

Why the Worst is Behind China

Escaping the trade wars that defined the end of 2019, Asian markets were met with yet another challenge in 2020 – COVID-19. Asian markets took the hit from COVID-19 well before the rest of the world, and have consequentially seen the road to recovery much faster. As economic activity picks up, we're getting ready for China to outperform global markets.

Things are Starting to Normalise in Hong Kong and China

In China, we believe the worst is behind us after the outbreak of COVID-19 in Wuhan. Companies are gradually returning to work with resumption rates on the rise. According to the Ministry of Housing and Urban-Rural Development Construction, the restarting rate was over 58% in China as at 10 March 2020. As for logistics, overall resumption levels were over 60%, with areas such as Shenzhen as high as 97%. Logistics resumption remains key for maintaining supply chains as well as providing inputs to factories and companies for them to ramp up production activity.

On the ground in Hong Kong we have seen the number of cases of COVID-19 levelling off. Although infections are

increasing they are not rising at exponential rates seen in the U.S and Europe. The bigger concern at hand is Hong Kong's vulnerability to imported cases from these regions as globalization means deepened connectivity as well as reliance on global cities. Hong Kong still needs the support of mainland tourism for its economy, therefore may see a longer economic recovery than mainland China.

The Sectors that have Fared Best

We believe there are a few sectors/businesses that have been relatively insulated from shocks resulting from the virus outbreak. Although not completely immune to downturns in the market, certain names in education have been outperforming; as the incentive for students to take up online classes rather than offline has been gaining momentum. In addition, we see more demand for online-related businesses such as the gaming, online health care, e-commerce, food delivery and cloud industry, etc. Another business that has suffered minimal impact is infant milk formula; we have seen the demand for its products remain more resilient during COVID-19 since it is hard to find alternative products.

How China has Responded

This is not the first outbreak that China has experienced and the government has long prepared for another pandemic after their traumatic experience from SARS. This time around the Chinese government had better resources and executed strict lockdown measures to limit the spread. Constructing a brand new hospital, housing 1000 new beds with several isolation wards in a short timeframe of ten days reflects the country's ability to respond to pandemics like COVID-19.

Thanks to China's massive and steady investment in high-tech industries for the last few years, we are also seeing a new age of tech applications used to combat the spread of the virus in China. Front line medical workers have deployed robots that can self-navigate wards to bring food/medication to patients as well as check temperatures; autonomous droids are also working to spray disinfectant onto hospital floors.

Telemedicine is another concept that has reached new-found demand at times like these. We believe this was the perfect storm to shift offline consumer behaviour to an online platform. The platform enables a patient to reach medical consultation through an app using artificial intelligence to process the symptom brief then in real-time exchanging the information with a live doctor where a diagnosis and recommendation is approved with professional feedback. This is also integrated with a one-stop shop where the patient's prescription is registered and medication is then delivered to the patient's door. All of this is achievable from the comfort of one's home. The Chinese government has been encouraging the use of online healthcare services as the benefits of online allow for the facilitation of physical isolation and reduction of cross infections.

The Outlook for Asia

We originally anticipated a full recovery for 2H2020 but now believe this could be delayed depending on the regions outside of Asia. Domestic demand driven economies like China and India should see a recovery earlier than export driven economies like Korea and Taiwan.

The Chinese government may be expected to step in to boost stimulus spending as small-medium sized firms could face substantial drops in demand for consumer products. We believe that the worst is over for China and we should see supply chains come back in the next month and a half. Factories are at 30-40% utilisation so the priority is to resume production gradually while still maintaining control of the outbreak.

A New Era of Growth

We believe that the emergence of the Asian consumer fundamentally alters the world's order, offering long-term investment opportunity, and dominating economic themes for the next several decades.

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