

Asia in the New World Order – Q1 2024 (Issued 23 November 2023)**Cheuk Wan Fan**

Going against the headwinds of weaker global demand, Asia's robust private wealth accumulation, resilient middle class consumer, digital transformation and green transitions continue to offer solid domestic growth drivers to support GDP growth of 4.2% for Asia ex-Japan in 2024, based on our forecasts.

However, global challenge from US-China trade frictions geo-economic fragmentation and technology restrictions are adding pressures on the Asian economies to respond to the evolving new world order.

We launched the new High Conviction Theme on Reshaping Asia's Supply Chain, As geopolitical drivers are accelerating global supply chain diversification across Asia.

In response to trade restrictions and COVID pandemic disruptions, many multinational corporations and also Chinese companies have actively rebuilt their manufacturing supply chains in ASEAN and India, while many critical production components continue to be sourced from China.

We favour Chinese and Asian industry leaders which have successfully reshaped or formulated investment plans to diversify supply chains outside their home country by establishing material production capacity in Southeast Asia and India to enhance their competitive advantage and mitigate geopolitical uncertainty.

We also favour ASEAN and Indian companies, which benefit from the global supply chain reconfiguration. In India, services exports surged by USD60bn to USD300bn over the past year due to the rise of Global Capability Centres set up by multinational companies, in reflection of this value change upgrade.

In ASEAN, Indonesia and Thailand are key beneficiaries of FDI inflow into the EV sector. While Singapore, Vietnam and Malaysia stand out to gain from strong foreign investment in the technology and consumer electronic industries.

Our theme on Rise of India and ASEAN capture promising secular growth opportunities in South Asia, riding on the structural tailwinds from global supply chain reorientation and young demographics in the region.

India has consistently delivered stronger than expected growth in manufacturing and services activities throughout 2023, with strong FDI inflow, private investment and services export, powering employment consumption and productivity gains.

Indonesia offers one of the best growth and investment stories in Asia, supported by its large, young and growing population with rapid urbanisation and robust private consumption being the key growth engine.

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Indonesia further benefits from its upgrading manufacturing value chain thanks to the country's abundant reserves of green materials and metals, which are critical input for EV and batteries. Another bright spot, in the Asian market, is the service consumption sector.

Our new high conviction theme on Future Asian Consumer focus on the consumer discretionary sector, which is projected to deliver double digit earnings growth in 2024, even on high comparison base this year.

In China, we favour select Internet leaders, consumer discretionary plays and new opportunities from the applications of AI and digital consumption.

The consumer spending shift from consumer goods towards services such as travel, catering and movies is expected to sustain strong growth in the years to come.

We also favour Asian financial services providers, which can capture the growing middle class demand for wealth management and insurance services. In Southeast Asia, the strong consumption outlook is driven by the rising middle class consumer and robust household wealth growth.

Positioning ahead of the Fed's rate cuts in 2024 our theme on Capturing Peaking Asian Yields focus on locking in compelling yields from quality Asian bonds. Disinflation is on track in most Asian economies with inflation now expected to return to central bank target range in 2024 in most countries, well ahead of most other regions.

We favour Asian financials, which are trading at attractive valuations, including Japanese and Korean banks and life insurer and banks in Australia, Singapore and Thailand.

Among Asian corporates, we like Korean IG bonds issued by high-quality companies, Macau gaming and Chinese TMT credits.

We stay overweight Indian local currency bonds, which are well supported by positive liquidity driver from the Global EM Bond Index inclusion and strong structural growth of the economy. Indonesian quasi-sovereign IGs remain our preferred play in Southeast Asia, thanks to the country's strong fundamentals, robust government balance sheet and benign inflation outlook.