



A WORD ON ASIA EX CHINA

ASIA ISN'T JUST CHINA

Investors are still looking askance at the Chinese equity markets. And yet, Asian equities may offer some investment opportunities. Jean-Marie Mercadal, CEO of Syncicap AM, details his approach to emerging Asian ex China markets, while Jean-François Chambon, a Japanese/Asian equity manager at Ofi Invest AM, offers insight into the Japanese market.

Almost 2 billion people live in Asia ex China, or one quarter of the world's population. *"This is an economically attractive zone that complements China, with a heavy population and highly diverse financial markets having a cumulative market cap of 8,700 billion dollar and 13,000 listed companies. Within this zone, some countries are at a highly advanced stage of development, such as Korea and Taiwan, while others, such as India, are still developing. In addition to purely geographical aspect, the region is above all well placed to benefit from the advent of three structural growth themes"*, explains Jean-Marie Mercadal, Chief Executive Officer of Syncicap AM.

Asia ex China – three structural growth themes: AI, household consumption and bypassing China

Asian ex China equities offer an opportunity for exposure to the momentum of three structural growth themes, which are still at very early stages of development:

1 - The theme of artificial intelligence (AI). It seems rather clear that AI is just getting started. Many studies have found that AI will allow those countries that are the furthest along in AI to boost their potential growth and productivity significantly. In short, there are big stakes in AI. According to a Goldman Sachs study, annual investments in AI are likely to rise sharply in the coming years, amounting to almost 200 billion dollars in 2025. In the longer term, AI-related investments could reach 2.5% to 4.0% of GDP in the US and 1.5% to 2.5% in the other largest countries. Asia has a few companies that are well placed in this sector, including two global leaders that are must-haves. One of these is TSMC*, the Taiwanese semiconductor maker, which enjoys a big lead in advanced nodes and latest-generation connectors, with 80% to 90% market share. Another one is the Korean company Hynix*, which specialises in high-bandwidth memories, used, among other things, in AI graphics. Hynix currently has market share of about 50%. More generally, the technology sector, broadly defined, accounts for almost 40% of the investment universe of this zone.

2 - The theme of the boom in household consumption, with the emergence of a middle class in heavily populated countries like India, Indonesia and Vietnam. This is a classic trend in developing countries. Higher income levels raise living standards considerably for a portion of the population, giving them access to heretofore inaccessible consumer goods and leisure. This is good news for many companies that are managing to establish franchises or brands, thus becoming leaders.

3 - The theme of "bypassing China", also called the "China +1 strategy". China has become controversial in recent years. The Covid crisis brought to light Western economies' overdependence on China, the "world's factory floor". Meanwhile China's more top-down governance, with, moreover a conciliatory attitude towards Russia, have taken Western countries aback. The US has sanctioned many Chinese companies. All this is pushing both Western and Chinese companies to invest in the rest of Asia. Direct investment is accordingly flowing into neighbouring countries, such as India, Vietnam and Indonesia. This is very good news for infrastructure companies.

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Asset Management

Japan: after deflation, the transformation of the economy

The Japanese equity market is currently undergoing significant structural shifts. One of these is in inflation, which is moving away from two decades of near-zero or even negative levels. This sustained rebound of inflation points to a fundamental shift in Japan's economic environment, which could give rise to new investment opportunities and new growth sectors.

Japanese equities are trading at valuations that we feel are favourable. The current reform of the Tokyo Stock Exchange (TSE) could be particularly beneficial as it aims to promote better understanding of undervalued shares. Moreover, the changes being made to the Nippon Individual Savings Account (NISA) are encouraging Japanese individuals to invest in equities.

Meanwhile, amidst the current geopolitical tensions between China and the US, we have seen renewed interest from foreign investors for Japanese equities. This interest is being driven, among other things, by Japanese companies' earnings growth, which we expect to be long-lasting, driven by higher prices.

One potential obstacle that the Japanese market may face is the appreciation of the yen, in particular vs. a weakening dollar, in the event of a global economic slowdown, alongside falling interest rates. Such exchange-rate fluctuations could have a significant impact on export-intensive sectors and on broad market sentiment.

So, while there are positive signs on the Japanese equity market, risks arising from shifts in the yen and broader global economic issues call for a conservative and strategic approach. Our objective is still to identify resilient sectors and companies endowed with solid fundamentals and sustainable practices that align with long-term growth trends.

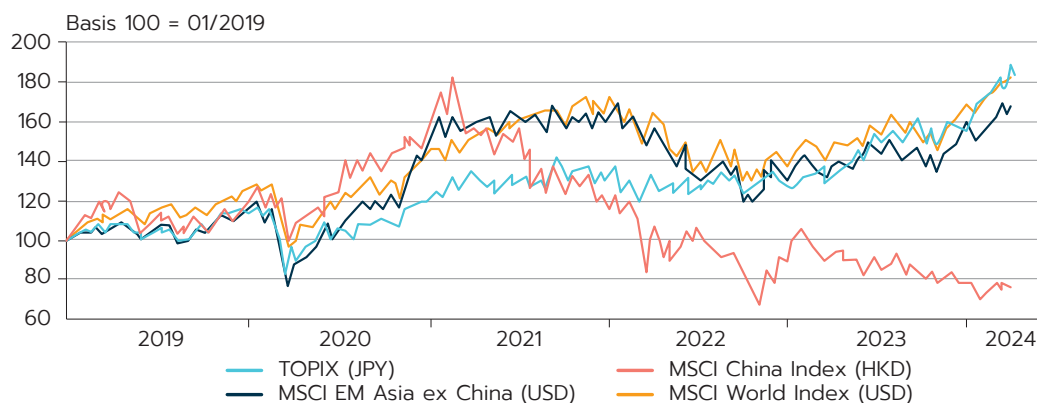
Jean-François Chambon, Japanese/Asia equity manager, Ofi Invest AM: *"Our investment process in Japanese equities begins with a top-down approach that researches long-term thematic trends. This strategic vision helps us identify the fundamental themes and economic conditions likely to influence various market sectors before moving on to a detailed analysis for selecting those companies that offer potential growth and that align with our investment themes"*.

About the authors

Jean-Marie MERCADAL is the Chief Executive Officer of Syncicap AM, an investment company specialising in emerging markets, a Hong Kong-based joint venture set up in 2021 by Ofi Invest and DPAM.

Jean-François CHAMBON is a manager of Japanese and Asian equities at Ofi Invest Asset Management. He has been a recognised specialist in this asset class since 2005 after having managed European equities.

Equities indexes



Sources: Macrobond, Ofi Invest AM as of 29 March 2024

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