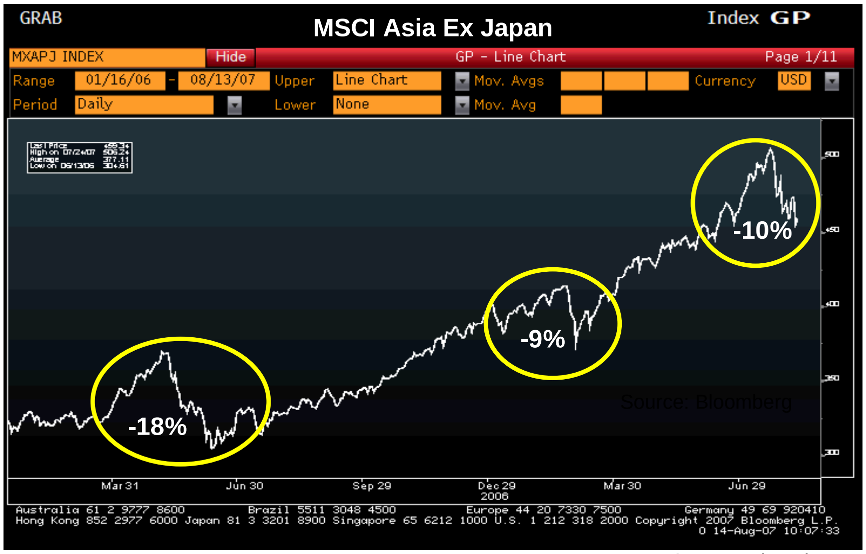
Looking Beyond the Current Correction……

Equity markets have recently been jolted from complacency into panic. Mounting fears on the effects of a possible US sub-prime mortgage meltdown, and its subsequent contagion effect on other parts of the global economy, led investors to sell off higher risk equity positions, seeking haven in government treasuries.



Source: Bloomberg

From their recent highs to recent lows, global, US and Asian equities* have fallen around 6 to 10% within a three week period. The question most investors pose now is whether this sharp drop is yet another correction (reminiscent of the February 2007 and May/June 2006 pullbacks) or the start of a major bear market.

Our view is that economic fundamentals, particularly in Asia, remain intact, and current stock market corrections do not warrant investor panic. We highlight several key reasons to remain positive on global growth and equity markets:

(1) global economic growth remains robust, with the IMF recently raising its growth forecast for the world economy for 2007 and 2008; (2) consensus earnings, particularly in Asia, are continuously being upgraded; (3) recent US core inflation numbers have been reported to be below the Fed's 2% ceiling, providing the Federal Reserve room to cut rates in the event the sub-prime problem 'worsens'; (4) the overall liquidity backdrop remains favourable as flow of capital from China, Asia and other surplus countries are not expected to dry up in the near term; and (5) equity valuations, particularly in Asia, remain reasonable. With the recent pullback, the MSCI Asia ex-Japan index is trading at 2007 Forward PE of 16.5x, compared to the five-year average of 21.4x**.

There is no change to our positive view on Asia over the longer-term. Compared to a decade ago, Asia - now driven increasingly by domestic consumption - is more resilient to a slowdown in the US. Furthermore, corporate balance sheets are strong, cash flows are healthy, dividend payouts are increasing and capital expenditure plans to date have been relatively disciplined.

That said, we are cognizant of the correlation between Asian markets and any short-term global sell-off in equity markets. Investor emotions and sentiment and further headline-grabbing news of funds incurring large losses are likely to contribute to further volatility for global equities in the short term.

We reiterate our medium- to long-term positive outlook of Asian markets. As time quells fear and negative sentiment subsides, earnings growth, the fundamental driver of stock prices, is likely to help the market continue its uptrend, albeit at a more measured pace. Our strategy remains one of prudence, and of selectively deploying the funds into attractive investment opportunities. At this juncture, we will not be too aggressive as we continue monitoring the overall economic and investment situation globally.

* As measured by the MSCI World, DJIA and MSCI Asia ex-Japan indices
** Source: Bloomberg