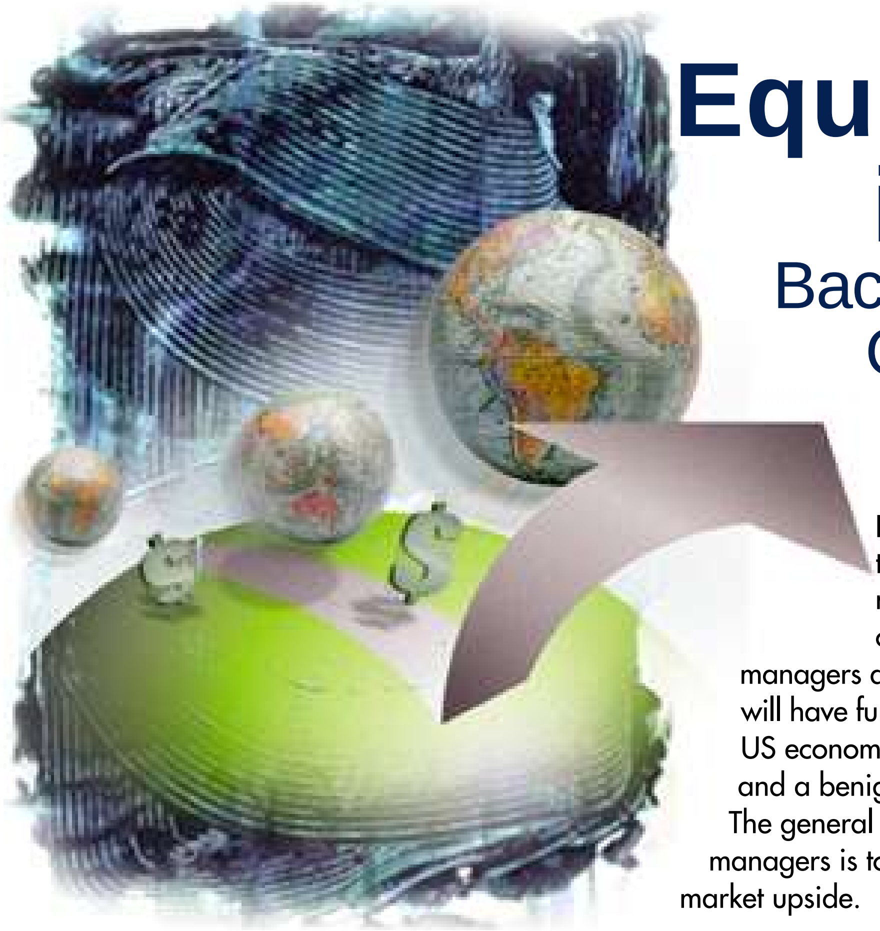
INVEST TALK

A quarterly newsletter by UOB Investment Services Division

大華銀行 UNITED OVERSEAS BANK

January 2004 Issue



Equity Markets in 2004: Back To The Rolling Good Times?

Despite the early setbacks such as the Iraq War, threat of terrorist attacks and SARS, equity markets have rallied strongly in the second half of 2003. As the new year approaches, fund managers are generally optimistic that the equity markets will have further upside on the expectations of a sustained US economic recovery, improved corporate profitability and a benign interest rate environment.

The general investment strategy for 2004 among the fund managers is to overweight equities in anticipation of further market upside.

SUSTAINED ECONOMIC RECOVERY AND IMPROVED PROFITABILITY

Positive economic data from the US point to a sustained economic recovery which bodes well for the global economy especially the export-oriented countries. This view is shared by Schroder Investment Management (Schroders) who viewed that the recent economic growth data in the US have been extremely strong and forward-looking indicators are improving. Combined with increasing corporate profitability and rising employment numbers, the data reinforce the expectations that the economic recovery will be sustainable.

Schroders opined that economic growth in Asia will be very strong and signs of recovery are spreading across Europe with business confidence and outlook improving in the UK and Eurozone. Corporate profits are improving with majority of companies in most markets reporting earnings in line with, or ahead of expectations. The expectations are that as business confidence improves, capital and corporate spending will increase.

OPTIMISM IN ASIA, CONTINENTAL EUROPE AND COMMODITIES

Among the equity markets, most fund managers are upbeat on Asian markets. Mr Alistair Thompson, Deputy Head of Asia Pacific Equities at First State Investments, observed that global funds have gradually been increasing their exposure to Asia and expects US dollar continue relative to the Asian currencies, portfolio inflows into Asia are likely to accelerate further. Other key factors driving Asian markets are better governance, attractive valuations and the low interest rate environment.

Similarity, Aberdeen Asset Management (Aberdeen) believes that Asian markets continue to offer good relative value compared to the other markets, supported by ample liquidity, low interest rates and attractive dividend yields. "Looking ahead, domestic demand is expected to play an increasingly bigger role in shaping the growth rates of Asian economies, with less reliance on exports," it added.

Sharing the optimism on the Asian markets is Mr Koh Swee Nguan, Senior Portfolio Manager at UOB Asset Management (UOBAM) who said, "We are still most positive about Asia ex Japan markets as we believe the valuations and earnings offer the most potential for upside."

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He also added that investors may also wish to consider the commodities sector as a global economic recovery would mean rising demand for commodities such as nickel, iron ore, copper and gold.

Schroders believe that Continental Europe, which has lagged the rest of the world in economic and profit recovery, should offer relatively better returns in the months ahead. It expects profits growth to continue improving in Europe next year and thereby attracting global investors who wish to participate in a continued equity rally.

KEY ASIAN MARKETS TO WATCH OUT FOR IN 2004

"We expect Thailand, China and South Korea to outperform in 2004 as their economies benefit from an acceleration in domestic demand on the back of a moderation in export growth from the high base this year (2003), " said Ms Janet Liem, Director (Asian Markets Specialist) at UOBAM.

Being a bottom-up stock picker, Schroders believe that many best stock opportunities are appearing in emerging markets like Taiwan and South Korea where valuations are attractive. Schroders is positive on Japan and look to accumulate good quality companies with compelling valuations. The stocks from these companies have thus far lagged in the market rally but Schroders expects this pattern to reverse in the months ahead.

First State's Thompson is optimistic on Malaysia. "We believe Malaysia is likely to outperform as the new Prime Minister will be keen to make a favourable impression. With pressure on the Malaysian Ringgit to appreciate, we believe asset reflation in the country is likely to continue," he said.

For Aberdeen, its investment team has been raising its weighting in India where there are many good quality companies that are comparatively undervalued. The team also favours the South East Asian markets of Thailand (preference with second liners and mid capstocks), Indonesia (resilient domestic demand) and Singapore (defensive quality) play.

LINGERING RISKS

Despite the rosy outlook for equity markets in 2004, investors should take note that:

"Our optimism for equities is tempered by the fact that markets have already performed strongly this year as risk appetite has risen," Schroders cautioned.

UOBAM's Liem also shared the concern that given the ebullient run up of the markets in 2003, valuations are now relatively less attractive and this will become even more of a concern in a rising interest rate environment.

Other risks cited include exogenous shocks such as terrorist attacks, higher interest rates and a collapse in the US dollar.

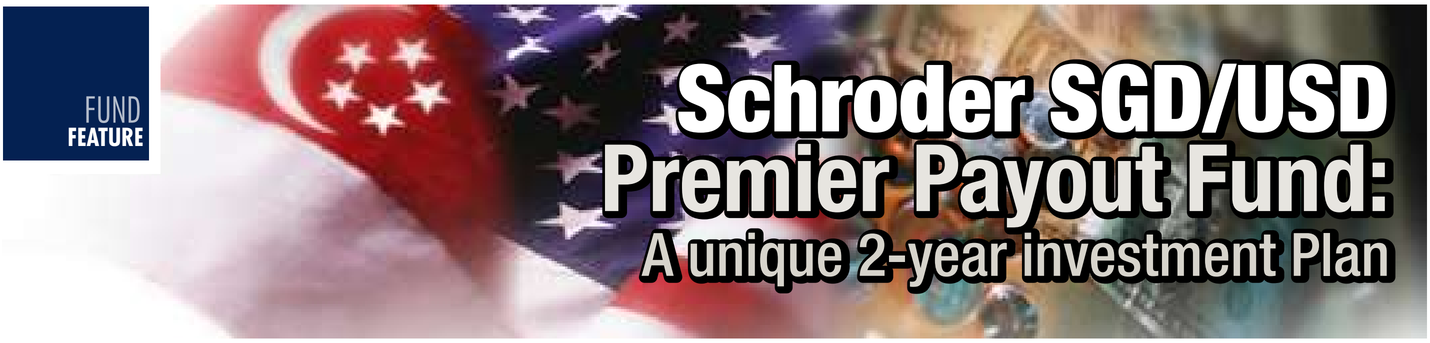
Nonetheless, the equity markets are generally expected to out-perform in 2004 on the back of global economic recovery, improving corporate profitability, benign interest rate environment and ample liquidity.

market BULLS &BEARS

Equity and Bond Markets

Outlook for Q1, 2004

REGION/ SECTOR	CURRENT QUARTER OUTLOOK: Under-weight	Neutral	Over-weight	KEY REASONS FOR CURRENT MARKET OUTLOOK
EQUITIES				
US	■			• Accommodating fiscal and monetary policy, more tax rebates in 2004H1and improving job market will help lift households' spending power. • There appears to be plenty of spare capacity in the economy with unemployment well above natural rate. Therefore, inflationary pressures are low despite the weak dollar. • Although economic and profits recovery in the US is strong, the US equities are expensive compared to other markets, even in view of the improving profits outlook.
EUROPE			■	• Euro likely to rise further so ECB will be able to hold interest rates. • Markets underestimating how much the Euro zone economy will benefit from pick-up in global economic activity. • The vast majority of companies reporting earnings in late Nov /early Dec 2003 have been in line with, or ahead of, expectations and profits growth is expected to continue to in Europe this year.
JAPAN			■	• The economy is boosted by strong export demand from US and China. • There is evidence of positive wage growth which is good news for consumer spending. • There are many quality companies on undemanding ratings that have lagged the broader market rally in the Japanese market.
ASIA EX JAPAN			■	• The Asian markets tend to outperform following upward revisions to growth expectations. • Given the run-up in 2003, these markets are expected to consolidate over the near term before continuing their longer-term out performance trend. • Valuations remain attractive, particularly in the region's emerging markets, as economic growth continues to outpace that of the major economies • Asian companies are generating good returns and are generally less leveraged than their global peers.
EMERGING MARKETS			■	• Despite the strong performances of these markets, companies continue to trade at a substantial discount to their western counterparts.
BONDS				
GLOBAL	■			• Given the improving economic climate, the expectations are that yields on government bonds are expected to rise in months ahead. • More positive on corporate bonds as corporate fundamentals continue to improve
US	■			• US interest rates are expected to rise during the later part of this year
EUROPE			■	• The Euro is likely to appreciate further and this will lead to either lower inflation expectations or lower short rates in the Euro zone (or both). Either way is good for European bonds.
ASIA		■		• Markets are likely to have taken into account the easier global and domestic monetary conditions.
EMERGING MARKETS		■		• The market is expected to take a breather as the strong run has seen big compression in spreads. • Emerging markets bonds will continue to be underpinned by their economic recovery momentum.



Schroder SGD/USD Premier Payout Fund:

A unique 2-year investment Plan

Singapore's 1st 2-year callable fund is here! Schroders will launch a 2-year fund on 8 January 2004. The Schroder SGD/USD Premier Payout Fund (the "Fund") – pays attractive fixed payouts of 8%[1] (SGD Fund) or 9%[1] (USD Fund) for minimum initial subscription of S$1,000 or US$1,000 respectively.

This fund is ideal for investors who seek attractive fixed payouts within 2 years, and simultaneously desire to gain exposure to the Dow Jones EURO STOXX$_{SM}$ 50 Price Index (the "Index") which includes some of Eurozone's top 50 blue chip stocks e.g. Nokia, Carrefour and Royal Dutch Petroleum.

How Does This Fund Work?

The Fund is simple in concept :

- ***Market trades in a range:*** As long as the Index does not fall beyond the predetermined level[2], investors will receive 100% of the capital at maturity plus the fixed payouts.
- ***Market rises strongly:*** If the Index rises by at least 10% or 15% from point of inception at the 12th or 18th month respectively. Investors will enjoy early capital repayment and receive 100% of the capital plus any accrued payouts.
- ***Market is very volatile or bearish:*** If the Index falls by more than the predetermined level[2], investors will receive the final Index level at maturity plus the fixed payouts.

Features

- ***Attractive fixed payouts of 8%[1] (SGD Fund) or 9%[1] (USD Fund)***

  Regardless of the equity market performance, investors will receive fixed payouts of 4%[1] p.a. (SGD Fund) or 4.5%[1] p.a. (USD Fund) at the end of year 1 and year 2. So the total payouts will be 8%[1] (SGD Fund) or 9%[1] (USD Fund) over the 2 years.
- ***Short tenor of 2 years***
- ***Potential Early Capital Repayment[3]***

  Return of 100% of capital plus accrued payouts if the Index performs well.

Invest by 30 January 2004 and receive early bird bonus!
See Fund Promotion for details.

What is the outlook for European Equities?

Since the second quarter of 2003, recent economic data confirms a global economic recovery. US, the main engine of global growth, registered the strongest quarterly GDP growth of 8.2% annualised in the third quarter of 2003 in almost two decades. Eurozone, the world's second largest economic bloc, is showing signs of an upturn, including rising industrial production and improving consumer confidence.

Schroders expects Europe to benefit from a US recovery and a resurgent Asia. However, risks remain: such as US deficit, overheating in parts of Asia, rising interest rates, geopolitical tensions and terrorism. The OECD predicts that "the most likely scenario for the next two years is one of progressive recovery in Europe, in the context of low inflationary pressures and a gradual reduction in unemployment".

List of Dow Jones Eurostoxx$_{SM}$ 50 Price Index Stock Constituents

Financials	*Telco/Tech*	*Insurance*	*Energy/ Resource*	*Pharmaceutical*	*Consumer*
ABN AMRO	Deutsche Telekom	Aegon	BASF	Bayer	Carrefour
Banco Bilbao VA	Nokia	Allianz	EON	Aventis	DaimlerChrysler
BNP Paribas	Philips	Axa	Royal Dutch Petroleum	Sanofi-Synthelabo	L'Oreal
Deutsche Bank	Siemens	Assicurazioni Generali	Suez SA		Unilever
Fortis	Telecom Italia	Munich Re	Total SA		Ahold
ING	Telefonica		Air Liquide		Group Danone
Banco Santander CH	Alcatel		Endesa		Lafarge
Sanpaolo	France Telecom		Enel		LVMH
Societe Generale	Telecom Italia Mobile		Eri		St Gobain
UniCredito Italiano			Iberdrola		Vivendi
			Repsol		Volkswagen
			RWE		

1 These payouts are indicative as current. The actual payouts will be determined at inception and will be based on prevailing market conditions.
2 The predetermined level is 70% of the Index, measured in the Fund's currency, on any business day as compared to its initial level at inception.
3 If the Index rises by at least 10% or 15% from point of inception at the 12th or 18th month respectively and never falls below the predetermined level of 70% of Index.

Past performance and any forecast are not necessarily indicative of the future or likely performance of the Fund. The value of units and the income from them may fall as well as rise. Investors should read the prospectus, obtainable from the Manager or any of its appointed agents before investing in the Fund. United Overseas Bank Limited, or any subsidiary or associates of the UOB Group or any of its affiliates may have interests in the units of the Fund and may also perform or seek to perform broking and other investments or securities related services for the issuer of the units from time to time. Investment in the Fund is not deposit or other obligations of, or guaranteed, or insured by United Overseas Bank, Schroder Investment Management (Singapore) Ltd, their affiliates or distributors, and is subject to investment risks, including the possible loss of the initial capital invested. Return is dependent on the performance of the Index.This document is published for your information only and it does not have any regard to the specific investment objective, financial situation and the particular needs of any specific person who may receive this document.You may wish to seek advice from a financial advisor before purchasing units of the Fund. In the event that you choose not to seek advice from a financial advisor, you should consider whether the Fund is suitable for you.

FUND HIGHLIGHT

Gold & Resources in the spotlight

By **Mr Alfred Wong, Portfolio Manager**

The United Gold and General Fund (the "Fund") invests in companies involved in the exploration and mining of gold, precious metals, energy, bulk commodities and base metals. These include platinum, palladium, nickel, aluminum, copper, zinc, iron ore and coal. The Fund is currently invested 80 % in gold & precious metals mining companies, with the remaining 20% in base metals.

Key factors driving the gold market:

Supply factor:

- Exploration budget for gold fell from about US$3.3bn in 1997 to below US$1bn in 2001. Production had meanwhile been declining as it was the lower grade ores that were now being mined.
- In 1999, an accord was signed by central banks to control the sales of gold by the respective central bank which in turn helps to rein in supply of gold in the market. The accord is expected to be renewed in 2004.

Demand factor:

- Gold's appeal as the ultimate store of value remains strong in many developing countries, like India and in the Middle East.
- The development of China and the opening up of its gold markets also signaled a fresh source of potential demand.

As these factors fell into place, the price of gold began rising. From a low of US$252/oz in 2001, the price of gold has risen steadily and broke through US$400/oz in 2003. Bullish observers predict that it may go as high as US$450/oz given the expectations that the US dollar will continue to weaken in the near term.

In 2003 rising resource prices captured headlines. There have been two reasons for this. One is China, the fastest growing economy in the world. It now consumes 37% of the world's cement, 31% of iron ore, 24% of steel, 18% of aluminum and 7% of oil. China's needs are driven by its pace of urbanization and industrial development. Only a third, or 39%, of the Chinese population live in city areas today. This is expected to increase to 50% by 2010, which means more than 130 million people moving to cities.

The other is the recovery of the global economy. What is unusual about this recovery is that it appears to be synchronized by the three major economies, the US, Europe and Japan. Prices of commodities are highly correlated with the economic cycle. If a synchronized global recovery does fully materialize, the demand for resources will be stronger than usual.

Investors seeking to benefit from these developments can take numerous routes. The simplest is to hold physical gold bullion itself. Investors who take the alternative path of investing in gold mining companies, usually through gold and resources funds, are hoping for additional leverage. The share prices of mining companies often rise proportionately more than the price of the metal itself. For gold this multiplier has traditionally been about 3x. As an illustration, from Oct 00 to end Oct 03, the price of physical gold bullion rose 11.57% p.a. During the same 3-year period, the Fund rose 32.89% p.a.[1] on a offer-to-bid basis.

[1] Source: Lipper. Performance figures are in SGD as at 31 Oct 2003

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2004年股市：再现美好时光？

尽管因伊拉克战争、恐怖分子袭击的威胁以及沙斯肆虐的影响而受到重创，股市在2003年下半年却表现出强力反弹。随着新年的临近，基金经理们普遍持乐观态度，看好股市在人们对美国经济持续复苏、企业盈利能力改善及良性的利率环境的预期中，将会进一步上涨。

由于预期市场将会进一步上涨，基金经理们在2004年的投资策略将是增持股票投资。

持续的经济复苏及盈利改善

来自美国的正面经济数据指向持续的经济复苏，这对全球经济特别是出口导向的国家是一个好预兆。宝源投资管理（宝源）赞同这一看法，认为最近的美国经济增长数据特别强劲，且前瞻指标正在改善。加上企业盈利能力的增长及就业数字的上升，增强了对经济复苏持续性的预期。

宝源认为亚洲经济增长将非常强劲，而随着英国和欧元区的商业信心和展望改善，复苏迹象也遍布欧洲。由于多数市场的大多数公司业绩与预期相符或超出预期，企业盈利正在改善。随着商业信心的增强，预期资本和企业开支也将会增加。

对亚洲、欧洲大陆以及商品交易的乐观情绪

在对股市的展望中，多数基金经理对亚洲市场持有非常乐观的看法。First State Investments 的亚太股市副主管 Alistair Thompson先生注意到全球的基金经理已逐渐增加他们在亚洲的投资比重，并预计美元继续同亚洲货币关联，投资组合将可能进一步加速流入亚洲。其它驱动亚洲市场的重要因素也包括良好的监管、有吸引力的估价以及低利率环境。

与此相似，安本资产管理相信同其它市场相比，亚洲市场将继续提供较好的相对价值，支持因素包括充足的流动性、低利率和有吸引力的股息收益率。它补充道，"朝前展望，预计国内需求将对亚洲经济体的增长率起到更大的作用，而较少依赖出口。"

大华资产管理的高级投资组合经理Koh Swee Nguan先生持有同样的乐观看法。他表示："我们仍然对亚洲除日本外的市场持非常积极的态度，我们相信估价和收益为市场提供了上扬的最大潜力。"

他也补充说，投资者也许可以考虑商品交易，因为全球经济复苏也意味对像镍、铁矿、铜和金等商品的需求上升。

宝源认为，目前在经济复苏和盈利回复方面落后于世界其它地区的欧洲大陆，在今后数月可能提供比较好的回报。它预期欧洲明年的盈利增长将继续改善。因此吸引全球的投资者参与持续的股市上涨。

2004年亚洲主要市场展望

"我们预期泰国、中国和韩国在2004年将有优越的表现。由于出口增长在2003年的高基础上减缓，内需加速增长，使它们的经济受益。"大华资产管理的亚洲市场专家主任Janet Liem小姐这样认为。

采用由下而上选股策略，宝源认为新兴市场如台湾和韩国的股市将出现很多好机会，那里的估价有吸引力。宝源也对日本持正面看法，并累积有良好素质且估价有吸引力的公司的股票。 这些公司的股票在上扬时虽然表现不佳，但宝源预期这一模式将在今后数月改变。

First State Investments 的Thompson先生则对马来西亚持乐观态度。他说："我们认为由于新首相将注重给外界留下有利印象，马来西亚可能有优越的表现。伴随对零吉增值的压力，我们相信马来西亚以资产膨胀刺激经济的策略将可能继续。"

安本的投资部门则已增持在印度的投资。安本认为印度有很多素质良好的公司被相对低估了价值。安本也看好东南亚市场的泰国、印尼和新加坡。

徘徊不去的风险因素

虽然对2004年股市有着乐观的展望，投资者也应留意："我们对股市的乐观展望，受到今年市场已表现强劲而风险偏好上升的抑制。"宝源警告道。

大华资产管理的Liem小姐也有同样的担心。由于市场热度在2003年已开始上升，现在估价的吸引力相对较低，而利率上升的环境将使这一担心变得更强。

被提到的其它风险因素包括外在突发事件的冲击，如恐怖分子袭击，高利率及美元的崩跌。

尽管如此，人们普遍预期随着全球经济复苏、企业盈利的改善、良性的利率环境以及充足的流动性，2004年股市将有优越的表现。