



Release of Asia ex Japan Market Commentary for April

1st May 2009, Mr Yoh, Chief Investment Officer for Far East Equities, releases his monthly market commentary.

Market Review

- During April, the benchmark MSCI AC Far East ex Japan Index rallied another 16% as global stock markets and investors alike basked in better-than-expected economic and company reports.
- Coming under close scrutiny was the financial sector in the US, which exceeded consensus forecasts; some bellwether institutions even delivered profits for the first quarter. On a broader note, US leading indicators such as the Conference Board Consumer Confidence Index and the Supply Management's (ISM) Manufacturing Index registered an uptick and a less severe deterioration of economic outlook respectively, thus affirming global successive governmental efforts of exceptional scale since late-2008.
- Investors also took to positive ongoing developments, such as the "stress test" for banks and continuing efforts to delineate "toxic assets" that have been impacting the sector with widespread implications.
- Regional stock markets rose on emerging positive signs, such as improving export and manufacturing data, sustained low commodity prices and moderated inflationary pressures.
- Economic data from China hogged the limelight, as the first quarter GDP of 6.1% year-on-year substantiated economic forecasts' that the "worst may be over". Crucially, investors' rejoiced in anticipation that China could take up some slack from the Developed world, as evident from its recent relaxation on investments and trade concessions with Taiwan.
- The quarter and month also witnessed effects of the substantial fiscal stimulus announced earlier and strong liquidity in the region fuelling the rally, led by Taiwan, Korea and China.

Outlook and Strategy

- Although we expect the global economy to begin its cyclical recovery and return positive growth from 2010, we believe the financial de-leveraging and balance sheet adjustments in the US and part of European countries will cap the upside of global growth to below 3% (1 to 3% range) for the coming years.
- Traditionally Asian economies have featured high investment rates supported by high savings levels. The increased value added to production, supported by skilful labour force and continuous upgrading in education, has favoured an increase in average salaries and in the real purchasing power of consumers. This, together with rapidly urbanising population, implies strong dynamics for domestic demand. Asia ex Japan is therefore likely to become less dependent on exports and to deliver greater growth prospects over the next few years.
- Valuation of Asia ex Japan equities and Singapore equity are now compelling, taking into account the depressed level of earnings and an average P/E ratio of around 12, a P/B ratio at around 1.5, and yield spread at 1 standard deviation from the historical mean.
- We maintain our view that risks for Asian equity are shifting from downside towards upside. The MSCI AC FE ex Japan Index's trading range has been steadily trending up since October 2008, and Singapore stocks have also bottomed out in March 2009. We believe this trend is likely to continue on the back of expected cyclical re-rating.



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