S&P Global
Market Intelligence

CONTACT US

Asia-Pacific
+852-2533-3565

Europe,
Middle East & Africa
+44-207-176-1234

The Americas
+1 877 863 1306

Dissecting APAC Markets during Volatile Times with Portfolio Analytics

David Ma, Investment Specialist, Investment Management, S&P Global Market Intelligence

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In the first article of our application series, 'AFL Style Analysis during Periods of Duress', we utilized the Alpha Factor Library (AFL) tool to understand the style performance and regime analysis of the APAC equity markets under stress conditions such as financial and health crises.

To help us gain further insight into market impacts across Asia-Pacific, we will now use the Portfolio Analytics (PA) tool on the S&P Capital IQ platform to conduct analysis on country and sector performance, as well as valuation analysis and analyst revisions.

Figure 1: S&P Global Market Intelligence Portfolio Analytics tool

Source: S&P Global Market Intelligence. For illustrative purposes only.

We divided the APAC markets into two broad groups:

- APAC Developed Markets (APAC DM) which includes: Australia, Hong Kong, Japan, New Zealand, Singapore and South Korea.
- APAC Emerging Markets (APAC EM) which includes: China, India, Indonesia, Malaysia, Philippines, Taiwan and Thailand.

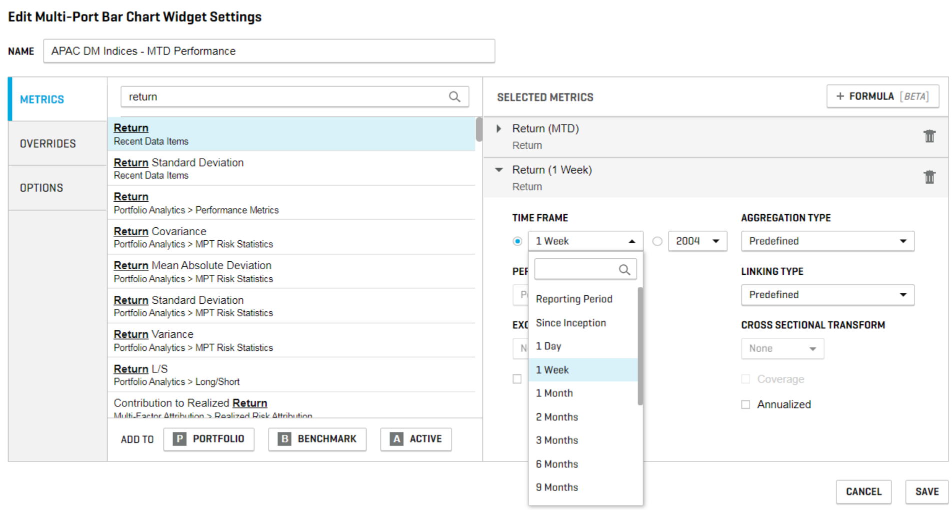
We assessed the above two markets as of 27 March 2020 in the following categories:

1. Market and sector performance
2. Valuation levels
3. Sell-side earnings revisions

Market Performance

By leveraging an extensive library of performance layouts and configuring the multi-portfolio settings for analysis, we were able to compare the Month-To-Date (MTD) and 1 week return metrics across the different APAC markets in detail.

Figure 2: Portfolio Analytics - Metrics Configuration

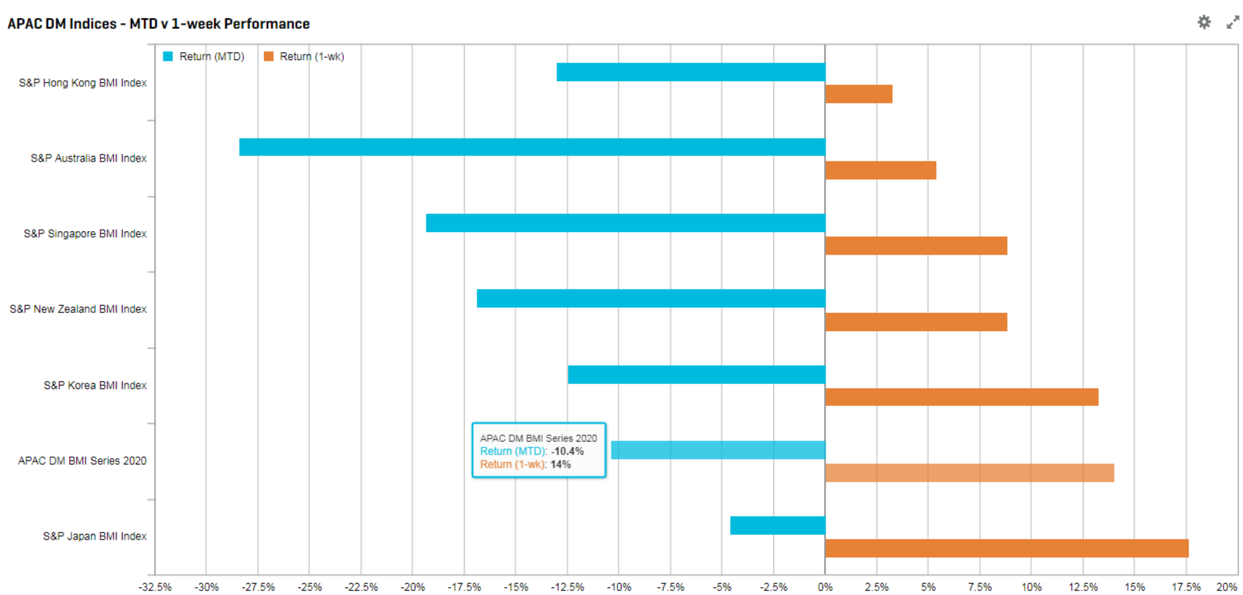


Source: S&P Global Market Intelligence. For illustrative purposes only.

When we compare the APAC DM MTD vs 1-week performance, we observe that many markets have started to reverse their declines from the first two-weeks in the month, as the APAC DM recorded a weekly gain of 14% return vs -10.4% MTD.

We also saw that the magnitudes of rally were different across various markets. For example, Japan recorded +17.6% in the most recent week, whereas Hong Kong edged up 3.3% in weekly return.

Chart 1: Month-to-date vs 1-week market performance across the APAC Developed Markets

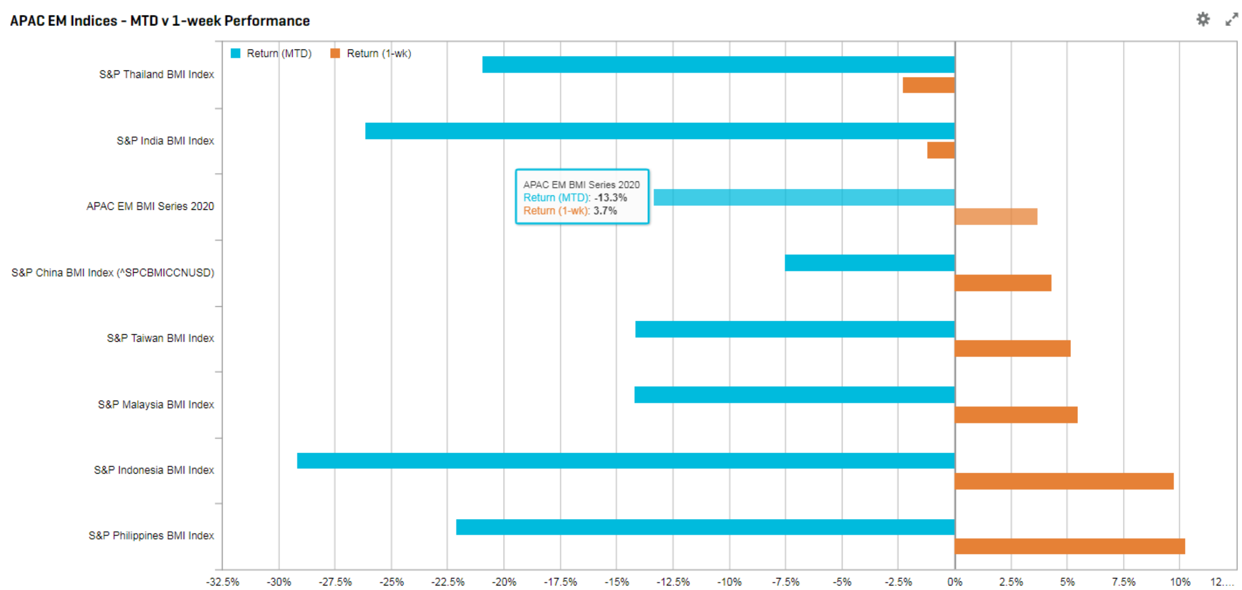


Source: S&P Global Market Intelligence as of 27 March, 2020.

Interestingly for the same period, the APAC EM universe declined -13.3% as compared to the drop of -10.4% for APAC DM. China held up the best with a -7.5% decline MTD.

Some markets have not come out from their losing streaks in the past week (Thailand and India recorded weekly declines of -2.3% and -1.2% respectively), whereas other markets started to emerge from their week-long declines with the Philippines being the best weekly performer with a 10.2% gain.

Chart 2: Month-to-date vs 1-week market performance across the APAC Emerging Markets

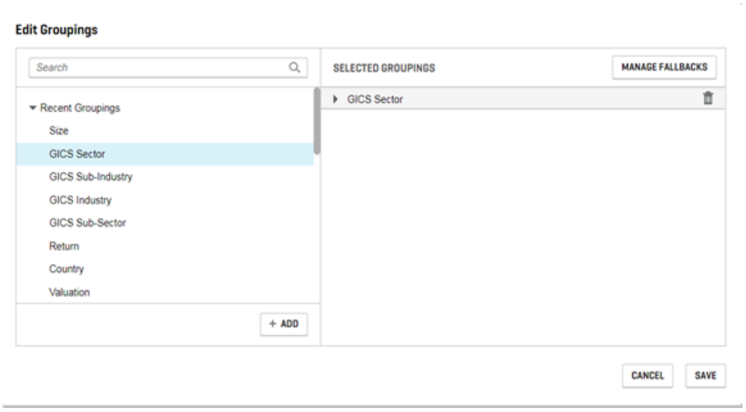


Source: S&P Global Market Intelligence as of 27 March, 2020.

Sector Performance

Utilizing the grouping function in Portfolio Analytics, we were able to compare the return metrics across the different GICS sectors for the APAC markets.

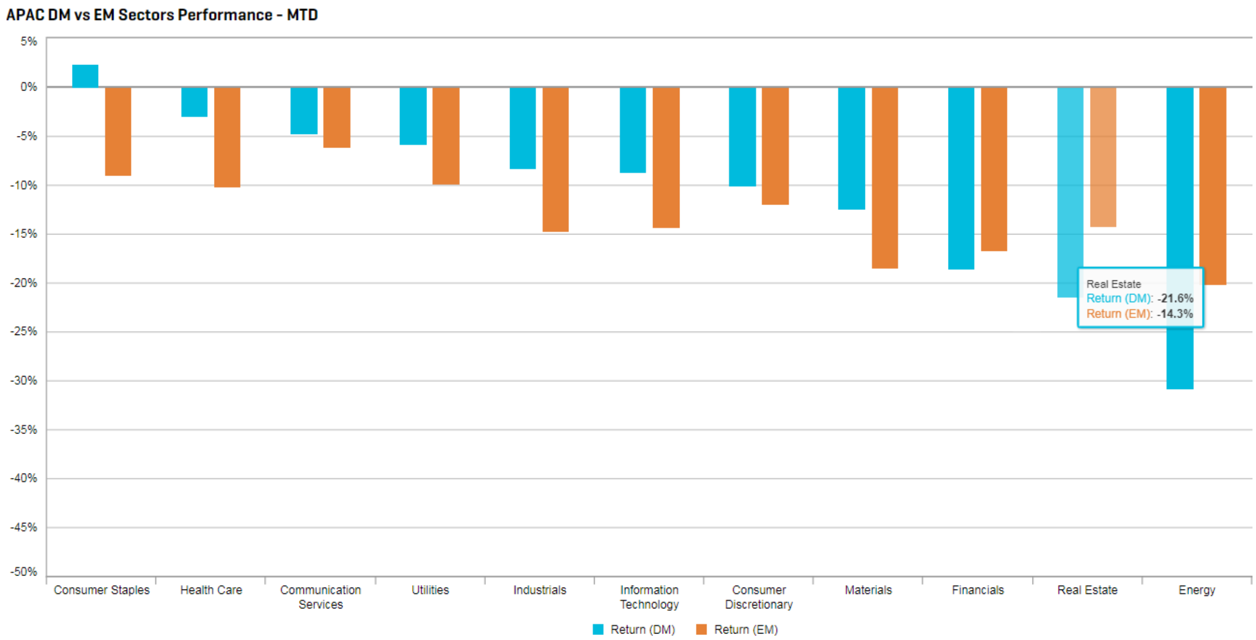
Figure 3: Portfolio Analytics - Grouping Feature



Source: S&P Global Market Intelligence. For illustrative purposes only.

Most sectors in both the APAC DM and APAC EM have declined over the month but one observation which stood out is that sectors which have declined the most (energy, real estate and financials), have performed worse in the APAC DM than in the APAC EM. This suggests that the constituents of these sectors have very different economic dynamics across their universes. In APAC EM, industrials, IT, health care and consumer staples performed much worse (with MTD losses of -14.8%, -14.3%, -10.2% and -9% respectively).

Chart 3: Month-to-date sectors performances between APAC Developed Markets vs APAC Emerging Markets



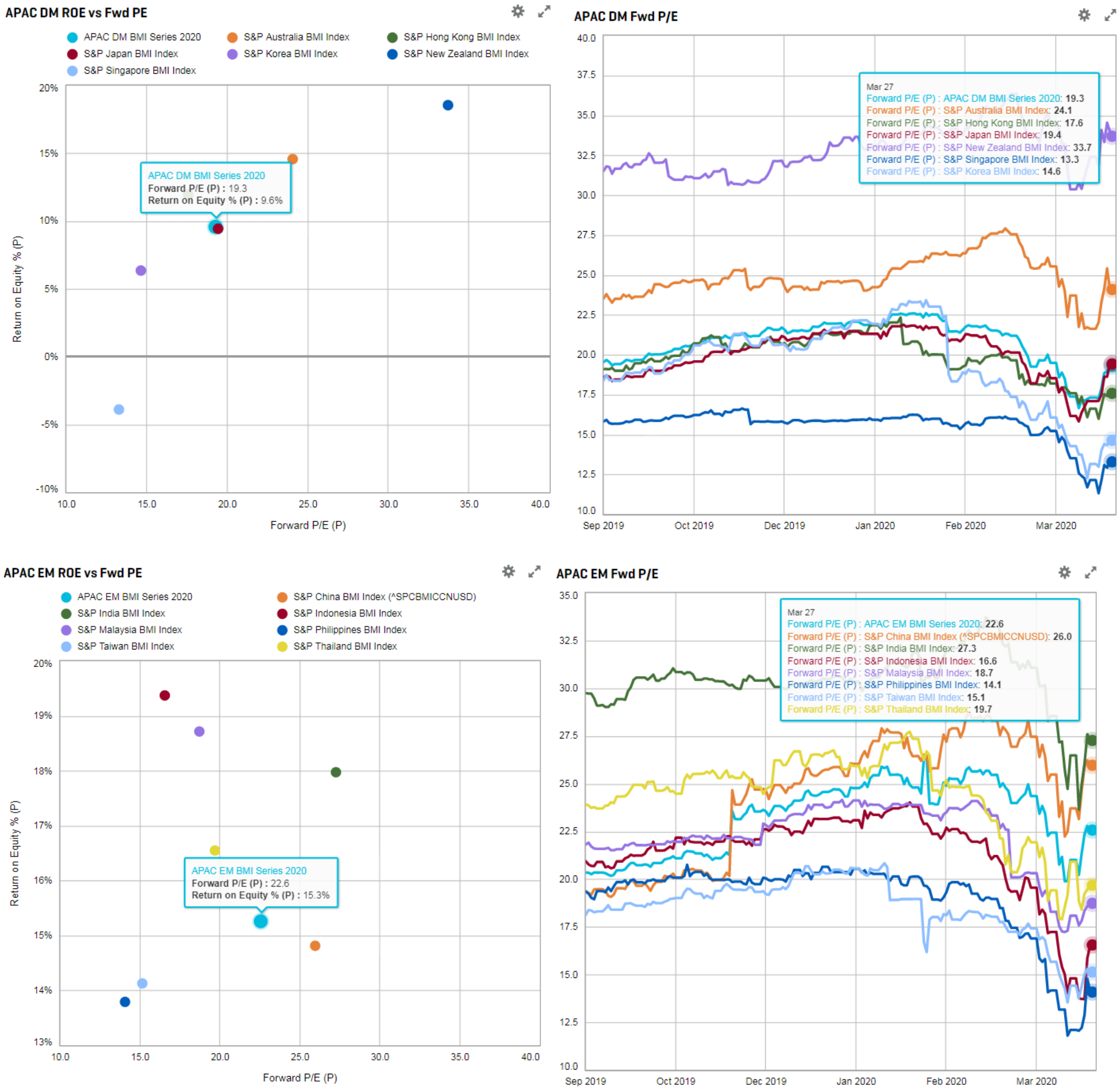
Source: S&P Global Market Intelligence as of 27 March, 2020.

Valuations

Looking at a scatterplot of Return on Equity (ROE) and 1-Year Forward Price-to-Earnings (Fwd PE) ratios as of 27 March 2020, the APAC EM seems to be a bit more expensive with a higher ROE number (Fwd P/E 22.6x and ROE of 15.3%) vs the APAC DM (Fwd P/E 19.3x and ROE of 9.6%).

Valuations from certain APAC EM's have rolled off from higher points from beginning of March 2020 to the 27 March 2020. India, Indonesia and the Philippines' Fwd P/Es have come down -13%, -15% and -19% MTD respectively, compared to some of the APAC DM's, as Australia, Korea and Singapore declined -5%, -8% and -11% respectively.

Figures 4-7: ROE vs 1Yr Fwd P/E for APAC Developed and APAC Emerging Markets; and 1Yr Fwd P/E Valuation for APAC Developed and APAC Emerging Markets

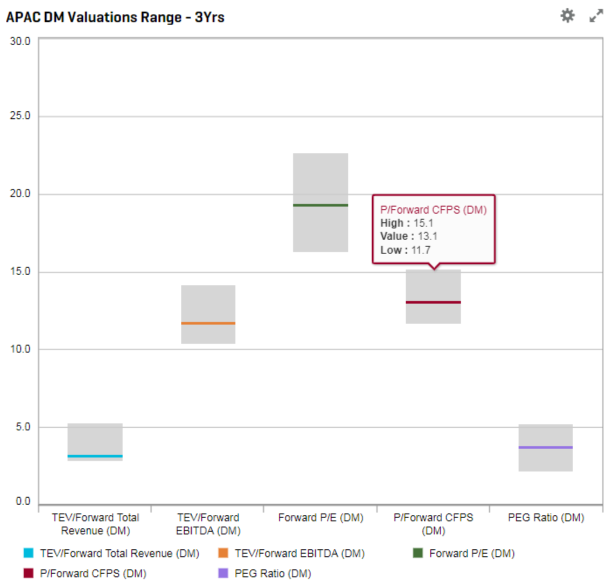


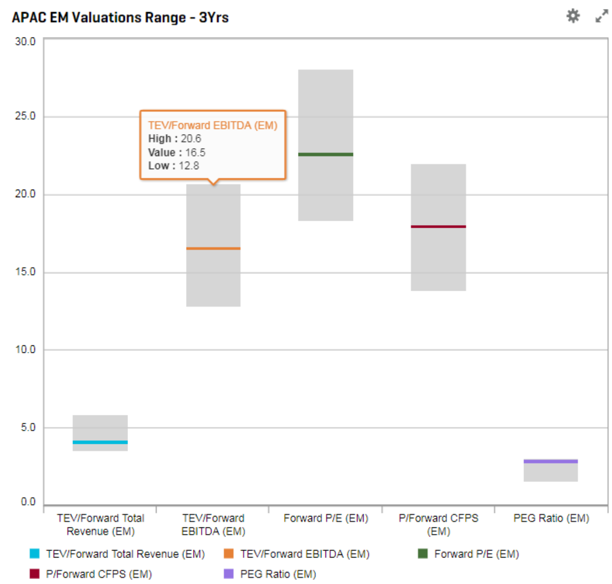
Source: S&P Global Market Intelligence as of 27 March, 2020.

If we compare five other forward valuation multiples in both the APAC DM and the APAC EM (Enterprise Value-to-Sales (EV/Sales), Enterprise Value-to- its Earnings Before Interest, Taxes, Depreciation & Amortization (EV/EBITDA), Price-to-Earnings (P/E), Price-to-Cash Flow (P/CFPS), and Price/Earnings-to-Growth (PEG) Ratio), we observed that the range of the APAC EM multiples were generally wider, and currently closer to their 3 years' mean values than the APAC DM multiples.

This potentially indicates that the APAC EM universe was able to restore to its average values quicker than its APAC DM peers.

Figures 8 and 9: 3-Year historical valuations ranges for APAC Developed and APAC Emerging Markets





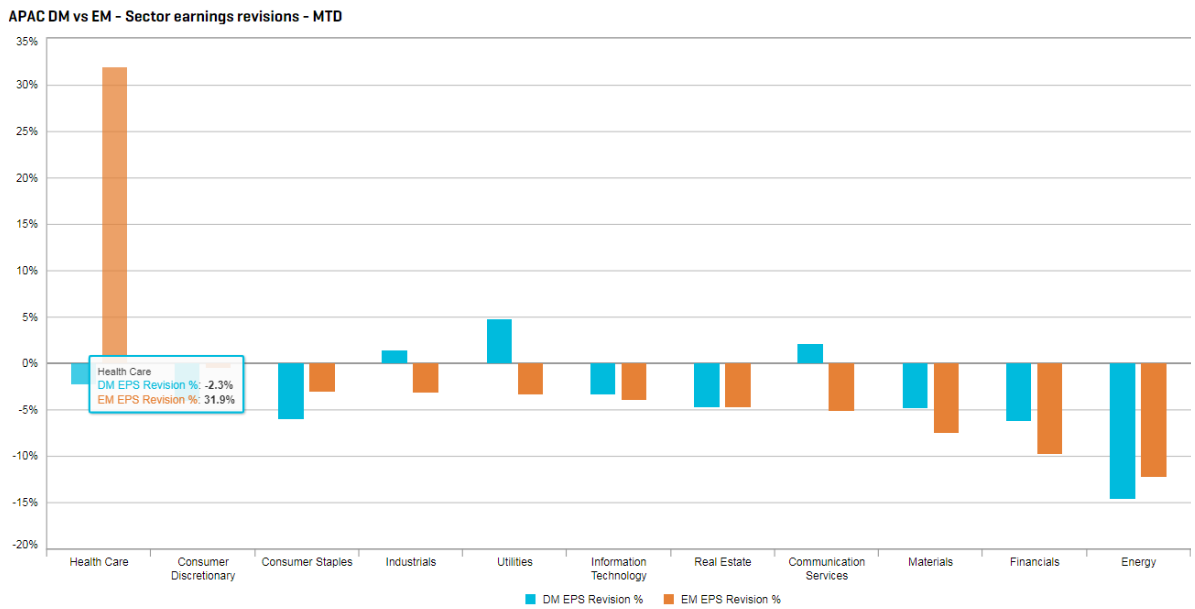
Source: S&P Global Market Intelligence as of 27 March, 2020.

Earnings revisions

Nearly all sector earnings were revised down for the APAC DM with the energy sector suffering the largest downward revision of almost -15% within the month of March. Most other sectors have been revised down between the range of -1% to -6%, with the few exceptions of industrials, communication services and utilities which went up +1%, +2% and +5% respectively.

The APAC EM downward revisions have exceeded the APAC DM for sectors such as financials, materials and utilities but, healthcare stood out as sell-sides revised up EPS forecasts 32% since start of March.

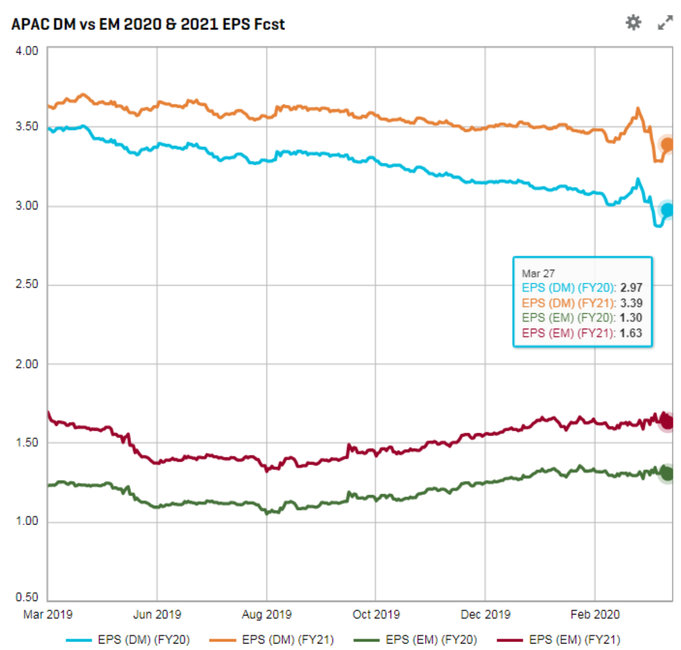
Chart 4: Sector earnings revisions in March for APAC Developed and APAC Emerging Markets



Source: S&P Global Market Intelligence as of 27 March, 2020.

There seems to be a diverging trend in the analyst EPS forecasts across both the APAC DM and the APAC EM. If we look from March 2019, we can see that the EPS estimates for the APAC DM were downward trending before going through the large swing of the recent correction. On the other hand, EPS estimates for the APAC EM seemed to be flat between May and August 2019, but started to trend up at end of Q3 2019. The fluctuations of earnings revisions also seemed to be less volatile for the APAC EM during the recent market correction.

Chart 5: EPS consensus forecasts for APAC Developed and APAC Emerging Markets



Source: S&P Global Market Intelligence as of 27 March, 2020.

Summary

Portfolio Analytics provides greater insight into your portfolio monitoring process by leveraging comprehensive fundamental and industry leading data from S&P Global Market Intelligence.

Using Portfolio Analytics, analysts are equipped with a web-based tool to quickly:

- Understand individual market performance within a region
- Compare sector performance between markets
- Analyze current market valuations vs historical bands
- Keep track of sell-side earnings revisions and sentiments

As markets move, these portfolio metrics can be refreshed daily so that you can analyze your portfolio with the latest market changes. With the hundreds of style factors supplied by the Alpha Factor Library, you can also widen your investment lens by incorporating factor-based style aggregation and attribution.

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