



Asia ex Japan

Monthly commentary

November, 2010

Market review

MSCI Asia ex Japan fell 1.47% in the month as worries over tightening in China and major concerns over the continuing viability of the Eurozone as an economic entity surfaced. The Eurozone woes were borne out of the very poor fiscal situations in the European 'PIIGS' which were highlighted by the bailout in Ireland.

In China (-2.4%) various October macro indicators confirmed that the economy's growth momentum is continuing into Q4, having improved steadily since Q3. October CPI was higher than expected coming in at 4.4% yoy on the back of rising food and vegetable prices and thus, the PBOC hiked the RRR by 50bps twice in November. Concerns in India (-6.5%) centred on two scandals related to the awarding of telecom licenses and collusion between property developers and banks.

However, reasonable economic indicators, primarily from the US, helped Taiwan (+1.6%), Hong Kong (+1.9%) and Korea (flat despite North Korea issue) to outperform while the previously outperforming smaller markets fell, specifically the Philippines (-13.2%).

Market outlook

November was a poor month for most of the riskier assets with MSCI Asia ex Japan in line with MSCI World due to tensions between North and South Korea and the escalation of the European crisis. However, we feel the sell off was relatively gentle despite this due to many economic releases supporting better growth expectations. Gold gained 2% as risk aversion increased. Crude oil gained 3% on the back of increased demand due to cold weather.

Where are we now? We haven't changed our stance, we continue to believe that markets will ride this wall of worry. Generally economies are still recovering from the economic crisis, but the western developed markets are doing so slowly and at slower anticipated rates of growth than emerging markets. It seems likely that developed equities will outperform developed bonds as they look fair value, whilst bond yields should rise. Meanwhile, emerging equities continue to look better than developed markets due to similar valuations with better growth prospects, better balance sheets and undervalued currencies. In terms of flows we (and most observers) anticipate continued movement to emerging equity and debt in 2011.

Strategy

The strategy is overweight China, Singapore and Thailand funded by underweights in Korea, Malaysia and Taiwan.

The strategy is overweight the consumer discretionary, transport, and metals/material sectors. We are underweight banks, real estate and telecoms and just under the benchmark in technology.

In keeping with our core philosophy, we are seeking to maintain a fully invested, fully diversified exposure to the asset class. This does not mean we are looking to take risk out of the strategy, rather that we are trying to diversify that risk by country and sector.