PUBLIC EQUITIES

Structural Themes Shaping the Opportunity in ASEAN Equities

INSIGHTS

Favorable demographics, combined with a number of unique investment themes, are creating a positive backdrop for ASEAN's equity markets.

SooHai Lim, CFA
Head of Asia ex-China Equities

Tiebin Liu
Investment Manager, Asian Equities

Robert Li
Client Portfolio Manager, Equities

The Association of Southeast Asian Nations (ASEAN) is a unique investment region that primarily offers investors exposure to southeast Asian markets including Singapore, Indonesia, Malaysia, Thailand, Philippines and Vietnam **(Figure 1)**. There are a number of constructive megatrends that are driving ASEAN's longer-term growth, which we believe are critical to the future of global supply chains—and are shaping attractive growth opportunities.

For one, ASEAN today has the third-largest aggregated population in the world, behind China and India. The region's GDP was also among the fastest growing in the world in 2023, estimated at 4.0%.[1] This large and relatively young population, and an increasingly wealthy middle class, are further contributors, and indeed already driving exciting changes in consumption patterns.

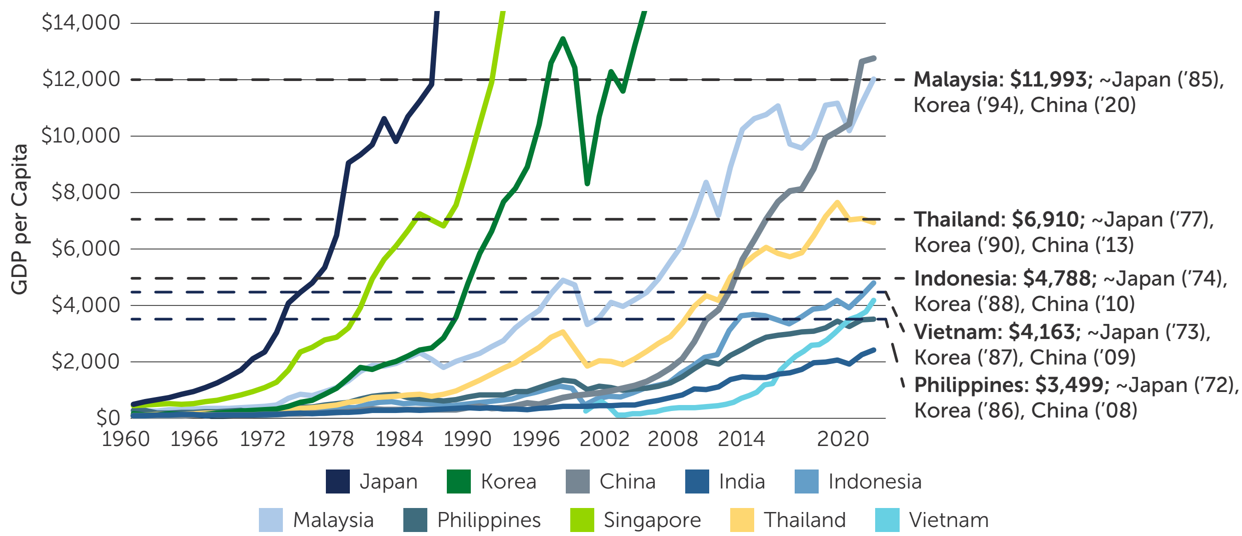
Figure 1: ASEAN: A Dynamic and Fast-growing Region

ASEAN is an economic union of member states in Southeast Asia designed to target cooperation and accelerate economic growth. It includes some of the fastest-growing economies in the world, and features an estimated population of more than 650 million.

1. Source: IMF World Economic Outlook. As of December 2023.

These demographics, combined with a number of investment themes unfolding in the region—from the evolution of consumption behaviors, to supply chain enhancements, to technological upgrades, to the green transition—are presenting compelling opportunities in ASEAN companies. While these themes remain nascent compared to both developed and emerging economies, their development will likely accelerate given the deeply integrated logistical networks across ASEAN—with the region potentially set to follow the developmental roadmap of predecessors such as China, Korea and Japan **(Figure 2)** where the eras of exponential growth took place near similar starting points.

Figure 2: GDP Per Capita Across ASEAN



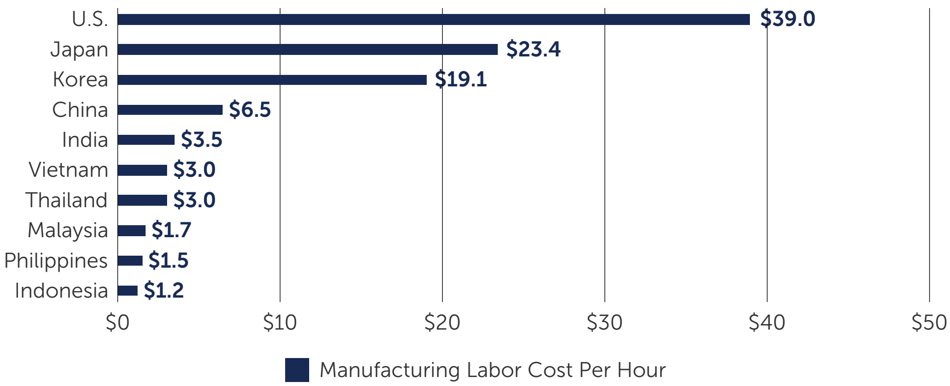
Sources: World Bank; Refinitiv; Barings. As of December 31, 2023.

Manufacturing & Supply Chain Upgrades

ASEAN offers investors access to a host of internationally competitive industries, which amid the heightened tensions in global geopolitics and the inherent fragility of concentrated sourcing, have benefited as global supply chains have shifted from a "just-in-time" to a "just-in-case" approach. Many industries today have complex supply chains and face significant pressure to achieve a cost advantage by sourcing materials and conducting their activities across multiple geographies, making interconnectivity the primary key to success. Within this context, ASEAN's geographic position allows for access to Europe, the U.S. and China via traditional shipping routes.

To capitalize on this shift, many ASEAN countries have introduced structural reforms, such as corporate tax cuts to enhance economic competitiveness, while also boasting a large and cheap labor base relative to global peers **(Figure 3).** Ultimately, this combination has made ASEAN nations a low-cost manufacturing hub—which has provided companies with an opportunity to diversify and develop a resilient supply chain, while reducing overheads in the long run.

Figure 3: A Relatively Cheaper Manufacturing Labor Cost per Hour

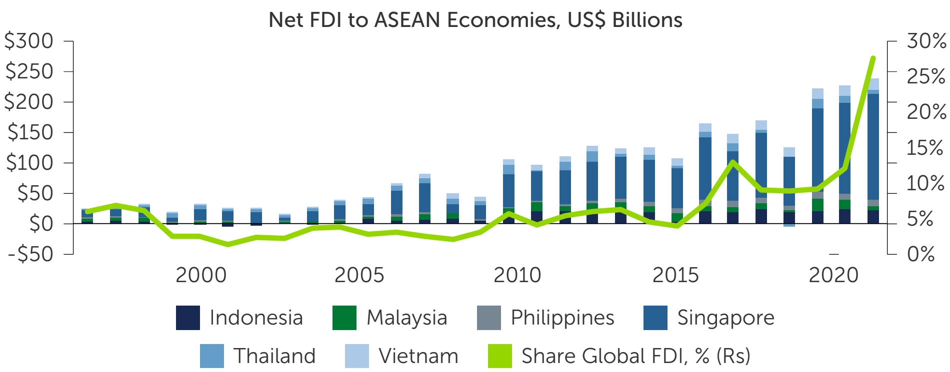


Sources: Rockhill Asia; JETRO; KPMG. As of 2020.

Due to the recent rise in trade between ASEAN and the U.S., there are some concerns over potential tariff hikes by the new U.S. administration, especially for those countries with large trade surpluses to the U.S. like Vietnam and Thailand. However, U.S. tariffs on Chinese exports would likely be relatively higher than ASEAN exports. As a result, considering production cost, shipping logistics, and overall total impact, ASEAN economies would likely remain a highly competitive manufacturing hub for multinationals—and therefore are likely to benefit from a potential escalation in U.S.-China trade tensions in the coming years.

These shifting global dynamics have driven global foreign direct investments (FDI) toward ASEAN nations over the years. More specifically, the region's share of global FDI rose from a pre-pandemic annual average of 7% in 2011–2017 to 10% in 2018–2022—and more recently, to a staggering 28% in 2023, with a broad-based rise in manufacturing investments specifically in semiconductors, electronics and electrical vehicles (EVs) **(Figure 4)**. This is impressive given that ASEAN economies only represented around 3% of global GDP in 2023.[2]

Figure 4: Significant Increase in FDI for Key ASEAN Economies



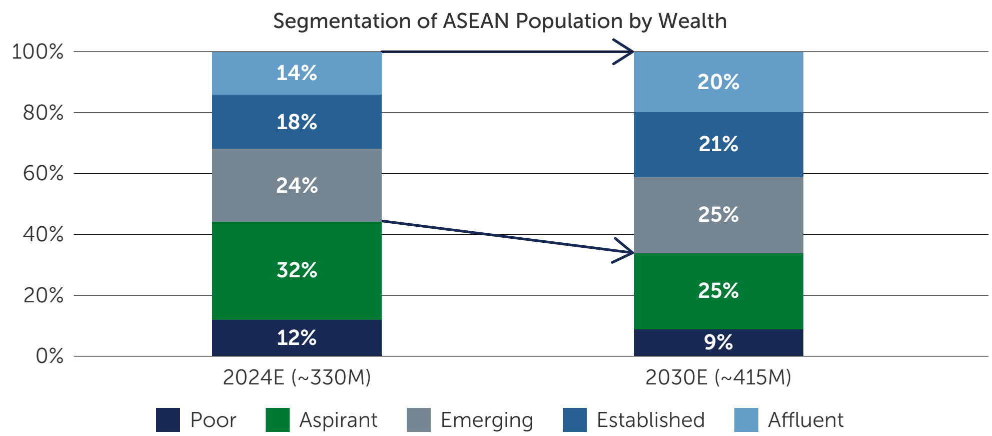
Sources: World Bank; Barings. As of December 31, 2023.

2. Source: World Bank, Barings. As of December 31, 2023.

Evolving Consumer Behavior & Technological Empowerment

With rising income comes more wealth, which tends to be followed by an evolution in consumption behaviors. The number of middle class and affluent consumers across ASEAN countries is expected to grow from 330 million to 415 million by 2030.[3] Today, we are witnessing the premiumization of products and services along with new options across the region, from beer to pet foods to medical tourism.

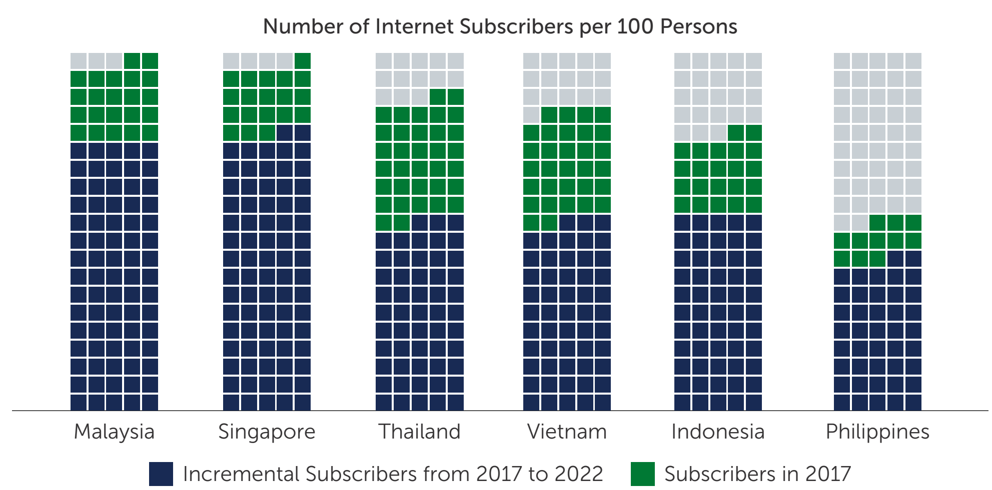
Figure 5: A Rising Middle Class and Affluent Population



Source: BCG. As of February 16, 2024.

At the same time, the development of ASEAN economies is coinciding with the wireless digital age and the growing penetration rate of smart phones **(Figure 6)**. Smartphones and affordable mobile internet are boosting connectivity across AESAN, with much of the population now able access banking services, purchases, and leisure via their smartphones. When combined with ASEAN's sizeable and increasingly wealthier population, this represents a unique opportunity to expand into a variety of digital services such as online food delivery, ride-hailing and digital payments.

Figure 6: Growing Connectivity Across ASEAN Countries



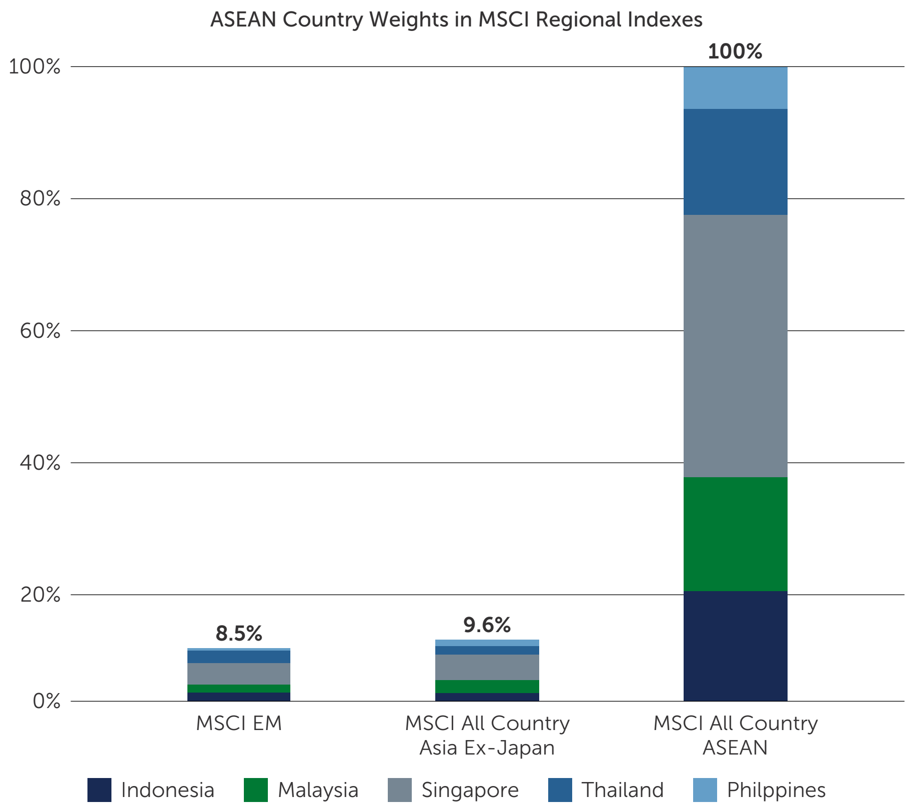
Source: ASEAN Key Figures, 2023. Values rounded to nearest integer.

3. Source: BCG. As of February 16, 2024.

ASEAN's Underrepresentation in Global Indexes

While many investors are attracted to ASEAN equities as it provides access to fast-growing South Asian countries, we believe the asset class also provides a complementary exposure to existing global or regional emerging markets (EM) strategies. A crucial tenet of this argument is that ASEAN sits within the small "tail" of emerging markets, composing less than 10% of global EM and Asia ex-Japan indexes **(Figure 7)**. This leads to lower levels of crossover and correlation, which can help deliver the potential for enhanced risk-adjusted returns over the medium to long term.

Figure 7: ASEAN Comprises a Small Proportion of MSCI Regional Indexes



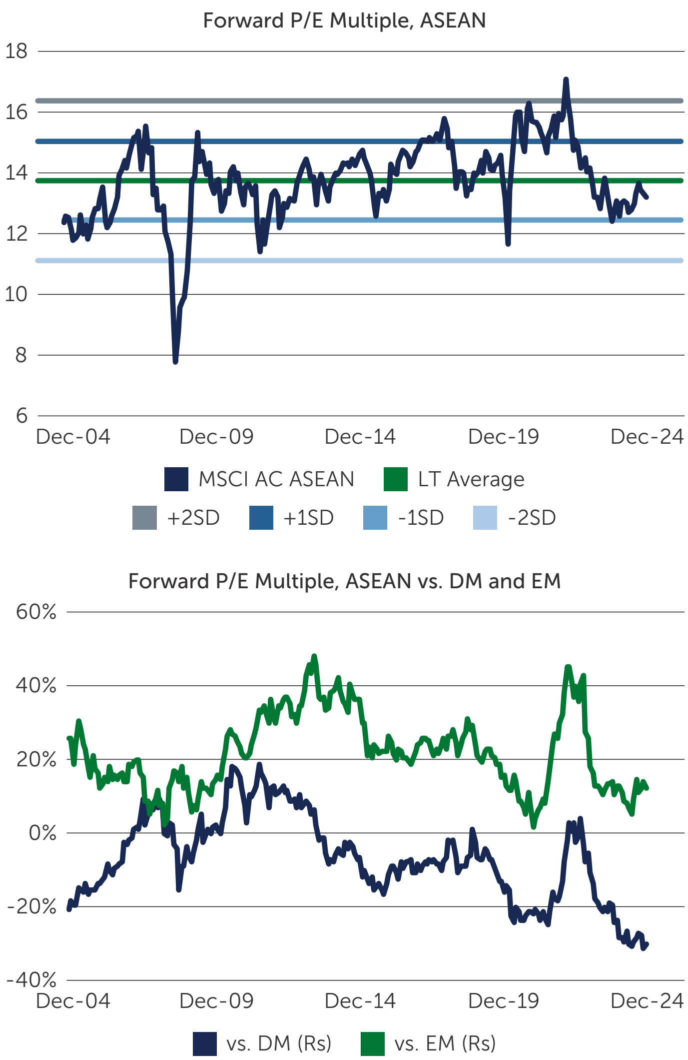
Sources: MSCI; Refinitiv; Barings. As of December 31, 2024.

"ASEAN composes less than 10% of global EM and Asia ex-Japan indexes. This leads to lower levels of crossover and correlation, which can help deliver the potential for enhanced risk-adjusted returns over the medium to long term."

Attractive Valuations

Currently, ASEAN equity markets are trading at relatively attractive valuations of approximately a 13.3x forward price-to-earnings multiple, which is historically below their 20-year average **(Figure 8)**. This is also at a relative discount compared to many EM and developed market (DM) peers. As the global macro economy begins to normalize, we may also see some positive re-rating in ASEAN equities alongside earnings growth.

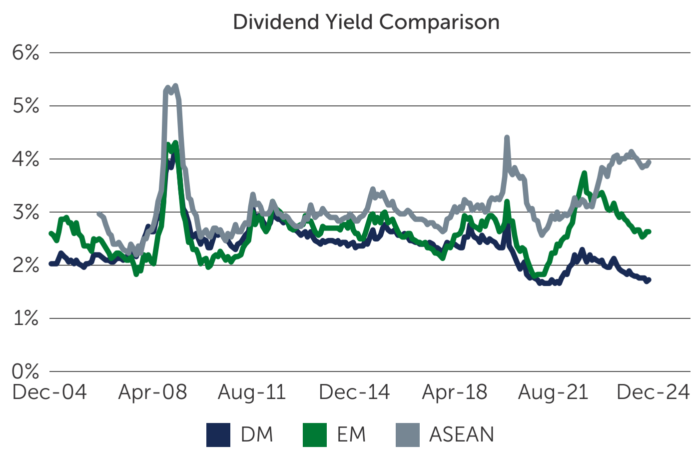
Figure 8: Valuations Appear Attractive Relative to History and to EMs & DMs



Sources: MSCI; Refinitiv; Barings. As of December 31, 2024.

At the same time, the dividend yield in the ASEAN equity markets is approximately 3.9%, which is the highest within Asia and significantly higher than the broader developed or EMs **(Figure 9)**. The strong stream of dividends offers a potentially defensive element in volatile environments, while also providing an attractive optionality when interest rates fall.

Figure 9: Compelling Dividend Yield vs. EMs & DMs



Sources: MSCI; Refinitiv; Barings. As of December 31, 2024.

Key Takeaway

There are several supportive structural trends shaping the opportunity in ASEAN equities, many of which have accelerated in recent years. Against this backdrop, ASEAN companies stand to benefit—especially those with direct or indirect exposure to supply chain diversification, domestic consumption and technological upgrades. We believe these are longer-term shifts that will continue to provide a positive backdrop to the region's equity markets.

While near-term risks to global markets remain, ASEAN economies are well-positioned to benefit from the structural megatrends that are likely to unfold over the next decade. In addition, current valuations appear reasonable relative to history. This presents an attractive entry point for long-term investors to gain exposure to a wide range of under-valued companies with strong growth potential.

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