ASIA PACIFIC MARKET MONTHLY COMMENTARY

December 2020

Market Review

Global risk-on sentiment continued in a holiday-shortened month. Even as major countries around the world started their vaccine rollout, new variants of the virus emerged and social distancing measures across major economies were stepped up. A US fiscal stimulus deal and a last-minute Brexit agreement kept markets on their toes. Markets continue to keep an eye on US-China tensions, investment restrictions and delistings in the final stretch of Trump's presidency. MSCI Asia ex Japan Index gained 6.62% in December (in USD terms, net dividends excluded), outperforming the MSCI World Index which saw a gain of 4.14% during the month (in USD terms, net dividends excluded).

CANBERRA • BEIJING • HONG KONG

Australia

- Australia All Ordinary Index was up 1.61% in December (in local currency terms, net dividends excluded).
- Outperformance from Information Technology and Materials
- Underperformance from Utilities and Healthcare.
- The Australian Dollar (AUD) appreciated in December against the US Dollar (USD) while the USD Index went down.
- The Reserve Bank of Australia maintained rates at 0.1% and stated that it will not increase the cash rate until actual inflation is sustainably within the 2 to 3 percent target range.
- Unemployment decreased from 7% in October to 6.8% in November, as total employment increased in November.
- Australia's 3Q GDP grew 3.3% quarter-on-quarter (qoq) as household spending drove the economy, rising 7.9% qoq due to increased spending on both goods and services.

China

- MSCI China Index was up 2.75% in December (in USD terms, net dividends excluded).
- Fundamentals remain favorable for China equities thanks to robust earnings growth, targeted policy supports, positive development of COVID-19 vaccine, and a likely easing of trade tension between China and the US.
- In 2021, policy normalization on both fiscal and monetary sides is expected, as opposed to easing policy stance of global central banks, which could cap upside for China equities.
- Growth is expected to continue outperforming Value but by a less magnitude compared to 2020.
- Growth stocks are supported by China's transformation from an old to new economy-driven model.
- Cyclical rotation momentum is expected to stay but moderate given the deflationary backdrop, high base effect, and a policy normalization.

Hong Kong

- MSCI Hong Kong Index was up 5.05% in December (in USD terms, net dividends excluded).
- Outperformance from Financials and Information Technology.
- Underperformance from Telecommunication Services and Utilities.
- The local pandemic situation remains challenging, with total numbers of new confirmed cases ticking up in December.
- However, there was good news as the Hong Kong government announced that the local vaccination campaign should begin in February.
- Consumer Price Index (CPI) remains in deflation territory and fell by 0.2% year-on-year (yoy) in November.
- The labour market improved modestly in November, with seasonally adjusted unemployment rate eased slightly to 6.3% compared to 6.4% in October.
- However, the resurgence of COVID-19 cases will likely exert a moderate drag on domestic activity in the coming months, putting pressure on the unemployment rate.

NEW DELHI • JAKARTA • TOKYO • KUALA LUMPUR

India

- MSCI India Index was up 10.18% in December (in USD terms, net dividends excluded).
- Outperformance from Industrials, Materials and IT.
- Underperformance from Utilities, Energy and Consumer Discretionary.
- Economic activity remained flat in December at around 94% of pre-COVID levels.
- This slight moderation can be attributed to waning away of the pent-up and festive demand.
- Index of Industrial Production (IIP) data came in at 3.6% yoy in October, reflective of inventory build-up to meet festive demand.
- Rural economy remained well supported thanks to rising food inflation, higher government procurement, rural wage hikes, and government aid.
- While there was a sustained decline in active COVID cases, reversal in pay-cuts and an early deployment of the vaccine could have a positive impact on the urban economy.
- Despite this, GDP estimates for the first half of FY21 contracted to 16%.

Indonesia

- MSCI Indonesia Index was up 5.52% in December (in USD terms, net dividends excluded).
- The outlook for Indonesia continues to be positive, given that it will benefit from both structural tailwinds (Omnibus law) and from the relatively quicker post-COVID economic recovery.
- In the near term, some volatility is expected especially with the recent stricter social restriction imposed on certain regions in the country.
- However, over the longer term, with the government working towards controlling the outbreak transmission and starting COVID-19 vaccination in mid-January, the economy and market appear well-positioned for a robust recovery coming out of this pandemic.
- This is also supported by the country's ability for further fiscal support as well as the economy's main reliance on domestically driven activities.

Japan

- MSCI Japan Index was up 4.02% in December (in USD terms, net dividends excluded).
- Japan, with its large share of industrials and consumer discretionary sector, should benefit from an economic rebound as well as from close trade linkages with China.
- In general, the high operating leverage of businesses in Japan should be positive for profit margins as a result of higher sales in 2021.
- It is also not expected that the economy will fall into outright contraction again, given the relatively low infection rate and limited deterioration in mobility data.
- With lingering uncertainties of global recovery and Japan's own chronic demand deficiency, there are no forecasts for the economy to return to its pre-COVID levels until the end of 2022.
- The deep negative output gap will keep inflation at a subdued level.

Malaysia

- The FTSE Bursa Malaysia Index was up 4.13% in December (in local currency terms, net dividends excluded).
- Outperformance from Financials, Energy and Real Estate.
- On the commodities side, oil prices also rallied on optimism surrounding the announcement of vaccines developments.
- At the same time, the Malaysian Ringgit (MYR) also strengthened, with the USD/MYR rate down by 1.3% month-on-month (mom).
- Separately, palm oil also traded higher, up by 13.2% mom, on the back of lower production due to labour shortage in the sector.
- Elsewhere, Fitch Ratings downgraded its sovereign credit rating for Malaysia by one notch from 'A-' rating to 'BBB+' as the impact of COVID-19 has affected the country's key credit metrics.
- Malaysia has also extended the Conditional Movement Control Order (CMCO) in key cities Kuala Lumpur, Sabah and Selangor by 2 weeks until 14 January 2021.

New Zealand

- The New Zealand SE 50 Index went up 2.34% in December (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) appreciated in December against the US Dollar (USD) while the USD Index went down.
- New Zealand's 3Q GDP was up 14% qoq, mainly driven by good-producing industries and service industries.
- The retail, accommodation, and restaurant sectors were the main driver for the service industry, up 42.8% qoq.
- Both subindustries showed significant growth, with accommodation and food services increasing 107.4% qoq and retail trade up 24.8% qoq.
- Strong activity in construction services and residential construction also helped the strong growth in construction.

Singapore

- MSCI Singapore Index was up 2.67% in December (in USD terms, net dividends excluded).
- The Singapore equity market appears constructive on the back of gradual economic recovery post-COVID.
- In the short term, we believe that the country's strong fiscal position will be able to tide the economy over.
- On the domestic side, Singapore has managed to keep their COVID-19 cases under control and has begun their vaccination campaign since end December, starting with healthcare workers.
- However, over the longer-term, the pace of Singapore's economy and equity market to recover is premised on the reopening of its borders due to its regional and global exposures, which means its economy will likely recover later than Indonesia and the Philippines.

The Philippines

- MSCI Philippines Index rebounded in December, up 5.17% (in USD terms, net dividends excluded).
- The outlook for the Philippines market continues to be positive over the longer-term, given the structural tailwinds and the domestic-driven nature of the economy.
- In the meantime, some volatility is expected in economic activity and recovery with successive waves of COVID-19 infections, especially with the country's patchy COVID-19 vaccine procurement.

Thailand

- MSCI Thailand Index was up 2.84% in December (in USD terms, net dividends excluded).
- There is still caution with regards to the Thailand market as the economic rebound will likely happen later than market expectations given its reliance on tourism (a late-stage recovery theme) and the current uncertain political backdrop which is expected to last well into this year.
- While it would be inevitable that a recovery would occur sooner or later, we believe that the downside risks to the economy and to companies would be further heightened if the recovery is delayed, hence a cautious stance for now.

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Index (as of end December 2020)	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	1.61%	14.00%	0.71%	0.71%	6.41%	22.73%	10.55%	10.55%
CSI 300	5.06%	13.60%	27.21%	27.21%	5.74%	18.30%	35.50%	35.50%
Hang Seng China Enterprises	1.82%	14.27%	-3.85%	-3.85%	1.80%	14.21%	-3.38%	-3.38%
Hang Seng Index	3.38%	16.08%	-3.40%	-3.40%	3.36%	16.02%	-2.93%	-2.93%
India National	8.04%	23.78%	15.24%	15.24%	9.51%	24.98%	12.57%	12.57%
Jakarta Composite	6.53%	22.77%	-5.09%	-5.09%	7.06%	30.03%	-6.22%	-6.22%
Nikkei 225	3.82%	18.37%	16.01%	16.01%	4.86%	20.99%	22.11%	22.11%
Korea Composite	10.89%	23.44%	30.75%	30.75%	12.95%	32.89%	39.19%	39.19%
FTSE Bursa Malaysia KLCI	4.13%	8.13%	2.42%	2.42%	5.63%	11.85%	4.36%	4.36%
New Zealand SE 50	2.34%	11.13%	11.40%	11.40%	4.84%	21.05%	18.89%	18.89%
Philippine SE Composite	5.13%	21.75%	-8.64%	-8.64%	5.25%	22.91%	-3.66%	-3.66%
FTSE Singapore Straits Times	1.35%	15.29%	-11.76%	-11.76%	2.51%	19.49%	-10.11%	-10.11%
Taiwan Weighted	7.36%	17.71%	22.80%	22.80%	8.90%	21.33%	31.01%	31.01%
Bangkok SET	2.91%	17.16%	-8.26%	-8.26%	3.91%	23.92%	-8.28%	-8.28%
MSCI AC Asia ex Japan	5.80%	15.81%	19.88%	19.88%	6.62%	18.30%	22.47%	22.47%
MSCI AC Pacific ex Japan	4.75%	15.06%	16.18%	16.18%	6.13%	18.63%	20.29%	20.29%
Dow Jones Industrial	3.27%	10.17%	7.25%	7.25%	3.27%	10.17%	7.25%	7.25%
S&P Composite	3.71%	11.69%	16.26%	16.26%	3.71%	11.69%	16.26%	16.26%
FTSE 100	3.10%	10.13%	-14.34%	-14.34%	0.70%	4.16%	-16.99%	-16.99%
CAC 40	0.60%	15.57%	-7.14%	-7.14%	2.90%	20.59%	1.22%	1.22%
DAX 30	3.22%	7.51%	3.55%	3.55%	5.58%	12.17%	12.87%	12.87%
MSCI Europe	2.14%	9.94%	-4.29%	-4.29%	4.62%	15.28%	3.14%	3.14%
MSCI World	3.41%	12.04%	11.67%	11.67%	4.14%	13.63%	14.06%	14.06%