

Aberdeen Asian Market Review and Outlook



Economic and market review

Most Asian markets rose in the fourth quarter, as economic data continued to improve across the region. Optimism, however, was tempered by concerns over the early withdrawal of stimulus measures and the blow to market confidence after state-owned Dubai World delayed bond repayments for its property unit.

For the year, Asian equities rebounded sharply from 2008's losses, as governments around the world followed the US in adopting loose monetary policy. Market returns for the year were generally in the 60-80% range, led by the large domestically-driven markets of India and Indonesia. Leading the region was Sri Lanka, which posted a total US dollar return of almost 200% following the end of its civil war.

Regional economies saw the pace of growth quicken in the final three months, helped by improving exports which lifted manufacturing activity, particularly in India and China. The rosier economic picture prompted the International Monetary Fund to upgrade its 2009 and 2010 growth forecasts, adding that it believed Asia would continue to lead the global recovery.

The rebound in economic growth in Asia has renewed inflation fears. In India, poor monsoons drove up food prices, forcing the central bank to raise the requirement for lenders to increase their capital reserves. Towards the end of the period, China, Sri Lanka and Thailand also saw inflation accelerate. Most central banks, however, have chosen to maintain record low interest rates in order to support the incipient economic recovery.

Outlook

Looking ahead, Asian markets seem well supported, although it will be harder to make headway, given the strong performances posted in 2009. Recent corporate earnings growth has been driven by one-off factors, such as cost-cutting and inventory restocking, and a more fundamental improvement in profitability will be required if the rally is to be sustained. On the other hand, rising fiscal indebtedness will pressure governments of developed economies to withdraw stimulus support, increasing the risk of economic relapse. With the inherent imbalances in the global economy still not addressed, risks appear to have been carried over from last year. In such an environment, we see our stock-picking approach as especially relevant. Our well-managed holdings are financially sound, and should continue to outshine weaker rivals as the year progresses.

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Further information

Please feel free to contact us at:

Aberdeen Asset Management

Level 6, 201 Kent Street, Sydney, NSW,
2000, Australia

GPO Box 4306, Sydney, NSW, 2001 Australia

Phone +61 2 9950 2888

Web www.aberdeen-asset.com.au