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FROM THE EQUITY DESK

Monthly Outlook

Summary

- MSCI Asia ex Japan (AxJ) was up 3.4% in USD terms, marginally outperforming MSCI AC World. Absolute returns were positive for all AxJ markets except the Philippines. The Taiwan Dollar (TWD) was the best performing currency in AxJ followed by the Korean Won and Indian Rupee. Buoyed by the partial unwind of the post-election Trump-trade, gold was the best performing commodity.

- India outperformed regional peers supported by a credible FY18E Union Budget and positive Q3 GDP growth. Similarly, MSCI Taiwan rose to its highest level since May 2015, supported by the Taiwan Dollar and technology sector.

- During the month, the Chinese benchmark gained 3.5% in USD terms, aided by strong economic data, positive earnings per share revisions and receding fears on capital outflows. Within ASEAN, the Philippines underperformed due to the weak currency, rising inflation and political noise. Thailand also took a breather in February, inching up by 0.7% in USD terms.

- Although the global economy seems to be recovering gradually, markets appear to be distracted by Trump's rhetoric. As real growth and inflation rise, corporate profits and manufacturing growth output should be beneficiaries. Within Asia, the MSCI AxJ still trades at a lower price-to-book multiple than MSCI World, and we can expect China and India to remain in focus for investors.

- We maintain an overweight to China, with a preference to sectors such as internet, tourism and healthcare. We also continue to favour India on the back of a relatively benign impact from demonetisation, lower political risks and the impending roll-out of GST. Conversely, we remain selective in developed Asia and underweight in ASEAN.

Asian Equity

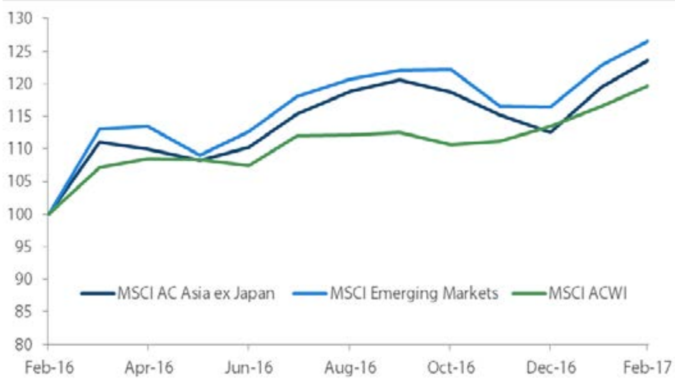
Market Review

- Asia ex-Japan equities rallied in February

The MSCI Asia ex Japan (AxJ) index was up 3.4% in USD terms, marginally outperforming MSCI AC World which rose by 2.8%. Absolute returns were positive for all AxJ markets except the Philippines. The Taiwan Dollar (TWD), which returned 1.6%, was the best performing currency in AxJ followed by the Korean Won (KRW) and Indian Rupee, both up 1.3%. Year-to-date (YTD), the TWD and KRW have appreciated 6%.

Gold, which returned 3%, was the best performing commodity followed by WTI crude which rose 2.3%. Gold outperformed on the back of a partial unwind of the post-election Trump-trade, reflected in a weaker US dollar (USD) and lower US Treasury yields.

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



Source: Bloomberg, 28 February 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, 28 February 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

- **India was the best performing market in AxJ**

MSCI India was up 5.9% in USD terms despite the Reserve Bank of India changing its stance to "Neutral" from "Accommodative" and thus signalling an end to monetary easing. Equity market performance was supported by a credible FY18E Union Budget, corporate action by a few index heavyweights, and receding concerns over growth arising from demonetisation. Energy and Information Technology emerged as key outperforming sectors. The former's performance was mainly attributable to Reliance Industries, which rallied on the announcement that the Telecom division would start charging for services, while the latter benefitted from expectations of stock buybacks. Q3 GDP print at 7% also surprised positively, belying concerns of meaningful negative impact from demonetisation. Foreign institutional investors (FIIs) were buyers of USD 1.4bn worth of Indian equities in February, a reversal from four consecutive months of outflows.

- **Taiwan equities hit a new high for the first time since 2015**

MSCI Taiwan rose by 4.7% in USD terms to its highest level since May 2015, aided by the TWD which appreciated by 1.6%. The currency's strength was attributable to the steady and solid current account surplus in 4Q16. The Technology sector was another key driver of the rally, led by Apple supply chain names. The month saw net inflows by foreign investors, led by the Technology sector which unsurprisingly saw USD 1.9bn.

- **China bettered the regional average in February**

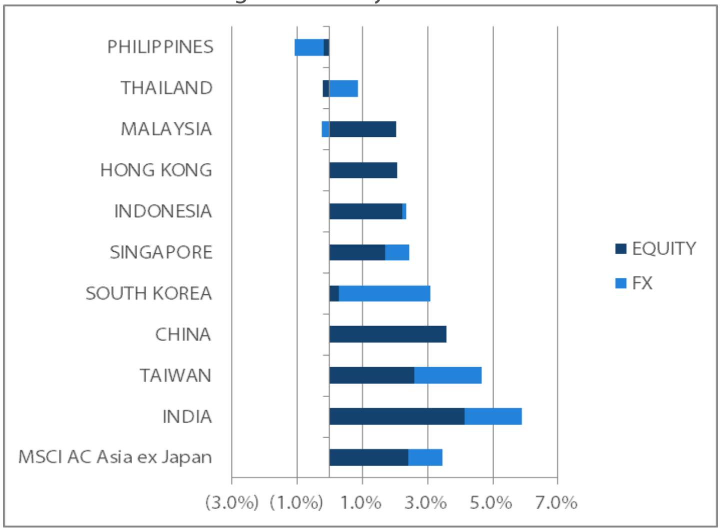
China remains the best performing market in local currency terms YTD. In February, the Chinese benchmark bettered the regional average with MSCI China gaining 3.5% in USD terms, aided by better economic data, positive earnings per share (EPS) revisions and receding fears on capital outflows. Financial regulators also drafted a consultation paper to further tighten Asset Management Programmes (AMPs), another move to curb financial risks. Meanwhile, the China Securities Regulatory Commission (CSRC) announced stricter rules for A-share refinancing and, as a result, Banking emerged as the best-performing sector.

- **Philippines and Thailand lagged regional peers**

The Philippines was the worst performing Asian market in February, with MSCI Philippines declining 1.1% in USD terms. The Philippine Peso (PHP) declined last month to a ten-year low against the greenback. Aside from a weak PHP and external factors, investors were mindful of rising inflation and political noise on the local front. Meanwhile, the Thai market took a big breather in February as excitement over the government's fiscal push faded and weaker commodities prices added pressure. MSCI Thailand rose marginally by 0.7% in USD terms, significantly underperforming regional and global peers. YTD, the index was also among the worst performers.

MSCI AC Asia ex Japan Index

For the month ending 28 February 2017

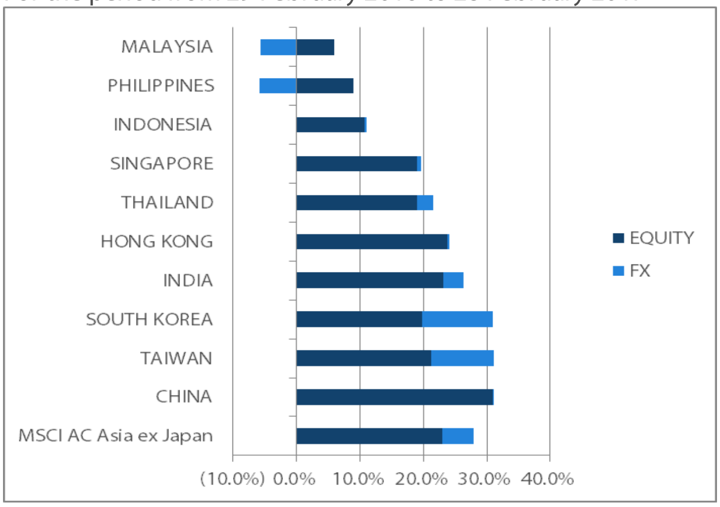


Source: Bloomberg, 28 February 2017

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 29 February 2016 to 28 February 2017



Source: Bloomberg, 28 February 2017

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

- Political uncertainty a distraction from signs of a global recovery

Markets appear to be taken by the rhetoric coming from the office of the POTUS. This has distracted from indications that global drags are fading and lifting both real growth and inflation, which augur well for corporate profits and manufacturing growth output. It is thus not surprising that global equities have rallied recently. Whether the US will genuinely roll out protectionist policies is unclear; regardless, we believe the large Asian markets of China and India will remain in focus for investors, albeit for different reasons. Even as positive earnings revisions are coming through for MSCI AxJ, the index trades on a 1.4x forward price-to-book (P/B) multiple compared to a 2.2x P/B multiple for MSCI World.

- Maintain overweight to China

China's shift from low income to middle income status has continually received doubts about its sustainability. Rising imbalances prior to 2007, a rapid build-up of debt after 2008, the currency regime shift in 2015 and more recently the impact of rising protectionism have all been cited as factors that could constrain China's economic development. Although investors have turned more sceptical and have been holding a decade-low underweight position in China equities, we take the view that China will be able to continue navigating these challenges. Economic data from China continues to improve, and the government continues to push Public-Private Partnerships (PPPs) as a means to attracting private capital. We maintain an overweight stance to Chinese stocks with a preference for new economy sectors including Internet, Tourism and Healthcare.

- India to remain a key overweight

India also remains a key overweight. Impact from the demonetisation program has been relatively benign, though it has perhaps not run its entire course yet. Nonetheless, a credible Union Budget has allayed fears of the government handing out sops and playing to the gallery. Meanwhile, a strong showing by the Bharatiya Janata Party (BJP) in key state elections will lower risk premia. Furthermore, the roll-out of GST in the next three to six months is likely to result in a much larger "white" economy, with a positive read-through for tax collections. The rapid growth in low cost deposits following demonetisation has allowed the financial system to support robust credit growth as the economic cycle rebounds. Another significant and longer-lasting outcome of the demonetisation program is the steady rise in the proportion of savings being diverted to financial assets.

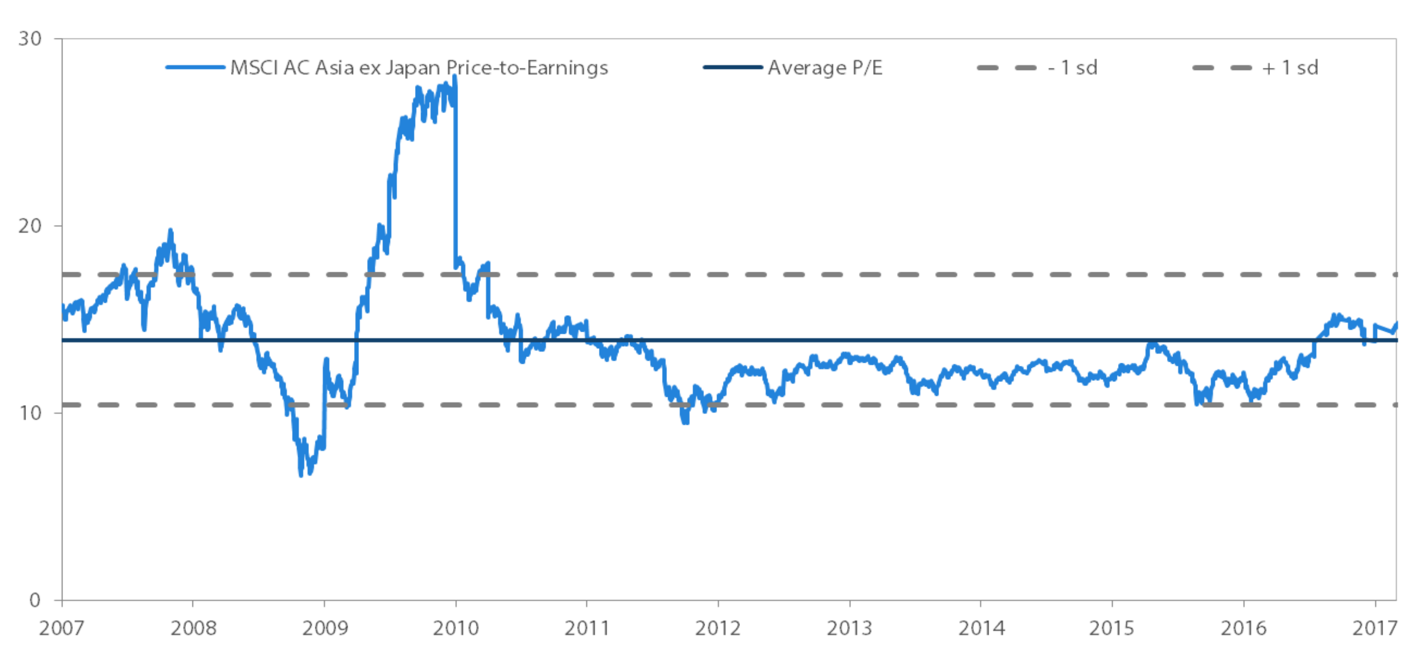
- Remain selective in developed Asia; underweight in ASEAN

We remain selective in traditional export orientated economies of Taiwan, Korea and Singapore, preferring companies in niche sectors with sustainable earnings.

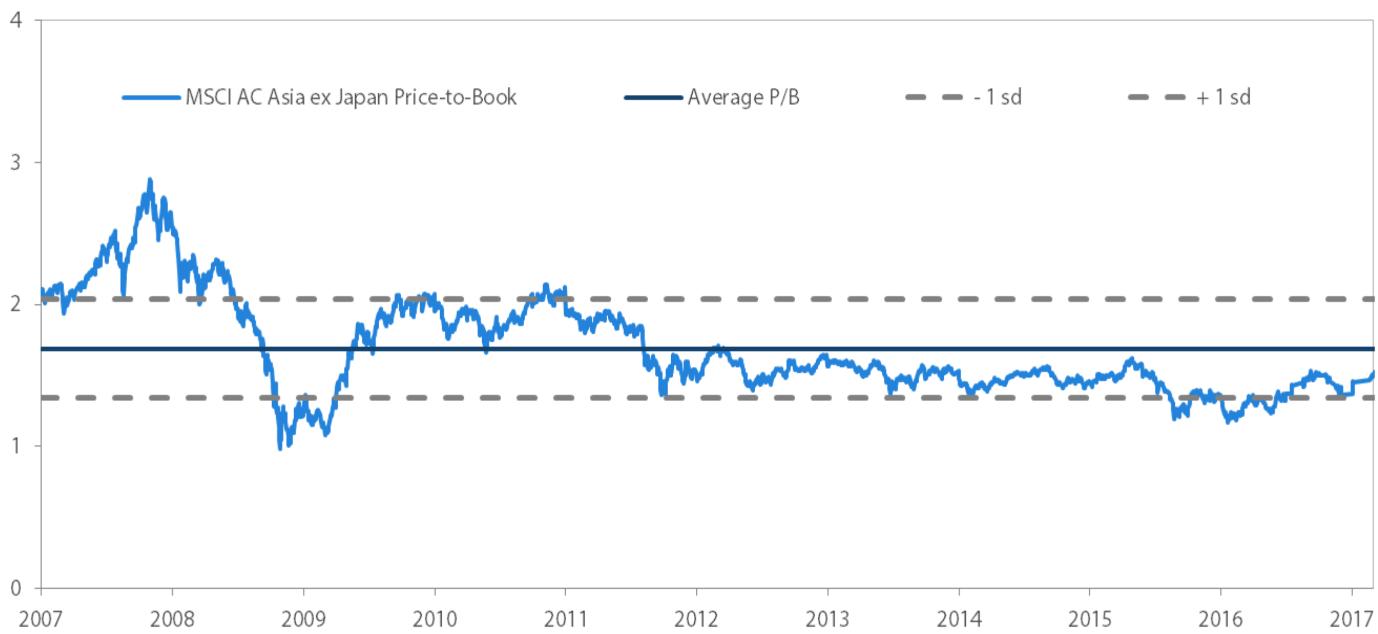
Meanwhile within ASEAN, we have recently moved to an underweight stance in the region, having trimmed our exposure to the Philippines on rising macroeconomic concerns. Nevertheless, we continue to favour underappreciated and strong franchises in Indonesia and Thailand which are focused on domestic demand and infrastructure, and also 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, 28 February 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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