

June 2024



Mike Shiao
Chief Investment Officer,
Asia ex. Japan

The Asia ex Japan equity market showed robust performance in 1H 2024. Fueled by strong domestic demand and a resurgence in global demand, we believe the market is poised for continued growth in 2H 2024. A favorable global macro environment and relatively controlled inflation rates further support our expectation of this positive trajectory.

Going forward, we believe Asian domestic demand will remain a strong growth engine and major contributor to the region's growth¹, particularly as Asia accounts for around 60% of the world's population². We believe it is time for investors to revisit the growth drivers in various Asian markets to seize upcoming opportunities.

Riding the wave of Asia's strong domestic demand

India's economy has performed positively in 2023 and 2024 year-to-date (as of May 2024) as reflected in the economic data. HSBC's flash India Composite Purchasing Manager's Index has remained above 50 since August 2021³, bank credit growth grew by around 16% in the fiscal year 2023⁴, and gross Goods and Services Tax collections reached an all-time high in April 2024⁵. All these data collectively signal strong economic growth momentum. Looking forward, we expect to see policies that will further strengthen India's manufacturing sector. We also foresee a sustained increase in public and private capital expenditure, creating a virtuous cycle of growth.

Looking forward to the second half of the year, we believe India's robust domestic demand will be a key driver of our constructive outlook on the economy. India has had GDP growth of over 8% in the past few quarters and consumption accounts for around 60.3% of GDP⁶. Demand has continued to improve over time, supported by a large rising population and rising per capita income levels. We believe India is at an inflection point and anticipate a surge in discretionary consumption particularly across domestic-oriented sectors like transportation, hotels, jewelry, and the automotive sector, in the latter part of the year.

ASEAN countries are also benefitting from rising domestic demand as well as tourism income. We expect China's economic recovery to further bolster tourism in the region. Monthly arrival numbers of Chinese tourists in Southeast Asia has been on the rise since reopening, and we believe these numbers are set to pick up further. The introduction of visa-free schemes for mainland Chinese tourists visiting Malaysia, Thailand, and Singapore, has the potential to significantly impact tourism revenues in the region. ASEAN is also likely to profit from the anticipated growth in exports, particularly in the potential uptick in the electronics market. Within ASEAN, the Philippine economy is supported by effective economic policy, a young demographic profile, and rising private consumption. Indonesia also stands to benefit from continued urbanization, young demographics, and rising incomes, as well as from gains through supply chain diversification.

1. World Economic Outlook database, IMF, April 2024.

2. UNFPA Asia and the Pacific, Population trends.

3. India's April business growth at near 14-year high, PMIs show, Reuters, April 2024.

4. Bank credit surges 16% in fiscal year, marks fastest growth in a decade, Economic Times, April 2024.

5. GST collections hit all-time high of Rs 2.10 lakh crore in April 2024, Economic Times, May 2024.

6. World Bank raises India's GDP growth forecast for FY25 to 6.6%, Fortune India, April 2024.

June 2024

China's domestic economic recovery and rising exports

In China, economic growth has shown signs of rebounding from Q1 2024. The year-on-year GDP growth of 5.3%⁷ has been supported by resilient export performance and a strong manufacturing outlook. Looking ahead, we are optimistic on China's economic prospects, which we believe are underpinned by domestic demand recovery and supportive government policy. From a consumption standpoint, several key economic indicators are moving in a positive direction including retail sales, travel data, and automotive sector performance. In addition, consumer confidence in China appears to be on the rise. Policymakers are taking incremental steps to support domestic demand through an acceleration in government bond issuance and the launch of a trade-in program for upgrades of consumer goods. The government has also increased policy support in the property sector to clear excess housing inventory. These and other measures signal regulatory efforts to shore up economic stability and domestic demand.

At the same time, the ongoing recovery in trade globally and specifically in Asia, is expected to act as a catalyst for China's exports and the manufacturing sector. China's exports have shown positive year-on-year growth as of Q1 2024 and we believe that as major economies regain strength, external demand for Chinese products are expected to increase which will benefit export-oriented industries.

Trade-dependent economies are poised to benefit

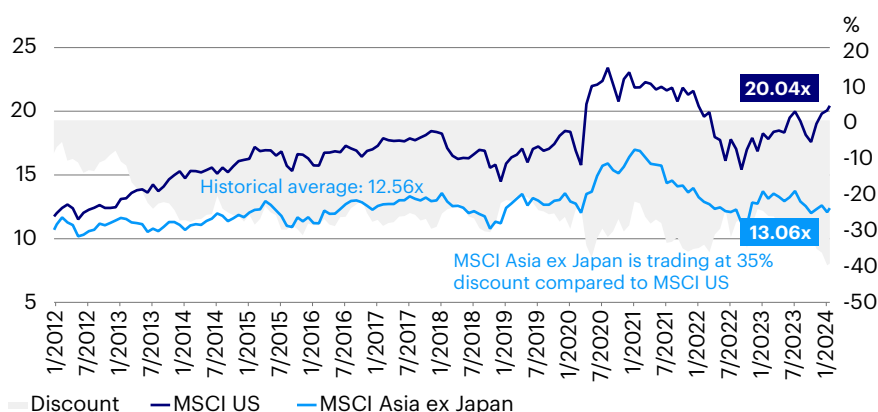
As Korea and Taiwan are trade-dependent economies, we expect these markets to benefit from the stronger global economy. Over the past few months, Korea and Taiwan have been the biggest beneficiaries of the rise in external demand, particularly for tech exports. Going forward, we believe growth in semiconductor sales and global consumption is expected to drive growth in these economies. Korea's customs and semiconductor exports have been increasing in recent months. Taiwan, on the other hand, has witnessed stronger than expected demand for AI-driven chips. We expect Taiwan to continue to benefit from robust global manufacturing activity in the machinery and electrical equipment sectors. In our view, the positive growth outlook we have for these major trading partners is also likely to drive external demand for tech products down the line, creating a virtuous cycle.

Risk-reward profile has become more favorable

While we are positive on Asia's growth prospects, we are also monitoring certain key risks. Election risks across major Asian economies have largely settled in 1H 2024, however we have yet to see the outcome of policy execution which will likely occur in the second half of this year. Moreover, global economic volatility remains another uncertainty for investors, particularly given the higher-for-longer interest rate environment in the US. Additionally, uncertainty surrounding global and regional trade tensions that could stem from the upcoming US election may cause short term volatility toward the end of the year.

From a valuation perspective, Asian markets look attractive. Asia ex Japan equities are trading at low valuations on a historical basis and are currently at a 35% discount⁸ to developed markets. We are also positive on Asian corporates' earnings growth potential for the rest of the year. We believe the favorable valuations and earnings growth prospects add to the investment appeal of the region.

Figure 1 – MSCI Asia ex Japan is trading at a sizeable valuation discount against MSCI US



7. Goldman Sachs Global Investment Research, April 2024.

8. Factset, April 2024.

Source: Factset, Invesco, data as of April 2024.

June 2024

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.

Important information

This document is for Professional Clients only in Dubai, Jersey, Guernsey, the Isle of Man, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States; for Professional/Qualified/Sophisticated Investors in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Brunei; for Qualified Professional Investors in Korea; for certain specific institutional investors in Indonesia; for qualified buyers in Philippines for informational purposes only; in Canada, this document is restricted to i) accredited investors and ii) permitted clients as defined under National Instrument 45-106 and 31-103 respectively. It is not intended for and should not be distributed to or relied upon by the public or retail investors. Please do not redistribute this document.

Forward-looking statements are not a guarantee of future results. They involve risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from expectations.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security, or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. Data as at June, 2024, unless otherwise stated.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

All articles in this publication are written, unless otherwise stated, by Invesco professionals. Views and opinions are based on current market conditions and are subject to change. This publication does not form part of any prospectus. This publication contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor.

This publication is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This publication is by way of information only. This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else and you may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This publication is issued:

- in **Hong Kong** by Invesco Hong Kong Limited 景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong. This document has not been reviewed by the Securities and Futures Commission.
- in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.

June 2024

- in **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**
- in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.
- in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
 - may contain financial information which is not prepared in accordance with Australian law or practices;
 - may not address risks associated with investment in foreign currency denominated investments; and
 - does not address Australian tax issues.
- in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco.

It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted.

- in the **United States** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309, USA.
- in **Canada** by Invesco Canada Ltd. 120 Bloor Street East, Suite 700, Toronto, Ontario M4W 1B7.
- in **Austria and Germany** by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.
- in **Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain and Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- in **Dubai, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia** and the **United Arab Emirates** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- in the **Isle of Man, Jersey, Guernsey** and the **UK** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom. Authorised and regulated by the Financial Conduct Authority.
- in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.