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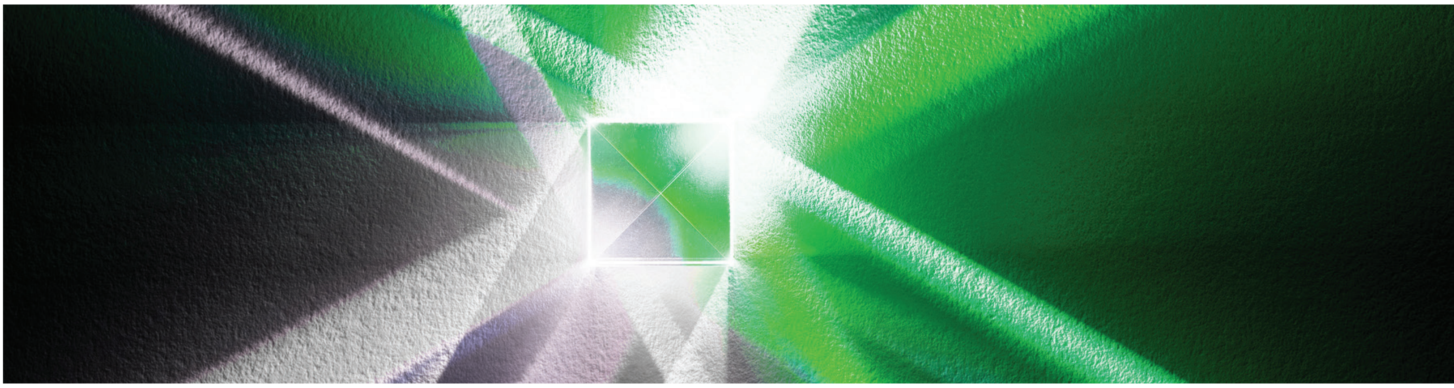

2021 MARKET OUTLOOK

From the ground up

Eastspring's Chief Investment Officers across Asia highlight the investment opportunities within their markets that reforms, technological innovation, new energy and a "China Plus One" strategy bring.

Ari Pitoyo
Chief Investment Officer
Eastspring Indonesia

"The passing of the Omnibus Bill and 2021 budget will benefit the real estate, material and financial sectors."

Woong Park
Chief Investment Officer
Eastspring Korea

"There are many emerging opportunities for equity investors as Korean companies embrace hydrogen technology in their businesses."

Doreen Choo
Chief Investment Officer
Eastspring Malaysia

"The tobacco, consumer and construction sectors are likely to benefit if the parliament passes Budget 2021."

Simon H T Liu
Chief Investment Officer
Eastspring Taiwan

"Taiwan is in a prime position to benefit from the trade diversionary effects triggered by the US-China trade war."

Chotechuang Teerakajornchote
Chief Investment Officer
Thanachartfund Eastspring

"We expect a recovery in the hospitality sector in 2021 to benefit the commerce, food & beverage and transportation sectors."

Ngo The Trieu
Chief Investment Officer
Eastspring Vietnam

"Growing Fixed Direct Investments have also created positive spillover benefits to supporting sectors such as transportation, logistics and warehousing."

Q. INDONESIA PASSED ITS LONG-AWAITED LEGISLATIVE REFORM PACKAGE IN NOVEMBER 2020. WHAT IS THE IMPACT ON THE ECONOMY AND WHICH SECTORS ARE LIKELY TO BENEFIT THE MOST?

Ari: The much-awaited Omnibus Law is aimed at boosting investments and creating jobs. The new law tackled several important issues such as simplifying business licensing, land procurement, ease of doing business and providing regulatory frameworks for investments into new industries. All of this is intended to improve Indonesia's investment competitiveness.

Separately, the government has also passed the 2021 state budget bill that is designed to accelerate the economic recovery nationwide amid the COVID-19 pandemic. Infrastructure continues to feature prominently with a 47% year-on-year increase set aside for development projects.

Given the above, the sectors most likely to benefit will be real estate, materials and financials. Furthermore, a brighter investment environment will lend stability to the Indonesian Rupiah. This in turn increases the attractiveness of the local currency bond market given that the 10-year bond is currently yielding 6.3%[1] while the 2021 inflation forecast based on the Bloomberg consensus is 3.0%.

We remain cognisant of the risks to our view. First, there can be a delay in the follow-ups to the Omnibus Law implementation. Second, COVID-19 infections can continue to escalate. Finally, a lower- than-anticipated government stimulus spending would result in a weaker economy with high interest cost/government revenue ratio.

Q. WHAT DOES SOUTH KOREA'S TRANSITION TO A HYDROGEN-BASED ECONOMY MEAN FOR INVESTORS?

Woong: The transition will not only help to decarbonise the environment, but also lift Korea's future economic growth. According to McKinsey & Company, Korea's hydrogen industry can potentially employ 600,000 people by 2050. The annual domestic revenues across the hydrogen value chain, from hydrogen generation through distribution to end-user applications can reach KRW 70 trillion by the same year.

There are many emerging opportunities for equity investors as Korean companies embrace hydrogen technology in their businesses. Some of the Korean automakers are already global leaders in using hydrogen fuel cells, a more efficient energy source, in their commercial and passenger vehicles. Korea's shipbuilders may enjoy new demand for hydrogen carriers and hydrogen storage facilities. Hydrogen powered ships could also emerge on the back of regulatory changes in the longer term. Refiners and gas distributors could benefit from being part of the hydrogen distribution network, as the hydrogen fuelling infrastructure is being developed. Meanwhile, although the valuations of steel, petrochemical and utilities companies have been discounted on the back of rising environmental costs and volatile earnings, this may change as they upgrade their facilities in order to lower carbon emissions. On balance, we believe these measures can help to elevate the valuation of the Korean equity market.

We are likely to see continued interest, especially from institutional investors for the environmental, social and governance (ESG) bonds issued by Korean companies. Given the government's initiative to nurture the hydrogen economy, there will be greater incentives for companies involved in power generation, infrastructure and energy storage to issue more ESG bonds. Automakers can also issue such bonds to fund hydrogen mobility solutions. If investor interest holds up, these ESG bonds may potentially lower the interest costs for these companies.

Source: [1]As at 6 November 2020.

Q. WHERE CAN INVESTORS FIND YIELD OPPORTUNITIES IN MALAYSIA? DO YOU SEE THE MARKET MOMENTUM BROADENING OUT IN 2021?

Doreen: With interest rates in Malaysia remaining low for some time, investors are likely to continue their search for yield. Obvious opportunities lie within the Malaysian REITS (MREITS) sector, whose yields of between 4% - 8%, offer at least a 130 basis points pick-up above the 10-year Malaysian Government Securities. Within MREITs, we prefer the resilience of the industrial REITs during these challenging times. Besides MREITs, selected big cap companies are currently offering dividend yields above 8%[2] following the corrections in their share prices in 2020, although some still face structural challenges. Many of the consumer names also have decent yields but tend to be smaller capitalised companies with lower liquidity.

The rubber glove sector has been the undisputed star performer in 2020. The sector is still expected to deliver strong earnings growth in 2021 on the back of sustained robust demand for rubber gloves. We remain positive on the sector given intact fundamentals and still-attractive valuations. That said, the sector may be volatile, subject to newsflow around potential vaccines as well as profit-taking. On the other hand, news of a readily available vaccine could boost sectors that have been most impacted by the pandemic.

The tobacco, consumer and construction sectors are likely to benefit if the parliament passes Budget 2021, an expansionary budget which emphasises business continuity and economic resilience. Meanwhile the Budget may have a slightly negative-to-neutral impact on the banking sector due to the extension of the loan moratorium. However, the significantly higher allocation to development expenditure proposed in the Budget should support economic activity in 2021 and help revive bank lending. If that comes to pass, we would see selective opportunities in the sector given that much of the bad news has already been priced into bank valuations. Meanwhile, the technology sector continues to present an attractive structural story, but valuations are relatively rich.

Q. TAIWAN HAS BEEN IN A SWEET SPOT IN 2020, GIVEN ITS WELL-CONTROLLED COVID-19 EPIDEMIC SITUATION AND COMPETITIVE TECHNOLOGY EXPORTS. WITH THE MARKET UP 16% YEAR-TO-DATE[3], WHAT WILL DRIVE IT HIGHER IN 2021?

Simon: The two key catalysts in 2021 would be technology and green energy. Riding on the global trend of artificial intelligence, 5G (base station, smartphone), and high-performance computing, Taiwan's technology stocks are speeding up the migration of advanced technology (e.g. producing 2 to 3 nanometres chips). At the same time the US-China trade war has benefitted Taiwanese companies. China, for instance, has pushed for localisation to replace US technologies with indigenous applications while the US has pressed to lower China companies' participation and look for alternatives. Taiwan is in a prime position to benefit from these trade diversionary effects partly because of its geographical proximity to, and trade links with, mainland China.

Secondly, the rising awareness of technology companies' clean power policy is boosting green energy development (wind power, solar) globally. Moreover, Taiwan government has set a clear rule for 20% of total power consumption to be green energy by 2025. One of Taiwan's leading technology company has committed to using 100% green energy by 2050 and has already signed a 20-year 920MW contract with the largest energy company in Denmark. Hence the green energy component and power-grid/power-station stocks will enjoy a strong upcycle from 2021.

Source: [2]Bloomberg. [3]TAIEX in TW dollar terms from Refinitiv Datastream as at 16 November 2020.

Q. POLITICAL UNCERTAINTY AND HEAVY RELIANCE ON EXPORTS AND TOURISM REVENUE HAS WEIGHED ON THAILAND. WHAT ARE THE BRIGHT SPOTS FOR THE ECONOMY AND MARKET IN 2021?

Chotechuang: With Thailand gradually reopening to foreign tourists, we expect the economy to grow at a moderate pace of approximately 3% in 2021, driven by steady domestic and export demand recovery and fiscal support. However inflationary pressures will be mild and as such interest rates will be kept low and supportive of growth. Anti-government protests are likely to continue and impact sentiment, but we do not expect a radical change in the political landscape.

The poor performance of the country's stock market in 2020 sets the stage for upside market potential, especially in the hospitality sector as the economy reopens in 2021. This in turn will spur domestic demand which will benefit the commerce, food & beverage, finance and transportation sectors.

The fixed income market is also likely to perform well on the back of the low interest rate environment. New government bond issuance for the year has been well planned with ample excess liquidity in the system. This should help to contain any yield curve steepening pressure. Corporate credit spreads should continue to narrow especially in the high quality/high grade segment. In sum, we expect both Thai equity and fixed income assets to provide reasonable returns in 2021.

Q. WHERE ARE THE POTENTIAL INVESTMENT OPPORTUNITIES IN VIETNAM AS SUPPLY CHAINS RELOCATE FROM CHINA?

Trieu: Vietnam has emerged as one of the leading beneficiaries of the "China Plus One" strategy given its favourable business environment, geographic proximity to China and numerous free trade agreements. A young and large population also offers competitive labour costs. By providing various incentive schemes which attract Foreign Direct Investments (FDI), Vietnam has become one of fastest growing economies within ASEAN, growing at around 6.8%- 7.0% in the last three years. The government's effective management of the COVID-19 outbreak in 2020 has allowed manufacturing and exports to continue despite the pandemic. As such, the economy is expected to grow 3.0% in 2020.

The "China Plus One" strategy has boosted the industrial real estate sector given the rise in demand for manufacturing sites on the back of increasing FDI. Growing FDI has also created positive spillover benefits to supporting sectors such as transportation, logistics and warehousing. Vietnam's strong economic growth should also underpin sectors that benefit from structural drivers such as growing domestic consumption and increasing urbanisation.

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