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Nikko Asset Management

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Harnessing Change

Monthly Insights: Asian Equity (March 2025)

Markets brace for further volatility as Trump imposes widespread tariffs

By the Asian Equity Team 18 April 2025

Summary

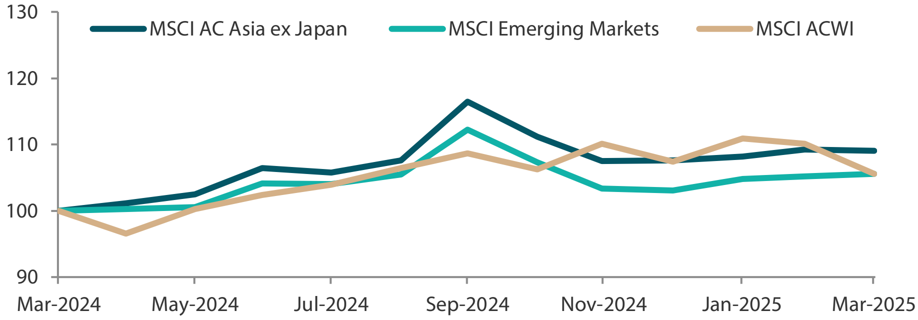
- China's focus on boosting domestic consumption as their top policy priority in 2025, which includes outlining a consumer spending plan as the trade war with Washington intensifies, sets a positive trajectory. The ability of individual countries to provide domestic stimulus is going to be crucial in limiting the impact of global growth slowdown brought on by US policy uncertainty.
- In a month when global trade tensions triggered a broad market sell-off, Asian ex Japanese equities diverged in terms of performance. India (+9.4%) was the standout performer in the region. China's equity market continued its upward trend, but Taiwan (-11.5%) lagged behind during the month.
- In addition to China's supportive policies fostering confidence, another reason to be constructive on Chinese equities is the country's positive liquidity dynamics. China's record trade surplus in 2024 and elevated household savings deposits mean there is plenty of money in the system looking to be deployed. Elsewhere, Indian companies rebounded this month, and pro-growth consumption policies and structural reforms will likely enable them to continue recovering in the year ahead.
- While the stock markets of South Korea and Taiwan are among the most sensitive to trade disruption, we have observed several companies already adapting to limit those risks. In ASEAN, amid uncertainties regarding structural reforms and political issues, we prefer the markets of Singapore and Malaysia with their relatively stable politics and tech-driven economic growth.

Market review

Heightened uncertainty surrounds international trade policies

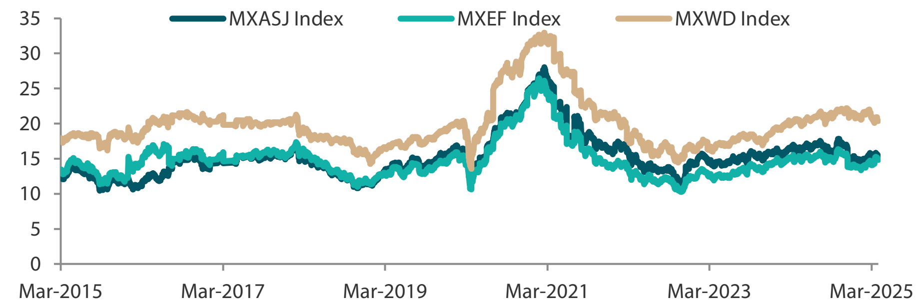
The MSCI Asia Ex Japan Index flat-lined in US dollar (USD) terms as tariff announcements heavily influenced market movements in March. Investors awaited news on what the White House framed as “Liberation Day” tariffs, which eventually saw a barrage of tariffs on almost all of Washington’s trading partners.

Chart 1: 1-yr market performance of MSCI AC Asia ex Japan vs. Emerging Markets vs. All Country World Index



Rescaled to 100 on March 2024.
Source: Bloomberg, 31 March 2025. 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, 31 March 2025. Returns are in USD. Past performance is not necessarily indicative of future performance.

India sees a robust recovery; China marches forward on supportive policies

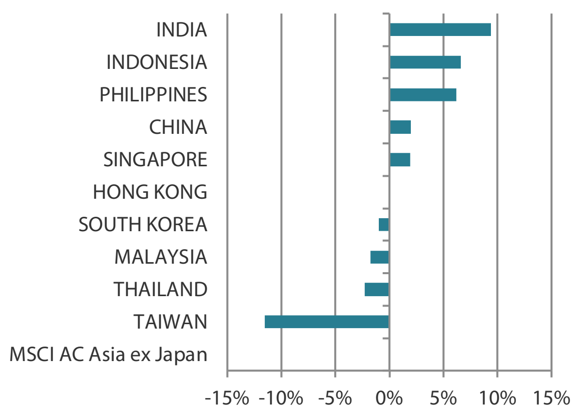
India (+9.4%) was the standout performer during March, as it staged a remarkable recovery after a prolonged sell-off since late-September 2024. The rally was driven by investors scooping up beaten-down stocks and the return of foreign inflows. Optimism is also growing over the economy, as well as the central bank’s recent efforts to inject liquidity into the banking system.

Elsewhere, Chinese stocks (+2.0%) continued to gain momentum, with the MSCI China Index rising about 15% so far this year, fuelled by investor optimism surrounding progress in the country’s generative AI capabilities and Beijing's stimulus measures aimed at boosting consumption and supporting the broader economy. Premier Li Qiang stressed during the annual National People’s Congress meeting that the government’s priority this year was to make “domestic demand the main engine and anchor of economic growth”. China's State Council then mapped out what it called a "special action plan" to revive domestic consumption, which includes increasing residents' income and potentially setting up a childcare subsidy scheme.

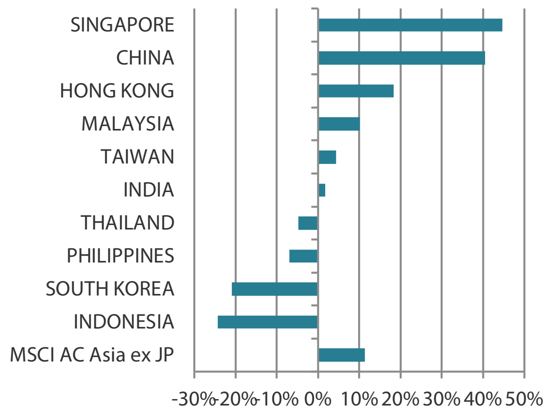
Export-reliant Taiwan, meanwhile, was the worst performer (-11.5%) in the region as investors dumped stocks including index heavyweight TSMC in view of US President Donald Trump’s next tariff moves.

Chart 3: MSCI AC Asia ex Japan Index[1]

For the month ending 31 March 2025



For the year ending 31 March 2025



Source: Bloomberg, 31 March 2025.

[1]Note: 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

Chinese names in consumption space may finally turn their fortunes around

Market volatility continues to be elevated due to the unpredictable nature of Trump's protectionist policies. Against this backdrop and also due to underlying geopolitical tensions, the Chinese authorities have named boosting consumption as the top task for the year. This is the first time in a decade that Beijing has given consumption such a high priority. Such policy support is positively impacting consumer confidence and the valuations of consumer companies, and it should continue to help rebalance the economy away from investment and exports. We continue to see green shoots in the real estate market showing signs of stabilising, along with a more active stock market rally from a low base.

Another reason to be constructive on Chinese equities is the positive liquidity dynamics in China. The country's record USD 992 billion trade surplus in 2024 and elevated household savings deposits mean there is plenty of money in the system looking to be deployed. Low government bond yields are a symptom of this positive liquidity dynamics and could lead domestic institutions to redirect their capital to equity markets for better returns. China's securities regulator is further encouraging more investments in the equity market by unveiling measures for state-owned insurance firms to invest 30% of annual premiums from new policies in the domestic A-share markets. Despite short-term uncertainty stemming from US tariffs and retaliatory measures from Beijing, there are encouraging signs that a provisional truce could happen, given that Trump said a trade deal with China was "possible". In our view, this "grand bargain" will be the proverbial icing on the cake to our scenario, but we do not consider it a base case.

India remains a compelling destination for long-term investments

We believe that India remains a compelling long-term investment opportunity despite facing short-term challenges. Pro-growth consumption policies and structural reforms will likely enable Indian companies to recover in the year ahead. We see the recent correction as a healthy occurrence that hopefully presents investors with opportunities to invest in some high-quality companies at much more reasonable valuations. While we are still underweight India, given the challenges in earnings growth faced by small-cap companies, we appreciate that there are attractive large-cap companies with bottom-up drivers at more attractive valuations.

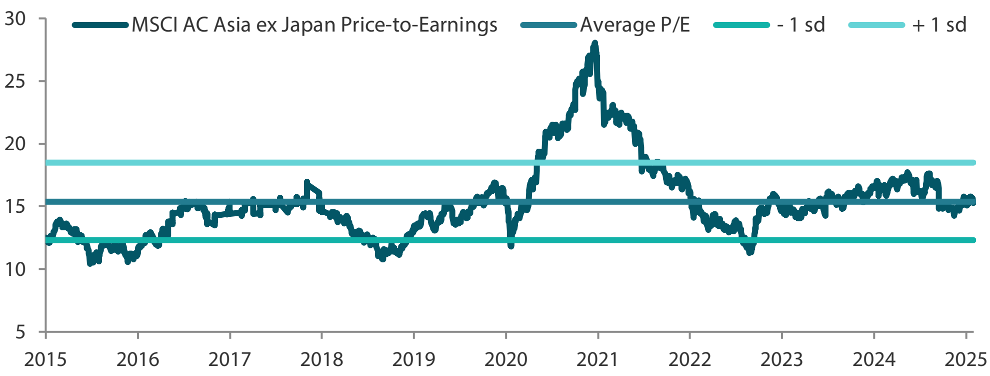
Several companies in South Korea and Taiwan already adapting to shifting trade patterns

Despite the recent political turmoil characterised by leadership instability and public protests, South Korea has delivered over 5% index returns year-to-date on the back of good corporate results and the "Value-up" programme. South Korean companies continue to grow globally and deliver good returns at reasonable valuations. The stock markets of South Korea and Taiwan are among the most sensitive to trade disruption, and we observe several companies already adapting to limit those risks.

Singapore and Malaysia the preferred markets in the ASEAN region

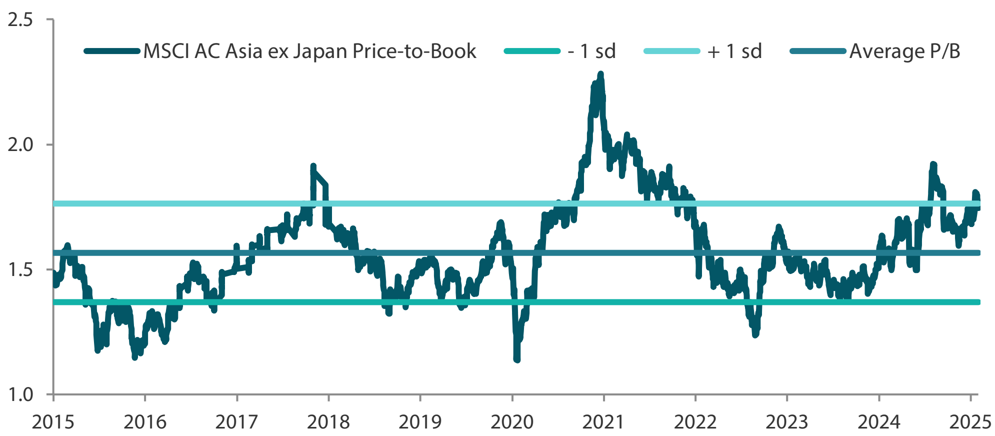
With uncertainties regarding structural reforms and political issues, ASEAN has underperformed China significantly year-to-date. Thailand has stood out, showing a significant decline in returns, with its index decreasing more than15% so far this year, driven by a decline in foreign tourist numbers, concerns over high household debt, political uncertainties and corporate scandals. Indonesia has also experienced a decrease, with its index declining more than 9% year-to-date, driven by market chatter on cabinet reshuffles and expanding military influence. Singapore and Malaysia remain the preferred countries with relatively stable politics and tech-driven economic growth. We continue to believe that structural drivers of fundamental change remain. In addition, Chinese outbound direct investment aimed at facilitating greater intra-regional trade is increasing and we believe this will continue to benefit most ASEAN countries.

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



Source: Bloomberg, 31 March 2025. 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, 31 March 2025. 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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