

MONTHLY MARKET REVIEW

DECEMBER 2008

Most Asia ex Japan equity markets staged a year end rally on hopes of a better 2009.

The KOSPI and Jakarta Composite Index rebounded strongly after steep losses in October and November, gaining 21.9% and 21.4% respectively in US\$ terms. However, these two indices still finished year 2008 amongst the bottom three in US\$ terms. The Philippines Composite Index was the worst regional performer during the month, losing 2.2% in US\$ terms. During the month, the US dollar lost ground against most Asian currencies, with the South Korean won, Indonesian rupiah and Japanese yen gaining 16.6%, 11.2%, and 5.4% respectively.

Whilst investors may be relieved that some losses in the equity markets were recouped in the last month of year 2008, and 2009 may begin positively on the back of liquidity factors, it remains inconclusive whether the conviction to rally is founded on forward fundamentals and / or sustainable. The grim economic picture continues to hang over the market, with no clear signs of positive catalysts to lift the market for at least the first half of 2009, although governments around the world are adapting every trick in the book to cushion the impact of global deleveraging. We advocate increasing overall portfolio exposure cautiously with 12 to 18 month horizon. Specifically, we would look for stocks that are attractive, based on our tightened investment criteria on gearing, earnings visibility, industry dynamics, track record and management track record. Larger capitalization stocks with higher liquidity may also be preferred.

The continuing out-performance in the Malaysian market vis-à-vis other Asian regional markets amid falling liquidity suggests that foreign investors' interests in Malaysia should remain subdued in the near term. The country's political risk premiums seem to have abated somewhat, while investors' concerns have clearly shifted to a sharply decelerating global economy and lately, renewed corporate governance issues at selective Malaysian companies. While near term catalysts are lacking, we see selective accumulation opportunities emerging in certain stocks and sectors that offer an increasingly attractive risk-reward for anyone who is willing to take at least a 12-month view and beyond. We remain focused on industries with long-term positive industry dynamics, and companies that have capability to growth beyond Malaysia.

The Singapore equity market staged a mild recovery in December due to some bargain hunting and window dressing. For 2009, we expect the market to continue its recovery though the market is also expected to remain volatile. In terms of sector, we continue to like resource plays, selected China-related stocks and will continue to pick stocks on a bottom-up basis when we see value. At the same time, we will trim our position in some stocks where the risk-reward trade-off is not attractive.

Thailand has limited policy capacity to respond to the problems of sharply slowing growth. Fiscal policy has been paralyzed by the on-going political crisis with three

new prime ministers in the last four months. Low execution capacity makes it difficult to realize fiscal deficit target, the budget supplement, and the mega-projects, notwithstanding all the promises. Without fiscal support, growth will slow sharply as external headwinds strengthen and domestic demand remains depressed.

Thailand is fast being eclipsed by other regional markets with stronger growth and more focused government policy initiatives.

The Indonesian stock market seems to have stabilized. However, we noted that the market's average traded value remained very weak, which could be suggesting that sentiment is far from normal. The volatile Rupiah exchange rate remains a concern among investors. We are still cautious and would selectively add cheap and good quality stocks that match our investment criteria. We prefer selected names in banking, plantation, mining and consumer sectors.

The Philippines equity market continued to be weak in December. In our opinion, the market is likely to remain volatile and remain vulnerable to any potential bad news that might arise from the U.S. or Europe. As the market has been oversold, we expect a recovery in the near term driven by bargain hunters. At current level, valuations remain attractive and we remain optimistic on the market on a longer-term horizon. In terms of sectors, we continue to like bank and properties while telecoms are also becoming more attractive. In addition, we also like certain companies which we deem attractive from a bottom-up perspective.

The market is encouraged by the South Korean government's efforts to stabilise the won and to improve the economic environment. Most stocks are selling at very attractive levels to reflect the weak macroeconomic environment. We expect the market to remain volatile. Companies with high gearing or poor earnings visibility will likely underperform and the more defensive names will likely to outperform.

The effects of global recession have depressed China's near term growth outlook. While China's growth forecasts were lowered, a soft landing is still the most likely scenario as fiscal stimulus takes time to lift growth next year. The market is currently trading at 11x current earnings. As the long-term secular growth story remains intact, China is definitely one of the more attractive regional markets for investments once the deleveraging cycle ends and the financial crisis blows over.

The Hong Kong market is trading at 13x 2009 PE at the lower end of its historical band. Nonetheless, range trading is the best scenario for Hong Kong until mid-2009 due to a lack of catalyst on the domestic front and lack of clarity on the global economies on the macro front

The anticipated global economic slowdown arrived in a protracted fashion with an unknown abyss. Taiwan being an exported oriented economy is likely to be rocked in the waves. With the wild ride unfinished, it is difficult to invest as consensus earnings growth would be negative for FY 08e and 09e unless one looks beyond a 12 month horizon. However, the issue is that the bottom is not vivid yet, at least in the next 6 months. The major positives of Taiwanese companies are relatively lower debt to equity ratio and high dividend yield which provides some support for the index. Real economic benefits should translate from warmer Taiwan and Mainland China relationship, despite signs of deceleration in China. However, there must be realism in allowing a time lag for policy implementation to filter through the economy. We see opportunities emerging in the larger capitalization companies in

Taiwan, although there is a valuation premium over smaller cap stocks to account for stability, scale, and liquidity advantages. These stocks would most likely be early beneficiaries as risk appetite returns to the capital markets.

The Indian government has shown its determination to support economic growth. Banks are contributing by lower their lending rates. However, in an environment of heightened risk aversion, many corporate are reported to have shelved their CAPEX. Thus, corporate's willingness to borrow remained a concern. While we are mindful of the potential benefits that monetary easing may bring to Indian's real economy, we would remain cautious in Indian stock market.

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