

AXJ EQUITIES: RECOVERY LED BY FAVOURABLE MACRO & COMPELLING VALUATIONS

Why Asia ex Japan (AXJ) Equities have under-performed since 2021

- China the biggest constituent of AXJ (30% weightage in MSCI AXJ) witnessed weaker than expected economic recovery post-covid.
- Dividend yielding stocks like Singapore REITs witnessed price correction due to the US Fed's narrative of higher-for-longer policy rates.
- Increase in US Fed rates for the past 24 months has been a dampener for Asian markets.

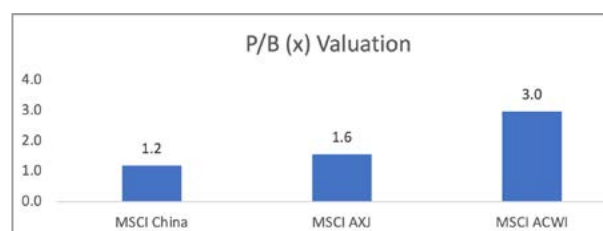
What are the positive catalysts for AXJ Equities

- Expectations of a decline in US interest rates in 2024 should support a turnaround in AXJ Equities aided by the historical inverse correlation between AXJ Equities and US rates.
- China's economy has begun to stabilise and is expected to regain strength aided by stimulus measures and regulatory changes announced by the government including those related to tech and real estate sectors.
- ASEAN to post strong economic growth due to less hawkish Fed, USD weakness in 2024, and due to rebound in Chinese economy.
- India which is the second biggest constituent of AXJ continues to clock strong economic performance as a result of the structural reforms of the past few years. These include measures to raise tax revenues as a % of GDP and thereby improve the country's fiscal position.

Attractive Valuations

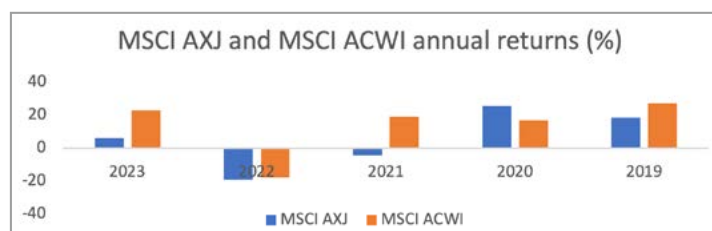
- 2021-23 is the first instance in the past 14 years where AXJ equities have underperformed the World index for three consecutive years.
- AXJ corporate earnings are expected to witness a sharp recovery and outperform global peers in 2024 & 2025, thereby supporting a possible re-rating of equities.
- MSCI AXJ trades at an attractive P/E and P/B valuations of 12.4x and 1.56x respectively and dividend yield of 2.6% at a steep valuation discount to MSCI ACWI P/E and P/B valuations of 17.4x and 3x.

Exhibit: Steep discount in valuation of MSCI AXJ Index vs MSCI ACWI



Note: Valuation as on February 29th, 2024

Exhibit: MSCI AXJ index has underperformed ACWI index in 4 out of past 5 years



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