



# FROM THE EQUITY DESK

## Monthly Outlook

### Summary

- MSCI Asia ex Japan (AxJ) was up 3.3% in USD terms, outperforming MSCI AC World. All Asian markets rose over the month, with gains led by India and Korea. The Indian Rupee was also the best-performing currency in March. The US Federal Reserve raised interest rates by 25 basis points (bps), as widely expected.
- In India, the ruling party's convincing victory in state elections boosted sentiment and bolstered the case for further reforms. In Korea, investor confidence improved after President Park's impeachment ruling, while the country's export-led industries benefited from stronger demand.
- Macro conditions in China continued to surprise on the upside, and the banking sector generally saw easing credit risk and improving asset quality. Conversely, the Philippines continued to lag on political concerns and a deteriorating trade balance.
- We continue to see good value for long-term investors in AxJ as earnings have followed expectations higher. Despite a series of geopolitical events that could have negative implications for the region, the market has focused on the improving fundamentals of Asian companies. Within Asia, the MSCI AxJ still trades at a lower price-to-book multiple than MSCI World.
- 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 and a credible Union Budget. We have become more constructive on Taiwan and Korea while underweighting ASEAN and Australia.

### Asian Equity

#### Market Review

- **Asia ex-Japan equities continued to rally in March**  
The MSCI Asia ex Japan (AxJ) index was up 3.3% in USD terms, outperforming MSCI AC World which rose by 1.1%. All Asian markets were higher over the month, led by India and Korea. The key event during the month was the US Federal Reserve (Fed) raising interest rates for only the third time in a decade. The move was well expected by the markets.

In currency markets, the Indian Rupee (INR) jumped nearly 3%, to be the best performing Asian currency for the month. Year-to-date, the Korean Won and Taiwanese dollar have appreciated 8.7% and 6.5% respectively. Within commodities, gold was relatively subdued while Brent crude oil prices were down 5% on renewed concerns surrounding the impact of US shale on global oil supply balances.

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



Source: Bloomberg, 31 March 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, 31 March 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

**India and Korea led gains**

India was the best performing market in the region, up 6% in USD terms. The ruling Bharatiya Janata Party's (BJP) convincing victory in the Uttar Pradesh state elections boosted sentiment and bolstered the case for further economic reforms. Foreign investors were buyers of USD 6bn worth of Indian equities in February and March, a reversal from four consecutive months of outflows prior to this period.

South Korea rose by 5.2% in USD terms to a new high, aided by a 1.2% rise in the Korean Won. Investor confidence improved after President Park's impeachment ruling, while the country's export-led industries benefited from stronger global demand. Benchmark heavyweight Samsung Electronics was up 7% on renewed expectations on restructuring activities, as well as strong dynamic random-access memory (DRAM) prices.

**China buoyed by improving PMIs and stronger earnings**

The China market continued its recent run up in March. Macro conditions continued to surprise on the upside, and manufacturing PMIs improved and exceeded expectations. March represents the peak reporting period for Chinese companies, and overall, companies have witnessed stronger earnings on a year-on-year basis. Within the banking sector, lenders generally reported easing credit risk and improving asset quality, although some concerns remained among smaller players as the People's Bank of China (PBoC) tightened interbank rates further during the month.

**Indonesia and Thailand did well, while the Philippines lagged**

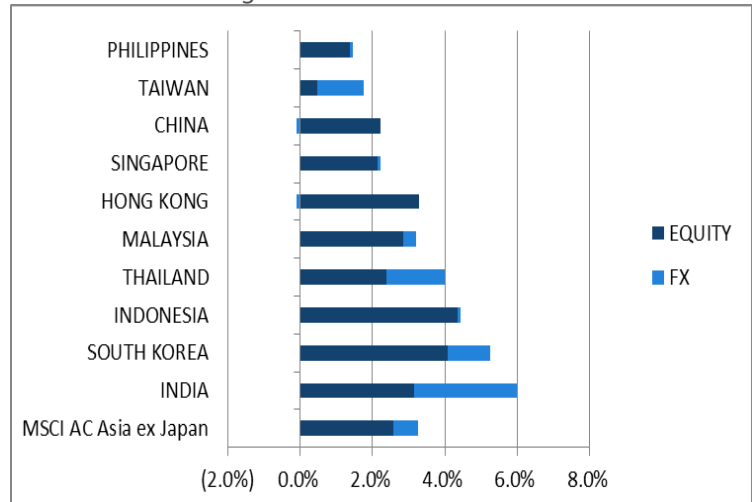
Within ASEAN, Indonesia gained 4.4% in USD terms on the news that the tax amnesty windfall may increase its odds of an S&P upgrade. Thailand was up 4.0% in USD terms on account of a stronger Thai Baht, as the current account surplus exceeded analyst expectations. Philippine equities have lagged year-to-date on increasing political concerns and a deteriorating trade balance.

- IT and Consumer Discretionary were the best-performing sectors

At the sector level, Information Technology and Consumer Discretionary were the best performing. Chinese internet giant Tencent Holding reported satisfactory results which drove the Information Technology sector higher. Consumer Discretionary benefited from a raft of positive data points from China concerning a recovery in consumer demand.

**MSCI AC Asia ex Japan Index**

For the month ending 31 March 2017

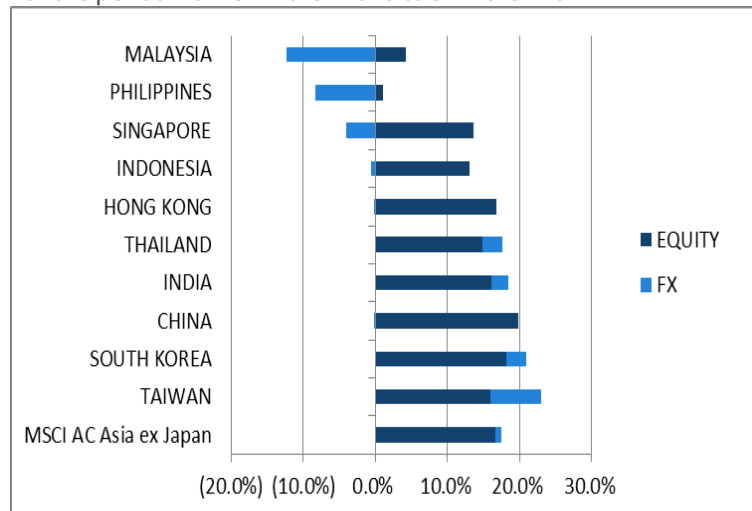


Source: Bloomberg, 31 March 2017

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 31 March 2016 to 31 March 2017



Source: Bloomberg, 31 March 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

- Asian markets have been underpinned by improving fundamentals

Despite the year-to-date rally in Asia ex-Japan equities we continue to see good value for long term investors as earnings have followed expectations higher. We note that the rally has broadened in 2017, with all markets and sectors registering positive absolute performance. Despite a series of geopolitical events that could have negative implications for the region, the market has focused on the improving bottom-up fundamentals exhibited by Asian companies. The MSCI AxJ 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 overweights to China and India**

China's economy has positively surprised year-to-date and we expect this trend to continue. While most investors are still sceptical, we believe the Chinese economy will continue to be underpinned by improving global exports supporting China's global trade surplus, accelerating monetary growth and domestic consumer strength. While some of the Chinese government's reform measures to date have been unorthodox, these have proven effective in reforming industries struggling with overcapacity. The government continues to push public-private partnership (PPP) programmes 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.

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 and convincing victory in local state elections have instilled confidence in the government's ability to manage the economy and this has led to positive foreign inflows into the Indian market.

- **More constructive on Taiwan and Korea**

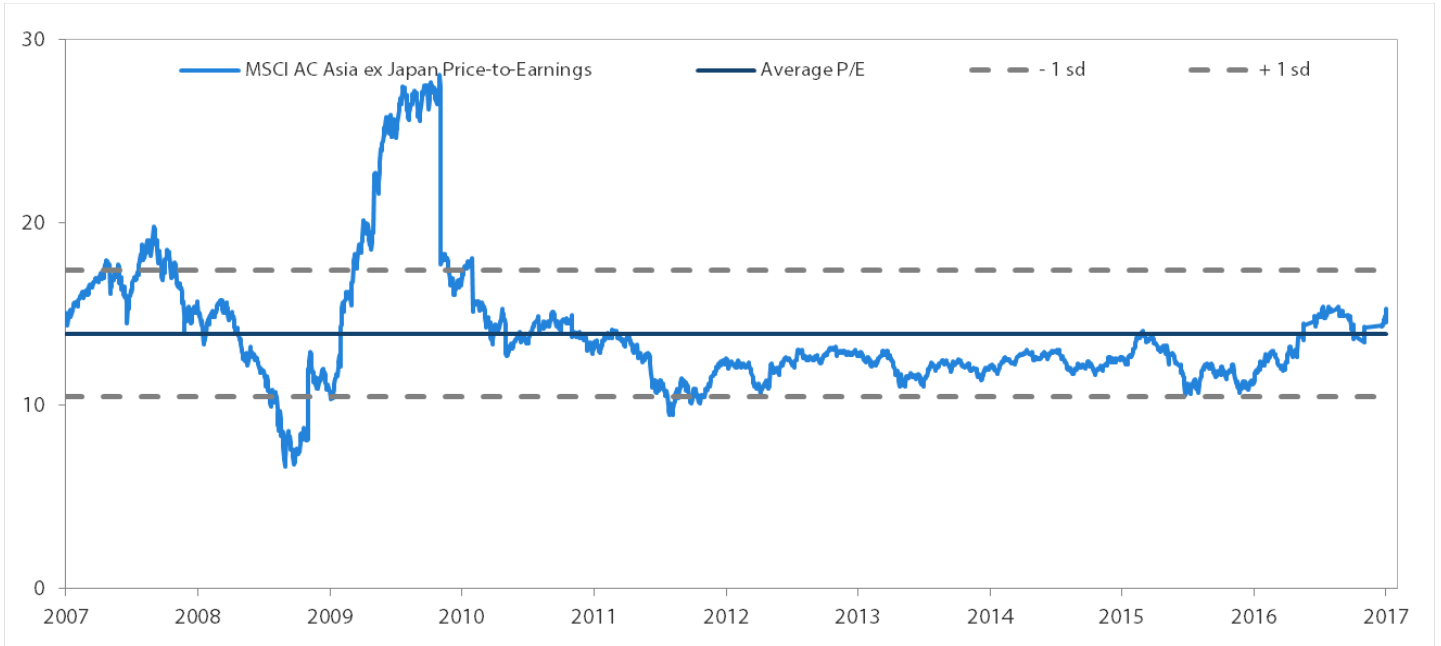
We have become more constructive on Taiwan and Korea. While Taiwan has seen itself caught between the policy decisions of China and the United States in recent months, underlying economic data suggest a continued recovery in exports. President Tsai Ing-wen continues to make favourable moves concerning the Taiwan economy and has recently raised the 2017 economic growth target to a three-year high on expectations of growing global demand for technology. In Korea, while the market has been focused on the current issues surrounding the Terminal High Altitude Area Defense (THAAD), there has been an improvement in earnings across the majority of Korean companies, especially those with an export orientated focus.

- **Cautious on the Philippines**

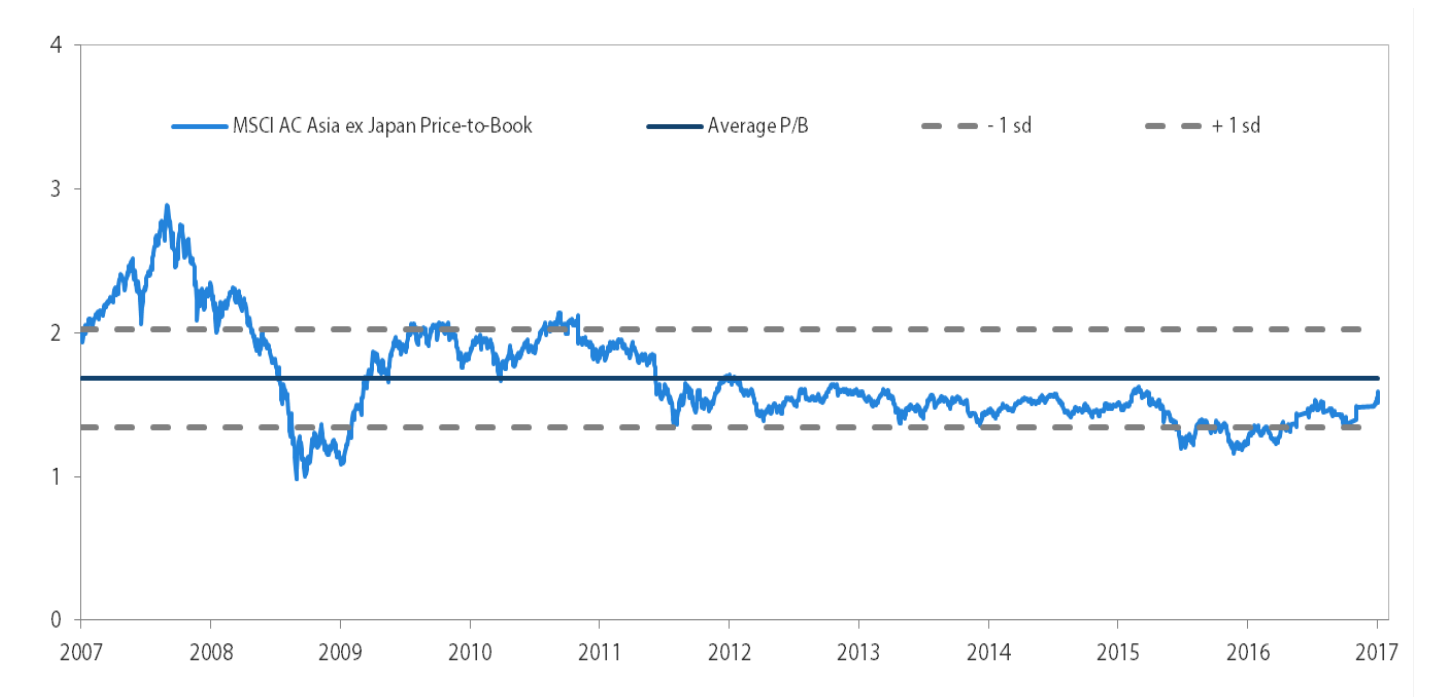
Within ASEAN, we have become more cautious on the Philippines due to rising macroeconomic concerns. We continue to favour underappreciated and strong franchises in Indonesia and Thailand which are focused on domestic demand and infrastructure, and also continue to avoid the Malaysian equity market altogether.

## Appendix

### MSCI AC Asia ex Japan Price-to-Earnings



### MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 31 March 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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