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Investing in Asia amid policy easing

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We forecast that Asia will deliver better growth in 2024 than in 2023 despite a plethora of macro uncertainties. Chinese stocks remain most preferred in our Asia portfolios, and we see opportunities in quality Asian credit and select currencies.

The Federal Reserve's policy pivot, China's policy disappointments, and geopolitical tensions are just some of the factors over the past several months that have reshaped the outlook for Asia in 2024.

While we continue to believe that the global headwinds of last year are set to turn into tailwinds for Asia this year, uncertainty remains over the timing and degree of the Fed's easing cycle, and China's policy support for economic growth. Such uncertainty has weighed on investor sentiment, with the MSCI Asia ex-Japan index underperforming global equities by more than five percentage points year-to-date.

In this article, we answer some of the questions that are top of investors' minds in 2024:

What does the Fed's pivot mean for Asia? While we expect slower and fewer Fed cuts than markets are pricing this year, we think the clear direction of travel, end destination, and likely accompanying dollar weakness allow for an earlier and deeper easing cycle among select Asian central banks and a second-half cyclical bounce in Asia. To position, buy the dip in select Asian currencies (AUD, KRW, TWD, SGD), and quality in Asian credit.

Will China deliver on policy easing expectations? Yes, we think so. Policymakers are sticking to a "just enough" approach to ensuring growth, for now. But we don't rule out an upside case of Chinese style "QE," particularly if growth concerns become entrenched. Though exposure needs to be managed, we maintain a most preferred stance on Chinese stocks. For those with a multi-year horizon, position in longer-term winners of the economic transition.

Where can growth be found in emerging Asia? Focus on growth beyond China as India, Indonesia, and other regional economies expand their share of the economic pie. This underpins our most preferred view on emerging market equities, which could deliver some of the highest asset class returns over the next decade, especially if a Goldilocks upside case materializes. Growth as a style, too, is back in Asia. Look to the ABCs: AI beneficiaries, banks for the next billions, and consumption proxies.

Will Japan continue to outperform? A resurgence in foreign interest, a weaker yen, and a favorable investment climate have all helped the TOPIX outperform Asia ex-Japan, the STOXX600, and even the S&P 500 this year. We see this continuing in the very short term. But over other longer investment horizons, given relatively expensive valuations, we recommend focusing on quality value segments like banks and those with high domestic exposure, such as names in the consumer discretionary sector.

Finally, investors should also be aware of the potential for market volatility spurred by a crowded electoral calendar, ongoing wars, and macro uncertainty. We would advise hedging market risks through defensive structured investments, alternatives, or positions in oil and gold. For more details, read our latest edition of [Investing in Asia Pacific](#).

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