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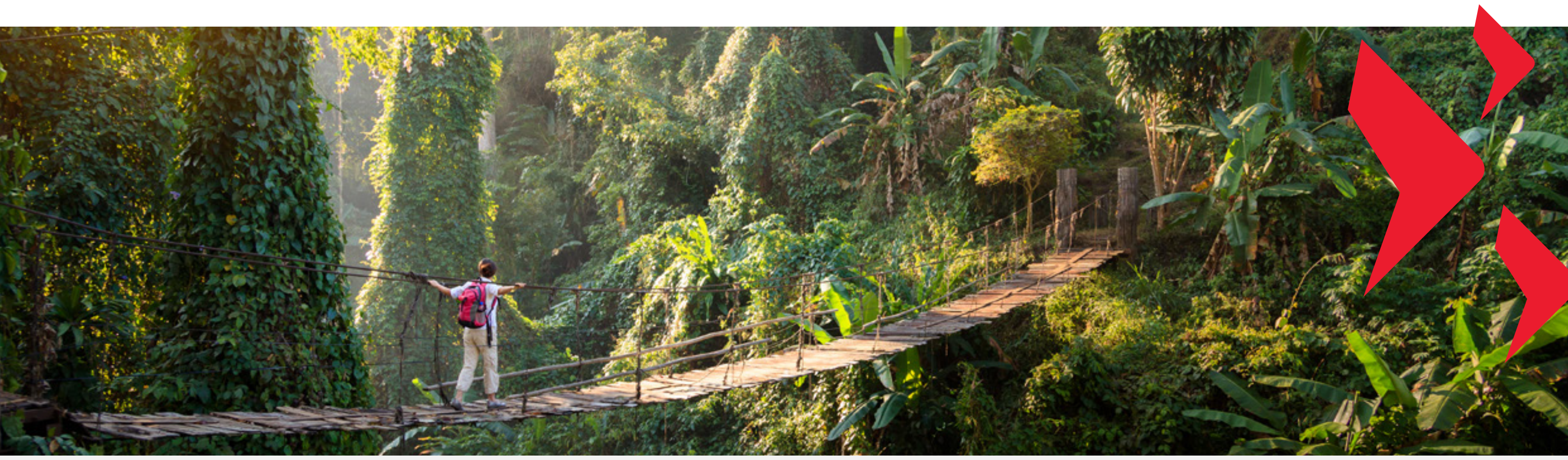

2023 Market Outlook

Embracing a different Asia

Asia's long-term investment attributes remain intact despite a reset in the growth trajectory due to the scarring from the pandemic. The investment universe is also becoming more diversified. Various countries are leveraging different competencies in the ongoing supply chain diversification and global decarbonisation cycles, offering opportunities in both developed and emerging Asia.

Growth in Asia Pacific is expected to decelerate to 4.0% in 2022 before rising to 4.3% in 2023 amid an uncertain global environment.[1] Apart from the risks discussed in **"Mapping a new normal"**, the slowdown in China is also a headwind to Asia. Still, there are bright spots and growth drivers in other Asian countries that present attractive opportunities.

OLD AND NEW GROWTH AREAS

A key theme in recent years has been the diversification of global supply chains out of China, mostly into the rest of Asia. Within ASEAN, countries that have been key beneficiaries of such migration include Vietnam and Indonesia. India is also starting to see the benefits of this move with the electronic manufacturing services and Electric Vehicle (EV) supply chain emerging as high growth areas. Stocks in these sectors are winning market share against competitors outside India. Manufactured exports are thus likely to become an additional growth engine for India. But as of now, Indian exports represent less than 15% of GDP. Thus, the impact of the global slowdown is likely to be lower compared to Asian peers.

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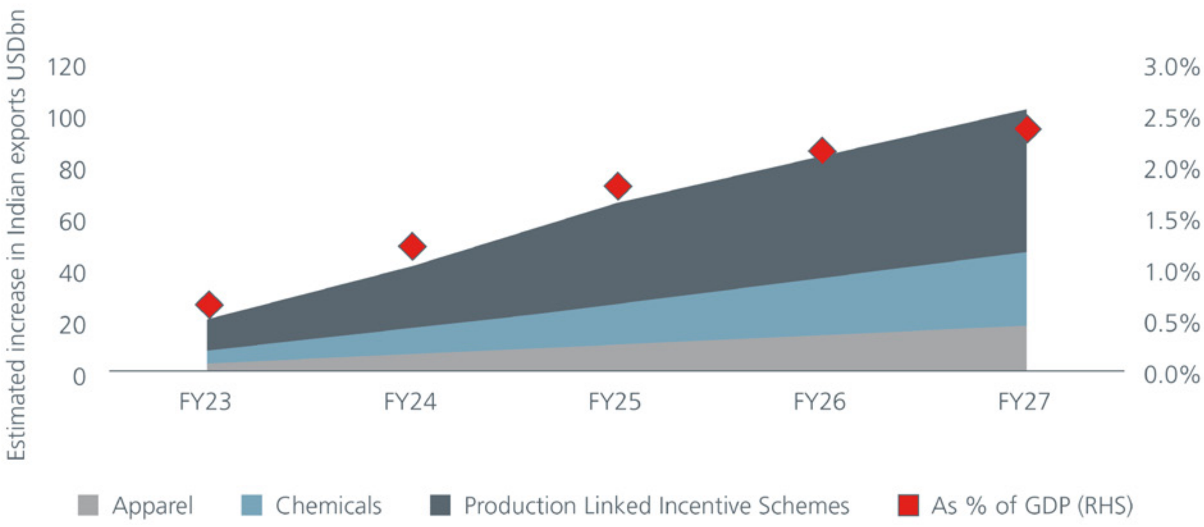
In response to the growing demand for stainless steel and EV battery materials, Indonesia is actively leveraging its rich resource base to develop an EV supply chain ecosystem. There are currently 138 smelters (mostly nickel) and about 6 industrial parks under development. These initiatives have the potential to materially revamp Indonesia's external trade landscape in the coming years.

Source: [1]IMF Regional Economic Report, October 2022.

India's manufactured exports could add 2.4% to GDP in five years



Source: Credit Suisse estimates, January 2022.

Meanwhile, Thailand's economy continues to benefit from the resumption in international travel and tourism. Consequently, tourism and consumer stocks offer attractive investment possibilities. In Malaysia, there will likely be a moderation of growth in 2023, not a recession, as export sectors i.e., oil and gas and electrical and electronic products should continue to do well. Vietnam's economy has recovered strongly post pandemic with GDP growing at 8.8% in the first nine months of 2022. Based on Vietnam's growth drivers, consumer-related and manufacturing sectors present good opportunities.

Across Asia, sustainability is another growth driver. Green infrastructure required to reduce carbon emissions offer many investment opportunities as discussed in **"Charting sustainability pathways"**. With more countries, companies and investors going green, we see opportunities for investors to align their investments with their sustainability views.

IMPACT OF THE TECH DECOUPLING

The global semiconductor chip industry is the latest victim of the US-China rivalry. The recent US semiconductor restrictions will to some extent force major players in the semiconductor supply chain i.e., Taiwan, Korea, and Japan to decouple from China. In Taiwan, however, the impact will be limited as most of Taiwan's semiconductor manufacturers focus on the advanced semiconductor processes and the revenue contribution from China is low.

Short-term geopolitical risks and rising cross-strait tensions with China have caused volatility in Taiwan stocks, but there is no obvious sign of a rise in the risk premium of Taiwan stocks. The competitiveness of the national economy and key industries are the most important factors affecting the evaluation of Taiwan's stock market.

Meanwhile Korean semiconductor companies will face short-term inefficiencies arising from difficulties in upgrading fabs in China. But we see this development as a long-term positive as Korean companies have started to redesign their existing fab location strategy.

WHERE WE SEE OPPORTUNITIES

The risk of a global economic slowdown, higher rates, and higher inflation will present opportunities for stock pickers focused on quality growth at a reasonable valuation. North Asian markets (Korea, Taiwan, China, and Hong Kong) look very cheap given that they have declined some 20% to 30% in 2022. Moreover, most will experience a positive spill over impact from China's re-opening discussed in **"Tracking China's re-opening"**.

Another area that offers interesting opportunities especially in Taiwan is the Cloud & Hyperscale Data Centre supply chain segment. Companies that make connectors, circuit boards, etc. will benefit from the growing number of such centres. According to Synergy Research Group, there were 728 hyperscale data centres in operation worldwide by the end of 2021. By 2026, this number will reach 1,200. The US will continue to be the largest single market for such facilities.

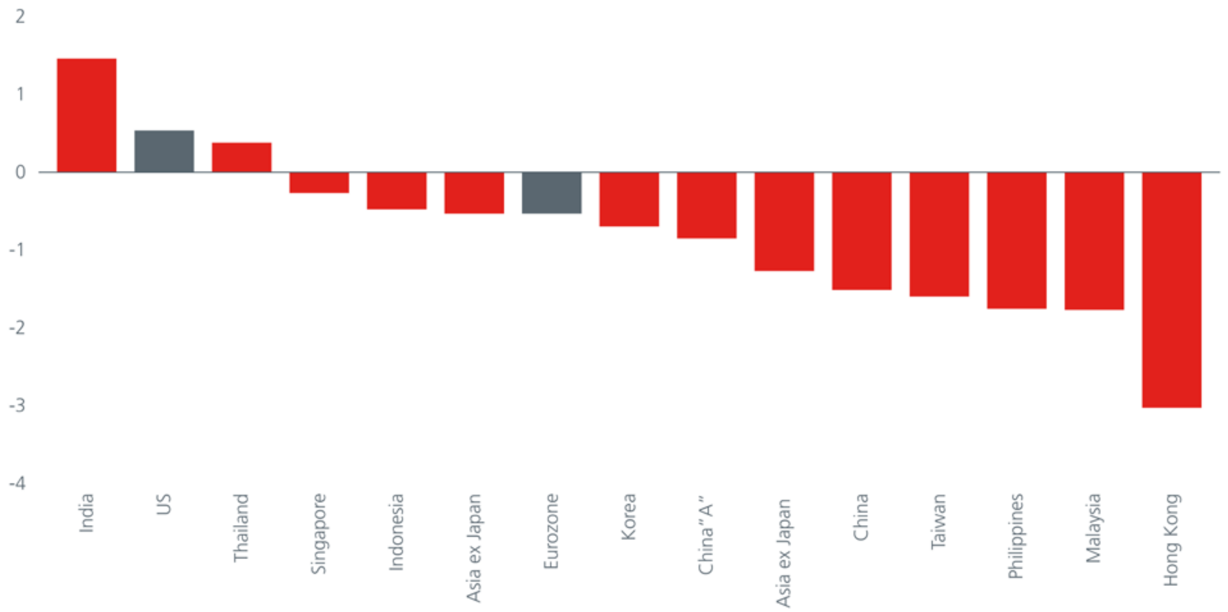
On the other hand, ASEAN markets (particularly Singapore and Indonesia) and India stayed positive in local currency terms in 2022 and do not look cheap on valuations, both in absolute terms and versus its own history. Active stock selection will be needed to identify the winners. Across ASEAN and even within India, we are seeing selected banks that are looking attractively valued. There is potential here for margins to pick up with strong nominal GDP growth and asset quality improvement coming off a low base in 2021 that can support earnings into 2023. Separately as Asia lagged the rest of the world in opening up post COVID, the full-year benefit of re-opening may only be seen in 2023 for the services sectors across the region.

Japanese corporates warrant a standalone mention as their earnings have remained resilient despite the pandemic. Corporate restructuring over the last decade has resulted in higher operational efficiency and improved trend profitability. The weaker Yen has been a headwind for domestic companies that import raw materials, but a boon for exporters, especially auto names. Domestic and defensive stocks would likely have the most upside sensitivity to any Yen strengthening. Japanese equities are cheap both versus its own history and other Developed Markets and there are many opportunities for double digit returns over the coming years.

Within the Asian bonds segment, we see opportunities in high-quality fixed income as the absolute yields are at their most attractive levels in over a decade. Investors can lock in positive real returns by allocating capital to short-term investment grade securities backed by healthy issuers that are yielding above inflation.

Meanwhile Asian high yield bonds are currently amongst the cheapest of risks assets. However new investors may wish to see if the US Fed is mostly done with its hiking cycle, and

Most Asian markets are cheaper than the US



Source: Refinitiv Datastream and MSCI for all except China"A" as at 31 October 2022. Z scores calculated based on the standard deviation from the 12-year rolling price to book value.

for signs of China re-opening. For existing investors shaken by the selloffs caused by the turmoil in the Chinese property sector, we suspect a few things need to happen to bring these investors' confidence back: a) some semblance of a bottoming out or turn in China's physical property market together with supportive policies on the financing front, and b) successful restructuring of some private developers with large offshore bond holdings.

Investment implications

Themes	Rationale	Asian including Japan equities	Asian Bonds
Exploiting higher real rates	There will be higher demand for mispriced and under-invested assets as investors refocus on company profitability.	✓ Value ✓ Growth stocks at reasonable valuations	
Benefitting from supply chain diversification	Greater efforts are being made to transition the economies toward higher-value upstream chains.	✓ ASEAN ✓ India	
Getting to net zero	More companies and investors are committing to ESG considerations.	✓ All Asia	✓ Asia sustainable bonds
Moving towards peak Fed hawkishness	The outlook for high-quality fixed income is favourable as yields are most attractive in over a decade.		✓ Asian investment grade
Positioning for China's re-opening and property sector bottoming	Spill over benefits to trade and tourism. Confidence is restored in the property sector which is 50% of the Asian high yield segment.	✓ All Asia	✓ Asian high yield

Source: Eastspring Investments, November 2022.

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CONTRIBUTORS

John Tsai, Head of Growth Equities, Eastspring Singapore
Sundeep Bihani, Portfolio Manager, Equities, Eastspring Singapore
Anand Gupta, Portfolio Manager, Equities, Eastspring Singapore
Ivailo Dikov, Head of Japan Equities, Eastspring Singapore
Danny Tan, Head of Fixed Income, Eastspring Singapore
Wai Mei Leong, Portfolio Manager, Fixed Income, Eastspring Singapore
Doreen Choo, Head of Investments, Eastspring Malaysia
Liew Kong Chian, Head of Investments, Eastspring Indonesia
Bodin Buddhain, Asset Allocation Strategist, Eastspring Thailand
Nguyen Thi Bich Thao, Head of Equities, Eastspring Vietnam
Rebecca Lin, Head of Investments, Eastspring Taiwan
Paul Kim, Head of Equities, Eastspring Korea

Explore the other themes in our 2023 Market Outlook

Mapping
another new normal

Tracking
China's re-opening

Charting
sustainability pathways

Pursuing
resilience amid volatility

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