Outlook 2025

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Key points

- **The outlook for Asian equities calls for some caution due to structural challenges in China and high valuations in India, leading to potential market volatility.**
- **Promising opportunities exist in the ASEAN region, where recovering tourism and political stabilisation offer diversification for investors seeking growth outside major markets.**
- **Artificial intelligence (AI)-related investments may face volatility from more focused capital expenditure (capex) discipline.**

What is your outlook for Asian equities?

As we look ahead to the coming year, caution is warranted regarding Asian equities, particularly in light of ongoing structural challenges in China and high valuations in India and tech. Recent stimulus measures in China are too small in aggregate and fail to address structural issues, including tax reform, population mobility, consumer confidence and low nominal GDP growth. The market's anticipation for further stimulus suggests a level of optimism that may not be justified. The lack of movement in foreign exchange and bond markets signals scepticism about the adequacy of these measures, indicating that equity investors may be overly hopeful. While a more substantial stimulus could potentially stabilise the situation, investors should prepare for continued volatility.

With Donald Trump's re-election, geopolitical tensions, particularly regarding US-China relations, will remain in focus. Although no specific policies have been announced yet, concerns over tariffs could affect markets. However, many companies have begun diversifying their manufacturing bases to countries like Vietnam, Indonesia, and Mexico to mitigate risks associated with potential tariffs. This shift presents a unique opportunity: significant pullbacks in Chinese equities due to trade concerns could serve as attractive entry points in some firms.

India's long-term economic narrative remains compelling, yet current valuation levels suggest that investors might be overly optimistic about earnings growth and return on capital across the market. The recent fiscal Q2 corporate results revealed several earnings misses, particularly in sectors driven by urban consumption. Furthermore, the emerging middle class in India has been increasingly relying on unsecured loans to fuel spending, raising concerns about the nearer-term sustainability of this growth. As a result, the risk/reward profile for the Indian equity market over the next two to three years appears unattractive.

In contrast, the ASEAN region presents a promising opportunity. Often overlooked amid the focus on China, India and AI, ASEAN economies are rebounding as tourism returns and some political stability re-emerges. This region could serve as a strategic diversification for investors seeking growth outside the major markets.

In summary, while opportunities exist across the region, a disciplined approach, focusing on value and risk assessment, will be essential in navigating the complexities of the Asian markets in the year ahead.

How are you looking to position your portfolio against this backdrop?

In light of scepticism surrounding the effectiveness of China's stimulus packages, we have become more cautious on Chinese consumer-related stocks, utilising the recent market rally to reduce exposure. While there remains value in this sector, our adjustments reflect concerns about the absence of a clear catalyst for re-rating and the heightened risks associated with policy news flow.

The Fund also remains underweight India, largely due to ongoing valuation concerns. However, we do see pockets of value in certain areas such as large-cap banks, where some of the leading players look well placed to deliver relatively robust profitability and shareholder returns as we approach a potential turn in the India credit cycle, especially amid rising non-performing loans. Elsewhere, we are increasingly positive on the ASEAN region, with a high conviction position in the consumer space where we see potential for rising convenience store sales growth off the back of increasing levels of tourism.

At the sector level, a note should be made on the semiconductor industry, where we have a very cautious view. The extensive capital expenditures related to AI by corporations have yet to translate into substantial revenue and returns. Looking ahead, we anticipate a tightening of capital expenditure discipline in AI investments and a potential inventory buildup in semiconductors over the next year. This could create volatility and pose risks for investors heavily weighted in this sector.

All information is current as at 27 November 2024 unless otherwise stated.