

# Harvesting Growth, Harnessing Change

## Monthly Insights: Asian Equity (June 2023)

India, China and Hong Kong lead the gains in Asia as global markets rebound

By the Asian Equity Team  
12 July 2023

### Summary



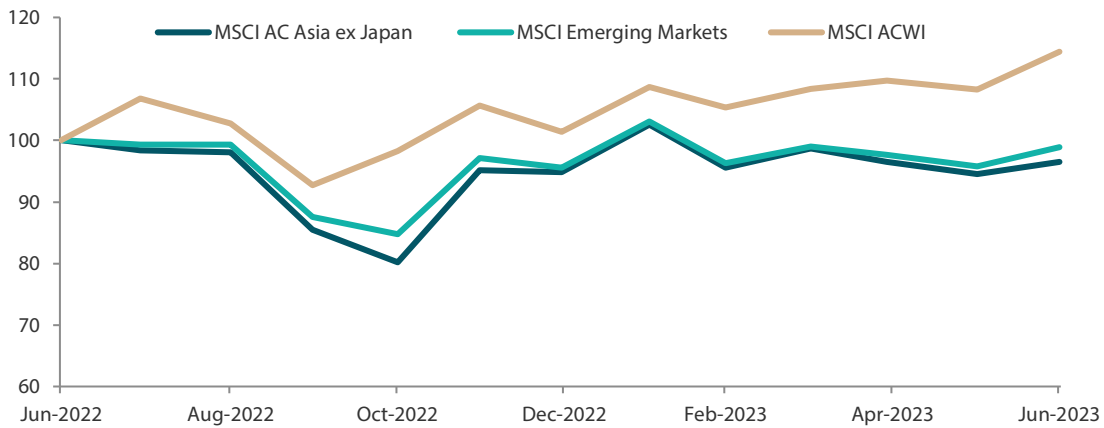
- With inflationary issues subsiding across most of Asia, many regional central banks are now holding interest rates steady, if not cutting rates in the case of China. The US, meanwhile, is still warning of further rate hikes despite some overall softening in data. Of more concern to us is what China does next.
- For the month, the MSCI AC Asia ex Japan Index rose 2.7% in US dollar terms. Global stock markets bounced back in June, fuelled by investors' optimism that inflation is easing and interest rates might not climb much further.
- India (+4.7%), China (+4.0%) and Hong Kong (+3.4%) led the gains, whereas the technology-centric markets of South Korea (+0.6%) and Taiwan (+1.7%) saw moderate returns. In the ASEAN region, market performance was mixed.
- While valuations are now very cheap across China, our focus remains on areas that are of strategic importance. Innovation in the healthcare, environmental technology and industrial technology space will continue to give rise to a large pool of high-quality companies with high sustainable returns and positive fundamental changes, in our view.

## Market review

### Asian markets rebound on optimism that inflation is easing

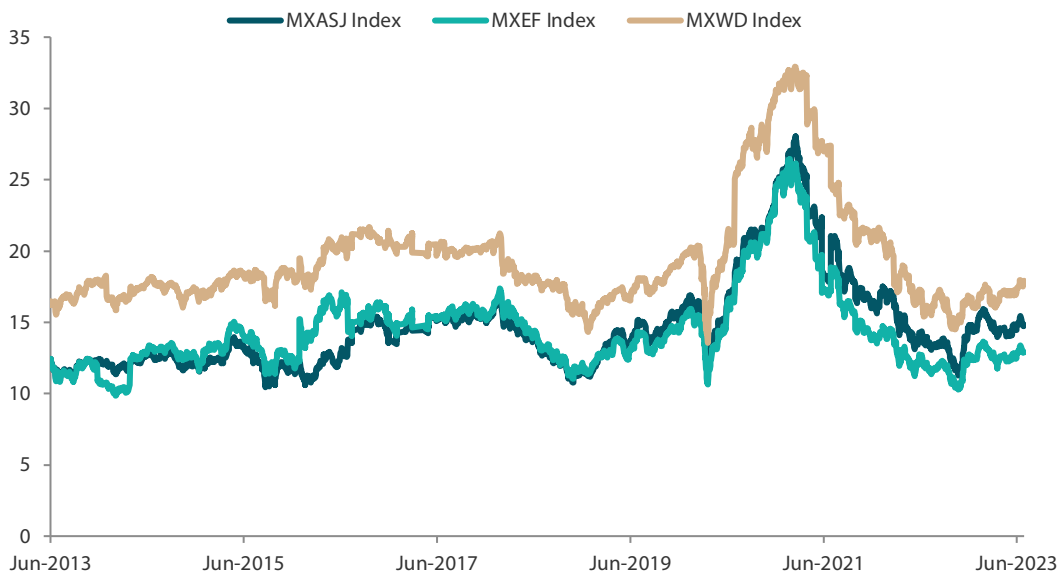
Regional equities, as measured by the MSCI AC Asia ex Japan Index, returned 2.7% in US dollar (USD) terms in June. Global stock markets bounced back during the month, fuelled by investors’ optimism that inflation is easing and interest rates might not have much further to climb. An upwardly revised US GDP print for the first quarter of 2023 also helped lift investor sentiment, undercutting widespread expectations that the US is heading towards a recession.

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



Source: Bloomberg, 30 June 2023. 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 June 2023. Returns are in USD. Past performance is not necessarily indicative of future performance.

### China and Hong Kong lead the gains in North Asia

Despite persistent concerns that China’s economic recovery is losing steam amid a lack of aggressive stimulus from the Chinese government, China and Hong Kong stocks still managed to turn in decent gains of 4.0% and 3.4%, respectively, for the month. The rebound in China stocks was supported by a series of interest rate cuts by the Chinese authorities to stimulate the world’s second largest economy. In June, the People’s Bank of China trimmed the one-year and five-year loan prime rate by 10 basis points (the first time in 10 months) and lowered the one-year medium-term lending facility rate and the seven-day reverse repo rate by the same margin. Still, Beijing’s modest stimulus fell

short of market expectations, disappointing investors, who were concerned about China’s weak consumer spending and the lacklustre manufacturing data reported during the month. Meanwhile, China’s consumer price index (CPI) rose 0.2% year-on-year (YoY) in May, inching up from April’s 26-month low of 0.1%. In Hong Kong, its CPI increased 2% YoY in May, easing from 2.1% in the previous month.

After surging in the previous month, the technology-centric markets of South Korea (+0.6%) and Taiwan (+1.7%) saw more moderated gains in June as the recent strong rally in global tech stocks ran out of steam after the US Federal Reserve warned that more rate hikes could come by the year’s end. Shares of South Korea’s index heavy Samsung Electronics, however, continued their uptrend on optimism about the global chip demand. In Taiwan, the central bank held its key discount rate steady at 1.875% during its June meeting, pausing from a year-long tightening cycle.

### ASEAN markets mixed in performance

The performance of equity markets in the ASEAN region was mixed in June. Thailand (-2.0%), Malaysia (-1.9%) and Indonesia (-0.3%) turned in losses, while the Philippines (+1.9%) and Singapore (+1.7%) saw decent gains. In Thailand, political uncertainties and an accounting scandal that has led to a bond default at a listed electric cable maker shook investor confidence. Malaysian stocks fell amid lingering concerns on the outcome of the state elections that are fast approaching. The central banks of Indonesia and the Philippines kept their benchmark interest rates unchanged, with both signalling that rates will be steady in the near term as price pressures ebb. Singapore stocks gained despite manufacturing output and key exports contracting for an eighth straight month.

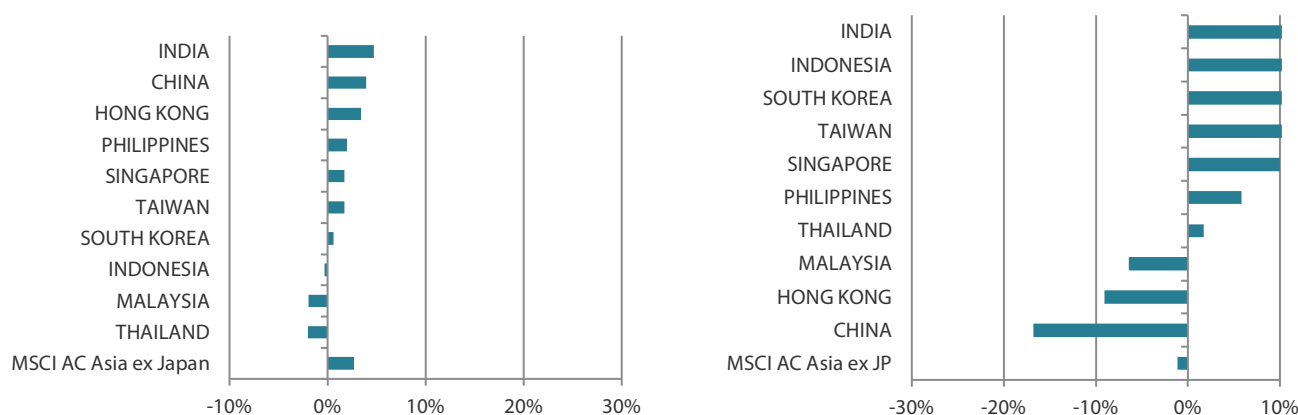
### Indian equities register strong gains

For the month, the Indian equity market advanced 4.7% as its retail inflation cooled to a 25-month low of 4.25% in May. The Reserve Bank of India kept its key benchmark policy rate unchanged at 6.5% for a second consecutive meeting. In other developments, India’s current account deficit narrowed to USD 1.3 billion or 0.2% of GDP in the January-March quarter, helped by a moderation in the trade deficit and an increase in services exports.

**Chart 3: MSCI AC Asia ex Japan Index<sup>1</sup>**

For the month ending 30 June 2023

For the year ending 30 June 2023



Source: Bloomberg, 30 June 2023.

<sup>1</sup>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.

*Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in the strategy’s portfolio, nor constitute a recommendation to buy or sell.*

## Market outlook

### More targeted support expected for China, but widespread stimulus is unlikely

One could be forgiven for missing some of the underlying economic changes with the artificial intelligence (AI) fervour currently sweeping markets. With inflationary issues subsiding across most of Asia, many regional central banks are now holding interest rates steady, if not cutting rates in the case of China. The US, meanwhile, is still warning of further rate hikes despite some overall softening in data. Of more concern to us is what China does next. Under the current stewardship, the focus is rightly on quality and not quantity, and that has consistently disappointed markets this year and led to subdued confidence and activity on the mainland. There are incremental signs of support in China, but again these are very targeted. In recent weeks, electric vehicles (EVs), large medical devices and white goods have all seen supportive measures, and we would expect more to come but not a return to widespread policy stimulus observed in past cycles.

While valuations are now very cheap across China, we continue to focus on areas that are of strategic importance. Innovation in the healthcare, environmental technology and industrial technology space will continue to give rise to a large pool of high-quality companies with high sustainable returns and positive fundamental changes, in our view. Increasing consumption's contribution to the economy is also a long-term goal despite the near-term headwinds.

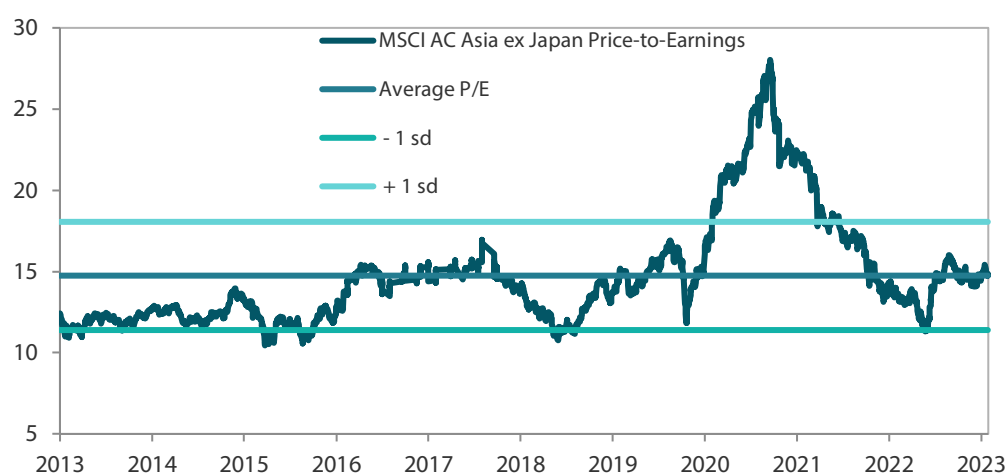
### AI fervour in South Korea and Taiwan masking relatively weak areas in technology

Within the technology-heavy South Korean and Taiwanese markets, AI fervour is again masking relatively weak and much larger parts of the hardware technology markets. End demand for both personal computers and smartphones continues to weaken while cloud/data centres have received some additional boost from hyperscale demand. In our opinion, the market appears to be extrapolating too broadly the fundamental changes being brought about by the current AI boom.

### Structural reforms and capex cycle boosting the appeal of India and Indonesia

The positive effects of continued geopolitical friction are most clearly being felt in India and ASEAN at present. Reforms in India and Indonesia are catalysing this fundamental change most proactively and with peaking local interest rate cycles, we are likely to see more interest return to these markets. For India, hope continues to build for a capital expenditure (capex) cycle alongside a long housing upcycle. Early indications are positive as gross fixed capital formation has begun to move up as a percentage of nominal GDP, and new project announcements in the private sector have continued to grow. Corporate balance sheets are also at the healthiest level in more than 15 years. The aforementioned factors continue to drive our favourable view of high-quality banks and companies leveraged to domestic consumption, capex cycle and EV supply chain in India and Indonesia.

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



Source: Bloomberg, 30 June 2023. 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 June 2023. 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:** 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.

**Luxembourg and Germany:** This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

**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.