

Harvesting Growth, Harnessing Change

Monthly Insights: Asian Equity (January 2022)

By the Asian Equity Team

17 February 2022

Summary



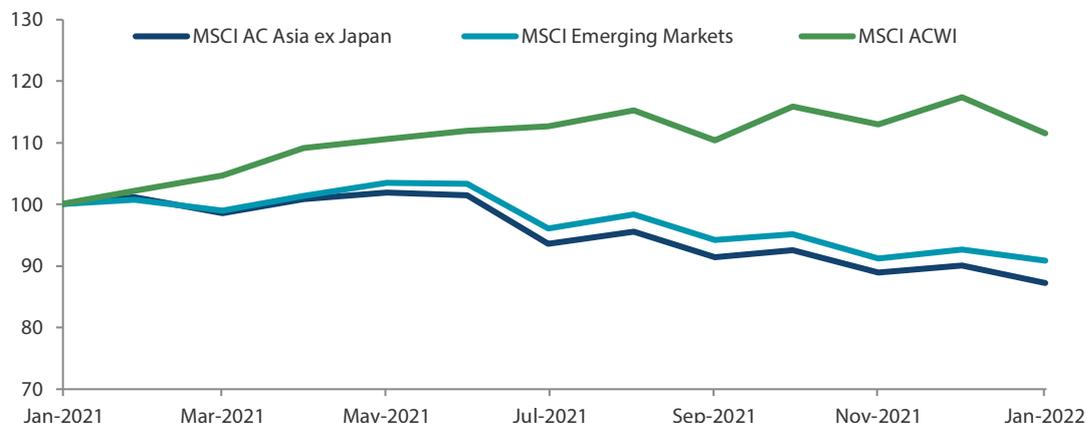
- Asian stocks had a tough start to 2022 amid concerns that persistent inflation could cause any tightening by the US Federal Reserve (Fed) to be more aggressive than expected. For the month, the MSCI AC Asia ex Japan Index fell by 3.10% in US dollar (USD) terms.
- North Asia saw mixed returns. China and Taiwan reported GDP growth in 2021 that exceeded expectations, while the People's Bank of China (PBOC) loosened monetary policy to further shore up the economy. South Korea underperformed as the central bank raised its benchmark rate to curb inflation.
- The ASEAN region generally outperformed the broader index. The Philippines was the best performer, buoyed by faster-than-expected GDP growth of 7.7% YoY in the fourth quarter of 2021. Malaysia and Singapore saw more muted returns as rising inflation dampened sentiment.
- There is growing acceptance that the Omicron variant, although more infectious, is less virulent. Thus, fewer restrictions are likely to be put in place, implying that Omicron's economic impact will be smaller compared to previous variants. We believe the best policy is to stick to a fundamental led bottom-up stock selection, seeking out companies undergoing significant positive fundamental changes that can deliver sustainable returns in the future.

Market review

Regional equities fall in January

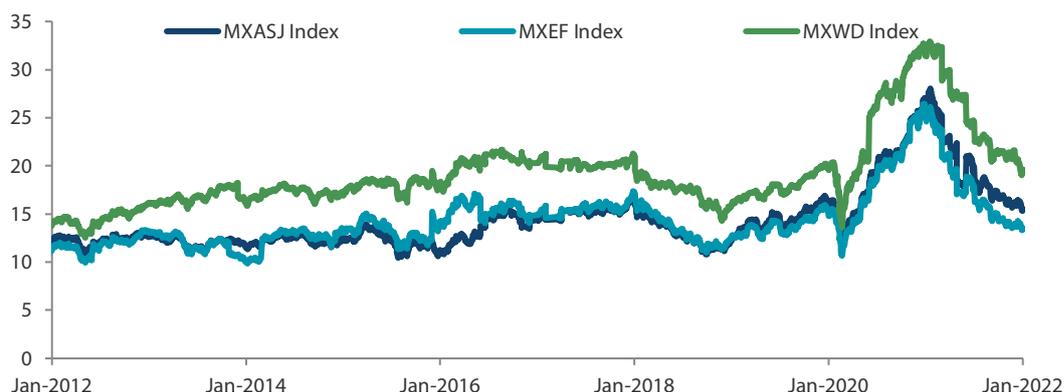
Asian stocks had a tough start to 2022 amid concerns that persistent inflation could cause any tightening by the Fed to be more aggressive than expected. The central bank has primed investors for a first interest rate hike in March. For the month, the MSCI AC Asia ex Japan Index fell by 3.1% in US dollar (USD) terms, with markets in the ASEAN region generally outpacing their North Asian counterparts.

Chart 1: 1-year market performance of MSCI AC Asia ex Japan versus Emerging Markets versus All Country World Index



Source: Bloomberg, 31 January 2022. Returns are in USD. Past performance is not necessarily indicative of future performance.

Chart 2: MSCI AC Asia ex Japan versus Emerging Markets versus All Country World Index price-to-earnings



Source: Bloomberg, 31 January 2022. Returns are in USD. Past performance is not necessarily indicative of future performance.

North Asia sees mixed returns

China (-3.0% in USD terms) saw its GDP grow by 8.1% in 2021, which was higher than expected, but its fourth-quarter growth slowed to 4% year-on-year (YoY) on the back of domestic COVID-19 outbreaks and continued weakness in the property sector. In contrast to the Fed and many other developed market central banks, the PBOC continued to loosen policy; it cut its one-year loan prime rate by 10 basis points (bps) to 3.7% and its five-year loan prime rate by 5 bps to 4.6%, in an attempt to further shore up the economy. Hong Kong gained 1.0% in January—the territory’s unemployment rate fell to 3.9% in the final quarter of 2021, although recently extended social distancing measures could cause joblessness to rise again.

Elsewhere in North Asia, South Korea (-10.2%) was the worst performing market in the region. South Korea’s central bank raised its benchmark rate to its pre-pandemic level of 1.25% to curb inflation, and kept the door open for further tightening. A resurgence of local COVID-19 cases, despite extended movement restrictions, also affected investor sentiment. Taiwan (-2.0%) edged lower on the back of weakness in its tech stocks. That said, its economy grew at its fastest pace in over a decade in 2021, buoyed by robust tech exports during the pandemic. According to preliminary data, Taiwan’s GDP growth reached 6.28% for the full year, compared to 3.11% in 2020.

ASEAN markets outperform except for Malaysia

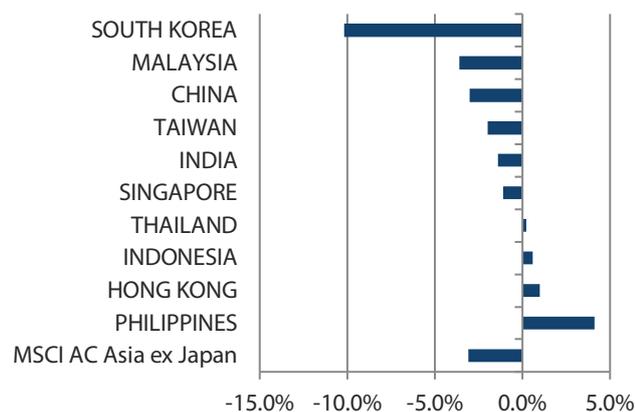
The ASEAN region generally outperformed the broader index. The Philippines (+4.1%) was the best performer in the region, buoyed by faster-than-expected GDP growth of 7.7% YoY in the fourth quarter of 2021. Thai stocks (+0.2%) also edged higher, as the government approved a THB 3.19 trillion budget for the 2023 fiscal year and resumed a quarantine-free visa programme for vaccinated visitors. On the other hand, Malaysia (-3.6%) and Singapore (-1.1%) saw more muted returns as rising inflation dampened sentiment. Towards the end of the month, Singapore’s central bank unexpectedly tightened its monetary policy settings in an out-of-cycle move to counter rising prices.

Indian stocks decline

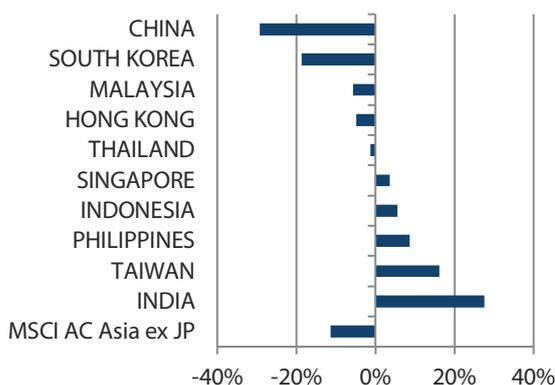
India declined by 1.4% in January. The country’s unemployment rate, which rose to a four-month high of 7.91% in December, remains a concern. However, the nation is expected to see economic growth of 9.2% for the year ending March 2022, helped by vaccine rollouts and a reduction in COVID-19 infections. Policymakers also announced the annual Union Budget, which made provisions for a sharp increase in public investment and infrastructure spending.

Chart 3: MSCI AC Asia ex Japan Index¹

For the month ending 31 January 2022



For the year ending 31 January 2022



Source: Bloomberg, 31 January 2022.

¹Note: Equity returns refer to MSCI indices quoted in USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

Market outlook

Lean on disciplined stock picking approach to navigate uncertain conditions

There is a growing consensus that the Fed will hike rates at least four times in 2022, and perhaps even five times, with some form of quantitative tightening also likely to be announced. There is also growing acceptance that the Omicron variant, although more infectious than others, is less virulent. Thus, fewer restrictions are likely to be put in place, implying that Omicron will have a smaller impact compared to previous variants. As these views percolate through the market, equities are expected to find a bottom. Through this transition and beyond, individual stocks with strong fundamentals and attractive risk-reward trade-offs are likely to prove winners, be they in the “value” or “growth” camp.

Focus on longer-term economic drivers in China

The shift in the Chinese government’s focus toward stability implies some form of monetary easing is likely to persist for the better part of 2022, if for no other reason than to offset the negative economic impact caused by a zero-tolerance COVID-19 policy and its clamp-down on the profligacy in the property sector, and to smooth the way ahead of the 20th Party Congress. This implies that some pockets of the economy will fare relatively better,

especially those aligned to the broader economic imperatives of the nation such as building greater self-sufficiency in technology, “common prosperity” and decarbonisation. Our views are aligned with these longer-term drivers.

Remaining watchful in India

In India, the focus is on the latest annual budget, through which the government aims to develop domestic capacity and capability by boosting investment in infrastructure and job creation. This is especially necessary, in our view, given that activity has been sporadic on this front over the past few years. That the government seeks to achieve this while improving the country’s fiscal position raises some questions. With stock valuations relatively expensive, at least some of the optimism regarding an economic rebound appears priced in. Thus, we remain watchful, especially in the financial sector which ought to be the earliest beneficiary of any positive growth surprises.

Focus on technology in Taiwan and South Korea

The gradual “normalisation” of global supply chains is particularly critical for the technology sector. The easing of chip shortages, the secular growth of digitisation and the ever-rising need for greater computational power augur well for companies in South Korea and Taiwan, both in the near and longer term. While “Metaverse” is still in its early days, it is expected to be transformative for the semiconductor supply chain in the years to come. As such, we continue to favour integrated circuit design, content enablers and industrial tech.

Selective in ASEAN

Our preferences within the ASEAN region remain largely unchanged. While the pandemic has accelerated digitisation across the region as a whole, politics and relative over-reliance on tourism and oil leaves us unenthusiastic in Thailand and Malaysia. Indonesia and the Philippines show better promise in multiple sectors, although the slow pace of reforms in the former, and presidential elections in the latter, bear watching. Singapore, which enjoys better corporate governance, remains a proxy for regional growth.

Chart 4: MSCI AC Asia ex Japan price-to-earnings



Source: Bloomberg, 31 January 2022. Ratios are computed in USD. The horizontal lines represent the average (the middle line) and one standard deviation on either side of this average for the period shown. Past performance is not necessarily indicative of future performance.

Chart 5: MSCI AC Asia ex Japan price-to-book



Source: Bloomberg, 31 January 2022. Ratios are computed in USD. The horizontal lines represent the average (the middle line) and one standard deviation on either side of this average for the period shown. Past performance is not necessarily indicative of future performance.

Important information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

United Kingdom and rest of Europe: This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.