



Asia Macro & Market Outlook

4Q 2020 Edition

16 Oct 2020



Sumitomo Mitsui DS Asset Management

Directory

Macro Outlook

- Summary P2
- China P3
- NIEs 4 P4
- ASEAN 5 P5
- India P6
- Oceania P7
- Forecasts: GDP, CPI, and policy rate P8

Equity Markets Outlook

- 3Q20 market review P9
- Summary P10
- EPS and EPS revision P11 - 12
- Valuation band P13 - 16
- China P17
- India P18
- NIEs 4 P19
- ASEAN 5 P20
- Oceania P21

Introduction of Asia Research Center P22

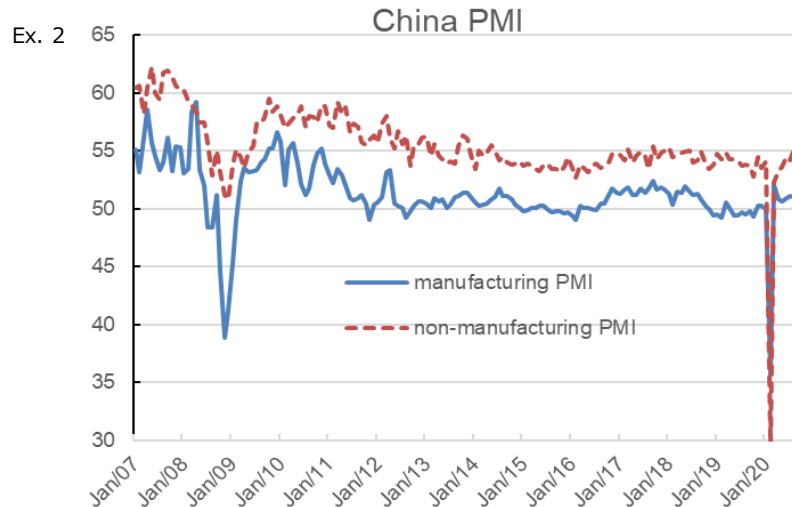
Summary

- Chinese economy should come back to potential growth in 4Q20, with policy stance shifting to neutral.
- NIEs 4 economies should continue to improve, driven by external demand.
- ASEAN 5 recovery should be dragged by new waves of Covid-19 outbreak and political uncertainties.
- We expect Reserve Bank of India to resume rate cut in Dec to boost economic revival.
- We expect Reserve Bank of Australia to cut policy interest rate in Nov.

(Note) Outlook as of 14 October 2020; subject to update thereafter without notice.

China – Coming back to potential growth

- We expect economic growth to come back to around 6% in 4Q20, near potential growth.
- Both manufacturing and non-manufacturing sectors should continue upside momentum.
- Monetary policy should be neutral to maintain liquidity at current level. We see limited chance for further easing or tightening.

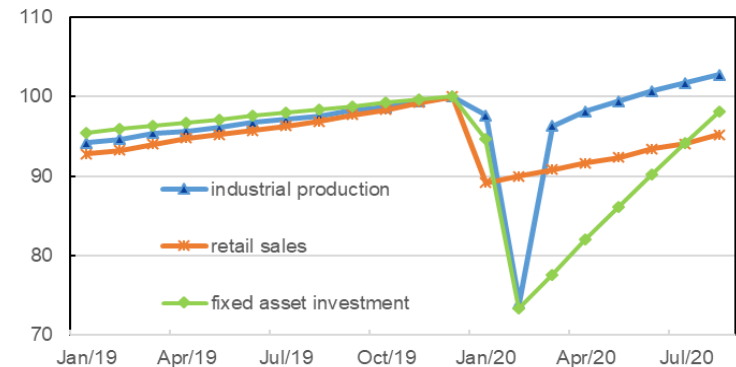


Source: Wind, SMDAM

Data period: 01/2007– 09/2020

Ex.1

(Dec19 = 100) China Key Economic Indicators

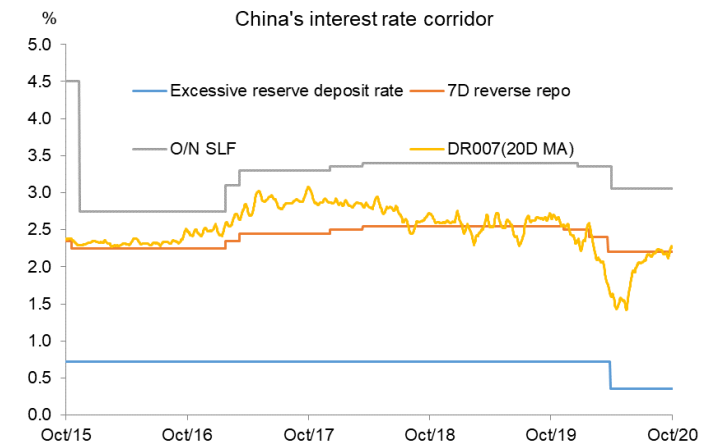


(note) seasonally adjusted basis

Source: Wind, SMDAM

Data period: 01/2019– 08/2020

Ex. 3



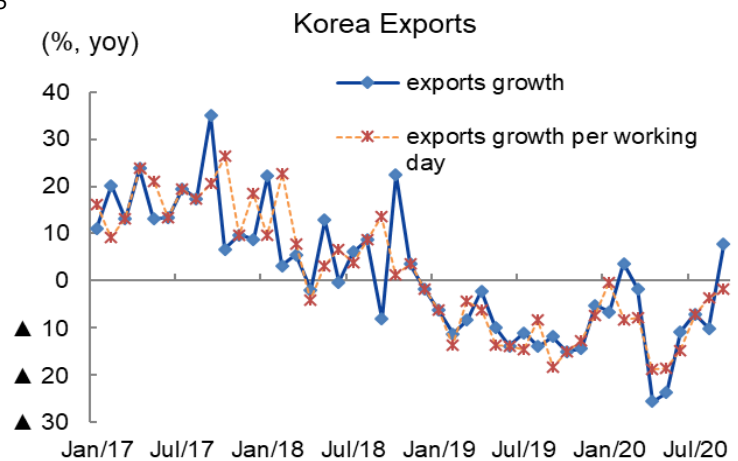
Source: Wind, SMDAM

Data period: 10/2015– 10/2020

NIEs 4 – Export-driven recovery

- NIEs 4 recovery has been supported by rebounding exports.
- NIEs 4 exports are likely to maintain solid growth as tech peak season arrives.
- Domestic demand recovery still depends on local Covid-19 containment.

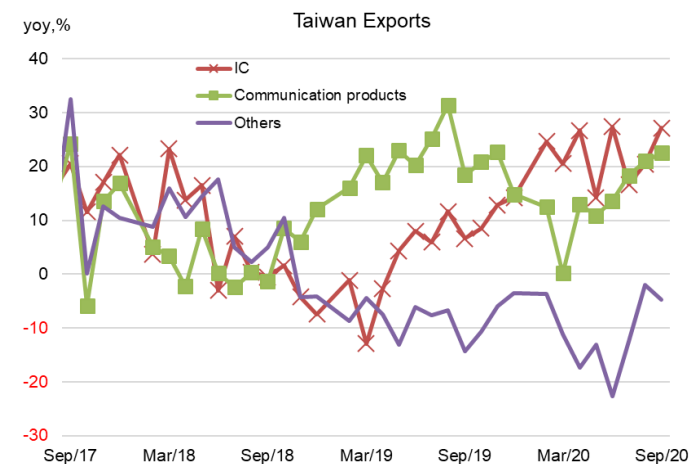
Ex. 5



Source: CEIC

Data period: 01/2017-09/2020

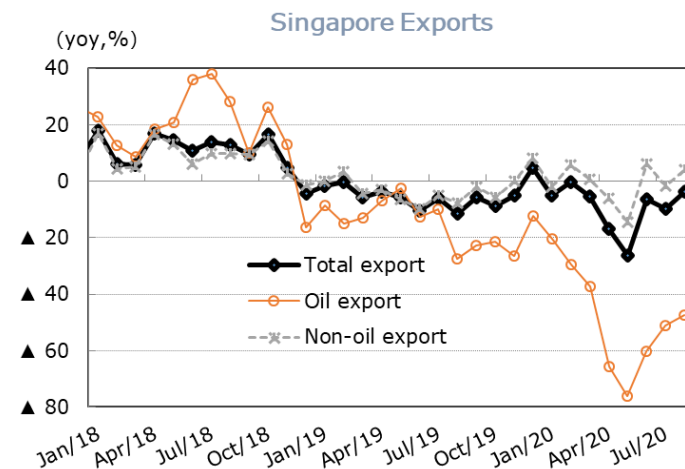
Ex. 4



Source: CEIC

Data period: 09/2017- 09/2020

Ex. 6



Source: Wind

Data period: 01/2018- 08/2020

ASEAN 5 – Bumpy road for recovery

- New waves of Covid-19 outbreaks in Malaysia, Indonesia, and the Philippines should drag recovery pace.
- Political uncertainties in Thailand and Malaysia should weigh on business sentiments.
- We expect rate cuts in 4Q20 in the Philippines and Vietnam as inflation pressure eases.
- Central banks in Thailand, Indonesia, and the Philippines may shift to QE to support proactive fiscal policy.

Ex. 8

Political uncertainties

Thailand:

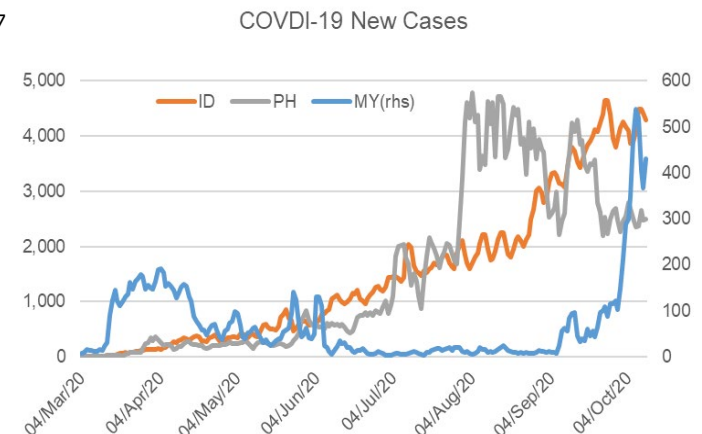
- Power struggle between Prime Minister Prayuth and Deputy Prime Minister Prawit, which could result in conflicts inside the military.
- Protest against incumbent government and the monarchy system, which could turn into social unrests.

Malaysia:

- Opposition leader Anwar claimed to have majority support in the Parliament, which could lead to a snap-election.
- Fiscal budget scheduled in early Nov may be delayed.

Source: SMDAM

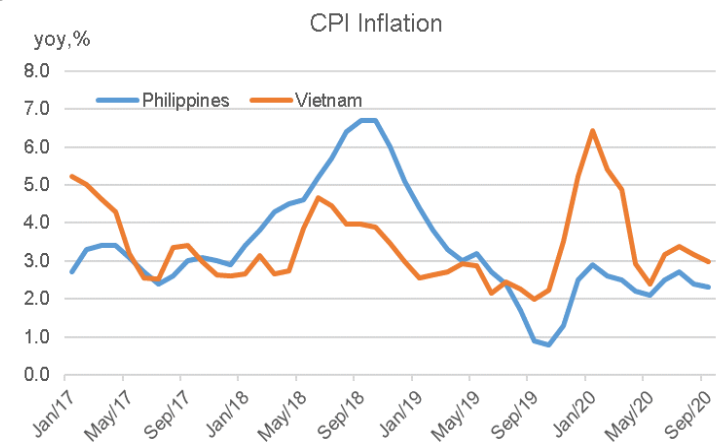
Ex. 7



Source: Wind

Data period: 03/2020– 10/2020

Ex. 9



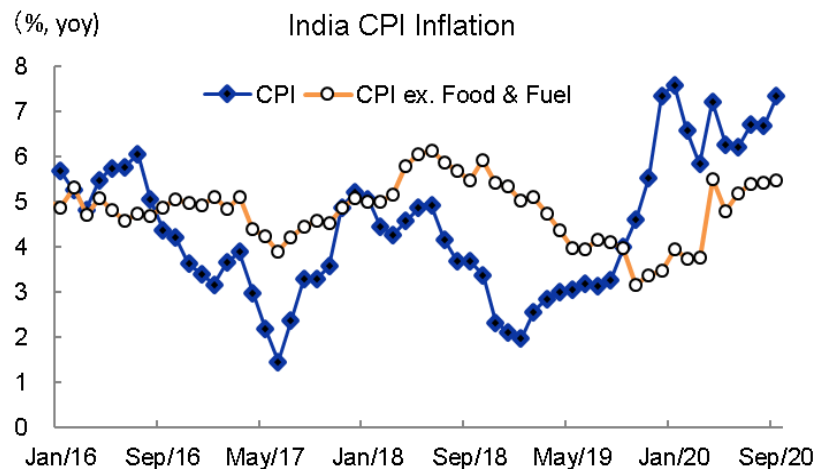
Source: CEIC,SMDAM

Data period: 01/2017– 09/2020

India – Monetary easing needed to revive growth

- Economy has entered recovery phase, but the pace is moderate while service sectors lag behind manufacturing sectors.
- CPI inflation remains elevated due to supply shock, but should gradually ease in 2H of FY20/21.
- RBI gave dovish guidance that it would remain accommodative and prioritize supporting growth.
- We expect another 50bp rate cut in Dec, with on-hold risk because onion prices may rise further, which should fuel inflation expectation.

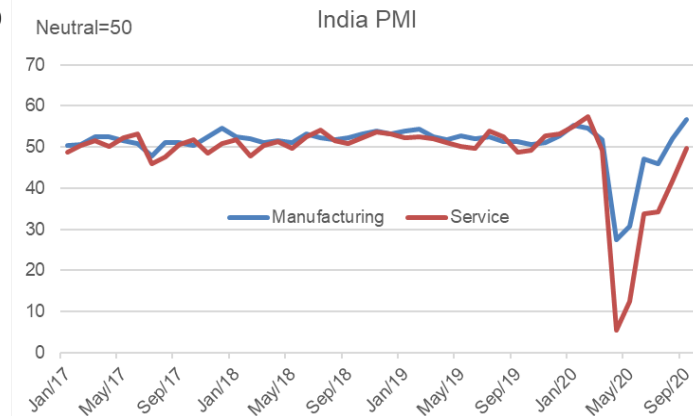
Ex. 11



Source: CEIC

Data period: 01/2016– 09/2020

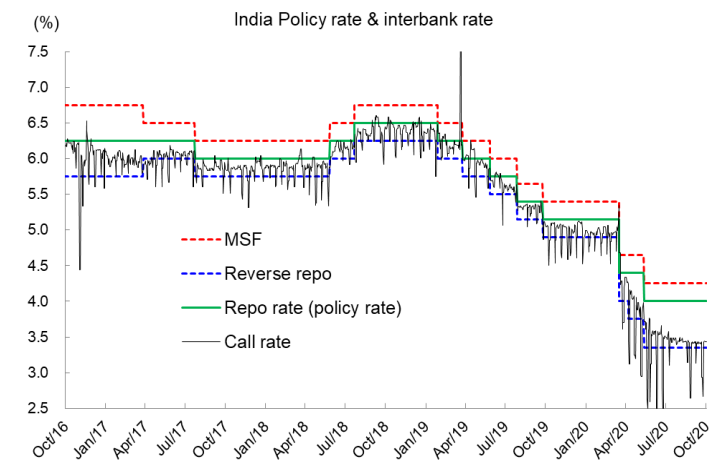
Ex. 10



Source: CEIC

Data period: 01/2017– 09/2020

Ex. 12



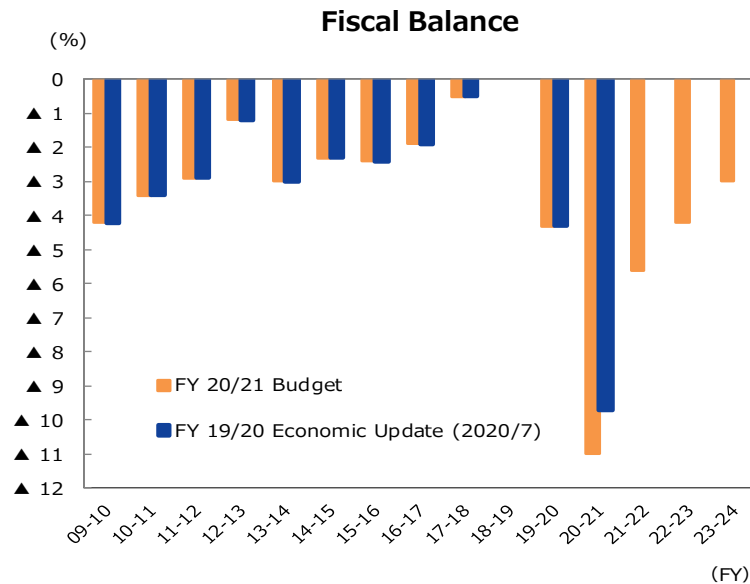
Source: CEIC

Data period: 10/2016– 10/2020

Oceania – Rate cut in 4Q20

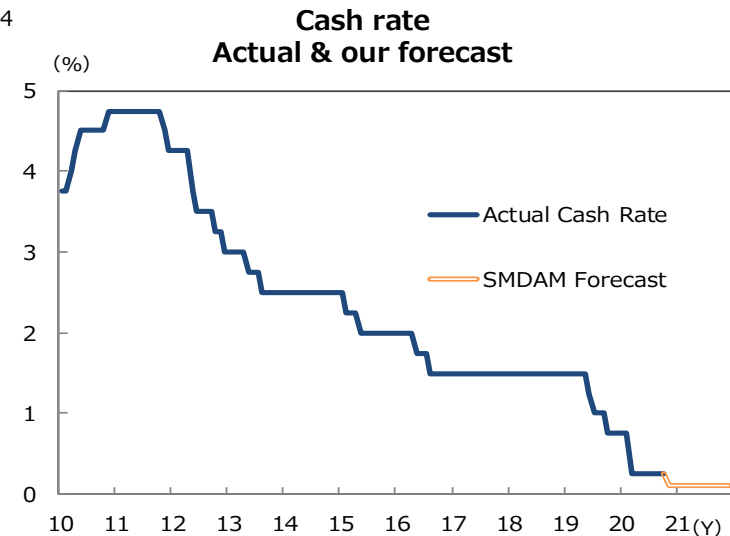
- We expect a 15bp rate cut (0.25%→0.10%) at Australia's Nov MPC.
- Government projected cash deficit of A\$213.7bn (11.0% of GDP) in FY 2020/21 and A\$112.0bn (5.6% of GDP) in FY 2021/22.
- We expect economic growth to come back to +2.8% in 2021, after going through its first recession since 1991 in year 2020.
 - Upside risk: Better household consumption and capital investment in case of vaccine success.
 - Downside risk: Additional lockdown in Melbourne, tensions with China could affect goods export as well as the number of inbound international students.

Ex. 13



Source: Australian Government

Ex. 14



Source: Bloomberg

Data period: 01/2010– 10/2020

(Note) This analysis is as of 14 Oct 2020; subject to update thereafter without notice.

Forecasts: GDP, CPI, and policy rate

Ex.15

		GDP			CPI			Policy Rate						
		2019	2020	2021	2019	2020	2021	2019	2020	2021	2020			
											1Q	2Q	3Q	4Q
China		6.1	2.6	9.3	2.9	2.8	1.9	4.15	3.85	3.85	4.05	3.85	3.85	3.85
India		4.2	-11.8	13.0	4.8	5.5	3.6	5.15	3.50	3.25	4.40	4.00	4.00	3.50
N I E S 4	Korea	2.0	-0.7	3.4	0.4	0.6	1.7	1.25	0.50	0.50	0.75	0.50	0.50	0.50
	Taiwan	2.7	1.0	3.7	0.6	-0.1	1.5	1.375	1.125	1.125	1.125	1.125	1.125	1.125
	Singapore	0.7	-5.7	4.9	0.6	-0.2	1.4							
	Hong Kong	-1.2	-7.2	5.7	2.9	0.4	2.2							
A S E A N 5	Indonesia	5.0	-2.3	5.3	2.8	2.1	2.7	5.00	4.00	4.00	4.50	4.25	4.00	4.00
	Thailand	2.4	-7.4	5.0	0.7	-0.9	0.9	1.25	0.50	0.50	0.75	0.50	0.50	0.50
	Malaysia	4.3	-7.4	7.0	0.7	-1.2	1.7	3.00	1.75	1.75	2.50	2.00	1.75	1.75
	Philippines	5.9	-10.2	7.4	2.5	2.6	2.9	4.00	1.75	1.75	3.25	2.25	2.25	1.75
	Vietnam	7.0	2.6	7.6	2.8	3.7	3.1	6.00	4.00	4.00	5.00	4.50	4.50	4.00
Australia		1.8	-4.1	2.8	1.6	0.7	1.4	0.75	0.10	0.10	0.25	0.25	0.25	0.10

(Note) Forecasts as of 14 Oct 2020; subject to update thereafter without notice. Figures in yellow are actual y-o-y growth figures; others are forecast.

Source: SMDAM

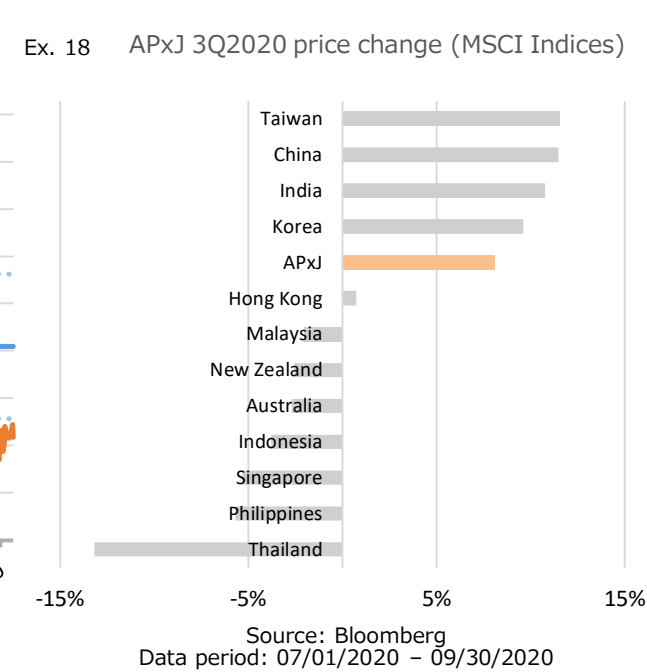
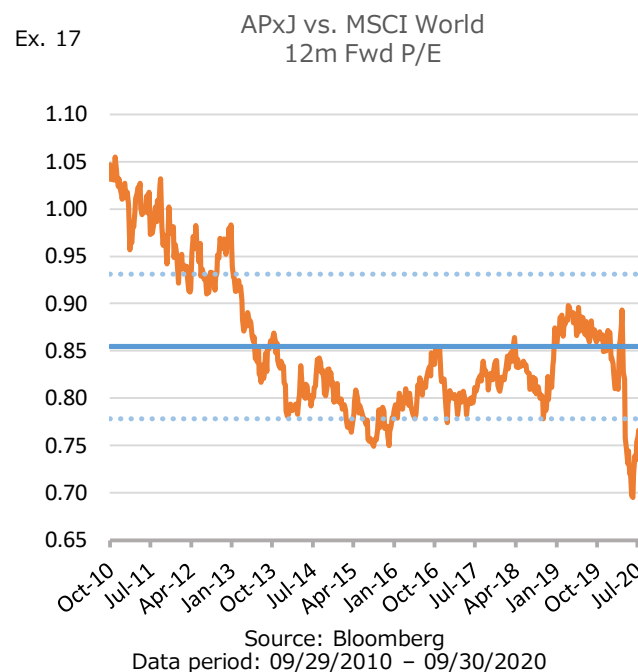
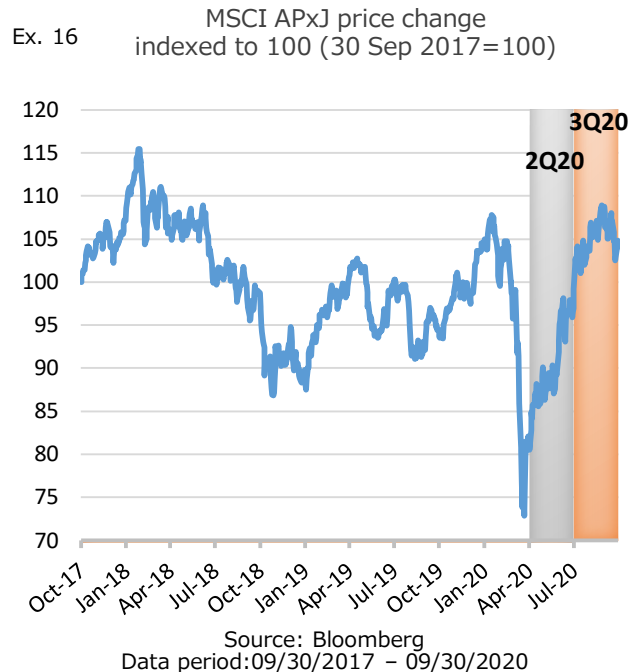
3Q20 Market review – Recovery of North & South diverges

- Towards the end of the third quarter, we saw a correction after almost six months of stimulus driven rally which brought the MSCI APAC ex-Japan index back to pre-Covid level.
- The valuation gap between APxJ and developed markets narrowed post rebound, but remains attractive at 1 STD below 10-year average. This is partially due to difference in sector weightings between the two indices, as MSCI World is comparatively heavy on tech and light on financials.
- Performance in Asia diverged as India and North Asia continued their rebound while Southeast Asia lagged. China, Taiwan, and Korea saw a rebound in economic activity as Covid-19 was quickly contained, while the prolonged halt in tourism hit markets like Thailand, Indonesia, and the Philippines.

Market continues stimulus driven rally in 3Q with a correction in September

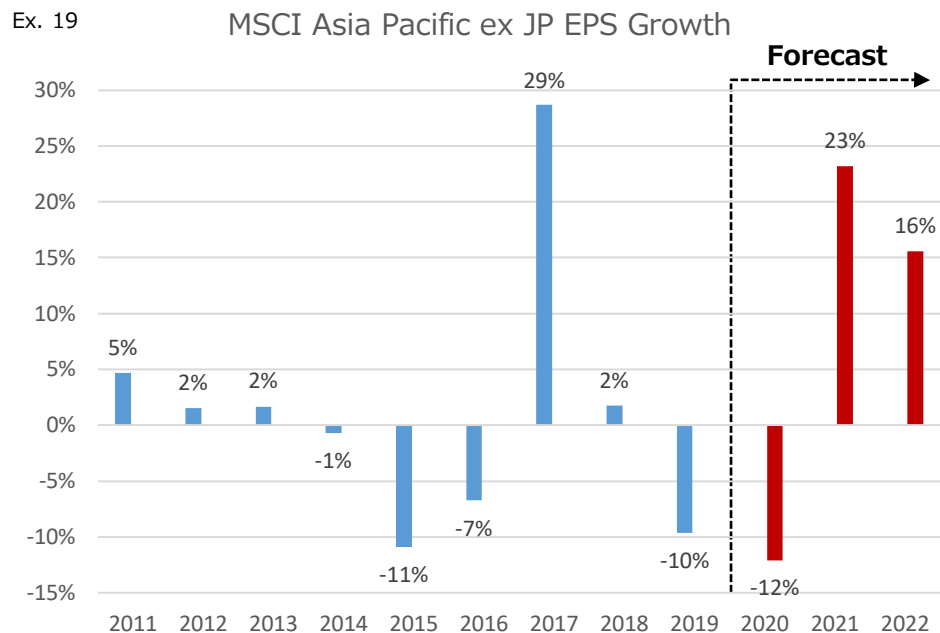
EM discount to DM still large

Tech heavy North Asia rally continues while SEA lags

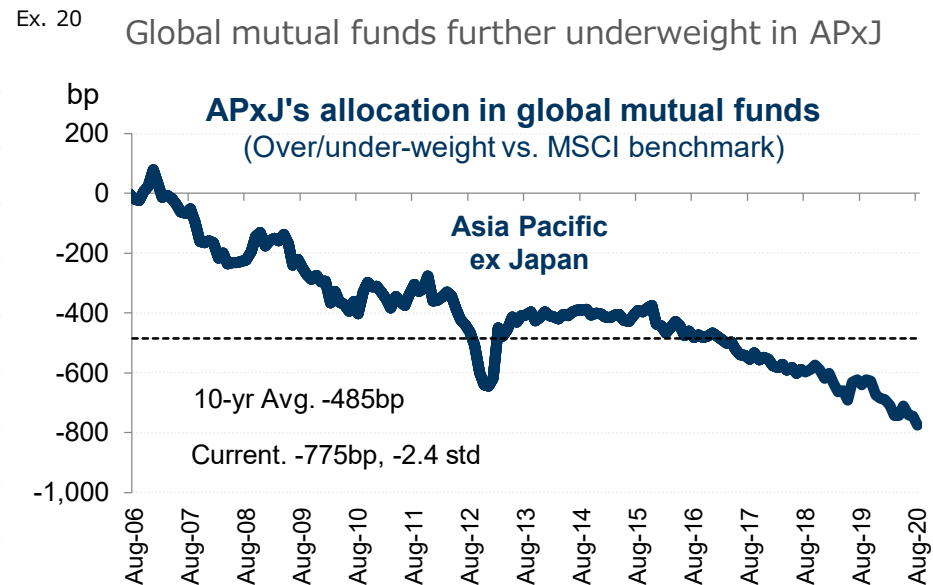


Summary – Awaiting earnings recovery past 2020

- After the unexpected interruptions to the economy in 2020, EPS growth is expected to bounce back on low base effect well into 2022, which the market has largely priced in with current valuations (page 14).
- Underweighting of APxJ among global mutual funds continues as large US tech companies grew bigger during Covid lockdowns, drawing in more funds. However, Asia Pacific, being home to many world-leading tech names, is also well positioned to capture the acceleration of tech adoption.
- Upcoming US election will create some volatility. This election is perhaps more sensitive than others given the incumbent president's controversial character. However, we expect market to gradually test the peak post election as uncertainty subsides and earnings recover.



Source: Factset
Data retrieved October 13th 2020



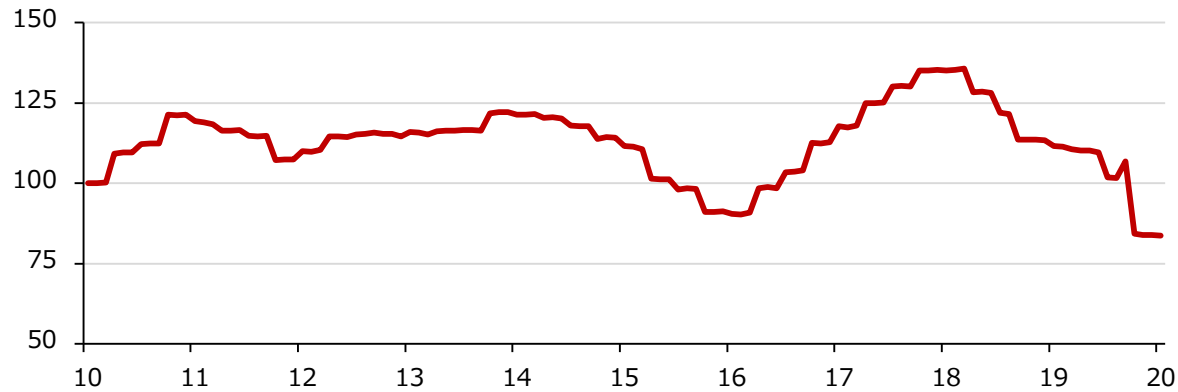
Note: Global funds include both global & global ex-USA mandates.
Total AUM = US\$ 1.7tn.
Source: EFPR, FactSet, MSCI, Goldman Sachs Global Investment Research
Data period: 08/31/2006 – 08/01/2020

EPS - Covid-19 disruptions priced in, recovery ahead

(Trailing 12M)

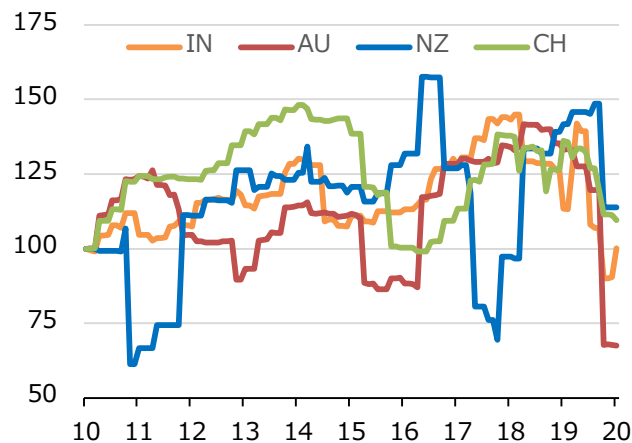
Ex.21

MSCI Asia Pacific ex Japan (30 Sep 2010 = 100)

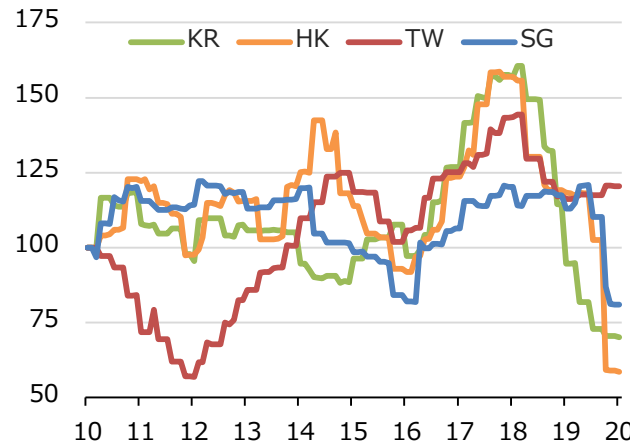


Ex. 22-24

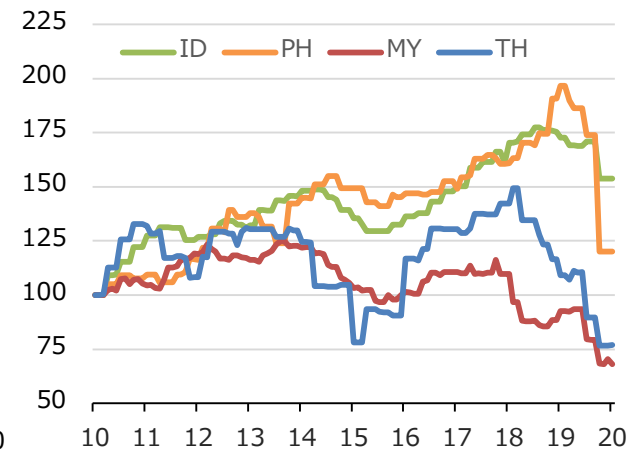
EPS Growth (30 Sep 2010 = 100)



NIES 4



ASEAN 5



Source: Bloomberg
Data period 09/30/2010 - 09/30/2020

EPS revision – Optimistic for 2021

- Market exhibits optimism for 2021 as APxJ EPS revision rose slightly in beginning of 4Q from 12 weeks ago. Projection for EPS recovery in NZ and Australia is especially buoyant as Covid-19 restrictions fade in Australia while the government provides strong support.
- Revision ratio – number of positive vs. negative revisions - reverses course for India, North Asia. Tourism dependent Southeast Asia lags. However, any upcoming relaxation in travel and tourism restrictions should benefit these countries disproportionately.

Ex. 25

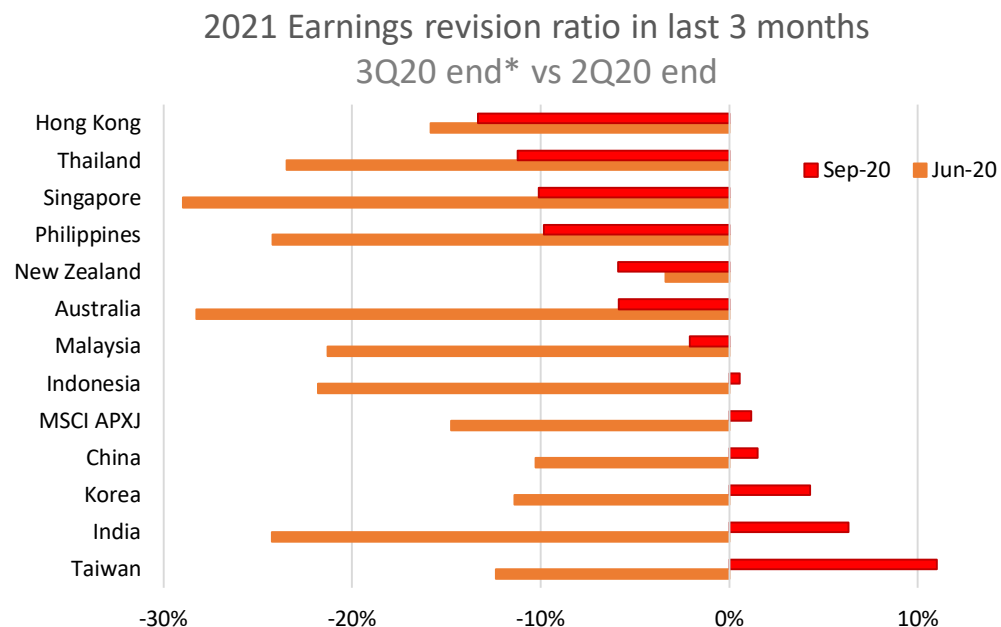
EPS Revision	12 Weeks	
	2020	2021
China	0.9%	0.9%
Hong Kong	(13.5%)	(6.6%)
Korea	0.4%	(1.1%)
Taiwan	7.5%	6.1%
Singapore	(14.0%)	(4.0%)
Malaysia	(6.6%)	9.8%
Thailand	(12.8%)	(8.3%)
Indonesia	(5.2%)	(0.9%)
Philippines	(16.6%)	(9.6%)
India	0.0%	2.1%
Australia	(2.1%)	12.9%
New Zealand	(4.7%)	10.7%
MSCI Asia Pac Ex Jp	0.0%	1.4%

Note: EPS % change in 12 weeks time prior to 2nd October 2020.

Source: I/B/E/S

Data as of 10/02/2020

Ex. 26



Note: Earnings revisions ratio = (No. of estimates upgraded - No. of estimates downgraded) / Total number of estimates

Source: I/B/E/S, MSCI, RIMES, Morgan Stanley Research

Data as at 09/22/2020

Valuation band – Global liquidity stretches valuation

Ex. 27-28

12m fwd P/B normalize



12m fwd P/E well above average



Source: MSCI, Factset
Data period: 10/02/2015 – 10/02/2020

Valuations – China, India, and Oceania

Ex. 29-36

China - **Expensive**

India - **Expensive**

Australia - **Expensive**

New Zealand - **Expensive**



Source: FactSet, MSCI Data period: 10/02/2015– 10/02/2020

Valuations – NIEs 4

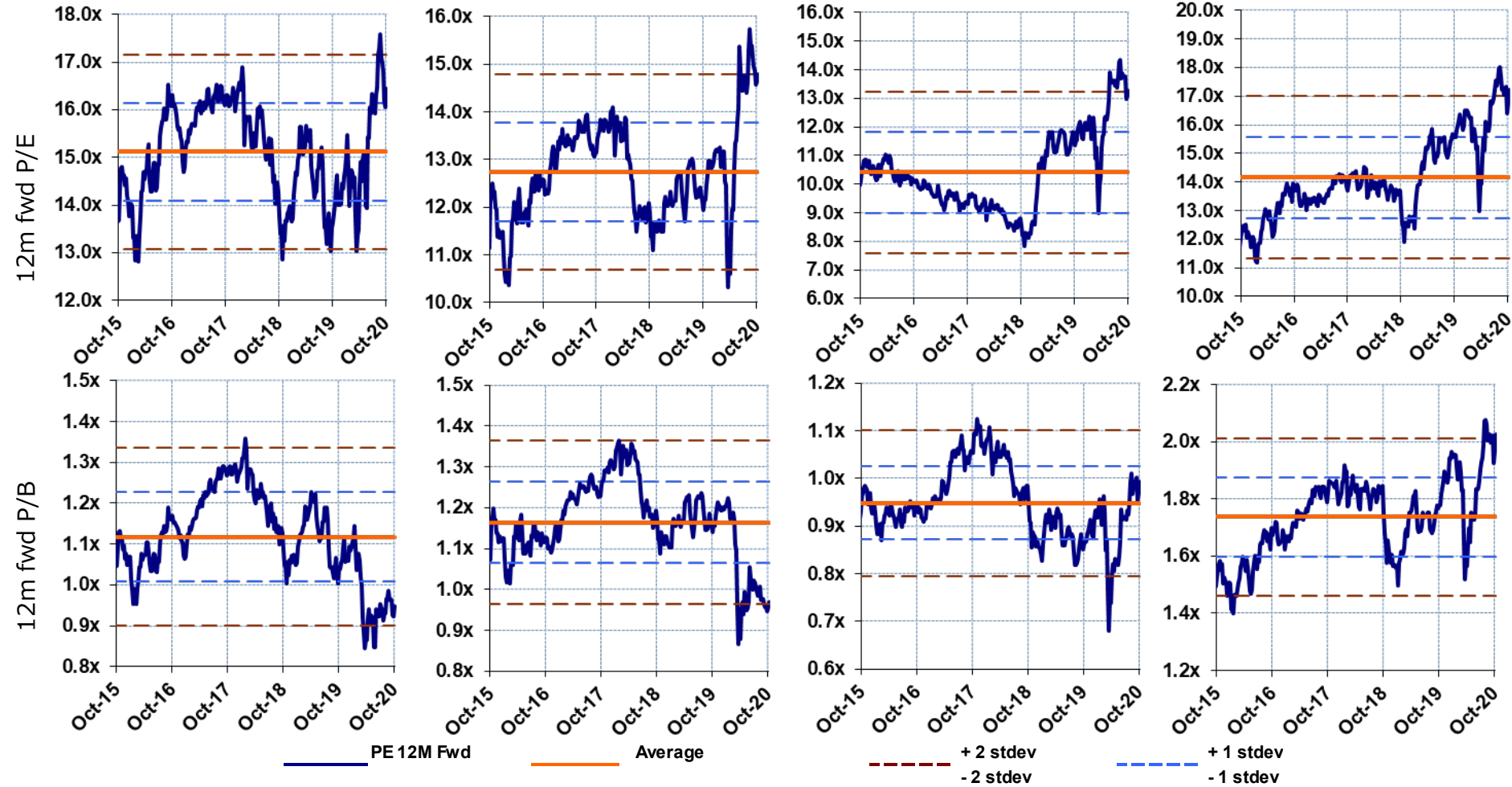
Ex. 37- 44

Hong Kong – **Attractive**

Singapore - **Fair**

Korea – **Expensive**

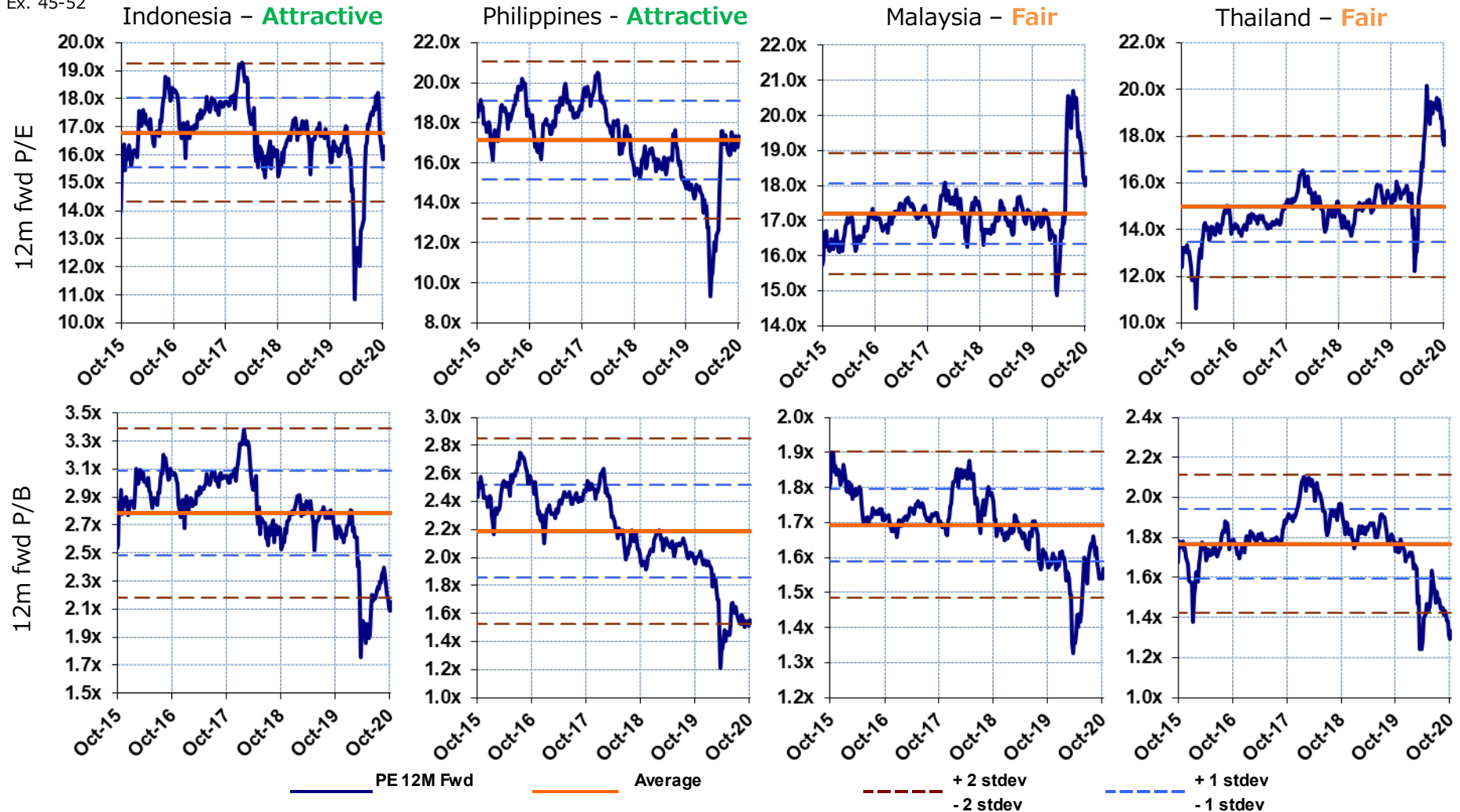
Taiwan – **Expensive**



Source: FactSet, MSCI Data period: 10/02/2015– 10/02/2020

Valuations – ASEAN 5

Ex. 45-52



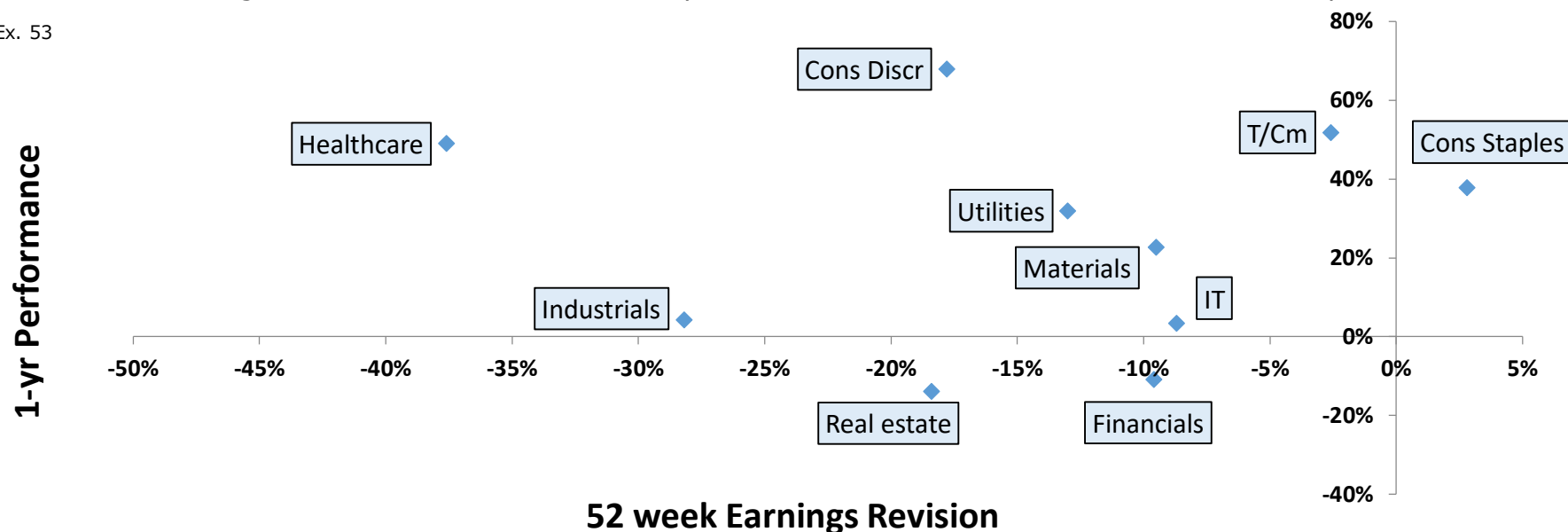
Source: FactSet, MSCI Data period: 10/02/2015– 10/02/2020

China – Stretched valuations post rebound

- MSCI China was among the best performing indices amid Covid-19 as the swift lockdown proved to be effective in containing the virus, creating the path for a quick recovery. Most sectors had positive 1-year return to end of 3Q2020 as China shrugs off Covid-19.
- Valuation has become stretched and market could be range bound in the short-term, while US presidential election and related China policies may cause some volatility. However, we expect earnings recovery to drive stock performance in the mid- to long-term, and remain optimistic on China.
- In terms of industry preference, we continue to focus on consumer related business as China increasingly gears toward internal circulation.

Moderate negative revision does not detract positive returns in most sectors; consumer staples stand out

Ex. 53



Note: 1-yr performance: 10/02/2019 – 10/02/2020

Earnings revision as of 10/02/2020

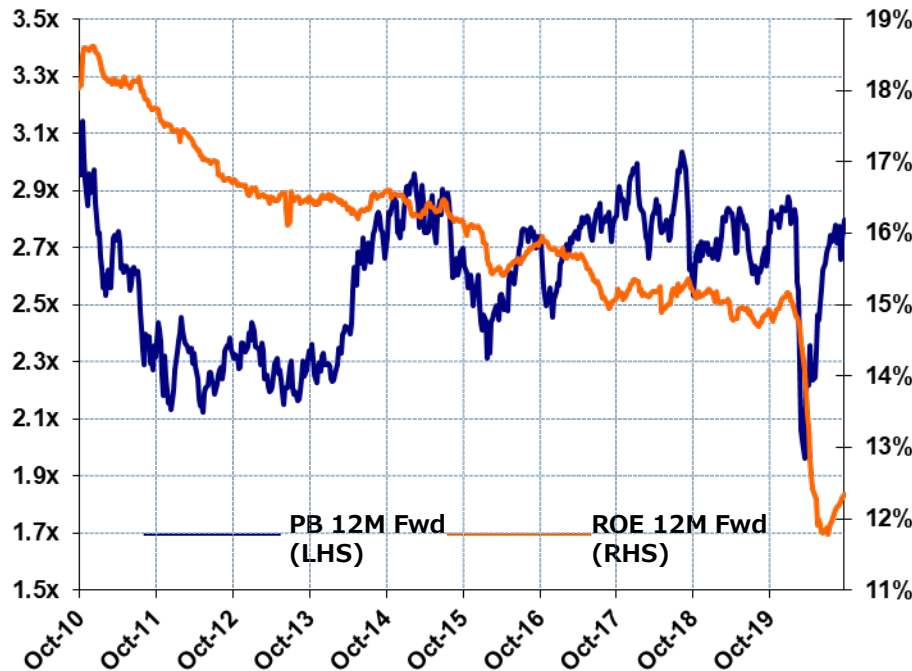
Source: FactSet, I/B/E/S

India – Valuation overshoots

- MSCI India continued strong rebound as global liquidity piles into Indian equities.
- However, it is difficult to justify current valuations with weak ROE. Possible further downgrade of sovereign rating adds to headwinds.
- Covid-19 is still a major concern, but its trajectory appears as one cause of optimism as both new infections and death rate peaked at the end of 3Q, after cases surged around July. Expectation of earnings recovery is rising.

Ex. 54

P/B rises sharply, ROE dives
MSCI India P/B 12M Fwd vs ROE 12M Fwd



Ex. 55

Valuation well above historical average
MSCI India EV/EBITDA 12M FWD



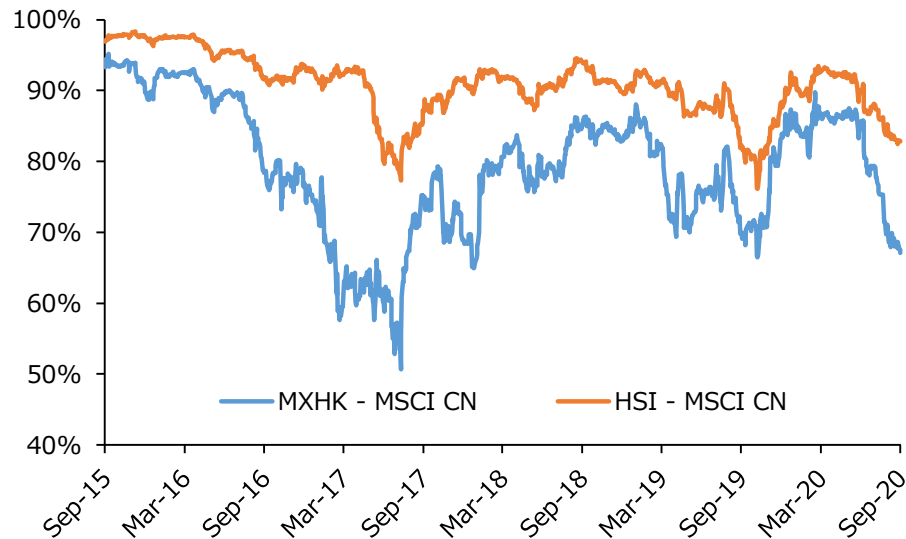
Source: MSCI, FactSet, Data period: 10/08/2010 – 10/02/2020

NIEs 4 – Selective on recovery progress

- **Hong Kong** – Local recovery is slow as social distancing measures remain and no concrete schedule for return of tourism. Listing of China firms on HKEx is positive for HK's position as an equities hub but uncertainty of national security law lingers. Overall position relatively poor among NIEs 4.
- **Singapore** – Relatively stable market in ASEAN with limited downside risk. Valuation is also undemanding.
- **Taiwan** – Defensive market with attractive yield. Earnings revision has bottomed. Covid-19 well contained.
- **Korea** – IT recovery on the way, but has higher Covid-19 risk and weaker macro conditions compared with Taiwan.

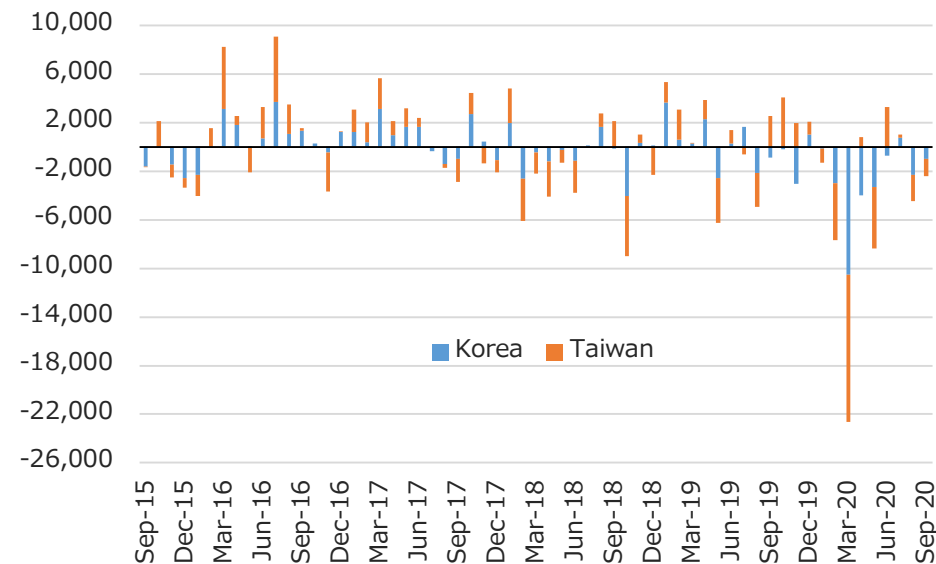
Ex. 56-57 Two ways to play Hong Kong: Greater local exposure with MSCI Hong Kong and increasing China exposure with Hang Seng Index

Rolling 3-month daily returns correlation (R squared)



Source: Bloomberg Data period: 09/30/2015 – 09/30/2020

Foreign capital flows into Korea and Taiwan returns to normal levels in 3Q2020
Net foreign capital flow (USD m)



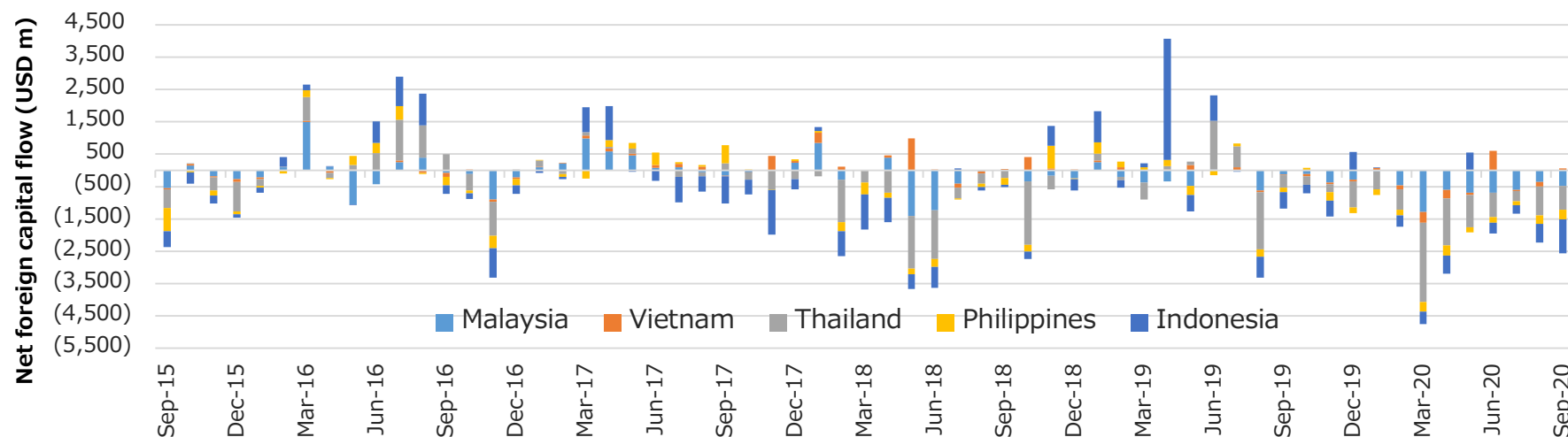
Source: Bloomberg Data period: 09/30/2015 – 09/30/2020

ASEAN 5 – Covid-19 uncertainty lingers

- **Indonesia** – Government provides aggressive fiscal stimulus, generating some risk of sovereign ratings downgrade and capital outflow. New Covid-19 cases continues to rise in 3Q, slowing the recovery process.
- **Philippines** – High uncertainty of economic recovery as new Covid-19 infections higher than regional neighbors while death rate shows no significant decline.
- **Malaysia** – Defensive market with attractive yield and valuations. However, political uncertainty remains and may add to depreciation pressure of the ringgit. We are also watchful of renewed movement restrictions due to Covid-19 in the capital.
- **Thailand** – Successful containment of COVID-19 as economy awaits an inbound tourism catalyst. Relatively high tolerance for capital outflow with CA surplus. New political uncertainty could slow recovery and lead to de-rating.
- **Vietnam** – Bright spot among the ASEAN 5 as Covid-19 is well contained. Macro conditions solid. Little if any capital outflow compared with peers.

Ex. 58

Foreign fund flows into ASEAN equities markets



Source: Bloomberg

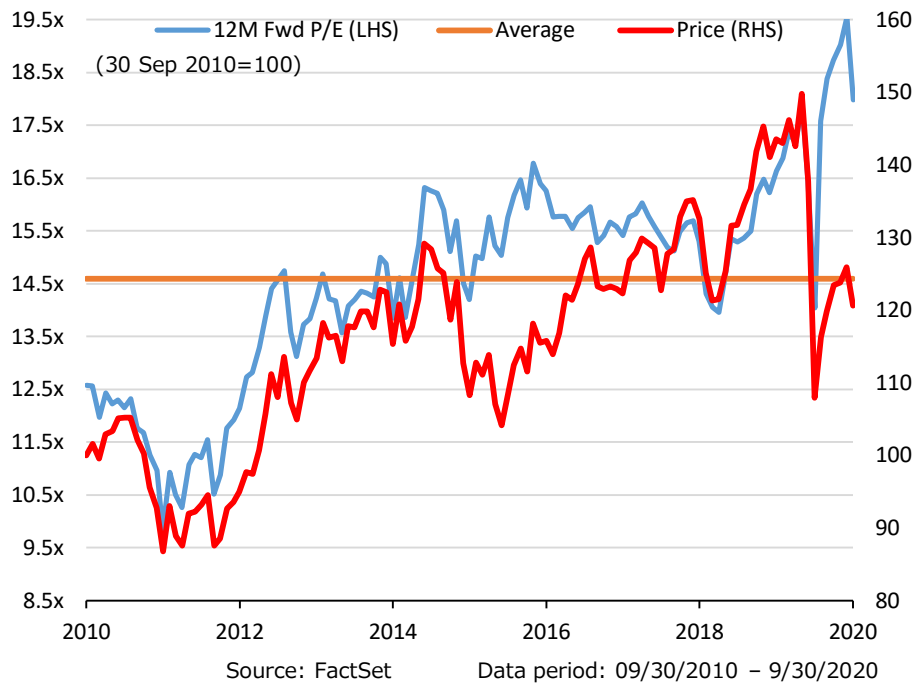
Data period: Sep 2015 – Sep 2020



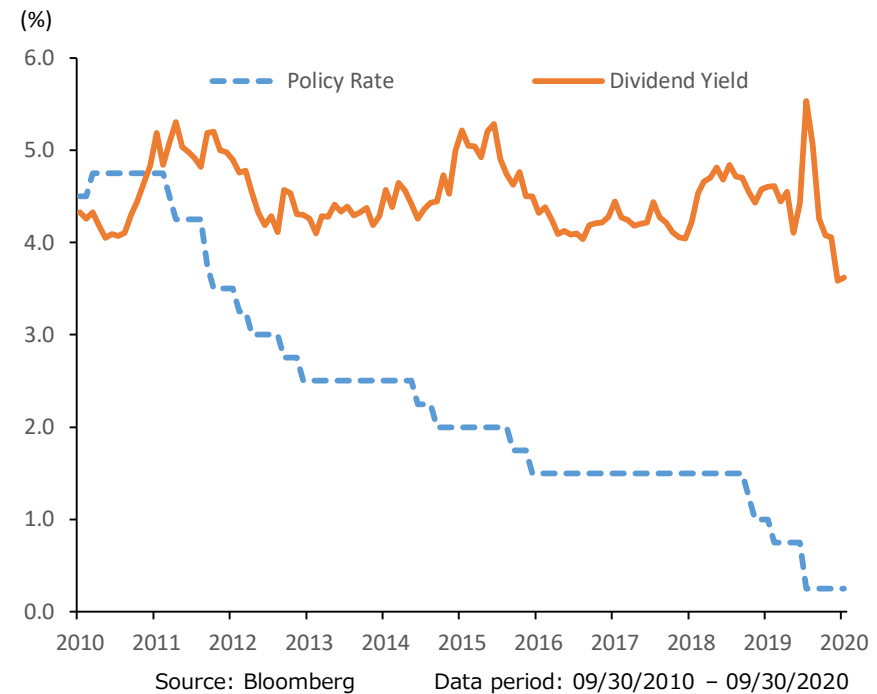
Oceania – Valuation drops from peak but still rich

- Valuation saw some correction from a surge to historic record on low interest rates, but remains rich. Melbourne, home to 1/5 of the country's population, is just emerging from lockdown as Australia's second wave subsides, creating conditions for a full scale recovery. Talks of allowing travel from New Zealand paves the way for normalization.
- Potential risk to certain sectors such as commodity export as relations with China deteriorating amid US-China tensions.

Ex. 59 MSCI Australia valuations remain rich
MSCI Australia – Price vs. 12M Fwd P/E







Ex. 60 Yield catches up with policy rate
ASX 200 dividend yield vs. Central bank rate



Introduction of Asia Research Center

The Asia Research Center, founded in Hong Kong in July 2017, conducts high-quality information gathering and analysis specialized in Asia & Pacific to enhance investment performance and strengthen information dissemination abilities. It also undertakes Asian macro analysis in the SMDAM global macro research team, collaborating with Asian equity analyst team located in Hong Kong, Shanghai, and Singapore.

				
Name	Junichi Sakaguchi	Tetsuji Sano	Patrick Pan	David Wu
Nationality	Japan	Japan	China	New Zealand
Time of joining	Dec 2002	May 2015	Sep 2017	Aug 2017
Industry experience	28 years	26 years	6 years	9 years
Title	Chief of the Center	Chief Asia Economist	Economist	Researcher
Specialty	Company research	Asian macro economy	Macro economy in Greater China	Industry / social trend research

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