

# Asia Ex-Japan Equities: Trump Is Not A Reason To Dump (Yet)

Asia Ex-Japan equities have a new bogeyman: President-elect Donald Trump. Given that the region's earnings have a high beta to global trade, the equity market is heavily exposed to any shift toward anti-globalization policies in the U.S. So far, it is far from clear that Trump will seek to wall off the U.S. from the global economy, and, on a 6-12 month view, the non-resource cyclical sectors in Asia Ex-Japan are likely to have strong tailwinds from improving technology sales.

In this uncertain environment, we are sticking with a mixed strategy that combines some early-cycle exposure to the global trade cycle with overweight positions on those countries/sectors that should be able to deliver decent growth in most global economic scenarios.

Global semiconductor sales are improving from a cyclically depressed level, and the slowdown in global export volumes appears to have bottomed out. Korea and Taiwan should benefit from the former due to their sector compositions, and they have historically outperformed in the early stages of global export cycles<sup>1</sup>. We are maintaining overweight positions on both.

In contrast, India and Indonesia are relatively closed economies with more defensive sector tilts. Earnings for these markets are largely domestically derived,

<sup>1</sup> MRB Asia Ex-Japan Equities Report, "Asia Ex-Japan Equities: A "Safe Beta" Bet On Rising Exports", September 6, 2016

## MRB Asia Ex-Japan Equities Recommendations\*

	vs Asia Ex-Japan			vs Global			Page
	-	N	+	-	N	+	
China							13
Hong Kong							14
India							15
Indonesia							16
Korea							17
Malaysia							18
Philippines							19
Singapore							20
Taiwan							21
Thailand							22
Asia Ex-Japan							

\* 6-12 month horizon

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Note: + = maximum overweight, N = neutral, - = maximum underweight

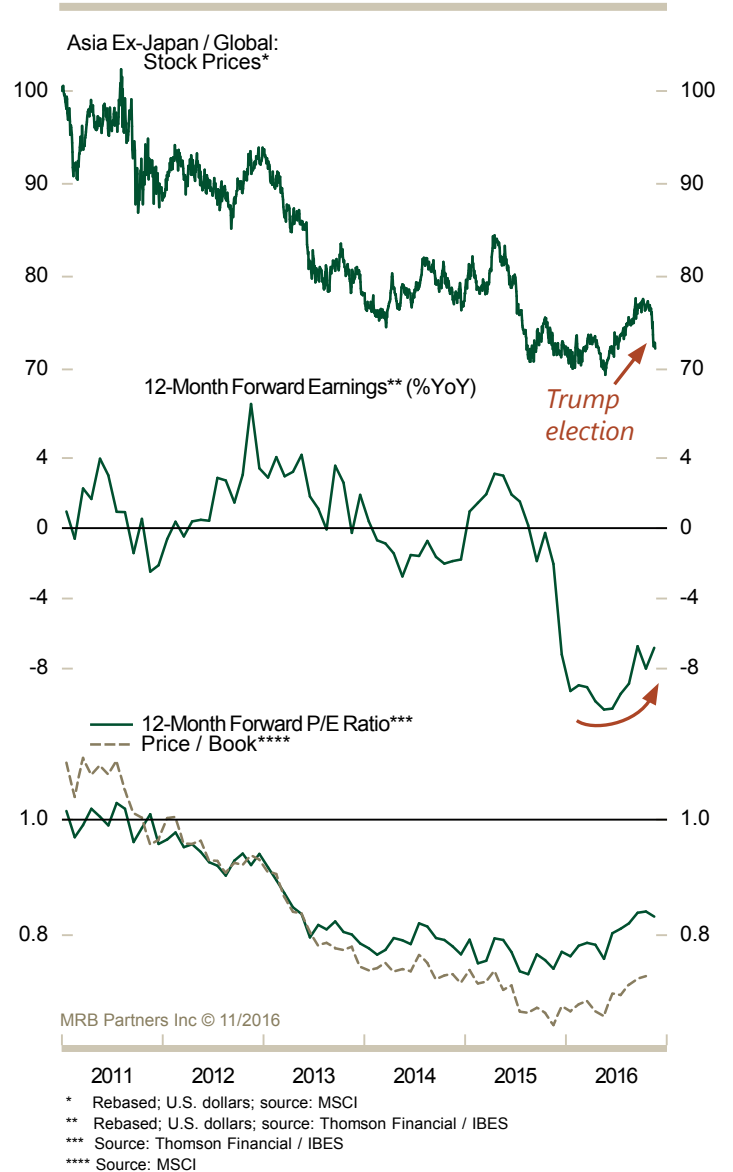
- U.S. President-elect Trump represents a threat to Asian earnings if he pushes forward with anti-trade policies.
- On the other hand, increased infrastructure investment in the U.S. would have positive spillovers for global manufacturing and Asia Ex-Japan equities.
- For now, we recommend avoiding a directional bet on Trump's policies, but lay out a framework for regional positioning in the event of increased trade tariffs and/or domestic stimulus.
- Favor non-resource cyclicals tied to global semiconductor demand and sectors that have strong domestic growth tailwinds.
- Stay overweight China, India, Indonesia, Korea and Taiwan within a regional portfolio.
- Underweight Hong Kong, Malaysia, the Philippines and Thailand.
- Remain overweight Asia Ex-Japan in a global equity portfolio.

and our overweight recommendations are predicated on structural reforms that should generate stronger domestic demand. China is also largely a domestic play, though it's sector composition skews heavily toward cyclicals, especially now that the Internet ADRs have been fully included in the MSCI Index. Economic rebalancing and the expansion of Internet services should provide tailwinds for earnings in these sectors, and we are maintaining an overweight stance.

We are funding these positions with underweights in Hong Kong, Malaysia, the Philippines and Thailand. The deflation of Hong Kong's property bubble is likely to resume due to tighter macroprudential measures and rising bond yields. Financials in the Philippines have been priced for perfection, which is unlikely to materialize under Duterte's leadership. Malaysia has economic exposure to commodities and China's construction boom, neither of which is likely to deliver outperformance over the next 12 months. Thailand may be a net oil importer, but energy dominates its equity index.

Unless it becomes clear that anti-trade policies will take a priority in the Trump administration, we are maintaining our view that Asia Ex-Japan equities should be held at a slight overweight in a global portfolio over the next 6-12 months. From a sector point of view, the overweight position should be concentrated in non-resource cyclicals.

Chart 1 Dumped For Trump



## Trump And The Threat Of Forced De-Globalization

A pick up in global manufacturing, the bottoming of global exports and reduced fears of a Chinese hard landing had contributed to Asia Ex-Japan's outperformance against the global equity benchmark since mid-year (chart 1). Then Trump happened.

In our view, the Trump-induced selloff in Asia Ex-Japan equities is overdone. The nature and scope of Trump's economic policies are uncertain, and it is too early to take a directional view on the macro implications for Asian assets.

It's premature to make a directional bet on Trump

Chart 2 Possible Trump Policy Scenarios

	U.S. Trade Policy:	
	No Trade Restrictions	Trade Restrictions
U.S. Fiscal Policy: Stimulus/Tax Cuts	Higher U.S. growth and inflation; positive spillovers for global economy	Higher U.S. growth and inflation; no positive spillovers for global economy
No Stimulus/Tax Cuts	Status quo: gradual global recovery on track	Weaker U.S. growth and short-term spike in U.S. inflation; longer-term deflationary for U.S. and global economy

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From an Asian perspective, the most important components of Trump campaign platform are the promises of domestic stimulus (tax cuts and infrastructure spending) and a reduction in U.S. imports (via tariffs or new, asymmetrically beneficial trade deals). **Chart 2** provides a simplified framework for how we believe the market is likely to interpret the possible policy combinations, at least initially.

So far, investors appear to be betting that Trump will deliver on both promises. Assuming the stimulus measures are effective, there would be short-term benefits for the U.S. economy, but the long-term impact of reduced globalization would be negative for the U.S. and the world, as we argued in a series of reports earlier this month<sup>2</sup>. On a relative basis, Asia Ex-Japan equities would likely underperform the global benchmark in this scenario.

Alternatively, Congress could prove to be uncooperative with the new president. The U.S. president has a great degree of discretion in setting U.S. trade policy, but Congress controls the budget. In this scenario, Trump would still be able to impose trade restrictions, but stimulus would likely die in the House of Representatives. This would be the worst of all policy outcomes for the U.S. and the global economy. Asian equities would likely deliver negative returns in absolute and relative terms.

The best-case scenario for Asia would be some short-term stimulus in the U.S. without any import restrictions. This would accelerate the nascent recovery in global manufacturing and boost global trade. Given that Asia Ex-Japan equities are skewed toward cyclical

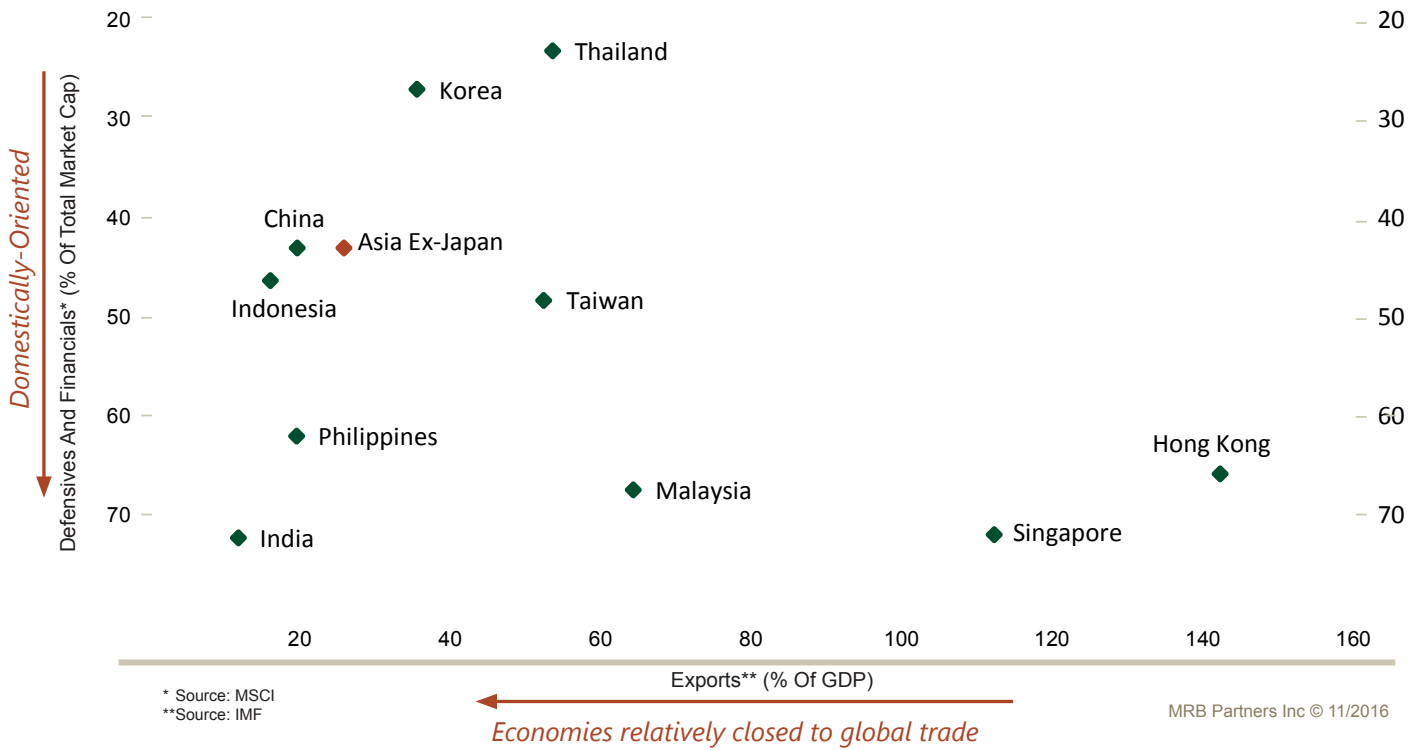
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The market seems to assume that Trump can deliver on his policy agenda

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<sup>2</sup> MRB Theme Reports, "[Forced De-Globalization \(Part I\): Benefits And Costs Of Trade](#)", November 8, 2016, "[Forced De-Globalization \(Part II\): Blame Technology Not Trade](#)", November 10, 2016

Chart 3 In Search Of Insulation: An “Anti-Globalization” Portfolio



sectors, and the region’s economies are heavily exposed to global trade, we would expect strong outperformance in this scenario.

Finally, it’s entirely possible that Trump’s apparent lack of preparation will lead to inaction in office. Should the status quo prevail, then Asia would still benefit from a gradual rise in global trade volumes as the U.S., European and Chinese economies expand. Asia Ex-Japan equities would likely narrowly outperform in this scenario, though intra-regional positioning would be important. We were positioned for this outcome before the Trump election, and are maintaining this stance for now.

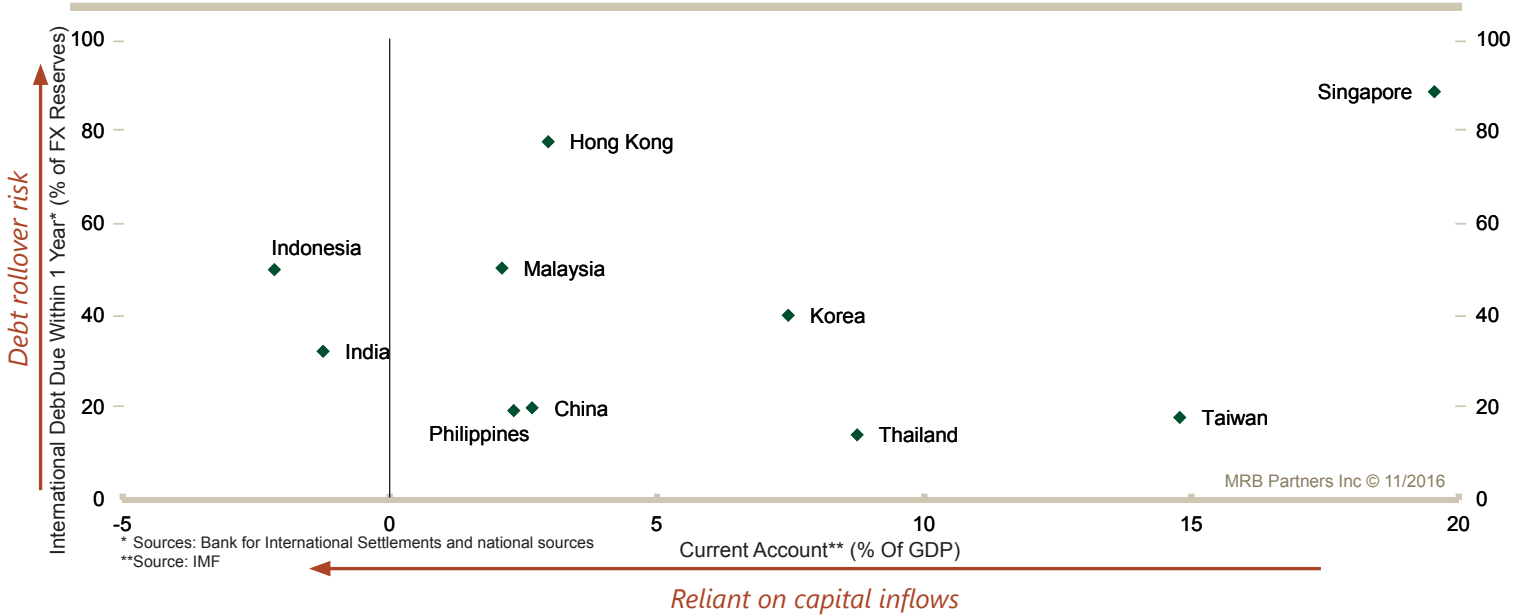
However, this simple scenario analysis makes it clear that the risks to earnings for Asia Ex-Japan equities are expected to come from the trade channel. Thus, in either of the downside scenarios, we would recommend hiding in an “anti-globalization” portfolio to the extent that such a thing can exist within a region that has historically been so geared to global trade.

The risks to Asia primarily come from the trade channel

Following the logic laid out in last week’s **MRB Emerging Markets Equity Report<sup>3</sup>**, **chart 3** shows the region’s relative exposure to de-globalization. The vertical axis shows defensives and financials as a share of total market capitalization. Earnings in these sectors tend to be domestically derived, so countries with higher weightings would be expected to have less international exposure than more cyclically-skewed markets.

<sup>3</sup> **MRB Emerging Markets Equity Report<sup>3</sup>**, November 15, 2016

Chart 4 Relative Exposure To Reversal Of Capital Flows



Likewise, the horizontal axis displays exports as a share of GDP. Those economies with lower export share would likely have less to lose from de-globalization.

This screening system suggests that China, India, Indonesia and the Philippines are the most insulated from a “de-globalization” of trade within an Asia Ex-Japan equity portfolio. However, there are other factors to consider. Most importantly, EM assets still largely trade on the presumption that U.S. dollar strength is negative for EM valuations, as it raises the risk of portfolio outflows and potentially currency crisis. **Chart 4** shows the relative exposure to this risk factor.

Within the region, Indonesia and India run current account deficits, but only Indonesia’s is not fully financed by stable foreign direct investment flows. This means that the rupiah is the most exposed Asian currency to a reduction in global capital flows, though Indonesia’s current account deficit is relatively small compared those that preceded EM currency crises in the past, and it has come in significantly since 2013. Thus, the knee-jerk sell off in the “taper tantrum” currencies over the past few weeks is overdone, especially in the case of the rupee and the rupiah.

Similarly, Indonesia, Hong Kong, Malaysia and Singapore are relatively reliant on international investors rolling over their debt holdings, though none would screen as worrisome in comparison to previous EM debt crises. Typically, problems occur when reserves are a fraction of short-term obligations, not the other way around. Moreover, while Hong Kong and Singapore’s banks have elevated short-term international debt liabilities, this is more than offset by their international assets.

In summary, dollar strength and/or a reversal of global capital flows is highly unlikely to result in an EM-style currency or debt crisis in Asia, but Indonesia and Malaysia have relatively elevated risks within an Asian context.

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China, India and the Philippines are the most insulated markets in the region

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Combing both screens, China, India and the Philippines appear to be the most insulated markets from the threat of de-globalization in Asia. This risk factor partly motivates our overweight positions on China and India, but domestic political risks lead us to prefer Indonesia over the Philippines. Indonesia is implementing structural reforms that should boost potential growth and reduce the imbalances that leave its economy somewhat exposed to global risks<sup>4</sup>. We doubt that Duterte will continue a similar trajectory in the Philippines, and its banks are priced for perfection.

**Final Word:** *Trump's election poses a risk to Asia Ex-Japan equities, but it is far from clear that U.S. tariffs will undermine the region's export-led growth model, as the market currently seems to assume. In fact, domestic stimulus in the U.S. without new trade restrictions would provide relative upside risk for regional equities. For now, we recommend maintaining an overweight position on Asia Ex-Japan.*

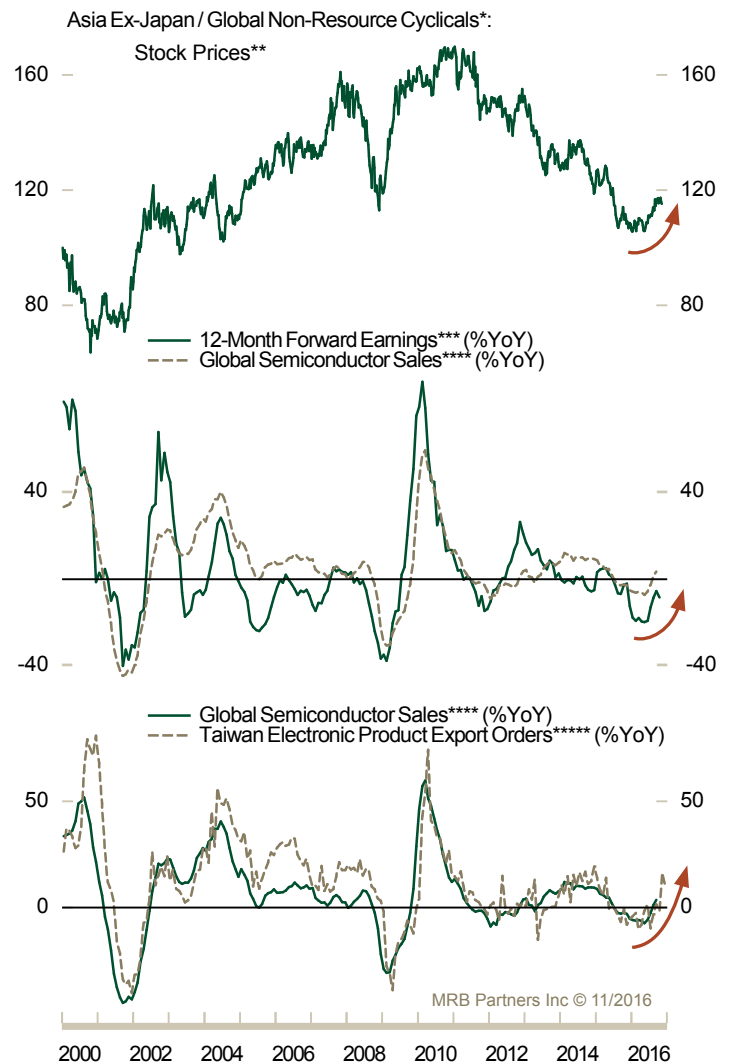
### Regional Sector Positioning

We look at four broad groups of sectors or cohorts (in declining order of importance for the region): non-resource cyclicals, financials, defensives and resources<sup>5</sup>. We generate a matrix for the region, with four columns showing the broad sector groups and ten rows being all of the countries in the Asia Ex-Japan MSCI Index. Each cell includes scores for growth, valuation and policy (see Appendix 1 on page 23). This, in turn, drives our overall view on the region's equities relative to the global benchmark.

#### Non-Resource Cyclicals (Overweight)

Global semiconductor sales are picking up and export volumes should follow over the next few months, at least in the absence of a dramatic policy change in the U.S. This should deliver relatively strong earnings growth for Asia Ex-Japan non-resource cyclicals,

Chart 5 Semis Blaze The Path For Recovery



\* Includes consumer discretionary, industrials and information technology  
 \*\* U.S. dollars; rebased; source: MSCI  
 \*\*\* U.S. dollars; source: Thomson Financial / IBES  
 \*\*\*\* Smoothed; source: Semiconductor Industry Association  
 \*\*\*\*\* Advanced; source: Taiwan Ministry of Economic Affairs

Non-resource cyclicals earnings are rebounding

<sup>4</sup> MRB Theme Report, "Are India And Indonesia The Next China?", June 23, 2016

<sup>5</sup> Non-resource cyclicals include consumer discretionary, industrials and information technology sectors. Financials include financials and real estate. Defensives include consumer staples, health care, telecom services and utilities sectors. Resources include energy and materials sectors.

which are dominated by information technology (**chart 5**). Note that the further inclusion of ADRs in the China MSCI index in June has resulted in a contraction in earnings per-share in the country's consumer discretionary sector<sup>6</sup>. This calculation problem means that the contraction in relative earnings has been overstated this year.

Relative valuations for non-resource cyclicals at the regional aggregate level are not particularly compelling, but should not prove to be a hindrance to outperformance over the next 6-12 months. The sector trades at a 10% discount to global non-resource cyclicals on a 12-month forward P/E ratio basis, but Asia Ex-Japan's ROE is about 20% lower. The regional sector's ROE is cyclically depressed, and will improve if global export demand picks up, which we expect. Relative to the regional benchmark, non-resource cyclicals trade at about a 10% premium on a 12-month forward P/E ratio basis and offer a similarly higher ROE.

Korea and Taiwan non-resource cyclicals have the most leverage to the global semiconductor sales cycle, and valuations are attractive in both markets<sup>7</sup>. We are maintaining our overweight positions on both, primarily because of tech-specific factors, rather than in the expectation of a robust overall trade cycle. Indian non-resource cyclicals are also heavily exposed to global demand, but because software & services dominate the sector their earnings tend to be more stable. Accordingly, we are maintaining an overweight on non-resource cyclicals in India as well.

In contrast, non-resource cyclical earnings in China tend to be domestically derived. Although we expect China's housing market to roll over sometime in the next six months or so, which will likely lead to a broader economic slowdown, it should not have a material impact on household balance sheets. Private consumption has proven resilient in the previous three housing market downturns, and there is little reason to believe this time will be different. Thus, the cyclical risks to earnings are muted, and the structural tailwinds from economic rebalancing and the expanding role of Internet services in the economy motivate an overweight position on Chinese non-resource cyclicals.

We recommend underweight positions on Malaysia and Singapore within non-resource cyclicals. This represents a downgrade for Singapore. Non-resource cyclicals are heavily leveraged to global trade in Singapore, and will likely only outperform on evidence that export volumes are improving. Thus, it should be a later-cycle play than Korea or Taiwan. Moreover, we are upgrading Singapore's financial sector to overweight (next section), but do not want a net overweight position to the high-beta country index for now. We

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Favor Korea and Taiwan for their leverage to semiconductor sales

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China's domestic internet plays have strong tailwinds

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<sup>6</sup> See *MRB Asia Ex-Japan Equity Report "Don't Believe Your Lying Eyes"*, March 3, 2016, for a full discussion of the problem.

<sup>7</sup> *MRB Asia Ex-Japan Equity Report, "Asia Ex-Japan Equities: A "Safe Beta" Bet On Rising Exports"*, September 6, 2016



are maintaining an underweight on Malaysia due to its currency risk, as well as the economy's exposure to China's construction sector and resource prices.

**Financials (Neutral)**

Regional credit cycles are unusually out of sync, making it difficult to justify a directional view on the overall financials sector. Instead, country-specific factors guide our allocation recommendations, which net out to an overall neutral view. Note that while MSCI split out real estate as a separate sector earlier this year, we continue to group financials and real estate together for the purposes of this report.

The situation in Chinese financials is particularly complicated. On the one hand, Chinese banks are still cheap, even if the discount to the global sector has narrowed over the past few months on a price-to-book ratio basis (chart 6). Chinese banks had re-rated somewhat, while global banks were de-rating, at least until Trump's victory, but ROE is still about 40% higher for China's banks. However, we are maintaining our view that Chinese bank earnings will remain flat-to-negative as increased provisioning costs offset the profits from relatively rapid credit growth.

Moreover, while a state-owned enterprise (SOE) restructuring plan—were it to be implemented effectively—could potentially break this cycle next year, it would likely only result in re-rating for the largest banks. These banks have simple-to-understand balance sheets. They are funded with household deposits and lend to SOEs. Smaller and medium-sized bank balance sheets are much murkier. "Shares and other investments" now account for 17% of their total assets, following the 2012 crackdown on bundling non-standard assets into off-balance sheet wealth management products (chart 7). That said, we believe these banks are "hiding" non-performing loans as structured investment products so as to lower their capital costs. Even if SOE debts were restructured, the medium-sized banks in the MSCI Index are unlikely to re-rate because they would still be undercapitalized.

The largest deposit-taking banks that have the potential for re-rating account for a bit more than 50% of the market value for Chinese financials (including real estate). However, smaller banks and real estate developers account for about 30% of the sector, and we only see downside risks for both. Thus, our overall position on Chinese financials is neutral, as our high-conviction directional views cancel each other out<sup>8</sup>.

**Chart 6 Chinese Banks De-rated On Credit Risks**

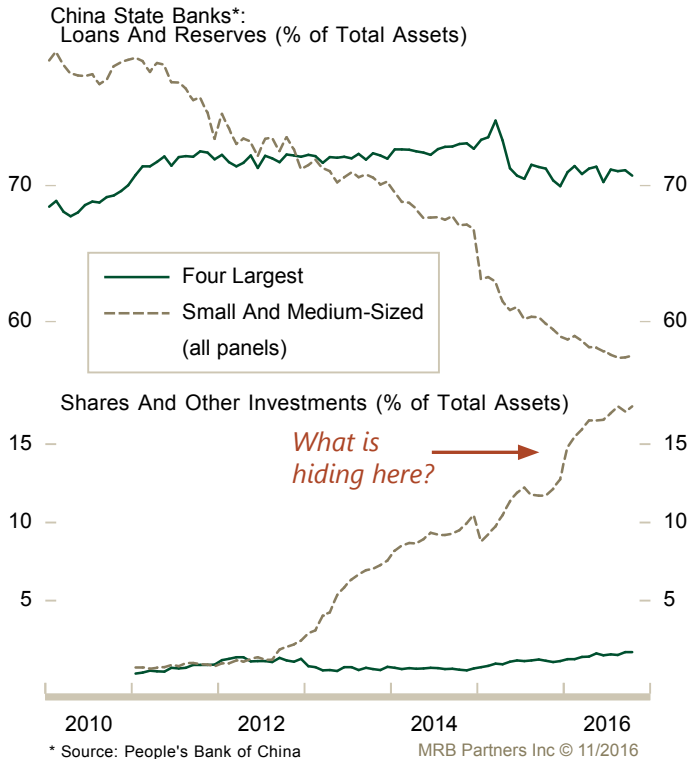


China's large banks can re-rate on SOE reforms. Its smaller banks probably cannot

<sup>8</sup> A bet on SOE restructuring could be expressed by taking a long position on China's largest banks listed in Hong Kong, and offsetting this with a short position on the smaller banks. The expected payoff should come in the first half of next year, as such a restructuring plan would most likely be announced at the National People's Congress in March.



Chart 7 Not-So-Hidden Risks In China's Smaller Banks

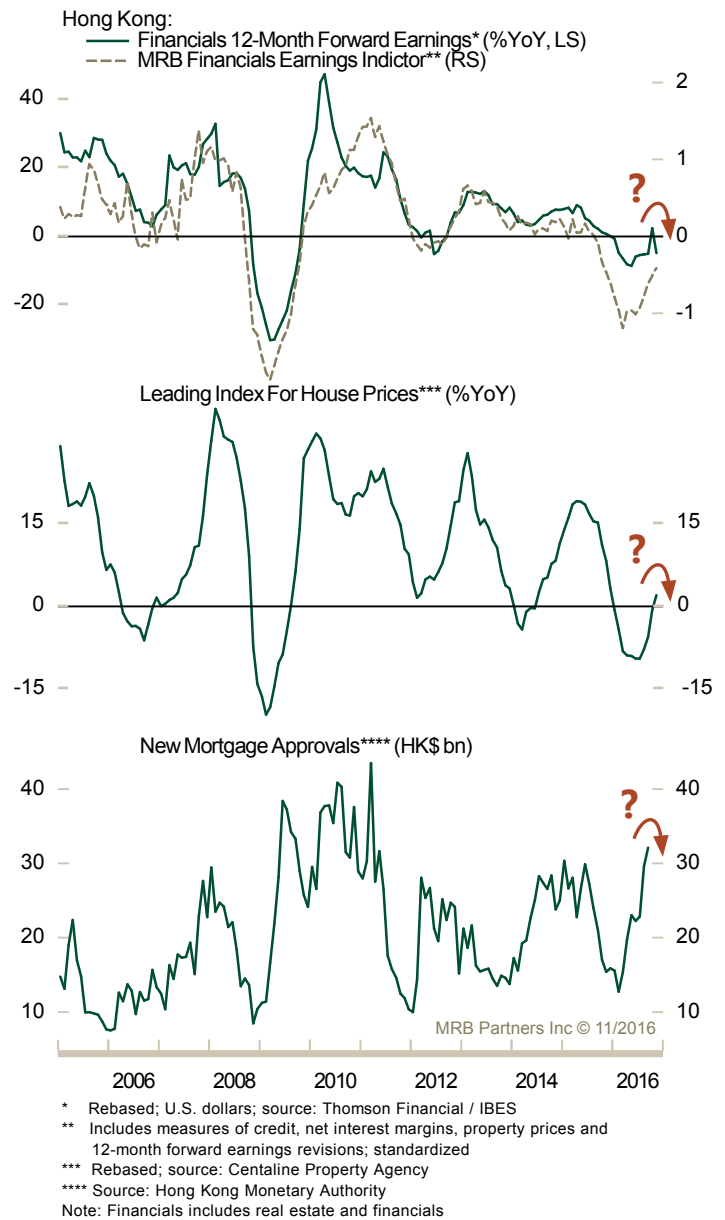


Our view on Hong Kong is much simpler, as real estate developers dominate the sector. Hong Kong property prices have recovered this year on the back of falling interest rates, but now all signs point to a bust. Higher U.S. Treasury yields and the newly increased stamp duty are likely to lead to a resumption of property price deflation in Hong Kong (chart 8). We recommend cutting exposure to underweight within a regional portfolio.

We also recommend underweight positions on financials in the Philippines and Malaysia. The former is largely motivated by extremely rich valuations, which no longer seemed justified given the increased political risks under President Duterte. Malaysian financials have exposure to China's construction sector and resources, both of which are likely to create asset quality problems over the next 6-12 months for the banks.

We recommend relative overweight positions in Korea, India, Indonesia and Singapore. Korean financials are relatively cheap, and the nascent rebound in global manufacturing activity bodes well for earnings growth over the next 12 months, assuming Trump does not move to renegotiate the U.S.-Korea bilateral trade agreement. Indonesian banks

Chart 8 From Rebound To Bust?



Hong Kong property prices are likely to fall once again

should benefit from rising credit volumes and a steeper yield curve as the economy accelerates somewhat and low inflation allows for additional monetary easing.

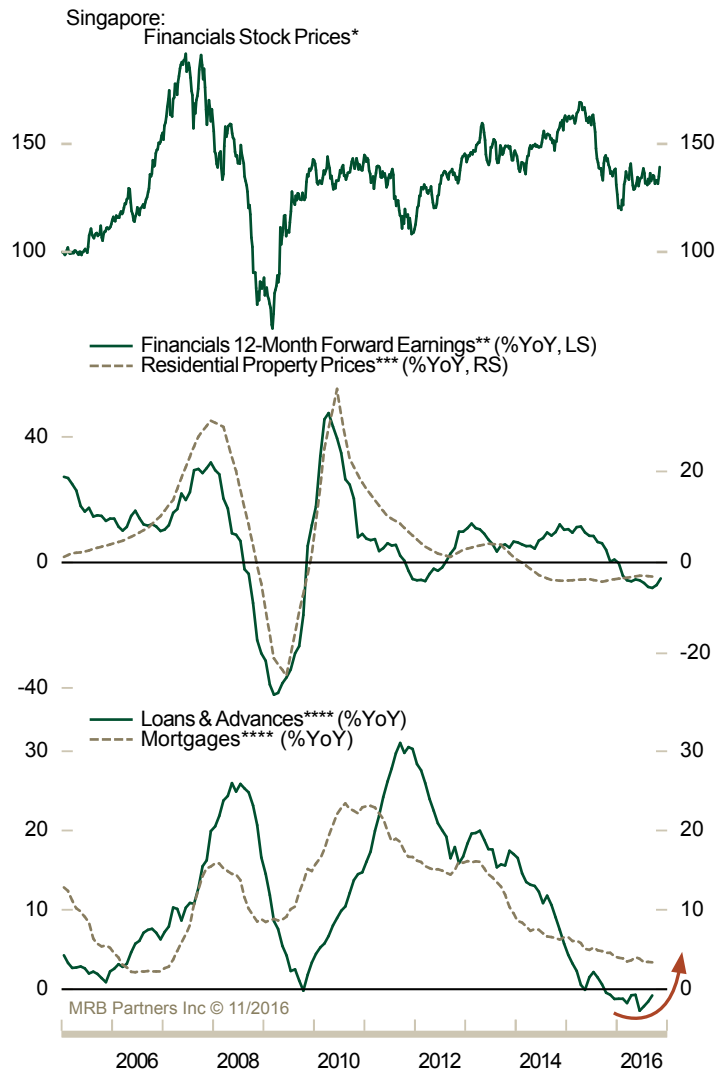
Indian banks are nearing the end of the regulatory asset quality review process, which should be concluded in Q1 2017. While the recent currency reforms are likely to have a short-term negative impact on growth (due to the sharp contraction in the monetary base), the longer-term benefits for the banking system should become clear over the next year. The withdrawal of large-denominated bills has already flooded the banking system with deposits, which should encourage stronger credit growth going forward. Moreover, monetary easing is likely to steepen the yield curve, and provisioning costs should ease after the asset quality review concludes—both will improve bank margins.

We also recommend upgrading Singapore financials to overweight. Asset quality deterioration appears to have already bottomed out, and a steeper yield curve will help to boost margins. Lending to households has improved, and we expect business lending to rise with global exports (**chart 9**). The biggest risk to this position is commercial real estate, as vacancy rates are elevated and new supply will continue to come on to the market over the next year. However, this headwind seems to be priced in given that Singapore financials are trading at a price-to-book ratio only slightly above their 2009 nadir.

**Defensives (Neutral)**

Defensive earnings are less sensitive than the broader market to changes in economic growth, meaning they lag during economic expansion phases and lead during recession or slowdown phases. Should it become clear that the Trump era will be one of forced de-globalization, we would recommend overweighting defensives within a regional portfolio. However, for now, we prefer to maintain a neutral position, with overweights in those markets with the strongest domestic growth potential being offset by underweights where we expect growth to lag.

**Chart 9 Singapore Lending Will Rebound With Trade**



\* Rebased: local currency; source: MSCI  
 \*\* Local currency; source: Thomson Financial / IBES  
 \*\*\* Source: Singapore Urban Redevelopment Authority  
 \*\*\*\* Source: Monetary Authority of Singapore  
 Note: Financials includes real estate and financials

Valuations relative to global defensives are somewhat rich, though they are neutral compared to the Asia Ex-Japan benchmark. Asia Ex-Japan defensives trade in line with the global cohort on a 12-month forward P/E ratio basis, but offer about a 10% discount in ROE (**chart 10**). However, relative ROE is rising, as the region's earnings have been cyclically depressed. The sector trades at about a 25% premium on a 12-month forward P/E ratio basis compared to the regional benchmark, and offers a similar premium in terms of ROE.

We recommend overweight positions in India and Indonesia defensives, as domestic growth in these markets is in a structural uptrend that is unlikely to be derailed by global events. Valuations in these markets are challenging, but should only become problematic if their governments backpeddle on structural reforms. These positions should be offset by underweights in Hong Kong, Malaysia and Thailand, where growth is likely to be in structural decline.

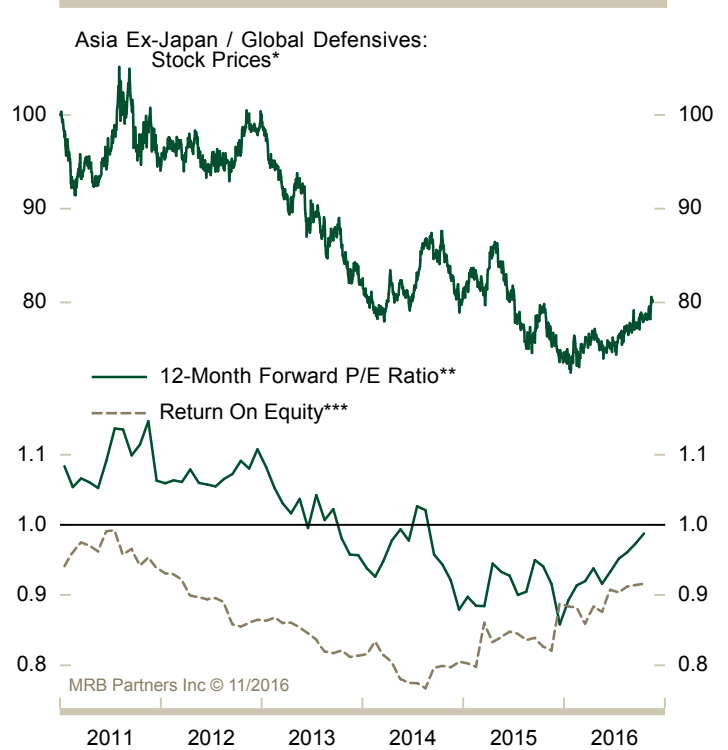
**Resources (Underweight)**

Earnings for this sector are largely a function of global commodity prices (**chart 11**). Although there are near-term tailwinds for commodity prices from the construction boom in China and the market's assumption that U.S. investment in infrastructure will accelerate, both factors are likely to disappoint over the next 12 months. We recommend staying underweight.

Relative valuations are mixed. Compared to global resources, Asia looks cheap. The regional sector trades at about a 30% discount to global resources on a 12-month forward P/E ratio basis, but offers a 70% higher ROE. This is largely because ROE in Asia Ex-Japan did not collapse like the global sector earlier this year. However, compared to the Asia Ex-Japan benchmark, resources trade at a similar 12-month forward P/E ratio, but offer a 45% lower ROE.

All of the regional sectors in Asia are exposed to the same potential shock, and thus we hold this sector at an underweight position throughout the region.

**Chart 10 Defensives Aren't As Cheap As They Used To Be**



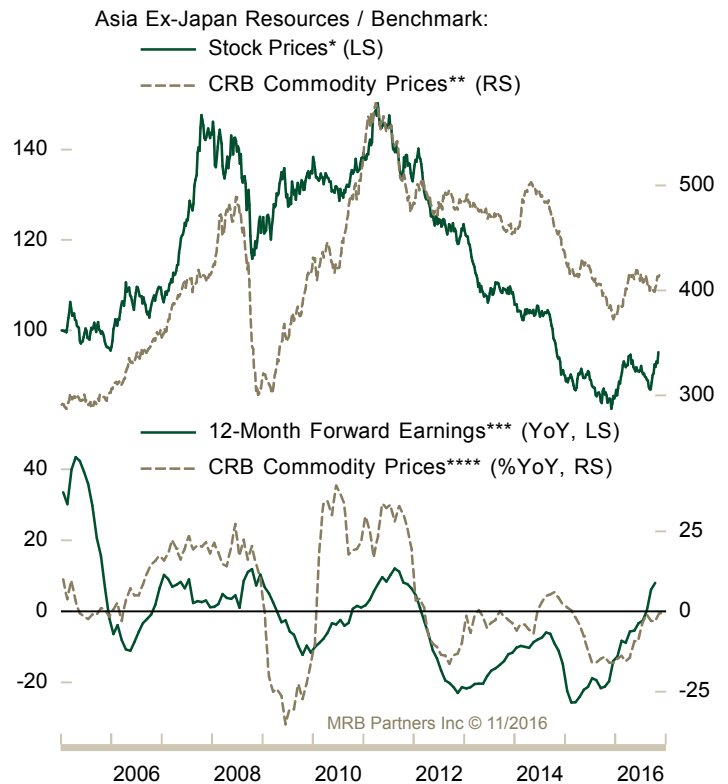
\* Rebased; U.S. dollars; source: MSCI  
 \*\* Source: Thomson Financial / IBES  
 \*\*\* Source: MSCI

India and Indonesian defensives offer the best earnings prospects

**Final Word:** For now, we recommend maintaining an overweight position in the non-resource cyclicals sectors, especially those most heavily leveraged to the global semiconductor sales cycle. Trump’s election poses a risk to global exports, but the market has been too quick to price in de-globalization, and the positive fundamentals for information technology remain in place. Financials should be held at a neutral position overall, as regional credit cycles are currently diverging. We likewise recommend staying neutral on defensives, but would look to upgrade the sector if Trump does take actions that will negatively impact global trade. We recommend staying underweight the resource sectors, as China’s construction boom is likely to fizzle in the next 6-12 months and it’s still doubtful that the Trump infrastructure boom will fully materialize.

**Adam Wolfe**

**Chart 11 Resource Rebound Has Peaked**



\* Rebased; source: MSCI  
 \*\* Source: Commodity Research Bureau  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Advanced; source: Commodity Research Bureau

# China: *Neutral*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Policy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Overall	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Share Of Market Capitalization</b>	<b>49.1</b>			<b>27.1</b>			<b>15.9</b>			<b>7.9</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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China has slightly outperformed the regional benchmark since September. We expect strong earnings growth in non-resource cyclicals to drive continued outperformance.

**Growth:** Relative earnings look terrible because ADR inclusion artificially reduced earnings per-share in consumer distortionary. Netting this out, non-resource cyclicals continue to post strong growth. Bank earnings are likely to remain flat as rising provision costs and falling net-interest margins offset strong credit volumes. The expected downturn in the property market will be a problem for non-consumer-facing sectors.

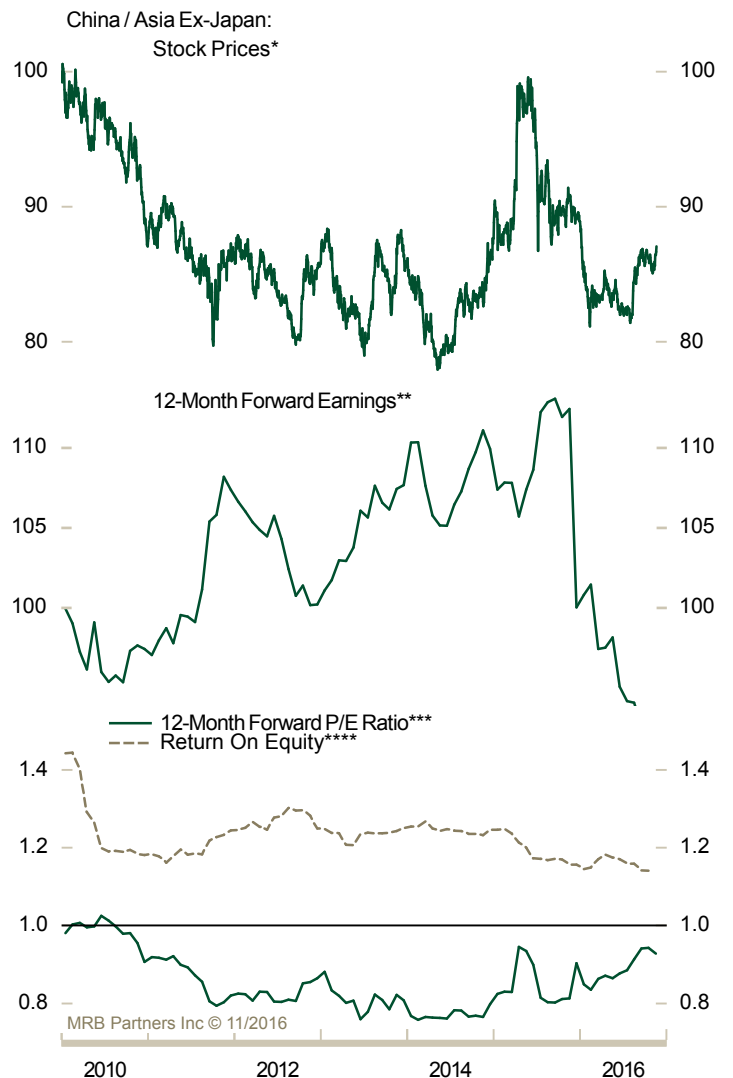
**Valuation:** Financials’ relative valuations are still attractive, and SOE reforms would likely prompt re-rating for the largest banks. China’s Internet companies look expensive compared to the regional IT benchmark, but are extremely cheap compared to their U.S. counterparts. Valuation should not be a hindrance to relative performance.

**Policy:** Macroprudential measures are starting to impact on housing demand in larger cities, while the impulse from government infrastructure projects is starting to wane. Capital outflows are weighing on the monetary base, but the PBoC is offsetting this with open-market operations.

**Technicals:** Neutral

**Overall:** Stay overweight China, with the position concentrated in non-resource cyclicals that are tied to domestic consumption. Partially offset this with an underweight on the resource sectors.

## Still Cheap And Growth Is Okay



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# Hong Kong: *Underweight*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources			
	-	N	+	-	N	+	-	N	+	-	N	+	
Growth	□	□	■	□	■	□	□	■	□	□	□	□	n/a
Valuation	□	■	□	□	■	□	□	■	□	□	□	□	n/a
Policy	□	□	■	□	■	□	□	■	□	□	□	□	n/a
Overall	□	□	■	□	■	□	□	■	□	□	□	□	n/a
<b>Share Of Market Capitalization</b>	<b>33.6</b>			<b>45.3</b>			<b>20.5</b>			<b>0</b>			

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Hong Kong equities have narrowly outperformed the regional benchmark since September, largely due to non-resource cyclicals. Tighter macroprudential measures and higher interest rates will weigh on financials going forward.

**Growth:** The imposition of a 15% stamp duty on property transactions alongside higher long-term interest rates is likely to lead to property price deflation and lower transaction volumes. This will weigh on property developer earnings, which dominate financials.

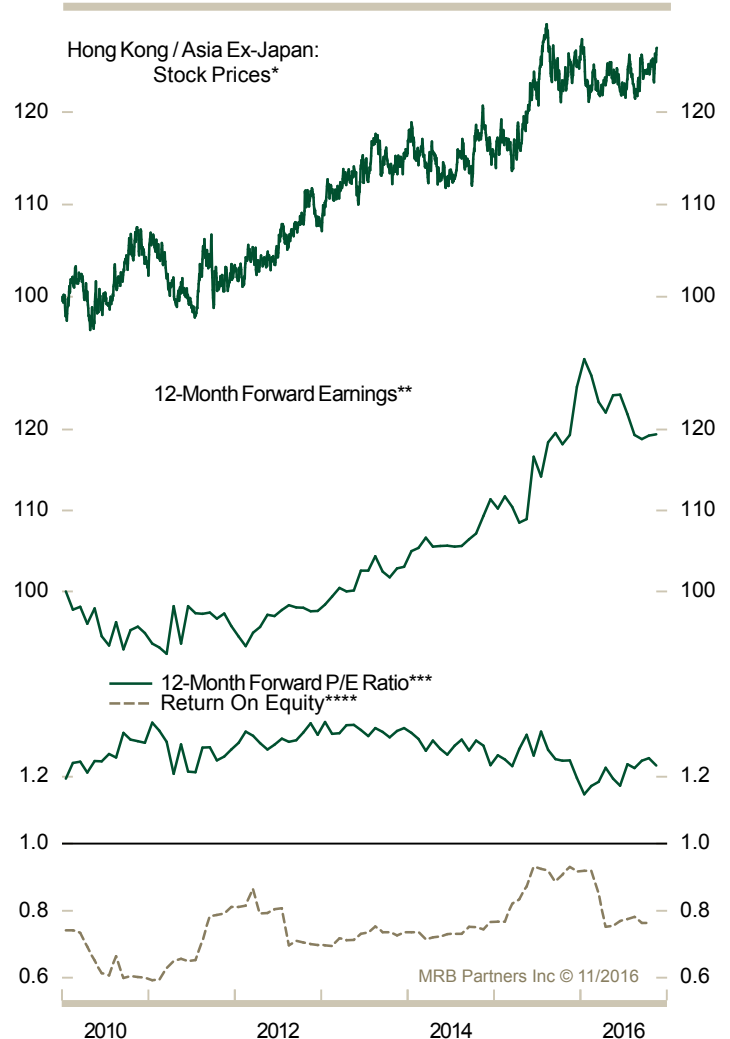
**Valuation:** Property developers appear to be relatively cheap on a price-to-book ratio basis, at least relative to their own history. However, we expect their book values to decline along with property prices over the next year. Defensives trade at a 10% premium on a 12-month forward P/E ratio basis, but offer a 25% lower ROE.

**Policy:** Hong Kong will import tighter monetary policy from the Fed, while macroprudential measures should have a negative impact on property transactions. Policy is likely to tighten much faster than the rest of the region.

**Technicals:** Hong Kong is slightly overbought on a relative basis.

**Overall:** Downgrade financials to underweight, as falling property prices will weigh on developers. Defensives should also be held at an underweight due to rich valuations.

## Housing Will Drag Down Stocks



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# India: *Overweight*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	□	□	■	□	□	■	□	□	■	□	■	□
Valuation	□	□	■	□	□	■	□	□	■	□	■	□
Policy	□	□	■	□	■	□	□	■	□	□	■	□
Overall	□	□	■	□	□	■	□	□	■	□	■	□
<b>Share Of Market Capitalization</b>	<b>37.2</b>			<b>21.4</b>			<b>24.9</b>			<b>16.5</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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India significantly underperformed in the immediate aftermath of Trump’s election, which sparked fears of a “taper tantrum” repeat. These concerns are misplaced, as India’s national balance sheet is much healthier than in 2013.

**Growth:** Recent currency reforms are likely to have a short-term negative impact on growth (due to the sharp contraction in the monetary base), but the longer-term benefits for the banking system should become clear over the next year. Software & services should boost the relative earnings of India’s non-resource cyclicals. Defensives should deliver relatively strong earnings due to higher potential GDP growth in India.

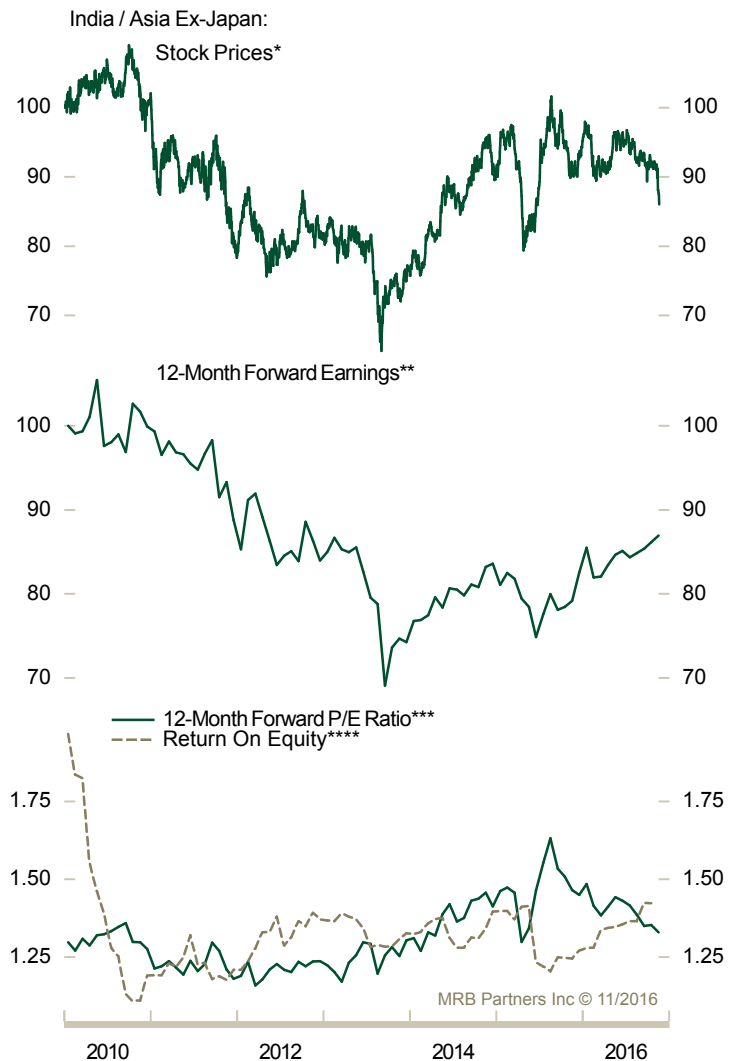
**Valuation:** India is relatively expensive, but this is largely offset by a higher ROE.

**Policy:** While there have been problems with the implementation of the currency reforms, it has already boosted the deposit base of the commercial banking system. We expect additional monetary easing, which should also boost credit growth. It is possible for the Goods and Services Tax to be implemented as early as April 2017. This would have a positive, transformative impact on domestic productivity.

**Technicals:** India is relatively oversold, which may provide some near-term support.

**Overall:** An overweight position on all non-resource sectors is justified by domestic structural reforms.

## Follow Earnings, Not Trump Worries



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI



# Indonesia: *Overweight*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Policy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Overall	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Share Of Market Capitalization</b>	<b>19.7</b>			<b>34.9</b>			<b>37.4</b>			<b>8.0</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Indonesia had been the best performing index in Asia, but it sold off sharply in the wake of Trump’s victory, along with the other “taper tantrum” countries. This knee-jerk reaction is overdone, as Indonesia’s fundamentals have improved and earnings growth remains solid.

**Growth:** Domestic economic momentum is accelerating on the back of improved consumer confidence and policy support. Corporate borrowing continues to be weak, but BI survey data suggest that credit access is improving, which should bolster private sector investment over the next 12 months. Moreover, policy easing has resulted in some yield curve steepening, which should encourage banks to lend.

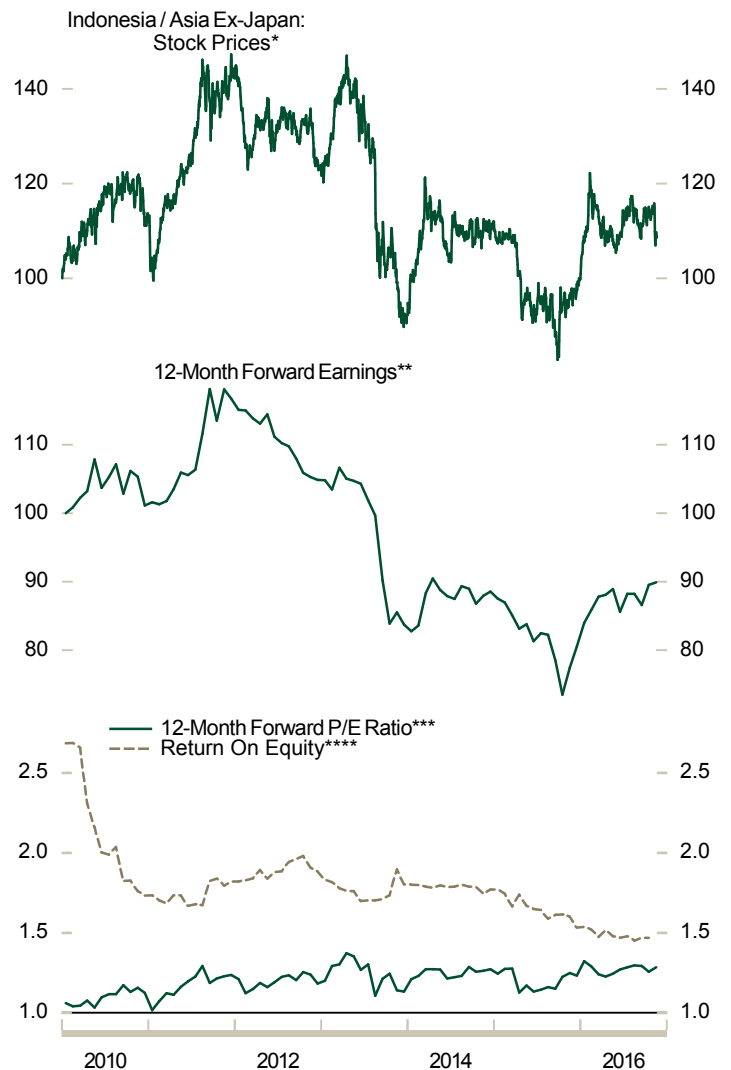
**Policy:** There is plenty of room for the BI to ease policy rates further, with headline and core inflation hovering at the bottom of the target range and credit growth relatively moribund. Deregulation helped Indonesia jump 15 spots in the World Bank’s Ease of Doing Business rankings this year, and further efforts are underway.

**Valuation:** Relative valuations are rich compared to their own history, but Indonesia still offers a premium ROE that can compensate for its higher 12-month forward P/E ratio.

**Technicals:** Slightly oversold conditions should provide some near-term support.

**Overall:** Stay overweight, concentrated in defensives and financials.

## Recovery Continues, Ignore Trump Risks



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# Korea: Overweight

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Policy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Overall	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Share Of Market Capitalization</b>	<b>63.1</b>			<b>13.6</b>			<b>13.4</b>			<b>9.9</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Despite some high-profile issues with its largest constituent, Korea has only narrowly lagged the regional benchmark since September. Stronger semiconductor sales should drive outperformance going forward.

**Growth:** Improving external demand, particularly for information technology, should deliver relatively strong earnings growth over the next 12 months. Semiconductor sales are starting to rebound, and the leading indicators point to further gains. Financial earnings should also improve on stronger credit demand and a slightly steeper yield curve. That said, Korea’s trade agreement with the U.S. is one of the most vulnerable to the whims of President-elect Trump.

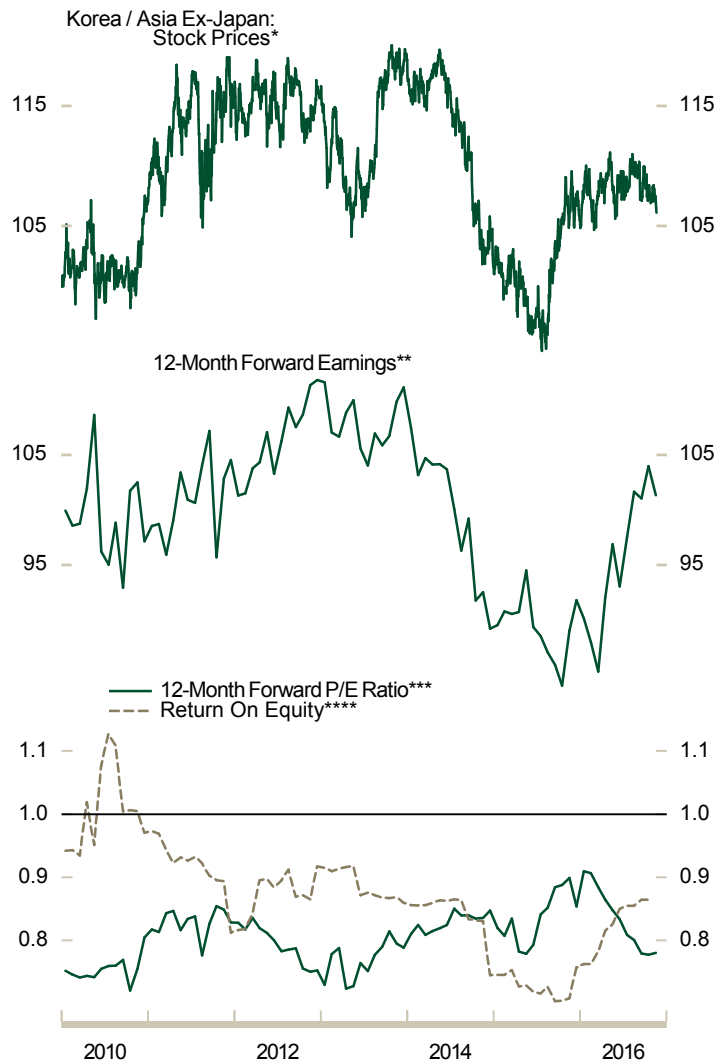
**Policy:** The BoK is likely done easing for now, though it will be in no hurry to hike interest rates. President Park’s precarious political situation will impede any fiscal policy support in the near term, but the supplementary budget that kicked in at the end of Q3 will ensure a positive fiscal thrust.

**Valuation:** Korea trades at a relatively large discount to the regional benchmark on a 12-months forward P/E ratio basis, while its relative ROE is rising. Valuations are attractive.

**Technicals:** Neutral

**Overall:** Stay overweight Korean non-resource cyclicals and financials. Both will benefit from stronger global exports.

## Earnings Rebounding On Tech Sales



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI  
 MRB Partners Inc © 11/2016

# Malaysia: *Underweight*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Policy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Share Of Market Capitalization</b>	<b>25.5</b>			<b>29.1</b>			<b>38.3</b>			<b>7.1</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Malaysia has lagged the regional benchmark since September, dragged down by the ringgit and financials. Heavy economic exposure to China’s construction boom and commodities calls for an underweight position.

**Growth:** Relative earnings have underperformed since the rebound in oil prices topped out earlier this year. This should continue to weigh on relative performance, as we expect oil prices to remain range-bound with downside risks. All sectors have elevated downside risks due to the economic exposure to China and oil, but financials and resources are the most exposed.

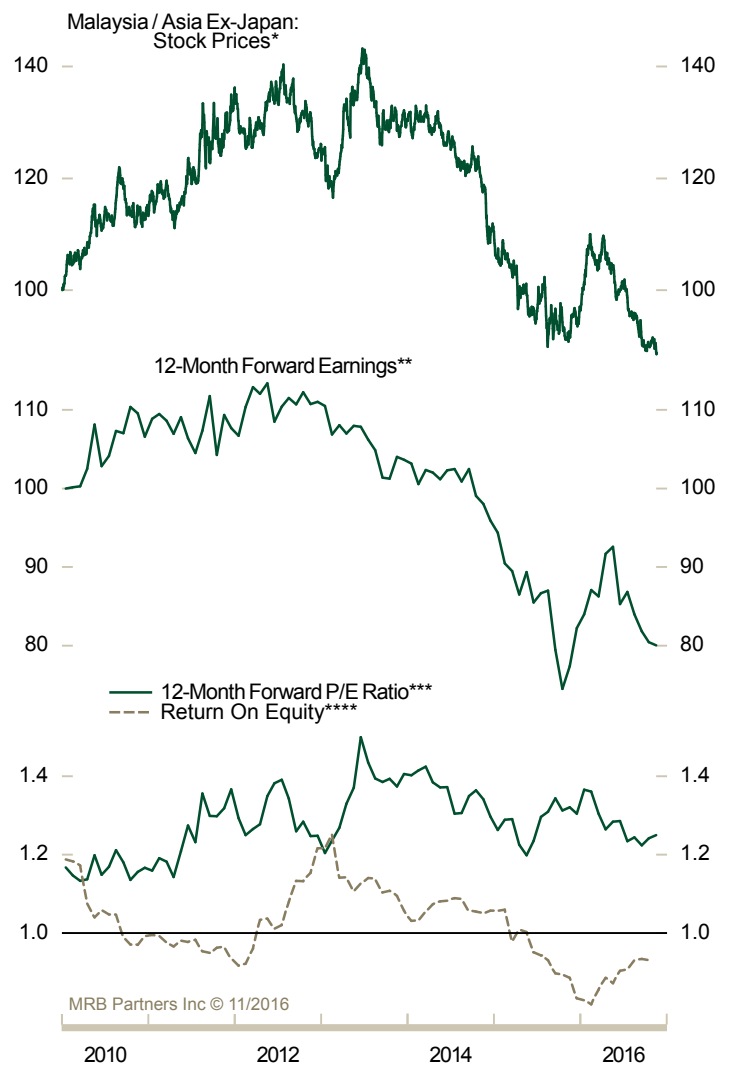
**Policy:** There is room for the BNM to lower interest rates, though the large stock of external debt should dissuade the central bank from cutting rates further, especially if U.S. interest rates continue to rise. The BNM’s efforts to dissuade banks from selling ringgit are only likely to exacerbate the problem.

**Valuation:** Malaysia is expensive across the board. Every sector trades at a premium on a 12-month forward P/E ratio basis, while offering a discount in terms of ROE.

**Technical:** Neutral.

**Overall:** Avoid exposure to Malaysia due to its economic vulnerabilities, weak growth prospects and expensive valuations. All sectors should be held at an underweight.

## The Dead Cat Has Already Bounced



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# Philippines: *Underweight*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	□	■	□	□	■	□	□	■	□	n/a		
Valuation	□	□	■	□	■	□	□	■	□	n/a		
Policy	□	■	□	■	□	□	□	■	□	n/a		
Overall	□	□	■	□	■	□	□	■	□	n/a		
<b>Share Of Market Capitalization</b>	<b>38.0</b>			<b>37.3</b>			<b>24.7</b>			<b>0</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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The Philippines has been the worst performing index in the region since September, as Duterte’s policies have weighed on foreign sentiment.

**Growth:** Economic growth is holding up well, and President Duterte has mostly delegated to technocratic ministers on economic affairs. Additionally, currency depreciation will increase the purchasing power of remittances. Nevertheless, earnings estimates are being scaled back, especially in non-resource cyclicals and defensives. We see little fundamental reason for this to continue.

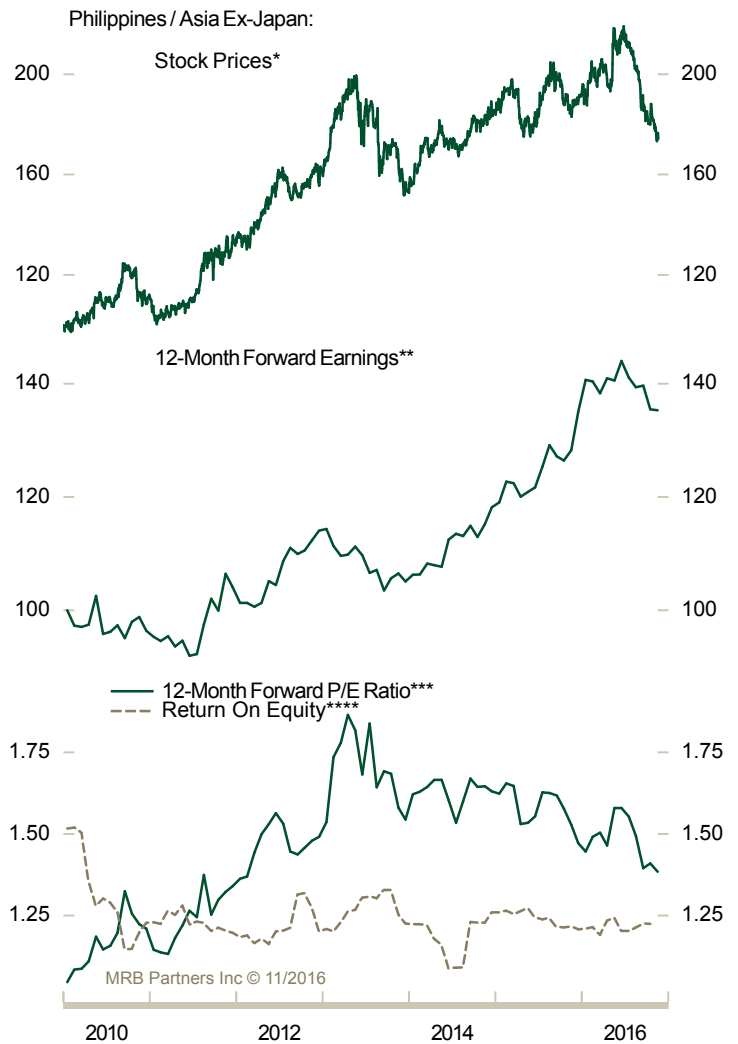
**Policy:** The BSP is likely to remain on hold through much of 2016, even as inflation hovers just below the target range. The new interest-rate corridor framework should improve monetary transmission, and the central bank remains committed to strengthening commercial bank balance sheets. However, global investors are more likely to pay attention to the colorful president than the staid central bank.

**Valuation:** Philippine stocks are expensive, especially non-resource cyclicals and financials. This will remain problematic as investors’ long-term growth expectations are pared back due to the populist president.

**Technicals:** Oversold conditions may provide some near-term support.

**Overall:** Stay underweight the Philippines. Financials should be avoided due to their extreme valuations and potential for de-rating.

## In With Duterte, Out With Good Fortune



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# Singapore: *Neutral*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	□	■	□	□	■	□	□	■	□	n/a		
Valuation	□	□	■	□	■	□	□	■	□	n/a		
Policy	□	□	■	□	□	■	□	□	■	n/a		
Overall	□	■	□	□	□	■	□	■	□	n/a		
<b>Share Of Market Capitalization</b>	<b>27.7</b>			<b>47.2</b>			<b>24.8</b>			<b>0</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Singapore has narrowly outperformed the regional benchmark since September. This was entirely due to re-rating of financials in the aftermath of Trump’s election victory, which pushed up domestic interest rates.

**Growth:** Singapore’s non-resource cyclicals are reliant on global trade picking up for earnings growth. We expect this to happen over the next 12 months, barring the imposition of protectionist policies in the U.S., but better opportunities can be found elsewhere. Banks’ asset quality deterioration appears to have bottomed out, and a steeper yield curve should boost margins.

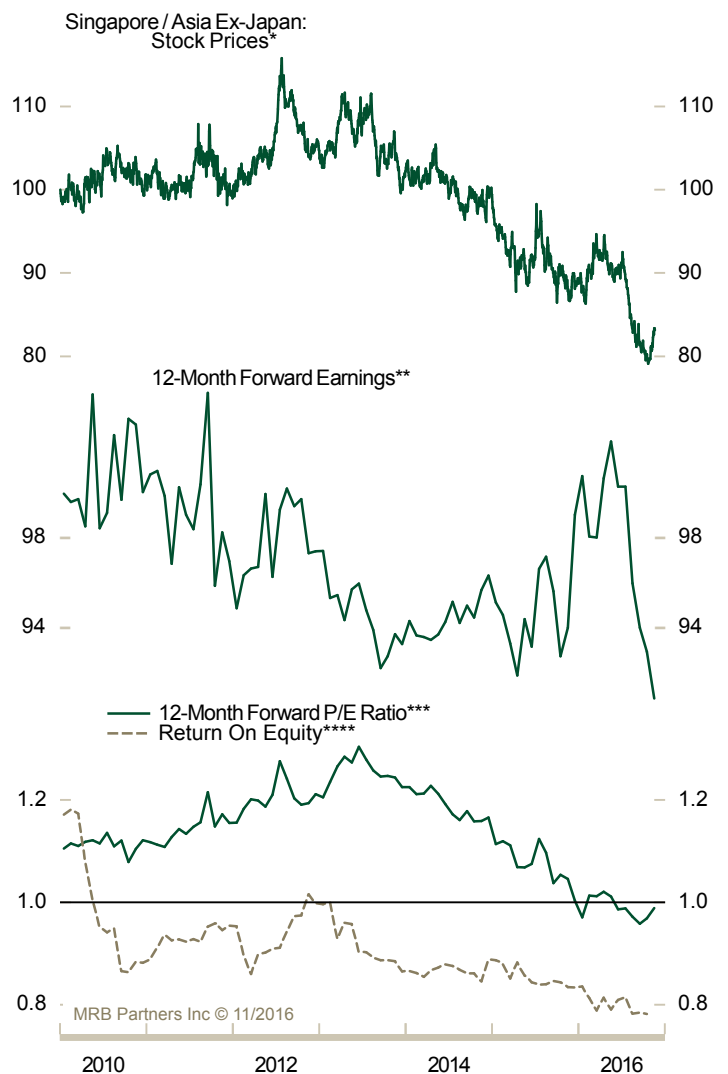
**Policy:** Domestic interest rates will follow U.S. rates upward, even as the MAS targets a flat trade-weighted SGD. This should not prove to be restrictive, as financial conditions should only tighten gradually.

**Valuation:** Relative pricing is mixed. Compared to its own history, Singapore looks cheap. However, only financials offer compelling valuations. The broad equity market trades in line with the regional benchmark on a 12-month forward P/E ratio basis, but offers a 20% lower ROE.

**Technicals:** Oversold conditions have unwound in recent weeks.

**Overall:** Offset an overweight in financials with an underweight position on non-resource cyclicals to avoid taking too much exposure on this high-beta market until there is more clarity on the global trade cycle.

## Financials Will Lead Recovery



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# Taiwan: Overweight

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	□	□	■	□	□	■	□	□	■	□	■	□
Valuation	□	□	■	□	□	■	□	□	■	□	■	□
Policy	□	□	■	□	□	■	□	■	□	□	■	□
Overall	□	□	■	□	□	■	□	■	□	□	■	□
<b>Share Of Market Capitalization</b>	<b>67.0</b>			<b>15.4</b>			<b>7.6</b>			<b>10.0</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Taiwan has been the best performing market in the region since September. We expect this to continue as stronger semiconductor sales boost relative earnings.

**Growth:** Taiwan’s heavy weighting in information technology should benefit from rising global semiconductor sales over the next 12 months. Export orders of electronic products and the manufacturing PMI point to stronger demand in the near-term. This will have positive spillover effects for domestic-facing sectors. Financials’ earnings should also benefit from rising property prices and improved credit demand.

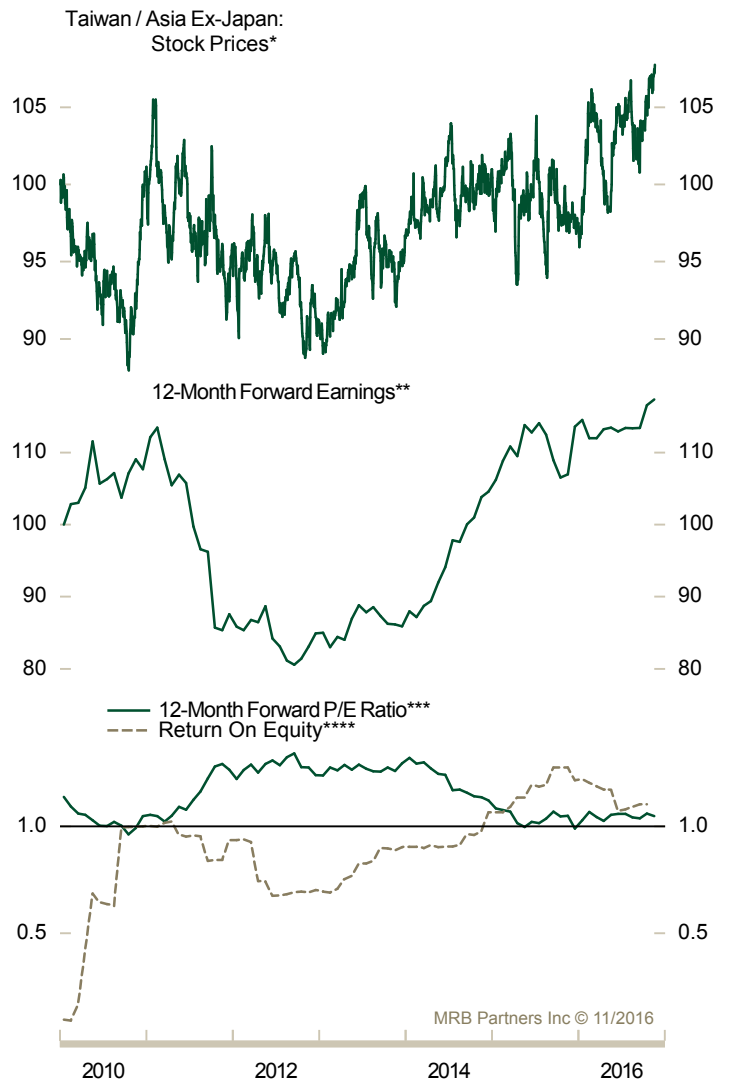
**Policy:** There is little scope for further monetary easing, and fiscal policy looks set to be overly timid according to the 2017 budget. However, Taiwan’s inability to sign bilateral trade agreements does protect it somewhat from the risk of an inward turn in the U.S. during the Trump administration.

**Valuation:** Taiwanese stocks are cheap relative to their own history and are fairly valued compared to the regional benchmark. However, a rebound in global semiconductor demand would push ROE higher, given Taiwan’s operating leverage and sector profile, which would argue for a premium relative valuation.

**Technicals:** Overbought conditions may provide some near-term headwinds.

**Overall:** The recent upturn in semiconductor sales argues for maintaining an overweight in Taiwan’s non-resource cyclicals.

## Tech Cycle Will Drive Outperformance



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI

# Thailand: *Underweight*

	Non-Resource Cyclicals			Financials And Real Estate			Defensives			Resources		
	-	N	+	-	N	+	-	N	+	-	N	+
Growth	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Policy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Overall	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Share Of Market Capitalization</b>	<b>16.7</b>			<b>23.0</b>			<b>25.3</b>			<b>35.1</b>		

Note: + = positive, N = neutral, - = negative; relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors  
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Thailand has underperformed the regional benchmark since September, dragged down by non-resource cyclicals and financials. We expect its heavy weighting in resources to be problematic over the next 12 months.

**Growth:** Earnings momentum has been improving in most sectors. If global exports gradually improve, this trend should continue. However, earnings in the resource sector are likely to lag as we see little prospect for oil prices to rise on a sustained basis over the next 12 months.

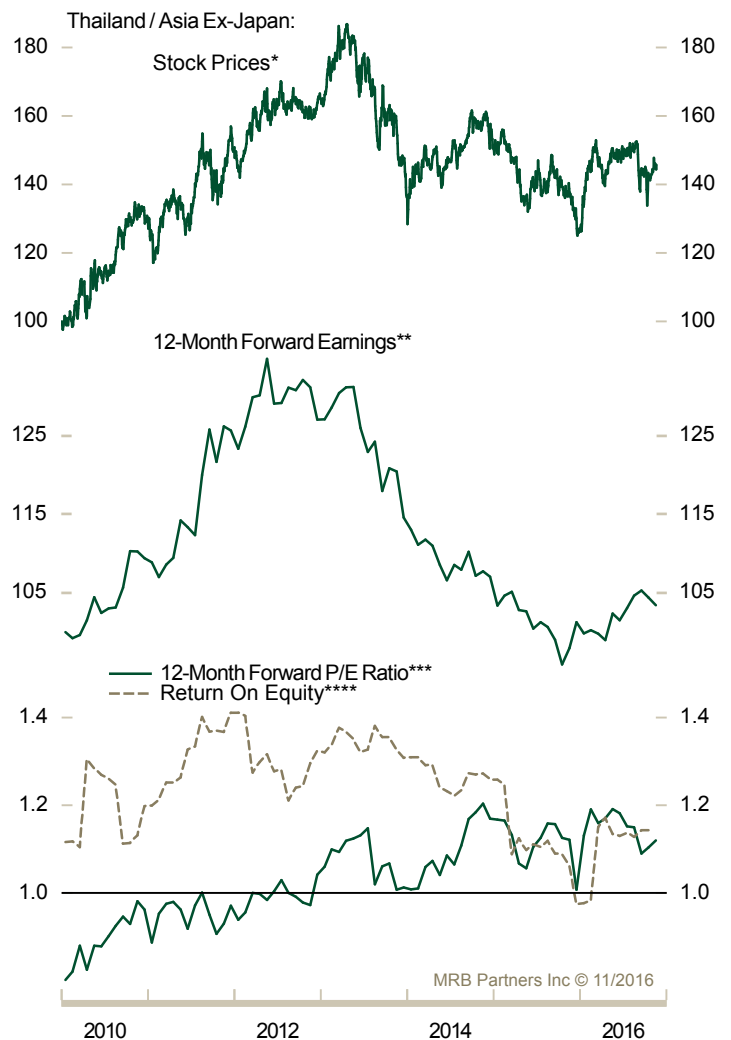
**Policy:** Inflation is subdued, but domestic growth momentum is gradually improving. Moreover, fiscal policy remains supportive. The central bank is likely to stay on hold for the next six months at least.

**Valuation:** Pricing is not compelling, though compared to the regional benchmark rich valuations are offset by a higher ROE. Relative to its own history, Thailand looks expensive in terms of the 12-month forward R/E ratio, while ROE is in line with the historical average. Valuations in the defensive sectors are particularly challenging, as the 12-month forward P/E ratio is more than one standard deviation above its historical mean.

**Technical:** Neutral

**Overall:** Rich valuations in defensives motivate an underweight position. Resources should also be held at an underweight.

## Resources Are Too Big Of A Problem



\* U.S. dollars; rebased; source: MSCI  
 \*\* U.S. dollars; rebased; source: Thomson Financial / IBES  
 \*\*\* Source: Thomson Financial / IBES  
 \*\*\*\* Source: MSCI



## Appendix 1: Asia Ex-Japan Earnings Matrix

	Non-Resource Cyclicals	Financials	Defensives	Resources
<b>Asia Ex-Japan* (Neutral)</b>				
Growth	+	–	N	–
Valuation	N	+	N	N
Policy	N	N	N	–
<b>Overall</b>	<b>+</b>	<b>N</b>	<b>N</b>	<b>–</b>
<b>China (Overweight)</b>				
Growth	+	–	–	–
Valuation	–	+	N	–
Policy	N	N	N	N
<b>Overall</b>	<b>+</b>	<b>N</b>	<b>N</b>	<b>–</b>
<b>Hong Kong (Underweight)</b>				
Growth	N	–	N	n/a
Valuation	N	N	–	n/a
Policy	–	–	–	n/a
<b>Overall</b>	<b>N</b>	<b>–</b>	<b>–</b>	<b>n/a</b>
<b>India (Overweight)</b>				
Growth	+	+	+	–
Valuation	N	–	–	–
Policy	+	+	+	N
<b>Overall</b>	<b>+</b>	<b>+</b>	<b>+</b>	<b>N</b>
<b>Indonesia (Neutral)</b>				
Growth	N	+	+	–
Valuation	–	–	–	N
Policy	+	+	+	N
<b>Overall</b>	<b>N</b>	<b>+</b>	<b>+</b>	<b>–</b>
<b>Korea (Overweight)</b>				
Growth	+	+	N	N
Valuation	+	+	+	–
Policy	N	N	N	N
<b>Overall</b>	<b>+</b>	<b>+</b>	<b>N</b>	<b>–</b>
<b>Malaysia (Underweight)</b>				
Growth	N	–	–	–
Valuation	–	–	–	–
Policy	N	–	–	N
<b>Overall</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Philippines (Underweight)</b>				
Growth	–	N	N	n/a
Valuation	–	–	N	n/a
Policy	N	N	N	n/a
<b>Overall</b>	<b>N</b>	<b>–</b>	<b>N</b>	<b>n/a</b>
<b>Singapore (Underweight)</b>				
Growth	–	N	N	n/a
Valuation	N	+	N	n/a
Policy	N	N	N	n/a
<b>Overall</b>	<b>–</b>	<b>+</b>	<b>N</b>	<b>n/a</b>
<b>Taiwan (Overweight)</b>				
Growth	+	N	+	–
Valuation	+	N	–	N
Policy	N	N	N	–
<b>Overall</b>	<b>+</b>	<b>N</b>	<b>N</b>	<b>–</b>
<b>Thailand (Underweight)</b>				
Growth	+	N	N	–
Valuation	–	N	–	–
Policy	N	N	N	N
<b>Overall</b>	<b>N</b>	<b>N</b>	<b>–</b>	<b>–</b>

\* Relative to global benchmark  
 Note: + = positive, N = neutral, – = negative; countries relative to Asia Ex-Japan benchmark; non-resource cyclicals: consumer discretionary, industrials and information technology sectors; defensives: consumer staples, health care, telecom services and utilities sectors; resources: energy and materials sectors, financials: financials and real estate sectors

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## Appendix 2A: Valuation And Momentum Matrix

Asia Ex-Japan Equities (MSCI Indexes)				
Country/Region	Non-Resource Cyclicals	Financials	Defensives	Resources
<b>Price / Book*</b>				
Asia Ex-Japan	1.6	0.9	2.1	0.9
China	2.7	0.8	1.6	0.7
Hong Kong	1.3	0.9	1.8	NA
India	4.5	2	4.5	1.5
Indonesia	3	2.3	4.4	1.7
Korea	0.9	0.6	1.6	0.7
Malaysia	1.4	1.3	2.3	1.6
Philippines	2.7	2.2	4.7	NA
Singapore	1.3	0.9	1.5	NA
Taiwan	1.8	1	3.1	1.3
Thailand	5.5	1.5	5	1.3
<b>12-Month Forward P/E Ratio**</b>				
Asia Ex-Japan	12.7	7.9	14.9	12.9
China	15.4	5.2	11.5	15.1
Hong Kong	12.8	12	16.5	NA
India	15.5	12.7	22.6	11.8
Indonesia	15.1	12.5	20.1	12.9
Korea	9.9	8.2	13.3	10.8
Malaysia	15.6	11.6	15.4	15.5
Philippines	17.8	16.6	16.9	NA
Singapore	11.7	10.2	13.2	NA
Taiwan	11.7	8.8	19.4	17.1
Thailand	20.9	9.3	19.8	10.2

\* Source: MSCI

\*\* Source: Thomson Financial / IBES

Note: Non-resource cyclicals include consumer discretionary, industrials and information technology. Resources include materials and energy. Defensives include consumer staples, health care, telecom services and utilities; Financials: financials and real estate. data as of November 2016; for price / book and P/E ratios:   indicate valuation metric is 1 or more standard deviations "cheaper" than mean;   indicate valuation metric is 1 or more standard deviations "more expensive" than mean

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## Appendix 2B: Valuation And Momentum Matrix

Asia Ex-Japan Equities (MSCI Indexes)				
Country/Region	Non-Resource Cyclicals	Financials	Defensives	Resources
<b>Return On Equity* (%)</b>				
Asia Ex-Japan	12.2	11.5	12.3	5.5
China	13.2	15	11.2	5.9
Hong Kong	15	9	10.5	NA
India	21	16.5	14.9	6.8
Indonesia	17	17.4	17.3	12.9
Korea	9.5	6.6	13.8	3.3
Malaysia	7.6	10.7	13.8	8.9
Philippines	12.1	11.6	25.6	NA
Singapore	9.4	9.3	10.1	NA
Taiwan	16.3	10.7	14	7.3
Thailand	23.5	13.9	20.9	8.2
<b>12-Month Forward Earnings** (%YoY)</b>				
Asia Ex-Japan	-18.3	-0.3	-2.3	-17.8
China	-15.7	-11.8	-6.7	-45.8
Hong Kong	-21.4	-2.6	2.1	NA
India	-10.7	-5.2	-11.7	-31.4
Indonesia	-16.8	-10.5	-18.4	-26.6
Korea	-22.2	-4.5	-9.3	2.3
Malaysia	-34.6	-17	-25.3	-42.2
Philippines	0.6	3.1	-9.4	NA
Singapore	-18.8	-7.5	-11.4	NA
Taiwan	-16.3	-1.4	1.7	-13.8
Thailand	-18.2	-20.8	-3.1	-27.3

\* Source: MSCI

\*\* Source: Thomson Financial / IBES

Note: Non-resource cyclicals include consumer discretionary, industrials and information technology. Resources include materials and energy. Defensives include consumer staples, health care, telecom services and utilities; Financials: financials and real estate. data as of November 2016; for return on equity and earnings:   indicate return on equity/earnings are one or more standard deviation above mean;   indicate return on equity/earnings are one standard deviation below mean

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