Confidence must be earned

ASIA PACIFIC MARKET MONTHLY COMMENTARY

February 2022

Market Review

Global equity markets remained under pressure in February. Amid the escalation of geopolitical conflict in Europe, Brent oil soared above US$100/barrel. Despite the prospect of elevated commodity prices, Asian central banks like those in India and China retained their accommodative stance.

Southeast Asian economies continued to recover and ease quarantine rules. Manufacturing PMI indices for the region remained broadly expansionary as factory activities picked up.

Against this backdrop, MSCI Asia ex Japan Index was down 2.40% in February (in USD terms, net dividends excluded), outperforming the MSCI World Index which returned -2.65% (in USD terms, net dividends excluded). The outperformance was attributed by a rally in ASEAN energy-related names. That said, markets across Asia displayed a wide range of performance during the month – Malaysia and Indonesia delivered a robust growth, while India and China plunged.

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Australia

- Australia All Ordinary Index marginally rose 0.76% in February (in local currency terms, net dividends excluded).
- Energy and Consumer Staples topped the table, yet the contribution was offset by Information Technology and Consumer Discretionary.
- Australian yield curve steepened a bit with 2-year yield and 10-year yield going up 20bps and 25bps respectively.
- AUD appreciated against USD (+2.80%) even when the USD index went up (+0.17%).
- The RBA maintained the cash rate at 0.1%. The institution also decided to cease further purchases under the bond purchase program. Final purchases took place on 10 February.
- According to its central forecast, GDP growth is expected to reach around 4.25% over 2022 and 2% over 2023. The outlook is supported by household and business balance sheets that are in generally good shape, an upswing in business investment, a large pipeline of construction work and supportive macroeconomic policy settings.
- The RBA is committed to maintaining highly supportive monetary conditions to achieve its objectives of a return to full employment in Australia and keeping inflation in line with the target.

China

- MSCI China Index returned -3.90% in February (in USD terms, net dividends excluded).
- Materials and Energy outperformed while Communication Services and Consumer Discretionary were the two bottom performers.
- Eventhough the authorities continued to signal supportive measures, the property sector remained weak, being driven back and forth between policy easing news and idiosyncratic risks.
- Several developers engaged in distressed debt exchange offers and core asset disposals to shore up liquidity.
- Nevertheless, we are structurally positive on Chinese equities. China is relatively insulated from global geopolitical tensions. The recent market volatility has further reinforced the role of Chinese assets as a diversifier.
- In the view of Post-NPC meetings in March, we anticipate more supportive policies to stabilize growth.

Hong Kong

- MSCI Hong Kong Index dropped 2.80% in February (in USD terms, net dividends excluded).
- Consumer Staples and Industrials were key contributors during the month. Financials and Real Estates detracted the performance.
- Given the recent surge in COVID-19 cases, the government has tightened social distancing measures to contain the spread of infection.
- A 9-day “large-scale lockdown” is under preparation for all residents to complete 3 tests as part of its universal screening drive in the second half of March.
- In the FY2022/23 budget, a fiscal deficit of HK$56.3 billion was estimated due to counter-cyclical measures totaling over HK$170 billion.
- The measures will consist a HK$67 billion anti-epidemic package, a HK$45 billion one-off individual or enterprise tax/fee reductions or subsidies, and HK$10,000 consumption voucher handouts for 6.6 million local residents.

India

- MSCI India Index nosedived 4.11% in February (in USD terms, net dividends excluded).
- Materials, Healthcare and Consumer Staples were the best-performing sectors. Small-caps and mid-caps underperformed large-caps.
- Given the Russia-Ukraine conflict, the rise in commodity costs has further stoked inflationary concerns and may dampen near-term economic growth.
- Financial investments into Emerging Markets like India were also impacted as investors have turned risk adverse.
- However, the overall outlook stays constructive which premises on the view that we are in early stages of an earnings upcycle. At a time when economic growth has likely troughed, an uptick in profits to GDP could lead to non-linear uptick in earnings over the next few years.

Indonesia

- MSCI Indonesia Index delivered a strong growth of 5.49% in February (in USD terms, net dividends excluded).
- Bank Indonesia maintained the policy rate at 3.5% in February as expected.
- COVID-19 cases rose to 64k per day on average, peaking in mid-February, and eventually declined to an average of 35k per day.
- Headline inflation came in at 2.1% YoY but was flat MoM, slightly below market expectations and driven by non-food inflation.
- As daily confirmed cases are on decline and vaccines continue to be rolled out, the recovery theme is on track.

Japan

- MSCI Japan Index slightly fell 1.16% in February (in USD terms, net dividends excluded).
- Accommodative monetary and fiscal policies, along with improving earnings momentum, should be supportive for the Japanese market.
- We are watching the evolution of the pandemic and the resultant pressures, if any.

Korea

- Korea's KOSPI Index rebounded to 1.35% in February (in local currency terms, net dividends excluded).
- Utilities and Industrials positively contributed while Consumer Discretionary underperformed.
- 4Q21 earnings were largely disappointing, with 70% of companies missing consensus estimates.
- The market was volatile amid geopolitical developments and a hawkish Fed. Lowered earnings expectations for 2022 also impacted sentiments.
- Bank of Korea held rates unchanged in February, following 2 consecutive hikes of 25bps in November and January.
- Export data for February came in above expectations yet headline CPI remained elevated at 3.7% YoY.

Malaysia

- FTSE Bursa Malaysia Index soared 6.35% in February (in local currency terms, net dividends excluded).
- The strong performance was attributable to Consumer Staples, Energy and Materials, but dragged by Healthcare.
- GDP grew 3.6% in 4Q21 and 3.1% in CY21, supported by strong exports and a trade balance surplus.
- The IMF is projecting a GDP growth of 5.8% in 2022, which is within the government's forecast range of 5.5%-6.5%.
- As the government is exploring to reopen borders to the fully vaccinated, the recovery story is on track.

New Zealand

- New Zealand SE 50 Index was up 0.72% in February (in local currency terms, net dividends excluded).
- NZD appreciated in February against USD (+2.81%) even when the USD index went up (+0.17%).
- The RBNZ raised its Official Cash Rate (OCR) by 25bps to 1%. The board stated that more monetary tightening was needed to cool a heated economy.
- The OCR would reach 2.2% by the end of this year and 2.57% by March 2023, which is a more aggressive path than November's projections of 2.1% and 2.3% respectively.
- The committee also signaled the gradual reduction of its bond holdings will commence under the Large Scale Asset Purchase (LSAP) program through bond maturities and managed sales.

The Philippines

- MSCI Philippines Index went flat with a 0.04% growth in February (in USD terms, net dividends excluded).
- Daily confirmed cases continued to slip to an average of 1.3k per day from a 35k peak in mid-January.
- Hence, the government is allowing businesses, establishments and public transport to operate at full capacity (subject to health protocols) from March.
- Metro Manila and other neighbouring provinces were now placed at the most-lenient Alert Level 1.
- On the political front, the campaign period officially started on 8 February. In a January survey by Pulse Asia, Bongbong Marcos and Sara Duterte widened their leads against other aspirants, securing 60% and 50% preference score among survey participants.
- As the inoculation rate reaches 89% of the total adult population, the easing of economic activities is paving way for an economic recovery.

Singapore

- MSCI Singapore Index detracted -1.29% in February (in USD terms, net dividends excluded).
- It rallied to a peak of around 6% throughout the month before being weighed down by global geopolitical tensions, high inflation, a delay in reopening, and MSCI rebalancing activities.
- The change in GST will be rolled out in 2 steps: a 1% hike in 2023, and another 1% hike to 9% eventually in 2024.
- As for the carbon tax, currently it stands at S$5 per tonne of greenhouse gas emissions (tCO2e). It will be raised to S$25 in 2024, and progressively to S$50-80 by 2030.
- For Vaccinated Travel Lanes (VTLs), Singapore is looking to start with Philippines, Thailand, Qatar, Saudi Arabia, UAE and Israel, which would benefit Singaporean businesses and leisure travel.

Taiwan

- MSCI Taiwan Index dropped 2.55% in February (in USD terms, net dividends excluded).
- Underperformance during the month was primarily driven by Information Technology, cancelling out the contribution of Industrials and Real Estate.
- Within Information Technology, semiconductor and wafer names underperformed due to concerns over the potential supply disruption of critical semiconductor materials amid the recent geopolitical conflict.
- Manufacturing PMI eased moderately to 54.3 in February.

Thailand

- MSCI Thailand Index rose 4.93% in February (in USD terms, net dividends excluded).
- The government reported a 4Q21 GDP expansion of 1.9%, beating consensus estimates of 0.9%, primarily due to government consumption and manufacturing.
- Inflation data surprised on the upside, coming in at 3.2% YoY versus a consensus of 2.5%, largely driven by energy, food and a tariff hike.
- On the other hand, the Bank of Thailand maintained its policy rate of 0.5%, in line with market expectations.
- In February, Thai authorities began to engage in negotiations with China and Malaysia on a travel bubble.
- In addition, they are looking at launching "Visit Thailand Year 2022: Amazing New Chapters" and attracting remote workers through "Amazing Thailand Workplace Paradise". With the two schemes, the recovery theme is on track.

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Index (as of end February 2022)	Return (dividend excluded) in local currency				Return (dividend excluded) in USD			
	1 Month	3 Months	1 Year	YTD	1 Month	3 Months	1 Year	YTD
Australia All Ordinary	0.76%	-3.48%	5.51%	-5.86%	3.77%	-1.22%	-1.10%	-6.04%
CSI 300	0.39%	-5.18%	-14.15%	-7.26%	1.26%	-4.28%	-12.12%	-6.35%
Hang Seng China Enterprises	-3.90%	-4.12%	-28.66%	-2.58%	-4.10%	-4.34%	-29.17%	-2.80%
Hang Seng Index	-4.58%	-3.25%	-21.63%	-2.93%	-4.77%	-3.47%	-22.19%	-3.14%
India National	-3.26%	-1.59%	15.75%	-3.30%	-4.19%	-1.85%	12.89%	-4.60%
Jakarta Composite	3.88%	5.42%	10.36%	4.66%	3.98%	5.09%	9.38%	3.83%
Nikkei 225	-1.76%	-4.65%	-8.42%	-7.87%	-1.72%	-6.00%	-15.29%	-7.88%
Korea Composite	1.35%	-4.93%	-10.41%	-9.35%	1.61%	-6.07%	-16.29%	-10.38%
FTSE Bursa Malaysia KLCI	6.35%	6.23%	1.93%	2.60%	6.04%	6.56%	-1.68%	1.79%
New Zealand SE 50	0.72%	-6.10%	-4.38%	-8.12%	3.79%	-6.37%	-11.00%	-9.18%
Philippine SE Composite	-0.69%	1.53%	7.60%	2.64%	-1.26%	-0.22%	1.82%	2.09%
FTSE Singapore Straits Times	-0.23%	6.61%	9.94%	3.80%	-0.42%	7.38%	7.40%	3.31%
Taiwan Weighted	-0.13%	1.29%	10.65%	-3.11%	-0.91%	0.45%	9.93%	-4.38%
Bangkok SET	2.21%	7.43%	12.59%	1.66%	4.15%	10.79%	3.84%	3.93%
MSCI AC Asia ex Japan	-2.17%	-4.00%	-14.31%	-4.85%	-2.40%	-4.31%	-15.88%	-5.45%
MSCI AC Pacific ex Japan	-1.38%	-4.02%	-14.79%	-4.88%	-0.97%	-3.88%	-16.88%	-5.29%
Dow Jones Industrial	-3.53%	-1.71%	9.57%	-6.73%	-3.53%	-1.71%	9.57%	-6.73%
S&P Composite	-3.14%	-4.23%	14.77%	-8.23%	-3.14%	-4.23%	14.77%	-8.23%
FTSE 100	-0.08%	5.65%	15.04%	1.00%	-0.09%	4.17%	19.87%	1.95%
CAC 40	-4.86%	-0.93%	16.76%	-6.91%	-4.68%	-1.14%	8.04%	-8.05%
DAX 30	-6.53%	-4.23%	4.89%	-8.96%	-6.35%	-4.44%	-2.94%	-10.08%
MSCI Europe	-3.24%	-1.51%	11.06%	-6.29%	-2.95%	-1.37%	4.48%	-7.44%
MSCI World	-2.77%	-4.00%	11.26%	-7.62%	-2.65%	-3.99%	9.21%	-7.85%

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