JPMorgan Funds – ASEAN Equity Fund

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Topline

Month covered – April 2024

Markets – A weaker month for the ASEAN markets. Singapore held up well, underpinned by financials and new economy plays. Vietnam, Indonesia and Philippines lagged on a confluence of factors including US "high for long" interest rate backdrop, tightness in system liquidity and challenges in earnings outlook. All currencies weakened against the USD and the BI hiked rate to support the FX.

Helped – Stock selection in utilities.

Hurt – Stock selection in financials, communication services and Indonesia.

Outlook – ASEAN is poised to see more balanced growth this year. Green shoots are appearing in manufacturing and exports which should benefit trade sensitive ASEAN economies that have also been seeing strong FDI flows amidst ongoing supply chain reconfiguration. Services growth driven by re-opening and tourism recovery continues to be a cyclical tailwind – albeit from a higher base.

Fund Overview

Investment objective

The Fund aims to provide long-term capital growth by investing primarily in companies of countries which are members of the Association of South East Asian Nations (ASEAN).

Fund launch	4 September 2009
Benchmark	MSCI AC ASEAN 10/40
Market capitalization	All Cap

Month in Review

- Both sector allocation and stock selection dragged on performance.
- On the positive side, in Malaysia, YTL Power (Independent Power Producer) contributed over the month as the stock did well on data centre narratives, sell-side initiation and earnings upgrade. In Singapore, the overweight to financials names such as DBS Group and United Overseas Bank added value amid high-for-long rate outlook and yield support. Grab (mobility, delivery and digital financial services app) contributed on rationalizing delivery competition, and tailwinds from growing ad revenues and their mobility business. In Indonesia, not owning a Malaysian bank helped as it posted results which fell short of market expectations.
- On the negative side, the overweight to Telkom Indonesia detracted. Telkom's stock price fell on reduced earnings expectations on the back of lower revenue and higher costs. In Indonesia, Bank Central Asia fell as it saw some profit booking from investors. Bank Rakyat underperformed as quarterly core operating trends were weaker than expected with credit cost being the main negative along with a comparatively weaker looking asset quality. In Singapore, the underweight to OCBC hurt as the stock did well along with the sector on reasons discussed above.

Looking Ahead

- ASEAN is poised to see more balanced growth this year. Green shoots are appearing in manufacturing and exports which should benefit trade sensitive ASEAN economies that have also been seeing strong FDI flows amidst ongoing supply chain reconfiguration. Services growth driven by re-opening and tourism recovery continues to be a cyclical tailwind –albeit from a higher base. Meanwhile a more dovish Fed and declining inflationary pressures should provide a supportive backdrop in terms of financial conditions. Governments are also on conservative fiscal and monetary settings which will provide them some room to maneuver if required.
- Looking ahead, we are witnessing significant changes in regime across Asia, particularly with regards to the growth contributions from China, which is experiencing a structural slowdown. The implication is that market leadership, both at the sector and country levels, could undergo substantial changes and perform quite differently compared to the previous decade. The positive structural forces that continue to drive ASEAN's growth are still evident, including favourable demographics, a growing middle class, and increasing consumption. At the corporate level, we continue to see supply chain diversifications. While at the consumer level, there is a change in consumption behaviour, aided by increasing financial and digital penetration. Traditional sectors and emerging industries will present investment opportunities for stock pickers.
- Active bottom-up picking remains crucial given the wide dispersion in stock fundamentals across ASEAN. We are overweight Vietnam (long term growth profile). In Vietnam, we continue to invest in off benchmark quality names selectively. In Indonesia, despite its long term growth profile, the overweight is now more modest given the valuation premium and potential noise going into the election season (although we expect policy continuity even with a new government). Exposure in Thailand is more selective but nonetheless is positioned for its bumpier than expected tourism revival. Malaysia continues to be an underweight, but bottom-up ideas continue to present itself. At a sector level, Financials offers exciting opportunities both cyclically and structurally. Across ASEAN, we believe a bar-bell approach to economic sensitive and longer-term growth plays will help add alpha. Fundamentally, we aim to look for long-term compounders and domestic champions with attractive growth prospects.

J.P.Morgan
ASSET MANAGEMENT

NEXT STEPS

For further information, please visit:
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