Spring reset

Fundamentals remain positive

Another corrective phase

Asia is down 11% from recent highs on Euro contagion concerns and China policy tightening. Foreign positioning is an added near term overhang.

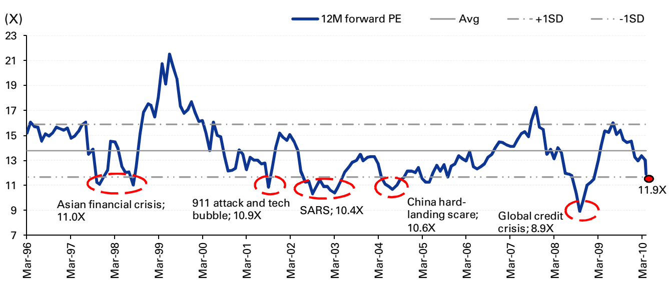
Manageable macro risks

Our European colleagues view the risk of fundamental spillovers from Greece to other Euro-zone countries as low. We also find little correlation between a weak EUR and the performance of Asian sectors with higher EUR revenue exposure. In our view, China is on the path of further policy tightening, but the risk of a “hard landing” is low and the tightening cycle is well underway. We believe markets will likely begin to anticipate the end of the cycle in the coming months.

Strong profits, attractive valuations: compelling strategic case

Consensus earnings have risen to our top-down +30% forecast for 2010E and 1Q results have been good overall. We think equities can gain despite slower revision momentum. The region is trading at 11.9X 12m forward I/B/E/S consensus earnings, 1.9X book value, and the equity risk premium is over 1sd above average. Strong earnings growth and low valuations argue for higher market levels, once macro concerns stabilize. Our MXAPJ index target remains at 530.

Asian regional markets are now trading 1sd below average



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research.

Timothy Moe, CFA
+852-2978-1328 timothy.moe@gs.com Goldman Sachs (Asia) L.L.C.

Christopher Eoyang
+81(3)6437-9888 christopher.eoyang@gs.com Goldman Sachs Japan Co., Ltd.

Caesar Maasry
+852-2978-7213 caesar.maasry@gs.com Goldman Sachs (Asia) L.L.C.

Richard Tang
+852-2978-0722 richard.tang@gs.com Goldman Sachs (Asia) L.L.C.

Sunil Koul
+852-2978-0924 sunil.koul@gs.com Goldman Sachs (Asia) L.L.C.

Back to 'risk off'

Asian equity markets are selling off again, driven by Euro contagion concerns and China policy tightening. Against this, the fundamental macro and corporate earnings indicators remain supportive, and valuations are attractive. Barring a significant hit to earnings, which we think is unlikely, the strategic outlook for equities remains positive. The near term trading outlook is challenging, but we continue to expect higher market levels by year-end.

Another challenging period

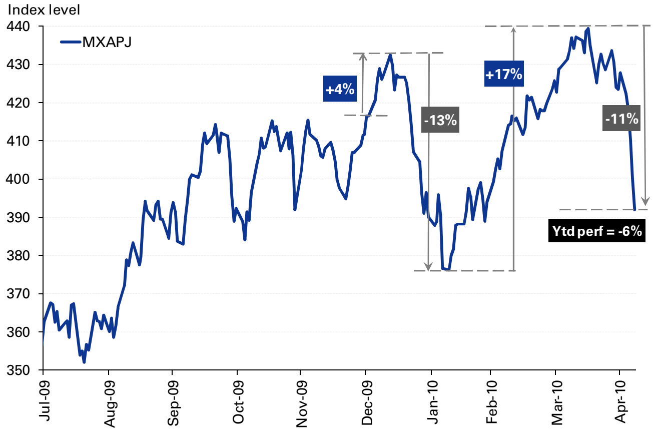
The tide of risk appetite has turned for the fourth time this year. After a brief 4% early-January flurry, a 13% drop to mid-February lows and a 17% 'stealth rally' to mid-April highs, Asian regional equities have now fallen over 11% from mid-April highs. The net of these twists and turns is that the region is now down 6% for the year, with China the worst performer and Indonesia the notable outperformer. As we discuss below, the main influences on markets are Euro contagion fears and China policy tightening.

Exhibits 1-3 summarize key aspects of market performance and provide context for the ensuing discussion of macro issues, earnings and valuations. Two points bear mentioning:

- **Foreign positioning may be a near-term overhang:** We note that so far this year, net foreign buying (for markets where this data exists) has tended to occur at high index levels, i.e. after markets have rallied. This higher basis leaves markets more vulnerable to position squaring during periods of declining risk appetite, such as now.
- **YTD regional performance disparities have been driven by valuation, not earnings, changes.** Scatterplots of performance vs. respective changes in earnings and valuation indicate the difference in regional market performance is a function of macro issues (expressed through valuation changes) as opposed to differences in earnings expectations.

Exhibit 1: The region has pulled back 11% after a 17% rally; Asia is now down 6% ytd

Price performance of MSCI AC Asia Pacific ex Japan index



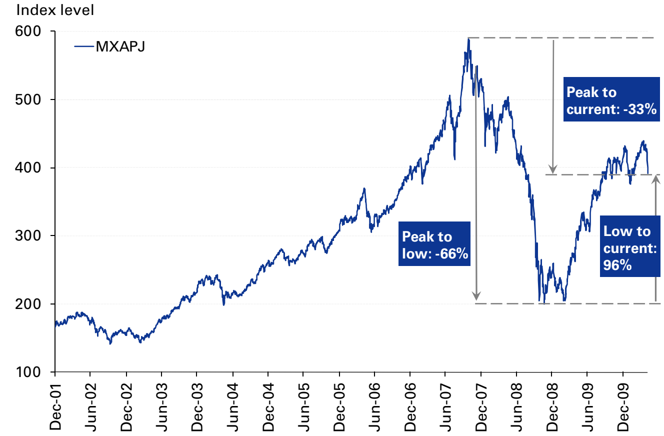


Exhibit 2: All markets have recently retreated, but China A shares have been the clear underperformer

Price performance of MSCI markets and CSI 300 index

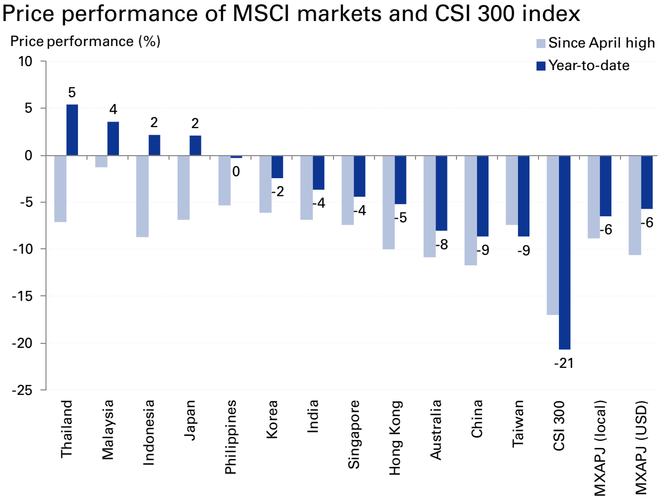
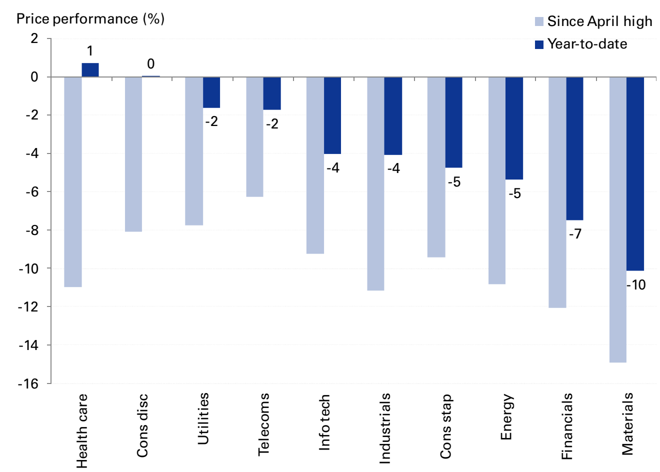


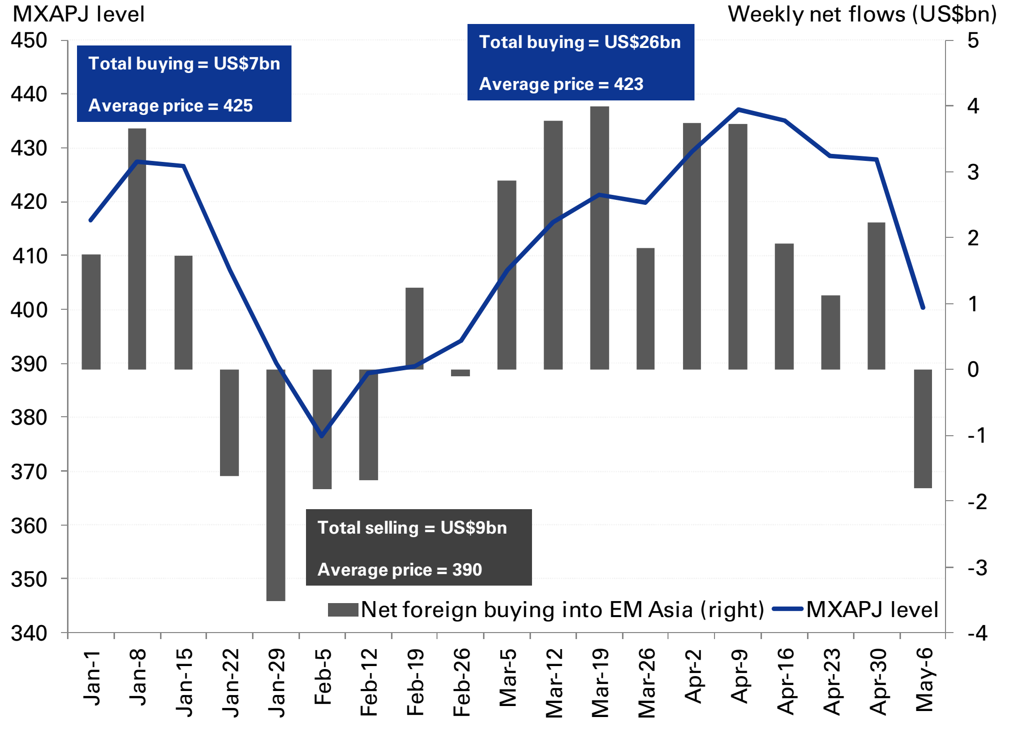
Exhibit 3: Materials and financials hurt the most

Price performance of MXAPJ sector indices



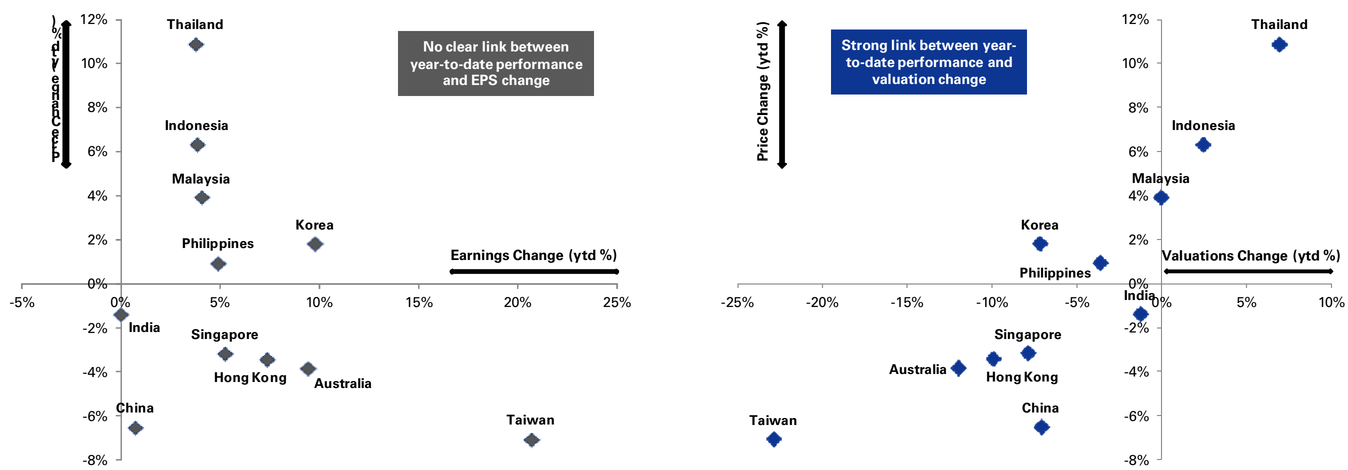
Source: Bloomberg, FactSet, MSCI, Goldman Sachs Global ECS Research.

Exhibit 4: Foreign buying has occurred after markets rallied, resulting in greater pressure to unwind positions as markets correct
Weekly net foreign buying (for markets where this data exists) and MXAPJ level



Source: Bloomberg, local stock exchanges, Goldman Sachs Global ECS Research.

Exhibit 5: Asian market performance this year has been driven more by changes in valuation than in earnings: shifts in risk appetite have dominated fundamentals
Left: price performance vs. earnings changes; right: price performance vs. valuation changes



Source: Bloomberg, FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research.

Euro contagion fears

Global markets have clearly been impacted by Greece's sovereign debt troubles and fears that these may spread to other, larger European economies (such as Spain) and that the contagion could affect growth more broadly. The Euro has now declined 16% from its early December high, credit spreads have spiked for the countries at risk, and the EURO STOXX 50 index has fallen over 17% from recent highs.

The situation is dynamic and we refer readers to our European colleagues' work for detailed and updated analysis. (See, for example, *Strategy Matters: Europe- Down but not out, Fundamentals remain positive*, May 7; *European Weekly Analyst, The case for Spain and the SNB's dilemma*, May 6; *Greece- latest- and correction on size of program,* May 3; and *European Weekly Analyst: The Euro-zone challenge: Greece and contagion*, Feb 4).

Our view in summary

In a nutshell, our European macro colleagues' view is that a) Greece's debt dynamics are different and worse than other economies to which contagion fears have spread; and b) that overall Euroland growth may be better than our economists projected earlier this year (as reflected in their recent forecast changes), partly because the weaker Euro may help Germany in particular, which accounts for over 25% of Euroland's GDP and is its largest economy.

For Greece, the combination of budget deficits, public debt levels and public debt service suggest that it may not be able to grow its way out of its debt problems, particularly given the size of the fiscal adjustment (and social stress) that will be required to bring borrowing costs down. However, notwithstanding the need for fiscal consolidation, other sovereigns in the Eurozone periphery do not share the same degree of solvency issues that Greece has. So, while financial markets are pricing in, and contributing to, contagion risks, the fundamentals argue for viewing Greece as a more isolated case as opposed to a harbinger of a wave of sovereign debt problems.

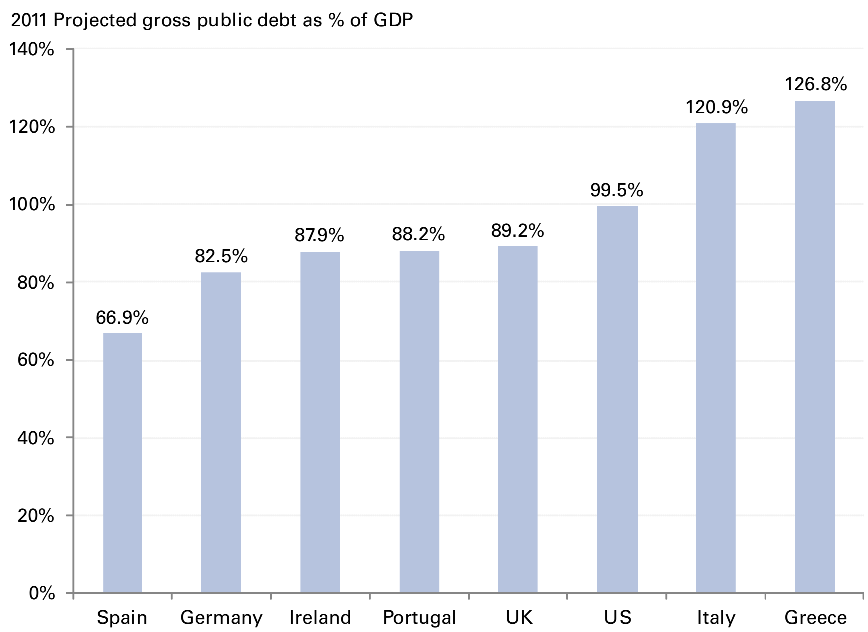
Exhibit 6: We have recently raised our GDP growth forecasts for many economies, including the EU

GS GDP growth forecasts (old and current) vs. consensus

Real GDP (% yoy)	Consensus 2010E	Consensus 2011E	GS forecast 2010E	GS forecast 2011E	Old (March) 2010E	Old (March) 2011E
G3 economies						
US	3.2	3.1	**2.7**	2.5	2.5	2.4
Euroland	1.2	1.5	**1.7**	2.2	1.3	2.2
Japan	2.2	1.6	**2.4**	1.8	2.2	1.7
Asian economies						
China	9.9	9.0	**11.4**	10.0		
Hong Kong	4.9	4.5	**5.8**	5.3		
Korea	5.1	4.2	**4.8**	4.6		
Taiwan	5.3	4.6	**7.2**	4.8	5.5	4.8
Indonesia	5.8	6.0	**5.8**	6.0		
Malaysia	5.5	5.0	**5.0**	5.2		
Philippines	3.7	4.4	**4.2**	5.0		
Singapore	6.4	5.1	**8.0**	5.2	7.0	5.2
Thailand	4.9	4.7	**4.2**	4.5		
Australia	3.3	3.4	**3.7**	3.7		
India	8.2	8.4	**8.2**	8.7		
World	4.3	4.4	**4.8**	4.8	4.6	4.7

Source: Consensus Economics, Goldman Sachs Global ECS Research estimates.

Exhibit 7: Projected 2011 gross public debt as % of GDP



Note: We used OECD projections of total gross public sector debt to give a general sense of where consensus lies.

Source: OECD via Haver Analytics, Goldman Sachs Global ECS Research.

Euro in focus

From an Asian equity perspective, many investors are concerned that the sharp fall in the Euro may impact markets, in addition to the broad risk appetite transmission channel. To place this issue in perspective, we note several points:

- **The Euro accounts for 10%-15% of Asian currency trade weighted indices.** Even a sharp move in the Euro, such as we have seen in recent weeks, will likely only have a moderate impact on broad exchange rates and currency competitiveness.
- **Moderate ytd TWI appreciation.** Most Asian currencies have appreciated 1%-3% so far this year. Malaysia, India and Thailand have seen somewhat larger moves of 4%-6%. The Euro move does not appear to have been disruptive so far to Asian currency competitiveness.
- **Asian equity exposure to the Euro.** Although data limitations impede a precise analysis of currency exposure, we have assembled estimates of the sales exposure of Asian equity markets to the Euro, with a view to establishing a rough gauge of the potential risk to earnings from the depreciation in the Euro. On an MSCI index cap-weighted basis, Taiwan and Hong Kong have the greatest sensitivity, with China and much of ASEAN having low exposure. On a sector basis (using our 'true sector' mapping), Indian IT companies, semiconductor and computer hardware, and metals have larger exposure, while domestic demand sectors such as telecoms, banks, utilities and property have negligible exposure.
- **Empirical examination: no appreciable correlation between Euro exposure and sector or stock performance.** As a preliminary assessment of how moves in the Euro may impact Asian equity performance, we have looked at sector performance during recent periods of significant Euro appreciation and depreciation in the context of that sector's Euro exposure. We have also done this for stocks with high revenue exposure to the Euro. We note that there has been no significant correlation between performance and currency exposure, either at the sector or stock level: factors other than simple bilateral currency exposure appear to driving performance, as one might expect. To be fair, this could change if further Euro weakness was associated with more widespread evidence of (or concerns over) contagion, bank stress and growth, but we suspect that Asian equities would be focused more on the risks of fundamental degradation than currency translation effects.

Exhibit 8: The Euro is about 10%-15% of the trade weighted index for most Asian currencies
Table of currency weights

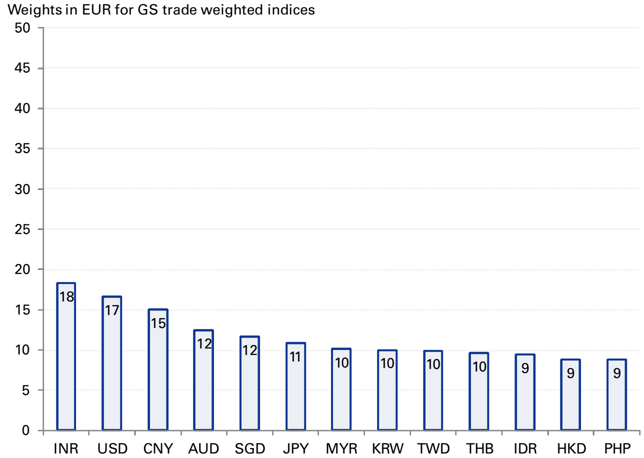


Exhibit 9: Ytd TWI appreciation has been moderate for most Asian currencies
Ytd TWI moves

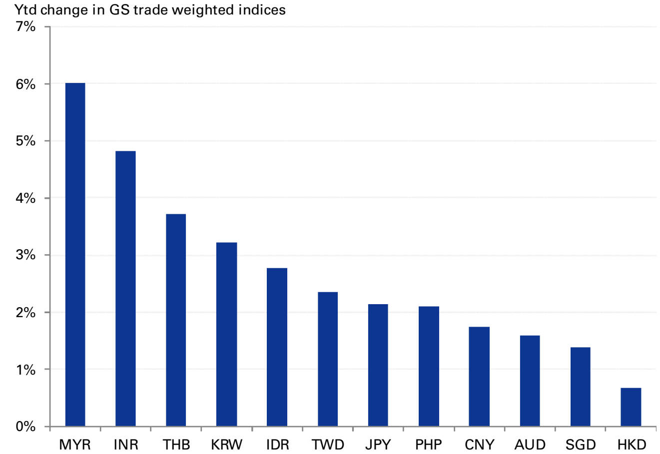


Exhibit 10: Taiwan and Hong Kong have greater sales exposure to the Euro
Estimated market revenue exposure by currency zone

Country	America	Europe	Asia	Other
Taiwan	22	22	53	4
Hong Kong	13	21	61	6
India	6	9	63	22
Korea	9	6	65	20
Australia	10	8	74	8
Malaysia	2	7	85	6
Singapore	6	7	58	30
New Zealand	3	3	87	7
China	2	2	93	4
Thailand	0	1	99	0
Philippines	1	1	83	15
Indonesia	0	0	81	19
MXAPJ	**9**	**9**	**71**	**11**

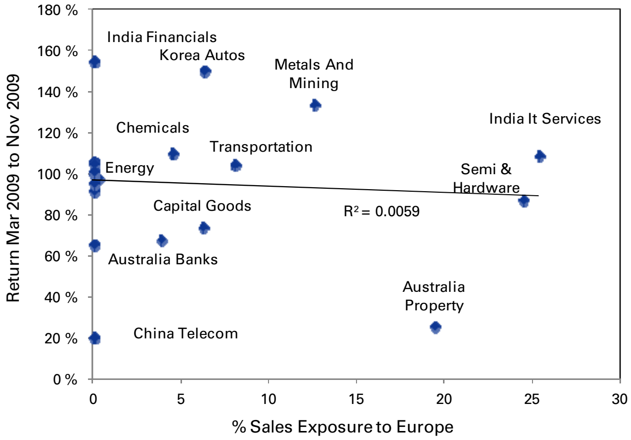
Exhibit 11: Tech and energy are among the sectors with higher Euro-exposure
Estimated sector revenue exposure by currency zone

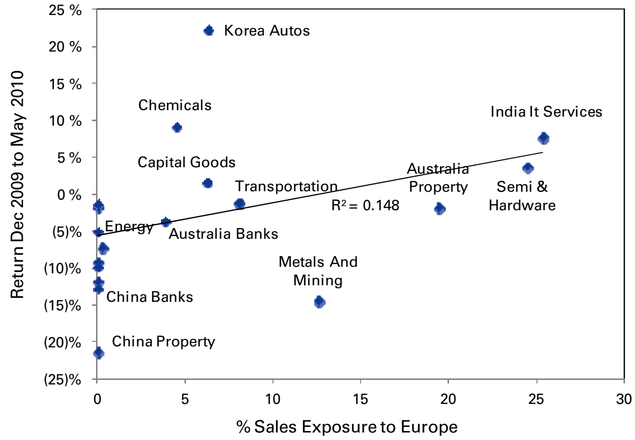
True sector	America	Europe	Asia	Other
India It Services	56	25	13	5
Semi & Hardware	26	24	47	3
Australia Property	40	19	34	7
Metals And Mining	8	13	68	12
Transportation	13	8	53	26
Korea Autos	17	6	51	26
Capital Goods	2	6	61	31
Chemicals	10	4	73	13
Australia Banks	0	4	88	8
Singapore Property	13	4	66	17
Energy	1	0	78	20
China Insurance	0	0	100	0
Hong Kong Property	1	0	97	2
China Banks	0	0	99	1
China Property	0	0	96	4
China Telecom	0	0	100	0
Hong Kong Banks	0	0	100	0
India Financials	0	0	98	2
India Utilities	0	0	100	0
Korea Financials	0	0	100	0
Singapore Banks	0	0	96	4
Taiwan Financials	1	0	99	0
MXAPJ	**9**	**9**	**71**	**11**

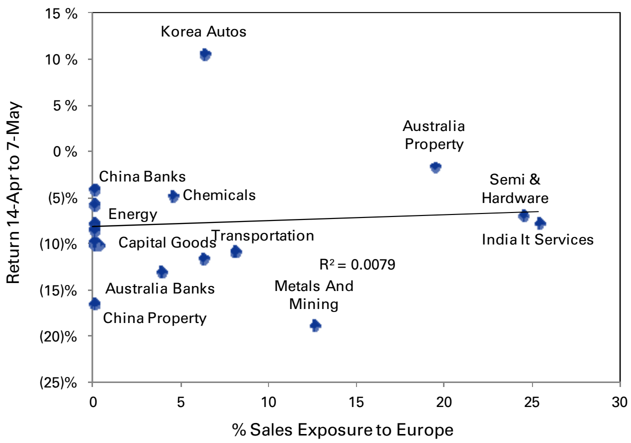
Source: Bloomberg, MSCI, Goldman Sachs Research estimates, Goldman Sachs Global ECS Research estimates.

Exhibit 12: We find little relation between performance and Euro exposure at the sector or stock level during recent periods of Euro appreciation and depreciation

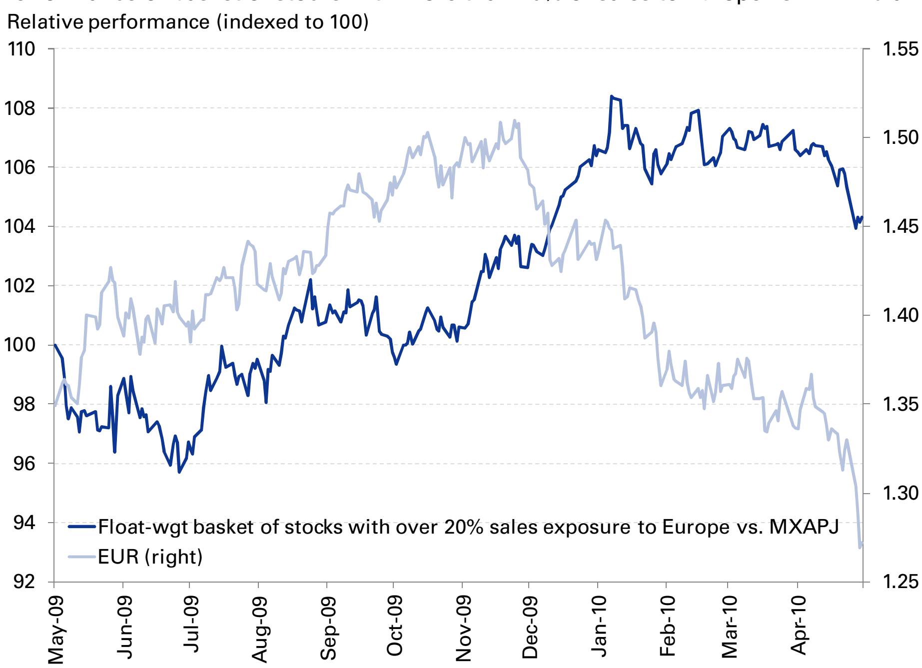
Scatterplots of true sector performance vs. % sales exposure to Europe during a) Euro strength (Mar–Nov 2009), b) Dec 2009 – May 2010, c) Apr 14 – May 7, 2010







Performance of basket of stocks with more than 20% of sales to Europe vs. MXAPJ and EUR performance



Source: Bloomberg, MSCI, Goldman Sachs Research estimates, Goldman Sachs Global ECS Research estimates.

China tightening

China's policy tightening is the main macro concern within Asia and is the reason why China equities—both onshore A shares and HK-listed H shares and red chips—have underperformed regional peers. We recognize the outlook over the next few months is challenging, given the prospects of further tightening and continuing investor uncertainty over the degree to which more constrictive policy settings may impede growth.

However, we remain firmly of the view that the risk of a 'hard landing' in either the macro economy or corporate profits is low and that the valuation of China equities is quite attractive in absolute terms, as well as relative to the region and their own historical range. Therefore, once the market recognizes that the policy tightening cycle is well through the mid-point (which we think may occur sometime during the next several months), we expect investors to refocus on the attractive growth vs. valuation nexus, which could lead to a resumption of the market's upward trend and meaningful appreciation by year end given our expectation of mid-to high 20% earnings growth this year and next.

Below, we summarize the main points underpinning our China views, both macro and micro. For more details, please see *Asia Economics Analyst, More tightening to come and market risks still two-way, but Asia in solid fundamental shape*, May 6; and *China A Share: Stance-at-a-Glance: May 2010- near term bumpy, longer term positive*, May 10.

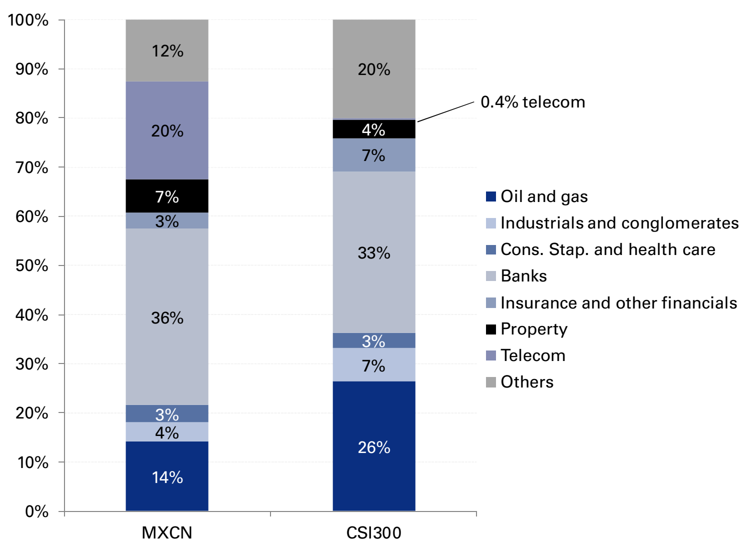
- **Policy tightening: recent measures.** The most notable recent policy actions have been a) a further 50 bp increase in banks' reserve requirement ratio to 17% (effective May 10); and b) detailed rules to control property prices, including limits on loan-to-value ratios, tighter mortgage pricing and availability, and limits on purchases of second or third homes. These measures have already had a notable impact on property transaction levels and prices.
- **Further tightening to come.** Additional policy measures that our economists think may occur over the next few months include a) the first interest rate increase (likely in July) after CPI inflation exceeds the 3% level for two months; b) continuing quantitative lending restrictions to ensure credit growth hits CNY7.5tr target (about 17% yoy growth); c) allowing the CNY to appreciate (although a weak Euro has meant a strengthening on a TWI basis of about 3% from recent lows); and d) further industry specific measures (e.g., property or environmentally-unfriendly industries).
- **We are already well into the tightening phase.** Our Financial Conditions Index (FCI) is an objective measure our Economists use to gauge the policy backdrop. This does not capture non-traditional tightening such as property restrictions, but it does reflect a broad measure of variables, including interest rates, money supply growth and the exchange rate, that impact the economy. On an annual basis, the FCI eased about 700 bp from late-2008 until November 2009, and has subsequently contracted about 235 bp. Our economists expect a further tightening of 180 bp by end-year, so on this measure China is already beyond the halfway mark in this cycle.

- **We see no need for policy makers to drive growth below trend.** Chinese growth is slowing from well above trend (over 14% in 2Q2009 and 10.5% in 1Q2010 to a trend level of 10% in 4Q2010 in qoq annualized terms). Critically, we do not believe that inflation pressures are serious enough that China needs to drive growth back below trend. We expect inflation to peak at around 4%-5% yoy, and believe a move to a more normal level of financial conditions will address this.
- **No broad investment bubble.** Although the property market does need reining in and there are concerns over borrowing by local government investment vehicles, we do not believe that an overall investment bubble has been created. As our economists have frequently noted, China ran counter-cyclical monetary policy ahead of the crisis, so even accounting for the significant stimulus in late-2008, the cumulative excess credit growth (credit relative to GDP) over the whole cycle has been reasonable in absolute terms and relative to other regional economies.
- **Dynamic policy adjustment.** One concern we frequently encounter is the risk that policy makers may inadvertently tighten too much and engender a hard landing even though they do not intend to do so. While policy error can occur, we think the risks of a significant overshoot to the downside are low because the measures that are being enacted are specific and targeted (e.g. monthly lending caps, property constraints) and can easily be adjusted if high frequency indicators show the economy is slowing more rapidly than desired.
- **Strong earnings momentum, even if property earnings slow.** Many investors are worried about a sharp slowdown in corporate earnings growth in light of continuing policy tightening. While we expect downgrades to property sector expectations as a result of the recent constrictive measures, the aggregate profit outlook remains encouraging, in our view. First, as noted above, we believe the policy intent is to slow the economy to trend growth, not to foster a harsh well-below trend decline. Second, the recent 1Q reporting season has been in line with strong full-year growth forecasts and 80% of the corporate guidance for 2Q has been positive. Third, property accounts for 7% of offshore and 4% of onshore listed company earnings, so the effect of downgrades on aggregate growth is likely to be muted.

Exhibit 13: We expect further tightening in financial conditions, but the process is well underway in our view
GS China Activity index vs. GS China FCI

Source: CEIC, Goldman Sachs Global ECS Research estimates.

Exhibit 14: Property stocks account for 7% and 4% of 2010E earnings for offshore and onshore listed China companies, respectively
2010E earnings composition by sectors in MSCI China and CSI 300 indices



Source: FactSet, MSCI, Wind, Goldman Sachs Global ECS Research.

Earnings: the evidence remains encouraging

Turning from macro concerns to micro fundamentals, we note that the core fundamental equity market driver—the regional earnings outlook—remains encouraging. We make three key points:

- **Consensus 2010 EPS growth expectations have caught up to our +30% top-down forecasts.** At the start of this year, one of our main views was that regional earnings were likely to be significantly above market expectations: there was a gap of 11 percentage points between our top-down forecasts and bottom-up consensus. Following a steady progression of upgrades across most markets, consensus is now in line with our 30% growth expectation for this year, although our preliminary 21% growth forecast for 2011 is still above I/B/E/S consensus of 14%.
- **1Q results are in line with upward revised full year expectations.** About 60% of the MSCI index cap has reported 1Q10 results, and the numbers are equivalent to about 25% of the upwardly revised full year consensus forecast. Not all companies report quarterly numbers and the depth of analyst estimates for quarterly results is not as good as it is for full year figures. However, the data that we have suggest that the region is on track to deliver strong profit growth.
- **Earnings revision momentum: the degree of change and valuation are key performance factors.** Many investors are currently concerned that we are past the peak of the earnings upgrade cycle and that this may cap market performance. While we agree that the breadth of upward revisions has likely crested, we do not think this implies that the equity market has also peaked.

  In Exhibit 18, we show the breadth of 12m forward earnings revisions vs. the MXAPJ index, and we focus on the inflection points in the revision ratio. While peaks in the revision ratio have indeed corresponded with inflection points in the equity market, there appear to be two important conditions for a significant bear phase. First, revisions have to turn meaningfully negative, i.e. a substantial earnings downgrade cycle has to set in. Second, starting valuations must be high, i.e. the market has to be vulnerable to a deterioration in earnings fundamentals.

  At other times, such as during 2004-2007, there were periods when the momentum of earnings revisions peaked, but market pullbacks tended to be moderate and the overall bull trend remained in force. During this phase, valuations were moderate and the revision ratio did not turn negative.

  Currently, we observe that valuations are low and we do not expect broad-based earnings downgrades given our view of the macro growth environment. Hence, we think that equity markets can appreciate even as earnings revision momentum moderates.

Exhibit 15: Regional 2010 earnings estimates have been revised up steadily; consensus EPS growth of 30% is now the same as our top-down forecast
2009 and 2010E EPS level of MSCI AC Asia Pacific ex Japan

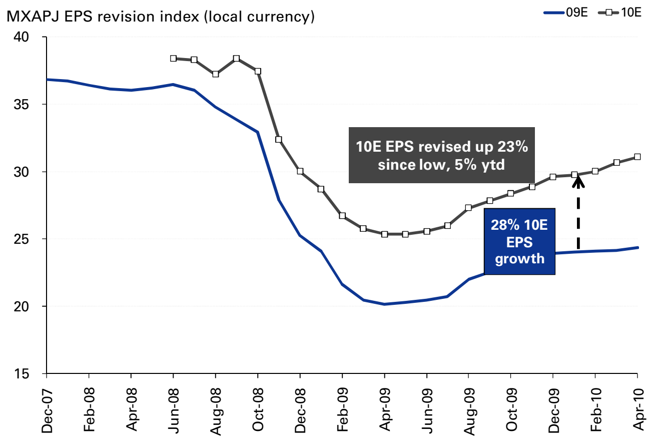
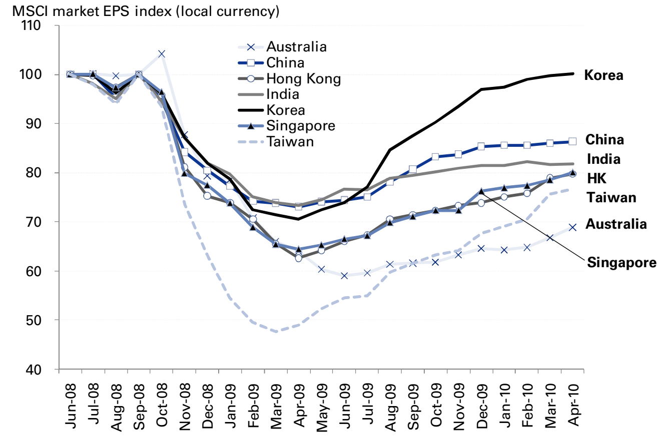


Exhibit 16: Korea and Taiwan continued to have strong earnings momentum, China and India earnings estimates have become stable
2010E EPS level of MSCI market indices



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research estimates.

Exhibit 17: Asia delivered strong 1Q results; actual earnings tracking 25% of full year estimates
Summary of CY1Q10 earnings results (parent basis)

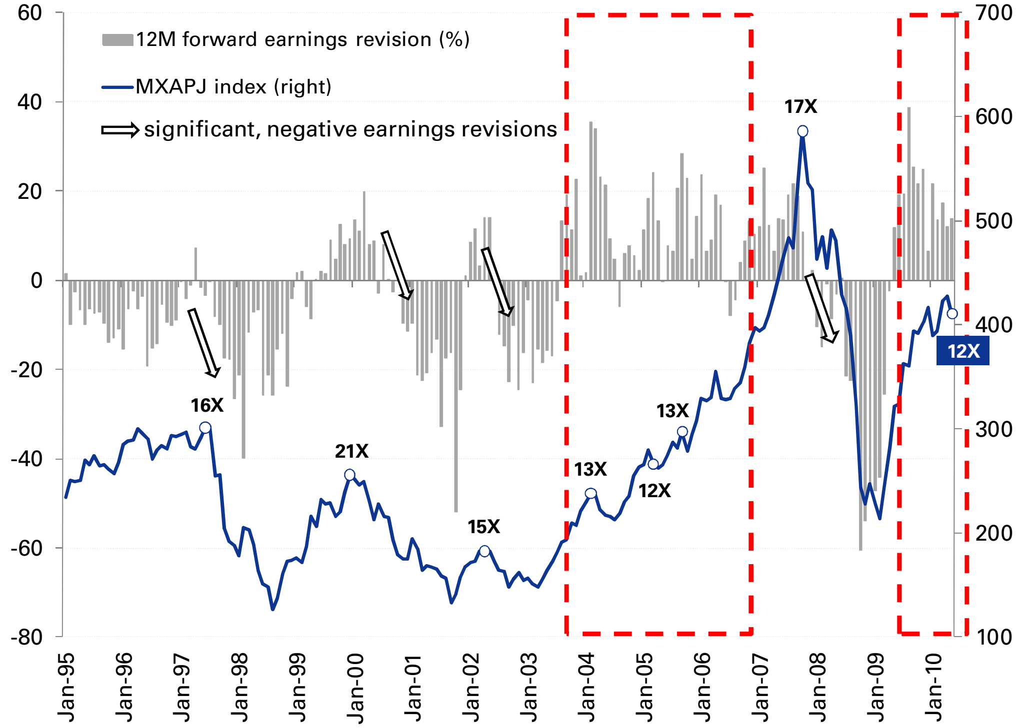
	Reported Cos.		EPS growth (%) CY1Q10		Actual vs. forecast CY09
	# of Cos.	% of MSCI cap	Yoy (%)	Qoq (%)	
MSCI markets					
China	17	31%	**33%**	**50%**	**22%**
India	23	58%	**28%**	**14%**	**23%**
Indonesia	17	88%	**28%**	**7%**	**20%**
Korea	61	54%	**260%**	**53%**	**30%**
Malaysia	10	20%	**30%**	**5%**	**25%**
Singapore	10	26%	**45%**	**-42%**	**23%**
Taiwan	104	88%	**NM**	**15%**	**24%**
Thailand	13	59%	**26%**	**42%**	**26%**
MXAPJ	243	60%	**179%**	**28%**	**25%**
MXASJ	243	60%	**179%**	**28%**	**25%**
MSCI AC Asia ex Japan sectors					
Financials	57	25%	**32%**	**24%**	**23%**
Banks	31	32%	**32%**	**39%**	**23%**
Insurance and other financials	16	20%	**10%**	**37%**	**25%**
Property	10	9%	**237%**	**-66%**	**21%**
Materials	29	33%	**373%**	**17%**	**28%**
Information technology	67	65%	**NM**	**13%**	**23%**
Industrials	44	31%	**78%**	**44%**	**29%**
Telecommunication services	11	29%	**8%**	**137%**	**24%**
Energy	12	39%	**39%**	**79%**	**22%**
Consumer staples	11	14%	**9%**	**62%**	**27%**
Consumer discretionary	23	40%	**177%**	**14%**	**30%**
Utilities	6	22%	**NM**	**195%**	**20%**
Health care	1	3%	**3%**	**45%**	**27%**

Note: Our aggregate numbers in China account for only the companies that report quarterly. The same applies to regional aggregate figures.

Source: Bloomberg, FactSet, MSCI, Goldman Sachs Global ECS Research estimates.

Exhibit 18: Significant bear phases are characterized by (a) substantial negative earnings revisions, and (b) high starting valuations; the current set up is moderating earnings momentum at an inexpensive valuation level

12M forward earnings revision of MSCI AC Asia Pacific ex Japan and index level



Note: The red boxes are the periods when the momentum of earnings revisions reduced (but remained positive), and valuations were inexpensive. Market pullbacks during these periods tended to be moderate and the overall bull trend remained in force.

Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research estimates.

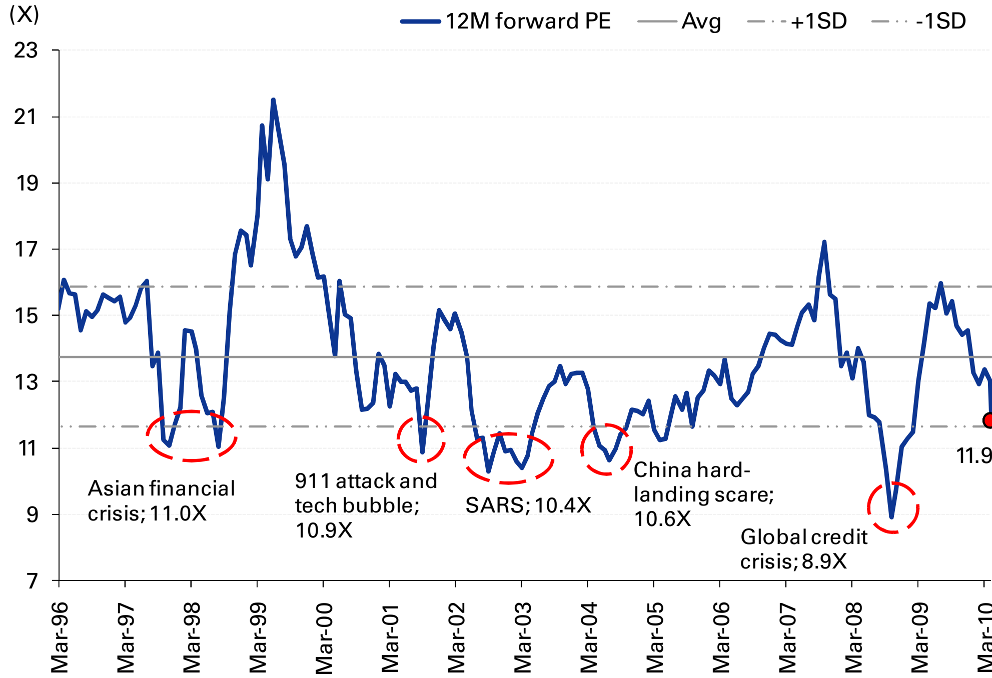
Valuations are attractive

The valuation picture is attractive in our view, as we show in Exhibits 19-23.

- **The 12m forward P/E is 1sd below average.** The recent broad-based decline has brought the regional forward P/E down to 11.9X. This is low both in absolute terms and relative to the longer-term mean.
- **P/B ratios are back below average as well.** The region's trailing price/book ratio is now at 1.9X and slightly below the historical mean. Rebounding ROEs explain why P/E ratios are lower relative to their average than P/B readings.
- **Implied equity risk premium is more than 1sd to the attractive side of the range.** Our DDM-based risk premium is high in absolute terms and well to the inexpensive side of its longer-term range. Equities remain undervalued relative to the likely growth path and the fixed income backdrop, in our view.
- **Most markets are towards the attractive side of their respective P/E and P/B ranges.** Although there are differences between the regional markets (Korea looks inexpensive in absolute and relative terms, India appears more richly valued), the overall valuation picture looks attractive at the more granular individual market level.
- **On 2011 consensus numbers, the region is priced at 11.0X P/E and 1.6X P/B.** If markets make no upward progress at all to year end, this would be the implied multiple for the region. Time is on the side of equities, in our view, barring a significant deterioration in the macro environment.

Exhibit 19: The forward P/E multiple is now trading at 1 SD below historical mean after the sell-off

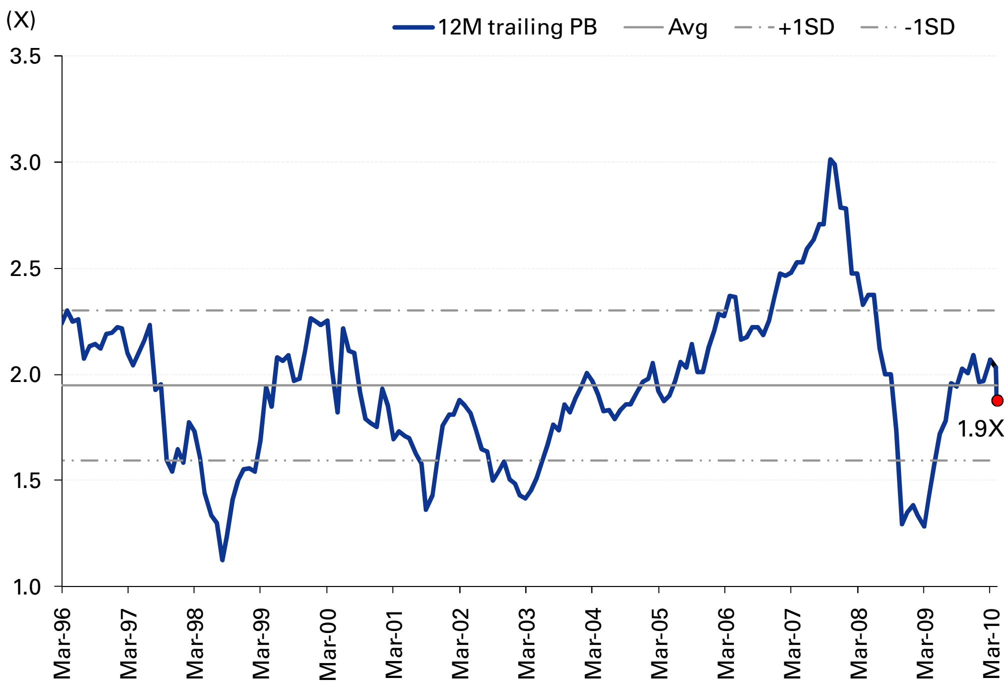
12M forward P/E of MSCI AC Asia Pacific ex Japan index



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research.

Exhibit 20: P/B multiple has also retreated to below average

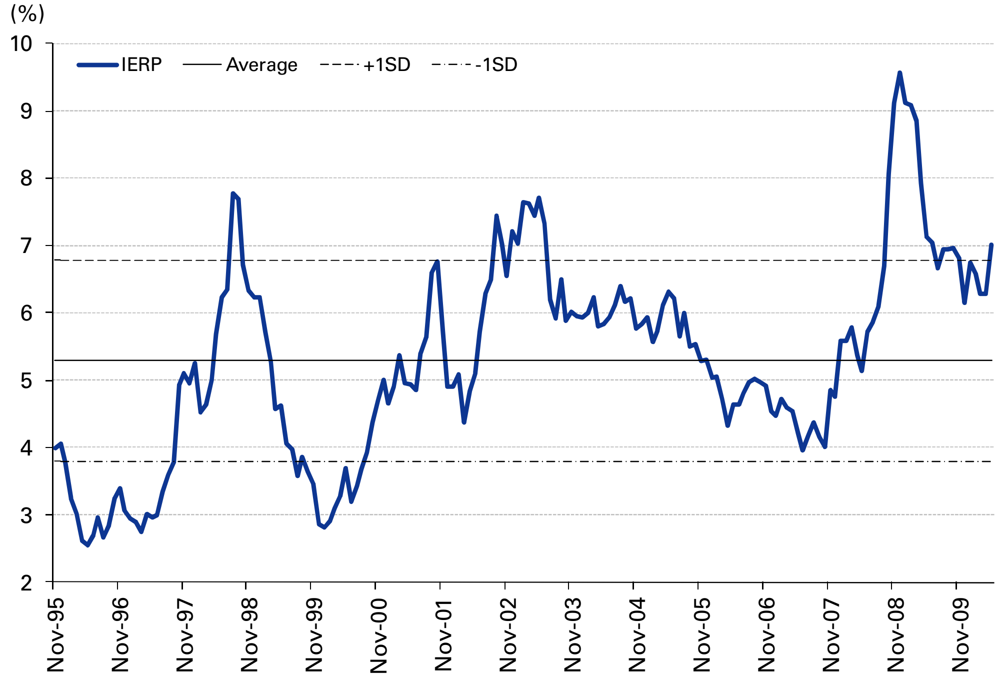
12M trailing P/B of MSCI AC Asia Pacific ex Japan index



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research.

Exhibit 21: The IERP is trading at 1SD above historical mean

Implied equity risk premium (IERP) of MSCI Asia Pacific ex Japan index



Source: FactSet, I/B/E/S, MSCI, Worldscope, Goldman Sachs Global ECS Research estimates.

Exhibit 22: 12M forward P/E of MSCI markets relative to range

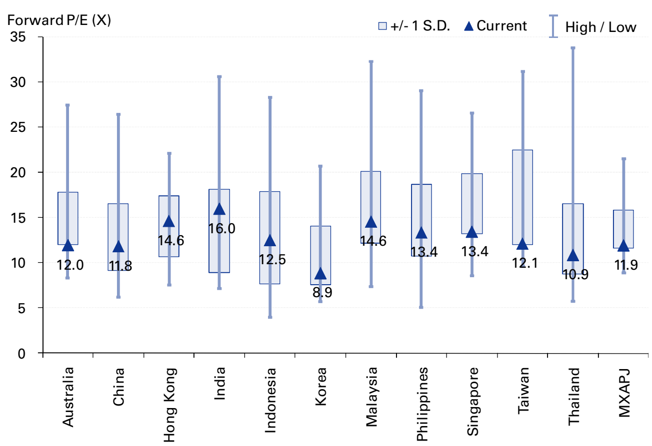
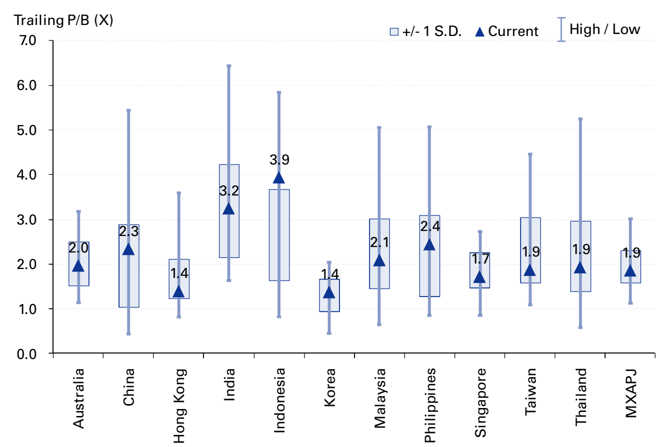


Exhibit 23: 12M trailing P/B of MSCI markets relative to range



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global ECS Research estimates.

We remain positive, despite near term challenges

Given the macro, earnings and valuation analysis we have summarized above, we believe the strategic case for Asian regional equities remains compelling.

In essence, in order to argue for markets to decline or just remain flat through year end, one must either believe: a) that earnings will be cut significantly, which would require a meaningful worsening in the regional or global growth outlook; or b) further compression in valuations to levels that are quite low in absolute and relative terms. We think the risk of either of these scenarios is relatively low, and expect markets to regain their footing and reward the underlying earnings growth with more reasonable valuations once concerns over macro/policy conditions moderate.

Our regional target remains at 530 for the MXAPJ index, which implies 35% upside. At this level, the region would be trading at 15X forward consensus earnings or 14.2X our top-down expectations, and 2.2X book value. These expectations may seem optimistic given current market conditions, but we think they are hardly excessive or inconsistent with how markets have traded in the past in similar fundamental circumstances. And even if the recovery in valuations is not quite as large as we think possible, the strategic message is the same: the longer-term risk-reward tradeoff appears quite favorable now.

Thus, we remain positive, despite the current turbulence and the prospect that market conditions will remain challenging in the near term given the macro uncertainties. Two catalysts we would look for to help improve market sentiment include: a) signs of stabilization in the Euro-zone; and b) signs that China’s policy measures are working, which would encourage the market to start anticipating the end of the tightening cycle.

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