

KEY ASIAN TRENDS FOR 2024



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WHAT HAPPENED IN 2023?

Historically, Asia has benefitted from China's strong growth and the FED's loose policy. In 2023, both went in the opposite direction. China's recovery was domestic-led and service-centric. What seemed to be strong, pent-up demand post lockdown ended up fading quite quickly, and didn't translate into positive growth for the majority of countries in the region.

More broadly, manufacturing conditions and global trade declined in 2022 and have yet to recover. Global financial conditions were also challenging, with higher US interest rates and a stronger dollar impacting monetary policies worldwide.

As such, countries that have historically closely tracked US performance, like Taiwan and Korea thanks to their exposure to technology and specifically the AI supply chain, performed relatively better. Meanwhile, countries which were commodities or China dependent all suffered. India remained a relative bright spot due to its structural growth story and as it benefitted from EM flows shifting away from China as it became the focus of geopolitical risk considerations.

WHAT'S IN STORE FOR ASIA IN 2024?

Asia has idiosyncratic stories, but remains tied to global exports, global PMIs and global financial conditions. We are entering 2024 with a lot of hope, despite a backdrop of uncertainty, including concerns around overall moderating growth and its resulting impact on countries' policy approach, election risks (Taiwan kicks off in January, followed by Indonesia in February, Korea in April, India in May and the US in November), and ongoing concerns around

China's geopolitical situation, its lacklustre growth outlook and defaults within its real estate sector.

WILL IT BE A MACRO OR A BOTTOM-UP MARKET IN 2024?

Market volatility will continue in 2024: Market expectations will continue to change with the data, just as it has in the second half of 2023, with the overall narrative shifting from, "higher for longer" to "soft landing" to "no landing".

The base case for Asia is that overall higher interest rates will pass through its economies and translate into weaker earnings in 2024. Manufacturing remains weak around the world and this risks spilling over into the service sector, the main contributor to GDP in most parts of the world.

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The good news is that balance sheets in Asia are much healthier now than pre-COVID, with more conservative fiscal and current account deficits, that help to reduce FX and foreign flows volatility, providing more stability to the region.

The best case for Asia is that inflation eases, allowing a quick improvement of financial conditions and restoring growth. In such markets, we can focus on a fundamental approach, valuing the strength of each specific country and company.

The worst case is that inflation becomes stickier than expected, forcing central banks to keep rates elevated and tighten overall financial policies, like what we saw in the 1970's in the US.

TOP COUNTRY PICKS IN ASIA IN 2024

China has disappointed in 2023, and uncertainties still linger on in 2024. A combination of investors' positioning, alongside the government's acknowledgement of the weakness in the economy, should provide a tailwind for additional stimulus in 2024 and better-than-expected earnings. The main risk here is geopolitical confrontation with

the West, especially with the US heading into 2024 elections, and continued outflows into other emerging markets. The property sector is getting more support from the government, which may translate into improved consumer confidence and spending.

India remains a structural growth story with strong demographics, reform momentum and a continuing EM China-to-India shift in flows. India's external stability, inclusion into the global bond index and attractiveness for FDI has continued to improve in recent years. It remains a long-term structural growth story even if, in the short term, we think that most of these positives are already priced in. The main risk is that this status quo is reversed, or political uncertainties increase with India heading into elections this year, which may result in relative shifts in foreign flows back to China.

Similar major reforms and population growth are driving foreign investment into Indonesia. But, as with India, upcoming elections in 2024 may result in additional volatility.

Taiwan and Korea are more exposed to exports, especially technology, where we don't expect a major upside in 2024. After a strong performance in 2023, we think there may be some downside risk on current estimates.



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