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The Resilience of Asia

Although the world economy is expected to face a challenging year with global growth decelerating and inflation remaining high and the ongoing war in Ukraine, and banking strains in the US and Europe adding to the complexity, the Asia-Pacific region continues to display dynamism and resilience. The market is now anticipating an imminent change in the monetary policy of the Federal Reserve. This is also reflected in other parts of the world such as Europe and Asia, where tightening cycles are coming to an end. A weakening of the US dollar can have a positive impact for regional currencies, including those in Asia.

After a healthy consolidation which followed the initial re-opening rally, we believe Asia market is poised for sustained outperformance given attractive relative valuations, under-positioning and better earnings prospects. Most importantly, in contrast to the US and Eurozone, where there is a growing risk of recession due to aggressive monetary tightening cycles by both the Fed and the ECB, Asian countries are at a significantly lower risk of facing a recession. The ongoing recovery in China, as evidenced by the PMI data, along with a positive policy stance towards Internet and Property and potential easing of cross-strait tensions, could contribute to an overall boost in the Asian region. Not only that, the scale of China's economy and its deep integration into global markets mean that its remarkable recovery is expected to have a positive spill-over effect on global economic recovery.

Certain investors are expressing doubts about the durability of China's economic rebound, given the uneven recovery in various sectors as evident from the latest retail sales, investment, and industrial output statistics. We argue this is just a matter of time as many economic indicators are improving significantly. Furthermore, the clear message sent by the official is that China is committed to restoring healthy growth after the trauma of last year. There has been a pronounced pick up in secondary property market sales in tier-one and tier-two cities since Covid policies were relaxed. In addition to that, retail sales have rebounded as market demand and vitality improved. SOE reform is also an added positive factor to its recovery.

Our optimism with China also stems from its robust economic recovery, which has exceeded expectations and started the year on a positive note. In the first quarter, the country's GDP grew by 4.5% year-on-year, surpassing the consensus estimate and recording the strongest growth in a year. The IMF projected a 5.2% growth for China in 2023, up from 3% last year. The World Bank, meanwhile, expects China's GDP growth to rebound to 5.1% in 2023. Both are in line with China's official growth target of 5%. Finally, we believe there is still more room to run for China market as the earnings outlook has yet to fully factor in the Chinese economy returning to a more normal growth cycle, and international investors have yet to re-engage with Chinese stocks in a comprehensive way.

We like Asia technology/software stocks as valuations look reasonably attractive after experiencing a sharp sell-off in 2022. In addition to that, we anticipate that the cycle for both logic and memory semiconductors is nearing its trough, with inventory levels peaking and capex moderating. We also go Long for China Policy Beneficiaries as we believe that supportive measures, loose monetary policies, and a more relaxed regulatory tone are on the horizon. Outside China, we see potential for investment opportunities in Thailand, which we believe will benefit from the return of Chinese tourists. Finally, we are optimistic about Korean memory manufacturers due to production cuts, which we anticipate will support memory prices, as well as increased demand for AI and related applications, which will catalyse the sector moving forward.

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Our offerings

Phillip Mutual Berhad offers a comprehensive list of local and global unit trust funds that may suit your investment preferences and financial goals. Our recommendation for unit trust funds with Asia/China exposure is as follows:

Lipper Category	PMB Funds
Equity Global	Phillip Global Stars
Equity China/Greater China	Phillip Focus China
Balanced Fund (Asia Pacific)	Phillip AsiaPac Income

The allocation of sectors and countries for the funds we recommend is as follows:

1. Phillip Global Stars - 86% (Equity); 14% (Cash)

Top Country Holdings:

Country	%
United States	49%
Hong Kong	19%
Korea	6%
Singapore	4%
Malaysia	3%
Indonesia	3%
Thailand	2%

Top Sectors Holdings:

Sector	%
Technology	53%
Consumer	10%
Finance and Insurance	6%
Gaming and Entertainment	3%
Auto	3%

2. Phillip Focus China - 89% (Equity); 11% (Cash)

Top Sectors Holdings:

Sector	%
Finance and Insurance	22%
Soft Tech	14%
Manufacturing	10%
Hard Tech	9%
Auto	8%
Pharmaceutical	6%

ETF	5%
Gaming & Entertainment	5%
Consumer	5%
Infrastructure	4%
Energy	3%

3. Phillip AsiaPac Income - 46% (Equity); 45% (Fixed Income); 8% (Cash)

Top Country Holdings:

Country	**%**
Malaysia	56%
Hong Kong	22%
Singapore	4%
Thailand	3%
Korea	3%
Indonesia	3%

Top Sectors Holdings (Equity):

Sector	**%**
Technology	19%
Consumer	7%
Telecommunication	5%
Finance and Insurance	5%
Pharmaceutical	4%

Note: The above data is accurate as of 3 May 2023.

Our investment portfolio focuses on quality companies that possess strong fundamentals, including stable earnings and a promising future outlook, and are led by capable management teams. Please click on the link to learn more or email us at phillipmutual@phillipcapital.com.my if you require any further information.