



Video Transcript

HSBC Investment Outlook Q1 2023 (Released 23 November 2022)

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Against a challenging macro backdrop of global downturn, Asia continues to stand out as a relative safe haven with resilient domestic fundamentals to weather the recession risks. While economic indicators point to a globally synchronised slowdown in 2023, we believe the Asian economies can maintain their relative outperformance against the global peers with silver linings of accelerating economic reopening and more growth supportive policy initiatives. We expect GDP growth in Asia ex-Japan to accelerate to 4.5% in 2023 from 3.9% in 2022, still a respectable growth trajectory as compared with many developed economies which are expected to see close to zero growth in 2023. Our Top Trend of Remaking Asia's Future look for the most attractive structural and tactical opportunities in the region.

Our new High Conviction Theme on "Asia's Reopening Winners" focus on beneficiaries of the widening reopening trends across the region. China's recent pivot towards optimisation of the Zero COVID policy is a notable driver to support growth recovery in 2023. The 20 new measures announced by China's National Health Commission to cut quarantine time, optimise pandemic control measures and stop excessive local containment restrictions marked an important milestone of the gradual relaxation of the Zero COVID policy. We expect China will likely roll out more meaningful reopening measures after the National People's Congress next March when booster vaccinations are ramped up in the coming months.

We expect the North Asian economies, including mainland China, Hong Kong, Taiwan, South Korea and Japan, should feel the largest impact of reopening in 2023 given their border reopening and relaxation of COVID restrictions have lagged behind the rest of the world. Southeast Asia should continue to benefit from the strong momentum of overseas traveller inflow and tourism boom. Riding on the reopening tailwinds, we favour quality industry leaders in the travel, airlines, hospitality, travel agents, food and beverages, gaming and mass consumption sectors in Asia.

The ASEAN economies are showing silver linings of resilience with strong consumer spending outlook amid continued economic reopening. We launch a new theme on the ASEAN Tigers, capturing growth opportunities in the consumption companies, infrastructure plays, ASEAN banks and Singapore REITs. The ASEAN is now a more economically integrated region through the Regional Comprehensive Economic Partnership, which is the world's largest free trade bloc. We believe the ASEAN Tigers can also benefit from the reconfiguration and regionalisation of Asia's supply chains. Selected ASEAN markets, such as Indonesia, can gain from high commodity prices, proving to be defensive to inflation shock.

For structural growth opportunities, our High Conviction Theme on Asia's Green Transformation



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stays focused on opportunities from the energy transition and independence, green infrastructure development and innovation of new energy vehicles technologies in the region. We favour renewable energy equipment makers of solar, wind and green hydrogen, smart grid manufacturers and leaders in the EV supply chains. China is growing into a global powerhouse in EV, one out of three new cars sold in China is now electric. Pure EV plays, some conventional OEMs and battery companies can benefit from the net zero transition. We expect China's annual solar installed capacity to reach 115GW by 2023 and increase further to 150GW by 2025. In India, investments of around USD300bn will be needed to complete the 500GW of renewable energy capacity target by 2030. The Southeast Asian countries are also rushing to issue green bonds to finance eco-friendly projects.

Positioning for moderating inflation and peaking US interest rate cycle, we remain bullish on the theme on Asian Quality Credit, especially after substantial yield pick-up across the Asian credit markets in 2022. This theme stays focused on high quality corporate bonds in Asia, including high grade Hong Kong corporate bonds and Indonesia hard currency bonds. With Hong Kong's accelerating reopening to the outside world, we favour investment grade bonds in the retail and property space. We continue to see attractive carry opportunities in Indonesia quasi-sovereign investment grade bonds, thanks to the country's improving fiscal position in a strong coal cycle. We also capture carry opportunities in Chinese central-government-owned asset management companies, with their valuations still at low levels following global fund outflows in 2022. We prefer short-to-medium duration Asian investment grade bonds which are expected to see lower price volatility relative to longer-dated credit amid rate volatility.