APAC Equity Strategy

Double upgrading China to overweight

Equity Strategy

Asia Pacific

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As contrarian as our summer 2020 downgrade, we lift China to overweight

We've been underweight Chinese equities since summer 2020. A recovered economy and expensive market faced tighter monetary policy while the rest of the region offered better cyclical recovery prospects and more attractive valuations. 16 months on we reverse this call. Tighter policy is working through the economy, most notably in property. But we think this is now in the price and policy is already moving though it's tightest point. Relative earnings which have been very poor this year should bounce back in 2022, as cyclical upgrades in the rest of the region fade and weak earnings in Chinese internet stocks abate. Tao Wang and our China economic team's forecasts have Chinese growth troughing and improving sequentially from here; conversely, global growth is likely to slow progressively through 2022. Relative valuations have also reversed and should look better in 2022. Regulatory concerns are also overdone in our view, which is supported by our accompanying Q series.

Cyclical North Asia a make weight

Our major thematic call from mid 2020 through mid 2021 was to overweight the cyclical markets. Since early summer this year, we've been gradually backing-off that call, as various cyclical data peaks and valuations have reached expensive levels. We're already underweight Taiwan, but cut Australia to underweight (materials is one of our least preferred cyclical sectors), and take Japan and Korea to neutral. Japan benefits from from a better exposure to business capex, which we think still looks good in a cyclical context. But valuations for the market overall suggest similar upside to Asia ex over the next 15 months or so. Nor do we see much policy drive push ROE higher. Korean equities on fundamentals look neutral, but much will depend on the memory cycle from here.

ASEAN still looks attractive to us, India unattractive

We started this year with a strong preference for ASEAN over China and Taiwan. While it has taken ASEAN a while to get going, not least given the impact of COVID-19 variants and a slower vaccine roll out that we anticipated, we still think there's more to go in relative performance in the short-term, notwithstanding the risk of Tapering. We see even better relative performance versus extremely expensive India.

Core risks to our views

We've been cautious on Asia ex Japan equites most of this year, but now have 3% and 10% upside to our end 2021 and 2022 index targets. Peaking exports, fading earnings momentum, tapering and still above average valuations mean we still see more downside than upsides catalysts for the market overall. Key risks to our market preferences include for China, property developer problems worsening; further and regulatory measures knocking confidence and global tensions worsening; conversely more aggressive China policy easing would undermine our underweight on Australia; while we are sanguine about the potential for ASEAN to withstand higher yields, Tapering creates some downside risks here.

UBS Research THESIS MAP	MOST FAVORED	LEAST FAVORED
	China, Singapore, Indonesia, Philippines, Malaysia	**Taiwan, India, Australia**

PIVOTAL QUESTIONS

Q: How much do earnings recover?

We expect a 37% rebound in earnings in 2021 as economies open up, revenues pick up and margins expand. Consensus earnings have been revised up, while leading indicators still suggest positive earnings revisions this year, albeit at a slower rate. In 2022, a slowing economy and recovering opex/ capex could slow EPS growth to around 12%. Peaking export growth, rising input costs and high implied ROEs also limit the scope for significant upgrades from here.

Q: How much do valuations de-rate?

Valuations are retracing from their peak in February, but we expect further de-rating. Relative to long-run history, equities are still expensive. Tapering and peaking inflation expectations are also likely to drive real yields higher, posing a larger threat to the market. Our models point to a fair value P/E of13.7x, and 37% EPS growth in end-2021.

WHAT´S PRICED IN?

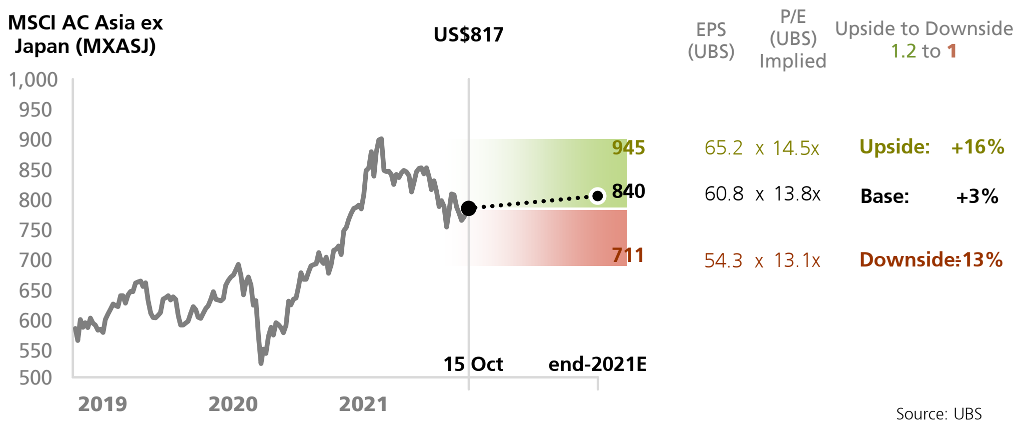
We estimate that Asia ex Japan equities are pricing in a substantial earnings recovery in 2021.

UBS VIEW

End-2021 index target of 840 for MSCI Asia ex Japan, and 2,040 for the TOPIX. We see de-rating for both markets in 2021, with the pace of earnings growth the likely determinant of returns. Our preliminary year end target for 2022 is 900 for MSCI Asia ex Japan.

EVIDENCE

The shift in Fed policy is likely to be the key debate. Less easy monetary policy, with rising bond yields through Fed tapering and further tightening in China, is the biggest risk to the downside today, in our view. Oil prices, US-China tensions, remain other sources of risk.



Source : Refinitiv, UBS

We make some significant changes in our market positioning, lifting China to overweight, and generally reducing the cyclical markets to neutral or underweight. Figures 1-3 walk through our standard framework. While we don't use this a quantitative framework, is does generally guide us in how we think.

Figure 1: Macro factors scorecard (higher the better)

	Taper vulnerability			Change in 2022 GDP growth rate	TOTAL
	Relative retail participation	*Flows, valuations, and returns*	Aggregate		
Malaysia	*-0.5*	*+1.0*	+0.5	3.7	**+11.3**
Philippines	*-0.5*	*+1.0*	+0.5	3.5	**+10.8**
Japan	*0.0*	*0.0*	0.0	0.5	**+8.3**
Thailand	*-0.5*	*-1.0*	-1.5	4.8	**+7.5**
Australia	*-1.0*	*+1.0*	0.0	-1.2	**+7.3**
Indonesia	*-0.5*	*0.0*	-0.5	3.0	**+7.3**
Hong Kong	*0.0*	*0.0*	0.0	-2.4	**+6.3**
Singapore	*-0.5*	*0.0*	-0.5	-1.0	**+6.3**
China	*0.0*	*0.0*	0.0	-2.4	**+5.3**
India	*0.0*	*-1.0*	-1.0	-2.4	**+3.5**
Korea	*-1.0*	*-1.0*	-2.0	-1.3	**+3.3**
Taiwan	*-1.0*	*-1.0*	-2.0	-2.6	**+1.3**
Asia ex Japan					**+4.4**

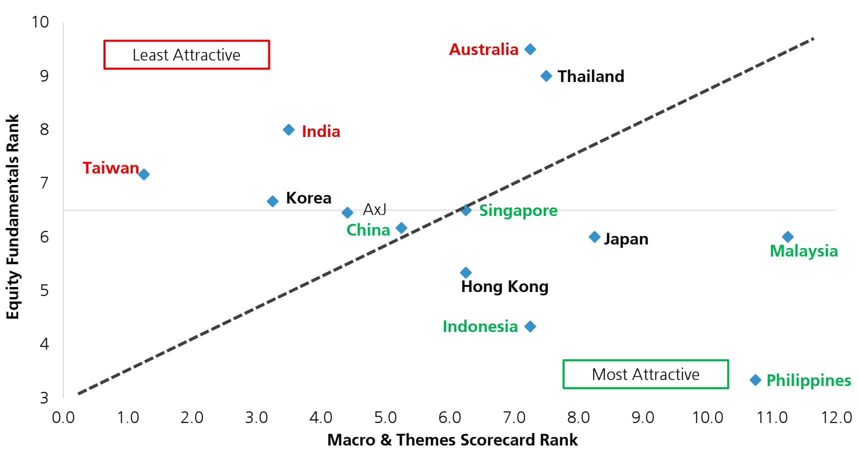
Source : Refinitiv, Bloomberg, UBS

Figure 2: Fundamentals scorecard (lower the better)

	P/Book relative vs. 10y ave (std devs)	Rank	**Fwd P/E relative vs. 10y ave (std devs)**	Rank	**Implied LT growth vs. 10y ave (std devs)**	Rank	**2021-2023 EPS CAGR**	Rank	**3m revision to 12m fwd EPS**	Rank	**3m change in EPS revision**	Rank	**AVERAGE Rank**
Philippines	-1.64	3	-0.82	5	-0.63	2	21.7%	1	-0.6%	8	4.4%	1	**3.3**
Indonesia	-1.50	4	-0.58	7	0.17	3	17.3%	2	-0.3%	7	1.1%	3	**4.3**
Hong Kong	-1.82	1	-0.94	4	0.90	4	14.5%	5	-4.2%	11	-3.8%	7	**5.3**
Japan	-0.40	9	-0.66	6	1.75	10	9.8%	8	6.8%	1	1.3%	2	**6.0**
Malaysia	-1.65	2	-1.63	1	-0.73	1	-3.3%	12	-4.9%	12	-4.0%	8	**6.0**
China	-0.76	5	0.71	10	1.12	5	16.4%	3	-2.7%	10	-0.1%	4	**6.2**
Singapore	-0.61	7	0.04	8	1.54	8	13.6%	6	0.8%	5	-1.2%	5	**6.5**
Korea	-0.55	8	-1.26	3	1.15	6	4.2%	9	2.1%	3	-9.2%	11	**6.7**
Taiwan	2.16	12	-1.31	2	1.45	7	2.7%	10	6.6%	2	-7.1%	10	**7.2**
India	1.67	11	3.11	12	1.84	11	15.8%	4	1.1%	4	-2.7%	6	**8.0**
Thailand	-0.70	6	2.85	11	2.51	12	13.0%	7	-2.5%	9	-5.8%	9	**9.0**
Australia	0.34	10	0.13	9	1.67	9	2.1%	11	0.1%	6	-11.5%	12	**9.5**
Asia ex Japan													**6.5**

Source : Refinitiv, UBS

Figure 3: Country scorecard



Source : UBS

Market recommendation summary

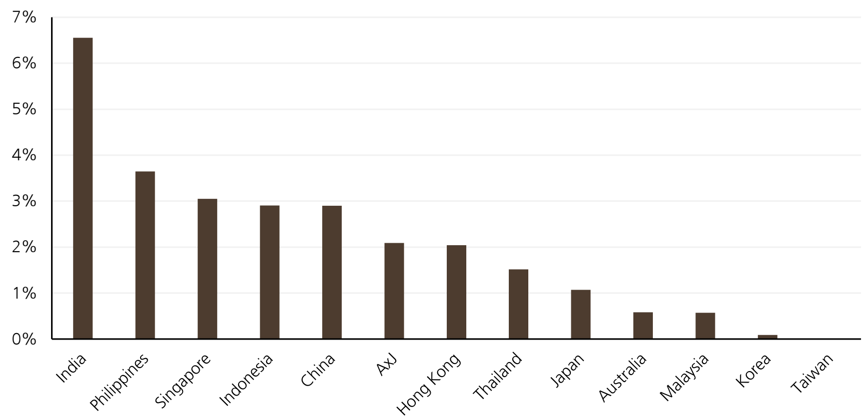
Overweight		Neutral	Underweight
Indonesia	Malaysia	Thailand	Taiwan
Philippines	China ▲▲	Hong Kong	India
Singapore		Korea ▼	Australia ▼
		Japan ▼	

Source : UBS

In our framework, Taiwan, Australia and India look unattractive, especially on valuations/ earnings and ASEAN generally looks positive. The scores for China, Japan and Korea deviate somewhat from what we are doing today by moving overweight the former and neutral the latter two markets.

In China's case, this is partly a function of us being willing to take a more forward looking view on the market (discussed below, especially in regard to the impact of domestic policy - both monetary and regulatory, neither of which are captured in this comparative framework) and also recognises that two factors on which China scores less well - earnings momentum and relative PE valuations - may be misleading. On the former, as Figure 4 shows, assuming no changes in actual forecasts, the roll-over effect of earnings growth will lift China's rankings, at the expense of the more cyclical markets that are currently looking good on this measure such as Japan and Taiwan.

Figure 4: Implied consensus earnings revision by end-2021



Source : Refinitiv, UBS

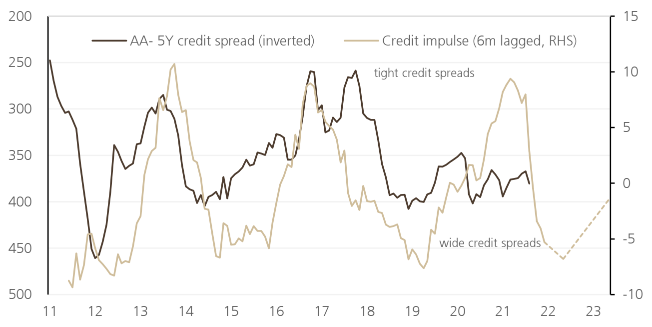
On valuations, our data compares valuations to their averages against the region on a 10 year basis. In recent times this has skewed against China given (i). index inclusion of more expensive ADRs in recent years which didn't make up that much of the index in the earlier time period, and (ii). recent removals from MSCI China of what are one point were large and in absolute terms inexpensive SOE index components, on the back of US investment restrictions.

For Korea it reflects a strong preference over Taiwan, and a more positive view on the memory sector bottom-up, than the market is factoring in. In Japan's case, while this market has a greater concentration of cyclical subsectors that we like than other exporting economies, neither aggregate valuations nor earnings look compelling versus the region overall. We discuss all this in more detail below.

Overweight China

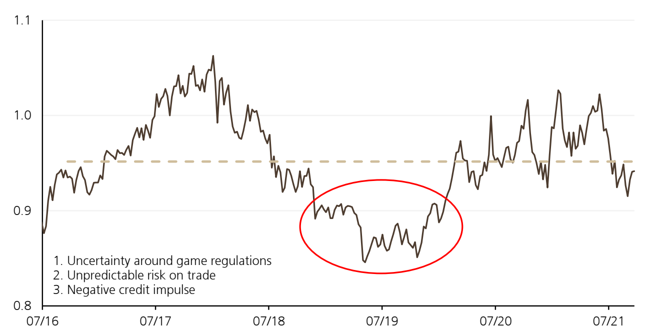
We moved underweight China in summer last year. The economy was the first to recover from Covid lockdowns, earnings had rebounded and been helped in relative terms by relatively favourable offline to online trends which we thought would dissipate in 2021, valuations had become relatively very expensive, and we expected very easy monetary policy to be removed.

Figure 5: Correlation of China credit impulse and credit spreads



Source : Bloomberg, UBS

Figure 6: China forward relative P/E



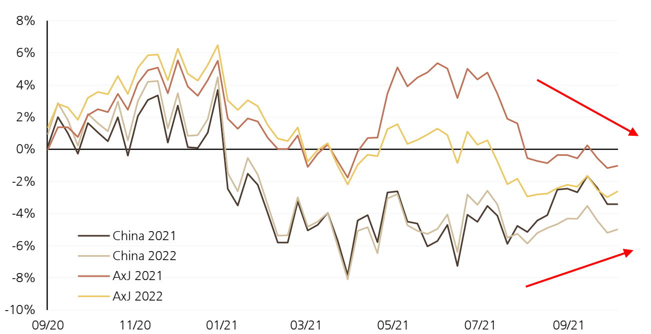
Source : Refinitiv, UBS

16 months on, policy has already tightened and the effects of this have been working through both the economy, valuations and the broader market. Additional restrictions relating toward the property sector have created risks (discussed in more detail in the appendix on page 12), but we think they are manageable and the current situation is more than discounted. The worst of the credit impulse is likely behind us and policy looks more neutral from here.

Figure 7: Decomposing China's forward relative P/E

Source : Refinitiv, UBS

Figure 8: 3-month consensus EPS revisions for China and Asia ex Japan



Source : Refinitiv, UBS

Expensive valuations have derated somewhat, albeit bad relative earnings while cyclical north Asia experiences substantial upgrades means that the relative forward PE has not comes down as much as the market has underperformed.

Here however lies the better relative story for 2022. We think cyclical upgrades to earnings in north Asia which have made Chinese earnings look relatively poor this year, are likely to come to an end. Tao Wang and our economics team forecasts China's own slowdown - exacerbated by policy tightening, related property challenges and power challenges - to reverse into 2022, with sequential growth picking up by year end, and improving markedly into 2022. By contrast, our global economics forecasts suggest GDP will be peaking this quarter before slowing into 2022. This might support the relative earnings picture in China's favour.

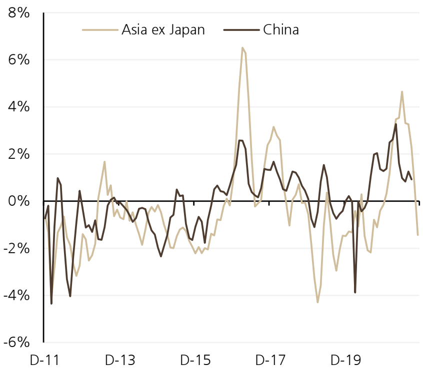
Figure 9: China GDP growth forecasts

	Q2 21E	Q3 21E	Q4 21E	Q1 22E	Q2 22E	Q3 22E	Q4 22E
Real GDP growth (YoY)	7.9	4.9	2.7	3.8	5.0	6.5	6.7
Real GDP growth (QoQ, saar)	4.9	0.8	4.2	5.5	9.5	7.0	5.0

Source : UBS estimates

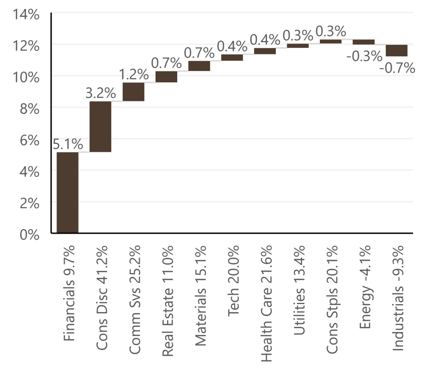
That's what our Earnomitor is pointing to and consumer facing exports could face a tougher time as US consumer goods demand in particular normalises. We discuss this more later in this report.

Figure 10: Earnomitor



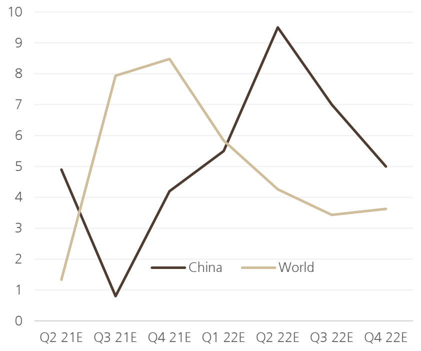
Source : CEIC, Refinitiv, UBS

Figure 11: Earnings growth contribution by Chinese sectors



Source : Refinitiv, UBS

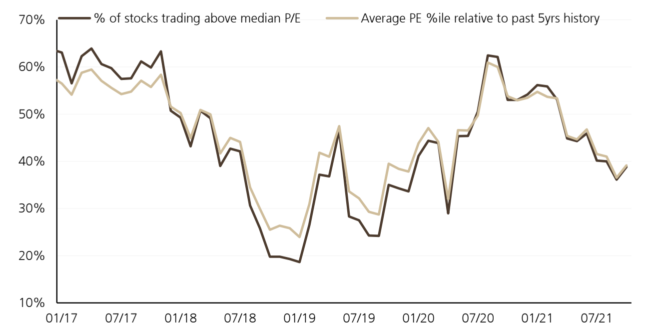
Figure 12: China vs global GDP % QoQ SAAR



Source : Haver, CEIC, National Statistics, UBS forecasts

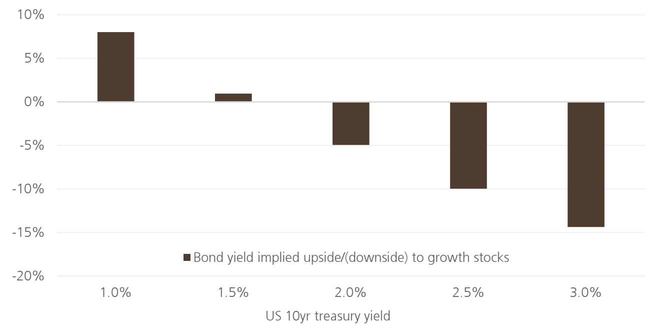
Overexuberance toward China last summer has once again given way to disappointment. This is even more evident within the market, where more than 60% of stocks now trade below their own 5 year average multiples, at a time when the overall index trades above its long term average multiple.

Figure 13: % of Chinese stocks trading above mean & avg PE %ile vs history



Source : Refinitiv, UBS

Figure 14: Bond yield implied upside/(downside) to Chinese growth stocks



Source : Refinitiv, UBS

Last year's positive sentiment was most notable toward the internet sector, which has arguably compounded both the underperformance as regulatory fears have kicked in but also now what have become increasing calls that the sector is 'uninvestable' because of government intervention. Like the market, we didn't see the internet regulation coming. But when we compare the standard narrative toward the sector and regulation/ common prosperity against the evidence that fines and actions are in line with broad global standards, there is a wide gap. We want to own this gap. We think investors are now too bearish on regulation, as our related Q-Series published today makes clear. We don't know what the Chinese government intentions are, but to sell these stocks today, we need to be convinced that the intentions on profits and regulation are negative. The evidence from our Q series doesn't point to this.

Figure 15: Largest antitrust and data privacy fines in the US, EU and China

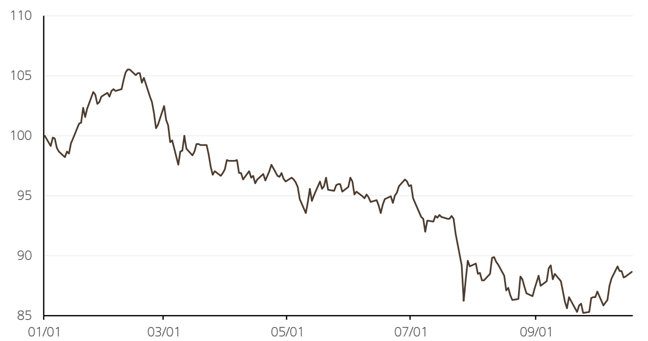
			Amount (in m)	% of preceding year's revenue	Violation
US					
Facebook	2019	US$	5,000	9.0%	Data privacy & protection
Citicorp	2017	US$	925	1.6%	Antitrust
Equifax	2019	US$	700	20.5%	Data privacy & protection
Barclays, PLC	2017	US$	650	5.8%	Antitrust
JPMorgan Chase & Co.	2017	US$	550	1.0%	Antitrust
EU					
Google	2018	€	4,340	4.6%	Antitrust
Google	2017	€	2,400	3.0%	Antitrust
Google	2019	€	1,490	1.3%	Antitrust
Intel	2009	€	1,060	4.1%	Antitrust
Daimler	2016	€	1,000	0.7%	Antitrust
Qualcomm	2018	€	997	5.3%	Antitrust
Amazon Europe Core	2021	€	746	0.2%	Data privacy & protection
China					
Alibaba	2021	Rmb	18,228	3.6%	Antitrust
Meituan	2021	Rmb	3,442	3.0%	Antitrust
Tencent	2021	Rmb	0.5	0.0%	Antitrust (M&A)
Didi	2021	Rmb	0.5	0.0%	Antitrust (M&A)
Suning	2021	Rmb	0.5	0.0%	Antitrust (M&A)

Source : US Federal Trade Commission, US Department of Justice, European Commission, China State Administration for Market Regulation, press reports, UBS

For sure, rising bond yields which we expect with Tapering, doesn't create a positive backdrop for growth stock valuations in general. Given the underperformance and drop in valuations however, there is considerable cushion now to rising bond yields for the China internet stocks.

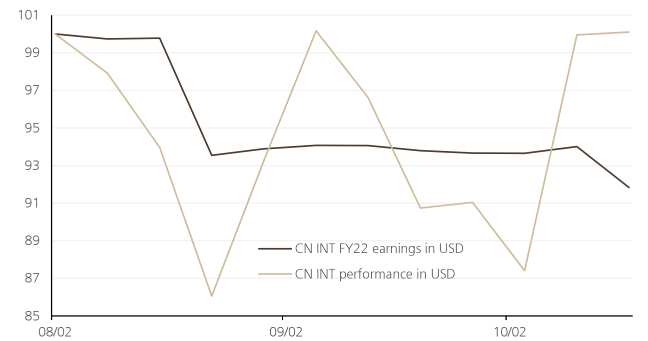
Finally, we note that despite the newsflow around leverage property stocks, power outages and still falling earnings for internet stocks the index has largely arrested its underperformance versus the region. We view this as a positive signal.

Figure 16: MSCI China relative to Asia ex Japan performance in USD



Source : Bloomberg, UBS

Figure 17: China Internet FY22 consensus EPS vs performance in USD

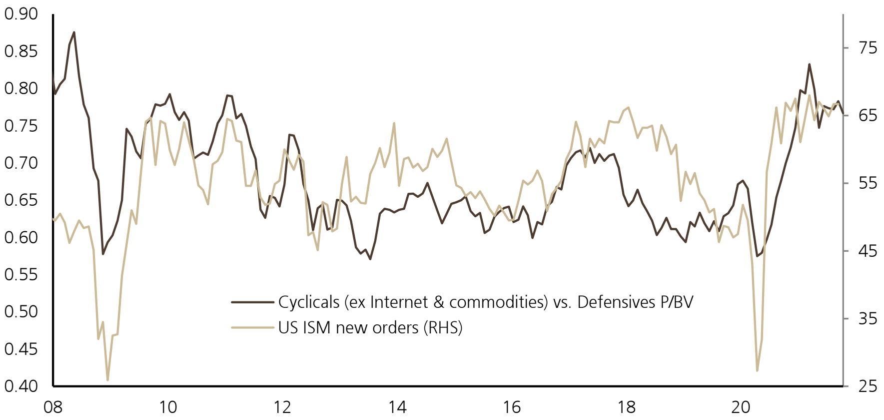


Source : Refinitiv, UBS

Turning less positive on cyclicals

Our note from 26 July explained why we were turning less positive on cyclicals. Relative to defensives, valuations had already recovered in line with the pick-up in leading indicators.

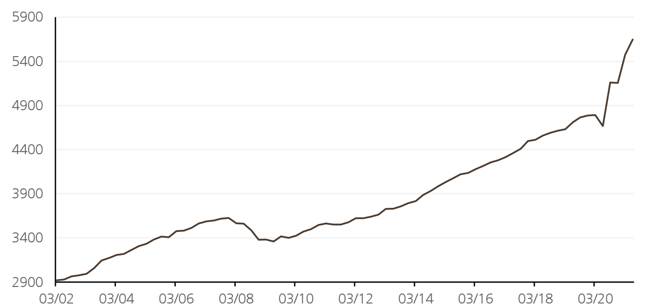
Figure 18: Cyclical valuations relative to defensives generally track the cycle



Source : Refinitiv, UBS

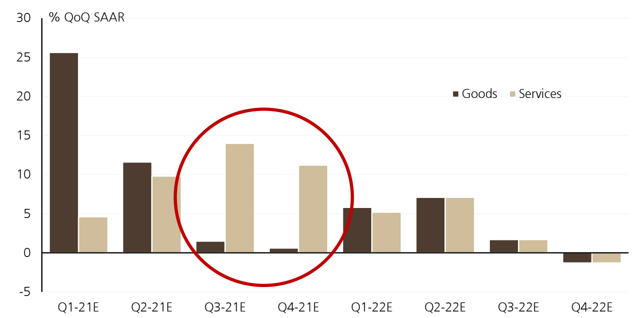
However some of the drivers of this, such as exceptionally strong and above trend US personal consumption, buoyed by stay at home demand and fiscal support, look like to abate.

Figure 19: US personal consumption index - expenditure on goods



Source : Refinitiv, UBS

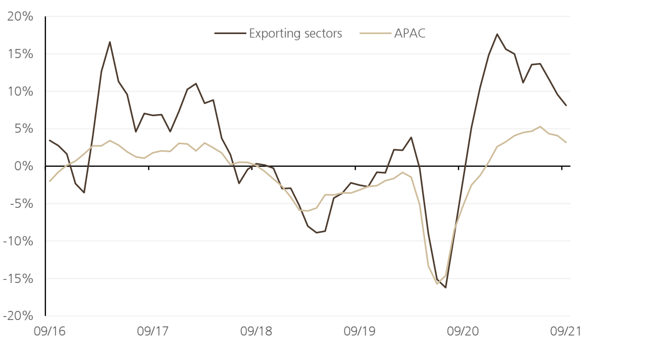
Figure 20: US personal consumption growth forecasts by goods and services



Source : Refinitiv, UBS

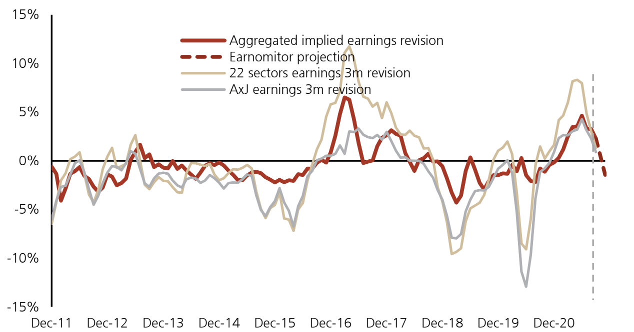
This has driven top line growth in Asia for exporters, which in turn has been driving most of the upgrades. But our short-term indicators such as the Earnomitor, which captures revenue leading indicators for the most cyclical sectors, is starting to roll-over suggesting upgrades may be coming to an end.

Figure 21: EPS revision for exporting sectors vs the market



Source : Refinitiv, UBS. * Note: the exporting sectors are a collection of stocks with export exposure based in cyclical markets such as China, Taiwan, Korea, and Japan.

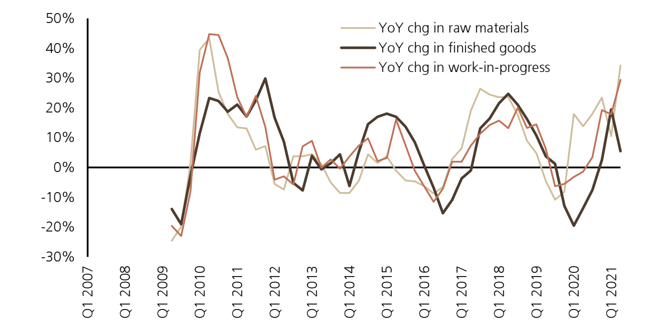
Figure 22: Earnomitor



Source : CEIC, Refinitiv, UBS

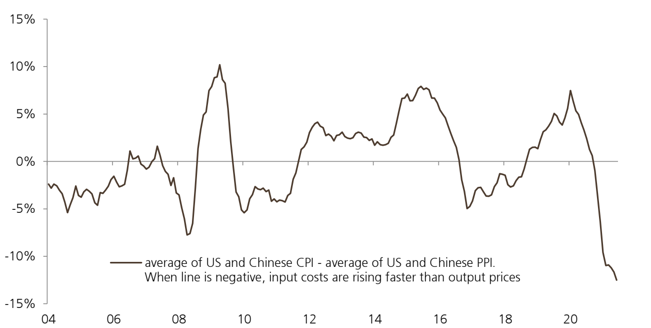
Demand has also been boosted by supply fears. However quarterly data from Taiwan, Korea, Japan and China suggests that inventories – raw materials, work in progress and finished goods are now climbing quite strongly after both self inflicted (in late 2019) and demand induced (2020) destocking (we show the data for Taiwan here but all the charts are in our note September on this subject). All this points to a slow down in production and demand from here.

Figure 23: Taiwan inventory growth by category



Source : Bloomberg, UBS.Note: Q2 data in Taiwan likely impacted by production interuptions, hence finished goods drawdowns while inputs rose.

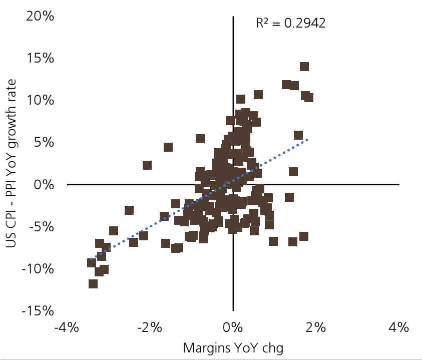
Figure 24: Input prices (PPI) are starting rise faster than output prices (CPI)



Source : Refinitiv, UBS

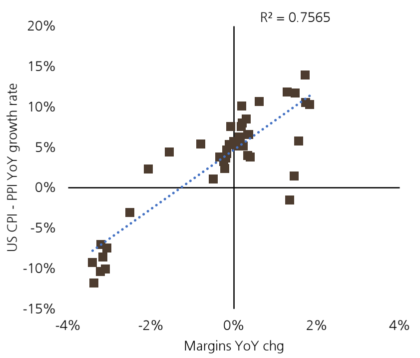
Not only is this important for revenue, but it also matters from an operating leverage perspective. Input prices are rising strongly. We've shown previously that while this is a problem for margins and profits through the cycle, in periods where demand is very strong, margins are not impacted by rising input prices. That's been the case in the first half of this year. But the story becomes more problematic for many manufacturers if revenues and operating leverage are fading while input prices go up. This all points to a tougher time in aggregate for cyclicals from here and more differentiation required.

Figure 25: Input/Output prices and EBIT margins in Asia ex Japan since 2003



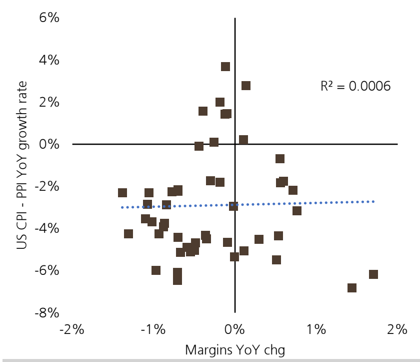
Source : Refinitiv, UBS

Figure 26: Input/Output prices and margins in weak Industrial Production episodes since 2003



Source : Refinitiv, UBS

Figure 27: Input/Output prices and margins in strong Industrial Production episodes since 2003



Source : Refinitiv, UBS

Our note from July set out our preferences within the cyclicals – we preferred sectors that were still likely to recover than those that had recovered, and where valuations still offered longer-term support versus those that were rich. This takes us more to Capital Goods (Capex trends look better supported than consumer goods demand), parts of tech especially memory semis, transport/tourism and autos verus consumer durables, materials in particular.

Figure 28: Summary of our views on APAC cyclical industry groups

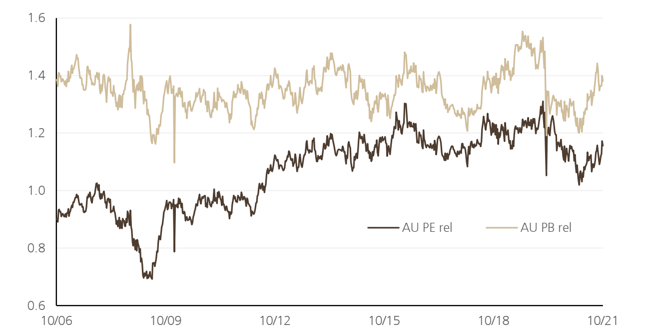
Most preferred	More preferred	Less preferred	Least preferred
Consumer services	Transportation	Software & services	Materials
Capital goods	Technology hardware &equipment	Retailing	Consumer durables & apparel
Automobiles & components		Commercial & professional services	

Source : UBS

Translating this into our market calls, taking Australia underweight.

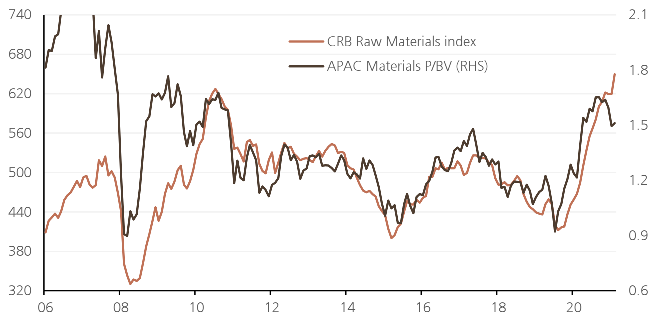
On our framework Australia is both very expensive compared to broader market, relative to history, and has poorer earnings forecast trends (see Figure 29). We are negative on the materials sector anyway which makes up such a large part of the index, as our commodity colleagues expect a normalization in prices into 2022. This most likely creates the biggest risk to our call – in the event of a further surge in commodity prices, there's a risk that Australia continues to outperform. A larger China easing could support this, though we think Chinese equities would also likely perform well in this circumstance.

Figure 29: Australia relative valuation trends



Source : Refinitiv, UBS

Figure 30: CRB Raw Materials index vs APAC materials P/BV

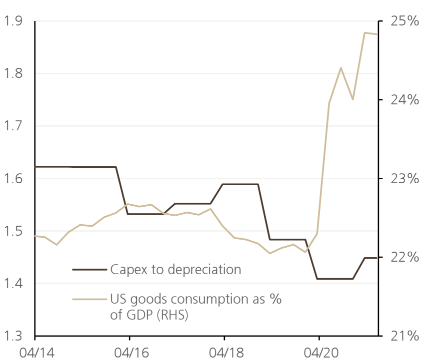


Source : Bloomberg, Refinitiv, UBS

Japan to neutral

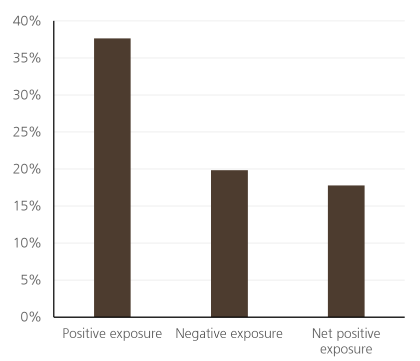
This our framework disagrees with. But some of the factors that are supporting Japan in relative terms today, such as strong earnings upgrades, are likely to fade somewhat. Within the cyclical markets, Japan does have the best exposure to the sub sectors that we like, especially to the capex theme through its near 15% weighting in capital goods. However, on our PB/ROE framework which we use to back out our index target for Japan, valuations suggest that market is already pricing in a return to past cyclical peaks in ROE suggesting limited upside in absolute terms for equities, unless there's a substantial shift in policy or long-term expectations. Mr Kishida's election to LDP leader and PM don't look likely to produce game-changing positive policy for profits.

Figure 31: APAC capex to depreciation vs US goods consumption as % of GDP



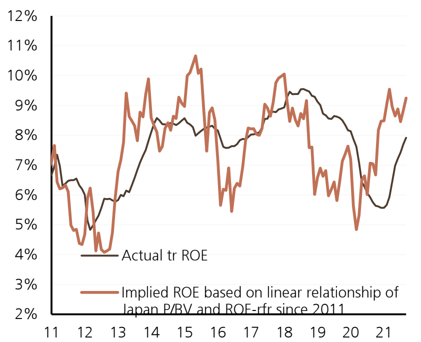
Source : Refinitiv, UBS

Figure 32: Cyclical weight in Japan based on our IG preference



Source : Refinitiv, UBS

Figure 33: Japan actual vs P/BV implied ROE



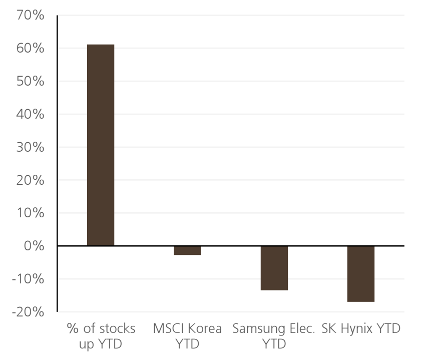
Source : Refinitiv, UBS

Korea

Another source of disagreement is with Korea. Our framework tells us to be underweight. This is largely on the 'guest' factors we use in our macro scorecard (reflecting Taper risk and the degree to which the economy has further scope to rebound). On fundamental measures it looks neutral.

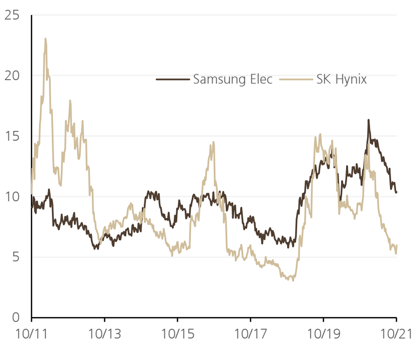
In reality, MSCI Korea is a case of two markets in 2021. Despite the market being down 10% year to date in USD (flat in local currency), 60% of the index stocks are actually up. The market has been heavily impacted by the drag from Samsung Electronics and to a lesser extent SK Hynix. The former is trading in line with long term average multiples, the latter somewhat below. To be negative on this market we essentially need to assume these stocks do nothing while the rest of the market falls; or if valuations remain static, assume that earnings do nothing. This runs against our colleage Nick Gaudois's positive view on both stocks and the memory prices more generally. Given his positive view and the more neutral view suggested by the fundamental part of our scorecard.

Figure 34: Korea YTD performance summary



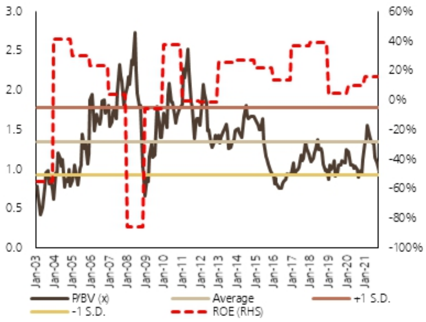
Source : Refinitiv, UBS

Figure 35: Forward P/E for Samsung and SK Hynix



Source : Refinitiv, UBS

Figure 36: P/BV and ROE for SK Hynix

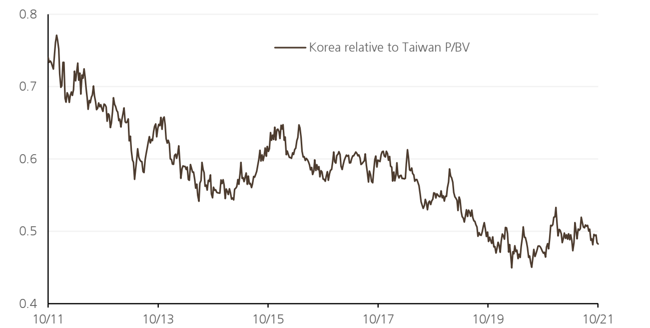


Source : UBS APAC Technology Team

Korea versus Taiwan, ASEAN versus India

We remain underweight Taiwan, which looks poor on our scorecard. And as Figure 37 shows, looks very expensive to Korea compared to history.

Figure 37: Korea relative to Taiwan P/BV



Source : Refinitiv, UBS

Figure 38: India relative to ASEAN forward P/E

Source : Refinitiv, UBS

In a similar vein, which we discussed more in both our Tapering risks note and 2H Outlook, we think ASEAN continues to look attractive. India, like Taiwan looks very poor on our scorecard framework. The relative valuation of India to ASEAN, two areas with similar growth dynamics and occasional perceived macro vulnerabilities, looks too wide to justify. WE note that both in India and Taiwan, retail investors have played an outside role, which while difficult to predict in terms of reversing, creates an additional potential headwind if this demand unwinds.

Appendix: Thoughts on Property risk

Tao Wang, Niall MacLeod, May Yan
John Lam

A worry in the market is that Evergrande goes through a messy debacle, bringing down China's property sector, leading to systematic risk to the banking system and sharp downturn in China's economy, affecting the global financial markets. However, this very unlikely scenario basically assumes that everything that can go wrong will go wrong, while in fact there are multiple points where various policy measures can help bring out a different outcome. Moreover, there are important features in China's financial system and macroeconomic policy management that can help mitigate the negative impact.

What has brought Evergrande to its current trouble? China's government has marginally tightened property policies in recent months to curb the sharp price increase in some large cities, and property sales and construction have slowed notably since July. However, property policy did not suddenly tighten (the so-called "three red lines" for property developers have been put in place for over a year), and national property sales grew 39% y/y in the first 5 months (and 23% vs 2019) when signs of trouble at Evergrande emerged in June (see John's note). Therefore, one should be careful not to equate a particular company debt trouble with the whole property sector or see that as driven by the government's desire to bring down the whole sector at the cost of some large companies. In fact, we believe the government does not want to see a sharp decline in property construction or the economy, and cares very much about limiting financial system risks.

This is the latest in a line of concerns about the property market, the most recent concern being in 2015. It is helpful to contrast the current situation to examples in other parts of the world where the property market has led to a signifcant dowturn. We've picked two bank property crisis[1] as comparisons: the Swedish bank crisis in the early 1990s, and the Irish banking crisis in 2008/9. Data is reasonably good, especially for asset pricing. Both were NPL challenges for the banking system because of excess direct property lending held on books as loans. As China' property lending is largely on-balance sheet, and not in complex derivatives, these give a good reference point for examing the situation with international reference.

Figure 39: Comparisons between Swedish, Irish bank crisis and current Chinese data

Output loss	Gross fiscal costs	Peak NPLS	Bank loans vs 3 year prior	LDR at peak	LTV Mortgages	Property prices/GDP last 5 years	residential investment/gdp three years versus previous 5 years	Bank sectore valuations 5 years pre peak (average)	Bank valuations at trough	CDS at Trough	Widespread nationalisation	Note property price peak	Resi investment peak
Swedish Banking Crisis 1990/92	3.6%	13.0%	181%	139%	90%	265%	93%	1.27	0.18		yes	Q1 91	Q1 91
Irish Banking Crisis 2008/9	37.6%	25.7%	212%	156%	100%	161%	141%	1.92	0.07	660	yes	Q1 07	2006
China Today			142%	78%	< 25%	80%	122%	0.53		65			

Source : UBS, Refinitiv, Bloomberg, IMF, Central Bank of Ireland. Note: Irish bank CDS as of March 2009. Into the Euro sovereign debt crisis in 2011, CDS were higher, but bank recaps took place in 2009. China LTV data based on Economics teams' calculation of new mortgages to property sales, see note here. China bank valuations and CDS are as of today, not 'peak'.

Chinese property prices have not diverged much from GDP. From within the banking system unlike the rapid build up of property credit in both Sweden and Ireland. Loan to value ratios have also remained constant (on both European examples, leverage had risen in advance of the peak) and are relatively low. Loan deposit ratios are also low in China. This lessens the risk of a liquidity crisis brought on by external parties, especially given China's partially closed capital account, FX reserves and current account surplus. The partial ownership by the State of large sections of the banking system creates another layer that likely insulates the system from liquidity issues intra-bank (though there have been cases of interbank rates spiking in the past that could suggest some bank to bank risk pricing).

This doesn't mean a crisis can't happen, but a traditional property speculation model doesn't look the likely culprit. In our view the greater risk comes from developer

1. Laevens and Valencia identify over 170 since 1970, though not all are property relted

solvency/liquidity rather than a broad based speculative lending bubble. John Lam and May Yan and their property and our banks teams have written extensively on the threat of a leveraged property company restructuring (see their combined note here).

Figure 40: Size of the risky asset

Rmb bn	Total liability	Total liability as % of GDP	Net liability*	Contract sales as % of the sector
Evergrande	1,967	1.9%	845	4.3%
10 other vulnerable companies	3,697	3.6%	1,530	11.0%
EG + 10 other	5,663	5.6%	2,375	15.2%

Source : UBS. *UBS estimates

In May's most negative property scenario in that highlighted note, in line with the PBOC's own stress test on property, 15% of loans to the property sector (with a few exceptions, direct property loans to mortgages and developers are less than 35% of loans) become NPLs. As Figure 39 shows, systemically this would boost NPLs to 2.21%, reduce the NPL provision coverage to 143%. The new NPLs equate to under 7% of bank CET1 capital. There are individual banks that become more stressed under this scenario, but the system is able to maintain its NPL coverage above 120%.

Figure 41: Stress test of banks' loan exposure to property developers sector

NPL ratio	NPL coverage	New NPL as % of CET-1 capital
2.21%	143%	6.60%

Source : UBS China Financials Team.

In reality, these things don't happen in isolation - the spillovers in to the real economy likely lead to NPLs elswhere.By comparison, the NPL cycle in 2014-2015 with contracting exports and falling property prices led to an increase in NPLs of 42bps (or 0.7% of GDP), and reduced CET 1 ratios by 3.4%.

However given the role that property plays in bank collateral, the significant risk is if there's a sustained drop in property prices and loss of confidence in property as an asset. Versus 2014 and 2015, developer inventory looks okay, and less bloated. Forced liquidation therefore looks unlikely, though we need to keep a close eye on primary property sales as the denominator of this. These may already be suffering because of concerns around the health of developers.

Policy options

What are some alternative policies and interventions that could limit the damage from the fall out of Evergrande? Despite past examples of the government stepping into ringfence large leveraged entities (see Figure 42) we think it is unlikely that a state-owned property developer or other SOE would take over the whole of Evergrande and assume all of its debt, and do not expect a wholesale property policy easing on the account of the company. However, there are many policy options for the government at different stage of the process, especially at potential junctions of contagion.

Figure 42: Major recent restructurings in China

Anbang Insurance	HNA Group	Huarong Asset Management
• Over 1.5tn short-term WMPs were at risk • Insurance regulator took control for two years • The insurance protection fund injected 60.8bn asset • The main insurance business was injected into a new company jointly founded by the insurance protection fund, SINOPEC, and SAIC • Other assets were disposed and 1.5tn liability was paid off in full	• The company had 737bn debt • A workgroup set up by the provincial government had participate in HNA's operations at the company's request • The workgroup conducted due diligence and drafted a risk disposal plan • HNA received a court order for bankruptcy reorganization • HNA's operation continued and was still able to apply for loans • Liaoning Fangda Group (non-SOE) joined as a strategic investor • The restructuring also involves a debt for equity swap • There will be no residual value left for the original shareholders	• Total liability was 1.56tn • A consortium of SOEs led by Citic Group made a strategic equity investment on the company • BBG estimated the size of recapitalization was about 50bn • With the backing of SOE banks and equity investors, Huarong said it had abundant liquidity and was on track to meet its obligations

Source : Chinanews, Bloomberg, FT, Caixingglobal, Yicai, ThePaper.cn, Wikipedia, Carnoc, UBS

First, the government can facilitate a relatively orderly debt restructuring of Evergrande. News media has already reported some government involvement in the case. Additional work may involve local governments help and other property companies acquiring some projects and assets, to ensure funding for ongoing projects and payment for suppliers and construction workers. The government may also help further to organize debt restructuring committees that bring major stakeholders and creditors together. Other short-term policy options include the following, which reportedly are already being taken:

1. Ensuring regular credit flows to suppliers and other developers are not disrupted or drained to reduce the spill-over impact, including by not tightening prudential rules with regard to developers' risk calculations (expected)
2. Ring-fencing banks with heavy exposure to Evergrande from the rest of the banking system (expected)
3. Injecting more liquidity to the banking system and financial market, including cutting RRR, to signal the central bank's resolve and ease credit access by corporate (expected)

To prevent property construction or the overall economy from slowing too much, the government can also ease fiscal, credit, regulatory and property policies, though the latter may only happen in the case of a sustained sharp property downturn. As a first step, the government can accelerate local government bond issuance to help boost infrastructure investment, which is already incorporated in our baseline forecast. Fiscal policy can be further eased with faster project approval, less tight management of LGFV financing, and front-loading of bond issuance and infrastructure projects from next year if necessary (likely). Other policy options include a) increasing rental property construction (expected), b) faster mortgage processing and approvals (likely, though probably unannounced); c) reining in shutdowns in heavy industries (expected); and d) easing liquidity further, and implementing LGFV and shadow credit regulations more gradually to facilitate credit growth rebound (likely). Easing of property policies, including on property developers' access to domestic credit market and on mortgage loans, may only be expected after sustained period of a sharp decline in property construction.

In the case of a sharp property downturn or multiple large developers running into debt trouble so that banks face a significant increase in non-performing loans, we think the government still have policy options to prevent a severe credit crunch or a financial crisis. They include 1) providing liquidity to the banking system and ring-fencing troubled banks from the system; 2) regulators allowing banks to only gradually recognize and dispose bad assets while still expand their lending to the economy; 3) using multiple channels to beef up bank capital, including through private equity placement, bond issuance, and strategic investment by state-owned companies for smaller banks; and 4) to limit the impact on capital flows and the currency, the government can tighten controls on capital outflows from domestic companies and financial institutions.

Signposts and what to watch

Gauging what to watch, given the problems are coming out of the developers, we think the following will likely matter:

- Evergrande's USD bond payment plan in the coming 3 weeks; progress on debt restructuring plan, including establishment of debt resolution committee in the coming weeks;
- Signs of debt payment or project delivery issues from other developers, not just in offshore credit markets.
- Monthly property sales, housing starts and property investment numbers. Falling sales may reflect concern about developer health. Falling prices, especially for secondary property would more concerning.

Policy signposts include:

- PBC's liquidity operations each week and RRR cut in Q4
- Policy tones at Politburo meetings in late October and late December
- Government bond issuance and infrastructure investment
- Reports on local government project approvals, local government production cuts
- Reports on anecdotal property easing by local governments

Most of the negative signposts would be less of a marker, and more a lack of response to

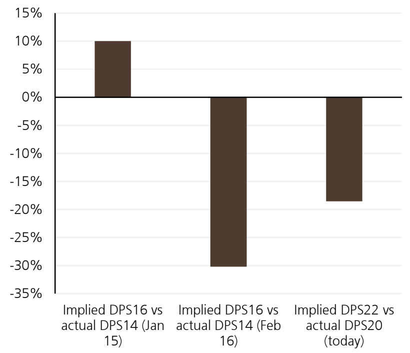
- falling property sales,
- falling property prices, especially in the secondary market (primary market prices may be affected by short-term concerns on developers)
- credit concerns feeding into the domestic interbank markets. These would likely concern investors in the broader markets (equity and credit).

What' currently being priced-in?

Although the market may be worried, there is little evidence of deep concern being widespread in terms of systemic crisis. We use three bank financial indicators to stress this and two episodes. In an outright systemic crisis, bank dividends disappear first, bank equity capital gets wiped out through forced recapitalisations in extreme, and bank debt also starts to price in the risk of widespread haircuts.

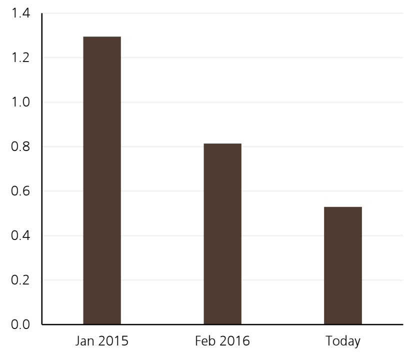
For reference the Swedish and Irish banking systems we recapped at around 0.1x book (as for example were Thai banks in the Asian financial crisis). 0.1-0.2x book is a typical bail out level. Irish banks CDS also spiked sharply in 2009 as the market feared bond market participation in the restructuring.

Figure 43: Top 4 Chinese SOE banks implied DPS change



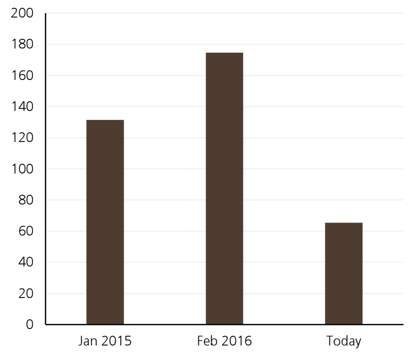
Source : Bloomberg, Refinitiv, UBS

Figure 44: Top 4 Chinese SOE banks trailing P/BV



Source : Bloomberg, Refinitiv, UBS

Figure 45: Top 4 Chinese SOE banks credit default swap



Source : Bloomberg, Refinitiv, UBS

The market is currently not pricing much in the way of DPS cuts, which suggests that the low P/B multiples within the broader banking sector (versus 2015) may not be pricing in dillution, but rather weak profits. Likewise, the CDS of the banks is realtively low compared to 2015. Again, suggesting limited pricing of the Evergrande situation spilling into a broader crisis for the banks.

This is in contrast to the pricing of offshore property credit which is clearly showing some signs of distress among more leveraged borrowers.

All this suggests that the market is pricing in something similar to our base line view that this is a property specific issue, not one that becomes systemic. There is clearly more downside to a systemic crisis if the backdrop deteriorates without action; this downside is significantly higher than our assumed upside of policy easing and gradual management of the leveraged property situation being addressed. Hence the importance of the signposts, especially what happens to property prices from here.

Appendix: summary of views

Figure 46: Summary of our regional allocation views

	UBS STRATEGY VIEW	KEY DEBATES	RISKS TO OUR VIEW
OVERWEIGHT			
China	As cyclical upgrades fade in other north Asian market and China set up for the bounce back in 2022, relative earnings should outperform vs the region. Valuation has retreated especially for the Internet stocks, while we believe the regulatory concerns are overdone. Tight policy on property sector is now in the price and the tightest point might already behind us.	• Credit growth outlook? • Do regulations continue to tighten? • Do trade tensions escalate?	• Regulation on internet stocks • China policy tightening • US-China trade relations • Evergrande issue spills over
Singapore	Attractive valuations and Singapore should benefit from strong global growth as mobility restrictions ease. Rising yield will benefit the financials. The country is taking the lead in vaccination and is less exposed to tourism than Hong Kong.	• How quickly can global travel resume? • What to expect for yield?	• Travel restrictions in place for longer • Fed policy • Global Trade worsens
Philippines	Inexpensive valuations. Uncertainty around recovery on tourism may weigh on the economy but stock market exposure is smaller. Growth should return as vaccines become widely available.	• How quickly can mobility restrictions ease? • The Fed, USD and bond yields • When will foreign flows return?	• Accessibility of the vaccines • Elections/policy • Oil prices and current account
Indonesia	Valuations look attractive and we expect growth and earnings to rebound as Indonesia catches up. With a better current account position and higher real yield, Indonesia is now less vulnerable to tapering.	• How quickly can mobility restrictions ease? • The Fed, USD and bond yields • How bad will NPLs be?	• Accessibility of the vaccines • Fed policy • Current account • Commodity Prices
Malaysia	A combination of attractive valuations, low retail participation, and strong recovery potential as the normalization trend continues.	• How quickly can mobility restrictions ease? • Can the oil rebound continue?	• Accessibility of the vaccines • Oil price • Politics • Currency
NEUTRAL			
Korea	Valuations are not inexpensive but earnings continue to be strong. The memory stocks have underperformed. We expect the DRAM price to trough in mid-2022 and the downcycle is less bad than the market consensus. Given these stocks have driven underperformance this year, their fortunes in 2022 are key for the outlook.	• Outlook for DRAM and NAND • Risk of another COVID-19 wave • Will shareholder returns improve?	• Memory prices fall • Global growth disappoints • Significant Yen weakness • Derating of non-memory stocks
Japan	Cyclical valuations are reasonable and earnings momentum is strong. Japan offers cyclicality to benefit from global mobility restrictions easing. Japan is also more exposed to capex spending than consumer goods relative to the rest of the region.	• Reforms under the new leadership • Covid restrictions • Fiscal policy	• Stronger JPY • Global growth disappoints • Inflation
Thailand	The most tourism exposed market, and therefore so dependent on global opening up. Asset price valuations are reasonable, and there is some cyclicality in this market, but we would rather be closer to global opening up to be overweight.	• How quickly can mobility restrictions ease? • How fast can tourism return?	• Tourist arrivals return quicker • Oil prices • Infrastructure spending • Thai bond yields
Hong Kong	Middle range valuations, earnings growth, and neutral exposure to macro factors in the regional context. More exposure to tourism and less cyclicality still make Hong Kong less attractive vs Singapore.	• How fast can tourism return? • Does the southbound flow continue? • Can the credit cycle keep going? • How to increase the vaccine take-up rate?	• China visitor arrivals • Fed policy and impact on HIBOR • Property related measures (policy) • Southbound flow
UNDERWEIGHT			
Australia	Valuations are expensive. The material sector is vulnerable to the normalization in commodity prices.	• Commodity prices have already peaked? • The impact of rising yield? • Outlook for the AU$?	• Commodity prices • Rates and the AU$ • Fed policy
Taiwan	While Taiwan's tech heavy index has benefitted from tech spend during the pandemic and its earnings have held up relatively well as a result, valuations are already pricing this in and we see more potential to benefit from a rebound in global activity in Korea and Japan.	• What could drive tech earnings higher? • China end-demand outlook • Business implications from trade war	• China/Global economic outlook • Success of Apple product launches • Trade tensions
India	Expensive valautions with fading earnings momentum. Less scope for economic rebound this year and have already outperformed Indonesia by 31% YTD. Low real yield and expensive currency suggest some vulnerability in the tapering environment.	• How quickly can mobility restrictions ease? • How long will the retail flows persist? • Reform progress?	• Accessibility of the vaccines • Retail flows • Fiscal policy • Oil prices, current account, & FX

Source : UBS

Valuations

Figure 47: Market performance and valuations

15 Oct 21	% of	Performance US$ (%)				P/E (x)			P/Book (x)			EPS growth (%)			DY (%)	ROE (%)
MSCI	**index**	**1m**	**3m**	**YTD**	**2020**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**	**2020**	**2021E**	**2022E**	**2021E**	**2021E**
China	39.7	1.5	-11.6	-14.5	27.3	17.3	15.1	13.0	1.92	1.77	1.60	4.1	14.9	16.1	1.8	11.7
Hong Kong	7.1	-3.0	-10.1	-2.5	2.5	22.4	17.8	15.5	1.30	1.23	1.18	-25.5	25.5	15.4	2.9	6.9
Indonesia	1.7	15.2	21.4	4.7	-10.6	23.9	18.9	15.7	2.74	2.52	2.32	-24.6	28.9	20.4	2.6	13.4
India	14.1	1.0	14.4	29.0	14.1	36.2	27.0	23.0	4.32	3.90	3.49	11.9	34.8	17.4	1.2	14.5
Korea	13.9	-6.3	-13.8	-10.7	42.6	21.7	10.2	10.2	1.27	1.23	1.12	17.1	111.9	0.5	2.0	12.0
Malaysia	1.6	2.4	5.0	-7.7	0.0	27.1	13.1	14.6	1.65	1.57	1.50	-34.6	106.6	-10.4	4.4	12.0
Philippines	0.8	4.5	7.7	-2.7	-4.7	33.2	22.1	17.4	1.96	1.87	1.73	-47.6	50.4	26.7	1.5	8.5
Singapore	2.9	3.4	3.2	11.0	-11.3	24.9	17.0	14.9	1.48	1.40	1.34	-35.0	47.3	14.4	3.4	8.2
Thailand	1.9	-0.6	2.3	-3.3	-13.9	33.7	21.2	18.7	2.33	2.12	2.01	-45.0	58.9	13.5	2.6	10.0
Taiwan	16.5	-4.5	-5.9	13.5	37.2	22.4	14.4	14.4	2.85	2.51	2.33	27.0	55.6	0.0	3.7	17.4
Asia ex Jp		**-0.8**	**-6.5**	**-3.1**	**22.5**	**21.3**	**15.3**	**13.9**	**1.97**	**1.83**	**1.68**	**2.1**	**39.5**	**9.7**	**2.2**	**12.0**
Japan*	32.5	-7.4	0.7	1.7	12.2	21.0	15.9	14.8	1.56	1.43	1.34	20.0	32.8	7.3	2.2	9.0
Australia*	9.9	0.7	-0.7	6.9	5.7	19.2	16.7	17.1	2.31	2.25	2.14	31.5	14.7	-2.0	4.3	13.4
APAC		**-2.9**	**-3.6**	**-0.7**	**17.1**	**21.6**	**15.6**	**14.4**	**1.83**	**1.70**	**1.58**	**4.3**	**38.3**	**8.4**	**2.4**	**10.9**
USA		-0.2	2.7	18.6	19.2	34.1	23.3	21.5	5.04	4.61	4.23	-10.3	46.4	8.5	1.3	19.8
Europe		-0.3	1.1	11.7	3.1	25.7	16.5	15.5	2.21	2.09	1.98	-26.3	55.8	6.7	3.0	12.7
Emerging		-0.4	-4.8	-0.6	15.8	21.0	13.6	12.8	2.01	1.86	1.70	-2.5	54.7	6.4	2.6	13.7
World		**-0.6**	**1.3**	**13.4**	**14.3**	**28.9**	**19.4**	**18.0**	**3.14**	**2.92**	**2.71**	**-12.1**	**49.0**	**7.6**	**1.9**	**15.0**

Source : Refinitiv, UBS. Note: *Japan and Australia data for March and June year-ends, respectively.

Figure 48: Asia ex Japan sector performance and valuations

15 Oct 21	% of	Performance US$ (%)				P/E (x)			P/Book (x)			EPS growth (%)			DY (%)	ROE (%)
Asia ex Japan	**index**	**1m**	**3m**	**YTD**	**2020**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2021**	**2021**
Energy	3.1	7.0	18.6	24.5	-6.9	26.5	13.5	12.4	1.38	1.30	1.21	-32.2	96.3	8.5	3.0	9.6
Materials	5.4	-4.3	0.9	18.1	26.4	25.6	11.0	11.6	1.83	1.65	1.51	0.3	137.1	-5.8	3.1	15.0
Industrials	5.9	-4.5	-5.8	8.6	3.0	24.4	11.6	11.1	1.42	1.28	1.18	-20.4	112.5	4.6	2.7	11.1
Cons Disc	17.0	4.0	-11.6	-16.7	38.7	40.5	31.6	22.1	3.18	2.96	2.63	-10.8	27.4	43.4	0.5	9.3
Cons Staples	5.0	3.0	-2.6	-6.3	18.3	29.8	26.2	23.1	4.06	3.77	3.47	9.6	13.6	13.2	1.9	14.4
Health Care	4.8	-5.8	-16.6	-12.3	61.3	60.6	35.5	35.7	5.62	4.88	4.33	46.6	70.9	-0.6	1.0	13.7
Financials	18.8	-0.7	-0.1	3.5	-0.8	11.3	9.6	8.8	1.11	1.05	0.97	-5.0	19.3	8.1	3.6	11.0
Real Estate	3.9	3.9	-9.9	-10.2	-16.1	9.6	9.0	8.0	0.76	0.72	0.68	-6.7	8.1	13.0	4.7	8.0
Tech	23.0	-5.8	-8.4	-0.7	56.7	24.7	16.4	14.5	2.96	2.78	2.49	38.2	50.5	13.3	2.4	16.9
Comms Svs	10.6	5.0	-11.2	-8.4	29.9	32.8	21.6	24.3	4.10	3.52	3.13	20.1	52.0	-11.1	0.8	16.3
Utilities	2.5	-3.6	2.7	8.0	-9.1	15.1	15.6	14.0	1.45	1.33	1.26	19.0	-0.3	11.6	3.3	8.5
Asia ex Jp		**-0.8**	**-6.5**	**-3.1**	**22.5**	**21.3**	**15.3**	**13.9**	**1.97**	**1.83**	**1.68**	**2.1**	**39.5**	**9.7**	**2.2**	**12.0**

Source : Refinitiv, UBS

Figure 49: Japan sector performance and valuations

15 Oct 21	% of	Performance JPY (%)				P/E (x)			P/Book (x)			EPS growth (%)			DY (%)	ROE (%)
MSCI Japan	index	1m	3m	YTD	2020	Mar 22	Mar 23	Mar 24	Mar 22	Mar 23	Mar 24	Mar 22	Mar 23	Mar 24	Mar 23	Mar 23
Energy	0.7	11.3	8.7	42.0	-34.5	7.4	7.4	7.3	0.59	0.56	0.53	662.8	-1.0	1.8	4.5	7.5
Materials	4.9	-7.3	5.9	9.8	13.1	11.4	12.2	11.5	1.28	1.20	1.11	184.6	-6.3	6.0	2.6	9.8
Industrials	22.1	-3.6	4.6	15.1	3.1	15.9	14.9	13.9	1.64	1.52	1.41	191.7	7.1	6.7	2.0	10.2
Cons Disc	19.3	0.9	5.0	16.6	8.5	15.2	13.2	12.0	1.39	1.29	1.20	28.9	14.9	10.0	2.1	9.8
Cons Staples	7.0	-3.3	1.5	2.8	-0.2	24.6	21.1	19.6	2.32	2.21	2.08	27.8	16.5	7.8	2.1	10.5
Health Care	10.1	-3.7	5.1	-0.5	17.9	30.7	27.0	23.8	2.83	2.69	2.53	13.4	13.7	13.3	1.7	10.0
Financials	9.1	-0.8	9.1	24.7	-15.5	9.3	8.9	8.2	0.54	0.52	0.50	17.8	4.8	7.7	4.4	5.9
Real Estate	3.6	-0.7	0.9	19.3	-18.3	17.4	16.1	15.2	1.29	1.23	1.21	12.0	7.9	5.8	2.9	7.6
Tech	14.4	-8.5	7.7	21.0	21.0	25.4	22.6	20.5	2.76	2.54	2.34	32.7	12.3	10.2	1.5	11.3
Comms Svs	7.9	-4.2	-4.4	-3.0	29.5	11.6	12.5	12.2	1.76	1.61	1.46	-34.6	-7.6	2.5	2.7	12.9
Utilities	0.9	-6.7	-5.7	-7.1	-15.4	12.4	8.9	8.3	0.51	0.49	0.46	-36.1	39.4	6.6	3.2	5.5
Japan		**-3.3**	**4.4**	**12.4**	**6.6**	**15.9**	**14.8**	**13.7**	**1.43**	**1.34**	**1.26**	**32.8**	**7.3**	**7.8**	**2.3**	**9.1**

Source : Refinitiv, UBS

Figure 50: Australia sector performance and valuations

15 Oct 21	% of	Performance AUD (%)				P/E (x)			P/Book (x)			EPS growth (%)			DY (%)	ROE (%)
MSCI Australia	index	1m	3m	YTD	2020	Jun 21	Jun 22	Jun 23	Jun 21	Jun 22	Jun 23	Jun 21	Jun 22	Jun 23	Jun 22	Jun 22
Energy	3.8	14.8	6.8	9.7	-31.9	41.2	15.9	13.6	1.57	1.44	1.37	-55.8	159.3	16.3	3.2	9.0
Materials	16.6	-4.3	-19.9	-8.1	8.8	8.3	7.0	9.5	2.05	1.98	1.88	76.1	18.9	-26.3	10.1	28.3
Industrials	5.2	-1.6	-4.4	2.6	-14.7	208.2	78.9	33.2	3.95	4.31	4.40	-71.5	163.8	137.4	2.7	5.5
Cons Disc	6.9	-3.1	-0.6	20.9	6.3	30.7	30.1	25.7	5.00	5.13	4.82	21.9	1.8	17.2	2.7	17.0
Cons Staples	5.7	2.2	4.2	13.6	4.7	25.3	27.1	24.7	8.94	6.26	5.39	15.6	-6.5	9.6	2.8	23.1
Health Care	11.1	-3.3	5.6	7.4	0.8	35.1	37.8	34.5	7.99	7.20	6.53	33.6	-7.1	9.3	1.3	19.1
Financials	36.2	0.7	5.8	24.8	-9.1	18.8	16.6	15.5	1.75	1.73	1.63	35.0	13.5	6.9	4.3	10.4
Real Estate	6.7	-2.3	3.9	9.2	-9.4	19.8	19.8	17.4	1.25	1.20	1.16	7.2	0.1	14.1	3.5	6.1
Tech	3.9	0.7	17.8	10.3	50.3	139.8	138.6	91.3	12.30	12.86	11.66	5.3	0.8	51.8	0.4	9.3
Comms Svs	2.2	0.2	0.1	14.6	12.3	38.7	37.9	31.8	4.83	5.04	4.91	9.5	2.2	19.3	2.5	13.3
Utilities	1.7	5.6	-2.1	-9.5	-24.1	21.2	24.0	19.7	1.36	1.41	1.41	-43.5	-11.5	22.0	5.0	5.9
Australia		**-0.6**	**-0.6**	**11.1**	**-3.7**	**19.2**	**16.7**	**17.1**	**2.31**	**2.25**	**2.14**	**31.5**	**14.7**	**-2.0**	**4.3**	**13.4**

Source : Refinitiv, UBS

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