Asian Equity Perspectives

What's on investors' minds

In the past two weeks, our Asia strategy team has had meetings with investors in HK, Singapore, the US, and Europe. Conversations continue to center on tariffs, AI, China, and geopolitics, with drilldowns into the larger regional markets. We summarize the key discussion points along with our views, emphasizing noteworthy new developments. We remain constructive on Asian equities, with 9% upside to our MXAPJ 640 index target, overweights on China (H and A), Japan, and Singapore, and a focus on alpha themes including AI beneficiaries, domestic exposure, defense spending, shareholder yield, and positive earnings revisions.

- **Tariffs:** Is April a clearing event or a risk window?
- **US concerns:** A case for better relative Asian equity performance?
- **Flows:** Could US economic and equity market weakening prompt portfolio flows into Asia/EM?
- **AI:** China AI software-related stocks continue to outperform regional AI hardware-related ones
- **China near-term outlook**: Correction possible, add on weakness, A-share tilt
- **China medium-term outlook:** Is a better investment case building?
- **Japan:** Positive investment case, but concerns over yen strength
- **India:** When to re-engage?
- **Korea/Taiwan:** Alpha focus amid uncertain tariff beta
- **Alpha ideas:** AI, tariffs, defense spending, cash returns, and earnings revision baskets

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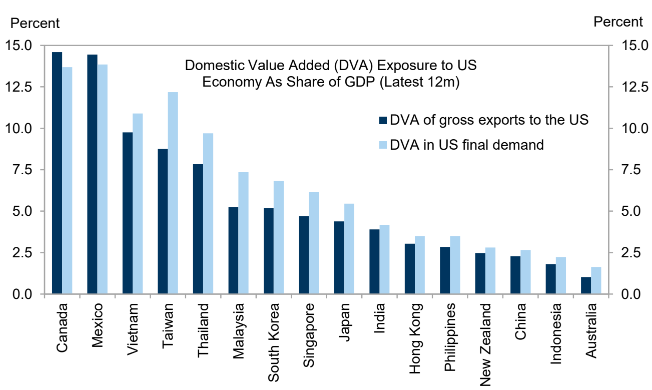
1. Tariffs: is April a clearing event or a risk window?

The January 20 presidential memorandum on trade instructs the Secretary of Commerce, the Secretary of the Treasury, and the US Trade Representative to report by April 1 to the president on a global supplemental tariff, reciprocal tariffs, and the Section 301 investigation into China. An announcement on further tariffs is likely shortly after this deadline. Investors are now well aware of this timeline and are wondering if early April will be a window of risk or a clearing event.

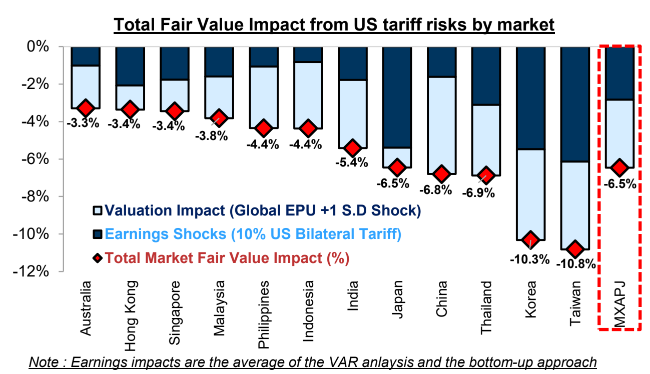
The answer, in our view, depends on a) how markets trade into this period, b) how severe any potential added tariffs are, and c) the response by impacted US trade partners. In the case of China, both we and consensus have factored the 20pp increase in tariffs that has already been imposed into our economic and corporate earnings forecasts. Further meaningful tariff increases without offsetting domestic policy support could prompt downward forecast revisions and profit taking in the equity market which has recently risen sharply (MSCI China +23% ytd). For India, consensus does not appear to have factored tariff increases into base case forecasts, and India has one of the widest tariff disparities with the US within Asia (6-11% depending on calculation method). Imposition of reciprocal tariffs by the US in the absence of policy response by India could prompt a moderate GDP forecast downgrade of 0.1-0.3pp, while a global tariff increase could lead to a domestic GDP growth impact of 0.1-0.6pp.

Exhibit 1: Higher US tariffs could weigh on Asian growth, particularly in smaller, export-oriented economies



Source: Goldman Sachs Global Investment Research

Exhibit 2: In the case of a 10% US universal tariff, the MXAPJ index could drop by 6-7%, consisting of a 3% decline in profits and a 4% drop in valuation, with Taiwan and Korea being the most impacted



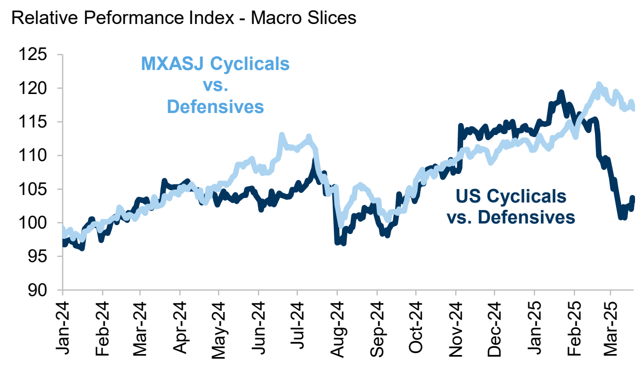
Source: FactSet, MSCI, policyuncertainty.com, Goldman Sachs Global Investment Research

2. US concerns: a case for better relative Asian equity performance?

The unwind of the US exceptionalism trade featured prominently in our investor conversations and prompted questions of whether this could spur better relative performance for the Asian region. Reflecting in large part a sharp rise in policy uncertainty, over the past month our economists have cut their 2025 US GDP growth forecast 50bp to a below-consensus 1.7% (on a Q4/Q4 basis), our US strategists have trimmed their earnings forecasts and index target, the S&P500 index has corrected 10%, US 10yr yields have dropped 40bp, Fed Fund futures have priced another rate cut this year, and the dollar has weakened 5% (on a DXY basis). The relative performance of cyclical vs defensive stocks demonstrates this changing outlook: US cyclicals have acutely underperformed defensives, whereas cyclicals in Asia continue to outperform. More granularly, US export-oriented stocks in Asia have started to weaken, while domestic consumption stocks are starting to recover. This points to a gathering narrative of better Asian relative performance along with a more internal focus, particularly given tariff uncertainty.

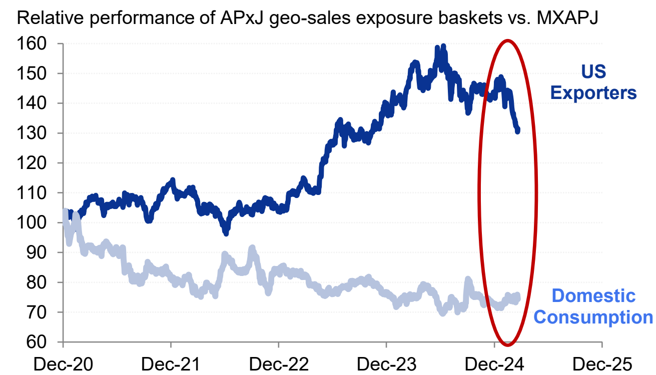
Exhibit 3: The relative performance of cyclicals vs. defensives in Asia compared to the US highlights how relative growth perceptions have changed

Cyclical vs defensive performances are on an ex-commodity basis



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 4: Asian domestic consumption stocks have lagged those which export to the US, suggesting opportunity for improved performance given tariff risks



Source: FactSet, Goldman Sachs Global Investment Research

3. Could US economic and equity market weakening prompt portfolio flows into Asia/EM?

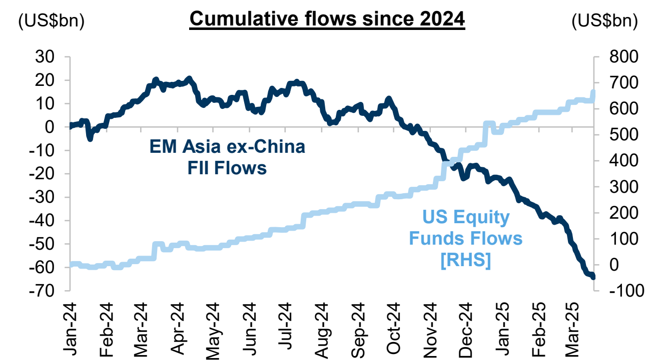
The question of whether a weaker US growth and equity market backdrop could spur portfolio flows into Asia (or emerging markets more broadly) has arisen in many recent investor conversations. We believe the best conditions for this would be when a) relative economic growth differentials are widening in Asia/EM's favor, b) the dollar is weakening, and c) the US equity market is range trading. Focusing on the latter, we observe that when US equities are performing strongly, investors naturally concentrate on that market (the world's largest and most liquid) and ignore smaller, less liquid, and more complicated markets. When the US market is under pressure, it tends to drag other markets down as well: since 1990, there have been 29 times the S&P500 index has declined 10% or more and the MXAPJ index has fallen in every episode (to a greater or lesser extent). The sweet spot tends to be when the US range trades, which prompts investors to seek returns elsewhere. Given significant flows into the US over the past few years and persistent selling of Asian equities, the potential for a reversal is high if the broad investment backdrop remains supportive as we expect.

Exhibit 5: Regional stocks have never delivered positive returns when the S&P500 index has corrected 10% or more; in the current episode, China equities have risen and AEJ market have outperformed

Historical periods of SPX 10%+ corrections								
Start Date	End Date	SPX Return	MSCI APxJ Return	MSCI China Return	AEJ - US Growth (CAI Diff.)	MXAPJ / SPX rel. starting fPE (X)	MXAPJ / SPX rel. ending fPE (X)	MXAPJ Out-perform
23-Apr-10	5-Jul-10	(16%)	(13%)	(9%)	0.28	0.92	0.95	1
29-Apr-11	25-Nov-11	(15%)	(26%)	(27%)	0.71	0.93	0.97	0
2-Apr-12	1-Jun-12	(10%)	(14%)	(13%)	1.90	0.87	0.86	0
21-May-15	25-Aug-15	(12%)	(24%)	(31%)	-0.31	0.77	0.76	0
3-Nov-15	11-Feb-16	(13%)	(16%)	(25%)	0.60	0.79	0.76	0
26-Jan-18	8-Feb-18	(10%)	(10%)	(13%)	0.73	0.74	0.77	1
20-Sep-18	25-Dec-18	(20%)	(11%)	(13%)	1.16	0.72	0.89	1
19-Feb-20	23-Mar-20	(34%)	(30%)	(20%)	11.25	0.72	0.82	1
2-Sep-20	23-Sep-20	(10%)	(6%)	(7%)	2.40	0.69	0.75	1
3-Jan-22	8-Mar-22	(13%)	(12%)	(16%)	1.38	0.66	0.69	1
29-Mar-22	16-Jun-22	(21%)	(12%)	(5%)	3.05	0.65	0.77	1
16-Aug-22	12-Oct-22	(17%)	(17%)	(19%)	-0.95	0.65	0.70	0
31-Jul-23	27-Oct-23	(10%)	(13%)	(16%)	-0.64	0.69	0.69	0
16-Jul-24	**5-Aug-24**	(8%)	(9%)	(7%)	0.06	0.64	0.63	0
19-Feb-25	**13-Mar-25**	**(10%)**	**(4%)**	**1%**	**1.04**	**0.62**	**0.66**	**1**
Average		**-15%**	**-15%**	**-16%**	**1.54**	**0.75**	**0.79**	**50%**

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 6: Foreign investors have sold EM Asia and bought the US: current conditions suggest this could reverse

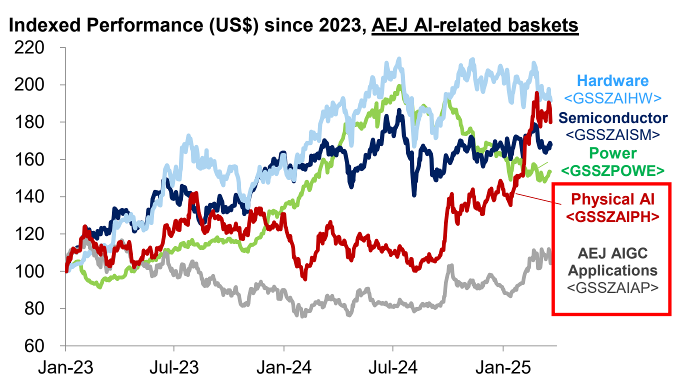


Source: Bloomberg, Respective Local Stock Exchanges, EPFR, Goldman Sachs Global Investment Research

4. AI: China AI software-related stocks continue to outperform regional AI hardware-related ones

Artificial intelligence remains top of mind for investors. Our summary view is that the advent of DeepSeek (and other low cost, high performing, open-source China models) changed the AI investment narrative from a focus on hardware-intensive model training to the software application layer, including the extension of AI into the physical world through robotics, AIoT, and assisted driving. This has also shifted the market focus from Taiwan, Korea, and (to a lesser extent) Japan, where AI revenues are mostly hardware and semiconductor-related, to China where AI revenues are mostly derived from applications and physical AI. As we have previously noted, this is the primary driver for the powerful rally in China equities this year and remains a key reason for our continued overweight market view.

Exhibit 7: AI applications and physical AI are outperforming as the investment narrative around artificial intelligence has shifted from hardware to software



Source: FactSet, Goldman Sachs Global Investment Research

5. China: Near-term outlook: correction possible, add on weakness, A-share tilt

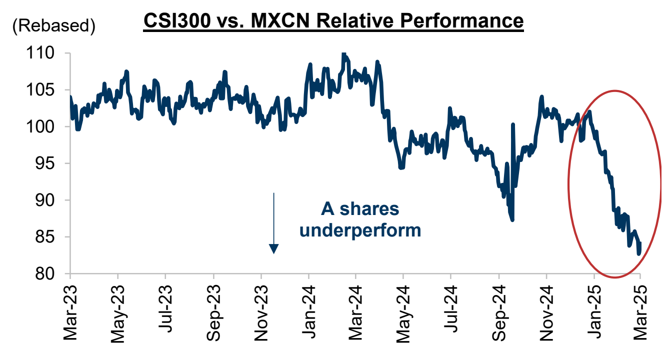
China was the foremost discussion topic after global issues including tariffs, AI, and geopolitics. The range of near-term issues encompassed takeaways from the Two Sessions (see here, here, and here), efforts to support domestic consumption, US/China relations, Southbound net buying of Hong Kong-listed equities (which at ~$50bn ytd is already half of 2024's record inflows), US investment restrictions on China securities, and the outlook for primary market activity.

Within our continuing overweight stance on both China offshore and onshore equities, we note two key points. First, following a 33% rally from the Jan 13 low to the Mar 13 high, a correction should be expected given a) the speed and extent of the rally, b) negative divergence between price and momentum indicators, and c) the upcoming tariff risk window which serves as a reason for faster money to lock in gains. We would use this as an opportunity to add to positions given our MXCN 85 index target, which is based on a 12x target P/E and 9% 2025 EPS growth. Second, our tactical A/H rotation model suggests A shares may outperform offshore ones in coming months having lagged H shares by 20% ytd.

Exhibit 8: MSCI China has rallied 33% from January lows

Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 9: Onshore A shares have sharply lagged offshore H shares this year



Source: Wind, Bloomberg, Goldman Sachs Global Investment Research

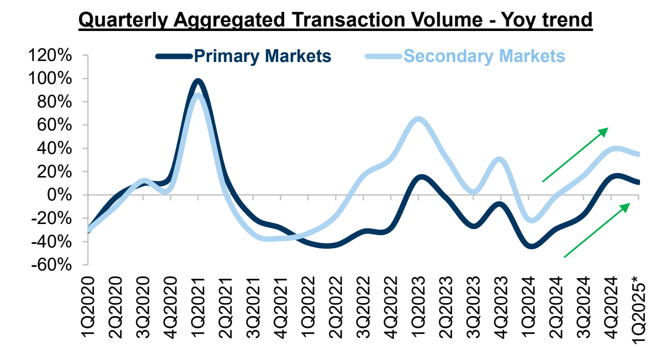
6. China medium-term outlook: is a better investment case building?

Many seasoned investors are asking whether a medium-term investment case for China is building. Recognizing China's continuing macro challenges and the tendency for positive price momentum to foster bullish narratives, there is a fact-pattern that supports a more constructive view which could support equity market upside beyond our current target. This includes policy efforts to address the main areas of economic weakness, notably property (early signs of stabilization are emerging), high debt levels (through recapitalization of systemically important banks), and consumption (although the recently announced wide-ranging special action plan needs greater specificity and follow-through). President Xi's high profile February meeting with private sector technology leaders stands in stark opposition to the regulatory tightening during 2020-2022 and suggests reduced valuation and earnings risk for private owned enterprises (POEs), which are regaining relative strength vs. state owned enterprises (SOEs) after an extended period of underperformance. Technology advances continue at a rapid pace, notably in AI, EVs, and robotics, which provide new growth areas and help rebalance the economy away from its past reliance on property. Last, recent analyst field trips show signs of improving demand in infrastructure and construction machinery, suggesting a firmer outlook beyond technology-related sectors.

Exhibit 10: Private owned enterprises are outperforming state-owned ones after an extended period of underperformance

Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 11: Primary and secondary market property transactions are showing signs of stabilization

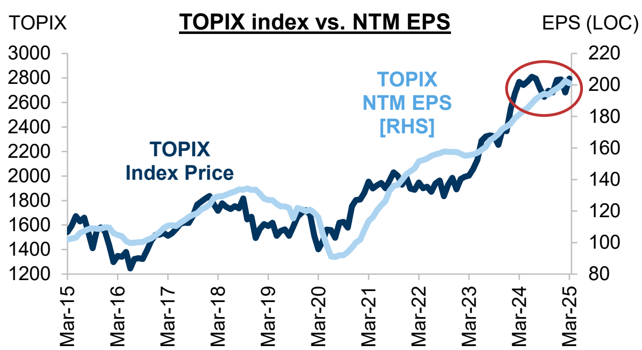


Source: CREIS, Goldman Sachs Global Investment Research

7. Japan: positive investment case, but concerns over yen strength

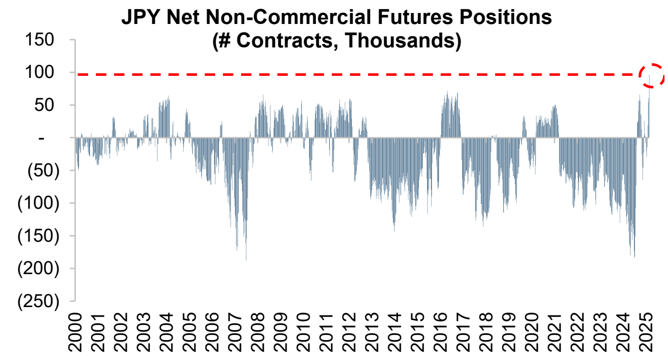
Conversations around Japan consistently focus on whether the market can regain momentum after nearly three quarters of trading in a narrow range. We remain overweight and retain a Topix 3100 target (+14% upside). In a nutshell, the investment case is a) earnings growth looks favorable at 9%/11%/8% EPS growth for FY24-26 (GS top-down est.), b) valuation is attractive at 13.4x forward P/E (2 points lower than at the July peak last year), c) foreign investors have sold all their net purchases since the start of 2023 and are at the lowest level of net buying in more than a decade, and d) alpha themes potential beneath the constructive beta outlook, including banks, domestic consumption, defense, AI, and corporate change. The main risk to this constructive outlook is further currency strength: JPY has retreated from 158 to 148, which raises the risk of earnings downgrades if the cross drops further. However, while the USD is now under pressure, non-commercial long positions in JPY futures are at a 25-year record high, suggesting headwinds to further yen strengthening.

Exhibit 12: Japan equities have traded in a range for 3 quarters while underlying earnings have been growing, suggesting a better risk/reward entry point



Source: I/B/E/S, FactSet, Goldman Sachs Global Investment Research

Exhibit 13: Non-commercial long positions in JPY are at a record high

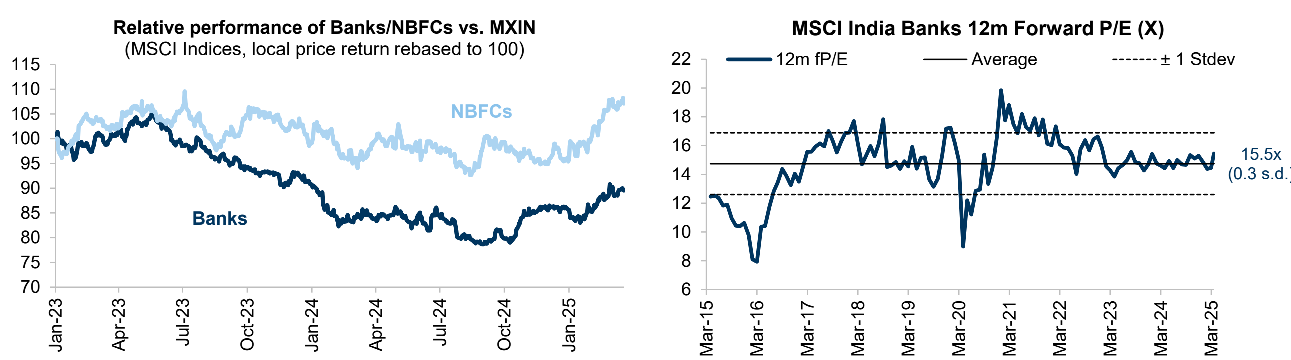


Source: Bloomberg, Goldman Sachs Global Investment Research

8. India: when to reengage?

When investor conversations turn to India, the consistent question has been when to reengage. After adopting a more cautious stance last October, we think it is still early for a broad-based upgrade. The main reasons are a) our below-consensus 2025 GDP growth forecast (6.4% vs. 6.8%), b) moderately restrictive monetary and fiscal policy, c) an ongoing EPS downgrade cycle (albeit at a lessening pace), d) valuations that are close to fair value for large caps but still expensive for SMIDs, e) high retail positioning in SMIDs, and f) impending risk regarding reciprocal tariffs. That said, the longer-term investment case for India remains compelling and the market is stabilizing after a 16% decline from Sep-24 highs. We think large caps look better for investors looking to build positions and recently upgraded financials to MW after extended underperformance: valuations are mid-range and margins may benefit if local liquidity eases (we expect the RBI to cut in April).

Exhibit 14: For investors looking to begin to re-engage in India, large caps look better value; we upgraded financials to MW from UW after extended underperformance

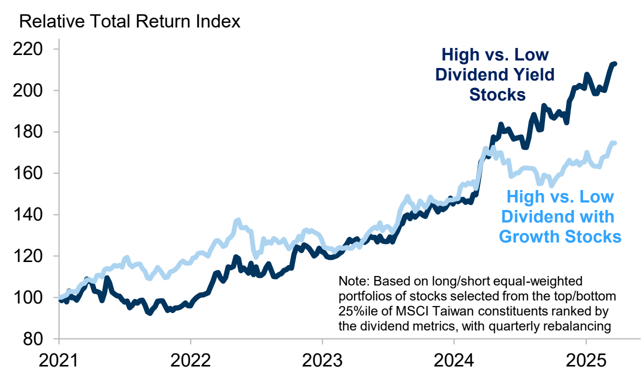


Source: MSCI, FactSet, Goldman Sachs Global Investment Research

9. Korea/Taiwan: alpha focus amid uncertain tariff beta

Against a backdrop of uncertainty over global growth, tariffs, and technology shifts, discussions on Korea and Taiwan tend to focus on alpha opportunities. For Korea, a topical issue is the lifting of the short selling ban on March 31. We expect an increase in foreign investor trading activity once short selling resumes and note several alpha opportunities around this event based on past episodes. These include a potential rebound in KOSDAQ relative performance vs. KOSPI given currently stretched levels. In Taiwan, high dividend stocks look attractive after the market's 10% correction.

Exhibit 15: High dividend stocks in Taiwan look attractive after the market pullback



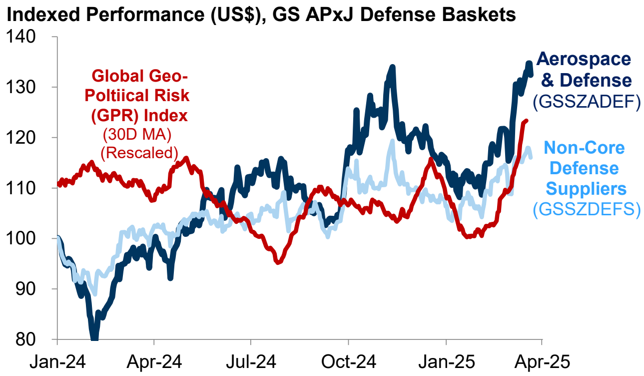
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

10. Alpha ideas

Our MXAPJ 640 index target implies 9%/11% USD price/total 12m return driven by earnings. Beneath this moderately constructive beta backdrop, we emphasize themes that may deliver alpha. Our favored themes include:

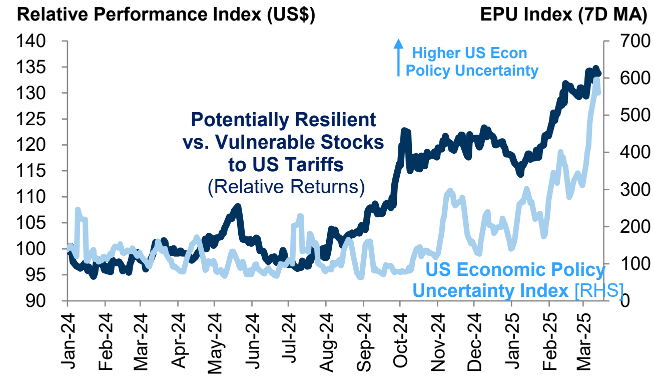
- **AI:** notably AIGC Applications (GSSZAIAP), Physical AI (GSSZAIPH), Taiwan Apple Suppliers (GSSZAPPL), and Power & Electricity (GSSZPOWE)
- **Tariff risk:** Potentially Resilient Stocks to tariff risks vs. Potentially Vulnerable Stocks
- **Defense spending**: Aerospace & Defense (GSSZADEF) and Non-core Defense Suppliers (GSSZDEFS)
- **Cash returns and Quality**: High Dividend Yield with Growth (GSSZDIVG), Stable Growth (GSSZSTGW) and Strong vs. Weak Balance Sheets (GSSZSBAL vs. GSSZWBAL)
- **Revision Momentum**: Strong vs. Weak Earnings Revisions (GSSZSERV vs. GSSZWERV) and Consensus Revision Winners vs. Losers (GSSZREVW vs. GSSZREVL)

Exhibit 16: Our Aerospace & Defense basket has risen 16% YTD amid a spike in global geopolitical risk, and Non-Core Defense Suppliers have also gained 10%, compared to a 3% return for MXAPJ



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 17: Markets are trading tariff concerns at the granular stock levels, as reflected by the performance of domestic-facing stocks with lower sensitivity to macro growth vs. exporters to the US



Source: FactSet, PolicyUncertainty.com, Goldman Sachs Global Investment Research

Exhibit 18: We focus on alpha themes within a moderately constructive beta backdrop

Summary Views		
Returns & Growth (MXAPJ)		12m index target: 640, implying 9%/11% USD price/total return; GSe path (3/6/12m): 600/610/640; 10%/11% EPSg in 2025/26
Markets	**OW**	China Offshore, China A, Japan, Philippines, Singapore
	MW	Korea, Taiwan, India, Malaysia, Indonesia
	UW	Thailand, Hong Kong, Australia
Sectors	**OW**	Internet/Media/Entertainment, Consumer Retail & Durables, Insurance & Other Fins, Capital Goods, Utilities
	MW	Autos, Transportation, ex-China/AU Banks, Telecom, Health Care, Tech Hardware &Semis, Software & Serv, Consumer Staples
	UW	China/AU Banks, Energy, Chemicals, Metals & Mining, Property
Themes & Implement-ation Ideas		**AI Beneficiaries**: AIGC Applications & Physical AI, Taiwan Apple Suppliers, Power & Electricity
		China Policy Support: Government Spending, New Tech/Infra and AI, Shareholder Returns, EM exporters
		Domestic Exposure: Potentially Resilient Stocks vs. Vulnerable (US Exporters) to Tariff Risks
		Quality: Stable Growth, Strong Balance Sheet
		Shareholder Yield: Secure Dividend (with Growth), Buyback
		Revision Momentum: Consensus Revision Winners, Strong EPS Revisions
		Geopolitics / Defense Spending: Aerospace & Defense, Non-Core Defense Suppliers

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Timothy Moe, CFA, Alvin So, CFA, Kinger Lau, CFA, Sunil Koul, Bruce Kirk, CFA, Kazunori Tatebe, CFA, John Kwon, Amorita Goel, CFA and Mark Hung, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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