



## 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.

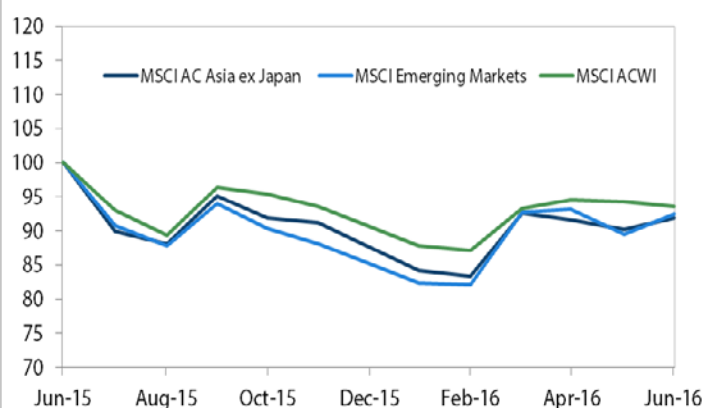
#### Asian Equity

##### Market Review

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

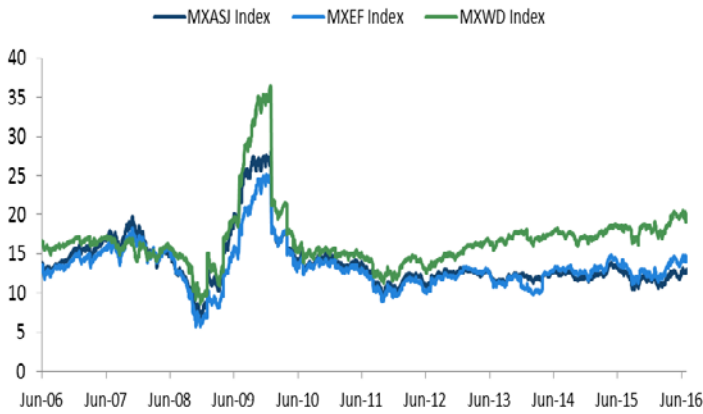
MSCI Asia ex Japan rose by 2.7% in USD terms in June, outperforming global equities by 3.8%. The Brexit shock proved short-lived for Asian markets as investors started to price in greater monetary and fiscal stimulus across G7 economies. The majority of Asia ex Japan currencies appreciated against the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

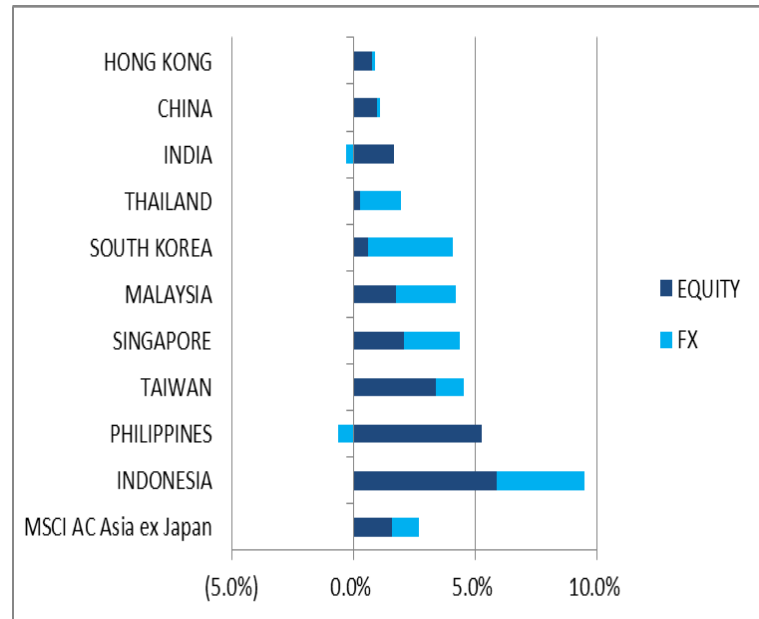
MSCI China rose 1.1% in June in USD terms. Investors fear that economic stabilization was achieved via a temporary stimulus resulting in a decline in cyclicals from mid-April. MSCI's decision to further delay the inclusion of A shares into its indices did not help matters.

- 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

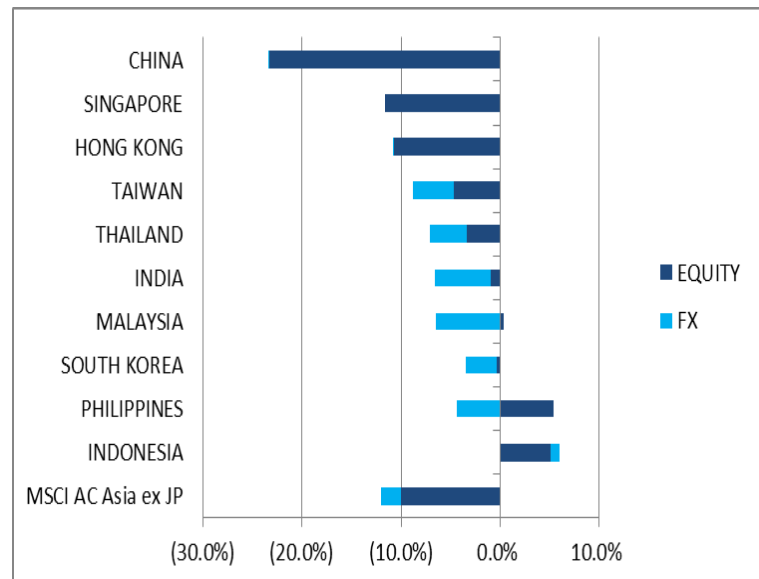


Source: Bloomberg, 30 June 2016

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**

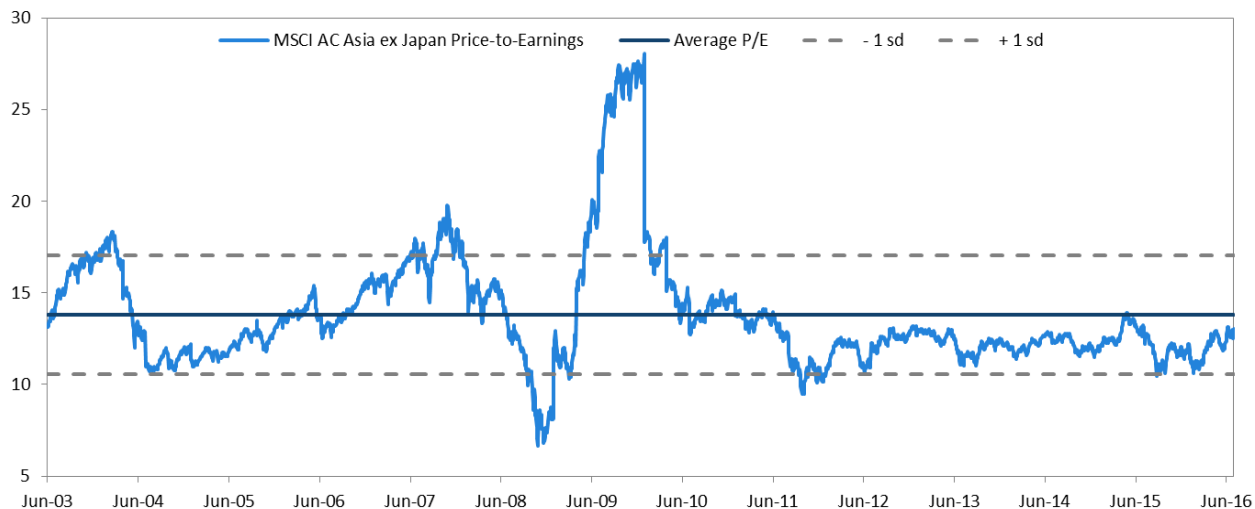
We have raised our exposure to the ASEAN region while being cognisant of the risks relating to currency depreciation. In Thailand and Indonesia, we find a few companies with robust and enduring business models and franchises priced attractively and are encouraged by incremental developments on infrastructure 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.

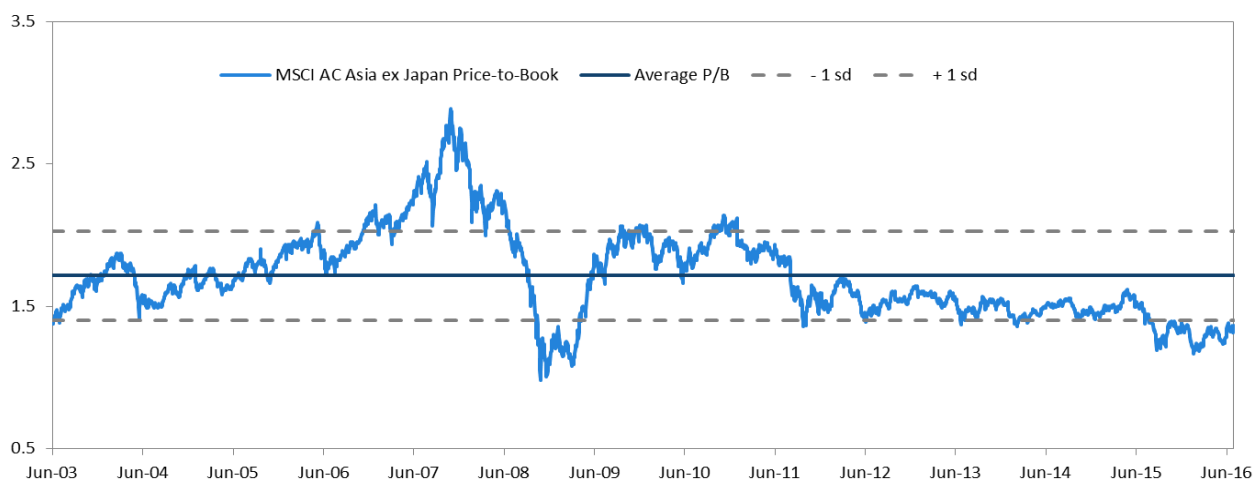
In the Philippines, the improvement in political outlook warranted adding positions there given the favourable longer term outlook and potential for infrastructure led investment cycle. We continue to avoid the Malaysian equity market altogether.

## 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

This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute investment advice or a personal recommendation and it does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this material will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual stocks, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association/Japan Securities Dealers Association.

**United Kingdom and rest of Europe:** This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules).

This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the FCA (122084). It is directed only at (a) investment professionals falling within article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, (as amended) (the Order) (b) certain high net worth entities within the meaning of article 49 of the Order and (c) persons to whom this document may otherwise lawfully be communicated (all such persons being referred to as relevant persons) and is only available to such persons and any investment activity to which it relates will only be engaged in with such persons.

**United States:** This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments. This document should not be regarded as investment advice. This document may not be duplicated, quoted, discussed or otherwise shared without prior consent.

**Singapore:** This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you

**Hong Kong:** This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong.

**Australia:** Nikko AM Limited ABN 99 003 376 252 (**Nikko AM Australia**) is responsible for the distribution of this information in Australia. **Nikko AM Australia** holds Australian Financial Services Licence No. 237563 and is part of the Nikko AM Group. This material and any offer to provide financial services are for information purposes only. This material does not take into account the objectives, financial situation or needs of any individual and is not intended to constitute personal advice, nor can it be relied upon as such. This material is intended for, and can only be provided and made available to, persons who are regarded as Wholesale Clients for the purposes of section 761G of the Corporations Act 2001 (Cth) and must not be made available or passed on to persons who are regarded as Retail Clients for the purposes of this Act. If you are in any doubt about any of the contents, you should obtain independent professional advice

**New Zealand:** Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562) holds Managed Investment Scheme Manager licence in New Zealand and is part of the Nikko AM Group. This material is for information purposes only. It is NOT intended for or directed towards retail investors but is for the use of researchers, financial advisers and wholesale investors. It has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. A reader must not rely on the information as an alternate to expert and customised advice from their trusted financial/legal adviser.