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## Vietnam stocks are outshining their regional peers. We maintain our position in our mandates

We currently maintain a position in Vietnam within discretionary management mandates with current weights being as follows: Conservative portfolios 0.7%, Moderate portfolios 1.8%, Balanced portfolios 2.7% and Aggressive portfolios 3.9%). Since the November lows, the Vietnam market has rebounded 22%, which is a far better performance than China, where the Shanghai and Shenzhen indexes are up 11% and 12% respectively.

Our continuous analysis of the developments in this market make us to maintain our position in Vietnam within our mandates, with an overweight strategy.

### We see the beginning of a recovery phase in Vietnam's equity market.

The VNI rallied almost a 4% right after another 50bps policy rate cut despite foreign net selling of $131m. Retail investor confidence was exceptional in May with consensus narrative pointing that the worst has passed. This led to an increase in average daily liquidity up 10,6% MoM. Given strong macro policy support, we see the beginnings of a recovery phase, with four out of five criteria turning positive: 1) declining interest rates, 2) stable FX, 3) improving liquidity, and 4) solutions for troubled real estate companies. Conspicuous in its absence is earnings improvement, but local analysts believe that quarterly earnings for the top 80 companies already bottomed out in 4Q22, and positive earnings growth should start to come back in 2H23, with recovery of over 20% possible in 2024.

### REIT crisis seems to enter the control phase.

Resolving the recent real estate issues remains a key objective for the Government, and the special working group created to support Novaland (NVL) is starting to bear fruit, with the company resuming of one of its key projects in Phan Thiet. Banks are also starting to finance NVL projects again, leading to buyers resuming their mortgages, which is leading to an uptick in real estate activity, both in the secondary and primary markets, as developers tentatively begin launching projects with mid-segment developments attracting purchasers. Despite high mortgage rates, we are cautiously optimistic for the thawing of the property market, but patience is key as market consolidation can take time, often 18-24 months. Over to Corporate bonds, negotiations are still ongoing between REIT issuers, bondholders and new buyers, importantly with no further deterioration. Maturities will peak from June-

August, and while continuing to monitor the situation, we are hopeful that the major bottlenecks are now mostly resolved.

**New potential capital flow.**

There will be VND bank deposits maturing in 2H23 equivalent to hundreds of millions of Dollars, which will likely be reinvested soon after maturity. Some important brokerage surveys show a growing desire for margin. With 100,000 newly opened trading accounts in May and an uptick in turnover, we see an increase in appetite for riskier assets, especially as cheap valuations offer attractive yields vs the recent decline in deposit rates. We maintain our view that 2023 is a year for accumulating stocks. While investors may favor a cautious approach, they should also be prepared to take advantage of buying the dip. During years when interest rates decline but strong growth has yet to appear, the VNI's historical expected return is 15-17%.

**About the most recent economic weakness: Foreign trade is regressing, and the economy slows, but it seems somewhat temporary.**

Vietnam's latest economic data underscores the intricate interplay between global demand dynamics, China and its trade performance, with internal and external factors contributing to the recent slowdown in Vietnamese economy. 5M23 exports were down 11.6% YoY, while imports fell down 17.8% YoY. May's PMI of 45.3 reflected this contractionary trend. The good news is the Government has taken prompt action to address these challenges. The reasons for this poor economic performance include 1) post-Covid inventory destocking and, 2) tighter global lending standards and higher rates that have further dampened international purchasing power. Consequently, Vietnam's EU and US exports have respectively decreased by 17% and 20% YoY, significantly impacting export-oriented industries such as fisheries (-28% yoy), and textiles (-20%). Local enterprises have also had to confront funding difficulties due to elevated financing costs, jumping significantly from 8% to 15% in 2H22. Delays in receiving VAT refunds have done nothing to help cashflow. Vietnamese businesses are having to overcome cumbersome day-to-day hurdles. Examples include fire prevention protocols, or the adoption of higher import standards designed to promote greener production methods. While important, these higher standards require longer processing times. Acknowledging these challenges, the Government has proactively taken measures to help soften their impact. The SBV has implemented three policy rate cuts totalling 100bps from March to May 2023. The Prime Minister also released an urgent dispatch focused on addressing administrative obstacles, while incentivizing businesses to explore potential markets such as the Middle East, Latin America, and India. These initiatives highlight the Government's commitment to promoting economic growth and enhancing the business environment. It is our belief that exports will soon improve once those issues are solved.

**An economic transition**

Now is the time for Vietnam to rethink its FDI structure. The country is transitioning away from accepting labour-intensive manufacturers (seeking low costs and tax incentives) and is instead targeting high value investments aligned with environmental sustainability and long-term commitment. The government is also promoting domestic enterprises, upgrading the legal framework and fostering technology integration to help ensure Vietnam adapts to international standards, luring in new businesses to realise its long-term vision for economic growth.