Three Factors Shaping the Opportunity in Asian Equities

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Asian equities started the year strong amid expectations that 2021 may herald a return to 'normalcy' from a social and economic perspective. While inflationary concerns driven by stronger U.S. growth expectations have led to some recent selling, we believe Asian equites remain well-supported and will continue to present attractive long-term opportunities going forward—a view underpinned by the following secular growth themes, which have indeed been amplified by the pandemic.

1. DIGITALIZATION

COVID has certainly accelerated the pervasiveness of technology in our lives. New digital infrastructure—from 5G to big data centers—is one area where opportunities have increasingly emerged during the crisis. Specifically, data center operators, which were already on an upward trajectory, have experienced a significant boost from the prolonged work-from-home environment. For instance, estimates suggest growth in China's data center market could accelerate by as much as 26% over the next three years.[1] Online retail sales have also accelerated, with more people opting to order goods online—from food to clothing to entertainment.

In ASEAN—a group of 10 countries located in Southeast Asia—and India, the digital economy is fairly nascent, thereby providing opportunities to capture the growth that results from the rise of technological ubiquity. In fact, the composition of the region's equity markets is gradually reflecting this dynamic. For instance, while old economy giants like China Mobile were the largest companies in China over five years ago, new economy giants like Tencent have leapfrogged them in value. There are multiple ways to gain exposure to the opportunity along the digital economy value chains—ranging from content owners like Tencent and platforms like Alibaba, to infrastructure enablers like Taiwan Semiconductor Manufacturing Company and Samsung.

2. DE-GLOBALIZATION

De-globalization and supply chain diversification is another structural trend shaping the opportunity in Asia. Over the last decade, many large multinational corporations have looked to diversify their manufacturing supply chains beyond China, driven primarily by the country's rising labor costs compared to other regions. More recently, the trade tensions between the U.S. and China have amplified the efforts of companies to relocate. COVID, too, has accelerated this trend, exposing supply chain vulnerabilities and underscoring the importance of diversification beyond one country.

In many cases, ASEAN countries and India have been the beneficiaries, with their large and competitive labor force, and potentially strong consumer base, looking increasingly attractive. Perhaps unsurprisingly, some of these countries have enacted policies to support the competitiveness of the market, ranging from corporate tax cuts to flexible labor policies. While supply relocation and reconfiguration can take years, we believe countries—and by extension, companies—where electronics and other manufacturing capabilities have been improving, like Vietnam, Malaysia and Thailand, will continue to benefit as this trend evolves.

3. SUSTAINABILITY

The rising importance of sustainability will also likely have a positive impact on both the demand outlook and valuation of companies aligned with this trend. Policy makers around the world have set timelines to achieve carbon neutrality, fast-tracking the implementation of sustainable policies, which will boost the demand for renewable energy. We believe a number of Asian companies, which are leading suppliers within the renewables value chain, are well placed to benefit from this trend.

Increasing sustainability is also impacting individual lifestyle practices. For example, lockdowns and fears of contagion due to close physical contact have led commuters to choose modes of transport such as biking over cramped subways. In China, too, the ongoing urbanization and steady rise in household wealth over the last decade have led to an increased focus on health and wellness—and COVID has certainly underscored the need for greater spending on health care. This will likely create opportunities for companies with exposure to the health care and wellness sectors.

KEY TAKEAWAY

Due largely to the supportive structural trends unfolding across the region, we see good long-term potential in Asian equities—and believe that times of volatility can result in opportunities to purchase well-positioned companies at attractive prices. That said, not all companies within these sectors are created equal. For this reason, fundamental, bottom-up stock selection remains critical to navigating this space.

Barings Asian Equities Team at a Glance

- 35+ years of experience managing Asia Pacific equities
- 15 investment professionals*
- $6.4 billion AUM in Asia Pacific strategies**

*As of April 2021
**As of March 2021, gross assets
Data based on Barings' Hong Kong China and Asia ex-China investment teams

1. 26% of growth forecast between 2019 to 2023. Source: CAICT, Intelligence Research Group, Frost & Sullivan, IDC, Cisco, Gao Hua Securities Research. As of April 2020.

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