2024 Mid-Year Investment Outlook – Asia Equities

June 2024

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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 growth [1], particularly as Asia accounts for around 60% of the world's population [2]. 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 2021 [3], bank credit growth grew by around 16% in the fiscal year 2023 [4], and gross Goods and Services Tax collections reached an all-time high in April 2024 [5]. 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 GDP [6]. 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' GDP growth forecast for FY25 to 6.6%, Fortune India, April 2024.

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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

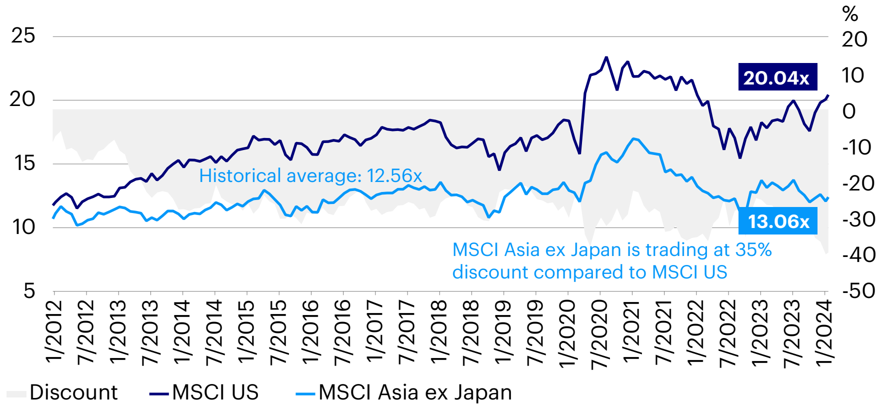
As Korea and Taiwan are trade-dependent economies, we expect these markets to benefit from the stronger global economy. Over the past few months, Korea and Taiwan have been the biggest beneficiaries of the rise in external demand, particularly for tech exports. Going forward, we believe growth in semiconductor 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% discount [8] 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



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

7. Goldman Sachs Global Investment Research, April 2024.
8. Factset, April 2024.

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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.

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