December 2016

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FROM THE EQUITY DESK

Monthly Outlook

Summary

- Asia ex-Japan equities returned -2.9% in US Dollar (USD) terms, underperforming MSCI World. US president-elect Donald Trump's stance on the repeal of the Trans-Pacific Partnership and a domestic US focus at the expense of foreign trade has initially been perceived as negative for Asia, although there remains much uncertainty with regard to US policy going forward.

- Indonesia, Philippines and Malaysia were the worst-affected markets in the region, down 12.5%, 11.1% and 8.7% in USD terms respectively. India was also among the worst performers for the month: at the domestic level, prime minister Narendra Modi unexpectedly forced exchange of the two largest bills of issue in a "demonetisation" move.

- Within North Asia, Hong Kong and Taiwan banks were beneficiaries of more positive views on increasing US interest rates. Elsewhere, South Korea continued to be plagued by the scandals surrounding president Park Geun-hye.

- Despite the weakness in November, MSCI Asia continues to outperform MSCI World on a year-to-date basis, while valuations remain supportive. Intra-regional trade and politics have become increasingly important drivers for Asian economies and markets.

- India remains one of our favoured equity markets while we are more cautious on developed Asia. Across ASEAN, we continue to hold a number of positions in Thailand and Indonesia but maintain a zero weight in Malaysian Equities.

Asian Equity

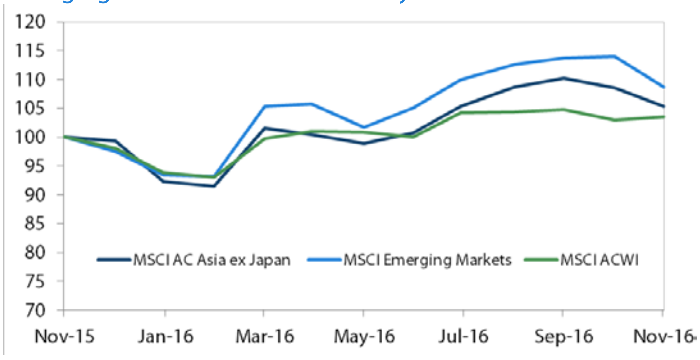
Market Review

- Asia ex-Japan equities declined in November

The MSCI AxJ benchmark declined 2.9% in USD terms in November, as Asian markets initially reacted negatively to Donald Trump's victory in the US presidential elections. Trump's stance on the repeal of the Trans-Pacific Partnership and a domestic US focus at the expense of foreign trade has initially been perceived as negative for Asia, although there remains much uncertainty with regard to US policy going forward.

Trump's potential inflationary policies also caused significant volatility in the commodities and treasury markets. Commodities, led by the base metals complex, surged while US treasury yields surged higher. Adding to the volatility, OPEC announced its first cut in production in eight years, leading oil to recoup losses incurred earlier in the month.

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



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

- **Indonesia, Philippines and Malaysia among the weakest performers**

Indonesia, Philippines and Malaysia were the worst-affected markets in the region, down 12.5%, 11.1% and 8.7% in USD terms respectively. Currency weakness for the month was significant with the Malaysian Ringgit weaker by 5.9% and the Indonesian Rupiah depreciating by 3.4% against the USD. In the Philippines, president Duterte has continued to realign the Philippines through an increased focus on relationships with Russia and China.

- **India and South Korea weighed down by domestic issues**

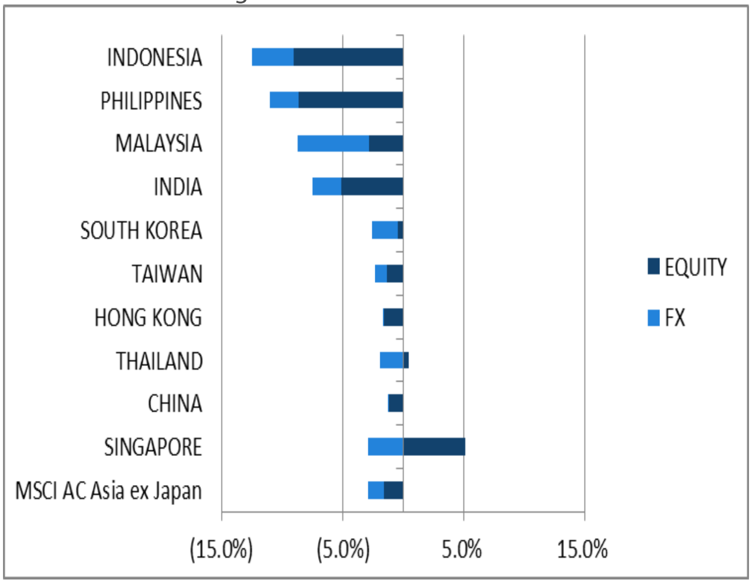
India was also among the worst performers for the month, down 7.5% in USD terms (and 5.2% in local terms). At the domestic level, prime minster Narendra Modi unexpectedly forced exchange of the two largest bills of issue in a "demonetisation" move. This has been widely interpreted as a very long term positive move to eliminate tax evaders within the country and counterfeit currency in the system, but will result in some short term negative impact on the domestic economy.

South Korea (-2.6% in USD terms and -0.5% in local terms) continued to be plagued by the scandals surrounding president Park Geun-hye. The ramifications on the markets have largely been focused on any implications on the major chaebols and their potential involvement. Continued newsflow around China and the US deployment of the Terminal High Altitude Area Defense ("THAAD") in Korea continues to have an impact on Korean-China trade.

- **Singapore and North Asia were relatively resilient**

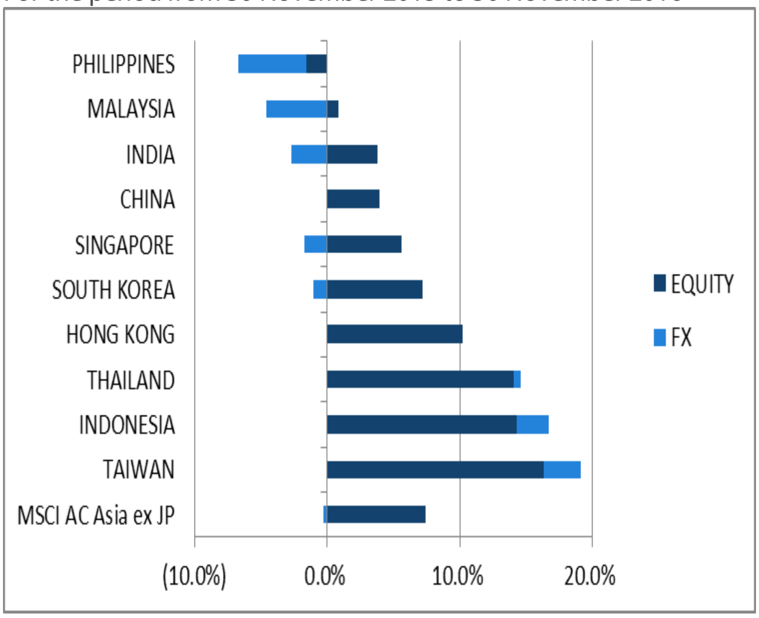
In ASEAN, Singapore was the region's top performer, rising 2.2% in USD terms and 5.1% in local terms. This was driven by the performance of the Singaporean banks, which are key beneficiaries of higher US interest rates. Within North Asia, China finished down 1.2% in USD terms. Hong Kong and Taiwan were relatively steady performers finishing the month down 1.6% and 2.3% respectively. The Hong Kong and Taiwanese banks were beneficiaries of more positive views on increasing US interest rates. However, Hong Kong property stocks were negatively impacted as authorities imposed further stamp duties in an attempt to tame rising real estate prices.

MSCI AC Asia ex Japan Index
For the month ending 30 November 2016



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



Source: Bloomberg, 30 November 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

- Intra-regional trade in Asia is growing in importance

Despite the weakness in November, MSCI Asia continues to outperform MSCI World on a year-to-date basis. Valuations remain supportive, with a price-to-book ratio of below 1.4x still trading at a discount to MSCI World at 2.1x. While some caution is prudent with regard to the impact of the US president elect's policies on Asia, some of the proposed policies present long term benefits. Firstly, with the US taking a back seat in global free trade, China's raft of free trade agreements have risen to the forefront. These include the One Belt One Road, Shanghai Cooperation Organisation and Regional Comprehensive Economic Partnership. Secondly, prior to the US elections, intra-regional trade in Asia has been growing in importance and any isolationist policies from the US will only seek to increase this interdependence. In the shorter term, the currency devaluations across the region will be beneficial to exporters but impact USD borrowers.

While the US rate environment will likely put monetary easing on hold for Asia, there is still fiscal spend to come. Politics has become an increasingly important driver for economies and markets, and this has started to play a bigger role in country allocation.

- Favour India while selectively overweight in ASEAN

Despite the decline in November, India remains one of our favoured equity markets as we believe it still offers the best structural growth profile in Asia over the long term. This month we saw further evidence that prime minister Modi was willing to take on aggressive reform measures, with his decision to invalidate certain currency notes to curb undeclared and illegally acquired income. While this may cause some short term pain on the domestic economy, we see these reforms as positive in the long term.

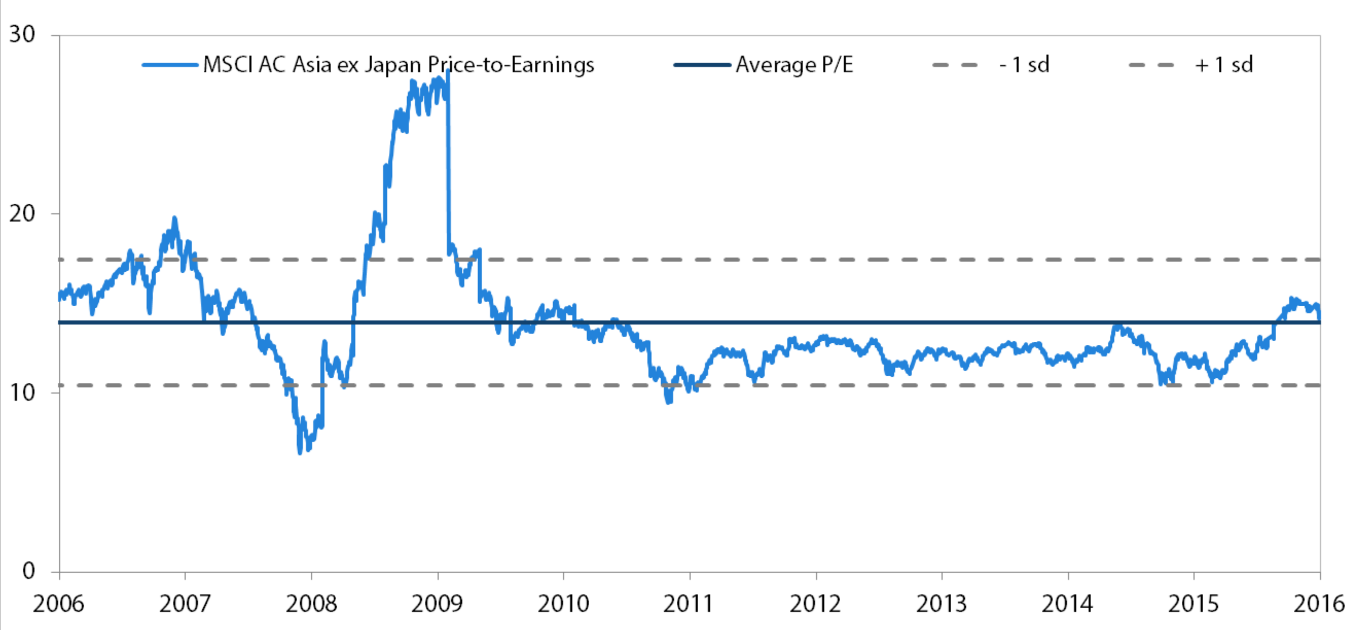
Although we have reduced some exposure to ASEAN, we remain overweight selectively, favouring attractively valued, strong franchises in Indonesia and Thailand where we focus on domestic demand-orientated companies and infrastructure plays. We continue to avoid the Malaysian equity market altogether.

- Cautious on developed Asia

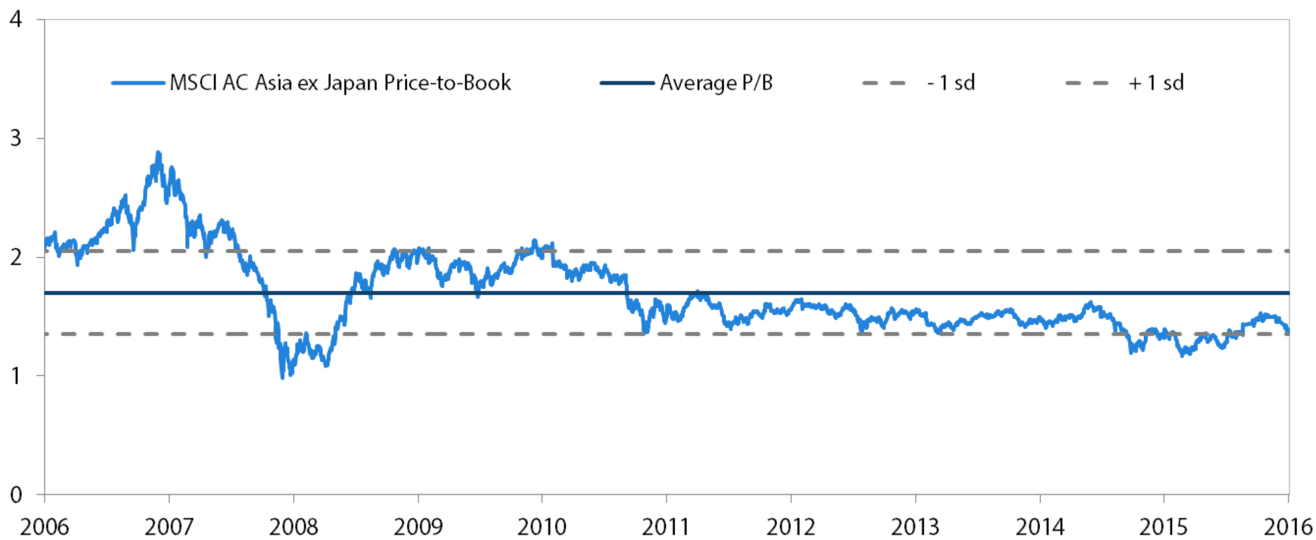
In Taiwan, our view is that close monitoring is required as the country may face the brunt of Trump's policy. However we continue to find attractive technology stocks with unique applications. In addition, rising rates could lead to improving fundamentals in the financial sector. We remain cautious in Korea given the unstable political situation, as companies are being investigated for potential corruption, bringing the economy into a stalemate situation. Hong Kong and Singapore face multiple headwinds in the form of higher US interest rates and potential property price correction. We continue to prefer companies with regional business models and long-term growth.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 30 November 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