Asia ex Japan market 2020 Outlook

- Trade tensions have eased
- Asian earnings cycle is likely bottoming
- Accommodative monetary and fiscal policies provide support
- Asian equities are cheaper than equities of developed markets
- Potential USD-weakness would be positive for relative performance of Asian equities

Despite the escalation of trade conflicts and growth slowdown in 2019, Asia ex Japan equity markets achieved solid performance. Although trade tensions triggered two tumbles in May and August through unexpected tariff announcements from the US, markets recovered supported by hope of a future trade deal. The first steps toward that eventual deal were announced at the end of the year. Furthermore, renewed global monetary policy easing provided liquidity support for Asian equity markets as well as help for stable growth in the region. For 2019, MSCI AC Asia ex JP NR Index advanced 18.2% in USD terms.

For 2020, while we acknowledge that there will be continuing uncertainty surrounding the trade outlook, tensions have been considerably eased with the US and China agreeing to a phase-one deal in mid-December. The partial deal is an important positive step though it does not mean the end of trade conflicts. And beyond trade, we see good reasons to be constructive on Asia ex Japan equities in 2020.

First, there are signs that both the global growth slowdown and Asian corporates' earnings cycle are bottoming. The downward revisions of Asian companies' earnings forecasts have stabilized since the third quarter 2019, indicating a likely pickup of earnings growth going forward. At end of 2019, consensus forecast for earnings growth of companies that constitute the MSCI AC Asia ex JP Index for 2020 is 14%*, much higher than that for 2019 of 5.8%*.

Second, monetary policy remains accommodative and there will be further fiscal support. The continuing balance sheet expansion of global central banks provides liquidity support to equity markets. Moreover, Asian countries have started monetary and fiscal policy easing in 2019 and we expect policy stance will stay accommodative to support growth in 2020.

Third, despite the strong rally in 2019, valuations of Asian equities remain more attractive than developed market peers. At end of 2019, the Price to Book Ratio of the MSCI AC Asia ex JP Index stood at 1.6*, which was significantly lower than the Price to Book Ratio of S&P 500 Index of 3.5*.

After several years of appreciation, the US dollar is likely to gradually near its peak, driven by renewed monetary policy easing in the US or weaker than expected US growth. History suggests that renewed USD-weakness would be positive for Asian equities, particularly relative to Developed Markets.

Key risks for Asia ex JP equities in 2020 include: escalation of trade conflicts, lower than expected earnings growth, geo-politic risks, higher than expected oil price and inflation.

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**Source: Bloomberg, as of end of 2019*