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Sheltering from tariff turbulence in Asia

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Risk aversion seems to have returned on the back of tariff and geopolitical concerns, and might linger as the Trump administration mulls its probe into its trading partners' alleged unfair trading practices. Asia's equity markets are likely to be affected, especially with China likely to be a key tariff target. Investors can, however, mitigate some of this damage to portfolio returns by focusing their Asian exposure, both geographically and sectorally. Taiwan and India remain our favored major Asian markets, while Malaysia and the Philippines are also Attractive.

The tumble in global equity markets at the end of last week, owing to a spike in tariff and stagflation concerns, suggests that risk aversion is very much underway. Indeed, in the four sessions through Monday, the S&P 500 fell 2.9% while the VIX rose sharply from 17 to 22. Within Asia, the TOPIX, KOSPI, and TWII were among the biggest decliners, falling 5.5%, 6.2%, and 7.0% in the wake of President Trump announcing 25% tariffs on automotive imports. President Trump's expressions of unhappiness with Russia and Iran over the weekend threaten to add geopolitics to tariffs as another source of risk aversion.

Although a new wave of tariffs will likely include China as a key target, investors (especially those in Asia) should step back and remember the need to also align their asset allocation with the medium-term positives. But the near-term threats are real and significant, and spikes in volatility — like what we are currently experiencing — are unavoidable in the coming weeks, and maybe months.

Investors (especially in Asia) thus can benefit from being selective about which economies and sectors they are exposed to, in order to mitigate the damage from spikes in risk aversion. Case in point, Asia ex-Japan equities (MXASJ) is actually down just 2.7% in the wake of the auto tariffs, with MSCI India in particular showing resilience. Within Asia, we focus on

markets with a compelling combination of robust structural drivers, reasonable valuations or better, and some likelihood of being spared the worst of the tariff impact.

Major bulwarks in Asia: Taiwan and India. Although we recently turned Neutral on Asia ex-Japan as we also turned Neutral on China's tech sector, we have remained confident about the global AI theme. In Taiwan, we see the best tech opportunity in the region and view it as Most Attractive. Despite strong earnings growth over the last two years, the MSCI Taiwan is still cheap on a relative basis at a 40% discount versus the MSCI AC World IT index. Tech stocks comprise fully 80% of the MSCI Taiwan index—these are a key beneficiary of strong AI spending from both US and mainland Chinese tech firms. Although subject to tariff-related volatility, Taiwan's equities offer an attractive avenue to exposure to medium-term resilience of the AI theme.

India's equities meanwhile offer a different combination of positives, and we view India as Attractive. We expect that robust domestic growth is likely to drive a recovery in earnings growth to 15-16% in FY26 (2Q25-1Q26), followed by 10-15% growth in FY27. Although nearer-term tariff concerns have somewhat obscured Indian equities' fundamental strengths, we think that Indian officials are working on addressing US demands by lowering tariffs and increasing energy and defense purchases from the US. Easing tariff concerns would allow valuations to stabilize and rebound, which would combine with a recovery in earnings growth (after a weak FY25), to produce a potentially robust rebound in Indian equity prices. Financials and consumer stocks are our preferred sectors.

Southeast Asia also offers attractive markets. Although somewhat less liquid, equity markets in Malaysia and the Philippines should be bolstered by robust domestic demand and appealing valuations; we view both markets as Attractive. Malaysian equities should be supported by robust GDP and earnings growth, plus attractive valuations, with the MSCI Malaysia Index trading below its historical average price-to-book valuation. The MSCI Malaysia also offers decent dividend yields of 4.4%, and exposure to the AI theme via a sustained data center buildout. Philippine's equities meanwhile look set to benefit from expectations of monetary policy easing that could resume as early as this month. Resilient earnings growth of 9% this year, coupled with rate-cut expectations, and a 200bps cut in reserve requirement ratio from late-March look set to combine with attractive relative valuation both historically and regionally to provide attractive returns. We favor large-cap banks with sustainable returns on equities, plus select conglomerates with resilient growth profiles

Don't forget sectoral repositioning. We are Neutral on both China and Singapore, but investors should take care to ensure that their exposure to these two markets are in the correct segments. For China, we believe that the recent surge in optimism from the DeepSeek revelations has run its course in the near term, as the promise of this cost-effective AI model will take time to translate into broader economic gains. Existing longer-term holders of Chinese equities could seek to rebalance into more defensive and high-yielding state-owned enterprises (SOEs) such as banks, telcos, utilities, and energy.

Singapore's equity market has been a relative outperformer within Southeast Asia this year as its banks have benefited from market expectations of higher-for-longer policy rates. With growth concerns coming to the fore and market expectations turning more dovish, we expect REITs to outperform banks in the near term.

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