



Asia ex Japan – From emerging to leading

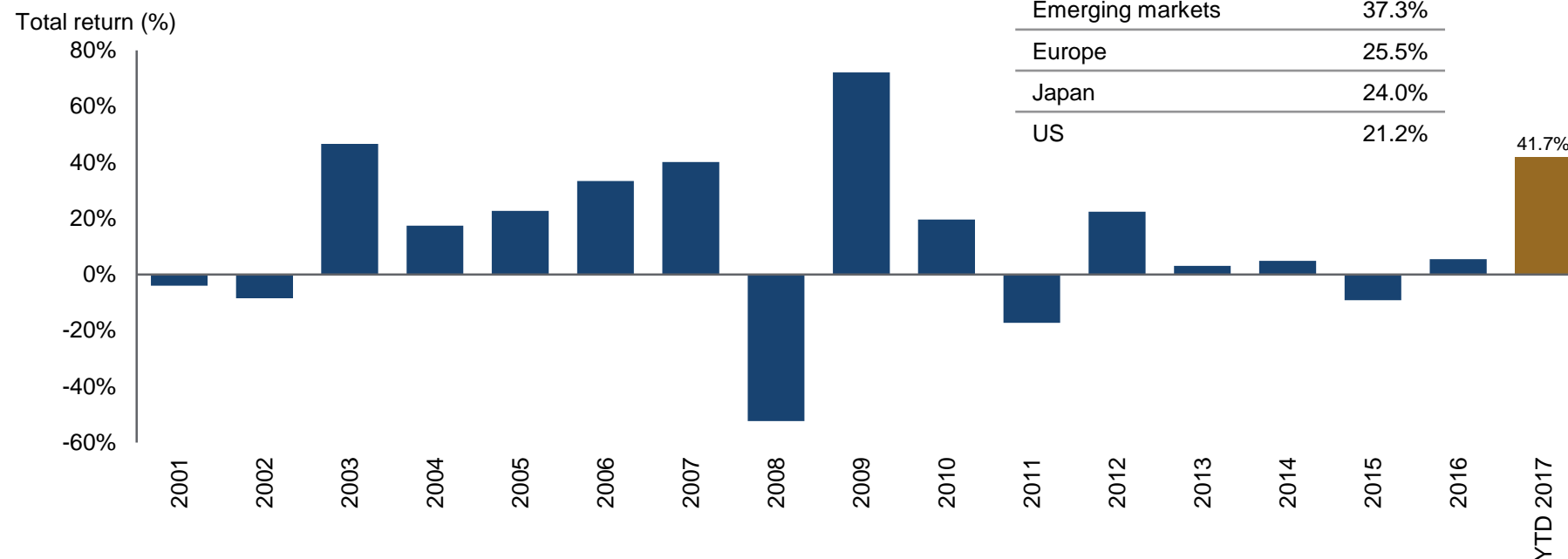
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Asia ex Japan delivered strong returns in 2017

- Asia ex Japan equities posted its best performance since 2009, beating gains in key DM and EM peers
- While outperformance has been significant, Asia is only starting to play catch up with global equities
- We remain optimistic on Asian equity markets on account of potential further upside to earnings, supportive valuations, and solid fundamentals

Asia ex Japan equities rallied in 2017



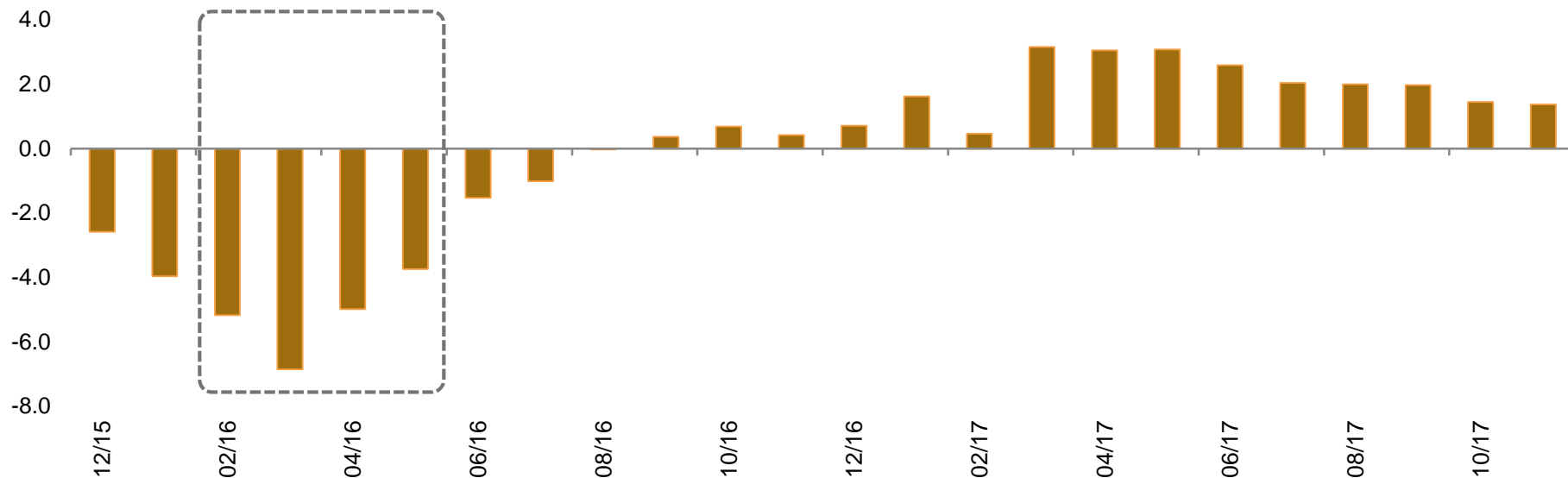
Source: Bloomberg, HSBC Global Asset Management, data as of 31 December 2017. Total return in USD terms. **Investment involves risks. Past performance is not indicative of future performance.**

Rally has been driven largely by earnings revisions

- Strong earnings in 2017 makes a change from flat earnings per share (EPS) growth in previous years
 - EPS +4.5% in 2014 (Asia ex Japan market +4.8%)
 - EPS -1.5% in 2015 (Asia ex Japan market -9.2%)
 - EPS +1.8% in 2016 (Asia ex Japan market +5.4%)
 - EPS +20% in 2017 (Asia ex Japan market +42%)

MSCI Asia ex Japan earnings revisions have bottomed

MSCI Asia ex Japan
EPS17E 3-month change %



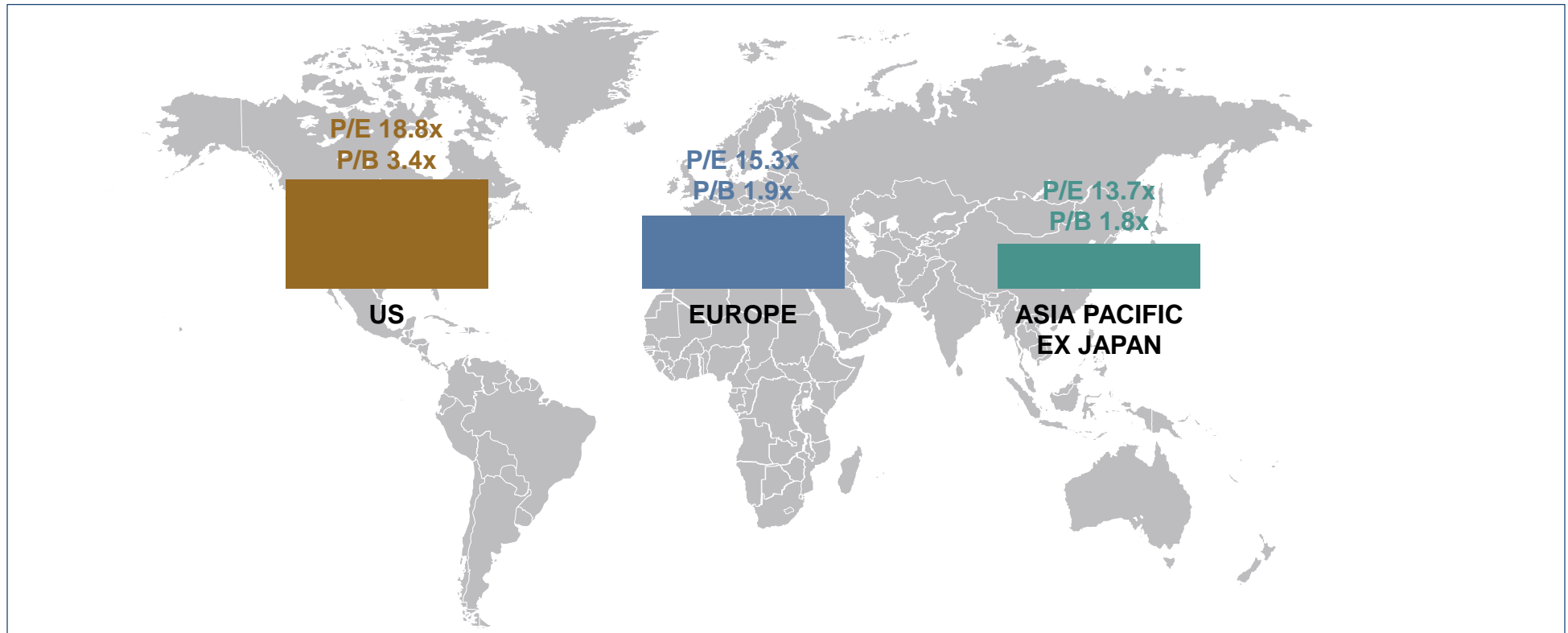
Source: Credit Suisse, Thomson Reuters (IBES), data as of December 2017

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Asian equities cheaper than peers

- Asia ex Japan equities offer attractive valuations compared to developed markets
- Asia is 50% cheaper than the US on a price-to-book basis

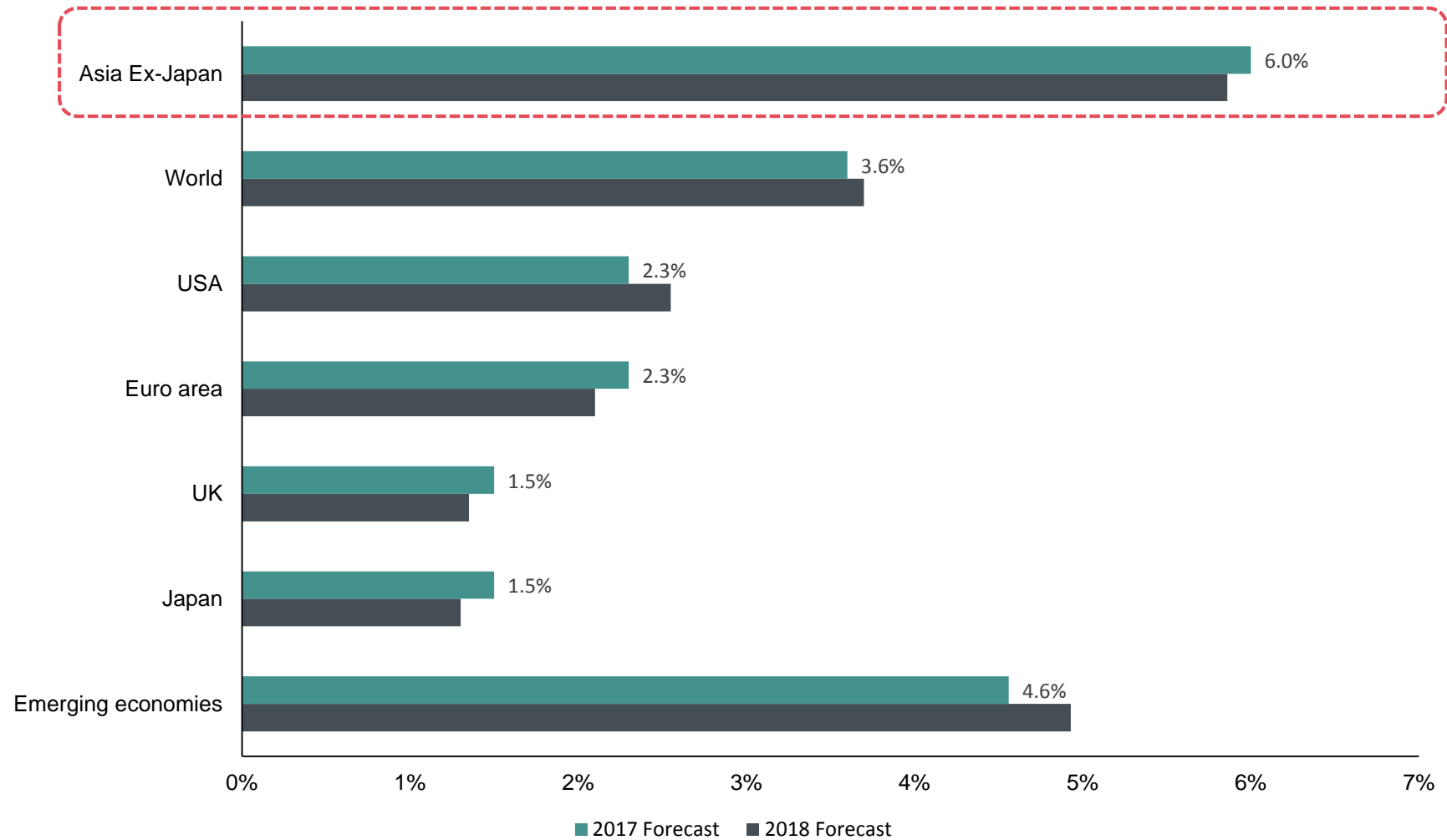
Asia ex Japan valuation vs developed markets



Source: Bloomberg, MSCI, HSBC Global Asset Management, as of 12 January 2018. **Investment involves risks. Past performance is not indicative of future performance.**

Asia ex Japan continues to drive the world economy

GDP growth and projection



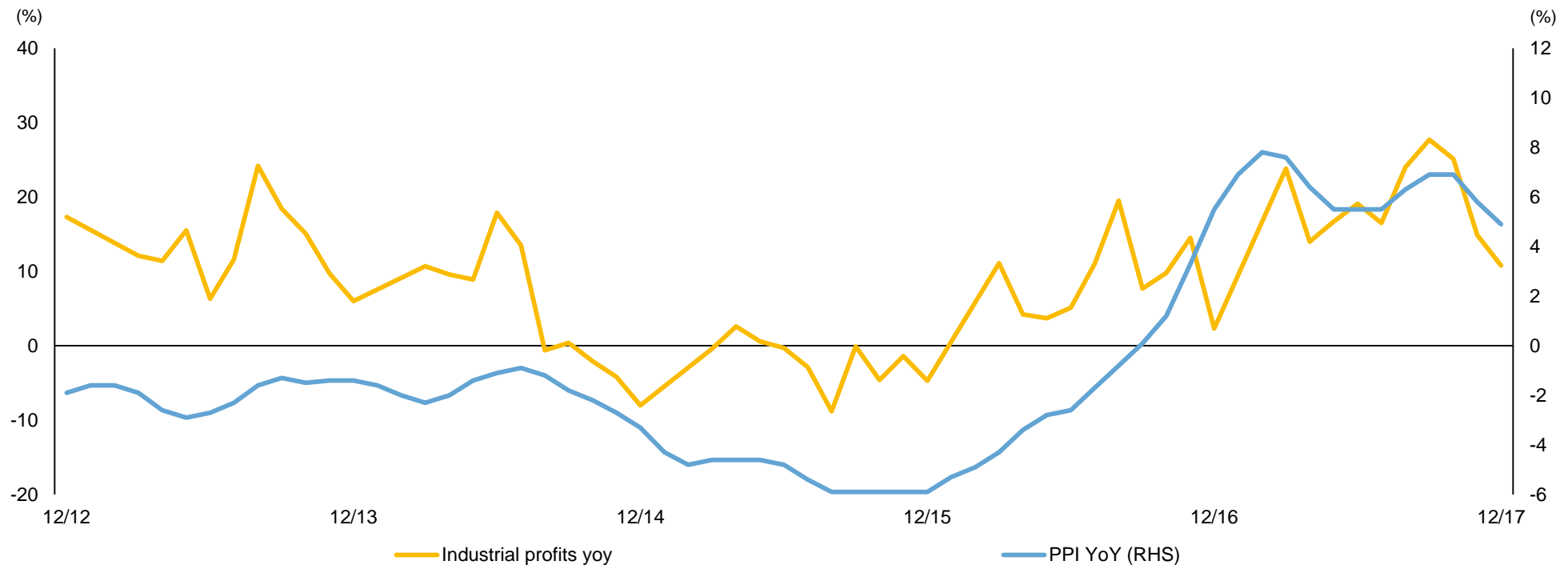
Source: Bloomberg, as of January 2018

The Chinese economy has bottomed out

Producer prices have rebounded; Industrial profits have picked up

- The Producer Price Index (PPI) bottomed in late 2015 on the back of supply side reforms, allowing upstream industry players to push through price increases to customers and boost profitability.
- A pickup in the property sector has also prompted further property investment and construction activity

PPI recovery is helping earnings of industrial corporates

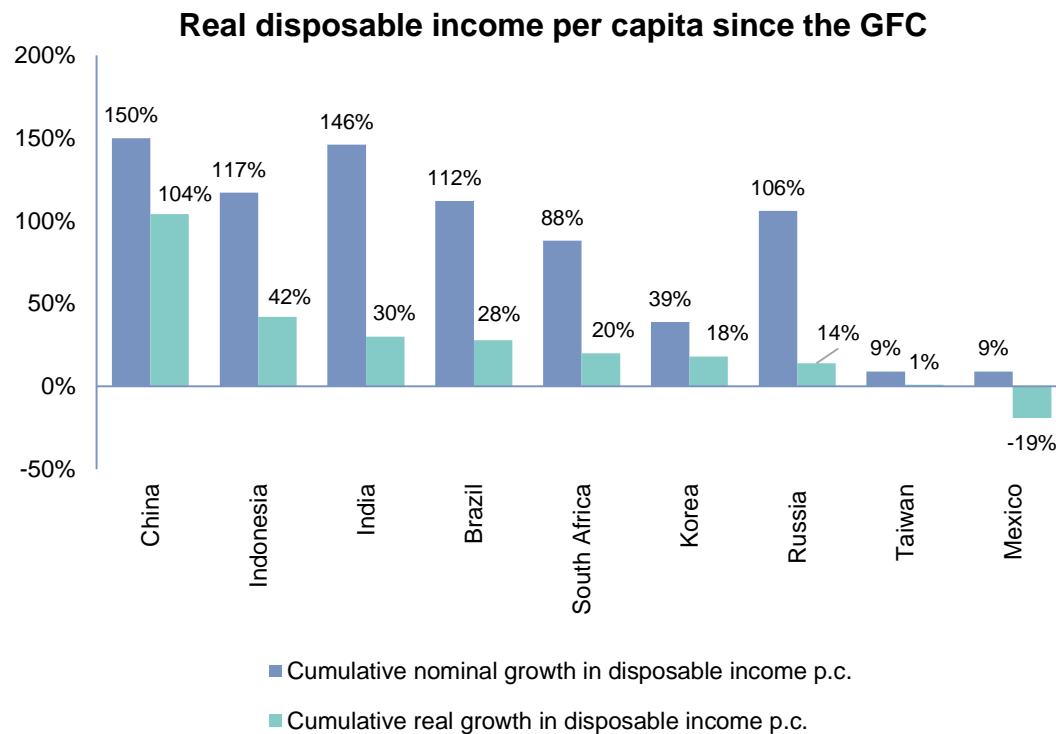


Source: Bloomberg, HSBC Global Asset Management, data as of December 2017

Consumption

Supported by income growth

- China's real disposable income per capita has grown by 104% since the global financial crisis (GFC), driven by more job creation as well as increasing urbanization (from 43.0% in 2006 to 57.4% in 2016)
- Rising income enables market penetration of consumer products into lower income groups, and more importantly, drive consumption upgrades as higher income groups seek higher quality products
- China's retail market will soon reach the same size as the US



Source: United Nations, World Bank, Nomura Research.

Note: retail sales data as of July 2017

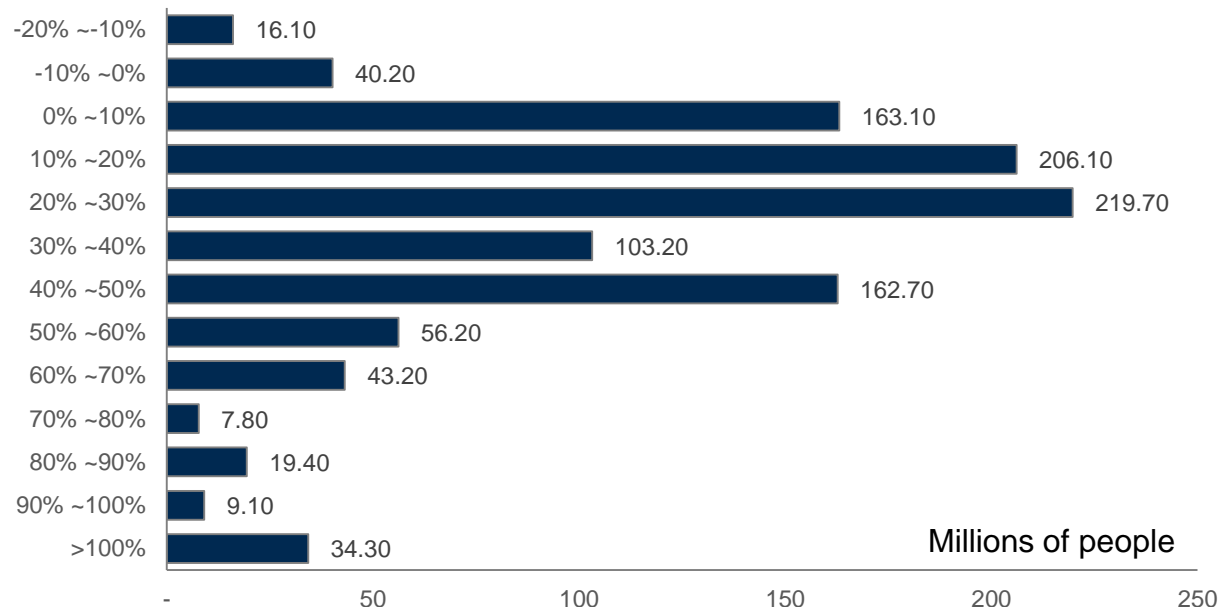
Consumption

Positive wealth effect is a tailwind

- Wealth effect in 2017 is spreading more to lower tier Chinese cities, whereas wealth effect was more significant in top-tier cities in earlier years
- As most of the population live in lower tier cities (roughly 600m), the wealth effect of increased property prices may have a profound impact on consumption

Distribution of population based on property price change

Cumulative property price appreciation in 2016 and 2017



Source: Deutsche Bank, HSBC Global Asset Management, data as of September 2017

Key investment themes

Theme	Rationale
Consumption upgrade in China	<ul style="list-style-type: none">• The wealth effect from the strong property market and recent stock market performance is leading to a strong desire for higher quality goods, services and experiences
Structural & cyclical opportunities in Indian financials	<ul style="list-style-type: none">• Rapid growth in use of financial products/services post demonetisation and the peak of a corporate non-performing loan cycle place Indian financials in a sweet spot
Korea tech bargain hunt (see slide)	<ul style="list-style-type: none">• With industry leading technology and dominant market share, Korean tech companies still trade at a deep discount to similar plays in Asia and globally, notwithstanding positive governance changes
Cyclical uplift for natural resources	<ul style="list-style-type: none">• Supply side reforms and synchronized global growth have resulted firmer prices for materials and energy, and an improving picture for dividends
R&D push in healthcare (see stock example slide)	<ul style="list-style-type: none">• Indian, Korean and Chinese pharmaceutical companies are trying to innovate and move up the value chain

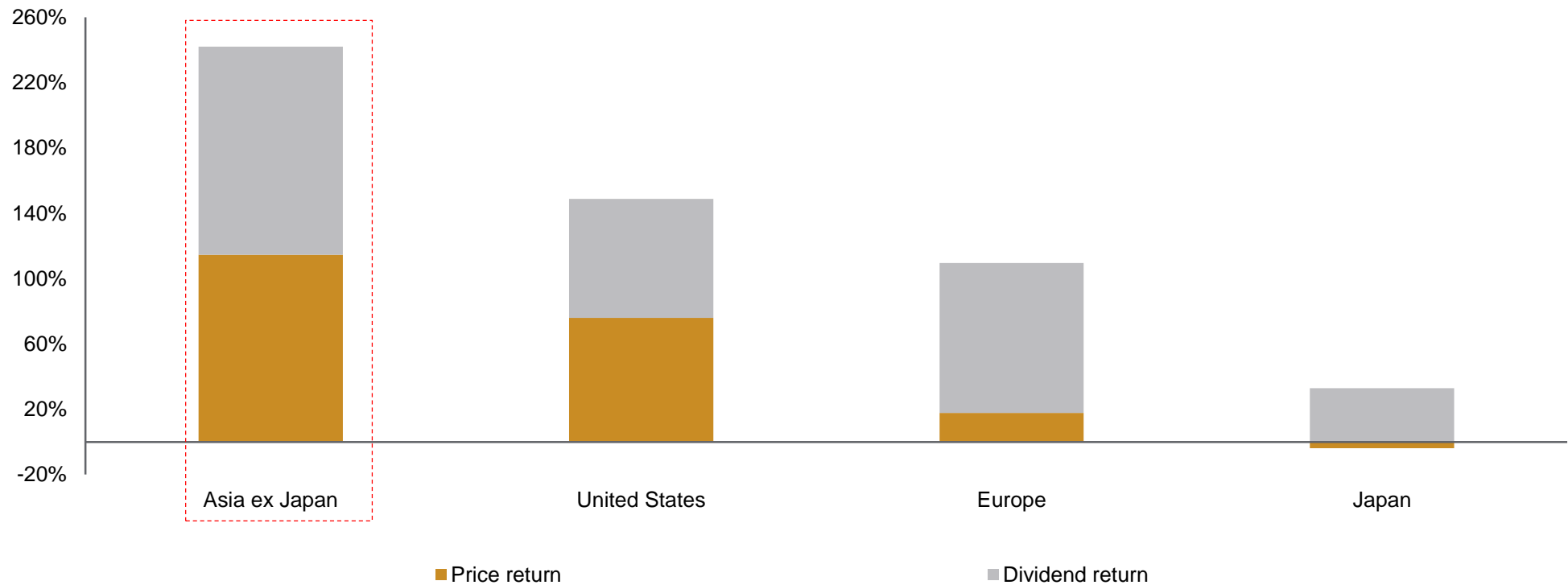
Source: HSBC Global Asset Management

Note: For illustrative purposes only, and should not be construed as a recommendation to buy or sell any investment. **Investment involves risks. Past performance is not indicative of future performance.**

Asia is not just about growth

- Dividends remain a key driver of long-term total shareholder return in Asia
- Over 50% of the total returns delivered in the region have been in the form of dividends since 2000

Total returns (USD): 2000-2017



Source: Bloomberg, MSCI, HSBC Global Asset Management, as of 12 January 2018. **Investment involves risks. Past performance is not indicative of future performance**
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Thank You



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