Santander Go Asian Equity

Marketing Communication

11 / 2024

Fund commentary

• Asia ex-Japan fell in November and underperformed developed world markets, which rose in aggregate. All the benchmark index markets fell as Donald Trump's victory in the US presidential election sparked concerns over tariff hikes and slower Federal Reserve rate cuts.

• The Philippines and Indonesia were the worst-performing markets, negatively impacted by the rise in the US dollar. China also declined as policies coming from the National People's Congress Standing Committee meeting focused more on local government debts than consumption, which was a disappointment to the market. Taiwan pulled back owing to macroeconomic headwinds. The strong US dollar, high long-term interest rates and tariff risks resulting from Trump's return are all likely to pressure Taiwanese equities next year.

• India and Malaysia fell modestly but were ahead of the benchmark index.

• The fund posted a negative return but outperformed the benchmark over the month.

• At the market level, allocation was the key driver of the fund's positive returns, with the exposure to off-benchmark Singapore the main highlight. Selection had a mildly negative effect. While it was strong in India, it detracted in China and, to a lesser degree, in Taiwan.

• At the sector level, allocation had a positive impact, particularly in industrials.

• Regarding stock performance, the strongest returns came from the positions in Grab Holdings (Singapore) and HDFC Bank (India), and the zero weighting in PDD Holdings (China).

• The weakest performers were the holdings in Alibaba (China), Zijin Mining (China) and Samsung Electronics (Korea).

• President Trump' s victory in the US election has pushed the dollar and US bond yields higher and reduced expectations for rate cuts through 2025. This tightening of monetary conditions has in turn put pressure on Asian currencies and reduces the room for manoeuvre of regional central banks, which are keen to cut interest rates to support domestic demand. Trump is also talking very forcefully about his tariff hikes on goods from China and other markets, which could potentially be very disruptive to Asian exports over the medium term.

- After Chinese equities rallied sharply in September, investors had been hopeful of a large, multi-trillion yuan fiscal-stimulus package to support local government finances, absorb property inventory and boost household spending. In the absence of more fiscal stimulus, investor flows will slowly drift away from the market again. In addition, the trajectory of earnings remains difficult across many sectors given the weak macroeconomic momentum in China.

- Korean and Taiwanese markets remain hostage to the performance of technology stocks, which dominate their indices. After another year of strong performance in technology, the sector's prospects could be tougher in 2025. While the market generally expects AI-related technology activity to stay on an upward trend in the coming quarters, the longer-term growth picture is less clear as monetisation of the huge capex spending is not yet evident. Outside of AI, growth in the broader consumer technology supply chain is still subdued. Talk of higher US tariffs on Asian imports further complicates the picture for Korea and Taiwan, given the heavy reliance of both economies on their export sectors. Despite these near-term uncertainties, we remain comfortable with our positions in industry leaders in the technology sector.

- The Indian market has also corrected during the month and is now 10% off its recent all-time highs. After a near 50% rally in the preceding 12 months, driven by strong domestic fund inflows, valuations in India have been looking stretched for some time. This is particularly the case for the mid-sized and smaller companies in the market that are favoured by domestic fund managers. Recent earnings and economic data have indicated slower growth, not helped by disruptions from weather and recent elections, and this has provided an excuse for profit-taking.

- Across the rest of the region, ASEAN markets have been pressured by the stronger dollar and reduced expectations for rate cuts. With domestic consumption fairly sluggish in most countries, much hope has been pinned on the upcoming rate-cutting cycle. Local market performance will likely remain closely tied to US data in the short term.

- US interest-rate cuts at a time when China is stimulating its economy could potentially produce a very benign backdrop for Asian equities going into 2025. However, the confidence in these two trends has faded in the last two months following the US election result and disappointing Chinese policy announcements. Tariff risk is adding uncertainty to the regional growth outlook in 2025. Investors in Asia are likely to remain cautious in their positioning until we have more clarity on the details of Trump's plans and the Chinese authorities' policy stance in 2025.