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Economic Outlook

March 2011

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Highlights:

- Fears over social unrest in the Middle East coupled with post-quake nuclear crisis and tsunami devastation in Japan clouded near term economic outlook. Despite short term setback, we believe the fundamentals of global economy remain intact thanks to rapid growth in Asia (ex Japan) and recovery in the US.
- We are cautious on Japanese economy in the near term. The tsunami and nuclear crisis battered market confidence. Barring a severe nuclear crisis, we expect reconstruction works to be in full swing in the second half of the year. That should bolster the economy in a longer term.
- We expect US economy to do well. The labour market showed sign of improvement. February's unemployment rate dropped below 9% for the first time since April 2009. The Federal Reserve said that US economy is on a firmer footing due to household spending and business investment.
- In 2011, economic performance of Asia (ex Japan) economies should remain robust. In the short term, however, private sector's sentiment may be weakened by:
 1. External factors: Social unrests in the Middle East and the tsunami devastation in Japan.
 2. Domestic factors: Central banks tighten their monetary stance to contain inflation.

Economies	Outlook
US	+
Europe	=
Japan	=
Asia (ex Japan)	+
Emerging Markets (ex Asia)	+

Global Economies

Fears over the social unrest in the Middle East coupled with post-quake nuclear crisis and tsunami devastation in Japan undermined market confidence, clouding the near term economic outlook. Despite short term setback, we still believe the long term fundamentals of global economy remain intact. Economic growth in Asia (ex Japan) and other emerging countries is still robust. Recently released economic data indicated that the US is on a recovery track. This should continue to be supportive of global economic development in the longer term.

U.S. Economy

We expect US economy to do well. The labour market in the US showed sign of improvement with February's unemployment rate dropping below 9% for the first time since April 2009. In the same month, the non-farm sector added 192,000 jobs, the highest monthly job creation in 9 months. Job gains for December and January were also revised upward.

The Federal Reserve said in its recent policy statement that the US economy is on a firmer footing, while household spending and business investment are expanding. The boosting impact of last year's quantitative easing and strong earnings from overseas markets should bode well for the labour market and thus the economy.

Europe Economies

The outlook for European economy may not be as bright as the US. In Europe, central banks are becoming increasingly vigilant on inflation due to rising fuel and food prices. In euro zone, CPI in January jumped by 2.3% year-on-year, above the European Central Bank's 2% target. In the UK, consumer inflation reached 4% year-on-year for the first time since December 2008.

In continental Europe, Germany is still in a good shape but there are still concerns on whether the sovereign credit risk in some peripheral European countries would re-emerge. In February, the Ifo Business Climate Index rose to a record high as external demand and household spending bolstered growth in Germany. Exports in January were up 24.2% (the strongest yearly growth in 7 months) and the unemployment rate shrank to 6.5% (the lowest since 1992).

In the UK, fiscal tightening may weaken the nascent recovery. In the fourth quarter, GDP expanded by 1.5% year-over-year, less than expected and also below the 1.7% expansion in the third quarter.

Japan Economy

We are cautious on Japanese economy in the near term. The recent tsunami and nuclear crisis battered the sentiment of local consumers and companies.

Economic damages caused by the devastating tsunami may well exceed the JPY 10 trillion estimated losses incurred after the Kobe earthquake in 1995. Making matters worse, radiation leaks from the nuclear plants could hamper rebuilding activities. All these could translate into weaker economic growth in the near term.

Barring a severe nuclear crisis, we expect reconstruction works to be in full swing in the second half of the year. That should help Japan to resume its growth in a longer term.

Asia (ex Japan) Economies

In 2011, Asia (ex Japan) economies are still expected to do well. In the short term, however, private sector's sentiment may be weakened by both external and domestic factors. Externally, social unrests in the Middle East and the tsunami devastation in Japan increased economic uncertainty. Domestically, central banks will continue to tighten their monetary stance and siphon off liquidity to contain inflation. China's January CPI rose 4.9% year-on-year, higher than expected. CPI inflation in South Korea reached 4.5% in February, the highest yearly rate since November 2008. Hence, it does not come as a surprise that central banks in China and Indonesia raised their policy interest rates in February, while Bank of Korea and Bank of Thailand also hiked rates in March.

These short term setbacks are unlikely to derail Asia (ex Japan) from the strong-growth track. Thailand's personal consumption rose by an annual rate of 4.7% in January, above expectations as well as above the 3.8% increase in December. Retail sales in Korea were much higher than expected, rising by 4.3% month-over-month in January, versus a 1.0% decline in December. Taiwan's industrial production increased by an annual rate of 17.2% in January, marginally below the 18.2% in December. Robust economic growth should boost corporate earnings and consumer spending in Asia (ex Japan).

Emerging Market (ex Asia) Economies

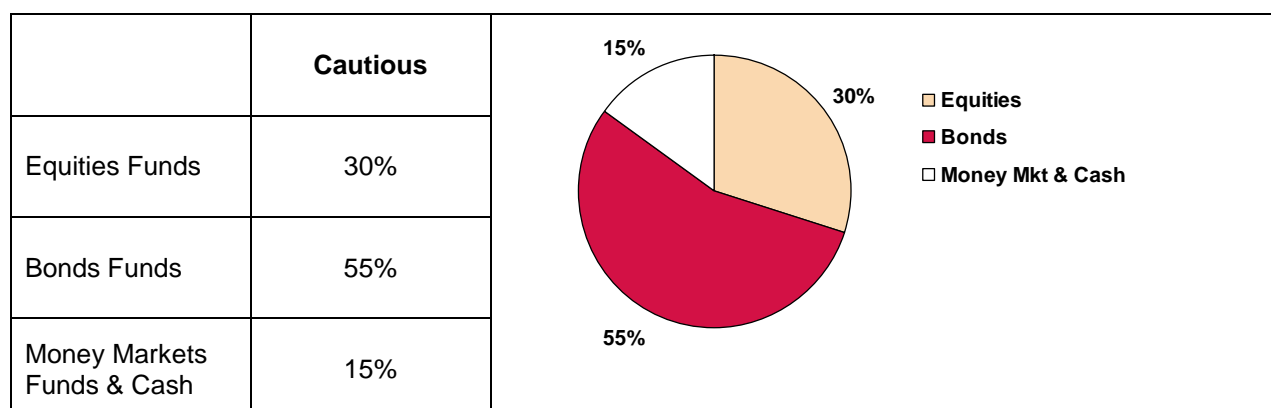
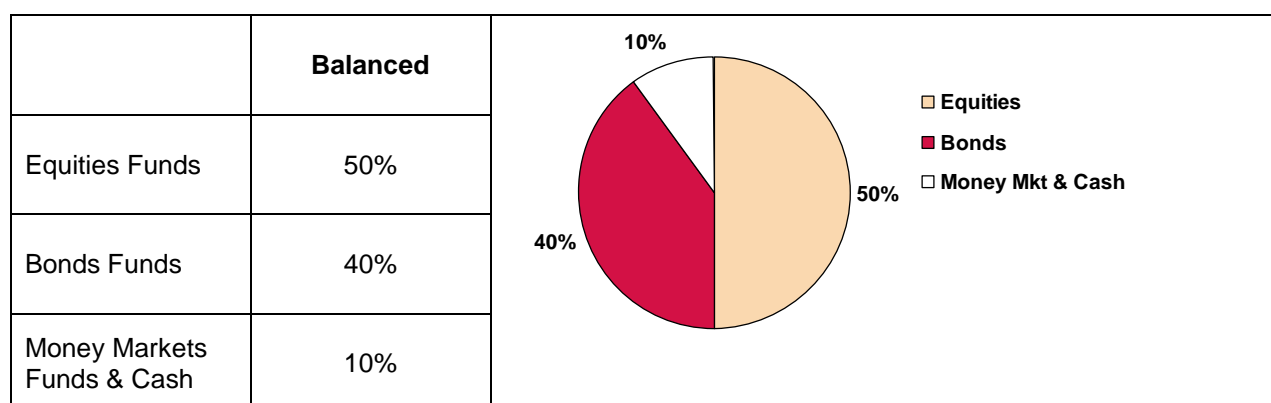
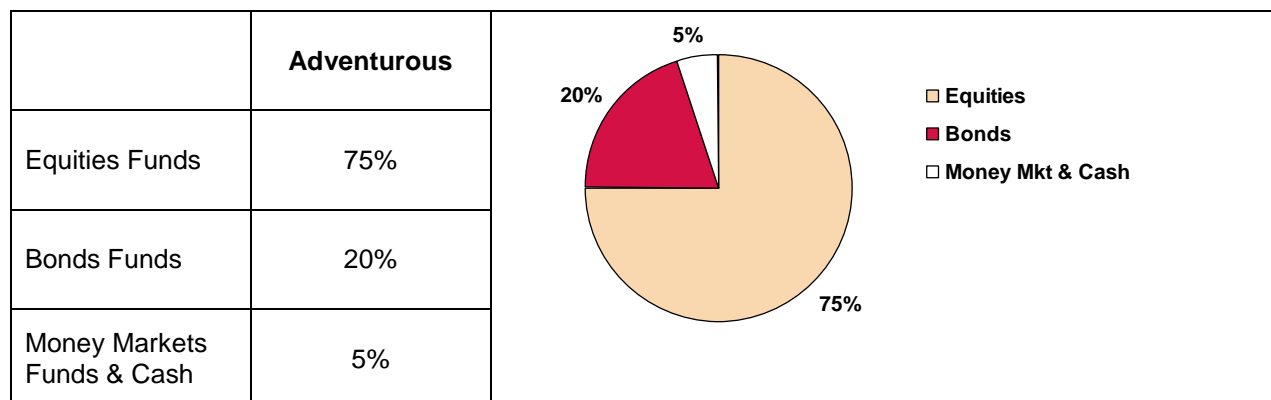
We are positive on emerging economies (ex Asia). The nuclear crisis and post-quake reconstruction in Japan should benefit resource-rich emerging markets such as Brazil and Russia as Japan will import a lot of energy and metals to rebuild its infrastructure.

GDP Forecast for 2011

2011 GDP (%)	US	UK	Eurozone	Japan	China	Hong Kong	Singapore
Market Consensus	3.2	1.9	1.6	1.5	9.3	4.8	5.1
AIA	3.1	1.8	1.5	1.6	8.8	5.1	5.2

Source: AIA & Consensus Economics

Benchmark Portfolios



Note: Range for equities and bonds is $\pm 10\%$;
 Range for alternative investments and money markets instruments & cash is ± 5

Key Market Data

Equities	Month-end Level	Monthly Change	YTD Change
S&P 500	1,327	3.2%	5.5%
Dow Jones	12,226	2.8%	5.6%
Nasdaq	2,782	3.0%	4.9%
FTSE 100	5,994	2.2%	1.6%
DAX	7,272	2.8%	5.2%
Nikkei 225	10,624	3.8%	3.9%
Hang Seng Index	23,338	-0.5%	1.3%
Straits Times	3,011	-5.3%	-5.6%
Taiwan Weighted	8,600	-6.0%	-4.2%
KOSPI	1,939	-6.3%	-5.4%
Brazil Bovespa	67,383	1.2%	-2.8%
Russia RTSI	1,970	5.3%	11.1%
India SENSEX	17,823	-2.8%	-13.1%
China H Index	12,505	-0.4%	-1.5%
Thailand SET	988	2.5%	-4.3%
Malaysia KLCI	1,491	-1.9%	-1.8%
Philippine MCI	3,767	-3.0%	-10.3%
Jakarta JCI	3,470	1.8%	-6.3%

Commodities	Month-end Level	Monthly Change	YTD Change
Gold (comex)	1,409.9	5.7%	-0.8%
WTI crude oil (nymex)	97.0	5.2%	6.1%

Currencies	Month-end Level	Monthly Change	YTD Change
Euro (EUR-USD)	1.3806	0.8%	3.2%
JPY (USD-JPY)	81.78	0.3%	-0.8%

Bonds (10-year yield)	Month-end Yield (%)	Monthly Change (Basis Points)	YTD Change (Basis Points)
US	3.43	6	13
UK	3.60	-5	21
Germany	3.17	2	21
Japan	1.26	4	14

As at the end of February 2011
Source: Bloomberg

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