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Asia multi asset investing – capturing the best of Asia

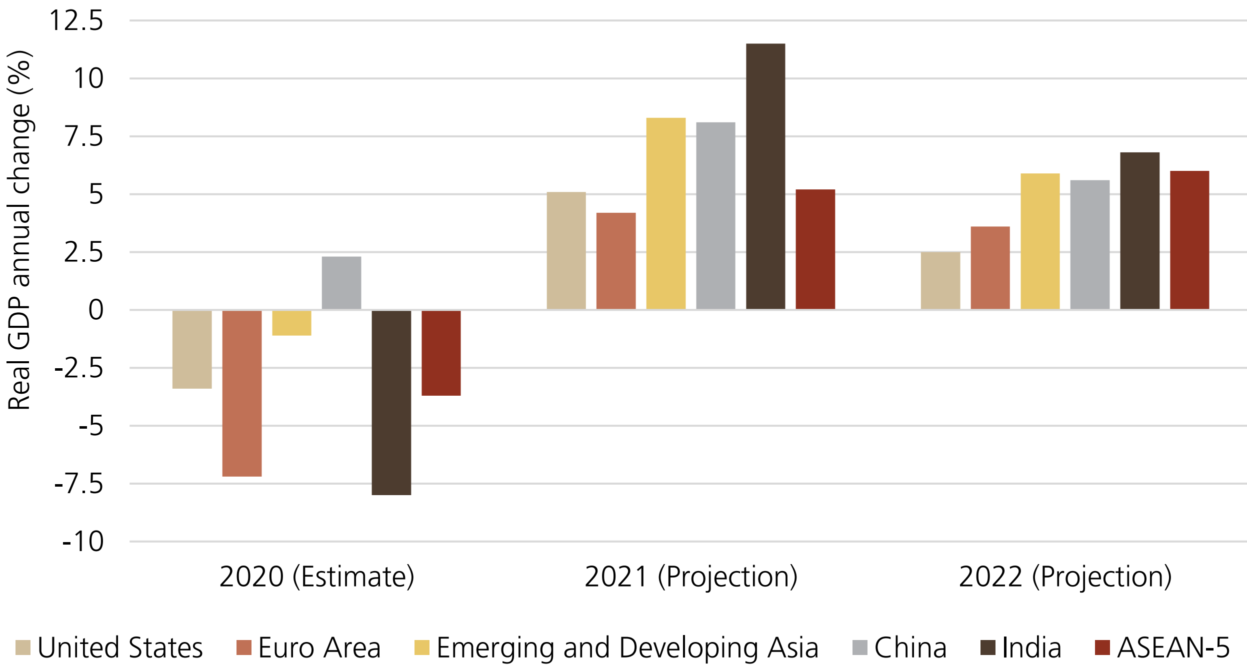
Asia is a rich and diverse region, with 72 official languages, 48 countries, and six of the world's top ten most populous countries.

Turning to Asia investing, the range of growth stories is equally diverse and so much more than just being about China.

Asia continues to be a key driver of economic growth

For example, parts of Asia, like India and the ASEAN-5 nations (Indonesia, Malaysia, the Philippines, Singapore and Thailand) are forecast to grow faster than the expected growth for the world economy in 2021 and 2022, according to estimates by the International Monetary Fund (Chart 1).

Chart 1: Economic Growth Projections (%), 2021



Source: International Monetary Fund, World Economic Outlook, January 2021

With such a compelling growth story coming from a range of diverse sources, the question for investors is how to capture it – and we see three entry points. The first of which is via the Asia equity space.

Asian companies are benefitting from shifting trends

Asia is home to five of the world's ten largest stock exchanges[1] and has more than 200 companies listed in the Fortune 500.

We believe that selecting stocks across the Asian equity space can give investors access to the macro growth stories described above as well as longer-term positioning in a range of secular trends playing out in the region – we see **three in particular:**

[1] Source: Statista: Largest stock exchange operators worldwide as of June 2021, by market capitalization of listed companies (https://www.statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies/)

Shifting consumer trends in Asia: Incomes are rising, tastes are changing and discretionary spending is growing, creating higher demand for luxury goods, such as cosmetics and liquor, as well as goods and services, like recreation, health care and education.

The emergence of Asian tech leaders: Asia's dominance in semiconductors is well-known, but we also see significant growth opportunities in consumer-facing technologies and digitalization. E-commerce is one such growth area, and we see strong potential for e-commerce penetration to rise in countries like India and Indonesia.

Demographic changes: Some parts of Asia, like China, South Korea and Japan, are aging rapidly and we believe this will support a shift in consumer spending within the region to industries like health care and financial services.

Significant capital growth and alpha opportunities

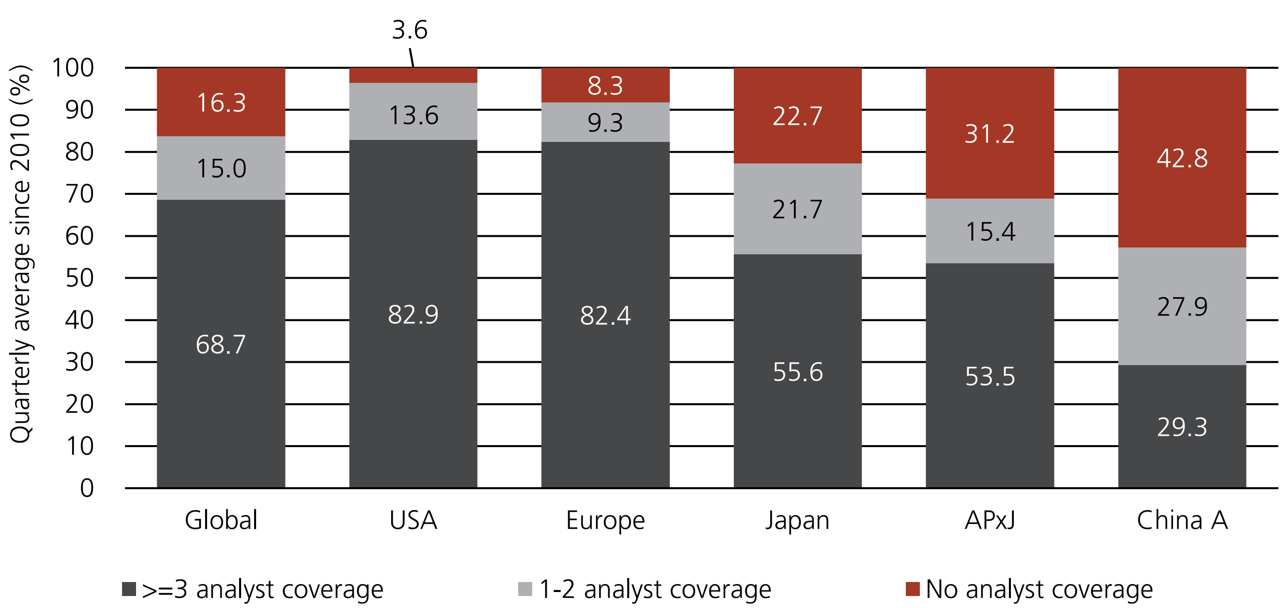
While we consider the growth dynamics to be quite clear, Asia remains largely unchartered territory – and we believe this creates opportunity for investors, particularly active ones.

Levels of analyst coverage in Asia remain low by international standards, particularly in China (Chart 2).

This can create opportunities for specialist, active managers to identify quality companies/underappreciated opportunities aligned with the trends described above.

If investors can identify the winners from these trends and themes and avoid the losers, there is the potential to generate attractive returns.

Chart 2: Levels of Analyst Coverage Across Major Markets

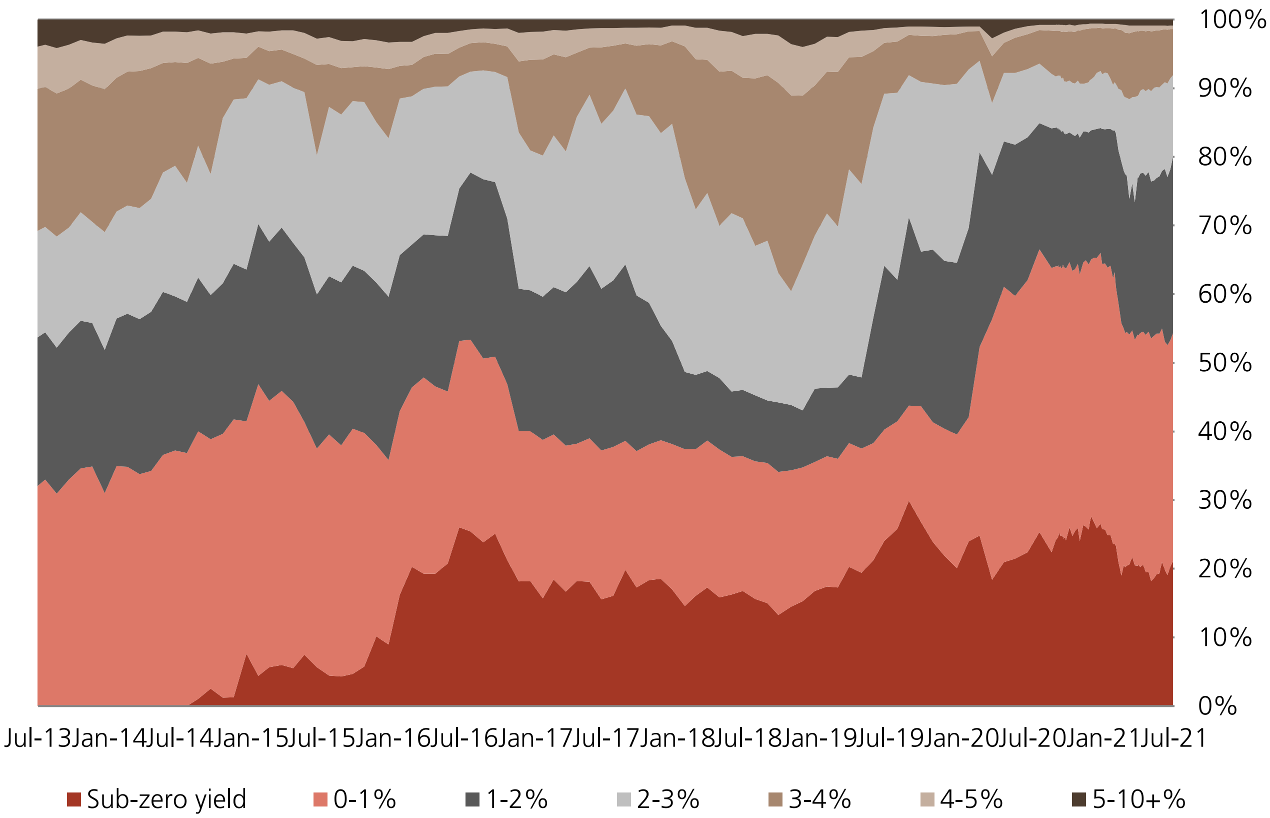


Source: FactSet Alpha Tester, Jefferies as of Aug 2020.

Asia offers attractive sources of income

For fixed income investors, the world of low-or-negative yields present a difficult challenge from an income perspective (Chart 3). And while Asia investing can mean alpha, it can also mean attractive sources of income, and that's where Asia fixed income and REIT investments have a key role to play.

Chart 3: Bond yields across global markets, July 2013-July 2021



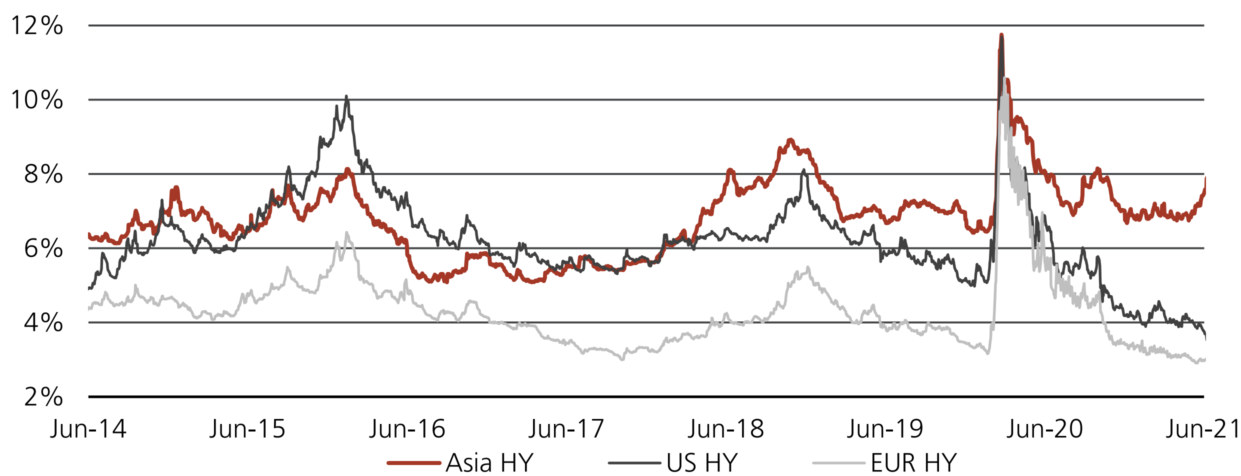
Source: Bloomberg, Bloomberg Barclays Global Aggregate Index MV USD. As of end July 2021

But that's where Asia fixed income can make a difference, offering higher yields and shorter duration than more developed markets around the world, as well as a supportive back drop from a macro perspective.

Asia high yield provides a meaningful yield pick-up relative to global credit markets and spread valuations remain relatively more attractive (Chart 4).

Asia high yield provides a meaningful yield pick-up relative to global credit markets

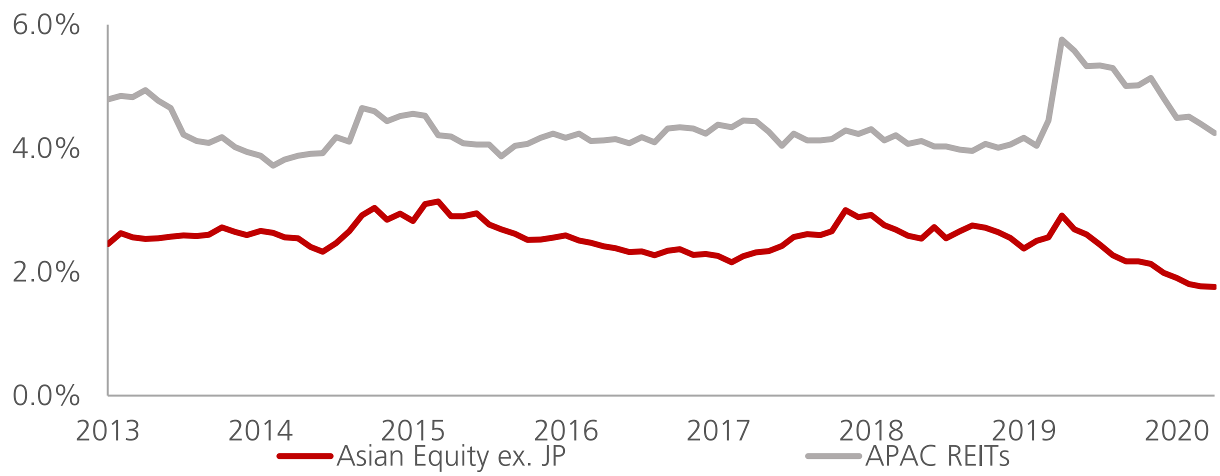
Chart 4: High yield credit market: yields in Asia vs. US and Europe



.Source: Bloomberg, J.P. Morgan. As of end July 2021

Turning to Asia Pacific Real Estate Investment Trusts (REITs), we see that the asset class offers an attractive dividend yield compared to the rest of the Asia equity space and can add a strong income proposition for investors (Chart 5).

Chart 5: Dividend yields: APAC REITs & Asian Equity ex. Japan



Source: Bloomberg. As of March 31, 2021. Asian Equity ex. JP is proxied by MSCI AC Asia Ex. Japan Index, and APAC REITs is proxied by FTSE EPRA Nareit APAC REITS $ - TOT RETURN IND.

Put together, these three approaches to Asia investing offer a unique range of growth and income opportunities.

Diversion in performance creates a challenge for investors

But for all these rich opportunities, investing in Asia can be a bumpy ride. Markets can be volatile, and performance can diverge. Indeed, historical market performance shows a marked dispersion of returns both within and between asset classes in the Asia investing universe:

Table: Historical market performance across Asian asset classes, 2010-2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Asia ex Japan EQ	19.6	-17.3	22.4	3.1	4.8	-9.2	5.4	41.7	-14.4	18.2	25.0
APAC REITs	23.5	-6.2	34.3	-1.1	15.1	-3.0	13.0	11.2	3.9	21.7	-7.7
JPM JACI IG (USD)	7.9	4.9	11.3	-2.6	9.0	2.2	4.5	5.5	0.0	11.0	6.9
JPM JACI Non-IG (USD)	15.5	2.8	20.4	2.0	6.1	5.2	11.2	6.9	-3.2	12.8	4.9

Performance rank	1	2	3	4

Source: Bloomberg. As of December 31, 2020. Calendar year performance is all measured in USD. Asia ex Japan EQ is proxied by MSCI AC Asia ex Japan Net Total Return USD Index, APAC REITs is proxied by FTSE EPRA Nareit APAC REITS, JPM JACI IG (USD) is proxied by JPM JACI Investment Grade Total Return, and JPM JACI Non-IG (USD) is proxied by JPM JACI Non-Investment Grade Total Return. The darker color represents better relative performance compared with the market indexes in the year, and vice versa

That's where an actively managed multi-asset allocation strategy has the potential to both manage risks and bring together diverse sources of growth and income across the different segments of the Asia investment universe.

More specifically, active top down asset allocation can add value and capture the diverse range of Asia investing opportunities via five specific levers:

Balancing between risk-on and risk-off, and adjusting between cash, government bonds and risk assets depending on the prevailing environment and considering signals around sentiment, stress indexes and geopolitics

Getting the right mix between equity, credit & REITs to balance income and capital growth objectives by weighing prospects for stock and bond expected returns, relative performance of old vs new economy, and interest rates projections.

Express relative Asian equity markets views by exploiting growth differentials, valuation discrepancies and varying policy backdrops across Asian markets.

Weighing Investment Grade vs High Yield credits by assessing the attractiveness of spreads depending on where we are in the cycle and how default profiles look.

Hedging portfolios and focusing on the journey for investors, not just the destination, by constantly looking at the shape of the portfolio and looking at how to hedge potential portfolio risks.

We see these steps as being essential to not only capture the whole range of diverse Asia investing opportunities, but also deliver a risk-aware solution, and they are key elements within our newly launched Asia multi-asset investing strategy.

Three reasons to consider an Asia multi-asset strategy

1. Our multi-asset solution brings together the 'best of UBS,' leveraging the expertise of our well-regarded Asia-Pacific Equities and Fixed Income teams combined with our experienced top down asset allocation team.

2. We have a strong footprint in Asia, with market presence, on-the-ground expertise, and extensive networks in countries across the whole region.

3. We have been recognized externally for our expertise and track record in Asia equities, fixed income, and multi-asset investing.

So, as Asia becomes increasingly important to not just the world economy but also investor portfolios, we believe an active, multi-asset investing strategy offers a risk-aware approach to not only capturing but managing the diverse range of opportunities in the Asia investing universe.

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