



ASIAN EQUITY OUTLOOK

November 2017

Summary

- The MSCI AC Asia ex Japan (AxJ) Index returned 4.7% in USD terms in October, outperforming the MSCI World Index which returned 1.9%. A strong earnings season, expectations that a market-friendly candidate would be chosen as the next Federal Reserve Chair and approval of the 2018 US budget buoyed markets
- South Korea outperformed AxJ peers as Samsung Electronics posted record 3Q profits. India was the second best performer on the back of the announcement about a public sector unit (PSU) bank recapitalisation. Taiwan similarly was buoyed by strong iPhone X demand and the Semiconductor sector.
- China held its 19th national party congress of the Communist Party of China during the month. Separately, the country's 3Q GDP grew by 6.8% year-on-year, in line with expectations.
- Within ASEAN, Singapore outperformed boosted by strong corporate earnings, GDP growth and gains in the property sector. Malaysia was the worst performer in AxJ despite the announcement of populist measures in the 2018 budget.
- Although the sustained rally in Asian equities has pushed valuations back towards long-term averages, we continue to see medium-term value, while being mindful of pockets of excessive optimism.
- We maintain an overweight to Chinese stocks, with a preference for the new economy sectors, as well as Hong Kong banks. We also continue to favour India. Meanwhile, we focus on niche sectors in technology in Korea and Taiwan and maintain our underweight to ASEAN.

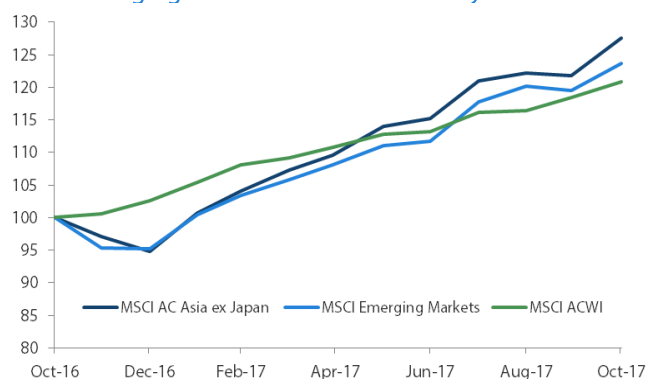
Asian Equity

Market Review

- **Asia ex-Japan equities edged lower in October**
The MSCI AC Asia ex Japan (AxJ) Index returned 4.7% in USD terms in October, outperforming the MSCI World Index which returned 1.9%. A strong earnings season and expectations that a market-friendly candidate would be chosen as the next Federal Reserve Chair buoyed markets. Meanwhile, the US Senate approved the 2018 Republican-backed budget. Separately, the European Central Bank declared that it would continue buying government bonds next year, albeit in reduced amounts.

At the sector level, Healthcare outperformed while Telecommunication Services lagged. Gains in oil and copper drove commodity prices. OPEC and partners announced production restraint along with higher-than-expected demand for oil, while copper was supported by expectations for robust Chinese demand.

1-Year Market Performance of MSCI AC Asia ex Japan versus Emerging Markets versus All Country World Index



Source: Bloomberg, 31 October 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

MSCI AC Asia ex Japan versus Emerging Markets versus All Country World Index Price-to-Earnings



Source: Bloomberg, 31 October 2017. Returns are in USD. Past performance is not necessarily indicative of future performance.

• South Korea, India and Taiwan outperformed peers

South Korea outpaced AxJ peers, returning 8.4% in USD terms. Samsung Electronics posted record 3Q profits on the back of strong memory chips and smartphone sales. The firm also plans to double dividends in 2018. Meanwhile, the Korean Won strengthened after South Korea and China agreed to restore bilateral relations. Taiwan returned 6.3% in USD terms due to strong iPhone X demand and as the Semiconductor sector recovered from last month's lows.

India was the second best performer within AxJ, returning 7.4% in USD terms. Shares of India's largest banks surged in the wake of an unanticipated and larger-than-expected public sector unit (PSU) bank recapitalisation of INR 2.11tn (USD 32bn) by the government. The package aims to boost credit for state-owned lenders who have been weighed down by bad loans. Out of the total commitment, INR 1.35tn will come from the sale of recapitalisation bonds and the remaining will be through budgetary allocation and capital raisings.

• China gained on the back of the 19th national party congress

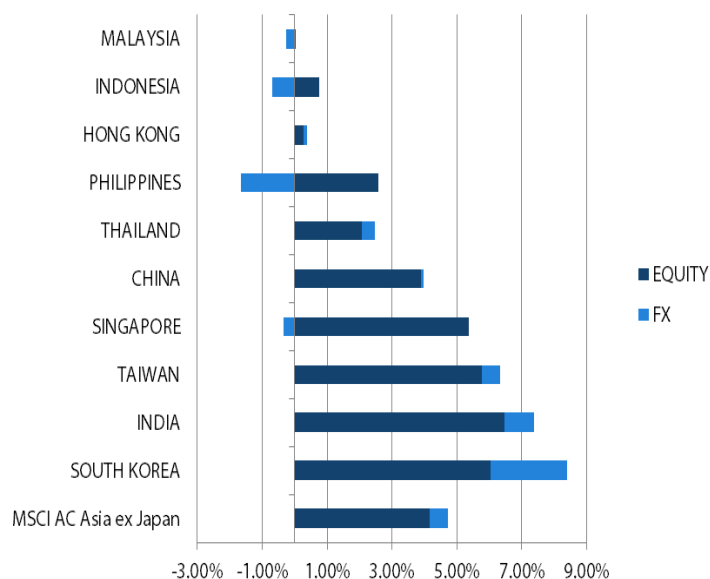
China returned 4.0% in USD terms. During, the 19th national party congress of the Communist Party of China (CPC), the party amended its charter to adopt a political ideology named after President Xi Jinping and committed to double the economy's size by 2020 from 2010's level. Separately, China's 3Q GDP grew by 6.8% year-on-year (YoY), in line with expectations but down slightly from 2Q's 6.9% growth. Official manufacturing PMI fell to 51.6 in October from 52.4 in September, its weakest reading in three months on the back of tighter pollution controls. On the other hand, the Producer Price Index rose by 6.9% as the government continued its reduction of excess capacity.

• ASEAN ended the month mixed

Within ASEAN, Singapore outperformed with a 5.0% rise in USD terms boosted by strong corporate earnings, GDP growth and gains in the property and banking sectors. Singapore's economy grew 4.6% YoY in 3Q17, the strongest pace since the 1Q14. Meanwhile, private property prices rose 0.7% quarter-on-quarter (QoQ) in 3Q17, the first increase in nearly four years. Malaysia was the worst performer in AxJ, returning -0.2% in USD terms, despite the announcement of populist measures in the 2018 budget.

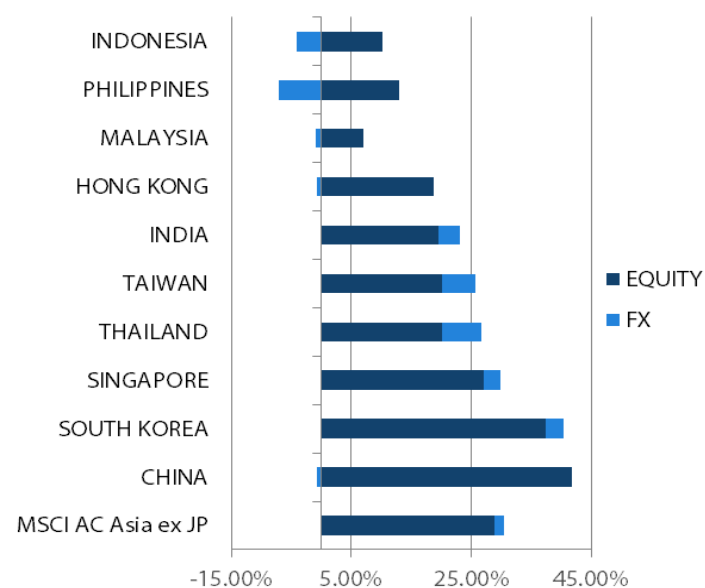
MSCI AC Asia ex Japan Index¹

For the month ending 31 October 2017



Source: Bloomberg, 31 October 2017

For the period from 31 October 2016 to 31 October 2017



Source: Bloomberg, 31 October 2017

¹Note: Equity returns refer to MSCI indices quoted in local currencies while FX refers to local currency movement against USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

Market Outlook

- Continue to see value in the region but are cognizant of excessive optimism

The sustained rally across Asian Equities year-to-date (YTD) has pushed valuations back towards long term averages at 14x forward price-to-earnings and 1.6x forward price-to-book. As the US and European Central Banks tighten their belts, investor focus will shift to regions that offer growth. Despite Asia's outperformance YTD, MSCI World still trades at 17.5x forward price-to-earnings and 2.3x forward price-to-book even while offering lower growth, which appears unjustified. We continue to see value in the region from a medium term perspective, but are cognizant of pockets of excessive optimism.

- Maintain overweight to China, India and Hong Kong banks

China's economic growth has been resilient versus some bearish expectations. The 19th Communist Party Congress showcased President Xi Jinping's unprecedented consolidation of power. Of particular note was his commitment to deliver a better quality of life to the Chinese people. The implied shift in emphasis from quantity to quality augurs well for consumption and innovation which, underlining a commitment to reforms, particularly those targeted at the 'old economy' sectors. We maintain our preference for the new economy – Internet, Tourism, Healthcare and Electric Vehicles.

We also remain overweight Hong Kong banks on prospects of better loan growth as well as higher interest rates.

The Indian government has reaffirmed its commitment to reform by following up the introduction of the GST with a large PSU bank recapitalisation initiative. With key state elections in the next two-three quarters and a national election in early 2019, fiscal stimulus is likely to take centre stage which will support growth in the near term. Benign inflation also offers monetary policy latitude. We maintain an overweight position in Indian equities while keeping an eye on pockets of excessive optimism.

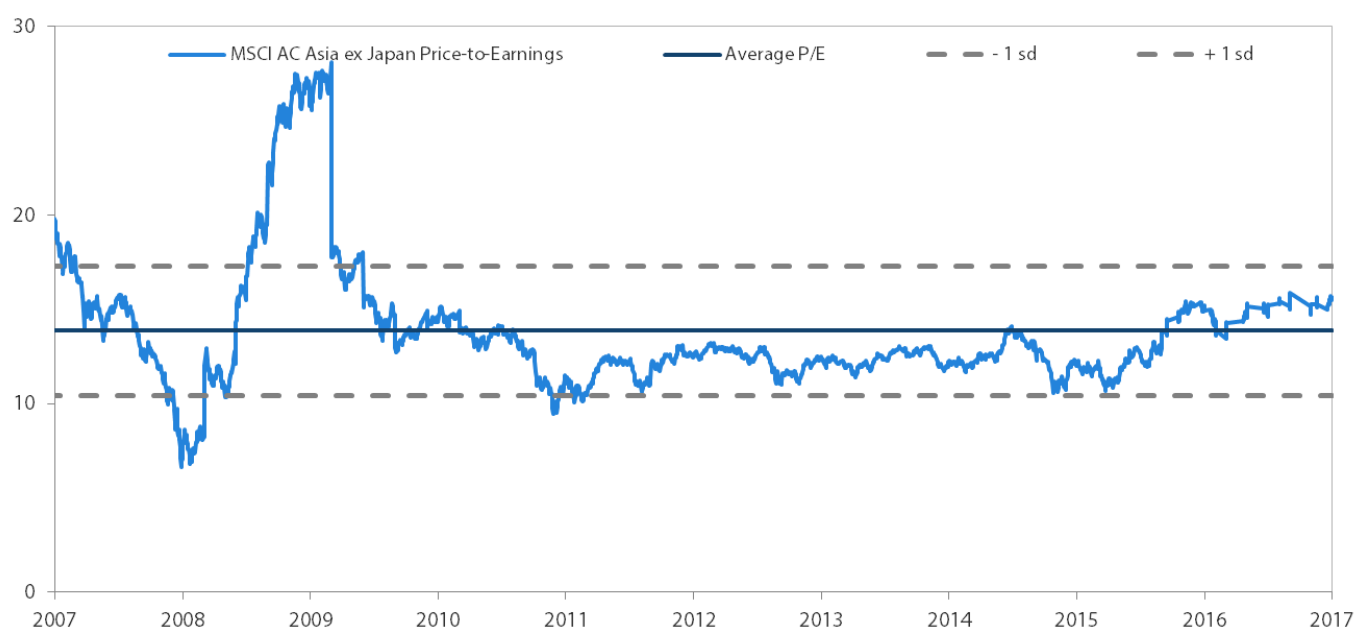
- Focus on niche Technology stocks in Korea and Taiwan; remain underweight ASEAN

Korea and Taiwan had been key beneficiaries of a resurgence of their respective Technology sectors. There is a need to be more selective in this segment. Conciliatory moves between China and South Korea, against the backdrop of tensions with North Korea, suggest some relief on the political risk front; however, uncertainty remains ahead of President Trump's first visit to Japan and South Korea. Taiwan's Technology sector has benefited from strong positive momentum following the strong demand for Apple's new iPhone X, but some retracement in share prices is likely. Hence, we focus on stocks exposed to niche areas of the value chain, namely electric vehicles and display solutions.

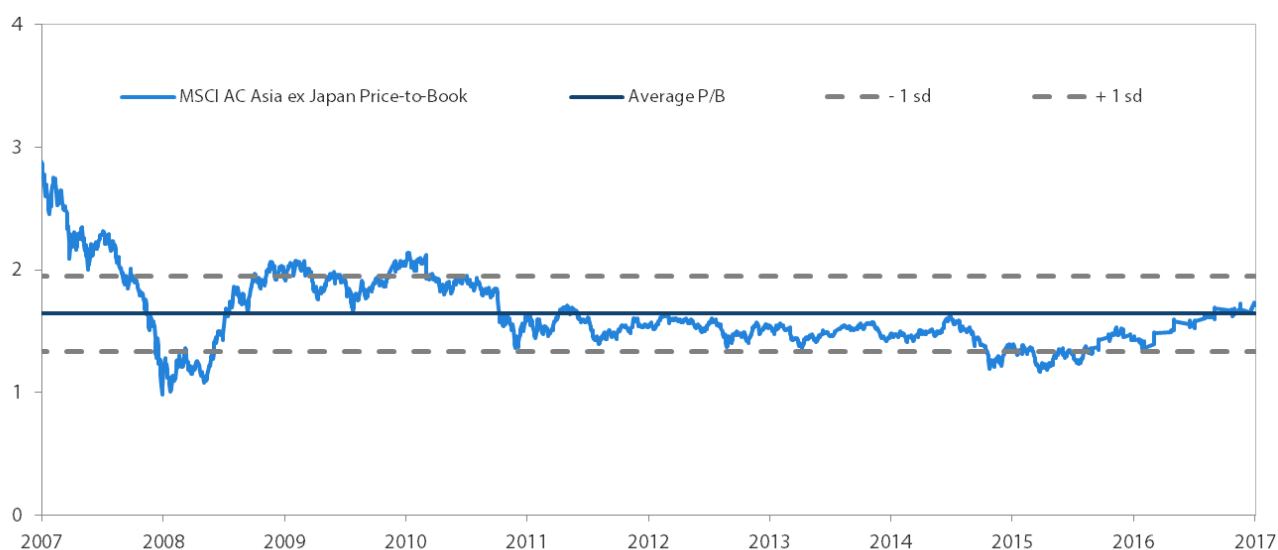
We maintain our underweight stance in ASEAN. Singapore and Indonesia remain our relative preferences, and we continue to eschew equities in Malaysia. In Thailand, we see early signs of consumption recovery following the cremation of the King after a year of mourning, but remain underweight while awaiting tangible evidence.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 31 October 2017. 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.

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