

From the CIO's Desk

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Markets occasionally offer us moments of clarity, while other moments remind us that navigating complexity is at the heart of what we do. May has been firmly in the latter category. As we parse through the noise of trade tensions and policy shifts, several deeper narratives are emerging that warrant our attention. The prospect of a major infrastructure investment cycle, the quiet strength building in Emerging Markets, and Korea's promising post-election reform agenda all suggest we're at an interesting inflection point. In this month's commentary, we explore these themes and opportunities and explain why investors should get used to the noise along the way.

Market Review

The MSCI All Country Asia Ex-Japan Index was up 5.29% (in USD terms¹) over the month of May, as peak tariff anxiety tapered off with signs of de-escalation. Relative to the rest of the region, Taiwan, Indonesia, and Hong Kong were the top performers, while Thailand and Malaysia were the laggards. Sector-wise, IT and Industrials were the top performers, while Utilities and Consumer Staples were the main underperformers.

MSCI China rose 2.75% in May, recovering from tariff-related lows following constructive US-China trade talks. The two countries agreed on May 12 to reduce tariffs for 90 days while negotiations continue. Manufacturing Purchasing Managers' Index (PMI) edged up 0.5 points to 49.5 in May but remained in contractionary territory for the second consecutive month.² Real estate continues to be a drag on the economy, as the value of new home sales from the 100 largest property developers fell 8.6% year-over-year (y/y) despite a modest month-on-month (m/m) improvement.³

Indian equities returned 1.20% in May, modestly underperforming the broader region but maintaining positive momentum. Strong institutional flows drove the market, with total equity inflows reaching USD 8.7 billion, split between domestic mutual funds (+USD 5.6 billion) and foreign portfolio investors (+USD 2.3 billion).⁴ GDP growth rebounded to a four-quarter high of 7.4% in Q4 FY25 (January-March), supporting

¹ Note: All return figures are in USD terms unless stated otherwise

² Source: National Bureau of Statistics of China, June 2025

³ Source: CRIC Research, FactSet, June 2025

⁴ Source: SEBI, June 2025

the full-year growth estimate of 6.5%.⁵ Additionally, the government improved its fiscal position, with the FY25 deficit narrowing to 4.77% versus the revised estimate of 4.84%.⁶

Korean equities rallied 7.84% in May, trading higher on the back of easing concerns on Trump's trade war, Middle East AI demand boom, and anticipated corporate reforms ahead of Korea's snap election. Foreign investors returned to the market, with net purchases of USD 847 million in KOSPI-listed stocks, marking the first positive inflow in 10 months.⁷ Despite South Korean exports falling 1.3% y/y to a three-month low in May, the trade surplus widened to USD 6.94 billion, as a steeper 5.3% decline in imports, driven by lower energy costs, had more than offset the export weakness.⁸

Taiwan was the region's top performer in May, with equities returning 12.54%, thanks to strong foreign investor buying and Taiwan Dollar strength. Foreign inflows concentrated on AI/Robotics names such as TSMC and Quanta amid positive progress on US-China trade talks and sentiment boost from Nvidia CEO Jensen Huang's visit. Manufacturing PMI improved to 48.6 in May from 47.8 in April but remained in contractionary territory for a third straight month amid US tariff impacts and market uncertainty.⁹

The ASEAN region saw a divergence in equity performance in May, with Indonesia leading the pack as equities surged 9.66%. This strong performance was fueled by late-month foreign inflows, thanks to a strengthening Rupiah and improved investor sentiment driven by expectations of rate cuts from Bank Indonesia. Singapore also delivered robust returns, climbing 6.52% in May and maintaining its position as the year-to-date (YTD) benchmark leader, thanks to its defensive appeal and ongoing capital market reforms. In contrast, Thailand continued to underperform, with equities declining 3.30% as investors grappled with persistent global economic uncertainties and weaker-than-expected domestic retail sales data.

Portfolio Commentary & Outlook

Get Used to the Noise

Over the past four months, we've seen unprecedented activity from the Trump administration, reminiscent of a "bazooka" approach with numerous proposals being rapidly introduced. This pace often means that not every initiative is fully fleshed out beforehand. The administration's strategy appears to embrace a "fail fast" mentality – iterating and adjusting if proposals don't achieve their desired outcomes. This tech-sector-like approach is quite unorthodox for a government, and it's fairly unusual for investors to see a government run in such a way.

As we'd anticipated, reciprocal tariffs have been pushed out, with the 90-day window set to expire in early July. Leading up to this expiration, we expect heightened volatility and increased noise in the markets. The administration wants to bring countries and regions to the negotiating table with more favorable terms for

⁵ Source: Government of India, May 2025

⁶ Source: Ibid.

⁷ Source: KRX, June 2025

⁸ Source: Korea Ministry of Trade, Industry & Energy, June 2025

⁹ Source: S&P Global, June 2025

the US. However, having watched the US-China playbook unfold, counterparties have grown savvier and are likely to hold their ground.

Our view is that post-July 9th, the administration's focus is going to pivot away from tariffs to focus more on deregulation and growth. Recent months have shown the administration's tendency to pivot at the last moment, suggesting that preparing for the worst-case scenario may not be the most effective strategy. Instead, understanding the administration's true intent is crucial. And that is, primarily to bolster domestic manufacturing and reduce dependency on China.

US-China Relations: A Complex Interdependency

US-China relations remain tense, with the relationship entering a new phase of strategic recalibration. Unlike China's quiet economic ascent over the past decade, the US has taken a notably vocal stance about reducing its dependence on Chinese manufacturing. This creates an inherently delicate situation – it's challenging to publicly distance yourself from a partner who is meeting a significant portion of your demand.

In a way, the Chinese manufacturing experiment proved almost too successful. The compelling combination of economies of scale, speed, quality, and competitive pricing led companies and countries to concentrate a majority of their production in a single country – a concentration that, in hindsight, deserved more scrutiny from a risk management perspective.

However, both nations face constraints that encourage pragmatism. China's exports to the US may represent a smaller share of GDP than before, but they still support significant employment. With slower growth and increased debt accumulation since 2018, China needs to carefully manage its economic rebalancing toward consumption without triggering external shocks.

From the US perspective, rebuilding domestic manufacturing capacity is essential not only for economic resilience but also for strategic autonomy. Ensuring control over key assets means that if a geopolitical conflict were to eventuate in the next 10-15 years, the US will have the necessary infrastructure in place to maintain its strategic interests without being entirely dependent on China.

Looking ahead, we expect US dependence on Chinese imports to decrease by 30-40% over the next 3-5 years. This transition will likely occur through a combination of 1) increased domestic manufacturing within the US and 2) the diversification of supply chains to include geopolitical allies such as South Korea and Taiwan. These allies are poised to fill the gaps from the shift away from Chinese suppliers, providing the US with greater control over key maritime and strategic resources.

The 90-day truce that the US and China came to in May suggests a recognition of these complex interdependencies. While we expect continued tensions and headline-grabbing confrontations, the underlying reality is that both nations need each other, albeit in evolving ways. This won't be a smooth journey, but we believe practicality will ultimately prevail.

The Coming Investment Cycle

Our investment philosophy remains pragmatic: while it's easy to get caught up in doomsday scenarios, history suggests this rarely eventuates. Instead, we're positioning for the more likely scenario: a multi-year investment cycle that addresses years of underinvestment in critical infrastructure.

To understand, we need to examine how we got to where we are today. Post-financial crisis, much of the developed world (and India as well) went through a necessary deleveraging following the excesses of early 2000s to 2007. This was followed by the rise of capital-light tech platforms – high ROE businesses that captured market attention but required minimal physical investment. Then came COVID-19.

The cumulative effect was 17 years of limited capital investment. And the result is stark: aging infrastructure ill-equipped for today's demands and utterly unprepared for a world where corporates increasingly look to form 20-30% local capacity to reduce dependence on geopolitically unaligned countries.

We saw this recently with the Iberian Peninsula blackout, which left mainland Portugal and parts of Spain without electricity for almost a day. On a personal note, I experienced similar infrastructure shortcomings on a recent business trip across Europe – there were two consecutive nights where I was reallocated to alternative hotels due to maintenance failures (an electrical outage in London and a burst water pipe in Helsinki). While one might attribute each incident to isolated events, in all my years of travel, experiencing such disruptions on two consecutive nights in two different cities is highly unusual and feels symptomatic of a broader underinvestment problem.

Against this backdrop, we see three key investment themes emerging:

1. A substantial US infrastructure rebuild
2. Increased European defense spending
3. India's parallel consumption and investment cycles

Of particular interest are the potential beneficiaries of this cycle, where Korean and, to some extent, Japanese companies are positioned to become key allies in America's strategic rebuild. Whether it's modernizing the power grid, expanding data center capacity, or developing maritime logistics infrastructure, we believe Asian industrial champions will play crucial roles.

Emerging Markets: The Bright Spot for 2H 2025

The old adage "when the US sneezes, emerging markets catch a cold" appears increasingly outdated. We see a meaningful decoupling happening, born from a decade of responsible economic management across EMs. Unlike previous cycles, where low US rates triggered excessive credit expansion and overinvestment, the past decade has been marked by restraint (with the exception of China). The result? Most EMs today enjoy healthier fiscal conditions and more sustainable debt-to-GDP ratios.

This fundamental strength is manifesting in the "stealth bull market" that we're seeing now, and it appears to be resonating with investors. We've observed a notable uptick in investor engagement over recent weeks, with many discussions that were delayed during April's uncertainty now materializing. This renewed interest, combined with growing conviction in Asia and emerging markets broadly, suggests

institutional flows could remain robust. EM currencies have also been strong, appreciating ~5-10% in recent months. These trends will become all the more evident in the coming quarters as the US moderates its fiscal spending and reduces its trade deficit. Meanwhile, falling inflation across EMs is giving their central banks the confidence to initiate rate cuts, setting the stage for accelerated growth in the second half of this year.

However, this isn't just a traditional EM recovery story. Unlike previous cycles, technological disruption is a powerful underlying force. We're particularly focused on companies at the forefront of tech innovation within their sectors – those that can capitalize on both the broader growth recovery and digital transformation.

Portfolio: Repositioning for the Next Phase

From a portfolio perspective, we see compelling opportunities across Asia, but selectivity remains crucial. We have notably reduced our China/Hong Kong exposure from 48% at the end of March to 36% at the end of May, particularly trimming consumer discretionary names that performed well in the latest rally but now face mounting pressures. In China, we remain focused on global champions – companies that have not just survived but thrived during recent challenges. These businesses have leveraged the tough environment of the past 4-5 years to strengthen their competitive positions, improving both scale and technological capabilities. For example, the healthcare sector stands out, where domestic pharmaceutical players are rapidly gaining market share from multinationals while building impressive innovative drug development pipelines.

From the weight taken off China, we've increased our exposure to South Korea ahead of the election and anticipated reforms. In particular, we've added to companies that are beneficiaries of the upcoming investment cycle, including Samsung Heavy (shipbuilding, offshore energy) and HD Hyundai Electric (power equipment, industrial systems).

Meanwhile, India continues to offer a rare growth proposition in today's global landscape. Few markets can match its 8-10% growth potential, let alone sustain it over the next 5-10 years. Following the swift resolution of recent border tensions and further moderation in inflation, we've increased exposure to domestic cyclicals and consumer plays, including leading banks like ICICI Bank and HDFC Bank, as well as travel platforms such as MakeMyTrip. Currently, we find the risk-reward more attractive in large-cap names, though we anticipate small and mid-caps will present opportunities later this year after a period of more time correction.

Finally, ASEAN markets are also emerging as beneficiaries of the China+1 strategy, creating opportunities for further growth. We've increased our exposure in pan-ASEAN consumer platform names like Sea and Grab, while also building exposure to Vietnam through select positions in retail banking and consumption plays.

For us, the key to capturing these opportunities lies in looking beyond headlines and rhetoric. While the mainstream narrative might focus on challenges, we're seeing robust earnings progression in select sectors with substantial growth runways over a 3-5 year horizon. This isn't a rising tide lifting all boats – it's about identifying specific opportunities where improving macro conditions intersect with company-specific advantages.

Korean Markets: A New Chapter Under Lee

Lee Jae-myung's recent victory in Korea's presidential election signals a new leaf for Korea after a period of uncertainty. His administration's focus on corporate governance reform and shareholder value enhancement, particularly through the Korea Value Up (KJU) 2.0 initiative, could catalyze significant changes in how Korean conglomerates operate.

The cornerstone of Lee's capital markets agenda is the Commercial Act amendment. This reform aims to strengthen minority shareholder protections and establish clearer fiduciary duties for directors. While some conglomerates might rush to complete restructuring before the new rules take effect, Lee's reputation for decisive action suggests such moves could face significant pushback.

Another key pillar of Lee's agenda is increasing domestic institutional investment in Korean equities. With Korean pension funds currently holding around 14% in domestic stocks (compared to Japan's GPIF at approximately 25%), there's potential for significant local institutional buying power to enter the market. Combined with his ambitious target of KOSPI 5,000, this could provide substantial support for valuations.

The timing of these reforms coincides with what we see as a broader opportunity in Korean industrial names. Our recent meetings in Korea confirm particularly strong interest in nuclear and defense subsectors, areas where US-Korea collaboration is robust and political support is high. Companies like Samsung Heavy and HD Hyundai Heavy are also well-positioned to benefit from the upcoming US investment cycle, particularly in infrastructure modernization and strategic capacity building.

This combination of domestic reform catalysts and external growth drivers creates a compelling investment case for select Korean equities. However, implementation will be key. While Lee's party controls congress and has demonstrated its ability to push through legislation, the reform agenda's breadth suggests a potentially volatile transition period, which we'll be keeping on close watch.

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