



# *FPA Financial*

## *Investment Committee Policy Summary*

*Dec 2011*



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# USA



- **US GDP growth** was **2.0% qoq** seasonally adjusted annualized rate in the third quarter
  - **Consumer spending** rose by 2.3% saar
  - **Private investment** fell by 0.9% saar
  - **Government consumption** fell by 0.1% saar
- **Savings rate** increased to **3.5%** in October from 3.3% in September
  - **Personal income** rose by **0.4% mom**
  - **Consumer spending** rose by **0.1% mom**
- **Retail sales** rose by **0.2% mom** in November. Excluding auto vehicles sales, it rose by 0.2% mom
- **Unemployment rate** fell to **8.6%** in November from **9.0%** in October
- **Non-farm payroll** rose by **120,000** in November
- **University of Michigan Consumer Sentiment Index** rose to **67.7** in December from 64.1 in November
- **Conference Board Consumer Confidence Index** rose to **56** in November from 40.9 in October
- **Trade deficit** narrowed to **US\$43.5 billion** in October from US\$44.2 billion in September
  - **Total exports** fell by **0.8% mom**
  - **Total imports** fell by **1.0% mom**
- **Current account deficit** narrowed to **US\$110.3 bil** in the third quarter from US\$124.7 bil in the second quarter

# USA



- **ISM Manufacturing** rose to **52.7** in November from 52.0 in October
- **New home sales** rose by **1.3% mom** to a seasonally adjusted annual rate of **307,000 units** in October
  - Supply = **162,000** units → **6.3** months of demand
- **Existing home sales** rose by **1.4% mom** to a seasonally adjusted annual rate of **4.97 million** units in October
  - Supply = **3.33** mil units → **8.0** months of demand
- **Pending Home Sales Index** rose by **10.4% mom** in October
- **ISM Non-manufacturing** fell to **52.0** in November from 52.9 in October
- **S&P/Case-Shiller Home Price Index (20 cities composite)** fell by **3.6% yoy** in September
- **Housing starts** fell by **0.3% mom** in October to seasonally adjusted annual rate of **628,000** units
- **Industrial production** fell by **0.2% mom** in November
- **Industrial capacity utilization** fell to **77.8%** in November from 78.0% in October
- **Factory orders** fell by **0.4% mom** in October. **Durable goods orders** fell by **0.5% mom**

# USA



## Outlook

- Economic data releases thus far highlighted the resilience of the US economy in the midst of heightened uncertainty surrounding the developments in Eurozone
- GDP growth in the third quarter has been strong due to the strong consumer spending. The labour market has also seen unemployment rate starting to drop and jobs creation in the private sector accelerating
- The failure of the Super Committee to agree on the plan to cut the budget deficit increased the risk for an automatic US\$1.2 trillion spending cut which may hurt the economic growth going forward
- The expiration of the payroll tax-break by the end of this year is expected to have negative impact on employment and income, thus slowing the economic growth next year. The House of Representatives has rejected the Senate's proposal to extend the tax-break for another two months.

## GDP Forecast by various Institutions

	2011F	2012F
<b>Fed (Nov)</b>	1.6-1.7% ↓	2.5-2.9% ↓
<b>Barclays (Dec)</b>	1.7% ↔	2.5% ↑
<b>Citigroup (Nov)</b>	1.7% ↓	1.9% ↔
<b>Credit Suisse (Dec)</b>	1.6% ↔	1.8% ↔
<b>UBS (Nov)</b>	1.8% ↑	2.3% ↑

Source: Citi Global Economic Outlook, UBS Report, Credit Suisse Report, Barclays Global Outlook, Federal Reserve minutes, and OECD Economic Outlook

# Eurozone



## In the Eurozone,

- **GDP** rose by **1.4% yoy** and **0.2% mom** in the third quarter
- **Manufacturing PMI** rose to **46.9** in December from 46.4 in November
- **Services PMI** rose to **48.3** in December from 47.5 in November
- **Unemployment rate** rose to **10.3%** in October from 10.2% in September
- **Industrial production** fell by **0.05% mom** in October
- **Consumer confidence indicator** fell to **-19.9** in October from -19.1 in September
- **Economic Sentiment** fell to **94.8** in October from 95 in September

## In Germany,

- **GDP** rose by **2.6% yoy** and **0.5% qoq** in the third quarter
- **Retail sales** rose by **0.7% mom** in October
- **ZEW economic sentiment index** rose to **-53.8** in December from -55.2 in November
- **Manufacturing PMI** rose to **48.1** in December from 47.9 in November
- **Services PMI** rose to **52.7** in December from 50.3 in November
- **Ifo business confidence index** rose to **107.2** in December from 106.6 in November

# Eurozone



## In France,

- **GDP** rose by **1.6% yoy** and **0.4% mom** in the third quarter
- **Industrial production index** was **91.9** in October, unchanged from September
- **Household confidence index** rose to **82** in October from 80 in September
- **Manufacturing PMI** rose to **48.7** in December from 47.3 in November
- **Services PMI** rose to **50.2** in December from 49.6 in November
- **Business confidence index** fell to **95** in October from 96 in September
- **Unemployment rate** rose to **10.2%** in September from 10.1% in August

## In Italy,

- **Manufacturing PMI** rose to **44** in November from 43.3 in October
- **Services PMI** rose to **45.8** in November from 43.9 in October
- **Unemployment rate** rose to **8.5%** in October from 8.3% in September
- **ISAE business confidence index** fell to **94** in October from 94.5 in September
- **ISAE consumer confidence index** fell to **92.9** in October from 94.2 in September

# Eurozone



## Outlook

- In the short term, we expect volatility in the market to continue as Eurozone members struggle to convince investors of their ability to resolve the European debt crisis
- The fundamental problems of weak economic growth, lack of competitiveness in some Eurozone members and sovereign debt issues may take time to rectify
- However, it is important to note that with the exception of Greece, the rest of the Eurozone suffers from a confidence crisis rather than sovereign insolvency
- Market pressure will force the ECB and the Eurozone leaders to do all they can to prevent a break-up of the monetary union
  - Germany has been leading the call for a fiscal union in the Eurozone
- ECB has shown a greater willingness to render more support and it may act as a lender of last resort once the fiscal union is put in place

## Eurozone GDP Forecast by various Institutions

	2011F	2012F
<b>IMF (Oct)</b>	1.6% ↓	1.1% ↓
<b>Barclays (Dec)</b>	1.6% ↔	-0.2% ↓
<b>Citigroup (Nov)</b>	1.5% ↓	-1.2% ↓
<b>Credit Suisse (Dec)</b>	1.8% ↓	0.3% ↓
<b>UBS (Nov)</b>	1.7% ↓	0.2% ↓

Source: Citi Global Economic Outlook, UBS Report, Barclays Report, Credit Suisse Report and IMF

# UK



## Outlook

- UK GDP growth surprised modestly to the upside in the third quarter
  - 3Q GDP grew by 0.5% qoq against consensus of 0.3%
- But the rise in growth largely reflects a statistical rebound from weak economic activities in the second quarter
  - The royal wedding reduced economic activities in 2Q
- Weak business confidence, drop in manufacturing indices and continued uncertainty over the Eurozone debt crisis all point to weak, or even negative, economic growth in the next few quarters
- UK equities have outperformed Eurozone peers due to better performance from defensive sectors such as pharmaceutical and tobacco that are index heavy weights. Nonetheless, UK equity valuations remain attractive
  - FTSE 100 is trading at 12-month forward Price-to-Earnings ratio of 9.48x versus S&P 500's 12.5x, MSCI Japan's 11.9x and MSCI APEJ's 11x

## UK GDP Forecast by various Institutions

	2011F	2012F
<b>IMF (Oct)</b>	1.1%	1.6%
<b>Barclays (Dec)</b>	0.9%	0.9%
<b>Citigroup (Nov)</b>	0.9%	0.5%
<b>Credit Suisse (Nov)</b>	1.1%	1.0%
<b>UBS (Nov)</b>	0.9%	0.7%

**Source:** Citi Global Economic Outlook, UBS Report, Barclays Report, Credit Suisse Report and IMF

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*“Regenerating  
Opportunities”*

# Japan



- **GDP** rose by **5.6% qoq** seasonally adjusted annualized rate in the third quarter
- **Industrial production** rose by **2.2% mom** in October
- **Job-to-applicant ratio** rose to **0.67** in September from 0.66 in August
- **Retail Sales** rose by **1.9% yoy** in October
- **Tertiary activity index** rose by **0.6% mom** in October
- **Total machinery orders received** rose by **3.2% mom** in October to **¥1,971.4 bil**
- **Household spending** fell by **1.7% yoy** in October
- **Consumer confidence** fell to **37.5** in November from 38.6 in October
- **All industry activity index** fell by **0.9% mom** in September
- **Core machinery orders received** fell by **6.9% mom** in October to **¥687.4 bil**
- **Trade surplus** dropped to **¥300.4 bil** in September from ¥744.3 bil in the same period last year
  - **Exports** rose by **2.42% yoy**
  - **Imports** rose by **12.14% yoy**
- **Unemployment rate** rose to **4.5%** in October from 4.1% in September

# Japan



## Outlook

- Economic activity is normalising in Japan and the sharp rebound in 3Q GDP indicates a V-shaped recovery amidst a faster-than-expected recovery in supply chain and production
- While exports will probably slow due to the anticipated slowdown in global growth and the continued strength of the yen, reconstruction efforts are expected to boost domestic growth in 2012
- If upward pressures on the yen intensify, the Bank of Japan may take additional easing measures and this will provide further support to Japanese equities
- Japanese equities will remain resilient given their low valuations
  - The TOPIX cyclically adjusted Price-Equity ratio stands at around 7.7x, which is lower than past TOPIX bottoms

## GDP Forecast by various Institutions

	2011F	2012F
IMF (Oct)	-0.5%	2.3%
Barclays (Dec)	-0.4%	1.7%
Citigroup (Nov)	-0.4%	1.8%
Credit Suisse (Dec)	-0.3%	1.7%
UBS (Nov)	-0.2%	2.8%

Source: Citi Global Economic Outlook, UBS Report, Credit Suisse Report, IMF and Barclays Report

# Asia-Pacific ex Japan (APEJ)



## Outlook

- **APEJ,**  
APEJ equities have been punished heavily for problems concentrated elsewhere in Europe and the US. Driving the sell-off in APEJ equities was a spike in global risk aversion. However, fiscal and economic fundamentals of APEJ nations remain sound. While GDP growth is expected to slow mainly as a result of weakening external demand, economic expansion should remain robust on the back of healthy domestic demand. Inflation should also recede from the peak levels seen in 2011. Furthermore, most APEJ governments have the flexibility to loosen monetary policies and increase fiscal spending to support their economies, if need be. The sell-off in APEJ equities have resulted in attractive valuations – a recession now needs to happen for APEJ markets to head lower – and present a good buying opportunity into APEJ equities.
- **China,**  
In China, the central bank's move to cut banks' Reserve Requirement Ratio (RRR) by 0.5% to 21% indicates the start of loosening its monetary policies to refocus on growth for the economy. China is wary of the negative impact the weak external environment may have on its export while it undergoes a transformation from an export-led economy to one that is driven by domestic consumption. This shift in its policy bias from anti-inflation tightening to selective easing, will help to alleviate concern over risk of hard-landing and restore investor confidence.

# Asia-Pacific ex Japan (APEJ)



## Outlook

### ■ **Hong Kong,**

Hong Kong's high exposure to external contagion concerns – via financial and trading linkages – will likely take their toll on its economic growth in 2012. However, economic expansion is expected to remain healthy on the back of robust domestic demand and vibrant inbound tourism, especially from China. Economic growth, attractive valuations and negative real interest rates should continue to support equities.

### ■ **South Korea,**

GDP grew by 0.7% qoq in the third quarter – the slowest qoq pace in three quarters – on the back of weak consumer spending and a fall in corporate investment amid global economic gloom. The export-dependent economy remains vulnerable to slowing growth in the developed nations and it is likely that we may see sharp declines in corporate earnings going forward. Nonetheless, attractive valuations – trading at steep discount as compared to other Asian markets – will continue to provide support to Korean equities.

### ■ **Malaysia,**

GDP growth slowed in the second quarter on weak external environment due to the supply chain disruptions in Japan. Government spending is expected to increase in the second half of this year on the likely implementation of the Economic Transformation Programme (ETP). This should help cushion the impact of weak external growth has on its trade figures. Moreover, Foreign Direct Investment (FDI) has also been rising in the first half of this year. Bank Negara Malaysia is expected to keep the policy rate unchanged and this should support the domestic demand. Earnings momentum have slowed down on higher inflation and lower-than-expected economic growth.

# Asia-Pacific ex Japan (APEJ)



## Outlook

### ■ Singapore,

Given the openness of its economy, Singapore's GDP growth is expected to be weak in the next few quarters due to the expected slowdown in global growth. Earnings estimates have been revised down and Singapore's earnings growth is now expected to be one of the slowest in the region. Price-to-Earning valuation looks a bit stretched, relative to history and also to the APEJ region; although dividend yield remains higher than APEJ's.

### ■ Taiwan,

GDP fell by 1.1% qoq saar in the third quarter, the first quarterly contraction since 2Q of 2009, due to a sharp drop in capital formation and exports. Growth expectations remain bleak due to the more cautious global outlook and the Taiwanese government has lowered their 2011 and 2012 GDP growth forecasts. Dragged by weakening electronic orders, Taiwanese firms have seen their earnings estimates marked down significantly. Although the Price-to-Earning ratios of Taiwanese equities are higher than APEJ's but their dividend yield is the highest in the region at 4.7%

### ■ Thailand,

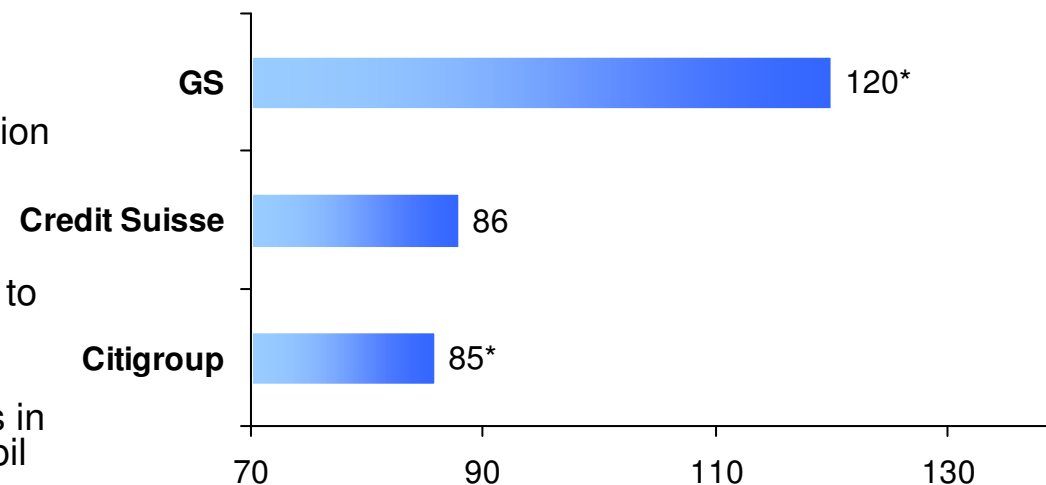
Heavy flooding in several parts of Thailand has disrupted supply chains and affected economic activities in the third quarter. Accordingly, the Central Bank has revised down its growth forecast for 2011 sharply. However, government stimulus spending as promised by the new government during the election and reconstruction efforts after the floods could support growth in 2012. Within ASEAN, its valuations are the most attractive and its Price-to-Earnings ratio is trading at close to 1 standard deviation below historical average.

# Energy



- Global oil demand forecast for next year was further cut by IEA on the back of the worsening outlook in Europe. Global oil demand is expected to be 90.3 m b/d next year, 0.2 m b/d lower than previously estimated
- OPEC has recently agreed to increase its production quotas to 30m b/d, close to its current production level
- In contrast, non-OPEC supply growth is expected to be slow due to the ageing reserves
- There are potential risks of severe supply outages in Iran given renewed international sanctions on its oil exports and in Iraq given security concerns in the country following the withdrawal of US troops
- According to Barclays, key Middle East producers, such as Saudi Arabia, are likely to keep the oil price at around US\$90-100 per barrel in order to maintain their current government spending.

## Oil Price Target for year-end 2012



Source: Goldman Sachs, Citigroup, and Credit Suisse reports

\* Forecast for the next 12 months

# Precious / Industrial Metals



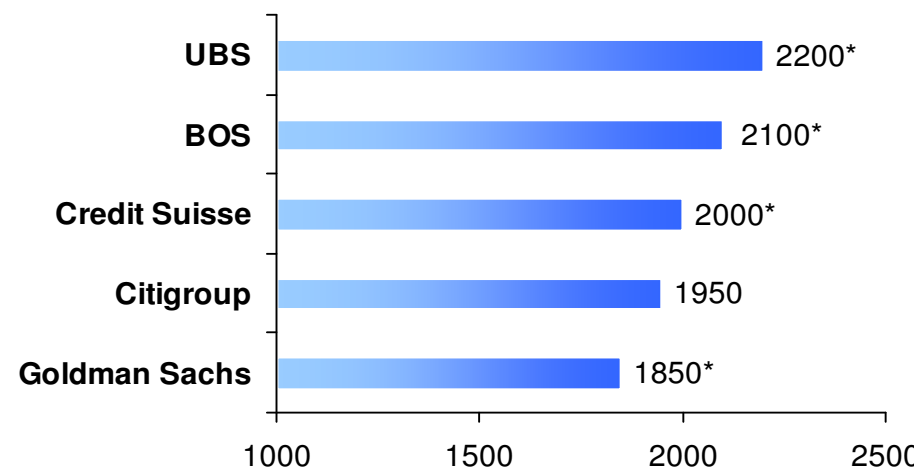
## On Precious Metals,

- Gold has declined recently as rally in the USD prompts more investors to buy USD instead of gold to seek safe haven status
- The intervention by the Swiss National Bank to defend the francs has given investors fewer alternatives to park their money to seek safe haven other than investing in gold
- Continued uncertainty surrounding the crisis in Europe is expected to underpin the gold price

## On Industrial Metals,

- Industrial metals prices have declined due to deteriorating global economic outlook.
- Commodities trading is also affected by the curb in credit by the European banks, especially in the aftermath of the collapse of MF Global, which is prominent in commodities trading

## Gold Price Target for year-end 2012



Source: UBS report, Credit Suisse report, Bloomberg, Citi report, Business Times and Professional advisers

\* Forecast for the next 12 months

# Fixed Income & Currencies



## Outlook

### **In the US,**

- Long-term Treasury yields have declined on the back of 'Operation Twist' and risk aversion.
  - The Federal Reserve announced plan to purchase, "by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less".
- The Super Committee has failed to agree on plan to cut the budget deficits, prompting concerns that US triple-A credit rating may be downgraded by Fitch and Moody's – the two rating agencies who still give triple-A credit rating status for US. S&P has downgraded US credit rating to AA in August.
  - The agencies are concerned over the impact of the US\$1.2 trillion automatic spending cuts on the economy which will further undermined its fiscal outlook
  - However, judging from the aftermath of the downgrade by S&P, US bond yields are unlikely to jump significantly if the remaining two agencies were to downgrade US's credit rating
  - In addition, with the triple-A European countries also facing possible downgrades on the back of the sovereign debt crisis, there remains few bond markets with similar depth and size of the US Treasuries.
- The USD has strengthened recently owing to its safe haven status as investors fled risky assets. However, the USD is expected to weaken should the global economic outlook improve.
  - The USD may decelerate should global economy outlook worsens significantly, prompting the Fed to announced further quantitative easing measures

# Fixed Income & Currencies



## Outlook

### **In Europe,**

- The ECB reduced the main interest rate to 1.0% in its bid to support economic growth in the Eurozone and also announced non-standard measures to ease the funding pressure within the European banking system
- Inflation rose by 3.0% yoy in October. While the ECB has acknowledged that inflation will likely remain above its 2.0% target this year, headline inflation is expected to fall below 2.0% in 2012.
- Given lower CPI expectation and intensified downside risks to Eurozone's economic growth, there is a high chance that the main interest rate could be lowered further in 2012.
- The ECB will continue to support troubled nations by buying sovereign bonds but it has not indicated any intention to increase its bond buying program
- In the UK, inflation continues to overshoot BOE's target, with energy prices and services inflation leading the rise. The Bank of England has held interest rate unchanged at 0.5% but increased its quantitative easing program by £75 billion to £275 billion.
- With the UK economic outlook deteriorating rapidly, inflation is expected to ease in 2012 and the BOE may be looking to increase the size of its quantitative easing program to provide further support to the economy

# Fixed Income & Currencies



## Outlook

### **In Japan,**

- Headline inflation and core CPI were virtually flat on a mom basis in September. Going forward, the Bank of Japan has lowered its core CPI forecast to 0.1% from 0.7% for fiscal year 2012, although this mostly reflects a change in the calculation of the CPI rather than an actual forecast change.
- The Japanese central bank has increased its asset purchase program by ¥5.0 trillion and the additional funds will be used to purchase government bonds. Yen strength was one of the reasons for the move, as well as growing concerns over the impact of the Eurozone sovereign crisis on the Japanese economy.
- Bond yields are likely to remain low as the BOJ keeps its monetary policy loose to support the economy.

### **In APEJ,**

- Monetary tightening has come to a halt in APEJ, with Indonesia leading the way by cutting rates and China following suit with a cut in the banks' reserve requirement ratio.
- Inflation rates in APEJ are peaking but they remain high and real interest rates in most APEJ countries are either too low or negative. Therefore, most APEJ central banks are expected to put their tightening plans on hold, not reverse them.
- The recent sell-off in risky assets has widened credit spreads in Asian bonds, making them more attractive. The drop in bond prices presents a good buying opportunity.

# Currency Forecast for Singapore Dollar



## USD / SGD

Source	Spot	1Q 12 Forecast	2Q 12 Forecast	3Q 12 Forecast	4Q 12 Forecast	1Q 13 Forecast	Spot vs latest*
Citigroup (Nov)	1.31	1.26	1.25	1.24	1.22	1.19	9.2%
DBS (Dec)	1.31	1.34	1.32	1.30	1.28		2.3%
Source	Spot	3 M Forecast	6 M Forecast	12 M Forecast	12 M Difference*		
OCBC (Nov)	1.28	1.28	1.25	1.21	5.5%		
CS (Oct)	1.26	1.25		1.20	4.8%		
UBS WMR (Nov)	1.30	1.24	1.22	1.18	9.2%		

\* Positive difference means SGD appreciate against USD

Source: Citi Global Economic Outlook, DBS report, OCBC report, CS report and UBS report

# Real Estate

## Outlook

### In US,

- Housing market appears to be stabilising as the pace of decline in the home prices has decelerated recently and existing homes inventory continues to reach record low. New homes sales and existing homes sales are also stabilising at current levels. The improving labour market conditions and low long-term interest rates are expected to be supportive of housing prices.

### In Europe,

- In Eurozone, real estate markets in core countries such as Germany and France are preferred due to their relative robust economic outlook as compared to their Eurozone peers. In Germany, high-street retail and office should outperform. Likewise, real estate markets in countries with sovereign debt problems such as Spain should be avoided due to continued deleveraging of local consumers and possible deflationary macroeconomic adjustments.
- In London, house prices continue to rise on the back of robust demand from overseas buyers who are seeking to protect their wealth from financial or political volatility at home. Low mortgage rates and falling mortgage approval rate have also supported prices. In 2012, UK home prices may drop due to poor economic growth and rising unemployment. However, prime London property prices are expected to be underpinned by the weak pound, growth in global wealth and healthy demand for safe-haven assets.



# Real Estate



## Outlook

### **In Japan,**

- Vacancy rate and monthly rent in the office sector have continued to drop after the Great East Japan Earthquake in March. The low interest rate environment will be supportive of commercial real estate prices as investors seek higher yielding asset classes. The contract rate in the greater Tokyo metropolitan area for newly built condos fell below 70% for the first time since December 2009. Uncertain economic outlook has resulted in a cautious view on future sales of newly built and pre-owned condominiums.

### **In Hong Kong/China,**

- In HK, office rental demand remain robust due to the healthy macroeconomic environment. However, rich valuations, as indicated by low property yields, pose a downside risk. In the residential sector, increasing number of homes are sinking below mortgage values, a clear indication that home prices are falling. Further price falls are expected due to the weakening economic outlook in Hong Kong
- In China, the government's tightening measures have started to take effect. Since September, sales in the property market has been weakening quickly and developers have resorted to more price cuts. Home prices gained in fewer than half of the 70 cities monitored by the government in September. Demand remain subdued as would-be buyers adopt a wait-and-watch attitude.

# Real Estate

## Outlook

### In Singapore,

- Private residential home sales continued to be resilient as they grew by 22.3% mom in November
- Residential property prices have also increased in the third quarter albeit at a slower pace than what was registered in the second quarter. It rose by 1.3% qoq.
- Against this backdrop and the increasing percentage of foreign buyers, the government has introduced Additional Buyer's Stamp Duty (ABSD) to limit investment demand in the market
- In our opinion, ABSD is unlikely to lead to significant decline in home prices given the holding power of the developers and the low interest rate environment
  - Sales in the Core Central Region (CCR) will be severely affected given the high percentage of foreign buyers in that region
  - While sales in the Outer Central Region (OCR) and Rest of Central Region (RCR) will similarly be affected, the impact will be partially offset by the continued demand from the upgraders which are not affected by the ABSD
- The ABSD is likely to lead to higher demand for strata-offices and industrial properties given that these two segments are not affected by government measures. This will be partially offset by lower demand as a result of deteriorating global economic outlook






# Three Possible Scenarios in the next 6-12 months

Optimistic	Neutral	Pessimistic
<ul style="list-style-type: none"><li>■ Eurozone debt crisis will be resolved as the Eurozone members agree upon a credible actionable plan</li><li>■ This can be in the form of the issuance of Euro-bonds or having the European Central Bank (ECB) as a lender of last resort</li><li>■ The peripheral European economies will also be able to implement pro-growth policies while at the same time, adopt austerity measures to reduce their budget deficits</li><li>■ China loosens its monetary policy</li><li>■ Super-Committee in the US is able to find ways to reduce the US budget deficit without hurting economic growth significantly</li></ul>	<ul style="list-style-type: none"><li>■ Eurozone is unable to come to an agreement on a credible plan and continues to muddle through. Economic growth in the Eurozone remains weak</li><li>■ In the US, the Congress will pass through some pro-growth policies to offset proposed spending cuts, but economic growth will also continue at a slow pace</li><li>■ The Chinese economy goes into a soft landing</li></ul>	<ul style="list-style-type: none"><li>■ The Eurozone is unable to maintain its current format and breaks up</li><li>■ In the US, the Super-Committee fails to agree upon budget-reducing measures and automatic spending cuts are implemented, thereby hurting economic growth</li><li>■ The Chinese economy slows down significantly and suffers a hard landing</li></ul>

## *Three Possible Scenarios in the next 6-12 months*

<b>Asset Classes That Will do Well in the Respective Scenarios</b>		
<b>Optimistic</b>	<b>Neutral</b>	<b>Pessimistic</b>
<ul style="list-style-type: none"><li>■ Emerging Markets equities and currencies</li><li>■ Japanese equities</li><li>■ Commodities / Resources</li><li>■ European equities</li><li>■ Chinese equities</li><li>■ German equities</li><li>■ Global Real Estate</li><li>■ Global High yield bonds</li></ul>	<ul style="list-style-type: none"><li>■ High dividend-yielding equities</li><li>■ US equities</li><li>■ Japanese equities</li><li>■ Investment-grade corporate bonds</li></ul>	<ul style="list-style-type: none"><li>■ US Treasuries</li><li>■ Gold / Silver</li><li>■ USD</li><li>■ JPY</li><li>■ High dividend-yielding stocks</li><li>■ Physical Real Estate</li></ul>



# *Three Possible Scenarios in the next 6-12 months*

## **Our Base Case**

- We are of the view that the Pessimistic scenario is of a very low probability
  - Such a scenario will mean a serious recession or depression and also include a political disaster in the US and a hard landing in China
  - While these events are not impossible, policy makers will do their best to avert such an outcome
- Instead, our base case is the Neutral to Optimistic scenario
  - In Europe
    - The political leaders will do all they can to prevent a breakup of the monetary union
    - This has led to Germany leading the call for a fiscal union in the Eurozone
    - At the same time, ECB also shows greater willingness to render more support
  - In the US
    - Recent economic releases have been positive
    - We are of the view that the Super-Committee will be able to come to a consensus on some measures that will reduce the budget deficit without hurting economic growth excessively
    - The coordinated effort among the 6 major central banks to provide liquidity will alleviate funding stress and provide much breathing space for the banks
  - In China
    - The shift in its policy bias from anti-inflation tightening to selective easing, will help to alleviate concern over risk of hard-landing and restore investor confidence
- We can expect strong volatility in the short term. For investors who are already invested, we advise that they remain invested to avoid missing out on any rally. For those who have yet to invest, we advise that they look to invest on market pullback as an opportunity to enter the markets

# Recommendations

## EQUITY

### Regional/ Country

### Sector

Aberdeen Pacific Equity

FIDELITY European Growth

LION GLOBAL Japan Growth

First State Global Resources

FIDELITY Asian Special Situations

FIDELITY Germany

DBS Japan Growth

Aberdeen Glb EM Fund

Fidelity China Focus

## FIXED INCOME

## REAL ESTATE

PIMCO Total Return Bond Fund SGD-hedged

Legg Mason Global Bond Trust

HENDERSON Asia Pacific Property Equity

DWS Lion Bond

Schroder ISF Glb Corp. Bond SGD-hedged

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*“Regenerating Opportunities”*



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