CLSA

Asean, China and EM

Global Equity Strategy

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20TH CITIC CLSA ASEAN FORUM

Asean, China and EM

- Asean: Order of merit
  - Establishing a strategic framework for portfolio allocation across the region.
- Chasing China?
  - We are unconvinced recent price action has longevity. Stay benchmark.
- The case for EM
  - EM equities have underwhelmed versus DM. We see room for improvement.

Asean: Order of merit

- The key dozen decision points for Asean account for:
  - 65% of index weight
  - 57% of traded value
  - Only 28% of MSCI constituents (51 out of 183 stocks)

Asean country/sector weights (MSCI, free float adjusted)

1 June	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health care	Financials	Information Technology	Communication Services	Utilities	Real Estate	
Singapore			**4.9%**	0.6%	0.7%		**19.4%**		**6.4%**	0.5%	**4.4%**	**36.9%**
Indonesia	0.7%	**1.9%**	0.9%	0.6%	1.6%	0.3%	**10.8%**		1.5%			**18.4%**
Thailand	**2.6%**	1.5%	1.7%	1.3%	**2.1%**	**2.0%**	1.5%	1.0%	1.7%	0.8%	0.8%	**16.9%**
Malaysia	0.2%	1.3%	1.3%	0.8%	1.8%	0.5%	**6.3%**	0.3%	1.3%	**2.4%**		**16.2%**
Philippines			**2.3%**	0.3%	0.3%		1.8%		0.3%	0.3%	1.2%	**6.5%**
Vietnam	0.2%	0.8%	0.5%	0.1%	0.8%		1.2%	0.0%		0.1%	1.3%	**5.1%**
	3.7%	**5.5%**	**11.6%**	**3.7%**	**7.3%**	**2.7%**	**41.1%**	**1.3%**	**11.1%**	**4.2%**	**7.7%**	

Source: CLSA, MSCI

Asean: Order of merit

- YTD there has been a noticeable mismatch between marketsignalling and actual performance.

Largest dozen Asean decisions ranked from most- to least-preferred across seven forecast metrics

	MSCI weight (% ASEAN)	ADTV (% ASEAN)	Broker buys less holds and sells	Analyst revisions to +12m EPS est.	12m EPS growth beat/ (miss)	Analyst 2025 EPS growth	2025 ROE rel. to APAC sector	2025 P/E rel. to APAC sector	2025 Div. Yield rel. to APxJ sector	Z-score (simple average)	MSCI Index US$ YTD perform.
Thai hospitals	2.0%	1.6%	71%	21%	14%	8%	1.6	1.0	1.8	0.80	-4.2%
Philippine industrials	2.3%	0.7%	52%	15%	1%	15%	1.4	0.8	0.9	0.33	-0.1%
Singapore comm serv.	6.4%	14.9%	82%	19%	na	38%	0.7	1.5	1.4	0.29	38.3%
Thai energy	2.6%	3.2%	48%	4%	-8%	8%	1.0	0.7	1.6	0.20	-13.4%
Indonesian banks	10.8%	7.0%	78%	-13%	7%	11%	1.8	1.3	1.2	0.13	-11.8%
Indonesian materials	1.9%	2.1%	39%	-11%	9%	45%	1.4	0.9	0.4	0.12	1.7%
Singaporean banks	19.4%	8.5%	7%	22%	2%	1%	1.2	1.0	1.4	0.00	9.4%
Singaporean industrials	4.9%	6.6%	50%	7%	22%	6%	0.9	1.1	1.2	-0.01	-3.7%
Malaysian banks	6.3%	3.0%	29%	0%	-4%	5%	0.9	1.1	1.3	-0.29	4.4%
Singaporean real estate	4.4%	4.6%	70%	-14%	-19%	9%	0.8	1.3	1.3	-0.39	-14.9%
Thai con. staples	2.1%	2.0%	73%	12%	-62%	20%	0.5	1.0	0.8	-0.40	-2.1%
Malaysian utilities	2.4%	2.4%	30%	3%	-17%	7%	0.8	1.4	0.8	-0.73	28.3%

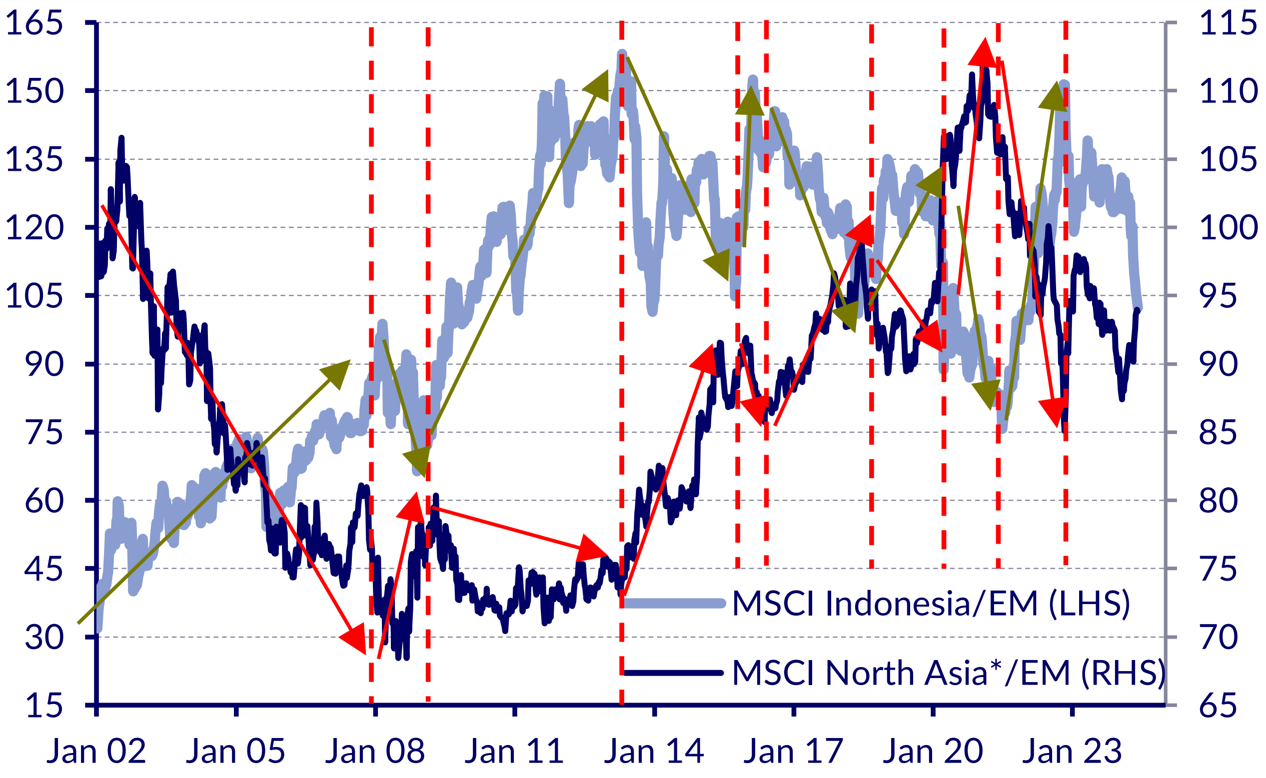
Source: CLSA, MSCI, IBES, Refinitiv

CLSA

Indonesia (40% overweight)

- Dissimilar external balances and sector mix ensure strong counter-cyclicality with North Asia.
- Yet a strong forecast bounce in credit impulse is consistent with an uplift in market momentum.

MSCI Indonesia/EM versus MSCI North Asia*/EM (US$, rebased)



Source: CLSA, MSCI
*North Asia = China, Taiwan, Korea (mkt cap weighted)

Indonesia credit impulse versus equity market momentum

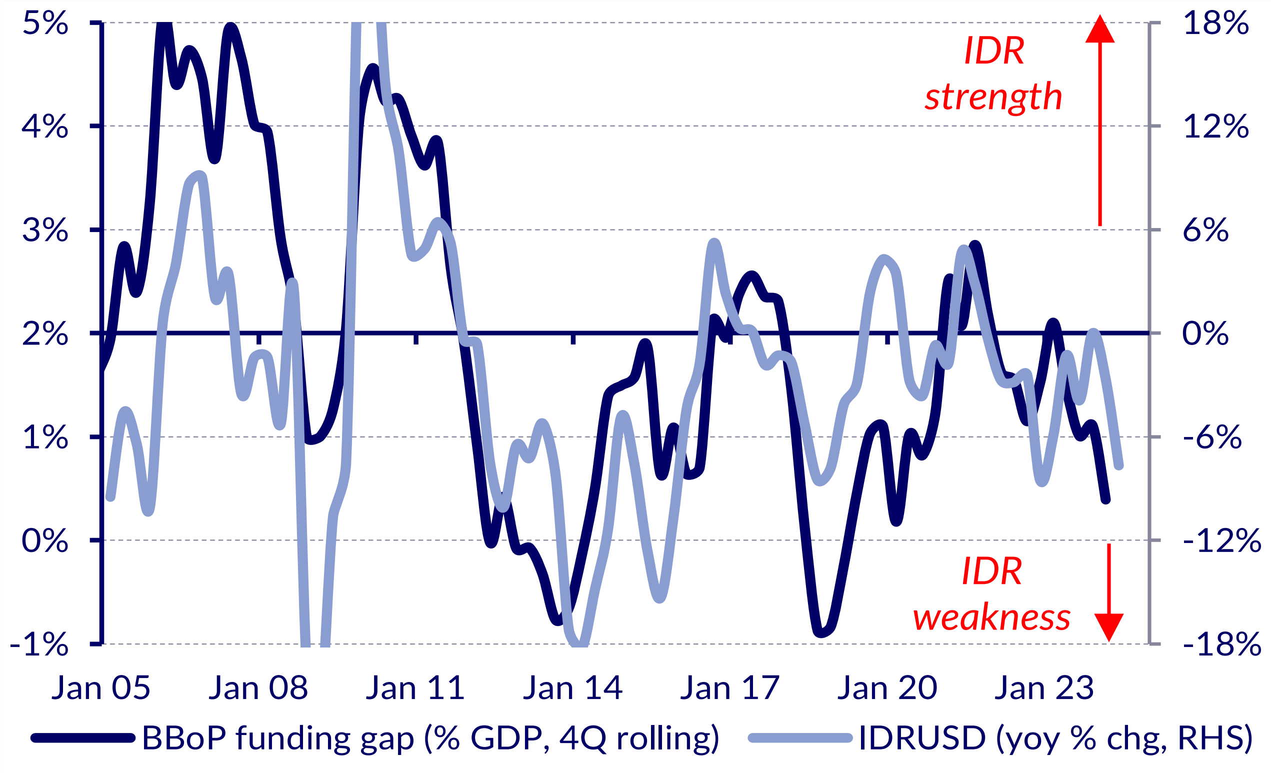
Source: CLSA, Refinitiv, Oxford Economics forecasts

CLSA

Indonesia (40% overweight)

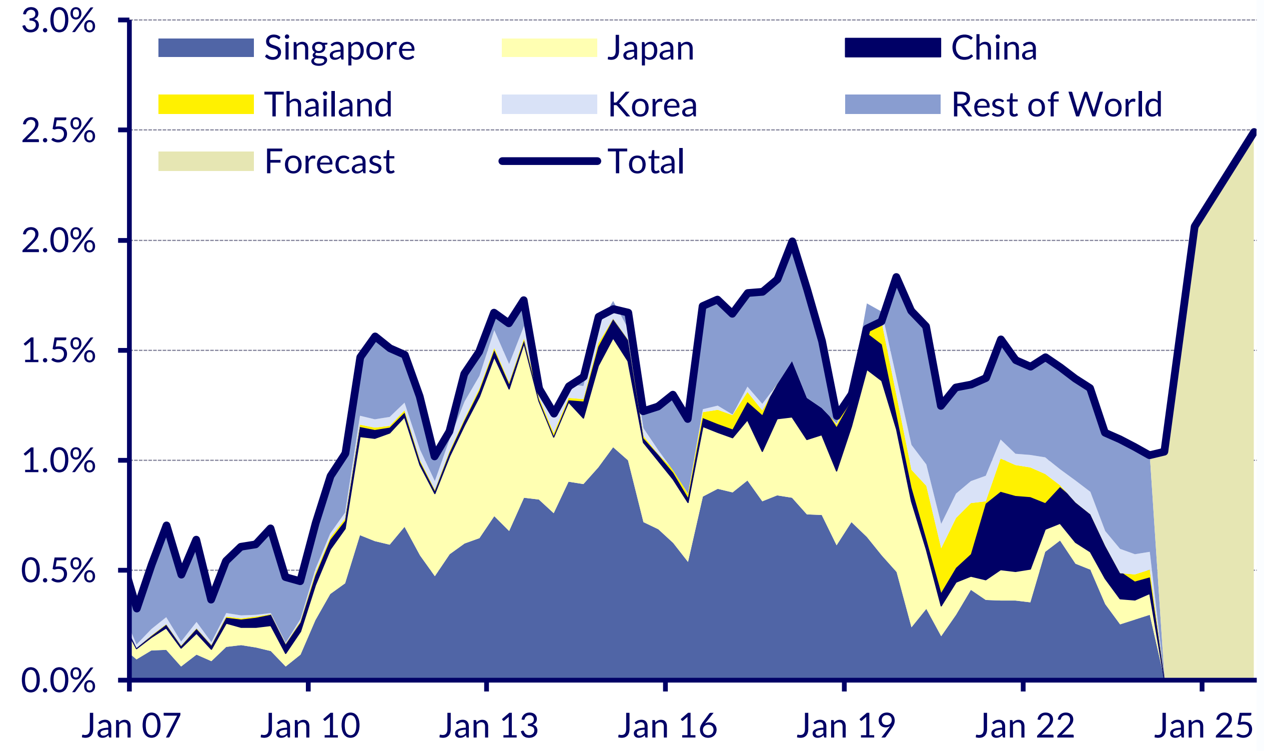
- Indonesia's funding gap has dropped well below the level associated with rupiah stability.
- But inward FDI (EV industry, other manufacturing, infrastructure) may rise to 1.5% of GDP.

Indonesia BBoP funding gap versus IDRUSD momentum



Source: CLSA, IMF, Refinitiv

Indonesia net FDI inflows by originating country (% GDP)



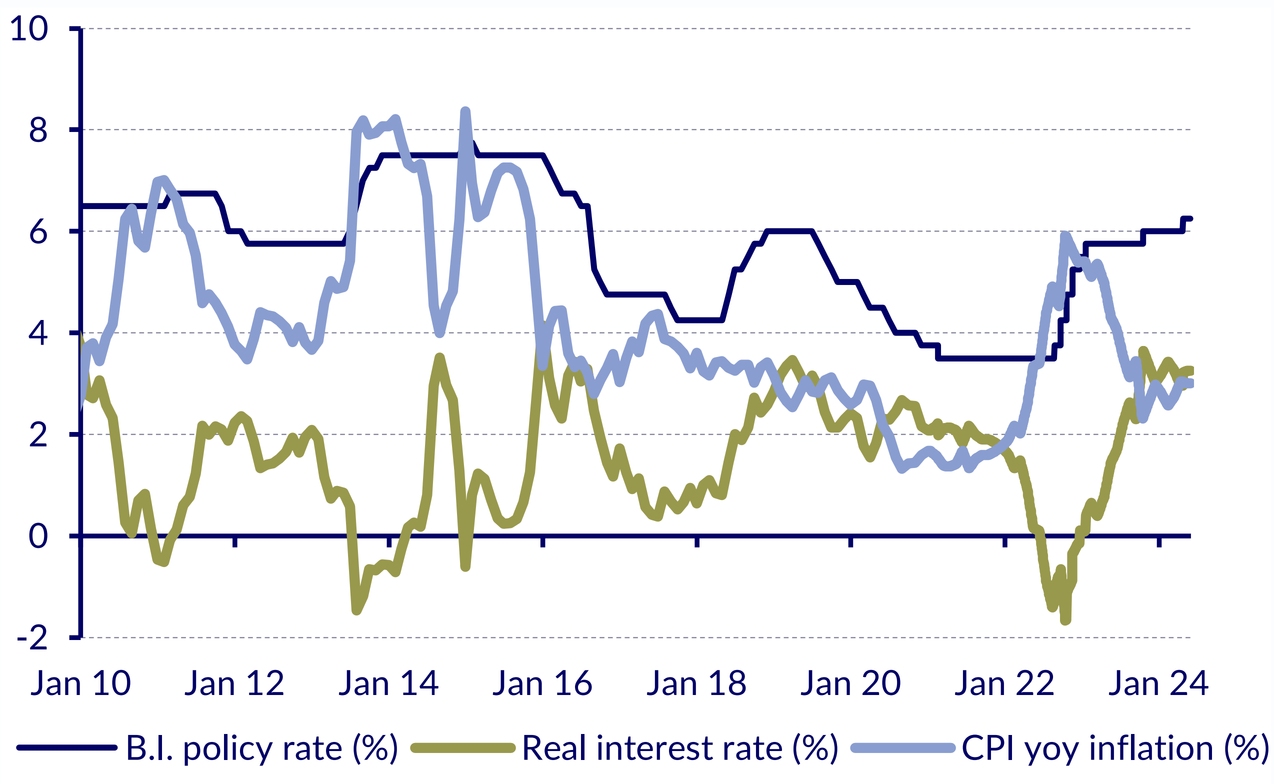
Source: CLSA, Bank Indonesia, Oxford Economics, CLSA forecasts

CLSA

Indonesia (40% overweight)

- Two surprise BI rate increases have taken real interest rates to the top of the historical range.
- Yet the recovery in real retail sales is following the uplift in confidence and tourism arrivals.

Indonesia inflation versus nominal and real interest rates



Source: CLSA, Refinitiv

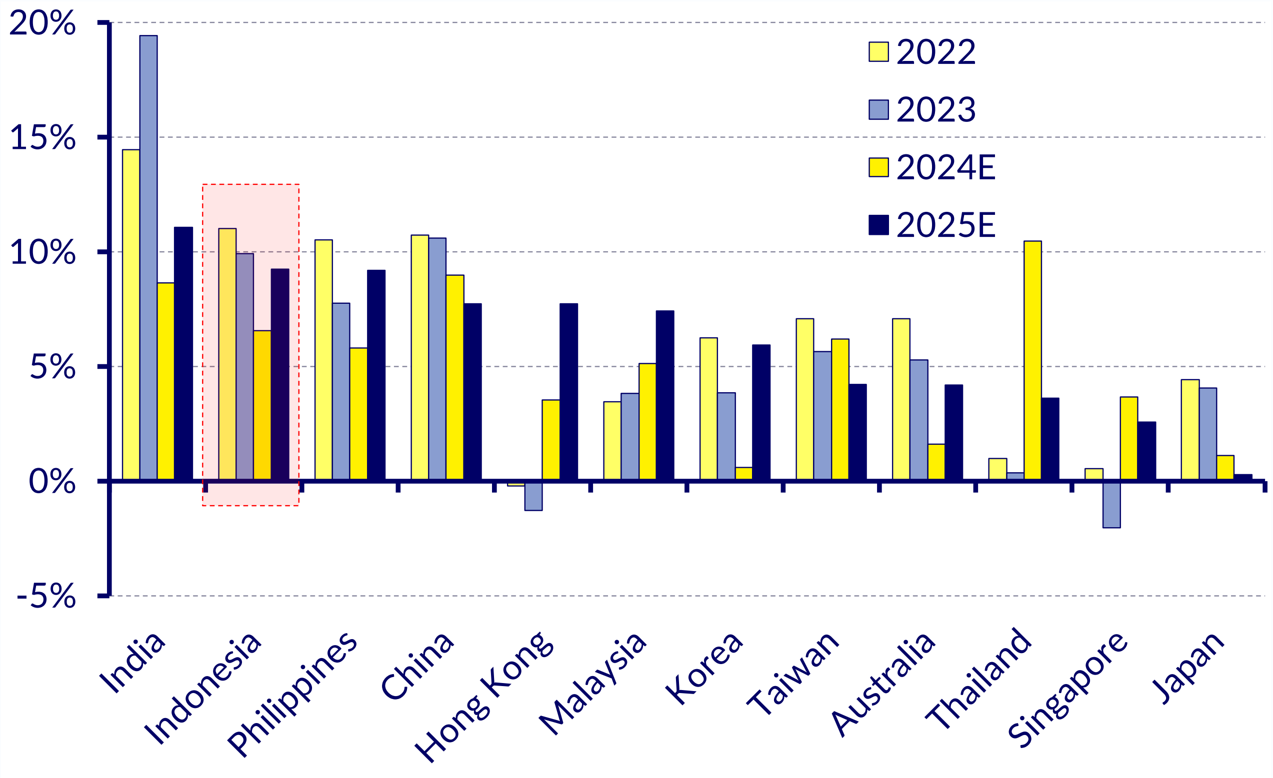
Indonesia consumer confidence vs real retail sales growth

Source: CLSA, Bank Indonesia, Statistics Indonesia

Indonesia (40% overweight)

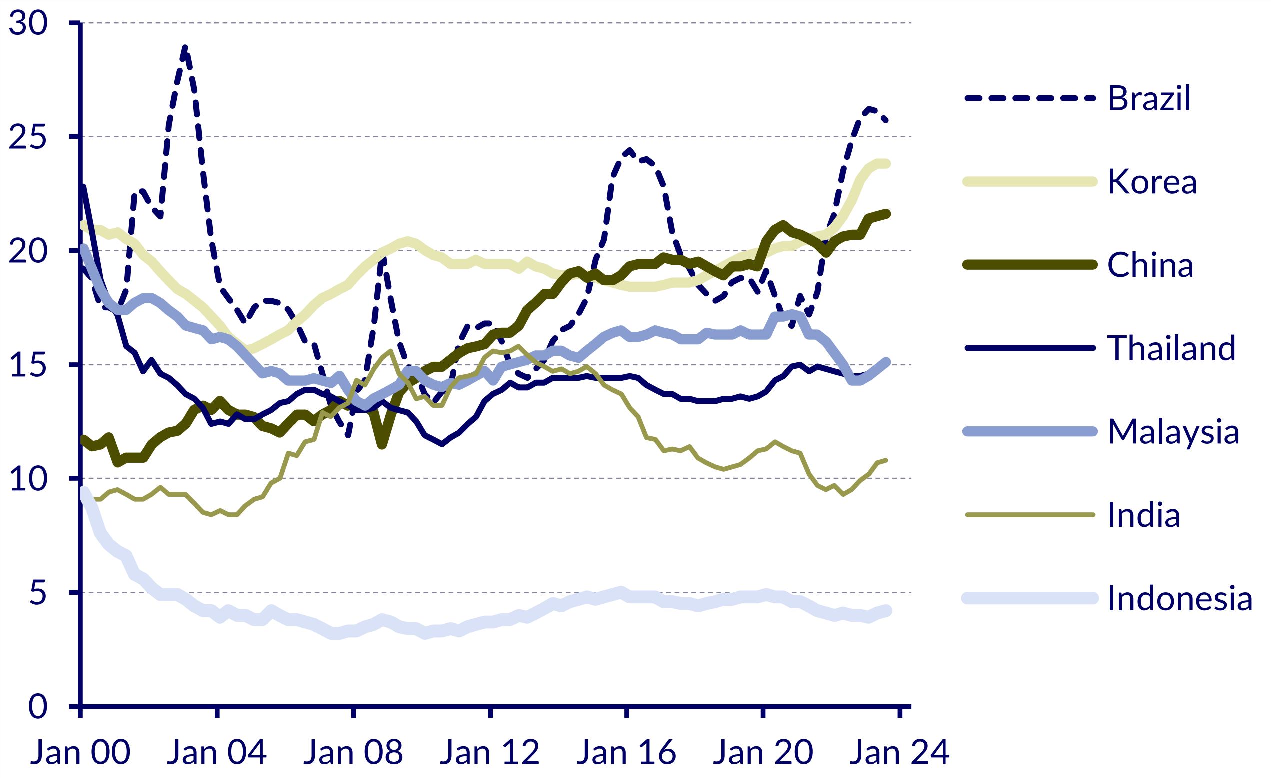
- Indonesia has the second-highest 25E regional forecast growth in non-fin. private sector credit.
- Modest debt service ratio, credit to GDP and policy easing can catalyse credit growth recovery.

Asia Pacific non-financial private sector credit growth (local currency terms)



Source: CLSA, Oxford Economics forecasts

EM private non-financial sector debt service ratios



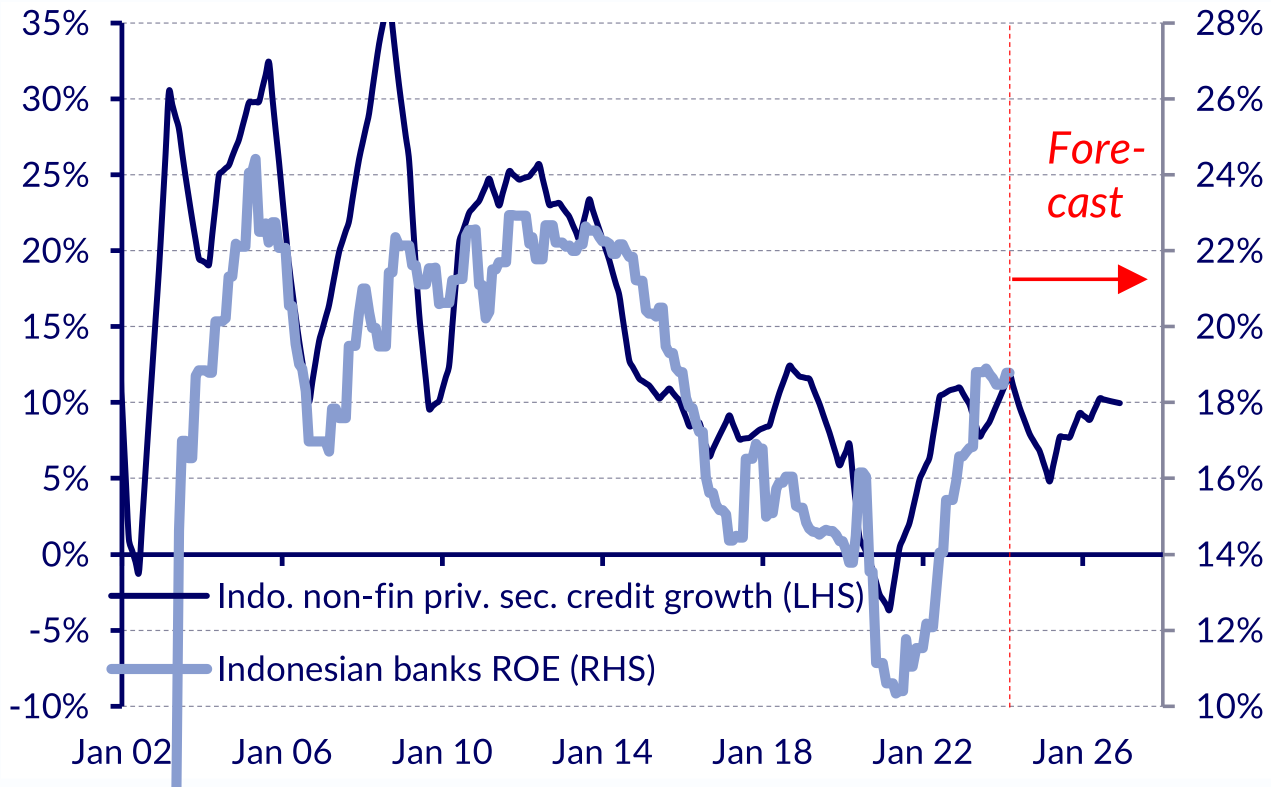
Source: CLSA, BIS

CLSA

Indonesia (40% overweight)

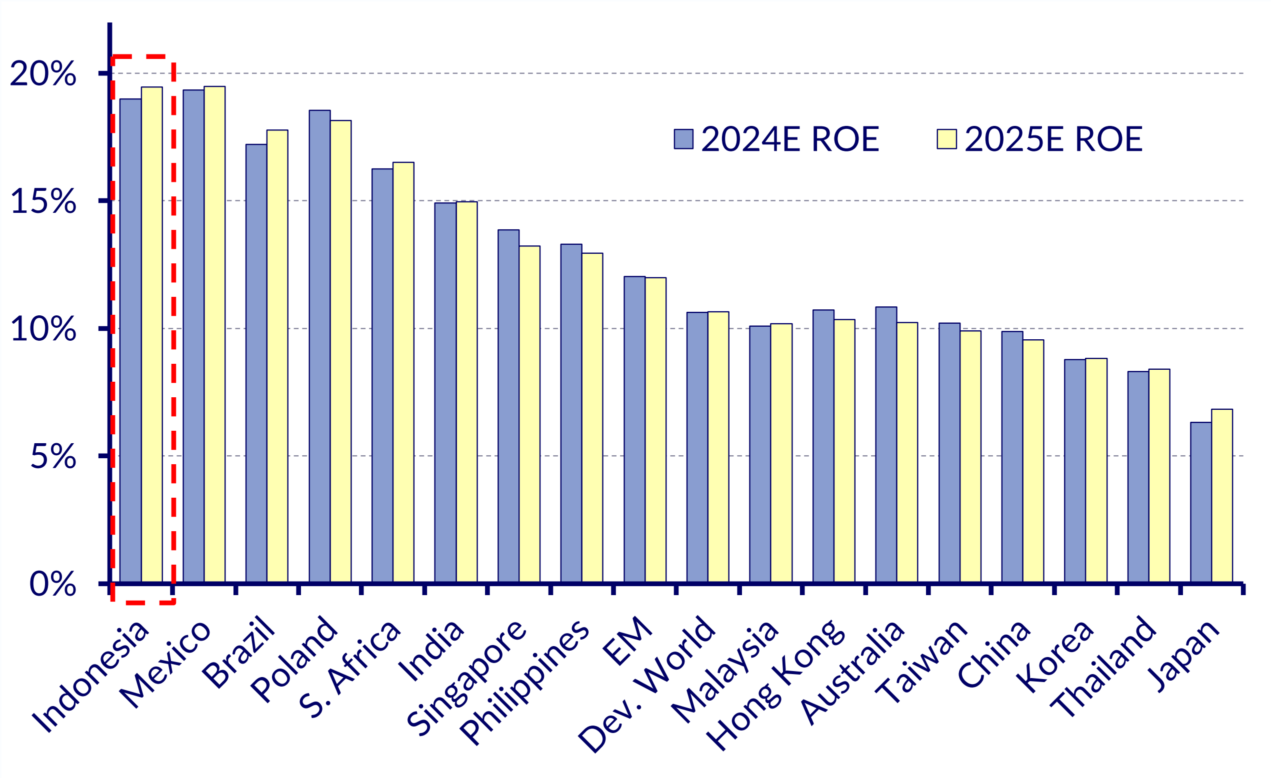
- Double-digit (c.10%) credit growth is typically accompanied by Indonesian bank ROE of c.18%.
- Indonesian banks remain the most profitable versus EM peers on 2025E consensus forecasts.

Indonesia private sector credit versus bank profitability



Source: CLSA, MSCI, Oxford Economics forecasts

EM and APAC banks sector profitability (2024 & 2025)



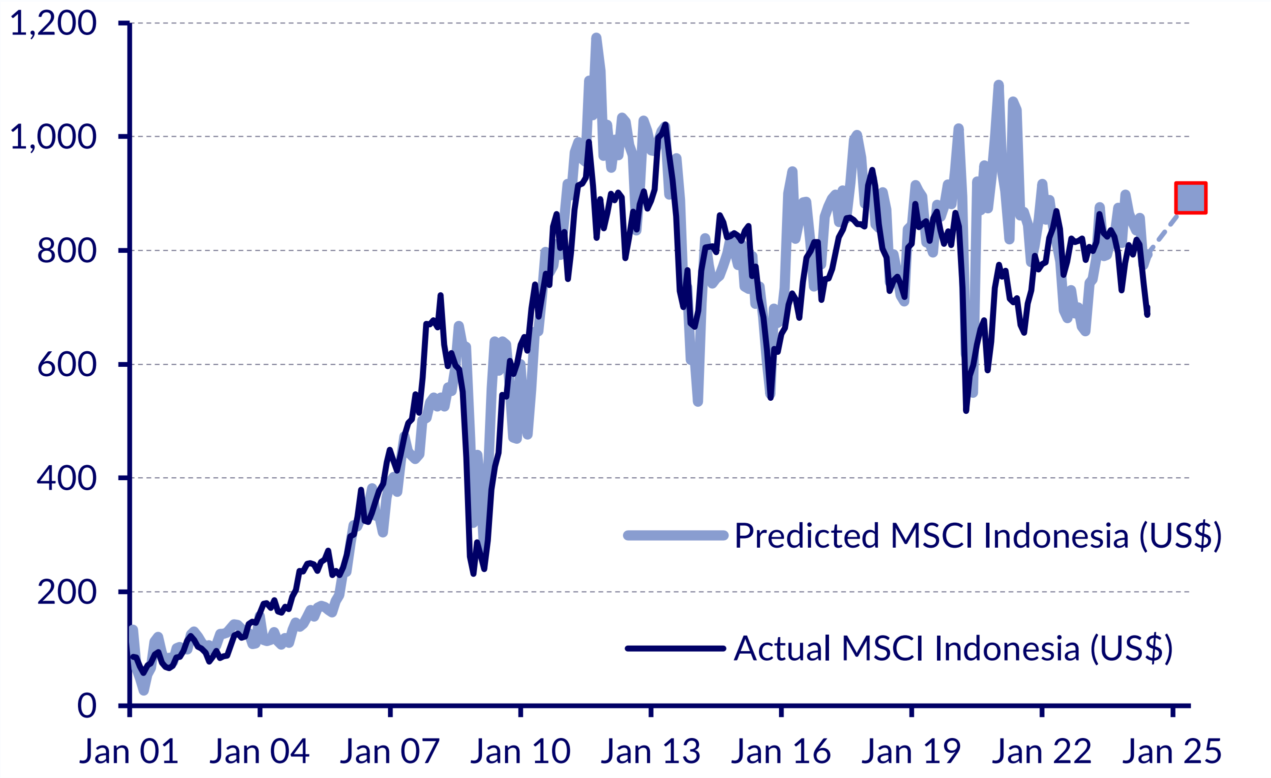
Source: CLSA, IBES

CLSA

Indonesia (40% overweight)

- Four macro variables explain almost two-thirds of monthly US$ movements in MSCI Indonesia.
- The market currently appears 13% oversold with 27% upside on CLSA economics forecasts.

Model predicted versus actual MSCI Indonesia



Source: CLSA, MSCI, ISM, Bank Indonesia, Statistics Indonesia

Four-factor regression model for MSCI Indonesia

Explanatory variable	Coeff.	P value	03 Jun current	+12m forecast	+12m change
ISM new orders	0.35	0.00	45.4	53.0	+7.6ppt
Indonesia IP YoY	0.90	0.00	3.5%	4.8%	+1.3ppt
Indonesia M2 YoY	1.51	0.00	6.9%	11.0%	+4.1ppt
USDIDR	-2.42	0.00	16,250	16,000	-1.5%

MSCI Indonesia index level	Current	Predicted	Upside
Model predicted based on curr. variables	701	793	13%
Model predicted based on f'cast variables	701	892	27%

Adj. R square 0.63 **Intercept** 0.00 **Observations** 281

Regressing YoY chgs for MSCI Indonesia against YoY chgs of indpdt. variables

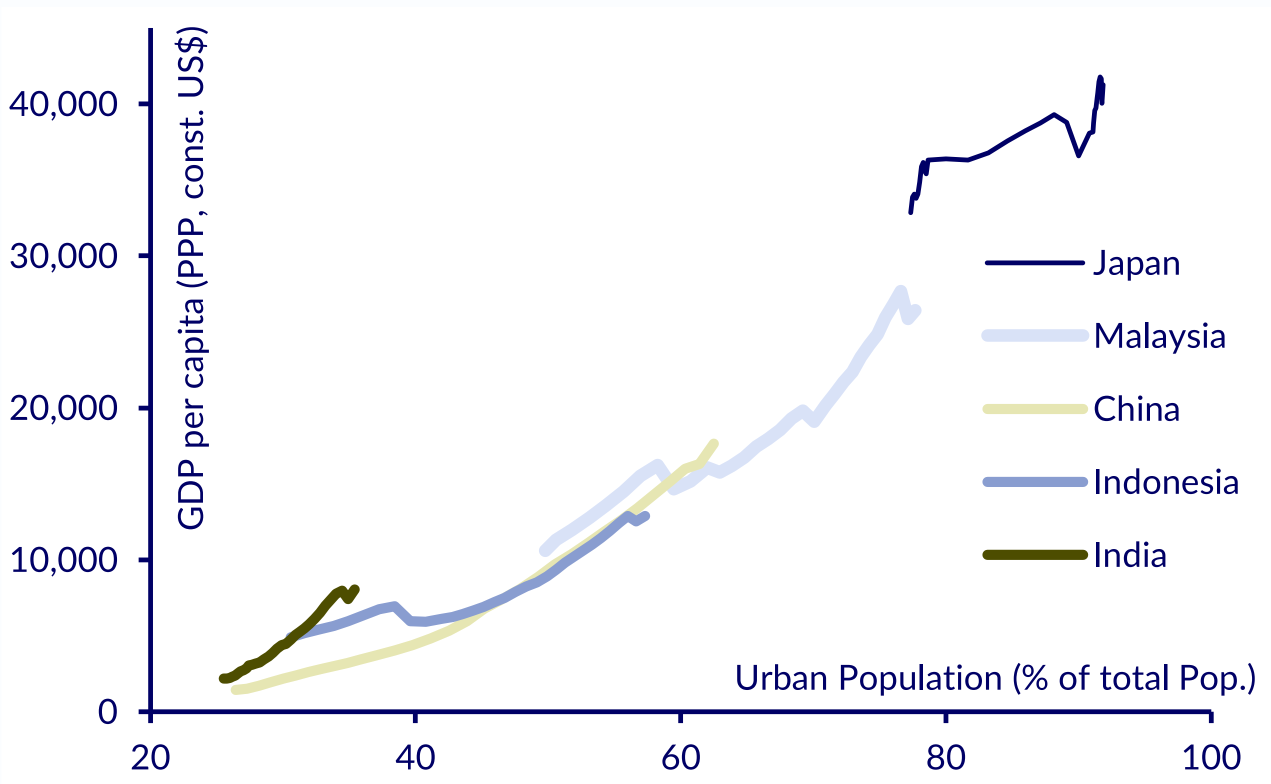
Source: CLSA, MSCI, ISM, Bank Indonesia, Statistics Indonesia

CLSA

Indonesia (40% overweight)

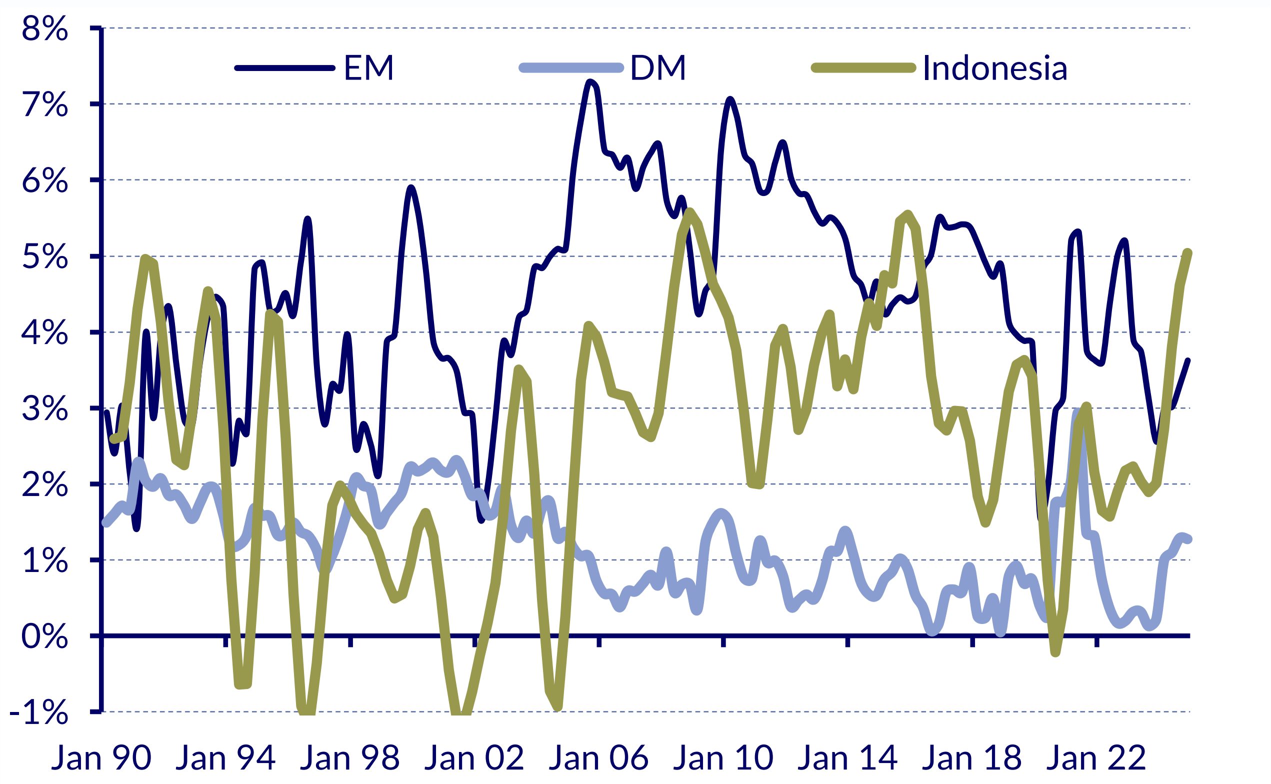
- Urbanisation and demographics continue to underpin a robust per capita growth rate.
- Indonesia's productivity growth now exceeds the EM average. Reform continuity is essential.

30Y progression of urbanisation versus per capita economic output in Asia (1990 through 2021)



Source: CLSA, World Bank Development Indicators

Indonesia, emerging versus developed markets productivity* growth



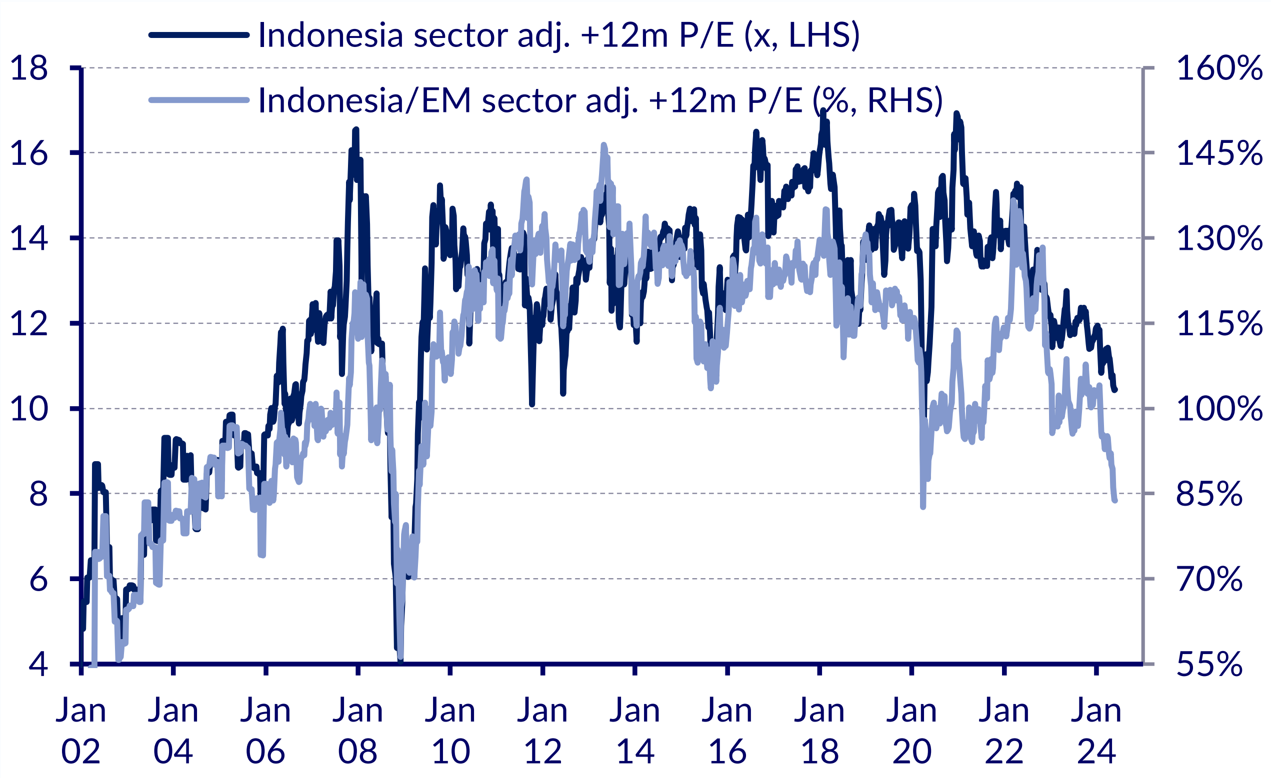
*Note: Productivity measured as GDP per employee hour worked
Source: CLSA, Oxford Economics forecasts

CLSA

Indonesia (40% overweight)

- Earnings-based valuation offers a good entry point at a 16% discount, the cheapest since 2009.
- Moreover, a 5% dividend yield is the most attractive across the Asia Pacific region.

MSCI Indonesia absolute and relative sector adjusted forward PE



Source: CLSA, MSCI, IBES

Indonesia versus EM dividend yield

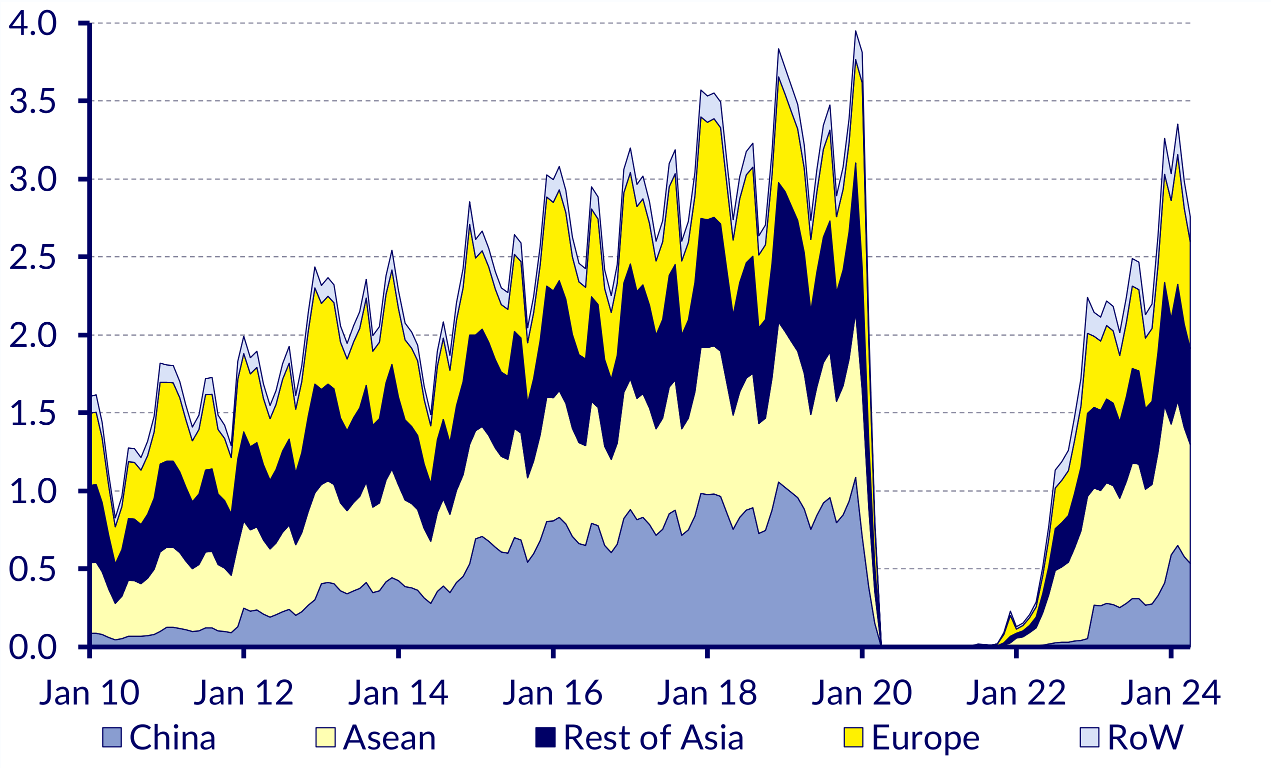
Source: CLSA, MSCI

CLSA

Thailand (10% overweight)

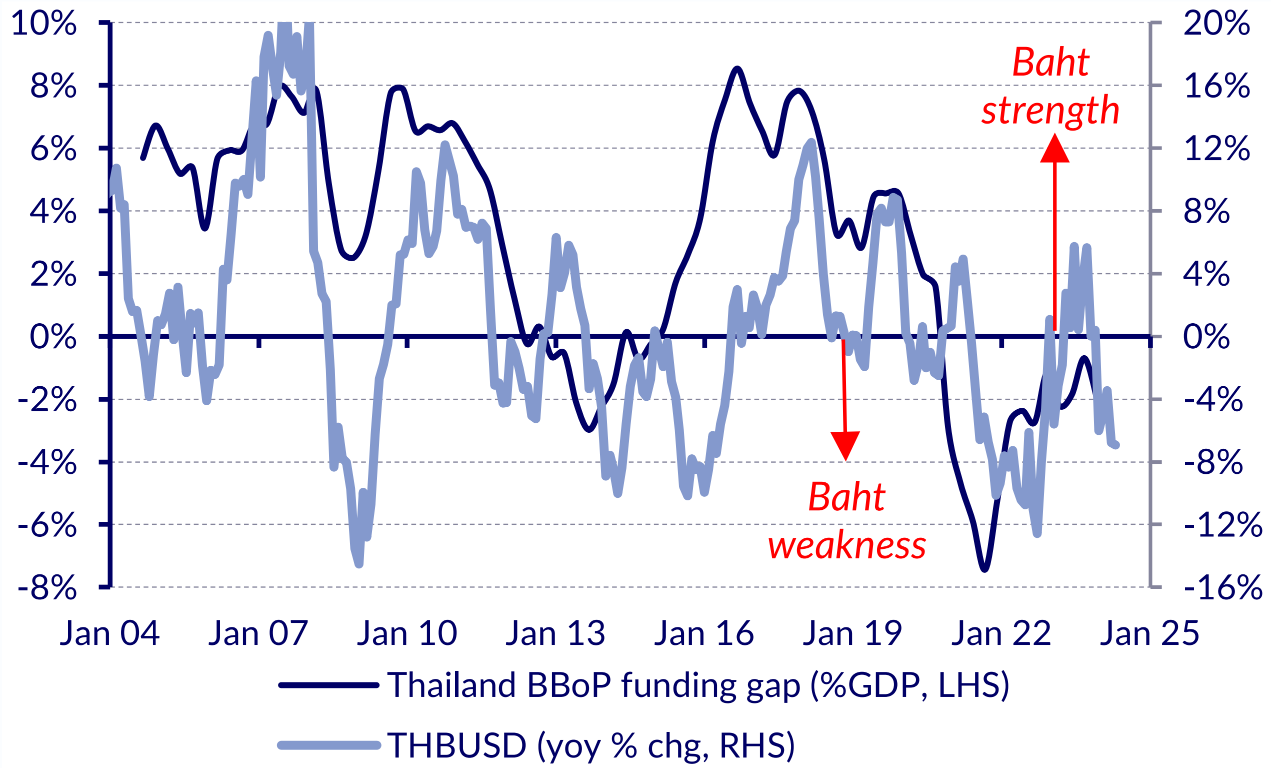
- Our overweight is contrarian. After a very disappointing 2023, we upgraded going into 2024.
- Tourism recovery can repair the external position to a level consistent with baht stability.

Thailand monthly tourist arrivals by nationality



Source: CLSA, Thailand Ministry of Tourism & Sports

Thailand basic balance of payments funding gap versus THBUSD

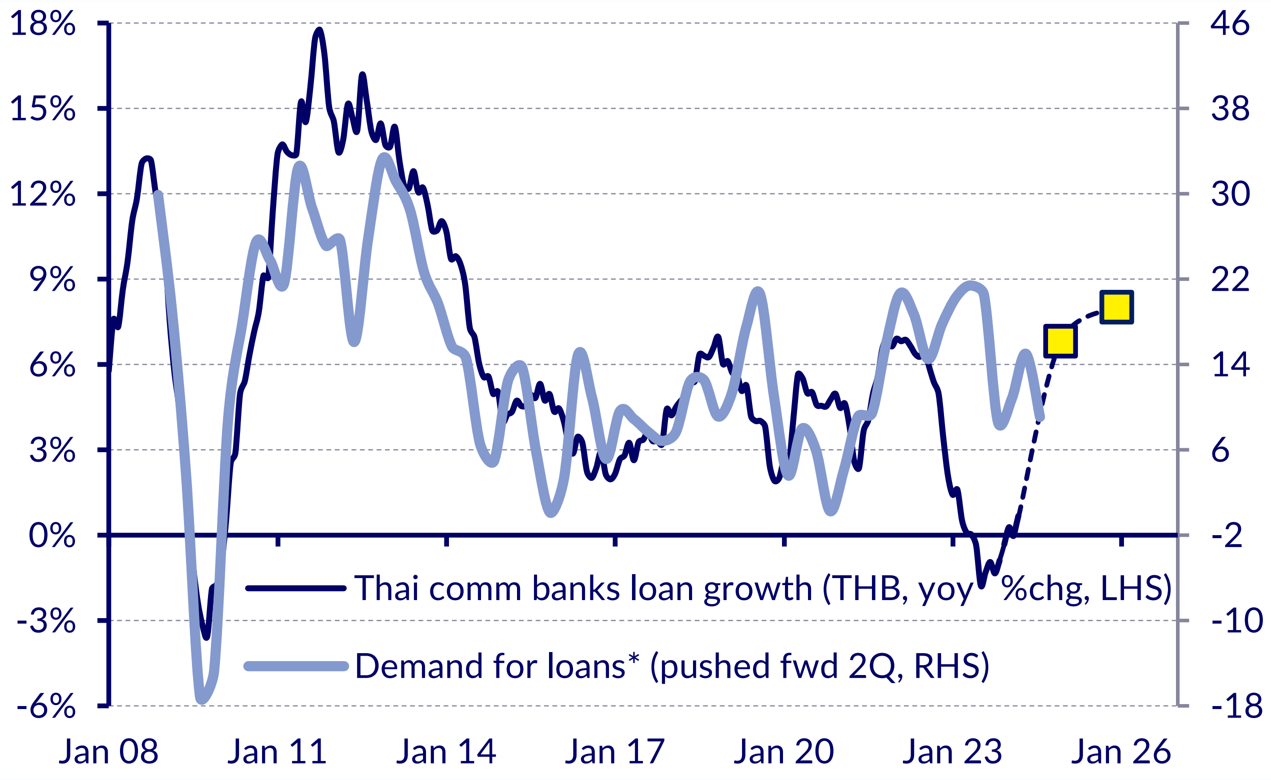


Source: CLSA, IMF, BIS

Thailand (10% overweight)

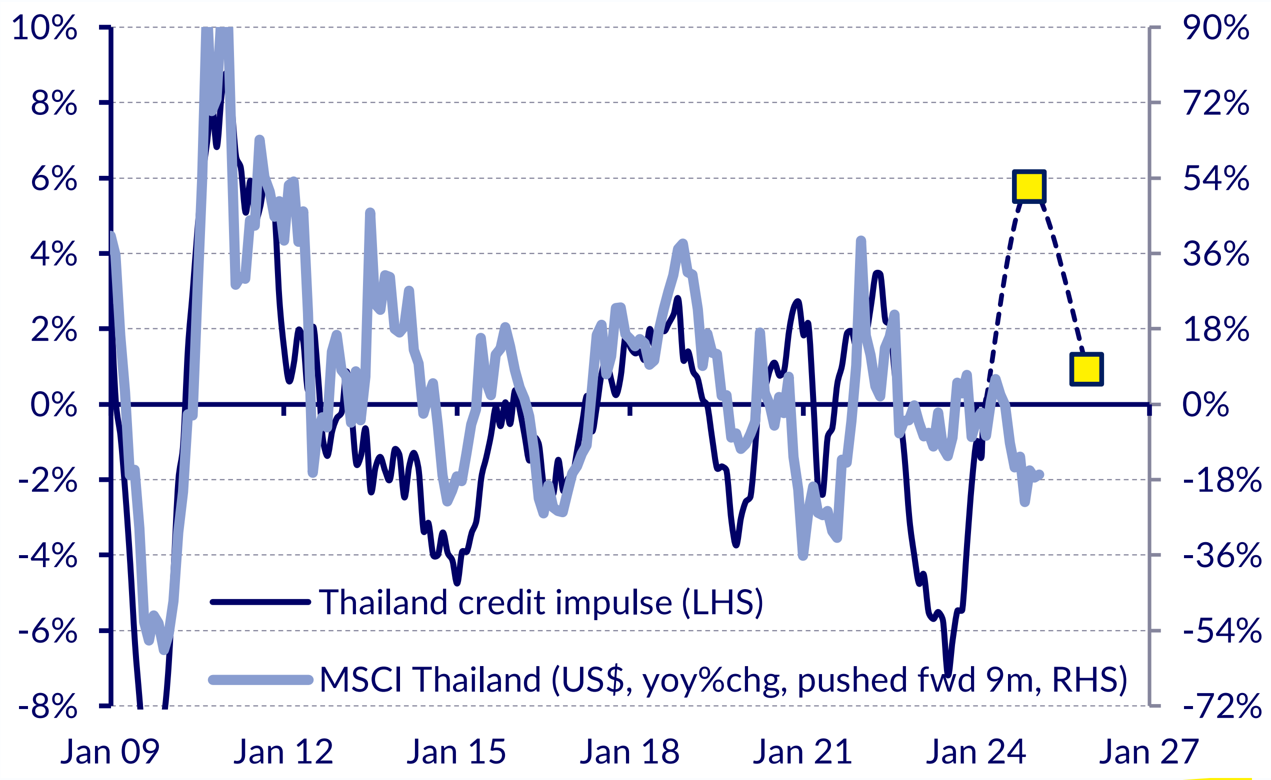
- We anticipate a recovery in credit growth following the only post-GFC contraction in 2023.
- This translates to marked recovery in the credit impulse, which the market is ignoring for now.

Thailand loan growth versus loan demand



*Average of corporate and consumer credit conditions survey
Source: CLSA, Bank of Thailand

Thailand credit impulse versus equity market momentum



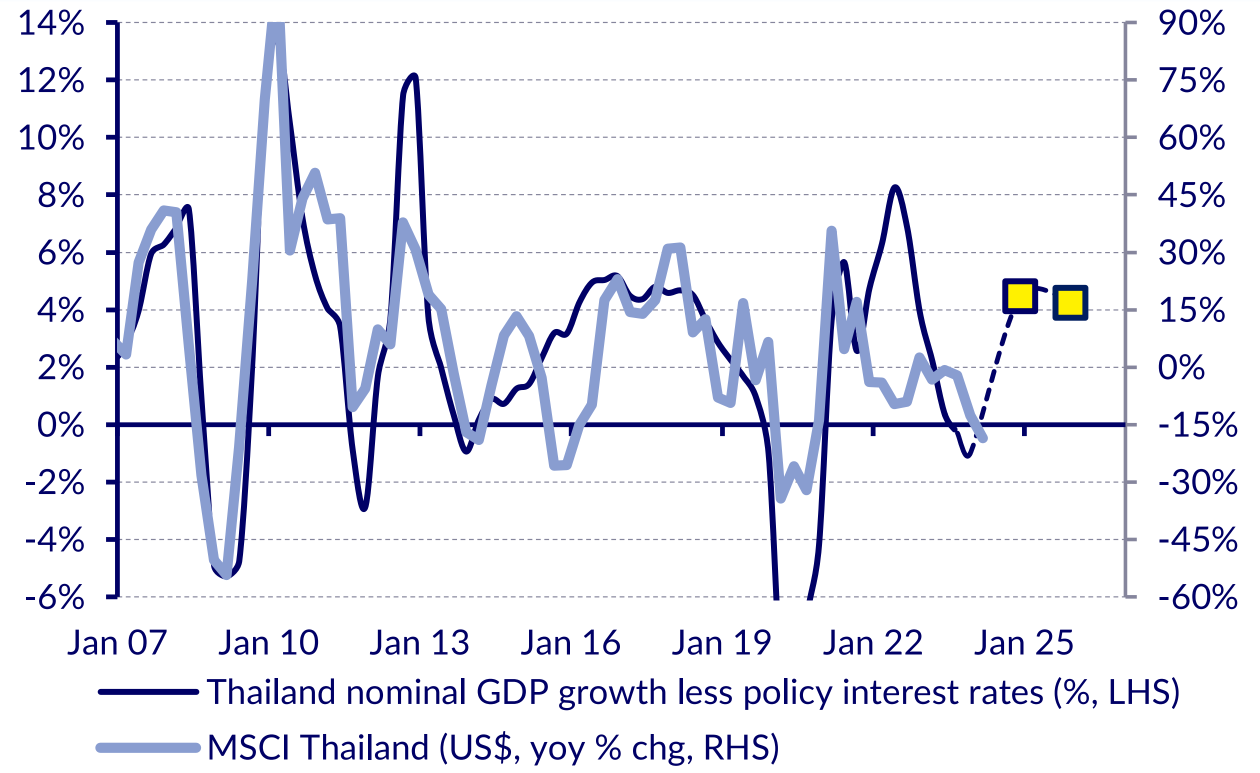
Source: CLSA, Bank of Thailand, MSCI

CLSA

Thailand (10% overweight)

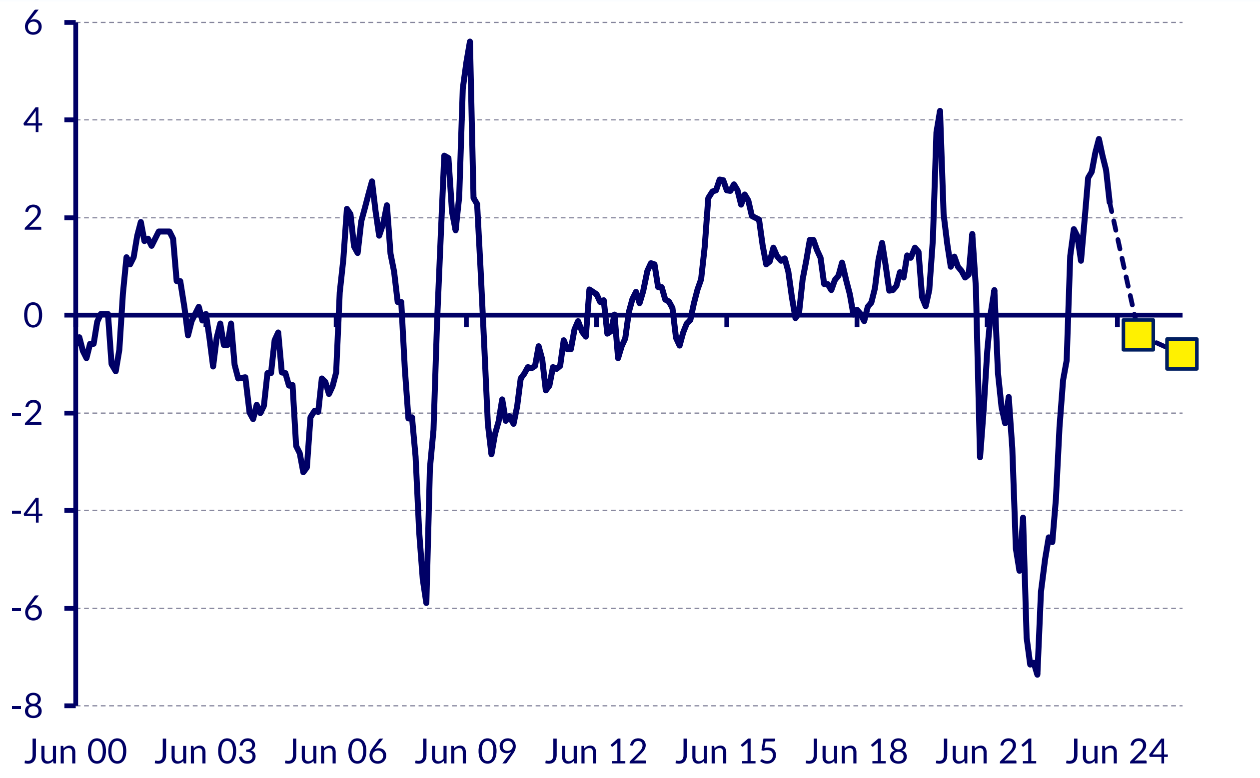
- A more accommodative policy environment (GDP less rates) is conducive to equity momentum.
- Reflation will drive real interest rates into negative territory with only marginal BoT easing.

Thailand nominal GDP growth less policy rates differential vs MSCI Thailand momentum



Source: CLSA forecasts, Oxford Economics, BIS, MSCI, Refinitiv

Thailand real interest rate (%)

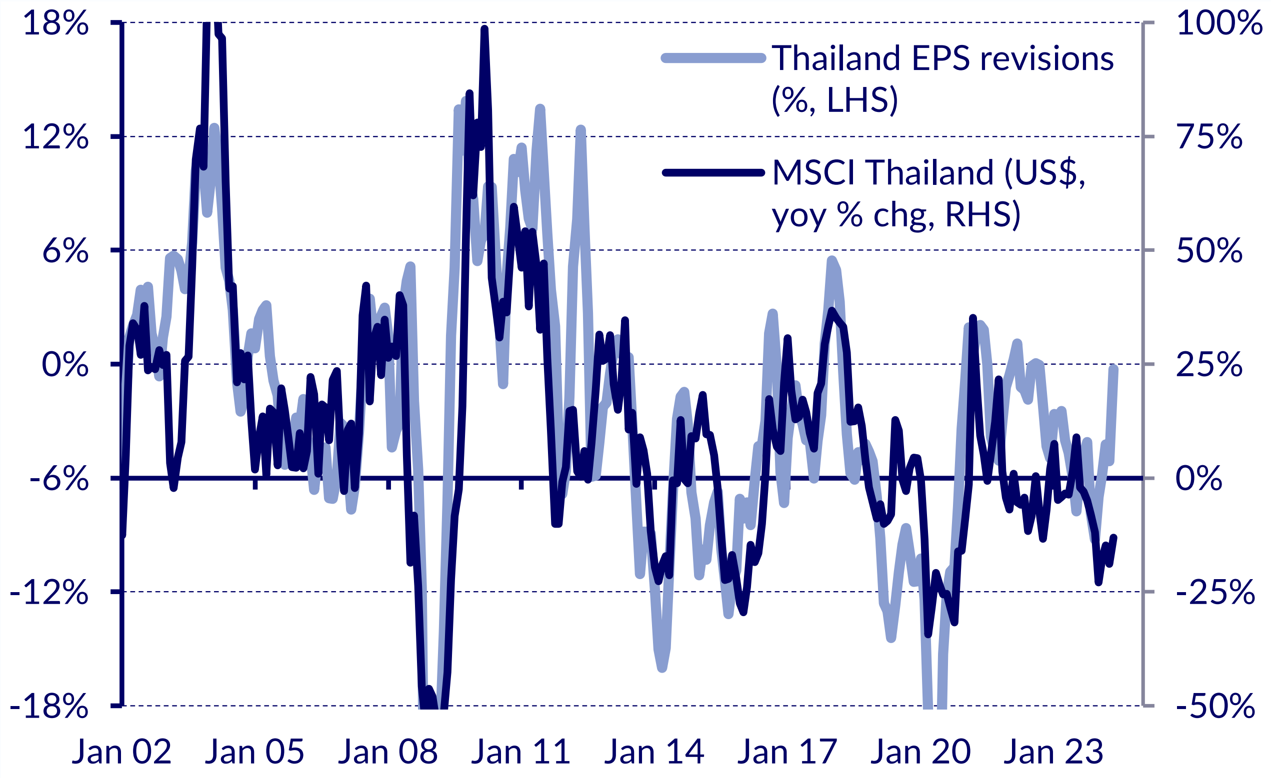


Source: CLSA, Thailand Bureau of Trade & Economic Indices, Refinitiv

Thailand (10% overweight)

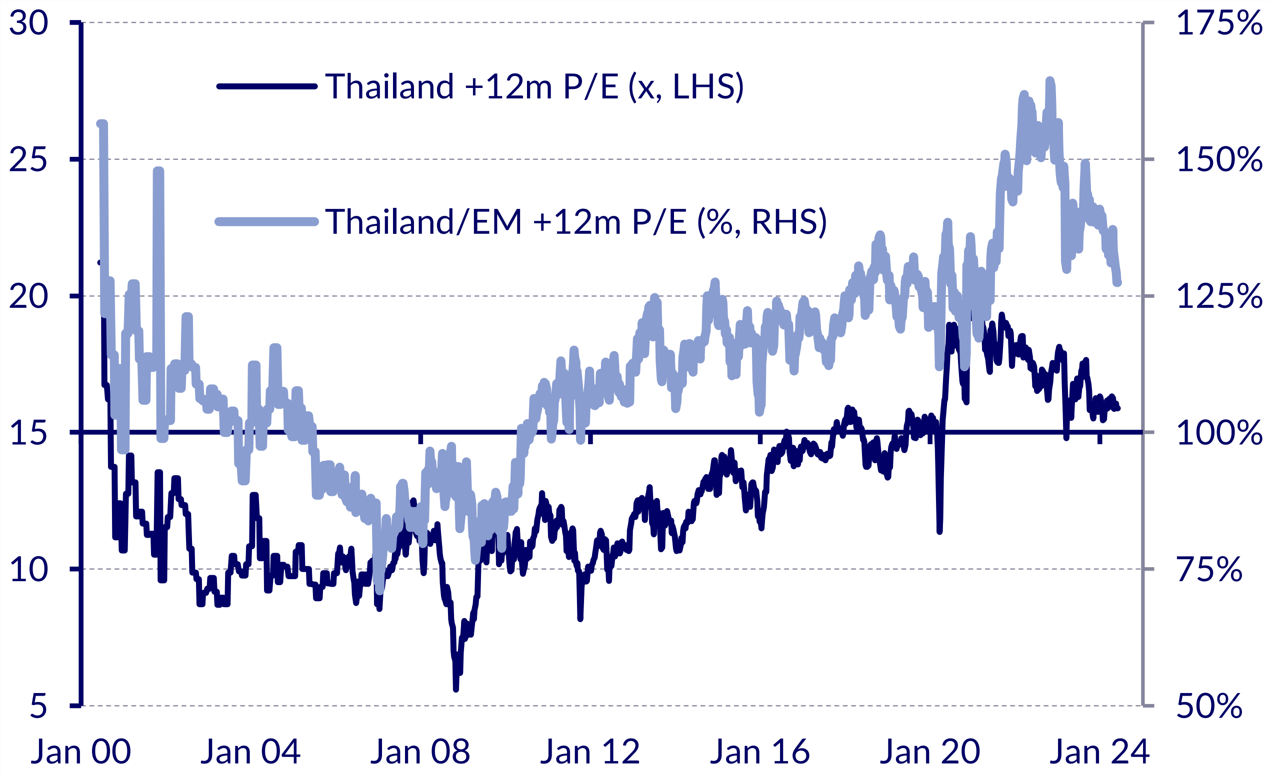
- The market is lagging the improvement to analyst revisions to 12 -month ahead EPS forecasts.
- Thailand's absolute and relative earnings valuation is the cheapest in several years.

Thailand earnings revisions versus performance momentum



Source: CLSA, IBES, MSCI

Thailand absolute and relative consensus 12-month forward P/E



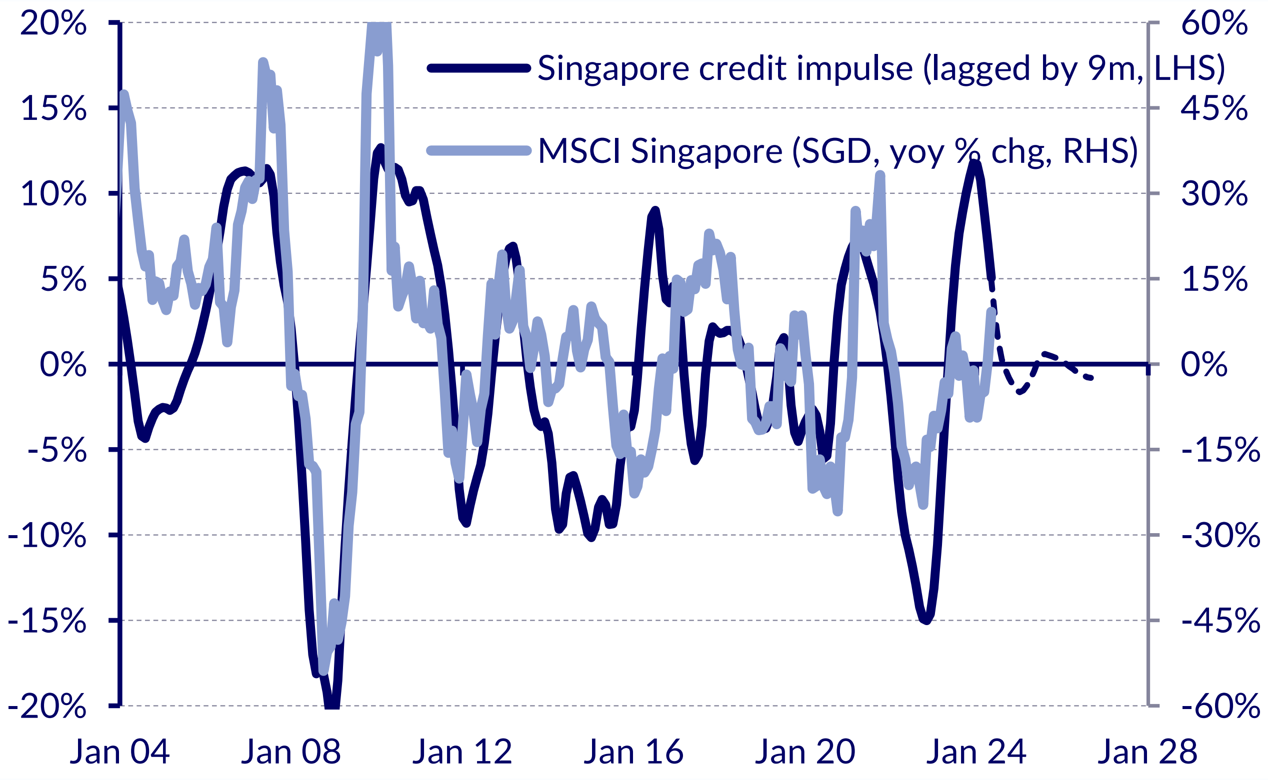
Source: CLSA, MSCI, IBES

CLSA

Singapore (benchmark)

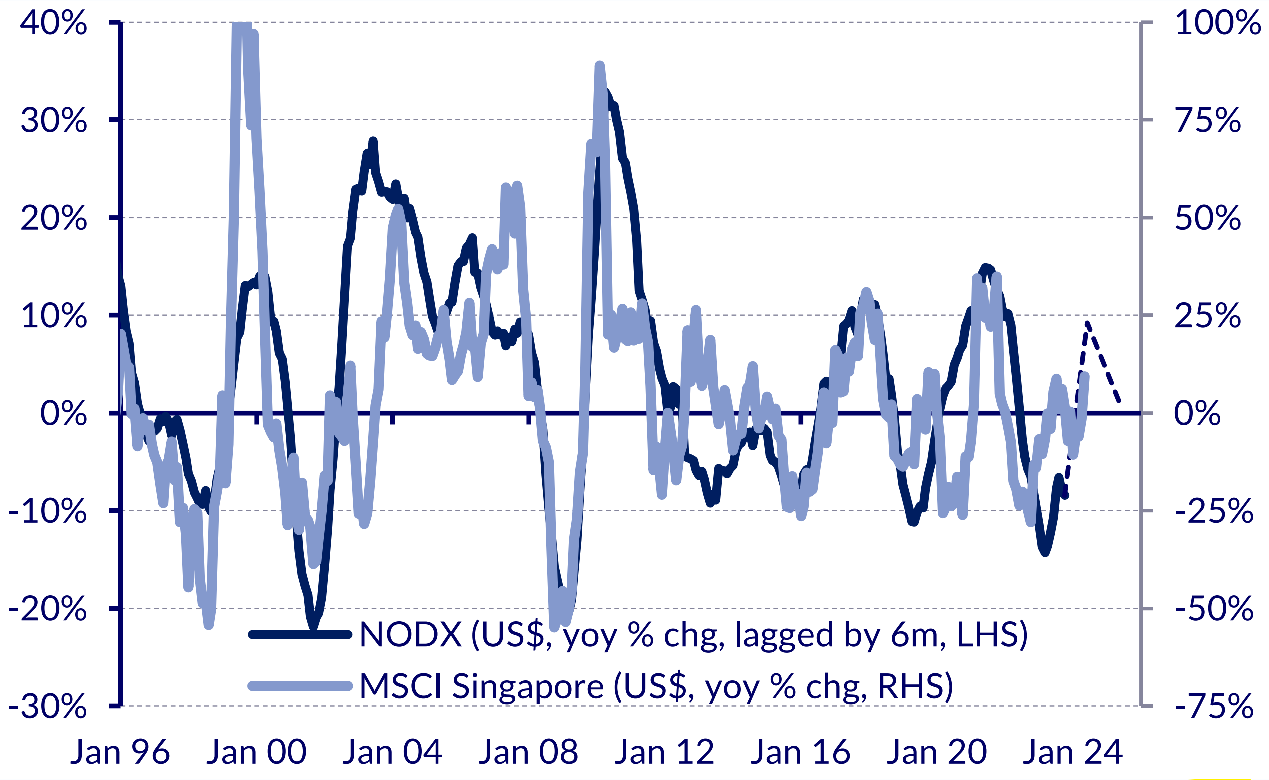
- Singapore is a regional proxy and has kept pace with Asia Pac (ex Jap) for the past three years.
- Market drivers are signaling this pattern of in -line performance persists, hence our benchmark.

Singapore credit impulse versus equity market momentum



Source: CLSA, Refinitiv, Oxford Economics forecasts

Singapore non-oil domestic exports versus equity momentum



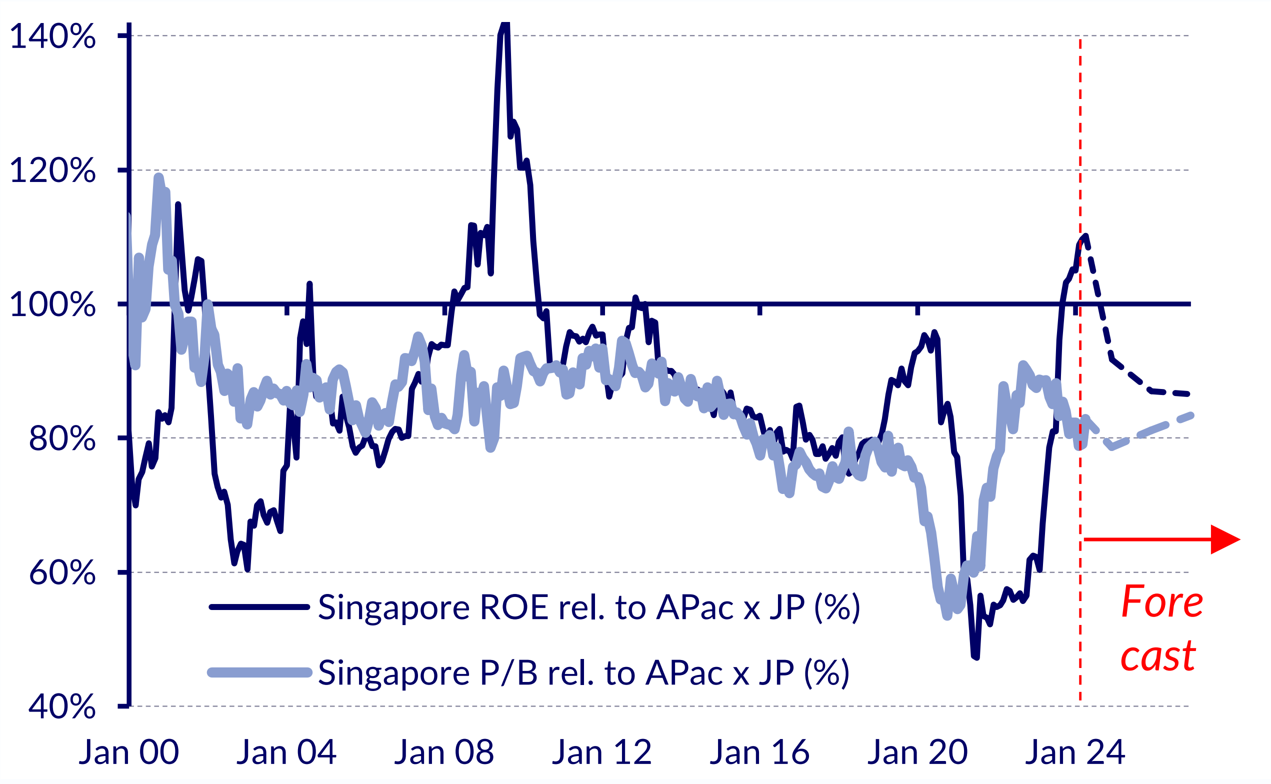
Source: CLSA forecasts, MSCI, Statistics Singapore

CLSA

Singapore (benchmark)

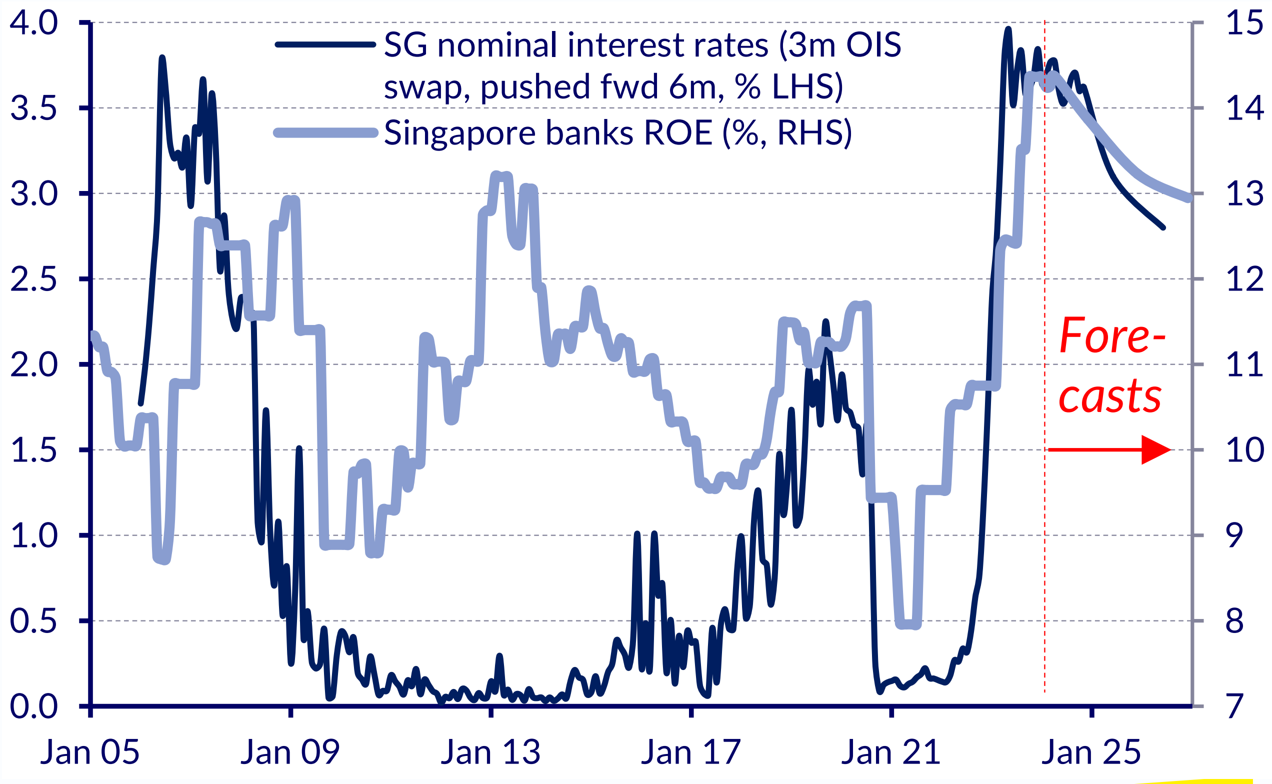
- The ongoing recovery in non-bank ROE is insufficient to maintain superior ROE for the market.
- Bank ROE (50% of MSCI index) will be eroded by falling NIMs with only modest credit growth.

Singapore ROE and PB relative to the region



Source: CLSA, MSCI

Singapore: nominal interest rates versus banks profitability



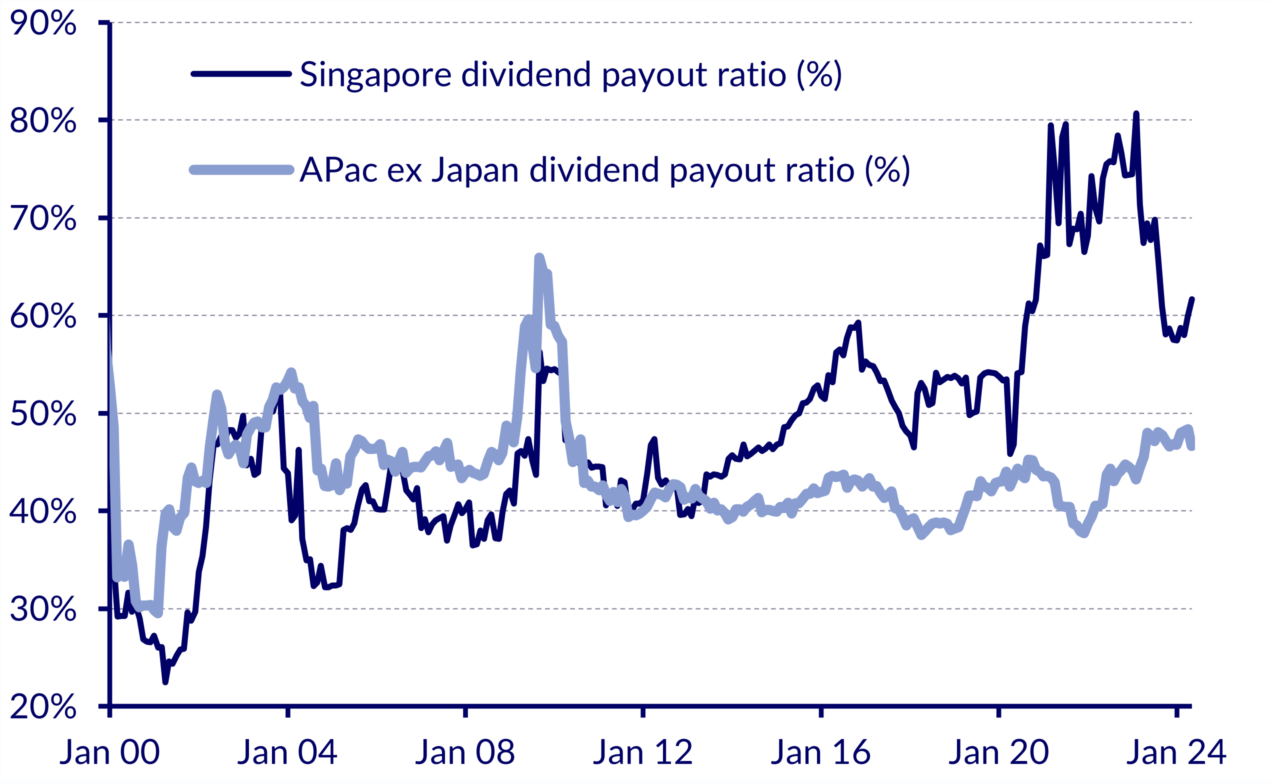
Source: CLSA, MSCI, Refinitiv, CLSA forecasts

CLSA

Singapore (benchmark)

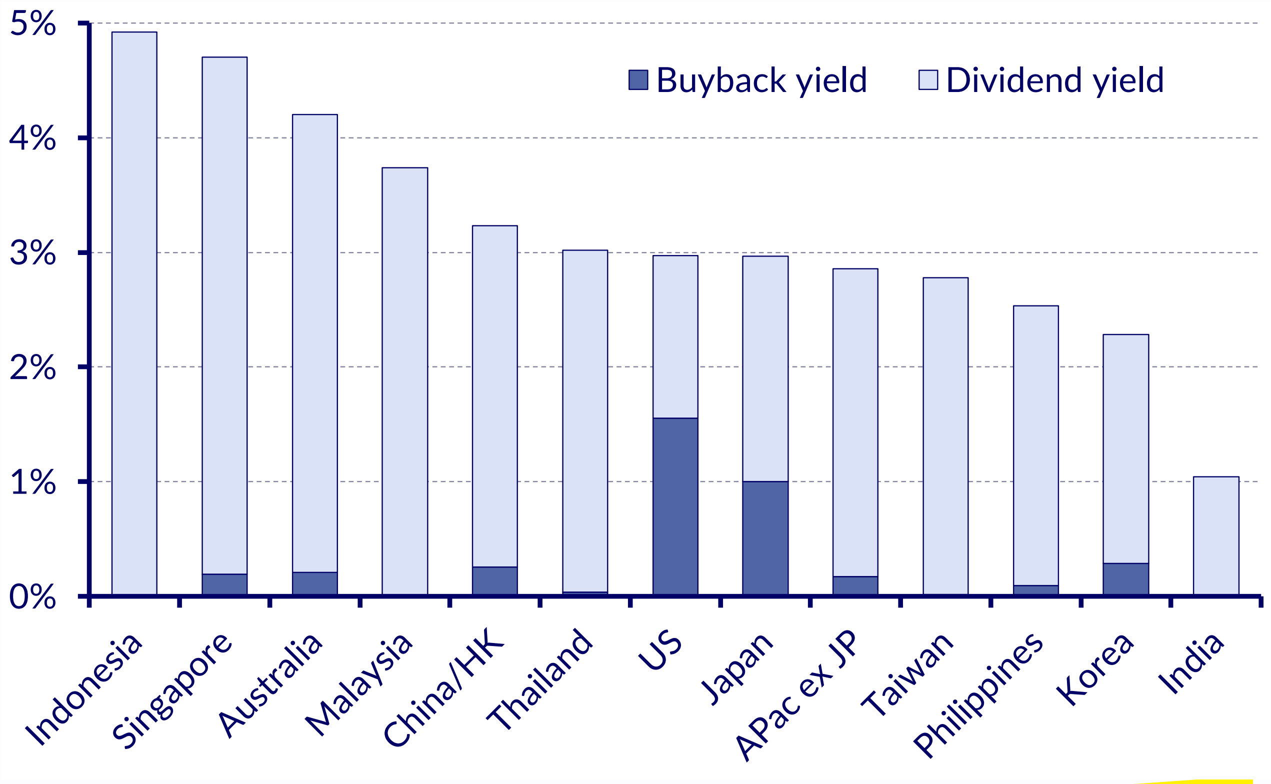
- Singapore offers superior yield over the cycle. The payout ratio is second only to Australia.
- Shareholder yield is second only to Indonesia. Banks, telecoms and REITs are 65% of the index.

Singapore relative to the region dividend payout ratio



Source: CLSA, MSCI

Asia Pacific versus US shareholder yield

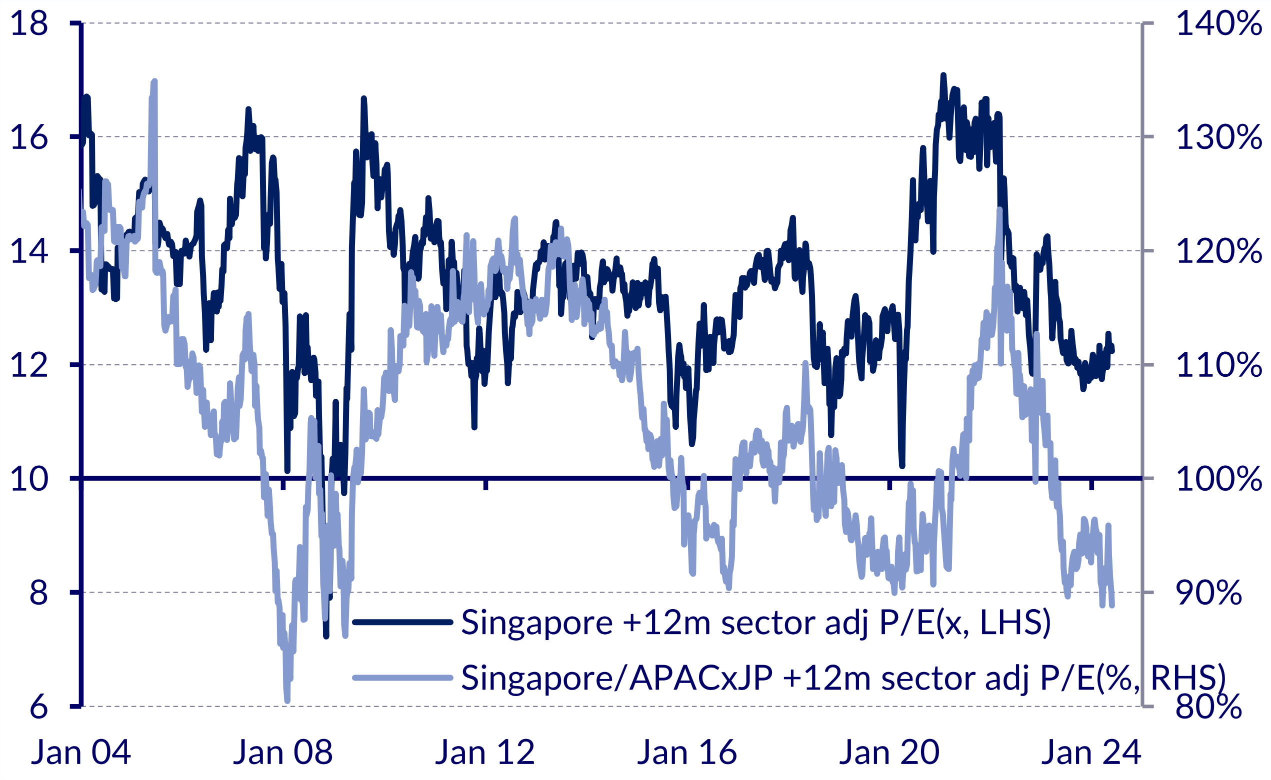


Source: CLSA, Bloomberg, MSCI

Singapore (benchmark)

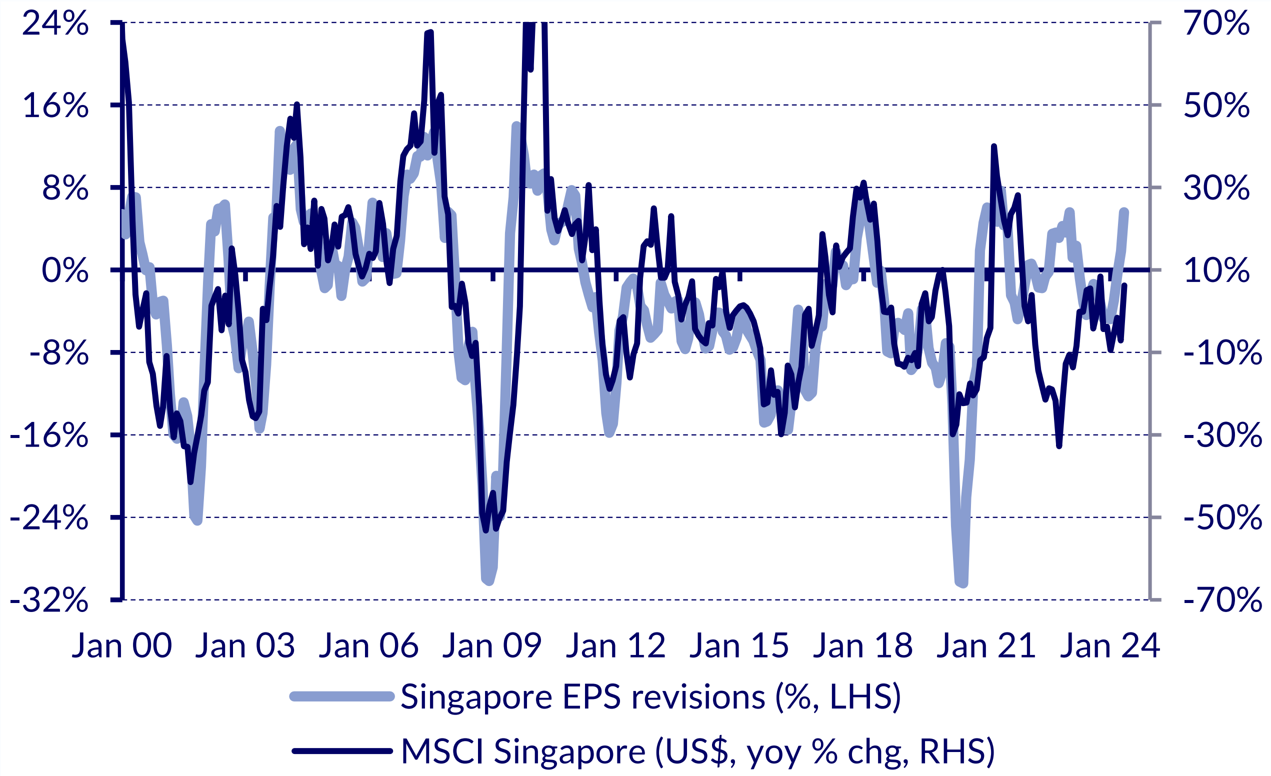
- Relative 12-month forward PE is at an 11% discount to the region, the cheapest in 15 years.
- Equity momentum appears to be lagging the uptick in EPS revisions, the strongest regionally.

Singapore absolute and relative +12m consensus sector adjusted PE



Source: CLSA, IBES, MSCI

Singapore earnings revisions versus performance momentum

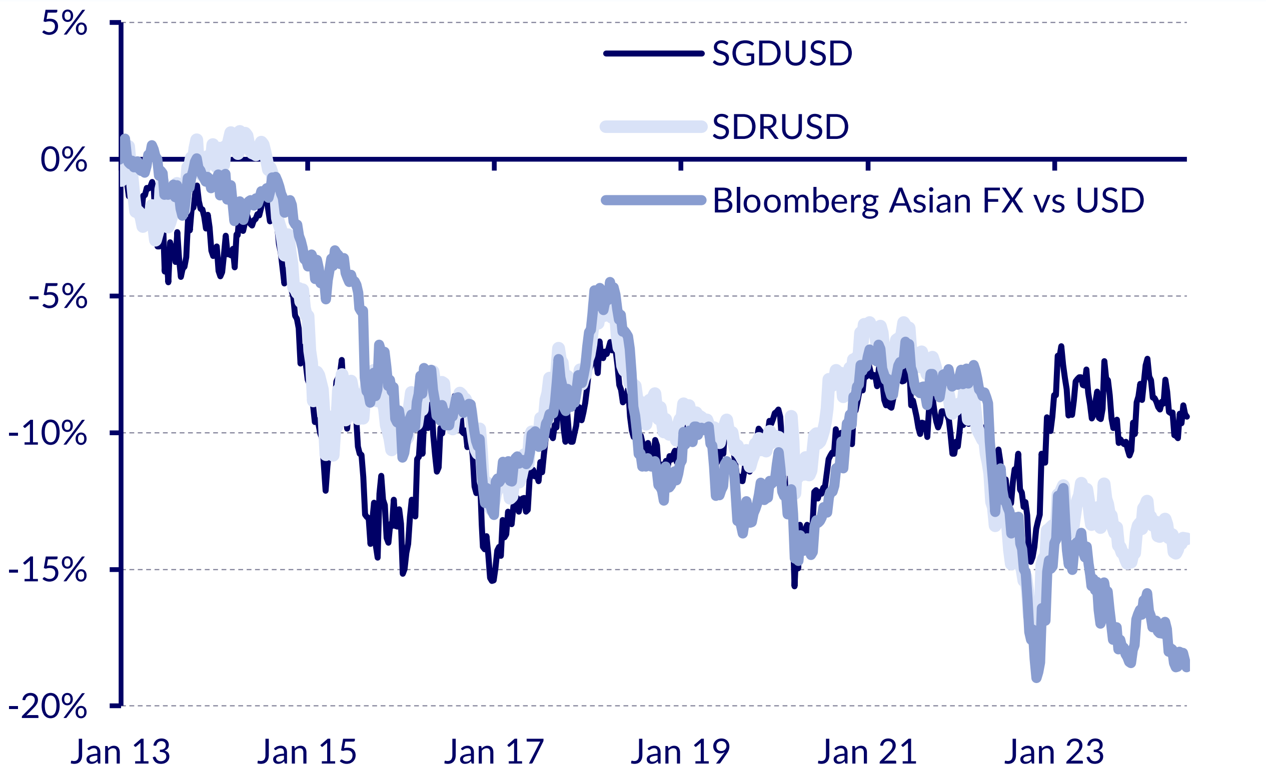


Source: CLSA, IBES, MSCI

Singapore (benchmark)

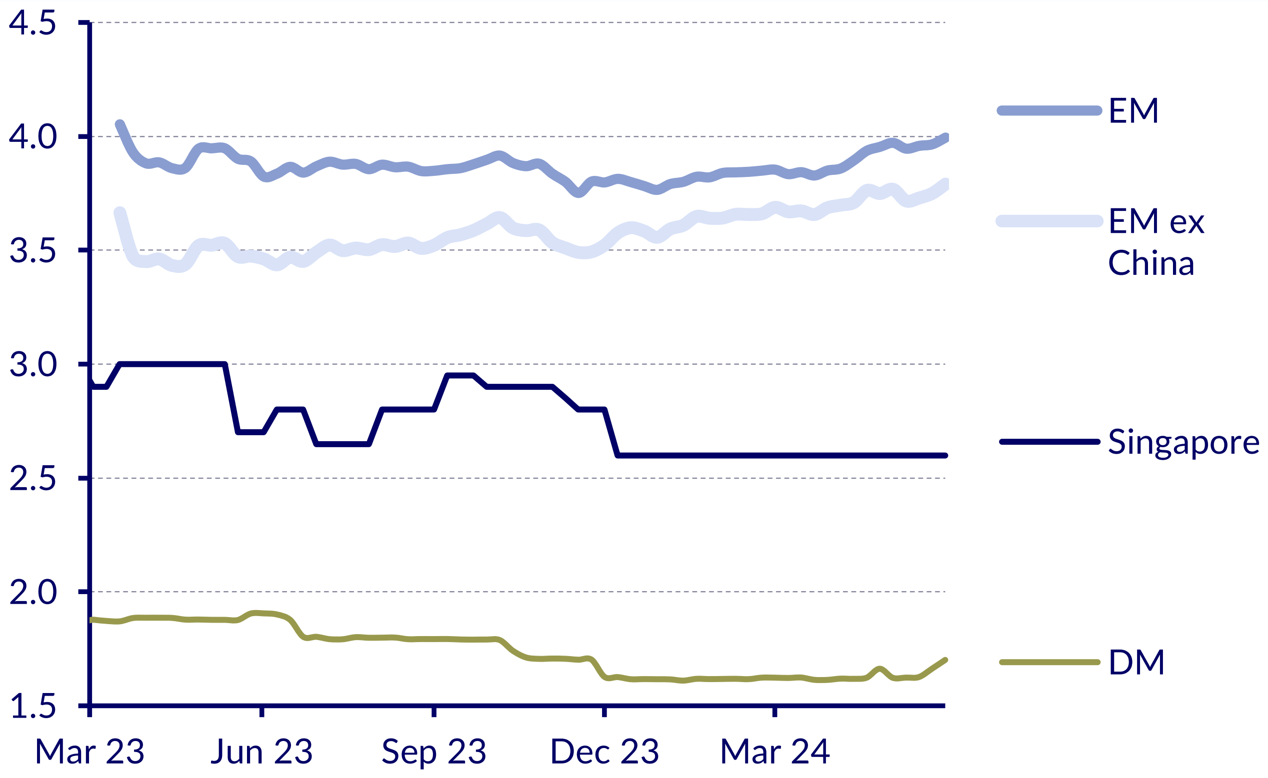
- The Singapore dollar may have less to gain vs regional currencies when the Fed finally eases.
- 2025 GDP growth is mid-range, bridging the gap between emerging and developed economies.

Singapore dollar, regional and SDR currency basket vs USD



Source: CLSA, Bloomberg

Singapore vs EM and DM 2025 real GDP growth forecast (%, equity mkt cap weighted)



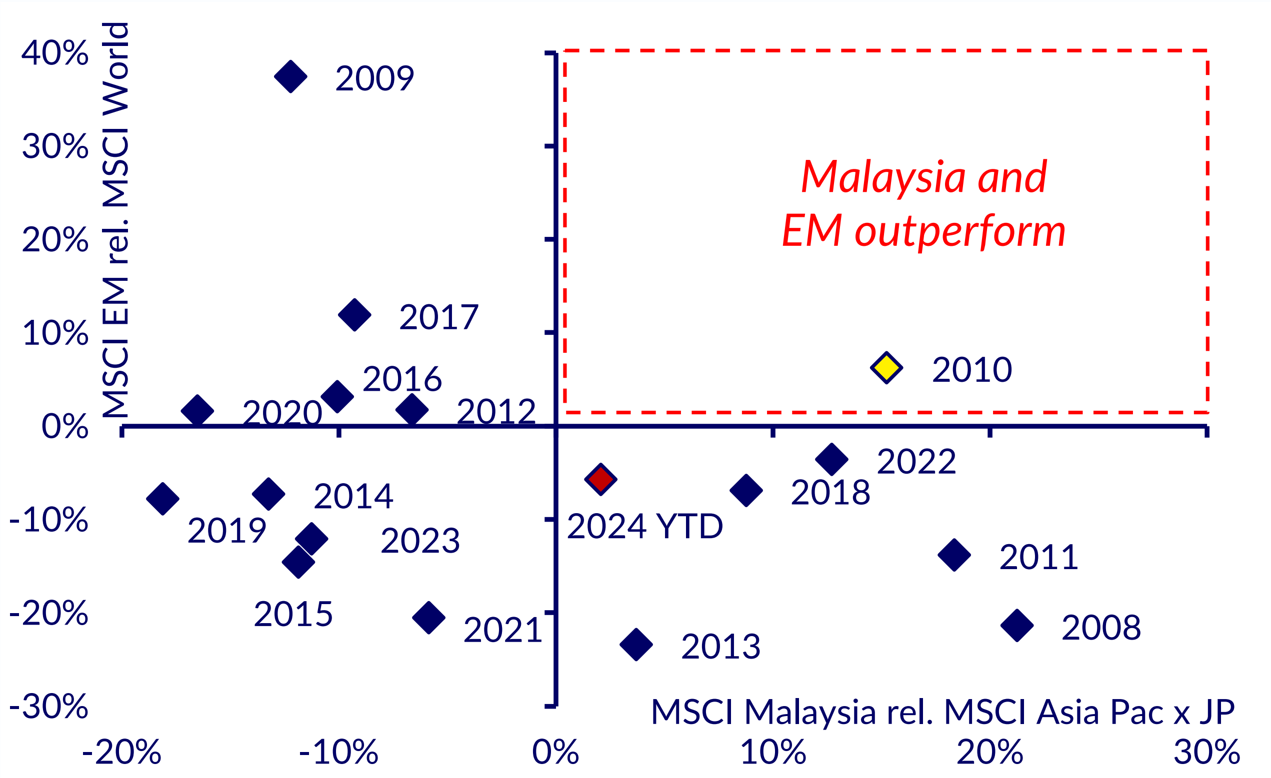
Source: CLSA, Bloomberg

CLSA

Malaysia (60% underweight)

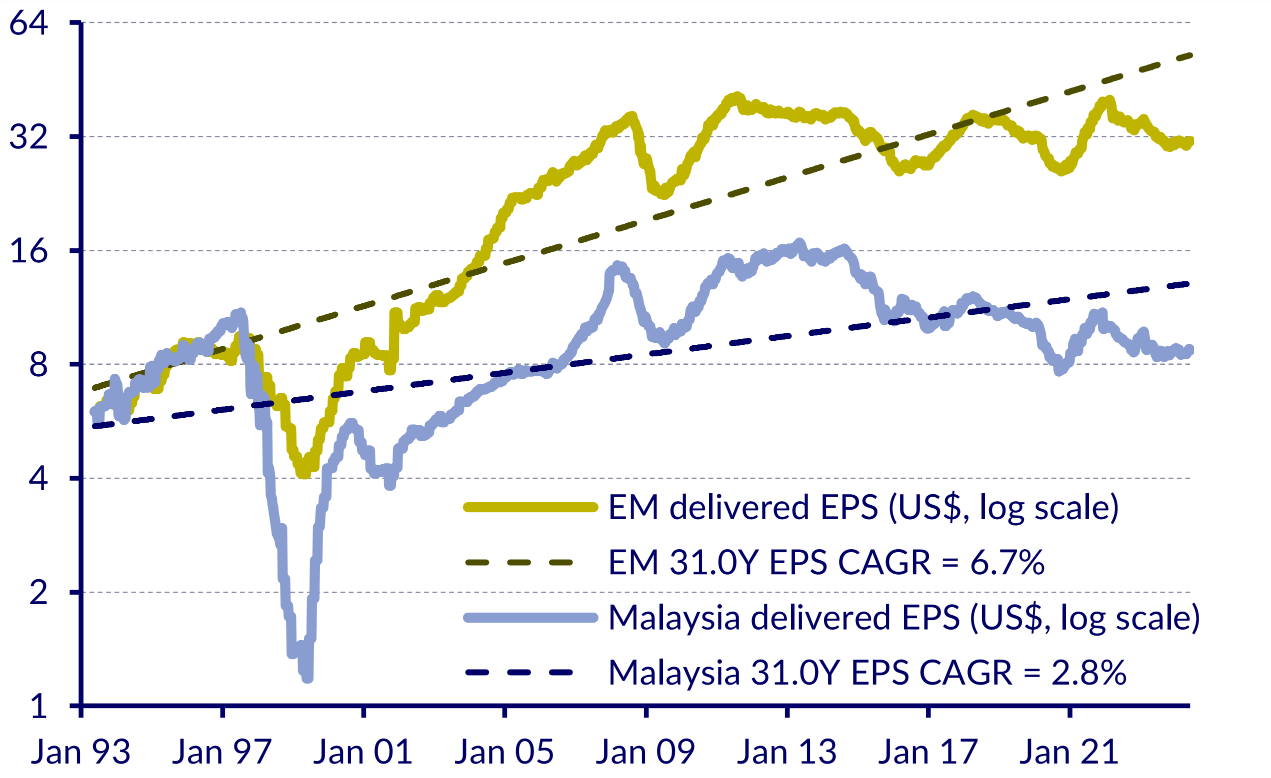
- Malaysia rarely outperforms alongside overall emerging markets (only once since 2007).
- The market's long-term US$ EPS Cagr (2.8%) is less than half that of overall EM (6.7%).

Malaysia and Emerging Markets rarely outperform together (indeed once in the past 17 years)



Source: CLSA, MSCI

Malaysia versus EM 30-year US dollar EPS progression



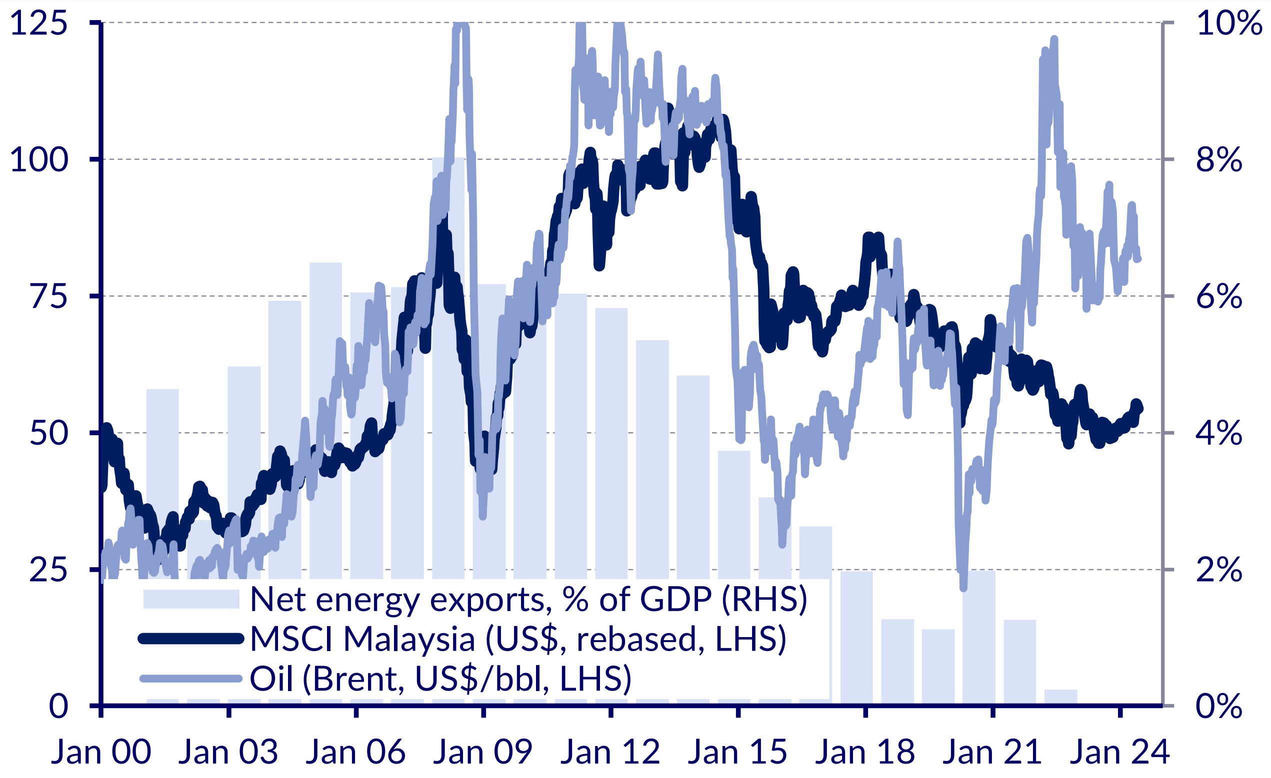
Source: CLSA, IBES, MSCI

CLSA

Malaysia (60% underweight)

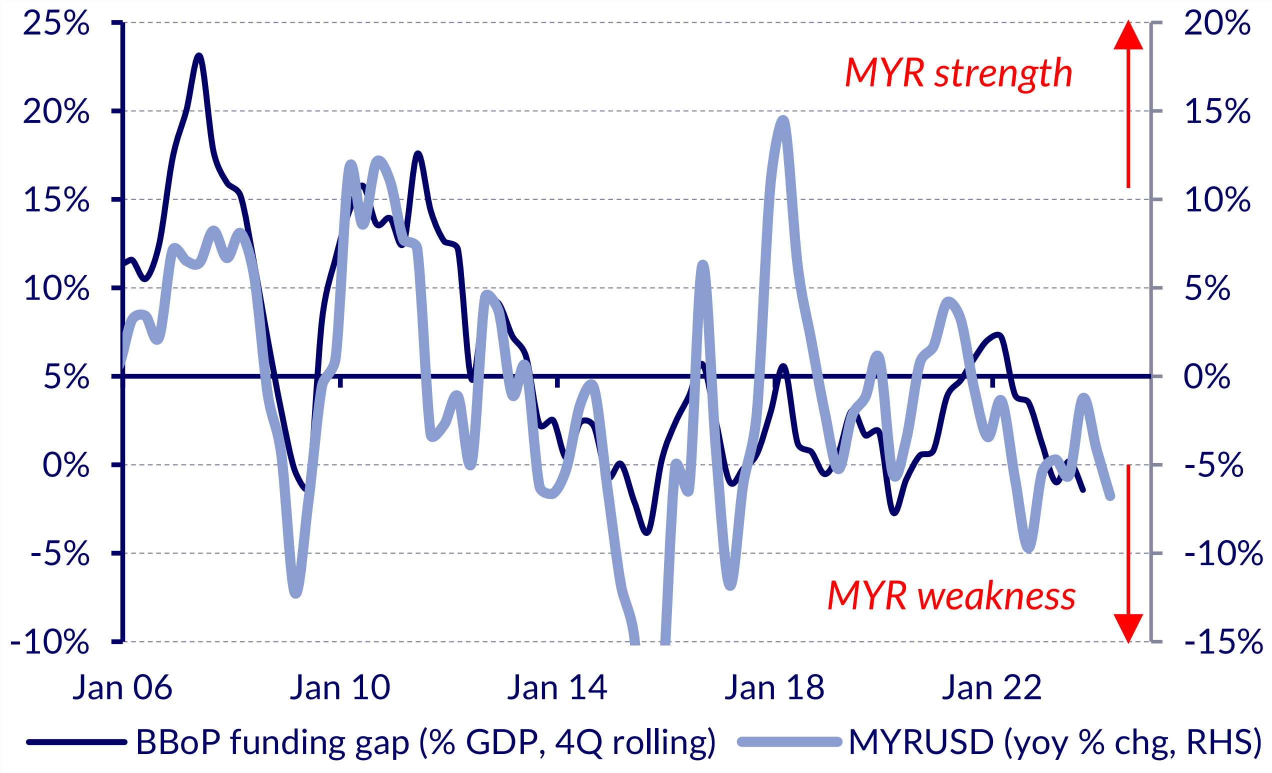
- A higher oil price no longer supports the ringgit given the total erosion of net energy exports.
- The deterioration in Malaysia's external position is consistent with continued MYR weakness.

MSCI Malaysia versus the oil price (with net energy exports)



Source: CLSA, MSCI, Refinitiv, International Trade Centre

Malaysia BBoP funding gap versus USDMYR momentum



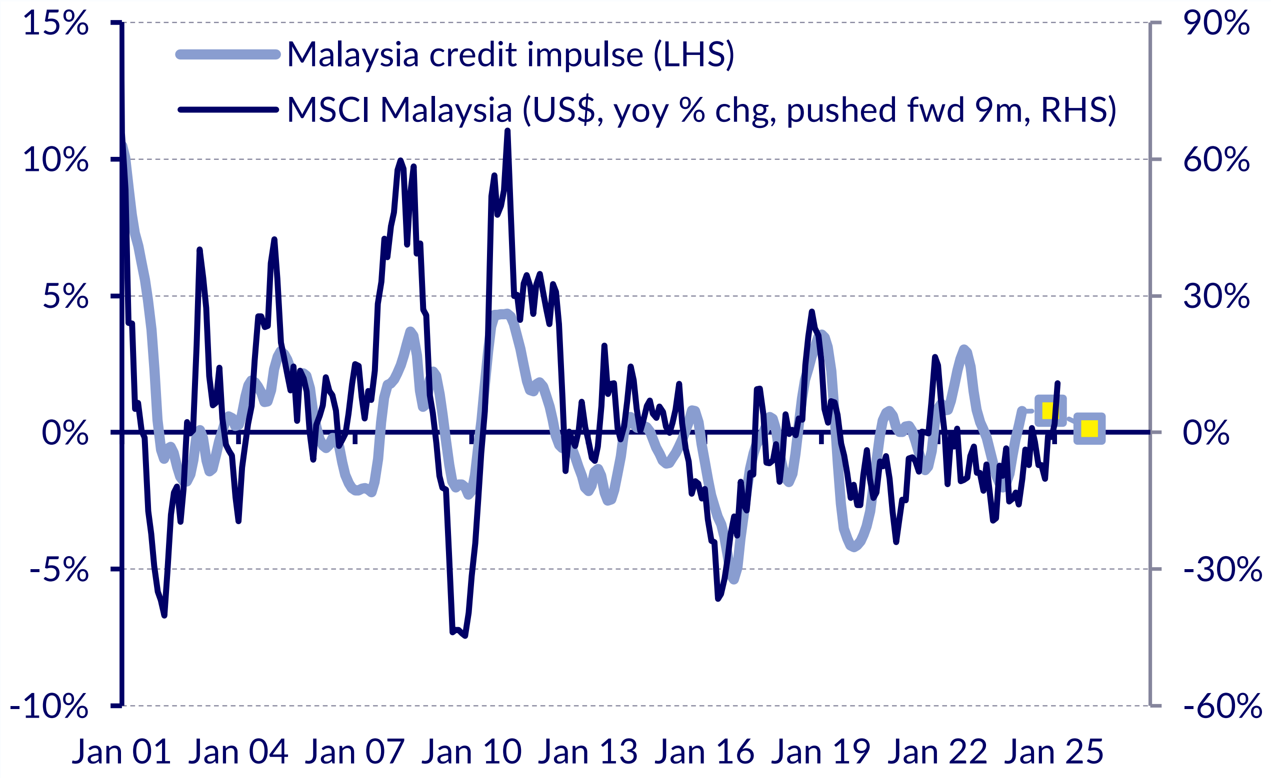
Source: CLSA, IMF, Refinitiv

CLSA

Malaysia (60% underweight)

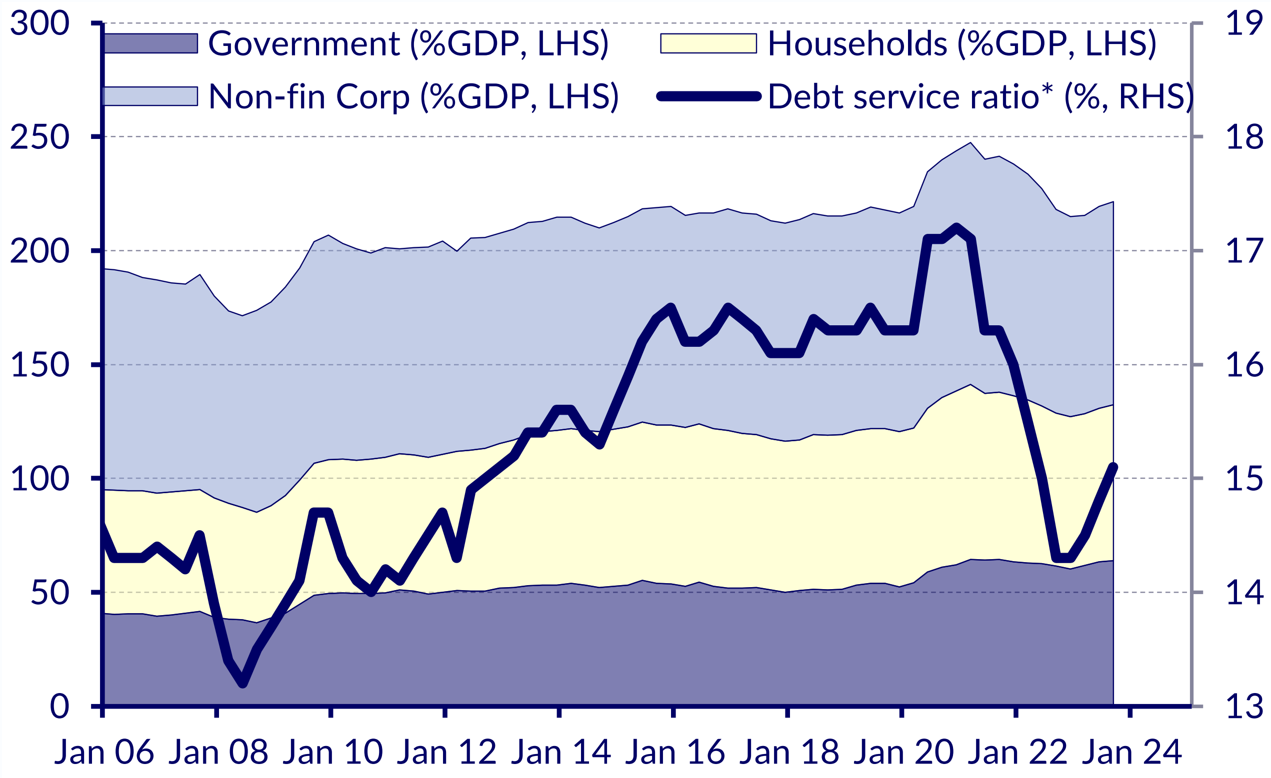
- We anticipate only a marginally positive credit impulse consistent with a meagre equity return.
- Malaysia's debt service ratio is high relative to the EM average and leverage already elevated.

Malaysia credit impulse versus equity market momentum



Source: CLSA, Refinitiv, Oxford Economics forecasts

Malaysia credit to GDP by sector versus debt service ratio



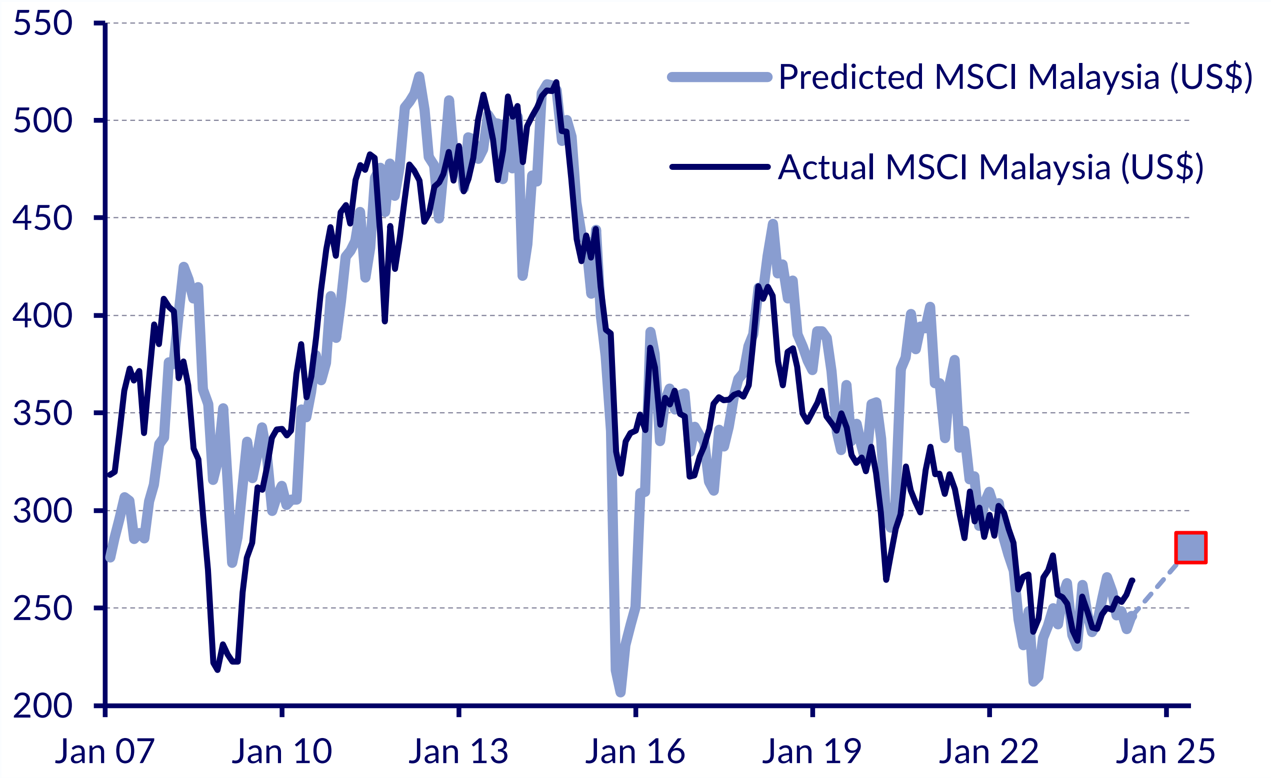
*Non-financial sector debt service ratio = ratio of interest payments plus amortisations to income
Source: CLSA, BIS

CLSA

Malaysia (60% underweight)

- Four macro variables explain almost 70% of monthly US$ movements for MSCI Malaysia.
- The market currently appears 7% overbought with just 6% potential upside 12 months ahead.

Model predicted versus actual MSCI Malaysia



Source: CLSA, MSCI, ISM, Central Bank of Malaysia, Department of Statistics Malaysia

Four-factor regression model for MSCI Malaysia

Explanatory variable	Coeff.	P value	03 Jun current	+12m forecast	+12m change
ISM new orders	0.65	0.00	45.4	53.0	+7.6ppt
Malaysia CPI YoY	-1.09	0.02	1.8%	2.5%	+0.7ppt
Malaysia M2 YoY	1.06	0.00	5.9%	5.3%	-0.6ppt
USDMYR	-1.65	0.00	4.71	4.75	0.9%

MSCI Malaysia index level	Current	Predicted	Upside
Model predicted based on curr. variables	264	246	-7%
Model predicted based on f'cast variables	264	281	6%

Adj. R square	0.68	Intercept	0.00	Observations	209

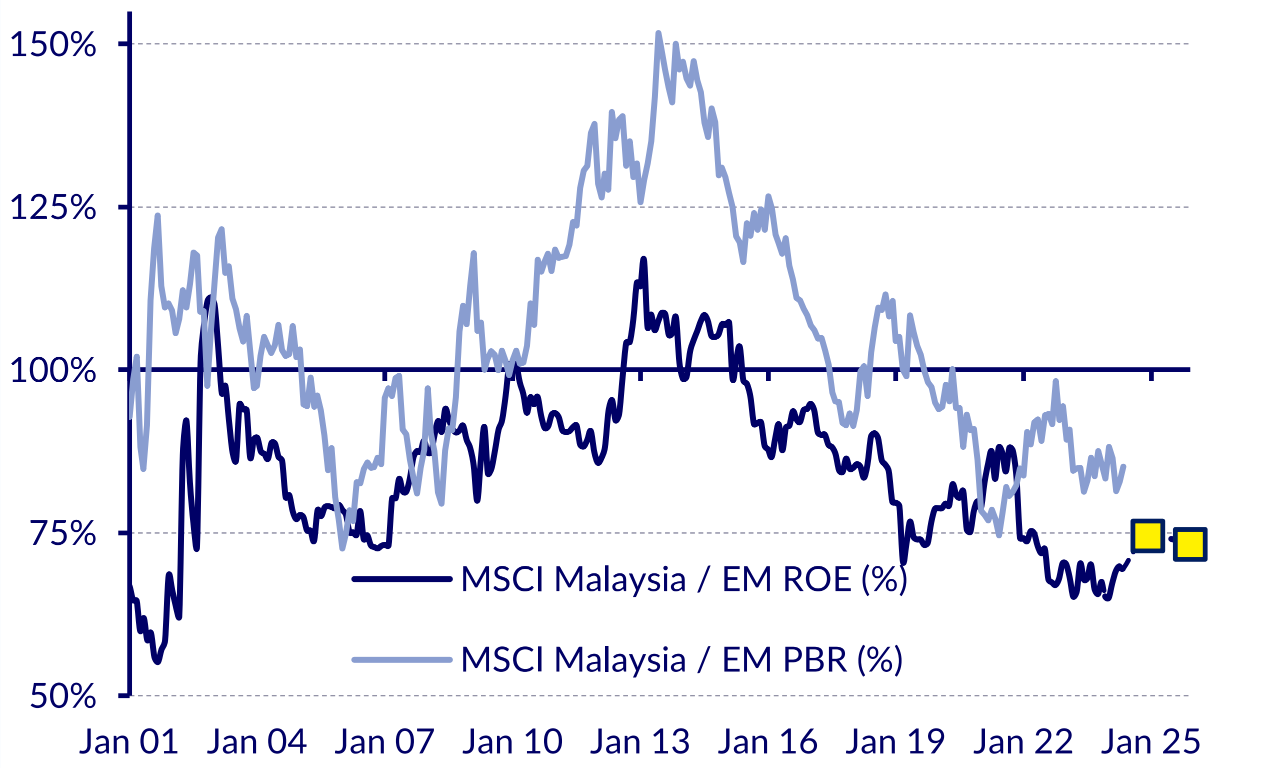
Regressing YoY chgs for MSCI Malaysia against YoY chgs of indpdnt variables

Source: CLSA, MSCI, ISM, Central Bank of Malaysia, Department of Statistics Malaysia

Malaysia (60% underweight)

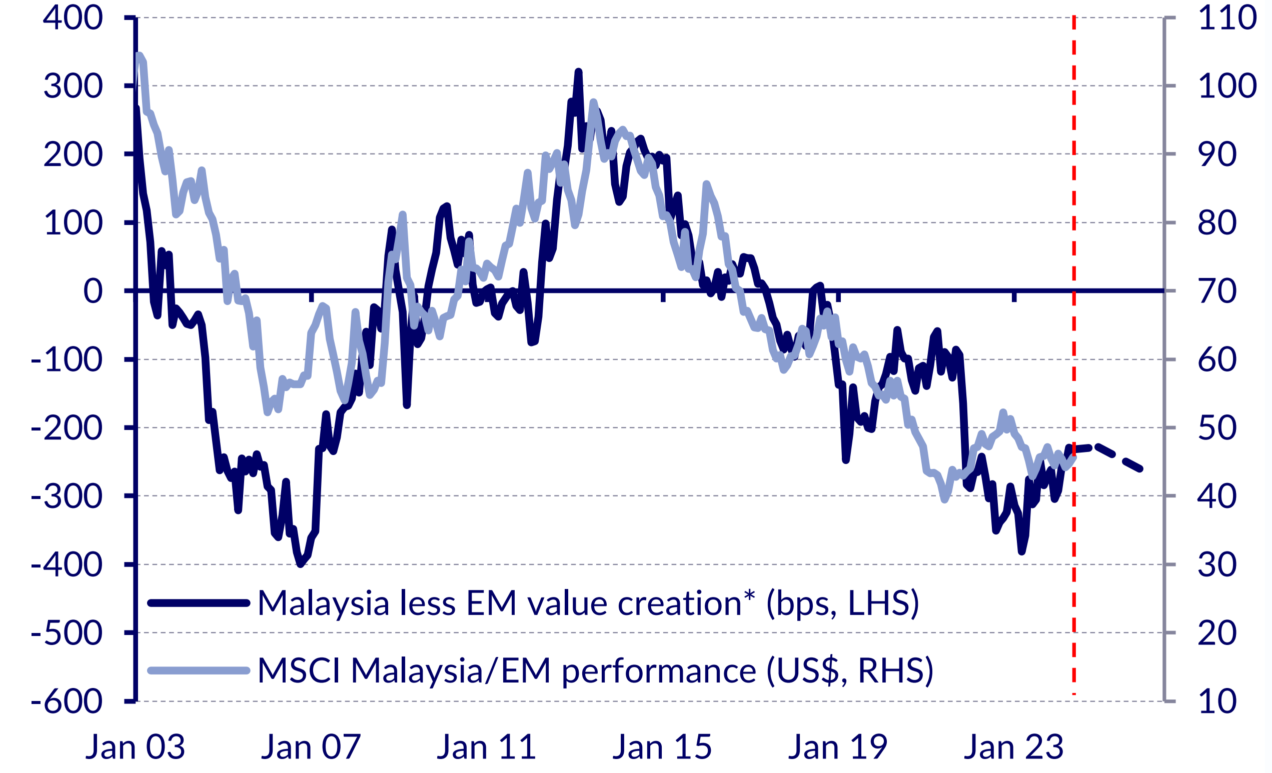
- ROE is 25%-30% inferior to EM while the price book discount to EM is only around 15%.
- We see no relative improvement in relative value creation, which drives relative performance.

Malaysia relative PBR and ROE



Source: CLSA, MSCI, IBES forecasts

Malaysia vs EM: Relative value creation and performance



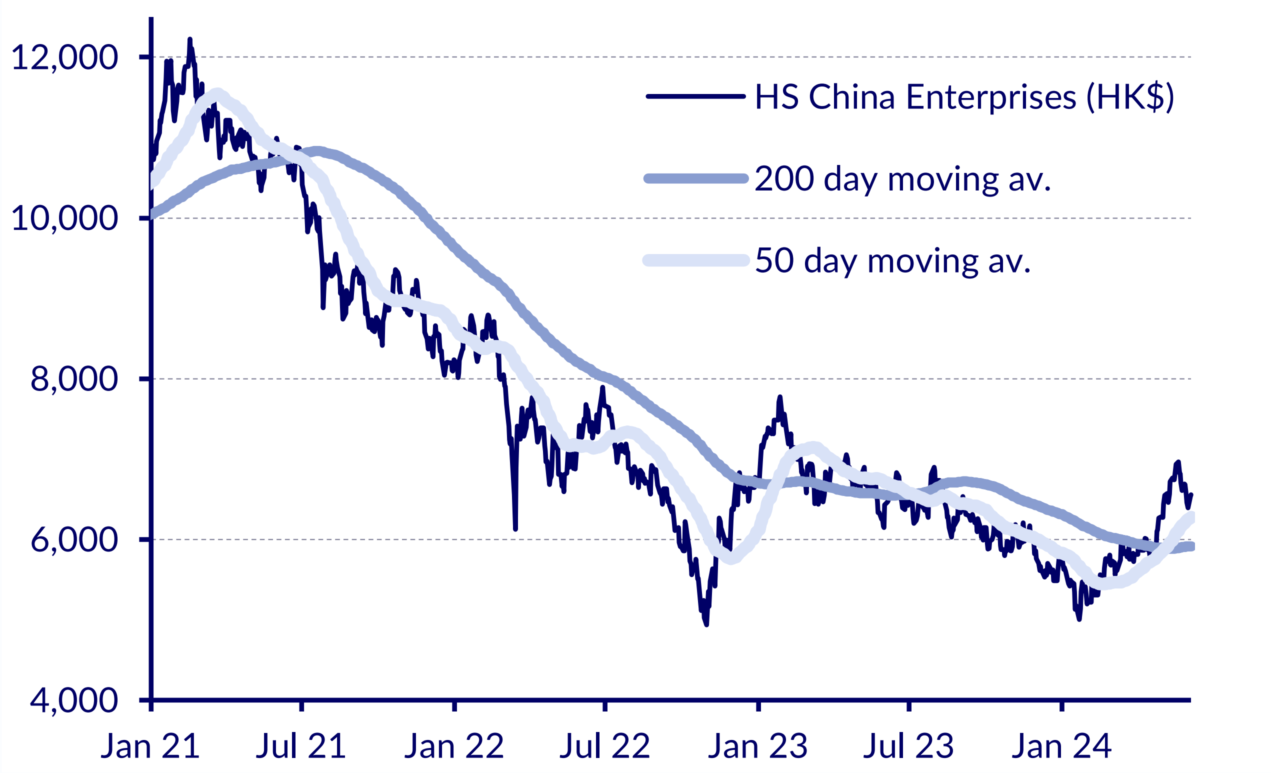
*Value creation = ROE-COE
Source: CLSA, MSCI, Bloomberg

CLSA

Chasing China?

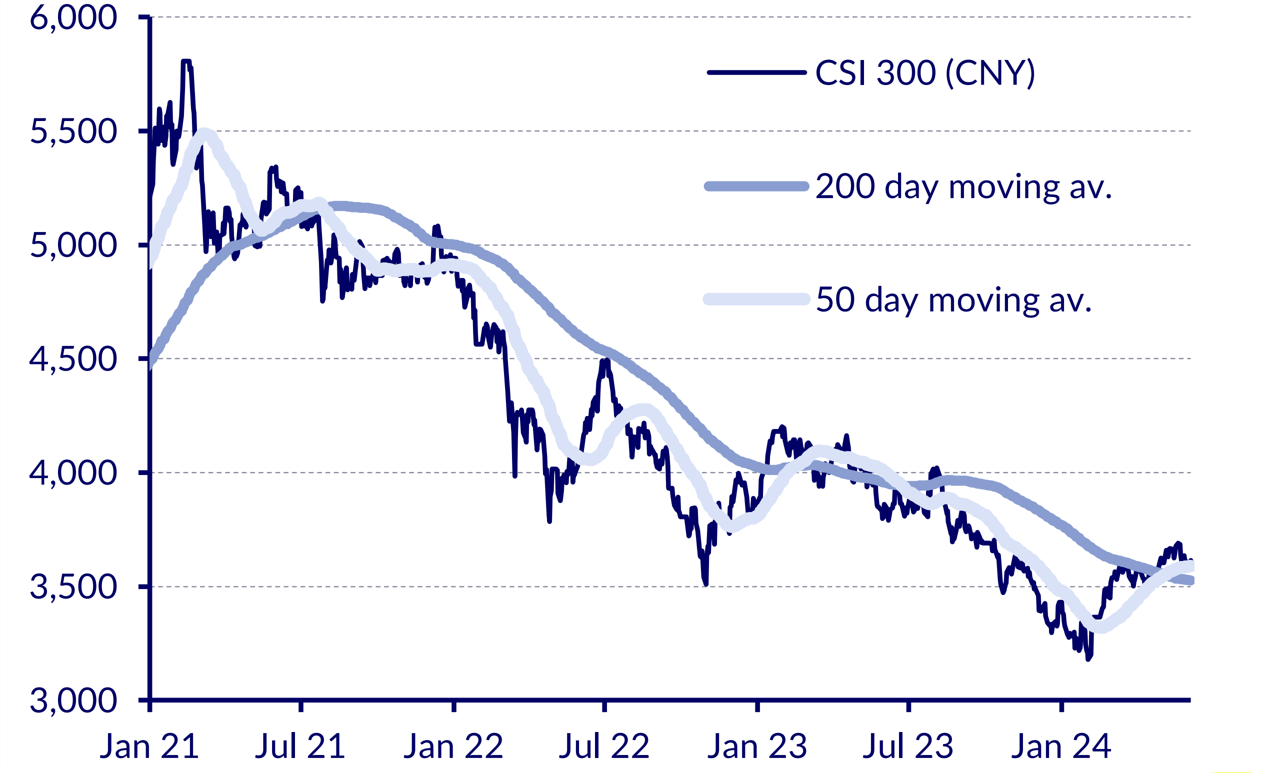
- Five reasons to chase the China rally: **1. Bullish technical signals for an index breakout**
- Both the HSCEI and CSI300 have formed a ‘golden cross’ (50dma moving above the 200dma).

HSCEI versus 200- and 50-day moving averages



Source: CLSA, Refinitiv

CSI300 versus 200- and 50-day moving averages

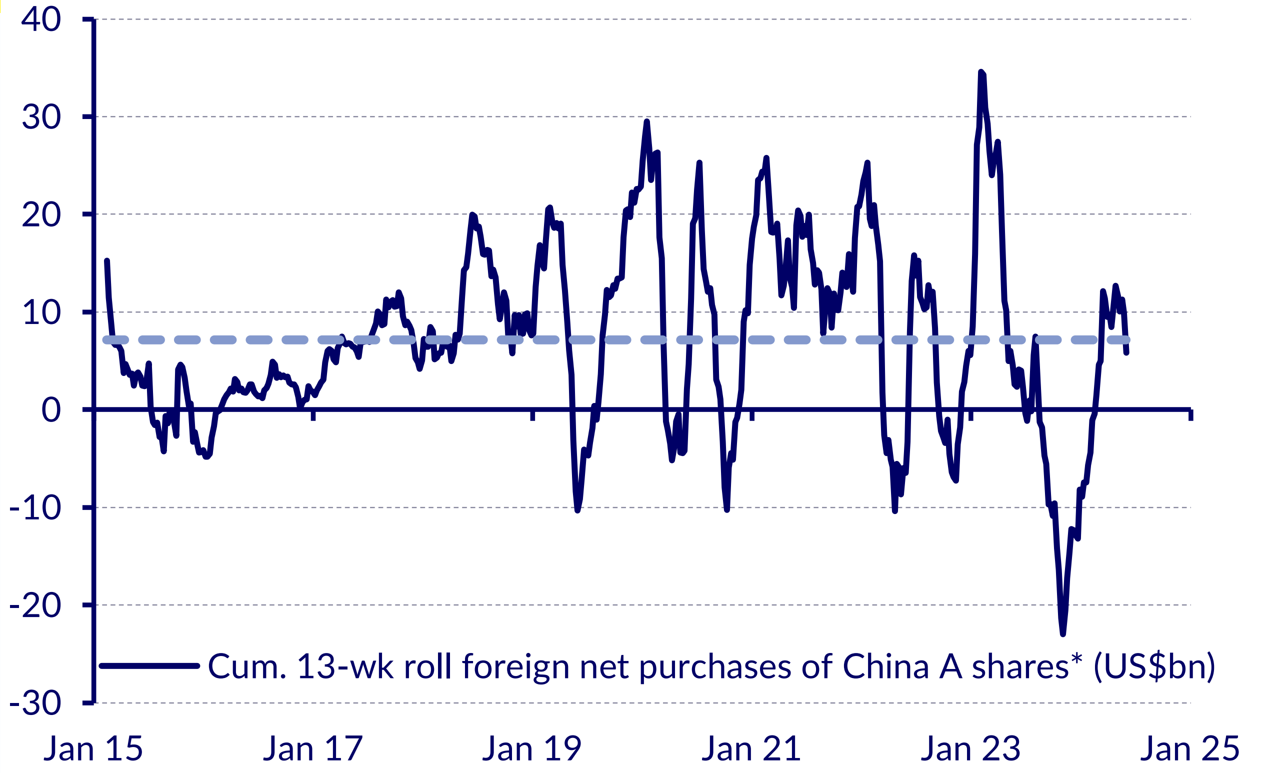


Source: CLSA, Refinitiv

Chasing China?

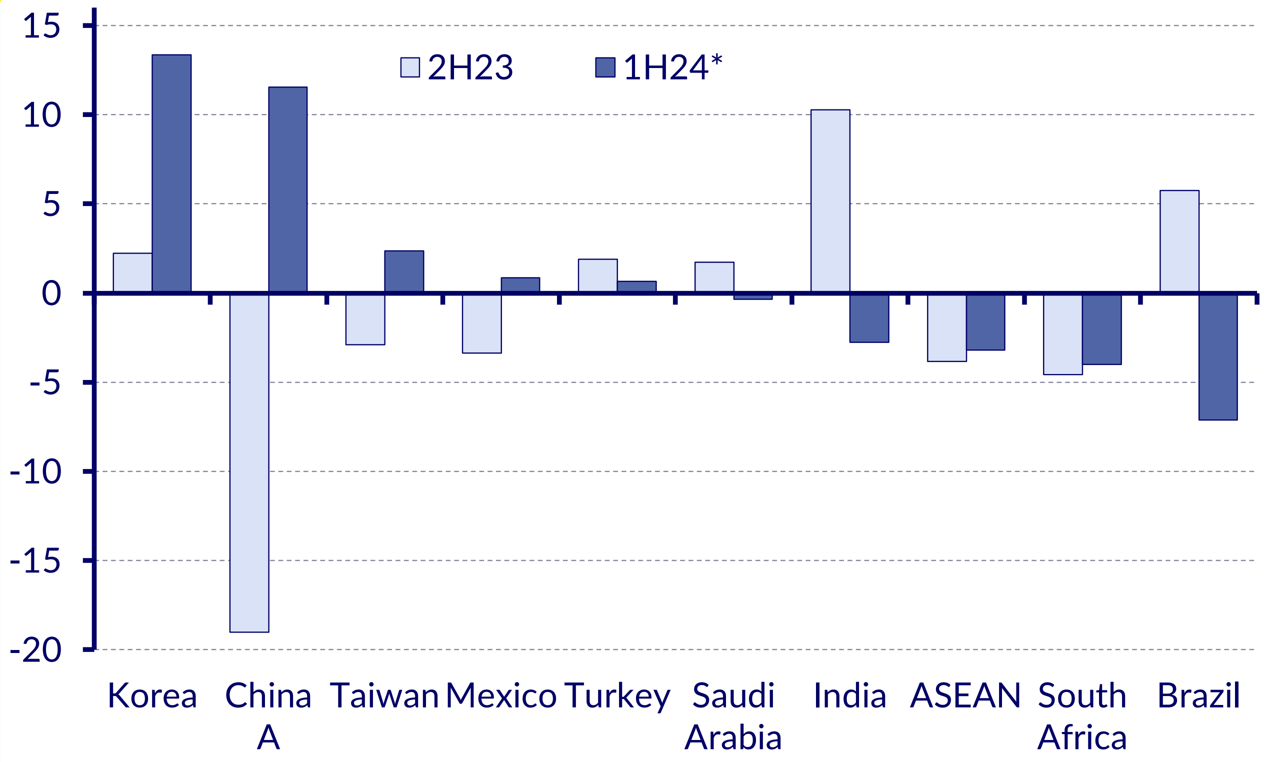
- **2. FOMO: Other foreign investors are re-accumulating China**
- Cumulative 13-week rolling net purchases of US$6bn have recovered to the decade average.

China A cumulative 13-week rolling foreign net purchases (US$bn)



*Net northbound Shanghai plus Shenzhen stock connect.
Source: CLSA, HKEX

EM net foreign equity purchases (US$bn)



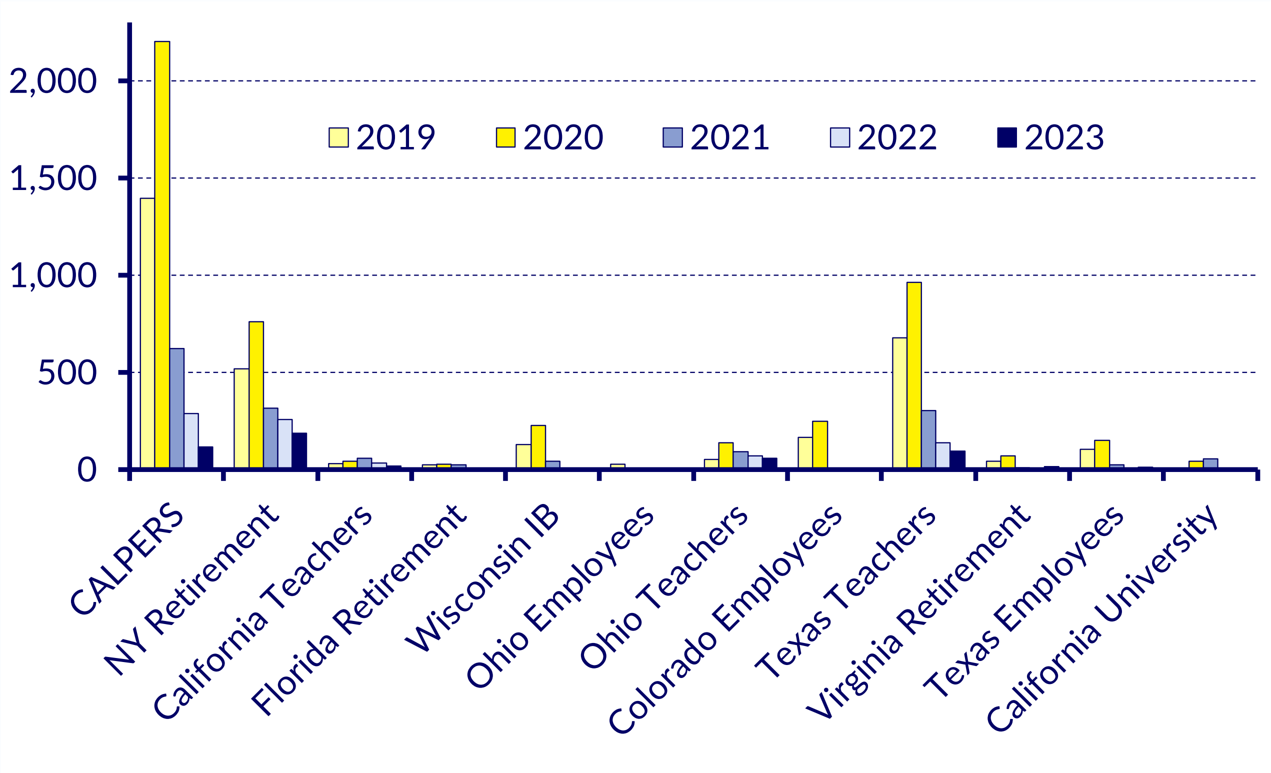
* To 5 June.
Source: CLSA, National Stock Exchanges, Bloomberg

CLSA

Chasing China?

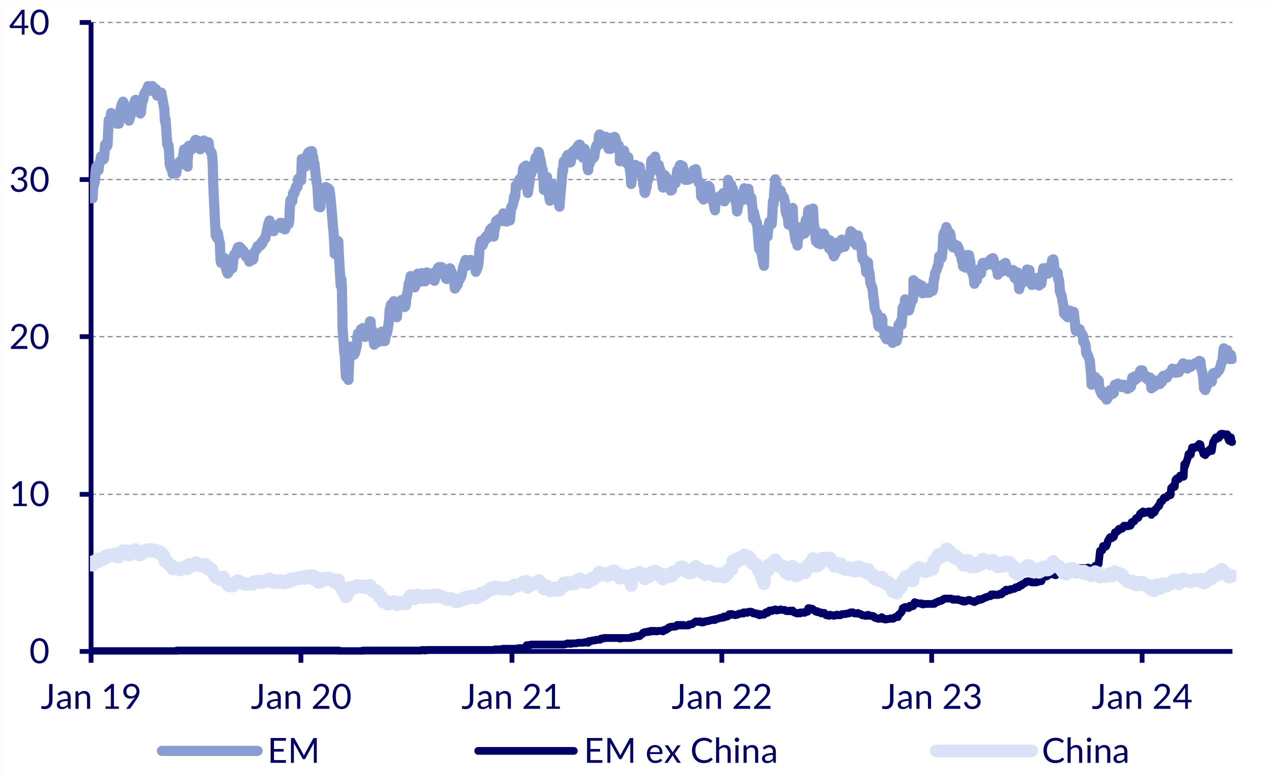
- **3. The market overhang has largely dissipated**
- The structural divestment from China across investor classes over the past few years is ending.

US public pension fund exposure to China ADRs*



*Exposure to US listed China ADRs only as per latest 13F filings
Source: CLSA, Bloomberg

iShares EM, EM ex China and China ETFs AUM (US$bn)



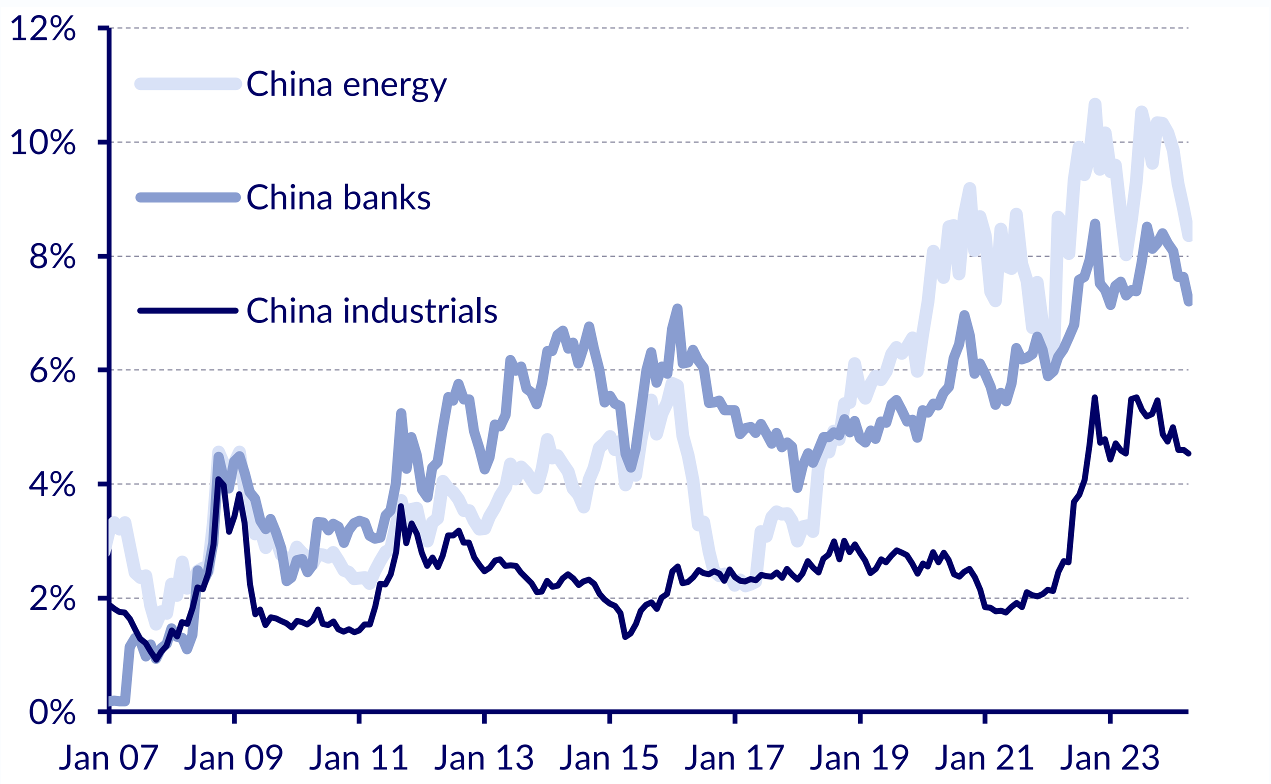
Source: CLSA, Bloomberg

CLSA

Chasing China?

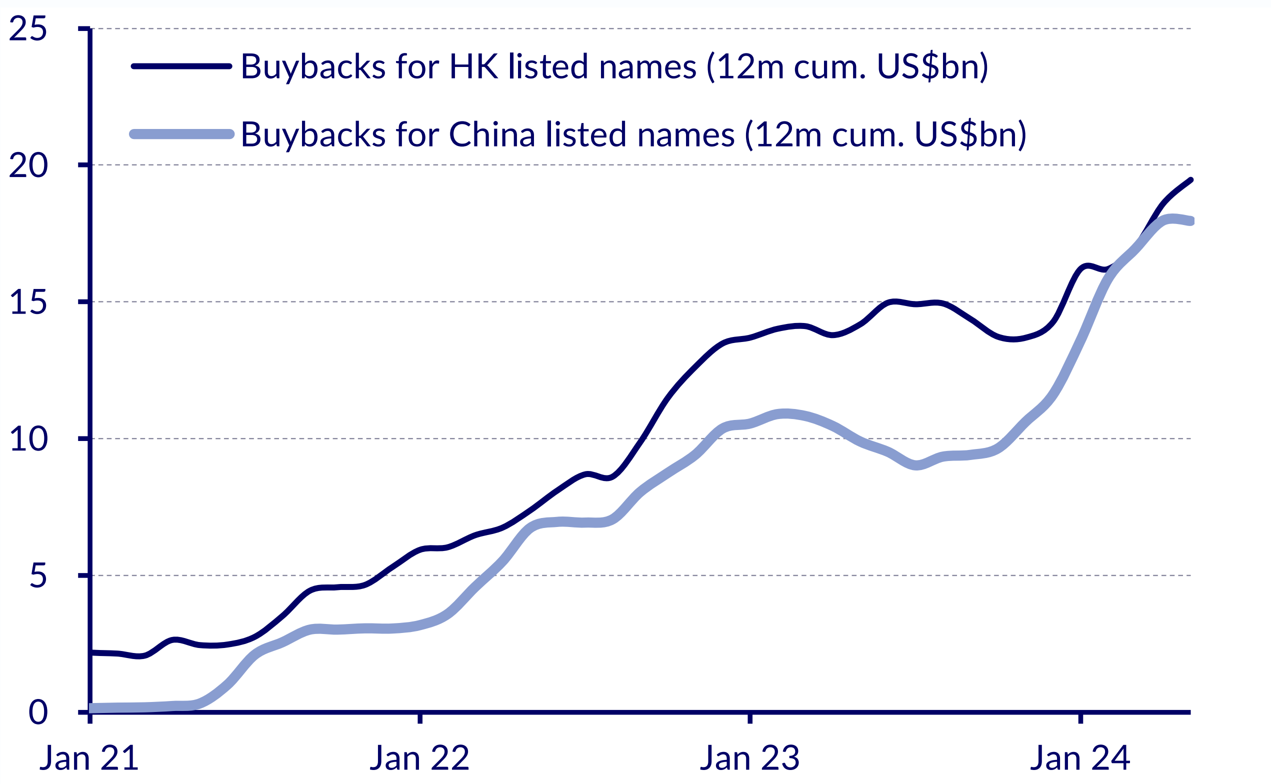
- **4. Tactical opportunity for elevated dividend and buyback yield**
- SOE dominated sectors offer elevated yield while internet giants lead record pace in buybacks.

MSCI China sector dividend yield (%)



Source: CLSA, MSCI

Buybacks for Hong Kong and China listed names (12m cum. US$bn)



Source: CLSA, Bloomberg

CLSA

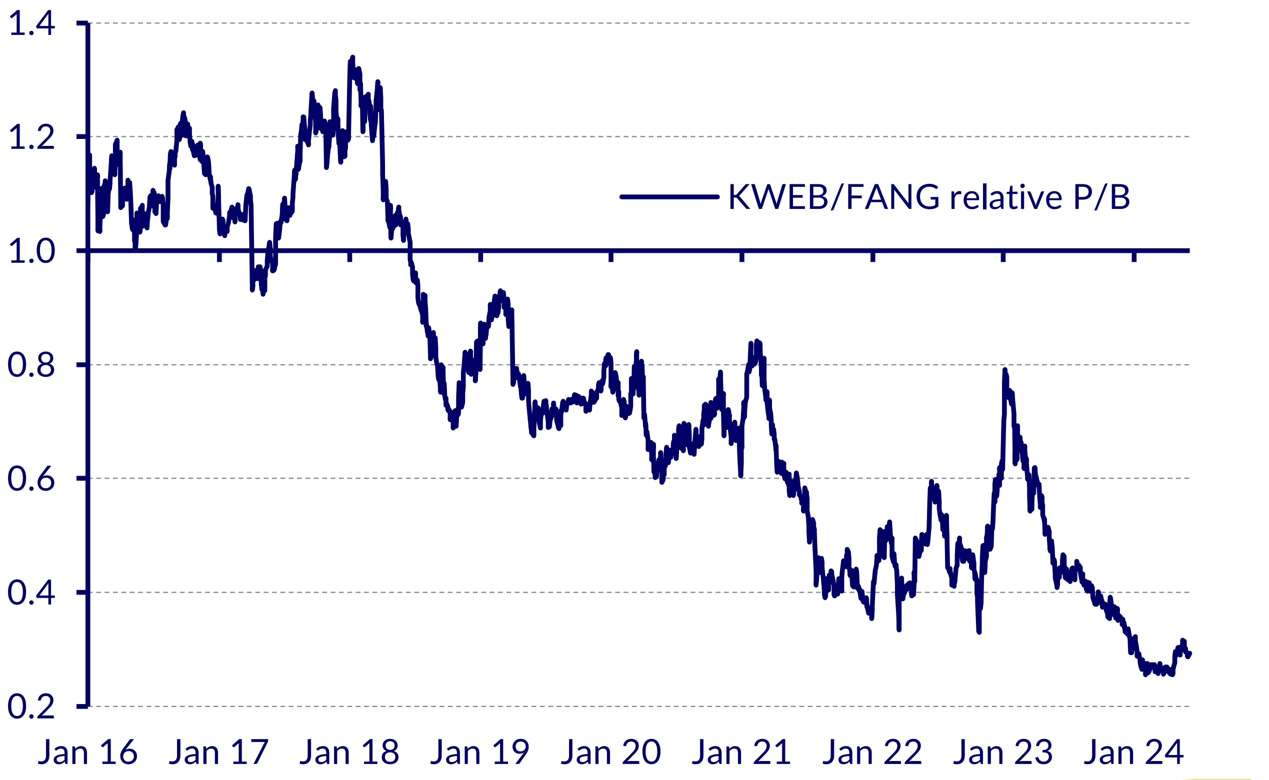
Chasing China?

- Corollary of China shifting to a higher ERP range is structurally cheaper valuation vs history.
- Yet KWEB to FANG price book discount of 71% appears extreme.

China's market-implied ERP matched the global financial crisis 11.1% peak

Source: CLSA, Bloomberg, IBES, MSCI

China versus US internet sector relative price book



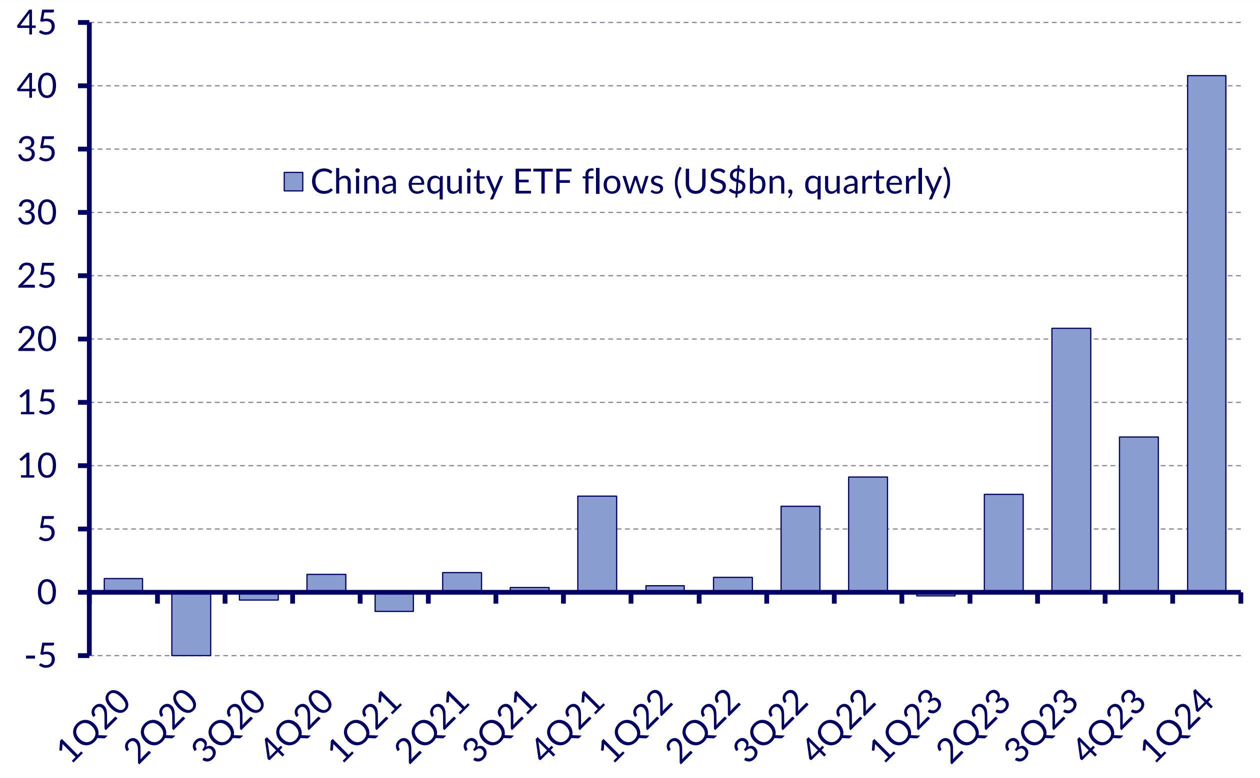
Source: CLSA, Refinitiv

CLSA

Chasing China?

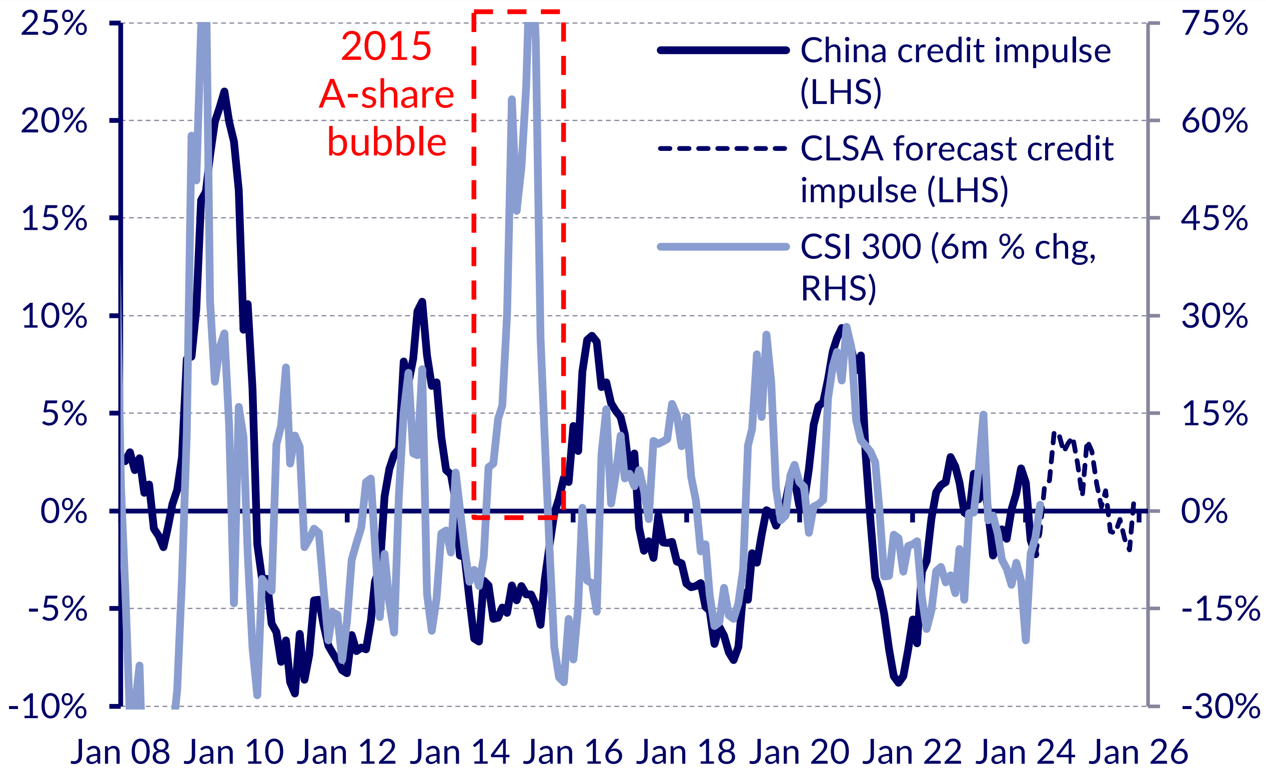
- **5. Policymakers are backstopping the equity market**
- The ‘national team’ intervened, deploying the bulk of the US$41bn of net 1Q24 ETF purchases.

China equity ETF flows (US$bn, quarterly)



Source: CLSA, Bloomberg

China credit impulse versus CSI 300 price momentum



Source: CLSA, Bloomberg, BIS, Refinitiv

CLSA

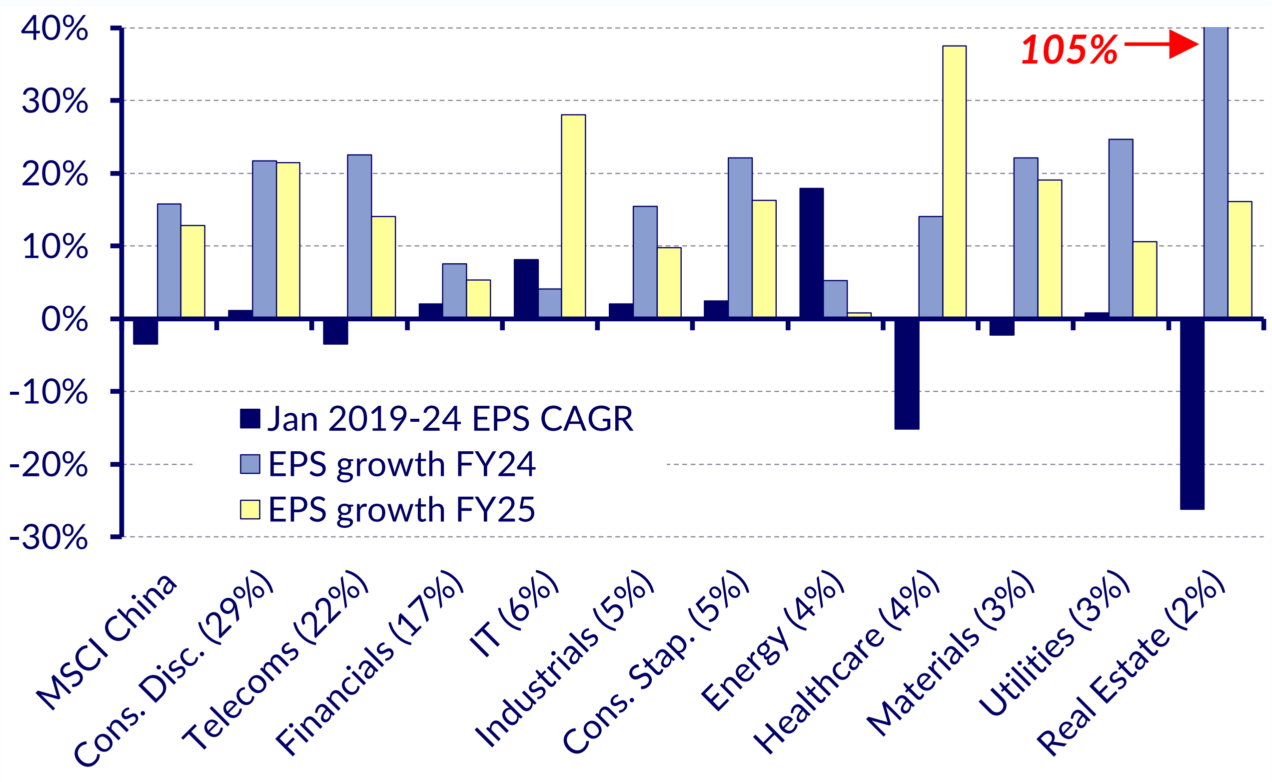
Chasing China?

- Five reasons to resist: **1. The consensus earnings outlook risks ongoing disappointment**
- Since 2019, EPS growth forecasts have averaged 15% versus an outturn of -3%.

MSCI China earnings growth: forecast versus delivered

Source: CLSA, MSCI, IBES

China sectors* consensus EPS growth versus delivered EPS CAGR



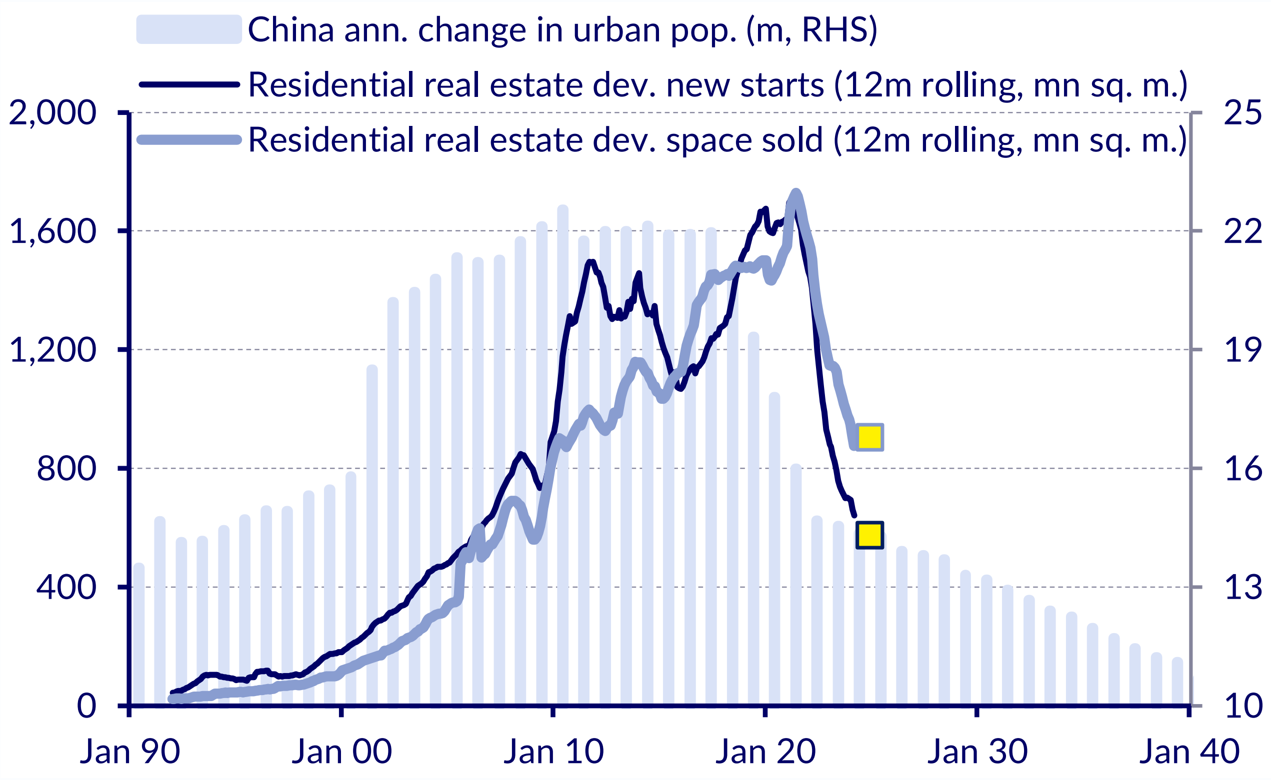
*brackets refer to proportion of MSCI China weight.
Source: CLSA, MSCI, IBES

CLSA

Chasing China?

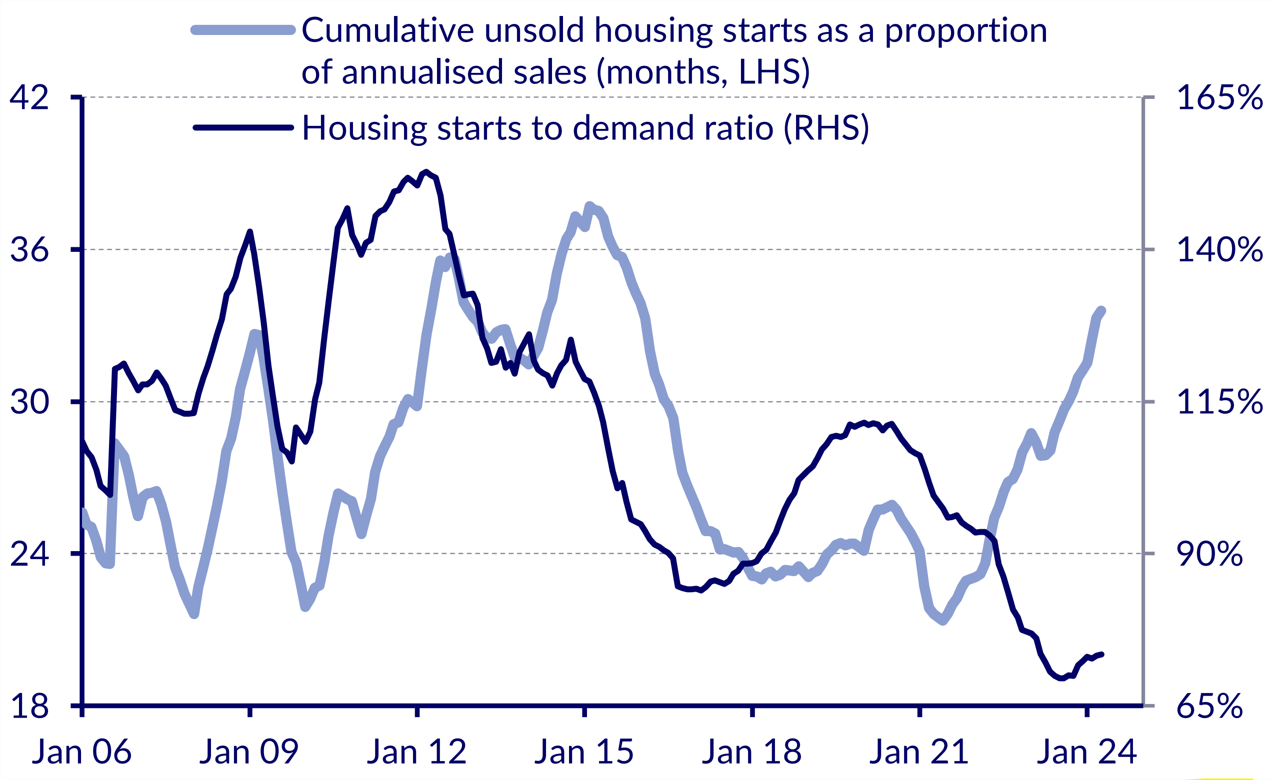
- **2. Confidence remains depleted in the bellwether property sector**
- There is up to 10Y worth of inventory (unsold housing starts & property bought speculatively).

China property starts and sales vs annual change to urban population



Source: CLSA, China National Bureau of Statistics, World Bank Dev. Indicators

China residential real estate inventory (months of unsold starts)



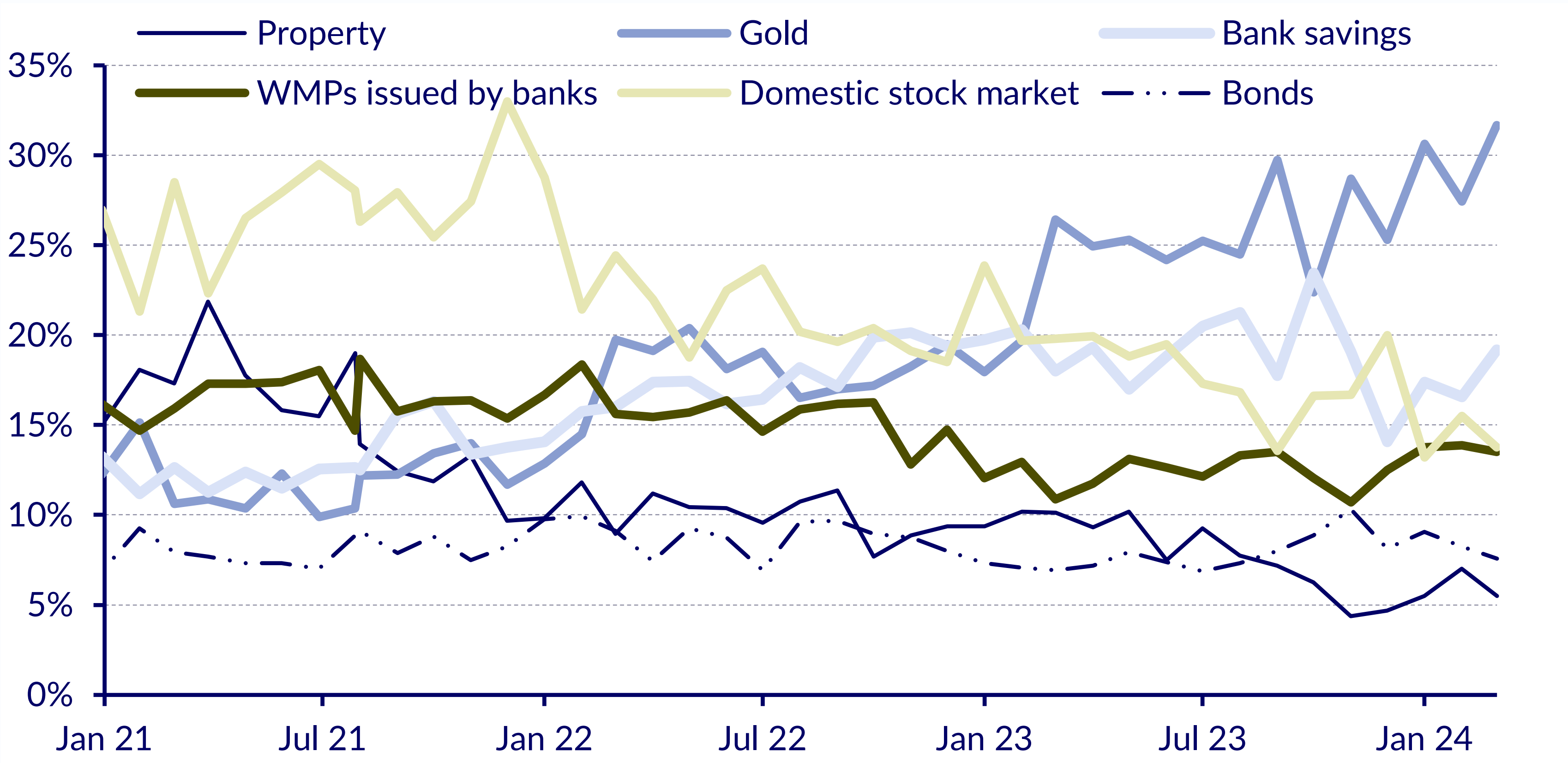
Source: CLSA, China National Bureau of Statistics

CLSA

Chasing China?

- Real estate accounts for 51% of household net wealth and thus governs consumer confidence.
- In three years property has moved from the most to leastfavoured investment for households.

During the next 12 months, the best investment options in China are:



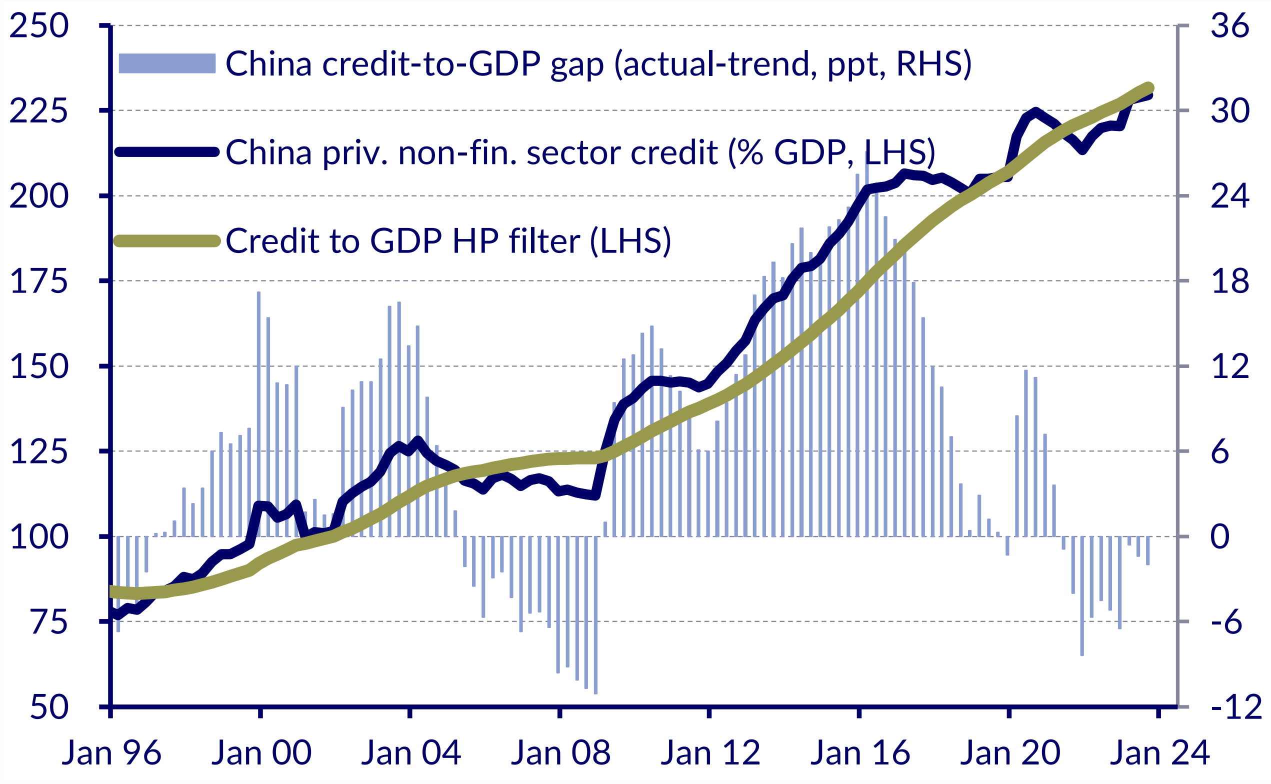
Source: CLSA China Reality Research

CLSA

Chasing China?

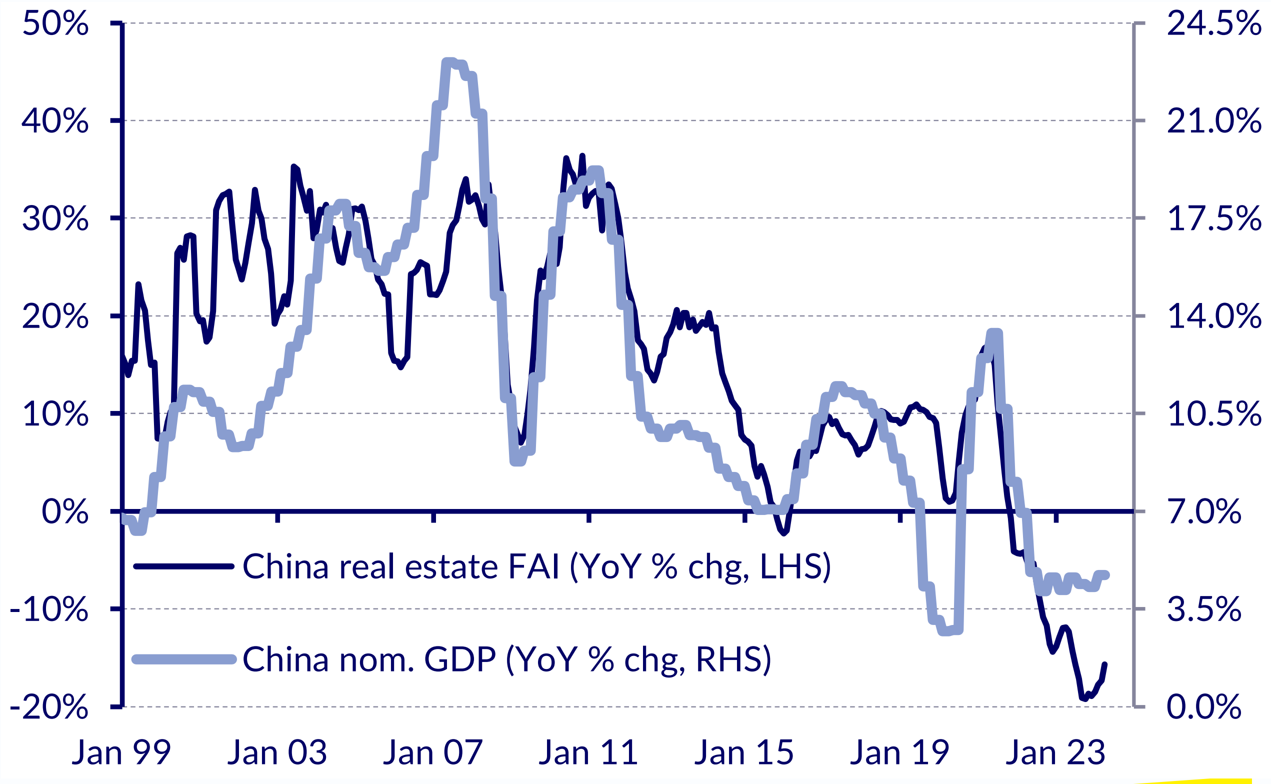
- **3. Hesitation to embrace consumption as a lead economic driver**
- China's credit-fueled investment-led engine of growth, dominant for 30 years, is exhausted.

China credit to GDP gap



Source: CLSA, BIS

China real estate fixed asset investment versus GDP



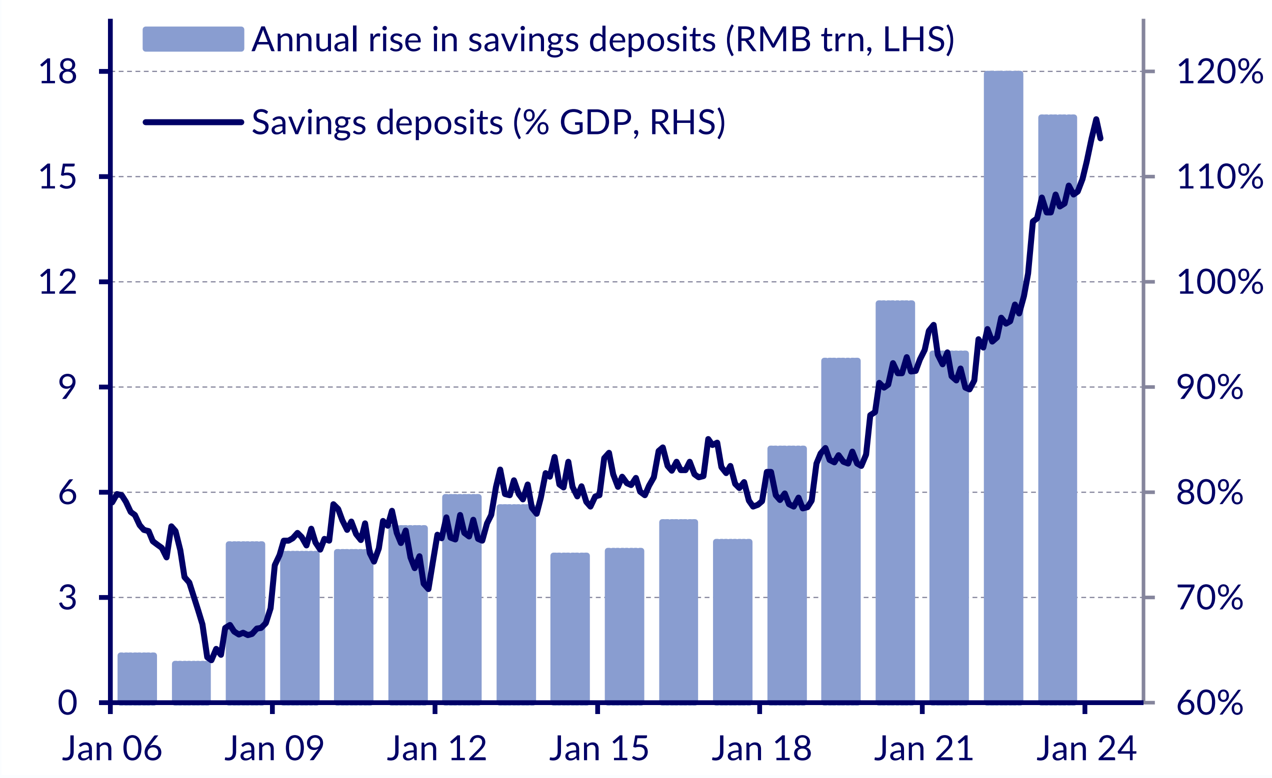
Source: CLSA, China National Bureau of Statistics, Oxford Economics

CLSA

Chasing China?

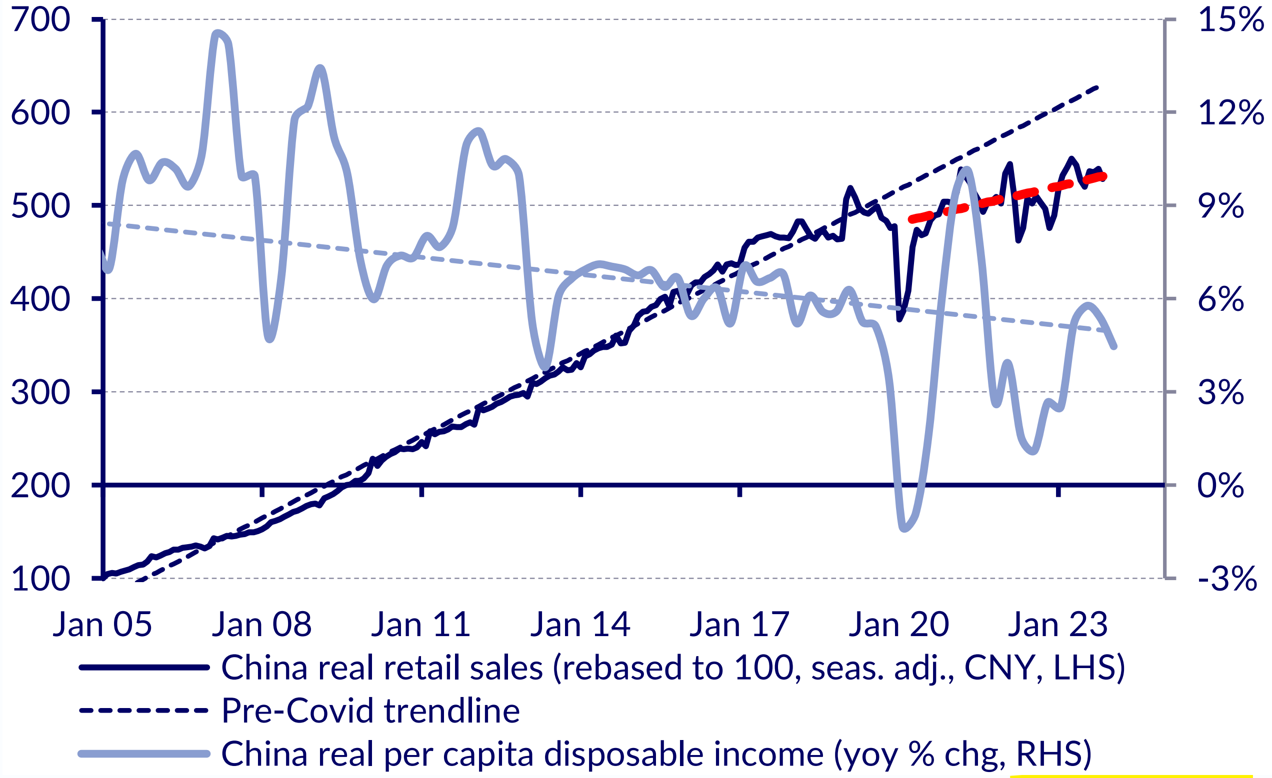
- Savings have surged to 115% of GDP, up to 30ppt of GDP above historical trend accumulation.
- The trend progression of real retail sales has taken a notably flatter trajectory post pandemic.

China savings



Source: CLSA, PBOC

China real retail sales growth versus disposable income growth



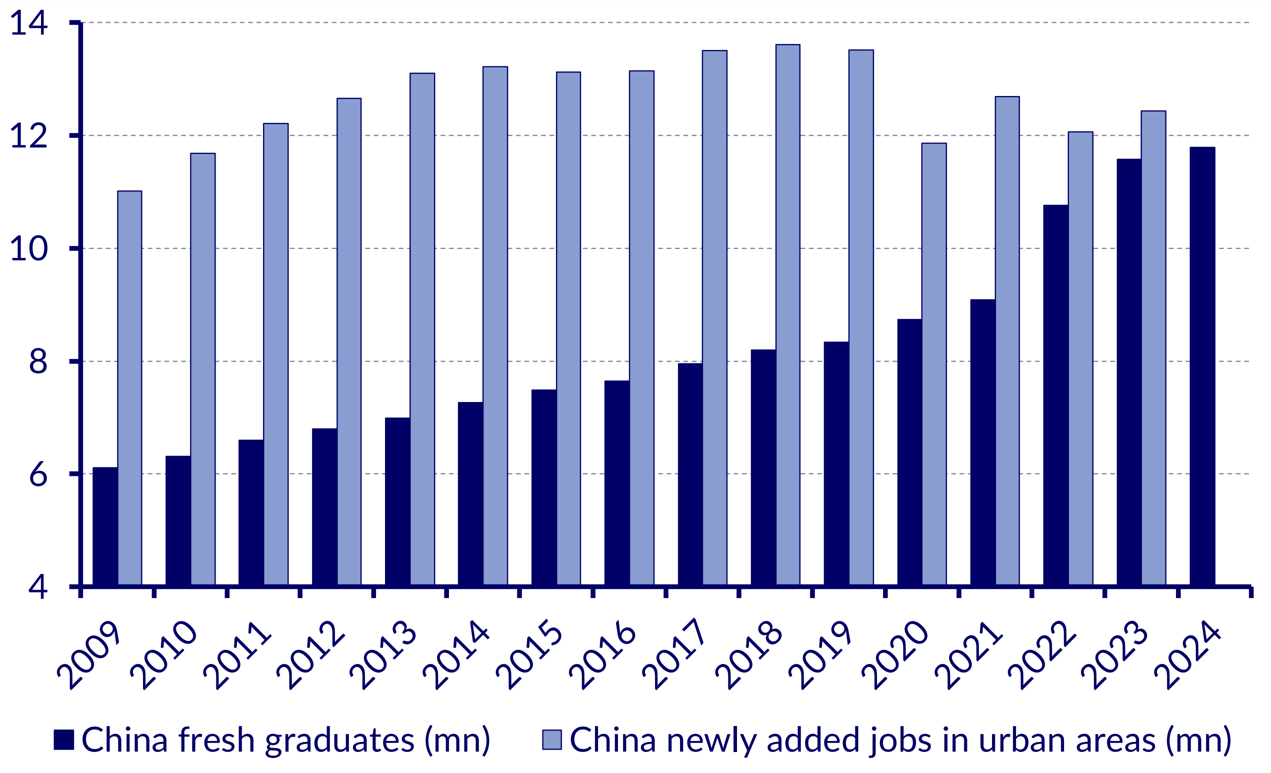
Source: CLSA, China National Bureau of Statistics

CLSA

Chasing China?

- Employment prospects remain challenging given the surge in fresh graduates vs jobs for them.
- Ultimately enterprises (SOE & POE) may be called upon for ‘nationalservice’ job creation.

China new graduates versus new jobs in urban areas



Source: CLSA, China Ministry of Human Resources and Social Security, China Ministry of Education

China newly added employees versus nominal GDP growth

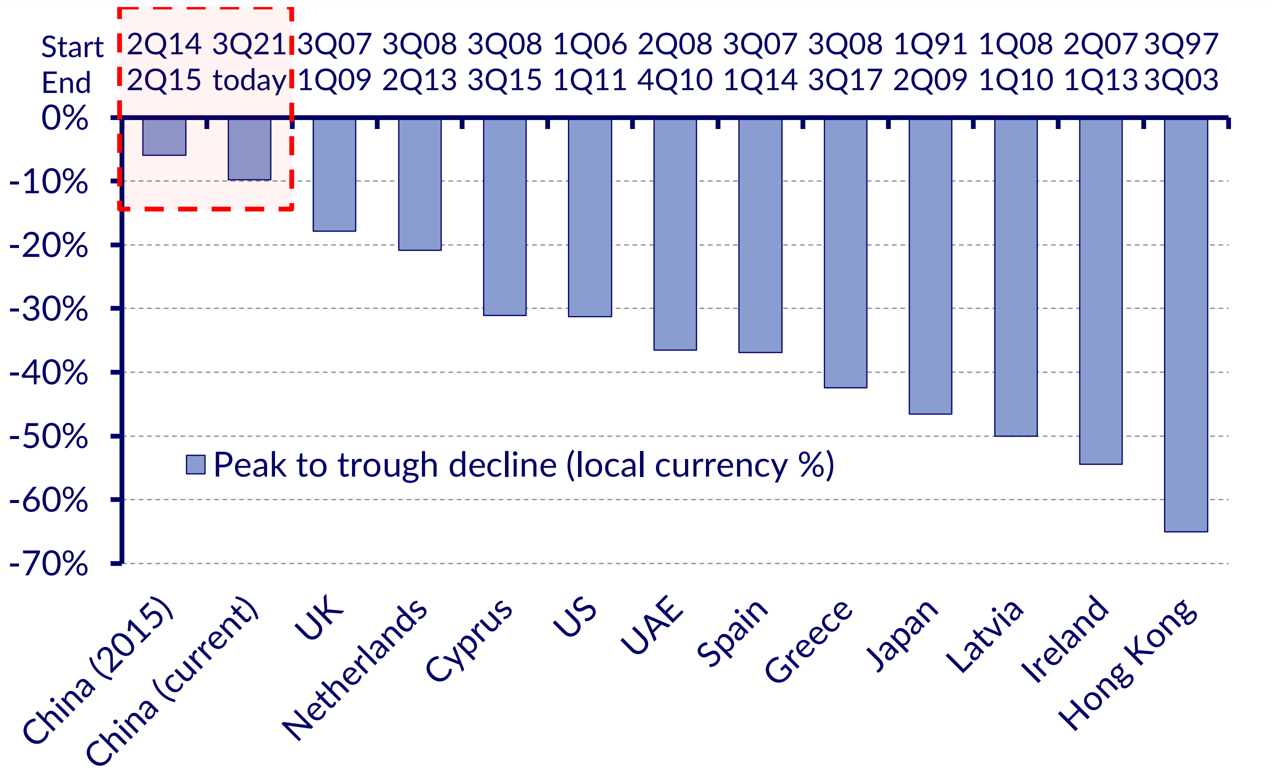
Source: CLSA, China Ministry of Human Resources and Social Security, Oxford Economics

CLSA

Chasing China?

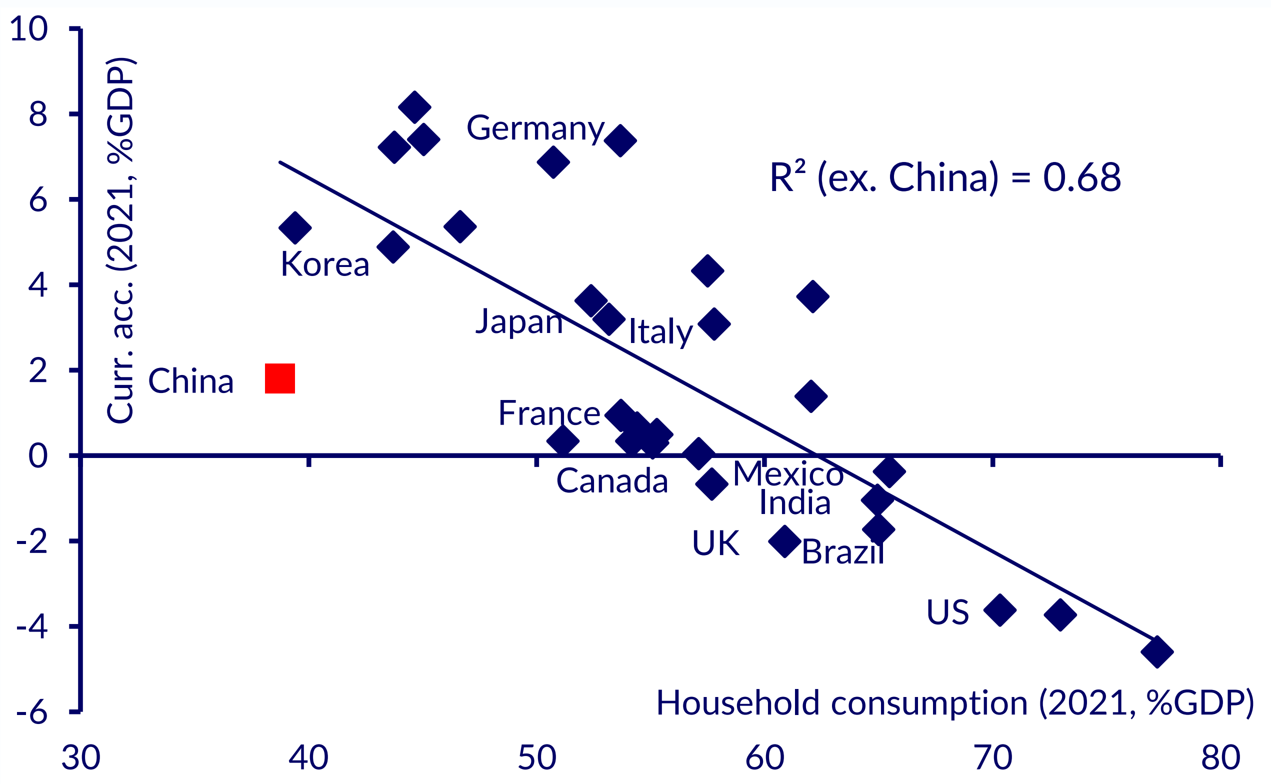
- There is uncertainty of property valuation given official statistics show pricing down only 10%.
- Policymakers may be cautious about current account erosion with rising consumption share.

China's property crisis vs global precedents (correction in lc terms)



Source: CLSA, BIS, China National Bureau of Statistics

30 largest economies: Household consumption vs current account



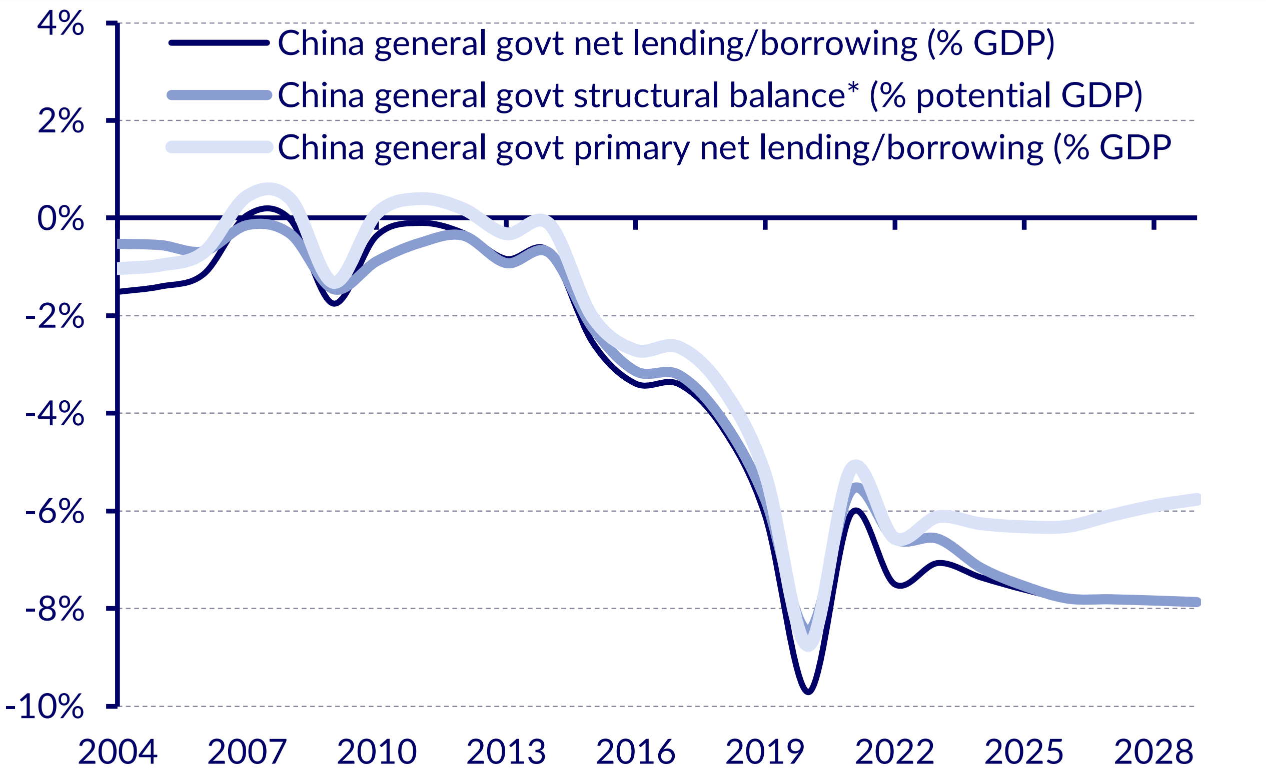
Source: CLSA, IMF, Our World in Data

CLSA

Chasing China?

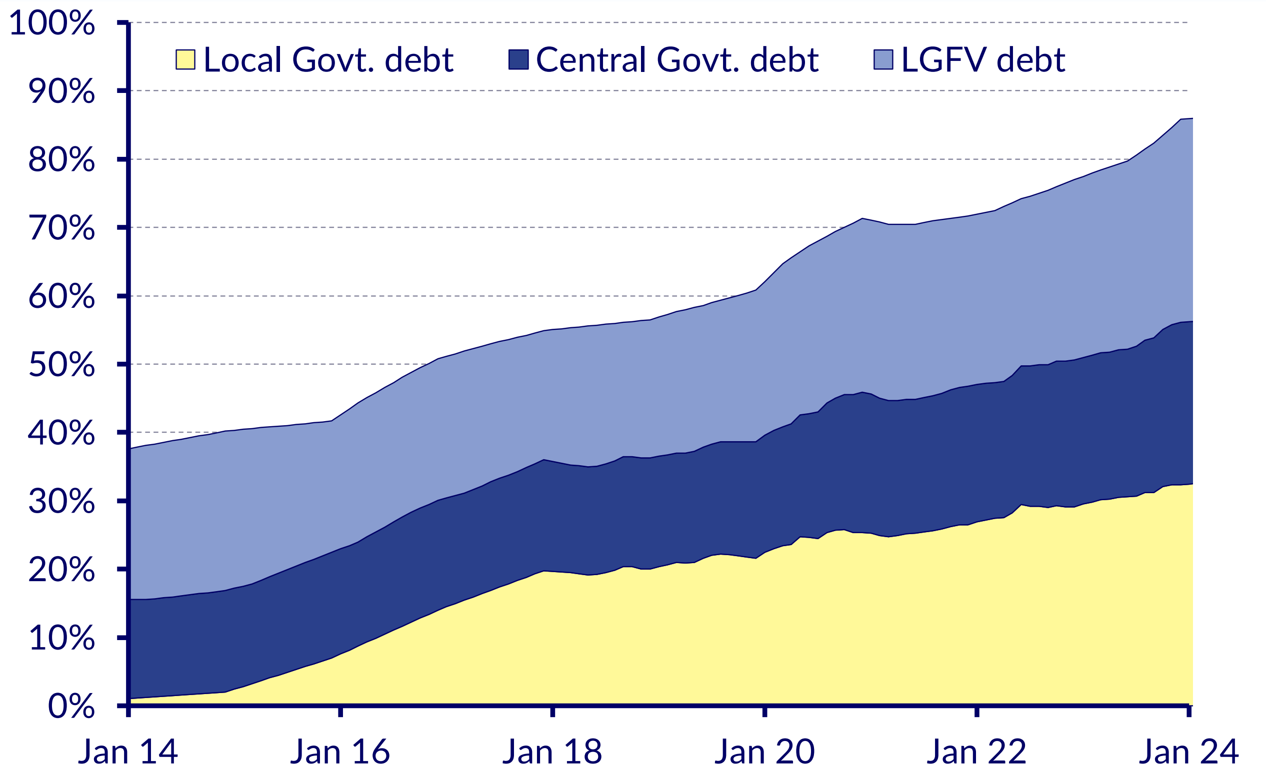
- There is also constraint on the magnitude of any fiscal stimulus given a c.8% of GDP deficit.
- Public sector debt at 85% of GDP has risen by 45ppt over 10Y, more than any EM or DM.

China fiscal outlook



*Cyclically adjusted balance omitting non-structural elements beyond the economic cycle.
Source: CLSA, IMF

China general government debt (% GDP)



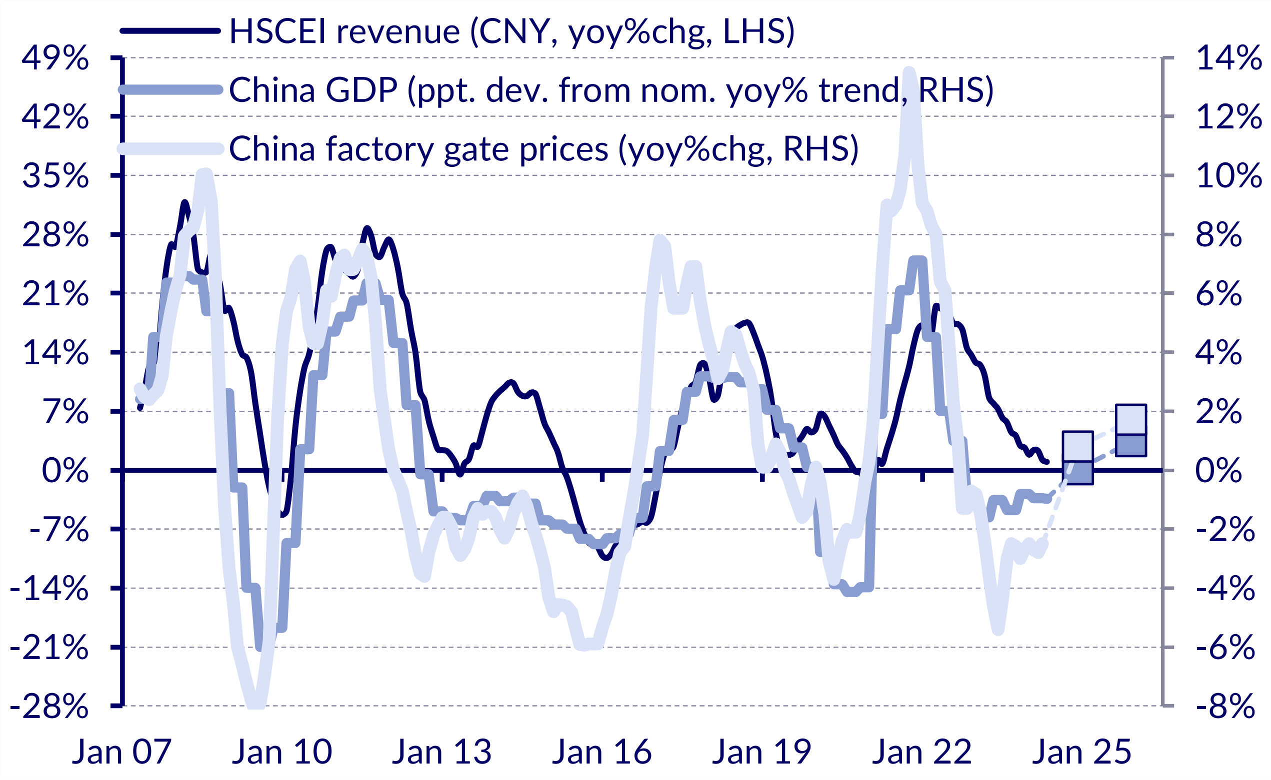
Source: CLSA, China Ministry of Finance, BIS

CLSA

Chasing China?

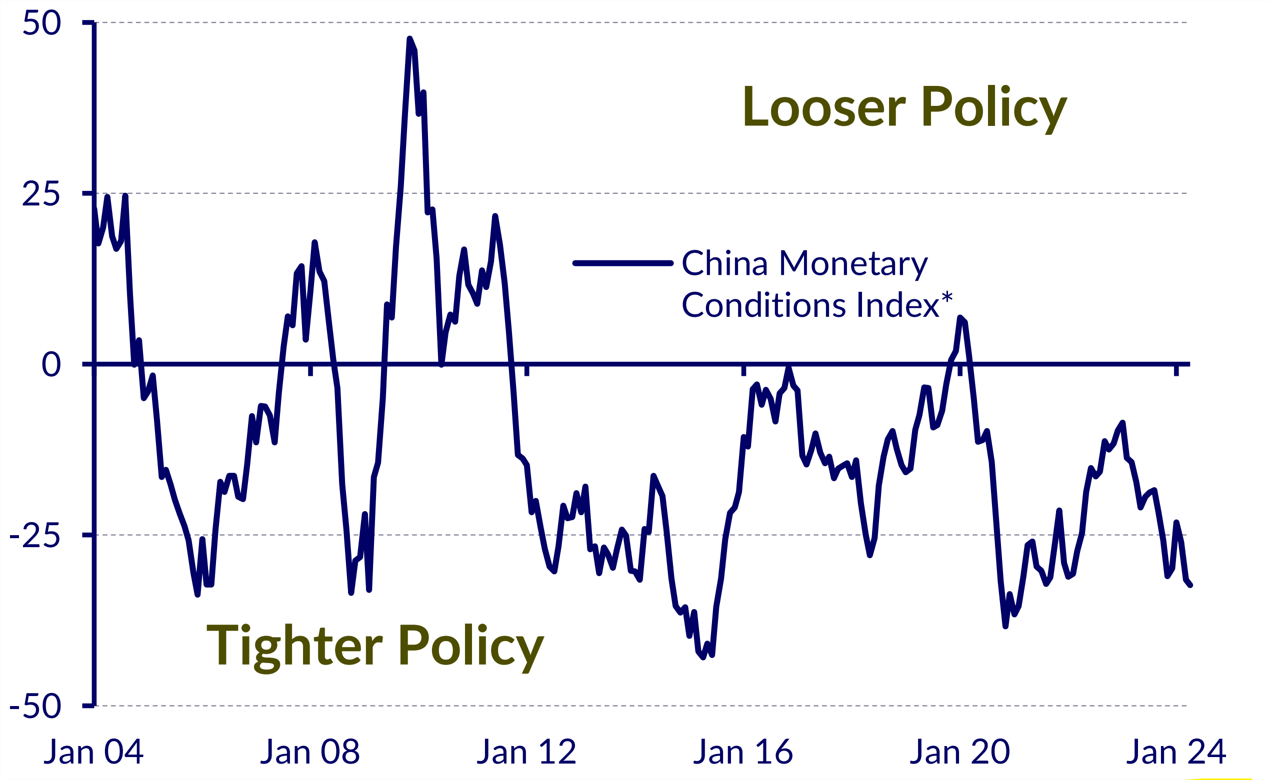
- **4. Deflation hindering top -line growth**
- Policy easing limited by FX weakness (China seeks RMB internationalisation) and bank NIMs.

China: HSCEI revenue growth versus deviation from nominal trend GDP and factory gate prices



Source: CLSA, IBES, China National Bureau of Statistics, CLSA forecasts

China Monetary Conditions Index



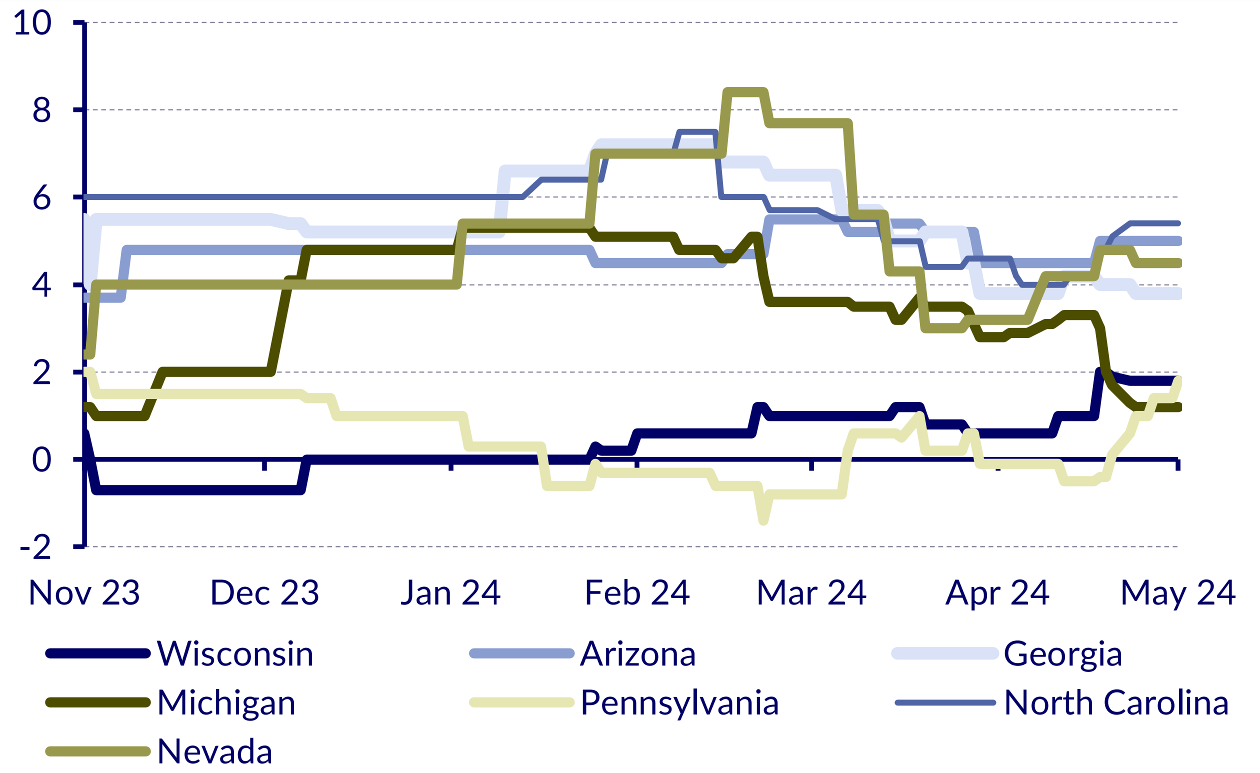
*Note: 60% real interest rate; 15% REER; 25% loan growth
Source: CLSA, Bloomberg

CLSA

Chasing China?

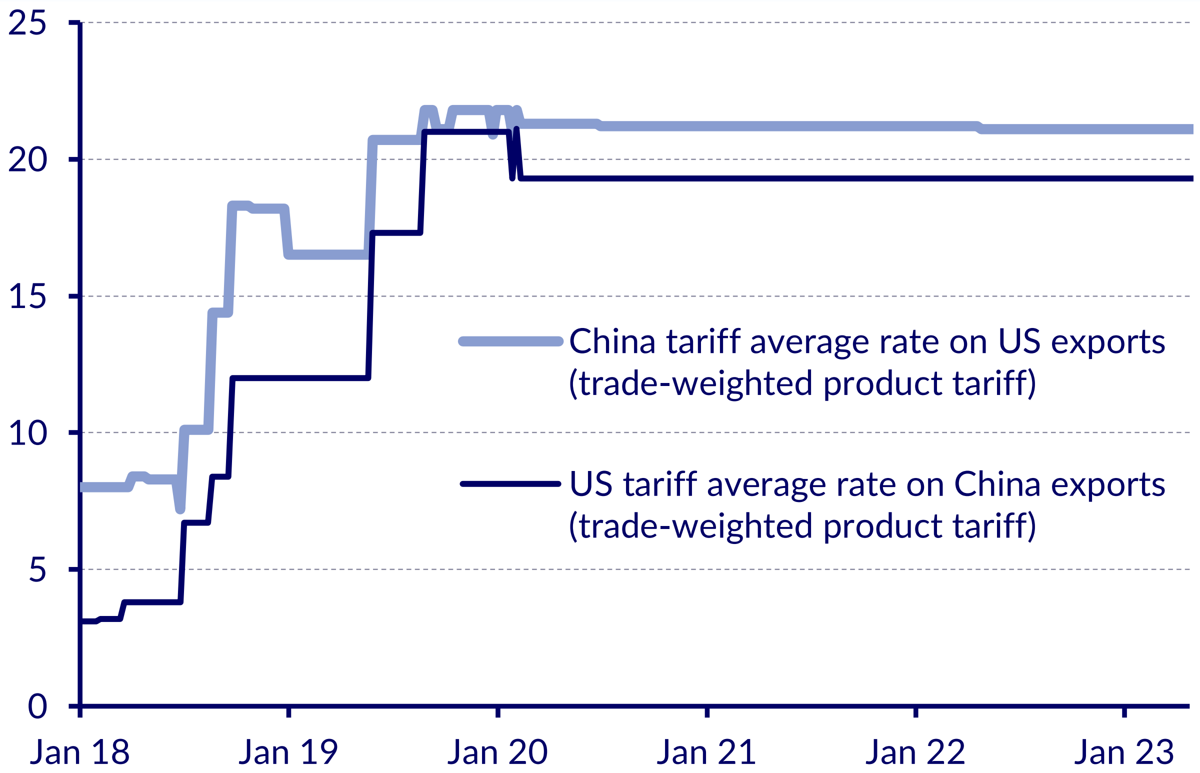
- **5. A second Trump administration would likely threaten China trade**
- Robert Lighthizer has made the case to further increase protectionism and raise tariffs to 60%.

Return of the Don:
Trump less Biden poll spread in swing states



Source: CLSA, RealClearPolitics, Bloomberg

US and China tariffs on China and US exports
(trade weighted)



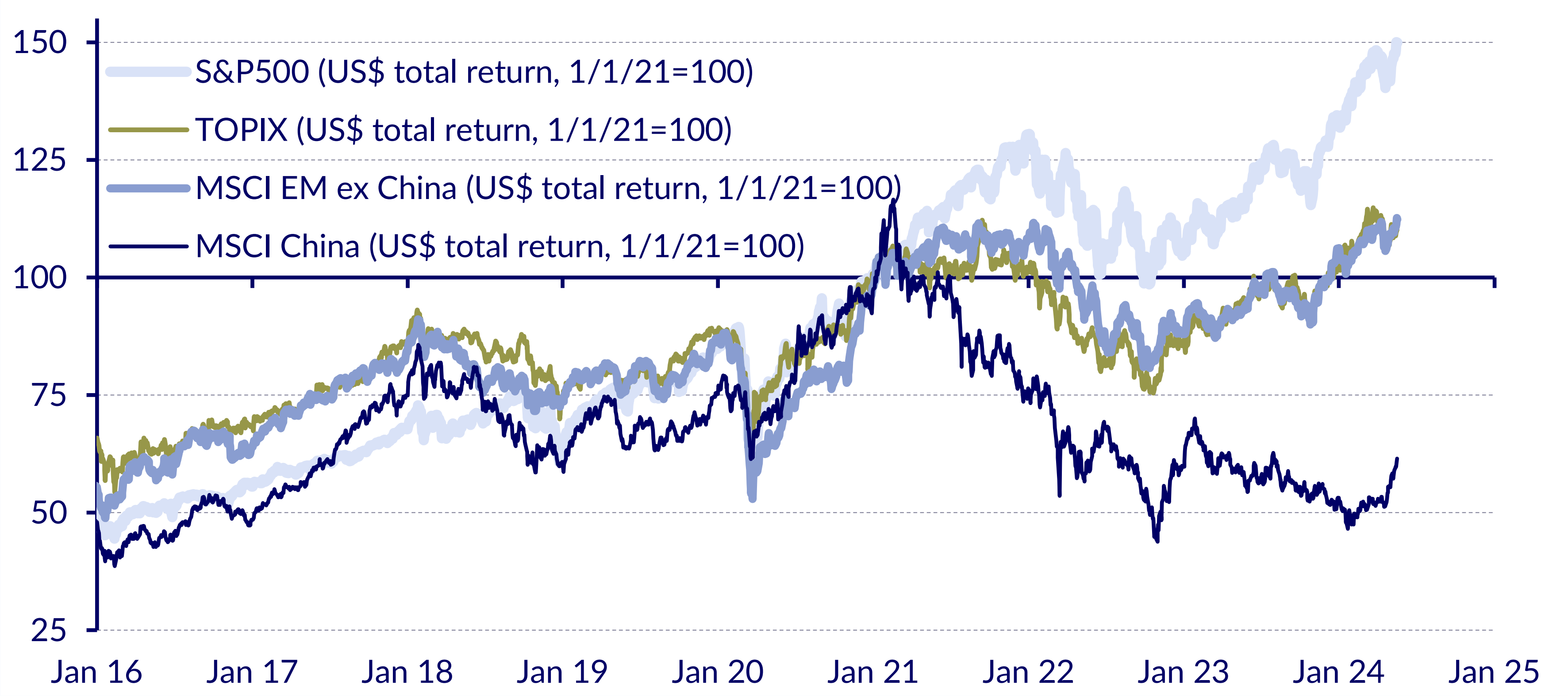
Source: CLSA, Bloomberg, Peterson Institute for International Economics

CLSA

The case for EM

- Since 2021 EM ex China has kept pace with Japan yet underperformed the S&P500 by 33%.
- In contrast with the tepid mood on EM, we find an abundance of macro data points to rejoice.

MSCI China, MSCI EM ex China, S&P500 and TOPIX total return (1/1/2021=100)

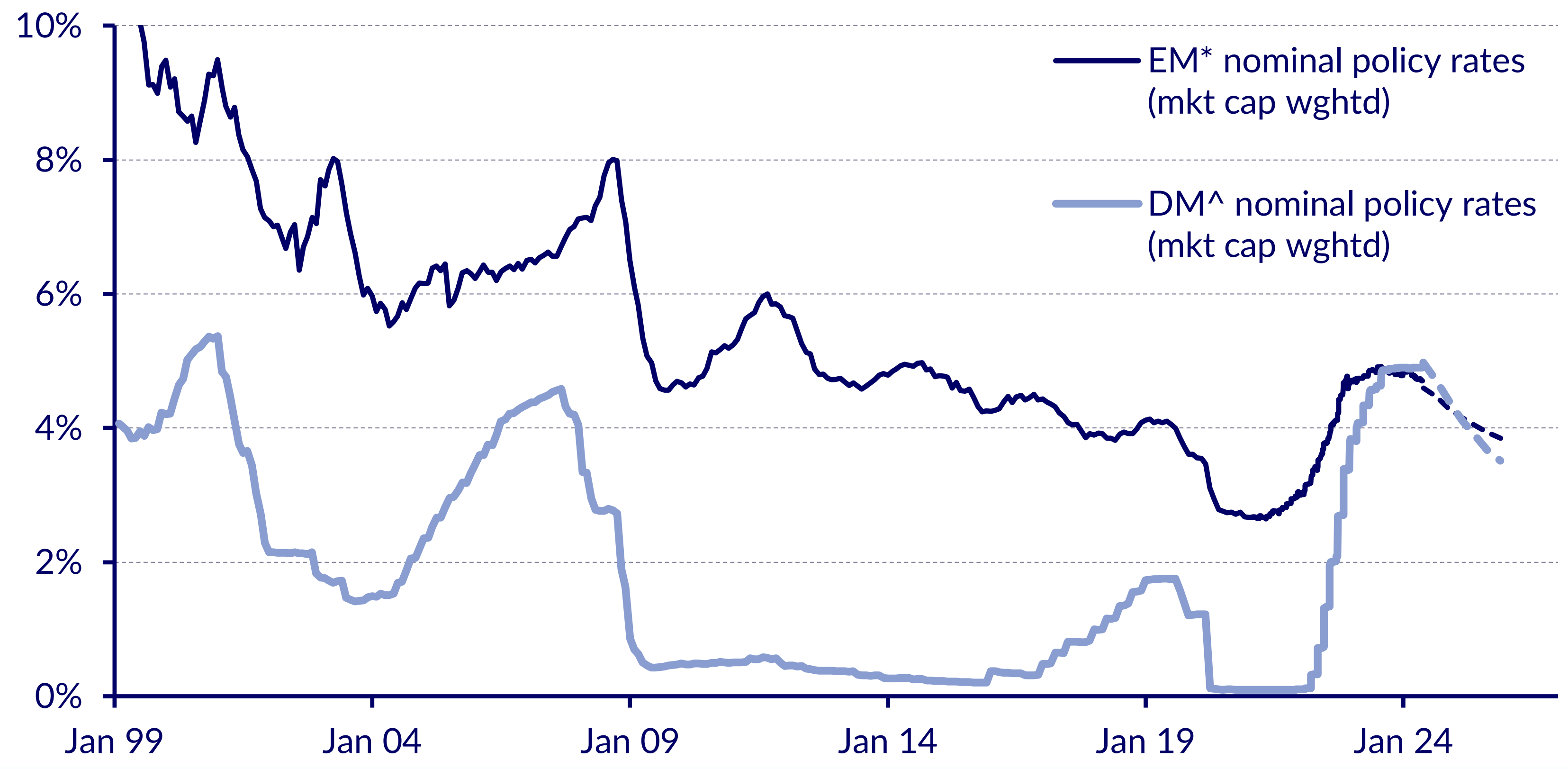


Source: CLSA, MSCI, Refinitiv

The case for EM

- **1. EM policy rates are below DM for the first time**
- On Bloomberg consensus estimates, this dynamic will remain in place through at least 2024.

Full convergence: EM policy rates are below DM for the first time



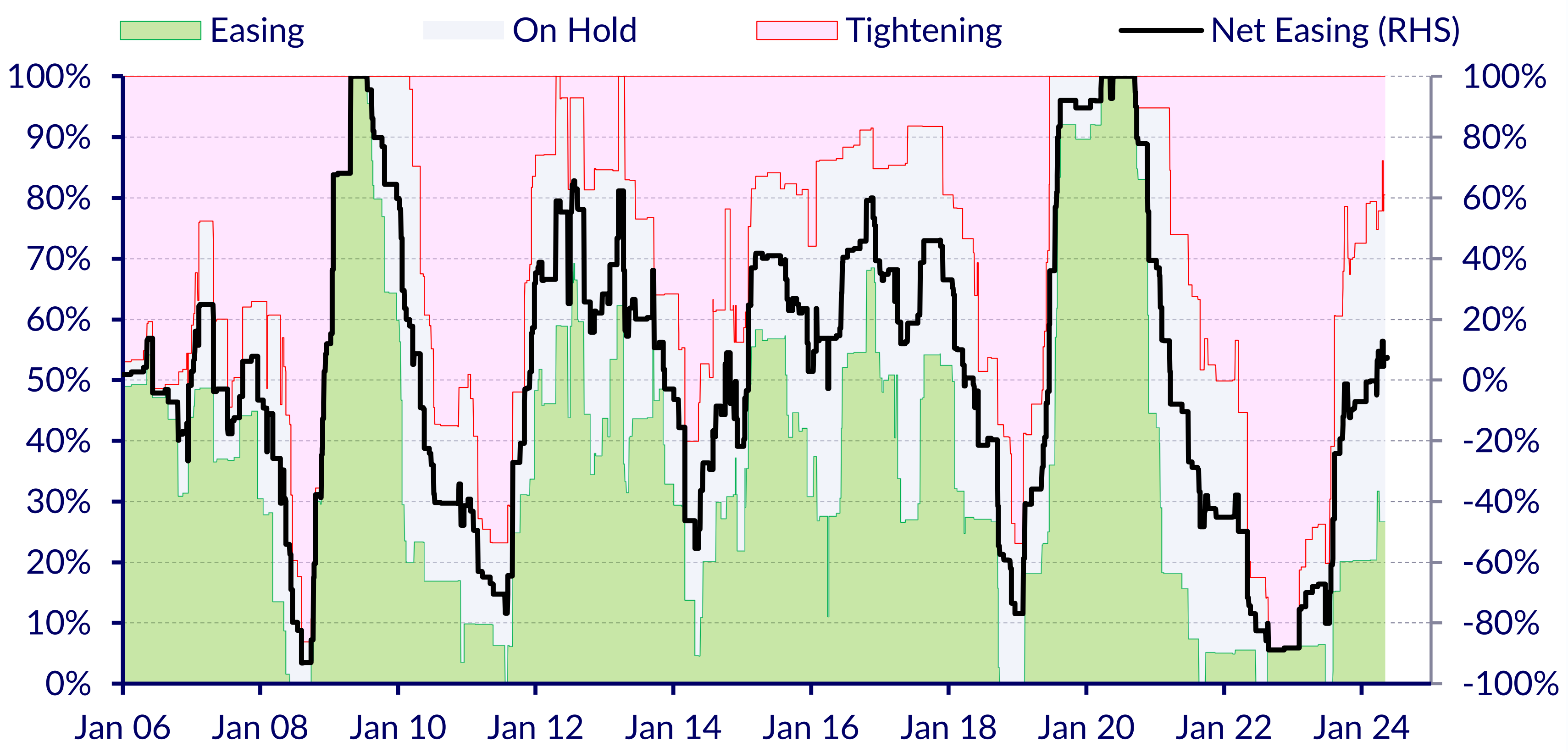
*BR, CL, CN, IN, ID,KR, MX, MY, PH, PL, SA, TH, TW, ZA. ^AU, EU, JP, UK, US.
Source: CLSA, BIS, Refinitiv, MSCI

CLSA

The case for EM

- Our EM ex China policy bias indicator is net accommodative for the first time since Mar 2021.
- Although thus far EM policy easing has been driven by Latin America (Brazil, Mexico and Chile).

Emerging market (ex China)* monetary policy bias indicator (nominal GDP weighted)



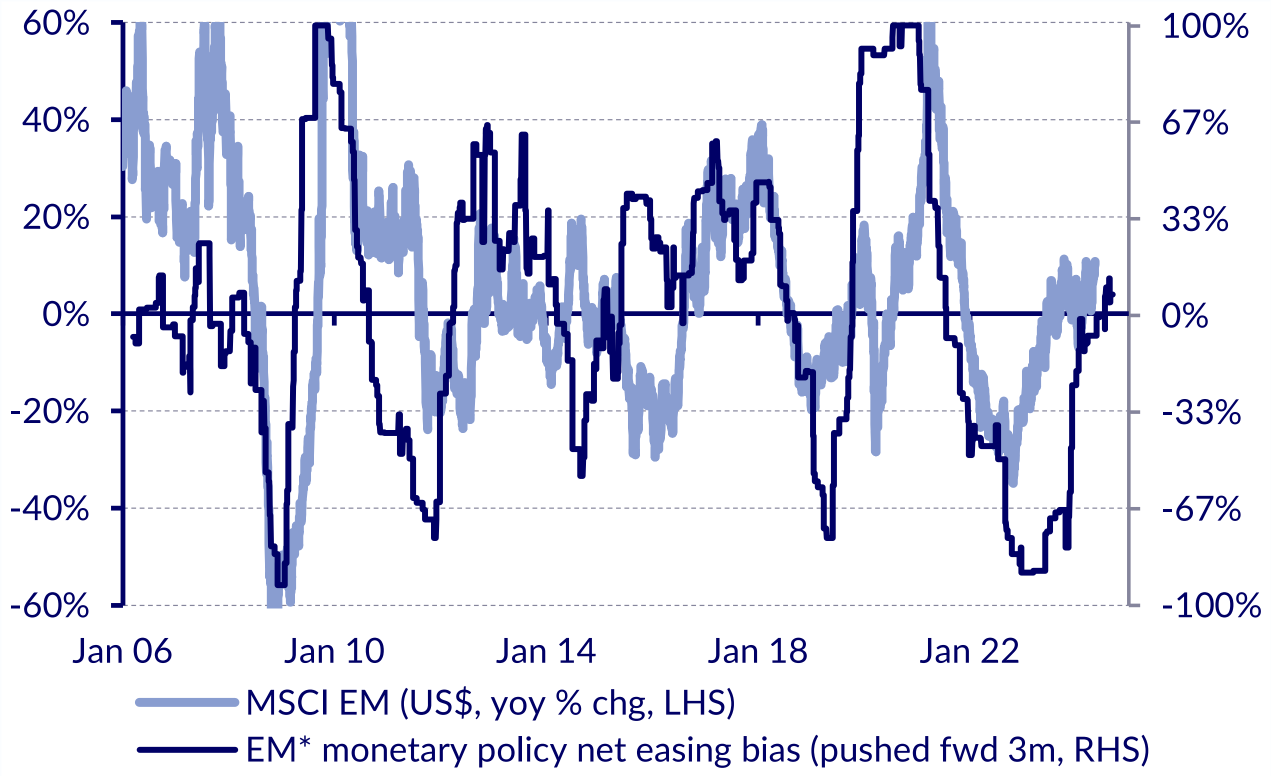
* 15 largest EM (ex China, ex Russia since Feb 2022) economies.
Source: CLSA, BIS, Refinitiv, Oxford Economics

CLSA

The case for EM

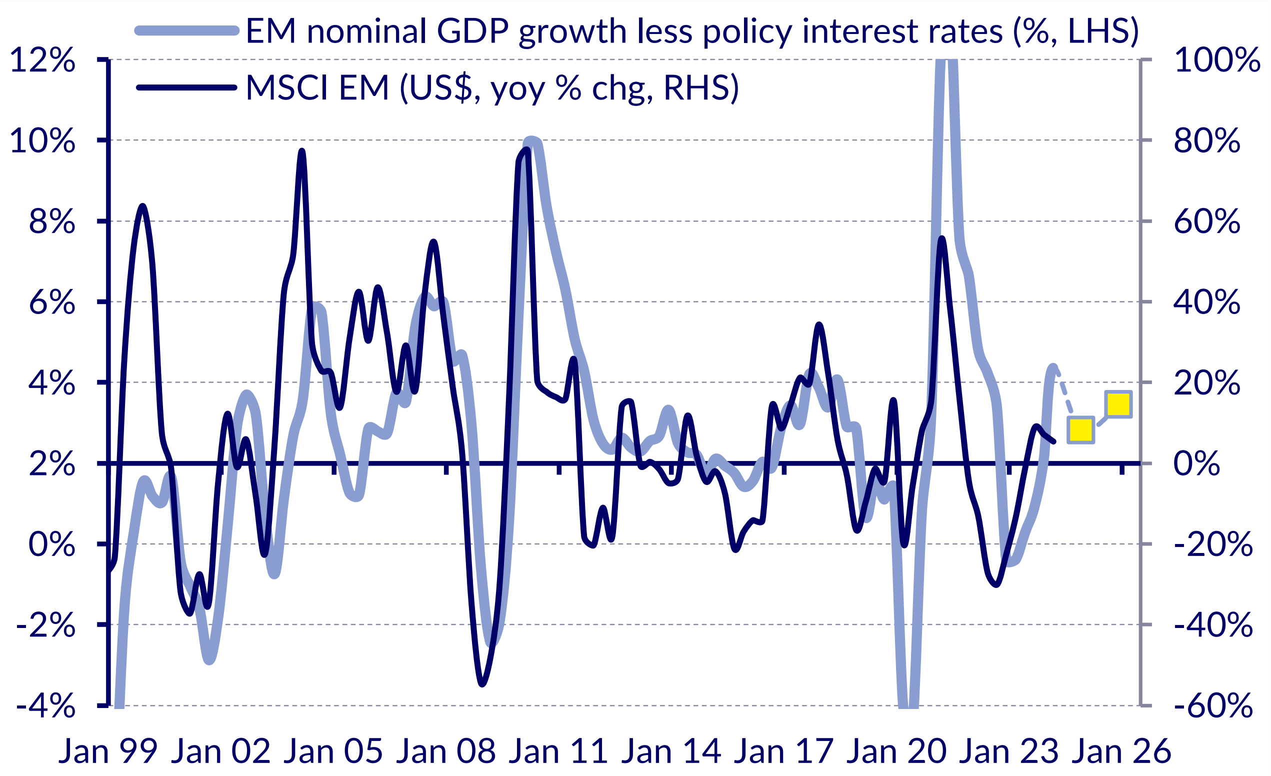
- There is a reassuringly strong association between YoY EM momentum and the EM policy bias.
- Also the spread between nominal GDP growth and rates is signaling positive EM momentum.

EM monetary policy easing bias versus equity momentum



* 15 largest EM (ex China, ex Russia since Feb 2022) economies
Source: CLSA, BIS, MSCI, Refinitiv, Oxford Economics

EM nominal GDP growth less policy rates differential vs MSCI EM

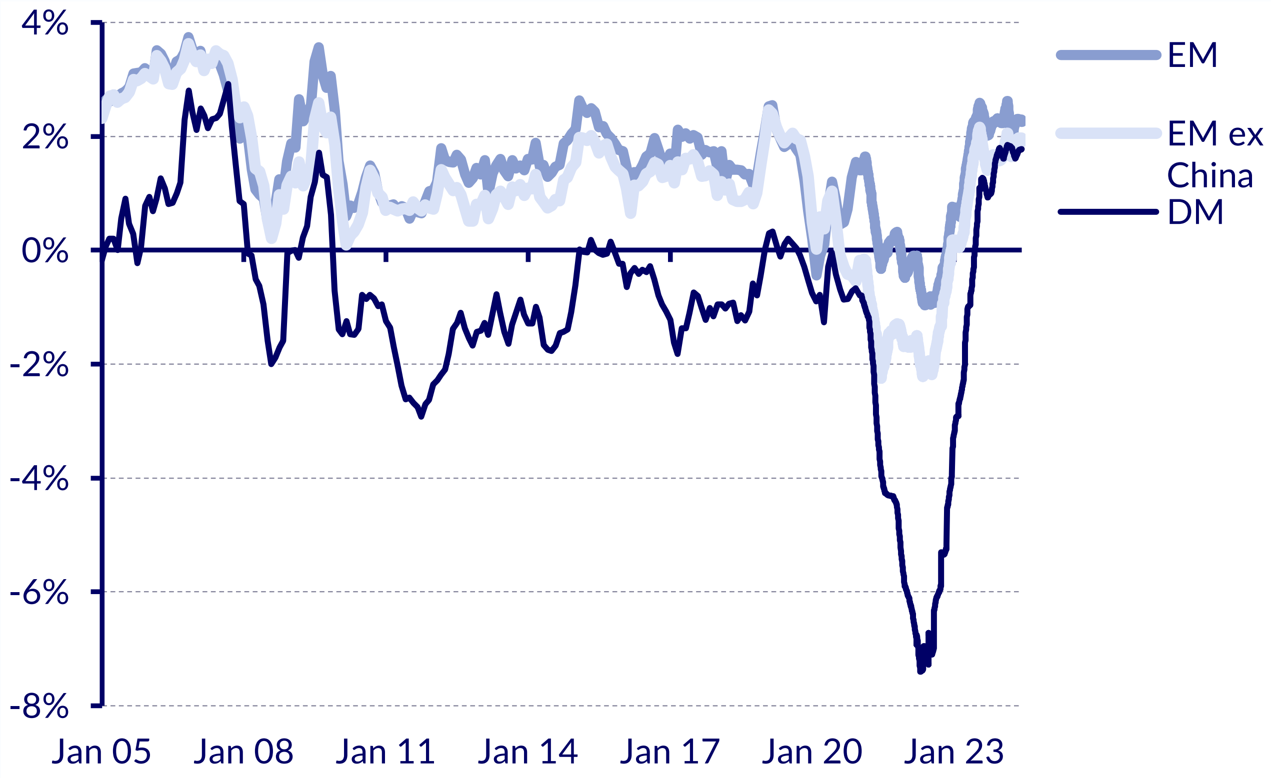


Source: CLSA forecasts, Oxford Economics, BIS, MSCI, Refinitiv

The case for EM

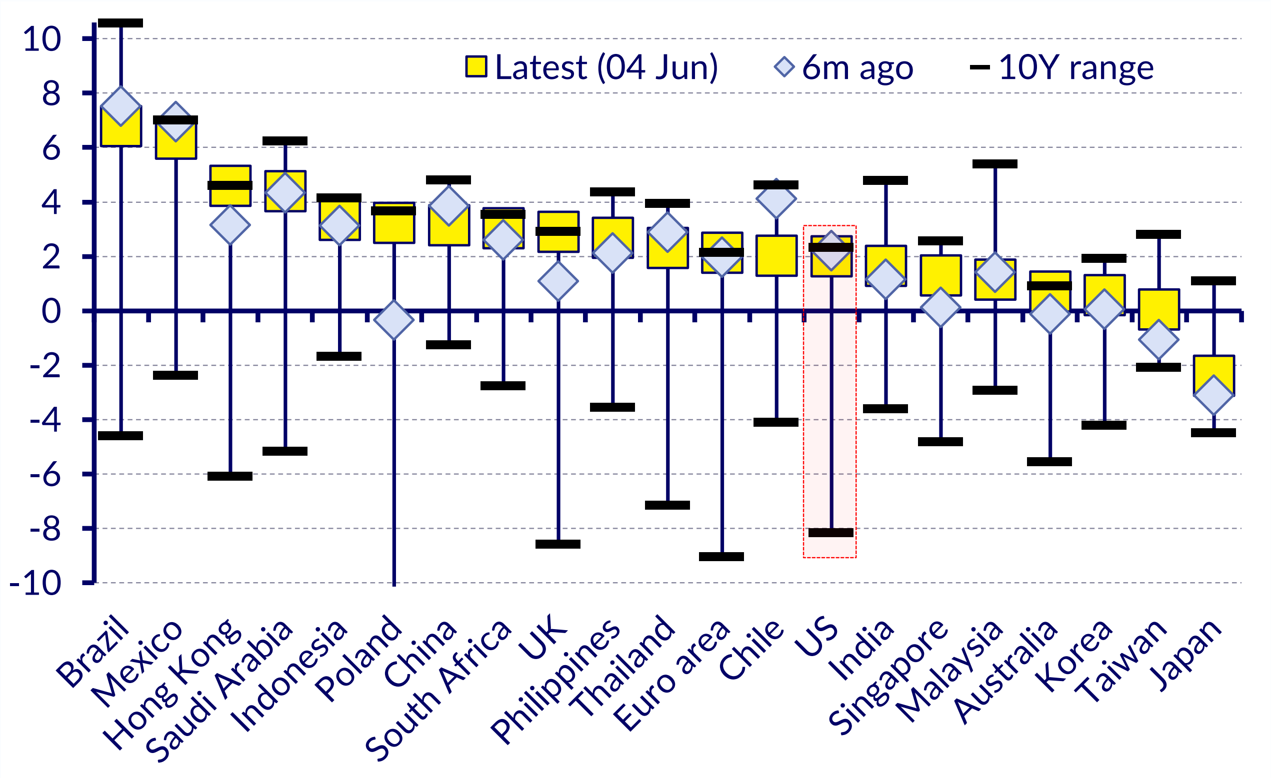
- Across EM conditions are ripe for policymakers to begin easing. albeit waiting for the Fed cut.
- EM real interest rates are at a 50bps positive spread over DM, or a lesser 30bps ex China.

EM vs DM real policy interest rates (%, equity mkt cap weighted)



Source: CLSA, BIS, Refinitiv

Real interest rates (latest versus 6m ago and 10-year range)



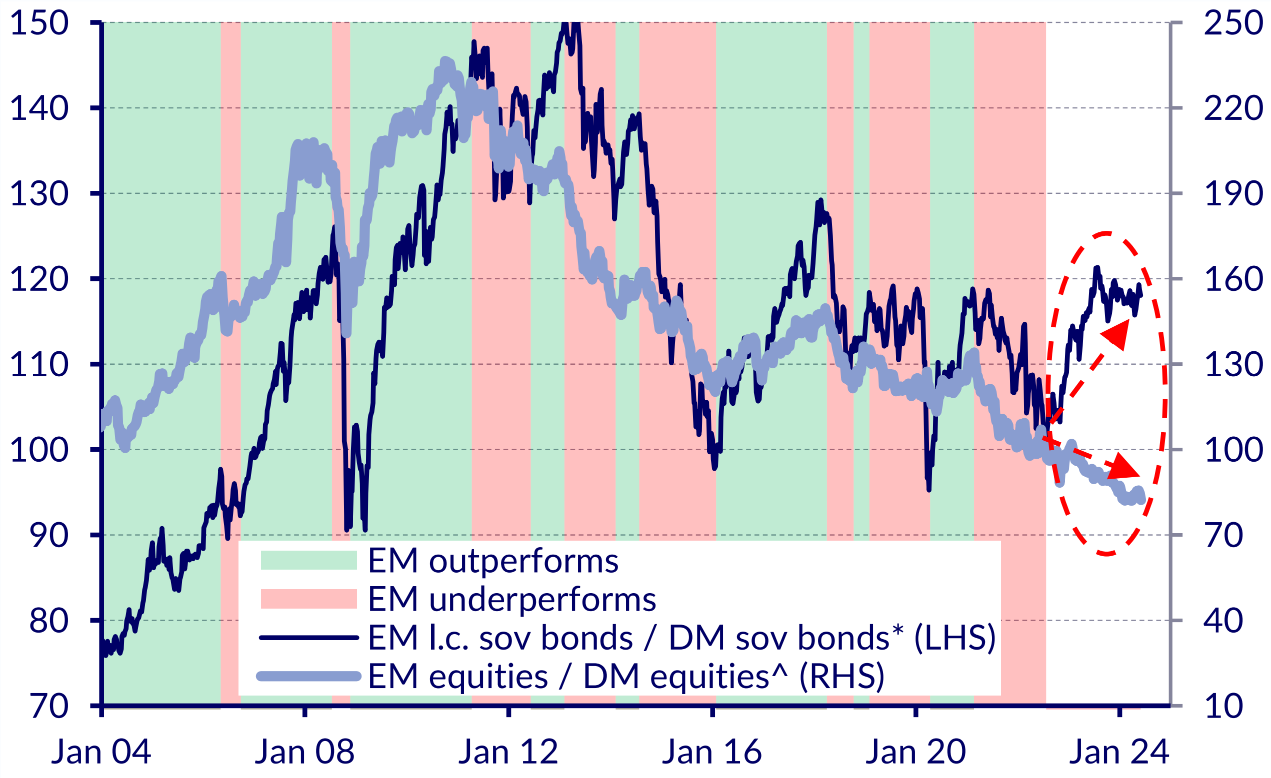
Source: CLSA, BIS, Refinitiv

CLSA

The case for EM

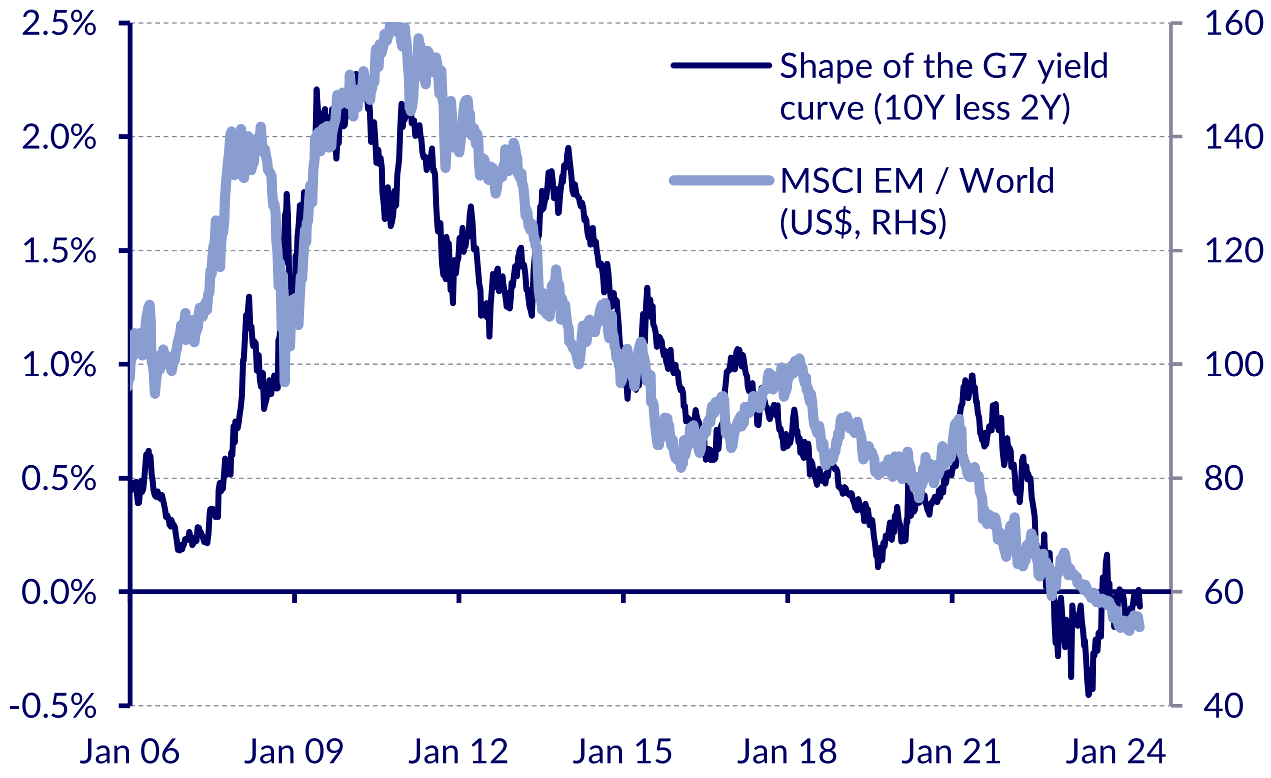
- EM equities can catch up with EM bonds which have been outperforming since July 2022.
- EM equities typically rally with a steepening global yield curve precipitated via easing.

Emerging versus developed markets: Sovereign bonds and equities



*JPM GBI-EM Diversified local currency sovereign bond (US dollar) index / S&P global developed sovereign bond (US dollar) index
^MSCI EM US dollar total return index / MSCI World US dollar total return index.
Source: CLSA, S&P, JP Morgan, Bloomberg, Refinitiv

EM equities relative performance vs shape of the G7 yield curve



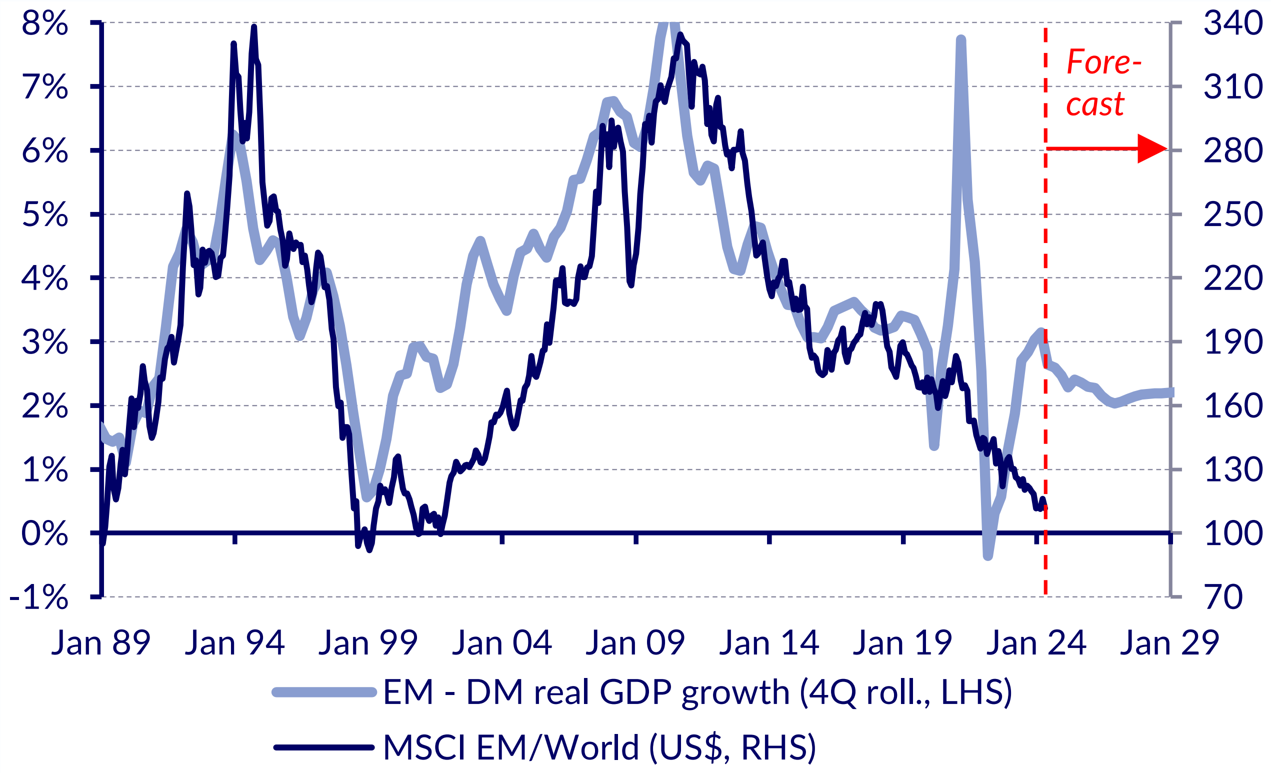
Source: CLSA, MSCI, Refinitiv

CLSA

The case for EM

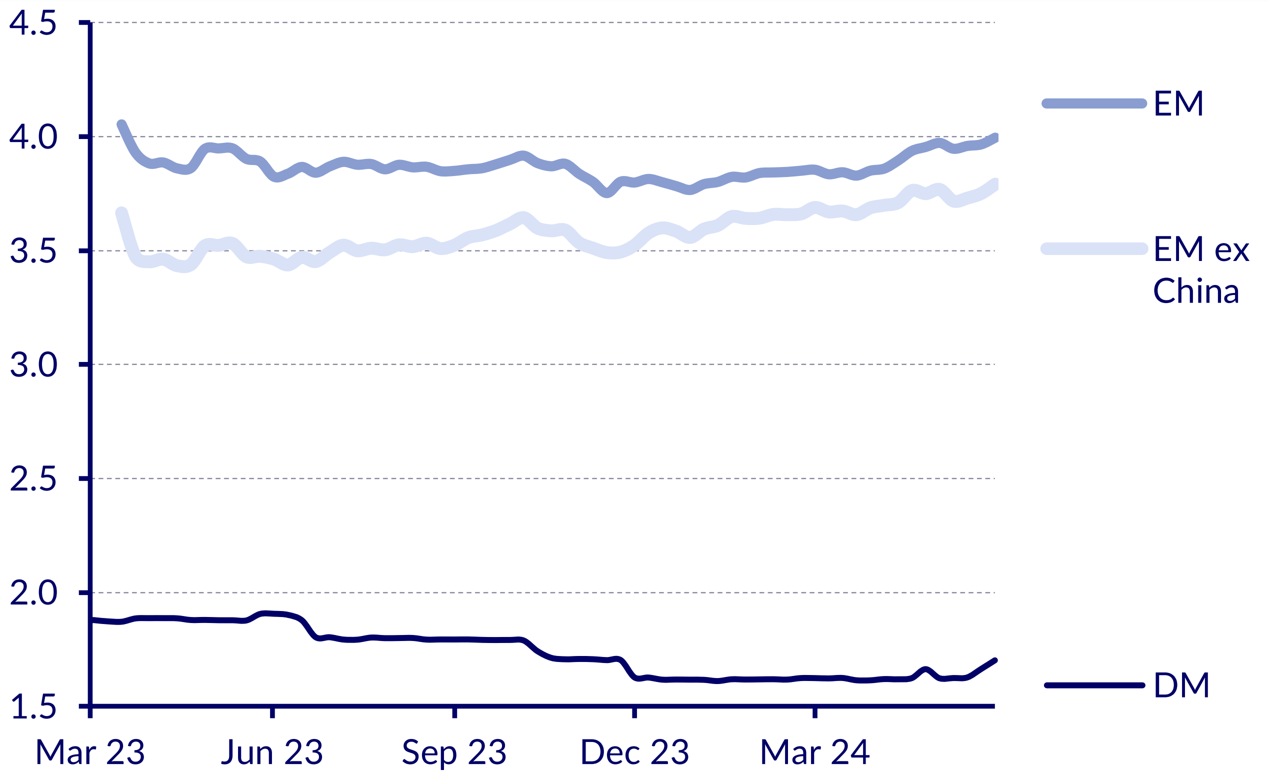
- **2. Macro drivers strongly favour EM over DM**
- EM relative performance is lagging the GDP growth differential expanding in favour of EM.

EM versus DM
GDP growth differential versus performance



Source: CLSA, Oxford Economics forecasts, Refinitiv, MSCI

EM versus DM
2025 real GDP growth forecast (%, cap weighted)

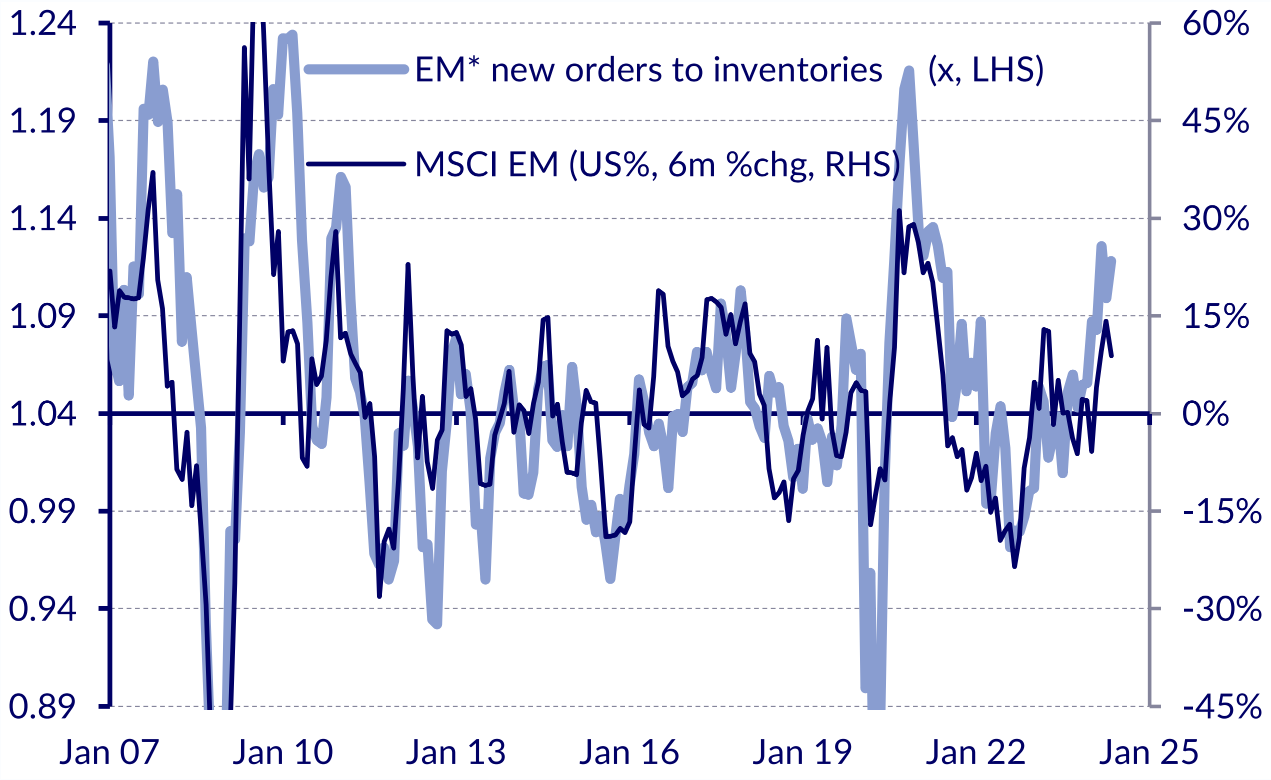


Source: CLSA, Bloomberg

The case for EM

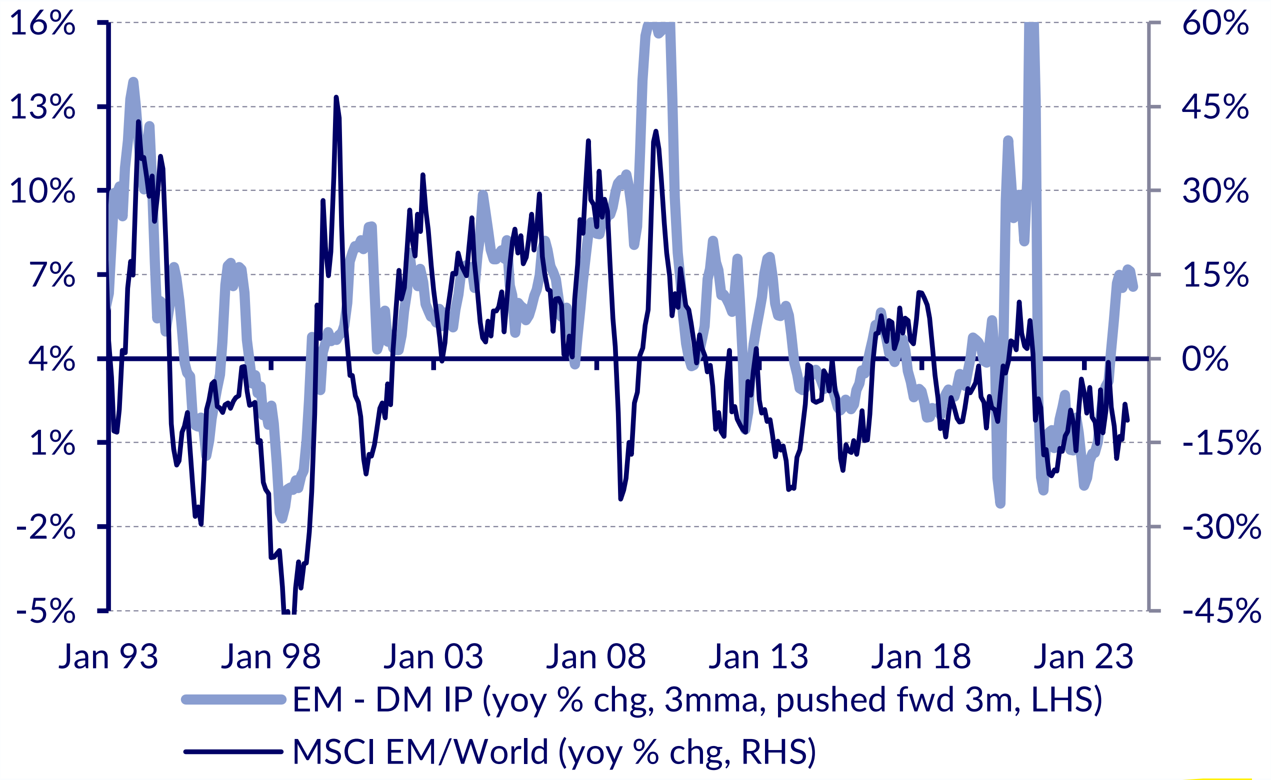
- EM momentum is chasing the improvement in the region's new orders to inventories ratio.
- EM IP is above the critical 4ppt positive spread to DM usually consistent with outperformance.

EM (big 5*) new orders to inventories versus 6m equity momentum



Source: CLSA, MSCI, Markit
Note: CH, IN, TW, KR, BR (market cap weighted)

EM versus DM: IP growth vs equity performance momentum



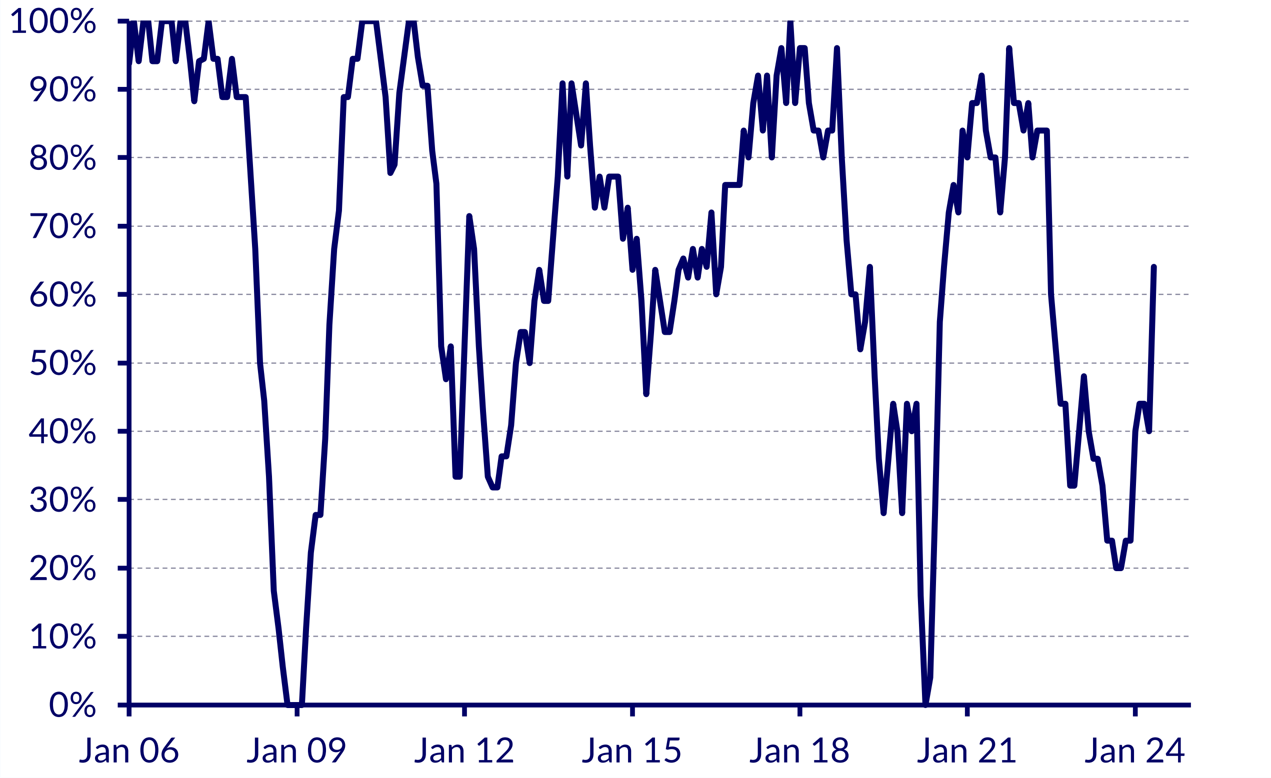
Source: CLSA, Refinitiv, MSCI

CLSA

The case for EM

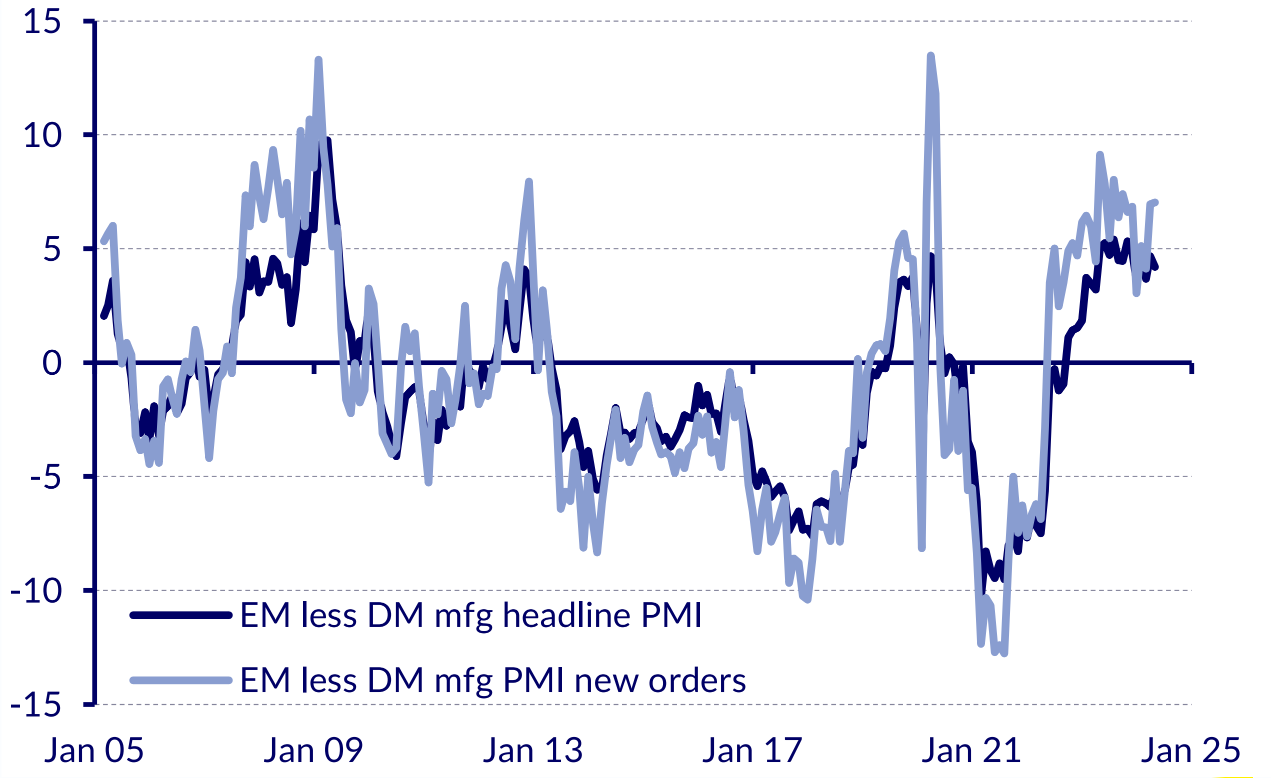
- In May more than half of global PMIs were in expansionary territory, the first time since 3Q22.
- With the greatest concentration of surveys showing expansionary conditions in EM.

Global headline manufacturing PMI surveys* above 50 (%)



*25 countries: AU,BR,CA,CN,CZ,FR,BD,IN,ID,IT,JP,MY,MX,NL,PH,PO,RU,ES,KO,CH,TW, TH,TK,UK,US.
Source: CLSA, Markit

Emerging markets (BRICK*) less developed markets (G3+) headline PMI and new orders



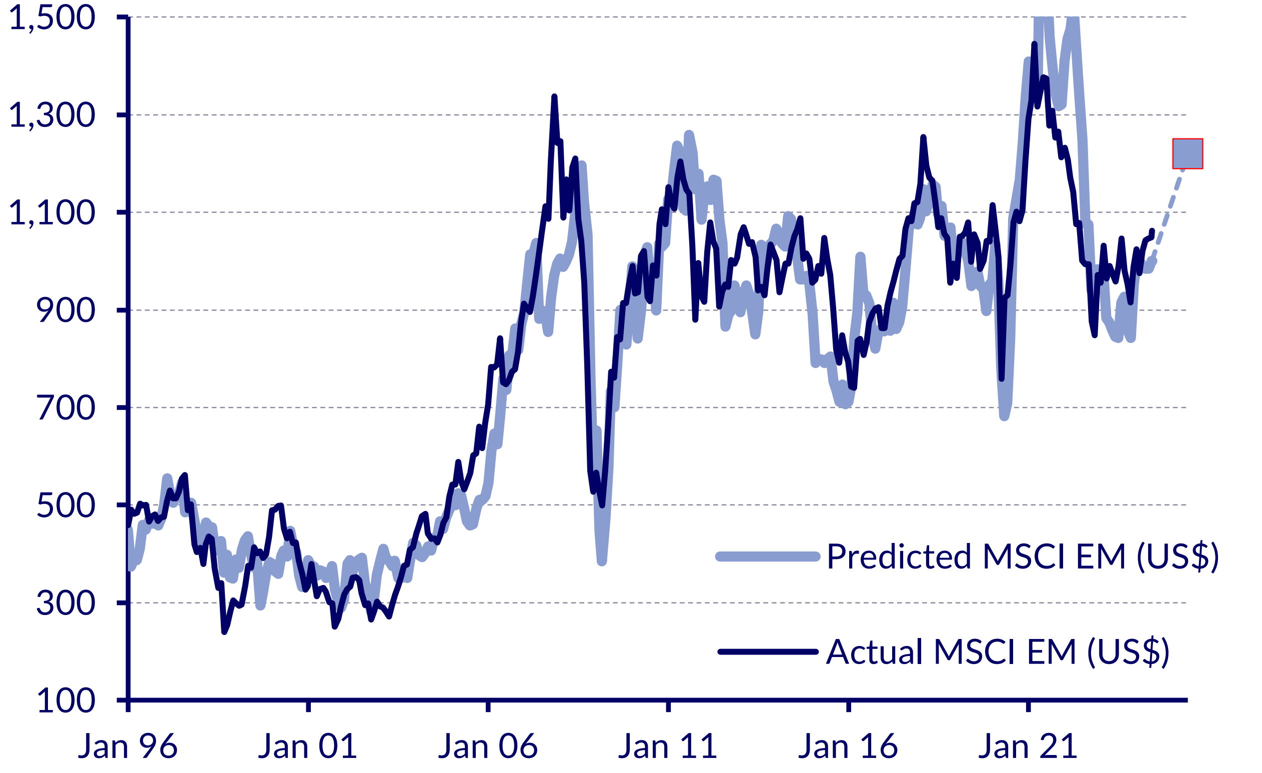
*Note: BRIC+Korea. Excluding Russia since March 2022
Source: CLSA, Markit

CLSA

The case for EM

- We find that just four variables explain 70% of the monthly index changes for the MSCI EM.
- CLSA's 12-month forward projections for these variables implies an MSCI EM target of 1200.

Model predicted versus actual MSCI EM



Source: CLSA, MSCI, BIS, ISM, Bank of Canada, Refinitiv

Four-factor regression model for MSCI EM

Explanatory variable	Coeff.	P value	5 Jun current	+12m forecast	+12m change
Trade weight US$	-1.18	0.00	131.7	125.0	-5.1%
US ISM new orders	0.50	0.00	45.4	53.0	+7.6ppt
Global IP growth	1.21	0.00	0.0%	2.5%	+2.5ppt
Metals price index	0.44	0.00	778.3	730.0	-6.2%
MSCI EM index level			**Current**	**Predicted**	**Upside**
Model predicted based on curr. variables			1,063	1,001	-6%
Model predicted based on f'cast variables			1,063	1,219	15%
Adj. R square 0.70		**Intercept**	0.00	**Observations**	342

Regressing YoY chgs for MSCI EM against YoY chgs of independent variables

Source: CLSA, MSCI, BIS, ISM, Bank of Canada, Refinitiv

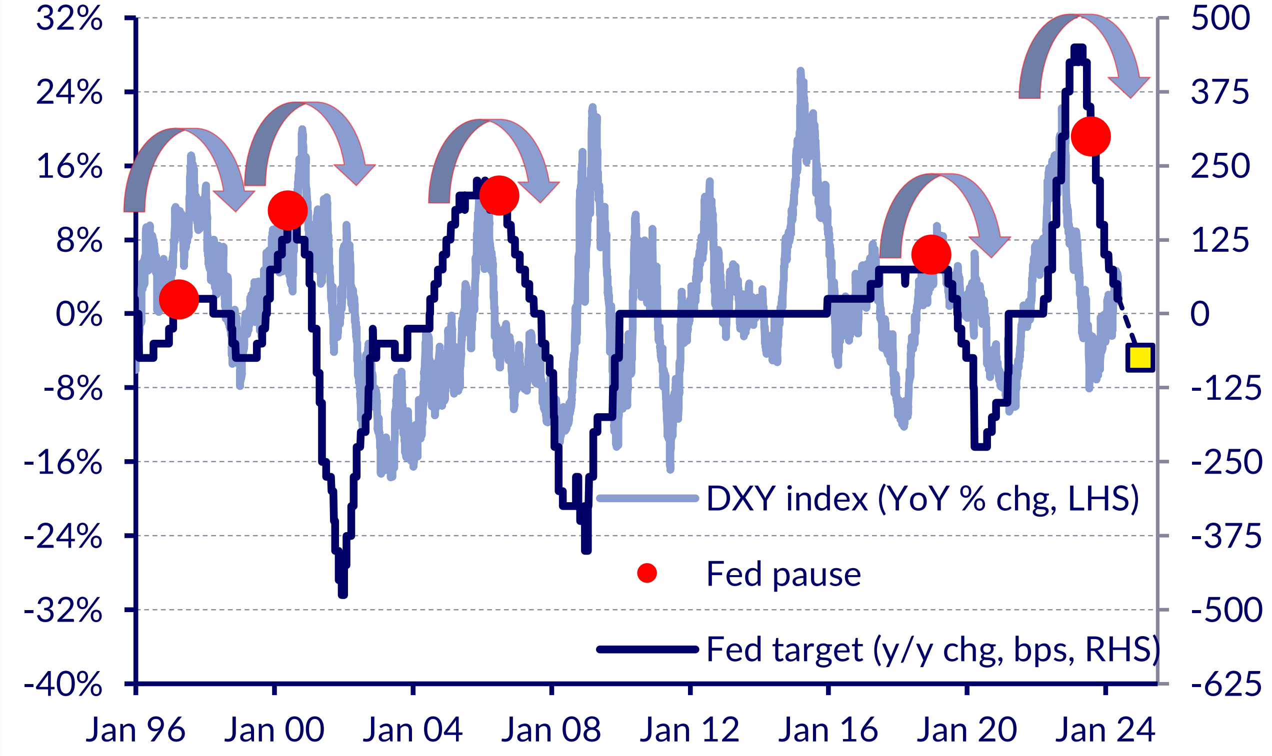
The case for EM

- **3. Cheap FX primed for revaluation, albeit delayed by the slow pace of US disinflation**
- US dollar momentum typically peaks within 10 months (before or after) a Fed pause.

Trade weighted US dollar vs MSCI EM/DM relative performance

Source: CLSA, Federal Reserve, BIS, MSCI

Dollar index momentum versus YoY changes in the Fed target rate (with forecast implied by Fed 'dot plot' guidance)

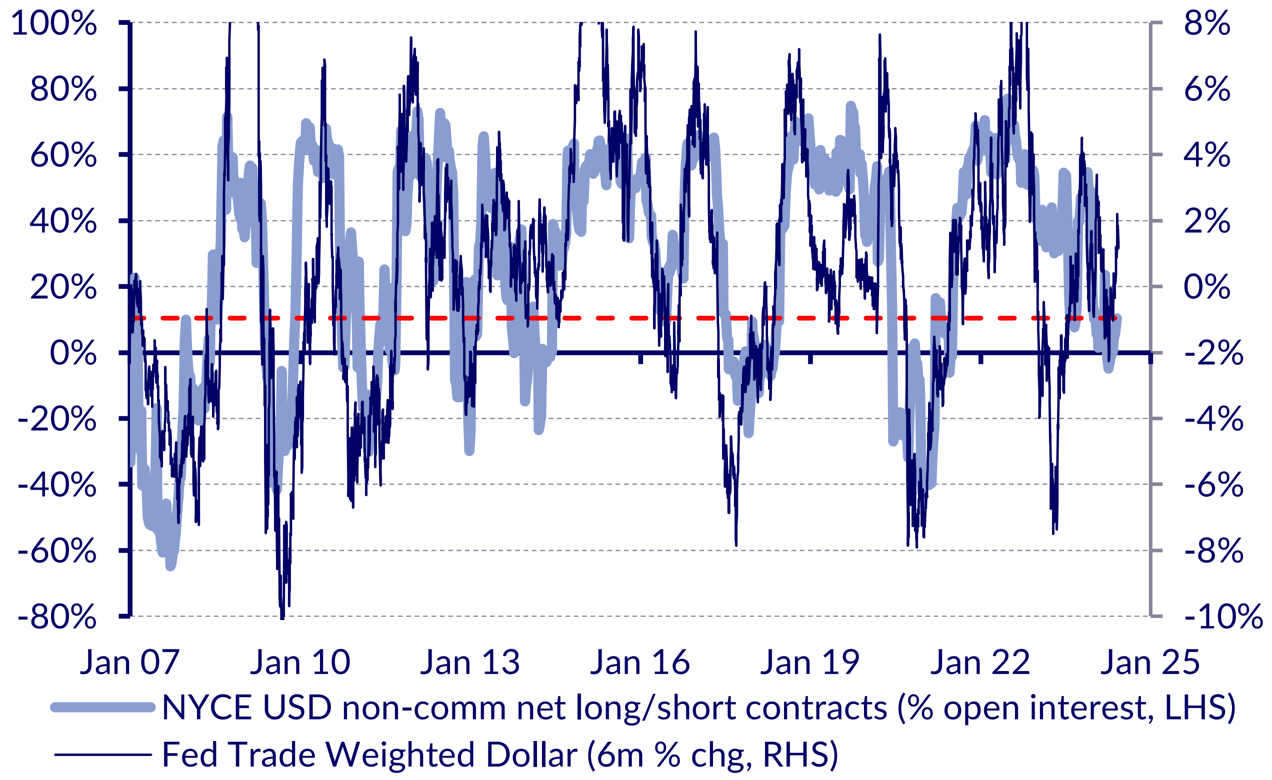


Source: CLSA, Federal Reserve, Refinitiv

The case for EM

- Speculative positions show market participants no longer believe the dollar is a oneway trade.
- The GDP weighted deviation from PPP for EM ex China is just above the threedecade low.

US dollar net speculative positions



Source: CLSA, Commodity Futures Trading Commission, Federal Reserve

EM aggregate deviation from PPP (GDP weighted average)

Source: CLSA, Oxford Economics, Refinitiv

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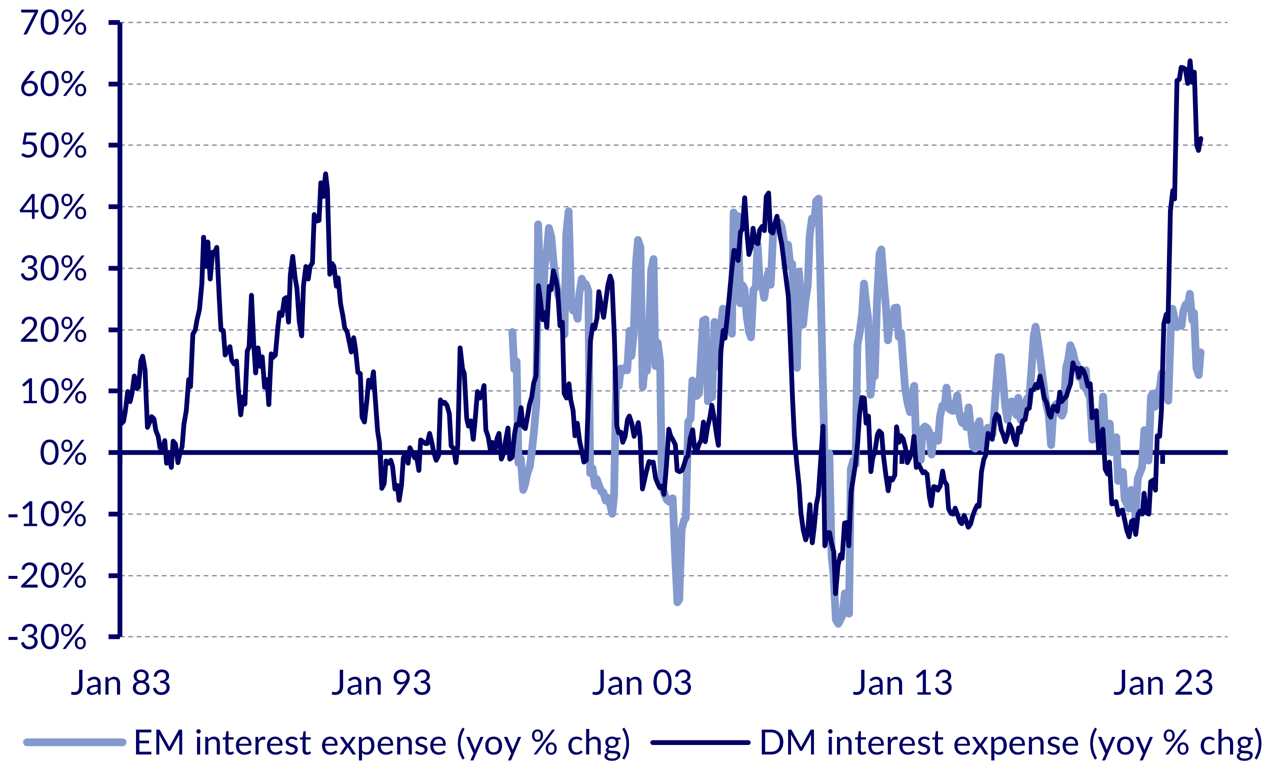
The case for EM

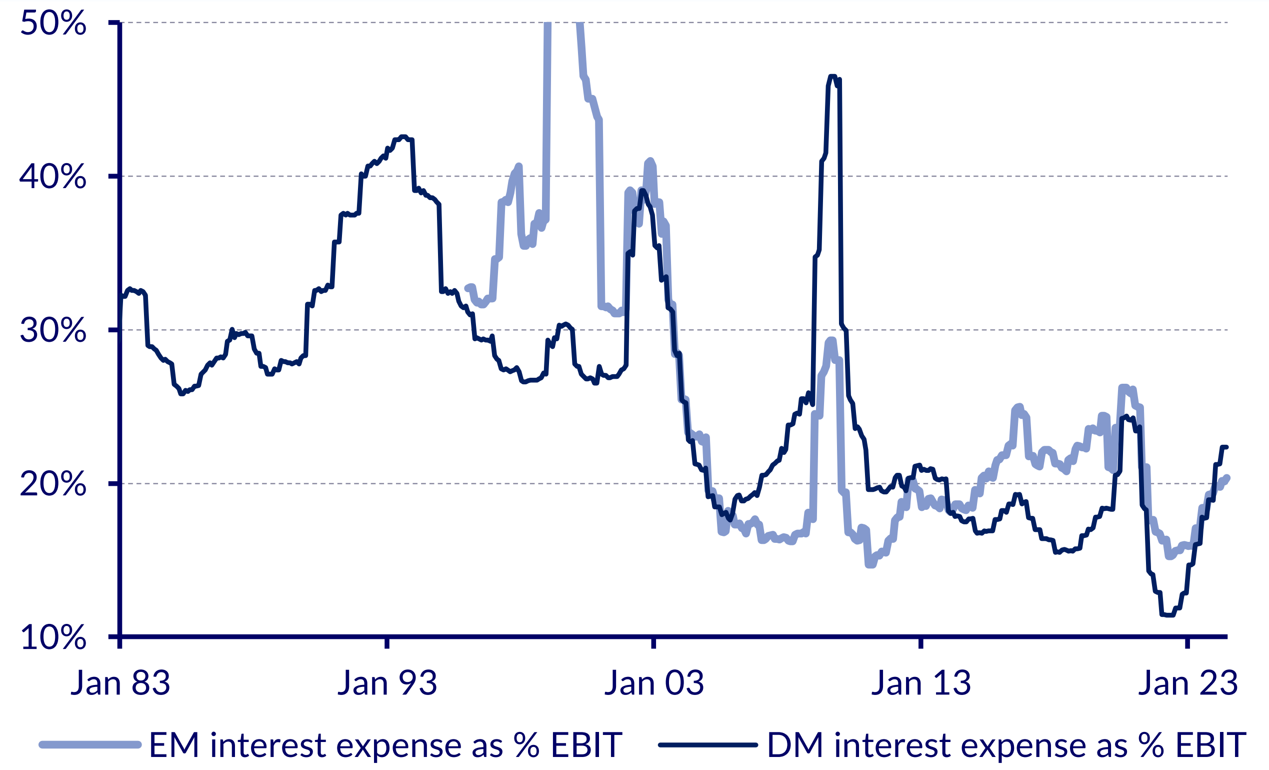
- **4. EM's superior 2024/5 EPS growth outlook**
- The proportion of Ebit consumed by interest expense is higher in DM for the first time in 10Y.

EM vs DM interest expense (yoy % chg)



Source: CLSA, Datastream - Refinitiv

EM vs DM interest expense as % of EBIT



Source: CLSA, Datastream - Refinitiv

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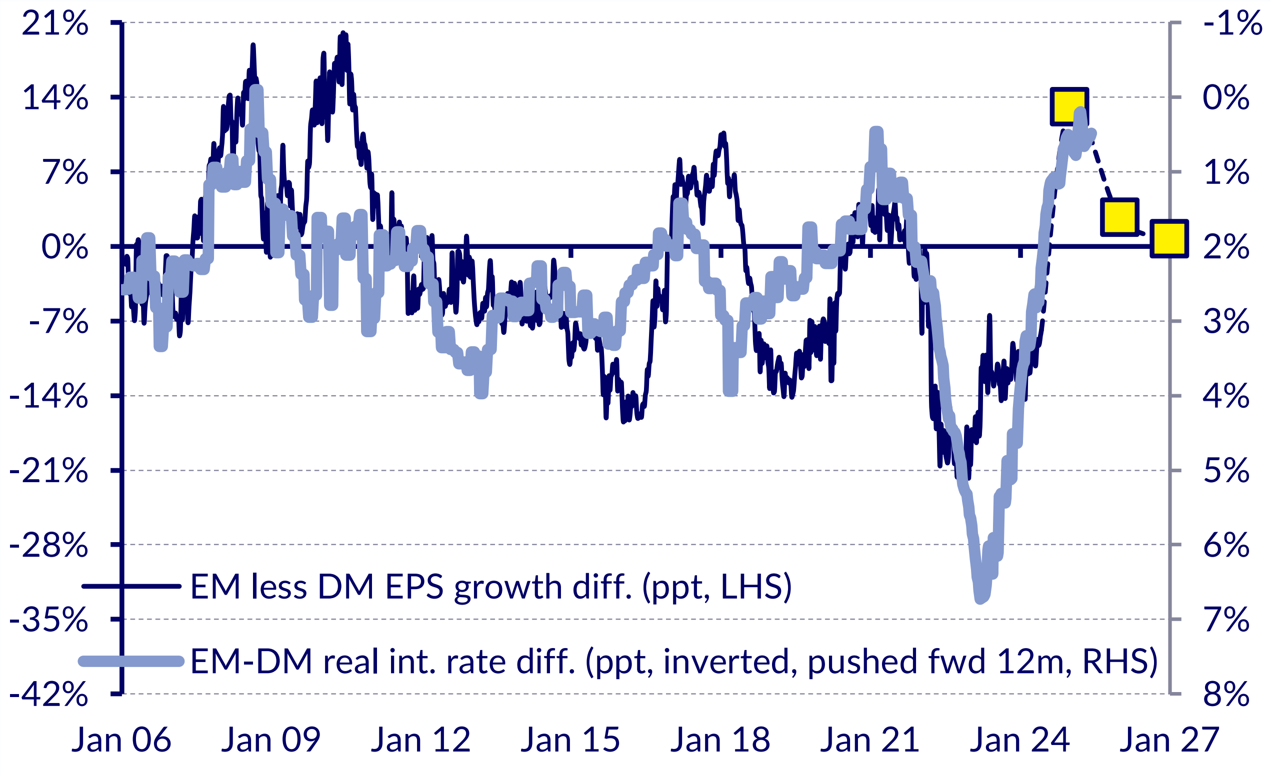
The case for EM

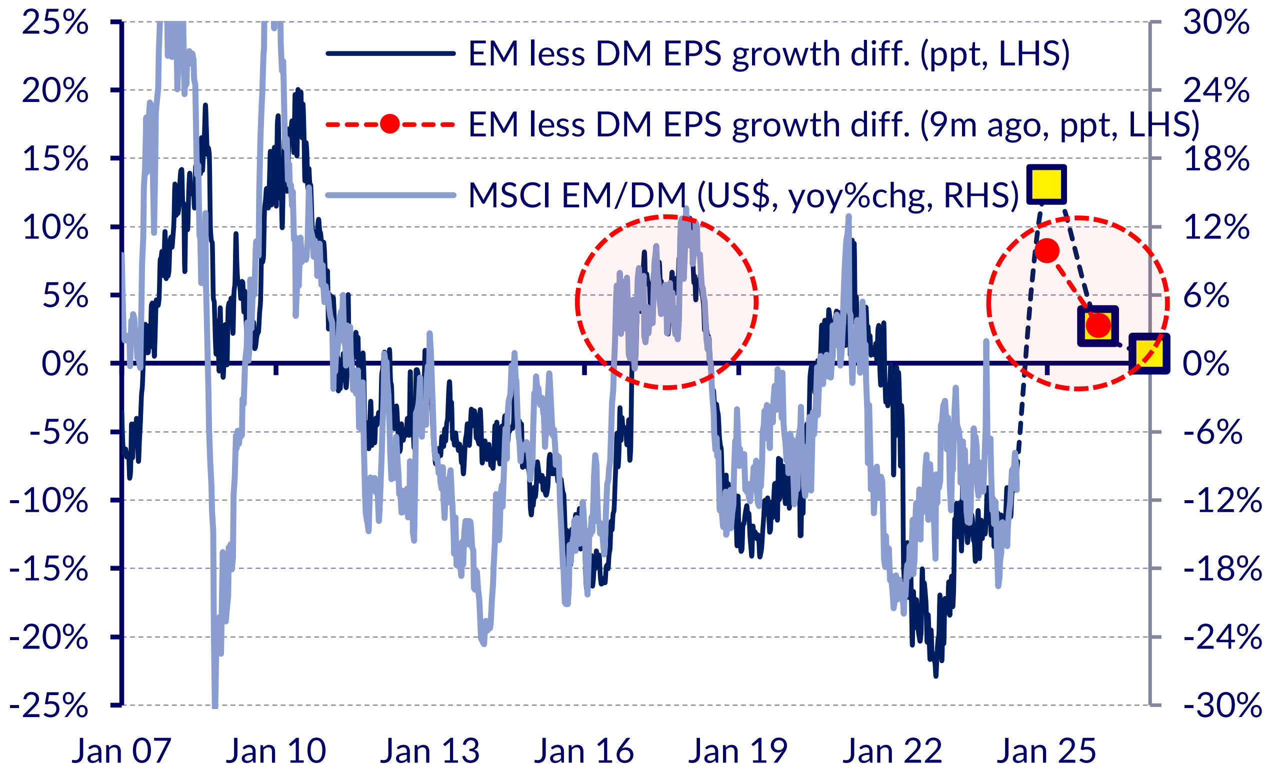
- EM/DM real interest rate spread (inverted) leads the EM/DM EPS differential by 12 months.
- The EM/DM EPS growth differential determines relative performance. Looking like 2016 again.

EM - DM EPS growth differential vs EM less DM real interest rates



Source: CLSA, IBES, Refinitiv

EM relative to DM EPS growth differential versus performance



Source: CLSA, IBES, MSCI

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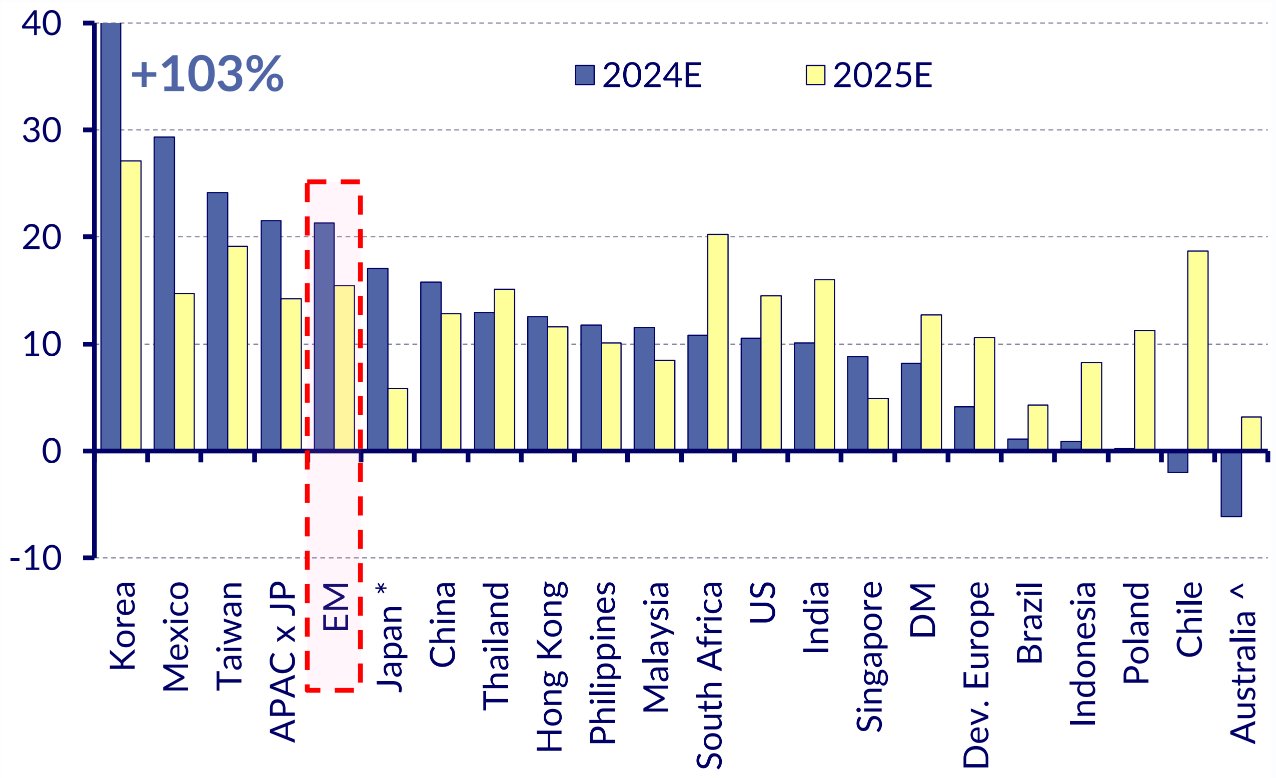
The case for EM

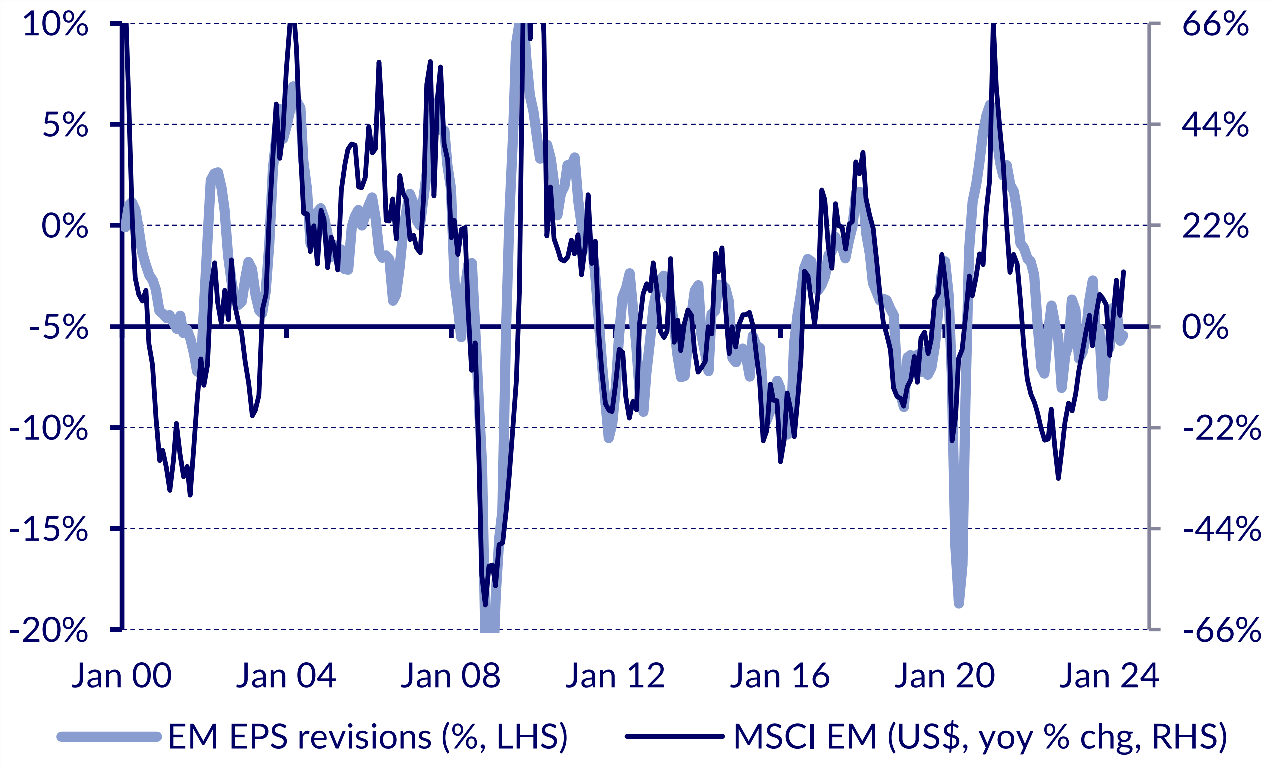
- EM EPS growth recovery is being driven by North Asia (semis in particular), Mexico and China.
- However, EPS revisions remain negative and disappointment remains likely for China growth.

Region and country consensus EPS growth projections (lc terms)



Source: CLSA, IBES

Emerging market earnings revisions vs performance momentum



Source: CLSA, IBES, MSCI

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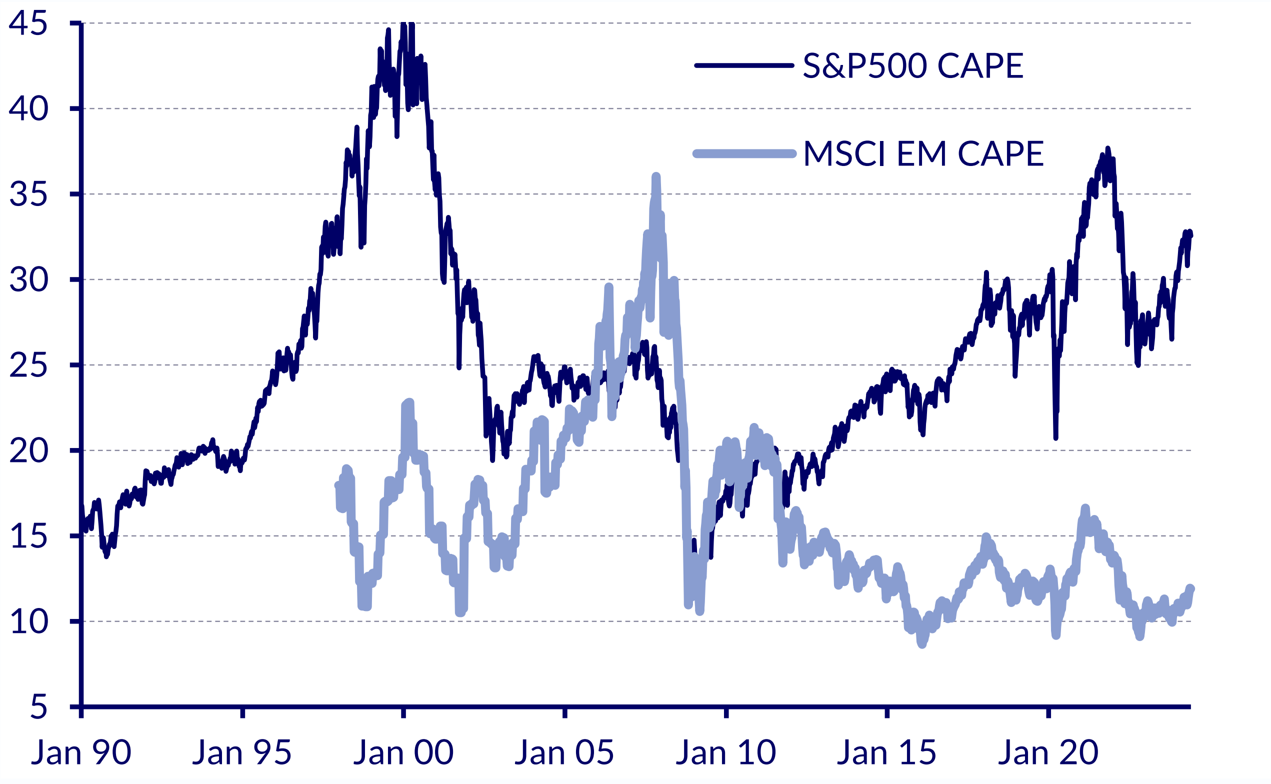
The case for EM

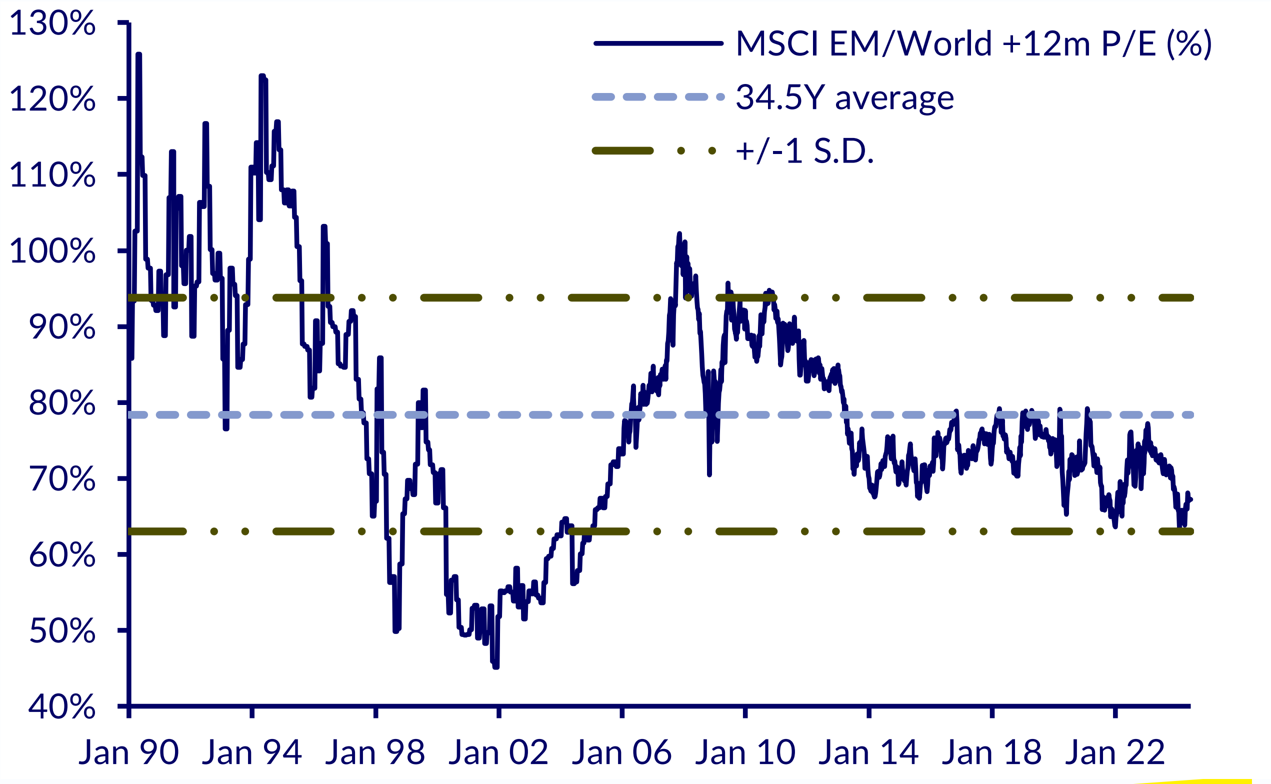
- 5. Valuation (as ever) supports the case for EM
- EM CAPE is 11.9x (26Y av. 16.0x) vs US at 32.5x (44Y av. 21.9x). Rel. +12m PE is 1s.d. cheap.

EM versus S&P500 CAPE (x)



Source: CLSA, Refinitiv

EM versus DM relative +12m consensus PE

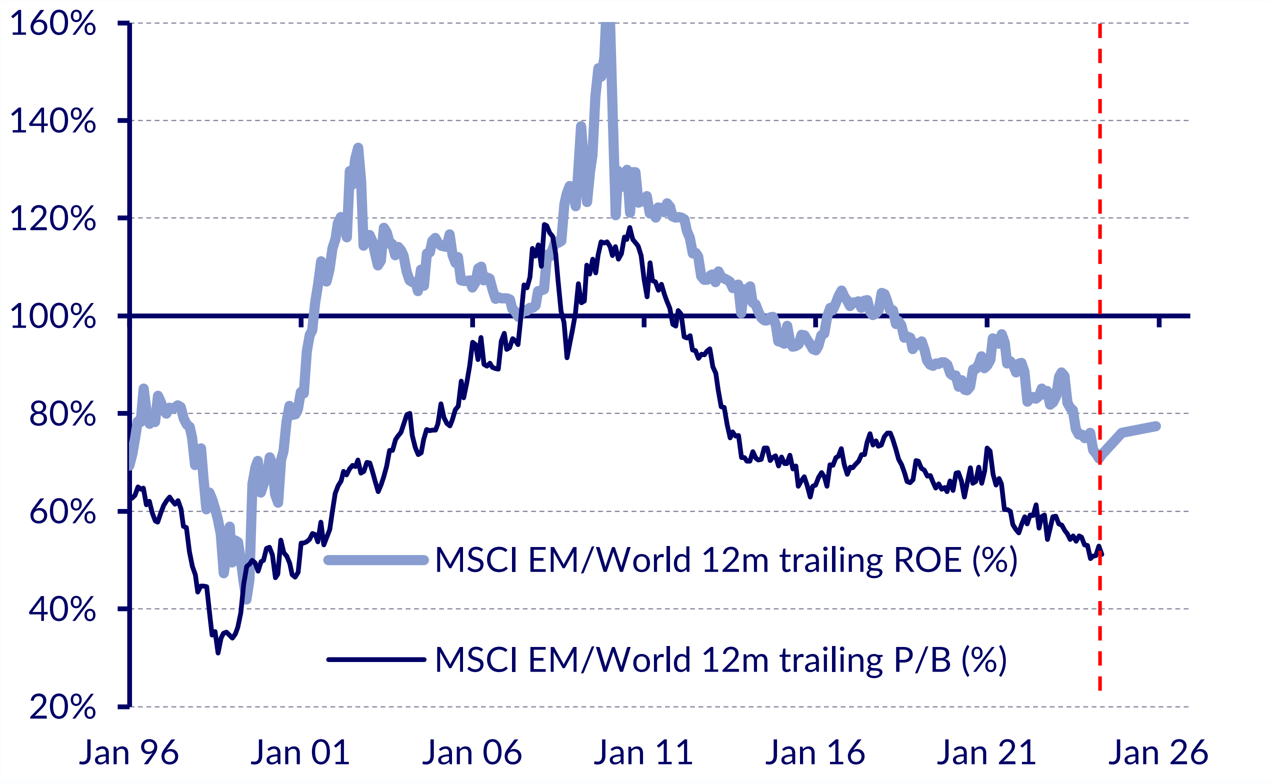


Source: CLSA, IBES, MSCI

The case for EM

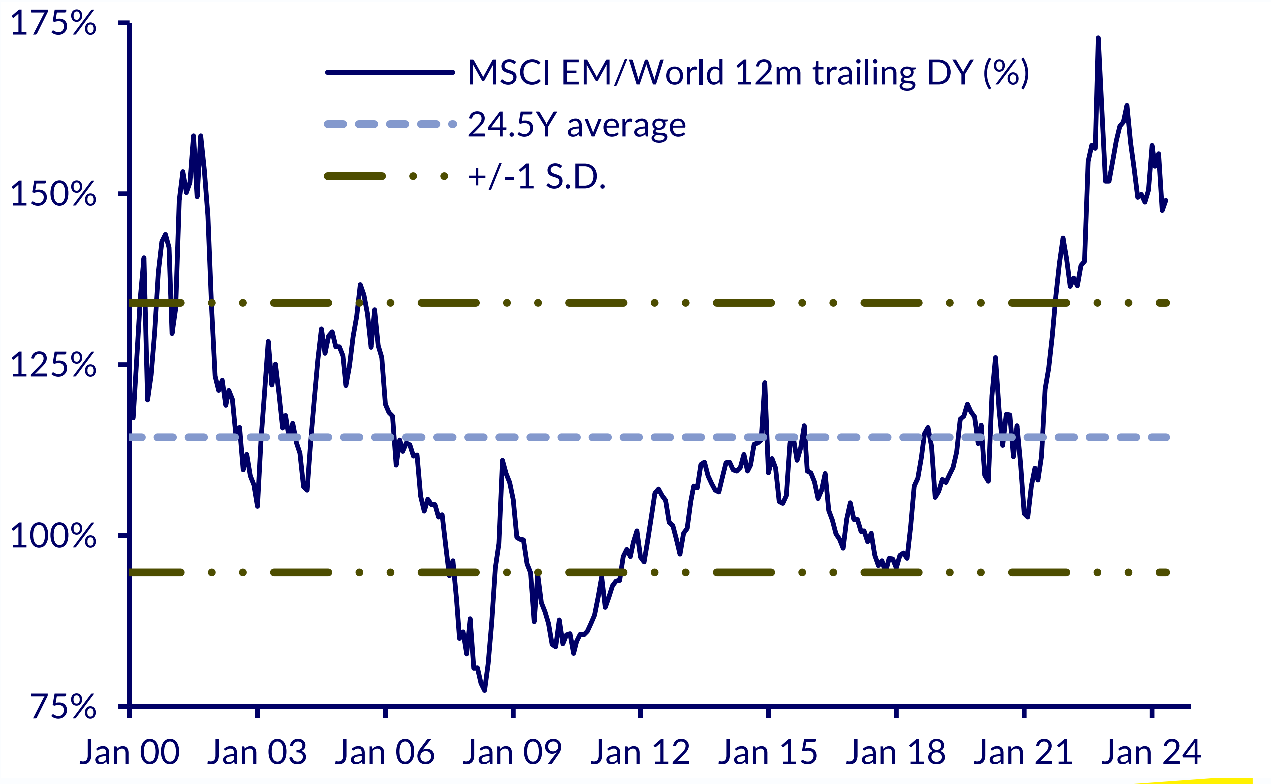
- EM's 49% price-to-book discount is the greatest in 23 years, while ROE is only 28% inferior.
- EM offers 1.5x the dividend yield of DM equities at 2.8% versus 1.8%, respectively.

EM versus DM relative price book and return on equity



Source: CLSA, MSCI, IBES estimates

EM versus DM relative dividend yield

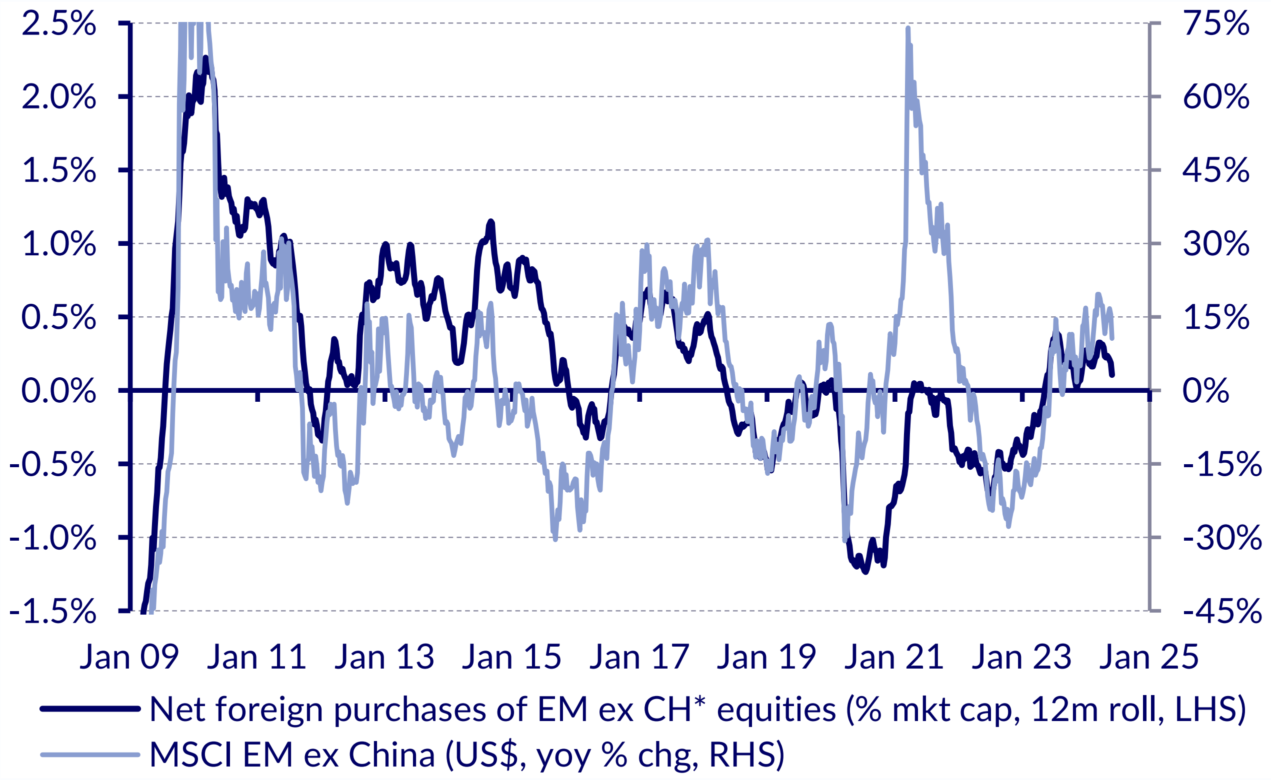


Source: CLSA, MSCI

The case for EM

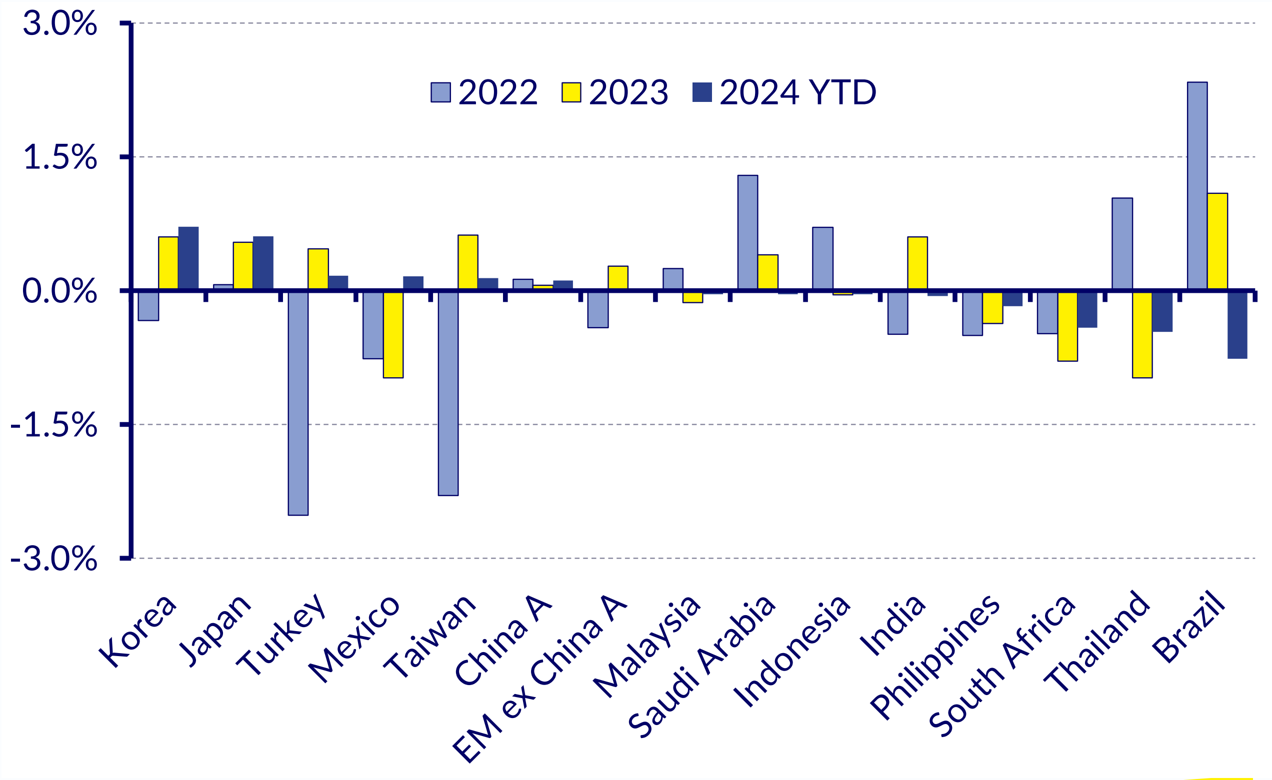
- **6. Foreign exposure to EM remains low versus history**
- Appetite for EM equities has begun to pick up, but net buying remains below historical average.

Net foreign purchases of EM ex China* equities vs performance



*Korea, Taiwan, India, Brazil, Mexico, S Africa, Thailand, Indonesia, Philippines, Malaysia, Turkey.
Source: CLSA, National Stock Exchanges, WFE, MSCI

Annual net foreign buying of EM and Japanese equities (% mkt cap)



Source: CLSA, National Stock Exchanges, WFE

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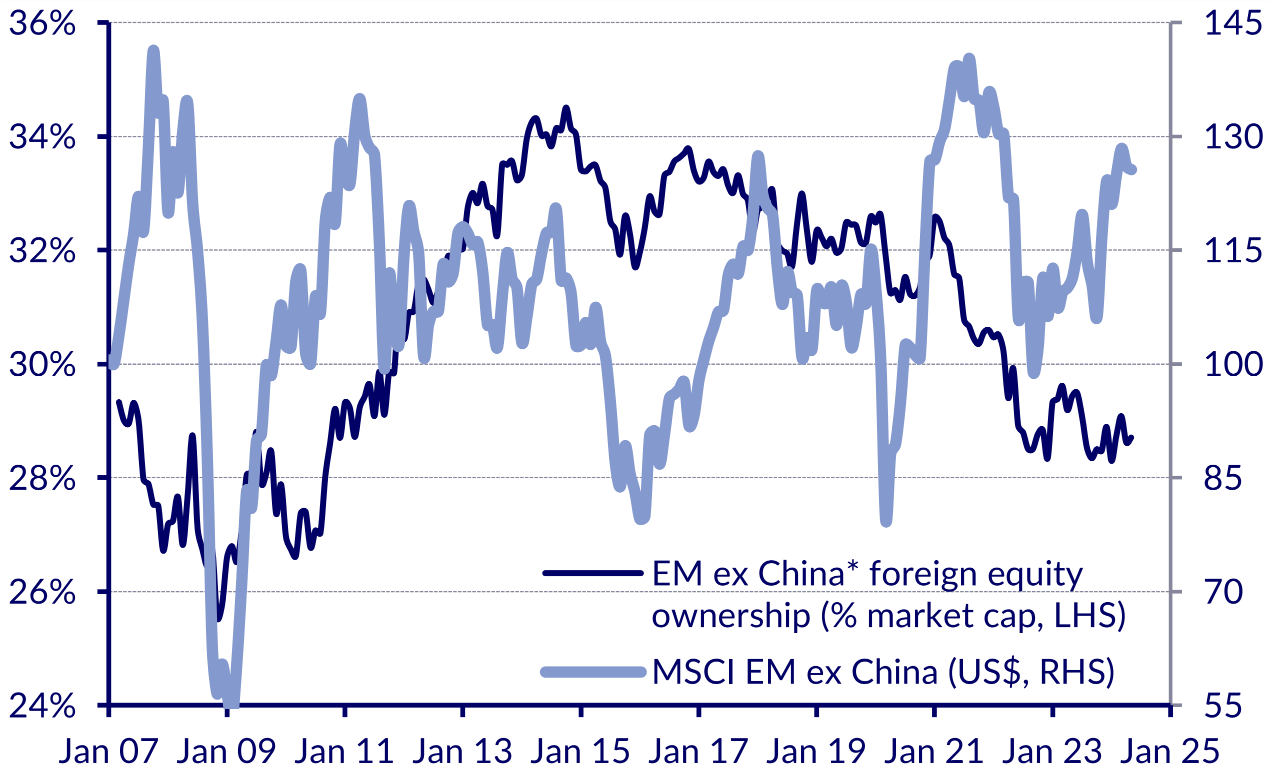
The case for EM

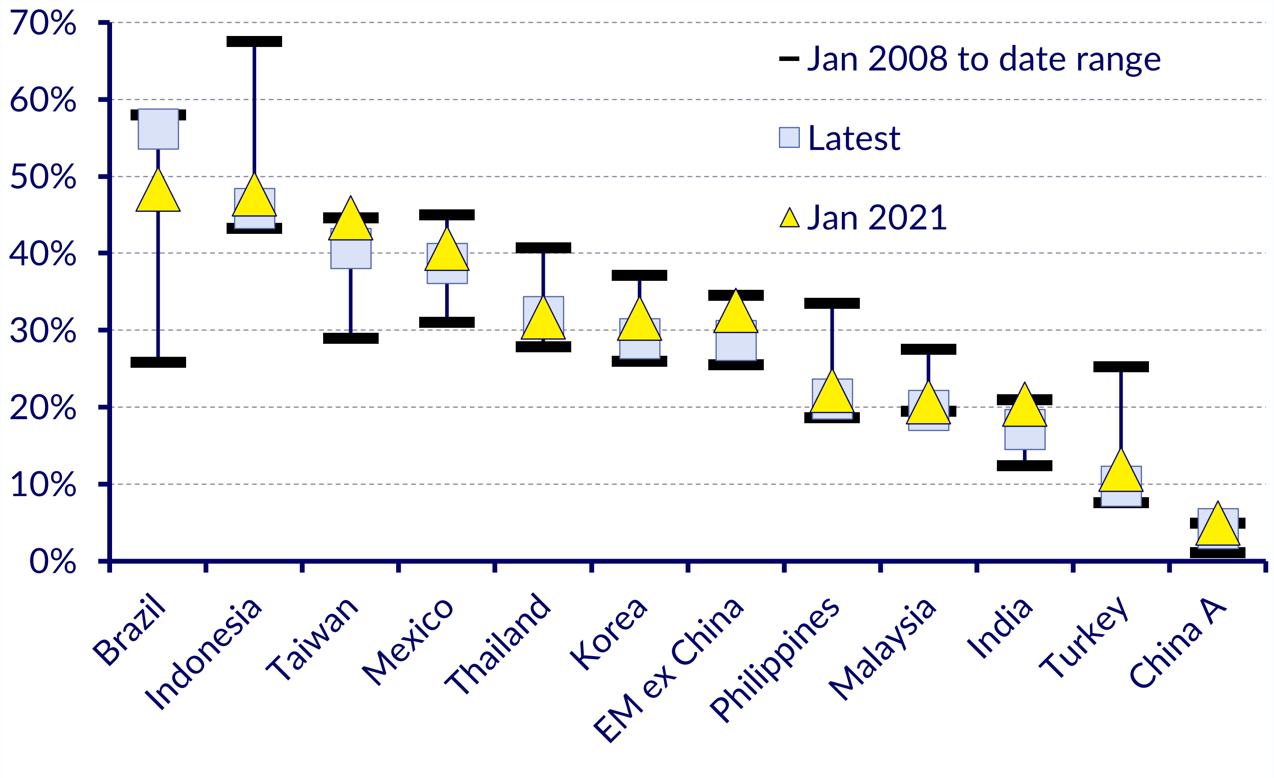
- Yet EM ex China foreign ownership at 29% remains at the lower end of the post 2007 history.
- Other than Brazil, Taiwan, Mexico & India, foreign ownership is at the low end of the 16Y range.

EM ex China* foreign ownership versus MSCI EM ex China performance



*Note: TW, KR, IN, ID, TH, MY, PH, BR, MX, TK.
Source: CLSA, National Stock Exchanges, Bloomberg, MSCI

Foreign equity ownership: current versus January 2021 and range since 2008 (% market cap)



Source: CLSA, National Stock Exchanges, Bloomberg, MSCI

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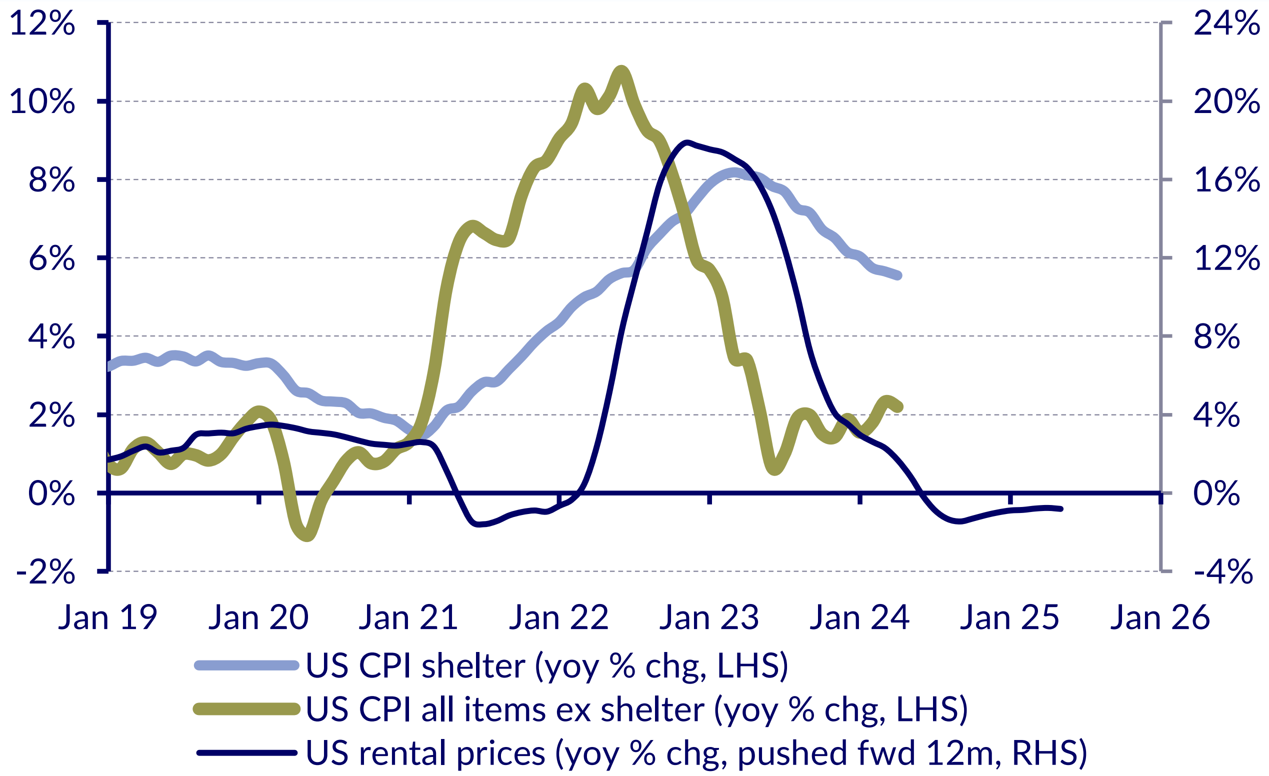
The case for EM

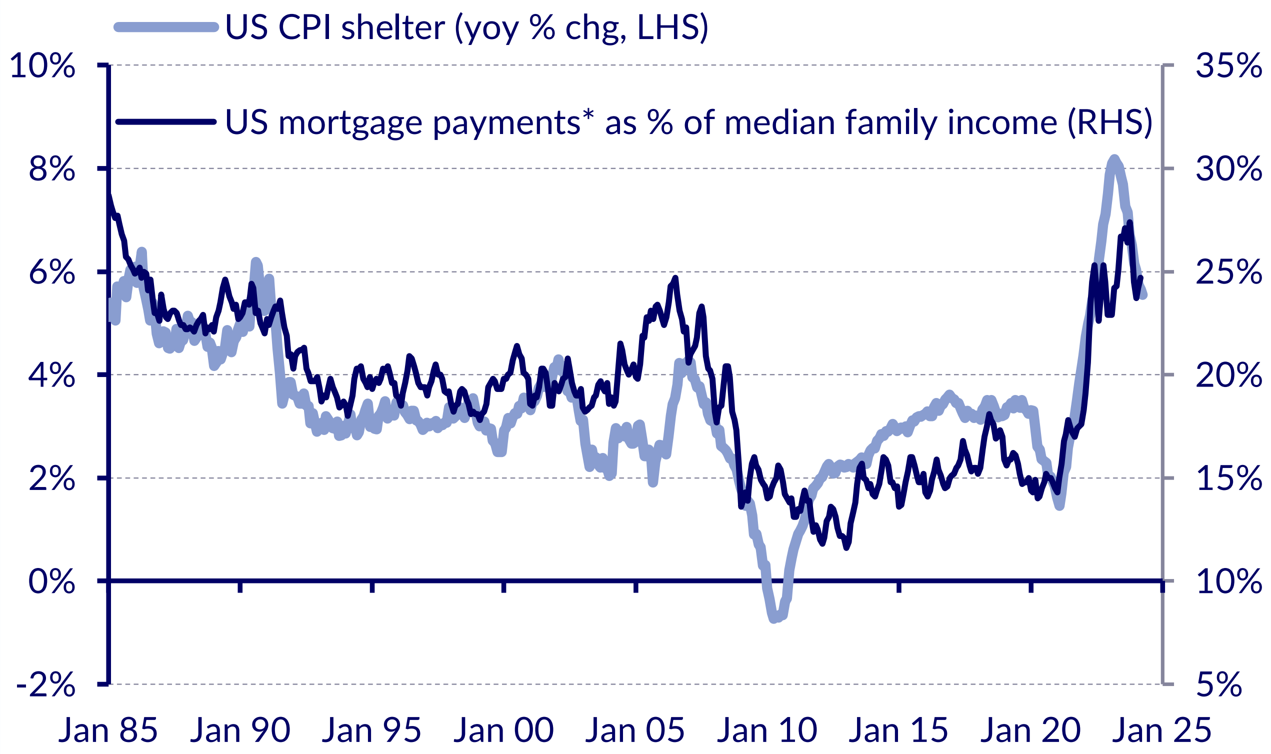
- **A key risk to the scenario remains stubbornly slow US disinflation**
- Though the heavyweight (36% of basket) shelter component lags the more timely rental index.

US shelter inflation versus rental price growth



Source: CLSA, BLS, ApartmentList

US shelter inflation versus new housing unaffordability



*Capital and interest for a new purchase of a median home
Source: CLSA, BLS, National Association of Realtors

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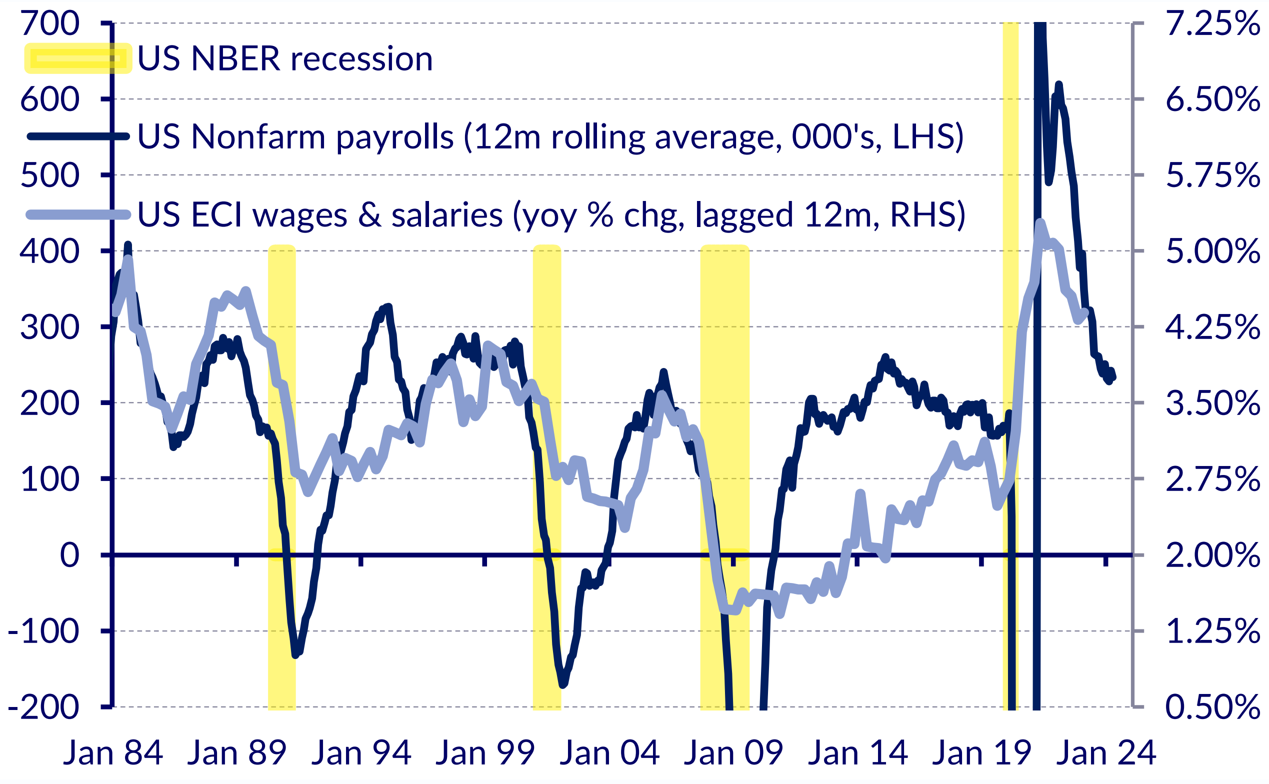
The case for EM

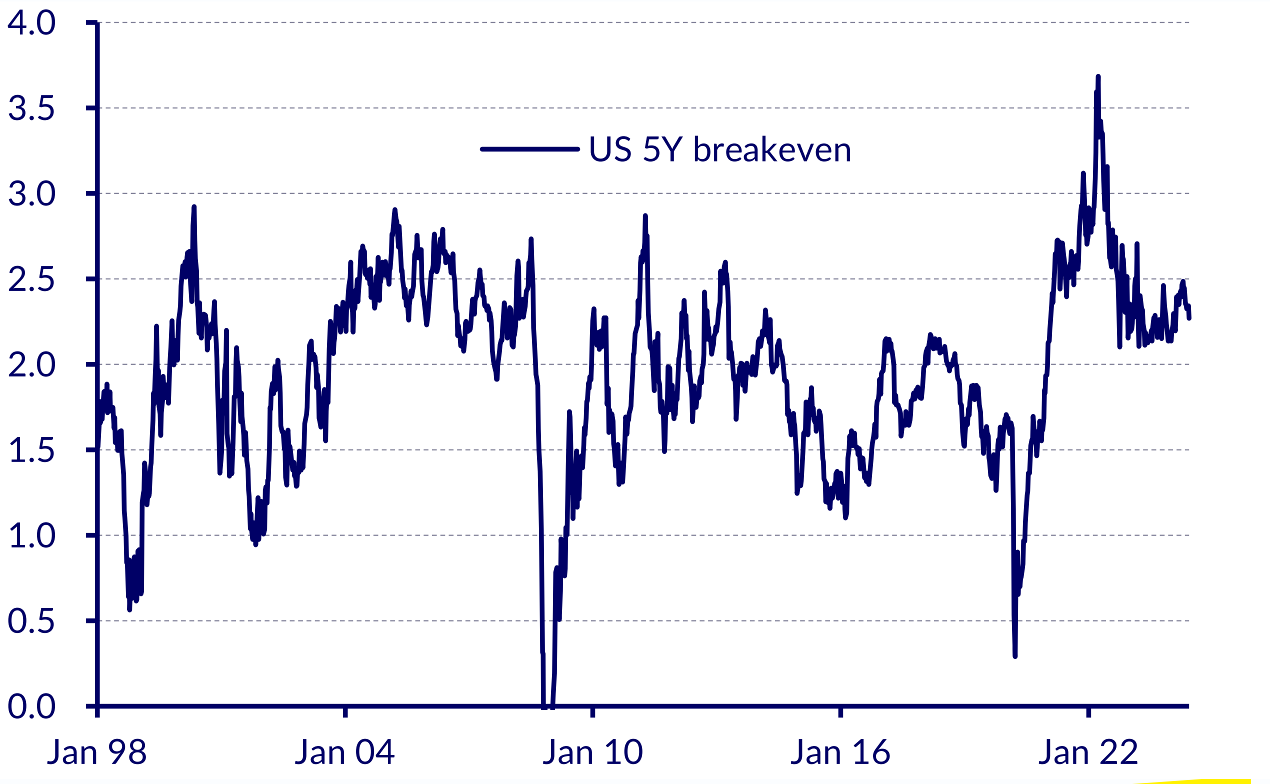
- Payrolls at 100k-150k would be more consistent with ECI at 3% (2%+1% productivity growth).
- Medium-term inflation expectations (5Y breakeven) are only 30bps above the Fed 2% target.

US employees on nonfarm payrolls versus employment cost index



Source: CLSA, US Bureau of Labor Statistics

US medium-term inflation expectations



Source: CLSA, Bloomberg

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CLSA Asia Pacific country allocation

CLSA country weights versus MSCI All Country Asia Pacific ex Japan

Market	CLSA Recommendation	MSCI AC APAC ex JP weight (%)	CLSA weight (%)	CLSA - MSCI (bps)	CLSA / MSCI (x)
China	Benchmark	25.5%	25.5%	0	1.00
Taiwan	5% overweight	17.7%	18.6%	89	1.05
India	20% overweight	17.6%	21.1%	352	1.20
Australia	50% underweight	15.9%	7.9%	-794	0.50
Korea	25% overweight	11.2%	14.0%	281	1.25
Hong Kong	Benchmark	4.1%	4.1%	0	1.00
Singapore	Benchmark	2.9%	2.9%	0	1.00
Indonesia	40% overweight	1.5%	2.1%	61	1.40
Malaysia	60% underweight	1.3%	0.5%	-81	0.40
Thailand	10% overweight	1.3%	1.4%	13	1.10
Philippines	Benchmark	0.5%	0.5%	0	1.00
New Zealand	Benchmark	0.4%	0.4%	0	1.00
Cash		0.0%	0.8%	79	
		100.0%	**100.0%**	**0**	
Japan	Off-index perform in line				

Source: CLSA, MSCI

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