



# THE SARBONGRASEU FORSEQUITIES

2017'S BIGGEST RISK IS TAKING ON NO RISK

INTERNATIONAL INSTITUTIONAL INVESTORS SERIES

Kuala Lumpur

16 November, 2016

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# THE STRUCTURAL CASE

EQUITIES LOOK VERY ATTRACTIVE VIS A VIS BONDS

# EQUITIES LOOK VERY ATTRACTIVE VIS A VIS BONDS

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BOND'S LONG RALLY IS IN ITS FINAL STAGES. WHAT WILL TRIGGER THE SWITCH?

Redemption and Earnings

Yield (%)



Source: Bank of America ML Global Government Bond index and the Thomson Reuters Global Equity index from Datastream as at 14 November, 2016. Both indices are in USD. Any opinion or forecast is subject to change without prior notice. Note that past performance is no indicator of present or future performance.

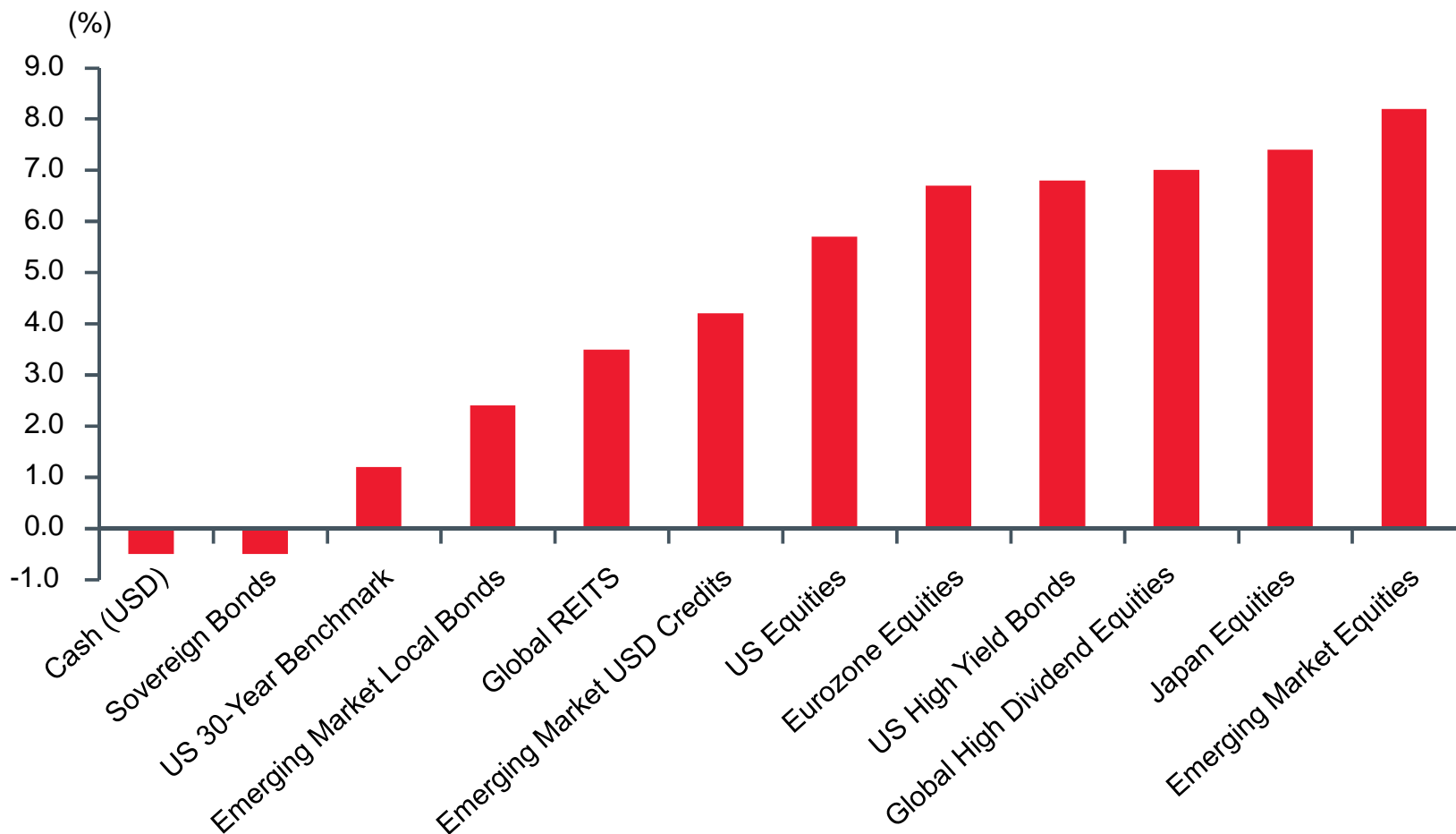
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# EQUITY REAL YIELDS HEAD THE PACK

## TODAY'S INCOME IS TO BE MOSTLY FOUND IN EQUITIES



Source: Citibank Sovereign Bond indices, Barclays Capital Bond indices, JP Morgan Emerging Market Bond indices, MSCI Equity indices, inflation data from official sources all from Datastream as at 12 October, 2016. Any opinion or forecast is subject to change without prior notice. Note that past performance is no indicator of present or future performance.

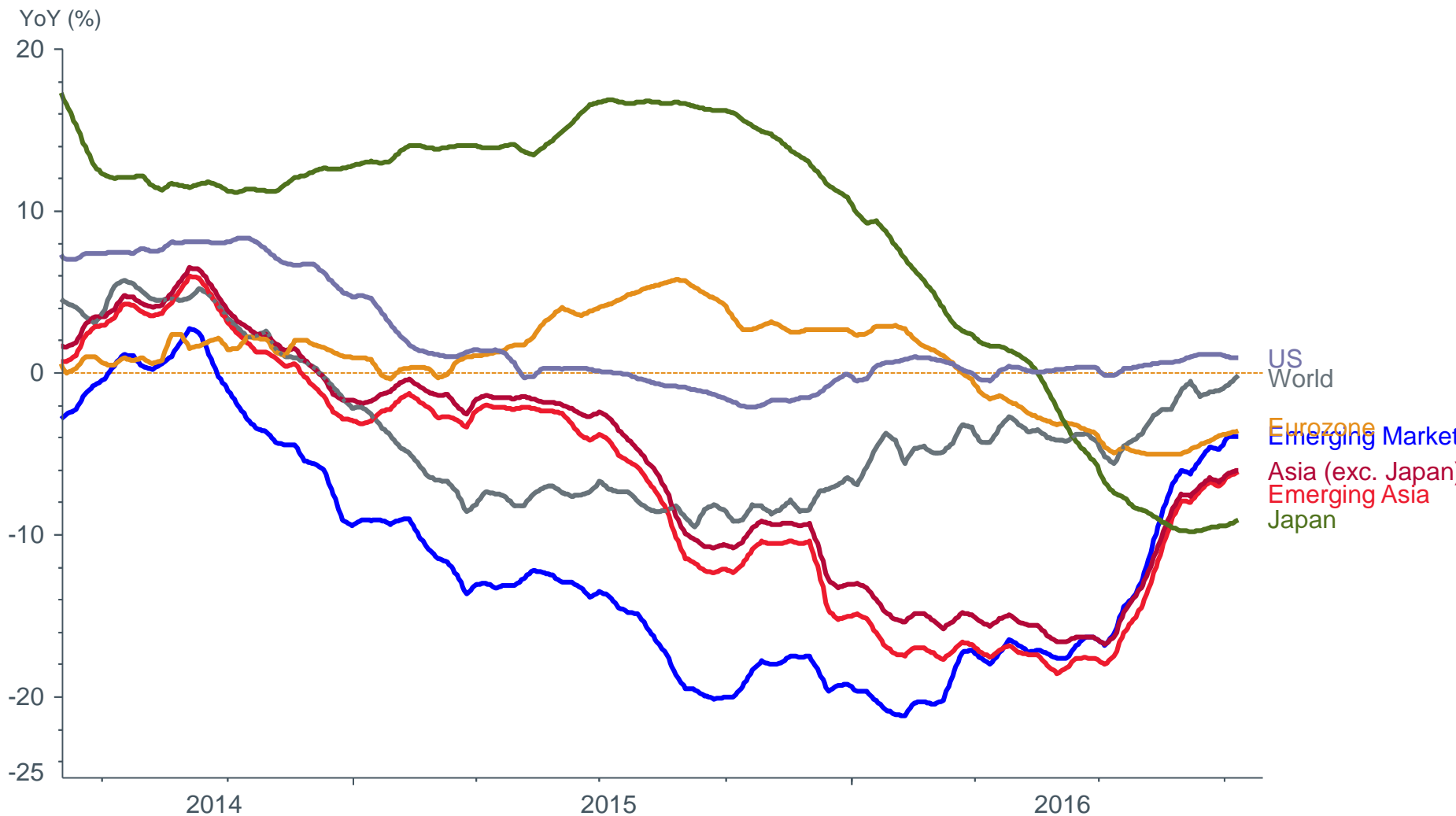
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# THE CYCLICAL CASE

## PROFIT FORECASTS ARE TURNING UPWARDS

# GLOBAL EARNINGS FORECASTS SWING HIGHER

## 2015'S DOWNGRADING HAS REVERSED ESPECIALLY IN EMERGING MARKETS



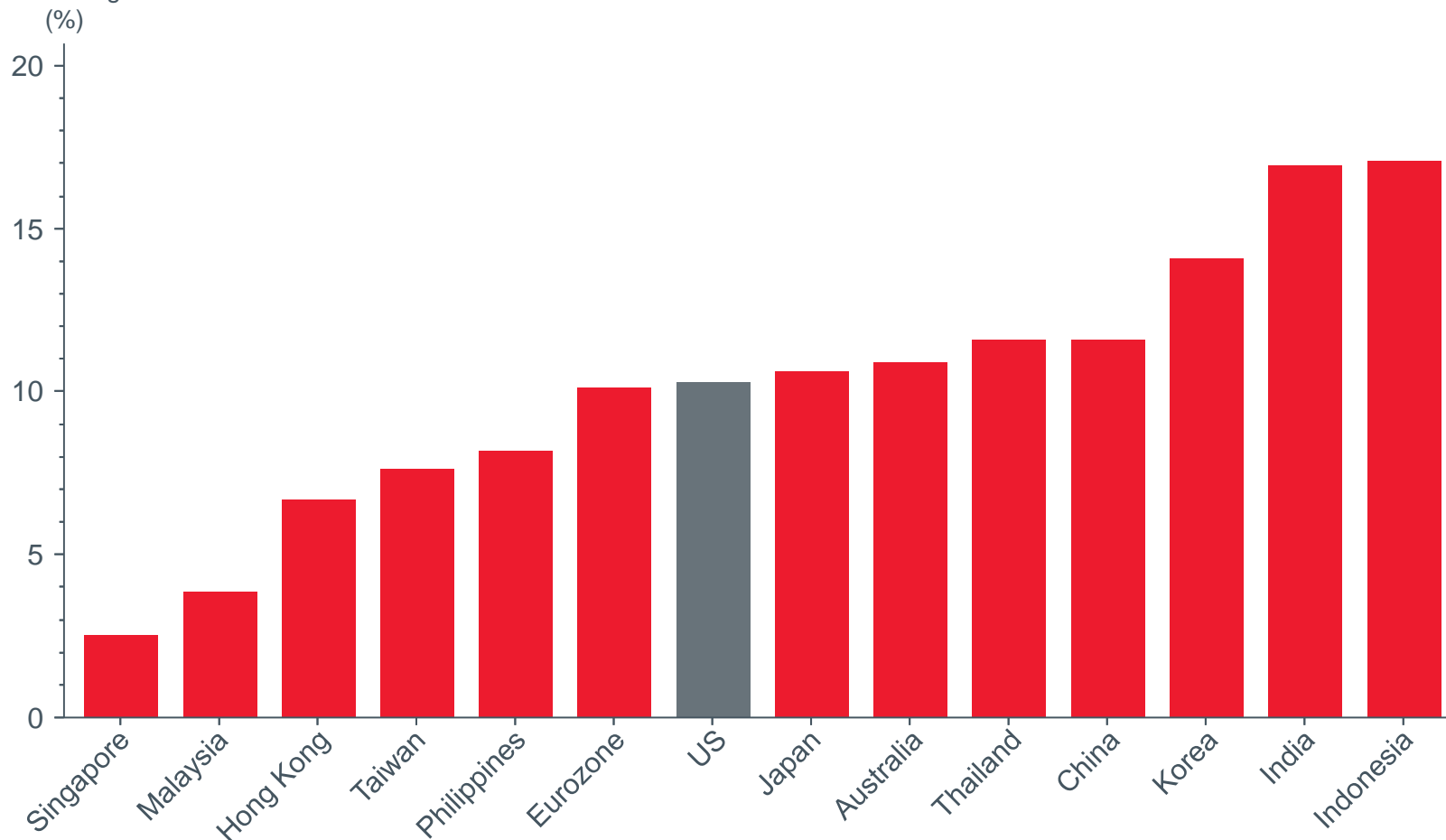
Source: IBES consensus 12-months forward earnings per share forecasts from Datastream as at 12 October, 2016.

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# ASIA'S PROFIT FORECASTS MOSTLY LEAD THE PACK ...

## ... DESPITE SOME SAVAGE DOWNGRADING

Forecast EPS growth



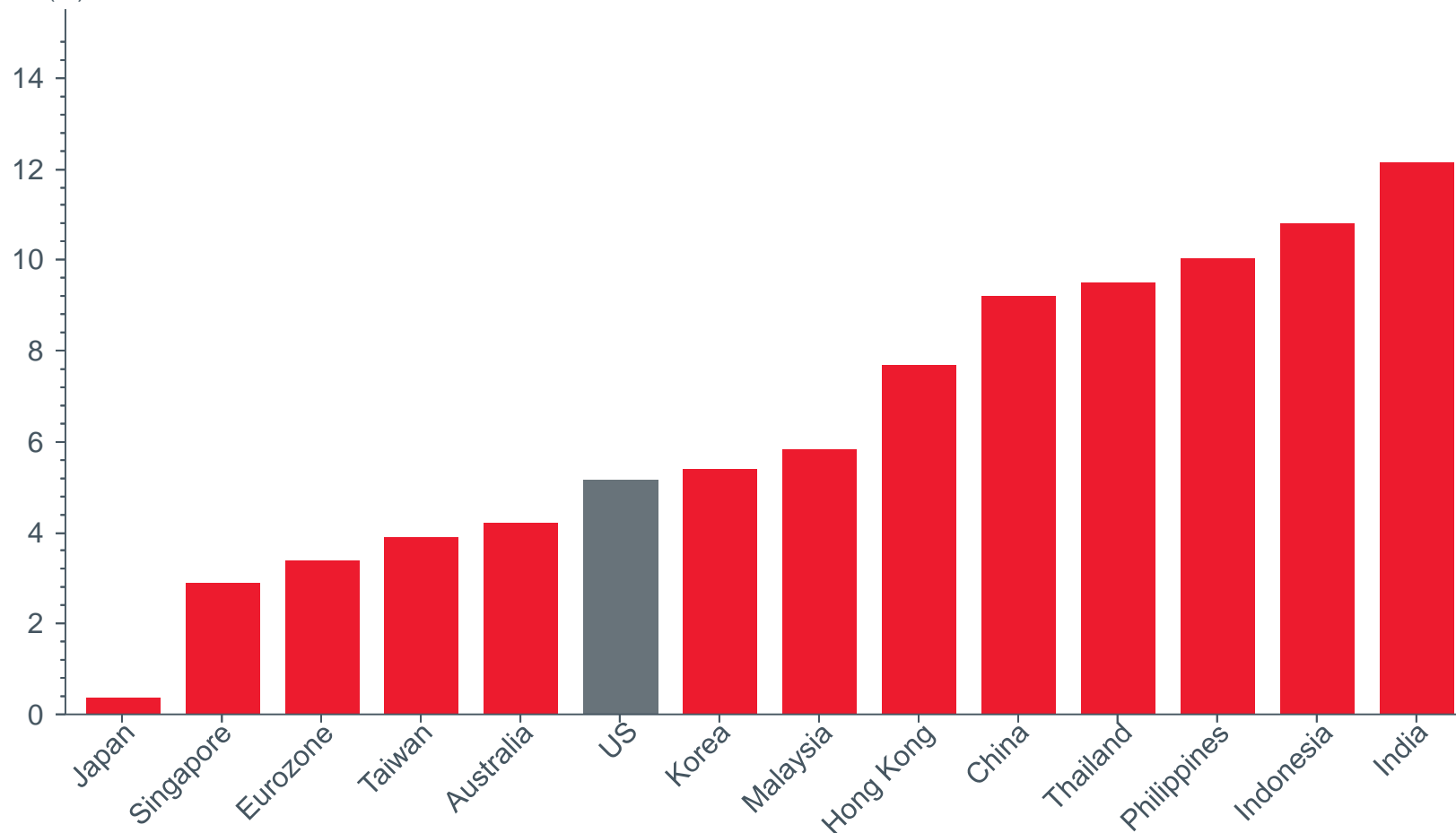
Source: IBES consensus earnings per share growth forecasts from Datastream as at 7 October, 2016. <sup>1</sup> Asia (exc. Japan) sales are forecast to rise 9¼% in the 18 months to the end of 2017. US and Eurozone sales are forecast to rise 6¼%. India leads the Asian forecasts at 12¾%.

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# ASIAN PROFITS MOSTLY BACKED BY STRONG SALES

## SHARE BUY BACKS BOOST US EPS FORECASTS MORE SO THAN ASIA

Forecast EPS growth (%)



Source: IBES consensus sales growth forecasts from Datastream as at 7 October, 2016.



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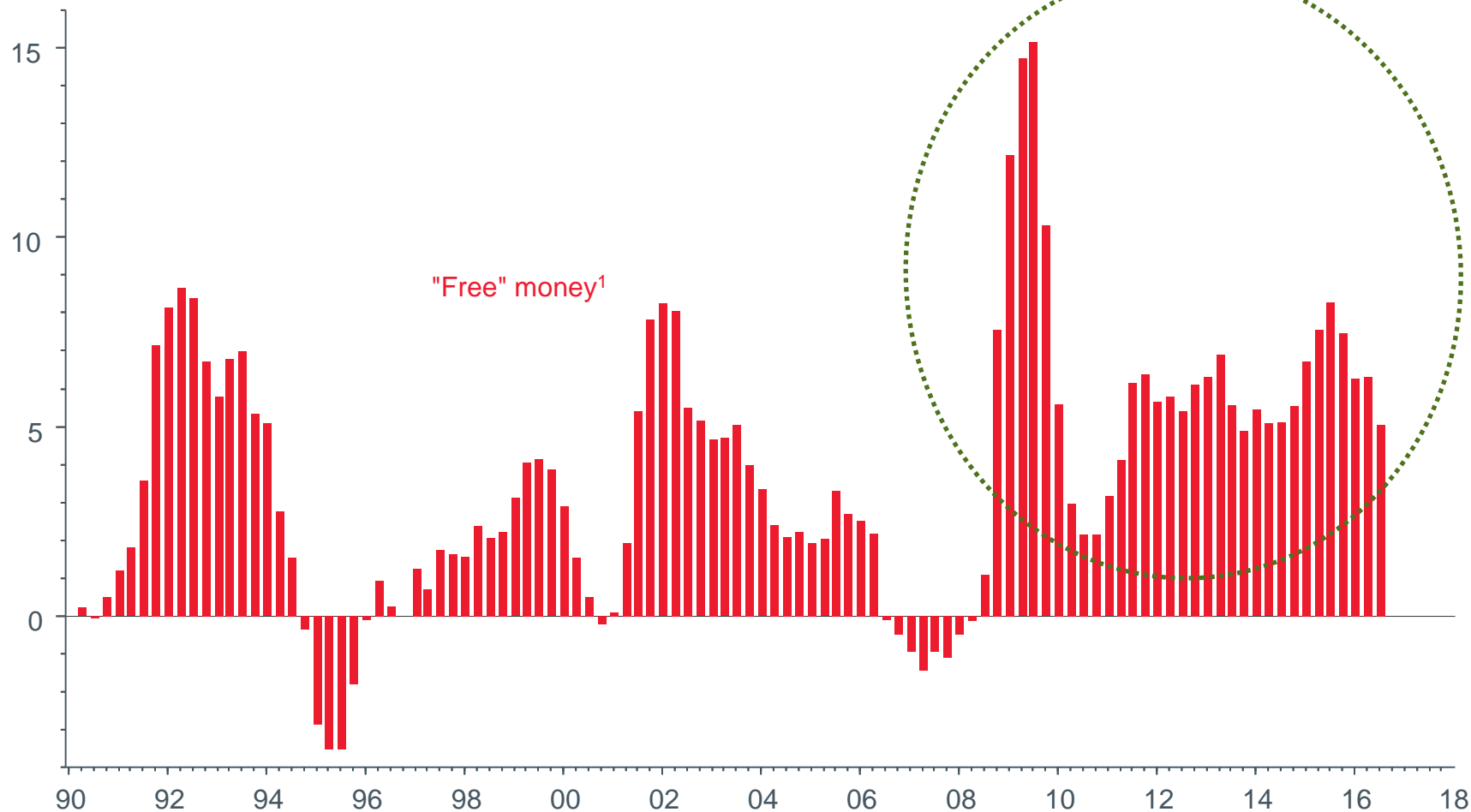
# THE LIQUIDITY CASE

## THE MONETARY FAUCET REMAINS ON

# FREE<sup>1</sup> MONEY GROWTH SLOWS IN 2015 BUT REMAINS HIGH

## THIS "WALL OF MONEY" BOOSTED BOND, PROPERTY AND EQUITY PRICES

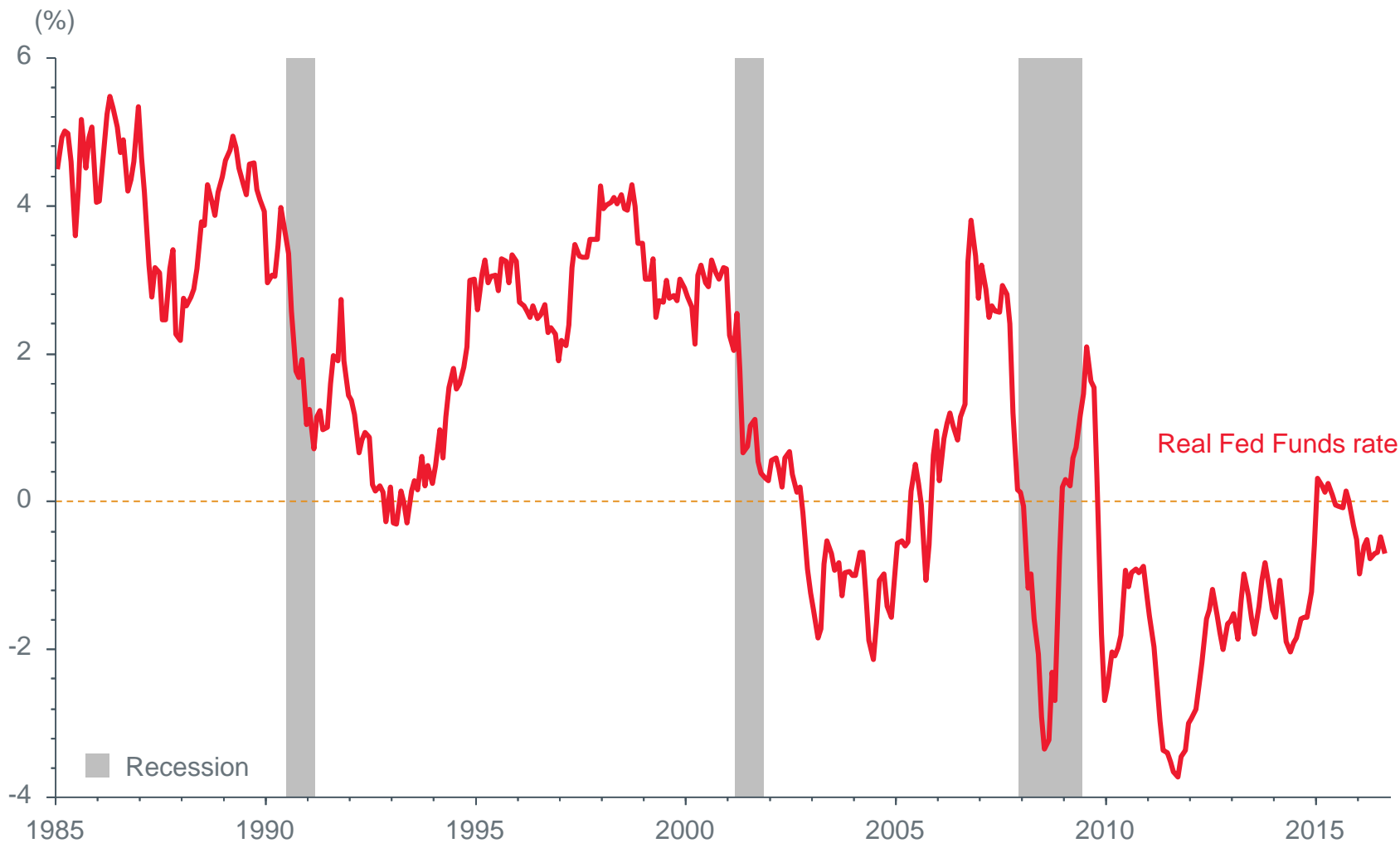
"Free money"<sup>1</sup>  
% difference



Source: OECD from Datastream as at 27 September, 2016. <sup>1</sup> Free money is defined as the gap between OECD M1 growth and nominal GDP growth.

# FED POLICY REMAINS INCREDIBLY ACCOMMODATIVE

EVEN IF THE FED HIKES RATES, REAL RATES REMAIN WELL BELOW PAST CYCLICAL PEAKS



Source: US Bureau of Labor Statistics and the US Federal Reserve Board from Datastream as at 12 October, 2016.

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# INVESTORS FOCUSED ON “SAFETY”

## THIS IS EXPOSING SOME DEEP VALUE

## THEIR DIRECTION IS STILL BEING DICTATED BY GLOBAL EVENTS



Source: MSCI World and Asia (exc. Japan) indices from Datastream as at 7 October, 2016. Both are total return and are in local currencies. Both have been indexed to 100 = 24 August, 2013 (when markets stopped falling). Note there are limitations to the use of such indices as proxies for past performance in the respective asset classes/sector. The historical performance or forecast presented is not indicative of, and should not be construed as being indicative of, a proxy for future performance.

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# WHERE DOES THE VALUE LIE?

# EQUITIES OFFER DEEP VALUE AND INCOME

## VALUE AND HIGH LIQUIDITY SHOULD SUPPORT EQUITIES INCLUDING THE US



Source: Eastspring Investments, MSCI and IBES from Datastream, 12 October, 2016. <sup>1</sup> The "Z" valuation is a composite measure giving equal weighting to the variation of the historical price to book ratio from its long-term trend and the variation of the prospective price earnings multiple from its long-term trend over a 12-year period. The two outer dotted lines represent the limits within which around 70% of all world values lie.

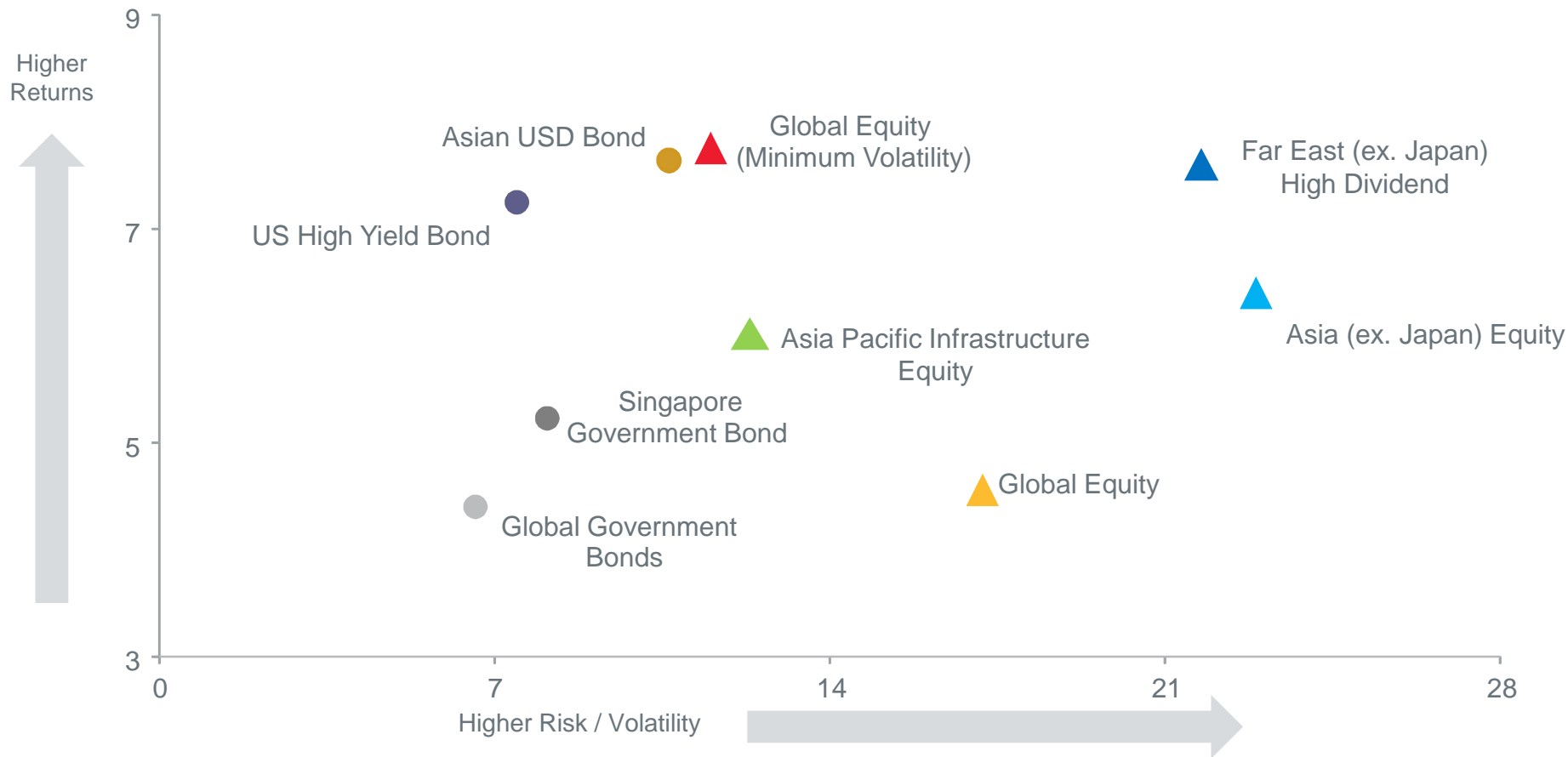
<sup>2</sup> Based on 4 years data. <sup>3</sup> Based on 9 years data. <sup>4</sup> Asia pacific (exc. Japan). <sup>5</sup> Based on historical data. <sup>6</sup> Based on 10 years data.

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# THE ATTRACTIVE RISK/REWARD PROFILE OF LOW VOLATILITY <sup>16</sup>

## LOW VOLATILITY STRATEGIES CAN GIVE HIGHER RETURNS NEAR BONDS' LOWER RISK LEVEL

10-Year Annualised Return and Standard Deviation (in USD)



Source: Eastspring Investments, Morningstar, as of 31 July 2016. Any opinion or forecast is subject to change without prior notice and is not necessarily indicative of the future or likely performance of Eastspring Investments (Singapore) Limited or the Fund. Note: (1) Global Equity as measured by MSCI AC World Index, (2) Asia ex Japan Equity as measured by MSCI AC Asia ex Japan Index, (3) Singapore Equity as measured by MSCI Singapore Index, (4) US High Yield as measured by BofA Merrill Lynch US High Yield Master II Constrained Index, (5) Asian USD Bond as measured by JP Morgan Asian Credit Index (data prior to September 2005 based on the old index series), (6) Global government bond as measured by Citigroup World Government Bond Index, (7) Singapore Government bond as measured by UOB Singapore Government Bond Index (All), (8) Global Equity (Minimum Volatility) as measured by the MSCI AC World Minimum Volatility index, All returns are in USD and total returns.

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- EQUITIES ARE ATTRACTIVE RELATIVE TO BONDS GLOBALLY
- LOW VALUATIONS ARE APPARENT AS 2015'S EARNINGS "RECESSION" ENDS
- POCKETS OF DEEP VALUE ARE RESULTING FROM INVESTORS FOCUSING ON "SAFETY"
- EQUITIES CAN PROVIDE BOTH GROWTH AND INCOME
- THEMATIC STRATEGIES OFFER GOOD VALUE AND INCOME

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Source: Eastspring Investments as at 16 November, 2016. Any views expressed above are as of 16 November, 2016 and may alter without notification.

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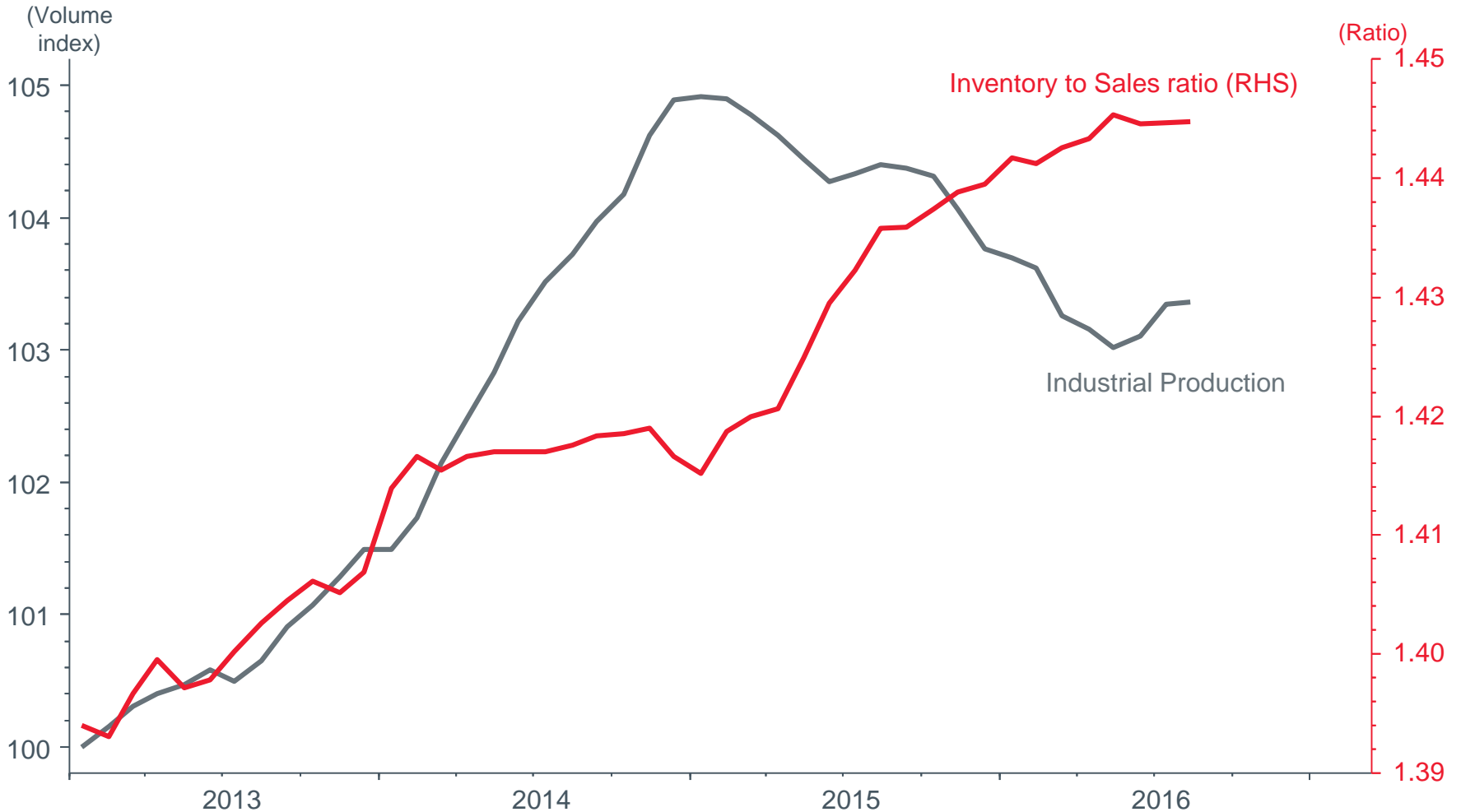
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# US EQUITIES LOOK EXPENSIVE

US PROFITS ARE UNDER PRESSURE DESPITE  
“GOOD” JOBS NUMBERS

# UNSOLD GOODS PILE UP IN US COMPANIES

RIISING OUTPUT IS BEING SOLD BUT COMPANIES ARE HOLDING LARGE STOCKPILES



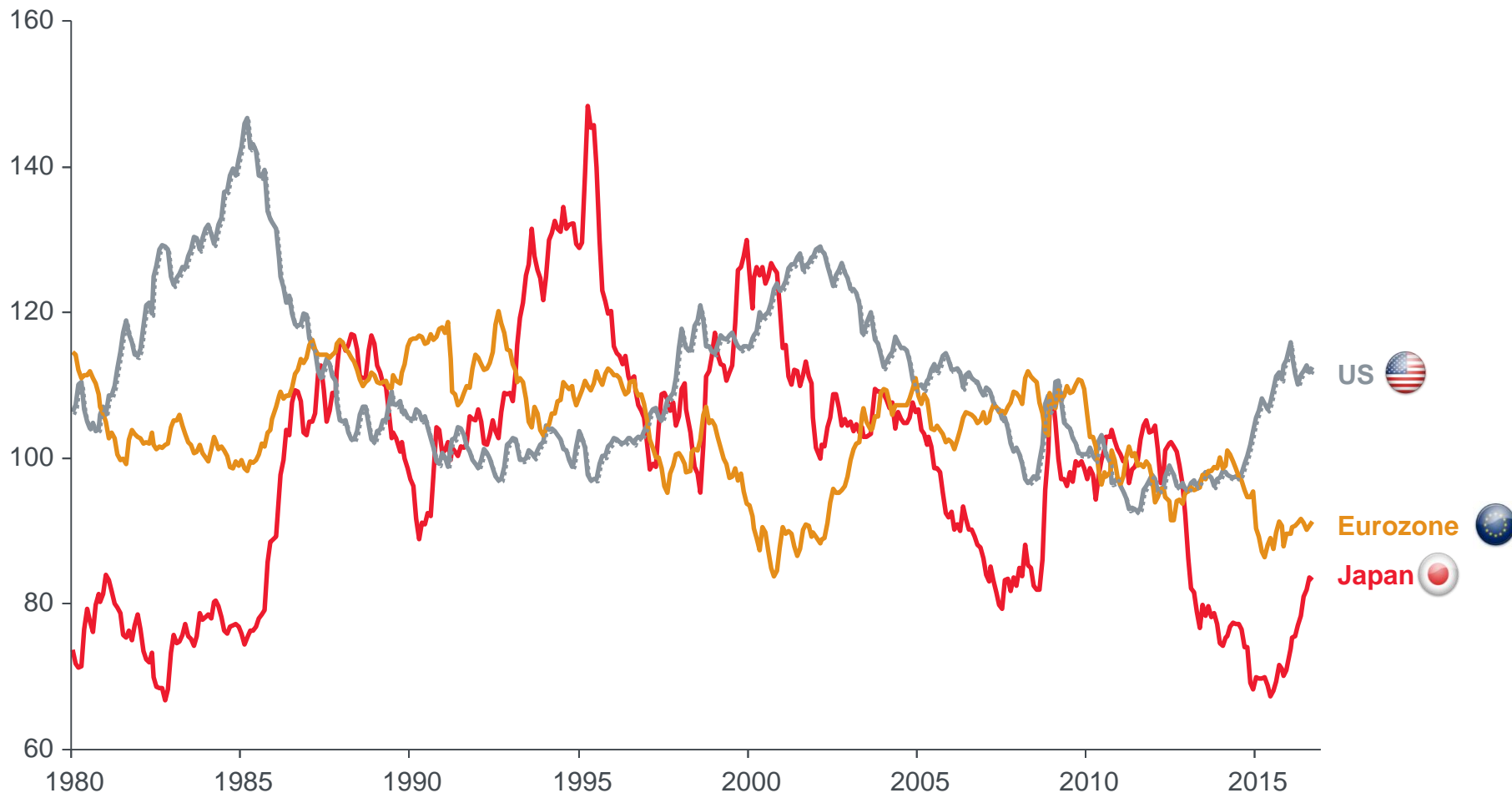
Source: The US Federal Reserve Board and The Conference Board from Datastream as at 7 October, 2016

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# THE STRONG DOLLAR EATS INTO US PROFITS

## IN CONTRAST, THE YEN LOOKS VERY COMPETITIVE

(REER Index<sup>1</sup>)

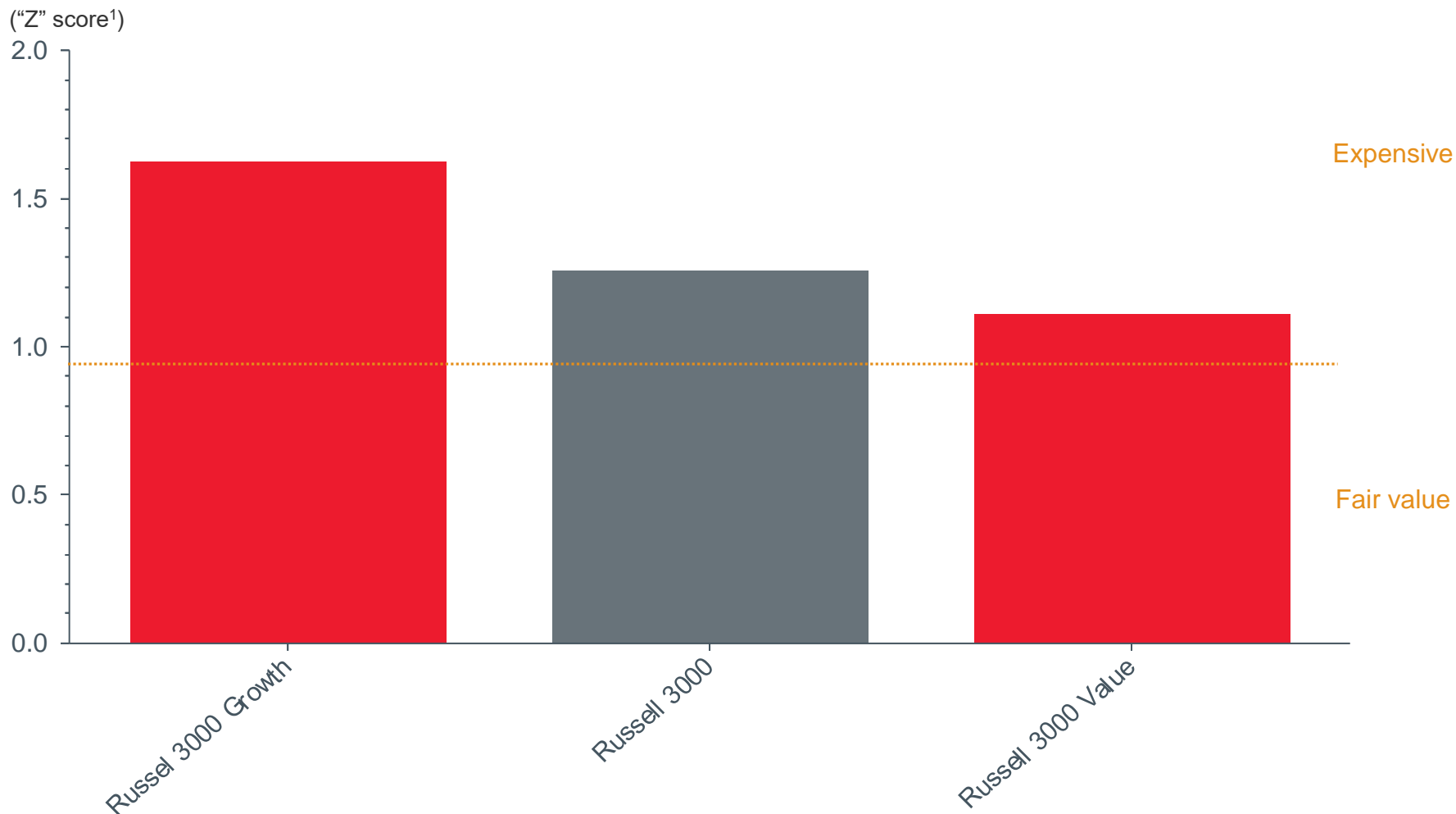


Source: JP Morgan and Wood McKenzie/Reuters from Datastream as at 4 October, 2016. <sup>1</sup> The real effective exchange rate broadly measured, CPI based and trade-weighted as at 2000 = 100.

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# EVEN US VALUE STOCKS LOOK EXPENSIVE

WHEN INVESTOR SENTIMENT TURNS, US EQUITIES LOOK EXPOSED.



Source: Eastspring Investments, Russell equity indices and IBES from Datastream, 16 August, 2016. <sup>1</sup> The "Z" valuation is a composite measure giving equal weighting to the variation of the historical price to book ratio from its long-term trend and the variation of the prospective price earnings multiple from its long-term trend over a 12-year period. The dotted line represents the upper standard deviation limit within which around 70% of all world values lie.

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# LOW VOLATILITY STOCKS

GOOD VALUE TO BE FOUND STILL IN A LARGE  
UNIVERSE

## IGNORING EXPENSIVE STOCKS, GOOD VALUE AND INCOME CAN BE FOUND



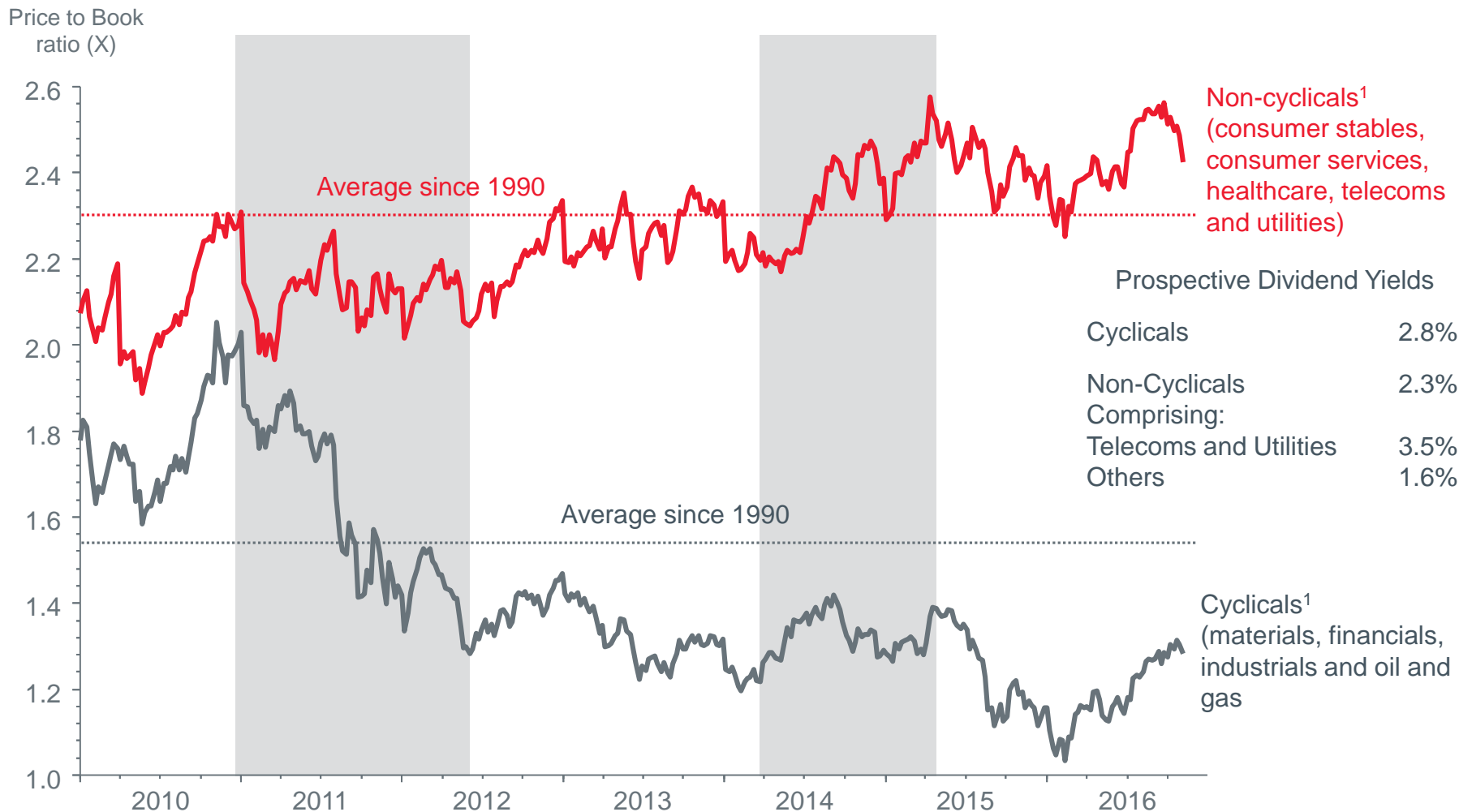
Source: Eastspring Investments, MSCI AC World index, MSCI AC World Minimum Volatility index and Axioma, 30 September 2016.



# ASIA'S DIVIDENDS ARE TO BE FOUND IN ITS CHEAP CYCLICALS

# THE “SAFETY” RUSH TO YIELD LEFT CYCLICAL STOCKS CHEAP<sup>26</sup>

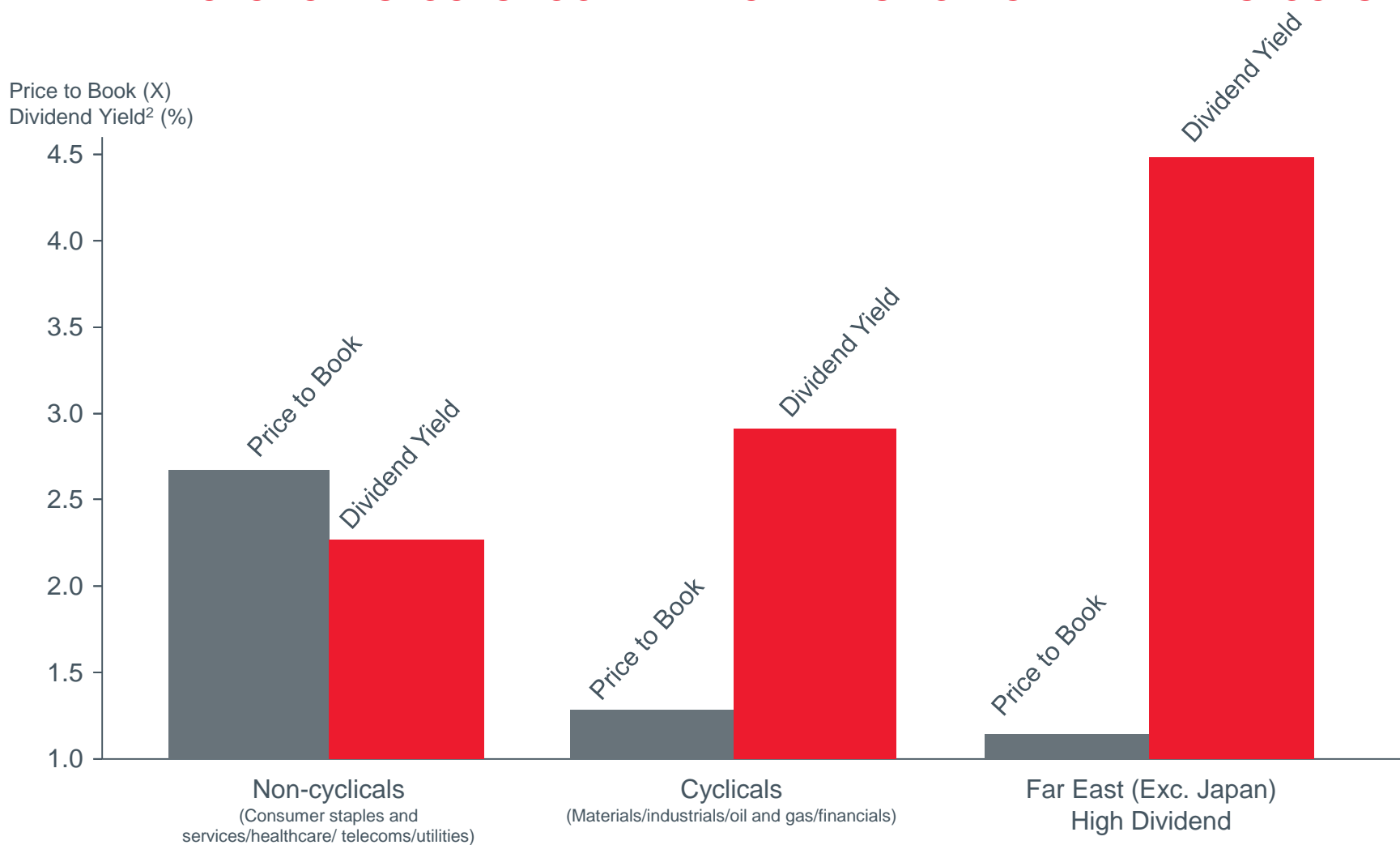
“SAFE” NON-CYCLICALS VALUATIONS SURGED; THE VALUATION GAP IS HISTORICALLY WIDE



Source: Eastspring Investments and Thomson Reuters from Datastream as at 14 November, 2016. For indicative purposes only. The Cyclical and Non-Cyclical indices comprise the equally weighted sector indices indicated above.

# TODAYS CHEAP AND HIGH YIELD STOCKS HAVE HIGHER RISK 27

## ASIA'S<sup>1</sup> CYCLICAL STOCKS LOOK ATTRACTIVE AS DO HIGH DIVIDEND STOCKS



Source: Eastspring Investments and Datastream from Datastream as at 14 November, 2016. The cyclical index includes the equally weighted basic materials, oils, industrials and financial sectors. The non-cyclical index consists of equally weighted consumer stable, consumer services, healthcare, telecom and utility sectors. <sup>1</sup> Asia excluding Japan. <sup>2</sup> The historical dividend yield.

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# A 95% RETURN OVER THE NEXT FIVE YEARS?

WHEN VALUATIONS WERE AT TODAY'S LOWS, THE RECOVERY HAS BEEN HISTORICALLY STRONG

Price-to-book MSCI All Country Asia Pacific ex Japan	% of observations	Average returns (%)		
		1 year	3 years	5 years
Less than 1.5x	12	54	63	106
1.5x to 1.75x	32	7	24	95
1.75x to 2x	22	5	43	42
2x to 2.25x	22	(4)	(6)	(0)
2.25x to 2.5x	8	(4)	(15)	3
More than 2.5x	4	(25)	(14)	(13)

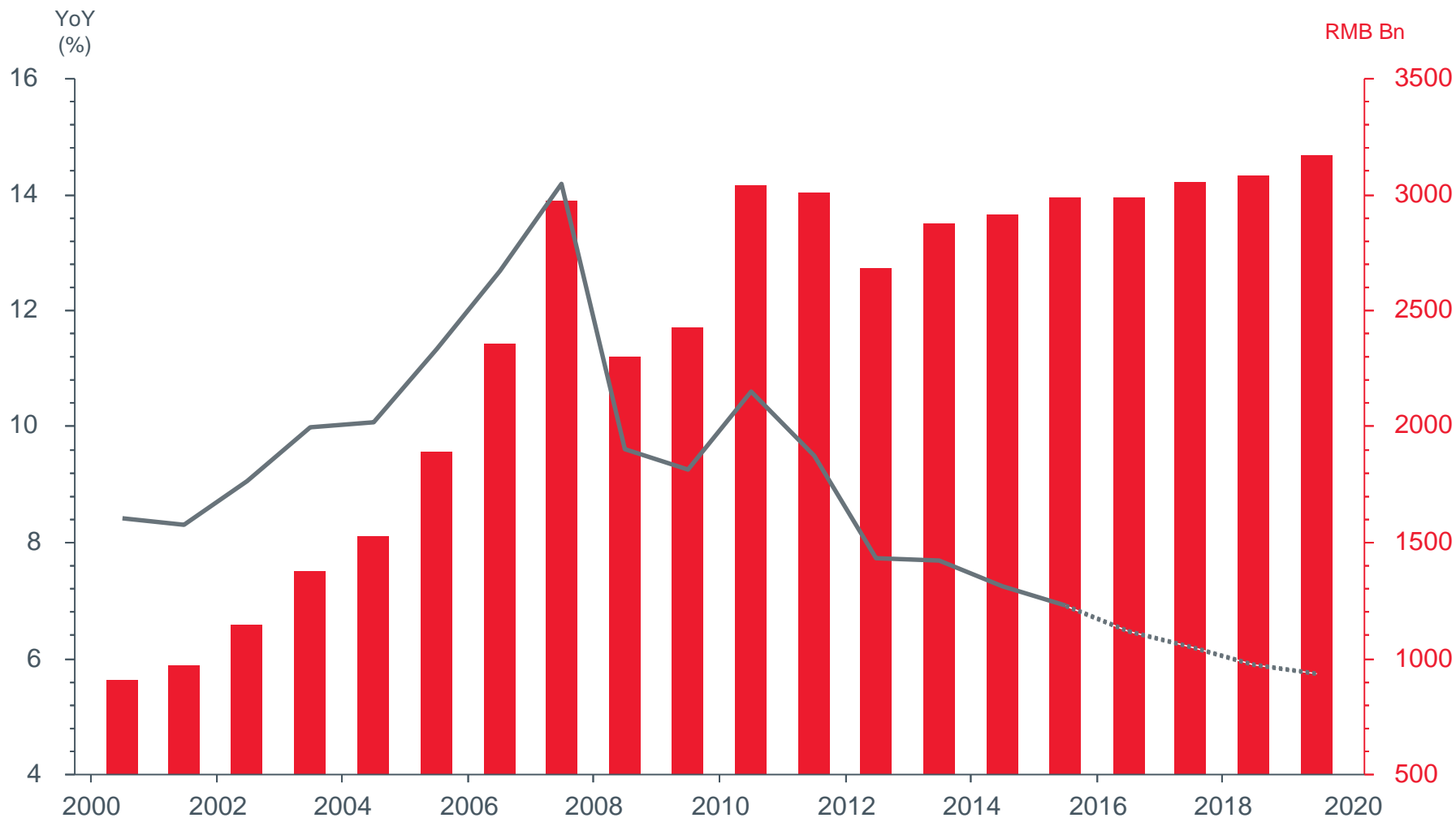
Source: MSCI, Bloomberg and Eastspring Investments as at 31 August, 2016. The data is calculated on the monthly returns since January 1996

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# CHINA – SLOWER GROWTH DOES NOT MEAN SLOWER DEMAND

# CHINA'S GROWTH SLOWS; ACTUAL DEMAND RISES

6.5% OF A BIG NUMBER IS A BIG NUMBER. 14% OF A SMALL NUMBER IS SMALL



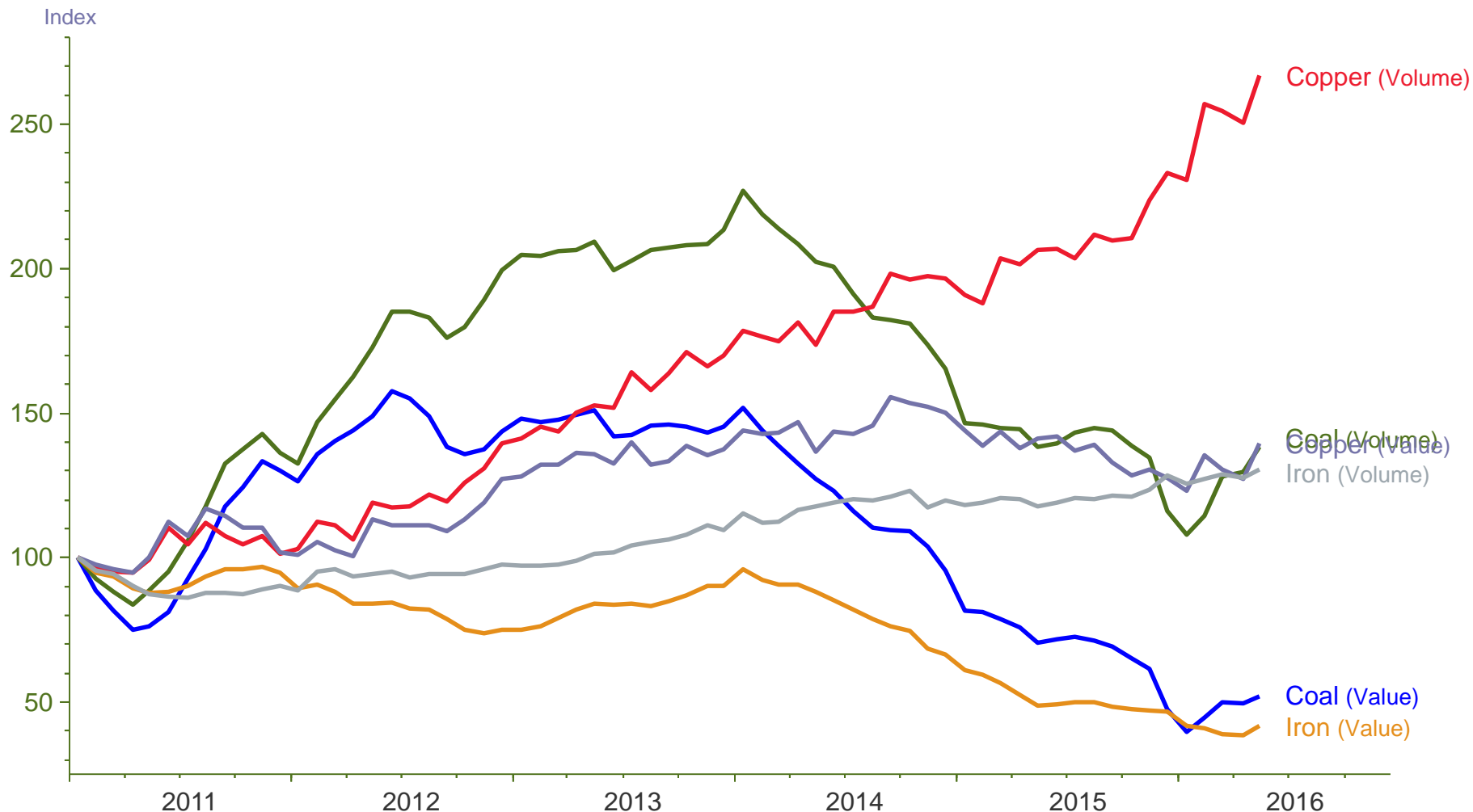
Source: Oxford Economics from Datastream as at 30 June, 2016.

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# CHINA'S BASE METAL DEMAND SUGGEST STEADY GROWTH

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## RIISING DEMAND FOR COAL HINTS AT RETURNING "OLD" INDUSTRY GROWTH



Source: China Customs and National Bureau of Statistics from Datastream as at 3 October, 2016. The charts show the volume of each commodity imported (including the value of iron ore), seasonally adjusted and exponentially smoothed with a factor of 0.3.

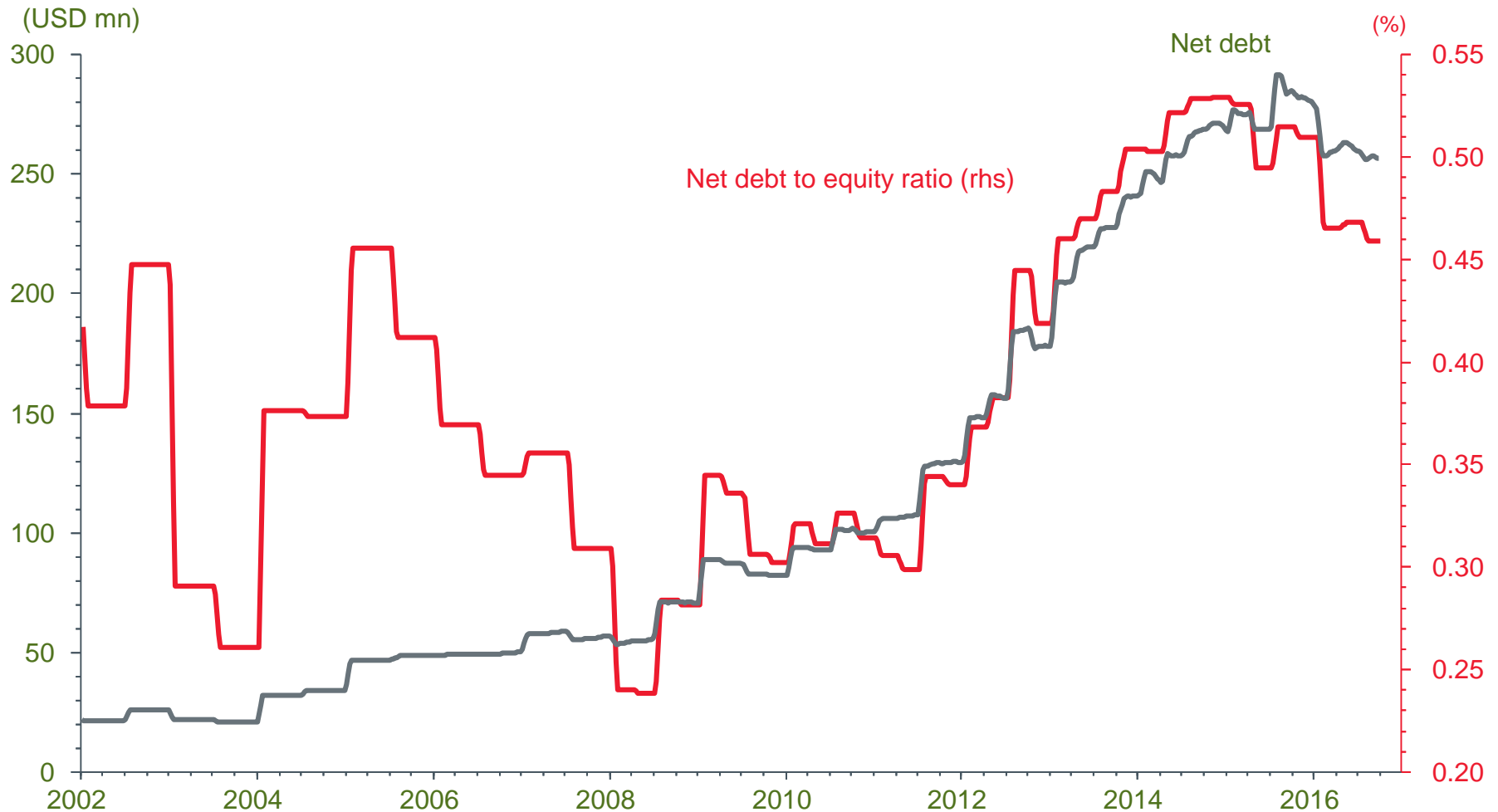
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# THE SPEED OF CHINA'S RISING DEBT IS THE CONCERN

## CHINA'S NET DEBT FALLS (RELATIVELY) AS COMPANIES HOLD BACK PROFITS RISE



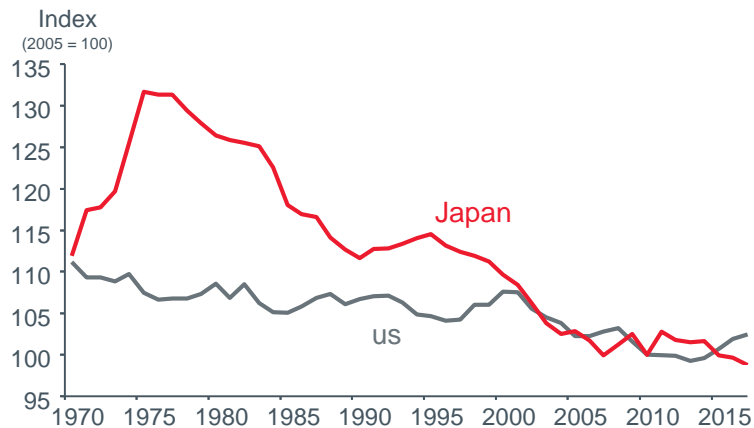
Source: Worldscope and Datastream from Datastream as at 19 September, 2016

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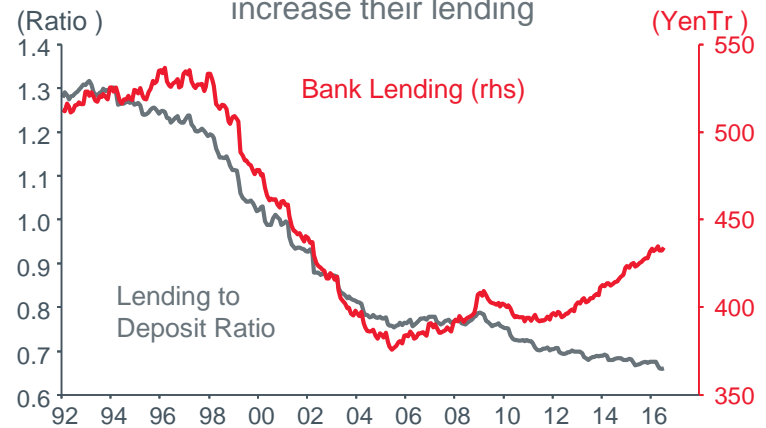


WE BUY COMPANIES NOT ECONOMIES  
INVESTORS SHOULD FOCUS ON COMPANY PROFITS

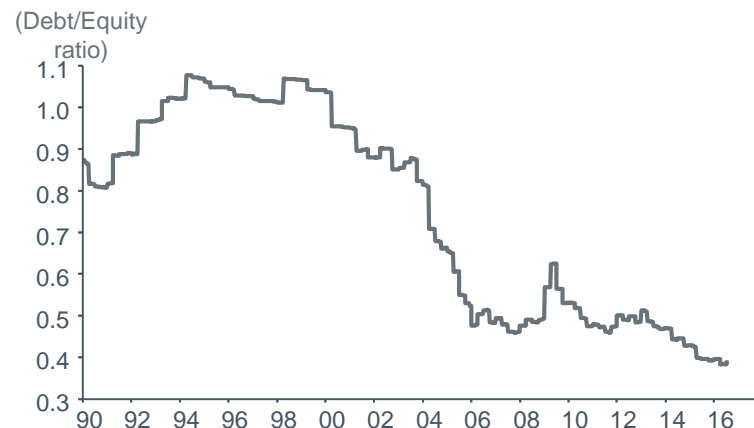
Japan's labour costs are lower than the US



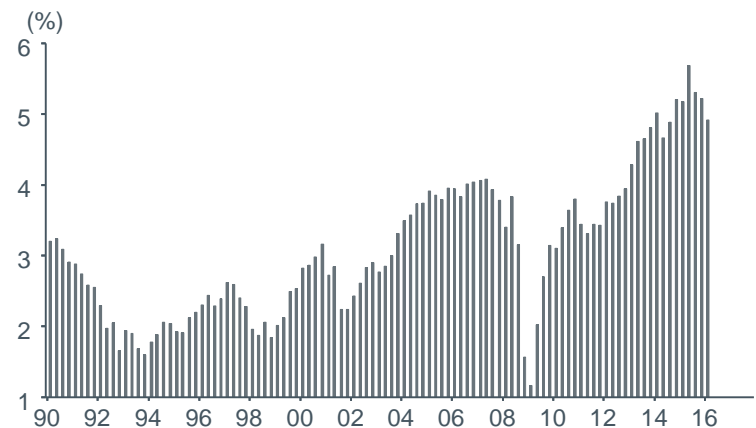
Banks balance sheets are strong. They can increase their lending



Companies have low and falling debt burdens



The Result? Margins<sup>2</sup> trend higher



Sources: European Commissions' Directorate General for Economic and Financial Affairs, Japan Research Institute and Ministry of Finance from Datastream, as at 8 August, 2016. <sup>1</sup> Net debt. <sup>2</sup> Based on recurring profits for non-financial companies.