

Harvesting Growth, Harnessing Change

Monthly Insights: Asian Equity (November 2021)

By the Asian Equity Team

15 December 2021

Summary



- Asian stocks fell in November on concerns that the spread of the new Omicron COVID-19 variant could derail global reopening plans and delay economic recoveries. For the month, the MSCI AC Asia ex Japan Index declined by 3.9% in US dollar (USD) terms.
- North Asia broadly underperformed. China and South Korea were weighed down by domestic COVID-19 outbreaks, while Hong Kong fell on the back of soft tech earnings. Taiwan was a bright spot, returning 2.2% in USD terms on strong expected GDP growth.
- ASEAN and India also saw muted returns as investors weighed the impact of the Omicron variant and some governments began to tighten borders. The Philippines gained 2.6% and was the best-performing market in the region, buoyed by better-than-expected GDP growth.
- The emergence of the highly mutated Omicron variant has introduced new uncertainties to a market which had been chiefly concerned about the permanence of rising inflation. We continue to navigate these uncertain times by leaning on our bottom-up stock picking philosophy of harvesting growth and harnessing change.

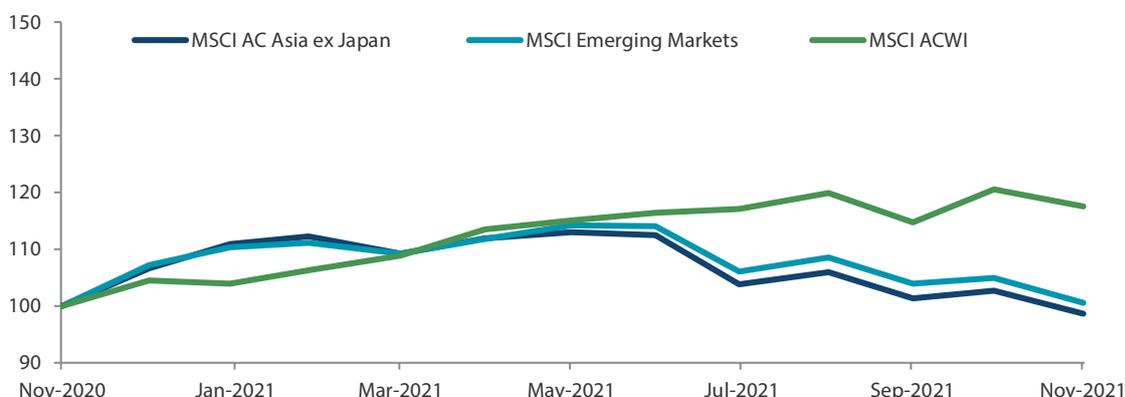
Market review

Regional equities fall in November

Asian stocks fell in November on concerns that the spread of the new Omicron COVID-19 variant could derail global reopening plans and delay economic recoveries. Separately, the US Federal Reserve (Fed) signalled at month end that it could hike rates sooner than expected, with Chair Jerome Powell stating that inflation could last longer than anticipated, and that he now advocates a quicker tapering of the central bank's stimulus measures.

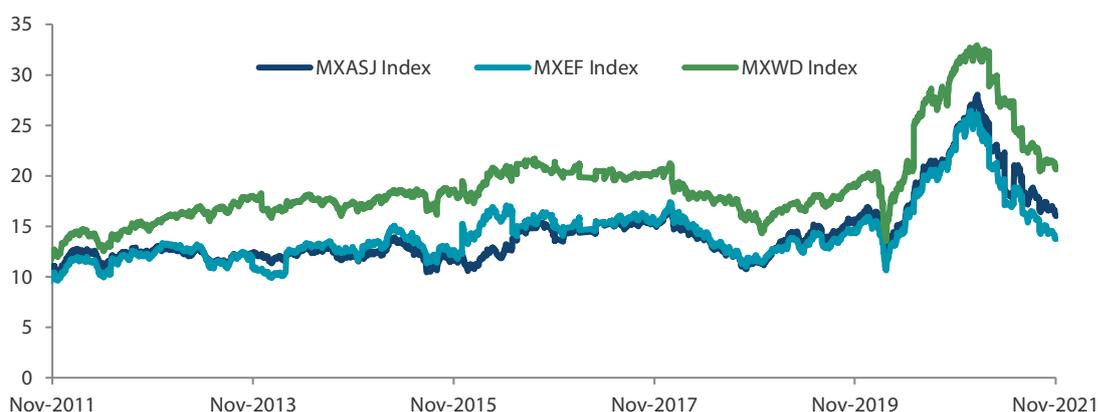
For the month, the MSCI AC Asia ex Japan Index declined by 3.9% in US dollar (USD) terms. The Philippines and Taiwan were the only markets to post positive USD returns, while Thailand and Singapore saw the biggest declines.

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



Source: Bloomberg, 30 November 2021. 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, 30 November 2021. Returns are in USD. Past performance is not necessarily indicative of future performance.

North Asia underperforms

North Asia broadly underperformed the regional index. Sentiment in China (-6.0% in USD terms) was dampened by an outbreak of domestic COVID-19 cases which prompted Shanghai to cancel flights and shut schools. The property sector also continued to struggle, with residential sales and new home prices falling. Separately, China’s manufacturing purchasing managers’ index (PMI) unexpectedly rebounded to 50.1 points in November, its first expansion in two months, as power shortages eased. Hong Kong (-5.3%) tracked the decline in global markets—weak technology (tech) earnings and the ongoing regulatory crackdown on the Macau gambling sector added to investor concerns over the month.

South Korea (-4.6%) grappled with a spike in COVID-19 infections, reporting an average of over 4,000 daily cases. The Bank of Korea raised interest rates by 25 basis points (bps) for the second time this year, citing concerns about rising inflation and household debt. Elsewhere, Taiwan was a bright spot, returning 2.2% in USD terms over the month. Its economy is expected to grow 6% in 2021, its fastest pace over a decade, on the back of strong export performance.

ASEAN markets also decline, with the exception of the Philippines

The ASEAN region also saw muted returns as investors weighed the impact of the Omicron variant and governments began to tighten borders. Indonesia (-2.8%), Malaysia (-4.7%) and Thailand (-6.0%) saw their economies shrink in the third quarter on renewed COVID-19 restrictions, while Singapore (-7.5%) expects economic

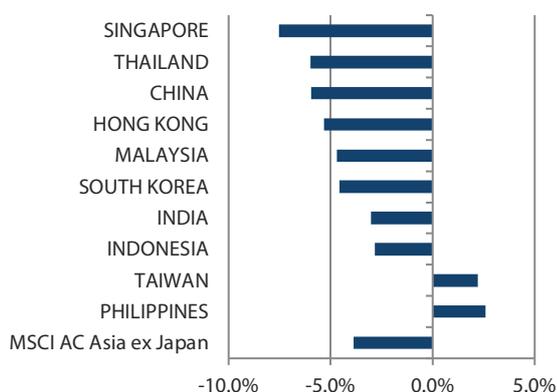
growth to slow to between 3% and 5% in 2022 amid an uneven domestic recovery and persistent uncertainty over global growth. In contrast, the Philippines (+2.6%) was the best-performing market in the region, buoyed by better-than-expected GDP growth of 7.1% year-on-year in the third quarter.

India weighed down by news of the Omicron variant

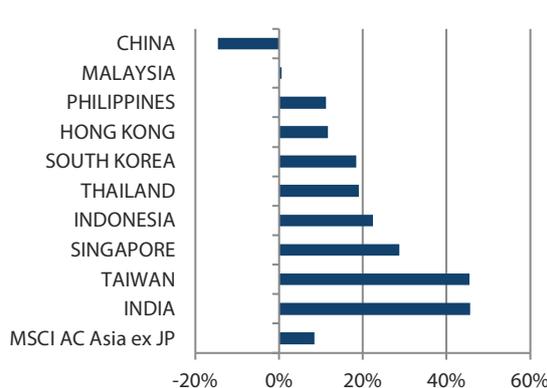
India retreated by 3.0% in November, also buffeted by fears of the new virus variant. In other news, the Indian parliament voted to repeal a set of contentious agricultural reform laws that would have removed the sector’s protection from the free market, and that had sparked a year of massive protests by farmers.

Chart 3: MSCI AC Asia ex Japan Index¹

For the month ending 30 November 2021



For the year ending 30 November 2021



Source: Bloomberg, 30 November 2021

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

Leaning on disciplined stock picking approach to navigate uncertain conditions

The emergence of the highly mutated Omicron variant has introduced new uncertainties to a market which had been chiefly concerned about the permanence of rising inflation. While it is too early to know the exact impact of the new variant at the time of writing, there is a possibility that the recovery of global economies could be further delayed. That said, the world is now better prepared to deal with the ongoing pandemic, and updated vaccines and drugs could be ready in a few months. Asia, however, should still find some support in the next few quarters as growth rebounds on the back of easing supply bottlenecks. The region is also on firmer ground as core inflation remains under control with current accounts relatively strong. Nevertheless, we continue to navigate these uncertain times by leaning on our bottom-up stock picking philosophy of harvesting growth and harnessing change.

Focus on industrial technology, AI software, renewables and electric vehicles in China

On the note of change, China has been undergoing one of its biggest policy shifts in the last few decades. Since the 19th Party Congress in 2017, we have consistently been referring to China’s structural shift from “quantity to quality”, and it is increasingly evident that this shift is motivated by considerations surrounding the 3S’s—namely social, stability and state considerations. In particular, social considerations are now becoming a major policy driver as evidenced by the slew of regulations around the cost of property, education and healthcare, as well as in the areas of labour treatment and entertainment. What has also become apparent is that bad actors not aligned with the 3S’s have been ruthlessly dealt with. These are important reasons why our strong focus on ESG analysis has been richly rewarded by the market over the last six months. Against this backdrop, companies aligned with the 3Ss are likely to benefit. Apart from companies that seek to reduce the cost of living for consumers, we also find opportunities in companies that are aligned with state considerations, including those in the areas of industrial technology, AI software, semiconductors, renewables and electric vehicles.

Valuations looking more attractive in South Korea and Taiwan

With increasing signs that semiconductor chip and shipping shortages could ease over the next few quarters, tech companies in Korea and Taiwan could find better support in the near future. In the long run, the digitisation of everything will need computing and memory chips—both areas that companies in Taiwan and South Korea excel at. With valuations looking more palatable after recent corrections, we retain a favourable outlook on areas such as integrated circuit design, content enablers, and software.

Monitoring valuations in India, ASEAN expected to outperform

The significant progress of reforms in India should continue to see investment intensity of the economy improving. Apart from increasing formalisation and urbanisation, localisation policies such as “Made in India” will continue to be key long-term drivers of a capital expenditure cycle in India. In the near term, the Indian market should find some reprieve as energy prices show signs of cooling. We continue to find opportunities in areas enjoying structural growth, where valuation still offers upside—these include real estate, private banks, new economy and healthcare.

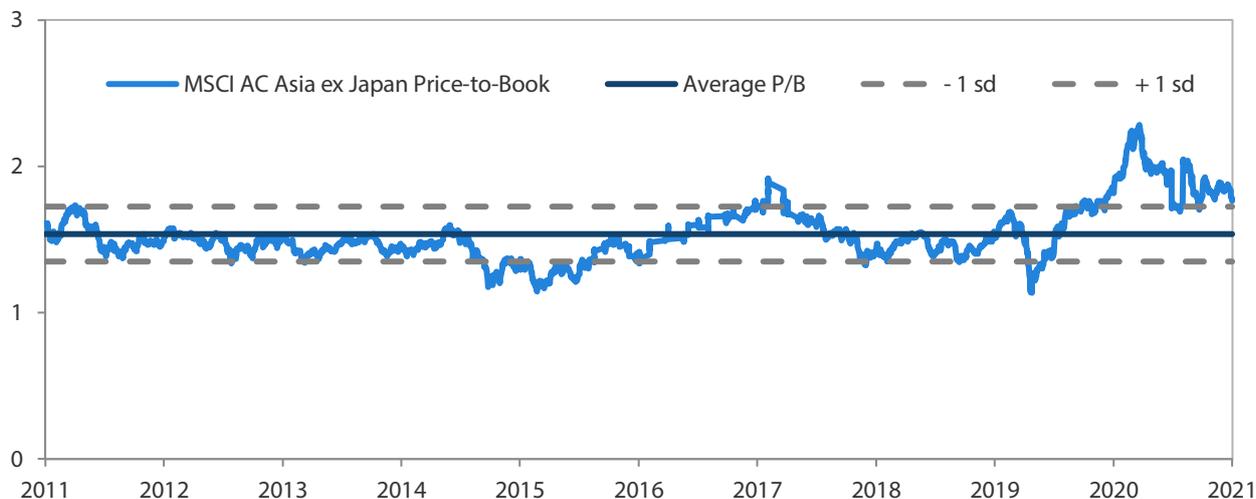
The pandemic has been a critical accelerator of the new economy in emerging countries, especially in the ASEAN region. Some countries are further along than others, with ingredients in place for better quality economic growth—such as Singapore, Indonesia, and the Philippines. As a result, we changed our view towards ASEAN for the first time in a number of years and now expect the region to outperform.

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



Source: Bloomberg, 30 November 2021. 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, 30 November 2021. 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.