



# Asia Equities: Looking Beyond the Coronavirus

Volatility may provide longer-term investors with opportunities.

March 2020

## KEY INSIGHTS

- We remain constructive on the long-term prospects for Asia ex-Japan equities despite the short-term disruption and uncertainty created by COVID-19.
- Timely policy responses from China and other Asian countries support our positive long-term outlook, although market volatility may persist for some time.
- We believe the Asia ex-Japan region continues to offer good opportunities for longer-term investors in top-quality companies with strong earnings potential.

Despite the short-term disruption and uncertainty created by the new coronavirus (COVID-19), we remain constructive on the long-term prospects for Asia ex-Japan equities. We expect timely policy responses to the outbreak from China and other Asian countries, cyclical recoveries in the global auto and semiconductor industries, and continued monetary and liquidity support from central banks, supporting our positive longer-term views. While market volatility may persist until we see clearer indications that the coronavirus outbreak is coming under control in China and in other regional COVID-19 hotspots like South Korea, meaningful corrections to quality Asian stocks due to COVID-19 fears may provide longer term investors like ourselves with good opportunities.

In mid-January, investors were confronted by the coronavirus (COVID-19) outbreak in China that has

since spread to a growing number of other countries. The full impact on global and regional economies is still unclear. This will remain the case until we have a better idea of the duration and severity of COVID-19 in each country and the extent to which it is disrupting global supply chains.

Just as the news from China on containing the outbreak was starting to improve, the rising number of cases in South Korea and Japan has complicated the outlook for the region considerably. Korea and Japan both play an important role in Asian supply chains, and quarantine restrictions in these countries could delay China's own efforts to return to normal by restricting imports of key intermediate goods, especially electronic components.

## Timely Policy Response From China

China was quick off the mark in early February with policy measures to support the economy. We are hopeful that China's policy support measures



**Eric Moffett**

*Portfolio Manager, T. Rowe Price Asia Opportunities Equity Strategy*

“We believe that Beijing will do all in its power to avoid a hard landing for the economy...”

should be enough to reverse much of the damage to the economy from COVID-19, although their impact may not be felt until the second half of the year. We believe that Beijing will do all in its power to avoid a hard landing for the economy, since maintaining social stability is of paramount importance to Xi Jinping and the Chinese government.

In early February, the Chinese authorities announced a package of 30 financial measures intended to both support the economy and alleviate some of the pressures from the coronavirus. China's central bank, the People's Bank of China, cut short term interest rates by 10 basis points and injected RMB 1.2 trillion of liquidity into the banking sector. These early measures were aimed at relieving some of the immediate financial stress by ensuring ample liquidity in money and credit markets and by providing interest rate subsidies and loan forbearance for companies and mortgage holders in temporary financial difficulty. Development and policy banks, such as the Export-Import Bank and Agricultural Development Bank, pledged to increase their lending support to the economy. Wuhan, the city at the epicenter of the coronavirus outbreak, was granted RMB 300 billion in loans from the central government. A number of provincial and local governments in China announced financial measures in support of their local economies.

Allowing for a policy-driven recovery in the second half, the negative impact on China's full year GDP growth in 2020 may ultimately prove limited. Meanwhile, China economists are in the process of lowering their 2020 growth forecasts, typically by around 0.5% to 1.0%. From recent speeches, it is clear President Xi Jinping still wants to achieve China's long-term target of doubling the country's 2010 per capita GDP by 2020, a target popularly associated with China becoming a “moderately prosperous nation.” Following recent benchmark revisions to historical GDP data, growth this year needs to be around 5.6% to

achieve Xi's goal and provide a political victory. This may look difficult now, but it could still be possible given additional policy stimulus.

### **SARS May Be An Imperfect Guide**

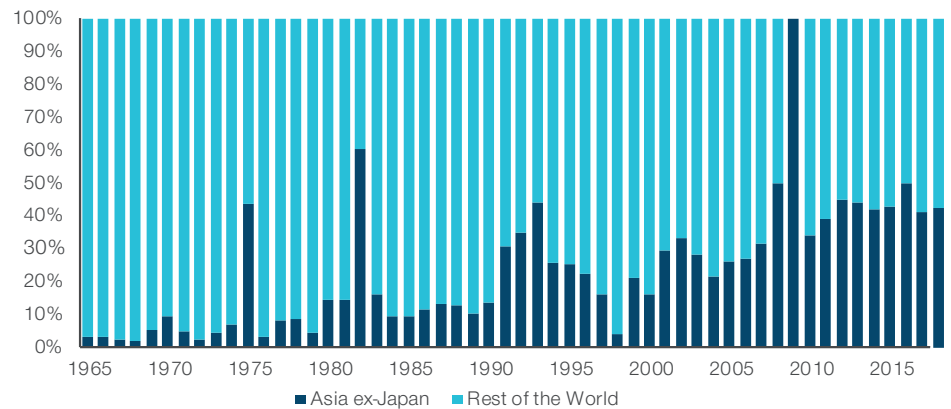
For investors in Asian equities, the key point to note is that although COVID-19 may present a bigger economic shock than Severe Acute Respiratory Syndrome (SARS), it nevertheless will be a one-off event. As such, the impact on China and other Asian economies should start to reverse once the outbreak dies down and policy support kicks in later in the year. We believe a temporary drop in economic activity in the first half of the year should not have a lasting impact on Asia's positive long-term economic performance. Since the 1980s, Asia ex-Japan has contributed a rising share of global GDP growth, a trend we expect to see continue (Fig. 1).

Following the peak of SARS cases in 2003, equity markets bottomed and began to rally ahead of better economic news once it was clear that the outbreak was coming under control (Fig. 2). A similar sequence of events was initially expected for the coronavirus in 2020, although the subsequent spread of COVID-19 to more countries is a new factor for markets to digest.

There are also a number of key differences between circumstances today and those prevailing at the time of SARS. Above all, China is a much more important growth driver for Asia and the global economy than it was in 2003, when a strong global upswing helped cushion China against the negative impact of SARS via strong demand for Chinese exports. Today, global growth is more subdued. The Chinese economy is also more consumer and services oriented than in 2003, implying greater regional sensitivity to reduced tourism, transport, travel, and entertainment expenditure. Share prices in these sectors have already adjusted to the COVID-19 shock.

## Asia Stands Out in a Low Growth World

(Fig. 1) Asia Ex-Japan as percent of World GDP Growth



As of December 31, 2019.

Source: World Bank/Haver Analytics.

Recent surveys suggest that perhaps 70% of factories in China will have restarted by early March...

The bigger uncertainty today lies with the disruption to global supply chains following Chinese factory closures after the Lunar New Year and the strict domestic travel and quarantine restrictions. The “supply side” aspect of the coronavirus shock via widespread factory closures was absent in 2003. At this stage, it is not possible to gauge the full extent of potential supply chain disruptions in industries like semiconductors and autos. Recent surveys suggest that perhaps 70% of factories in China will have restarted by early March, though not all will be operating at normal capacity as returning migrant workers will face two weeks quarantine.

### Asia ex-Japan Earnings

Besides the economic uncertainty created by the coronavirus, there is uncertainty over the short-term earnings outlook for Asia ex-Japan. While the region had disappointed on earnings relative to developed markets in recent years, the earnings outlook prior to the coronavirus outbreak had improved, supported by a recovery in margins and greater capital expenditure discipline. The consensus estimate for earnings growth in 2020 is currently about 16% (FTSE Asia ex-Japan index as of February 25. See Fig. 3). While

the aggregate number will be revised down as analysts adjust their estimates for COVID-19, the share prices of many of the stocks likely to be most affected have already fallen a long way. As such, they may be less sensitive to future cuts in analyst earnings estimates for 2020, a potential investment opportunity.

### Asian Investors Should “Look Across the Valley”

Our advice to investors is to “look across the valley” of short-term disruption and weak economic data due to the coronavirus. Keeping to our long-term, fundamentally driven approach to investing in Asia, we prefer not to be swayed by short-term market dislocations such as COVID-19. With this in mind, we are not likely to make major changes in our Asian equity strategies. Given our bottom-up focus on fundamentals, however, we are comfortable taking positions in China and other Asian markets that we feel have sold off excessively on the negative investor sentiment arising from the coronavirus outbreak.

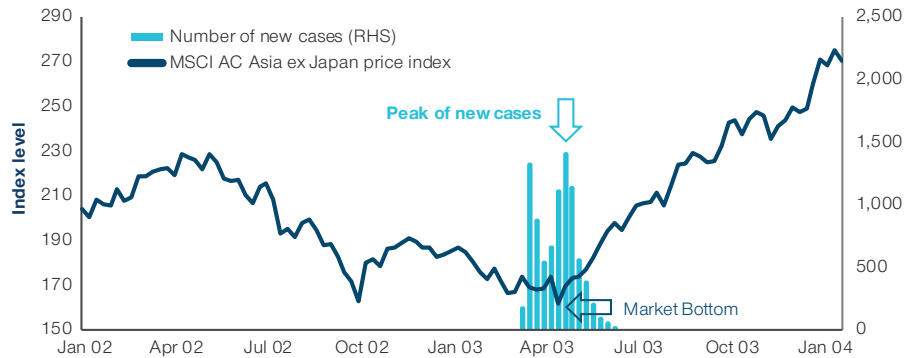
The long-term case for investing in Asia ex-Japan has not changed. Overseas investors remain very underweight in China, the world’s second largest economy and the most successful

Our advice to investors is to ‘look across the valley’ of short-term disruption and weak economic data due to the coronavirus.

## Asian Markets Before SARS and Now

(Fig. 2) MSCI AC Asia ex Japan index and number of new cases.

Asia ex-Japan Markets performance – SARS outbreak



Asia ex-Japan Markets performance – COVID-19 outbreak



### Past performance is not a reliable indicator of future performance.

As of February 21, 2020.

Sources: MSCI (see Additional Disclosures), China Health Authority, data analysis by T. Rowe Price.

in Asia. China’s contribution to global growth is expected to remain significant as it continues to outpace developed economies. Over the medium term, we think China can continue to successfully transition its economy, striking an appropriate balance between growth stabilization and financial deleveraging. China’s focus on greater self-reliance, encouraging companies to move up the value chain, and the shift towards domestic consumption are long-term positive growth drivers for the region.

We favor cash-generative companies in Asia that show they can continue to grow market share and compound their earnings regardless of macroeconomic or trade policy uncertainties. As a result, our portfolio tends to have a natural bias toward domestically oriented businesses

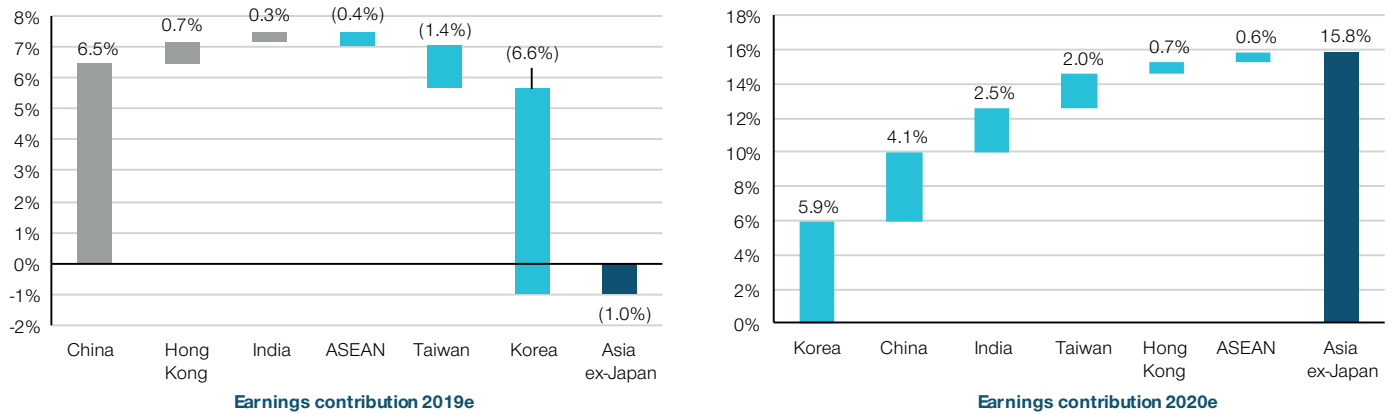
that are expected to benefit from the strong growth in Asian disposable incomes. We still intend to keep a close watch, however, on developments in U.S.-China trade relations and their potential impact on company earnings.

### Chinese Fiscal Policy to Drive Regional Growth

China’s fiscal policy is likely to drive 2020 growth in the Asia ex-Japan region. Implementation of fiscal policy support—such as additional infrastructure investment financed by local government special purpose bonds—has to wait until the outbreak has been contained enough for factories and the construction sector to resume activity. Other Asian countries are likely to use their available fiscal policy tools

## Asia EPS growth in 2019 and 2020

(Fig. 3) Contribution by country to Asia ex-Japan regional EPS growth



As of February 25, 2020.  
 Source: HSBC Global Research.  
 Based on FTSE Asia Ex-Japan Index.

to protect their economies against COVID-19. Singapore and Hong Kong have introduced expansionary budgets, and South Korea is expected to follow suit with a fiscal package of around 0.5% of GDP.

However, much remains uncertain about the impact of COVID-19 and policy responses. As a result, equity markets in Asia and elsewhere are expected to remain volatile in the months ahead. After their recent correction, valuations in Asia ex-Japan equity markets appear reasonable relative to past history and to developed markets, if not cheap.

We believe the Asia ex-Japan region continues to offer good opportunities for longer-term investors in top-quality companies with strong earnings potential. Many of the stocks that we favor have been supported by strong domestic demand trends that should not be impacted by the coronavirus beyond the short term and are also less vulnerable to a resumption of China-U.S. trade tensions.

## INVEST WITH CONFIDENCE<sup>SM</sup>

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

# T.RowePrice<sup>®</sup>

### Additional Disclosures

MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2020. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

### Important Information

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

---

## Important Information (Continued)

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**China**—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

**Malaysia**—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No interests are offered to the public. Accordingly, the interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**South Africa**—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.