

# Global Investment Perspective

## January 2011

### Highlights

Investor sentiment improved in December due to a combination of further encouraging US economic data and the formalised rescue package for Ireland. The €85 billion rescue package for Ireland was finalised, which somewhat helped to ease fears of sovereign debt default and eurozone monetary stability. The Irish government passed a new €15 billion fiscal consolidation plan, which paved the way for the European Union and International Monetary Fund loans to be released. However, Ireland's debt rating was downgraded by both rating agencies, Fitch and Moody's. In addition, tension grew around Spain, amid the country's sharp deterioration in industrial output growth and rising unemployment during November.

In emerging markets, despite promising economic growth, investors started to focus on accelerating inflation. As such, China tightened its monetary policy by raising the bank reserve requirement ratio for the sixth time and on Christmas day it increased both the deposit and lending rates to anchor down inflation expectations.

### December Market Recap

Developed and emerging market equities recorded positive returns in December as investor confidence was supported by encouraging economic releases and the rescue package for Ireland. The MSCI World Index rose by 7.2%, while emerging market equities, as represented by the MSCI Emerging Markets Index, increased by 7.0%.

However, individual emerging market countries had substantially varying degrees of returns. For instance, on the back of strong growth data, Russian equities rose by a notable 8.2% whereas Chinese equities dipped by 0.6%.

Within fixed income, US treasuries declined by 1.7% in December, posting the largest monthly loss for the asset class since December 2009. But for the year as a whole, US government bonds returned a positive 5.8%. During the month, investor sentiment was shaken as the US monthly budget statement showed a deficit of US\$150.4 billion in November, above both the reading in October and the consensus forecast. Meanwhile, the US total public debt outstanding stood at a record US\$14.0 trillion on 31 December 2010. Reinforcing this concern, Moody's gave a moderate warning over the scale of US borrowing in the long-term.

### Outlook & Strategy

While the global economic recovery is continuing, challenges and uncertainties persist. In the developed world, we continue to anticipate positive, albeit moderately sub-trend economic growth. Key risks on the economic horizon comprise fiscal tightening and weak consumption. The prospects for labour markets and consumption remain unclear, despite some signs of stabilisation. Unemployment rates are still elevated and consumers are still endeavouring to unwind debt positions, particularly in the US and the UK. In emerging economies, the overall outlook remains robust. That said, the concern here is the possibility of further monetary tightening, which would negatively impact growth prospects not only for these economies, but also the world given that they have been an important driver of the global economic recovery to date.

We have a neutral view on equities relative to cash on the basis that earnings forecasts for 2011 are reasonable, stock valuations look undemanding, not least relative to cash and government debt, and central banks continue to provide liquidity support. At the sector level, while valuations remain attractive for healthcare and telecommunications stocks on an absolute basis, the valuation gap relative to other sectors is less compelling. Therefore, we no longer have a relative preference for these two sectors. Within the context of developed markets equity, we have a preference for Japanese equities where we maintain a tactical short-term overweight position. The Japanese equity market lagged other developed equity markets for much of 2010 and, having recently started to outperform, is likely to have positive price momentum. There are also early signs that flows are becoming more supportive. Japanese stock valuations look attractive relative to history both in absolute terms and relative to other developed markets. Elsewhere, we remain neutral on emerging markets equities. Within this universe, we continue to favour Russia as we view stock valuations as attractive on a relative and absolute basis.



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## Short-term Investment Outlook (6-12 months)

	Asset Class	Current View	Reasoning
Equity	Global Developed Market Equity	Neutral	Equity valuations relative to cash and especially government debt remain attractive, plus liquidity remains supportive. There continue to be risks to the economic recovery, but our core scenario is for positive, but sub-trend growth.
	US Equity	Neutral	Whilst unemployment remains elevated at 9.6%, Fed policy has remained accommodative and recent economic news-flow has been encouraging.
	Europe Equity (including the UK)	Neutral	Economic conditions remain mixed. UK growth has slowed, austerity measures are in the process of being rolled out in parts of Europe and the economic health of peripheral eurozone countries remains uncertain. That said, interest rates and inflation remain generally low (the UK being an outlier), the Bank of England has flagged the possibility of a further round of quantitative easing, and recent corporate earnings news in Europe has been encouraging.
	Japan Equity	Positive	We have a tactical, short-term preference for Japanese equities as they lagged other developed equity markets for much of 2010 and, having recently started to outperform, are likely to have positive price momentum. There are also early signs that flows are becoming more supportive. Japanese stock valuations look attractive relative to history both in absolute terms and relative to other developed markets.
	Asia ex-Japan Equity	Neutral	From a macroeconomic perspective, the outlook remains generally positive with strength in both the manufacturing and consumer sectors. However, from a valuation perspective, market prices have largely reflected the positive news-flow.
	Global Emerging Markets	Neutral	Emerging countries are likely to continue to lead the recovery due to robust domestic consumption and strong intra-regional trade. That said, like developed markets, emerging market equities are exposed to volatility stemming from the question marks around the sustainability of the global economic recovery.
	Latin America Equity	Neutral	The economic performance of Latin American countries remains strong and earnings growth estimates for 2011 look reasonable. Having said that, the good news seems to be well reflected in market prices and relative valuation measures show no strong signals. We, therefore, retain our neutral stance.
	Middle East Equity	Neutral	Economic data from the region has been highly encouraging and 2010-2011 forecasts are positive. In addition, valuations remain reasonable. Key risks include a slowdown in global demand for oil and the potential deterioration of budget deficits among some of the countries in the region.
	Eastern Europe Equity	Neutral	Manufacturing data has varied within the different countries. Weak labour markets, high levels of government debt and ongoing concerns about eurozone debts are weighing on the outlook for the broader region. However, at a country level, we favour Russian equities. Valuations for Russian equities are attractive in both absolute and relative terms.
	Indonesia	Neutral	Positive earnings outlook driven by strong domestic consumption, and expectation of faster economic growth, may provide support to Indonesian equities to continue its upward trend this year.
Currency	EUR vs. USD	Neutral	Valuation indicators are not sending any clear signals at present. We see both event-driven and sentiment-driven risks contributing to ongoing volatility. We thus continue to have a neutral view on currency exposures.
	GBP vs. USD	Neutral	
	JPY vs USD	Neutral	
	USD vs IDR	Positive	Positive economic outlook and optimism of rating upgrade, may drive overseas funds to continue entering Indonesian markets and providing support to rupiah.



## Summary

Overall, we are neutral on equities relative to cash. Within equities, we have closed out our preference for healthcare, telecommunications and consumer staples stocks as the valuation gap relative to other sectors has converged making these sectors less attractive on a relative basis. Within the context of developed markets equity, we remain positive on Japan on a short-term perspective partly due to attractive stock valuations and positive price momentum and flows. Within emerging markets equity, our favoured market is still Russia.

With regard to the four major developed market currencies, it is likely that heightened volatility will continue. Valuation measures are not currently providing strong signals and we therefore, have a neutral stance on currency positions.



# Macro Assessment

**While the economic news-flow was generally encouraging, the risks from sovereign debt issues in developed economies and monetary tightening in emerging economies remain present.**

## ▶ US

- ▶ **There were positive readings in business and consumer activity, but labour data still disappointed.**
- ▶ The ISM Manufacturing index rose in line with the consensus forecast, at 57.0 in December, back to the levels seen in 2005. Furthermore, the University of Michigan Confidence Index rose above the forecasted consensus during December, to 74.2, while retail sales grew strongly, by 0.8% month-on-month in November.
- ▶ However, labour data was particularly disappointing in December. Non-farm payrolls were well below consensus expectations at 39,000 in November compared to 172,000 a month earlier. November unemployment remained elevated at 9.8%, while weekly jobless claims figures gave mixed signals throughout the month.
- ▶ Of additional importance, the monthly budget statement showed a deficit of US\$150.4 billion in November, above both the reading in October and the consensus forecast.
- ▶ Also, while the extension of the Bush-era tax cuts is likely to have a positive effect on consumption (all other things being equal), it is also expected to hurt US public finances. Reinforcing the concern, Moody's gave a moderate warning over the scale of US borrowing in the long-term.

## ▶ Europe

- ▶ **The broad economic picture is sound, but the situation at the country level is still a concern.**
- ▶ As a whole, the eurozone economy grew by 1.9% year-on-year in the third quarter, in line with the consensus estimate. Manufacturing activity remained a key driver of the economic rebound and in December, the PMI Manufacturing index beat the consensus estimate, rising to 57.0 against 55.3 in the preceding month.
- ▶ In consumer activity, retail sales rose by 1.8% year-on-year in October, well ahead of market expectations, while household consumption climbed by 0.3% quarter-on-quarter in the third quarter, above both the consensus forecast and the reading in second quarter.
- ▶ The region's solid performance continued to be driven by the larger economies of France and Germany. In the peripheral eurozone countries, the economic outlook is less encouraging, as respective fiscal issues remained a major concern.
- ▶ Credit agency Fitch downgraded Ireland's debt rating by three notches from 'A+' to 'BBB+'. Tensions also grew around Spain, as the nation's industrial output growth deteriorated sharply (-3.8% year-on-year) and the number of unemployed rose by 24,000 in November.

## ▶ UK

- ▶ **Manufacturing activity continues to lead the recovery, while the activity in other sectors was mixed.**
- ▶ The UK's PMI Manufacturing index jumped from 57.5 in November to 58.0 in December, a 16-year high for the survey and indicative of a robust increase in activity. The UK economy continued to grow in the third quarter at 2.7% year-on-year, a positive reading, albeit lower than the consensus estimate.
- ▶ In the consumer sector, retail sales were stronger-than-expected in November, rising by 1.8% year-on-year, against consensus expectations of 1.4% year-on-year. However, consumer confidence declined to 45 in November, well below the consensus estimate, amid disappointing labour data and the government budget squeeze.
- ▶ The government tightening is targeting fiscal consolidation of GBP111 billion by 2015, while the unemployment rate is high, at 7.9% in October. Furthermore, jobless claims failed to provide positive momentum in labour markets.
- ▶ Inflation remained unusually strong relative to other developed markets. The core Consumer Price Index rose by 2.7% year-on-year in November, while the all-items Consumer Price Index came in at 3.3% year-on-year, more than expected by the consensus.

## ▶ Japan

- ▶ **Economic releases were generally mixed, but the broad picture remained positive overall.**
- ▶ On the positive side, GDP growth reached 1.1% quarter-on-quarter in the third quarter, beating the consensus estimate of 1.0%, while October's industrial production rose by 5.8% year-on-year in November, exceeding both the consensus estimate and the previous reading.
- ▶ The third quarter corporate survey showed capital expenditure rising for the first time in three years. Also, in an attempt to boost the nation's recovery, Prime Minister Naoto Kan intends to cut the corporate tax rate by 5 percentage points.
- ▶ However, the fourth quarter Tankan Survey showed a marginally negative reading for both the large manufacturing and the non-manufacturing outlook, which underscored the likelihood for economic activity to moderate in the fourth quarter.
- ▶ In the consumer sector, consumer confidence was 40.6 in November, down from 41.1 in October, while labour cash earnings fell by 0.2% year-on-year in November, well below the consensus estimate of 0.6% year-on-year.
- ▶ Reinforcing the concern over weak consumer activity, the core CPI year-on-year rate declined to -0.9% against an estimate of -0.8% by the consensus. The all-items Consumer Price Index year-on-year rate also declined, from 0.2% to 0.1% in November but at least remained positive.



# Macro Assessment

## ▶ Emerging Markets

▶ **Economic activity remained solid in emerging market countries, but combined with increasing inflation rates, there is potential for more monetary tightening.**

- ▶ PMI indices came in above 50 for many emerging market countries, indicating that the expansion in manufacturing remained strong.
- ▶ In the consumer sector, retail sales growth was strong, rising to 18.7% year-on-year in China in November and remaining robust in the other major emerging market economies, albeit moderating from previous peaks.
- ▶ However, a moderation in economic activity was more evident in December. In Brazil, while economic growth remained strong in third quarter, the reading was below the levels seen in previous quarters. The same now applies to South Korea and many other emerging market countries.
- ▶ Also, while they remained strong on an absolute basis, year-on-year growth rates for exports and industrial production continued to trend lower for several countries.
- ▶ Emerging market inflation generally intensified in December. In China, November inflation accelerated to 5.1% year-on-year from 4.4% a month earlier, potentially prompting China to tighten more aggressively. Also, while food inflation continued to be a major driver of price movements (up by 11.7% year-on-year in November), non-food sectors have shown stronger increases.

## ▶ Indonesia

▶ **The rise in consumer prices could pressure central bank to start normalizing its monetary policy.**

- ▶ Consumer prices rose further in December by 6.96% from a year earlier, as weather anomalies hurt agribusiness output and distribution. The holiday season last month increased demand for food and spices particularly chilli and sent food prices to rise significantly. The rally in oil and gold prices sent transportation and jewellery prices to rise as well, adding pressure to December's inflation. However, core inflation remained stable at 4.28% in December from a year earlier, smaller than a 4.30% inflation figure in November.
- ▶ Bank Indonesia viewed that these past few months inflation acceleration will be temporary once food prices stabilize during harvest season in Q2-2011. With the stable core inflation figure, central bank once again kept its benchmark rates at 6.5% for 18th consecutive months and said that the decision was made to curb any excessive overseas inflow to the economy that could create assets bubble and drive up inflation even further. However, with the expectation that improvement in global economy may drive commodity prices higher this year and a government's move in limiting fuel subsidy for private consumption in March, may drive inflation to accelerate at the first semester, and thus we viewed a total of 75 bps increase in BI rate at the end of Q2-2011.
- ▶ Despite the risk of inflation, we viewed domestic consumption remain strong combine with growing investment and trading sectors as second growth engine. We expect growth may reach 6.4% this year, higher than our forecast for 2010 growth of 6%. Imports rose significantly in November by 48.3%, driving trade balance to \$ 2.27 bn, higher than analysts forecast of a \$ 2.09 bn gain, while foreign reserve once again reach an all-time high level of USD 96.2 bn in December.

# Equity Markets

## ▶ Global Developed Markets

- ▶ We have a neutral view on equity markets relative to cash.
- ▶ This view is underpinned by a moderation in 2011 earnings growth expectations and attractive relative valuations, particularly versus government debt. Furthermore, commitments by central banks to inject more liquidity into markets if needed to support growth have improved the outlook for equities somewhat.
- ▶ At the sector level, we have closed out our preference for healthcare, telecommunications and consumer staples stocks as the valuation gap relative to other sectors has converged making these sectors less attractive on a relative basis.

## ▶ US

- ▶ The US macroeconomic picture was encouraging in December, supporting our central scenario of positive growth in 2011. US company earnings growth estimates for 2011 rose marginally in December to 13.7%. That said, the weakness in consumption and employment still warrants some caution.
- ▶ From a valuation perspective, US equities are trading at a higher than the level seen in November but still in attractive territory compared to history. Furthermore, with the Fed keeping rates low and continuing its quantitative easing programme, liquidity is likely to remain a positive factor for US (and other) equities. At the sector level, while valuations remain attractive for healthcare and telecommunications stocks on an absolute basis, the valuation gap relative to other sectors is less compelling. Therefore, we no longer have a relative preference for these two sectors.
- ▶ Balancing the ongoing risks to economic growth, the moderately attractive valuations and the favourable levels of liquidity, we retain our neutral positioning in US equities versus cash.

## ▶ Europe

- ▶ Labour market data remains weak but other economic activity has improved and is positive in both the UK and eurozone, supporting our view of moderate growth in 2011. However, concerns over the debt situation and risks of contagion are ongoing.
- ▶ From a valuation perspective, eurozone and UK equities are trading at reasonably undemanding levels.
- ▶ In addition, as the European Central Bank and the Bank of England are likely to leave their interest rates unchanged for some time, we expect ongoing liquidity to be supportive.
- ▶ Overall, we maintain a neutral position in equities versus cash in recognition of the balance of the various factors aforementioned and the risks

## ▶ Japan

- ▶ The Japanese economic recovery is expected to slow and the government is trying various ways to spur inflation and employment to foster a more sustainable growth path. The corporate tax reduction proposal has been passed by the cabinet and is awaiting approval from parliament. This contributes to our positive outlook on Japanese equities.
- ▶ 2011 estimated earnings growth for Japanese stocks is still reasonably healthy (12.8% as at end December). While the ongoing strength of the yen might be cited as a negative factor, companies' export earnings have shown remarkable resilience to a stronger currency.
- ▶ In terms of valuations, Japanese equities appear inexpensive, as both trailing and forward price / earnings ratios are still below their historic peaks.
- ▶ Based on attractive valuations and expected positive price momentum, we have taken a tactical short-term overweight position in Japanese equities against other developed equity markets.



# Equity Markets

## ▶ Global-Emerging markets

- ▶ Growth rates for emerging economies in 2011 continue to look impressive compared to the developed world, providing a favourable backdrop to emerging-market equities. Many commodity prices are strong, which is a further positive factor in many cases.
- ▶ Valuation measures for emerging equities are not giving strong signals at present and neither are 2011 company earnings estimates at extreme measures by historic standards. Both of these factors are, therefore, neutral for investment implications for the asset class overall.
- ▶ Relative valuations within emerging markets equities have shifted slightly. Valuations for Emerging Asia have improved, now standing only marginally higher than Latin America.
- ▶ Elsewhere, Russian equities continue to look cheap hence our continued stance towards an overweight position.
- ▶ Inflation remains a key risk and a focus for 2011.
- ▶ Our emerging market equities view continues to be neutral overall (versus cash) as the long-term backdrop to the asset class remains favourable but is balanced by the risks of slowing economic growth in both the emerging and developed regions in 2011.

## ▶ Eastern Europe

- ▶ We maintain our preference for Russian equities within the wider emerging markets universe, as we continue to think valuations are attractive on a relative basis.
- ▶ In Eastern Europe, CPI indices increased across the major countries. However, given the outlook for domestic demand in this part of the emerging markets world, the risk of policy changes remains lower than in Asia and Latin America.

## ▶ Latin America

- ▶ The economic performance of Latin American countries remains strong and earnings growth estimates for 2011 look more reasonable. However, the good news seems to be well reflected in market prices and relative valuation measures show no strong signals.
- ▶ Ongoing global flows from the developed to the emerging world, fuelled by continued low interest rates in the developed world, continue to present a problem to emerging economies.
- ▶ Brazil, the largest market in Latin America, has already raised the tax on certain investments by foreigners from 2% to 6% in an effort to stem currency appreciation

## ▶ Indonesia

- ▶ Last month, Indonesian equity market managed to reach a record high of 3786, supported by the rally in commodity prices. Further improvement in major economies combined with European Central Bank's move in postponing the withdrawal of emergency fund and its pledge to provide more aids for financial trouble nations, all drove global risk appetite to rise and added positive sentiment to JCI (Jakarta Composite Index).
- ▶ From domestic market, right issue event done by PT Bank Negara Indonesia drew more investors to enter the market and added support to JCI. However, concern over accelerating inflation as consumer prices rose more than expected, Bank Indonesia's statement that said credit growth in 2010 could only reach the lower range of the target, news such as Vietnam rating downgrade and China's move to tighten further its monetary policy by ordering banks to stop lending, all drove investors to do profit taking and limited the gain in JCI last month. Market managed to close above 3700 at the last day of trading in 2010.
- ▶ We remain positive on Indonesian equities, as stronger economic and earnings outlook combined with higher possibility of rating upgrade in 2011, may provide support for JCI to continue its upward trend in 2011.



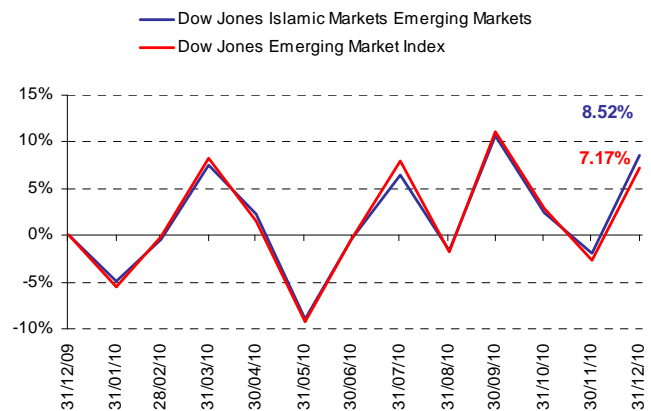
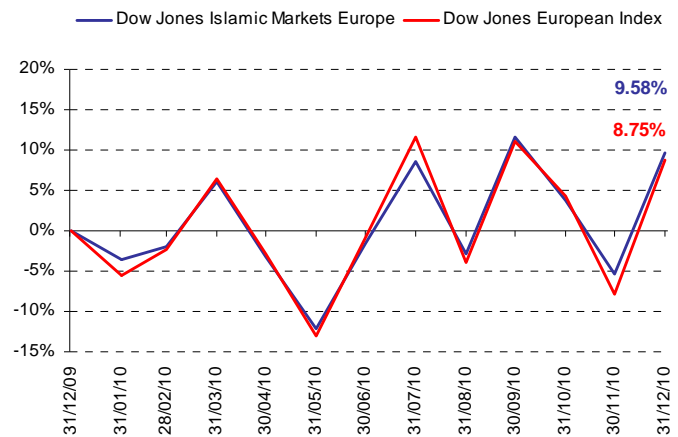
# Equity Markets

## ▶ Asia ex Japan

- ▶ GDP growth across the region remained solid, but the potential for monetary tightening in key countries could moderate the pace of improvement. Overall, we expect economic growth to stay strong in 2011, a positive factor for the region's equity markets.
- ▶ From a valuation perspective, Asia ex-Japan equities remain attractive. Earning growths expectations for 2011 are also a positive factor particularly as they are relatively undemanding compared to previous years.
- ▶ However, the momentum of economic growth will likely be slower this year which, coupled with and higher interest rates in 2011, reduces the upside potential for Asian equities.
- ▶ While we are positive in the Asia ex-Japan region on reasonable valuation and ample liquidity, we are cautious as to the level of tightening central banks in Asia might put forth, thus we maintain a neutral stance on the region.

## ▶ Middle east

- ▶ There have been macroeconomic improvements in the Middle East and North Africa (MENA) region. Qatar has cut its interest rates while Dubai has stated it does not require the support of its central bank anymore.
- ▶ Gross Domestic Product growth expectations are positive for both 2010 and 2011, although there are downside risks. Valuations remain undemanding but given the risks to economic growth and the narrowing valuation discount to emerging markets, we remain neutral on MENA versus other equity markets.



Source: Bloomberg as of end of December 2010



# Sukuk

## ► Sovereign

### ► Malaysia

- The Islamic Development Bank (IDB) listed its US\$3.5 billion (RM11bil) sukuk programme on Bursa Malaysia, marking the first multilateral development bank to list its foreign currency sukuk programme on the Exchange. The five-year US\$500mil tranche issued in October pursuant to the upsized US\$3.5bil sukuk programme under the Malaysian International Islamic Financial Centre (MIIFC) initiative was also accorded 'Emas' status by Bank Negara Malaysia.

### ► Bahrain

- The Central Bank of Bahrain (CBB) announced that the monthly issue of the short-term Sukuk Al-Ijara has been oversubscribed by 335%. Subscriptions worth BD33.5m were received for the BD10m issue, which carries a maturity of 182 days. The expected return on the issue, which began on 23 December 2010 and matures on 23 June 2011, is 0.90%. The Sukuk Al-Ijara is issued by the CBB on behalf of the Government of the Kingdom of Bahrain.

### ► Pakistan

- Pakistan raised 31.17 billion rupees (\$363 million) by selling sukuk in the domestic market. The cut-off margin will be the benchmark six-month Treasury bill weighted average yield. In the last Treasury bill auction on Dec. 1, the weighted average yield for six-months was 13.3701%. The issue, known as the Government of Pakistan Ijara Sukuk, is a three-year bond. The central bank said it planned to raise 80 billion rupees by selling sukuk, with the first auction on Nov. 8, with settlement on Nov. 15, in which it raised 51.84 billion rupees (\$604 million).

### ► UAE

- The National Bank of Abu Dhabi (NBAD), has successfully issued its second ever Sukuk (Islamic bonds) in Malaysia. The sukuk issue was for 500 million ringgit (\$160m or Dhs587.68m. The offering received strong investor demand despite the challenging year-end timing and was more than two times oversubscribed, showing the underlying appetite of investors for NBAD's credit.

## ► Corporate

### ► Bahrain

- Bahraini Islamic Financier, Al-Baraka will issue up to \$500 million in medium-term sukuk for 5-years in 1Q of 2011. The issuance was targeted to help financial institutions to attract new clients to take part in these sukuk.

### ► Saudi Arabia

- Dar Al Arkan Real Estate Development Co., Saudi Arabia's biggest property company by market value, can repay 7.8 billion riyals (\$2.1 billion) of debt maturing within five years without tapping the bond market again. Debts include a 3.75 billion riyal sukuk, due in July 2012, one for 750 million riyals maturing in 2014 and another totalling 1.7 billion riyals due in 2015.

- Saudi International Petrochemical Co (Sipchem) plans to raise at least 1.5 billion riyals (\$400 million) by the first quarter of next year to finance expansion. The issuance is expected by the first quarter of 2011. The funds will be used to finance the firm's capital expansion in its new projects. Sipchem will seek approval from the CMA.

### ► Malaysia

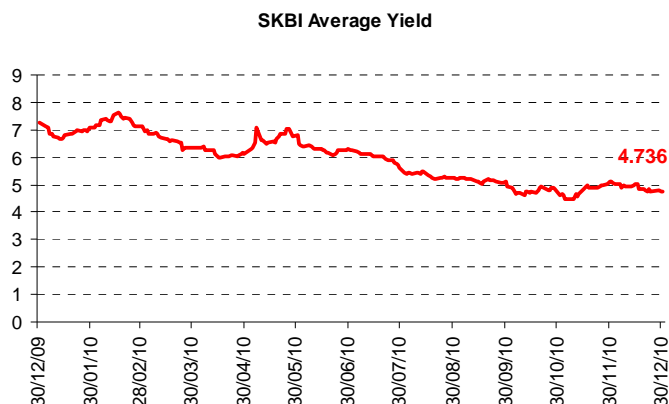
- Malaysia Airports Holdings Bhd opened the book for its MYR1 billion (\$317.2 million) offering of 12-year sukuk. The sukuk will be based on the Islamic principle of Mudharabah. The deal is Malaysia Airports' second sukuk this year after raising MYR1 billion via a 10-year sukuk in August, which was priced to yield 4.45%. It will use the proceeds to finance the construction of a new budget carrier terminal in Kuala Lumpur and to refinance existing borrowings.



## ► Sukuk Index

The HSBC/ DIFX US Dollar Sukuk Index (SKBI) is designed as a replicable benchmark tracking the return of an emerging Sukuk portfolio. It consists of USD/ GBP/ JPY/ EUR-denominated fixed/ floating rate vanilla Sukuk.

The SKBI average yield stands at 4.736 as at end of December 2010 compared to 5.105 as of end of November 2010.



Source: Bloomberg as of end of December 2010

# Currency

- ▶ The debt situation of the peripheral European economies does not look to be fully resolved and further periods of funding difficulties, probably requiring intervention from the various authorities, can be expected. Although our central view is not for a break-up of the euro, either partial or full, further euro volatility is likely.
- ▶ Although we can expect emerging countries to implement further policy responses to try to limit inflows (probably a combination of interest rate rises and other measures such as capital controls) in 2011 with the potential for at least short-term market reaction, the better growth rates in the emerging regions are likely to underpin their currencies in the long-term.
- ▶ We remain positive for rupiah this year as positive economic outlook and expectation of rating upgrade may drive overseas funds to continue entering Indonesian markets this year. Bank Indonesia will continue guarding rupiah's volatility as the near USD 100 bn foreign reserve may provide enough ammunition for central bank to do market intervention if needed.
- ▶ We do not have high conviction in any tactical currency views and, therefore, have a neutral view.

## Long-term Investment Outlook (3-5 years)

Asset Class	Current View	Reasoning
Developed Market Equities	Positive	Average rate of growth somewhat subdued in the developed world. Yet a combination of exposure to higher growth areas like emerging markets and dividend growth are likely to keep average nominal rates at high single digit levels.
Emerging Markets Equities	Positive	Expected to outperform developed market equities thanks to a favourable structural backdrop.
Commodities	Positive	Growth in emerging markets likely to remain an element of support for this asset class.
Developed market cash rates	Negative	Subdued economic growth and stimulus measures are likely to keep rates at subdued levels for the foreseeable future.



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