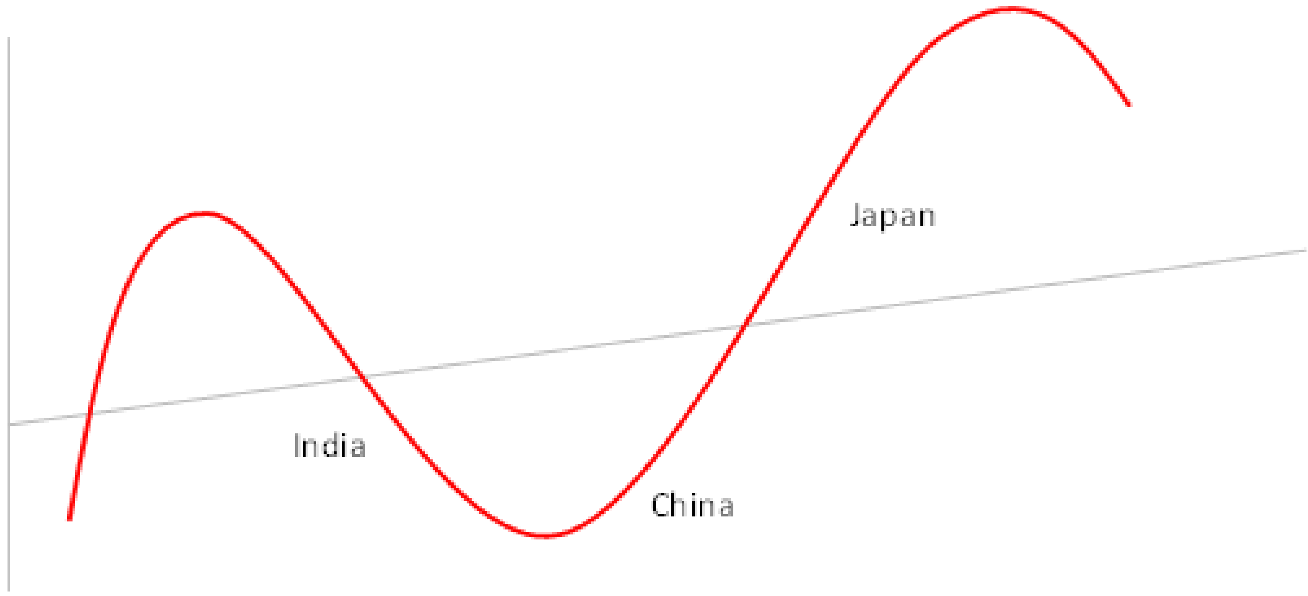
Asia Equity Strategy

2Q Outlook – The three stages of the bull market (part 2)



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Contents

Investment summary

- **Fracturing geopolitics.** Tariffs are coming, military spending is increasing, energy policy prioritises national security. The investment strategy remains unchanged: China is an overweight, Tech markets an underweight. But it highlights two themes: defence, and nuclear. **We reiterate the long position on SG Asia Defence (SGASDEFE) and the SG Nuclear (SGASNU) baskets**.
- **Cracks in US exceptionalism: some opportunities in Asia.** The Nasdaq tailwind is gone. By contrast, the dollar becomes a more supportive force. **We are not expecting an overall re-rating of Asia equity valuation, but we see P/E divergence continuing to shrink.**
- **Asynchronous macro policy.** The BoJ normalises monetary policy, central banks in emerging Asia have room to ease, China eases fiscal policy. Shifting fiscal dynamics and diverging monetary policy signal more **underperformance of Japan equities relative to MSCI Asia ex-Japan**.
- **Japan: improving corporate fundamentals amid macro uncertainties.** Yen volatility, adjustment to a new price regime, and tariffs threat cause equity market underperformance. **We are long Domestic Consumption (undervalued, exposed to rising wages), long Value (ex-exporters), long Banks (inflation exposure).**
- **China: the policy put is on.** The market exhibits several features of an early stage bull market: the earnings are stabilising, the valuation is low, the positioning is light. And there is no consensus. **We gain exposure to Consumption through the SG Seven Titans Basket (SGCHTTAN), and to Industrial Cyclicals through the SG China 2.0 Basket (SGCHM20).**
- **India: valuations are more reasonable, no V-shaped recovery**. Earnings are recovering but capex growth remains elusive. Domestic investors remain net buyers, but some signs of fatigue are emerging. On the positive side, valuations have decreased close to their long-term average. **We end our long on Exporters including IT services, and recommend buying Banks.**
- **Index targets**. **MXASJ= 830** (+13%); **MSCI China= 90** (+14%); **Nikkei= 41,000** (+11%). Projections calculated on prices as of 7 March close.
- **Allocation.**

Overweight	Neutral	Underweight
China	India	Korea Taiwan

Source: SG Cross Asset Research/Equity Strategy

- **Downside risks**. 60% tariffs in China, escalating trade war, US recession
- **Upside risks**. US/China detente, sustainable consumption recovery in China, markets pricing in the end of the BoJ normalisation.

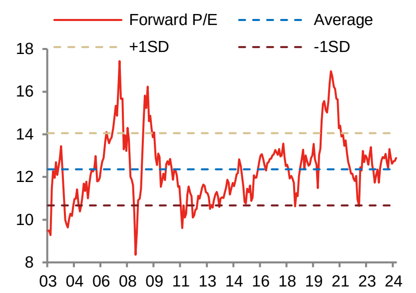
Summary of our regional views

Asia – Overweight China, Underweight Tech markets, Neutral India

Three factors – fracturing geopolitics, cracks in US exceptionalism, asynchronous policy mix – shape Asia equities trajectory. On aggregate, it means valuations are expected to remain in line with historical averages. While stable, expect the P/E divergence to shrink: higher in China, lower in India and Taiwan. Stabilising earnings growth (largely from China) and light positioning (apart from India) send bullish signals. Momentum trades include Asia Defence, Asia Nuclear, and China AI. Value trades are mostly in banks (Japan, India, China). The overall stance – Overweight China, Underweight Technology Markets, Neutral India remains unchanged.

Overweight: China; Neutral: India Underweight: Korea, Taiwan

The long term: MSCI Asia ex-Japan forward P/E: broadly in line with the last 20y average

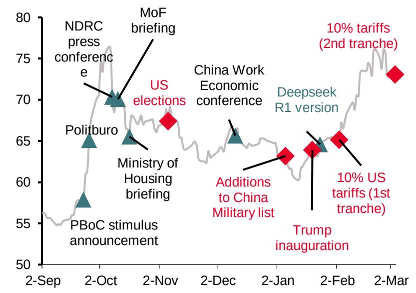


Source: SG Cross Asset Research/Equity Strategy, Refinitiv

China – The policy put is on

The persistently low valuation of the equity market (in aggregate) limits the downside, which could be caused by housing market stabilisation relapsing, or tariffs war escalating well above the two 10% tariff tranches. The market could even re-rate if green shots observed in earnings turn into a proper EPS growth recovery. A more active participation from retail investors onshore (so far subdued as suggested by onshore underperforming offshore markets), and foreign investors offshore could fuel the bull market. We gain exposure to Consumption through the SG 7 Titans Basket and to Industrial Cyclicals through the SG China 2.0 Basket.

Climbing several walls of worries: MSCI China timeline

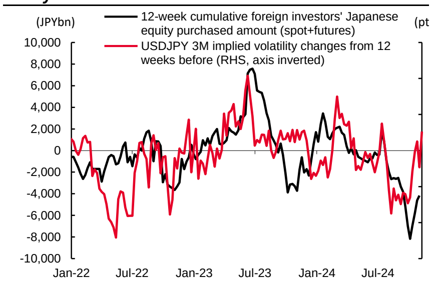


Source: SG Cross Asset Research/Equity Strategy, Bloomberg

Japan – Macro uncertainties cloud improving corporate fundamentals

Earnings and revenues recorded steady growth in 4Q24. Evidence of corporate governance reforms happening, from unwinding of cross-shareholdings to accelerating share buybacks continue to multiply. Still the Japanese stock market underperforms. Three macro uncertainties – the tariffs threats, the adjustment to an inflation regime, and the yen volatility – explain the disappointing returns. They deter foreign investors (selling around USD60bn since last summer) and exert downward pressure on the valuation (JGB yield above 1.5%). We are long Domestic Demand stocks, Value Investment Style (ex-Exporters) and Banks.

Increased FX volatility keeps foreign investors away



Source: SG Cross Asset Research/Equity Strategy, Bloomberg

India – Back to Value, back to Banks

The high valuation risk has been largely addressed: the market correction since the September high has caused 12m forward P/E to revert to levels close to their historical average. The other bearish element, the lacklustre EPS growth, remains – the plateauing of public capex creates a void in growth drivers. Foreign investors continue to sell. Domestic investors, while net buyers, show some signs of fatigue. However, the lower valuation puts a floor on the downside, and creates investment opportunities. These are mostly into Value Investment style, and primarily in Banks, which are now trading at a COVID low.

Banks P/B relative to Nifty Index

Source: Bloomberg, SG Cross Asset Research/Equity Strategy,

Key calls

Key call #1 Fracturing geopolitics

Tariffs, defence spending, and energy policy have implications for Asia equities.

+ Long Topix/Short Japan exporters

+ Long MXCN/Short MXASJ

+ Long SG Asia Defence basket (SGASDEFE)

+ Long SG Asia Nuclear basket (SGASNU)

Key call #2 All roads lead to China

The policy put is on. DeepSeek revives animal spirits. Valuations are low, positioning light, earnings recovering.

+ Long SG China 2.0 Basket (SGCHM20)

+ Long SG China 7 Titans Basket (SGCHTTAN)

+ Long HSCEI

Key call #3 Go domestic, not defensive

Most Asian economies have more room for policy adjustment.

+ Long China Banks

+ Long China technology

+ Long India Banks/Short Nifty

Key call #4 The BoJ normalisation

The equity market faces three uncertainties: the tariffs threat, the adjustment to an inflation regime, and the yen volatility.

+ Long SG Japan Value (ex-Exporters)

+ Long SG Japan negative FX beta value Basket (SGJPFXNV)

+ Long SG Japan domestic Consumption basket (SGJPDCON)

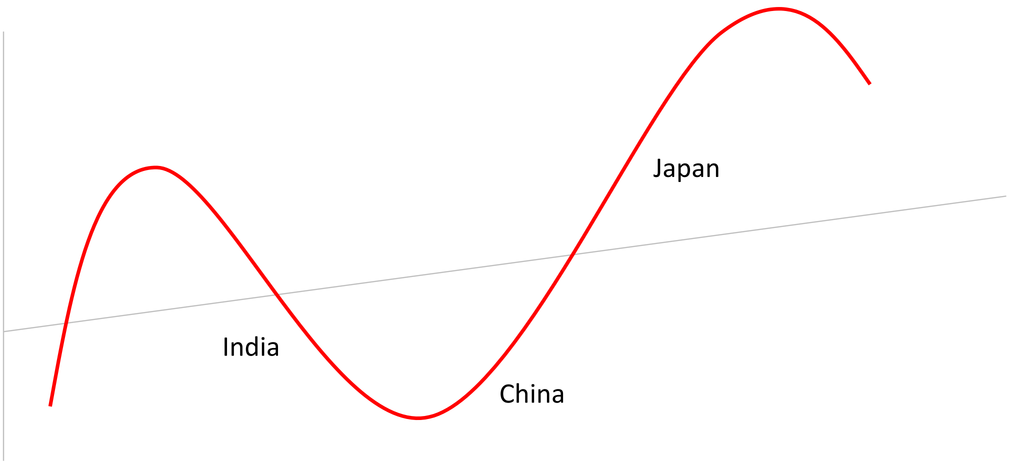
+ Long Topix Banks/Short Topix

The three stages of the bull market (part 2)

One year ago, the title we gave to the Quarterly Asia equity strategy outlook was "the three stages of the bull market". We were inspired by Mastering the Market Cycle. In his book, Howard Marks described these three stages: "the first stage, when only a few unusually perceptive people believe things will get better, the second stage, when most investors realize that improvement is actually taking place, and the third stage, when everyone concludes things will get better forever". We then thought that China was at the end of its three-year bear-market, Korea at the start of a reform-driven bull run, Japan in the middle, and India in the maturing stage.

Fast forward to today, and we believe that China is in the early stage of a bull market, Japan is still in the middle, and India has gone past the mature stage (but not yet in a new bull cycle). We were wrong about Korea, as the governance reform has taken a back seat.

The market cycle



Source: SG Cross Asset Research/Equity Strategy

The editorial is split into three sections. The first part focuses on **three major changes** that have consequences on Asia equities: a new world order, the cracks in the US exceptionalism, and asynchronous policy mix. It comforts our bullish recommendation in Chinese equities, bearish recommendation on Tech markets and proposals of a mix of momentum (Asia Defence, Asia Nuclear, Chinese AI) and Value (Banks) trades.

The second part is about Japan caught between macro uncertainties (tariffs, a new inflation regime, yen volatility) and improving fundamentals (strong earnings, corporate governance reform progressing). **The third part discusses the investment thesis in China and India**. We are warming up on India – the valuation is more affordable. We remain overweight China on policy (supportive) and fundamentals (valuation, earnings, flows)

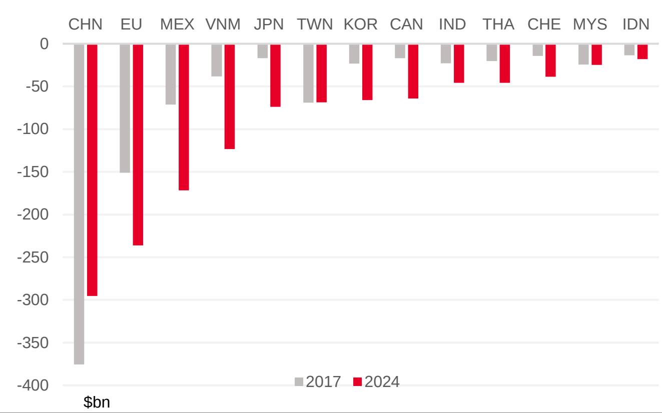
Fracturing geopolitics, cracks in US exceptionalism, asynchronous policies

From tariff war to a new world order

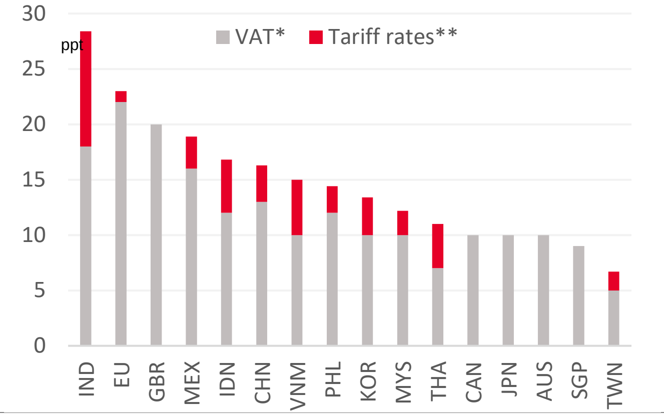
The tariff war: three factors influence Asia equities.

In our view, three kinds of tariff exposure have implications for Asia equities. The first is **the economic exposure**. The inaugural Asia Macro University has a section on tariffs from our economics team. It details the possible reasons of the US Administration for using them. Tariffs are a tool: i) aimed at reducing trade imbalance; ii) bringing government revenues; iii) bringing business onshore; iv) for decoupling, directly or indirectly, with China; and v) for negotiating.

Target those with the largest surplus? Bilateral goods trade balance vs the US



Levy reciprocal tariffs? Difference in VAT and tariff rates from the US



** The VAT difference is applied against the assumption of a 5% state-level sales tax in the US. ** The difference in tariff rates is calculated based on simple average of MFN-applied tariffs on non-agricultural products. Source: WTO, PWC, US Census Bureau, SG Cross Asset Research/Economics.*

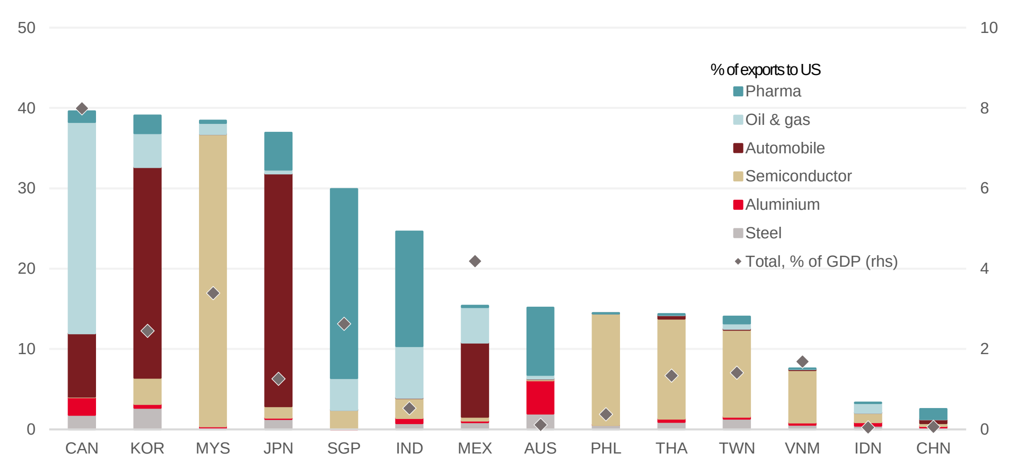
Depending on how tariffs are applied, Asia economies are impacted differently:

In the region, China and Vietnam have the **highest trade surplus** with the US (chart on the top left).

Reciprocal tariffs would hit countries with high tariffs such as India (chart on the top right).

India, Taiwan, Korea, and Japan share of exports are significant in planned **sectoral tariffs** (chart on the right-hand side).

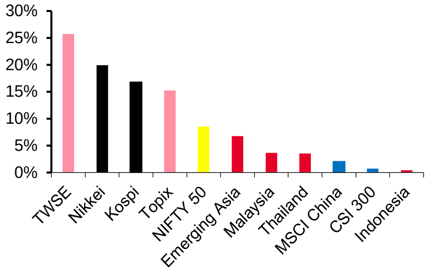
Who will be most impacted? Relative importance of exports to US by goods (2023)



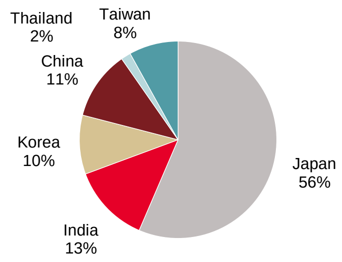
Source: US Census Bureau, IMF, SG Cross Asset Research/Economics.Note: Steel and Aluminum follow the USTR tariff announcement. Semiconductor (8541, 8542), Automobile (8703), Pharma (30), Oil (2710) & Gas (2711

The second is the equity market exposure. The TWSE, Nikkei and Kospi, measured in percentage of sales in the US, are more exposed than the Nifty Index while ASEAN equity benchmarks and the CSI300 include components with only very little exposure to US sales. Among the top 50 stocks by market capitalisation in MSCI Asia, more than half are Japanese firms, and nearly 60% in Tech and Industrials. In addition, Japan, Korea and Taiwan equity markets are heavy in industries targeted by sectoral tariffs (semiconductors, automobile). India to a lesser extent is exposed to pharmaceuticals.

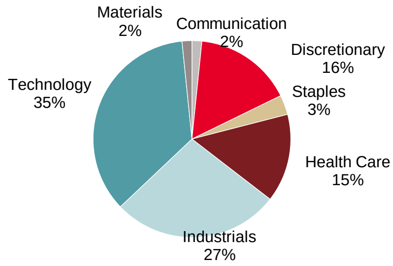
North Asia indices are more exposed than India and China, while ASEAN is little exposed to the US. Percentage of revenues generated in US



Regional allocation of stocks with large exposure to the US (>10%) (*)



Sectoral allocation of stocks with large exposure to the US (>10%) (*)



Source: SG Cross Asset Research

The third type of exposure is political. If tariffs are also a tool for negotiations, then some economies in the region have room for manoeuvre. That is the case for **Japan** (high automotive production in the US, a major investor in the US), as detailed in the second section. That is also the case for **Taiwan** (another USD100bn TSMC investment, on top of the previous USD65bn plan), or **India** (tariffs cut on several products).

Then there is **China**, on which the scope of possibilities is perhaps the largest, from 60% tariffs (as initially discussed by the Trump team), to a renegotiation of the trade deal, or even a grand bargain as some media reported last month.

The table below attempts to qualify the vulnerability of large equity markets in the region. In our view, the direct consequences of tariffs (higher export prices) is manageable.

The consequences of a tariff war on the stock market

	Returns since 2 Feb. (*)	% of sales to the US (**)	% of sales in specific industries (***)	Observations
China	15%	2%	16%	**Uncertain** impact given the very large scope of possibilities.
Japan	-2%	15%	21%	**Manageable.** High local production content of automobile, and commitment to large investment. The problem for the stock market is the upward pressure on the currency.
India	-5%	9%	14%	**Manageable**. Although India is the most exposed economy to reciprocal tariffs, duties were lowered on electronics, textile, motorcycles. Further cuts are being studied.
Korea	2%	17%	52%	Korea has signed a **Free Trade Agreement** with the US, eliminating all tariffs on US manufacturing exports.
Taiwan	-3%	25%	67%	TSMC USD100bn **planned investment** may reduce the impact of tariffs on semiconductors.

Source: SG Cross Asset Research/Equity Strategy; (*) As of 5 March; (**) % of revenues generated in the US, latest known fiscal year, major equity benchmarks; (***) designates industries targeted by sectoral tariffs. It includes semiconductors, automobile, pharmaceuticals, aluminium, and steel.

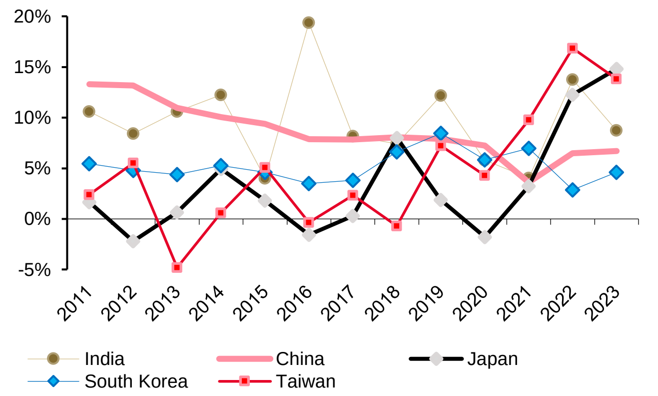
A new world order. It is not only in Europe where military spending is expected to rise further.

Since the start of the US-Russia negotiations to end the Ukraine war, international affairs specialists have discussed the risk of post-war alliances ending. It is beyond the scope of this report to assess the probability of shifting alliances. However, changes are happening. They include an increase in military spending – and not only in Europe. We discussed these issues in August last year (see what the US elections will mean for Asia), one of the conclusions being long **Asia Defence.** We have expressed this proposition through a long position on the **SG Asia Defence basket**.

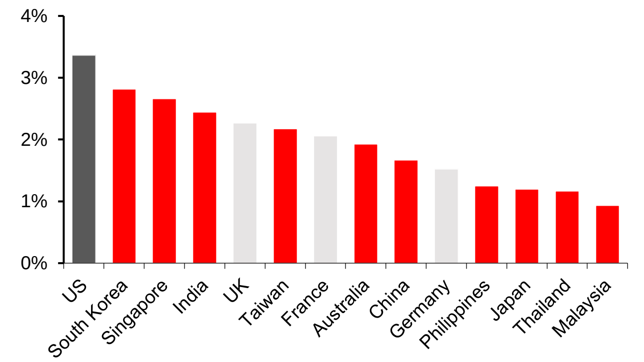
Growth in military expenditure has accelerated over the past two years. The Stockholm Institute for Peace Research Institute (SIPRI) estimates that spending increased by more than 5% between

2021 and 2023 versus 1% on average in the previous 10 years[1]. In the US, which represents around 35% of the total, military spending continues to grow despite already exceeding 3% of GDP.

Military expenditure by country (% growth, local currency)



Military expenditure by country (% of GDP)



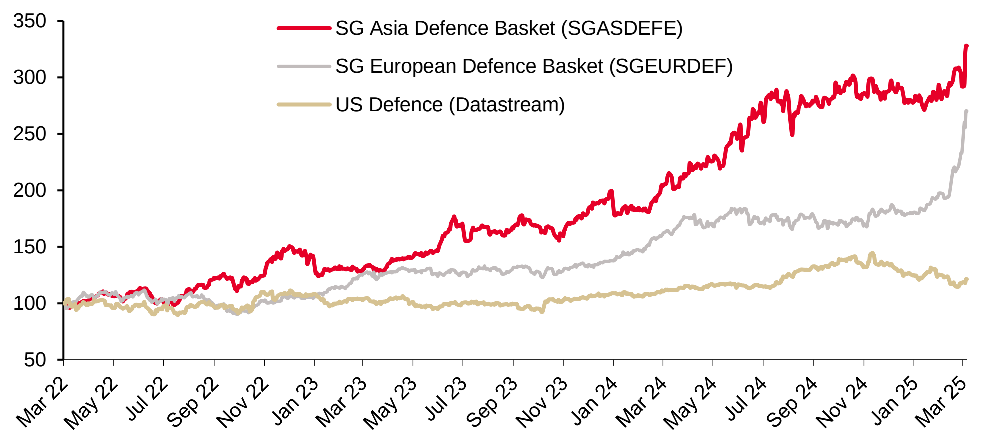
Source: SG Cross Asset Research/Equity strategy, SIPRI (Stockholm International Peace Research Institute)

In Asia, **Japan has been the focus of the past two years** given the policy shift in October 2021 – the ruling Liberal Democratic Party pledged to double defence spending to 2%.

The pledge is a continuation of the early years of Abenomics, including relaxing the arms export ban in March 2014. **Despite double-digit growth in spending in the past two years, the 2% goal is still far off.**

While holding a large Japanese exposure, the SG Asia Defence Basket also includes India, Korea and Singapore stocks.

Defence stocks across global markets



Source: SG Cross Asset Research/Equity Strategy, Refinitiv, Bloomberg; past performance is not indicative of future performance

Implications of a Trump presidency: higher tariffs, higher military spending, and **a new energy policy.**

Trump's energy policy is net **bearish oil scenario according to the** SG Commodity Research team. This is a positive for Asia equities – Asia economies are mostly net oil importers – except for markets with a high weighting in oils (Thailand and Indonesia where the oil sector represents 15% and 12% of MSCI Thailand and MSCI Indonesia, respectively).

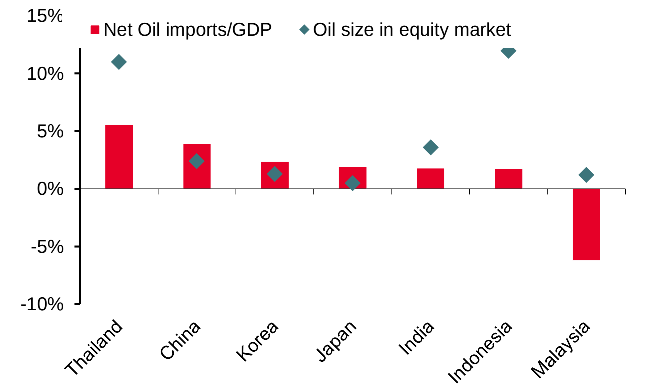
The outlook remains bearish for **Green Transition stocks**: subsidies under the Inflation Reduction Act (IRA) are at a greater risk. Within Asia, Korea is seen as one of the biggest beneficiaries of the IRA. Initially regarded as ineligible for tax credits of USD7,500 per vehicle given their high reliance on graphite from foreign entities of concern (FEOC), particularly China, battery companies got a reprieve in May 2024, which relaxed the requirement for two more years. A repeal of tax credits for the EV sector should be a bearish element.

On the other hand, the momentum remains positive for **nuclear stocks**. This is a long held bullish view that we have held for almost three years. The need for energy security (more acute since the Ukraine war), the emergence of new technologies (the Small Modular Reactors), and the low GHG

[1] Total military spendings are estimated at USD 2.4tr in 2023.

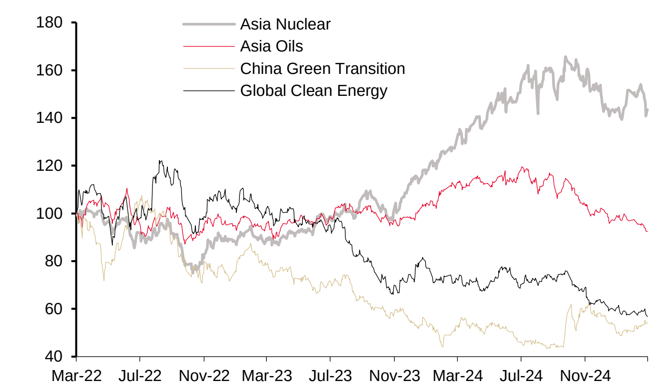
emission nature of this energy source remain the three bullish factors in place. The SG Asia Nuclear Basket (SGASNU) created in May 2022 has outperformed the broad APAC equity market by 42pp. Valuations remain however in line with the market (see basket section in page 31).

Net Oil imports as a % of GDP



Source: SG Cross Asset Research/Equity Strategy, Refinitiv, Bloomberg

The last three years: nuclear, oil and green transition returns



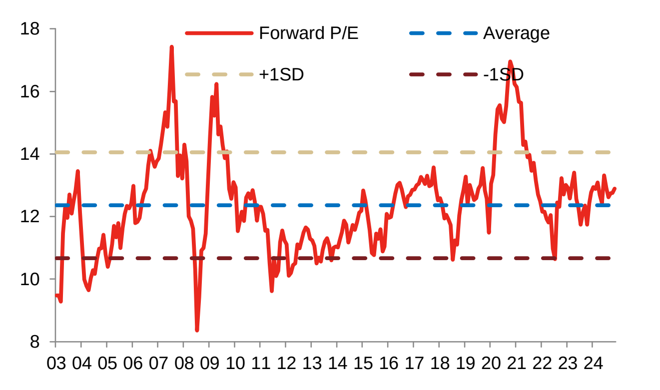
Source: SG Cross Asset Research/Equity Strategy, Refinitiv, Bloomberg

Cracks in US exceptionalism, what it means for Asia equities

Equity valuations are in line with the long-term average.

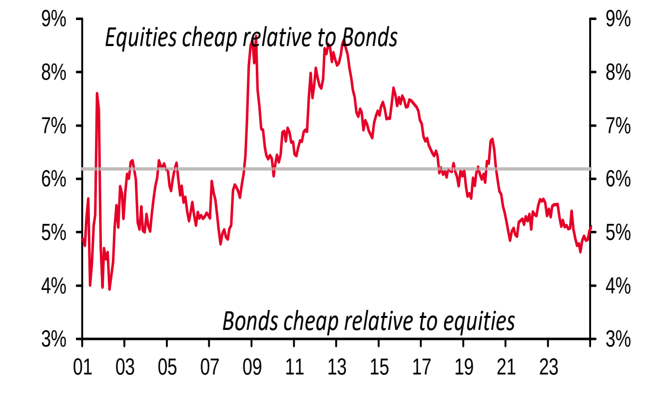
Forward P/E trade at 12.9x forward earnings (the 10y average is at 12.4); the equity risk premium at 5.1% has compressed around 1pp below its 25-year average (6.2%). At these levels, we are not expecting any market re-rating. That is in particular the case for the Technology markets (Korea, Taiwan) as Nasdaq earnings growth is expected to lag the rest of the US market. On a more constructive side, a turn in the US dollar, so far beneficial to bond flows, would bring (if sustained) some support.

The long term: MSCI Asia ex-Japan forward P/E – Broadly in line with the last 20y average



Source: SG Cross Asset Research/Equity Strategy, Refinitiv, Bloomberg

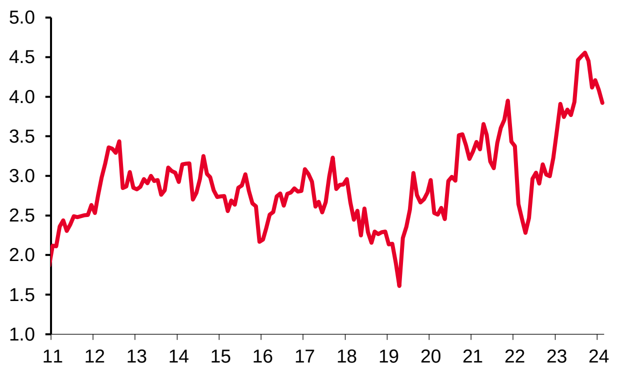
The long term: MSCI Asia ex-Japan equity risk premium – 1 pp below the long-term average



Source: SG Cross Asset Research/Asset Allocation, Refinitiv, Bloomberg

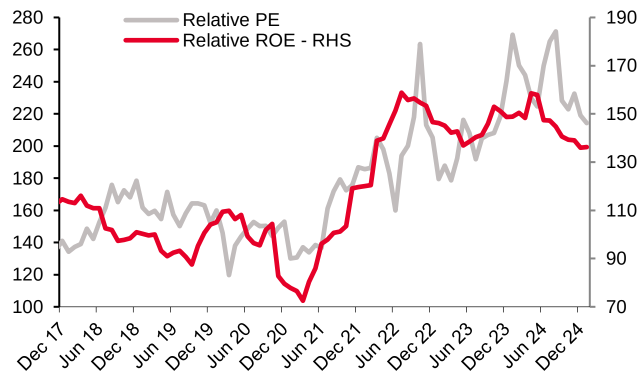
While not expecting an overall change in valuation, we expect less dispersion: i) Taiwan is trading at a 10 -15% premium due to its above-trend earnings in the recent years. That may not last: ii) MSCI China is trading at 11.2x forward earnings, in line with 2021-2024 average, a period of internet regulatory tightening, real estate crisis and lack of policy stimulus. With these headwinds receding and improving sentiment, we expect China equities to re-rate past their historical average of 11.5x. We discuss the country specifics in the third section of the editorial.

Valuation dispersion between Asian countries



Source: Refinitiv, SG Cross Asset Research/Equity Strategy. *We define dispersion as the standard deviation of the country valuations

12m forward P/E vs ROE – India vs China

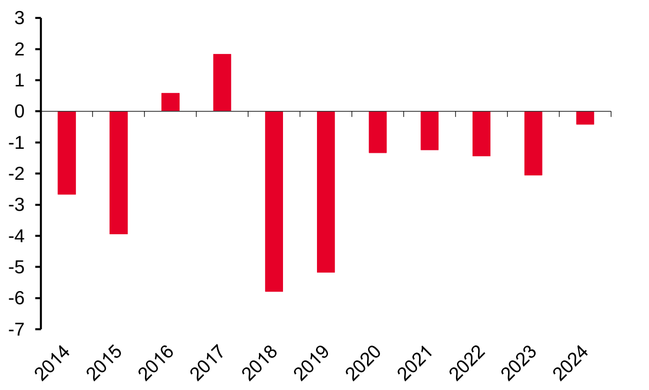


Source: Refinitiv, SG Cross Asset Research/Equity Strategy

Another reason for the shifting valuation comes from earnings.

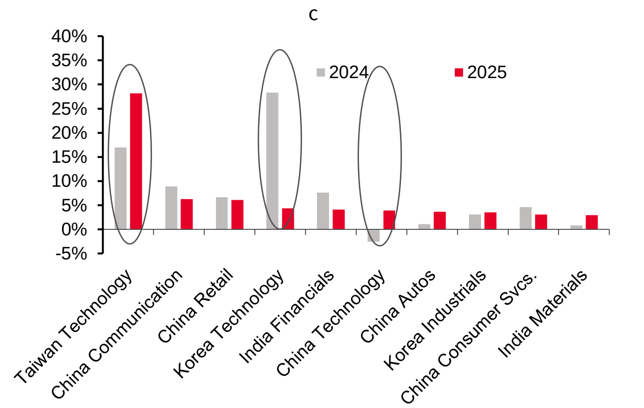
2024 was the first year of the decade when realised earnings broadly met consensus estimates. This was due to: i) the slowing down of earnings downgrades in China; and ii) upward revisions to Semiconductor stocks. The consensus currently estimates earnings to grow by 12% in 2025: that is less than half of last year; the contribution from China increases; we note higher dispersion within the technology sector. The biggest positive delta in earnings comes from the China technology sector.

Estimated vs realised EPS growth*



Source: Refinitiv, SG Cross Asset Research/Equity Strategy. *Estimated EPS growth at the start of the year

Contribution to earnings growth by top ten sectors

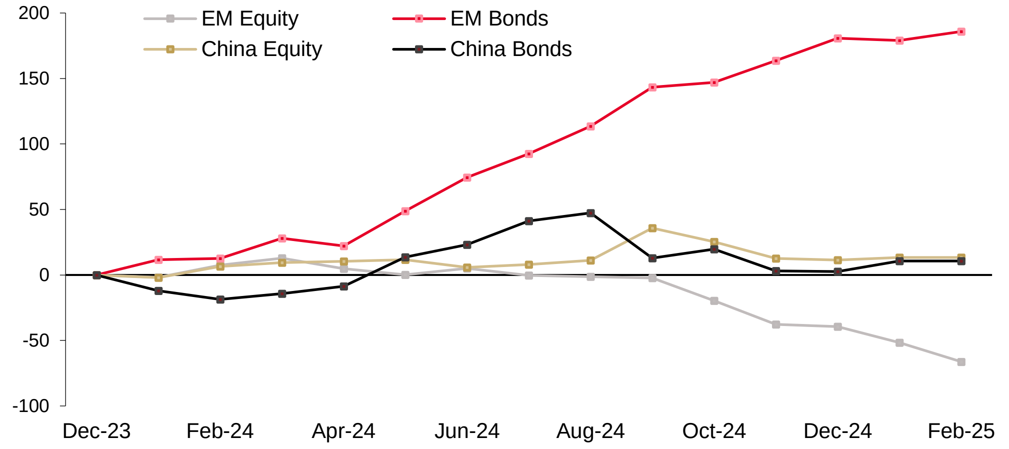


Source: Refinitiv, SG Cross Asset Research/Equity Strategy

Portfolio flows: inflows into bonds, outflows into equities.

US financial conditions influence portfolio flows. A dollar peak (on a high plateau) in a context of falling rates has meant most portfolios' flows have been on the bond markets. Over the last six months, EM bond inflows have amounted to USD40bn. It has not offset outflows from equities (USD86bn). In other words, lower UST rates and a more-than-improving growth outlook in emerging economies have driven portfolio flows.

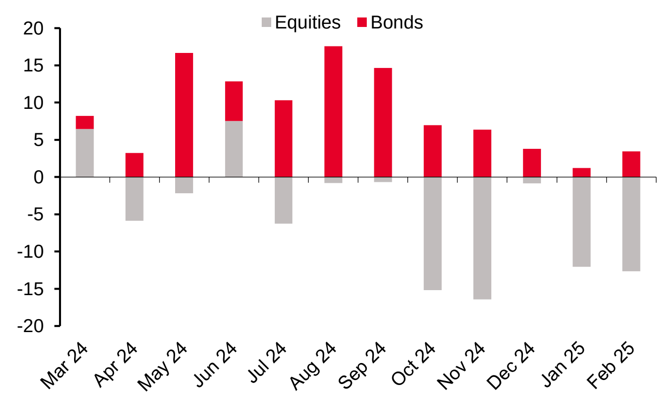
Emerging assets: inflows into bonds, outflows from equities – Cumulative flows in USDbn



Source: IIF, Bloomberg, SG Cross Asset Research/Equity Strategy

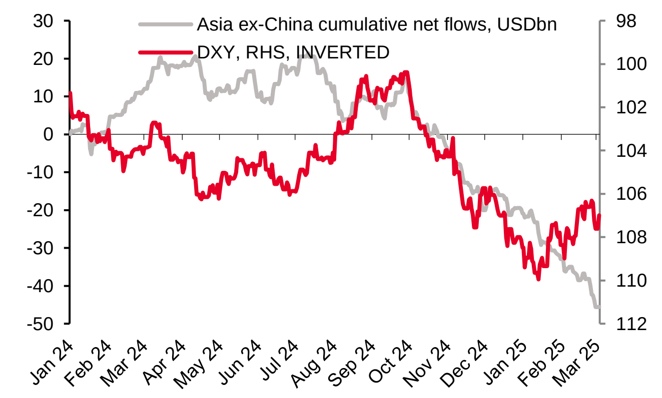
In Asia ex-China, foreign investors have net sold USD62bn of Asia equities since the end of September. Most outflows come from India, Korea and Taiwan.

Emerging Asia ex-China – Flows trends have remained unchanged. Monthly foreigner net purchases, USDbn



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Despite the dollar weakening, idiosyncratic factors (Nasdaq fading momentum, India) explain persistent outflows. Asia ex-China cumulative net flows and dollar index.



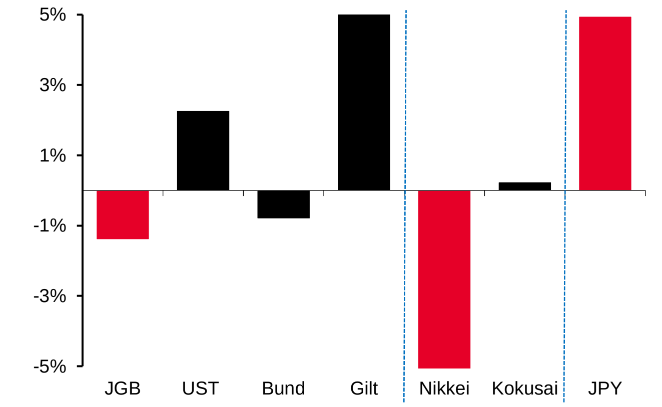
Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Asynchronous macro policies: the BoJ is normalising, most central banks in emerging markets have room to cut, the China policy put is on

Tighter BoJ policy.

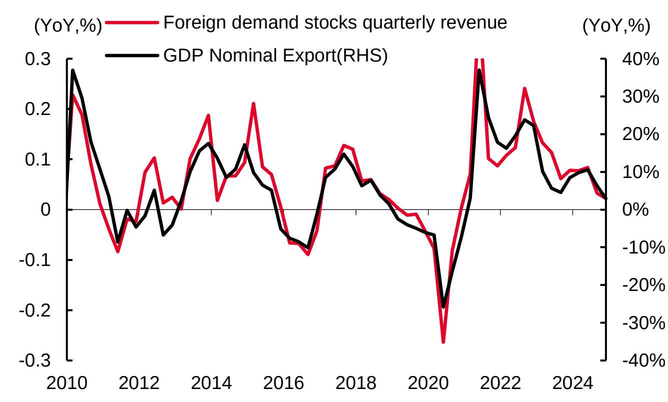
Year-to-date, Japan has the best currency, the worst bond market, and the worst equity market. As we detail in the Japan section, the BoJ normalisation explains market conditions. The Yen volatility, higher since last summer, deters foreign investors; JGB yields are rising to a 4y high; exporters' earnings are revised downwards. The tariff war, through its impact on UST (lower), amplifies the upward pressure on the currency.

Japan cross-asset returns, ytd



Source: Bloomberg, SG Cross Asset Research/Equity Strategy. Data as of 4 March close. Bond returns are in local currency, excess returns, Kokusai = MSCI World ex-China

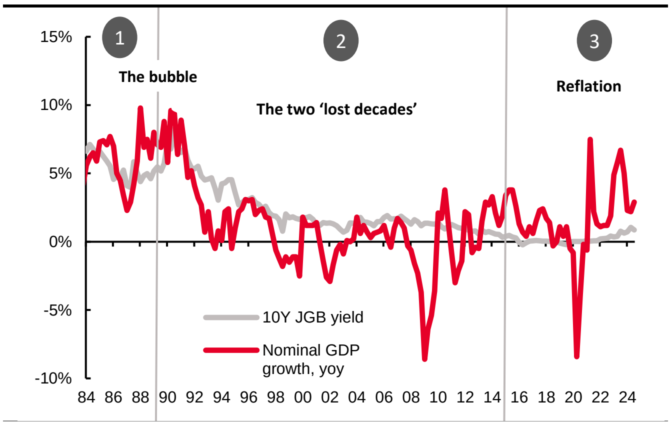
Revenue of foreign demand stocks has declined in line with lower growth Japanese exports



Note: Foreign demand stocks are stocks whose foreign revenue ratio is higher than 50%.
Source: SG Cross Asset Research/Equity Strategy, QUICK, Cabinet Office

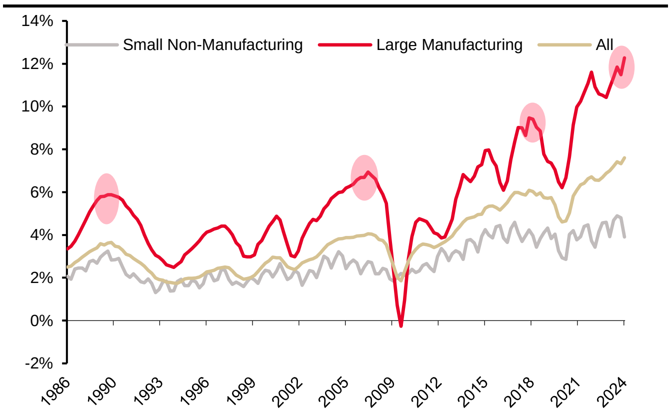
Have fundamentals changed? We don't think so: i) the economy remains in a reflation state, driven by higher nominal growth rate; and ii) governance reforms are underway. However, macro uncertainties cloud the outlook. The Japan section proposes some investment strategies and equities exposure to face these uncertainties.

The long view (1): the Japanese economy is in reflation. After the bubble, and the two lost decades, this is the third stage of the cycle



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

The long view (2): margins are at an all-time high, not only among large manufacturing, but for the whole corporate sector



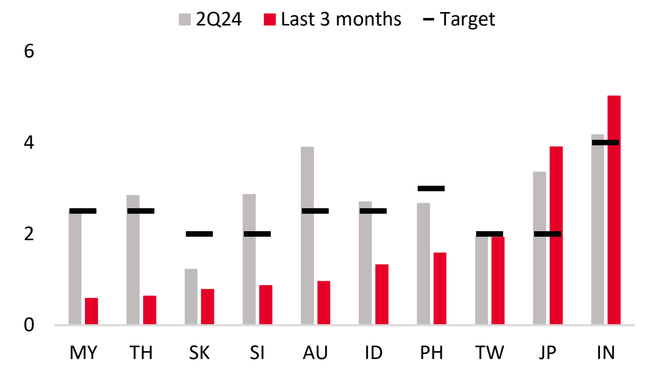
Source: SG Cross Asset Research/Equity Strategy, MoF

By contrast, most emerging economies have room to cut.

There are two positive elements for Asia equities.

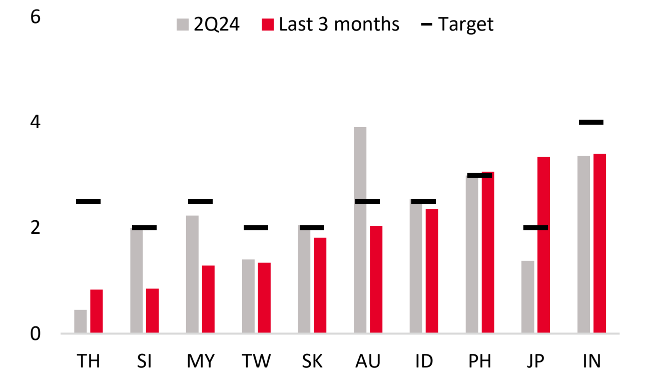
– **Inflation.** For most emerging Asia economies, inflation has retreated enough for central banks to ease monetary policy – the core CPI has been below target for all major emerging Asia economies over the last three months.

Inflation momentum has softened enough – Headline CPI, sa, 3m/3m



Source: Bloomberg, SG Cross Asset Research/Economics

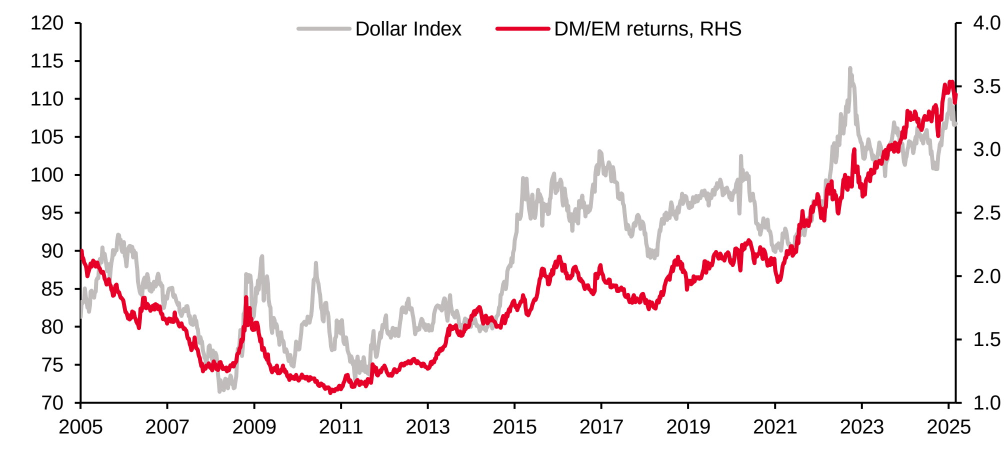
Core CPI, sa, 3m/3m



Source: Bloomberg, SG Cross Asset Research/Economics

– As discussed in the latest FX monthly, "relative growth, relative rates, and relative carry dynamics have become less supportive for the USD". A lower dollar has historically been a good indicator of the DM/EM equity allocation.

EM/DM returns and dollar index

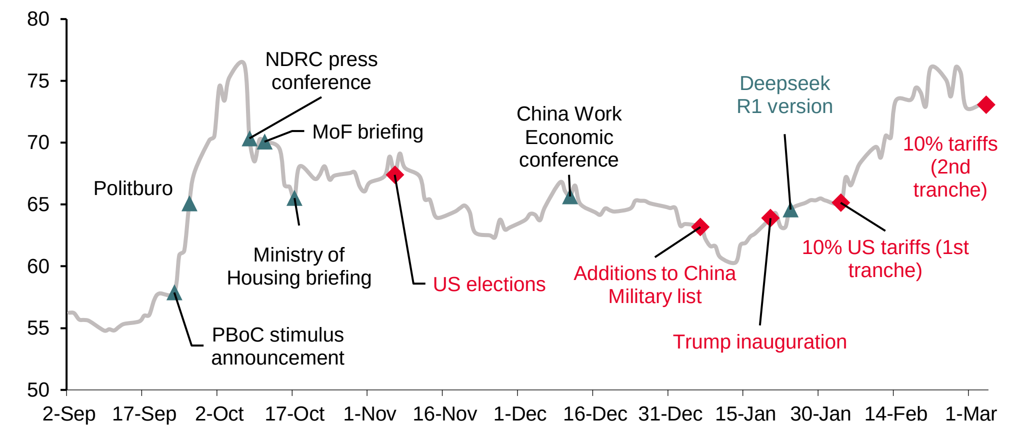


Source: SG Cross Asset Research/Equity strategy, Bloomberg

The China policy put is on.

The policy shift, which started on 23 September, has catalysed the equity market rebound. It has opened a new (bullish) chapter for equity markets. We think the policy put is going to remain supportive: i) since the 23 September PBoC announcement, easing measures have been gradual, but constant. Despite the disappointing fiscal impulse at the National People's Congress (ref), we can expect further bond issuance in the coming quarters; and ii) deflationary pressures remain intense, amid trade tensions. The tariff conflict could intensify after April.

The policy put is on – MSCI China timeline



Source: SG Cross Asset Research/Equity Strategy, Bloomberg

Japan: macro uncertainties cloud improving corporate fundamentals

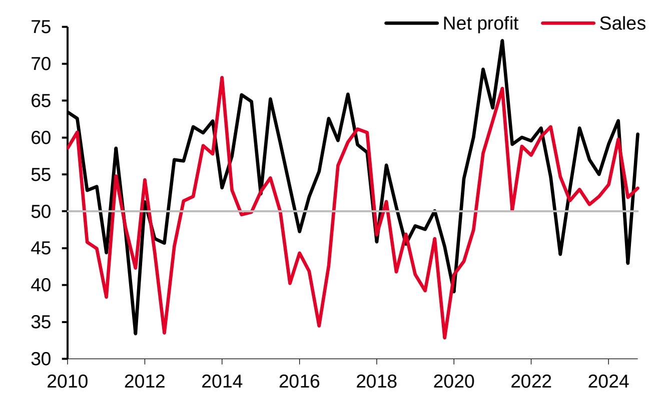
Japan equities underperform due to three macro uncertainties (tariffs, yen, inflation regime). By contrast, corporate fundamentals, including earnings and governance, improve. It paves the way for future outperformance.

Fundamentals are improving

Steady growth in corporate earnings.

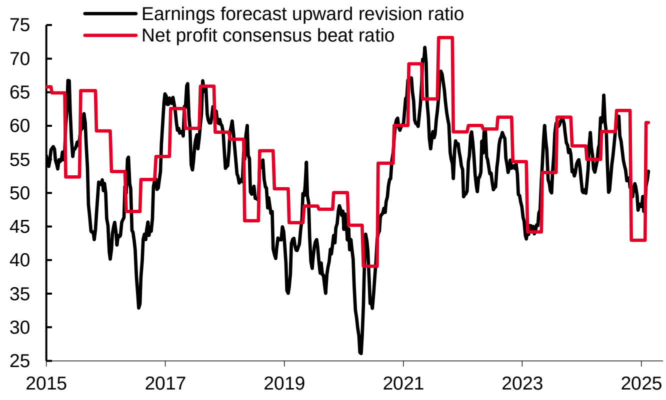
Japanese corporate earnings recorded steady growth in 4Q24 (Sep-Nov and Oct-Dec) alongside revenue growth of 5.0% year-on-year and net profit growth of 14.7%. 60% of companies exceeded consensus for net profit, and improved vs the previous quarter (43%). Historically, a high percentage of companies exceeding earnings expectations has often triggered consensus earnings upgrades, suggesting potential upward adjustments to Japanese corporate earnings.

Consensus beat ratio: net profit beats market consensus while sales in line, indicating improving net profit margin



M<aNote: Consensus beat ratio shows the percentage of stocks whose sales or net profit exceeded QUICK consensus.
Source: SG Cross Asset Research/Equity Strategy, QUICK

Consensus beat ratio and earnings forecast upward revision ratio



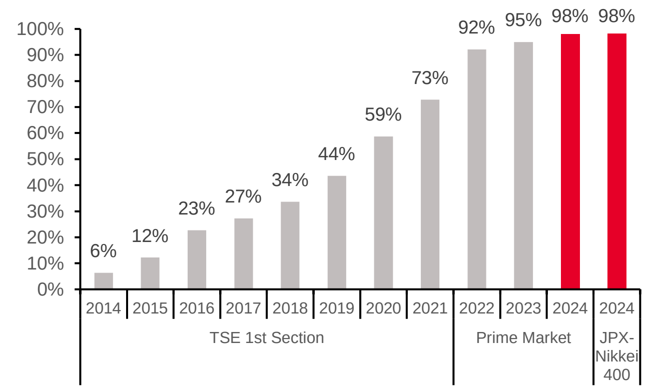
Note: Earnings forecast upward revision ratio is the percentage of stocks whose earnings forecasts have been revised upwards among stocks whose earnings forecasts have been revised.
Source: SG Cross Asset Research/Equity Strategy, QUICK

Governance reform is underway.

The corporate governance reforms in Japan go through two stages: first, the principles are set (at the launch of Abenomics), then comes the implementation phase (with a leading role for the

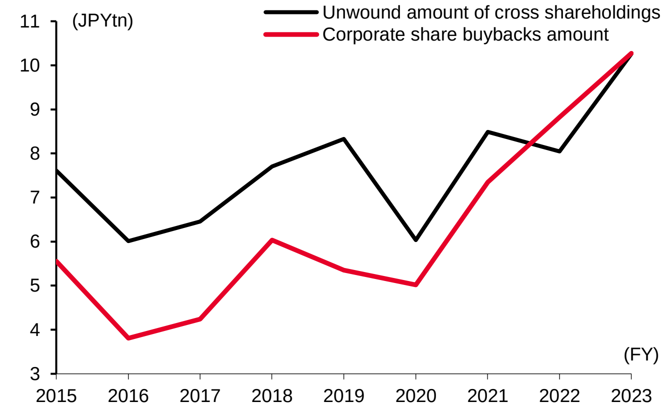
Japan Exchange). Though a lot remains to be done, including improving capital efficiency and valuation, the reforms are progressing. They include an increase in the number of outside directors on company boards, rising shareholder yields and shrinking cross shareholdings.

Ratio of TSE prime market companies with 1/3 or more independent directors



Source: SG Cross Asset Research/Equity Strategy, QUICK

Japanese companies unwinding cross shareholdings with increasing share buybacks



Source: SG Cross Asset Research/Equity Strategy, QUICK

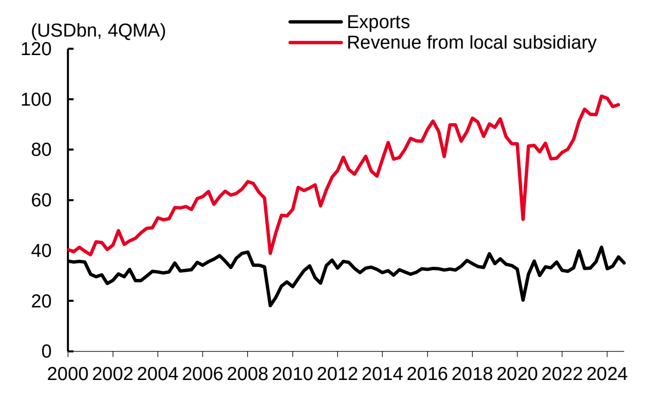
Three uncertainties, and their market implications

Three uncertainties: 1) Tariffs.

The first is the US tariff policy. The automotive sector has been underperforming year-to-date – around one-third of exports from Japan to the US consists of autos and auto parts. That said, we think that three factors mitigate the negative impact of tariffs: i) a high and increasing overseas production; ii) a higher quality of Japanese exports; and iii) Prime Minister Ishiba pledged to President Trump a significant increase in direct investment position from USD715bn at the end of 2023 to USD1tn.

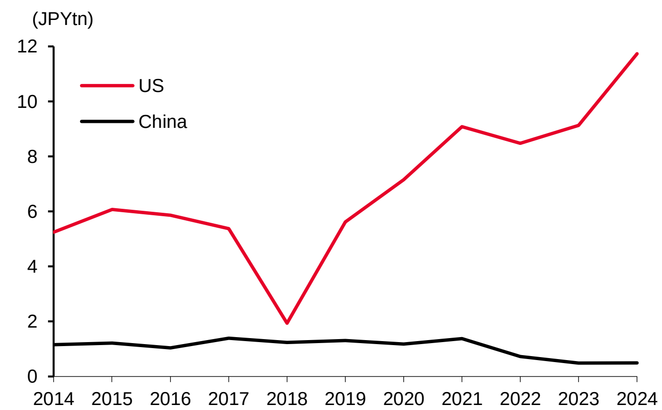
On the first point, Japanese exporters have actively invested abroad, resulting in a high foreign production ratio. We estimate that more than 80% of revenue of the Topix Transportation Equipment sector from the US is from foreign subsidiaries. In addition, Japanese companies continue to invest in the US, and Japanese companies would benefit from US local production, even while tariffs would be imposed on exports from Japan.

Japanese companies' increased revenue from local subsidiaries while exports value remain flat



Source: SG Cross Asset Research/Equity Strategy, METI, MoF

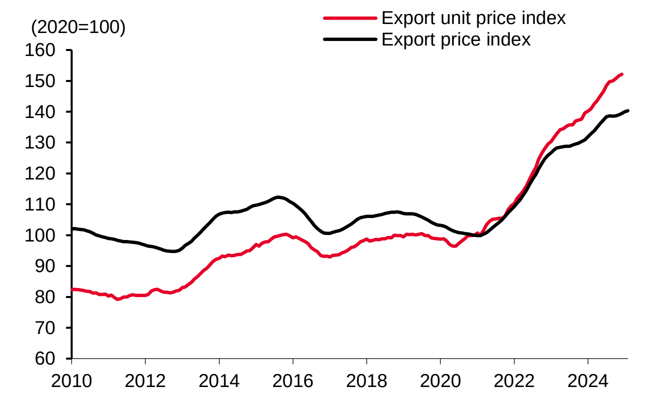
Japanese companies are increasing direct investment to US



Source: SG Cross Asset Research/Equity Strategy, MoF

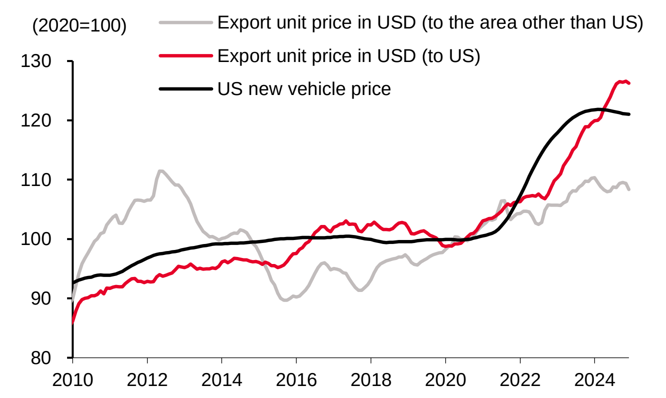
On the second point, items produced in Japan, despite the increase in overseas production, are high value-added products. This is evident from the export unit price rising faster than the export price index. For example, the export unit price of Japanese passenger cars continues to rise while the US new car price remains flat.

Export unit price rise indicating Japanese exports shifting to higher-quality items



Source: SG Cross Asset Research/Equity Strategy, MoF, BoJ

Japanese auto makers exporting higher-value cars to US

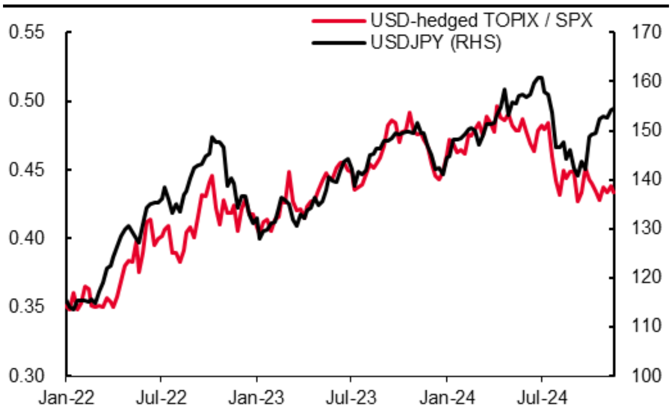


Source: SG Cross Asset Research/Equity Strategy, MoF, BoJ

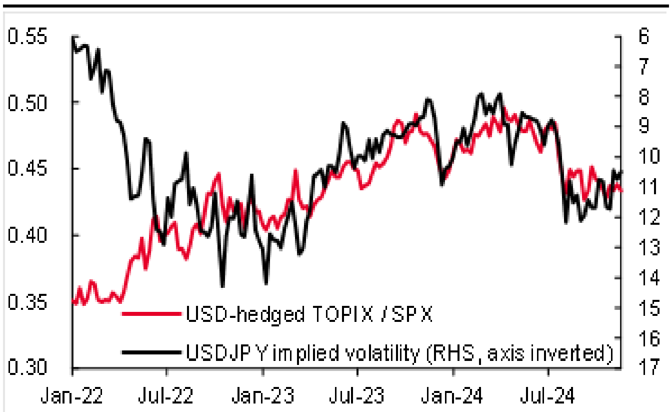
Three uncertainties: 2) The yen.

Japanese equities have been underperforming US equities despite the yen weakening. One of the important factors is the persistently high volatility of the currency. When currency volatility rises, foreign investors tend to become net sellers of equities. As Trump continued to declare that Japan (and China) could not continue to reduce the value of their currencies (link), the uncertainty of the yen will likely remain high, weighing on Japanese equities.

The yen has depreciated, but Japanese equities (hedged in dollar) are not outperforming

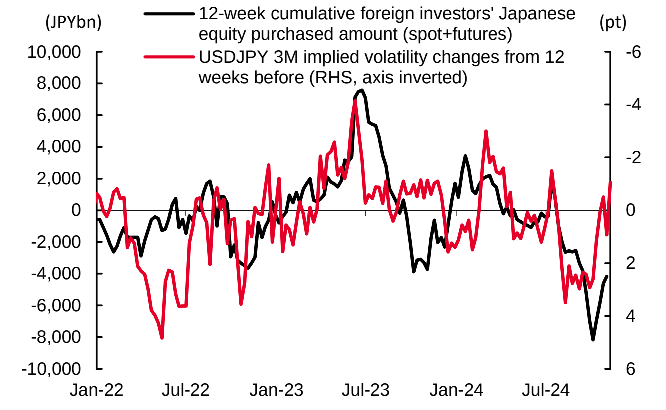


This is partly due to persistently high yen volatility since the summer

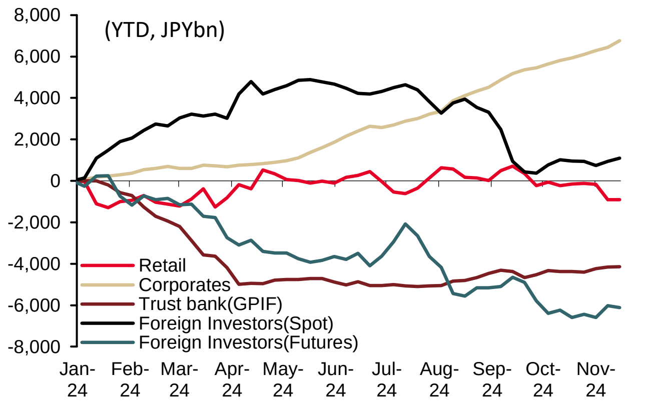


Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

Increased FX volatility keeps foreign investors away



Net purchases of Japanese equity by category of investor



Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

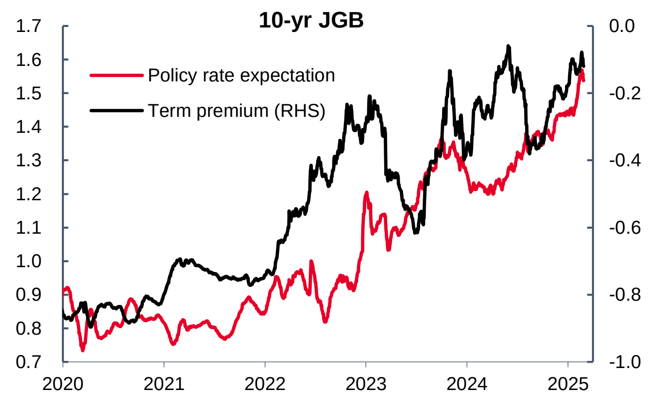
Three uncertainties: 3) Price regime shift.

Japan has exited deflation, with a sustained inflation rate and higher nominal GDP growth. However, the path of future inflation creates significant uncertainty. In the bond market, the rising inflation risk premium is accelerating the yield rise. The term premium is rising rapidly. However, the equity market is not convinced of sustainable higher nominal profit growth (a result of the inflation regime change). That is especially the case for domestic demand stocks, whose valuations remain low despite improving earnings forecasts.

In other words, the JGB market is pricing in the uncertainty of higher inflation (higher term premium) and the equity market is pricing in the uncertainty of lower profit growth leading to lower valuation. As both the bond and stock markets discounted the uncertainty, a decline in uncertainty will be supportive.

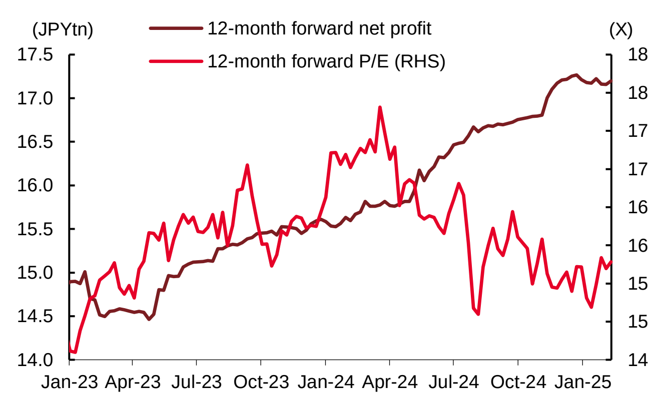
Once stable inflation trends are confirmed, towards the second half of the fiscal year, and uncertainty regarding the pace of interest rate hikes by the BoJ is lifted, we believe that the bond term premium will decline. This will trigger a re-rating of the stock market.

Higher term premium raising JGB yield faster



Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, LJKMFA

Earnings forecasts declined as the JGB yield rose faster



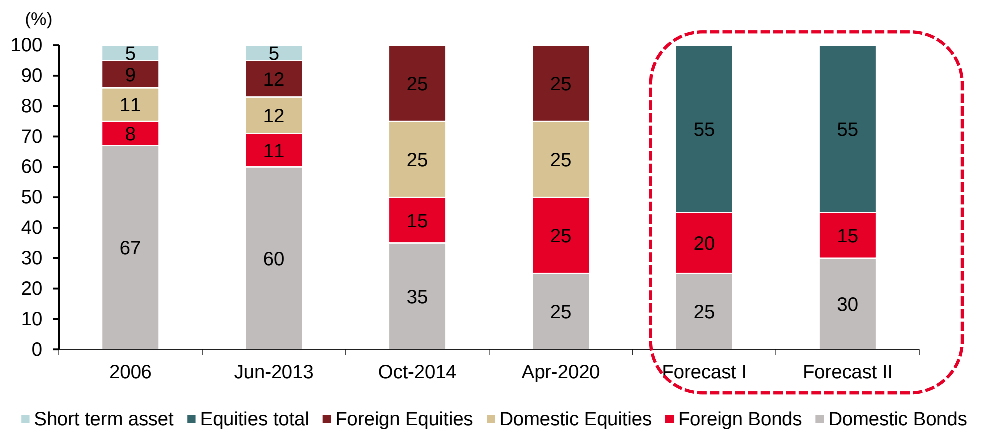
Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg, LJKMFA

Japanese investors' response to growing uncertainties: GPIF expected to raise equity allocation, reduce foreign bond allocation[2]

We expect the Government Pension Investment Fund (GPIF), Japan's largest public pension fund managing JPY260tn, to raise its target portfolio return due to the higher wage growth forecast, leading to an increased equity allocation. We also expect GPIF to reduce foreign bond allocation as FX market volatilities have increased.

[2] For more detail, please refer to the report we have published (link).

GPIF allocation history and our forecasts



Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, GPIF

Investment Strategy: the hedges, the banks, and domestic consumption

Two baskets for hedging macro uncertainties: 1) SG Negative FX Beta Value: Value, with no yen sensitivity.

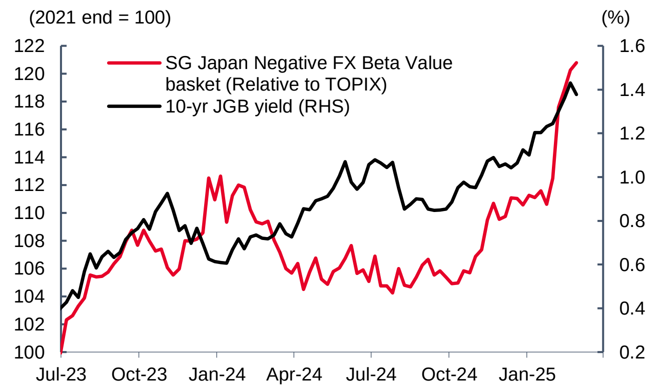
Negative FX beta value. As long as the uncertainties persist, we reiterate our long position on the SG Japan negative FX beta value basket (**SGJPFXNV**). Value stocks, which tend to outperform when the JGB yield rise, are attractive to hedge the risk of a higher inflation risk premium.

However, Japanese value stocks include many exporters that have high USDJPY beta, and they are also exposed to concerns on US tariffs. To reduce the risk on FX volatilities from value stocks, we have created a basket holding value stocks with negative FX beta.

Two baskets for hedging macro uncertainties: 2) SG Domestic Value: Value without tariffs risk.

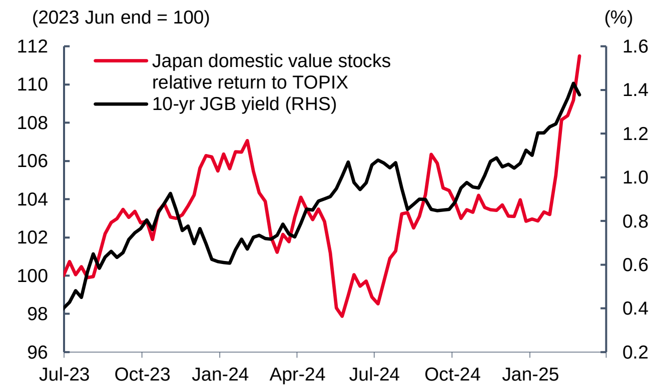
Domestic value. We are also creating a Value basket to reduce the tariffs risk. To do that, we screen the Topix for: i) Value stocks (top 2 quintiles of stocks using our Quant Research tools); and ii) low ratio of overseas revenue. We select stocks not included in the negative FX beta basket. These stocks are expected to outperform in a context of higher JGB yields and a tariff war.

SG Japan negative FX beta value basket outperforming with higher JGB yield



Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

Domestic value stocks also started to outperform



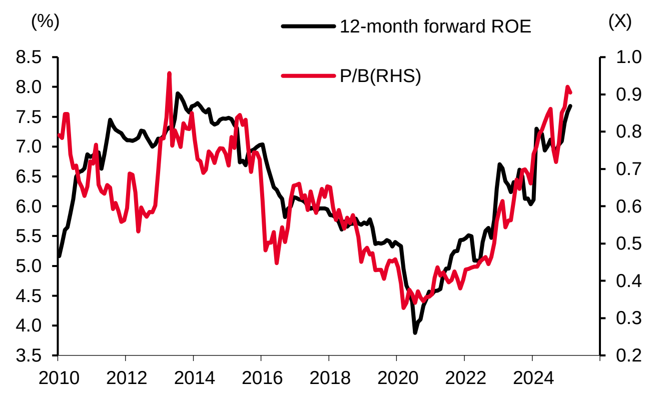
Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

Inflation plays: the Topix Bank Sector.

Among Financials, we had recommended the Insurance Sector on: i) expectations of steepening of the long end of the curve (positive Insurance); and ii) a lesser path of improvement in Japan's loan and deposit margin (negative banks).

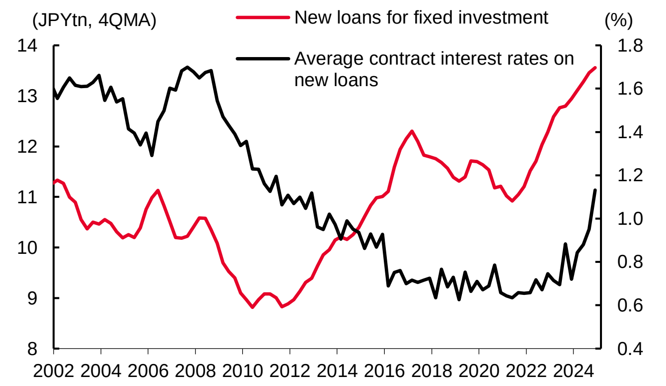
We are switching back to prefer Banks. The flow of bank lending is rising, with increasing new loans for fixed investment. The interest rates on new loans have risen. It would appear that Japanese companies and households expect higher growth rates due to future inflation and are willing to borrow more and invest even if interest rates rise.

TOPIX banks' ROE and P/B are improving



Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

… with higher lending interest rates and increasing new loans

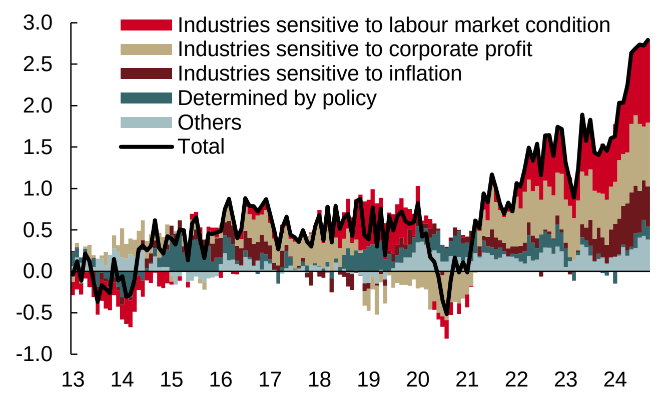


Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

The long term: domestic consumption.

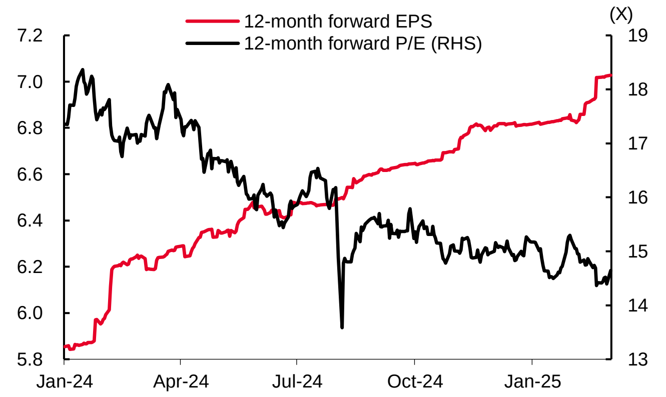
Our economists expect strong wage growth to continue in 2025 (link), which will increase households' tolerance for inflation (link), and boost domestic consumption. We maintain a long-term long recommendation on the SG Japan domestic consumption basket (**SGJPDCON**). We find the Domestic Consumption stocks to be undervalued as the earnings outlook has improved.

Breakdown of scheduled earnings for full-time workers (pp): wage growth for labour market-sensitive sectors expected to rise further



Source: SG Cross Asset Research/Economics, MoF, MIC, MHLW, BoJ

SG Japan domestic consumption basket: earnings forecasts improving, valuation remain low



Source: SG Cross Asset Research/Global Asset Allocation/Equity Strategy, Bloomberg

Prefer China to India

China: reviving animal spirits

The two downside risks: tariffs and housing.

Year-to-date, the AI revolution hopes have trumped tariff and deflation fears. **Two downside risks however remain. The first is the sustainability of the housing market stabilisation**. Prices have started to pick up in Tier 1 cities, the National People's Congress has reiterated the need to stabilise the housing market. **The second is an intensification of the tariff war**. It could also be more focused on China. As discussed at the start of this editorial, fracturing geopolitics means that the US tariff policy is at its most uncertain in China.

Tariffs timetable

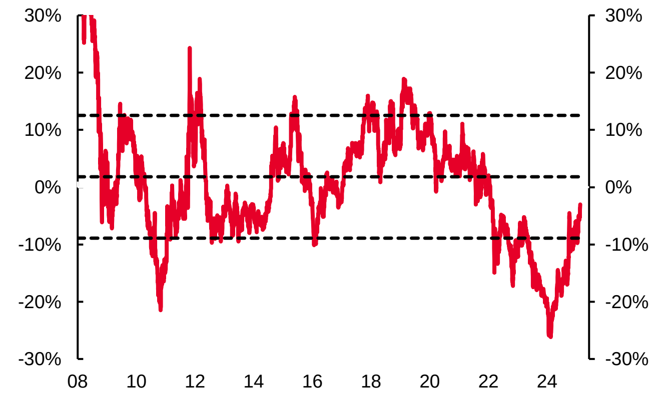
	Upcoming US actions
12 March	US steel and aluminium tariffs go into effect
1 April	Reports on phase 1 trade deal and other trade matters due
2 April	25% tariffs on cars, chips and pharmaceuticals
2 April	Unspecified reciprocal tariffs due

Source: Bloomberg

The America First Investment Policy document goes beyond tariffs.

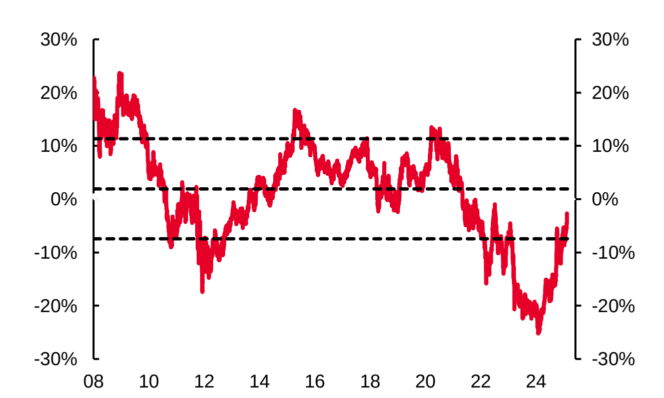
The America First Investment Policy document, released by the US Administration on 21 February, goes beyond tariffs. With the objective of decoupling US and China economies, it includes: i) associating third countries to export restrictions in semiconductor industries; and ii) more capital flow restrictions (implying further delisting of Chinese firms from US Stock Exchanges, and portfolio investment restrictions from Pension Funds).

Markets are mean-reverting- 3-year rolling returns (China equity – CGBs)



Source: SG Cross Asset Research/Global Asset Allocation, Refinitiv

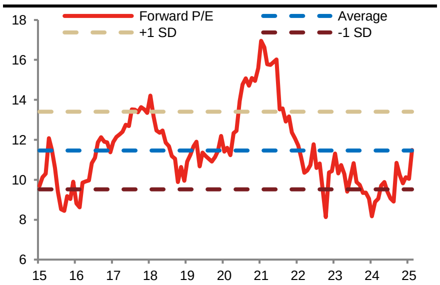
Markets are mean reverting. 3-year rolling returns (China equity – EM equity ex China)



Source: SG Cross Asset Research/Global Asset Allocation, Refinitiv

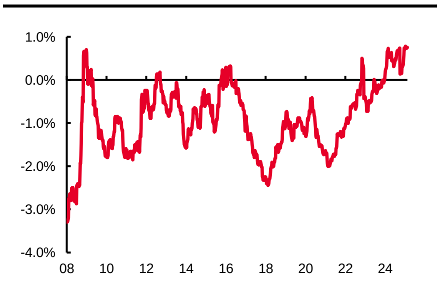
In our view, the low valuation, despite the MSCI China index having surged by around 30% since 23 September, reflects these worries. **We believe that Chinese equities have room to re-rate**. MSCI China is currently trading at 11.5x 12m forward earnings. Between 2021 and 2024, the market de-rated due to worsening deflation, regulatory tightening, and the deepening housing crisis. A re-rating of the market assumes, plausibly in our view, that the worst is over on these three fronts. Also, and as highlighted in a recent Equity Risk Premium note, the equity market remains deeply undervalued vs the bond market.

Valuation leaves room for further upside. MSCI China 12m forward P/E



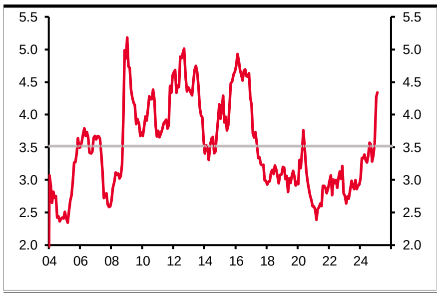
Source: SG Cross Asset Research/Equity Strategy, MSCI

Dividend yield gap (dividend yield – bond yield) near historical high



Source: SG Cross Asset Research/Global Asset Allocation, Refinitiv

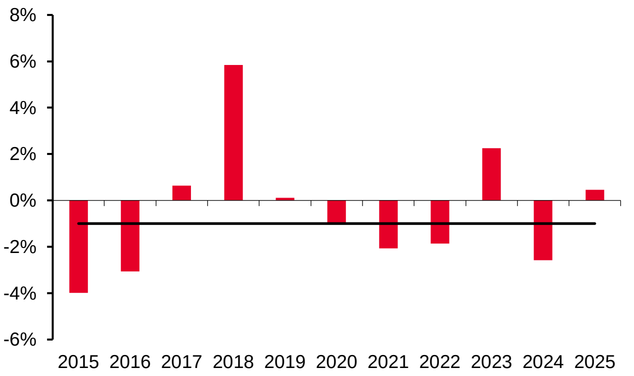
Cost of equity/bond yield (*)



Source: SG Cross Asset Research/Global Asset Allocation, Refinitiv; (*) Cost of equity = Equity risk premium + risk-free rate

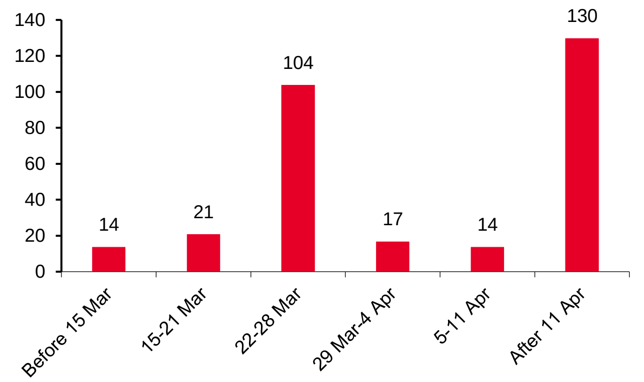
The reason we believe that valuation has room to re-rate is the earnings, which are stabilising. Growth estimates for FY24 (+17%) and FY25 (+9%) have remained unchanged over the past three months in a context of mixed macro data. Year-to-date, IBES FY25 EPS estimates have been slightly upgraded, which is atypical and indicates a stronger start to the year than in most of the previous decade.

3-month EPS revisions (%): we note some unusual upwards revision to next-year earnings for this time of the year



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

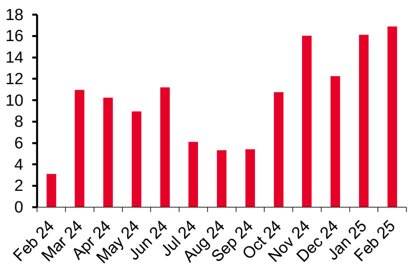
Earnings calendar: most earnings to be published next month



Source: Bloomberg, SG Cross Asset Research/Equity Strategy. *The earnings reporting season will get underway later in March and we expect earnings estimates to adjust around that time. Upside risks include DeepSeek and stimulus, while the downside risk is another tariff war.

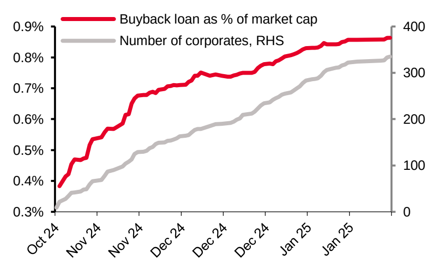
Another bullish element is the light positioning. Mainland investors are actively buying through the Southbound Stock Connect and they now represent around 50% of the total turnover of the HK Exchange. However, elsewhere the positioning remains light: with retail investors showing little sign of reverting to the equity market, schemes aimed at boosting share buybacks are not being fully utilised, and foreign investors – still underweight Chinese equities – have yet to participate in the DeepSeek moment.

Mainland investors have moved into the offshore market, buying nearly USD60bn in equities in the last three months. Southbound Monthly Flows (USDbn)



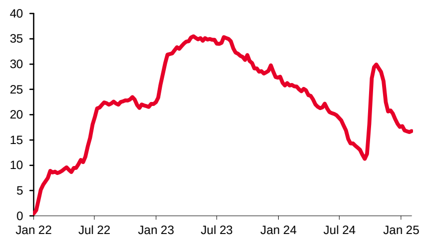
Source: Bloomberg, SG Cross Asset Research/Asia Equity Strategy

The corporate sector has not been actively buying back shares despite the PBoC scheme put in place in September 2024. No. of corporates participating in the scheme and shareholder yields (*)



Source: SG Cross Asset Research/Asia Equity Strategy, WIND. *At the end of September 2024, the PBoC put in place a CNY300bn re-lending programme for corporates to buy back their shares. Around one-quarter of the quota has been granted.

Foreign net purchase flows into Chinese funds picked up sharply at the end of September, but then plummeted. Cumulative flows into Chinese funds (USDbn)

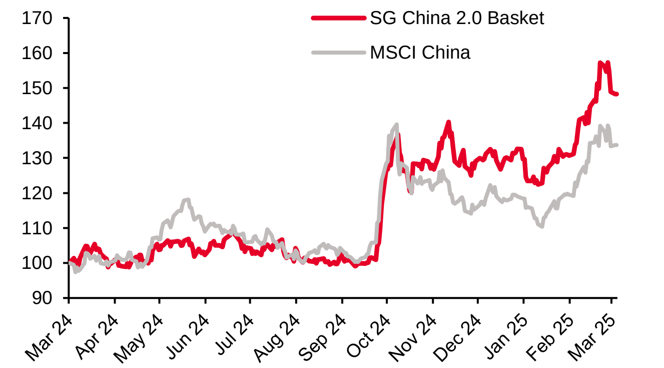


Source: SG Cross Asset Research/Asset Allocation, EPFR

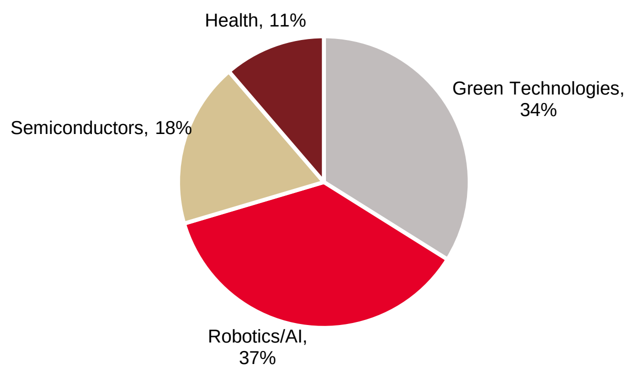
What to buy: 1) Industrial cyclicals.

We reiterate our preference for Cyclicals over Defensive, and within Cyclicals for Industrial over Consumer stocks. We gain exposure to Industrial Cyclicals through the **SG China 2.0 basket (SGCHM20).** The basket tracks the performance of large, advanced manufacturing stocks. The Basket, launched in November 2024, consists of four clusters: i) Green Technologies; ii) Robotics/AI; iii) Semiconductors; and iv) Healthcare. The CAGR of 2024/26 EPS is expected to grow by 18%, 8pp above the MSCI China benchmark.

Basket returns*



Cluster split

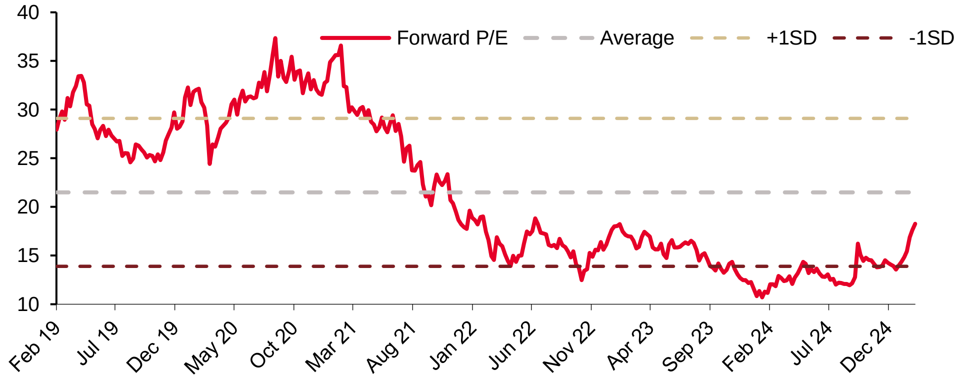


Source: Bloomberg, SG Cross Asset Research/Equity Strategy; *past performance is not indicative of future performance. Backtest assumes no transaction costs.

What to buy: 2) The 7 Titans

The recent China rally fuelled by DeepSeek has been selective, with most of the returns coming from new age sectors: Discretionary, Communications and Technology. We recently identified seven stocks from these sectors, together labelled as the **SG China 7 Titans Basket.** This basket should benefit from the uneven growth recovery amid below-average valuation premium relative to the MSCI China benchmark and a higher growth profile.

12m forward P/E of China Titans



Source: Refinitiv, SG Cross Asset Research/Equity Strategy

Consumer: we prefer exposure through Internet/EV.

The Consumer Discretionary sector has been the top-performing sector, contributing more than 50% of the MSCI China's 18% increase[3]. On the offshore market (HSCEI), nearly 40% of China returns year-to-date was attributable to three stocks in this sector[4]. However, a split between 'pure' and 'AI-related' names suggests a different conclusion. Year-to-date, the 'pure' consumer stocks have been broadly flat, whereas over the same period, the AI-related names have gained 41%.

[3] Year to date, as of 26 February
[4] Alibaba, BYD and Meituan, as of 26 February

Splitting the Consumer Sectors into three (*) – Only AI-related names have done well

	Number of stocks	Weight in MSCI China	Year-to-date return	Remarks
AI-related names	12	23%	44%	Internet and pure EV firms
'Pure' consumer stocks	**31**	**10%**	**4%**	**F&B, Restaurants, Tourism, Appliances, Traditional Auto**
Smaller names	58	2%	1%	
CSI 300			-1%	
MSCI China			**17%**	

Source: SG Cross Asset Research/Equity Strategy, Bloomberg. *The universe is MSCI China, and the Consumer Discretionary and Consumer Staples Sectors

One question is whether the "pure" consumer stocks could catch up, as boosting consumption has been a focus of the National People's Congress. Our answer is that AI-related names are a preferred way to gain exposure to the consumer theme. On our calculations, this group of 31 names trades at 14.4x earnings, with 2024-26e EPS CAGR of 10.8% (price/earnings to growth ratio of 1.3). This does not compare favourably with the market (PEG at 1.1) or with AI-related names (PEG at 1.0).

Splitting the Consumer Sectors into three (*)- 'Pure' consumer stocks are not cheap on a PEG basis

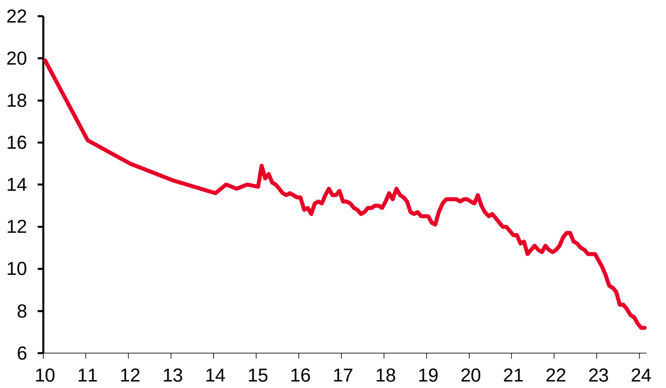
	Weight in MSCI China	2024-26 CAGR of EPS	P/E
AI-related names	23%	14.2%	14.7
'Pure' consumer stocks	**10%**	**10.8%**	**14.4**
CSI 300		8.8%	12.1
MSCI China		**10.7%**	**11.6**

Source: SG Cross Asset Research/Equity Strategy, Bloomberg. *The universe is MSCI China, and the Consumer Discretionary and Consumer Staples Sectors

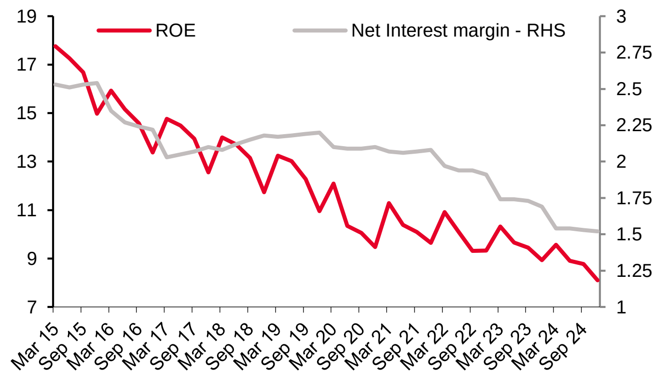
Banks: exposure to deflation easing.

The deflationary environment and declining interest rates have pushed credit growth and net interest margins to an all-time low level of 7% and 1.5%, respectively. As a result, corporate profits have barely grown in low-single-digits over the past four years. The consensus expects almost no profit growth for the next year either.

Banking sector credit growth hits an all-time low



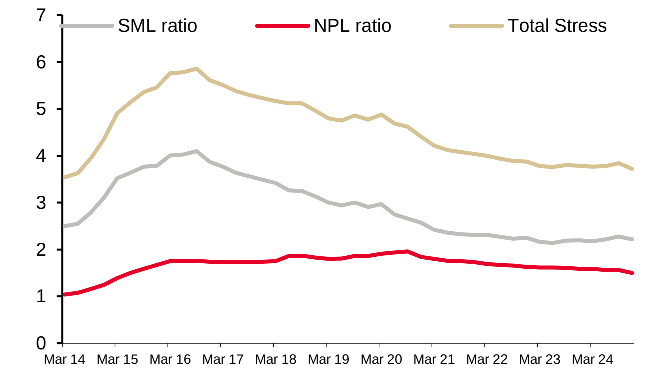
Banks ROE and net interest margins at an all-time low



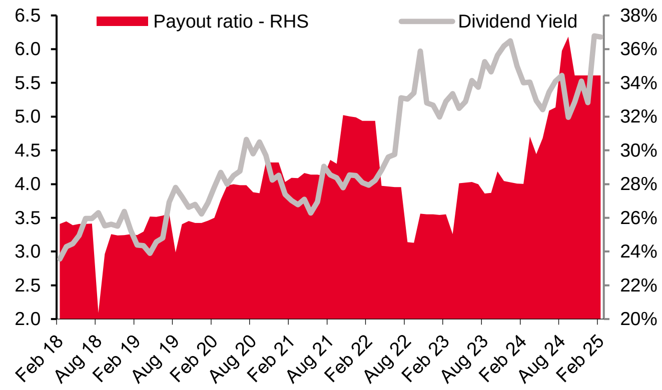
Source: Bloomberg, SG Cross Asset Research/Equity strategy

Given the trough growth and margins, banks are a contrarian value idea if we do start to see easing of deflation on increased policy push. Despite the deepening of the economic growth crisis, the total stress on the banks' book, which we measure by the sum of non-performing loans and special mention loans (SML), has remained stable at less than 4% over the past three years. In addition, banks have steadily grown their payout ratio from 25% to 35% over the past three years and offer good value at 0.6x P/B and a 6% dividend yield.

Total stress (NPL + SML) has remained contained



Banks' dividend yield and payout ratio



Source: Bloomberg, SG Cross Asset Research/ Equity strategy

Indian valuations more reasonable, no V-shaped recovery

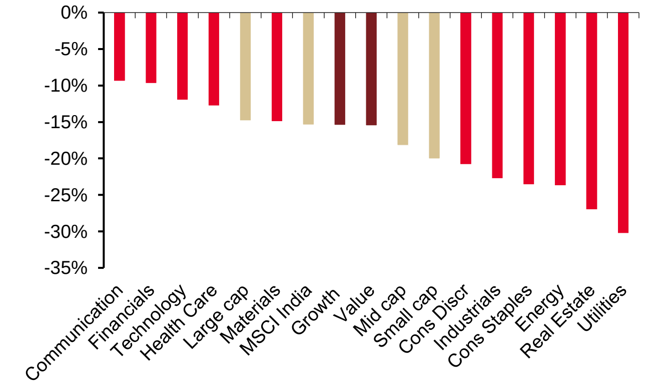
No earnings driver.

Indian equities have gone through a very significant and widespread correction, with the total market cap now slipping below USD4tn, or more than 25% lower than the recent market peak in September 2024. That is the most severe correction since the COVID drawdown.

India market cap slips below USD4tn

Source: Bloomberg, SG Cross Asset Research/Equity Strategy

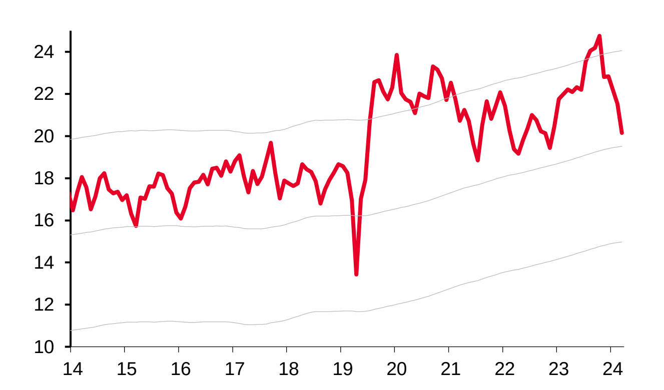
Widespread correction – Drawdown from recent high



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

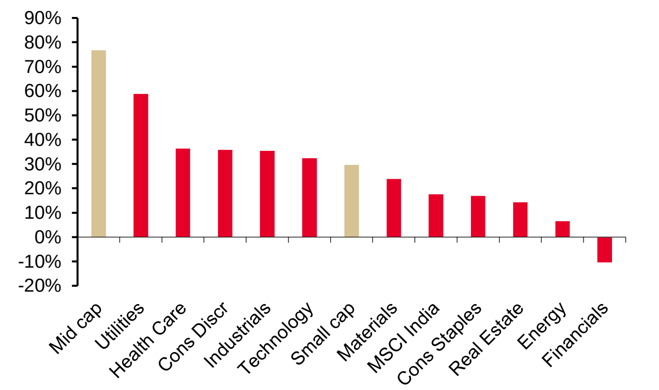
After this sharp selloff, the valuations have reverted close to the past ten-year average of 20x on 12m forward earnings. This is mainly due to the large sectors, such as Financials and Energy, now trading at a discount to historical average. By contrast, growth sectors in investment and consumer industries, along with mid-caps, trade at a significant premium.

MSCI India valuation band (12m forward P/E)



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

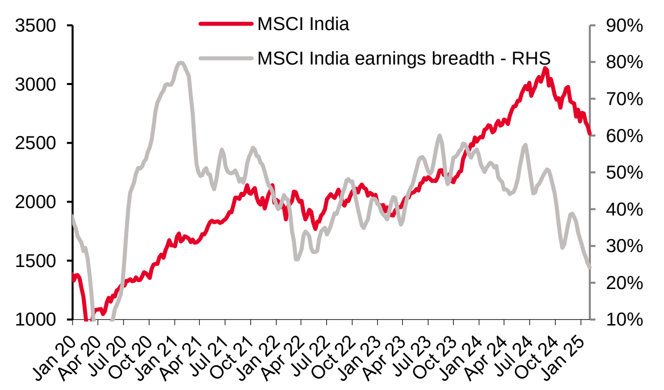
Sector valuations relative to ten-year average



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

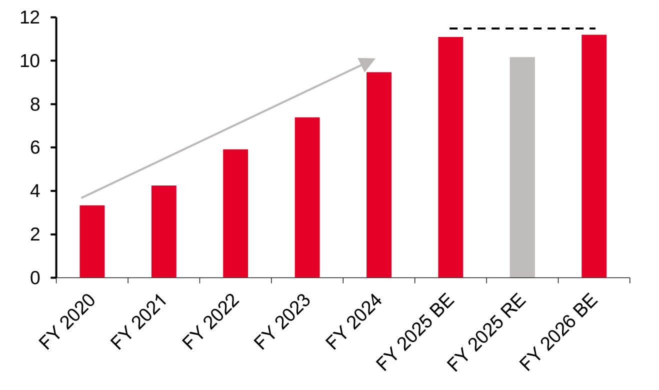
We do not expect a V-shaped recovery, given the speed of the earnings recovery, which is less rapid than in 2023. The consensus expects more than 15% growth in 2025 after 7% growth last year. Analysts are still downgrading growth estimates for three out of every four companies, indicating more downside risks. More importantly, public capital expenditure, the key driver of earnings of the past four years has plateaued as the government moves past the investment-led growth ambition.

MSCI India earnings breadth weakest since COVID (*)



Source: Bloomberg, SG Cross Asset Research/Equity Strategy. *% of upward revisions as a % of total revisions

Plateauing public capital expenditure (INRtn)

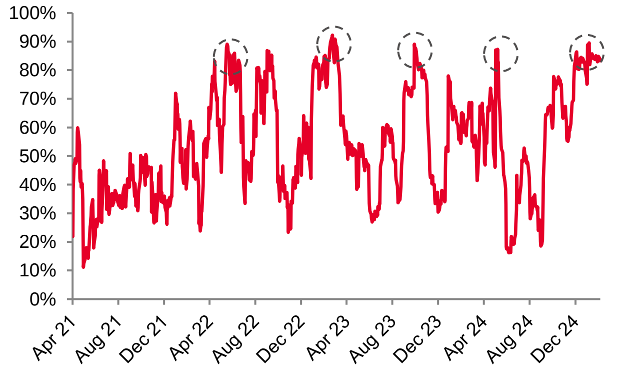


Source: Bloomberg, SG Cross Asset Research/Equity Strategy. BE = Budgeted estimate, RE = Revised estimate

Cracks in the wall of domestic flows. Foreign investors are not capitulating, domestic investors show signs of weakness.

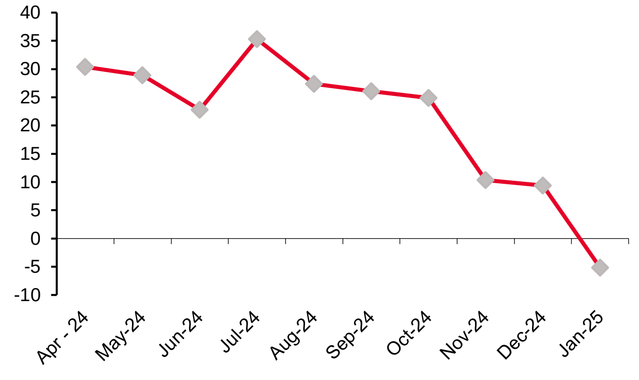
Domestic inflows have been resilient even during periods of foreign outflows leading to domestic ownership (including retail, institutions, and mutual funds) rising in line with that of foreigners and domestic investors. Over recent months, a deeper correction in small and mid-caps where domestic ownership is higher indicates some fatigue.

Foreign investors' ratio of short positions on index futures remains at an elevated level despite the sharp sell-off on the market



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Net addition to Systematic investment plan (SIP) accounts ('00,000) of domestic investors has reduced significantly over the past year*

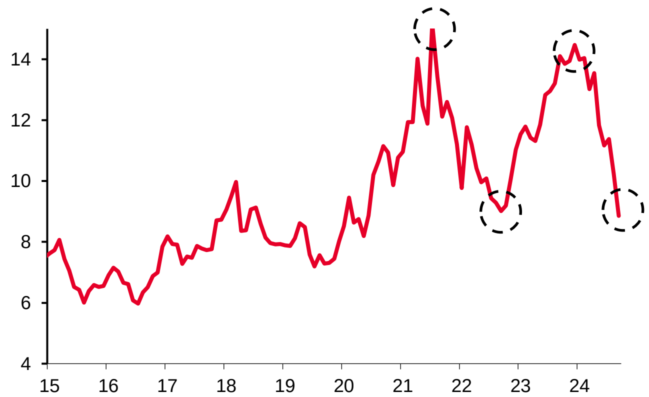


Source: Bloomberg, SG Cross Asset Research/Equity Strategy. *Systematic investment plans account for almost 40% of equity mutual fund total AuM.

Prefer Value over Growth investment style.

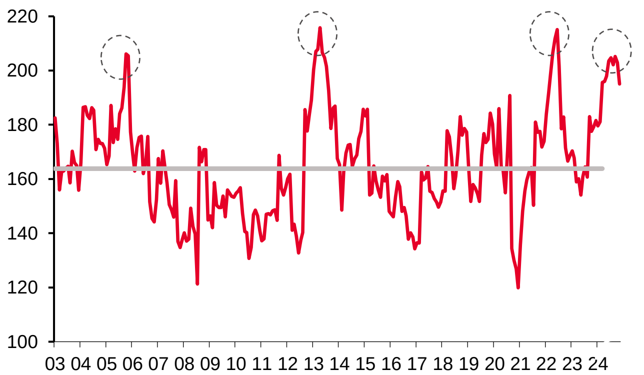
Over the last three years, the diverging earnings trajectories between Industrials and Banks has caused a large re-rating of the Growth investment style. The dispersion has eased in recent months. But there is still room for the growth valuation premium to shrink. The Growth part of the market trades at 28x 12m forward valuations, which indicates a nearly 100% premium to value style. That is at the upper end of the historical range. With momentum slowing for growth sectors, we expect this valuation gap to close.

Valuation dispersion between sectors is now back to 2022 low levels



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Relative valuation of growth vs value – 12m forward P/E has more room for moderation

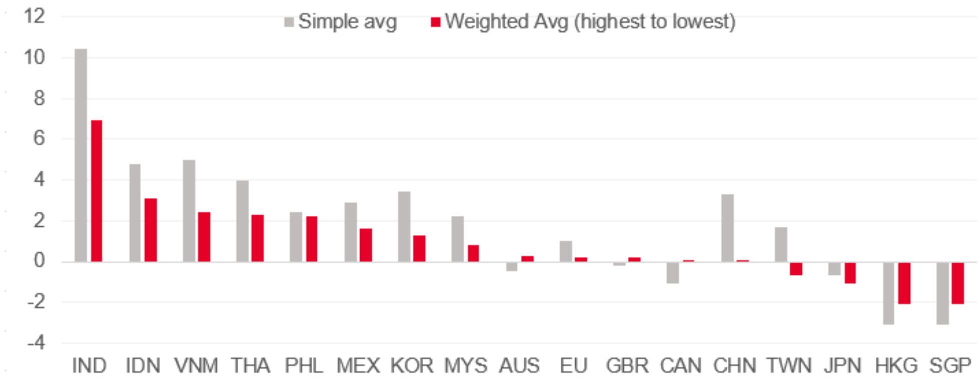


Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Fade the exporters rally.

India is vulnerable to reciprocal tariffs, as illustrated by the chart below from our Economics team. The most sensitive sectors (those with higher tariffs) include autos, textiles, and agriculture. Services are not covered by tariffs. However, we close our long recommendation on IT services, due to US growth recently surprising on the downside.

Tariff rates on non-agricultural products vs US (ppt, 2023)



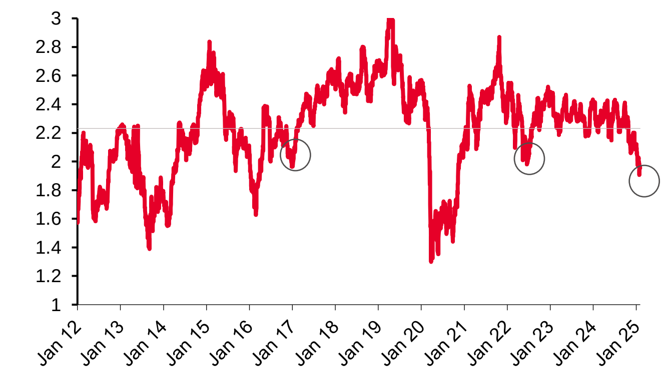
Source: Bloomberg, SG Cross Asset Research/Economics

Long Banks/Short Nifty

Banks have severely de-rated due to several factors, including: i) low credit growth; ii) tight liquidity; iii) regulatory tightening; and iv) margin compression (a result of weak deposit growth). Currently, the sector trades at less than 2x on P/B. That is at the lower end of the ex-crisis valuation range.

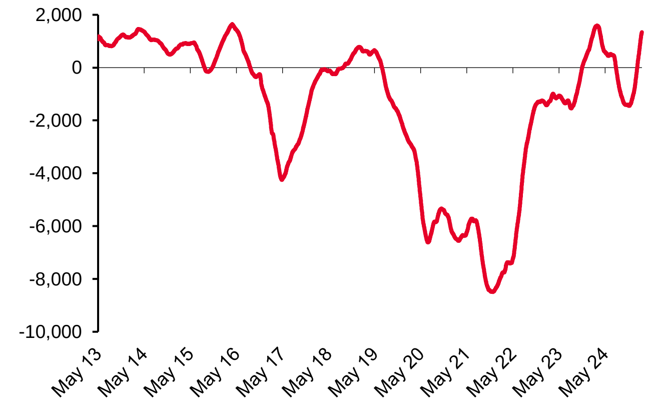
The sector trades at the lowest relative valuation to Nifty despite decent asset quality and ROE above 15%. We believe the sector could outperform: the positioning is light, the RBI is easing the regulatory framework of risk-weighted stressed sectors (including microfinance, and consumer), and banking sector liquidity is improving.

Price-to-book of the banking sector



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Improving banking liquidity[5] (INRbn) paves way for margin stabilisation



Source: Bloomberg, SG Cross Asset Research/Equity Strategy

[5] India banks' borrowing from the central bank (RBI) adjusted for banks' excess cash reserves

Index targets and scenarios

Synthesis – Valuation and earnings scenario

		Trailing P/E				EPS			
	Index	**Current**	**Bearish**	**Central**	**Bullish**	**Current**	**Bearish**	**Central**	**Bullish**
Asia	MXASJ	16.4	12.0	16.5	17.8	44.9	48.5	50.3	51.7
China	MSCI China	14.6	10.0	15.0	16.2	5.4	5.7	6.0	6.2
China onshore	CSI 300	12.9	9.5	13.2	14.0	305.7	327.1	338.6	354.6
China offshore	HSCEI	7.0	5.0	7.5	8.5	1266.7	1292.0	1327.0	1368.0
Korea	Kospi	11.4	8.0	11.2	12.5	225	231	250	262
Taiwan	TWSE	20.3	13.5	19.5	21.5	1,112	1,181	1,303	1,358
India	Nifty	23.7	18.0	23.0	25.0	952	1,011	1,109	1,120
Japan	Nikkei 225	16.0	12.1	16.2	17.9	2,316	2,398	2,535	2,627

Source: SG Cross Asset Research/Equity Strategy. *In local currency, except for Asia, which is in USD.

Synthesis – Index targets

	Index levels				Upside/downside		
Index	**Current level**	**Bearish**	**Central**	**Bullish**	**Bearish**	**Central**	**Bullish**
MXASJ	737	580	**830**	920	-21%	12.8%	27%
MXCN	78	57	**90**	100	-27%	14.2%	29%
CSI 300	3,944	3,100	**4,470**	5,150	-21%	13.2%	30%
HSCEI	8,914	6,450	**9,950**	11,500	-28%	11.7%	30%
Kospi	2,563	1,850	2,800	3,280	-28%	9%	28%
TWSE	22,576	15,950	25,400	29,200	-29%	12.5%	29%
Nifty	22,553	18,200	25,500	28,000	-19%	13.1%	24%
NKY	36,887	30,000	**41,000**	47,000	-19%	11.0%	27%

Source: SG Cross Asset Research/Equity Strategy. Data as of 7 March close.

Central scenario projection: MXASJ up by 13%, MSCI China by 14%, and Nikkei by 11%

Changes to index targets November 2024: upgrade mostly coming from China

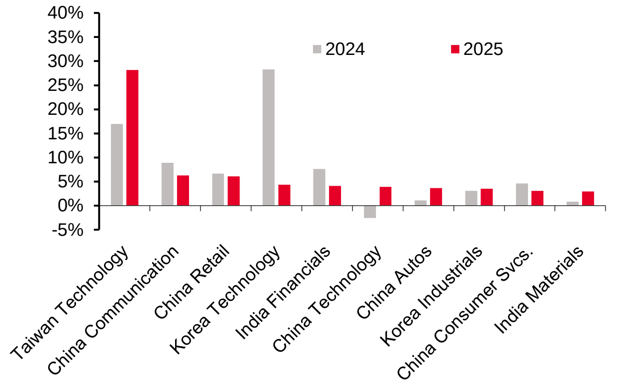
The 2025 outlook (26 November 2024) projected 12-month index target at 800 for MXASJ Asia, 77 for MSCI China, and 40,000 for the Nikkei. We are updating these projections, with upgrades of 4%, 17% and 2.5%, respectively.

In our central scenario, we assume:

– **A trailing P/E of 16.5x** for MSCI Asia all-country ex-Japan (MXASJ), in line with the current level (16.4x).

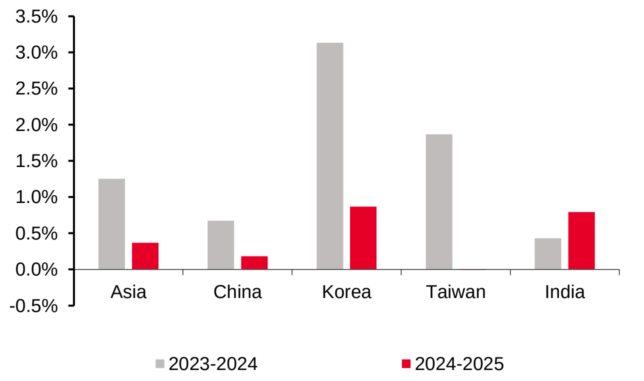
– **Earnings growth of 12%.** That is less than half of the 28% growth seen last year. The main difference comes from the lower contribution from net profit margin expansion (0.4% in 2025 vs 1.3% in 2024).

Contribution to earnings growth by top ten sectors



Source: Refinitiv, SG Cross Asset Research/Equity Strategy. *Estimated EPS growth at the start of the year

Change in net profit margins for select markets



Source: Refinitiv, SG Cross Asset Research/Equity Strategy

– **China**. We assume: i) **a trailing P/E of 15x on trailing earnings,** a slight premium to the past ten-year average on expectations of more resilient earnings and improving sentiment; and ii) low teens growth in **EPS for MSCI China.** This scenario assumes a modest net profit margin expansion of 0.2% and no earnings growth for Financials.

– **India**. We assume no further de-rating (**24x trailing**) and earnings growth in the **mid-teens**. Our expectations of a downward bias to earnings growth revisions due to sustained pressure on margins and weak sentiment should limit re-rating.

– **Japan**. Valuation in line with the long-term average (**16.2x trailing earnings**), and upward revisions in earnings (**EPS of ~10%),** in line with the 4Q season.

Central scenario

	Index	Valuation			EPS growth		
		Average	Current P/E	Expected	Average Growth (5y)	Consensus	Expected
Asia	MXASJ	15.4	16.4	**16.5**	16%	12%	**12%**
China	MXCN	14.1	14.6	**15.0**	11%	9%	**11.5%**
India	NIFTY	24.6	23.7	**23.0**	23%	16%	**15%**
Japan	TOPIX	16.0	16.1	**16.2**	7.4%	8.5%	**9.7%**

Source: Refinitiv, SG Cross Asset Research/Equity Strategy

Risk scenario projections: 21% downside in bearish; 27% upside in bullish

– **Upside.** we assume: i) deflation ending in China and policy stimulus; ii) the end of the memory chips downcycle; iii) a revival in the capex recovery in India; and iv) looser US financial conditions.

– **Downside**. Equity valuations revert to the lower end of the past ten-year average.

Risk scenarios

	Index	Upside scenario		Downside scenario	
		P/E	Earnings growth	P/E	Earnings growth
Asia	MXASJ	17.8	15%	12.0	8%
China	MXCN	16.2	16%	10.0	6%
India	NIFTY	25.0	20%	18.0	8%
Japan	TOPIX	17.9	13%	12.1	4%

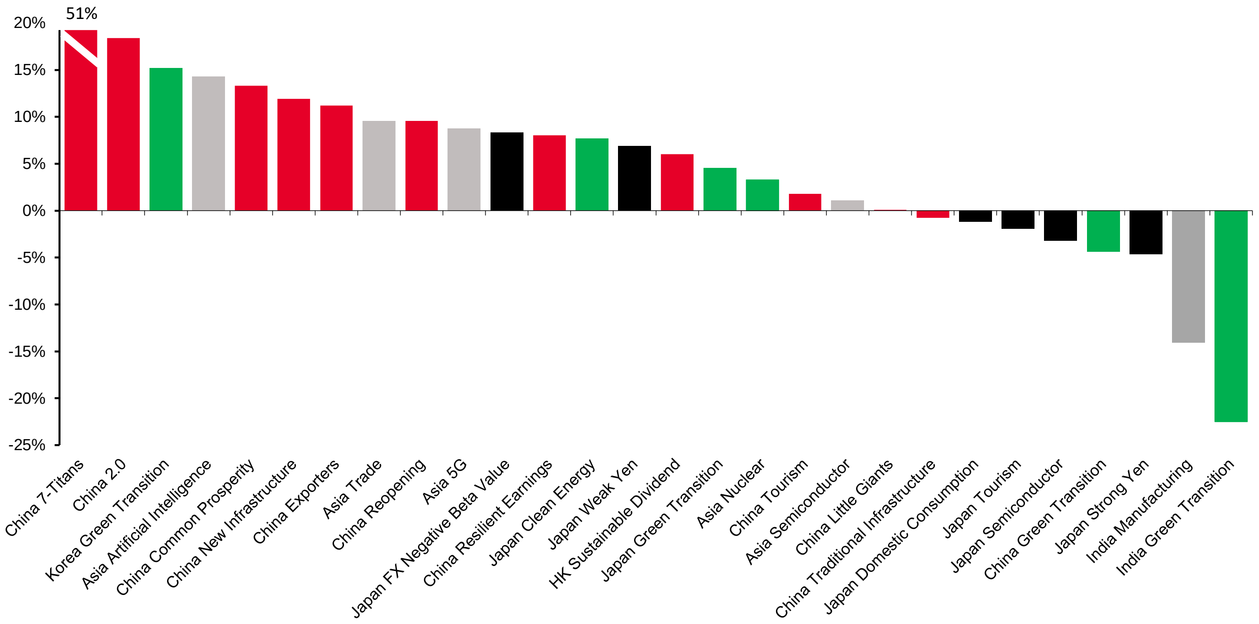
Source: Refinitiv, SG Cross Asset Research/Equity Strategy

Preferred Equity Baskets

Basket Name	Rationale	Investment policy	Recent reports	Ticker
China 2.0	Made in China 2025 and the 14th Five-year Plan identify key industries for the next phase of advanced manufacturing in China that should receive policy priority over the next few years.	The SG China 2.0 Basket tracks the performance of stocks exposed to industrial automation in China.	Link	**SGCHM20**
Asia Defence	Growth in military expenditure has accelerated over the past two years in the wake of increased geopolitical conflicts.	The SG Asia Defence Basket tracks the performance of Asia stocks that are exposed to the defence industry and that have a market capitalisation above USD2bn.	Link	**SGASDEFE**
Japan FX Negative Beta Value	To obtain an exposure to the Value theme while avoiding the yen appreciation risk, we propose Japan value stocks that are not sensitive to JPY.	The SG Japan negative FX beta Value includes 16 large caps (market capitalisation greater than USD10bn), with a sgnificant value tilt and a negative FX beta.	Link	**SGJPFXNV**
China 7 Titans	The China equity rally should remain dominated by select names, with strong price and growth momentum. Lower relative valuation premium to the MSCI China provides room for re-rating.	The SG China 7 Titans Basket tracks the performance of a basket of 7 China Mega Caps from the Discretionary, Communication and Communication sectors.	Link	**SGCHTTAN**
Asia Nuclear	The three catalysts for nuclear adoption remain in place: i) the imperative of energy security; ii) the low-emission nature of the nuclear industry; and iii) the emergence of new technologies.	The SG Asia Nuclear Energy basket tracks the performance of stocks exposed to the nuclear supply chain, from uranium mining to nuclear equipment and utilities.	Link	**SGASNU**

Source: SG Cross Asset Research/ Equity Strategy

3-month basket returns



Source: Bloomberg, SG Cross Asset Research/Equity Strategy, Red = China, Green = Green Transition/Low emissions, Black = Japan, Grey: others. Performance before the launch of the basket is backtested.

For more insights on our baskets please refer to the factsheets in our Global Thematic Basket Summary

Full list of Asia research baskets

Name	Ticker	Inception date	1M	3M	Ytd	Market
SG China 7-Titans	SGCHTTAN	28-Feb-25	18.4	**51.0**	43.9	China
SG China 2.0	SGCHM20	27-Nov-24	10.2	**18.4**	19.7	China
SG Asia Defence	SGASDEFE	2-Aug-24	20.1	**18.8**	24.2	Asia
SG Korea Green Transition	SGKRGRT	30-Apr-21	1.3	**15.2**	14.8	Korea
SG Asia Artificial Intelligence	SGASAI	19-Jun-23	-0.8	**14.3**	10.7	Asia
SG China Common Prosperity	SGCHPROS	3-Sep-21	6.5	**13.3**	11.6	China
SG China New Infrastructure	SGCHNEWI	20-Mar-20	3.7	**11.9**	12.8	China
SG China Exporters	SGCHEXP	22-Nov-23	4.0	**11.2**	11.7	China
SG Asia 5G	SGAS5G	26-Feb-20	-1.8	**8.8**	7.7	Asia
SG Japan FX Negative Beta Value	SGJPFXNV	12-Jun-24	0.5	**8.3**	4.4	Japan
SG Asia Trade	SGASTRD	5-Sep-24	8.3	**9.6**	10.9	Asia
SG China Reopening	SGCHCSMG	13-Jan-23	8.8	**9.6**	10.4	China
SG China Resilient Earnings	SGCHRESE	12-Jun-24	5.8	**8.0**	10.6	China
SG Japan Clean Energy	SGJPCEN	29-Nov-23	4.2	**7.7**	0.7	Japan
SG Japan Weak Yen	SGJPWYEN	26-Sep-24	2.6	**6.9**	-0.3	Japan
SG HK Sustainable Dividend	SGHKSDIV	12-Jun-24	5.9	**6.0**	3.8	Hong Kong
SGI Japan Green Transition	SGITJGT	4-Mar-21	2.2	**4.6**	-1.3	Japan
SG Asia Nuclear	SGASNU	12-May-22	1.5	**3.3**	6.3	APAC
SG Asia Semiconductor	SGSEMCO	19-Dec-22	-5.6	**1.1**	0.9	Asia
SG China Tourism	SGCHTRSM	9-May-18	2.9	**1.8**	3.3	Asia
SG China Little Giants	SGCHLGL	15-Feb-23	4.4	**0.1**	8.7	China
SG Japan Domestic Consumption	SGJPDCON	19-Jun-23	0.1	**-1.2**	-1.8	Japan
SG China Traditional Infrastructure	SGCHTRDI	21-May-20	2.1	**-0.8**	1.4	China
SG Japan Tourism	SGTOURJP	11-Nov-15	-1.2	**-1.9**	-2.5	Japan
SG Japan Semiconductor	SGJPSEMI	29-Nov-23	-5.5	**-3.2**	-4.1	Japan
SG Japan Strong Yen	SGJPSYEN	26-Sep-24	-0.1	**-4.7**	-4.4	Japan
SGI China Green Transition	SGITCGT	18-Nov-20	3.2	**-4.4**	4.7	China
SG India Manufacturing	SGINMFG	9-Mar-23	-4.6	**-14.1**	-8.4	India
SG India Green Transition	SGINGRT	22-Oct-21	-5.5	**-22.5**	-16.0	India
MSCI Asia Pacific	MXAP		1.4	**1.0**	3.8	Asia Pacific
MSCI Asia AC ex-JP	MXASJ		2.8	**2.6**	4.9	Asia
TOPIX	TPX		-1.0	**-0.5**	-2.7	Japan
HSCEI	HSCEI		14.5	**25.7**	23.1	China
MSCI China	MXCN		13.4	**20.2**	20.3	China
CSI 300	SHSZ300		1.3	**-0.4**	0.5	China
KOSPI	KOSPI		2.1	**6.5**	7.3	Korea
S&P 500	SPX		-4.1	**-5.0**	-1.7	US
MSCI Emerging	MXEF		2.0	**2.6**	5.3	Emerging
MSCI World	MXWO		-2.2	**-2.6**	1.1	Developed
MSCI AC world	MXWD		-1.8	**-2.1**	1.5	World

Source: Bloomberg, SG Cross Asset Research/Equity Strategy. Past performance is not indicative of future results. Basket presented assumes no transaction costs. (*) Data as of 7 March 2025 close

SG Japan domestic Value basket – New

Japanese value stocks are benefitting from increasing JGB yields and progress on corporate governance reforms. However, the Value stocks include exporters and are sensitive to uncertainty regarding US tariff policies. To obtain exposure to the Value theme while avoiding the trade policy risk, we propose a Japan domestic Value basket. It complements the Negative FX Beta Value Basket (**SGJPFXNV**) we created previously.

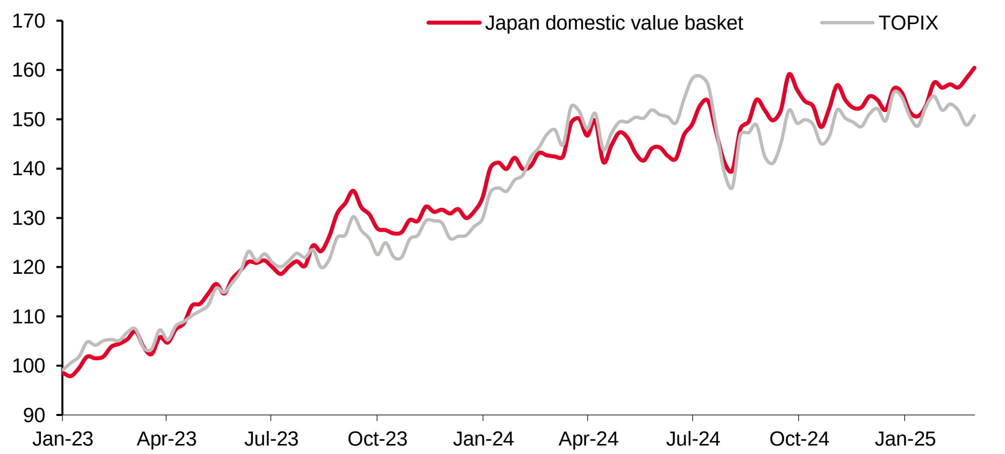
The SG Japan negative FX beta Value basket includes 14 large caps (market capitalisation greater than USD5bn): i) in the top 2 Value quintile; ii) with a foreign revenue ratio of less than 25%; and iii) not included in Negative FX Beta Value Basket.

SG Japan domestic Value basket

Ticker	Name	Sector	Value rank	Mkt cap (USDbn)	3m ADV (USDm)	Ytd return (%)
9432 JT	Nippon Telegraph & Telephone	Communication Services	4	89.8	142	-7.3
9433 JT	KDDI	Communication Services	5	72.0	121	-2.8
6178 JT	Japan Post Holdings	Financials	4	34.8	47	7.6
9022 JT	Central Japan Railway	Industrials	5	21.1	42	1.9
9503 JT	Kansai Electric Power	Utilities	5	13.6	63	2.1
8830 JT	Sumitomo Realty & Development	Real Estate	4	17.1	45	7.5
1928 JT	Sekisui House	Consumer Discretionary	4	15.2	53	-9.6
9435 JT	Hikari Tsushin	Industrials	5	11.6	14	12.1
3003 JT	Hulic	Real Estate	4	7.2	47	2.2
4768 JT	Otsuka	Information Technology	5	8.5	20	-8.1
3088 JT	MatsukiyoCocokara	Consumer Staples	4	6.5	19	1.0
3231 JT	Nomura Real Estate Holdings	Real Estate	4	5.3	20	11.0
3626 JT	TIS	Information Technology	5	6.8	22	14.3
5929 JT	Sanwa Holdings	Industrials	5	7.9	16	16.0

Source: Bloomberg, SG Cross Asset Research/Equity Strategy

Back-tested performance, rebased to 100 on 1 January 2023



Source: SG Cross Asset Research/Equity Strategy. *Back-test of an equal-weighted basket without rebalancing. Past performance is not indicative of future performance. Back-testing assumes no transaction costs. The figures relating to past performances and simulated performances refer to past periods and are not a reliable indicator of future results. This also applies to historical market data.

Market pages

Notes: Unless otherwise specified, all equity index data refer to MSCI; absolute performance is expressed in local currency and total return; relative performance is against the MSCI APAC ex-Japan Index and total return in local currency except for Asia Pacific ex-Japan which is calculated against the MSCI AC World in US$; all equity data valuation measures are based on 12m trailing data; earnings momentum is defined as the number of upward earnings revisions divided by the total number of earnings revisions (earnings being the 12m forward EPS); beta is calculated against the MSCI APAC ex-Japan except for Asia Pacific ex-Japan and Japan, where its calculated versus the MSCI AC World and the MSCI World, respectively.

The beta calculation uses monthly returns over the past five years, equity volatility is 30-day realised volatility.

Sources for the following market pages: IBES, MSCI, Bloomberg, Refinitiv, SG Cross Asset Research/Equity Strategy

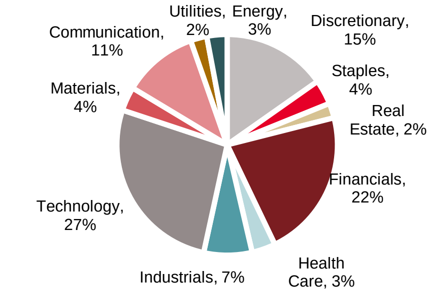
All data as of 7 March 2025 close

Asia ex-Japan

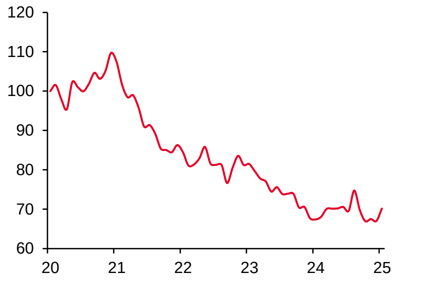
Key indicators

	Asia ex-Japan, $	MSCI ACWI
3m return	2.6%	-2.1%
12m return	16.9%	12.4%
Trailing P/E	16.4	20.2
12m forward P/E	12.9	15.5
Price-to-book value	1.8	2.3
Return on equity	11.8%	15.6%
Dividend yield	2.3%	2.3%
Payout ratio	38%	47%
2024 EPS growth	27.6%	9.9%
2025e EPS growth	11.8%	10.5%
2026e EPS growth	13.3%	13.1%

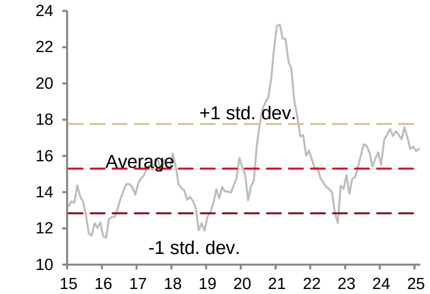
MSCI Asia ex-Japan sector breakdown



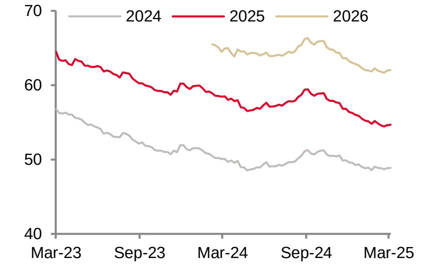
Relative performance



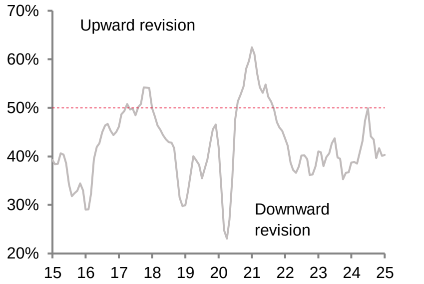
P/E ratio(x)



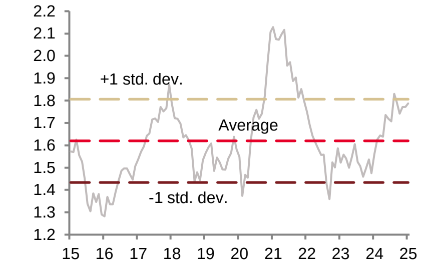
Earnings per share, USD



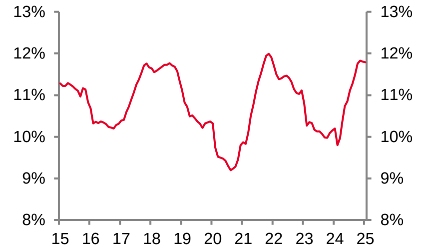
Earnings momentum



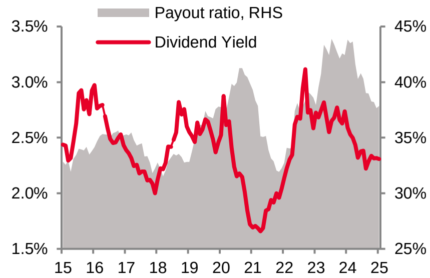
P/BV (x)



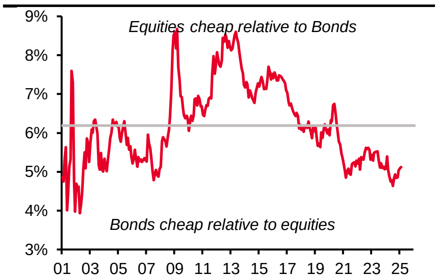
Return on equity



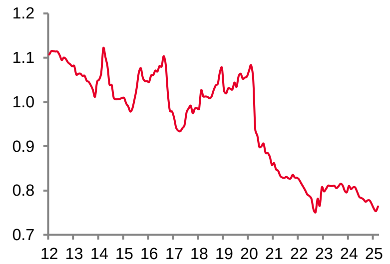
Dividend yield & payout ratio



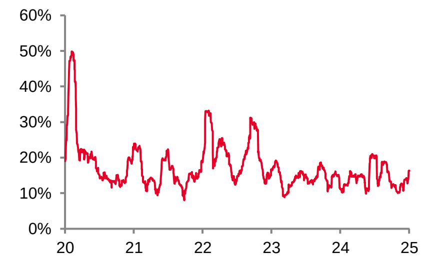
Equity-risk premium (EM Asia)



Beta



Equity volatility

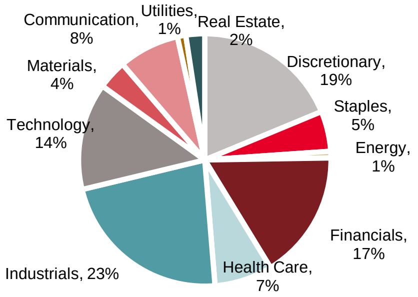


Japan

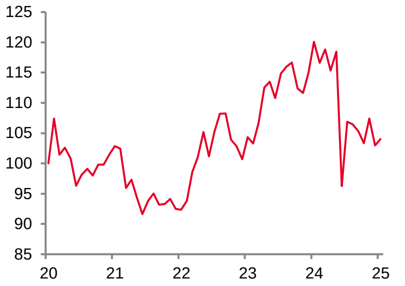
Key indicators

	Japan	Kokusai
3m return	-1.1%	-2.8%
12m return	0.7%	13.0%
Trailing P/E	13.8	23.7
12m forward P/E	13.8	19.7
Price-to-book value	1.4	3.9
Return on equity	9.4%	17.2%
Dividend yield	2.3%	1.7%
Payout ratio	32%	40%
2024 EPS growth	8.3%	8.1%
2025e EPS growth	8.5%	10.1%
2026e EPS growth	9.5%	13.4%

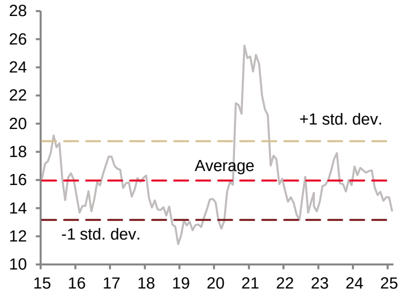
MSCI Japan sector breakdown



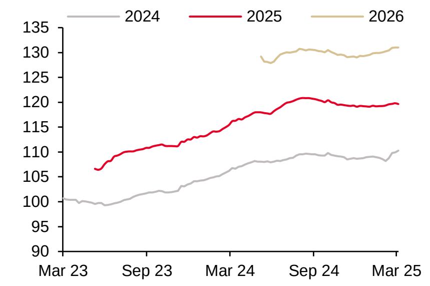
Relative performance



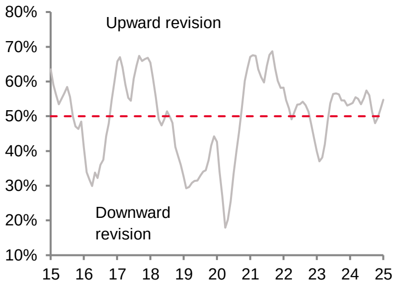
P/E ratio (x)



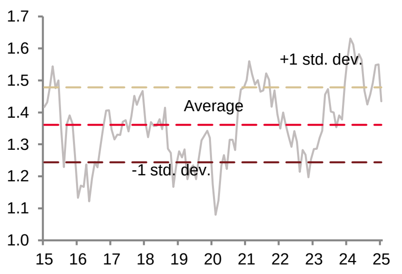
Earnings per share (JPY)



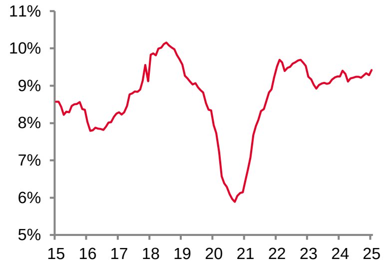
Earnings momentum



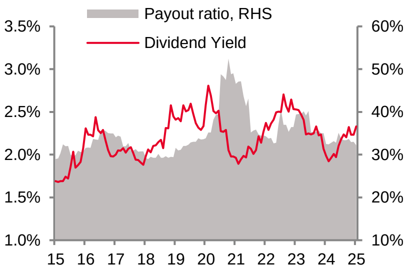
P/BV (x)



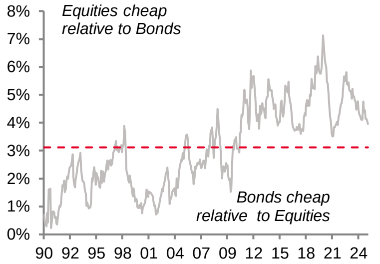
Return on equity



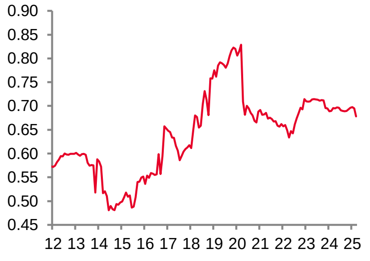
Dividend yield & payout ratio



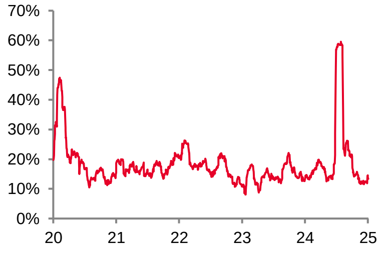
Equity-risk premium



Beta



Equity volatility

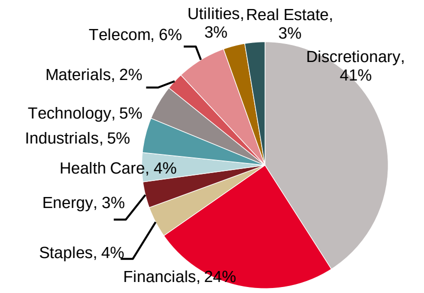


MSCI China

Key indicators

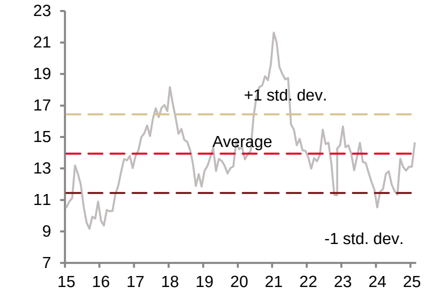
	MSCI China	Asia ex-Japan, $
3m return	20.1%	2.6%
12m return	50.4%	16.9%
Trailing P/E	14.6	16.4
12m forward P/E	11.2	12.9
Price-to-book value	1.6	1.8
Return on equity	12.0%	11.8%
Dividend yield	2.1%	2.3%
Payout ratio	31%	38%
2024 EPS growth	16.9%	27.6%
2025e EPS growth	8.7%	11.8%
2026e EPS growth	11.9%	13.3%

MSCI China sector breakdown

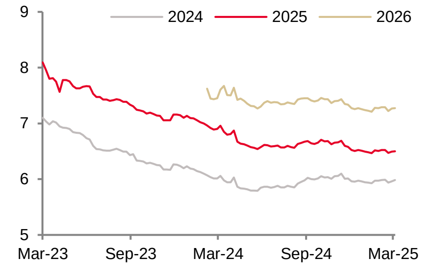


Relative performance

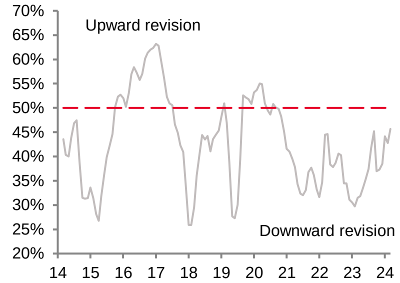
P/E ratio (x)



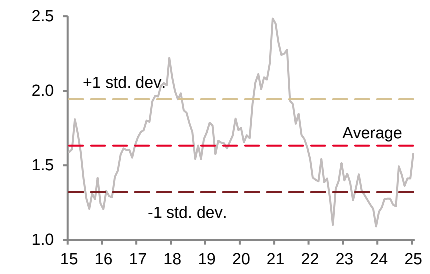
Earnings per share, HKD



Earnings momentum

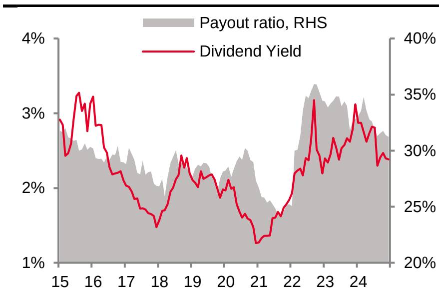


P/BV (x)

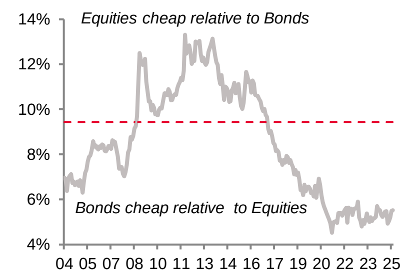


Return on equity

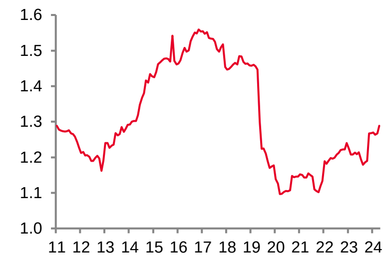
Dividend yield & payout ratio



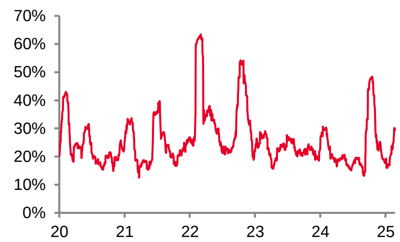
Equity-risk premium



Beta (x)



Equity volatility

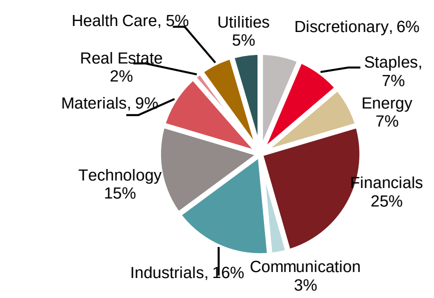


China Onshore

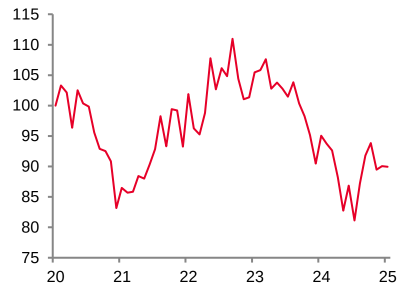
Key indicators

	Shanghai Composite	Asia ex-Japan, $
3m return	-0.5%	2.6%
12m return	15.2%	16.9%
Trailing P/E	13.4	16.4
12m forward P/E	12.0	12.9
Price-to-book value	1.3	1.8
Return on equity	9.5%	11.8%
Dividend yield	2.9%	2.3%
Payout ratio	39%	38%
2024 EPS growth	8.5%	27.6%
2025e EPS growth	11.3%	11.8%
2026e EPS growth	10.7%	13.3%

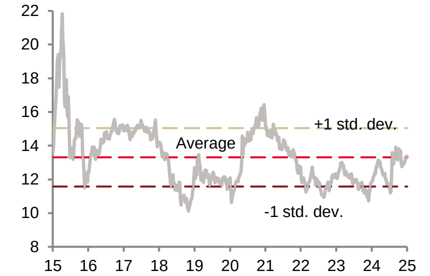
Shanghai Comp. sector breakdown



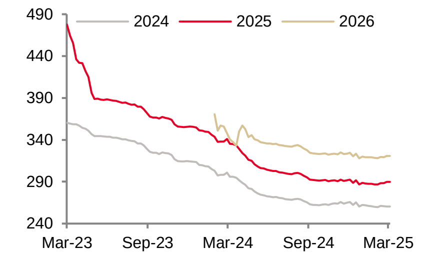
Relative performance



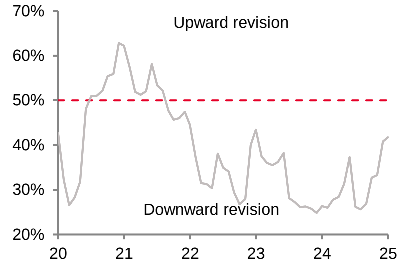
P/E ratio (x)



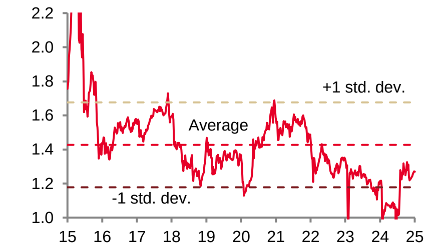
Earnings per share, CNY



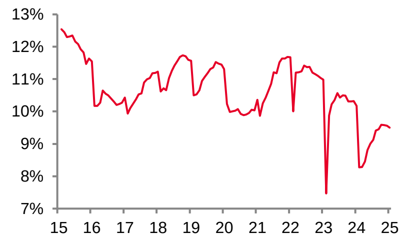
Earnings momentum



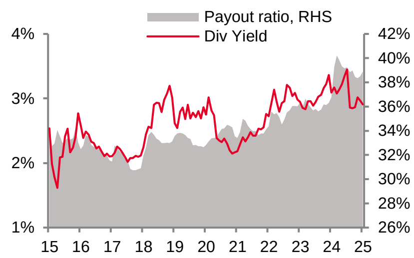
P/BV (x)



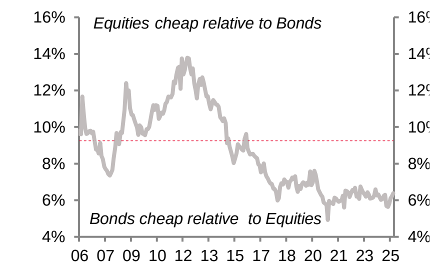
Return on equity



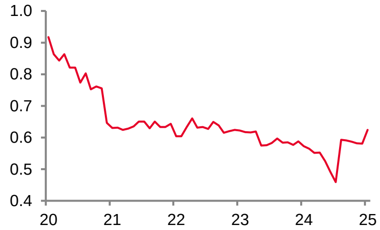
Dividend yield & payout ratio



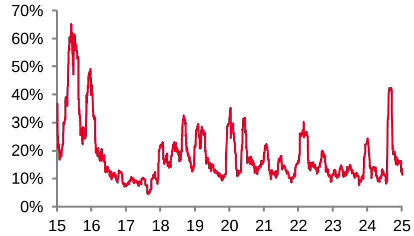
Equity-risk premium



Beta (x)



Equity volatility



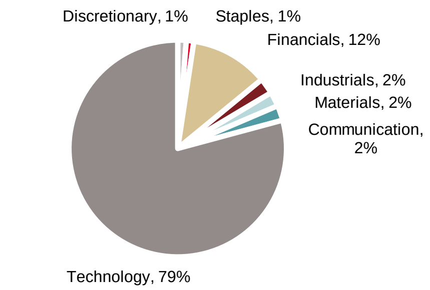
All equity data refer to Shanghai Composite Index (excluding B-shares); equity returns are price returns

Taiwan

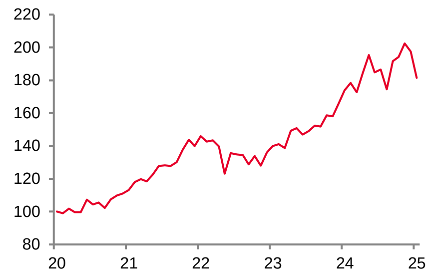
Key indicators

	Taiwan	Asia ex-JP, $
3m return	-3.3%	2.6%
12m return	23.1%	16.9%
Trailing P/E	20.3	16.4
12m forward P/E	15.8	12.9
Price-to-book value	3.0	1.8
Return on equity	16.0%	11.8%
Dividend yield	2.4%	2.3%
Payout ratio	48%	38%
2024 EPS growth	40.2%	27.6%
2025e EPS growth	18.8%	11.8%
2026e EPS growth	15.7%	13.3%

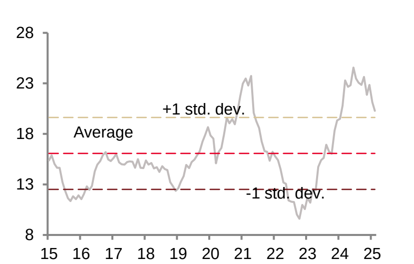
MSCI Taiwan sector breakdown



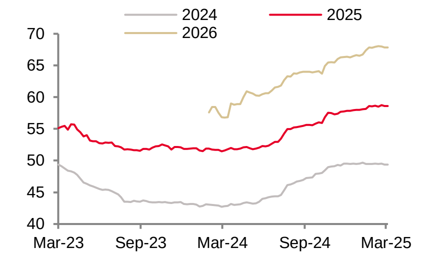
Relative performance



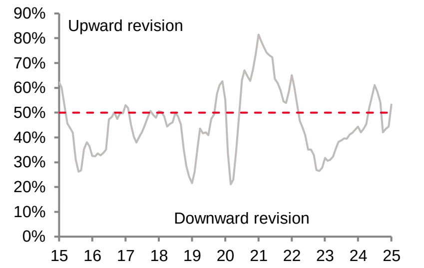
P/E ratio (x)



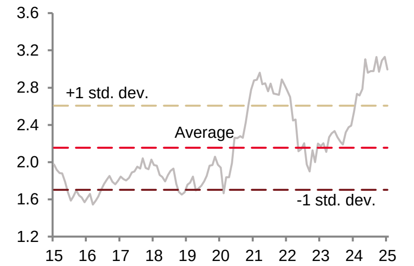
Earnings per share (TWD)



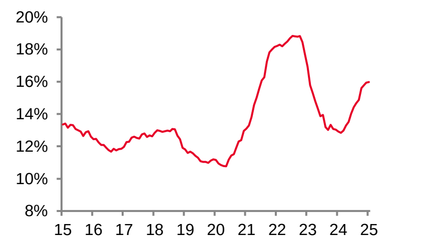
Earnings momentum



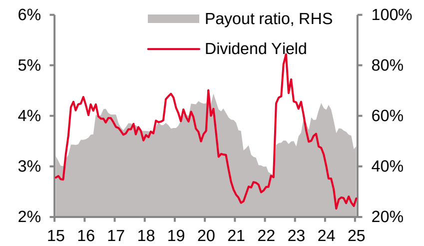
P/BV (x)



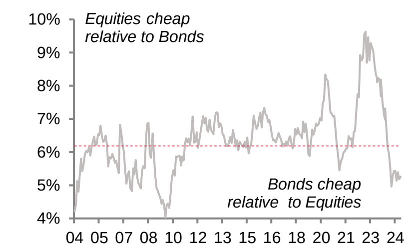
Return on equity



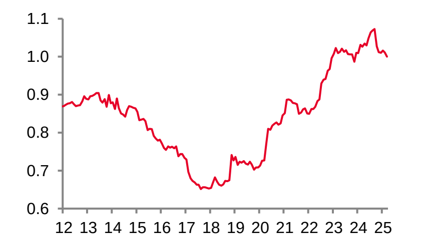
Dividend yield & payout ratio



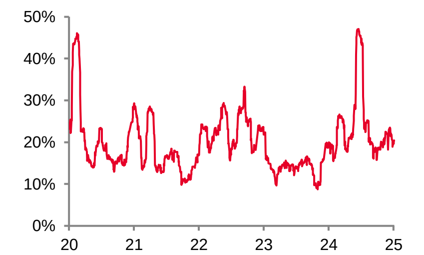
Equity-risk premium



Beta



Equity volatility

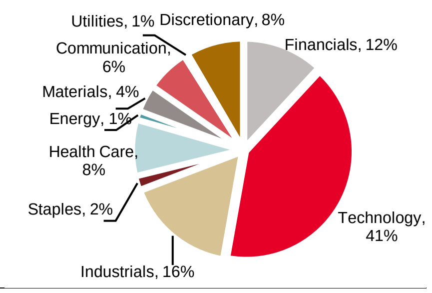


Korea

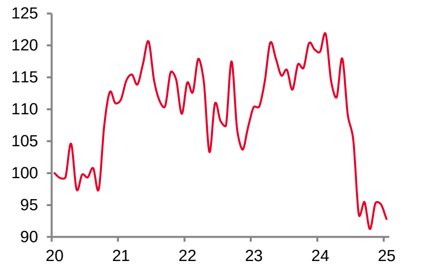
Key indicators

	Korea	Asia ex-JP, $
3m return	5.2%	2.6%
12m return	-6.7%	16.9%
Trailing P/E	11.4	16.4
12m forward P/E	8.5	12.9
Price-to-book value	1.0	1.8
Return on equity	9.4%	11.8%
Dividend yield	2.3%	2.3%
Payout ratio	27%	38%
2024 EPS growth	105.7%	27.6%
2025e EPS growth	13.2%	11.8%
2026e EPS growth	17.9%	13.3%

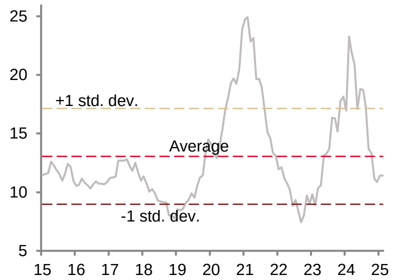
MSCI Korea sector breakdown



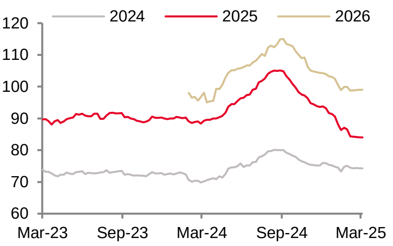
Relative performance



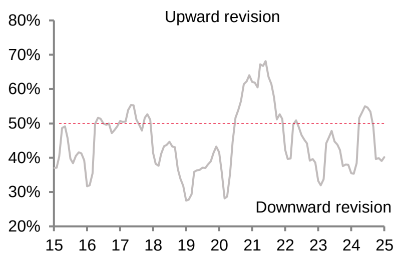
P/E ratio (x)



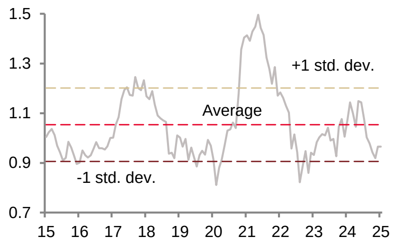
Earnings per share (KRW)



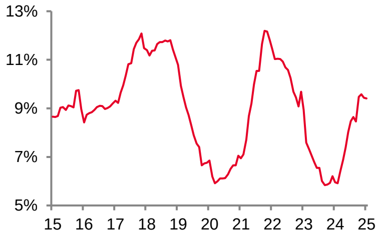
Earnings momentum



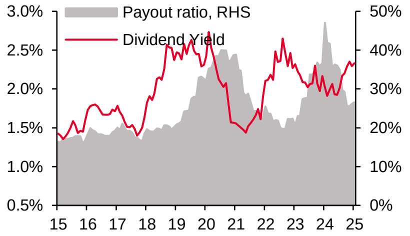
P/BV (x)



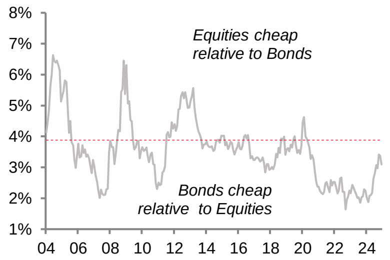
Return on equity



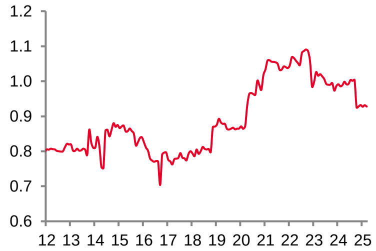
Dividend yield & payout ratio



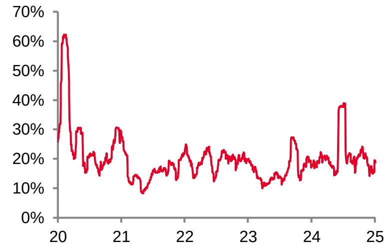
Equity-risk premium



Beta



Equity volatility

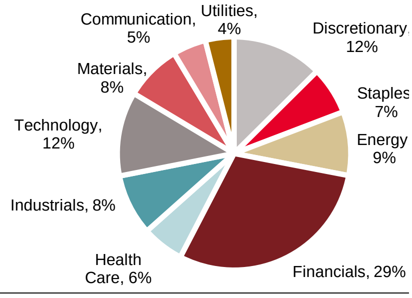


India

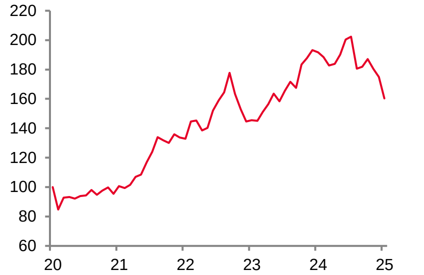
Key indicators

	India	Asia ex-JP
3m return	-10.9%	2.6%
12m return	0.6%	16.9%
Trailing P/E	23.7	16.4
12m forward P/E	20.2	12.9
Price-to-book value	3.5	1.8
Return on equity	14.9%	11.8%
Dividend yield	1.3%	2.3%
Payout ratio	31%	38%
2024 EPS growth	6.5%	27.6%
2025e EPS growth	17.0%	11.8%
2026e EPS growth	15.0%	13.3%

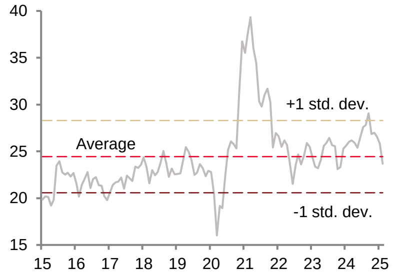
MSCI India sector breakdown



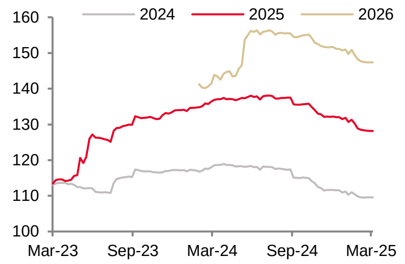
Relative performance



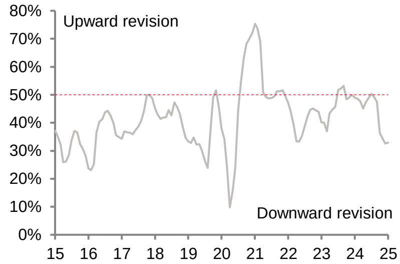
P/E ratio (x)



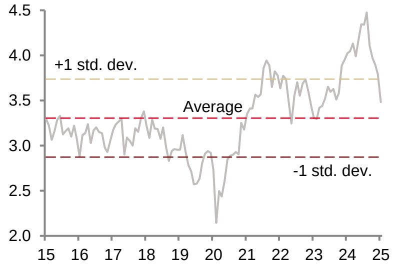
Earnings per share (INR)



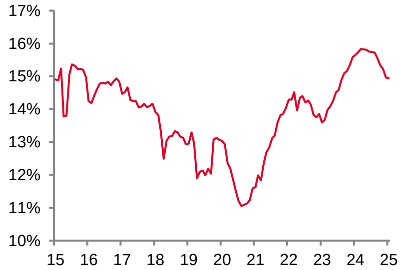
Earnings momentum



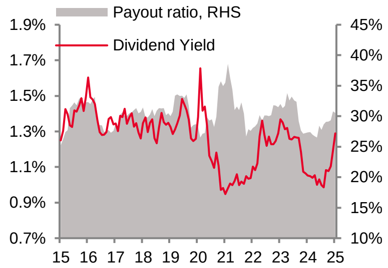
P/BV (x)



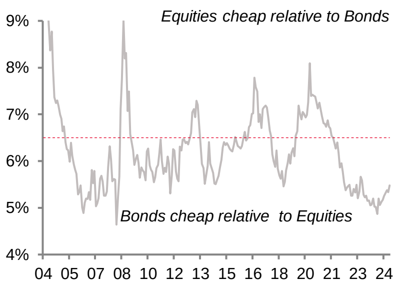
Return on equity



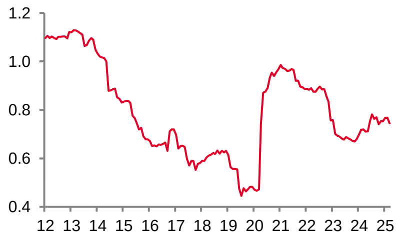
Dividend yield & payout ratio



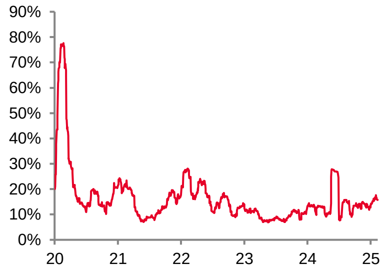
Equity-risk premium



Beta



Equity volatility

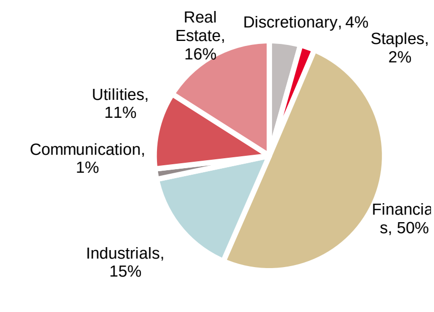


Hong Kong

Key indicators

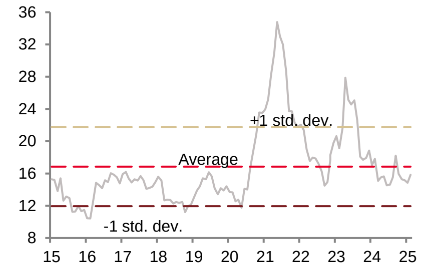
	HK	Asia ex-JP, $
3m return	7.4%	2.6%
12m return	18.4%	16.9%
Trailing P/E	15.8	16.4
12m forward P/E	12.4	12.9
Price-to-book value	1.0	1.8
Return on equity	7.1%	11.8%
Dividend yield	4.0%	2.3%
Payout ratio	64%	38%
2024 EPS growth	12.6%	27.6%
2025e EPS growth	7.1%	11.8%
2026e EPS growth	7.9%	13.3%

MSCI Hong Kong sector breakdown

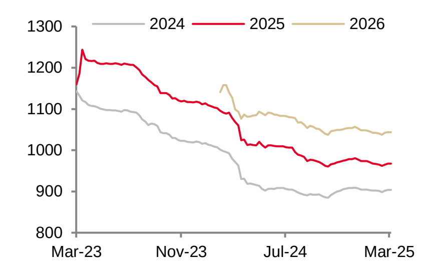


Relative performance

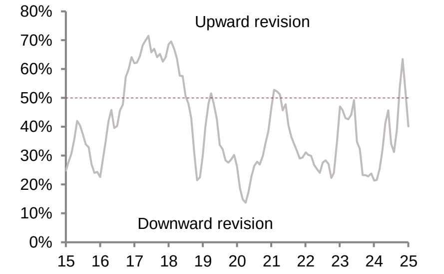
P/E ratio(x)



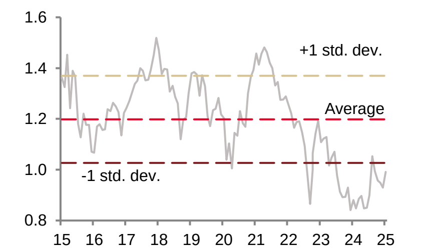
Earnings per share (HKD)



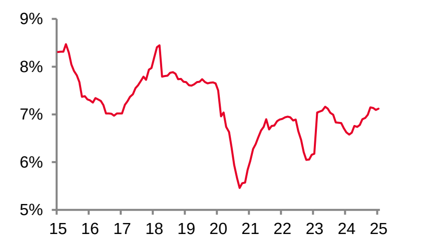
Earnings momentum



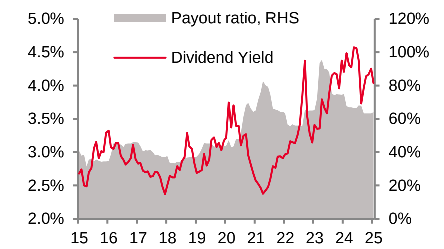
P/BV (x)



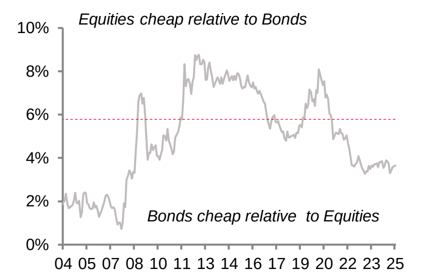
Return on equity



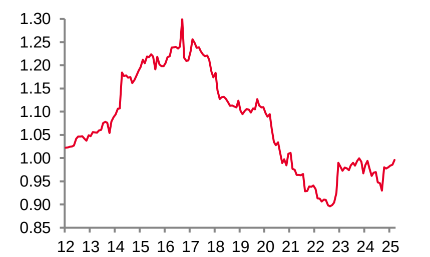
Dividend yield & payout ratio



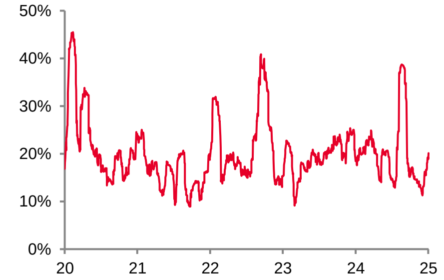
Equity-risk premium



Beta



Equity volatility

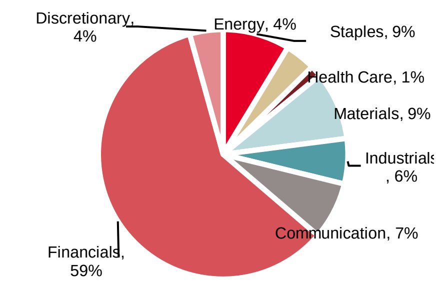


Indonesia

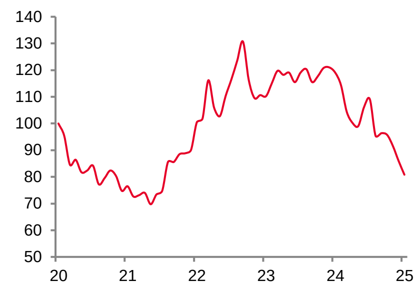
Key indicators

	Indonesia	Asia ex-JP
3m return	-12.7%	2.6%
12m return	-19.0%	16.9%
Trailing P/E	12.7	16.4
12m forward P/E	10.2	12.9
Price-to-book value	1.8	1.8
Return on equity	17.6%	11.8%
Dividend yield	5.8%	2.3%
Payout ratio	73%	38%
2024 EPS growth	2.3%	27.6%
2025e EPS growth	1.5%	11.8%
2026e EPS growth	8.2%	13.3%

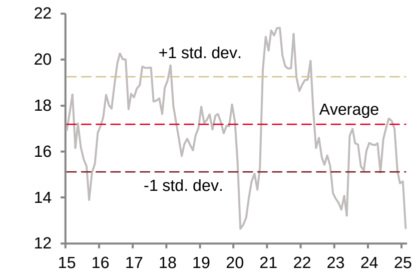
MSCI Indonesia sector breakdown



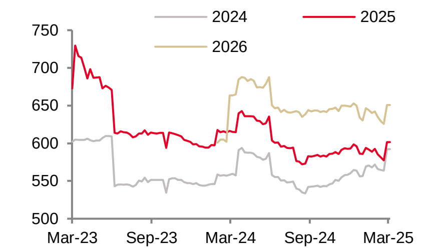
Relative performance



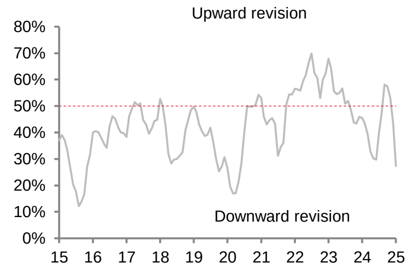
P/E ratio (x)



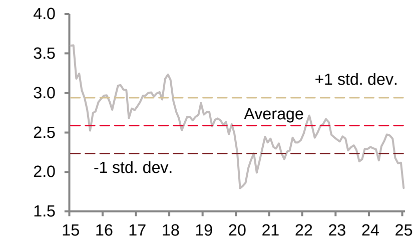
Earnings per share (IDR)



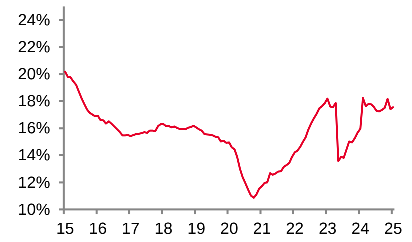
Earnings momentum



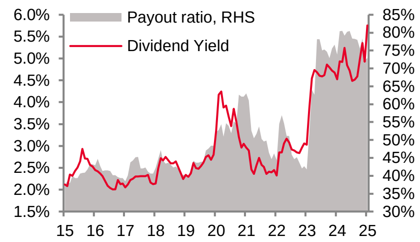
P/BV (x)



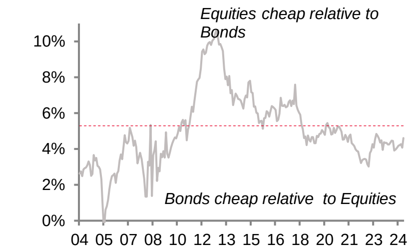
Return on equity



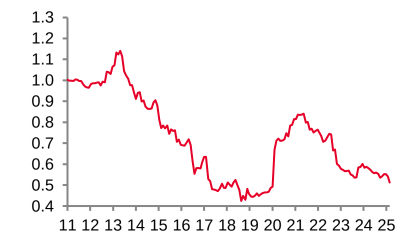
Dividend yield & payout ratio



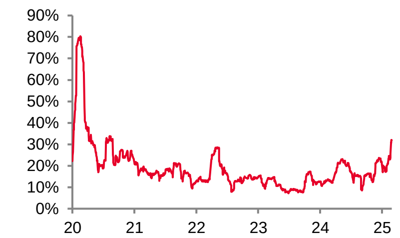
Equity-risk premium



Beta



Equity volatility

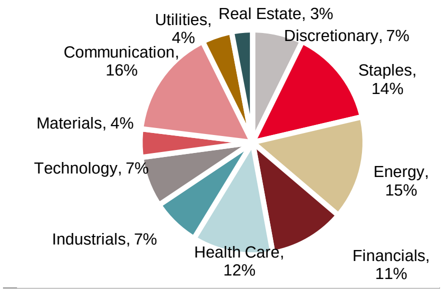


Thailand

Key indicators

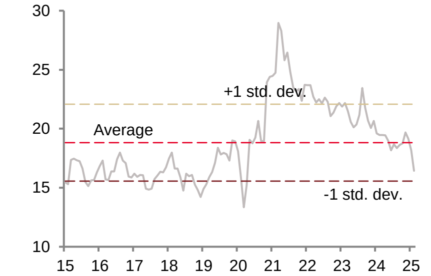
	Thailand	Asia ex-JP, $
3m return	-16.3%	2.6%
12m return	-9.3%	16.9%
Trailing P/E	16.4	16.4
12m forward P/E	14.2	12.9
Price-to-book value	1.6	1.8
Return on equity	8.7%	11.8%
Dividend yield	3.5%	2.3%
Payout ratio	58%	38%
2024 EPS growth	-2.8%	27.6%
2025e EPS growth	22.0%	11.8%
2026e EPS growth	10.8%	13.3%

MSCI Thailand sector breakdown

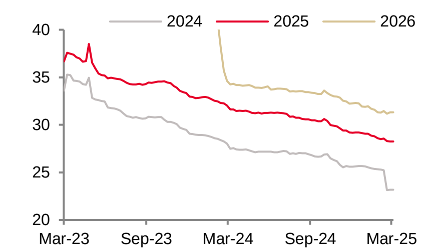


Relative performance

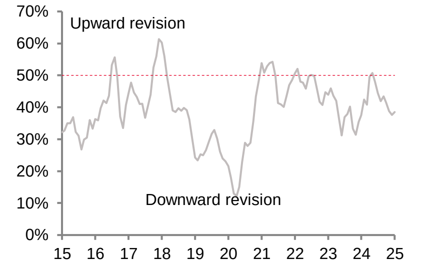
P/E ratio(x)



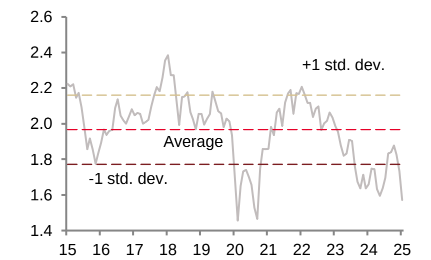
Earnings per share (THB)



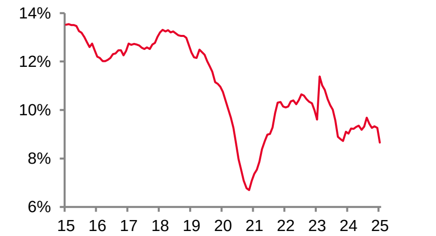
Earnings momentum



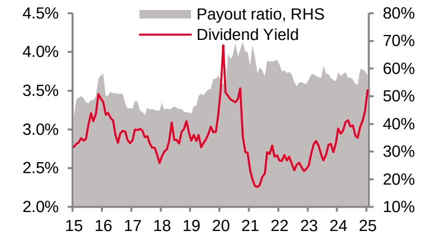
P/BV (x)



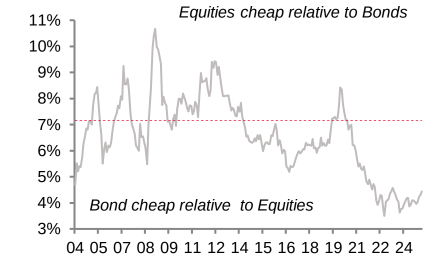
Return on equity



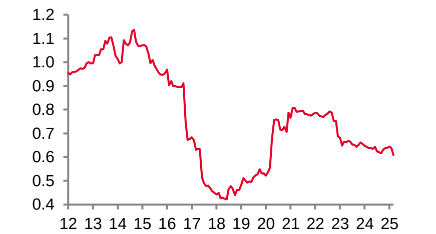
Dividend yield & payout ratio



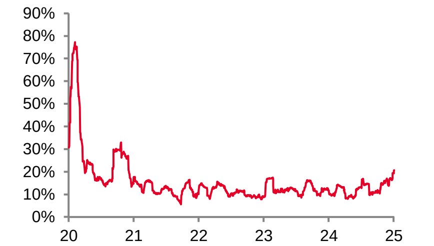
Equity-risk premium



Beta



Equity volatility

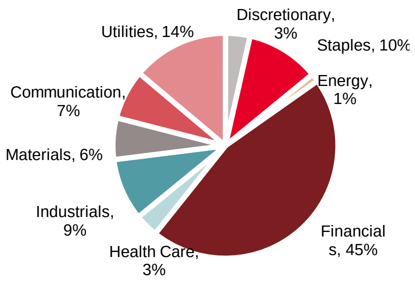


Malaysia

Key indicators

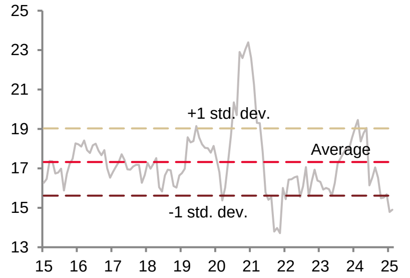
	Malaysia	Asia ex-JP, $
3m return	-4.4%	2.6%
12m return	5.8%	16.9%
Trailing P/E	14.9	16.4
12m forward P/E	13.2	12.9
Price-to-book value	1.4	1.8
Return on equity	9.3%	11.8%
Dividend yield	4.0%	2.3%
Payout ratio	60%	38%
2024 EPS growth	12.1%	27.6%
2025e EPS growth	6.4%	11.8%
2026e EPS growth	7.4%	13.3%

MSCI Malaysia sector breakdown

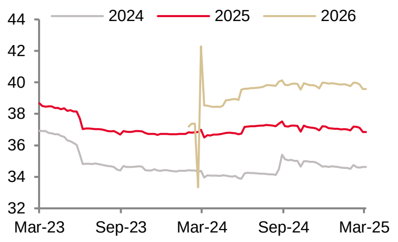


Relative performance

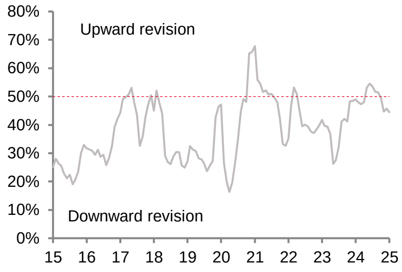
P/E ratio(x)



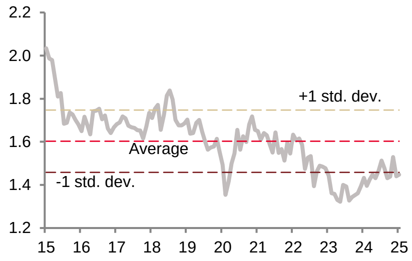
Earnings per share (MYR)



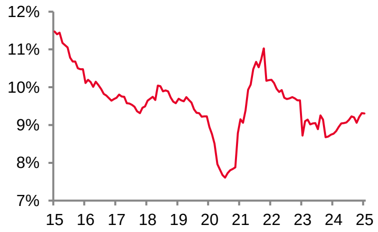
Earnings momentum



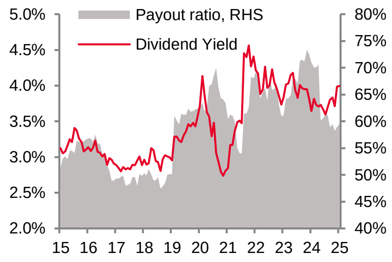
P/BV (x)



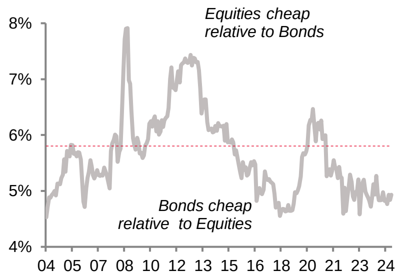
Return on equity



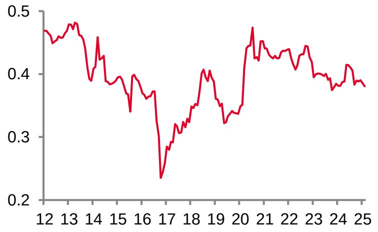
Dividend yield & payout ratio



Equity-risk premium



Beta



Equity volatility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Report completed on 11 March 2025 8:56 CET

APPENDIX

ANALYST CERTIFICATION

The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her or their personal views about any and all of the subject securities or issuers and (ii) no part of his or her or their compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: **Frank Benzimra, Rajat Agarwal, Makhdoom Muteeb Raina, Tsutomu Saito, Charles De Boissezon**

Tsutomu Saito's historical MAD2MAR recommendations over the past 12 months.
Charles de Boissezon's historical MAD2MAR recommendations over the past 12 months.
Makhdoom Muteeb Raina's historical MAD2MAR recommendations over the past 12 months.
Rajat Agarwal's historical MAD2MAR recommendations over the past 12 months.
Frank Benzimra's historical MAD2MAR recommendations over the past 12 months.

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