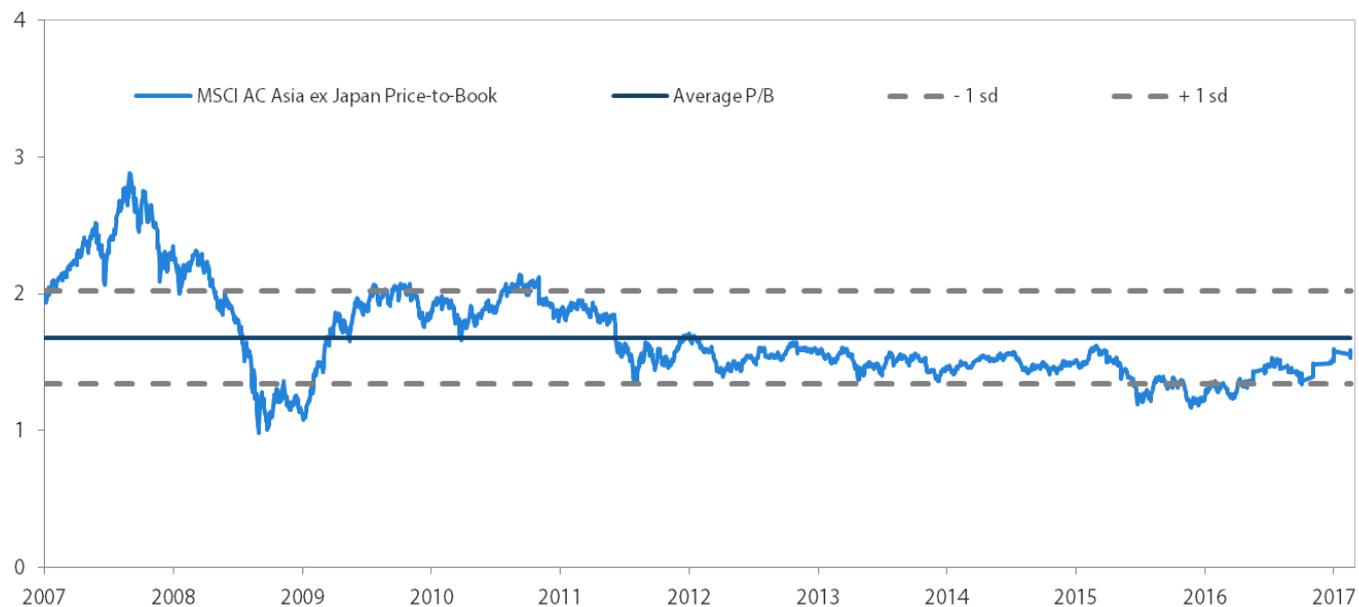
the intentions of the new King still far from clear. We have reduced our positioning here. We remain zero weight to Malaysia.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 30 April 2017. 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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