

2021 MARKET OUTLOOK

Equity



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Eastspring's Singapore-based Value Equity teams believe that investors may rotate to Value stocks if their investment horizons lengthen. They see plenty of value opportunities in Emerging Markets and Japan which can offer investors outsized returns. Equally, the Core Equity teams have identified attractive investment opportunities across Asia in Fintech, Healthcare & Pharmaceuticals, Technology & Innovation, Education, Renewable Energy, and Electric Vehicles stocks.

Q. EMERGING MARKETS (EMs) MARGINALLY OUTPERFORMED DEVELOPED MARKETS IN 2020. DO YOU EXPECT 2021 TO BE ANY DIFFERENT? WHAT DO WE NEED TO SEE A SUSTAINED RECOVERY IN VALUE STOCKS IN 2021?

Andrew: 2020 was an extremely volatile year for EM equities which saw substantial dispersion in EM country performance as well as in style performance. EMs outperformed the global developed indices but marginally underperformed the US. Equity markets in Latin America and Europe, the Middle East and Africa fell most as they felt the impact of commodity prices and COVID-19 outbreaks, while Emerging Asia, dominated by China's quick economic recovery, delivered positive returns. Investors' behavioural biases and preferences for quality and growth stocks saw the MSCI EM Growth index outperform the MSCI EM Value index by over 30%¹.

This continued equity style performance divergence has exacerbated the valuation dispersion in EMs where stocks are now exhibiting more than a 3-standard deviation event, which statistically occurs less than 0.3% of the time. See Fig. 1. This valuation backdrop alongside the global shift to coordinated monetary and fiscal responses to the economic damage of COVID-19, sets up 2021 to be a very interesting investment opportunity for disciplined active value managers in EMs.

Investors often ask us exactly when Value will turn and regain its crown. While we cannot forecast the future, the extreme positioning we see today is very rare and investors' unwavering optimism for the outlook of a few expensive growth and quality names heavily supports the relative outlook for cheap Value stocks. We see Value opportunities across all EM sectors including Information Technology, Consumer, Energy, Utilities or Financials, but

Source: ¹Bloomberg as at 30 October 2020.

most of all we see huge opportunities in stocks that have been out of the limelight and unloved by the market. Value realisation for the stocks we own is very stock specific, however a supportive environment for Value stocks to outperform tends to be when investment decisions and horizons lengthen past a focus on the current quarter's earnings and towards the medium to long-term sustainable earnings picture.

Signs of a credible COVID-19 vaccine in late 2020 accompanied by global economic stimulus and a new US administration in 2021 may at last encourage investors to extend their investment horizons and rotate towards Value stocks offering outsized returns.



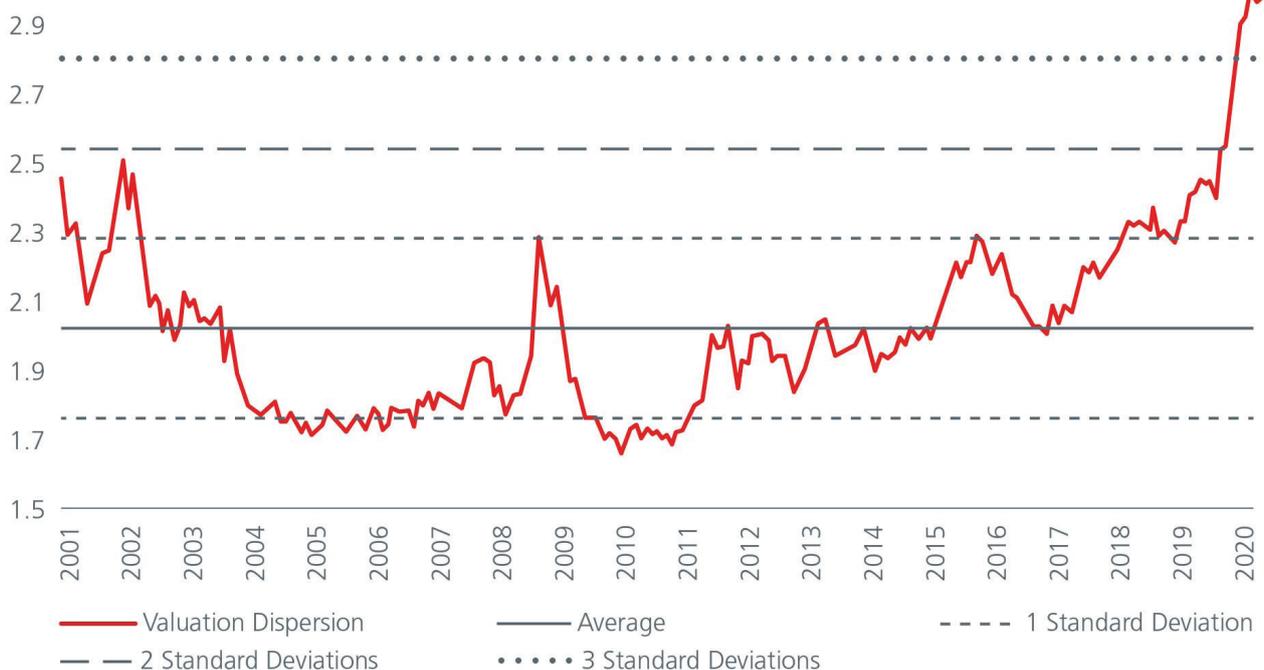
We see Value opportunities across all EM sectors including Information Technology, Consumer, Energy, Utilities or Financials, but most of all we see huge opportunities in stocks that have been out of the limelight and unloved by the market.



Q. ARE YOU FINDING ANY COMMON THEMES ACROSS THE DIFFERENT ASIAN MARKETS WHICH ARE IN TURN TRANSLATING INTO ATTRACTIVE STOCK OPPORTUNITIES?

John: While most of our bottom-up fundamental research focuses on ideas generated from qualitative screens, we are finding some common themes emerging in the course of conducting research across the different Asian markets. Financial Services Intermediation (i.e. fintech), Healthcare and Pharmaceuticals, Technology and Innovation, Education, Renewable Energy, and Electric Vehicles are just some of the common themes that we are seeing throughout the region. Perhaps the biggest theme we are noticing is the proliferation of Internet

Fig 1: Global EMs' Value Dispersion



Source: MSCI from Refinitiv Datastream as at 30 September 2020.

usage and the different business applications that come along with the adoption of the Internet, especially Mobile Internet.

E-commerce, for example, is exploding in many markets as traditional retailers are forced to re-examine their old business models. E-commerce in the Asia Pacific region is already a USD2 trillion market (by gross merchandise value) and is expected to grow at a 100% compounded average growth rate to reach USD3.9 trillion by 2023. See Fig.2. China is the global leader in e-commerce innovation, and new business models from China are starting to be replicated in other Asian markets, with some Chinese companies paving the way for innovative consumer engagement. We are already finding some attractive stock opportunities related to these emerging themes and expect that we will continue to find more in the different markets across Asia going forward.

Q: JAPANESE EQUITIES LOOK ATTRACTIVE AMONGST THE DEVELOPED MARKETS, YET INVESTORS CONTINUE TO OVERLOOK THE MARKET. WHAT CAN TRIGGER A CHANGE IN ATTITUDE?

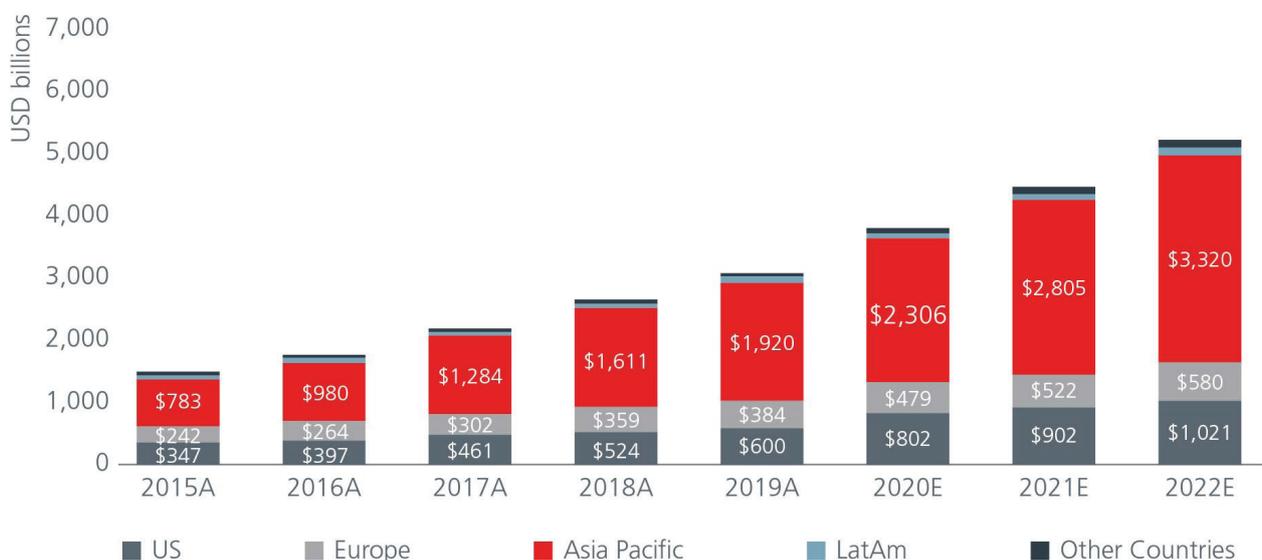
Dean: Japanese equities continue to trade at a relative discount to global peers. Foreign investors, who have been net sellers since 2015, are now the most underweight they

have been on Japanese stocks since 2012. The market appears to be ignoring Japan Inc’s structural growth story. Improvements on a trend basis to balance sheet health, profitability, operational efficiencies and return-on-equity have yet to be recognised.

We also continue to observe an increased emphasis on corporate governance reforms. 2019 was a record year for stock buybacks, and TOPIX buybacks rose 109% year-on-year. While activity has been impacted this year, buybacks announced year-to-date still remain above 2018 levels. Notably, there has also been an increasing occurrence of hostile and, in some cases, contested takeover bids since 2019. This highlights the rapidly developing market for corporate control in Japan. This is evidence that the change in governance observed has been meaningful and opens up further potential catalysts for value realisation.

Yet, investors in general appear to be pricing relatively low expectations for Japanese equities. This means that any surprise to the upside, however marginal, could trigger a positive price response. Furthermore, the market remains entrenched around the belief that a low growth, low inflation, low interest rate environment will continue for the foreseeable future. Our view is that should there be any developments that challenge this currently accepted belief, this could provide a “catalyst” for a sustained re-rating.

Fig 2: Global e-commerce gross merchandise value



Source: Bank of America Merrill Lynch report – Global Commerce Outlook as at 16 October 2020.

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