



The Asian Century

Issue 03 | Fourth quarter 2020



William Haggard
Head of Investment Insights



Erdinç Benli
Head of Investment & Portfolio Advisory



Victor Balfour
Investment Strategist

Idea in brief: The Asian Century



A demographic titan

With 4.6 billion inhabitants¹, Asia accounts for nearly two-thirds of the global population.



Economic prowess

A majority of the world's largest cities are in Asia². By 2030, Asia will be home to more than half the world's middle class³ and China is leading the global economic recovery from the pandemic.



Investment opportunities

Within the Asian continent, Emerging Asia accounts for about a quarter of the global economy today and its investable equity markets (MSCI) still account for only around a tenth of global equity markets⁴.

Long-term growth prospects

Within the world's largest and most dynamic continent, Emerging Asia includes many of Asia's fastest-growing and largest economies. These are China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam⁵.

Today this region accounts for a quarter of the global economy, and a far smaller proportion of total investable equity markets (Figure 1).

Yet with most of the world's population living in the Asian region and its economies both diversified and sophisticated, the global economy and its capital markets will continue to gravitate towards Asia over this century.

Diversified economies

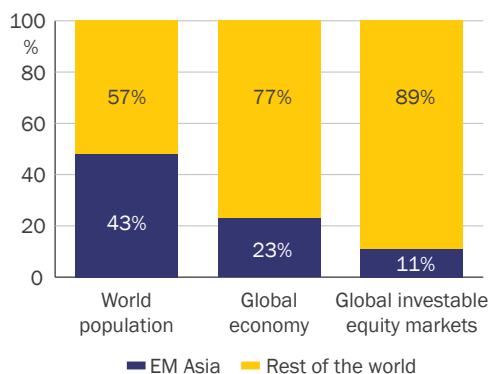
Unlike other emerging markets, Emerging Asia's economies have developed broad consumer and capital goods sectors. This means they are less reliant on commodity exports and less exposed to commodity price fluctuations vis-à-vis other emerging markets. From China's developed eCommerce market to a world-class Indian software sector and Taiwan's diversified manufacturing base, Emerging Asia's economies are pluralistic by nature.

Ongoing reforms have improved efficiency

Heavyweight economies such as India and China have made progress in liberalising their economies and capital markets in recent years. For example, mutual market access schemes such as China's Stock Connect (2014) and Bond Connect (2017) initiatives have opened up Chinese capital markets to foreign investors and added over 1,400 companies to China's investable universe. More recently in 2019, China doubled the size of its Shanghai Free-Trade Zone in a drive to open markets, and in 2020 China signed together with 14 nations the Regional Comprehensive Economic Partnership (RCEP), a trade deal covering roughly 30% of the world's population and global output

Figure 1: EM Asia today in a global context

The global economy and capital markets will continue to gravitate towards Asia.



Source: IMF, UN, MSCI World

¹ Based on the latest UN estimate, 7th August 2019

² World Population Review, 2020

³ World Economic Forum, 2020

⁴ Market Cap, MSCI, Bloomberg data

⁵ Emerging Asia IMF definition

(see Figure 2). Such initiatives are increasing transparency and broadening access to Emerging Asia's capital markets.

Corporate governance across the region has also steadily improved in recent years with the emergence of shareholder activism helping to drive this change. In Southeast Asia, tangible improvements to reporting and enforcement of corporate governance standards have helped address recent concerns over corporate corruption. Meanwhile, politics in the region remains relatively stable compared with other emerging regions, facilitating foreign investor access to Emerging Asia's capital markets⁶.

Emerging Asia: Short-term risks but long-term and historic strategic opportunities

The region has been a significant beneficiary of a more global and liberalised trade policy since the 1980s. Since then, Emerging Asia has enjoyed an average annual GDP growth rate of +7.3%⁷.

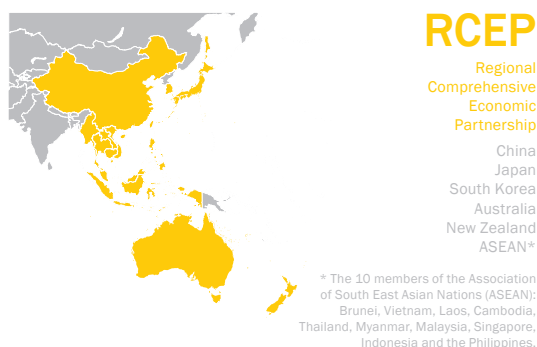
Protectionism between the US and China remains a short-term economic risk. A Democrat Presidency is unlikely to see a full return to pre-2016 relations between the two countries. Markets nevertheless have learnt to live with trade tensions which are likely priced into local stock markets. The longer term strategic reasons for investing in the region remain intact. Emerging Asia remains on track to deliver more than three times the growth rate of developed economies in the coming years⁸. The region is now set to regain its status as the world's primary economic zone, a return to the economic status quo up until the mid-19th century.

Economic outlook

In the last few years, lower interest rates have eased pressure on Asia's borrowers whilst its conservative exposure to foreign-held debt has improved sovereign credit ratings. To add to this investor-friendly backdrop, the region's income gap with the West continues to narrow and personal income and spending is growing. Most importantly for investors, it is also why equity market returns for Emerging Asia could potentially outperform global equity returns over the next 10 years as the region will remain the most dynamic part of the global economy as the world's GDP and capital pivots there (Figure 3).

Figure 2: The dawn of a new free trading zone

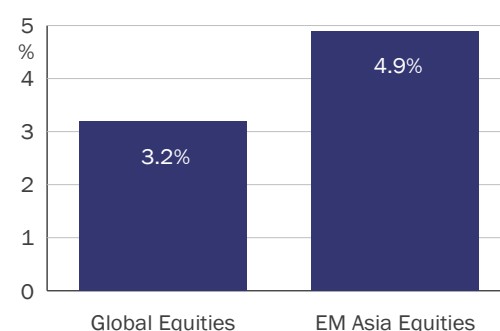
A major step forward for economic integration in the region



Source: Rothschild & Co, Bloomberg

Figure 3: EM Asia's potential equity returns

Reasonable 10-year expectations of annualised returns (USD)



Source: MSCI, Bloomberg data

Note: Expected return = current yield + growth dividends + change in valuation

How to invest in Emerging Asia

There are a number of ways to invest in Emerging Asia to participate in the region's ongoing performance and long-term potential. Valuations of investments in local businesses are often lower than those in Western companies, but the breadth, complexity and depth of local markets call for expert advice when investing.

With our **Investment & Portfolio Advisory** team at Rothschild & Co Wealth Management, we can advise on the most appropriate ways of gaining exposure to Emerging Asia. We look forward to hearing from you.

⁶ Global Investment Strategist, Kevin Gardiner, Rothschild & Co

⁷ IMF data

⁸ OECD, *Economic Outlook for Southeast Asia, China and India 2019*, annual average GDP growth rate forecast 2019–2023

⁹ 'Asian consumers', Deloitte, by Akrur Barua, 1st February 2019

Important information

This document is produced by Rothschild & Co Bank AG, Zollikerstrasse 181, 8034 Zurich, for information purposes only. It does not constitute a personal recommendation, an advice, an offer or an invitation to buy or sell securities or any other banking or investment product. Nothing in this document constitutes legal, accounting or tax advice. Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co Bank AG as to or in relation to the fairness, accuracy or completeness of this document or the information forming the basis of this

document or for any reliance placed on this document by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Furthermore, all opinions and data used in this document are subject to change without prior notice. Law or other regulation may restrict the distribution of this document in certain jurisdictions. Accordingly, recipients of this document should inform themselves about and observe all applicable legal and regulatory requirements. Rothschild & Co Bank AG is authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA.

© 2020 Rothschild & Co Wealth Management, Investment Insights
Produced by: William Haggard,
William Therlin and Julia Bergman
Publication date: November 2020