Asia-Pacific Portfolio Strategy

2023 Outlook: Northward shift as markets anticipate reopening and recovery

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China reopening and global economic recovery in 2024 will be prominent themes for 2023. Regional equity leadership may shift north after ASEAN and India strength in 2022 as China markets rebound and Korea (upgrade) anticipates recovery.

- **Challenging global macro backdrop may improve as 2023 unfolds**: The 'troubling triad' of rising rates, slower growth and strong dollar remains in place to start 2023. This may change in 2Q as the Fed goes on hold, the dollar peaks and markets anticipate improving 2024 growth.
- **Earnings: tough year with upturn in 2024.** Regional profits may rise just 3% in 2023 but growth will recover to 12% in 2024 with wide intraregional differences.
- **Pricing and positioning are generally low, but risks have risen**. Valuations are mostly low but pressured by geopolitical risks. Light positioning is supportive.
- **Moderate, earnings driven return outlook**. Our MXAPJ 12m target is 550 (515 before) based on 12.3x fair value P/E, implying 10%/13% USD price/total returns.
- **Upgrade Korea, prefer China A to H, upgrade HK.** Raise Korea to OW on low valuation and forward recovery. China A shares (OW) have a favorable structural investment outlook in a challenging geopolitical context; H shares to rally on re-opening but have growth/valuation constraints- OW now, reduce on strength. Upgrade HK to MW on reopening momentum.
- **ASEAN differentiation, MW India, UW Taiwan.** ASEAN's Covid recovery and rate hike tailwind is ebbing, prompting more selectivity. OW Singapore; lower Indonesia to MW, Malaysia and Thailand to UW. Bullish on India's long-term prospects but wary of high valuations. MW Australia: materials sector inexpensive. UW Taiwan: soft earnings, geopolitical overhang outweigh low P/E.
- **Eclectic sector mix to play key themes.** OW autos, banks (ex-China), chemicals (u/g), selected tech (semiconductors, internet), telecom, transport (u/g).
- **Alpha themes to enhance modest beta**. *Earnings scarcity:* positive revisions, GARP. *China Reopening:* Reopening beneficiaries. *DM recession:* Domestic vs. Europe exposure. *Structural growth:* Asia thematic growth, China Little Giants.

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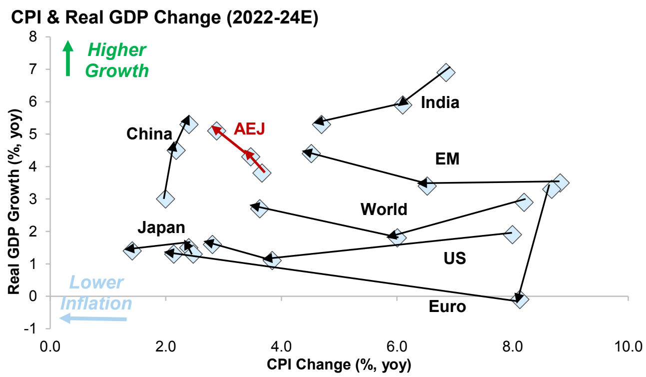
2023 Outlook Montage

Exhibit 1: Growth will generally slow in 2023 before recovering in 2024; inflation should steadily decline



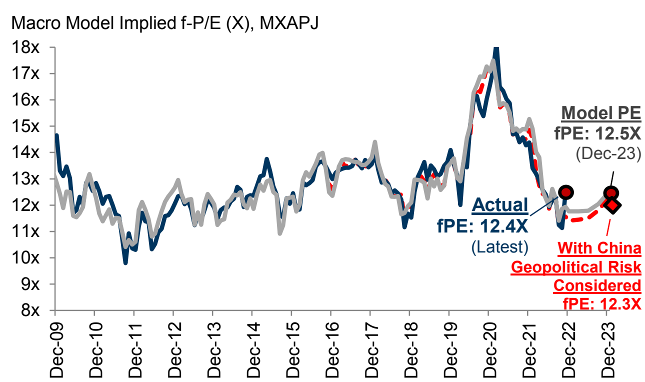
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2: We forecast another year of low regional earnings growth in 2023 before a rebound to 12% in 2024

	Consensus			GS (NEW)			GS (OLD)	
Markets	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E
Australia	11%	-1%	-1%	10%	0%	1%	9%	1%
China	2%	12%	16%	-2%	8%	13%	0%	8%
China-A	11%	18%	14%	7%	13%	14%	7%	12%
Hong Kong	-11%	32%	11%	-14%	28%	9%	-7%	24%
India	11%	15%	14%	13%	15%	15%	15%	14%
Indonesia	38%	4%	7%	40%	6%	10%	32%	6%
Korea	0%	-9%	24%	-3%	-11%	28%	6%	-8%
Malaysia	1%	12%	6%	-4%	9%	5%	-4%	10%
Philippines	19%	18%	12%	18%	16%	13%	15%	17%
Singapore	22%	21%	11%	25%	22%	12%	15%	20%
Taiwan	7%	-9%	10%	5%	-13%	12%	5%	-11%
Thailand	19%	8%	12%	20%	6%	11%	20%	10%
MXAPJ	**6%**	**5%**	**12%**	**3%**	**3%**	**12%**	**5%**	**4%**
MXASJ	**5%**	**7%**	**14%**	**2%**	**4%**	**14%**	**5%**	**5%**

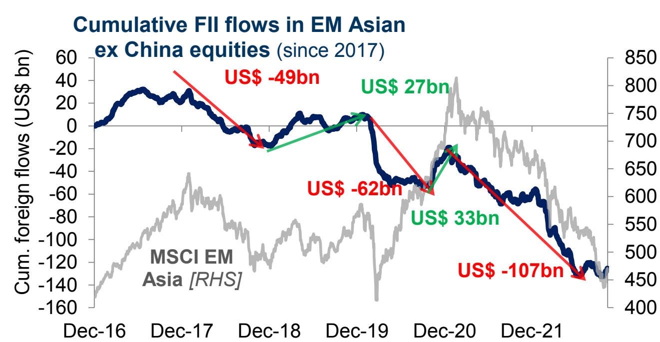
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 3: Our top-down P/E macro model- with a geopolitical risk overlay- suggests regional fair value is close to current levels



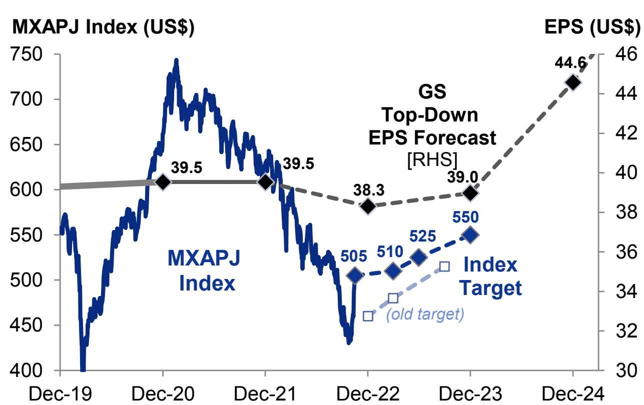
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 4: Foreign investors have net sold $107bn from the Covid peak, more than the $93bn sold during the GFC



Source: Bloomberg, FactSet, MSCI, Respective Local Stock Exchanges

Exhibit 5: Earnings are likely to be the primary driver of regional returns



Source: Datastream, FactSet, I/B/E/S, MSCI, Goldman Sachs Global Investment Research

Exhibit 6: Reopening and recovery themes: overweight China to start the year, upgrading Korea

Summary Views		
Returns & Growth (MXAPJ)		10%/ 13% USD price/total return in next 12M; GSe path (3/6/12m): 510/525/550; 3%/ 12% EPSg in 2023/24
Markets	**OW**	CN (Offshore & A), SG, KR
	MW	IN, ID, PH, HK, AU
	UW	MY, TW, TH
Sectors	**OW**	Banks (ex-China), Internet/Media & Ent, Semi Equip., Autos, Chem. & other Materials, Transportation, Telecom Services
	MW	Insurance & other Fins, Cons Stap, Health Care, Metals & Mining, Durables & Retails (ex Internet), Energy
	UW	Tech Hardware & Equip., Capital Goods, Real Estate, China Banks, Software & Services, Utilities
Themes & Implement-ation Ideas		**Earnings Scarcity:** Strong vs. Weak Earnings Rev, GARP Stocks
		China Reopening: Reopening Beneficiaries
		DM Recession Risk: Domestic Cyclicals vs. Europe Exposure
		Structural growth: Asia Thematic Growth, China "Little Giants"

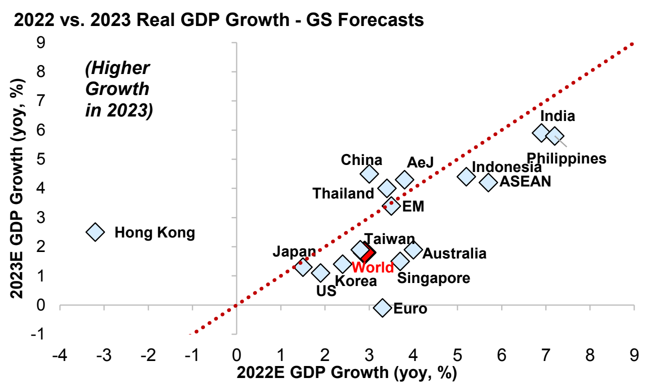
Source: Goldman Sachs Global Investment Research

A challenging macro backdrop

The 'troubling triad' of higher rates, slower growth and strong dollar continues into 2023

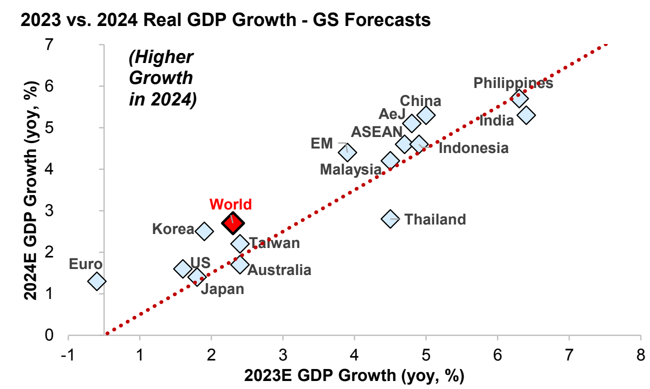
The core macro challenges that have impacted Asian equities in 2022 will persist into 2023. Inflation pressures are forcing the Fed to continue to tighten, at least through the May 3rd meeting. Our economists expect another 50/25/25/25bp hikes at the next four meetings to a terminal rate of 5.0%-5.25%. Growth in developed markets is set to slow from 2.5% to 0.6%, with the EU in recession and the US slowing but still expanding 1.0%. Emerging markets may fare better overall (3.5%/3.4% 2022/23 GDP growth, but mainly because of an expected recovery in China as it exits its zero covid policy (ZCP). Overall, global GDP growth will slow from 2.9% in 2022E to 1.8% in 2023E. Against this backdrop, we expect the dollar to strengthen further in the next 3-6m, peak toward mid-year and then weaken into the end of the year.

Exhibit 7: Growth is generally set to slow in 2023...



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 8: ... but recover in 2024



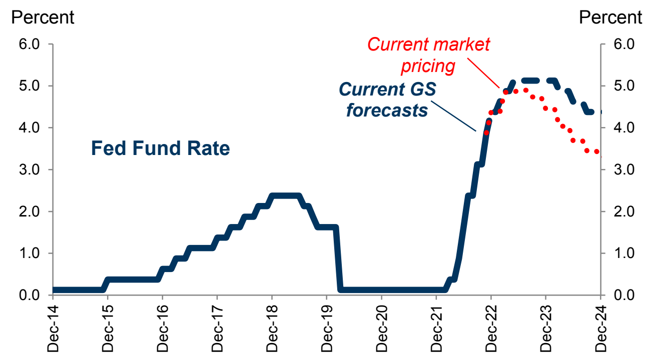
Source: Bloomberg, Goldman Sachs Global Investment Research

When will markets price a Fed pivot and dollar turn?

This macro context raises 4 key questions for Asian equity investors, one of the most topical being when markets will price a change in Fed policy and a likely corresponding peak in the dollar. Although a Fed pivot has been anticipated several times (the S&P500 index rallied 19% during June-August and is up 15% from the October low), the Fed has signaled its intention to keep policy rates higher for longer until there are clear signs that inflation is falling back to the 2% target. The market is currently pricing a peak rate of 4.9% in 2Q next year and two 25bp cuts in the back half, slightly lower than our forecast of a terminal rate of 5.0-5.25% by May and more optimistic than our expectation of stable policy in 2H23.

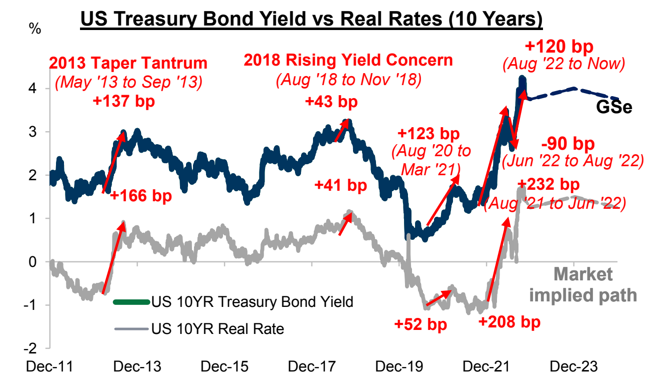
This suggests that signals of a change in Fed policy may only emerge towards mid-year, although markets may try to price this earlier (as is currently the case). **We therefore expect 2Q to be a potential inflection point for Asian equity markets** given the influence that US monetary policy has on Asian equities (both directly and through its impact on domestic policy) and the strong and inverse correlation between the dollar and regional equity performance. In turn, this points to **a measured approach to start the year and then taking more risk as the macro-outlook improves**.

Exhibit 9: The Fed is likely to hike another 125bp into the May 2023 meeting



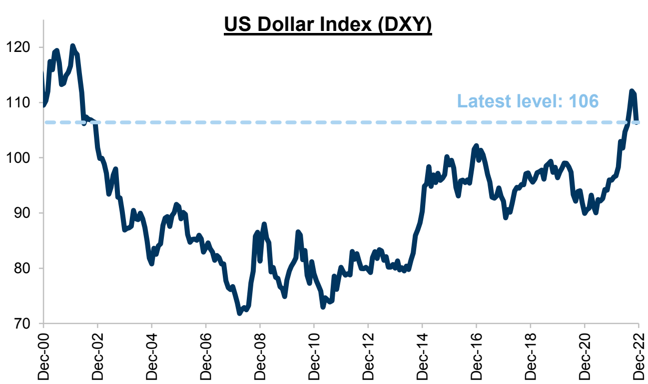
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 10: Nominal and real rates have risen sharply and will remain elevated



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 11: The dollar is at 20-year highs; we expect a reversal later in 2023



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 12: We expect most Asia FX to depreciate in 3m but then strengthen in 12m

Market	Exchange Rates	Current	3-month Forecast	6-month Forecast	12-month Forecast
Greater China & North Asia					
Korea	$/KRW	1318	1300	1250	**1220**
Hong Kong	$/HKD	7.85	7.85	7.85	**7.8**
Taiwan	$/TWD	31.2	32.0	31.5	**31.0**
China	$/CNY	7.09	7.20	7.00	**6.90**
India & ASEAN markets					
Indonesia	$/IDR	15495	15700	15200	**14800**
Thailand	$/THB	36.0	37.0	36.0	**35**
Philippines	$/PHP	57.3	60.0	59.0	**58**
India	$/INR	81	83	82	**81**
Malaysia	$/MYR	4.62	4.70	4.60	**4.5**
Singapore	$/SGD	1.37	1.38	1.35	**1.31**
Australia	AUD/$	0.68	0.62	0.67	**0.71**
Japan	$/JPY	139	155	155	**140**
Euro	EUR/$	1.04	0.94	0.97	**1.05**

Source: Bloomberg, Goldman Sachs Global Investment Research

How do Asian equities trade US growth and rates?

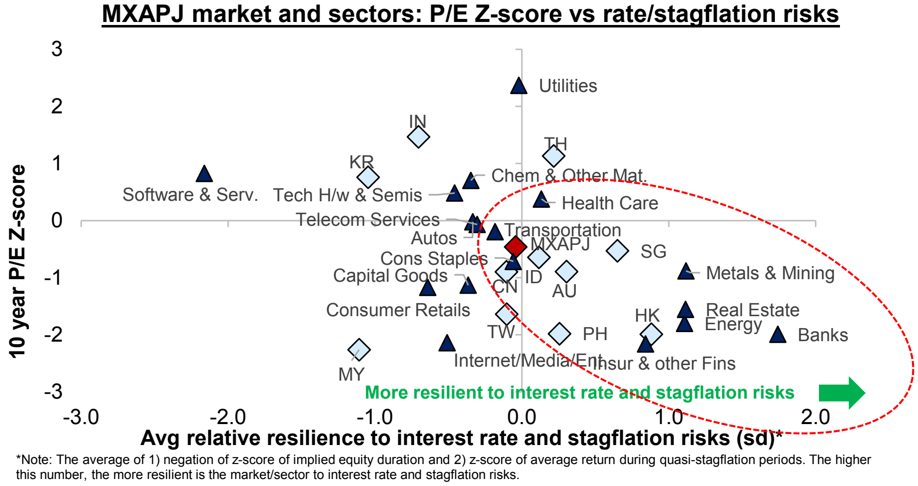
Our global macro baseline is for the Fed to continue to tighten policy into early 2023 and for the US economy to slow. This outlook suggests both rates and growth will influence Asian equity returns but that the relative importance may shift towards growth once the market believes the Fed has stopped hiking.

To gauge regional sensitivity to these macro factors, we plot market and sector returns during periods of above median and rising US recession risk (as a proxy for growth concerns) against the correlation of returns with US real rates (10year US TIPS). We have previously noted that real rates matter more than nominal ones for Asian equities. The key takeaways are:

- South Asia, commodities and financials tend to outperform when US recession risk is above median and rising. North Asia tends to be more globally cyclically sensitive as are deeper cyclicals such as consumer discretionary and info tech.
- ASEAN and Australia tend to be more sensitive to US real rates, while China and India are less so. Defensive sectors such as staples, health care, communication services and utilities are also more sensitive to real rates.

This fact pattern also supports holding a conservative stance to start the year and then taking more risk- and shifting towards the more cyclical parts of the region- later.

Exhibit 13: ASEAN along with banks and energy are less sensitive to growth and rate risks, but more macro-sensitive parts of the region have significantly priced such risks



*Note: The average of 1) negation of z-score of implied equity duration and 2) z-score of average return during quasi-stagflation periods. The higher this number, the more resilient is the market/sector to interest rate and stagflation risks.

Source: Goldman Sachs Global Investment Research

What are the main macro differences within the AsiaPac region?

While the global macro environment will be a significant influence on regional equity performance, intra-regional differences will also be important. Comparing markets along the key axes of growth, monetary policy and FX changes is revealing.

- **China, HK, and Thailand are the regional economies with improving growth momentum.** China's growth trajectory will be determined by the timing and pace of re-opening from the zero Covid policy (ZCP), which we discuss below. HK is closely tied to this but has moved further towards re-opening already. Thailand's growth will improve as a full year of tourist arrivals supports the economy and its current account will also benefit from lower shipping rates. In contrast, Australia and Malaysia (from a high base) will slow the most. India, Indonesia, and Philippines will decelerate moderately but still post good absolute levels of growth.
- **Policy tightening will be greatest in parts of ASEAN and least in north Asia.** Thailand has been slow to start its tightening cycle and has the most to catch up (125bp over 1Q-3Q23). We expect 75bp further hikes in Malaysia, and another 100bp in Indonesia and Philippines. In contrast, China is likely to maintain stable monetary policy and the market's focus will be on other policy dimensions, notably ZCP (discussed below), fiscal, regulatory and property measures. Korea was early to start tightening, so we expect just 50bp further increases and 25bp in Taiwan.
- **Near-term greatest FX risk in Thailand and Philippines; longer-term, most FX strengthening in Korea, China, and parts of ASEAN**. With Thailand lagging in its tightening cycle and the Fed tightening further in coming months, we expect near-term pressure on THB (3% weaker over 3m) and PHP (5% weaker over 3m). On a 12m view, we expect regional currencies to strengthen as the Fed goes on

hold and rate differentials narrow. KRW may strengthen most (7%), followed by SGD and IDR (4-5%), and then CNY, MYR and THB (3%).

This intraregional profile supports a more constructive view on China (subject to domestic policy and geopolitical considerations), differentiation with ASEAN, and rotation towards north Asia (notably Korea) as 2023 progresses.

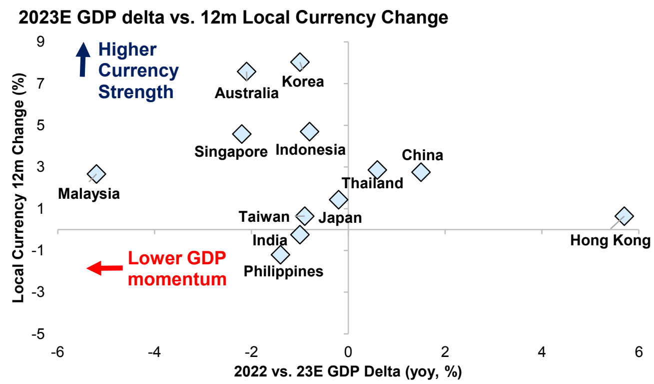
Exhibit 14: Most regional central banks will end their policy tightening in 2023

Monetary policy outlook for US, EU and APAC markets

Markets	2022		2023				2024			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	+150 bps	+125 bps	+50 bps	+25 bps				-25 bps	-25 bps	-25 bps
Euro area	+125 bps	+125 bps	+75 bps	+25 bps						-25 bps
China	-10 bps	RRR - 25bps								
HK	+158 bps	+100 bps	+50 bps							
India	+100 bps	+50 bps	+35 bps			-25 bps		-25 bps	-25 bps	
Indonesia	+75 bps	+125 bps	+75 bps					-25 bps	-50 bps	-50 bps
Malaysia	+50 bps	+25 bps	+50 bps	+25 bps			-25 bps	-25 bps	-25 bps	
Philippines	+175 bps	+125 bps	+50 bps					-25 bps	-25 bps	-25 bps
Korea	+75 bps	+75 bps	+25 bps	+25 bps		-25 bps	-25 bps	-25 bps	-25 bps	
Taiwan	+12.5 bps	+12.5 bps	+12.5 bps	+12.5 bps						
Thailand	+50 bps	+25 bps	+50 bps	+25 bps	+50 bps				-25 bps	
Australia	+150 bps	+75 bps	+50 bps	+50 bps					-50 bps	-60 bps

Source: Goldman Sachs Global Investment Research

Exhibit 15: Wide intraregional variation in GDP momentum and FX prospects



Source: Goldman Sachs Global Investment Research

When will China exit ZCP?

The key tactical consideration for China is when policy-makers choose to exit the zero Covid policy, which our economists estimate has suppressed the level of GDP about 4-5pp below what it otherwise could have been. **We maintain our base case of reopening occurring after the March twin sessions (NPC and CPPCC), but note the market is likely to anticipate this (as is presently the case), especially when fueled by signs of policy shifts which have recently occurred. We estimate re-opening could drive a 20% uplift in the MSCI China index and favor our reopening beneficiaries basket.**

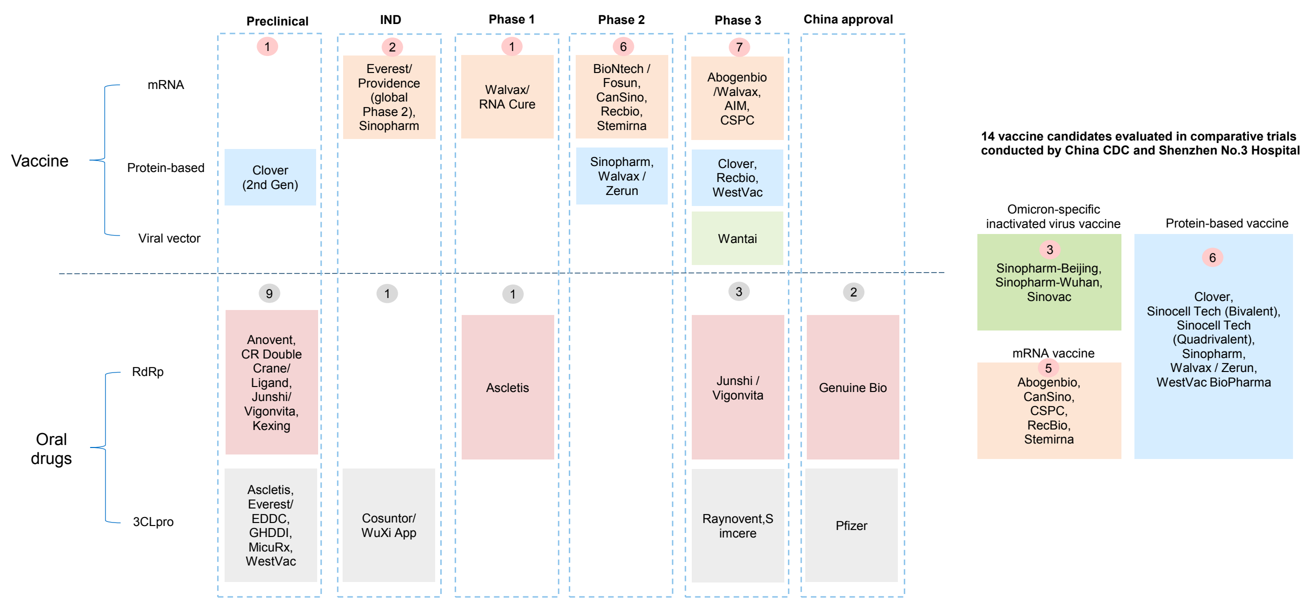
There are three main reasons supporting our base case timing. First, President Xi's head of state title will only be affirmed at the National People's Congress (he was reappointed as General Secretary of the CCP and chair of the CCP Central Military Commission at the recently concluded 20th Party Congress). This is the third of the three key leadership positions of the party, military, and state organs, so it seems unlikely that policy-makers will take significant reopening risk prior to this event.

Second, the winter flu season is imminent together with the peak Lunar New Year travel season, which seems a poor tactical time to reopen.

Third, vaccination rates for the elderly population remain low which raises the risk of a large number of infections and mortality until a more effective domestic vaccine is developed and deployed (only 67% of people over 60 have had booster shots, and just 40% of those over 80). There are currently 5 domestic mRNA vaccines under development but it will still take some time to approve, manufacture in scale, and deploy.

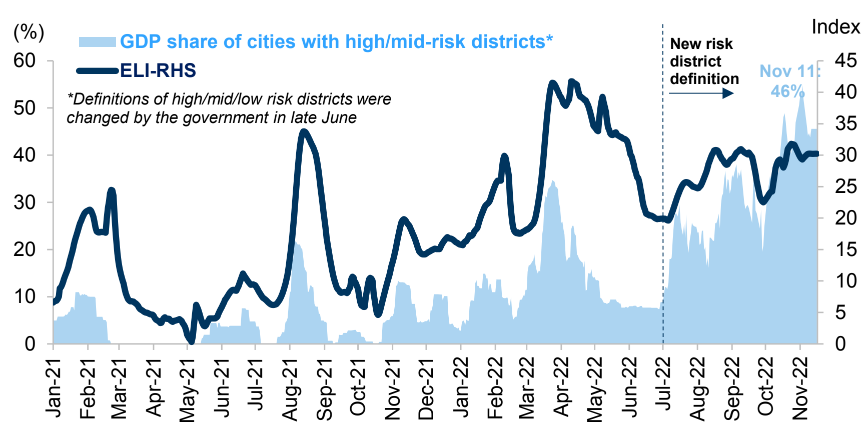
We therefore expect reopening to proceed gradually in 2Q23 and for the economy to recover in 2H23. However, there are recent signs that preparations for reopening are starting, including inter alia an article in the People's Daily toning down Covid concerns, termination of a policy requiring 48-hour negative test result for railroad and airline passengers, accelerated makeshift hospital construction, and, most recently, the release of "20 measures" to improve Covid control methods. The equity market's sharply positive response to this demonstrates how sensitive it is to any indication of improving momentum, especially given the extent of its decline and the derisking that has occurred. Based on cross-country analysis and the magnitude of fundamental improvement driven by reopening, we estimate China offshore equities can rally 20% on reopening and favor our reopening beneficiaries stock list.

Exhibit 16: Landscape of COVID-19 vaccines and oral drug treatments in China



Source: Company data, NHC

Exhibit 17: The economic disruptions have stabilized despite rising Covid cases and affected areas in recent weeks



Source: Goldman Sachs Global Investment Research, University of Oxford (covidtracker.bsg.ox.ac.uk), Wind

Earnings: Challenging outlook before a 12% recovery in 2024

Midway through the earnings downgrade cycle

MXAPJ 2022/23 earnings have been revised down close to 10% by consensus in the past 9 months (since Feb 2022). This is half the magnitude of downgrades in historical MXAPJ earnings downcycles which saw -20% reductions in earnings forecasts over 15 months on median. Within markets, North Asia (Korea, Taiwan, China and Hong Kong) earnings have been revised down the most since 2H. Within sectors, info tech, materials and property earnings have seen the greatest cuts, while earnings in energy, banks and consumer sectors were relatively resilient.

We expect the near-term earnings outlook to remain challenging as macro risks will likely continue into 1Q/1H23. These include (1) US/Europe recession risks, (2) China demand/property uncertainties, (3) a tech memory downcycle, (4) geopolitical risks, and (5) heightened wage/input cost inflation. Our Earnings Revision Leading Indicator (ERLI) also projects further earnings cuts due to soft macro data surprises and a tightening monetary policy cycle.

Earnings to recover 12% in 2024 after 2 years of low growth

We expect **MXAPJ earnings to grow at a well-below trend rate of 3% in 2022/23 before a 12% recovery in 2024** when the above-mentioned macro risks start to turn and improve from 2H23. Our forecasts are 3pp/2pp/0pp below consensus in 2022-24E, most notably in the area of China exposure (greater China markets) and tech/global exposure (Taiwan, Korea). While we expect **sales for non-financials to grow 12%/3%/8% in 2022-24, margins may contract 50bp/30bp to 7.5%/7.2% in 2022/23 before rebounding to 7.5% in 2024**.

Among markets, India and ASEAN markets (particular Singapore and Philippines) should continue to deliver the highest growth within the region at mid-teens levels in 2023-24 driven by strong domestic demand and banks earnings, while Korea/Taiwan will likely see negative growth in 2023 on tech weakness and normalized shipping profits before recovering in 2024. China earnings will remain under pressure in 2023 due to property and demand risks, but a reopening should boost activities from 2H23 onward. Within sectors, we expect consumer retail, autos, internet and health care to deliver 20%+ annual growth, while shipping (high base), energy (high base), metals & mining (China demand), property (China risks & high rates) and tech h/w (supply chain, demand & geopolitical risks) may see earnings declines as well as margin contraction.

Similarly, **returns on equity will likely remain under pressure in 2023 at sub-12% levels** due to lower margins, deteriorating asset turnover and higher interest burdens, and will only see improvement to 12% into 2024.

Exhibit 18: We forecast another year of low regional earnings growth in 2023 before a rebound to 12% in 2024

	Consensus			GS (NEW)			GS (OLD)	
Markets	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E
Australia	11%	-1%	-1%	10%	0%	1%	9%	1%
China	2%	12%	16%	-2%	8%	13%	0%	8%
China-A	11%	18%	14%	7%	13%	14%	7%	12%
Hong Kong	-11%	32%	11%	-14%	28%	9%	-7%	24%
India	11%	15%	14%	13%	15%	15%	15%	14%
Indonesia	38%	4%	7%	40%	6%	10%	32%	6%
Korea	0%	-9%	24%	-3%	-11%	28%	6%	-8%
Malaysia	1%	12%	6%	-4%	9%	5%	-4%	10%
Philippines	19%	18%	12%	18%	16%	13%	15%	17%
Singapore	22%	21%	11%	25%	22%	12%	15%	20%
Taiwan	7%	-9%	10%	5%	-13%	12%	5%	-11%
Thailand	19%	8%	12%	20%	6%	11%	20%	10%
MXAPJ	**6%**	**5%**	**12%**	**3%**	**3%**	**12%**	**5%**	**4%**
MXASJ	**5%**	**7%**	**14%**	**2%**	**4%**	**14%**	**5%**	**5%**

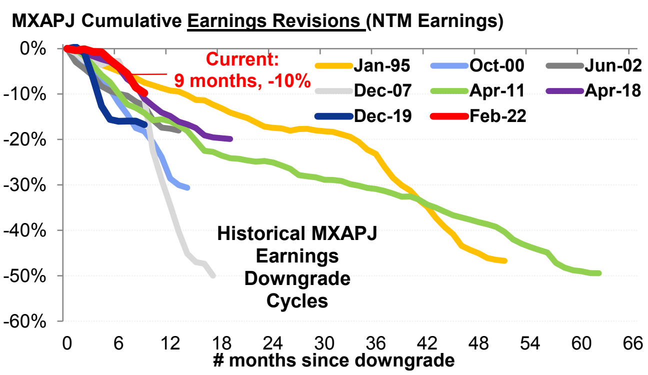
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 19: Internet/Tech/Consumers/Health Care will likely lead the earnings growth in 2023-24

	Consensus			GS (NEW)			GS (OLD)	
Sector	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E
Energy	60%	-9%	-4%	56%	-8%	-2%	50%	-6%
Metals/Mining	-10%	-14%	-2%	-12%	-15%	-1%	-8%	-14%
Chemicals	-28%	13%	17%	-31%	12%	17%	-22%	6%
Cap Goods	13%	8%	12%	8%	6%	11%	11%	8%
Transportation	55%	-40%	-18%	52%	-38%	-13%	54%	-29%
Autos	48%	26%	16%	43%	24%	17%	47%	16%
Retails	15%	24%	25%	12%	24%	25%	10%	23%
Tech H/W &Semi	7%	-11%	25%	3%	-16%	29%	5%	-12%
Software	12%	16%	16%	12%	16%	15%	14%	16%
Internet/Ent	-4%	22%	29%	-9%	26%	24%	-3%	24%
Banks	10%	9%	8%	10%	9%	7%	9%	8%
Insurance	-20%	26%	13%	-20%	27%	11%	-12%	19%
Property	-3%	7%	9%	-13%	-4%	1%	-16%	-4%
Staples	5%	10%	12%	3%	9%	11%	4%	10%
Health Care	-4%	18%	27%	-6%	20%	27%	-2%	18%
Telcos	14%	16%	12%	13%	15%	11%	5%	14%
Utilities	-44%	99%	32%	-40%	90%	33%	-38%	78%

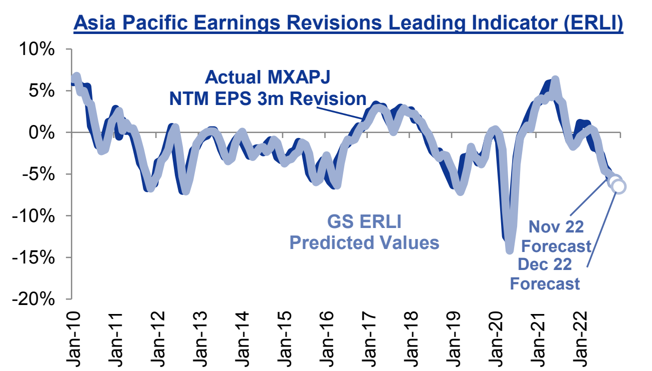
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 20: MXAPJ 2022/23 earnings have been revised down close to 10% by consensus in the past 9 months; this is half the magnitude of downgrades in historical MXAPJ earnings downcycles which saw -20% reductions in earnings forecasts over 15 months on median



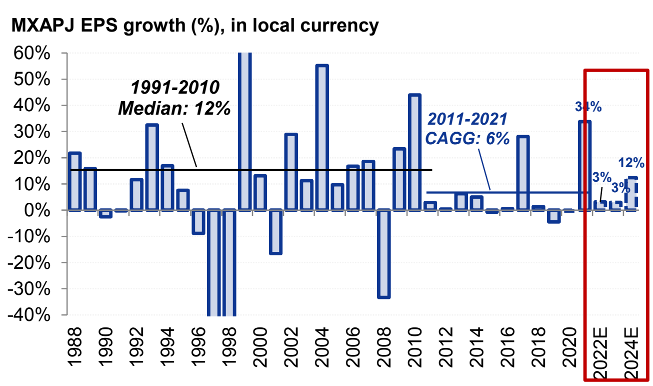
Source: FactSet, IBES, MSCI, Goldman Sachs Global Investment Research

Exhibit 21: ERLI projects that there are still near-term headwinds to consensus earnings estimates given sustained weak macro/industry data



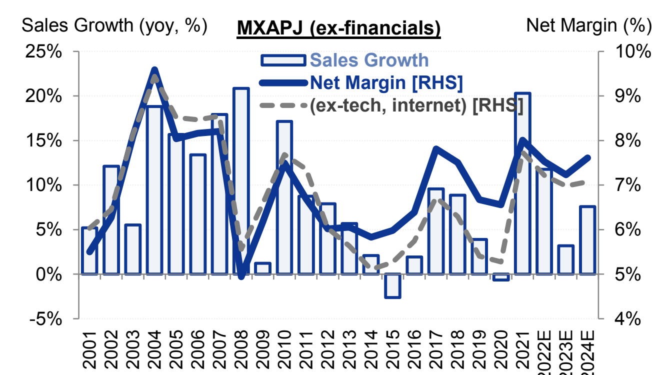
Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 22: Regional earnings growth will remain subdued in 2023 before recovering 12% in 2024



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 23: Revenue growth and margins will be pressured in 2023 before improving in 2024



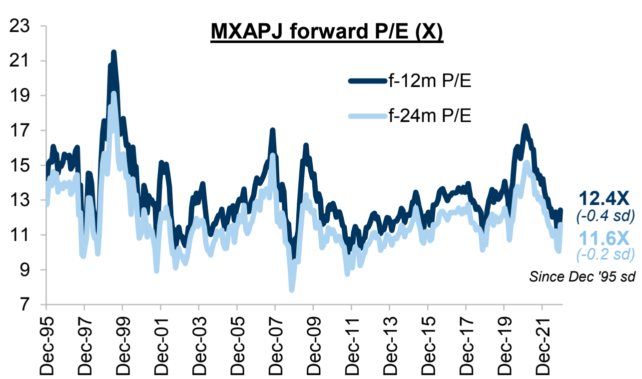
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Valuation : Incorporating geopolitical risk factor into valuation framework

Regional **valuations have compressed meaningfully**, falling from a peak of 18.2x in February last year by a third to 12x currently. Our top-down macro model points to a similar fair value for the region at 12.5x forward P/E. However, other rate-based valuation metrics like equity/bond yield gap point to still expensive equity valuations relative to bonds, suggesting continued risk from rising rates, notably in markets where valuations are still expensive relative to their history (e.g., India).

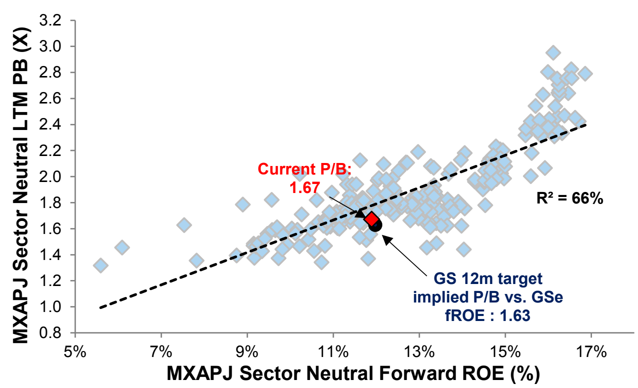
Also, along with the "troubling triad" of rising rates, recession risk and dollar strength, **geopolitical risk** dominated the market over 2022 across the world and region. To address the broad issue of geopolitical risk, we referenced the Geopolitical Risk Index (GPR) developed by Dario Caldara and Matteo Iacoviello at the Federal Reserve Board and note the China geopolitical risk index has heightened incrementally over the past decades. To examine the effect of China geopolitical risk on the regional valuation, we explored the predictability of geopolitical risk (GPR) on valuation volatility through a Markov-regime switching model and found that **heightened China GPR Index can lead to high valuation volatility especially over the past 5 years**. Given this evidence, we have included the China geopolitical risk index in our top-down valuation model framework along with our typical macro factors such as macro growth, bond yields and FX. Empirically, the latest regional valuations can be explained better with fewer residuals by including this geopolitical risk factor into our model. Of note, the **regional market fair valuation could be lower at 12.3X** compared to our target multiple if geopolitical risks remain high but moderate.

Exhibit 24: MXAPJ 12m and 24m forward valuations have recently recovered from trough levels but remain low relative to history



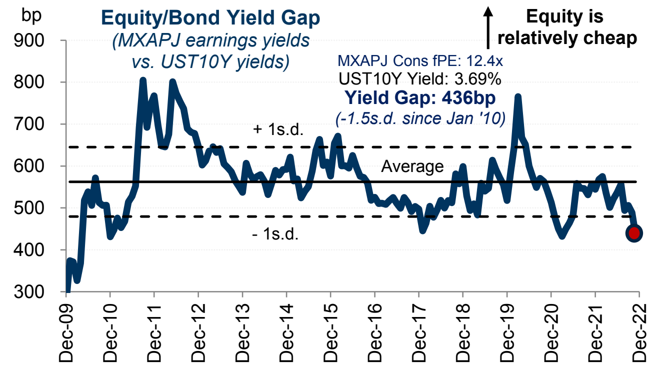
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 25: The continuing improvement in profitability will bring the P/B vs. ROE relationship to trend levels by late next year



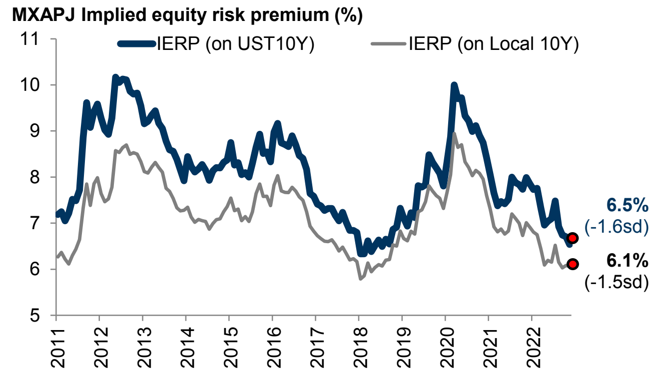
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 26: MXAPJ equity/bond yield gap has contracted despite the decline in equity valuations, suggesting equities remain vulnerable to sharp rises in rates



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 27: MXAPJ equity risk premium looks low relative to its history, as both US and local rates have risen from trough levels



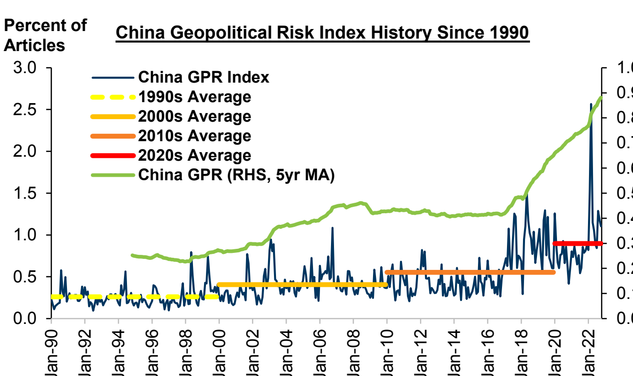
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 28: Based on four valuation approaches, we model a modest valuation downside from current levels

Approach		Model Variable	Current level	Base case scenario / assumptions	'Target valuation' in 12-months	Potential Valuation Upside/Downside
MXAPJ valuation models	PE Macro Model	NTM PE	12.4 x	GS expected regional/global growth and rates and fund flow projections	12.5 x	1%
	PB vs. ROE	LTM PB	1.67 x	P/B based on GS 2023 ROE expectation	1.63 x	-3%
	IERP/DDM Model	Implied ERP Risk free rate	6.7% 3.8%	Implied ERP goes to 10-year avg, UST10Y yield rises to 4.33% (12-mo forward)	7.58% 4.3%	-6%
	Earnings/Bond Yield Gap	Yield gap	436 bp	Yield gap goes to 10-year avg UST10Y yield rises to 4.33% (12-mo forward)	562 bp	-10%
					Average:	-4%
					Median:	-3%

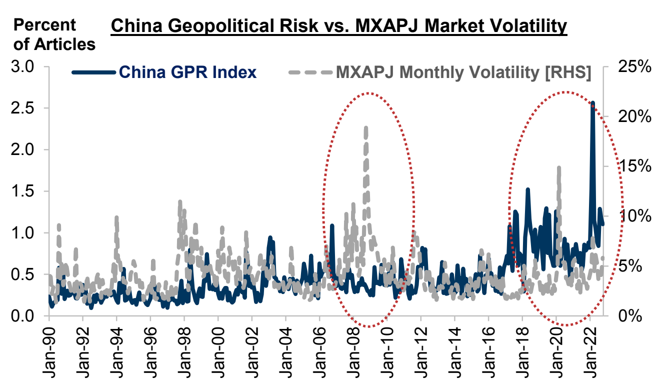
Source: Goldman Sachs Global Investment Research

Exhibit 29: China geopolitical risk has progressively increased in this and the past decade



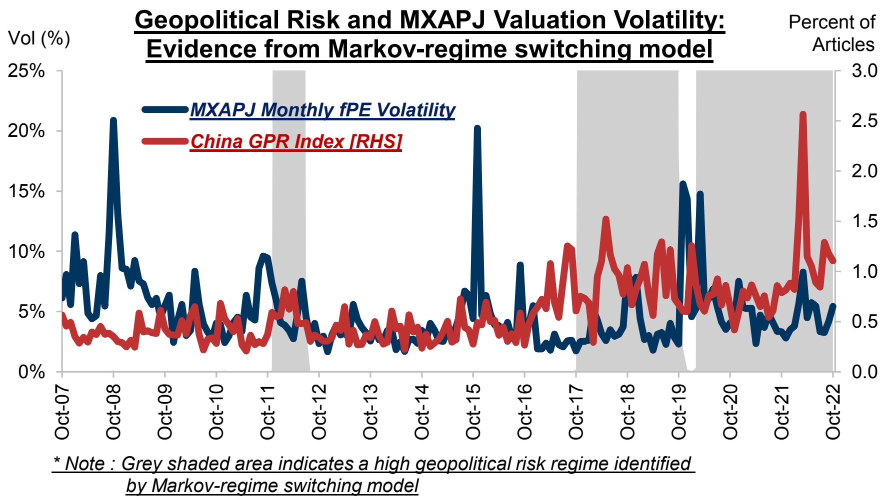
Source: GPR data downloaded from https://www.matteoiacoviello.com/gpr.htm, Goldman Sachs Global Investment Research

Exhibit 30: Geopolitical risks are now more coincident with market volatility compared to past episodes



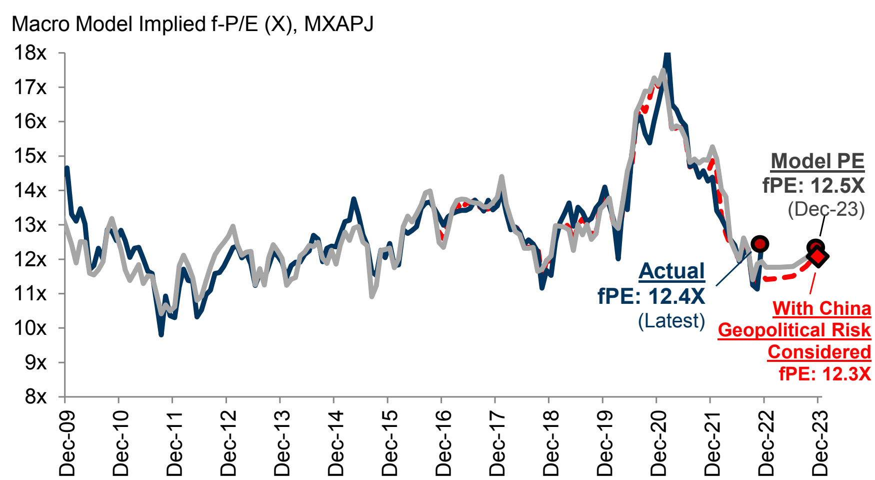
Source: GPR data downloaded from https://www.matteoiacoviello.com/gpr.htm, MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 31: Markov regime-shifting model indicates recent periods as ones where high geopolitical risk has been driving high valuation volatility



Source: GPR data downloaded from https://www.matteoiacoviello.com/gpr.htm, MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 32: Our top-down P/E macro model suggests fair value for the region is roughly at current levels but downside risks are posed by geopolitical risks



Source: FactSet, Goldman Sachs Global Investment Research

Light positioning remains a supportive factor

Foreign positioning remains light in the region

Foreign flows in the region have been persistently negative over the past few years. Foreign investors have net sold US$66bn ytd in EM Asian equities (excluding China), following two years of more than US$30bn outflows in 2020/21. Cumulatively, foreign investors have net sold about US$107bn since the peak in January last year, surpassing the GFC selling of US$93bn. This is also reflected in multi-year low FII ownership across many Asian markets and low mutual fund positioning (global mutual funds remain UW region by 740bp and UW China by 440bp). Asia Hedge fund exposures are also light, as suggested by low net leverage and long/short ratios (bottom decile over the past 5 years), based on data from Goldman Sachs Global Markets (Prime Services).

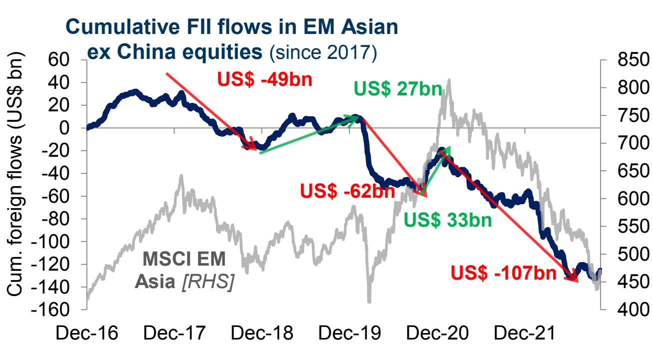
Domestic retail flows have generally been supportive

While foreign investors have been derisking in Asia, retail investors have been strong buyers of equities. Asian markets (for the ones that provide data) have seen about US$60bn retail inflows ytd, with strong inflows in Korea, Taiwan and India. Additionally, for the HK market, southbound flows (onshore China investors buying HK-listed stocks) have been a key source of equity demand and have bought about US$50bn this year. With retail risk appetite still far from overheated levels in most markets (as suggested by below average levels of our regional retail sentiment barometer - GSSRARTL), we expect domestic liquidity to remain supportive next year.

China reopening and macro recovery could catalyze foreign flows

We think foreign risk appetite could return as the global macro backdrop gradually improves next year. Specifically, a reversal in dollar strength, which has been a continuing headwind for portfolio flows in the region, could be a positive catalyst for inflows. Additionally, China reopening could drive net foreign inflows into the region, given large underweight positioning in China, albeit the equity leadership shift towards China/North Asia could lead to weak flows in South Asia.

Exhibit 33: Foreign investors have net sold US$107bn in EM Asia (ex China), since the peak in January last year, surpassing the GFC selling of US$93bn



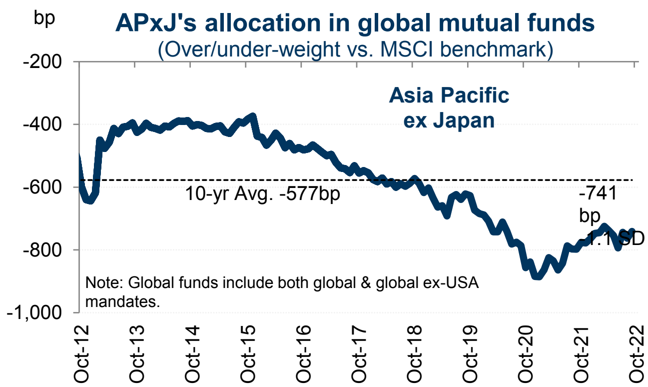
Source: Bloomberg, FactSet, MSCI, Respective Local Stock Exchanges

Exhibit 34: Foreign investors have net sold US$66bn ytd in EM Asian equities (excluding China), following two years of more than US$30bn outflows in 2020/21

FII flows (US$ bn)						
Markets	2017	2018	2019	2020	2021	2022Ytd
India	8.0	(4.6)	14.2	23.4	3.9	(20.0)
Korea	8.1	(5.7)	1.0	(20.1)	(23.2)	(10.0)
Taiwan	6.1	(12.2)	9.4	(16.0)	(15.2)	(47.1)
Philippines	1.1	(1.1)	(0.2)	(2.5)	(0.0)	(0.9)
Indonesia	(3.0)	(3.5)	3.5	(3.2)	2.7	5.5
Thailand	(0.8)	(8.9)	(1.5)	(8.3)	(1.6)	5.2
Malaysia	2.5	(2.9)	(2.7)	(5.8)	(0.8)	1.5
ASEAN	(0.2)	(16.3)	(1.0)	(19.8)	0.3	11.3
EM Asia ex CN	22.0	(38.8)	23.7	(32.5)	(34.3)	(65.7)
China A-shares (NB)	29.6	44.7	50.5	30.6	67.2	1.1
EM Asia	51.6	5.9	74.2	(2.0)	32.9	(64.6)

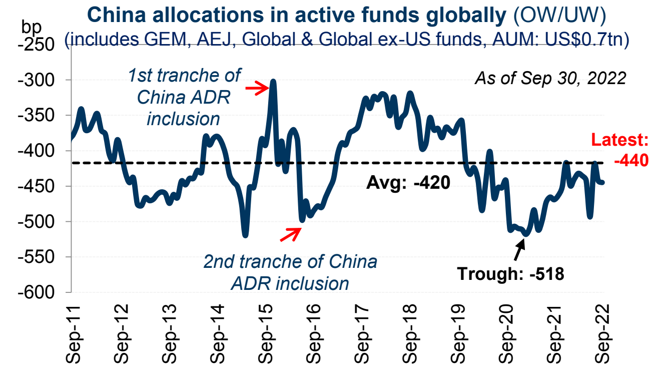
Source: Bloomberg, FactSet, MSCI, Respective Local Stock Exchanges

Exhibit 35: Global mutual funds are about 740bp underweight the region



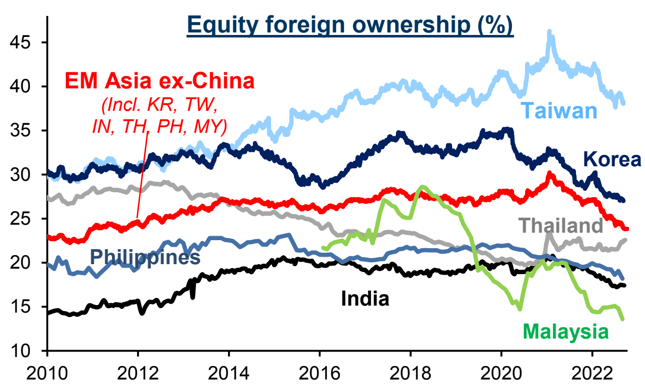
Source: EPFR, FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 36: Active mutual funds remain underweight offshore Chinese stocks by 440bp



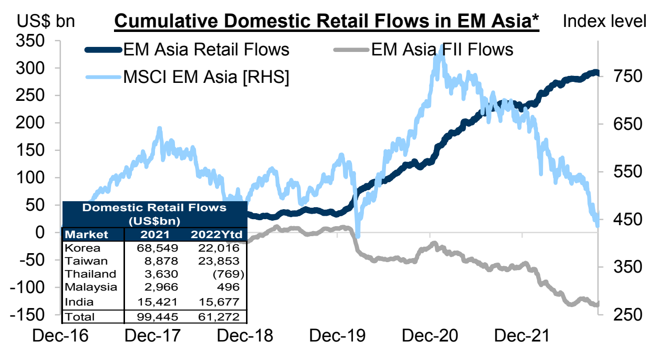
Source: EPFR, MSCI, Goldman Sachs Global Investment Research

Exhibit 37: Foreign ownership levels are at decade lows for most regional markets except Taiwan



Source: TEJ, Quantiwise, Bloomberg, Local Exchanges, Goldman Sachs Global Investment Research

Exhibit 38: Retail investors have been strong net buyers this year, notably in Korea, Taiwan and India; Asian markets have seen about US$60bn inflows ytd



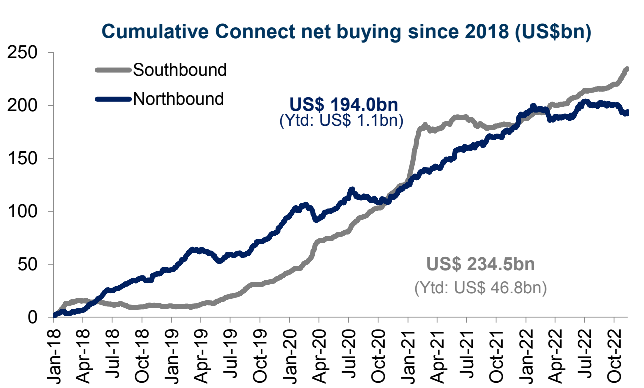
Domestic Retail Flows (US$bn)

Market	2021	2022Ytd
Korea	68,549	22,016
Taiwan	8,878	23,853
Thailand	3,630	(769)
Malaysia	2,966	496
India	15,421	15,677
Total	99,445	61,272

Note: EM Asia = KR + TW + IN + TH + MY. Taiwan flows represent non-institutional net buying while that of India shows SIP flows. Unless otherwise specified, other figures represent net buying from retail investors in their respective markets.

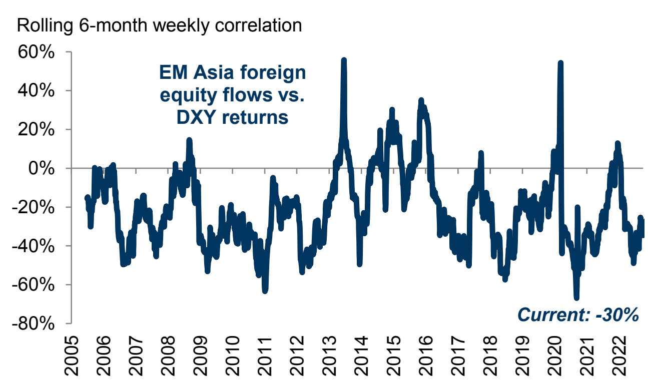
Source: EPFR, FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 39: Southbound flows have remained very strong this year (almost US$50bn inflows) and have been a key source of equity demand in HK; A-share flows via Northbound have been weak this year



Source: HKEX, Wind

Exhibit 40: The correlation between foreign portfolio flows and DXY has been mostly negative



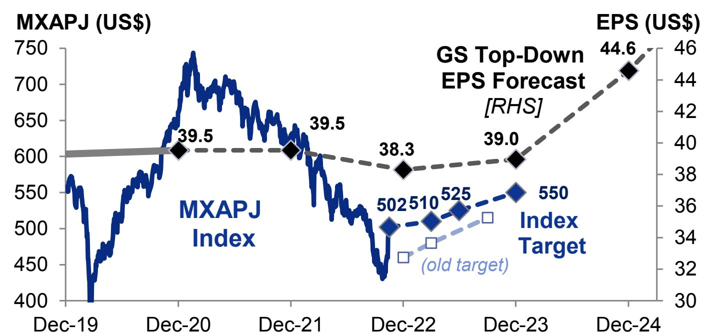
Market returns: earnings driven; selectively procyclical

We expect 10%/13% USD price/total potential returns for the MXAPJ index to end-2023 (550 index target), driven by earnings accruals in the next 12m (12% 2024E EPS growth) but offset by lower 2023 EPS forecast (cut 3%) and slight 1% valuation contraction (on target fPE of 12.3X). We forecast 1% Asian FX appreciation in 2023 although USD may remain strong in the near-term.

2023 may start on a conservative note in 1Q/1H with pressured corporate earnings prospects due to uncertainties in (a) the US/global inflation and growth outlook, (b) China reopening timeline, and (c) geopolitical backdrop. We expect to see a relief recovery in 2Q when policy rates peak and China reopens in earnest. Our **estimated regional index path is 3m/6m/12m index levels of 510/525/550** (from 460/480/515 prior).

We turn more procyclical in our market views. We **upgrade Korea** (to OW) on low valuation and forward recovery, **prefer China A to H** (both OW) on favorable structural investment outlook, and **upgrade HK** (to MW) on reopening momentum. We **moderate our views on ASEAN** (Indonesia to MW, Thailand & Malaysia to UW) due to strong outperformance this year and less exposure to China reopening and cyclical recovery. Taiwan stays UW on tech weakness and geopolitical risks.

Exhibit 41: We expect 2023 returns to be driven by earnings, with back-loaded index performance



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 42: We expect 10%/13% USD price/total return for MXAPJ in 2023; we are selectively procyclical in our allocations

Allocation	Market	MXAPJ Weight (%)	Index	Index level (Nov 15)	EPS growth (%) CY2023	EPS growth (%) CY2024	Index target (Dec-23)	12m return forecasts (%) Local price return	FX change	Dividend yield	USD total return
Overweight	China A	-	CSI300	3,866	13	14	4,500	16	2	3	21
	China	29%	MXCN	60	8	13	70	16	1	3	19
	Korea	11%	KOSPI	2,480	-11	28	2,750	11	4	2	17
	Singapore	3%	FSSTI	3,275	22	12	3,600	10	2	4	16
Market-weight	Indonesia	2%	JCI	7,036	6	10	7,700	9	2	3	14
	Philippines	1%	PCOMP	6,419	16	13	7,000	9	2	2	13
	India	14%	NIFTY	18,403	15	15	20,500	11	-2	1	11
	Hong Kong	6%	MXHK	13,529	28	9	14,200	5	0	4	9
	Australia	17%	AS51	7,142	0	1	7,300	2	2	5	9
Underweight	Taiwan	14%	TWSE	14,546	-13	12	14,700	1	3	4	8
	Thailand	2%	SET	1,629	6	11	1,660	2	2	3	7
	Malaysia	1%	FBMKLCI	1,451	9	5	1,460	1	1	4	5
Asia Pacific ex Japan (USD)			MXAPJ	502	3	12	550	9	1	3	13
MXAPJ ex-China (USD)					0	13		6	2	3	11

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

China: Strategically positive on A shares, tactically constructive on H

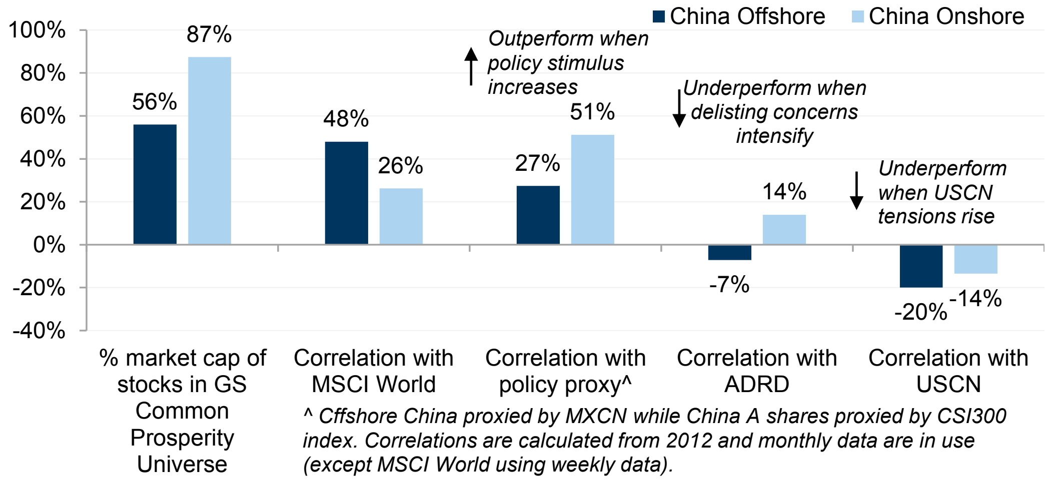
China A: strategically positive on A shares

Our investment stance on A shares remains positive for long-term strategic reasons and is supported by attractive valuation (11.4 forward P/E, -0.4 s.d.) and good earnings growth (13% 2023/24 CAGR) even in a more subdued economic context. There are four key arguments supporting our view:

- **Large opportunity:** As we detail in our annual A share primer, A shares are large (4,900+ listed companies, $10.3/$3.5tr listed/free float share cap), liquid ($137bn ADTV), less correlated with global comparables (26% correlation with MSCI World index vs 83% average for MXAPJ); and with significant alpha potential (50% of companies have no sell-side coverage and retail investors represent ~70% of ADT).
- **More insulated from geopolitical risk:** A shares are 95% held by domestic investors, rendering them less exposed to geopolitical issues and disinvestment by foreign investors than H shares or ADRs. Furthermore, 'national team' buying tends to support the market during significant risk-off periods.
- **Structural development**: China is focused on developing its domestic capital markets (bond, equity) for 3 key reasons:
  - **Alternative to property**: With continuing guidance that "housing is for living in, not speculation", property is no longer a favored vehicle for household investment or saving. Other domestic alternatives, such as the equity and bond markets, are needed.
  - **Develop pension industry**: An oft-stated economic policy objective is to shift the composition of economic growth from investment to consumption (investment/GDP 43% in 2021). To do this, China needs to spur consumption and reduce household savings (4qma of household saving rate was 32% in 2Q22). Households have high savings primarily because a) there are fewer children to support parents in old age due to the one-child policy, and b) there is not an adequate social safety net because both the pension and medical systems are under-developed. Domestic capital markets are necessary for the development of the pension fund industry.
  - **Part of innovation ecosystem**: Policy makers have related goals of upgrading manufacturing and 'hard technology' and increasing technology self-sufficiency, especially given intensifying constraints on imports of advanced technology. This requires an innovation ecosystem, which includes risk taking capital (venture capital, private equity, state-sponsored capital providers) and capital markets.
- **Greater exposure to policy-driven investment themes:** An axiom for investors in China is to align with the government's policy intentions. 87% of A share market cap is positively linked to key policies such as Common Prosperity, Dual Circulation, technological upgrading, and import substitution. We continue to favor our common prosperity list and Little Giants basket, which consists of small/mid-cap companies

mainly in hard technology sectors with explicit policy support.

Exhibit 43: China A shares look better positioned than offshore equities from a macro and policy perspective



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

China Offshore: tactically constructive on re-opening, but strategic prospects have degraded

In contrast to the onshore equity market, the outlook for offshore China stocks (primarily H shares and ADRs) is mixed. **We stay constructive tactically given near-term reopening prospects but view the longer-term outlook as more structurally compromised and would therefore aim to reduce allocations as the recovery rally matures**.

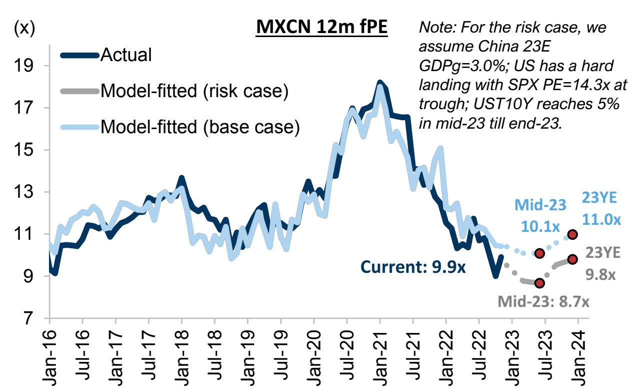
On the positive side, we estimate about 20% upside as China exits its zero Covid policy. The key arguments are, first, China's GDP growth is likely to improve from 3.0% to 4.5% per our economics team's forecasts as reopening from ZCP starts in 2Q (as previously discussed) and the economy rebounds in 2H. The equity market tends to trade growth momentum, so a growth recovery should be a tailwind. Second, earnings growth may likewise recover from -2% in 2022 to 8%/13% in 2023/24 as the downturn momentum in property moderates and profits broadly benefit from an improving economy. Third, valuations have compressed substantially following the market's 64% peak-to-trough decline from Feb 2021 to the recent end-October 2022 low: MSCI China trades at 9.9x forward P/E (-0.5 s.d.) vs. 18x at the recent peak. Lastly, investor positioning has also reduced: mutual funds are close to 400bp underweight and hedge fund China exposure has more than halved since 2021 (although it is still high versus longer-term ranges).

However, the strategic outlook for offshore China equities has been compromised by the policy shift towards a more socially focused and less market-oriented agenda regarding the economy and a more forceful stance on security and foreign affairs. The 20th Party Congress reinforced this shift: a word count of speeches by incoming leaders shows an increase of references to ideology and politics and fewer references to economy and markets.

There are three main consequences of this policy shift and the associated increase in geopolitical tension. **First, earnings prospects are less certain**. Last year's widespread regulatory tightening coupled with continuing emphasis on socially focused themes such as Common Prosperity raises concerns over the extent to which private sector firms will be able to post returns higher than those of SOEs. **Second, valuations are likely to be lower** given a risk premium associated with policy uncertainty and geopolitical risk, which is likely to be a continuing feature of the investment environment. Our regime-switching analysis supports this and indicates the fair value P/E multiple is lower than pure macro analysis would indicate. **Third, offshore China equities are more exposed to the risk of structural disinvestment by foreign investors**. There appears to be a growing trend of foreign- especially US- investors adopting an EM ex-China benchmark and treating China separately: the Teachers Retirement System of Texas recently amended their emerging markets asset class benchmark to effectively cut their China weighting by half. This suggests flows to offshore China may be less forceful than before, although they might be partially offset by still-robust Southbound net buying.

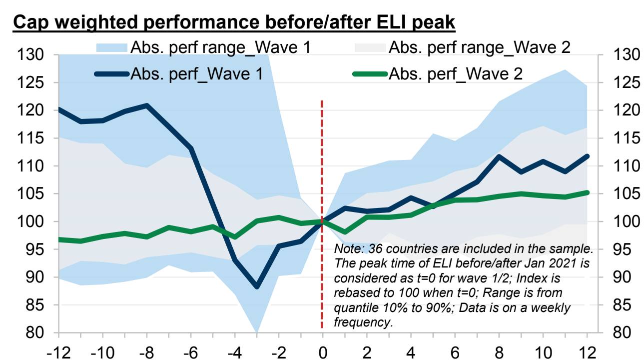
In sum, we expect the rally in offshore China equities to continue as reopening comes into view and recommend our Reopening Beneficiaries stock list to play this. We would taper exposure as this matures and emphasize A shares, which have a better structural investment case.

Exhibit 44: MSCI China is trading at discounts to its fair value even after factoring in a challenging global macro outlook



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 45: Equity markets are forward-looking: They usually pre-trade the Covid reopening 3-4 weeks in advance



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

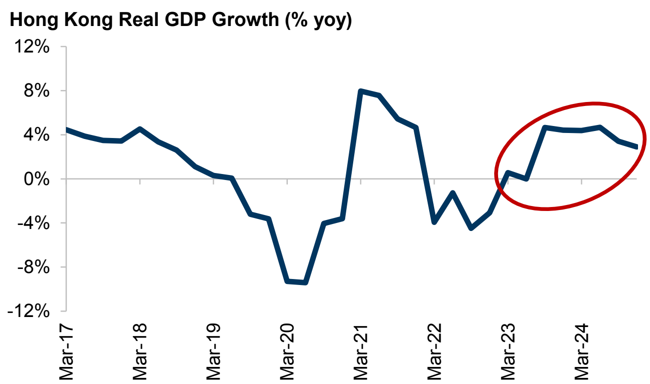
Hong Kong: upgrade to MW on reopening momentum

We downgraded HK to UW in early May on 1) the equity market's sensitivity to US interest rates given the HKD peg and high property exposure of the index (21% of MSCI HK), and 2) on the continuing suppression of economic activity from Covid-related restrictions in both HK and mainland China (which is important to HK through tourism, retail sales, property investment and business connectivity channels). The MSCI HK index fell 23% from then to the end-Oct low and has since rebounded 18%, leaving it net down 10%. On a relative basis, HK underperformed the region by 700bp to the low and is still down 200bp.

These macro headwinds will abate in 2023. Our economists forecast that GDP will recover from a steep contraction of -3.2% to a moderate 2.3% increase in 2023 and a further 3.6% in 2024 as both HK and, more importantly, mainland China reopen. This will drive a recovery in earnings growth from -14% in 2022 to +28% in 2023 (highest regionally) before normalizing at +9% in 2024. As previously discussed, the Fed is likely to go on hold after the May 2023 meeting and HK's equity market will likely anticipate this favorable shift. The pressure on valuation from the sharp rise in rates should therefore moderate. Valuations, which are at the low end of their ranges, have room to normalize: the forward P/E is 13.2x (-1.5 s.d.) and trailing P/B is 1.0x (-2.6 s.d.). Last, from a bottom-up perspective, our equity analysts expect AIA (29% index weight) and Macau gaming (5% index weight) to benefit from China reopening, buffering the continuing property sector headwinds.

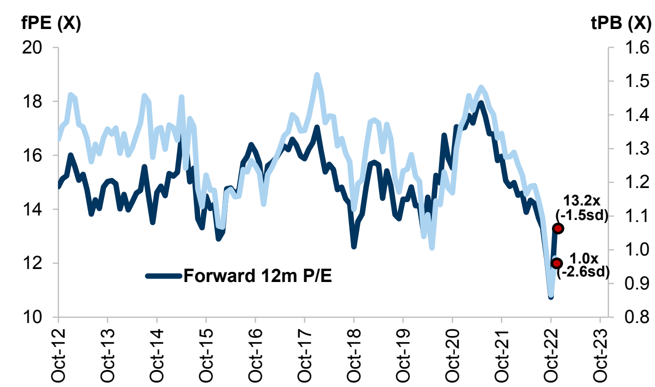
We therefore upgrade HK to marketweight given a more favorable combination of macro drivers, earnings momentum, and valuation.

Exhibit 46: Hong Kong's economy is likely to bounce back from recession to moderate growth in 2023



Source: Goldman Sachs Global Investment Research

Exhibit 47: HK valuations are at the low end of their historical ranges



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Korea: upgrade to OW on compelling risk/reward

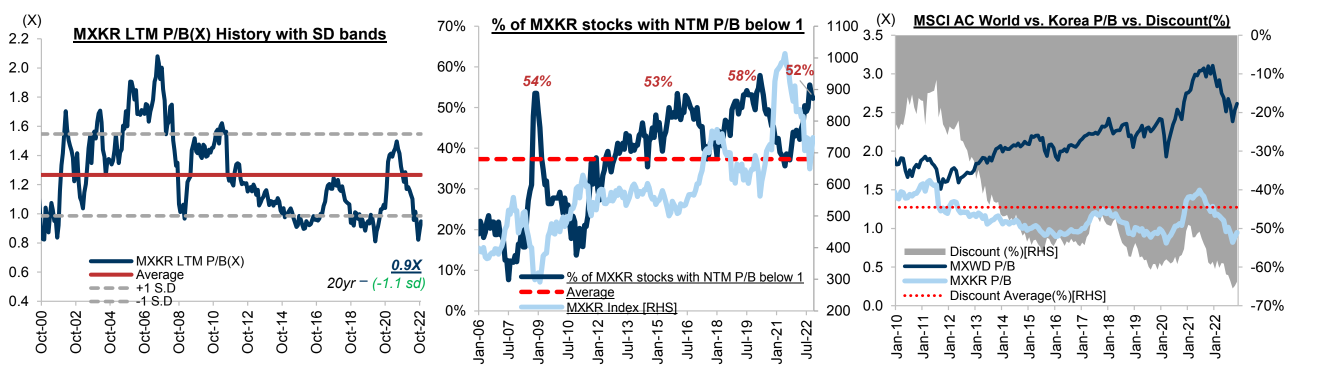
We downgraded Korea in Nov 2021 on its high global sensitivity and our expectation of a downturn in the global cycle. Since then, MSCI Korea fell 40% in dollar terms, underperforming the region by 15pp, before a sharp rally off the recent lows. **We believe the risk/reward on a medium term view looks compelling despite near-term challenges and upgrade Korea to overweight.**

There are five main reasons to take a more constructive equity market view despite many near-term concerns, which include a third consecutive month of declining exports, our economics team's expectation of softening of GDP growth from 2.4% to 1.4% in 2023, recent significant cuts to market earnings forecasts for 2023, and money market credit stress. The overarching concept is that the market is forward-looking, prospects look better into 2024, and equities are likely to anticipate this in the year ahead.

Valuations are very low, even by Korea's standards.

Korea has generally tended to trade at low valuation levels, but current valuations look attractive even by these standards. The overall market trades at 0.9x price to book value (-1.1 s.d.). With earnings cyclically suppressed, the 24m forward P/E is a better gauge of value: this is currently 8.9x (-0.2 s.d.). In terms of market breadth, 52% of Korea stocks trade below book, which is at the top of the historical range for this metric and has coincided with past market lows. Korea trades at a 64% P/B discount (-1.8 s.d.) relative to global developed markets and a 40% (-1.0 s.d.) discount to AsiaPac regional equities. Valuation tends to be a poor short-term indicator for Asian equities, but a good one on a 6 month to 1 year (or longer) view, especially at the extreme ends of the range as is currently the case.

Exhibit 48: P/B levels are close to historical lows across multiple angles: its own history, % of stocks below book value and relative discount



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

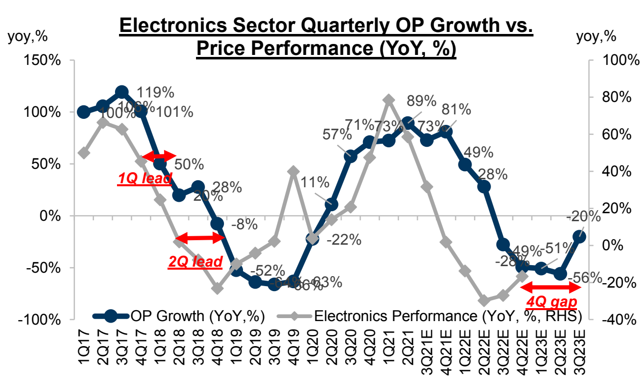
Semiconductor cycle may trough in mid-2023 and stocks trade ahead of this

Our semiconductor analysts expect the DRAM and NAND operating profit cycles to trough in the middle to 3Q of 2023 based on the latest guidance on capex, shipments and ASPs. The semiconductor stocks tend to trade about 2 quarters ahead of their operating profits which suggests a potential inflection point in 1Q23. However, both Samsung and Hynix have declined earlier and more than their customary pattern, suggesting that added fundamental downside risk is well priced or that their share prices might turn earlier. Given the heavy index weights of these stocks, improvement in their prospects in 2023 would also point to broader market strength (Samsung and Hynix are 20%/3% of KOSPI and 29%/5% of KOSPI 200).

Earnings growth: tough now, better later; market looks ahead

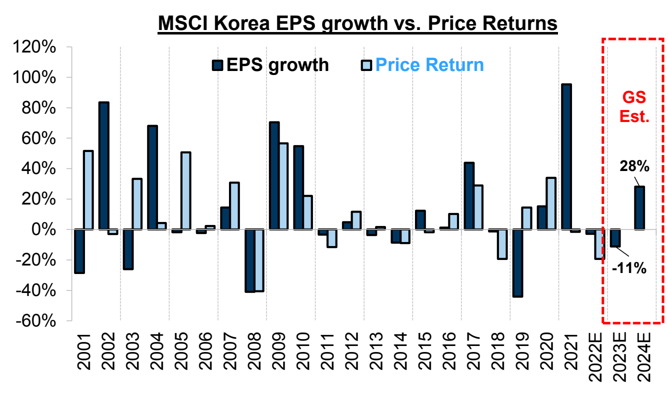
The near-term outlook for Korean earnings is poor, due to a weak global growth outlook, the market's cyclical sensitivity and high operating leverage in heavyweight sectors such as semiconductors. However, the equity market tends to trade well in advance of its fundamentals: whereas earnings more than doubled in 2021, the market delivered 31% gains in the prior year (2020) and only 4% in the year when earnings were delivered. More granularly, the market rose 130% from the March 2020 Covid low to a peak in June 2021, also well ahead of aggregate 2021 results. This year, the market is down 21% (in local currency terms) and would appear to have priced both the 2022 -1% earnings decline and the more significant 12% expected drop in 2023. More importantly, the market is likely to anticipate the 26% potential improvement in 2024 in the early part of 2023, which supports a positive stance.

Exhibit 49: Semiconductor stocks tend to trade 2 quarters ahead of their operating profit cycle but the sector corrected sooner and deeper than the typical cycle



Source: Quantiwise, Goldman Sachs Global Investment Research

Exhibit 50: Korea trades well ahead of its earnings and may discount a 2024 upturn early

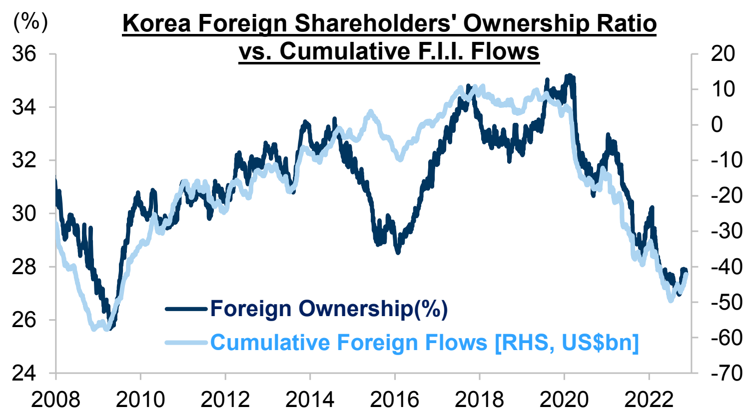


Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Foreign ownership is at decade lows; signs of a turn

Foreign investors have persistently sold Korean equities for nearly 5 years: the cumulative net selling since end-2017 is US$59bn. This outflow has brought the foreign ownership level down from 34% at end-2017 to 28% currently, which is the lowest level since 2009. More recently, after $16bn net selling in 1H22, foreign investors have net bought $6bn since 2H. This contrasts with heavy net selling of $48bn overall in Taiwan and outflows in every quarter of 2022, which indicates a turn in foreign interest in Korea.

Exhibit 51: Foreign ownership is at decade lows, indicating positioning is light



Source: Quantiwise, Goldman Sachs Global Investment Research

Potential addition to MSCI watchlist for upgrade to DM status in June 2023

We continue to think there is a good chance that Korea could be added to the MSCI watchlist for an upgrade to developed market status in June 2023. Korea continues to be classified as an emerging market because it falls short on several measures relating to market accessibility for foreign investors, notably difficulties settling Korean won trades, complex identification-related regulations for foreign investors, and partial restrictions on short-selling. However, Korean authorities have publicly stated their intention to address these issues with the specific purpose of encouraging MSCI to upgrade the market. The recent announcement by FTSE Russell that it has placed Korea on the watch list for inclusion in the FTSE World Government Bond Index is another encouraging sign.

There are two main market ramifications if Korea is added to the MSCI watchlist and then upgraded to DM status in June 2024. First, based on the quantum of assets benchmarked to the MSCI DM and EM indices, we estimate net inflows of $50-55bn to Korean equities, an amount roughly equivalent to the past 5 years net selling. Second, reclassification could prompt a roughly 30% improvement in the equity market's valuation. On a two-year view, the combination of 10-15% underlying earnings growth and 30% valuation uplift could drive a 40-50% increase in the index and likely more in USD terms if KRW strengthens from currently weak levels.

Exhibit 52: Specific issues for Korea highlighted in MSCI's June 2022 market accessibility review

Key issues and Comments on Korea from MSCI Global Market Accessibility Review	
Assessments	**Details**
Equal rights to foreign investors	- Information disclosure in English has improved but not always readily available; - Corporate governance standards of Korean companies often questioned by international institutional investors
Foreign exchange market liberalization level	- No offshore currency market and constraints persist on the onshore currency market
Investor registration and account set-up	- Registration is mandatory and requires a significant amount of supporting paperwork
Information flow	- Korean companies disclose dividend amounts after ex-dividend date

Note: Adopted from the MSCI publication as of June 2022

Source: MSCI, Data compiled by Goldman Sachs Global Investment Research

Exhibit 53: South Korea market authorities are addressing key issues to improve foreign investor market accessibility

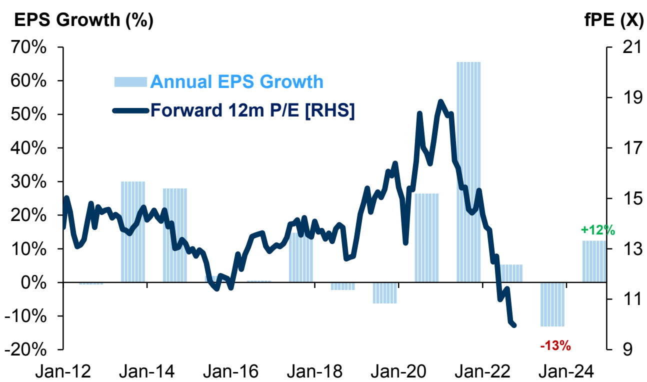
Key issues that are under review by South Korean market authorities	
Assessments under review	**Details**
Foreign exchange	* Improve foreign investor access to the FX market through a) increasing trading hours, b) enabling foreign banks to settle KRW without a Korean bank intermediary, and c) introduce an API to facilitate digital transactions; modernize foreign exchange market and expanding sovereign wealth funds' role
Investor registration	* Financial Services Commission Vice Chairman has stated that the foreign investor registration process that was introduced in 1992 can be improved
Information flow	* Financial Services Commission Vice Chairman also noted that dividend payout procedures must be improved in line with global standards

Source: Republic of Korea, Local Press

Taiwan: UW on continuing geopolitical overhang

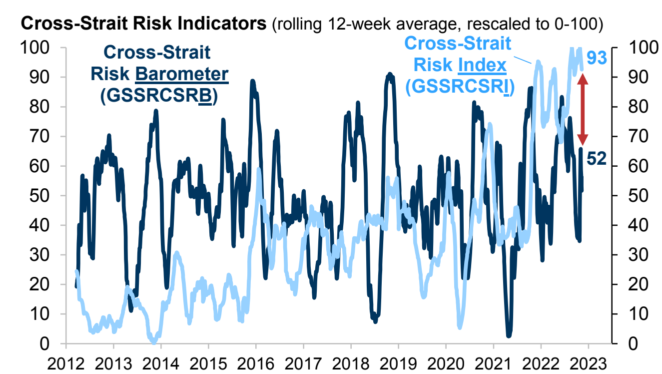
We downgraded Taiwan from OW to UW in mid-May for two reasons: growth prospects for the heavyweight tech sector were moderating and geopolitical risks were rising. Furthermore, our cross straits risk barometer, which assesses the extent to which the market is pricing geopolitical risk, lagged the increases in our cross straits risk index, which is a news-search sentiment tool that measures cross-strait geopolitical tension. Although the market has underperformed the regional index and valuations have compressed, we remain underweight given negative earnings growth in 2023 and continuing evidence that the market is not fully pricing geopolitical risk. We prefer Korea as a means of gaining exposure to a global cyclical recovery in 2024 and an improvement in prospects for the semiconductor and tech hardware sector.

Exhibit 54: Taiwan valuations are low, but earnings growth has softened



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 55: Geopolitical risk remains an overhang: the equity market does not appear to be fully pricing the elevated level of risk



Source: Factiva, FactSet, Goldman Sachs Global Investment Research

ASEAN: Differentiation as Covid recovery and rate hike tailwinds fade

Heading into 2022, we took a more constructive view on ASEAN (OW Indonesia and Singapore, and MW Malaysia, Philippines and Thailand) primarily due to 1) accelerating GDP growth and strong earnings gains (recovery from Covid shock), and 2) rate-hike tailwinds for banks (which account for more than half of index earnings for the OW markets of Singapore and Indonesia). That view largely played out as expected: economic growth saw a strong recovery, ASEAN posted leading earnings growth this year (14% in aggregate) and the MXSO index outperformed MXAPJ by 12pp ytd. Indonesia has been the best performing market in the region this year (+11% in local currency and 4% in USD).

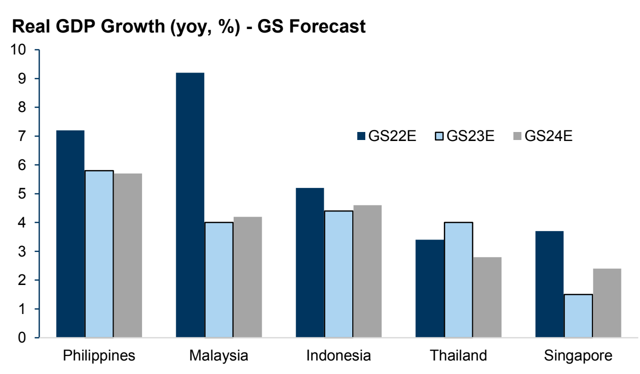
Going into 2023, as the re-opening impulse fades and economic growth moderates across most of ASEAN (except for Thailand) and rate hike tailwinds ebb, **we moderate our views on ASEAN and recommend a more differentiated exposure within the Southeast Asian region.**

We retain Singapore at overweight. While our economists expect economic growth is likely to slow next year, due to its large global exposure, market will likely look at the forward recovery in 2024. We expect strong earnings growth of 20%/12%, among the highest in the region, led by still strong growth in banks and improving profitability from internet companies. A combination of strong earnings growth, below average valuations, 4% dividend yield and positive view on SGD leads to an expected strong mid teen USD total returns next year.

We lower Indonesia from overweight to marketweight. Our economists expect GDP growth to slow from 5.2% to 4.4% from slowing domestic demand (both consumption and private investments), fading reopening impulse and less positive terms of trade boost. This, in turn, will cause earnings to significantly slow from 37% this year to 8%/10% in 2023/2024 (with a large drag from the high base in commodity earnings from this year). With the market a significant outperformer in 2022, low profit growth and generally being more defensive and less exposed to China reopening and a cyclical recovery, we think Indonesia will no longer outperform in 2023. We stay marketweight Philippines given decent 14% EPS growth CAGR in 2023/24, but we remain cautious on PHP amid worsening current account and expect high-single-digit USD total returns for the market next year.

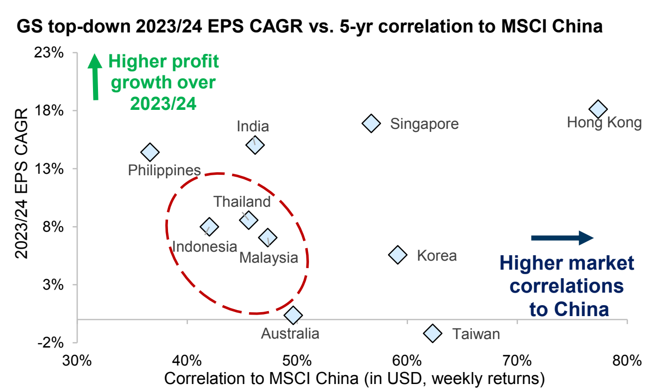
Our funding/underweight markets in ASEAN are Thailand and Malaysia. While our macro team expects economic growth in Thailand is likely to improve in 2023 as tourism recovers, profit growth outlook is less optimistic (bank NPL concerns from SME and high consumer debt, cautious on downstream energy/gas refiners), valuations are expensive at 17.5x forward earnings (1 s.d. above 10-year average) and we remain tactically bearish on currency to start the year. Similarly, Malaysia offers the least profit growth over 2023/24 in the ASEAN region and is less exposed to improving global economic recovery given its defensive market characteristics (40% weight in consumer and defensive sectors, as large as banks). We expect low-single-digit total USD returns for the market, the least of our coverage markets and hence downgrade it to underweight.

Exhibit 56: We expect economic growth to moderate across most of ASEAN (except for Thailand) in 2023 as reopening impulse fades and domestic demand slows



Source: Goldman Sachs Global Investment Research

Exhibit 57: Malaysia and Thailand equities offer low profit growth over 2023/24 and have lower market correlations to China



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

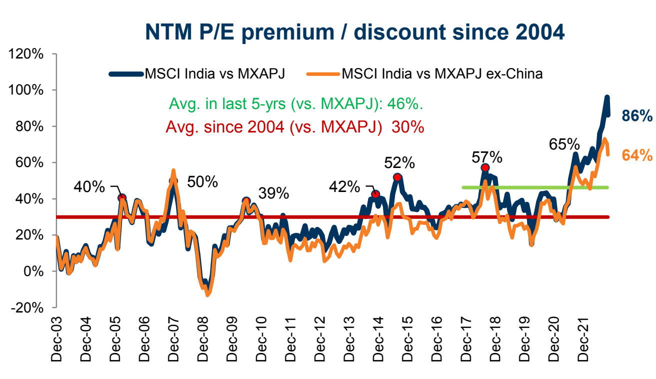
India: Stay MW as n/t cyclical setup offsets strong l/t growth outlook

We lowered Indian equities to marketweight, exactly a year back in our 2022 outlook for three key reasons: 1) the market had posted strong gains in 2021 (+27%, best performing market in Asia), 2) valuations were expensive at 23x fwd (near 24x 2007 peak, 60% premium to region), and 3) we expected cyclical macro headwinds (tighter policy, higher inflation and worsening current account) to put pressure on the market (See Staying on the sidelines, March 31, 2022). The MSCI India index fell 16% in USD terms (-12% in local terms) to the mid-June lows, amid heavy foreign selling and has since recovered 16%, leaving it net down 4% in USD terms. While the Indian market has been 'resilient' ytd overall, it has been a significant outperformer vs. its Asian peers (notably the North Asian markets) and has outperformed the MXAPJ regional index by 20pp ytd, largely due to its strong growth fundamentals.

We think the India growth story remains strong, in an otherwise growth-starved world. Domestic GDP growth momentum could moderate from 6.9% to 5.9% in 2023, as the full impact of tightening financial conditions is realized and export growth slows, but domestic demand is likely to stay resilient. This will likely translate into superior mid-teen profit growth of 15% in 2023 and 2024 (vs. 3%/12% for MXAPJ). However, we think India is unlikely to outperform for yet another year, due to three reasons: 1) Expensive valuations remain a concern at 22x forward P/E and 90% record premium to the region. We think valuations are already pricing in a superior growth outlook (19x P/E on a 2-year fwd. basis) and forward 6m/12m returns tend to be moderate from current starting level; 2) Near-term cyclical issues are likely to remain in the first half of next year, with high inflation, RBI policy hikes and a weak INR; and 3) China and globally cyclical North Asian equities could perform better on China reopening and recovery expectations, which could impact India's relative returns.

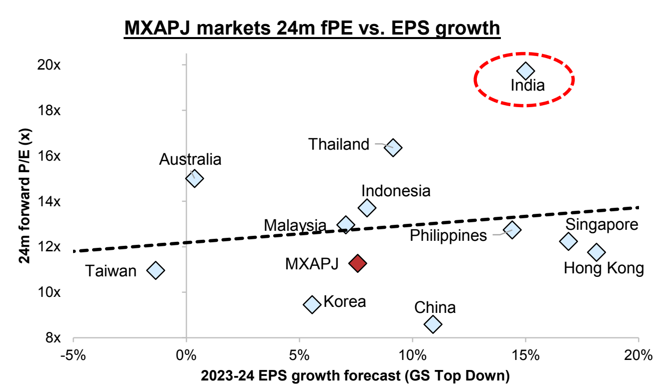
We therefore retain India at marketweight as the attractive medium-to-longer term growth opportunity is offset by near-term cyclical considerations. We continue to prefer banks and domestic cyclicals over export-sensitive and defensive sectors and look for alpha and inter-sector opportunities over broad based beta exposure.

Exhibit 58: Indian equities are trading near record valuation premia vs. the overall MXAPJ region (cum and ex-China)



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 59: Despite its superior growth, India is expensive relative to its peers on a 2-year fwd. PE vs. EPS growth metric



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

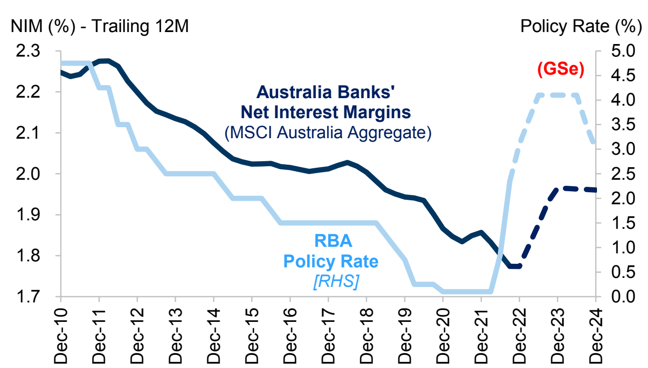
Australia: MW to start the year

We upgraded Australia from UW to MW in early May 2022 (when we downgraded Taiwan from OW to UW), viewing it as a relatively stable market in an increasingly challenging macro environment. Since then, the MSCI Australia index is +1% in local terms, -3% in USD and has outperformed the regional index by 500bp.

Our economists expect GDP growth to slow from 4.0% in 2022 to 1.9% in 2023, partly because high inflation will impel the RBA to hike policy rates another 125bp (5 successive 25bp increases) to a terminal rate of 4.1% by May 2023. Core CPI is expected to decline from 6.5% in 4Q22 to 3.8% in 4Q23, and our economists anticipate the RBA to ease 110bp over 2024 to 3.0%.

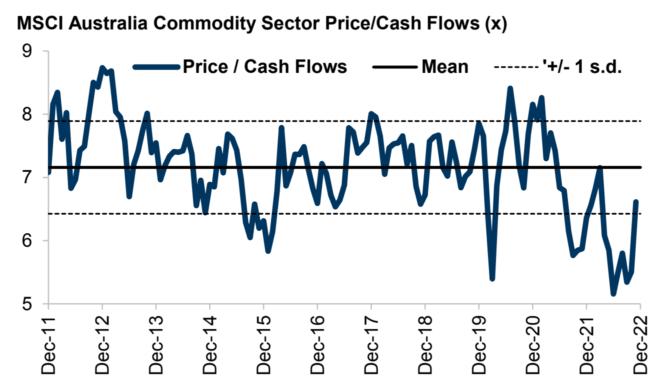
Against this macro backdrop, we forecast earnings growth will soften from 9% in 2022 to flat in 2023 and just +1% the following year. Valuations are 14.2x forward P/E and 2.2x P/B, equating to an average composite z-score (0.0). However, the investment outlook for the two most important sectors is better than what the aggregate market characteristics of soft earnings growth and average valuation suggest. Mining & metals stocks (19% index weight) offer high div yields (6.8%, 98th percentile since 1997), indicating good valuation support. Moreover, they should benefit from China reopening and ensuing commodity demand. Banks (27% index weight) are positively sensitive to higher policy rates through expanding net interest margins, which should buffer concerns over slowing credit growth and asset quality stress. **We therefore retain our marketweight stance to start the year.**

Exhibit 60: Higher policy rates should favor banks' NIMs



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 61: Commodity sector valuations are attractive



Source: FactSet, Goldman Sachs Global Investment Research

Eclectic sector mix to play key themes

Our seemingly eclectic sector overweight preferences continue to balance an orientation towards pockets of value cyclicals- **non-China banks** (higher rates) and **autos** (global macro improvement, EV plays)- with selective exposure to tech- **internet retail, media & entertainment** (profitable and de-rated tech) and **semiconductors** (turn in memory cycle)- as well as areas that are defensive and offer high and stable yields (**telcos**). We make a few changes in our sector allocations to account for the shifts in the macro environment and play key themes like the eventual reopening in China.

First, within the broader commodity cyclical complex, we **upgrade Chemicals and other materials to overweight** (from marketweight) because we think petchem margins have bottomed out and should gradually recover next year on stabilizing feedstock costs and demand resumption. Additionally, the sector includes high-growth areas including battery & battery chemicals and advanced materials, which offer exposure to the structural themes of energy security transition and decarbonization. The sector is trading at a below mid-cycle multiple on bottom cycle margins and could perform strongly next year as demand improves.

Second, we **lower the energy sector to marketweight** (from overweight). Energy has been the best performing regional sector this year, having outperformed the MXAPJ index by 30pp ytd. Earnings momentum is likely to slow (given high base from this year and correction in commodity prices) with expected negative profit growth next year. Moreover, localized regulations (e.g. windfall taxes on refiners and oil producers in India) is also impacting company profits. Given all these reasons, we think the sector could relatively underperform next year. However, given our commodity team's structurally positive view on oil due to lack of investment and low spare capacity, and still high cash flow generation by oil companies, we think a neutral stance on the sector is more appropriate.

For the other commodity-related sectors, we stay **marketweight metals and mining** given further near-term earnings risks from weak global and China property related demand, but still attractive valuations.

Lastly, we upgrade **transportation to overweight** (from market weight) and raise **consumer durables and retail to market weight** (from underweight) as these sectors include airlines, airports, hotel, restaurants and entertainment (gaming) stocks that are likely to benefit once the China reopening gathers steam.

We remain underweight **Tech hardware and equipment** (earnings headwinds, export controls, geopolitical risks), **capital goods** (Europe exposure), **Real estate** (China downcycle), **China banks** (demand slowdown and property risks), **Software services** (earnings risks in India from DM tech spending slowdown) and **Utilities** (input cost/feedstock risks from tight European gas markets).

Exhibit 62: Our sector views favor themes of value cyclicals, selective tech exposure and high yielding defensives

GS Sector Allocation								
		Consensus		Current Valuation			Performance	
MXAPJ Sector	Weight (%)	2023E EPSg (%)	2024E EPSg (%)	NTM P/E (X)	LTM P/B (X)	LTM D/Y (%)	2022 YTD (USD)
Overweight							
MXAPJ ex-China Banks	13%	14%	6%	11.2	1.4	3.9	-7%
Internet (Media & Entertainment, E-commerce)	11%	19%	25%	17.3	2.4	0.3	-35%
Semiconductors & Semiconductor Equip.	7%	-13%	22%	13.3	3.0	3.3	-34%
Autos & Components	3%	26%	17%	11.9	1.3	1.9	-33%
Chemicals & other Materials ⇧	3%	15%	17%	14.4	1.7	2.6	-13%
Transportation ⇧	2%	-43%	-18%	10.3	1.5	7.1	-20%
Telecommunication Services	2%	17%	12%	18.8	2.6	3.6	-8%
Market weight							
Insurance & other Financials	9%	27%	13%	11.2	1.5	3.0	-18%
Consumer Staples	5%	10%	11%	20.7	3.5	2.3	-16%
Health Care	5%	20%	28%	32.3	4.3	1.0	-21%
Metals & Mining	5%	-14%	-2%	9.8	1.7	6.7	-3%
Consumer Durables, Retail (ex Internet Retail) ⇧	4%	50%	25%	20.9	3.1	1.7	-17%
Energy ⇩	4%	-8%	-4%	8.9	1.3	5.2	6%
Underweight							
Technology Hardware & Equip.	8%	-10%	30%	14.4	1.4	2.8	-27%
Capital Goods	4%	8%	11%	10.7	1.1	2.7	-15%
Real Estate	4%	7%	9%	10.3	0.7	4.3	-22%
China Banks	3%	4%	9%	3.5	0.4	8.1	-19%
Software & Services	3%	17%	16%	25.4	5.8	2.0	-28%
Utilities	3%	129%	34%	17.0	1.5	4.1	-13%
MXAPJ	**100%**	**5%**	**12%**	**12.4**	**1.7**	**3.1**	**-21%**

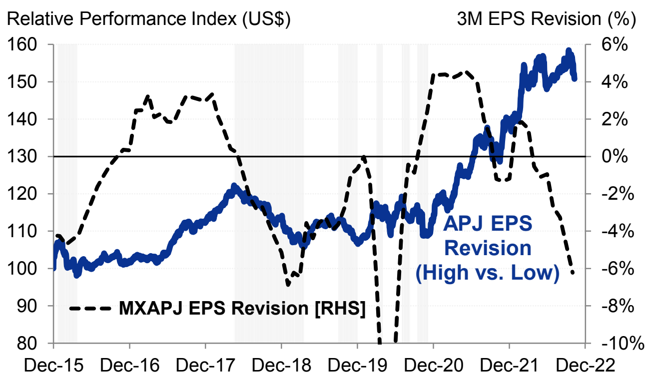
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Alpha themes to enhance modest beta

We highlight 6 ideas for next year around the 4 macro/investment themes of **1) Earnings scarcity:** (a) Positive revisions, (b) GARP**; 2) China reopening:** Reopening beneficiaries; **3) DM recession risk:** Domestic cyclicals vs. Europe exposure; **4) Structural growth:** (a) Asia thematic growth stocks, (b) China "Little Giants"**.**

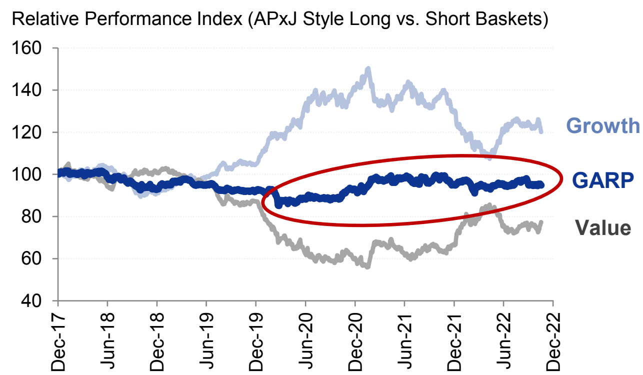
- **Earnings Scarcity: a) Strong vs. Weak Earnings Revisions <GSSZSERV> vs. <GSSZWERV>** have been the leading style/factor strategy in Asia over the long term and generated 7% alpha ytd. We continue to expect the market will reward companies exhibiting strong and positive earnings revisions, amid a broad-based earnings downgrade environment and suppressed valuations in a rate hike cycle; **b) Growth at a Reasonable Price (GARP) <GSSZGARP>** stocks tend to deliver stable performance in a weak macro growth environment while offering protection against interest rate risks due to low valuations. We prefer GARP to pure growth/value stocks in the current context.
- **China Reopening: Reopening Beneficiaries.** Equity markets tended to pre-trade the actual implementation of reopening. Our portfolio includes 30 names in 10 industries that appear well-placed for easing social distancing/travel curbs, which are mainly concentrated in consumer-facing sectors, notably Hotels, Catering, and Entertainment. The stocks are selected based on historical performance or earnings correlations during previous Covid outbreak or lockdown periods. There is still-ample room for further valuation and fundamental recovery as they collectively trade at 0.5x PEG ratio (20x 24m fP/E on 40% median 22-24 EPS CAGR).
- **DM Recession Risk: Domestic Cyclicals <GSSZMSDC> vs. Europe Exposure <GSSZAPEU>.** With the recession fears in DM economies (especially Europe), we favor domestic exposure as our economists continue to expect EM Asia, notably India and ASEAN, as well as China, to deliver relatively high growth due to post-Covid recovery with less exposure to global economies.
- **Structural growth: a) Asia Thematic Growth <GSCBAPGR>** basket consists of stocks in thematic growth areas (under 8 broad growth themes or 30 specific sub-themes like tech self-sufficiency, supply chain security, green economy) that hold the prospect of significant growth in coming years. They provide attractive growth potential against a disappointing earnings and depressed profitability environment in Asia; **b) China "Little Giants" <GSSRCNLG>** are emerging companies in China, mostly residing in sectors such as Cap Goods, (new) Materials, Tech Hardware, and Semiconductors that are critical to Chinese national security, growth sustainability, and "Common Prosperity" goals and may see policy support from Chinese authorities. They are also small/mid-caps that provide favorable valuation/growth & high R&D profiles.

Exhibit 63: Earnings Scarcity: Markets have continued to reward companies exhibiting strong and positive earnings revisions or stable growth amid a broader earnings downgrade environment



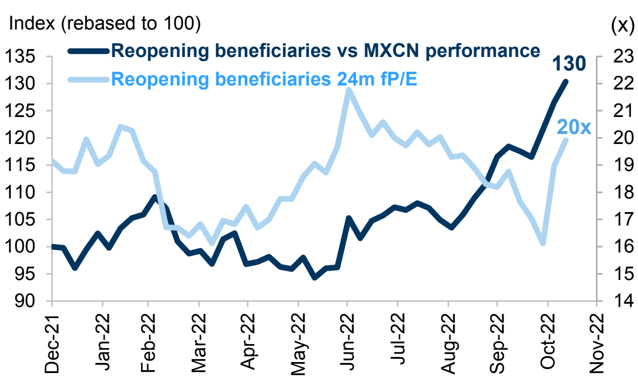
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 64: Earnings Scarcity: GARP stocks tend to deliver more stable performance than pure growth/value factors in a weak macro growth environment while offering protection against interest rate risks due to low valuations



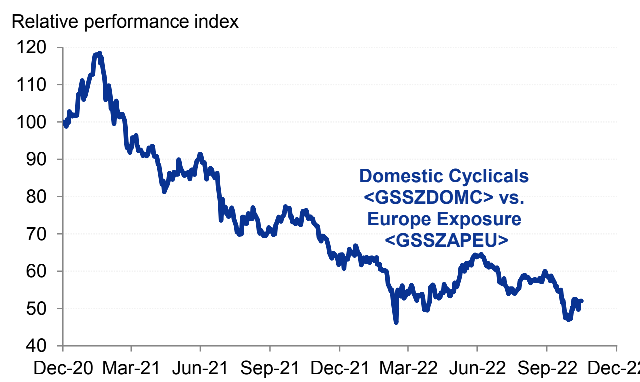
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 65: China Reopening: Reopening beneficiaries have begun to outperform since July



Source: FactSet, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 66: DM Recession Risk: we recommend stocks with high domestic revenues offset against stocks with exposure to EU recession risk



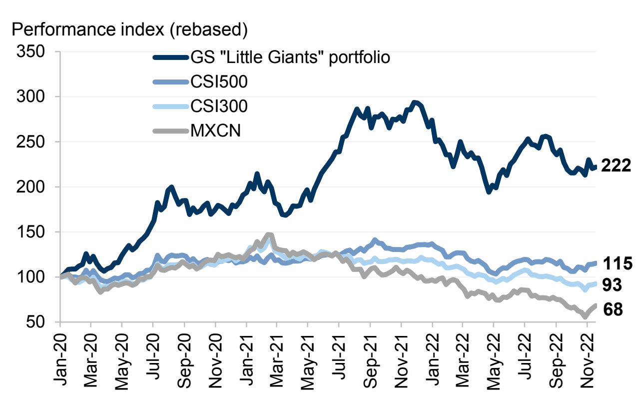
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 67: Structural Growth: 8 broad growth themes and 30 specific sub-themes that hold the prospect of significant growth in coming years

8 Growth themes	30 Growth areas	Key markets
1 Technology upgrade / Tech self-sufficiency	Autonomous driving software; Cloud computing/data storage; Cybersecurity; DRAM; Factory automation; Foundry (core semiconductor mfg.); Silicon carbide (SiC) transition	China, Korea, Taiwan
2 Import substitution / Supply chain security	Adv. materials: Fine ceramics, polymers; Speciality chem.: Performance additives, lubricants	China
3 Green-economy / De-carbonization	Batteries; Electric vehicles; Energy storage (ESS); Solar installation ; Precision cooling	China, Korea
4 Agritech / Food security	Advanced feed additives; Animal health; Bio-tech seeds	China
5 Healthcare / Biotech	Biotech; Generic injectables; Medical devices	China, India
6 Digitization of consumption and services	Digital advertising ; Digital payments; E-commerce ; Food Delivery /Local services; Immersive short-form video (SFV); Staffing (Formalization of workforce)	China, India, SG
7 Fin-tech / Financialization of household savings	Brokers, Insurance/Mutual funds; Supply chain finance (SCF) technology	China, India
8 Traditional growth areas	Consumption recovery (Sportwear, Food Service); Mfg. / Infrastructure (EMS, Logistics)	China, India

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 68: Structural Growth: Our China "Little Giants" basket has gained 115% since 2020, outperforming CSI500, CSI300 and MXCN by 109pp, 123pp and 146pp respectively



Source: Wind, FactSet, Goldman Sachs Global Investment Research

Appendix 1: Asia Political Calendar

Exhibit 69: The political calendar is active in 2023

Month	Market	Local or multinational events/Elections/Government changes and meetings
		2022
Nov 19	Malaysia	2022 Malaysian general election
Nov-Dec	Global	2022 FIFA World Cup
Dec	Global	OPEC and non-OPEC Ministerial Meeting
Dec 4	China	Politburo meeting
Dec	China	Central Economic Work Conference
		2023
Jan - Mar		
Jan 3	US	118th United States Congress
Jan 16-20	Global	World Economic Forum Annual Meeting
Jan-Feb	China	Second plenum conference of the 20th CPC Central Committee
Feb	India	State Legislative Assembly General Elections (Tripura, Meghalaya, Nagaland)
Apr	China	Politburo meeting
Mar	China	Chinese People's Political Consultative Conference (CPPCC)
Mar	China	National People's Congress (NPC)
Apr - Jun		
May	India	State Legislative Assembly General Elections (Karnataka)
May 7	Thailand	Thai general election
May 19-21	Global	49th G7 Summit
Jun - Sep		
Jul	China	Politburo meeting
Aug 2-4	Global	World finance conference
Jun-Sep	Singapore	2023 Singaporean presidential election
Oct - Dec		
Oct-Nov	China	Second plenum conference of the 20th CPC Central Committee
Oct 30	Philippines	2023 Philippine barangay and Sangguniang Kabataan elections
Nov 7	US	United States gubernational elections
Nov	India	State Legislative Assembly General Elections (Chhattisgarh, Madhya Pradesh, Mizoram)
Nob	Global	APEC Economic Leaders' Meeting
Dec 1	Global	2023 G20 New Delhi summit
Dec	India	State Legislative Assembly General Elections (Rajasthan, Telangana)
Dec	China	Politburo meeting
Dec	China	Central Economic Work Conference
2023 (TBC)	Global	CPTPP Ministerial Council meeting

Note: Elections related to changes in government are shaded in blue.

Source: Respective Central Banks & Government Offices, various media sources, compiled by Goldman Sachs Global Investment Research

Appendix 2: Goldman Sachs macro forecasts

Exhibit 70: Real GDP forecasts

Real GDP forecasts (% yoy)	2021	2022E	2023E	2024E	2022E				2023E				2024E			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Greater China & North Asia																
China	8.1	3.0	**4.5**	5.3	4.8	0.4	3.9	3.0	**2.4**	**5.8**	**4.2**	**5.5**	5.7	6.4	4.9	4.4
Hong Kong	6.3	(3.2)	**2.5**	3.8	(3.9)	(1.3)	(4.5)	(3.1)	**0.6**	**0.0**	**4.7**	**4.4**	4.4	4.7	3.4	2.9
Taiwan	6.6	2.8	**1.9**	2.2	3.7	3.0	4.1	0.5	**0.1**	**2.6**	**1.9**	**3.0**	2.9	2.6	2.1	1.4
Korea	4.1	2.4	**1.4**	2.5	3.0	2.9	3.1	0.7	**0.6**	**0.3**	**1.2**	**3.3**	3.2	3.0	2.2	1.5
India & ASEAN markets																
India	8.3	6.9	**5.9**	6.5	4.1	13.5	6.3	4.9	**4.7**	**4.2**	**7.2**	**7.5**	5.1	11.8	5.9	3.5
Singapore	7.6	3.7	**1.5**	2.4	3.9	4.5	4.4	2.0	**1.2**	**1.9**	**1.0**	**1.8**	2.5	2.5	2.4	2.3
Indonesia	3.7	5.2	**4.4**	4.6	5.0	5.4	5.7	4.8	**4.1**	**4.1**	**4.9**	**4.3**	4.4	4.6	4.5	4.8
Malaysia	3.1	9.2	**4.0**	4.2	5.0	8.9	14.2	9.0	**5.7**	**3.4**	**2.8**	**4.3**	4.6	4.3	4.0	3.9
Philippines	5.7	7.2	**5.8**	5.7	8.2	7.5	7.6	6.0	**5.7**	**6.2**	**5.5**	**6.0**	5.8	5.8	5.7	5.6
Thailand	1.5	3.4	**4.0**	2.8	2.3	2.5	4.3	4.4	**4.0**	**4.2**	**4.4**	**3.3**	3.2	2.9	2.7	2.5
Asia ex Japan	**7.6**	**3.8**	**4.3**	**5.1**	**4.4**	**3.1**	**4.6**	**3.2**	**2.6**	**4.7**	**4.4**	**5.4**	**5.7**	**6.0**	**4.7**	**4.2**
Australia	4.9	4.0	**1.9**	1.7	3.3	3.6	6.4	2.9	**2.5**	**2.0**	**1.6**	**1.5**	1.5	1.6	1.7	1.9
Japan	1.6	1.5	**1.3**	1.4	0.6	1.7	1.8	1.6	**1.8**	**0.9**	**1.5**	**1.1**	1.2	1.3	1.4	1.5
USA	5.9	1.9	**1.1**	1.6	3.7	1.8	1.8	0.3	**0.9**	**1.3**	**1.0**	**1.1**	1.3	1.6	1.7	1.9
Euro Area	5.3	3.3	**(0.1)**	1.4	5.5	4.3	2.1	1.4	**0.4**	**(0.5)**	**(0.5)**	**0.0**	0.8	1.3	1.7	1.9
Emerging Markets	7.3	3.5	**3.4**	4.4	4.6	3.2	3.8	2.4	**1.9**	**3.7**	**3.4**	**4.5**	4.7	5.0	4.1	3.8
Developed Markets	5.3	2.5	**0.7**	1.5	4.3	2.8	2.1	0.9	**0.8**	**0.6**	**0.5**	**0.7**	1.1	1.5	1.7	1.8
World	6.1	2.9	**1.8**	2.8	4.4	3.0	2.9	1.5	**1.3**	**1.9**	**1.8**	**2.4**	2.7	3.0	2.8	2.7

Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 71: Inflation forecasts

CPI Inflation forecasts (% chg yoy)	2021	2022E	2023E	2024E
Greater China & North Asia				
China	0.9	2.0	**2.2**	2.4
Hong Kong	1.6	2.0	**2.4**	2.5
Taiwan	2.0	3.0	**1.7**	1.0
Korea	2.5	5.2	**3.3**	1.8
India & ASEAN markets				
India	5.1	6.8	**6.1**	4.7
Singapore	2.3	6.4	**5.8**	0.7
Indonesia	1.6	4.5	**5.1**	3.3
Malaysia	2.5	3.5	**4.2**	2.9
Philippines	4.4	5.5	**5.1**	2.9
Thailand	1.2	6.2	**3.2**	1.0
Asia ex Japan	**2.0**	**3.7**	**3.5**	**2.9**
Australia	2.9	6.6	**5.0**	2.2
Japan	(0.2)	2.4	**2.5**	1.4
US	4.7	8.0	**3.8**	2.8
Euro Area	2.6	8.7	**8.1**	2.1

Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 72: Foreign exchange forecasts

Market	Exchange Rates	Current	3-month Forecast	6-month Forecast	12-month Forecast
Greater China & North Asia					
Korea	$/KRW	1318	1300	1250	**1220**
Hong Kong	$/HKD	7.85	7.85	7.85	**7.8**
Taiwan	$/TWD	31.2	32.0	31.5	**31.0**
China	$/CNY	7.09	7.20	7.00	**6.90**
India & ASEAN markets					
Indonesia	$/IDR	15495	15700	15200	**14800**
Thailand	$/THB	36.0	37.0	36.0	**35**
Philippines	$/PHP	57.3	60.0	59.0	**58**
India	$/INR	81	83	82	**81**
Malaysia	$/MYR	4.62	4.70	4.60	**4.5**
Singapore	$/SGD	1.37	1.38	1.35	**1.31**
Australia	AUD/$	0.68	0.62	0.67	**0.71**
Japan	$/JPY	139	155	155	**140**
Euro	EUR/$	1.04	0.94	0.97	**1.05**

Source: Bloomberg, Goldman Sachs Global Investment Research

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Reg AC

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