



# 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.

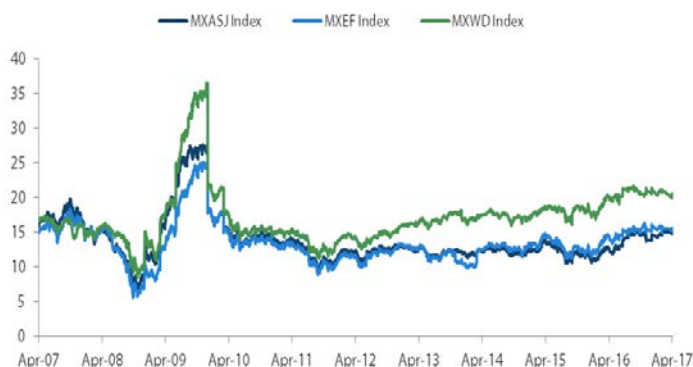
In currency markets, the Indian Rupee continued its appreciation trend, rising by 0.9% versus the USD. The Malaysian ringgit bounced back during the month, finishing up 2% after several weak quarters. Conversely, the Korean won, which had been one of the strongest currencies in Asia YTD, gave some of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

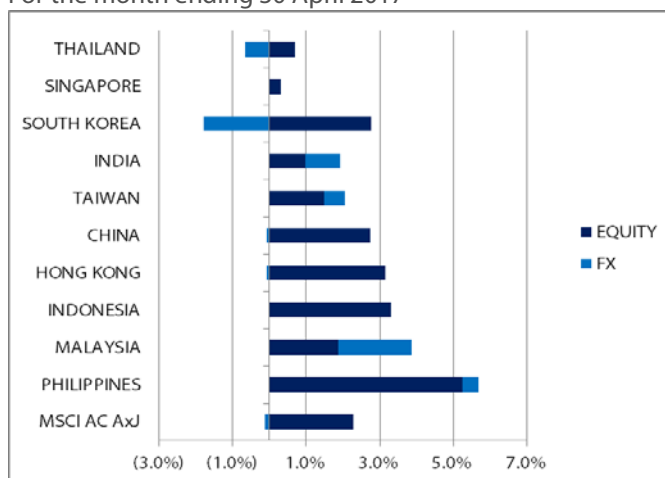
On the flip-side, Singapore and Thai equities were less sought after, with the respective MSCI indices returning 0.3% and 0.0%. Singapore was dragged lower by banks, on the back of easing deflation optimism, and by Singtel, as rival TPG Telecom's acquisition of additional spectrum in key markets accentuated 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

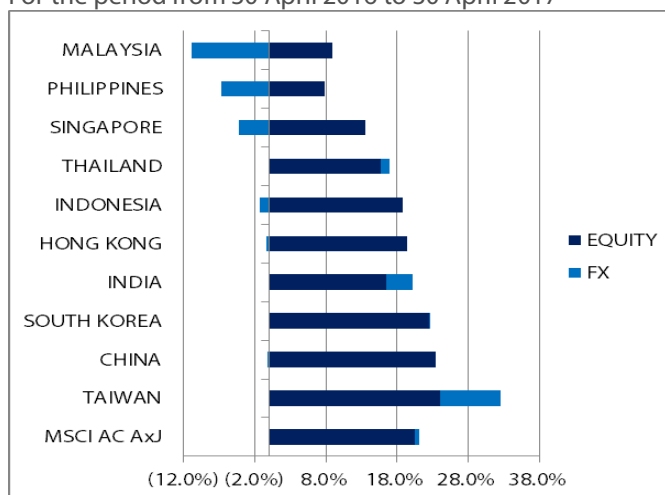


Source: Bloomberg, 30 April 2017

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.

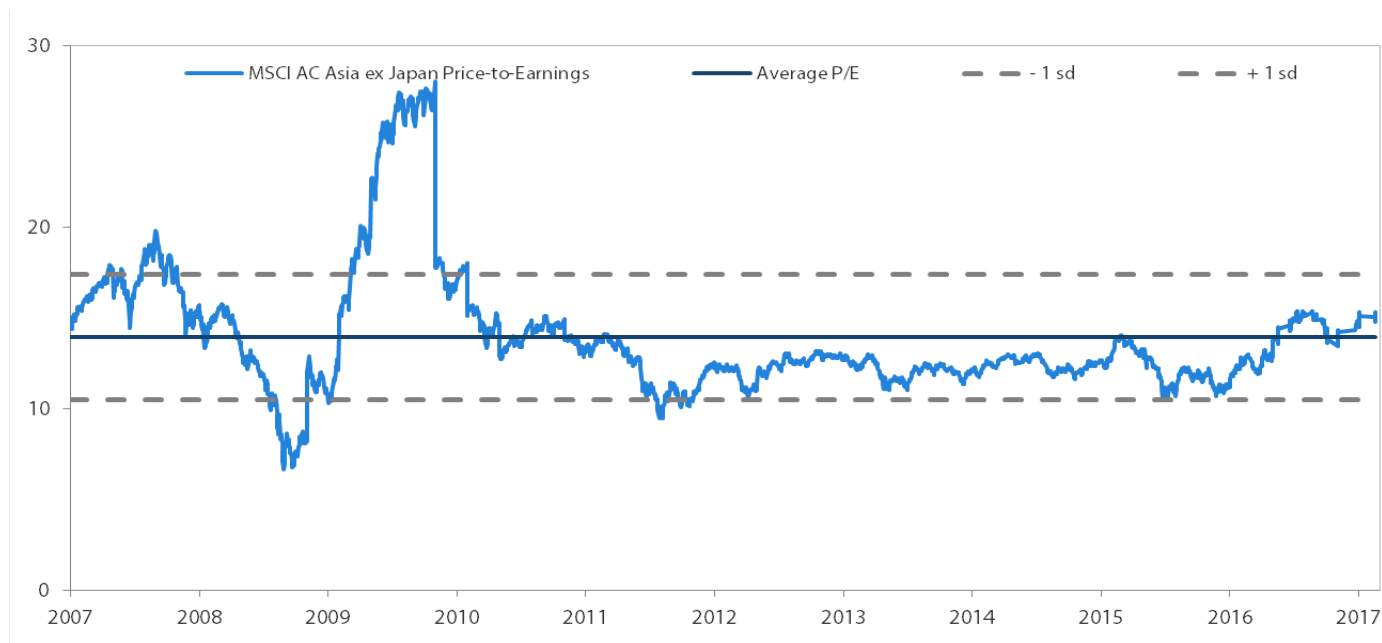
- **Constructive on Indonesia and less exposure to Thailand**

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

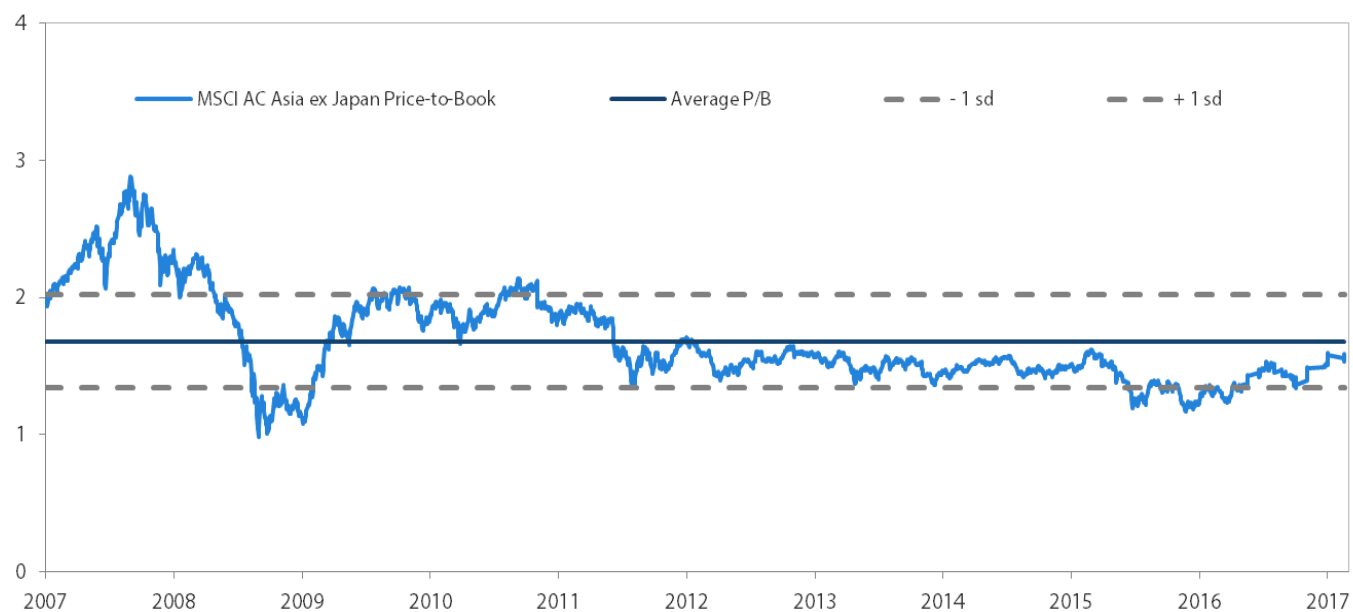
the intentions of the new King still far from clear. We have reduced our positioning here. We remain zero weight to Malaysia.

## 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.

## 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. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity.

**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. Nikko Asset Management Hong Kong Limited is a licensed corporation 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) is the licensed Investment Manager of Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme.

This material is for the use of researchers, financial advisers and wholesale investors (in accordance with Schedule 1, Clause 3 of the Financial Markets Conduct Act 2013 in New Zealand). This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this material, who are not wholesale investors, or the named client, or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet (available on our website [www.nikkoam.co.nz](http://www.nikkoam.co.nz)).

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by 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 should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Bank group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.