

## Asia Pacific: regional diversification

**With its diverse strengths, Asia remains a global growth driver in our view. It is worth taking a look at the entire region, not least as a potential counterweight to the dominance of U.S. equities.**

Home bias is a well-known investment habit: People prefer to invest in their familiar home region. And, for international investors, the United States is a draw for another reason: It is the largest, most liquid and most ubiquitous capital market, and has been outperforming its international competitors for years, thanks mainly to the big tech stocks. If you deem their valuations too high and want to diversify your portfolio, you could take a look at Asia. We are talking of Asia broadly here, from India to Australia, including Japan. This broad approach is obviously not about focusing on individual, short-term trends. It is about strategic diversification as a counterweight to the U.S. and Europe. And short-term factors make it all the more desirable to think about Asia.

### Diversified globalization makes Asia more self-sufficient

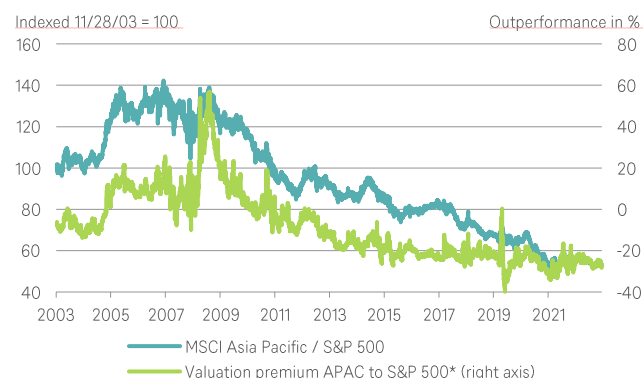
Regardless of whether you call it diversified globalization or friendshoring<sup>1</sup>, global goods flows have been changing for some years now. Regionalization is on the rise. For example, trade between China and the U.S. is declining, while it is increasing within the Asian region. The Regional Comprehensive Economic Partnership (RCEP) trade agreement between Asia-Pacific nations which, even without India's participation, involves 2.2 billion people and 30% of global trade, could contribute to this growth in trade within the Asia-Pacific region in the future. Rising domestic consumption there is also a growth driver. After years of sharply rising incomes, Asia's emerging countries have developed a broad middle class with strong consumer spending power.

Growth is this region's strength, whether through ongoing industrialization, as for example in China and Vietnam, and/or through population growth, as in India and the Association of Southeast Asian Nations (ASEAN) states. Indeed, the appeal of the region lies in the various strengths that it combines: whether it's Australia's wealth of natural resources and western-style service sector; Japan's established and often world-leading industry; India's<sup>2</sup> demographics and up-and-coming companies in the tech and service sector; or China's continued growth, with leading positions in important sectors such as renewable energies. China is currently experiencing a period of weakness due to

the real-estate crisis and ongoing disputes with the U.S., among other things. But the fact that many Western companies want to reduce their dependence on China often benefits China's emerging neighbors. In general, investors who do not feel comfortable in China's capital market due to regulations and uncertainty may be able to participate in its size and growth via neighboring countries, particularly Japan and South Korea.

In the near term, the region has much to be said for it. The headwinds from rising U.S. interest rates and U.S. dollar appreciation are abating, and after a difficult year China should slowly regain its footing. Meanwhile, Japan is currently shining more than in years. Wages and inflation are at last rising again and companies are accelerating their restructuring. Finally, what speaks not only for Japan but for the entire region is that international investors are still significantly underweight and the valuation discount to the S&P 500 is close to its historic high.<sup>3</sup>

### Asia's shares have long underperformed the U.S.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/13/23  
\* Based on next twelve months P/E ratio

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## Footnotes

<sup>1</sup> Friendshoring refers to a corporate strategy in which production is relocated to diplomatically friendly or allied foreign locations

<sup>2</sup> See also our separate report on India: 10 Themes | [India: Delivering on many promises](#)

<sup>3</sup> Source: Bloomberg Finance L.P. as of November 2023

## Glossary

The [Association of Southeast Asian Nations \(ASEAN\)](#) is a political and economic organization of 10 countries located in Southeast Asia.

[Inflation](#) is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

[Key interest rates](#) stated by central banks to determine the most important rates of borrowing.

The [Regional Comprehensive Economic Partnership \(RCEP\)](#) is a free trade agreement between the Asia-Pacific countries of Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand and Vietnam. The agreement was signed in November 2020 and constitutes the largest trade alliance in history.

The [S&P 500](#) is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The [U.S. dollar \(USD\)](#) is the official currency of the United States and its overseas territories.

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