

June, 2023



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**Asia has had a great start to the year, thanks to the relatively low inflation environment and decent economic growth and recovery after the pandemic. We remain constructive on Asia's macro outlook in the second half of 2023. We believe Asian economies will continue to grow more quickly than developed markets (DM). Developed markets are still working to tame inflation at the expense of growth, and the possibility of a potential slowdown remains. Asia on the other hand is well-positioned to outperform and domestic demand remains robust.**

### **Inflation surprised positively**

Compared to DM, Asia faces much lower inflation and lower pressure from rising interest rates. Asia's headline CPI was 2.3% in May 2023, much lower than that of the US and Europe.<sup>i</sup> Labor market supply has also held up well and wage pressure is more benign. Asia's headline inflation has continuously surprised on the downside. Asia headline CPI was lower than Bloomberg consensus in nine out of the past ten months. It is expected that inflation in most Asian economies will move back to the comfort zones of their central banks within 2023.

### **Digitalization, AI, and Smart trends drive further growth**

Asia is well positioned to benefit from digitalization, artificial intelligence (AI) and Smart trends. China has put dedicated efforts into advancing its digital infrastructure in recent years. Korea and Taiwan are also at the forefront in terms of technological prowess, particularly in different technology segments, for example, memory, semi-conductors, dynamic random-access memory (DRAM) components and Internet of Things (IoT). The leading edge these two countries have in technology will enable them to benefit from the latest technological advancements.

India's digital economy is transforming quickly and has grown at more than twice the rate of the country's economy.<sup>ii</sup> In particular, digital adoption in financial services is rising rapidly and the digital market share of payments, lending, investments and insurance have all shown robust growth. For example, under India's financial inclusion policies, the number of bank accounts opened have risen from 100 million in 2015 to 480 million in 2023.<sup>iii</sup>

Consumer trends in the ASEAN region are also evolving and retailers are shifting toward more online and e-commerce sales. With the spike in the e-commerce sector over the past few years, ASEAN's e-commerce market size has grown by at least 35% with Indonesia and Thailand boasting the highest e-commerce market share in the region.<sup>iv</sup>

### **Domestic demand is picking up**

In our view, India's large and young population will continue to drive domestic demand for many years to come. India has the youngest population in the world, with over half of their 1.4 billion population under the age of 30.<sup>v</sup> One of the many opportunities we see on the ground is the increase in the wedding market and higher discretionary spending during festivals.

It is estimated that around US \$125 to \$250 billion is spent on Indian weddings per year and around 9.5 to 10 million weddings occur annually across the country.<sup>vi</sup> There has been increasing demand in gold, jewelry, and discretionary spending as a result, with the significant growth of weddings supporting this demand. Wedding and wedding-related jewelry constitutes 60% of India's total jewelry demand.<sup>vii</sup> The share of discretionary items that make up consumption has also increased from 53.4% of total consumption expenditure in 2012 to 59.6% in the 2020 financial year.<sup>viii</sup>

ASEAN is another bright spot when it comes to domestic consumption. Over 60% of the population are young people under the age 35, and their disposable incomes have also been rising.<sup>ix</sup> Healthy household and corporate balance sheets and decent credit growth signal the willingness of the population to spend. We believe that retail demand, including department stores, convenience stores and food production in ASEAN, particularly Indonesia, will keep rising and the outlook for the region remains robust.

<sup>i</sup> Morgan Stanley, June 2023

<sup>ii</sup> RBI, December 2022

<sup>iii</sup> Morgan Stanley, April 2023

<sup>iv</sup> CLSA, March 2023

<sup>v</sup> CNN, June 2023

<sup>vi</sup> CRISIL Research, December 2022

<sup>vii</sup> Ibid.

<sup>viii</sup> World Economic Forum, July 2020

<sup>ix</sup> Factset, May 2023

# 2023 Mid-Year Investment Outlook - Asian Equities

June, 2023

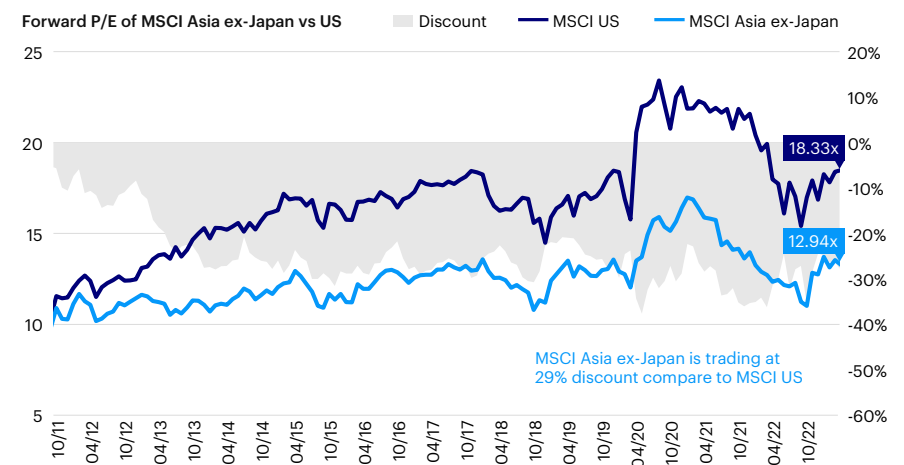
## Slowing global growth needs monitoring

The slowing of global growth and the potential for a developed markets slowdown are risks that we are monitoring. A slowdown in developed markets may affect export demand and cross-border supply chains in Asia. However, we believe Asia's strong fundamentals and growing domestic demand will be able to offset some of these negative external impacts.

## Valuation is at comfortable level

MSCI Asia ex-Japan was trading at around a 29% discount in May as compared to the US market. The current P/E ratio stands slightly below the average MSCI Asia ex-Japan's five-year, 12-month forward P/E average. We believe valuations of Asian equities are at a comfortable range and are trading at a discount relative to developed markets.

**Figure 1 - Asia ex-Japan equities still trading at a discount to the developed market**



Source: Factset, Invesco, May 2023

## Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

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