



Asia Macro & Market Outlook

3Q 2020 Edition

17 Jul 2020



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Summary

Macro
Outlook

- Chinese economy should continue to recover supported by stimulus measures.
- NIEs 4 and ASEAN 5 economies have bottomed out in 2Q20, but recovery in Indonesia and the Philippines could be dragged by poor epidemic control.
- India's recovery pace should be affected by high COVID-19 infection, with sovereign rating downgrading risk.
- Australia is expected to maintain current cash rate with potential quantitative easing.

(Note) Outlook as of 13 July 2020; subject to update thereafter without notice.

COVID19 – Divergence in epidemic control

Ex.1

	JP	KR	CH	CH2	HK	MO	TW	PH	TH	MY	SG	ID	VN	IN	AU
29/Jun	109	42	19	4	4	-	-	983	7	3	202	1,082	-	18,339	81
30/Jun	138	51	3	3	2	-	-	1,076	2	2	246	1,293	-	18,256	67
1/Jul	127	54	3	2	28	-	-	997	2	1	215	1,385	-	19,428	86
2/Jul	194	63	5	4	9	-	1	294	6	3	188	1,624	-	21,948	81
3/Jul	250	63	3	4	5	-	1	1,531	1	5	169	1,301	-	22,721	254
4/Jul	274	59	8	7	11	-	-	1,494	5	10	185	1,447	-	24,015	107
5/Jul	208	48	4	11	10	-	-	2,424	5	5	136	1,607	-	23,932	87
6/Jul	176	44	8	15	17	-	-	2,079	5	5	183	1,209	14	22,510	137
7/Jul	211	62	7	6	14	-	-	1,540	-	6	157	1,268	-	23,135	169
8/Jul	204	50	9	6	24	-	-	2,486	2	3	158	1,853	-	25,571	131
9/Jul	355	45	4	3	42	-	-	1,395	5	6	125	2,657	-	25,790	173
10/Jul	430	35	2	4	38	-	2	1,160	-	13	191	1,611	-	27,761	300
11/Jul	386	44	7	5	28	-	-	1,308	14	8	169	1,671	1	27,755	194
12/Jul	408	62	8	6	38	-	-	2,037	1	14	178	1,681	2	29,108	244
13/Jul	261	33	3	5	52	-	-	747	3	7	322	1,282	-	28,179	183
14/Jul	333	39	6	4	48	-	-	539	7	4	347	1,591	1	29,917	271
15/Jul	450	61	1	2	19	-	-	1,305	5	5	249	1,522	8	32,607	244
total confirmed(31/Jan)	14	11	11,790	NA	13	7	10	1	14	8	13	-	5	1	9
total confirmed(29/Feb)	947	3,526	79,824	NA	95	10	39	3	42	25	102	-	16	3	25
total confirmed(31/Mar)	2,945	9,887	81,554	1,367	714	41	322	2,084	1,651	2,766	926	1,528	212	1,635	4,561
total confirmed(30/Apr)	15,019	10,774	82,874	981	1,037	45	429	8,488	2,954	6,002	16,169	10,118	270	34,866	6,754
total confirmed(31/May)	17,625	11,503	83,017	397	1,084	45	442	18,086	3,081	7,819	34,884	26,473	328	190,622	7,195
total confirmed(30/Jun)	19,482	12,850	83,534	100	1,205	46	447	37,514	3,171	8,639	43,907	56,385	355	585,792	7,834
total confirmed(15/Jul)	23,749	13,612	83,612	104	1,588	46	451	58,850	3,232	8,734	46,879	80,094	381	970,169	10,495
dead	997	291	4,634	NA	10	-	7	1,614	58	122	27	3,797	-	24,929	111
recovered	19,204	12,396	78,719	NA	1,241	45	440	20,976	3,092	8,526	42,988	39,050	353	613,735	7,928
net confirmed	3,548	925	259	NA	337	1	4	36,260	82	86	3,864	37,247	28	331,505	2,456

Note: China government started to release asymptomatic toll effectively on 31 Mar. Figures of asymptomatic in column of "CH2"
China existing asymptomatic data exclude patients who were symptomized or negative after 14 days.

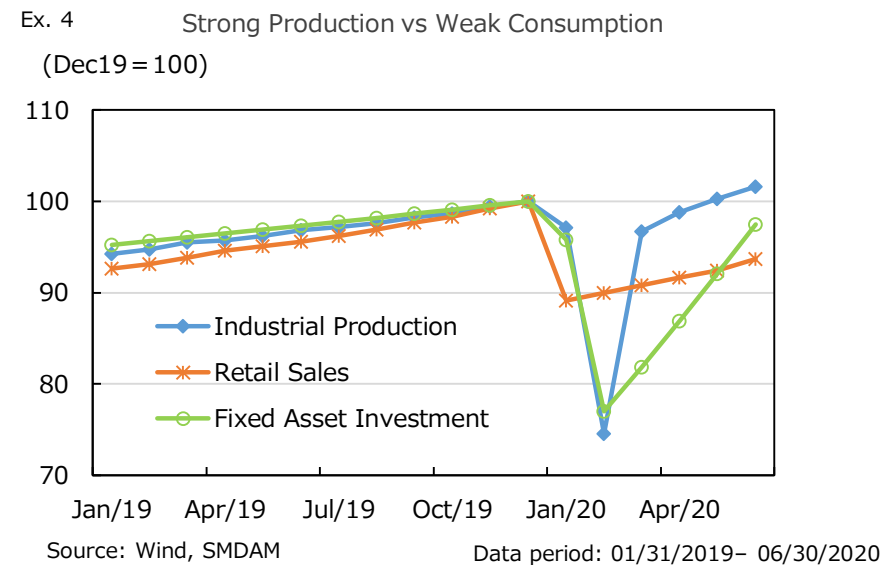
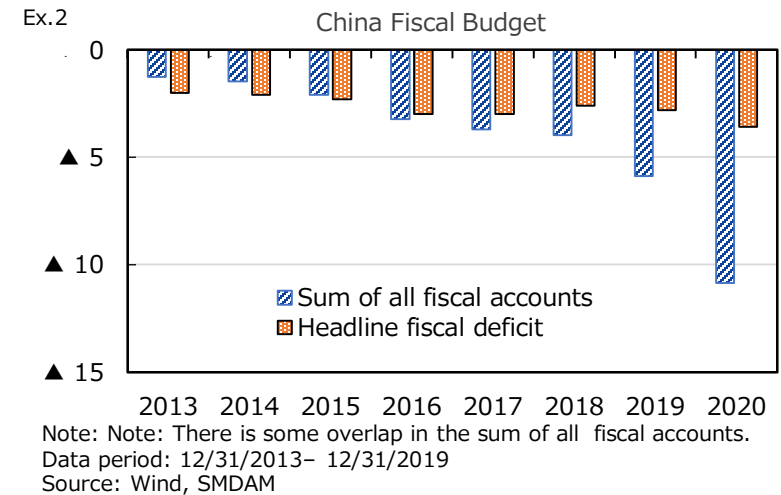
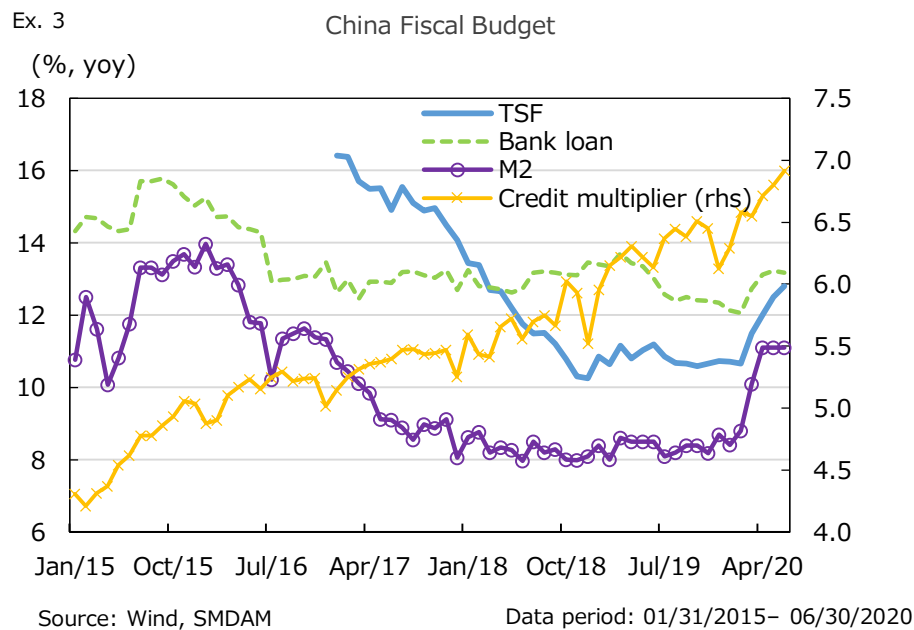
Source: Wind, SMDAM

Data period: 01/29/2020- 07/15/2020



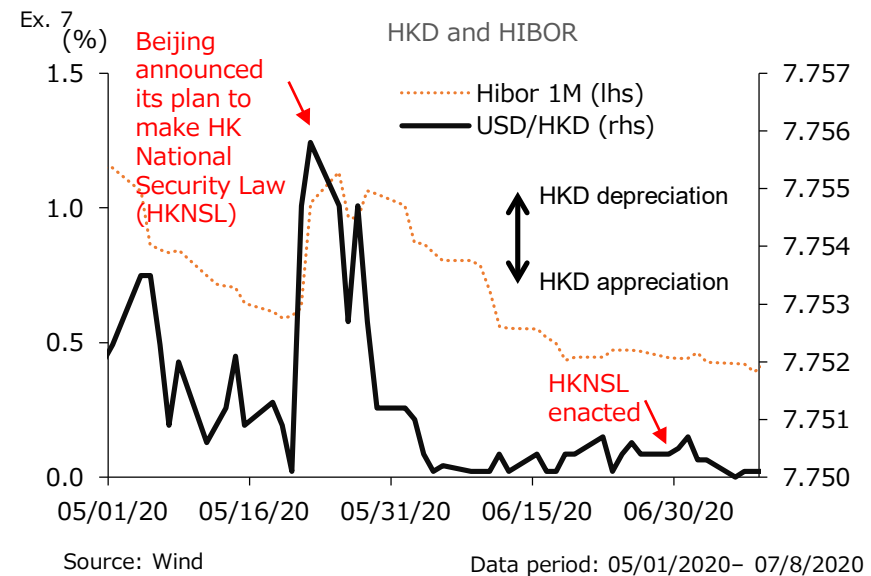
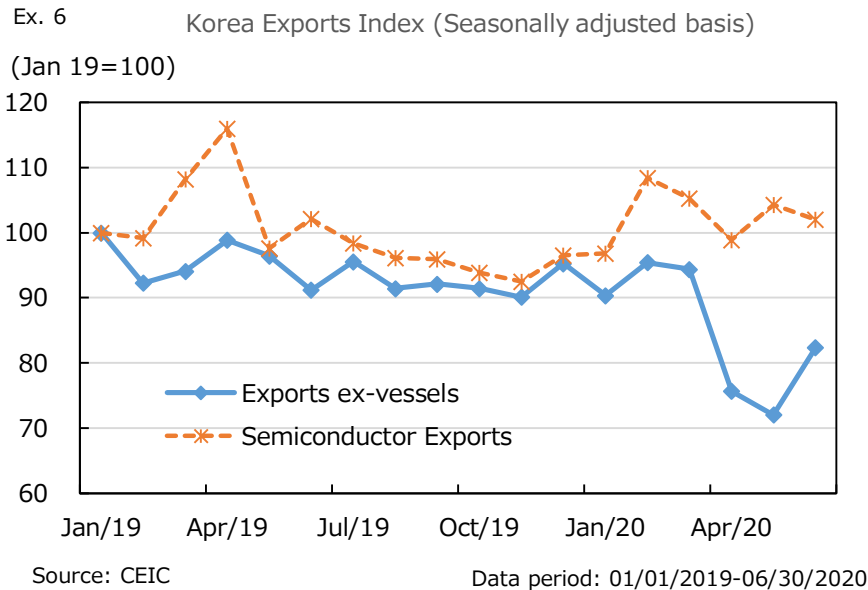
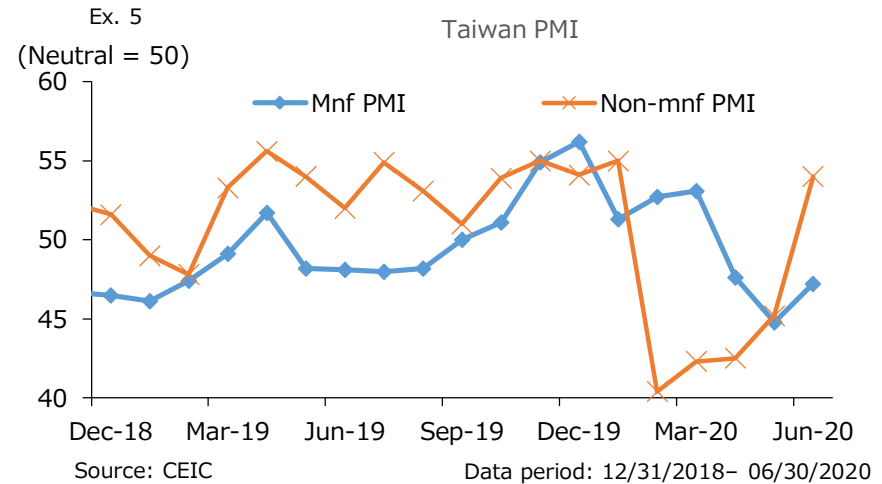
China – Recovery amid policy supports

- Proactive fiscal policy should support economic recovery.
- Monetary policy should remain accommodative, although the most easing period may have been behind us.
- Industrial production and infrastructure investment should serve as the main drivers, while consumption is recovering at a slower pace.



NIEs 4 – Worst seems to be over

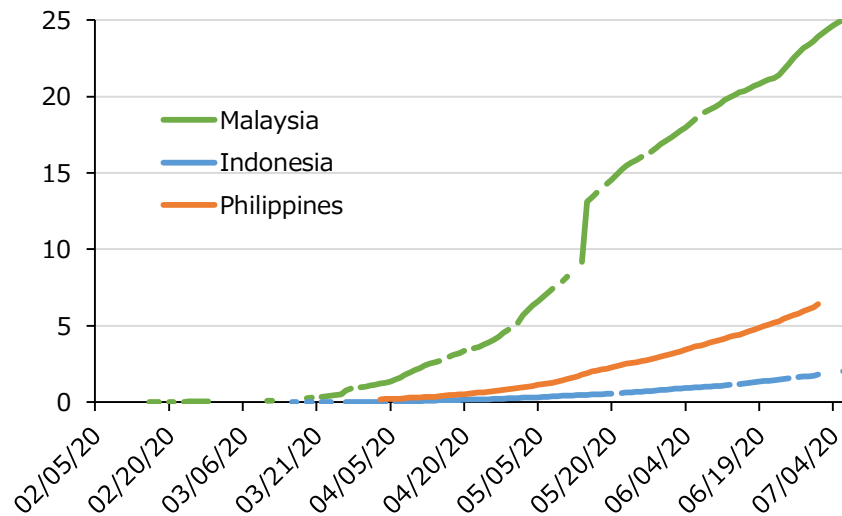
- Q2 should be the trough for NIEs 4 economies.
- Relatively better epidemic control should be favorable for a smooth recovery.
- No significant capital outflow so far in HK despite political uncertainties.



ASEAN 5 – Divergence in recovery

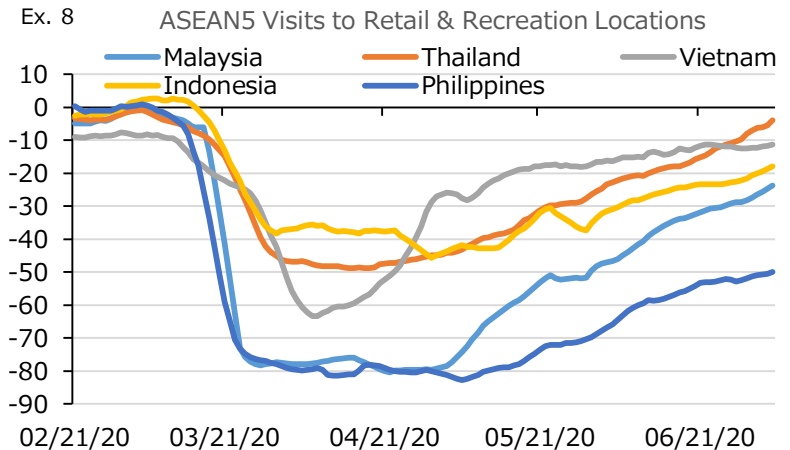
- The worst of this contraction seems to be behind us.
- Countries with better epidemic control (Vietnam, Thailand, Malaysia) should see faster recovery.
- Indonesia and the Philippines where fewer tests are conducted lag far behind in epidemic containment, which should weigh on their recovery pace.
- We expect rating agencies to revise down Indonesia sovereign rating to junk grading as the Government abandons its fiscal discipline.

Ex. 9 Total COVID-19 Tests Per Thousand People



Source: ourworldindata.org

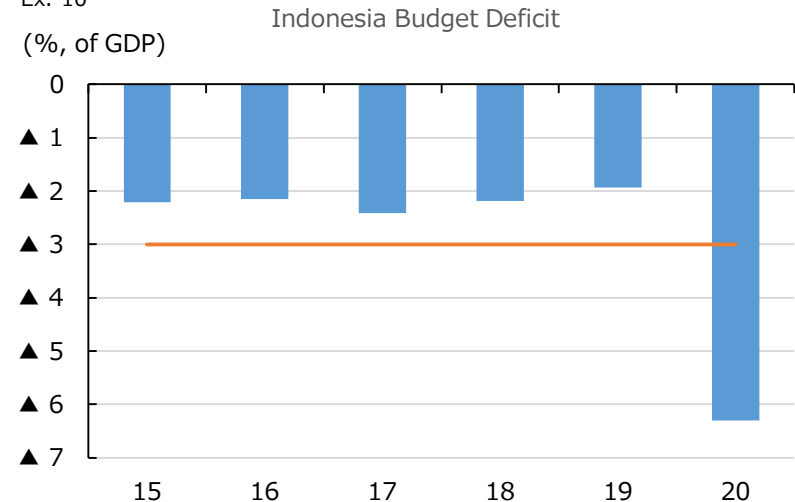
Data period: 02/05/2020– 07/07/2020



Source: Google, SMDAM

Data period: 02/21/2020– 07/05/2020

Ex. 10



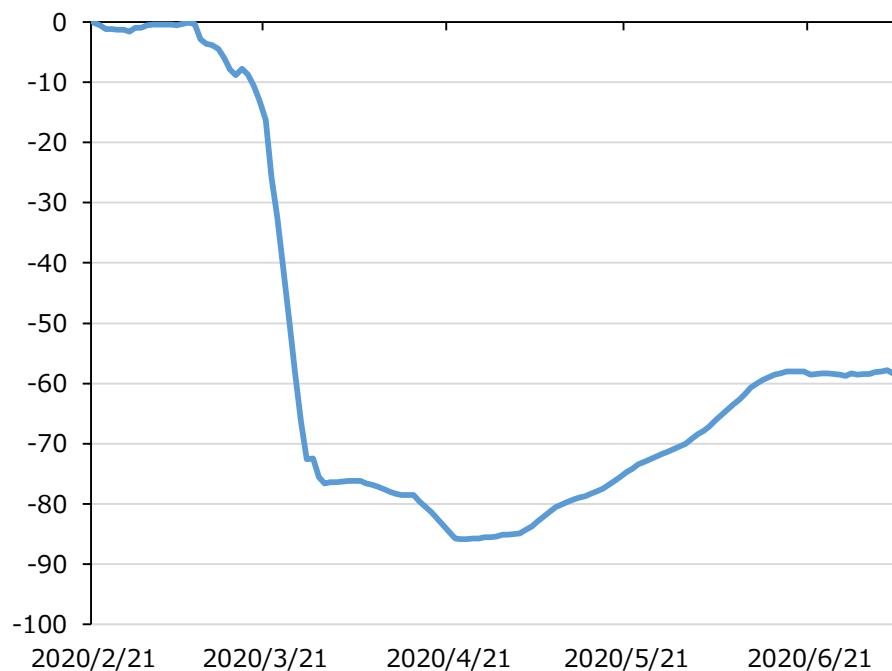
Source: CEIC, SMDAM

Data period: 12/31/2015– 12/31/2020

India – Bumpy road for recovery

- Economic sentiment should remain weak despite of easing restrictions amid pandemic concern.
- Fiscal deficit for FY20/21 should be much larger than budget planned due to revenue shortfall.
- Moody's and Fitch may revise down sovereign rating to junk grading.

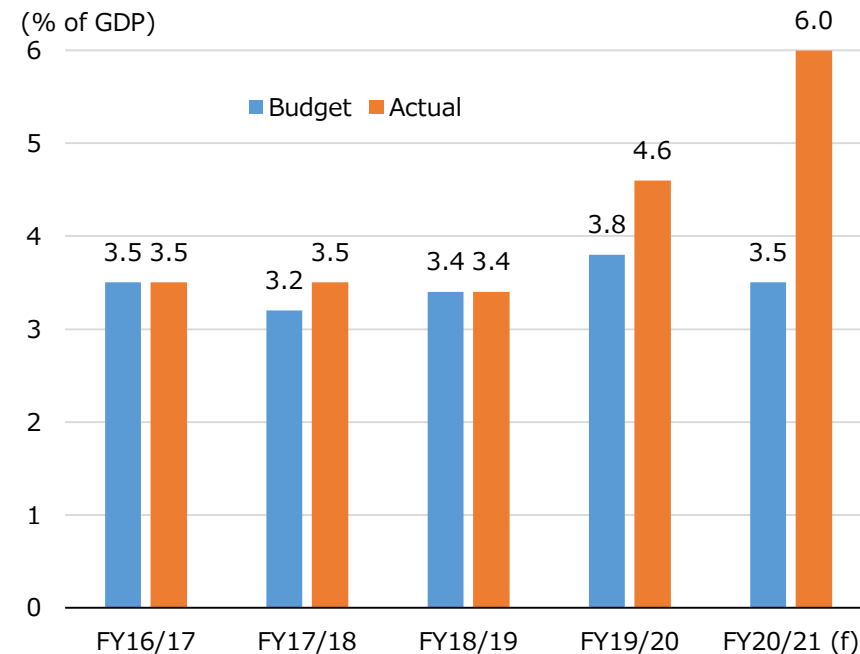
Ex. 11 India Visits to Retail & Recreation Locations



Source: Google

Data period: 02/21/2020– 07/05/2020

Ex. 12 India Fiscal Deficits



Source: CEIC,SMDAM

Data period: 04/01/2016– 07/15/2020

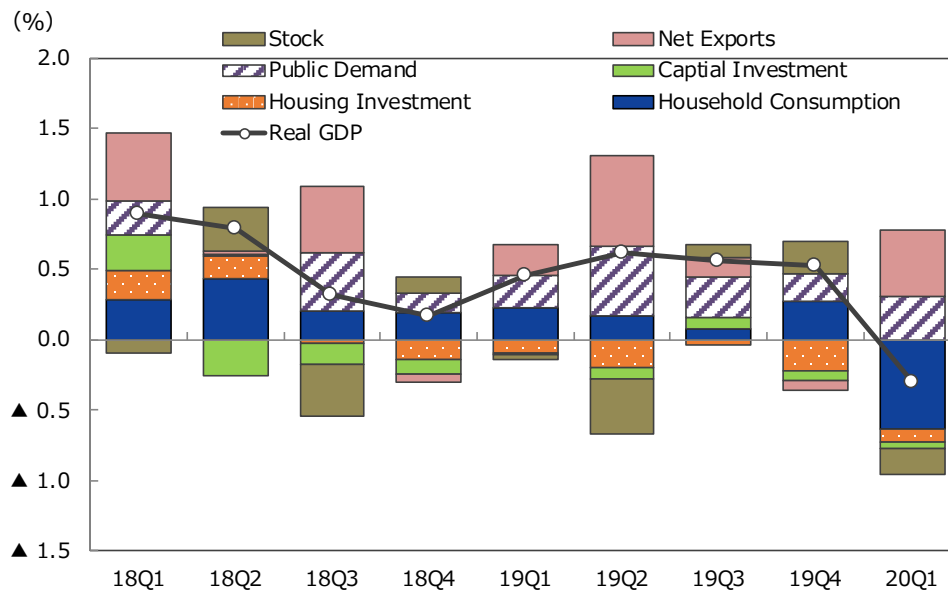
OCEANIA – Accommodative monetary policy to maintain

- Victoria State has entered lockdown for 6 weeks from 8th July, but moderate recovery trend in the remaining states is likely to continue as long as the spread of the infection is contained.
- With the deflationary gap remaining, we expect RBA to maintain the cash rate at 0.25% for a few years and to take the QE with YCC to anchor 3-year government bonds at 0.25%.
- Downside risks include second wave of COVID-19 spreads and escalation of tensions with China.

Ex.13

Real GDP Growth

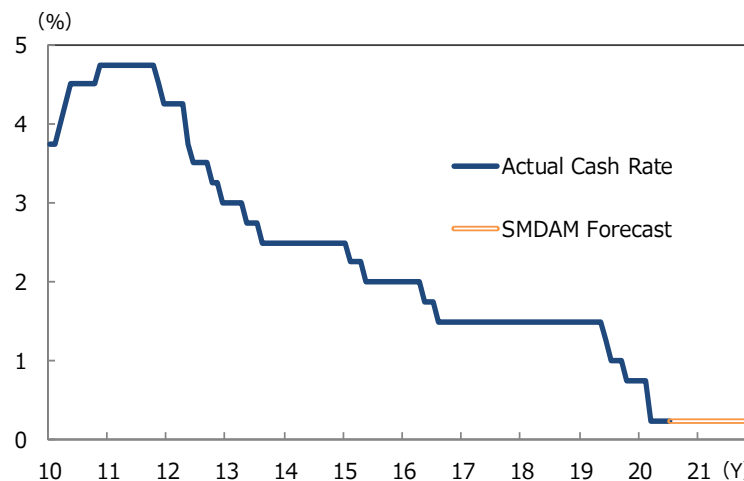
(QoQ Contribution, SA, %pt)



Source: Datastream

Data period: 03/31/2018– 03/31/2020

Ex.14

Cash rate
Actual & our forecast

Note: This analysis is as of 10 July 2020; subject to update thereafter without notice.

Data period: (Actual) 01/29/2010– 06/30/2020, (Forecast) 07/01/2020 – 12/31/2021

Source: Bloomberg

Forecasts: GDP, CPI, and policy rate

Ex.15

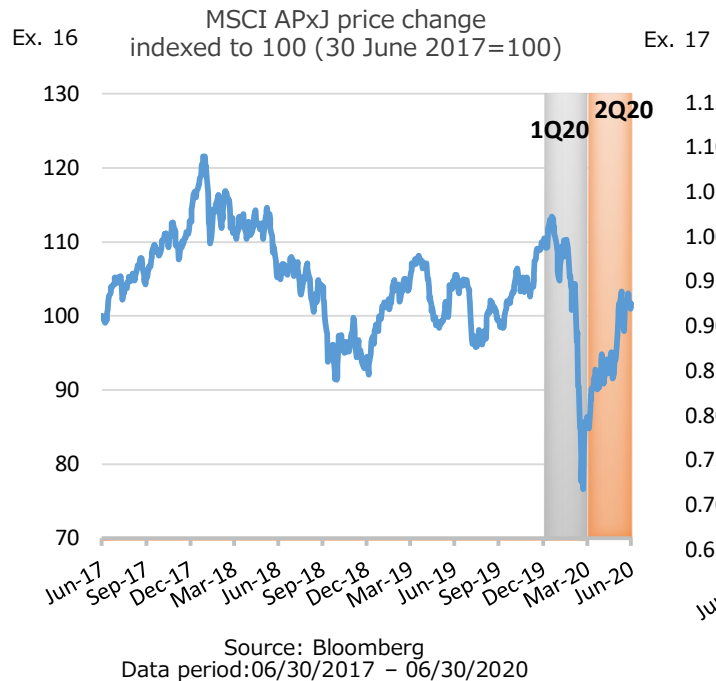
		GDP			CPI			Policy Rate						
		2019	2020	2021	2019	2020	2021	2019	2020	2021	2020			
											1Q	2Q	3Q	4Q
China		6.1	3.6	8.3	2.9	2.7	1.9	4.15	3.75	3.75	4.05	3.85	3.75	3.75
India		4.2	-5.0	9.8	4.8	3.2	4.3	5.15	3.25	3.25	4.40	4.00	3.50	3.25
N I E S 4	Korea	2.0	-0.7	3.4	0.4	0.2	1.5	1.25	0.50	0.50	0.75	0.50	0.50	0.50
	Taiwan	2.7	1.0	3.5	0.6	-0.3	1.4	1.375	1.125	1.125	1.125	1.125	1.125	1.125
	Singapore	0.7	-5.1	4.7	0.6	-0.7	1.4							
	Hong Kong	-1.2	-6.2	6.0	2.9	1.5	2.5							
A S E 5 A N	Indonesia	5.0	-2.3	5.6	2.8	2.6	3.4	5.00	3.75	3.75	4.50	4.25	3.75	3.75
	Thailand	2.4	-5.5	5.0	0.7	-1.5	0.5	1.25	0.50	0.50	0.75	0.50	0.50	0.50
	Malaysia	4.3	-4.2	6.2	0.7	-1.3	1.7	3.00	1.75	1.75	2.50	2.00	1.75	1.75
	Philippines	5.9	-5.7	9.6	2.5	2.5	3.2	4.00	2.25	2.25	3.25	2.25	2.25	2.25
	Vietnam	7.0	3.2	7.6	2.8	3.6	3.3	6.00	4.00	4.00	5.00	4.50	4.00	4.00
Australia		1.8	-3.0	4.6	1.6	0.4	1.8	0.75	0.25	0.25	0.25	0.25	0.25	0.25

(Note) Forecasts as of 15 July 2020; subject to update thereafter without notice. Figures in yellow are actual y-o-y growth figures; others are forecast. Source: SMDAM

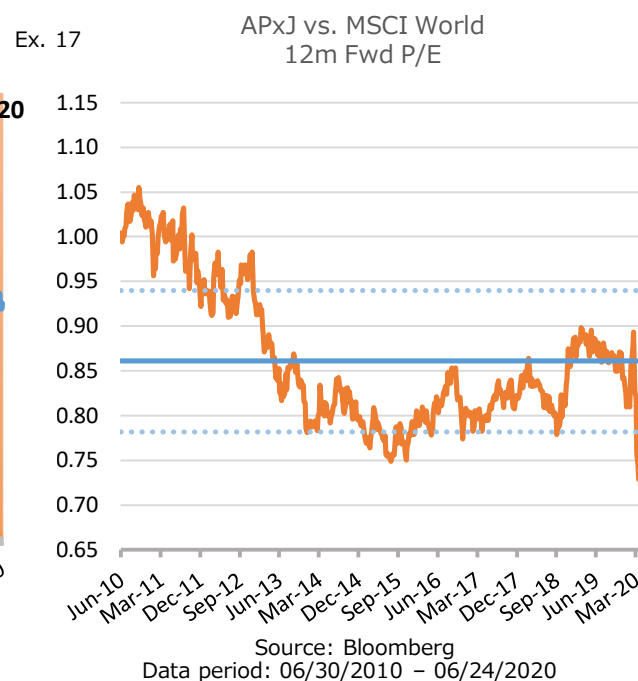
2Q20 Market Review – Bull market driven by liquidity

- The Asia Pacific market rebounded sharply in 2Q20 as the governments rolled out numerous fiscal and monetary supports. The market sentiment improved by increasing expectation of the COVID-19 containment.
- The valuation gap between DM and EM widened further whilst EM struggled to head toward recovery from COVID-19.
- While most markets in Asia Pacific region rallied, India outperformed as sharp decline in March wiped off high valuations and attracted inflow from foreign investors who were fueled by ample liquidity. Hong Kong also gained during 2Q20 despite of concern over the Hong Kong National Security Law, which essentially was received by the market as an effective tool to prevent social unrest.

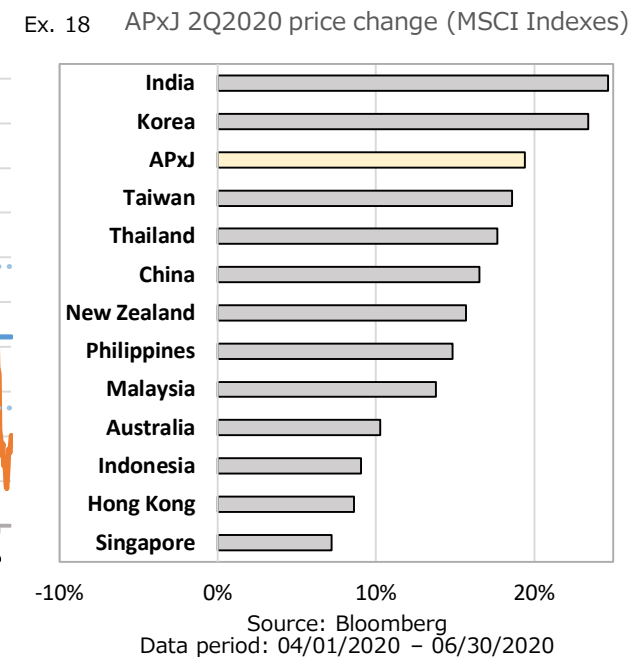
Rebounded post COVID-19 drop in 1Q20, supported by ample liquidity.



EM largely discounted against DM.

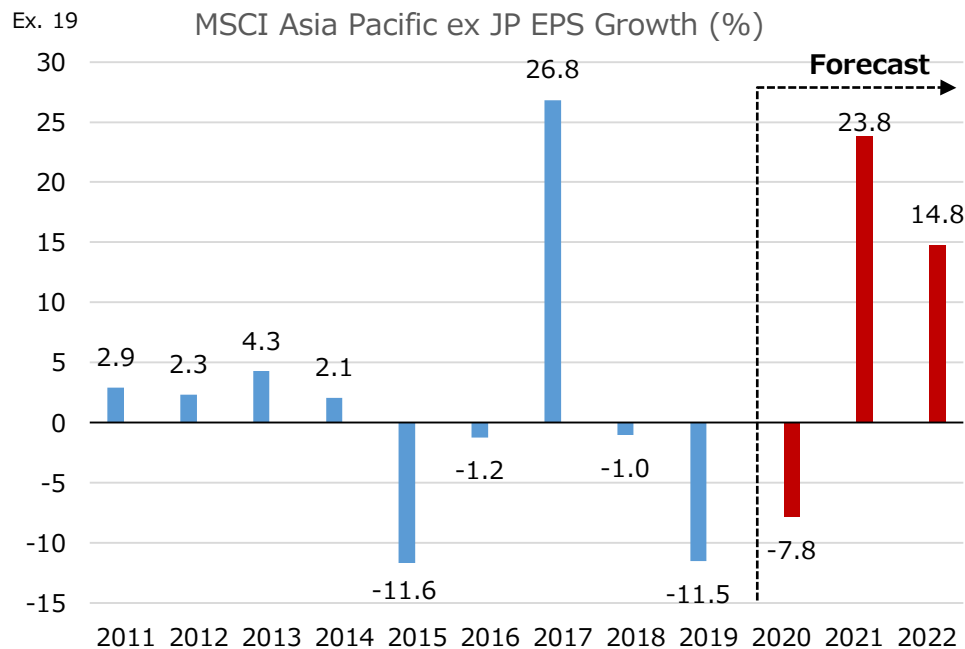


All markets rallied from the COVID-19 bottom.



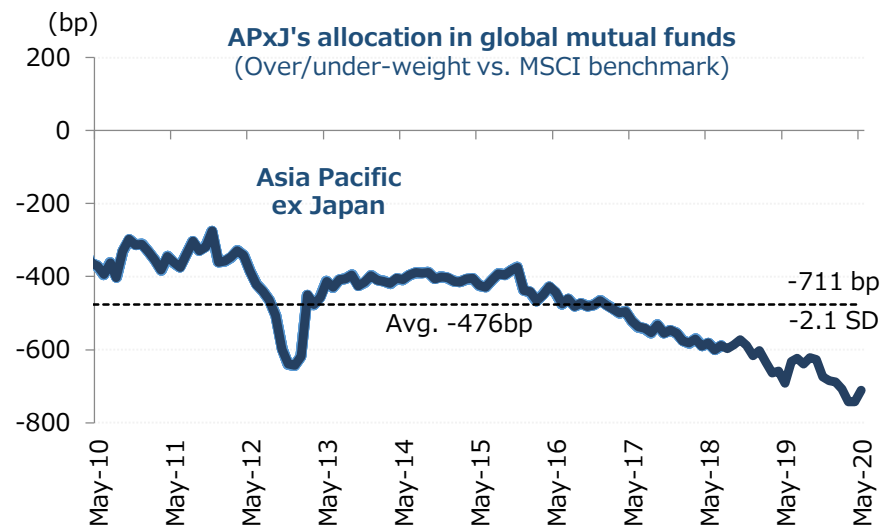
Summary – Bumpy but gradual uptrend continues

- Corporate earnings are expected to get back on recovery track which the market has started to price in. Earnings downward revision is approaching to its bottom. Current EPS growth for 2020 is estimated to enter negative territory at -7.8% while 2021 and 2022 outlook remain resilient with double digit growth.
- Global mutual funds bought back APxJ in May 2020. Given their expanded underweight position, this trend is expected to continue.
- PER multiples have been lifted after the sharp rebound to one of the highest levels in the decade (Ex.28).
- Key catalyst is earnings recovery, whereas resurgence of COVID-19 outbreak remains as a risk and so does China-US tension.



Source: Factset
Data as of July 10th 2020

Ex. 20 Global mutual funds further underweight in APxJ

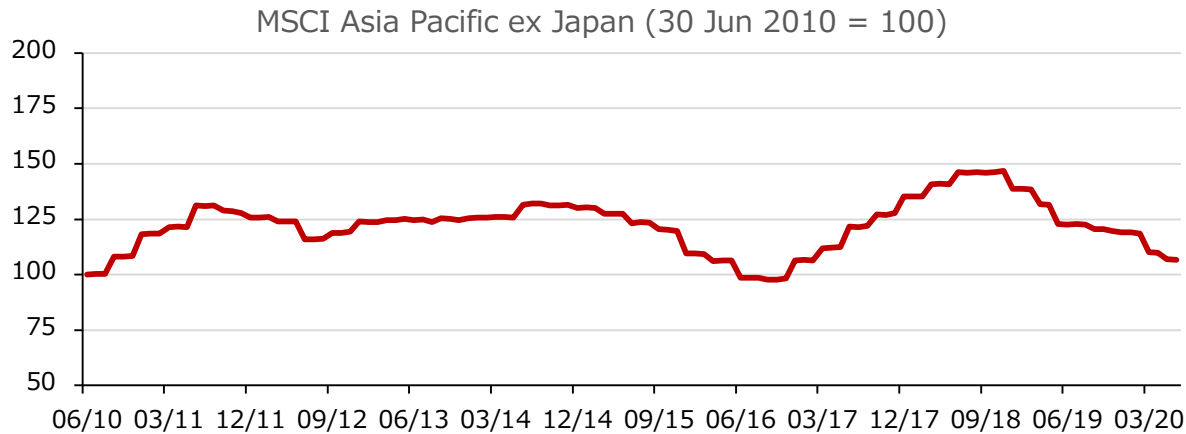


Note: Global funds include both global & global ex-USA mandates.
Total AUM = US\$ 1.6tn.

Source: EFPR, FactSet, MSCI, Goldman Sachs Global Investment Research
Data period: 05/31/2010 – 05/31/2020

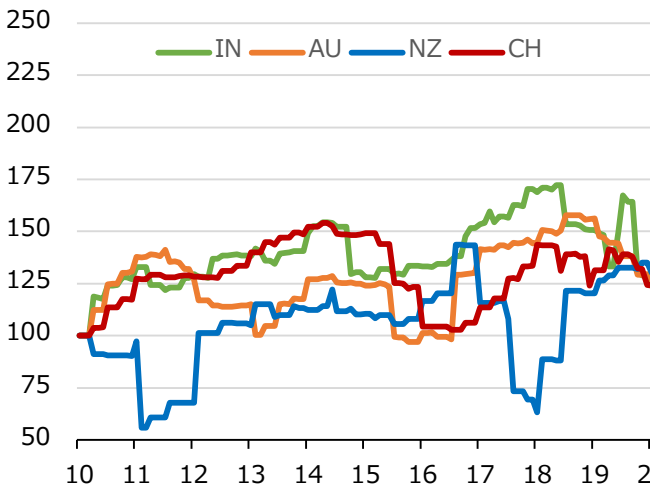
EPS – Narrowing decline sets for improving outlook

Ex.21

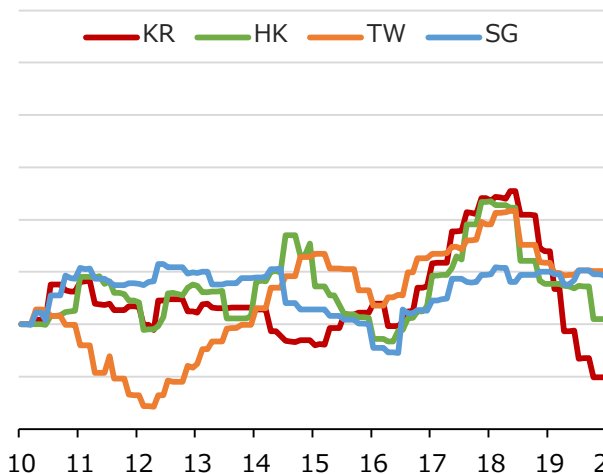


Ex. 22-24

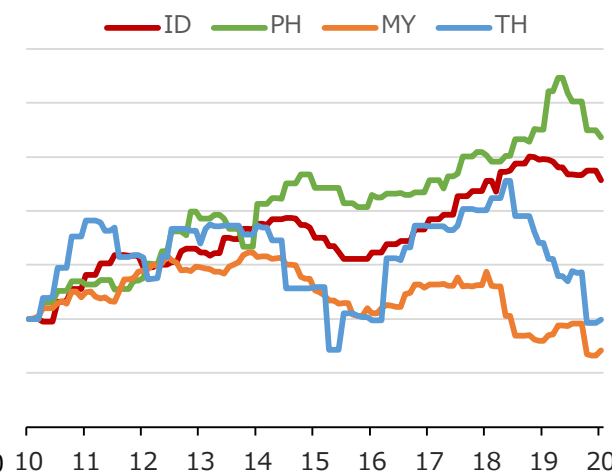
EPS Growth (30 Jun 2010 = 100)



NIES 4



ASEAN 5



Source: Bloomberg Data period 06/30/2010 – 06/30/2020

EPS revision – Approaching to the bottom end

- Downward earnings revision still continues in 2Q20 across Asia Pacific (ex-Japan) region as COVID-19 even raised concern of its 2nd wave.
- However, downward revision is anticipated to bottom out in 3Q and the macro environment is set ready for improving corporate earnings by numerous stimulus measures. New Zealand kick-started its upward revision, supported by successful containment of COVID-19.

Ex. 25

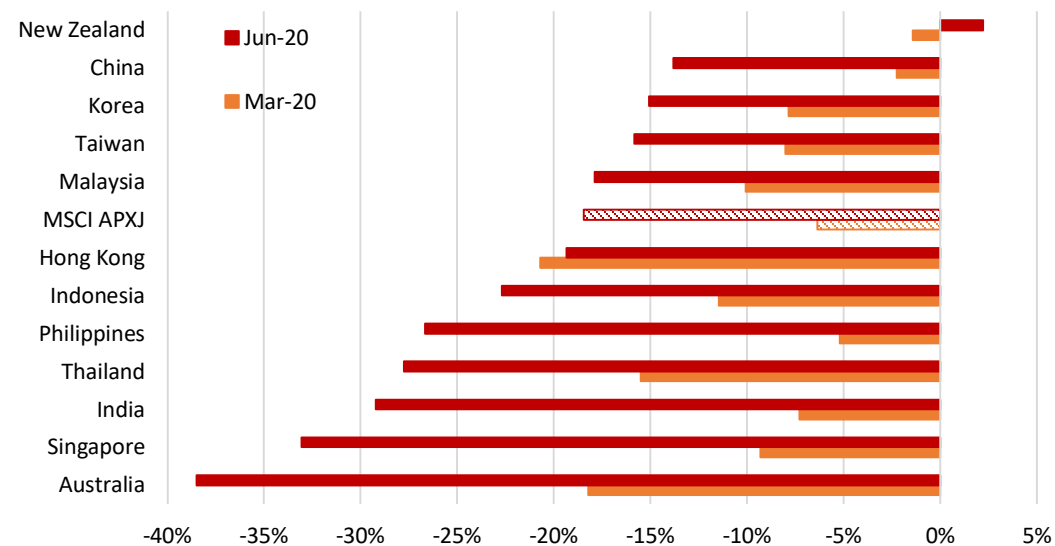
EPS Revision	12 Weeks	
	2020	2021
China	-9.4%	-7.4%
Hong Kong	-12.0%	-6.0%
Korea	-13.8%	-7.0%
Taiwan	-5.3%	-3.9%
Singapore	-20.6%	-15.8%
Malaysia	-17.4%	-8.0%
Thailand	-19.6%	-13.3%
Indonesia	-26.8%	-16.7%
Philippines	-25.3%	-15.1%
India	-28.2%	-16.9%
Australia	-12.2%	-8.6%
New Zealand	-19.3%	-12.1%
MSCI Asia Pac Ex Jp	-11.0%	-6.5%

Note: EPS % change in 12 weeks time prior to 3 July 2020.

Source: I/B/E/S
Data as of 07/03/2020

Ex. 26

2021 Earnings Revision in last 3 month Jun 20 vs Mar 20



Note: Earnings revisions ratio = (No. of estimates upgraded – No. of estimates downgraded) / Total number of estimates

Source: I/B/E/S, MSCI, RIMES, Morgan Stanley Research
Data as at 06/22/2020

Valuation band – PER expanded sharply after the rally

Ex. 27-28

12m fwd P/B is normalized

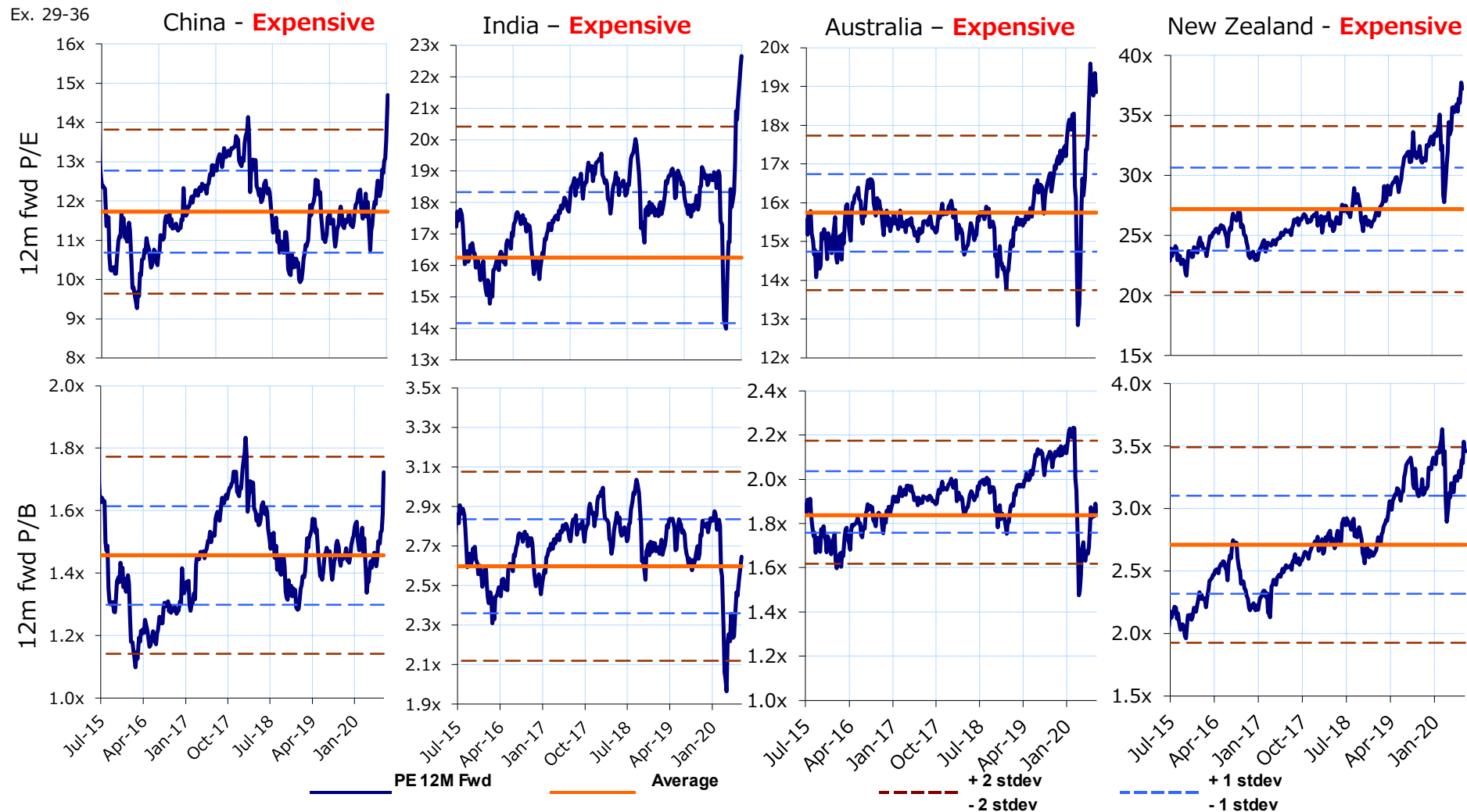


12m fwd P/E is stretched out



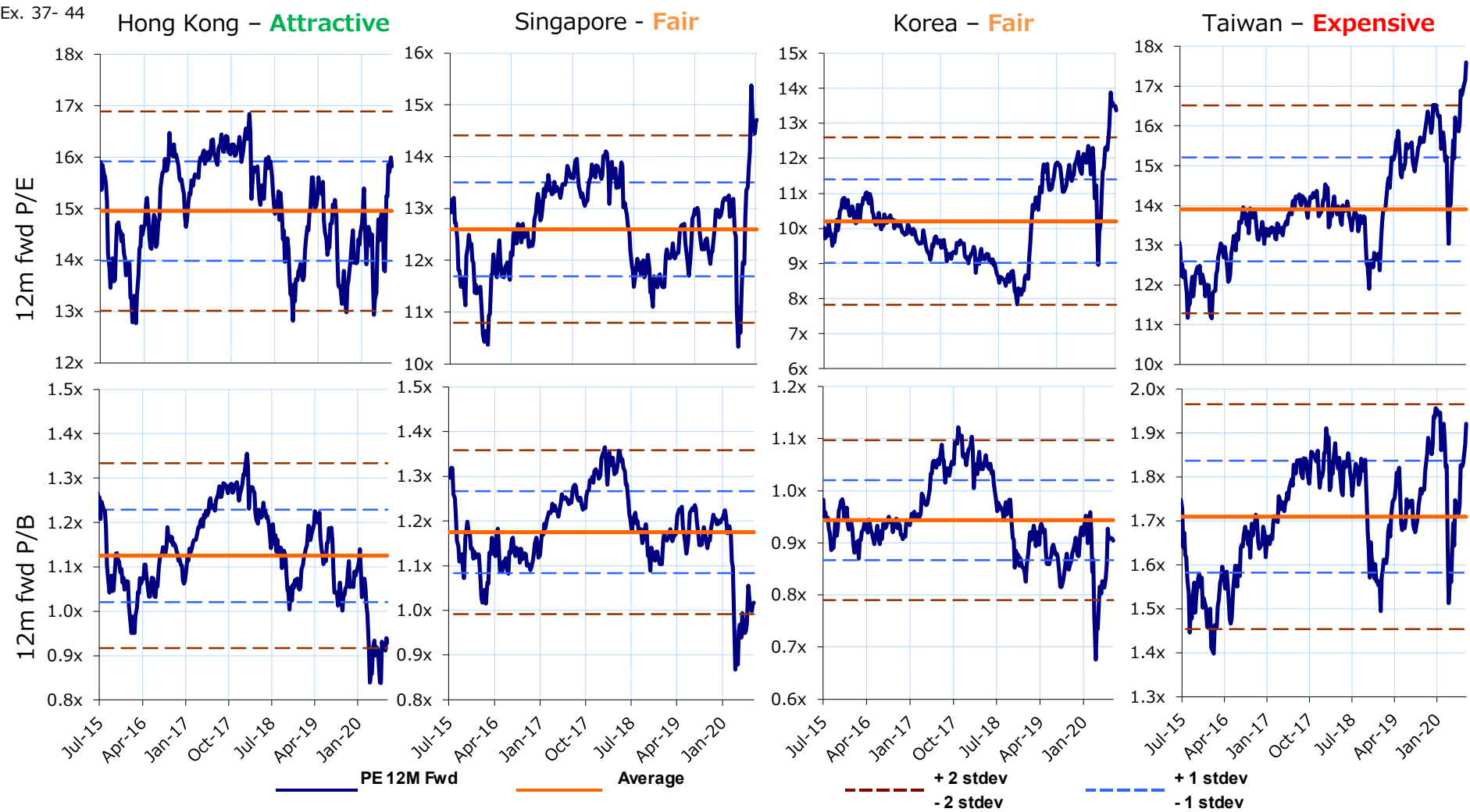
Source: MSCI, Factset
Data period: 07/03/2015 – 07/10/2020

Valuations – China, India, and Oceania



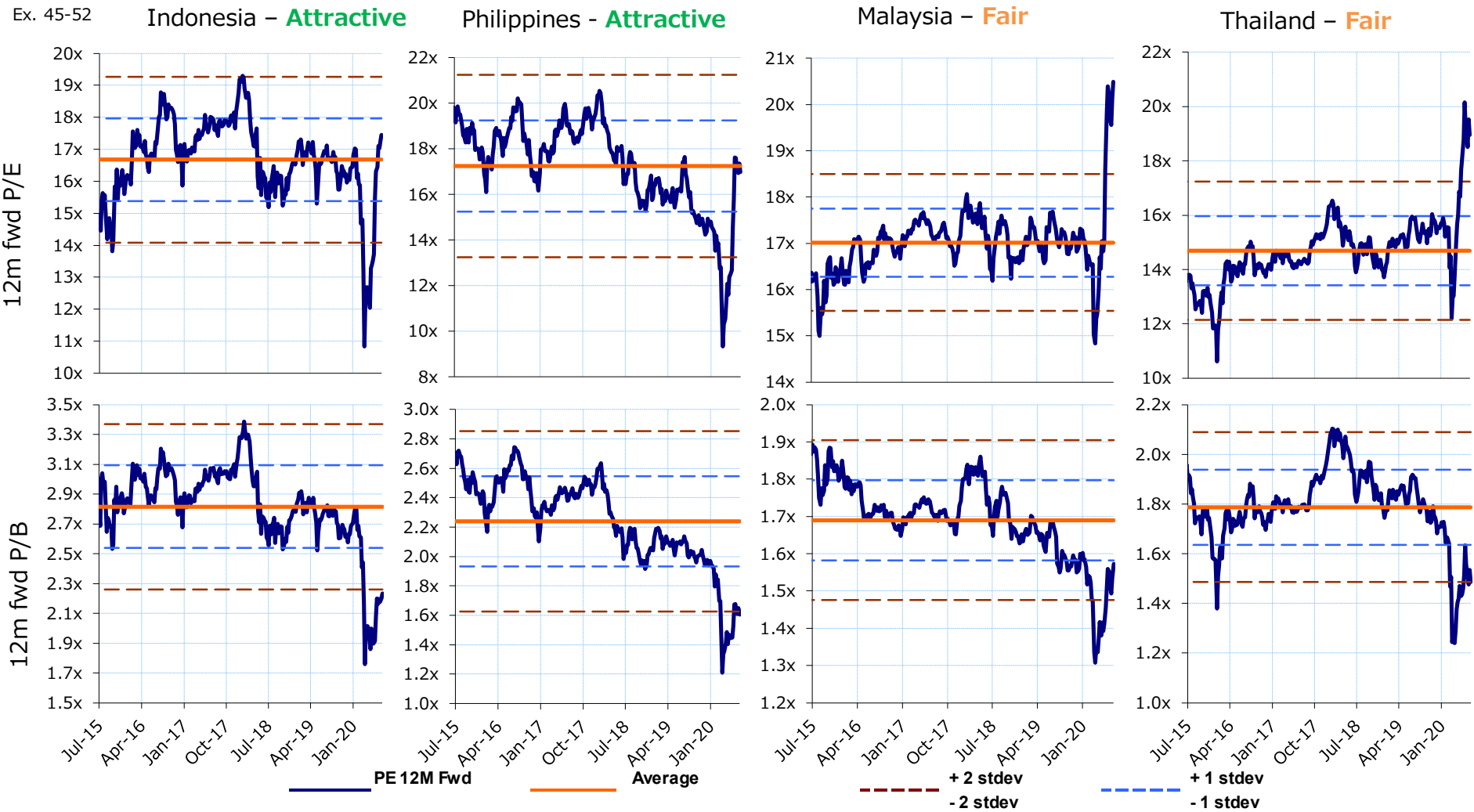
Source: FactSet, MSCI Data period: 07/03/2015– 07/10/2020

Valuations – NIEs 4



Source: FactSet, MSCI Data period: 07/03/2015– 07/10/2020

Valuations – ASEAN 5

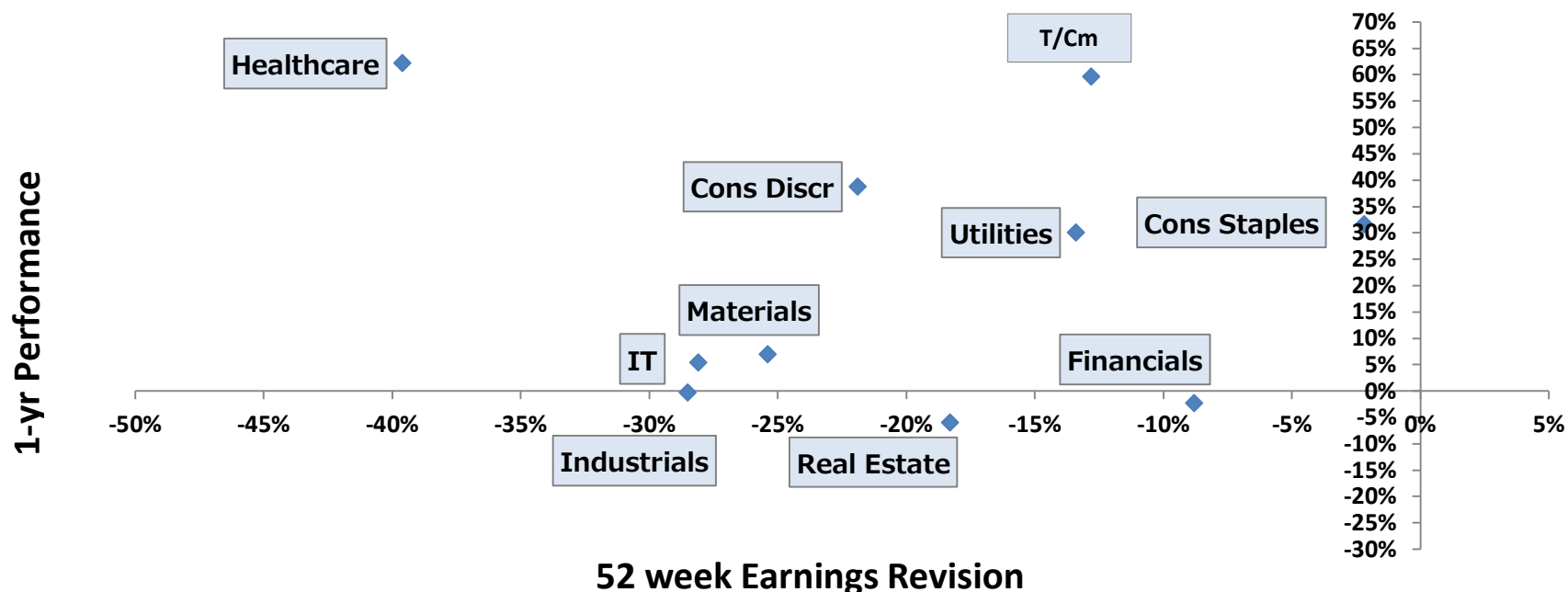


Source: FactSet, MSCI Data period: 07/03/2015– 07/10/2020

China – Range bound market with stretched valuations

- MSCI China rallied but was interrupted by the 2nd wave of COVID-19 outbreak at the end of 2Q20. The market is likely to pick up its momentum once this negative risk is materialized. Macro environment provides sentiment cushion.
- Valuations have become relatively overvalued given that the corporate earnings haven't yet showed rigid recovery. High valuations may cap the upside.
- We continue to focus on sectors with structural growth such as E-commerce, education and IT infrastructures, which yield resilient growth regardless of the economic environment.

Ex. 53 Healthcare, consumption, and telecom performed strongly amid uncertain economic environment



Note: 1-yr performance: 07/03/2019 – 07/03/2020

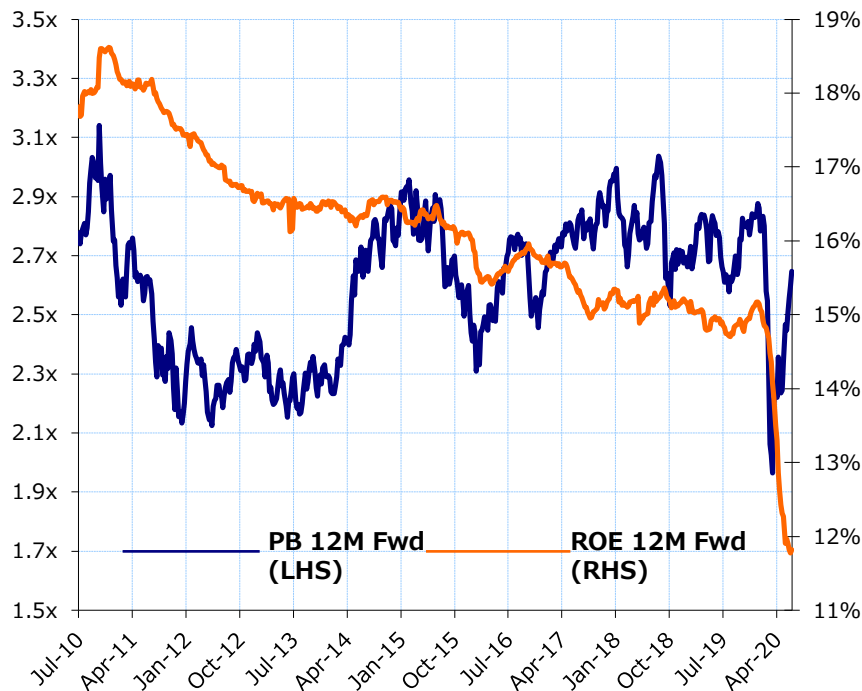
Earnings revision as of 07/03/2020

Source: FactSet, I/B/E/S

India – Rich valuations but absent fundamentals' strength

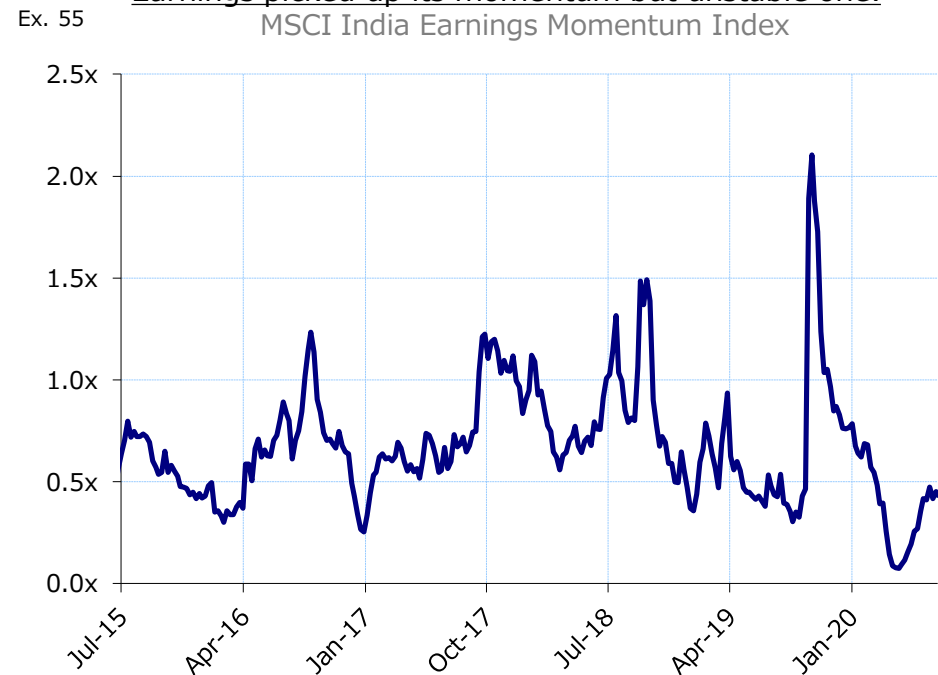
- MSCI India recorded strong rebound from 1Q20's sharp correction, driven by ample supply of liquidity at the global scale. The fundamentals recovery is left behind as the country is struggling with the COVID-19.
- The liquidity-driven market has lifted its valuation multiples when ROE prospect is deteriorating.
- We remain cautious on India considering its weak macro outlook and surging geopolitical tension with China. We are also concerned of downgrade of sovereign rating, which can induce foreign capital outflow.

Ex. 54 P/B-ROE correlation has again disappeared.
MSCI India P/B 12M Fwd vs ROE 12M Fwd



Source: MSCI, FactSet, Data period: 07/09/2010 – 07/10/2020

Ex. 55 Earnings picked up its momentum but unstable one.
MSCI India Earnings Momentum Index

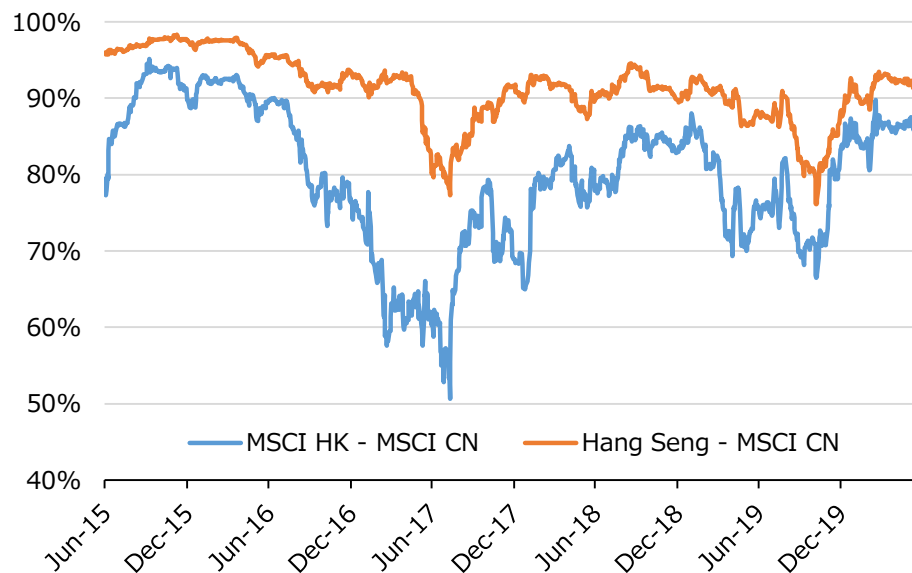


Note: Earning momentum = No. of companies in the index having a positive monthly EPS estimate revision in the past 3 months / No. of companies in the index having a negative monthly EPS estimate revision in the past 3 months
Source: MSCI, FactSet, Data period: 07/03/2015 – 07/10/2020

NIEs 4 – Cyclical recovery with sound fundamentals

- **Hong Kong** – H-share performance and ADRs' dual listings will drive the market even while Hong Kong specific risk factors such as social instability persist. Valuations remain attractive.
- **Singapore** – Solid performer backed by stable fiscal position. COVID-19 remains under control after gradual opening.
- **Taiwan** – Upside is anticipated in hope for cyclical uptrend in the IT sector which was on pause due to COVID-19, as well as relatively stable macro environment. Meanwhile, rising valuations need to be watched out.
- **Korea** – Tailwind from global and domestic liquidity. Earnings outlook is also reliable with its bottoming out.

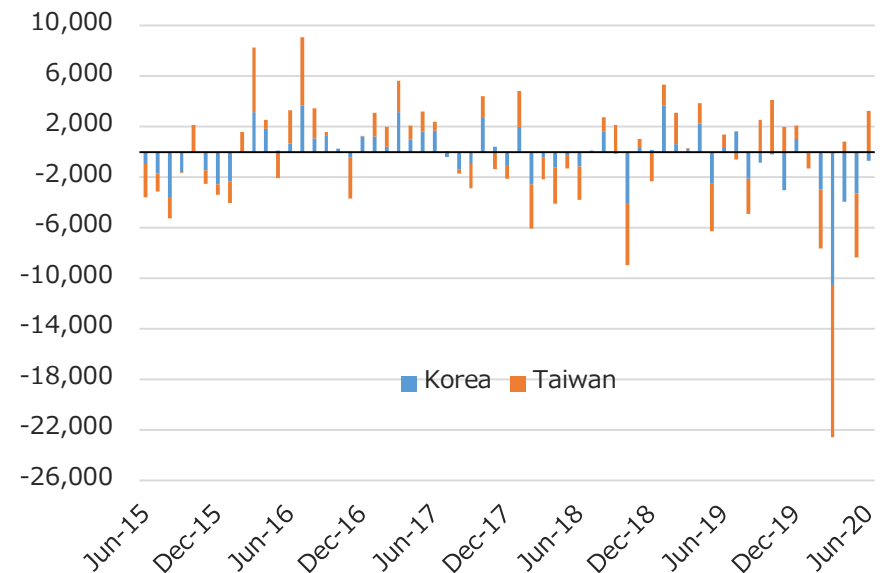
Ex. 56-57 Hang Seng index exhibits stronger ties with MSCI China due to H-share inclusion, almost synthetic to Chinese market.
Rolling 3-month daily returns correlation (R squared)



Source: Bloomberg

Data period: 06/30/2015 – 06/30/2020

Global liquidity brought back foreign investor into Korea and Taiwan, set for IT cyclical recovery.
Net foreign capital flow (USD m)



Source: Bloomberg

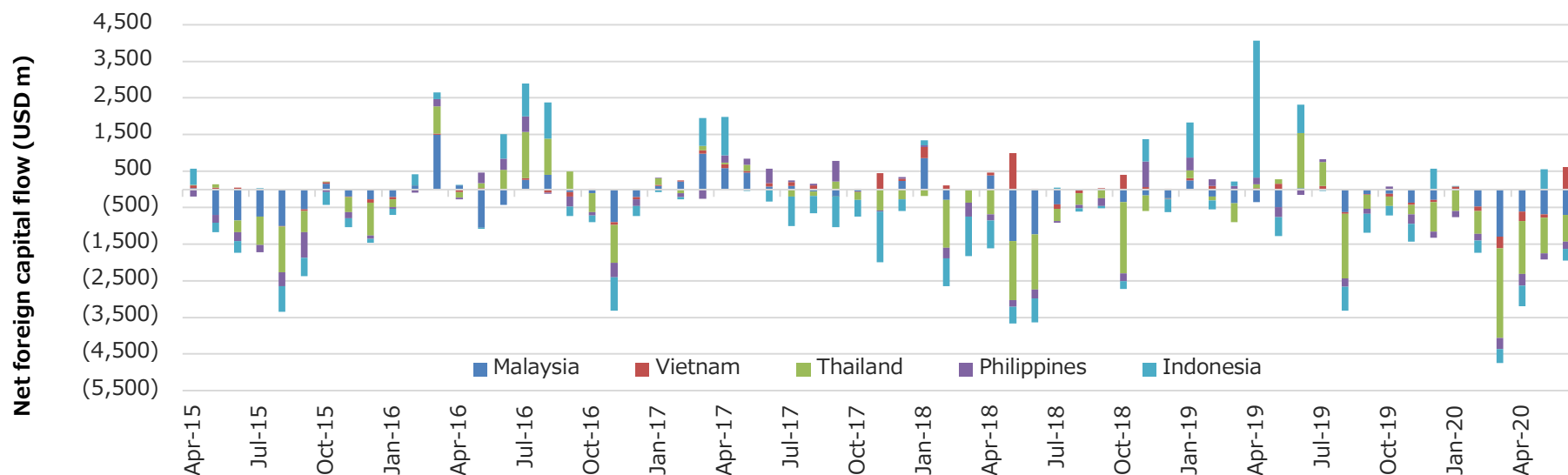
Data period: 06/30/2015 – 06/30/2020

ASEAN 5 – Mining quality amid high volatility

- **Indonesia** – Aggressive fiscal spending mitigates economic impact of COVID-19, however it may lead to sovereign rating downgrading. Quantitative easing may accelerate capital outflow.
- **Philippines** – Valuations remain attractive, but the reopening amid rising new cases undermine the sentiment.
- **Malaysia** – Mostly contained COVID-19, better positioned with diversified economy and more room for stock selection.
- **Thailand** – So far successful containment of COVID-19 provides confidence to positioning for the tourism recovery. Other factors, such as stable currency, valuation and fiscal position, continue to support the downside.
- **Vietnam** – Drawing in foreign fund flow with resilient macro outlook and attractive valuations.

Ex. 58

Foreign fund flows into ASEAN equities markets



Source: Bloomberg

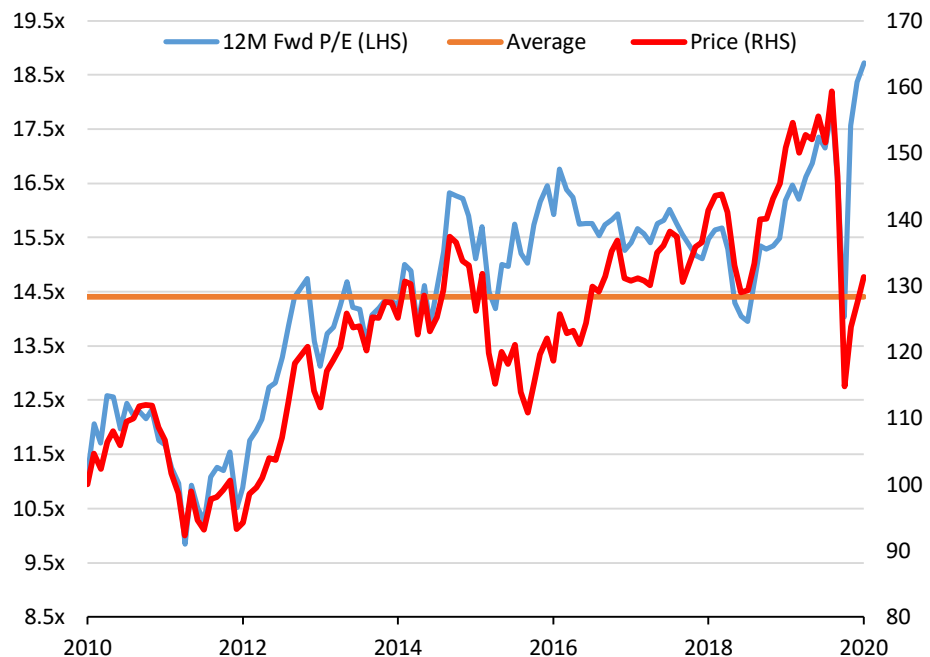
Data period: Apr 2015 – June 2020



Oceania – Longer and rough ride to stable recovery

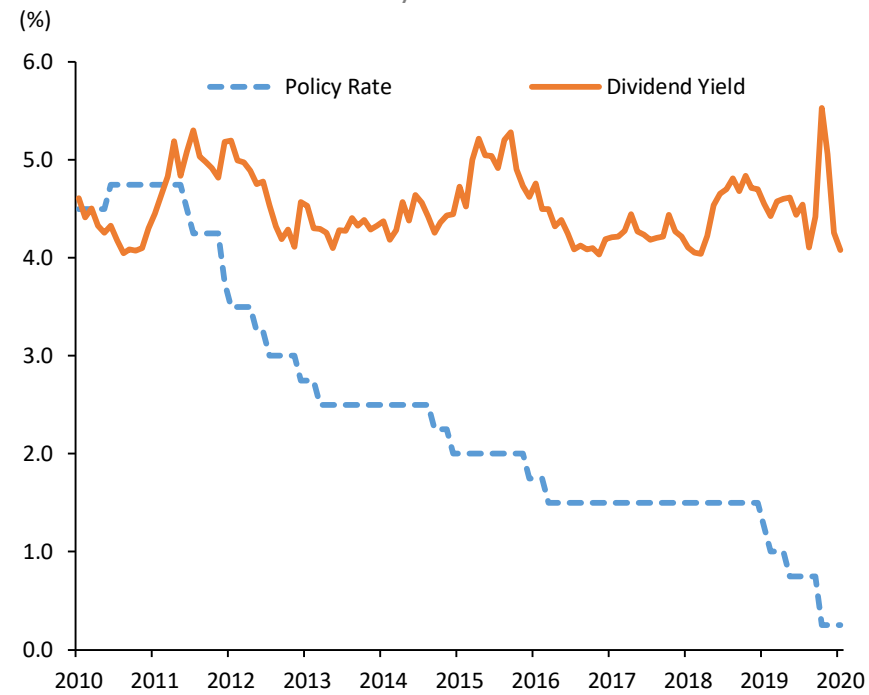
- The mid-quarter rally pushed up valuations which were normalized during 1Q. Earnings recovery may remain sluggish in deflationary economic environment even after the bottom we expect in 2H20.
- New risk factor is China-US tension that may damage Australia's export to China. Energy sector can be hit hard in case of export control by China.

Ex. 59 MSCI Australia valuations getting rich again
MSCI Australia – Price vs. 12M Fwd P/E
(30 June 2010=100)



Source: FactSet
Data period: 06/30/2010 – 6/30/2020



Ex. 60 Yield still looks attractive in expansionary monetary policy
ASX 200 dividend yield vs. Central bank rate



Source: Bloomberg
Data period: 06/30/2010 – 06/30/2020

Introduction of Asia Research Center

The Asian Research Center, founded in Hong Kong in July 2017, conducts high-quality information gathering and analysis specialized in Asia to enhance investment performance and strengthen information dissemination abilities. It also undertakes Asian macro analysis in the SMDAM global macro research team, collaborating with Asian equity analyst team located in Hong Kong, Shanghai, and Singapore.

					
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