August 2, 2023 09:00 PM GMT

Asia EM Equity Strategy

Market Allocation – Move OW India; Downgrade Australia to UW; Taiwan and China to EW

These are our biggest changes in market views since last October. Alpha generation from our allocation process has picked up this year. We discuss drivers of the ranking change for the markets where our views change but also explore medium-term trends, as they affect our China and India calls.

Asia/EM Bull Market Progress: Our call last October for the beginning of a new bull market in Asia/EM equities is increasingly priced, with MSCI EM up 24% since the late-October trough, 5% below our June 2024 target of 1,100. Our market and sector allocation frameworks for APxJ/EM have been outperforming YTD and now call for a mid-cycle rotation as well as APxJ, GEM, China/HK and China-A share Focus List Changes .

Upgrade India to OW for secular leadership: India rises from #6 to #1 in our process, with relative valuations less extreme than in October, while MS macro, strategist and bottom-up analyst scores reflect MS' Blue Paper thesis on India's Decade. Multipolar World trends are supporting FDI and portfolio flows, with India adding a reform and macro-stability agenda that underpins a strong capex and profit outlook. We see a secular trend toward sustained superior USD EPS growth versus EM over the cycle, with a young demographic profile supporting equity inflows.

Move UW Australia on earnings/valuation risks: Australia moves down to #22 of 27 markets in our framework. Earnings remain in a downgrade cycle and valuations look expensive as the delayed impact of RBA tightening continues to affect households and interest-sensitive sectors. Meanwhile, risks to bulk commodity prices are skewed lower, given emerging oversupply in 2H23.

Downgrade MSCI Taiwan to EW; remain OW Korea: Taiwan moves down to #7 in our framework as valuations have moved up to +1.0 s.d. (on P/B) or +0.8 s.d. (on 12mf P/E) above historical averages. While difficult to call a top amid a market driven by the AI-thematic and retail investors, we think a lot has been priced in and move to the sidelines. Korean equities show similar trends, but we remain OW given cheaper valuations alongside our quant strategists' preference for quality value.

Downgrade MSCI China to EW as Growth and Valuation concerns remain: MSCI China is now within 7% of our target of 70 and has delivered 9% total returns since December 4, in line with MSCI EM. The market moves down to #13 in our framework, given still-negative earnings revisions and weak ROE and profit margins vs. history, which undercut cheap valuations. The July Politburo meeting signalled policy easing, but key issues including LGFV debt, the property and labour markets and the geopolitical situation need to improve significantly, in our view, for

MORGAN STANLEY ASIA LIMITED+
Jonathan F Garner
Equity Strategist
Jonathan.Garner@morganstanley.com +65 6834-8172

MORGAN STANLEY ASIA (SINGAPORE) PTE.+
Daniel K Blake
Equity Strategist
Daniel.Blake@morganstanley.com +65 6834-6597

MORGAN STANLEY INDIA COMPANY PRIVATE LIMITED+
Ridham Desai
Equity Strategist
Ridham.Desai@morganstanley.com +91 22 6118-2222

MORGAN STANLEY AUSTRALIA LIMITED+
Chris Nicol
Equity Strategist
Chris.Nicol@morganstanley.com +61 3 9256-8909

MORGAN STANLEY ASIA LIMITED+
Laura Wang
Equity Strategist
Laura.Wang@morganstanley.com +852 2848-6853

MORGAN STANLEY TAIWAN LIMITED+
Terence Cheng
Equity Analyst
Terence.Cheng@morganstanley.com +886 2 2730-2873

MORGAN STANLEY ASIA (SINGAPORE) PTE.+
Kristal Ji
Equity Strategist
Kristal.Ji@morganstanley.com +65 6834-6949

MORGAN STANLEY ASIA LIMITED+
Fran Chen, CFA
Equity Strategist
Fran.Chen@morganstanley.com +852 2848-7135

MORGAN STANLEY & CO. INTERNATIONAL PLC+
Regiane Yamanari
Equity Strategist
Regiane.Yamanari@morganstanley.com +44 20 7677-4652

MORGAN STANLEY ASIA LIMITED+
Crystal Ng
Equity Strategist
Crystal.Ng@morganstanley.com +852 2239-1468

sustainable inflows and further re-rating.

Exhibit 1: APxJ/EM Market Allocation Changes – Upgrade India and Greece to OW; Downgrade Australia to UW and move MSCI China and Taiwan, to EW from OW, Hungary to EW from UW

Overweight	Rec. Chg.	Active (bp)	Prev. (bp)
India	↑	75	0
Korea		50	50
Mexico		50	25
UAE		25	25
Greece	↑	25	0

Underweight	Rec. Chg.	Active (bp)	Prev. (bp)
Colombia		-25	-25
Malaysia		-25	-25
Australia	↓	-75	0
New Zealand		-50	-50
Thailand		-25	-25
Qatar		-25	-25

Neutral (Upgrade)	Rec. Chg.	Active (bp)	Prev. (bp)
Hungary	↑	0	-25

Neutral (Downgrade)	Rec. Chg.	Active (bp)	Prev. (bp)
Taiwan	↓	0	50
China	↓	0	25

Source: Morgan Stanley Research

Exhibit 2: APxJ/EM Sector Allocation and Rating Changes - We are OW Financials in India, Indonesia and UAE, while moving more OW Industrials and reducing our IT OW

Overweight Sector	Rating Change
India - Financials	
Korea - Information Technology	
India - Consumer Discretionary	
Indonesia - Financials	
India - Industrials	↑
Korea - Industrials	
Mexico - Industrials	↑
United Arab Emirates - Financials	↑

Underweight Sector	Rating Change
Malaysia - Utilities	
Colombia - Financials	
Qatar - Financials	
Korea - Financials	
Australia - Consumer Discretionary	
Malaysia - Consumer Staples	
China - Utilities	
Australia - Industrials	↓

Upgrade to EW	Rating Change
Australia - Financials	↑

Downgrade to EW	Rating Change
Taiwan - Information Technology	↓
China - Consumer Discretionary	↓
Australia - Health Care	↓

Source: Morgan Stanley Research

Exhibit 3: Morgan Stanley APxJ, GEM, China/HK, China-A share Focus Lists Changes

	Focus List Changes	
	Company Name	**Ticker**
	APxJ Focus List	
Add	Larsen & Toubro Ltd	LART.NS
Add	Maruti Suzuki India Limited	MRTI.NS
Add	SembCorp Industries Ltd	SCIL.SI
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ
Remove	Quanta Computer Inc.	2382.TW
Remove	Titan Company Ltd	TITN.NS
	GEM Focus List	
Add	Emaar Properties PJSC	EMAR.DU
Add	Larsen & Toubro Ltd	LART.NS
Add	Maruti Suzuki India Limited	MRTI.NS
Add	Piraeus Bank SA	BOPr.AT
Remove	Eclat Textile	1476.TW
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ
Remove	Quanta Computer Inc.	2382.TW
Remove	Titan Company Ltd	TITN.NS
	China/HK Focus List	
Add	Jonjee Hi-Tech	600872.SS
Add	Kingdee International Software Group	0268.HK
Remove	Glodon Co. Ltd.	002410.SZ
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ
	China-A share Focus List	
Add	Jonjee Hi-Tech	600872.SS
Add	YTO Express Group Co Ltd	600233.SS
Remove	Glodon Co. Ltd.	002410.SZ
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ

Source: Morgan Stanley Research

Asia EM Equity Strategy – Our Changes in a Broader Regional Context

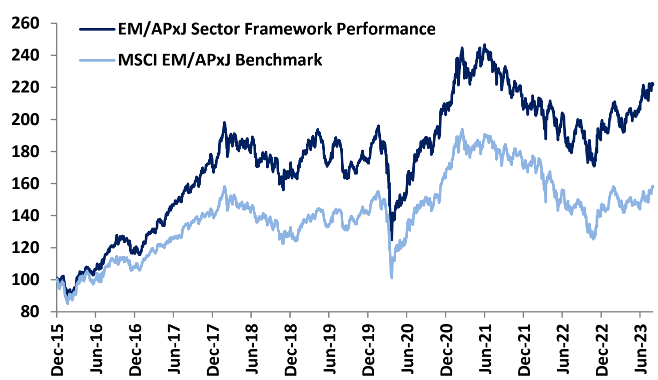
Jonathan Garner, Daniel Blake

Nine months into a new bull market – why it is time to make some major changes

We take a step back to set the scene for today's changes in a broader thematic context before we delve into the details.

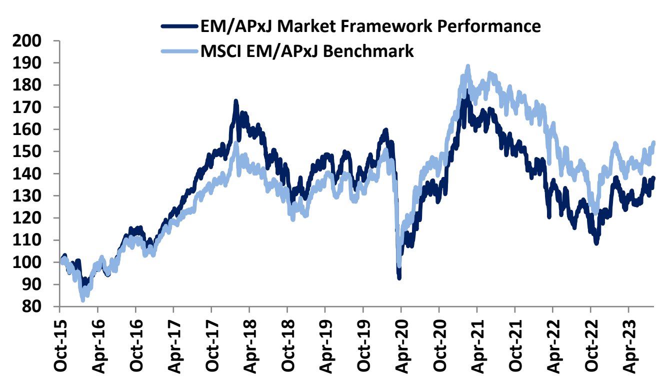
First, a reminder that we think we began a new bull market in Asia/EM last October (see Asia EM Equity Strategy: Upgrading Asia/EM Equities; Buy Korea and Taiwan, 4 Oct 2022). From the trough in late October, MSCI EM is up around 25%. Thus, the changes we make are again about identifying leadership at the market level within that context of a maturing bull market. Thus far, leadership off the bottom has come mainly from North Asian markets and IT/Semiconductors as has been typical in market cycles back to the late 1990s. In contrast, Southeast Asia, EMEA and LatAm have lagged – with the exception of Mexico. See Exhibit 6 . Our market and sector allocation frameworks have been generating alpha from this early cycle positioning, but now flag value in shifting posture.

Exhibit 4: Morgan Stanley APxJ/EM Sector Allocation Framework Performance - The model has generated a cumulative alpha of +4055 since inception and +560bp YTD in 2023, including +310bp since last update in March-end 2023



Source: MSCI, RIMES, Morgan Stanley Research. Data as of August 1, 2023

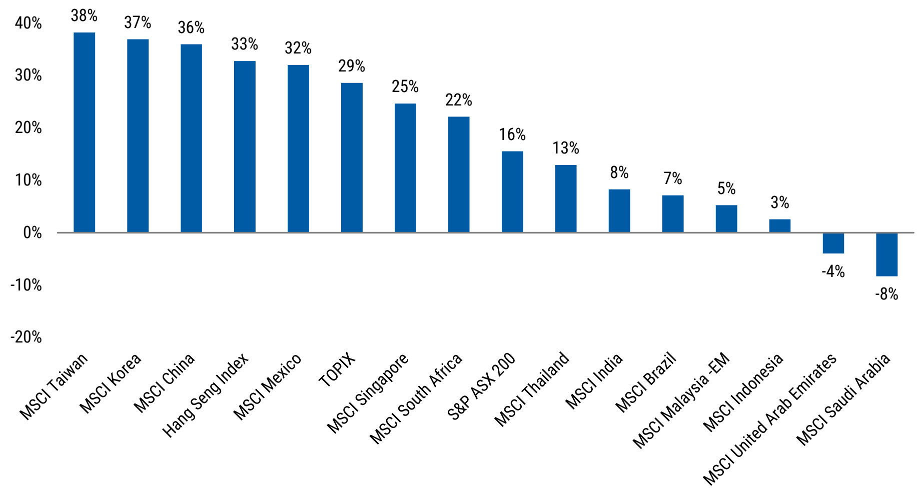
Exhibit 5: APxJ/EM Market Allocation Framework Performance – Process has generated 415bp YTD and 441bp over the last 12 months, but has lagged benchmark by 925bp since inception



Source: MSCI, RIMES, Morgan Stanley Research. Data as of August 1, 2023

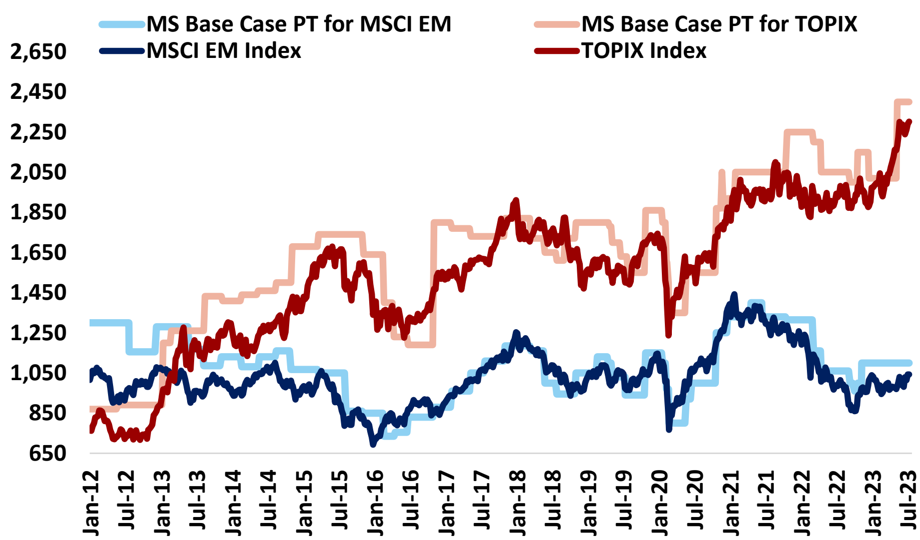
Second, we prefer Japan within our coverage, which remains MS' top pick in global equities. Exhibit 7 gives our target price history since assumption of coverage of Japan in late 2012. At the most recent mid-year review in early June, we raised our top target price to 2400 (+3% versus spot) and left our EM target unchanged at 1,100 (+5% versus spot). For more details, see Japan Economics and Equity Strategy: Momentous Shift in Japan's Nominal GDP Path (11 Jun 2023) and Japan Equity Strategy: Catching the Corporate Reform Wave - Key Opportunities in Japan's ROE Journey (15 Jun 2023).

Exhibit 6: Major Index Performance since MSCI EM Trough on October 24, 2022 (US$)



Source: Factset, Morgan Stanley Research; Data as of August 1, 2023

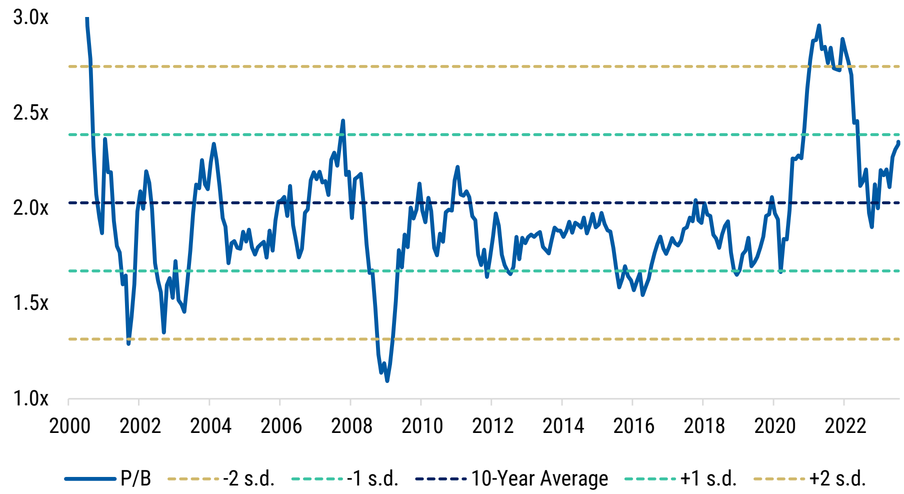
Exhibit 7: Morgan Stanley MSCI EM and TOPIX Index Target Price History – We have tended to prefer Japan to EM for over the cycle since the launch of Abenomics



Source: RIMES, MSCI, Factset, Morgan Stanley Research. Data as of August 1, 2023

Taiwan, which we downgrade to EW in this report, is a market dominated by technology and export earners and where the structural trend in ROE has been positive in recent years as these firms have succeeded globally. Our October 2022 upgrade was a simple cyclical story of distressed valuations at a time of depressed sentiment about underlying demand trends in semiconductors. The situation is very different today. Valuations are back to mid-cycle levels, and while demand remains weak in key areas (e.g., smartphone/ conventional cloud), a path to recovery is becoming more evident. Moreover, as has been the case in many prior cycles, a new end-use category – AI servers – is generating significant excitement. Taiwan, as we see it as a market, is a structural bull story where we move to the sidelines after significant recent outperformance.

Exhibit 8: Taiwan Trailing P/B: Trending higher toward +1 S.D. above 10-year average while demand remains weak in key areas



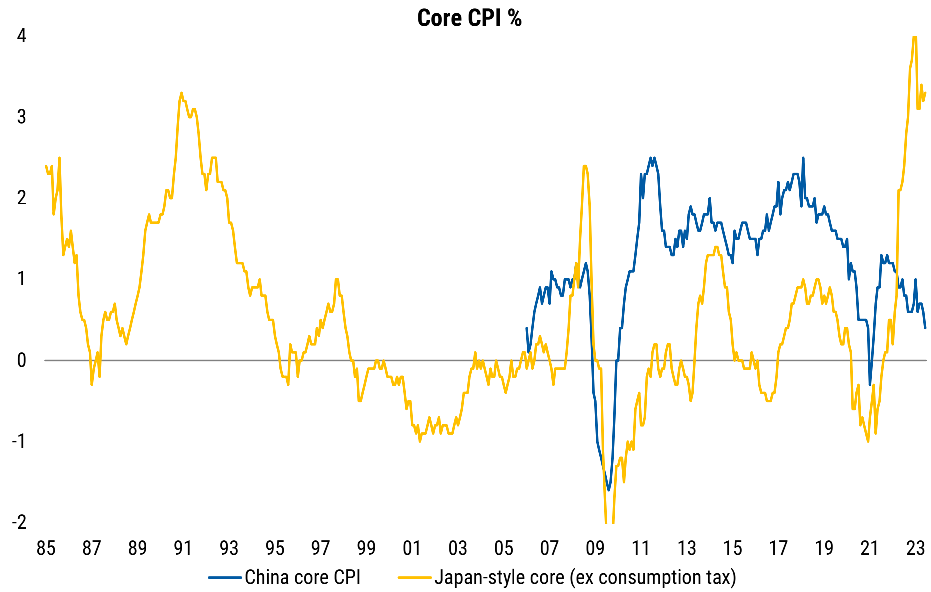
Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of August 1, 2023

Our China downgrade to EW, which is linked to our **Australia downgrade to UW** via Australia's mining stocks in particular, has a different structural set-up. The China market is overwhelmingly dominated by domestic demand stocks at 85.5% of MSCI China. Further, domestic demand has failed to recover convincingly in the post-Covid environment. Indeed, the investor debate is centred on whether China's demographic transition, high domestic debt/GDP ratio and over-investment in property and infrastructure are starting to generate a balance sheet recession.

Core inflation is stuck close to zero with evidence of high unemployment in the young population and weak wages with households and private firms no longer willing to lever up. Recent statements from the Politburo have begun to acknowledge the need to reverse some of the measures that have pressured the property market, but there is no easy way out of the intertwined property and local government financing/debt burden that built up in the years when the growth model did not transition fast enough.

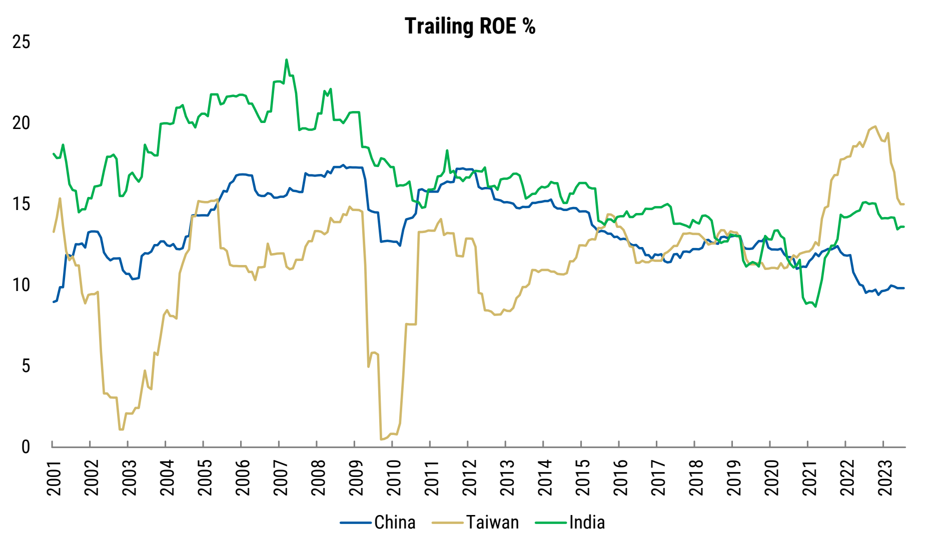
At the same time, China faces the new challenge of coping with multipolar world pressures from the US in particular - which is generating new restrictions on inward technology transfers - as well as a more generalised slowdown in inward foreign direct and portfolio investment. There is likely to be more negative news on the former in August, if the US executive order on outbound investment screening comes to pass. All that said, we do not rule out moving back to a more positive stance on China should policy implementation be more aggressive than hitherto and solutions to these structural problems start to fall into place.

Exhibit 9: China Core Inflation versus Japan – China is struggling to reflate its economy while Japan has finally succeeded



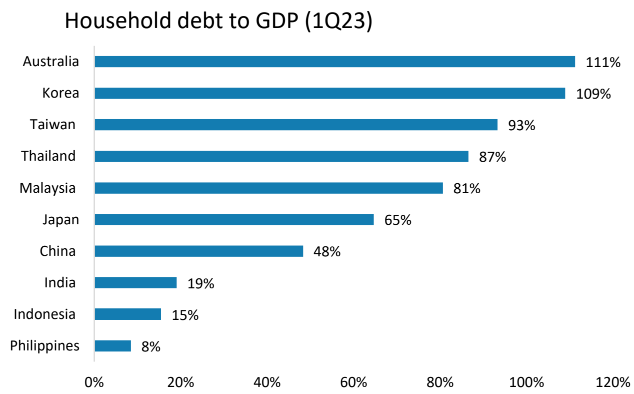
Source: CEIC, Morgan Stanley Research; Data as of June 2023.

Exhibit 10: ROE for MSCI China, MSCI India and MSCI Taiwan – Taiwan ROE has improved over the cycle while China ROE has fallen well below both other peer group markets



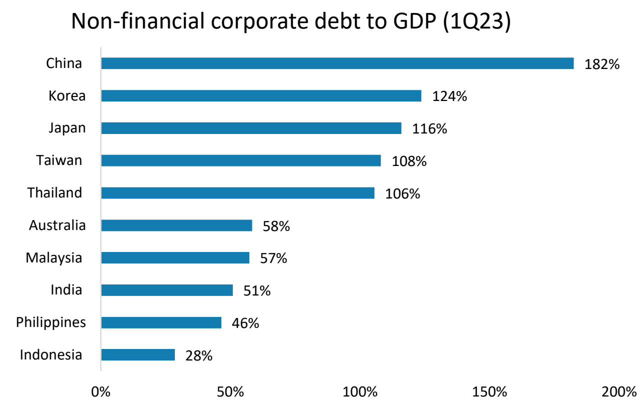
Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of July 24, 2023

Exhibit 11: Household Debt to GDP (1Q23) – India has substantial room to run



Source: CEIC, Morgan Stanley Asia Economic Research estimates; Note that China Household Debt to GDP has been adjusted to exclude SME loans.

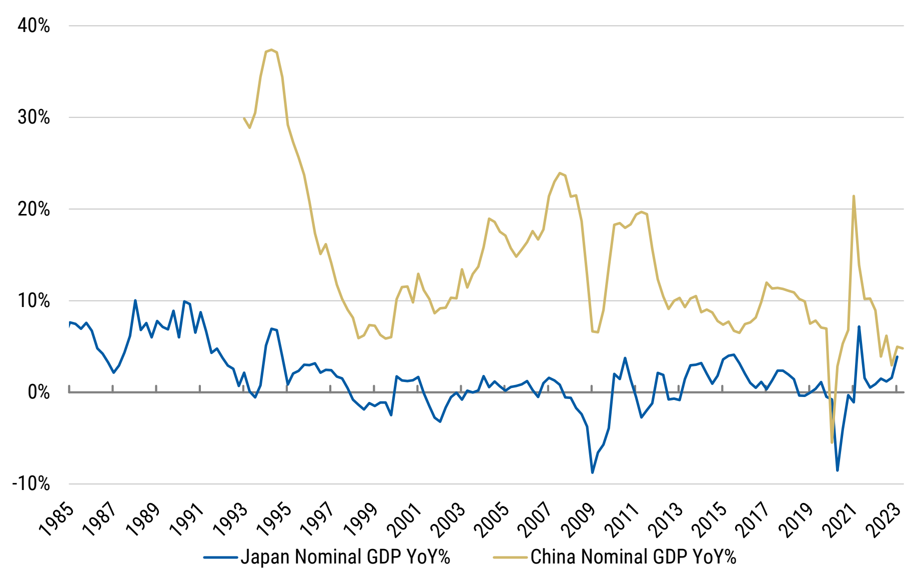
Exhibit 12: Non-financial Corporate Debt to GDP (1Q23) – China is highly leveraged mainly through LGFV and SOE debt



Source: CEIC, Morgan Stanley Asia Economic Research estimates; Note that China Non-Financial Corporate Debt to GDP has been adjusted to include SME loans.

Exhibit 13:

China vs Japan Nominal GDP growth – Convergence between the two is notable and has profound impact on the equities investment landscape

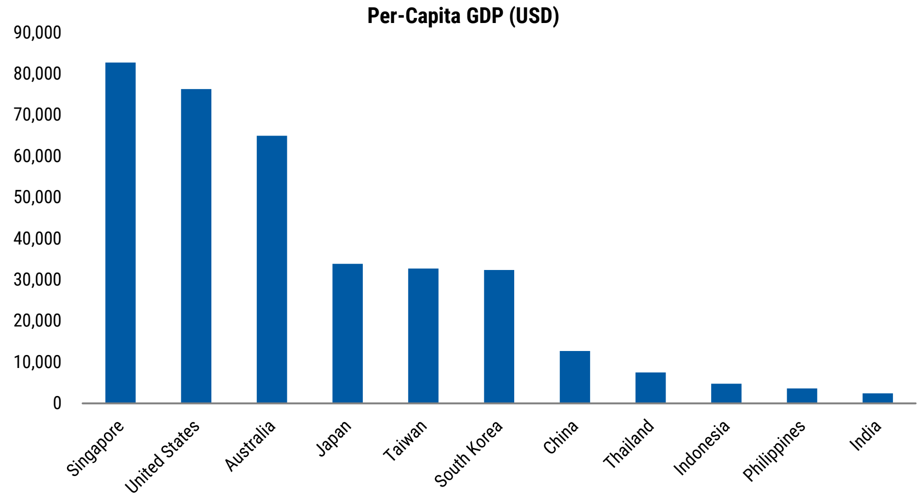


Source: CEIC, Morgan Stanley Research

For India which we upgrade to OW today, the situation is in stark contrast to that in China, as borne out by our recent visit in June to the MS annual investment summit in Mumbai. With GDP per capita only US$2.5k per capita (vs. US$12.7k for China) and positive demographic trends, India is arguably at the start of a long wave boom at the same time as China may be ending one. Consider that household debt/GDP in India is just 19% vs. 48% for China and that only 2% of Indian households have life insurance.

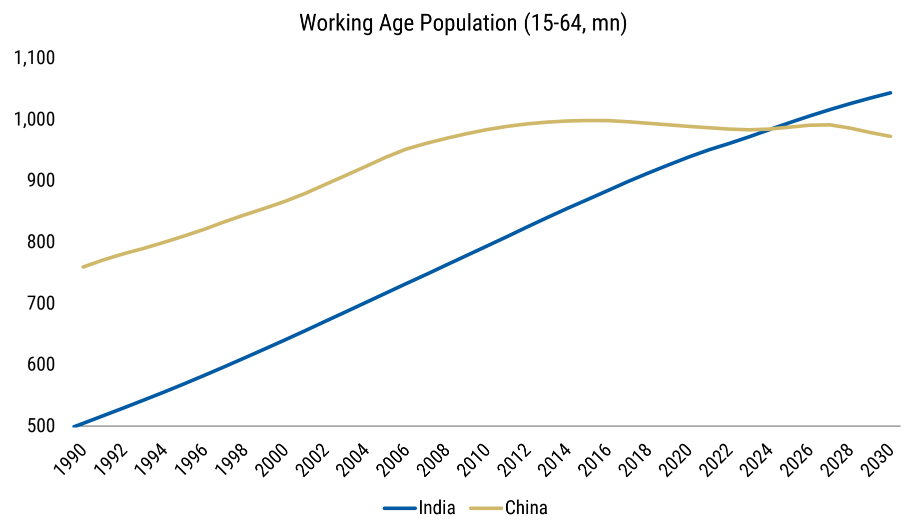
Manufacturing and services PMIs have rallied consistently since the end of Covid restrictions in contrast to the rapid fade seen in China. As well, real estate transaction volumes and construction have broken out to the upside. Moreover, India's ability to leverage multipolar world dynamics is a significant advantage. It is a member of the Quad political framework with the US, Australia and Japan. It is benefitting from a surge in inward FDI, including from US, Taiwan and Japan firms looking to its own large domestic market as well as a much-improved export infrastructure situation vis-à-vis more-efficient ports, road and electricity supply. Private equity firms are expanding in India (and ASEAN) at the same time as they are struggling with exits in China.

Exhibit 14: Asia Pacific Per Capita GDP (USD current exchange rates) – India GDP per capita only US$2.5k per capita versus US$12.7k for China



Source: CEIC, Morgan Stanley Research

Exhibit 15: Working Age Population in India and China – India is seeing favorable demographic trend while China has seen decline in working age population since the early part of the last decade

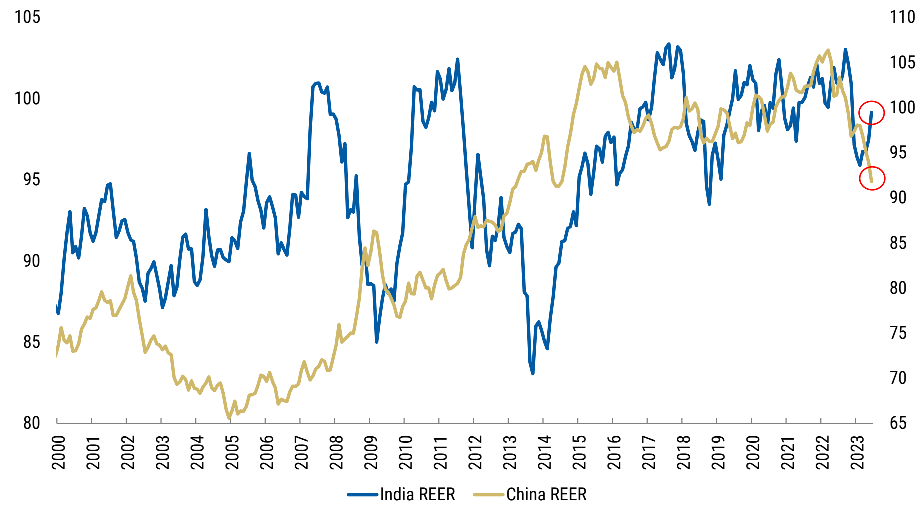


Source: UN Population Database, Morgan Stanley Research; Note: Data for 2023 and onwards is a forecast by the UN.

Simply put, India's future looks to a significant extent like China's past. Our economics team thinks trend GDP growth in China is likely to be around 3.9% to the end of the decade vs. 6.5% for India. In this context, it is particularly relevant to note long-run trends in real effective exchange rates for the CNY and INR. The CNY appears to have made a major top in early 2021, and on the BIS measure has weakened by 15% in the last 18 months or so. If this is the beginning of a tendency toward a weaker exchange rate –

reflecting worsening fundamentals – we would expect profound negative implications for an equity market with almost no export earnings stocks. Here the contrast is with Japan's equity market, where the correction of previously over-valued currency re-awakened interest in a market where ~45% of revenue is sourced abroad. Meanwhile, for India a long period of stability in the real exchange rate seems set to end with a break to the upside.

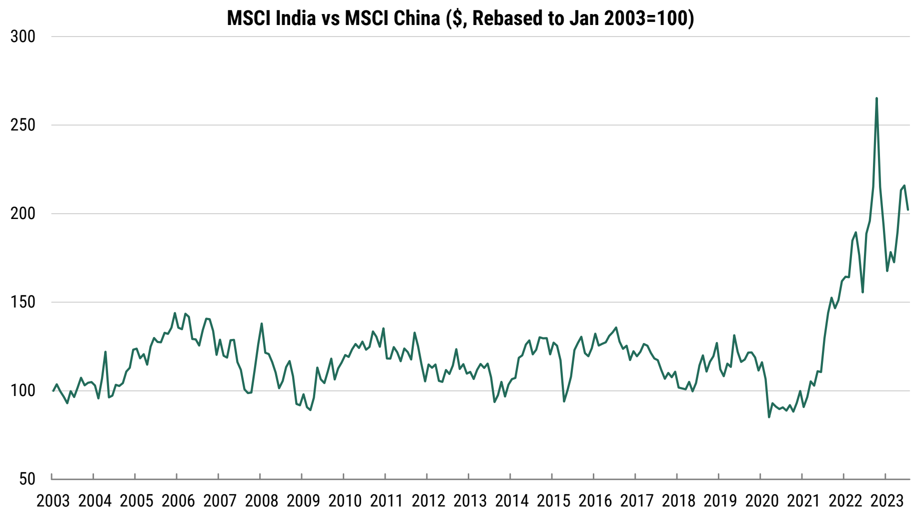
Exhibit 16: India REER vs. China REER – Sharp divergence in recent relative real FX trends favouring India; it is possible China's REER made a major secular peak in 2021



Source: Bloomberg, Morgan Stanley Research; Data as of June 2023.

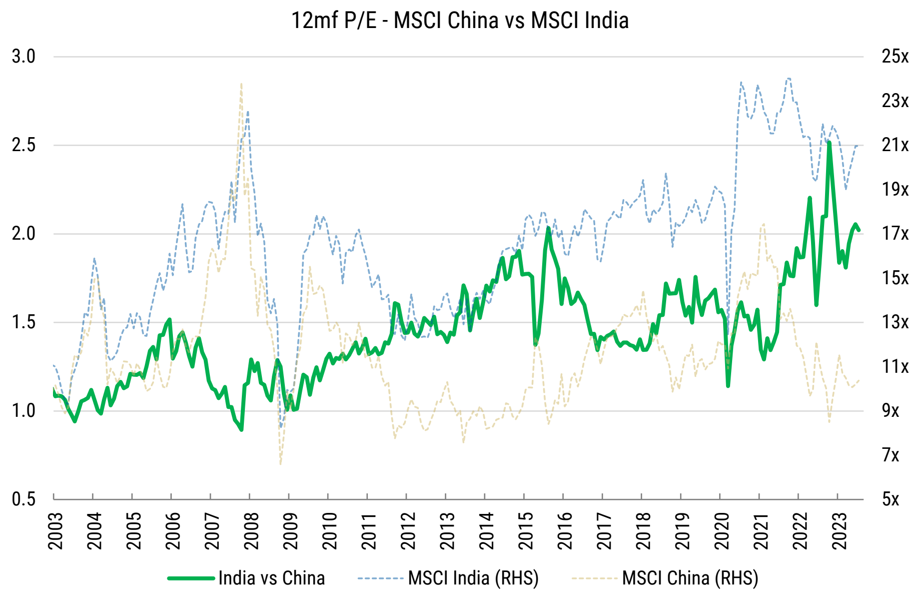
Indeed, considering Indian equities and China equities as a pair in USD terms and using the MSCI Indices as the benchmark, the beginning of a new era of Indian outperformance compared to China appears to be dawning. From 2003 to 2020, the two markets performed remarkably in line with each other – both having a tendency to outperform MSCI EM over the cycle. From early 2021, however, India has broken out dramatically to the upside, having outperformed China by over 100%. Whilst reversion to the mean is often a powerful force in finance, we think that this represents a structural break in India's favour that warrants a bias to an OW versus a bias to EW or UW for China with the medium-term driver being significantly higher USD EPS growth and ROE over the cycle for India vs. China. Valuations, to some extent, reflect the market's understanding of this structural change – and indeed overshot somewhat last October in India's favour. Given the overall framework we run and that is discussed in the next section, however, we think returning India to an OW and downgrading China to EW is warranted.

Exhibit 17: Relative performance MSCI India vs China (USD terms) – Breakout in performance relative of India vs. China since 2021 probably reflects beginning of a new long-run trend in favour of India



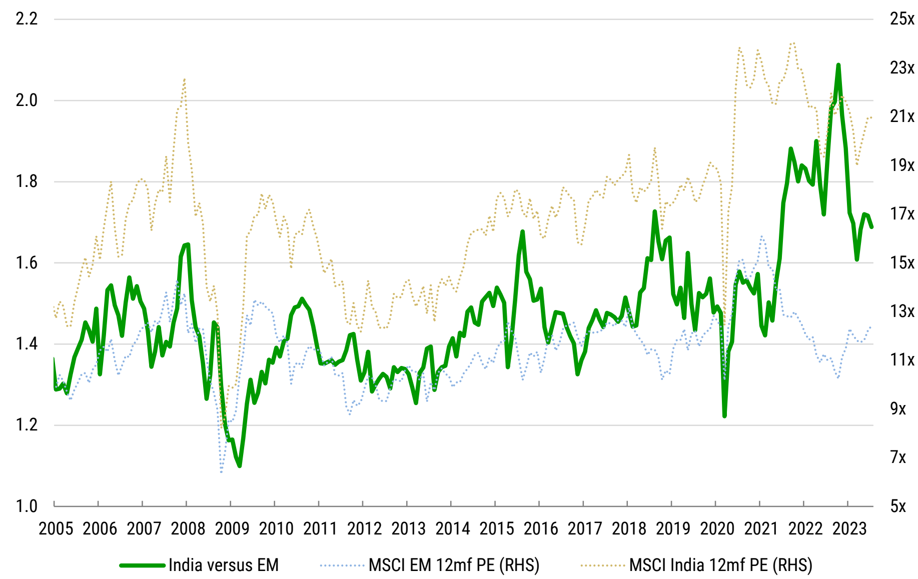
Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of August 1, 2023

Exhibit 18: India vs China 12-month forward P/E – Relative multiple was over-extended last October, but India can now probably sustain a significantly higher valuation premium vs. China than in the past



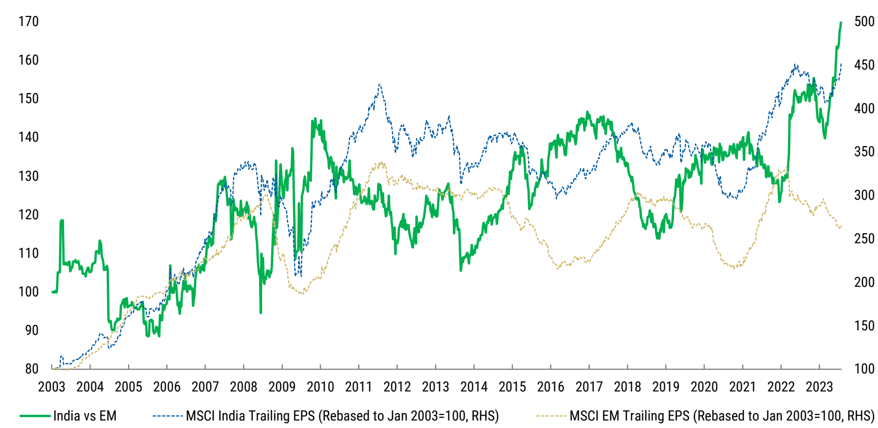
Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of August 1, 2023

Exhibit 19: MSCI India vs. MSCI EM 12mf P/E – Relative valuation came down significantly from the October 2022 peak and started to spike up again



Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of August 1, 2023

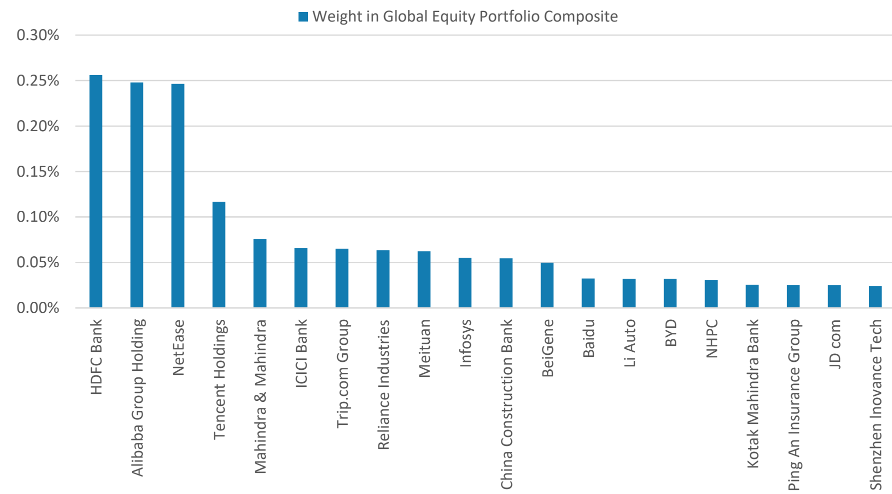
Exhibit 20: MSCI India vs. MSCI EM Trailing EPS (Rebased to 100 as of Jan 2003) – EPS outperformed significantly in the past five years setting a new upward trend



Source: IBES, MSCI, Morgan Stanley Research Data as of July 26, 2023.

Global investor positioning – per a sample of the holdings of 40 global equity funds – remains low in both China and India. The largest three stock positions on average command only a 25bp weighting. They are HDFC Bank (HDBK.NS), Alibaba (BABA.N) and NetEase (NTES.O) (see Exhibit 21 for details). The challenge for these two markets remains to find stock leaders that can make their way in meaningful size into global portfolios.

Exhibit 21: China and India stocks by weight in global funds – still minimal holdings in global equity funds



Source: Morningstar, Factset, Morgan Stanley Research; Data as of July 28, 2023; Note that the database includes top 40 global long-only funds in Morningstar global equity category

APxJ/EM Market Allocation – Time for Mid-cycle Changes

Daniel Blake, Jonathan Garner, Kristal Ji

OW recommendations: We upgrade India and Greece to OW with 75bp and 25bp active risks, respectively, while moving China and Taiwan down to EW. Korea, Mexico and UAE remain OW-rated. India now becomes our most-preferred market in this APxJ/EM framework.

UW recommendations: On the UW side, we downgrade Australia to UW and assign it the largest position. We retain UW ratings across New Zealand, Malaysia and Thailand, Qatar and Colombia, but move up Hungary to EW.

Exhibit 22: APxJ/EM Market Allocation Changes – Upgrade India and Greece to OW; Downgrade Australia to UW and move MSCI China and Taiwan to EW; Hungary Raise to EW

Overweight	Rec. Chg.	Active (bp)	Prev. (bp)
India	↑	75	0
Korea		50	50
Mexico		50	25
UAE		25	25
Greece	↑	25	0

Underweight	Rec. Chg.	Active (bp)	Prev. (bp)
Colombia		-25	-25
Malaysia		-25	-25
Australia	↓	-75	0
New Zealand		-50	-50
Thailand		-25	-25
Qatar		-25	-25

Neutral (Upgrade)	Rec. Chg.	Active (bp)	Prev. (bp)
Hungary	↑	0	-25

Neutral (Downgrade)	Rec. Chg.	Active (bp)	Prev. (bp)
Taiwan	↓	0	50
China	↓	0	25

Source: Morgan Stanley Research

We show our full 13-factor market allocation framework below, which combines five-year historical relative valuations, profitability and quality metrics, alongside earnings revisions, technical factors and standardized Morgan Stanley macro/strategy/analyst views.

Exhibit 23: Full APxJ/EM Market Allocation Framework – India rises to #1 ranked and OW rated, while Taiwan and China move down to #7 and #13, respectively and EW-rated; Australia moves down to #26 ranked and now UW rated

					Quantitative Factors (60%)									MS House Macro & Micro View (40%)					Performance
				Weight:	10%	5%	5%	5%	10%	2.5%	2.5%	10%	10%	5%	5%	10%	15%	5%	
#	Market (MSCI Indices)	Active Risk (bps) Current	Active Risk (bps) Previous	Overall Score	P/B rel to Benchmark 5yr Z-Score	P/E rel to Benchmark 5yr Z-Score	Dividend Yield rel to Benchmark 5yr Z-Score	Earnings Revision Breadth (3mma)	ROE rel to Benchmark 5yr Z-Score	Net Margin 5yr Z-Score	Asset Turnover 5yr Z-Score	Relative Strength Index	Chaikin Money Flow Indicator	Currency	Macro-Economics	Sovereign & Policy Outlook	MS Equity Strategist View	MS Stock Analyst View	Relative Total Return Perf. Since Last Update
1	India	75	0	79	-1.2	-0.8	-1.2	-2.0	0.8	-0.1	0.2	53	-0.1	0.1	0.5	0	4.0	3.0	2.6%
2	Korea	50	50	63	0.0	-0.7	-1.9	-1.2	-0.8	-0.7	0.9	69	0.1	-0.5	0.7	0	3.0	2.6	-1.6%
3	Mexico	50	25	54	-0.2	0.7	1.0	0.9	0.9	1.4	1.7	36	-0.1	-0.8	-2.5	0	3.5	3.0	0.5%
4	UAE	25	25	47	-0.6	0.5	-1.0	4.0	2.4	2.6	0.3	45	0.3	NA	NA	0	2.0	0.0	-0.6%
5	Greece	25	0	43	-0.6	1.2	-0.7	11.0	0.9	0.9	-0.2	70	0.1	-1.4	NA	0	2.0	-0.1	12.6%
6	Chile	0	0	35	0.1	2.1	2.8	-7.4	2.3	1.3	1.3	63	0.3	0.2	1.2	-1	2.0	2.5	4.2%
7	Taiwan	0	50	16	-0.9	-0.6	-1.1	-7.8	0.1	0.3	-1.5	51	0.1	0.1	-2.6	0	1.0	3.2	-2.5%
8	Indonesia	0	0	10	0.2	-0.3	1.6	2.9	-0.7	0.6	0.0	38	-0.2	0.9	0.3	0	NA	2.3	-2.8%
9	Singapore	0	0	7	-0.9	-0.4	-0.6	-2.5	0.1	0.6	0.1	60	0.1	-0.1	0.2	1	-0.2	0.6	1.4%
10	Egypt	0	0	6	-0.5	-0.3	-1.5	17.1	0.3	0.3	-0.7	19	0.2	NA	NA	NA	0.0	0.0	-6.9%
11	Poland	0	0	5	-0.2	0.3	0.9	1.9	0.6	1.3	2.3	59	0.2	-2.4	-0.8	-1	2.0	0.2	7.6%
12	Saudi Arabia	0	0	5	-0.9	-0.3	-0.7	-7.0	1.1	0.8	0.4	42	0.0	NA	NA	1	0.0	-1.9	2.2%
13	China	0	25	0	1.3	-0.2	-0.2	-3.1	-1.1	-1.4	0.6	49	-0.1	2.3	-1.5	-1	0.3	3.4	-1.9%
14	Philippines	0	0	-2	0.3	0.5	0.0	9.1	0.4	0.3	-0.4	43	0.0	-0.3	0.6	-1	NA	0.9	0.7%
15	Hungary	0	-25	-5	0.9	1.6	2.0	5.4	1.4	0.8	1.2	53	0.4	-3.1	-1.2	-1	0.0	1.0	9.7%
16	Czech Rep.	0	0	-5	0.0	1.3	4.4	-1.2	0.9	1.2	2.7	57	0.0	-0.7	-1.1	0	0.0	-0.6	0.4%
17	Brazil	0	0	-8	1.4	1.1	1.2	-4.3	0.8	0.5	1.9	37	-0.1	-2.0	0.4	-1	0.2	1.1	7.3%
18	Hong Kong	0	0	-12	1.7	-1.4	0.2	-0.7	-1.5	-1.2	-0.8	27	-0.2	0.0	-0.8	-1	-0.2	1.1	-3.0%
19	Peru	0	0	-17	0.4	0.9	0.3	6.6	0.5	0.7	0.1	58	0.1	-1.7	2.4	-1	0.4	0.0	8.3%
20	South Africa	0	0	-18	0.9	1.0	1.4	-13.4	1.0	0.7	0.0	63	0.0	-2.6	0.3	-1	0.0	1.0	8.4%
21	Argentina	0	0	-20	1.0	1.0	-1.4	NA	0.5	0.7	2.4	52	0.0	-5.0	-0.6	-2	NA	NA	22.6%
22	Turkey	0	0	-24	-2.0	1.1	-1.0	5.7	2.7	2.4	1.8	75	0.2	-2.0	-3.2	-1	0.0	-0.2	-3.5%
23	Qatar	-25	-25	-42	1.4	0.9	0.9	-8.6	-0.1	-0.4	0.6	42	0.0	NA	NA	NA	-2.0	0.3	-1.8%
24	Thailand	-25	-25	-43	0.2	-0.5	-1.0	-6.9	-0.7	-1.3	1.6	60	-0.2	1.0	-1.0	-1	NA	1.4	-1.8%
25	New Zealand	-50	-50	-44	-1.5	0.5	-0.7	-10.6	-0.2	-1.3	1.6	50	-0.2	-0.1	NA	1	NA	0.2	-5.0%
26	Australia	-75	0	-51	-0.7	1.8	0.0	-7.1	1.9	0.8	1.3	52	-0.1	0.0	0.2	1	-2.5	-2.0	0.6%
27	Malaysia	-25	-25	-58	1.4	-0.1	0.0	-10.1	-1.4	-1.2	0.1	55	-0.2	-0.1	-3.1	-1	NA	-1.7	-1.3%
28	Colombia	-25	-25	-64	1.8	2.3	2.2	0.0	1.3	-0.3	-1.0	62	-0.1	-	-1.2	-2	-3.0	0.0	12.1%

Source: RIMES, FactSet, Morgan Stanley Research; Note that we use earnings yield and book yield to account for relative valuations P/B and P/E, and therefore a higher yield Z-score indicates cheaper valuations

Upgrade India to OW for a Structural Uptrend

- **Ranking:** India is ranked #1 in our framework, improving from #6 in our last review.
- **Valuations:** Relative trailing P/B relative to benchmark stands at +1.2 S.D above five-year average and relative forward P/E is 0.8 S.D. above five-year average.
- **Earnings/profitability:** Earnings revisions breadth (three-month moving average) remains negative but has improved from the last publication, while relative ROE to benchmark five-year Z-score stands at +0.8 S.D and trailing net margins at in line, with both metrics improving.
- **MS views:** Our Macro Score is relatively strong at 4.0 (out of 5.0), while our analyst score is third highest in the allocation table at +3.0. Our Indian equity strategists' positive view supports our #1 India's ranking.

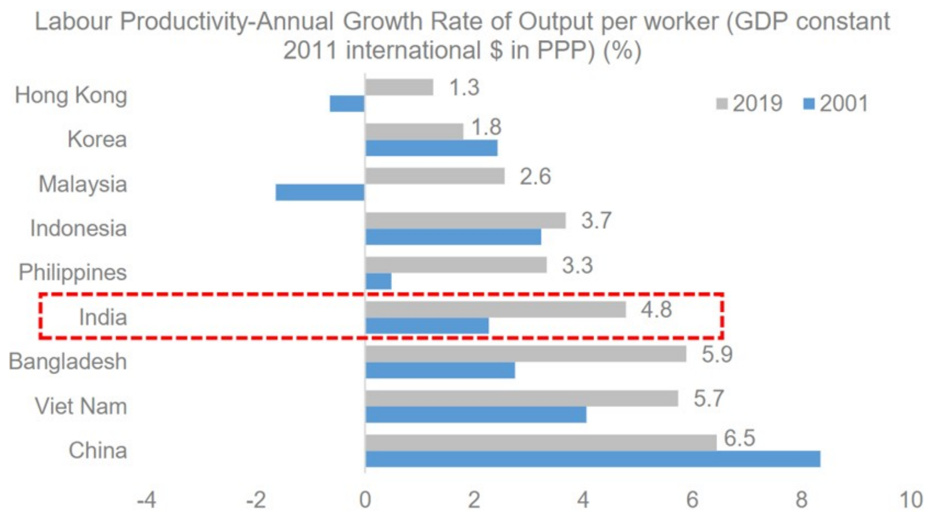
We reiterated our incremental bullish stance on India in our mid-year outlook given constructive fundamentals and narrower valuation premiums to EM. India now becomes our core OW market within APxJ/EM with 12mf P/E and trailing P/B standing at +1.4 S.D and +0.6 S.D. above historical average as a premium to pay for higher growth opportunities. Valuation premiums to EM and China (see Exhibit 18 and Exhibit 19) have moderated significantly from last October's high and started to spike up again.

Macro indicators remain resilient and the economy is on track to achieve 6.2% GDP forecast according to our India Economics Team. 12mf EPS is trending higher in a structural manner, supported by a favorable demographics trend, improvement in labor productivity and a multipolar world dynamic that drive up service exports and meaningfully higher FDI. Positioning from GEM managers have historically been OW on the region and currently standing at 5th percentile of its five-year average.

What has changed fundamentally in India? Structural reforms have taken place in the last few years and are currently bearing fruit, unlocking growth opportunities that were previously stagnant. As detailed in How India has Transformed in Less than a Decade by our India Equity Strategy Team, supply-side policy reforms –including corporate tax rate cuts and production-linked incentive scheme – started in 2019-20 and infrastructure progress has been accelerating. Regulation and formalization of the economy have also come along with GST introduction and increasing digitalization.

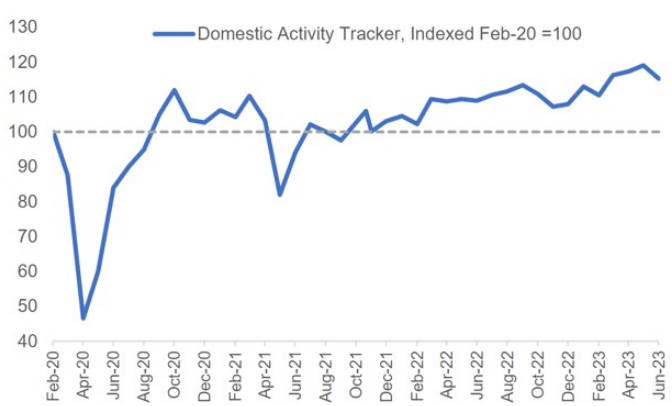
Key downside risks include an upside surprise in inflation and monetary policies, especially if productivity improvement does not catch up. Another concern is more structural, as AI may be disruptive for India's services export and the labor force generally, although we will monitor the impact closely.

Exhibit 24: India Labor Productivity – Improving over the long term



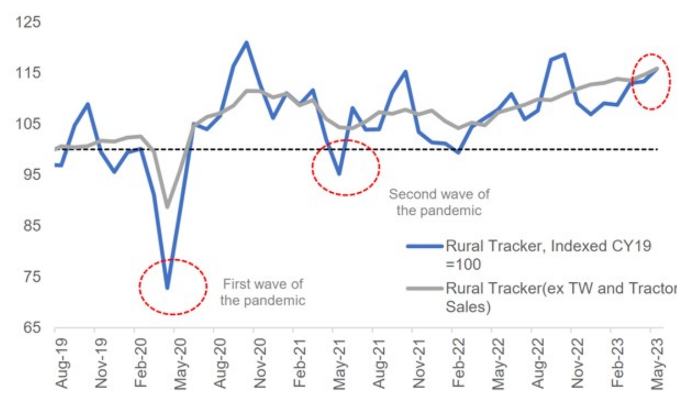
Source: ILO, Morgan Stanley India Economics Research

Exhibit 25: Domestic Economic Activity – In upward trend



Source: CEIC, Ministry of Power, Google Mobility Report, MS Autos team, Haver, CMIE, Morgan Stanley India Economics Research. Note: The Economic Activity Tracker is computed using CMIE unemployment, power, mobility (ex residential), rail freight, real GST collections, service and manufacturing PMI, real credit, two wheeler and passenger vehicle sales . The data is indexed to Feb-20 =100.

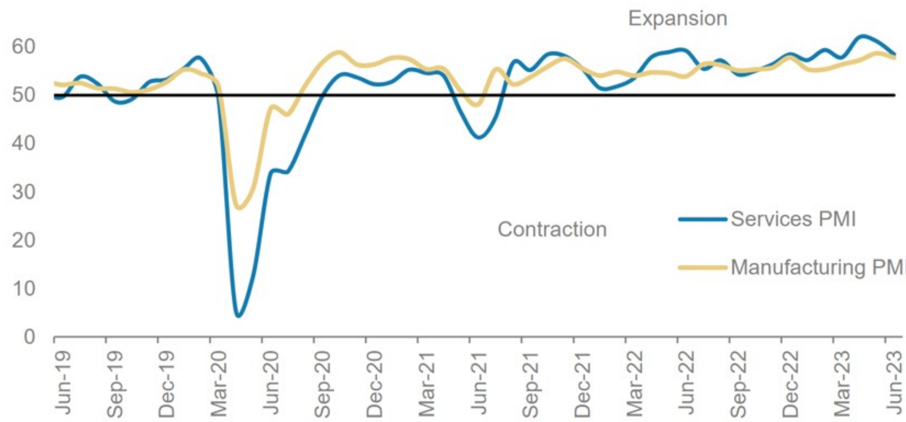
Exhibit 26: Aggregate Rural Economy Tracker – Shows Steady Improvement



Source: CMIE, RBI, Company Data, CSO, CEIC, Haver Analytics, Morgan Stanley India Economics Research. Note: The tracker is derived by taking a weighted average of rural wages, ToT, service PMI, two-wheeler sales, agriculture credit, agriculture exports, fertiliser sales, tractor sales, rural unemployment, rural ministry spending. We index CY19 =100

Exhibit 27:

Service and Manufacturing PMI – Both in expansion territory



Source: Source: CEIC, Haver, PPAC, Morgan Stanley India Economics Research

Take Profits on Taiwan, but Remain OW on Korea

Taiwan

- **Ranking:** Taiwan is ranked #7 in our framework, declining from #2 in our last review.
- **Valuations:** Relative valuations for Taiwan stand at +0.9 S.D above five-year average for trailing P/BV and +0.6 S.D above five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) improved but remain deep in negative territory, while relative ROE stands at +0.1 S.D above five-year average and trailing net margins at +0.3 S.D above five-year average, both deteriorating.
- **MS views:** Our Macro Score is relatively in line at +1.0, while our analyst score is strong at +3.2. Taiwan equity strategist Terence Cheng expects mid-single-digit returns for Taiwan by June 2024.

Korea

- **Ranking:** Korea is ranked #2 in our framework, following #1 ranked India.
- **Valuations:** Relative valuations for Korea stand at five-year average for trailing P/BV and +0.7 S.D above five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is still negative although it has improved from last publication, while relative ROE is -0.8 S.D below five-year average and trailing net margins at -0.7 S.D below five-year average.
- **MS views:** Our Macro Score is relatively strong at +3.0, while our analyst score is also above average at +2.6. MS Korea Equity Strategy Joon Seok expects KOSPI to generate double digit positive return in the next one year and supports our positive view in the allocation framework.

The Taiwan and Korea markets have both been highly supported by the AI investment theme. We very much see AI as a secular force, with benefits accruing in stages in the coming decade. Indeed, this will help the IT industry grow to US$3trn in 2029 according to our Technology Team (see AI – Golden Age of Technology). Over time, as with previous computing generations, the benefits will likely proliferate out to non-tech companies that drive faster adoption or commercialise new applications.

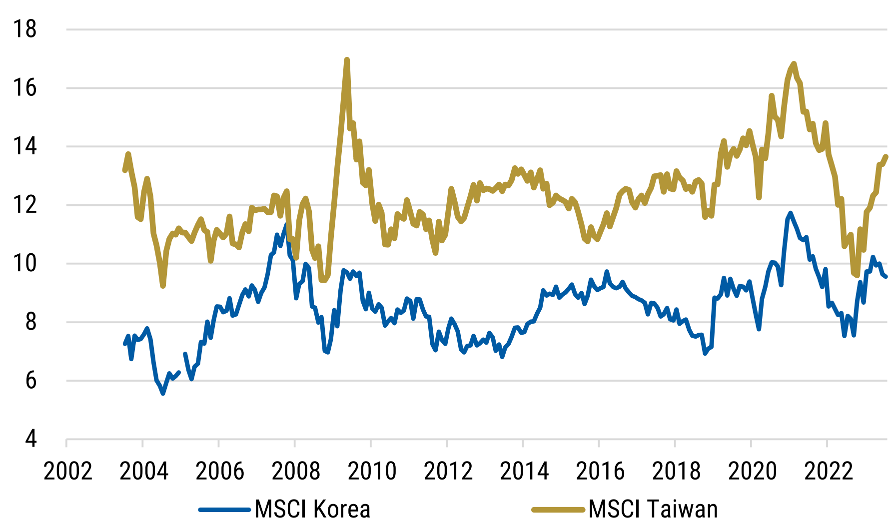
Taiwan and Korea have outperformed EM meaningfully since October 4, 2022, by 14% and 25%, respectively (USD returns), when we upgraded EM to OW. For Taiwan in particular, we note high correlations with the US market, where our team remains cautious on earnings and the sustainability of current valuations. We take profits on Taiwan and move to EW-rated, while leaving Korea OW given more valuation support and non-tech drivers including the capital markets advancement program.

MSCI Taiwan 12mf P/E and trailing P/B are currently trading at 0.8x S.D. and 1.0x above historical averages, respectively, which in our view are somewhat expensive given the lingering geopolitical risks and a relatively higher revenue exposure of 19% to China and 49% to US and Europe. We acknowledge the long-term ROE improvement for the market with TSMC's technical leadership, an expansion of TAM driven by AI across semi design and server capex beneficiaries as well as strong execution in many non-semis companies.

We remain constructive on the long-term prospects, but near-term positives are largely in the price with retail investors again taking over market dynamics, while foreign investors are starting to reduce positions again. Note that we have retained TSMC in our APxJ and GEM focus lists.

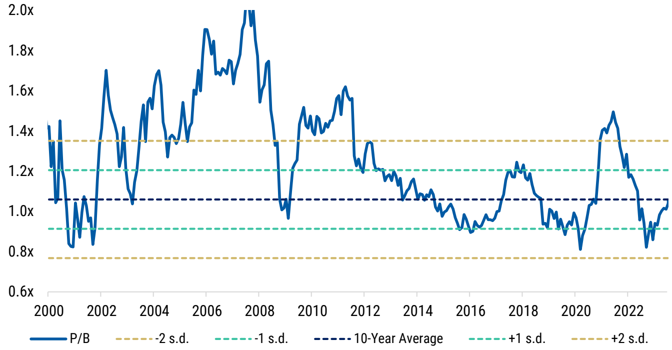
Korea has more valuation buffer, trading below its 10-year average trailing P/B, while the 24mf P/E, which looks ahead to factor in a 2H24/1H25 recovery, is also notably less expensive compared to Taiwan. An 11% revenue exposure to China is also smaller in Korea vs. Taiwan, although this could turn into a tailwind for Taiwan if China surprises on the upside. Positioning in GEM fund managers for both Korea and Taiwan is towards the higher end of five-year range, which could pose risks in adverse situations.

Exhibit 28: MSCI Korea and MSCI Taiwan 24-month forward P/E



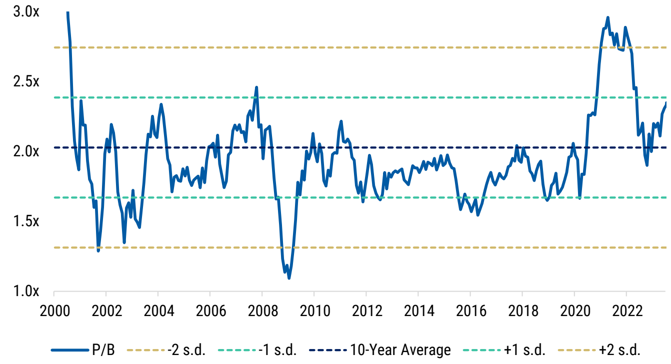
Source: Factset, Morgan Stanley Research. Data as of July-end 2023

Exhibit 29: MSCI Korea trailing P/BV



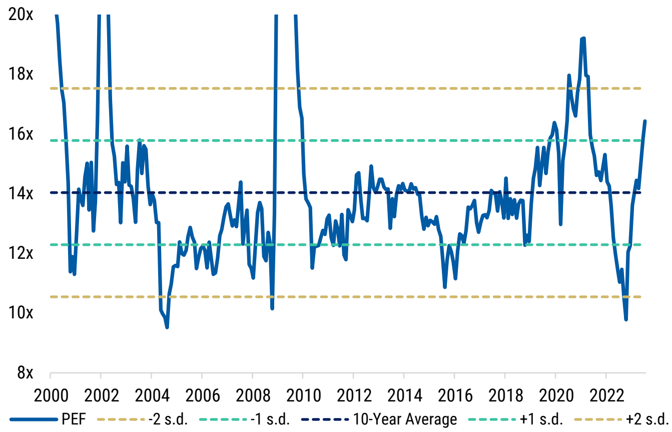
Source: MSCI, RIMES, Morgan Stanley Research. Data as of July-end, 2023

Exhibit 30: MSCI Taiwan trailing P/BV



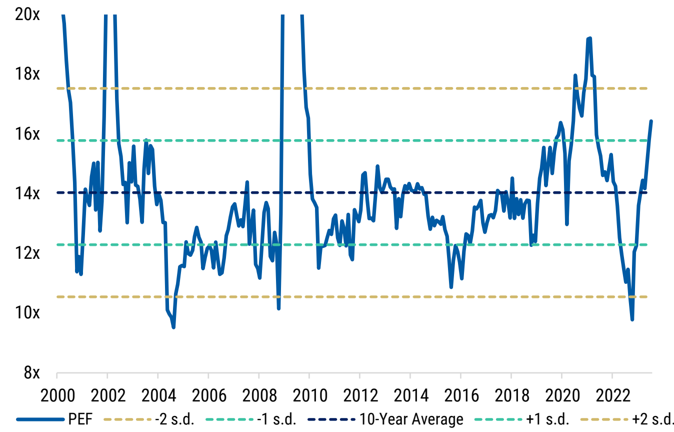
Source: MSCI, RIMES, Morgan Stanley Research. Data as of July-end, 2023

Exhibit 31: MSCI Korea 12-month forward P/E



Source: MSCI, IBES, RIMES, Morgan Stanley Research. Data as of July-end, 2023

Exhibit 32: MSCI Taiwan 12-month forward P/E



Source: MSCI, IBES, RIMES, Morgan Stanley Research. Data as of July-end, 2023

Downgrade Australia to UW

- **Ranking:** Australia is ranked #26 in our framework and UW rated, declining from #19 in our last review.
- **Valuations:** Relative valuations for Australia stand at +0.7 S.D above five-year average for trailing P/BV and 1.8 S.D. below five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) worsened significantly and reached the lowest levels for 2023 YTD, while relative ROE stand at +1.9 S.D above five-year average and trailing net margins at +0.8 S.D above five-year average.
- **MS views:** Our Macro Score and Analyst Score are both bearish at -2.5 (second worst in the model) and -2.0, respectively. Australia Equity Strategist Chris Nicol expects negative returns for the index over the next one year, which supports our UW allocation in the allocation framework

Australian equities look stretched at current levels, with the index running up in sympathy with US markets and with some relief as the RBA tone pivots dovishly. However, earnings forecasts continue to be revised down, household disposable incomes are just now bearing the full brunt of the RBA tightening cycle and China's stimulus does not, at this stage, look particularly large or commodity intensive. We see downside risks building and have added an UW Australian Industrials recommendation to our existing UW on

Consumer Discretionary, though rotating out of the UW on Australia Financials.

On the domestic front, Australian household leverage is among the highest globally, with mortgages now being reset on the back of the fastest RBA tightening cycle since inflation-targeting was adopted in the mid-1990s. We expect the primary impacts will be on discretionary spending, particularly after pent-up travel and services demand looks to have run its course. Indeed, our Australia Macro team has noted a sudden downturn in consumer spending, with retail downgrades across most categories. See Australia Equity Strategy – Less Bulk Required for more details.

Downgrade China to EW

- **Ranking:** China is ranked #13 in our framework and EW rated, declining from #3 in our last review.
- **Valuations:** Relative valuations for China stand at 1.3 S.D below five-year average for trailing P/BV and 0.2 S.D above five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) remains weak and in negative territory, while relative ROE stands at 1.1 S.D below five-year average and trailing net margins at 1.4 S.D below five-year average.
- **MS views:** Our Macro Score is neutral +0.3 while stock analyst views are the most positive within our framework (+3.4). However, Laura Wang, our Chief China Equity Strategist thinks investors should move to sidelines for reasons stated below.

We think the recent July Politburo meeting policy pivot offers a good opportunity to move to the sidelines with China for the time being, after staying OW for eight months since beginning of Dec-22, with a relatively more limited risk exposure since May 2023 due to macro momentum slowdown and geopolitical uncertainty.

We believe a better reentry opportunity could be down the road, but more patience is preferred at this moment: 1) easing measures are more likely to come in piecemeal and in a gradual fashion, which may not be sufficient to offset investor skepticism given extended periods of lackluster stimulus actions; 2) market debate has been shifting to focus more on structural challenges including local government debt issue, unemployment, etc., which still lack detailed solutions despite references in the politburo meeting statement.

The 3rd Plenum this year could bring the announcement of a major reform agenda around SOEs, LGFVs, etc. In terms of timing (early October), it also likely to coincide with 2Q earnings cuts, when the downside of earnings are largely priced in. Bottoming out of earnings growth and clearer structural outlook, in combination with continuous stabilization of geopolitical condition, would offer better upgrade opportunity and attract back long-term money, in our view. For more detailed discussion, please refer to Laua Wang's section China Equity Strategy – Move to Sidelines with Policy Pivot; Await a Better Reentry Point .

Greece back to OW and Hungary Raise to EW

Greece

- **Ranking:** Greece is ranked #5 in our framework, improving from #8 in our last review.

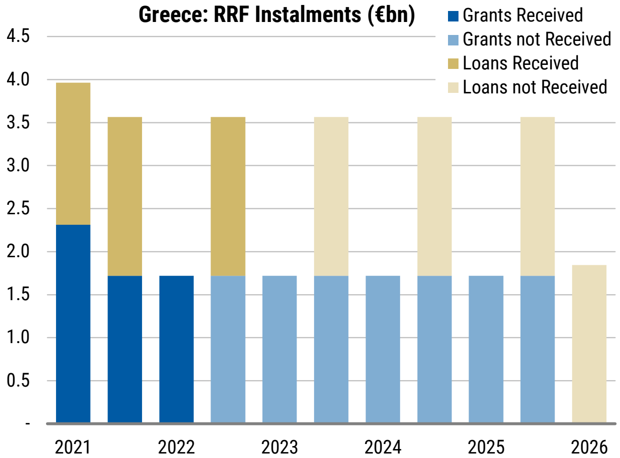
- **Valuations:** Relative valuations for Greece stand at 0.6 S.D above five-year average for trailing P/BV and 1.2 S.D below five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) remains strong, while relative ROE stands at +0.9 S.D above five-year average and trailing net margins at +0.9 S.D above five-year average.
- **MS views:** Our Macro Score is relatively above average at +2.0, while our analyst score is neutral at -0.1. Our EM EMEA equity strategist Regiane Yamanari is also OW on the market, the team's preferred EM Europe exposure.

Hungary

- **Ranking:** Hungary is ranked #15 in our framework, improving from #25 in our last review.
- **Valuations:** Relative valuations for Hungary stands at 0.9 S.D below five-year average for trailing P/BV and 1.6 S.D below five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is strong, while relative ROE stands at 1.4 S.D above five-year average and trailing net margins at 0.8 S.D above five-year average.
- **MS views:** Our Macro Score is neutral while our analyst score is mildly positive. Our EM EMEA equity strategist Regiane Yamanari is EW on the market.

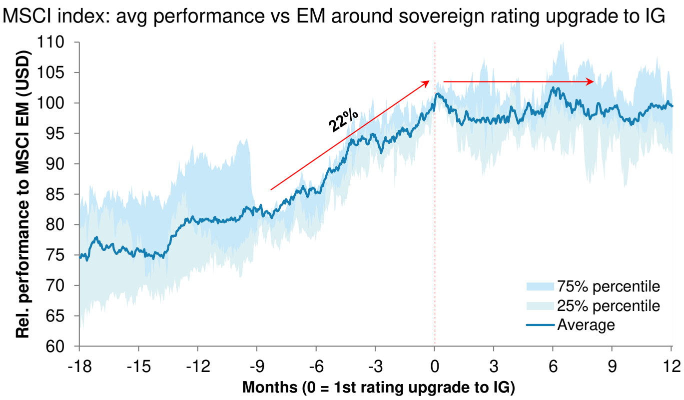
Greece is seeing a macro recovery driven by government reforms and stimulus and so far has received 11bn under RRF, and at the same time there has been a record-high of FDI. Forward P/E remains below historical trend and at a discount to EM and European peers with a rapidly recovering ROE. Moreover, despite the YTD rally, we think there is more to come. Inflation is falling and real income growth has turned positive. The potential upgrade of Greece to IG continues to boost the current momentum. Downside risks include negative spill-overs to tourism if there is a weaker global economy. For more detail, see Greece: Onwards And Upwards section in our EEMEA equity strategy team Mid-year outlook note, Greek Banks: Targeting >12% sustainable ROTE in 2025? and EEMEA Banks: Greek banks remain most preferred by our EEMEA Banks Team led by Nida Iqbal. At the same time, we move Hungary up to EW due to improved macro conditions and cheap valuations, consistent with our EEMEA equity strategy team's call.

Exhibit 33: Greece has so far received a total of €11bn under its RRF: €5.75bn in loans and €5.34bn in grants



Source: EC, Greece 2.0, Morgan Stanley Research

Exhibit 34: Equity markets tend to outperform EM by 22% on average starting eight months prior to the first rating upgrade to investment grade



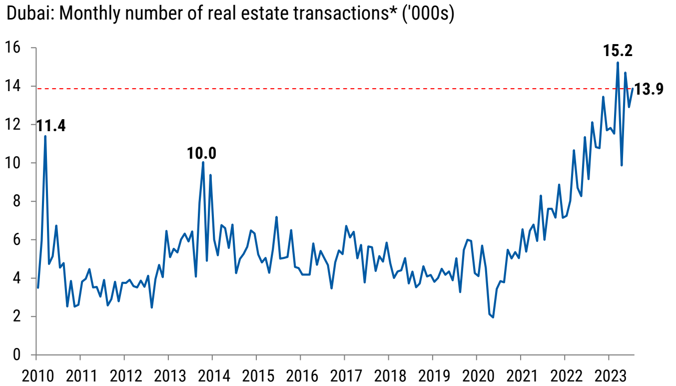
Source: Datastream, Moody's, S&P, Fitch, Morgan Stanley Research; Note: Performance calculated around the first rating upgrade to investment grade status from either Moody's, S&P or Fitch. We considered EM cases from Exhibit 50

Stay bullish UAE with strong property sales momentum

- **Ranking:** UAE is ranked #4 in our framework, improving from #5 in our last review.
- **Valuations:** Relative valuations for UAE stands at +0.4 S.D above five-year average for trailing P/BV and at five-year average for forward P/E
- **Earnings/profitability:** Earnings revisions breadth (3MMA) stays in positive territory, while relative ROE stands at +2.4 S.D above five-year average and trailing net margins at +2.6 S.D above five-year average.
- **MS views:** Our Macro Score is positive at +2.0, while our analyst score is neutral. Our EM EMEA equity strategist team is also positive on UAE, supporting our constructive view.

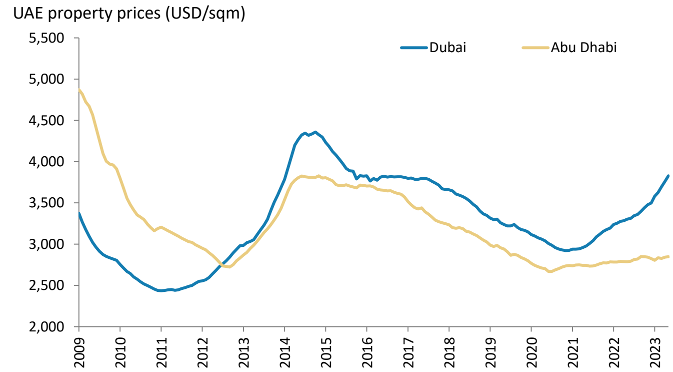
The UAE property market (in particular in Dubai) remains strong, benefitting from many tailwinds, such as an increasingly multipolar world, reform momentum and still-attractive prices and rental yields in a global context. Furthermore, Abu Dhabi is undergoing structural economic reforms, which should support its multi-year growth story. UAE/Dubai composite PMI remains above expansionary levels and loan growth tends to come along with a one-year lag. UAE YTD performance has been distorted by ex-Real Estate sectors, but we expect the outperformance in real estate sector to broaden out to the overall index. In addition, we note that the UAE equity market is increasing breadth, but that is still not reflected in the index. There have been 14 IPOs in the UAE since February 2022, which have broadly delivered positive performance since being listed, even excluding the first day of trading, which saw big moves. More important, these new listings are in different sectors (such as education, industrials, utilities and others) that are benefitting from the very positive economic outlook in the UAE combined with regulatory changes and reforms happening in the past years (tourism, property, business conditions). See EEMEA Equity Strategy Team's Idiosyncratic Drivers Take Charge for more details.

Exhibit 35: Dubai's residential property sales remain elevated vs history



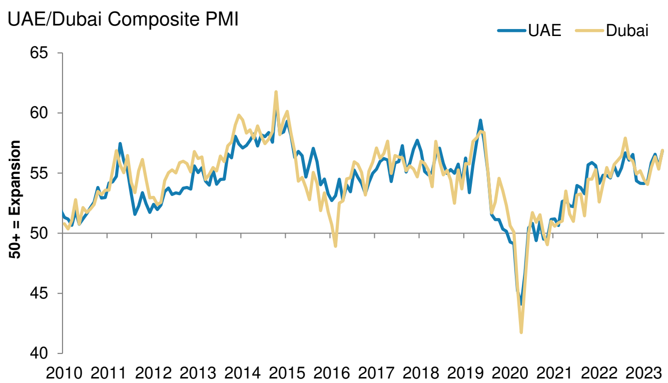
*Includes primary and secondary sales, mortgages and gifts; Source: Dubai Land Department and Morgan Stanley Research

Exhibit 36: UAE property price trends: Whilst Dubai prices are up 30% from trough, they remain below 2014 peak levels



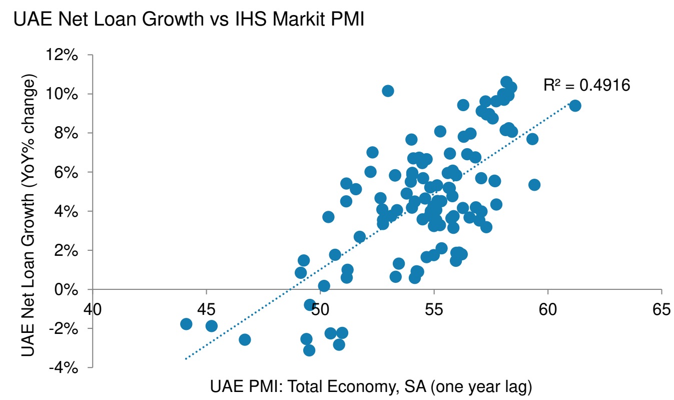
Source: BIS, REIDIN and Morgan Stanley Research

Exhibit 37: The UAE and Dubai composite PMI indices remain above 50



Source: IHS Markit, Haver Analytics, Morgan Stanley EEMEA Equity Strategy Research

Exhibit 38: UAE loan growth is positively correlated with the total economy PMI index, with a one-year lag



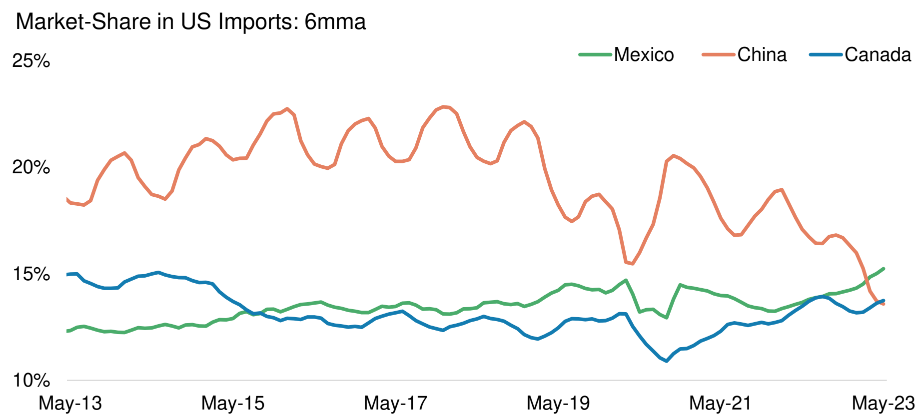
Source: Company data, Haver Analytics, Morgan Stanley EEMEA Equity Strategy Research

Remain OW on Mexico with re-shoring tailwinds

- **Ranking:** Mexico is ranked #3 in our framework, improving from #4 in our last review.
- **Valuations:** Relative valuations for Mexico stand at +0.2 S.D above five-year average for trailing P/BV and 0.7 S.D below five-year average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is still in positive territory although meaningfully moderated from the previous trend, while relative ROE stand at +0.9 S.D above five-year average and trailing net margins at +1.4 S.D above five-year average
- **MS Views:** Our Macro Score is relatively strong at +3.5 (second best in the model), while our analyst score is also strong at +3.0. Our Latin American equity strategists' positive view also supports Mexico's ranking

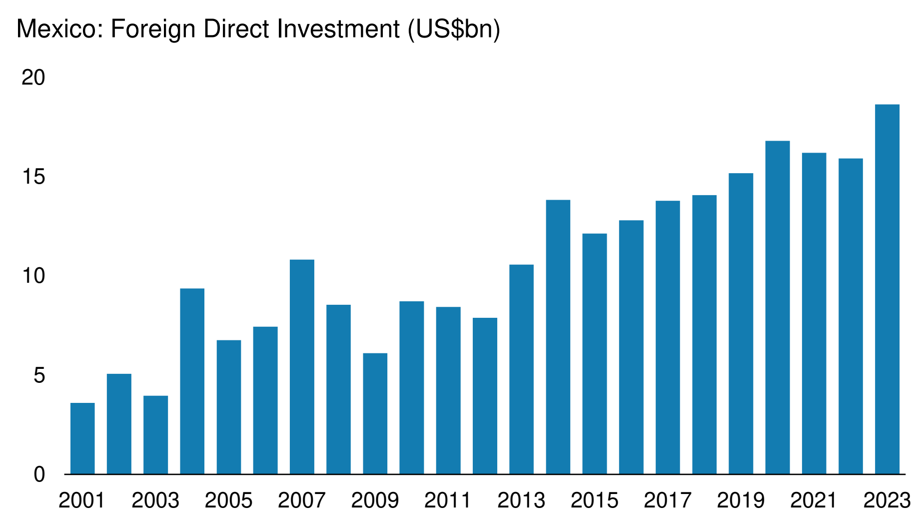
Outlook for Mexico looks promising and currently MSCI Mexico stands at 11.9x 12mf P/E and -1.5 S.D. below historical valuation helped by a higher forward EPS estimation, and is likely to deliver given the turning investment, intensifying near-shoring and peaking rates (see Mexico Equity and Fixed Income Strategy: Going Deeper on Mexican Capital Markets by Nikolaj Lippmann and team). The team also noted that real estate and staples tend to outperform when the central bank cuts rates, as evident by the last three easing cycles over the past 15 years. Market share in US imports has surpassed China and spiking up, and foreign direct investment is also seeing structural uptrend, which drives demand and long-term earnings growth.

Exhibit 39: Mexico has surpassed China in exports market share in the US market and continues to trend up



Source: US Trade Census, Morgan Stanley Mexico Equity Strategy & Economics Research

Exhibit 40: Mexico Foreign Direct Investment - Spiking up as the near-shoring trend materializes



Source: Gobierno de México, Morgan Stanley Latam Economics Research

India Equity Strategy – A Structural Story Unfolding

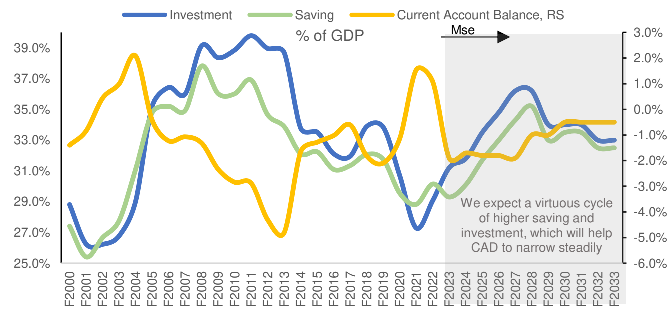
Ridham Desai

India has experienced many changes in less than a decade. These include supply-side policy reforms such as a build up in infrastructure, formalization of the economy via GST and IndiaStack, change in real estate regulations, digitalization of social transfers making them leak proof, a new bankruptcy law coupled with a sharp decline in corporate balance sheet leverage, flexible inflation targeting, focus on FDI, India's 401(k) moment, which has created a reliable domestic source of risk capital, permission to retirement funds to invest in equities, government support for corporate profits and multiyear highs on MNC sentiment. There are three anchors to India's likely multiyear bull market.

Macro stability and a secular positive BoP in the offing: Much of India's macro and market problems of the past three decades arose from weak terms of trade and thus a high current account deficit and an accompanying BoP deficit. The other problem was that India relied largely on capital market flows to fund the deficit. Such flows tend to be more sensitive to swings in oil prices and US Fed cycles. Indeed, every US recession of the past 30 years brought a bear market to India irrespective of India's growth cycle (good example being 2008 when India was hardly touched by the global financial crisis, but still had a terrible year for equity returns). Given the rising of share of exports of physical goods, the boom in services exports following a shift in thinking about work from home by MNC CEOs, declining intensity of oil to GDP and a shift in funding of the current account to more stable FDI flows, the stock market's correlation with oil, US Feds fund rate and US growth cycles has diminished greatly removing the biggest macro challenge to investing in Indian equities.

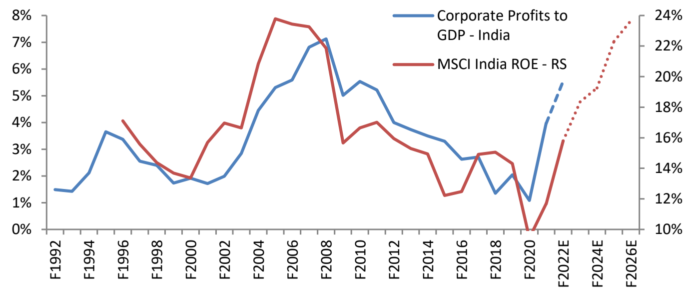
This secular shift has been underpinned by inflation targeting (introduced in 2015), which has meant that India has been able to overcome a modest inflation threat post Covid-19 (unlike other parts of the world) with modest increase in policy rates. Indeed, at 112.5bp, the gap between the RBI's repo rate and the US Fed funds rate as it stands now is the lowest in history, but is posing no threat to macro stability (unlike the past). We believe foreign flows to India are likely to be much stronger than in the past as investments in actual manufacturing and services as well as in securities (private and public, debt and equity) rise in the coming months and quarters to leverage India's attractive growth prospects in a multipolar world. With a benign current account deficit given India's improving terms of trade (declining energy imports to GDP and rising goods/services exports), a surplus BoP could be in the offing more often than not. The resultant rise in foreign exchange reserves sets the stage for a more modest rupee depreciation (fundamentally aided by a narrowing productivity and inflation gap with trading partners) and strong domestic liquidity – all pointing to robust stock market returns.

Exhibit 41: A more benign current account



Source: CEIC, RBI, Morgan Stanley Research , Morgan Stanley Research estimates

Exhibit 42: Profit boom underway



Source: CMIE, CEIC, RIMES, MSCI, Worldscope, Morgan Stanley Research estimates

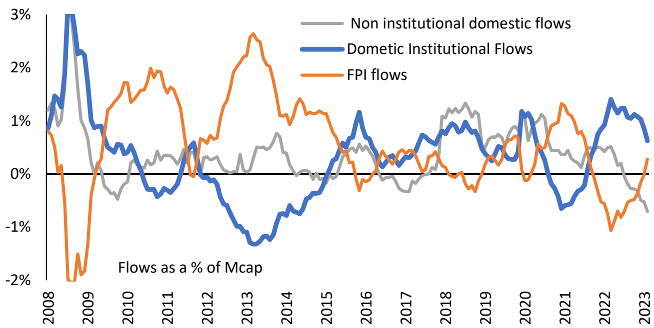
Strong relative and absolute growth: We believe we are in a profit cycle that is only halfway through with profit share in GDP rising from a low of 2% in 2020 to about 4% currently and likely heading to 8% in the coming four to five years. This implies 10% nominal GDP, with about 20% compounding of headline earnings growth. Underscoring this forecast is the start of new private capex cycle supplementing a government capex cycle that is already underway. Capital spending is being driven by improving growth outlook, the lack of spending for more than a decade, a multipolar world that is driving investments to India and light balance sheets. Corporate balance sheets appear to be in very good shape with corporate debt to GDP at 50% off its previous peak of 62% and with banks balance sheets cleaned up from the previous cycle. We are looking at credit cycle taking private credit (household plus corporate) to 100% of GDP in the coming decade.

Helping profits are government incentives for the corporate sector via lower tax rates (set in 2019) and production-linked incentives to promote investments in targeted sectors. Another factor helping growth is the likely transition in India's income pyramid, which is likely to invert in the coming decade, leading to a few hundred million people exiting poverty, more than 100 million addition to middle-income households and 20 million addition to rich households. Consolidation of government deficit represents a mild challenge to earnings, but more than offset by India's improving terms of trade, which means that India will lose less earnings to firms abroad compared to the past.

India's 401(k) moment has created a reliable domestic source of risk capital: India allowed retirement funds to invest in equities for the first time in history in 2015. This was similar to what happened in 1980 in the US when 401(k) plans were allowed to buy stocks. Given India's demographics, retirement funds only get net inflows and have formed a growing base demand for stocks since 2015. Domestic households have supplemented this with systematic investment plans – an outcome of low equity exposure on household balance sheets, constant education by the mutual fund industry participants on the merits of systematic investing, major regulatory reforms, which have made the markets less prone to fraud and improving equity returns. Households continue to be least exposed to equities relative to other asset classes such as property, gold and fixed income securities, and we see the domestic bid on stocks sustaining for a long time like it did in the US from 1980 to 2000 until the NASDAQ bubble. This is a big change for Indian equity markets compared to history, when the market relied largely on foreign participants for the bid. Such foreign bids were subject to vagaries of global conditions and India's relative position resulting in much higher volatility in Indian stocks than they generate today.

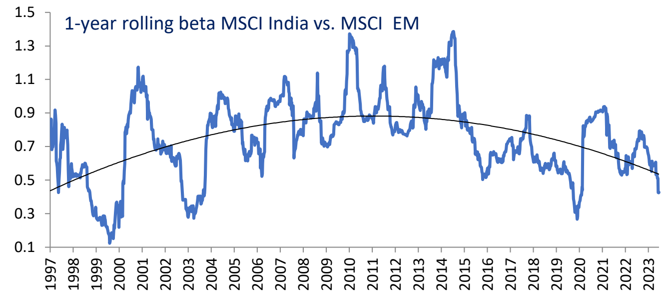
Bottom line, India is rising in the world order with significant positive macro and market implications: Manufacturing and capex are resurgent, export market share is rising, the current account is becoming more benign, consumption is undergoing radical shifts and interest rate cycles are likely to become shallower. The concomitant effects are a strong profit cycle, lower return correlation of equities with oil and US growth/Fed cycles and a lower beta to EM, which set India up for strong equity market performance, albeit relative valuations remain rich.

Exhibit 43: Resilient domestic flows



Source: SEBI, NSDL, Morgan Stanley Research

Exhibit 44: Falling beta to EM



Source: RIMES, MSCI, Morgan Stanley Research

Key risks: Slower global growth, tight global liquidity, weather vagaries and their impact on farm output, potential worsening of state fiscal position and a resurgence in commodity prices. The most important catalyst in 2H23 is the market's view on the 2024 general election outcome. If the Indian electorate chooses a less-favorable political formation in 2024, the equity markets could experience a significant drawdown.

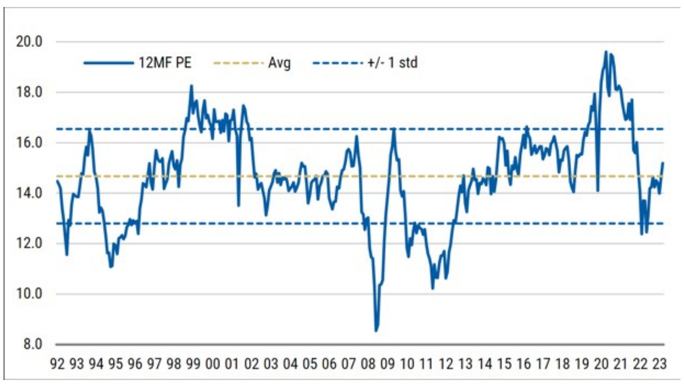
Australia Equity Strategy – Less Bulk Required

Chris Nicol, Chris Read, Antony Conte

Maintaining the Range

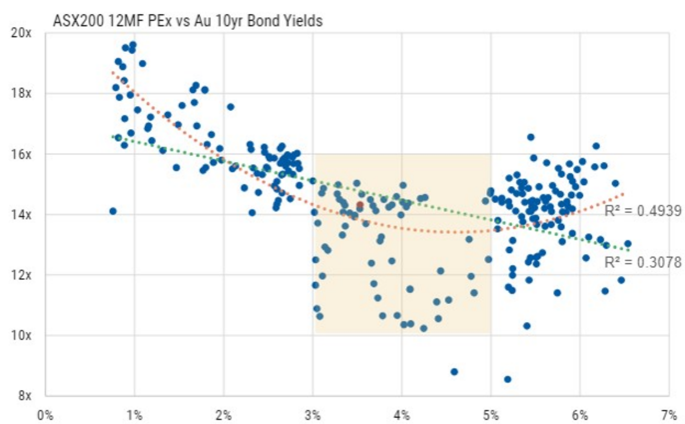
Over the last six months, the ASX 200 has effectively been range bound between 7,000 and 7,500. Key market tests at lows have typically been bought, whilst index upside has been capped as earnings levels have moved lower. One could simply point to the variability in month-to-month RBA communication as a key influence to rapid shifts in sentiment and positioning. More broadly, however, the global macro debates around terminal rates, landing status of key economies and counter-cyclical hopes from China have also fed into the rapid shifts seen in attribution and performance within Australian equities.

Exhibit 45: Aggregate multiples for ASX 200 have pushed above long-run average



Source: RIMES, IBES, Morgan Stanley Research.

Exhibit 46: Whilst when compared to 10yr bond rate range of 3% to 5%, multiple expansion appears capped

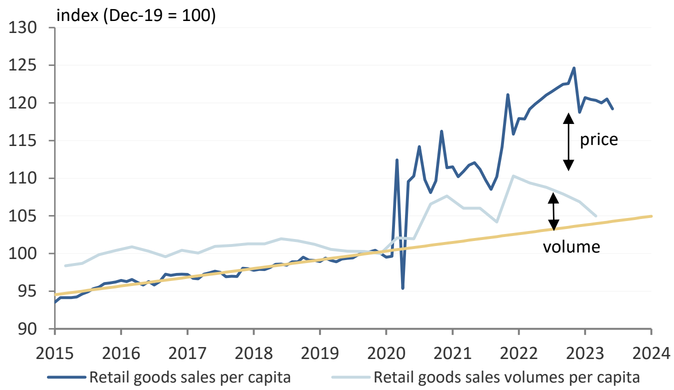


Source: Factset, Morgan Stanley Research.

Tighter Conditions Starting to Bite

We remain cautious around positioning to what we collectively define as cash rate-sensitive sectors. The consumer adjustment has been stark and appears to have led to a sudden halt in activity across durable goods and some discretionary activities. Recent trading appears to be decelerating with retail downgrades across categories, including Jewelry, Footwear, Activewear, Furniture, Household, Department Stores and Baby. In Housing, the reality is that commencements are falling, completions are sagging and approvals (now at 2012 lows) have collapsed. This ensuing activity adjustment could be the epicenter of economic adjustment to monetary tightening.

Exhibit 47: Retail sales volumes have been declining in per capita terms for over a year – prices now starting to follow



Source: ABS, Morgan Stanley Research

Exhibit 48: Building approvals have fallen sharply over recent months – suggesting slowing in construction activity pulse

Source: ABS, Morgan Stanley Research

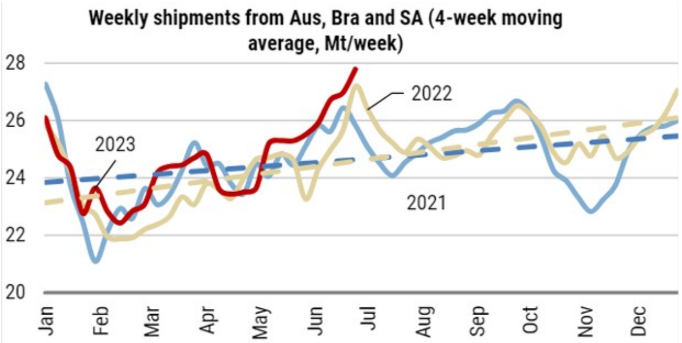
A Question of Resourcing?

The outlook for Resources remains one of our most frequently debated topics with investors. China's activity trajectory and responding stimulus are central to the commodity outlook, and while our economics team for China is optimistic on the recent policy narrative, the shape of stimulus is also be important for the read-through to equities. Indeed, it has been fascinating to watch the whipsaw in sentiment in related resource stocks over the last week. Initial market reaction was to push commodity related names up aggressively with BHP, Rio Tino (RIO.AX), Fortescue (FMG.AX), etc., all rallying 5-10% off July intra-month lows.

The initial enthusiasm seen in Resource-linked stocks was tempered by the reality of a stabilizing fiscal pulse with a focus on supporting balance sheets and end-consumer demand over more construction or infrastructure. Further evidence of likely steel cuts have our global commodity team musing that if China were to cap countrywide crude steel production at 2022 levels, output would need to fall by 12% sequentially from June levels, a significant slowdown. This could push the iron ore market into a 2H surplus, and is a key driver for Morgan Stanley's bearish view on iron ore alongside rising shipments.

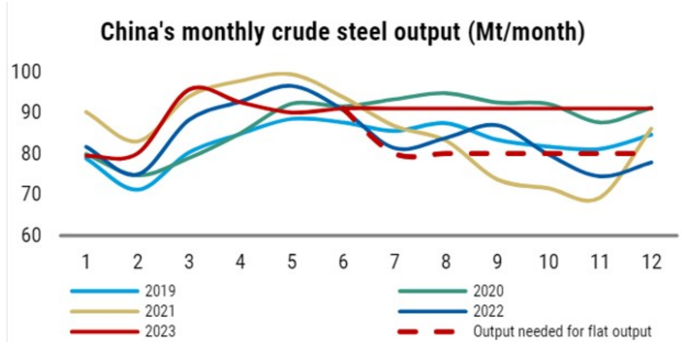
This leaves us relatively cautious on steel-related categories given uncertainty on property and constructions, while copper offers better supply-demand dynamics. We remain UW Bulk Commodity exposures whilst retaining exposure to Energy, Base metals and some Battery materials.

Exhibit 49: Iron ore shipments are rising strongly - MS expects surplus for 2H23



Source: Thomson Reuters Eikon

Exhibit 50: China steel production would need to fall 12% sequentially from June levels to come in flat on the year



Source: NBS, Morgan Stanley Research.

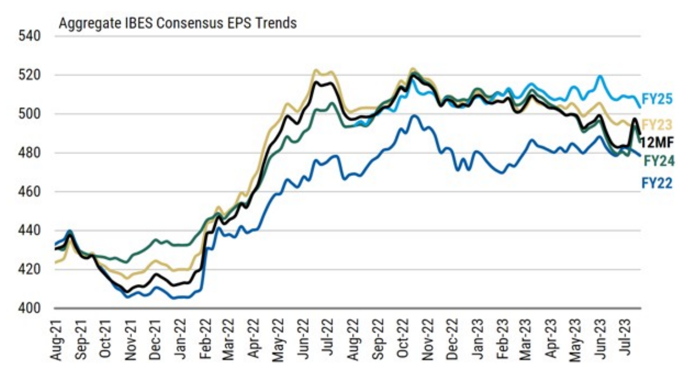
Market Earnings Adjusting Down

Navigating the slowdown has been a tough exercise, and the debate around how and when the impact from aggressive tightening cycles kicks in remains elevated. That said, in recent weeks it has been clear that bottom-up earnings across the forecast period are rolling over. EPS levels now sit circa 10% lower versus October 2022, and in F2023e EPSg has fallen from +9.0% at first estimate to now +2.5%. In the first instance, this pulse was heavily influenced by Materials and Healthcare. Confession season was also littered with broadening pressure across consumer facing sectors. As it sits now, our top-down models predict further downside within Industrials – a key area of aggregate earnings risk with cash rate sensitive sectors most in focus.

Exhibit 51: ASX 200 price returns have diverted from reality of a declining EPS profile; results season offers more downward pressure on EPS, in our view, with Industrials in focus

Source: IBES, RIMES, Morgan Stanley Research

Exhibit 52: Rolling over: ASX 200 – Consensus aggregate EPS trends for F2022 through F2025



Source: RIMES, IBES, Morgan Stanley Research. Data as of July 20, 2023.

Equity Implications

Our view remains that with a tightening bias maintained and combined with an extended stay of proceedings, domestic conditions will continue to devolve and create both earnings and valuation headwinds for cash rate-sensitive sectors. With the slowdown really only gathering pace and estimates only beginning to adjust, avoiding domestic cyclicals as late-cycle dynamics crystallize seems prudent at this juncture. Add to this what would seem to be less commodity-intensive China stimulus, and we keep our

Resources positioning heavily skewed to Energy and less Bulks exposure at this juncture.

China Equity Strategy – Move to Sidelines with Policy Pivot; Await a Better Reentry Point

Laura Wang, Fran Chen

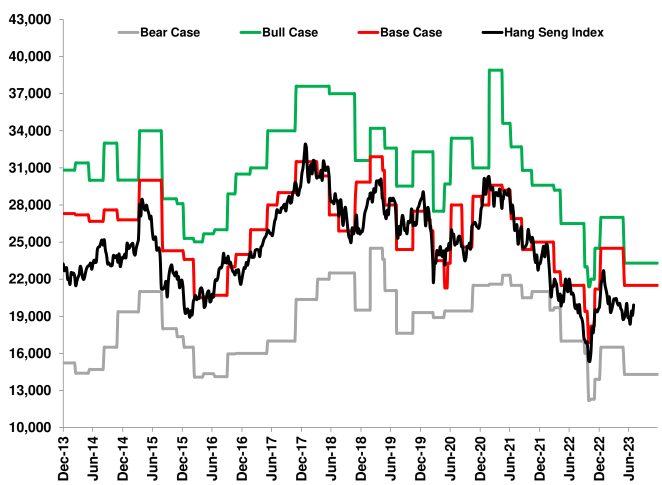
Taking Profits Upon Recent Market Sentiment Recovery Post Politburo Meeting Policy Pivot

OW on China since December 4, 2022, with more cautious stance and reduced exposure since May: Our current OW stance on China within global EM/APxJ context can be decomposed into two phases:

1) Upgrade from EW to OW with 50bp active risk exposure on December 4, 2022, on the back of what we saw as major improvement along multiple fronts: a) post-Covid reopening; b) stabilization of US/China relationship after Biden-Xi meeting in Bali in Nov-22; c) supportive top-down policy measures and CNY strengthening; d) wrap-up of regulatory reset particularly around the internet sectors; and last but not least, e) the self-improvement efforts committed by Chinese corporates bottom up to improve ROEs and shareholder returns.

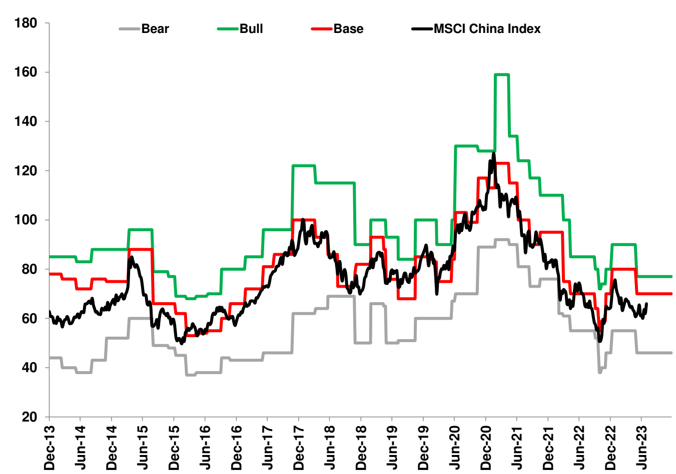
2) Reduction of the OW active risk exposure from 50bp to 25bp on June 4, 2023, when we published our mid-year outlook. Key drivers behind our more cautious stance include: a) quick fadeaway of post-Covid recovery momentum, but more important a lack of clear commitment by government to stabilize and reinvigorate the macro economy; and b) heightened level of geopolitical uncertainty.

Exhibit 53: Morgan Stanley index target history for Hang Seng (bull, base, bear) – base-case June 2024 target set at 21,500, implying 7% upside from the close on August 1, 2023



Source:RIMES, FactSet, Morgan Stanley Research forecasts. Weekly price index data as of July 30, 2023.

Exhibit 54: Morgan Stanley index target history for MSCI China (bull, base, bear) – Base-case June 2024 target set at 70, implying 7% upside from the close on August 1, 2023



Source: RIMES, FactSet, Morgan Stanley Research forecasts. Weekly price index data as of July 30, 2023.

Latest politburo meeting pivot offers an opportunity to take profit and assess policy execution and impact on macro momentum: We take the July politburo meeting as sending more dovish signals given the clearer stance on stabilizing economic growth and supporting the private sector. Market sentiment had shown improvement since the event, as we expected. However, we believe that investor confidence and conviction level are still very fragile, and that investors are still reluctant to pre-position in a major way, given that they have been disappointed by rather lackluster/lukewarm easing measures seen since March. Lack of quick follow-through of actionable easing measures could lead to a retreat from the early recovery in sentiment.

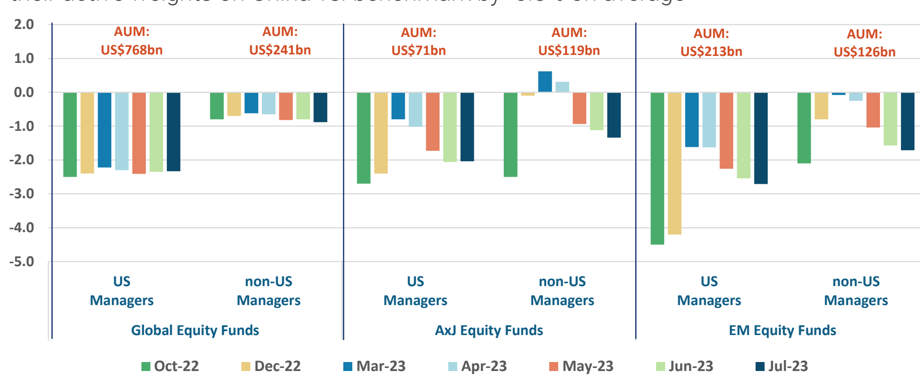
More time needed to rebuild the communication mechanism between the government and the financial market: The trust and credibility will take time to rebuild – former Vice Premier Liu He had played the role to communicate directly with the market within the previous leadership team and had built his credibility through years of pushing deleveraging and trade negotiation efforts. Ideally, the July politburo could be the starting point. The coming weeks and months would be critical to test whether the incremental piecemeal easing approach, as expected by MS China economics team, would be sufficient to reverse the macro slowdown, while investors are likely to swing between hopes for policy measures and lack of patience/disappointment, which could in the near term keep market volatility high. Risk-adjusted returns therefore may not be the most attractive at the current stage compared to some of the better setups for Chinese equities to outperform, including Nov-18, Feb-20, and Dec-22.

We leave the price targets for Chinese equity indices unchanged at this point, in anticipation of stabilization of earnings growth toward the end of 3Q, and some potential marginal valuation improvement for the market on the back of recent policy pivot.

Roadmap to Tackle Structural Challenges as Well as Further Stabilization of Geopolitical Uncertainty Needed to Attract Long-term Money

Investor positioning is already light, which implies that there is potentially money available to be redeployed into China equities…: Our data shows that as of end June, all the incremental inflow back into Chinese equity market from different global mutual funds had chosen to leave (Exhibit 55).

Exhibit 55: Active weights of China/HK equities by regional fund category and manager domiciles –Regional managers sold into the rally on China in first half of June, reducing their active weights on China vs. benchmark by -0.3% on average



Source: MorningStar, FactSet, EPFR, Morgan Stanley Research; data as of July 31, 2023. Notes: fund universe of each category is formed by the largest 30 active mutual funds under MorningStar regional category. Funds under "non-US Managers" are mostly domiciled in Europe. We exclude ESG funds, Income funds, and Systematic funds. All the covered funds are benchmarking to either MSCI or FTSE standard regional indices of All Country World, Asia ex Japan, or Emerging Markets.

… However, investor debate has shifted toward more structural problems: We note that investor debates on China over the last several months have gradually shifted away from cyclical issues to more long-term structural challenges. Growth post the property era, local government debt, unemployment issues at a strategic level, etc., are covered in the Politburo meeting statement, but more detailed solutions and a convincing new growth framework under such contexts will need to be laid out for long-term capital commitment. **The Third Plenum, which usually takes place in October/November in the year after the Party Congress (i.e., in Oct/Nov 2023), could include more structural reform plans, centering around SOE reform as well as LGFVs.** We would like to see more clarity as we approach the event.

Question marks still exists along recent normalization of US/China dialogue: We also need to be aware that more geopolitical uncertainty may arise towards 4Q, given that the US election season is coming up. Recent visits by US politicians and business leaders to China suggest that bilateral communications continue to normalize – we would advise investors to monitor whether a one-on-one presidential meeting could take place between President Biden and President Xi around the APEC Summit in November 2023 in the US. Upcoming developments around US direct investment restriction in high-tech areas against China, and the latest chatters around APEC attendance by Hong Kong government officials could add more complexity to the situation.

Exhibit 56: Recent US China geopolitical events – Recent visits by US politicians and business leaders to China suggest that bilateral communication continues to normalize

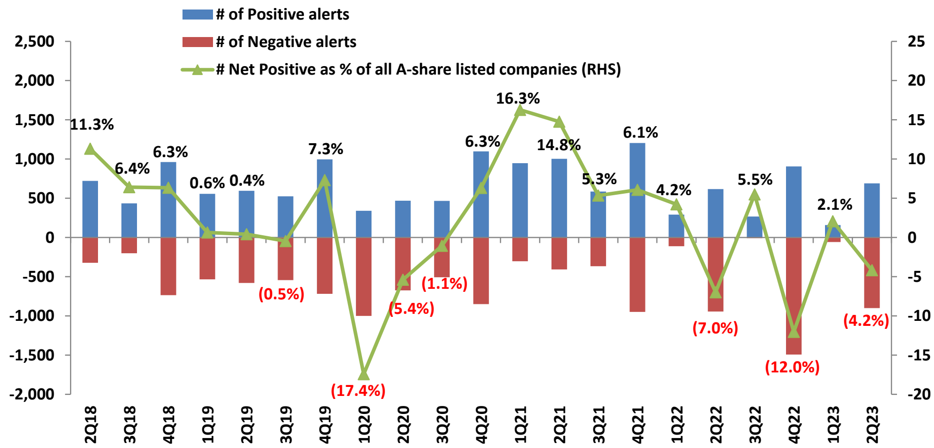
Time	Events
2023/1/28-2023/2/4	US-China balloon incident.
2/18/2023	US allegation China considered supplying Russia with weapons.
3/14/2023	US officials expected a phone call between Presidents Biden and Xi.
4/20/2023	Politico report on US direct investment restriction.
5/8/2023	China's foreign minister met with the US ambassador to China.
5/10/2023	US national security adviser Jake Sullivan and Wang Yi met in Vienna.
5/21/2023	Biden's comment on US-China relationship improving soon.
5/23/2023	Xie Feng, the new Chinese Ambassador to the United States arrived to assume office.
5/26/2023	Chinese Minister of Commerce Wang Wentao met with US Trade Representative Katherine Tai in Detroit during APEC Trade Ministers' Meeting.
5/30/2023	State Councilor and Foreign Minister Qin Gang met with Chief Executive Officer of Tesla Elon Musk in Beijing.
6/5/2023	Senior US diplomat Daniel Kritenbrink visited China.
6/14/2023	Bill Gates visited China.
6/19/2023	U.S. Secretary of State Antony Blinken met with Chinese President Xi Jinping in Beijing.
2023/7/6-2023/7/9	Treasury Secretary Janet Yellen visited Beijing as part of efforts to revive U.S.-Chinese relations.
2023/7/16-2023/7/19	U.S. special envoy on climate issues John Kerry attended a press conference in Beijing.
7/20/2023	Chinese President Xi Jinping met with former U.S. Secretary of State Henry Kissinger.
7/23/2023	CEOs of the largest US chip makers, including Intel's Gelsinger and Nvidia's Huang urged Biden to pause the roll-out of new measures.
7/26/2023	US Senate backed measure requiring reporting on China tech investments.
7/28/2023	White House has decided to ban US-sanctioned Hong Kong leader John Lee to attend APEC summit.
7/28/2023	US intelligence report has alleged China is likely supplying Russia's army in Ukraine.
8/1/2023	BlackRock, MSCI face congressional probed for facilitating China investments.

Source: Government news, Morgan Stanley Research; Data as of August 1 2023..

Where Are We with Corporate Fundamentals? More Earnings Cuts on the Way

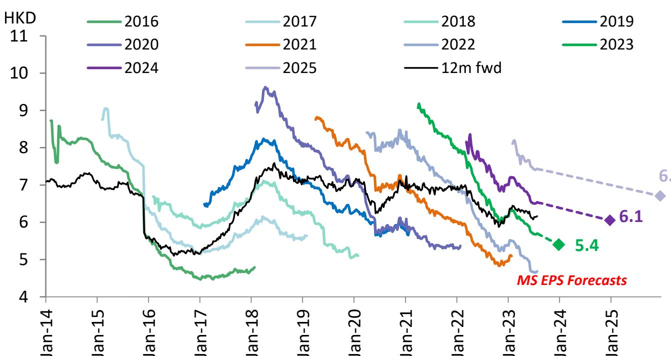
Another 1-2Q of challenging earnings results ahead: Our latest analysis of 2Q corporate earnings pre-announcements so far shows that on aggregate, the A-share market (more data points available due to reporting regulatory requirement) is still facing net negative earnings alerts (Exhibit 57). The magnitude of the net negative alerts is smaller than the historical low point in 1Q20, however it is still rather significant compared to the other quarters we have monitored since 1Q21.

Exhibit 57: Quarterly A-share pre-announcements since 2Q18 by number of stocks – 2Q23 was better than both 2Q22 and 4Q22, but still a net negative



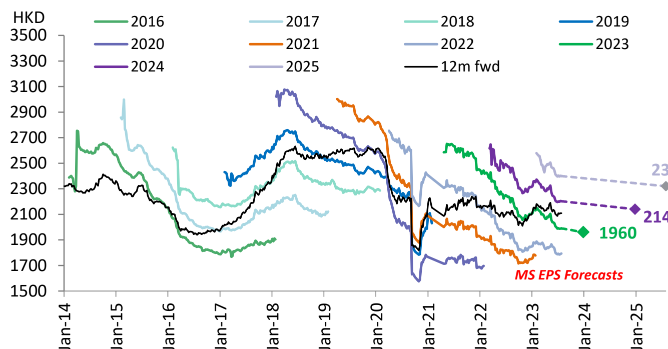
Source: Wind, FactSet, Morgan Stanley Research. 2Q23 result is based on 1,710 A-share listed companies' pre-announcements as of July 18, 2023.

Exhibit 58: MS EPS base-case forecasts for MSCI China at Dec-23, Dec-24 and Dec-25 - MS forecasts are below consensus



Source: IBES, Datastream, Morgan Stanley Research. Weekly data as of July 27, 2023.

Exhibit 59: MS EPS base-case forecasts for Hang Seng at Dec-23, Dec-24 and Dec-25 - MS forecasts are below consensus



Source: IBES, Datastream, Morgan Stanley Research. Data as of July 27, 2023. The drop and rebound between Sep 2020 and Nov 2020 was driven by structural changes of Hang Seng index constituents, namely the addition of eligible weighted voting right companies and secondary-listed companies in Greater China region.

Our base case forecast for 2023 earnings growth is 15% for MSCI China, compared to consensus at 22%. We continue to see significant downward revision pressure on earnings throughout the 2Q results season (through August), with uncertainty lingering for 3Q as well, again, depending on how quickly the near-term macro slowdown momentum can be reversed. Such an earnings revision outlook could also exacerbate the skepticism we just described towards forthcoming policy easing measures.

Await next opportunity to upgrade when better clarity on structural outlook and earnings bottom-out arrive

MSCI China's and Hang Seng's total USD returns are 8.6% and 10.0%, respectively, since our December 4 2022, largely on par vs. MSCI EM's 9.6% as of August 1, 2023. Given that we expect near-term market volatility to remain relatively high, we believe the right approach is to move to the sidelines, taking advantage of the latest sentiment improvement, and wait for a better entry point down the road.

Third Plenum this year worth monitoring: As we have discussed above, the 3rd Plenum, which is expected to take place in October 2023, is a very likely occasion for major structural reform announcements. Looking back at the plenum in 2013, that was when major reform agenda including the One Child Policy, Hukou registration, SOEs and many others, got announced. The financial market applauded such efforts with positive price moves and a decline in China's equity risk premium.

Should history repeat itself, as we approach the 3rd plenum this year around late August-September, the timing would also be around when 2Q earnings results are out, and more downward revisions are largely priced in by investors. A combination of bottoming-out of earnings growth and more clarity on the structural reform outlook, if it were to happen, could help lead to a more sustainable market rerating and fund inflows with longer-term commitment.

How to position right now: In the near term, we continue to recommend high-quality single stock ideas featured in our China Best Business Models in anticipation of continuous range-bound market dynamics. We recommend taking selective positions in the consumption (large cap internet names and consumer services) as well as materials and industrials sectors that are better positioned to benefit from gradual macro momentum recovery.

Taiwan Equity Strategy – Time to Take a Breather

Terence Cheng

We see limited near-term catalyst for the TAIEX; we introduce our June 2024 index target of 17,500

TAIEX has outperformed MSCI EM by 1,420bp YTD in 2023 with active fund rotations from F&B and biotech sector (1Q23) to AI-related stocks and airliners (2Q23), gradually driving up the index. However, we see multiple trends that may cap the index performance near-term: 1) bottom-up downward earnings revisions are stabilizing but there are no signs of upward revisions, especially amid soft tech end-demand (apart from AI); 2) valuations appear stretched; 3) the upcoming presidential election is an uncertain factor; and 4) likely muted participation by foreigner investors, despite active domestic trading activity, due to these trends.

We introduce our 2024 mid-year TAIEX target of 17,500 and adjust our bull- and bear-case values. Our new index target is based on 16.0x P/E (vs. 15.5x previously, to reflect the rising rate environment pressuring valuations) on our new base case 2023 and 2024 TAIEX earnings projections. The TAIEX is now only 1% away from our base case (based on closing price as of July 27), which may limit further upside.

Bottom-up earnings revisions appears to be stabilizing but uncertainty lingers: The consensus 2023 EPS growth estimate for MSCI Taiwan had been lowered 27% in the year through June but now appears to have stabilized, while the trend for 2024 EPS growth suggests little change to consensus, indicating limited visibility. With longer inventory digestion cycles for multiple sectors including tech, we see limited upward revisions happening near-term, in spite of stable cost trends (commodities, shipping) and favorable FX trends that may bode well for exporters' margins.

Valuation looks stretched near-term: Given the rally YTD in 2023, the TAIEX's trailing P/E has risen to one standard deviation above its five-year average, from nearly two standard deviations below last October - stretched given limited earnings upside, in our view. In addition, TAIEX' cash dividend yield is now only slightly above the regional markets' average, not particularly attractive.

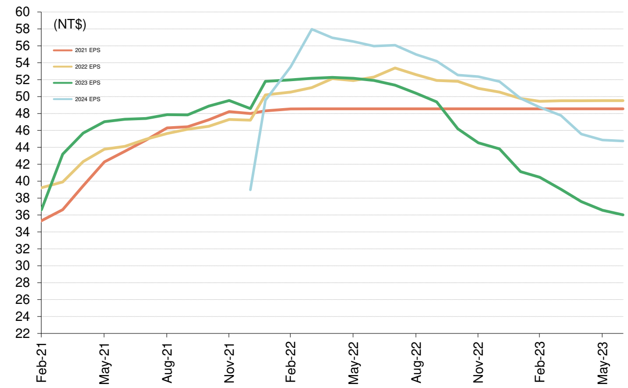
Exhibit 60: MSCI Taiwan – YoY EPS Growth

MSCI Taiwan EPS YoY Growth

	2022 EPS	2023e EPS	2024e EPS
Jun-22	8%	-1%	8%
Jul-22	10%	-4%	9%
Aug-22	8%	-4%	9%
Sep-22	7%	-5%	10%
Oct-22	7%	-11%	14%
Nov-22	5%	-13%	18%
Dec-22	4%	-13%	18%
Jan-23	3%	-17%	21%
Feb-23	2%	-18%	20%
Mar-23	2%	-21%	22%
Apr-23	2%	-24%	21%
May-23	2%	-26%	23%
Jun-23	2%	-27%	24%

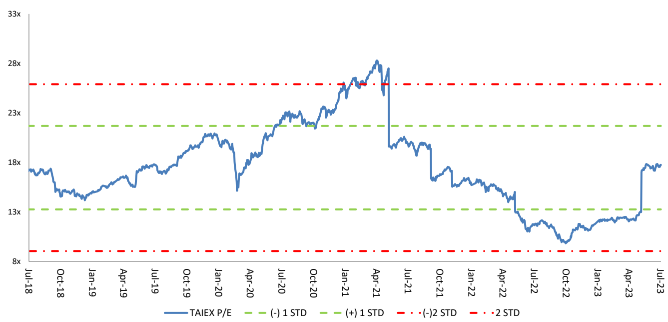
Source: FactSet, Morgan Stanley Research (e) estimates

Exhibit 61: MSCI Taiwan – EPS Forecasts



Source: FactSet, IBES, Morgan Stanley Research. Note: e = IBES Consensus estimates.

Exhibit 62: TAIEX Trailing P/E Trend



Source: TEJ, Morgan Stanley Research

Exhibit 63: APAC Dividend Yield

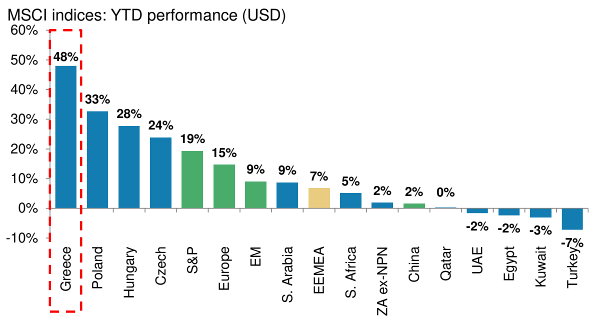
MSCI APxJ	MSCI	Consensus Div Yld			MS Div Yld		
Country	Weight	2022E	2023E	2024E	2022E	2023E	2024E
Australia	16.4%	4.6%	4.2%	4.2%	5.3%	4.1%	4.0%
China	27.9%	3.8%	3.7%	4.0%	3.9%	3.7%	4.0%
Korea	12.2%	2.3%	2.4%	2.5%	2.0%	1.7%	2.3%
Taiwan	14.8%	3.7%	3.2%	3.3%	3.5%	3.4%	3.7%
Hong Kong	5.4%	4.0%	4.2%	4.4%	4.0%	4.2%	4.4%
India	14.0%	1.5%	1.6%	1.7%	1.5%	1.7%	1.9%
Singapore	3.2%	4.2%	4.4%	4.6%	4.4%	4.7%	5.0%
Malaysia	1.3%	4.2%	4.1%	4.5%	4.1%	4.0%	4.4%
Indonesia	1.9%	3.4%	4.2%	4.4%	4.4%	4.4%	4.5%
Thailand	1.9%	2.6%	2.5%	2.9%	2.4%	2.7%	2.9%
Philippines	0.6%	2.0%	2.3%	2.4%	2.1%	2.2%	2.1%
New Zealand	0.4%	2.6%	2.9%	3.2%	2.5%	2.8%	3.1%
MSCI APxJ	100%	3.4%	3.3%	3.6%	3.5%	3.3%	3.6%

Source: RIMES, Factset, MSCI, Morgan Stanley Research. *Model calculates EPS for individual securities and aggregates data at the market/regional level. E = estimates. Consensus data is used for estimates for non-covered companies. Data as of July 19, 2023

EEMEA Equity Strategy – Further Upside in Greece

Regiane Yamanari, Marina Zavolock, Matthew Nguyen

Exhibit 64: Greece is the best performing market in EEMEA

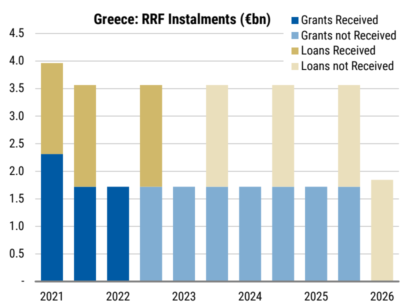


Source: Eikon, Bloomberg and Morgan Stanley Research

We remain overweight Greece in an EEMEA context, and it continues to be our preferred market in EM Europe. Greece has been the best performing market globally this year (up 48% in USD terms) and we see additional drivers supporting further outperformance from here: strong and resilient macro, potential IG upgrade and compression of relative risk premium to Europe and EM, still cheap valuations despite the strong outperformance and earnings momentum. For more details, see our EEMEA Mid-Year Outlook note. We continue to favour the banks as our preferred way to have exposure to the relatively strong macro.

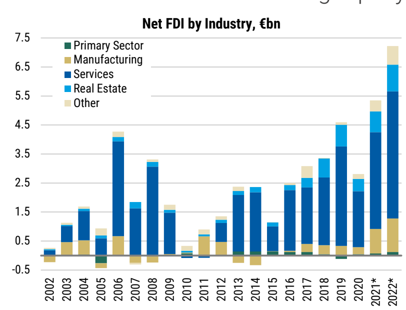
1) On the macro side, the **Greek economic recovery continues,** with our economist expecting relative **resilience compared to the rest of Europe** for 2023 and 2024. Investments in Greece should continue to be supported by **the implementation of the Recovery and Resilience Facility (RRF)** and a record-high influx of FDI. Our European economist forecasts GDP growth of 2.5% YoY in 2023 and 2.2% YoY in 2024.

Exhibit 65: Greece continues to benefit from relatively high exposure to the EU recovery fund; so far, it has received a total of €11bn under its RRF



Source: EC, Greece 2.0, Morgan Stanley Research

Exhibit 66: FDI reaching a record high in 2022, with investment in manufacturing and real estate also increasing rapidly

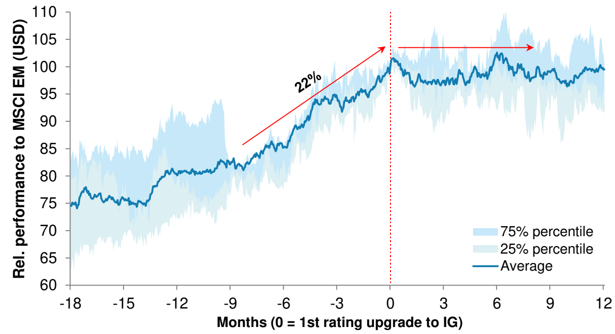


Source: Bank of Greece, Morgan Stanley Research

2) As our economist also argued in her recent note, we think that **Greece is on a clear path to investment grade, potentially in 1H24, but with some risk of an earlier upgrade.** We believe that an upgrade of Greece to investment grade in the coming months can support the current momentum in Greek equities, as suggested by our case study of prior IG upgrades in EM (for more details of our case study: equity performance around upgrades to investment grade). Our analysis shows that **equity markets tend to start rallying on a relative basis versus EM around eight months ahead of the first rating upgrade** to IG status. For instance, in these cases, **the rally in equities was on average +22% relative to MSCI EM** (and +38% in USD absolute terms). Some other points from our analysis: 1) Overall, the absolute and relative **outperformance were driven by both re-rating and EPS positive revisions;** and 2) **the starting point of valuation seems to matter**. The equity markets that were trading at cheaper levels (below 10x NTM P/E) at the beginning of the rally ahead of the IG upgrade recorded higher absolute (+62%) and relative performance (+30%) compared to the other cases.

Exhibit 67: Equity markets tend to outperform EM by 22% on average starting 8 months prior to the 1st rating upgrade to IG

MSCI index: avg performance vs EM around sovereign rating upgrade to IG



Source: Datastream, Moody's, S&P, Fitch, Morgan Stanley Research; Note: Performance calculated around the first rating upgrade to investment grade status from either Moody's, S&P or Fitch. We considered EM cases from Exhibit 68

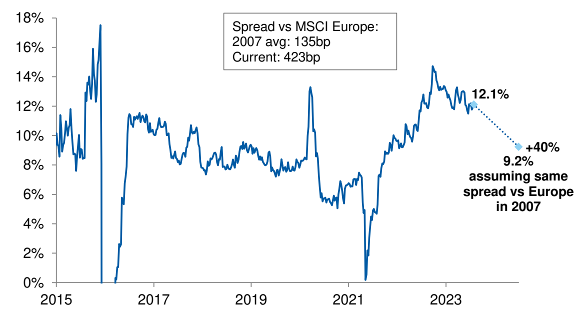
Exhibit 68: The starting point of valuation matters: markets trading <10x NTM P/E at the beginning of the rally delivered higher returns

	1st rating	NTM P/E		Change during the period (USD)			
Country	upgrade to IG	-8M	IG upgrade	Abs. Perf.	NTM P/E	NTM EPS	Rel. Perf.
Mexico	Mar'00	15.4x	17.1x	30%	11%	17%	8%
Russia	Oct'03	7.1x	10.1x	87%	43%	31%	32%
India	Jan'04	9.5x	14.5x	87%	53%	22%	21%
Brazil	Apr'08	10.0x	12.0x	52%	20%	27%	35%
Colombia	Mar'11	16.5x	16.8x	9%	2%	7%	-6%
Indonesia	Dec'11	13.8x	12.3x	-6%	-10%	4%	23%
Turkey	Nov'12	9.2x	10.7x	23%	16%	6%	31%
Philippines	Mar'13	15.7x	20.6x	37%	31%	4%	25%
Hungary	May'16	11.0x	11.6x	23%	6%	17%	28%
Average				**38%**	**19%**	**15%**	**22%**

Source: Datastream, Moody's, S&P, Fitch, Morgan Stanley Research

Exhibit 69: Should Greek implied cost of equity decline to levels of same spread relative to Europe back in 2007 (pre-crisis), all else equal, it would mean a further +40% upside

Greece: Implied CoE and upside scenario



Note: MSCI Europe's Implied CoE = consensus NTM earnings yield; For Greece we use a bottom-up model with a long-term growth assumption in our implied CoE calculations; Scenarios are calculated holding other parameters constant; Source: Eikon, Datastream and Morgan Stanley Research

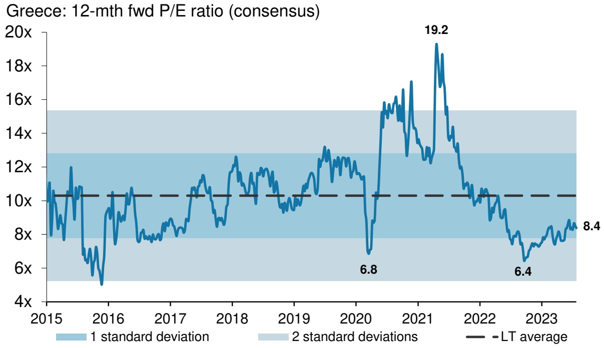
3) One important implication of an upgrade to IG status is a potential decline in the cost of equity for Greece. We estimate that the current implied CoE for Greek equities is at 12%, which is higher than the recent average (5-year average of 8.8%). The increase from 2020-21 lows was mainly driven by strong earnings growth and positive revisions, in particular in the past year.

In 2007 (period pre-crisis, i.e. GFC and Greek government-debt), the average spread between the implied CoE of Europe and Greece was 135bp, while the current one is at 423bp. If we assume the Greek implied CoE declining so the spread reaches the same 2007 level (thus, declining from 12% to 9.2%), that would imply, *all else equal*, a potential upside of +40%. While this is only a theoretical exercise, it does provide the magnitude of a potential re-rating for Greek stocks in the short term.

4) Valuations remain cheap on an absolute and relative basis. Despite Greece's macro and EPS resilience and strong share performance year-to-date, wide discounts remain in absolute and relative terms.

Exhibit 70: On NTM P/E, Greece trades at 8.4x, which is 0.8 S.D below average

Greece: 12-mth fwd P/E ratio (consensus)



Source: Eikon, Morgan Stanley Research

Exhibit 71: Greece's valuation discounts versus EM and Europe remain high, while versus CEE there's a slight premium

	Relative to EM		Relative to Europe		Relative to CEE	
Valuation metric	Current	S.D.	Current	S.D.	Current	S.D.
NTM P/E	-33%	-1.2	-34%	-0.4	3%	0.5
NTM DY	52%	1.0	25%	0.9	0%	0.3
NTM PBV	-28%	2.2	-39%	2.2	9%	2.2
NTM ROE	8%	2.7	-8%	2.4	6%	2.3

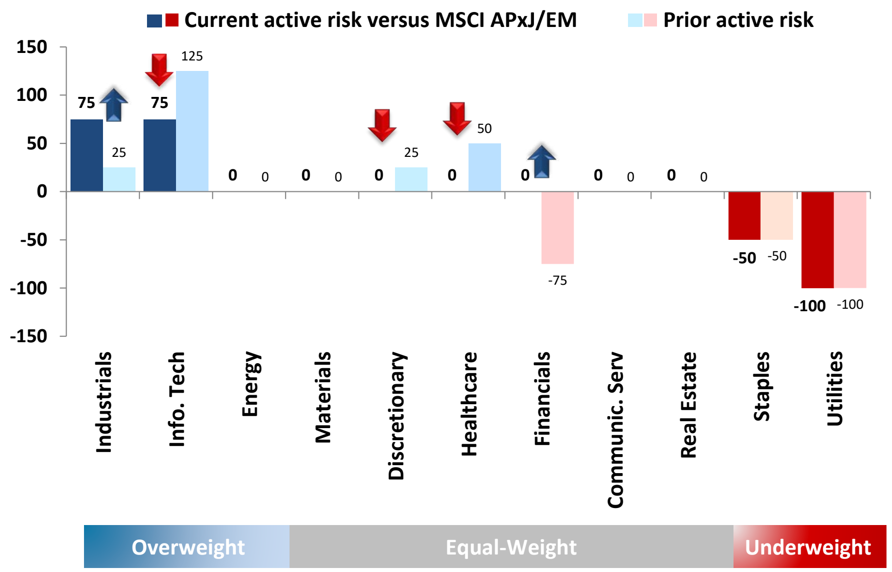
Source: Eikon, IBES, Datastream, Morgan Stanley Research; Note: S.D. versus eight-year average

APxJ/EM Sector Allocation

Daniel Blake, Jonathan Garner, Kristal Ji

We shift our overall sector allocation from an early-cycle towards a mid-cycle posture, lightening our OW on Information Technology (especially Semis), while adding more to Industrials and Consumer Discretionary in fast-growing India and also riding the reshoring trend in Mexico. We see further upside in India, Indonesia and UAE Financials, al though we remain cautious on the sector elsewhere.

Exhibit 72: APxJ/EM Sector Allocation - Overweight bias increased in Industrials to +75bp (vs+25bp earlier) and reduced in IT to +75bp (vs +125bp earlier); downgrade Healthcare and Discretionary to EW (from OW) while upgrade Financials to EW (from UW); our core UWs remain in Utilities and Staples on aggregate



Source: Morgan Stanley Research. Bar color classification: Dark Blue = Current OW, Light Blue = Previous OW, Dark Red = Current UW and Light Red = Previous UW

Crucially, our approach breaks down the sector allocation by individual market, assigning a ranking to the 100 largest market/sector combinations. This helps alpha generation given the significant dispersion in structural and cyclical dynamics across various Asia/EM markets.

Exhibit 73: APxJ/EM Sector Allocation and Rating Changes

Overweight Sector	Rating Change	Underweight Sector	Rating Change
India - Financials		Malaysia - Utilities	
Korea - Information Technology		Colombia - Financials	
India - Consumer Discretionary		Qatar - Financials	
Indonesia - Financials		Korea - Financials	
India - Industrials	↑	Australia - Consumer Discretionary	
Korea - Industrials		Malaysia - Consumer Staples	
Mexico - Industrials	↑	China - Utilities	
United Arab Emirates - Financials	↑	Australia - Industrials	↓

Upgrade to EW	Rating Change	Downgrade to EW	Rating Change
Australia - Financials	↑	Taiwan - Information Technology	↓
		China - Consumer Discretionary	↓
		Australia - Health Care	↓

Source: Morgan Stanley Research

Exhibit 74: Full APxJ/EM Sector Allocation Framework - We remain OW Korea IT, India Financials and Consumer Discretionary, and upgrade India and Mexico Industrials; we are UW Australia Discretionary and Industrials

Market - Sector Recommendations	Rank (of 100)	Active Position vs MSCI APxJ/EM	*Prev. Active Rec Pos.*	P/E rel to APxJ/EM 5y Z-Score	P/B rel to APxJ/EM 5y Z-Score	Div. Yield rel to APxJ/EM 5y Z-Score	EV/EBITDA rel to APxJ/EM 5y Z-Score	ROE rel to APxJ/EM 5y Z-Score	Earnings Revision Breadth (3mma)	Earnings Visibility	Asset Turnover 5y Z-Score	Net Margin 5y Z-Score	Relative Strength Index	% Uptrend Volume	MS Bottom-up Analyst Score	APxJ/EM Market Allocation
		bp	*bp*	9%	8%	8%	8%	6%	10%	5%	5%	5%	7%	7%	15%	5%
India - Financials	1	75	*75*	0.4	-0.8	0.4	NA	1.2	7.1	9.4	-1.8	1.5	51	67	8.7	OW
Korea - Information Technology	2	75	*75*	-0.6	-0.1	-1.6	-1.1	-0.7	-0.8	25.1	-1.0	-0.3	51	36	13.1	OW
India - Consumer Discretionary	3	50	*50*	0.1	-1.4	-1.2	-0.8	1.5	7.4	13.4	0.8	1.6	45	64	9.5	OW
Indonesia - Financials	4	50	*50*	0.2	-1.3	0.8	NA	2.0	9.2	3.6	-0.8	1.8	45	56	3.3	EW
India - Industrials	5	50	*0*	-0.5	-1.4	-1.1	-0.7	0.7	2.2	9.1	1.1	-0.1	43	52	4.4	OW
Korea - Industrials	6	25	*25*	0.1	-1.3	-1.0	0.6	0.5	6.4	24.3	1.6	0.6	84	67	0.3	OW
Mexico - Industrials	7	50	*0*	0.9	-0.8	0.0	0.6	1.5	-3.3	12.3	1.2	0.4	67	37	0.6	OW
United Arab Emirates - Financials	8	25	*0*	0.6	0.0	-0.9	NA	1.2	9.7	6.6	1.7	-0.4	47	61	-1.4	OW
Australia - Industrials	93	-50	*0*	0.6	0.1	-0.9	1.1	0.4	5.8	12.9	1.4	0.4	38	42	-5.4	UW
China - Utilities	94	-50	*-50*	-0.3	1.6	-0.1	-0.5	-0.8	-0.8	11.2	1.4	-1.7	19	41	8.4	EW
Malaysia - Consumer Staples	95	-50	*-50*	1.0	1.2	1.4	1.0	0.7	-8.1	17.0	1.2	-0.1	69	39	0.0	UW
Australia - Consumer Discretionary	96	-50	*-50*	0.1	-1.5	-1.0	0.2	2.1	-7.0	6.0	1.6	-0.4	42	43	1.1	UW
Korea - Financials	97	-50	*-50*	0.6	1.2	0.5	0.7	-0.6	0.4	10.2	0.0	0.4	57	52	-0.6	OW
Qatar - Financials	98	-50	*-50*	0.6	1.6	0.3	NA	-0.6	-7.6	11.7	NA	NA	51	NA	0.0	UW
Colombia - Financials	99	-50	*-50*	2.3	0.9	3.0	NA	1.6	0.0	13.9	0.1	0.3	74	52	0.0	UW
Malaysia - Utilities	100	-50	*-50*	-2.1	0.7	0.0	-1.4	-2.3	-4.9	7.4	1.0	-1.5	50	60	-9.2	UW

Source: Morgan Stanley Research; Note that we use earnings yield and book yield to account for relative valuations P/B and P/E, and therefore a higher yield Z-score indicates cheaper valuations

Upgrade India Industrials; Stay OW on India Financials and Consumer Discretionary

India Industrials

- **Ranking:** India Industrials is ranked #5 in our framework and upgraded to OW rated, improved from the last publication.
- **Valuations:** Relative valuations stand at 1.4 S.D above 5-year average for trailing P/BV and 0.5 S.D above average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is slightly positive with good earnings visibility, while relative ROE and trailing net margins are neutral to slightly positive vs historical trend.
- **MS bottom-up analyst view:** Our bottom-up analyst score is 4.4, among the higher range in our sector allocation framework. Our constructive stance on India supports our OW rating on India Industrials.

India Financials

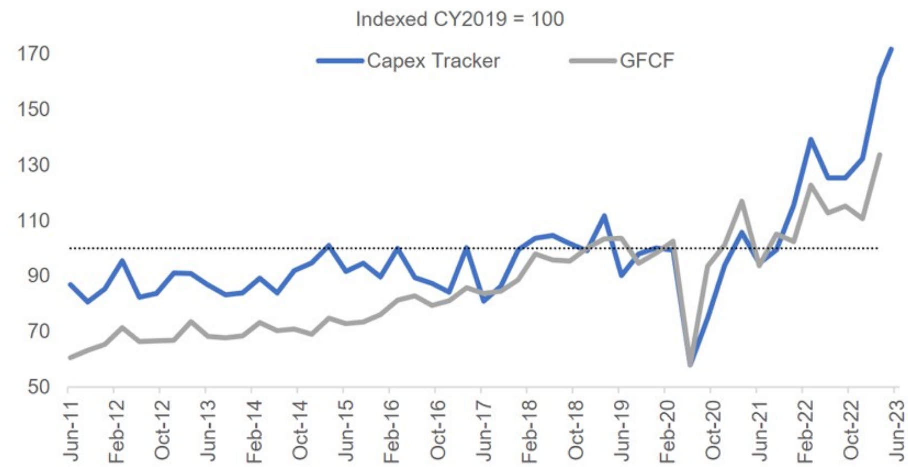
- **Ranking:** India Financials is ranked #1 in our framework improving from the previous #6, and stays OW rated.
- **Valuations:** Relative valuations stand at 0.8 S.D above 5-year average for trailing P/BV and 0.4 S.D below average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is strong and improved significantly from the last publication, while relative ROE and trailing net margins are positive vs historical trend.
- **MS bottom-up analyst view:** Our bottom-up analyst score is 8.7, among the highest range in our sector allocation framework. Our constructive stance on India supports our OW rating on India Financials.

India Consumer Discretionary

- **Ranking:** India Consumer Discretionary is ranked #3 in our framework improving from the previous #7, and remains OW rated.
- **Valuations:** Relative valuations stand at 1.4 S.D above 5-year average for trailing P/BV and 0.1 S.D below average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is strong and improved significantly from the last publication, while relative ROE and trailing net margins are positive vs historical trend.
- **MS bottom-up analyst view:** Our bottom-up analyst score is 9.5, among the higher range in our sector allocation framework. Our constructive stance on India supports our OW rating on India Consumer Discretionary.

Here we upgrade India Industrials, joining our existing key OW sectors India Financials and Consumer Discretionary. We expect these three sectors will be the major beneficiaries of India's structural story, and the key thesis remains unchanged from our mid-year outlook. Improvement in per-capita income boosting consumption and a broadening credit penetration should help the Financials sector. Strong government capex and a pickup in private capex will drive up demand for industrial companies. Our India Economics Team have launched a high-frequency capex tracker which will help investors closely monitor the on-the-ground progress.

Exhibit 75: Tracking Capex Activity



Source: CEIC, CMIE, PPAC, JLL, RBI, Morgan Stanley India Economics Research. Note: The Capex Tracker is computed using new investment projects, industry credit, MHCV sales, steel, cement, diesel consumption, capital goods imports, manufacturing PMI, exports, real estate new launches, central govt capital spending. QE June-23 is as per latest data available

Downgrade China Consumer Discretionary to EW

- **Ranking:** Here we downgrade China Consumer Discretionary to EW, and it was ranked #3 in the last publication.
- **Valuations:** Relative valuations stand at 1.6 S.D below 5-year average for trailing P/BV and 0.7 S.D below average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) remains in negative territory while relative ROE and trailing net margins are lower than historical trend.
- **MS bottom-up analyst view:** Our bottom-up analyst score is 5.0, among the higher range in our sector allocation framework, although Laura Wang, our Chief China Equity Strategist is turning neutral on China equities. For more details see China Equity Strategy – Move to Sidelines with Policy Pivot; Await a Better Reentry Point .

We downgrade China Consumer Discretionary to EW given the delay in earnings recovery and stimulus weighing on consumer sentiment, following a reduction cutting active exposure back in early June. Inflation numbers continue to disappoint to the downside and demographic trend is going downhill which will likely shrink overall domestic demand. The wealth effect, coupled with a weak CNY and heightened youth unemployment rate, also feed into weak consumer confidence and low earnings visibility. The Politburo meeting was more dovish than the market expected although actionable measures have not yet followed through, and boosting household confidence and incomes will take time. Valuations have derated from the Covid peak, but lack fundamental support in the near term for a meaningful re-rating.

Move Taiwan Information Technology to EW but Staying OW on Korea Information Technology

Taiwan Information Technology

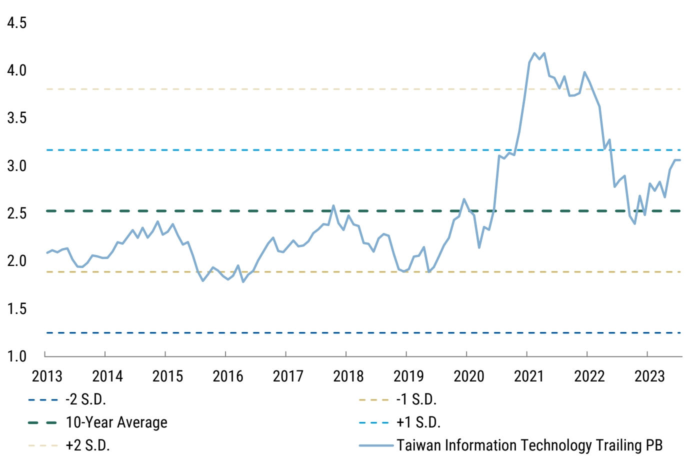
- **Ranking:** Here we downgrade Taiwan Information Technology to EW, and it was ranked #2 in the last publication.
- **Valuations:** Relative valuations stand at 0.7 S.D above 5-year average for trailing P/BV and 0.4 S.D below average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) remains in negative territory while relative ROE and trailing net margins have deteriorated since last publication though better than historical trend.
- **MS bottom-up analyst view:** Our bottom-up analyst score is 10.7, among the highest range in our sector allocation framework though we are turning neutral from the previous OW.

Korea Information Technology

- **Ranking:** Korea Information Technology now ranks #2 in our framework, down from the previous #1, and maintains OW rated.
- **Valuations:** Relative valuations stand at 0.1 S.D above 5-year average for trailing P/BV and 0.6 S.D above average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) turns neutral and stabilizing, and relative ROE and trailing net margins are roughly in line with historical trend.
- **MS bottom-up analyst view:** Our bottom-up analyst score is 13.1, among the highest range in our sector allocation framework and we keep OW rating on Korea in our market allocation process.

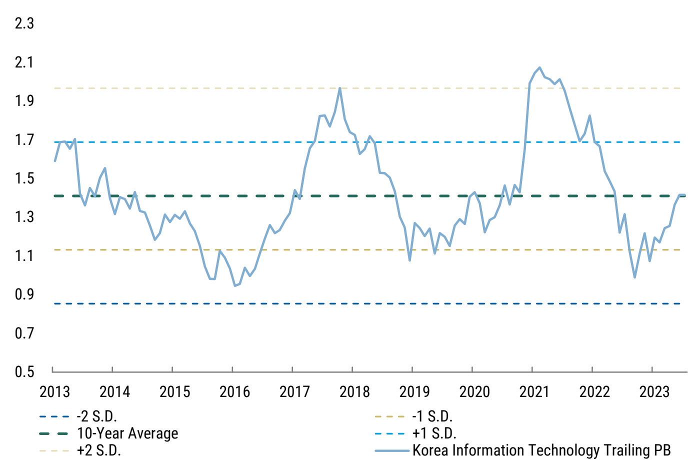
We have been bullish on Taiwan Information Technology but here we are moving back to EW on the back of the sector's outperformance, consistent with our Taiwan downgrade call. Taiwan IT has rebounded by 48% since last October's trough vs. Korea IT's 34%. There have been encouraging signs from the semi space with inventory beginning to wind down and prices recovering, likely driven by the strong AI demand. Similar to market-level color, Korea IT sees more support from valuations while Taiwan much less so.

Exhibit 76: Trailing PBV of Taiwan Information Technology – Trending towards +1 S.D. above 10-year average



Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of July 26, 2023

Exhibit 77: Trailing PBV of Korea Information Technology – Trading at 10-year average



Source: IBES, Datastream, RIMES, Morgan Stanley Research. Data as of July 26, 2023

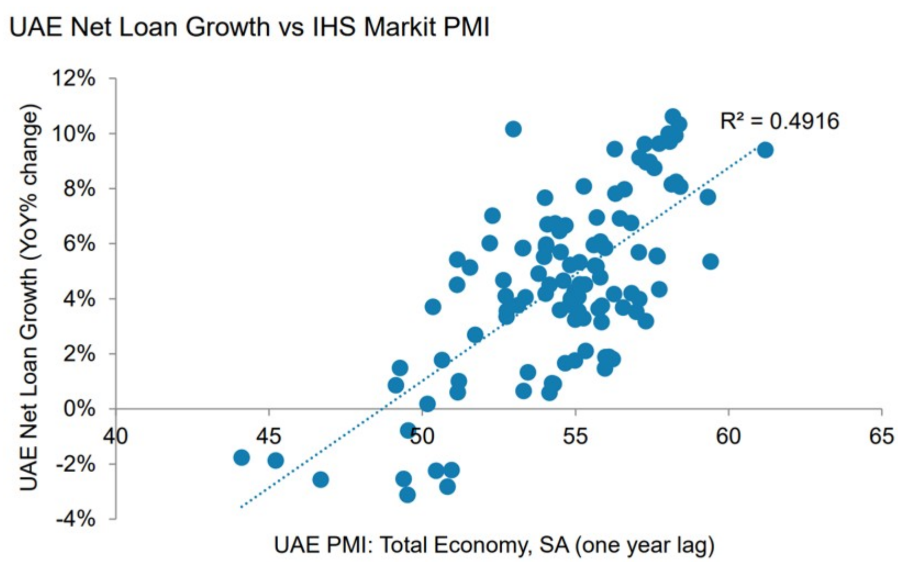
Upgrade UAE Financials with Market Outperformance

Broadening Out

- **Ranking:** UAE Financials is ranked #8 in our framework and OW-rated, upgraded from the previous publication.
- **Valuations:** Relative valuations stand on par with 5- year average for trailing P/BV and 0.6 S.D below average for forward P/E.
- **Earnings/profitability:** Earnings revisions breadth (3MMA) is strong, relative ROE is better than historical trend, while Net Margin is slightly worse.
- **MS bottom-up analyst view:** Our bottom-up analyst score is -1.4, though our EEMEA Equity Strategist Regiane Yamanari is positive on UAE's outlook (see Idiosyncratic Drivers Take Charge for details).

As mentioned in APxJ/EM Market Allocation – Time for Mid-cycle Changes , the strong macro environment in the UAE is supportive of a broadening out outperformance from real estate to financials, given the positive correlation of loan growth and PMI. Currently it's mainly driven by corporate and retail loans while the public sector has seen de-leveraging.

Exhibit 78: UAE loan growth is positively correlated with the total economy PMI index, with a one-year lag



Source: Company data, Haver Analytics, Morgan Stanley EEMEA Equity Strategy Research

Switching Sector Preferences/Dislikes in Australia

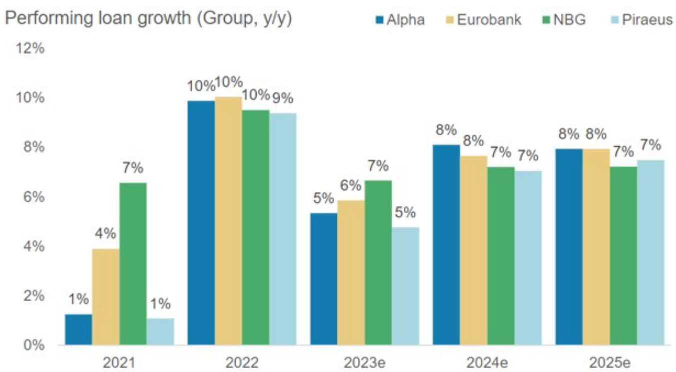
We maintain UW on Australia Consumer Discretionary given pressure from monetary policies starting to bite and the widespread downgrade across many retail categories. Our Chief Australia Equity Strategist Chris Nicol also sees headwinds for Industrial earnings and we move Australia Industrials to UW from EW. Our Australia Financials Team favors insurers versus others within financials given supportive pricing, though an extended RBA pause post a soft CPI and retail sales print eases pressure regarding credit quality. See Australia Equity Strategy – Less Bulk Required for more details.

Favor Greek Banks though not among Top 100 EM Sectors

(by Market Cap)

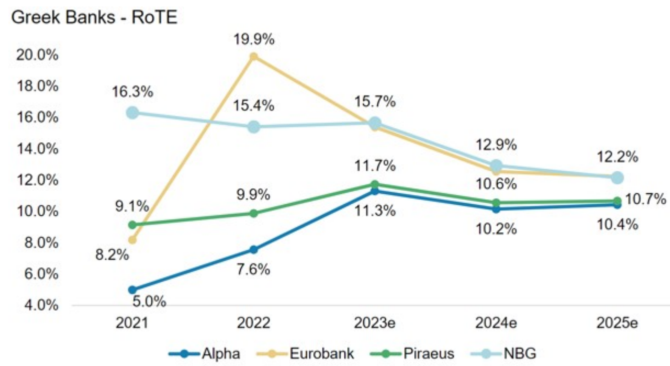
Nida Iqbal continues to expect outperformance for Greek banks on the back of long-term sustainable returns and 12mf P/E has not re-rated materially given improvement in profitability. NIM has been supported by the past ECB hiking cycle and even taking into account the future rate cuts, 2025e NIMs will still be above 2022 levels. A strong macro environment also backs a 7% loan growth CAGR 2022-2025e as well as net fee and commission income. Greek banks offer the best risk-reward skew within the team's coverage. See Greek Banks: Targeting >12% sustainable ROTE in 2025? for more details.

Exhibit 79: EEMEA Banks Team forecasts 6-7% loan growth CAGR in 2022-25 for the Greek banks



Source: Company data, Morgan Stanley EEMEA Banks Research estimates (e). Note: 1) Performing loan growth is excluding senior notes. 2) Eurobank 2023 growth is adjusted for Serbia de-consolidation

Exhibit 80: EEMEA Banks Team expect ROTEs to remain resilient at 10-12% by 2025 following a strong rebound to 11-16% in 2023



Source: Company data, Morgan Stanley EEMEA Banks Research estimates (e)

APxJ, GEM, China/HK and China-A share Focus List Changes

Kristal Ji, Fran Chen, Jonathan Garner, Daniel Blake, Laura Wang

In APxJ - We add Maruti Suzuki India Limited (MSIL IS), Sembcorp (SCI SP), Larsen & Toubro (LT IS) to the focus list. We take profits on Quanta Computer and Titan, while removing Jingsheng Mechanical & Electrical Co.

In GEM - We add Maruti Suzuki India Limited (MSIL IS), Larsen & Toubro (LT IS), Emaar Properties (EMAAR DB) and Piraeus Bank (TPEIR GA) to the focus list while removing Titan, Jingsheng Mechanical & Electrical Co, Quanta Computer and Eclat Textile.

In China/HK - We add Jonjee High-tech (600872.SS) and Kingdee International Software (0268.HK) to the focus list while removing Glodon and Jingsheng Mechanical & Electrical Co.

In China-A - We add Jonjee High-tech (600872.SS) and YTO Express (600233.SS) to the focus list while removing Glodon and Jingsheng Mechanical & Electrical Co.

Exhibit 81: Morgan Stanley APxJ and GEM Focus Lists Changes

	Company Name	Ticker
	APxJ Focus List	
Add	Larsen & Toubro Ltd	LART.NS
Add	Maruti Suzuki India Limited	MRTI.NS
Add	SembCorp Industries Ltd	SCIL.SI
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ
Remove	Quanta Computer Inc.	2382.TW
Remove	Titan Company Ltd	TITN.NS
	GEM Focus List	
Add	Emaar Properties PJSC	EMAR.DU
Add	Larsen & Toubro Ltd	LART.NS
Add	Maruti Suzuki India Limited	MRTI.NS
Add	Piraeus Bank SA	BOPr.AT
Remove	Eclat Textile	1476.TW
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ
Remove	Quanta Computer Inc.	2382.TW
Remove	Titan Company Ltd	TITN.NS
	China/HK Focus List	
Add	Jonjee Hi-Tech	600872.SS
Add	Kingdee International Software Group	0268.HK
Remove	Glodon Co. Ltd.	002410.SZ
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ
	China-A share Focus List	
Add	Jonjee Hi-Tech	600872.SS
Add	YTO Express Group Co Ltd	600233.SS
Remove	Glodon Co. Ltd.	002410.SZ
Remove	Jingsheng Mechanical & Electrical Co	300316.SZ

Focus List Changes

Source: Morgan Stanley Research

APxJ Focus List – Lifting our India and ASEAN Weight

Maruti Suzuki (MRTI.NS) is set to benefit from a higher per-capita income in India as well as market share expansion and improving product mix. Maruti has a good track record of new model launches and price range expansion, and our Indian Autos and Auto Parts analyst Binay Singh expects MSIL's new model cycle with SUV focus to drive market share expansion. The team sees leverage gains, a new SUV-focused model cycle, and gradual pass-through of commodity headwinds driving margin expansion to ~9% by F2025. The Suzuki-Toyota alliance should help set Maruti up for Autos 2.0. Valuations remain fair and Binay expects the multiple to expand given the potential improvement in auto volumes, margins, and market share.

Larsen & Toubro (LART.NS) is a beneficiary of the Indian and broader EM capex cycle, which Girish Achhipalia sees as the best-in-class implementation of our India Industrials upgrade. Beside domestic macro tailwinds, infrastructure prospects from the

Middle East, particularly Saudi Arabia, remain strong. L&T enjoys economies of scale and also compares favorably vs. peers in terms of order inflow growth, diversified order book, improving execution and revenue growth, lower margin volatility, well-managed working capital. L&T's core valuations are trading near long-term average, whereas its EPC peers are trading at ~20% premium to the long-term averages. See Girish's recent note here.

SembCorp (SCIL.SI) is well positioned to ride the wave of Clean Power Adoption and Deflation, and has seen market share gains in South Asia by deploying new clean power projects, and it has been reallocating capital to expanding renewables in China, Vietnam, India and Singapore. Mayank Maheshwari is holding a counter-consensus view that clean power costs will deflate in this decade supporting wider adoption and profitability. The company has benefited from a tighter electricity market but the quality of SCI's returns should be more sustainable and less volatile as the company expands its renewable portfolio and increases its long-term gas supply agreements in its conventional energy portfolio. P/B has inflected to near global peers but the team sees further upside potential on higher ROE and growth rates. For more details see Recharging for Next Turnaround.

Exhibit 82: Asia Pacific ex-Japan Focus List

Company Name	Ticker	Market	Sector
Alibaba Group	BABA.N	China	Consumer Discretionary
Bank Negara Indonesia	BBNI.JK	Indonesia	Financials
Beijing-Shanghai High-Speed Railway	601816.SS	China	Industrials
CSL	CSL.AX	Australia	Health Care
Delta Electronics	2308.TW	Taiwan	Information Technology
Eclat Textile	1476.TW	Taiwan	Consumer Discretionary
Evolution Mining	EVN.AX	Australia	Materials
Focus Media Information Technology	002027.SZ	China	Communication Services
Hindustan Aeronautics	HIAE.NS	India	Industrials
ICICI Bank	ICBK.NS	India	Financials
Kia Corp.	000270.KS	S. Korea	Consumer Discretionary
Larsen & Toubro Ltd	LART.NS	India	Industrials
Maruti Suzuki India Limited	MRTI.NS	India	Consumer Discretionary
NARI Technology	600406.SS	China	Industrials
Samsung Electro-Mechanics	009150.KS	S. Korea	Information Technology
Samsung Electronics	005930.KS	S. Korea	Information Technology
SembCorp Industries Ltd	SCIL.SI	Singapore	Utilities
SK hynix	000660.KS	S. Korea	Information Technology
TSMC	2330.TW	Taiwan	Information Technology
Zijin Mining Group	2899.HK	China	Materials

Source: Morgan Stanley Research.

GEM Focus List – Adding Two More EEMEA Stocks, alongside Dino Polska

Piraeus Bank (BOPr.AT)is added to our GEM focus list as a play on a still-recovering Greek economy with potential for a sovereign rating upgrade to investment grade. Rate hikes have been supportive for 2023e margins and progress on NPE reduction encouraging: Piraeus reached a single-digit NPE ratio of 6.8% at 2022 and Nida Iqbal forecasts a further reduction to 5.4% by 2023 and ~4% by 2025. Capital levels are also improving, as Piraeus has a fully loaded capital ratio of 16.4% (2022), up from 13.4% in F2021, with management targeting >17.3% by year-end F2023. Valuations remain cheap despite the recent rally. See Greek Banks: Targeting >12% sustainable ROTE in 2025? for more details.

Consistent with our OW UAE call in Stay bullish UAE with strong property sales momentum , Emaar Properties (EMAR.DU) provides investors with direct exposure to Dubai's booming real estate market. EP is the largest real estate player in Dubai, providing investors with exposure to Dubai's residential, retail, entertainment and hospitality real estate market. Nida Iqbal is bullish on the UAE's property sector in general and EP trades at a large discount to NAV (62% discount as of 1Q23), despite its 1) 80% ownership of ED, a strong cash flow generating business, 2) diversified revenue base, and 3) robust performance and outlook of its top-notch portfolio assets. EP trades at 8.2x 2024e P/E on the team's forecasts, in-line with the historical average of ~8x. UAE Real Estate: Key drivers remain supportive provides more insights.

Exhibit 83: Global Emerging Market Focus List

Company Name	Ticker	Market	Sector
Alibaba Group Holding	BABA.N	China	Consumer Discretionary
Bank Negara Indonesia	BBNI.JK	Indonesia	Financials
Beijing-Shanghai High-Speed Railway	601816.SS	China	Industrials
Delta Electronics Inc.	2308.TW	Taiwan	Information Technology
Dino Polska SA	DNP.WA	Poland	Consumer Staples
Emaar Properties PJSC	EMAR.DU	United Arab Emirates	Real Estate
Focus Media Information Technology	002027.SZ	China	Communication Services
Hindustan Aeronautics Ltd	HIAE.NS	India	Industrials
ICICI Bank	ICBK.NS	India	Financials
Kia Corp.	000270.KS	S. Korea	Consumer Discretionary
Larsen & Toubro Ltd	LART.NS	India	Industrials
Maruti Suzuki India Limited	MRTI.NS	India	Consumer Discretionary
NARI Technology	600406.SS	China	Industrials
Piraeus Bank SA	BOPr.AT	Greece	Financials
Samsung Electro-Mechanics	009150.KS	S. Korea	Information Technology
Samsung Electronics	005930.KS	S. Korea	Information Technology
SK hynix	000660.KS	S. Korea	Information Technology
TSMC	2330.TW	Taiwan	Information Technology
VESTA	VESTA.MX	Mexico	Real Estate
Zijin Mining Group	2899.HK	China	Materials

Source: Morgan Stanley Research

China Focus List – Shifting preferences

Adding Jonjee Hi-Tech (600872.SS) to A-share thematic focus list and removing Jingsheng Mechanical: Carol Xia, MS China Consumer analyst, expects structurally higher growth outlook for Jonjee post its successful board restructure on 24 July. We expect Jonjee to take the following steps following its board restructure within the next three years: introduction of professional management, more progressive financial target, incentive schemes and strategic investors, as well as potential settlement on previous litigations and disposal of non-condiment businesses. We expect Jonjee to deliver 14% and 20% sales and net profit CAGR in 2023-25e, respectively, up from 5% and 0% for 2021-23e. Our price target of Rmb45 is based on 7.8% WACC and 3% terminal growth, implying 48x 2023e and 40x 2024e P/E, 1SD higher than its five-year average of 36x NTM P/E on a structurally higher growth and market share gain outlook. See note here.

Adding Kingdee International (0268.HK) to A-share thematic focus list and removing Glodon (002410.SZ): Liu Yang, MS China Software analyst, expects Kingdee to deliver healthy top line and ARR growth in 2023 despite challenging macro conditions. Ongoing software localization initiatives will be a multiyear trend for Kingdee to gain shares at the expense of foreign players in high-end SOE markets; Kingdee's competitive cloud product offerings may allow it to outperform domestic peers. The company has also turned stringent on headcount control since 2022 and Yang expects its product targeting SMBs will turn profitable this year, although no clear breakeven targets on corporate level are provided. Kingdee stock is now trading at 5.6x one-year forward EV/sales, lower than the average level of 8.9x in the past five years. See note here.

Exhibit 84: China/HK Focus List

Company Name	Ticker	Market	Sector
Alibaba Group	BABA.N	China	Consumer Discretionary
ANTA Sports Products	2020.HK	China	Consumer Discretionary
Beijing-Shanghai High-Speed Railway	601816.SS	China	Industrials
China Resources Sanjiu Medical & Pharma	000999.SZ	China	Health Care
Focus Media Information Technology	002027.SZ	China	Communication Services
HKT Trust and HKT Ltd.	6823.HK	Hong Kong	Communication Services
Hua Hong Semiconductor	1347.HK	China	Information Technology
Jonjee Hi-Tech	600872.SS	China	Consumer Staples
Kingdee International Software Group	0268.HK	China	Information Technology
Meituan	3690.HK	China	Consumer Discretionary
NARI Technology	600406.SS	China	Industrials
Samsonite International	1910.HK	Hong Kong	Consumer Discretionary
Yum China	YUMC.N	China	Consumer Discretionary
Zijin Mining Group	2899.HK	China	Materials
ZTO Express	ZTO.N	China	Industrials

Source: Morgan Stanley Research

China-A share Focus List – Shifting preferences

Adding YTO Express (600233.SS) to A-share thematic focus list and removing Jingsheng Mechanical (300316.SZ): Fan Qianlei, MS HK/China transportation analyst, thinks China express segment could have two leading players, and at the current stage ZTO and YTO's leading positions are difficult to be challenged. ZTO and YTO are the only players running with healthy free cash flow and strong net cash position out of the Tongda players, and have established relative advantages vs. peers by achieving 90% of the profit from the group. Qianlei sees room for higher unit profit and volume for YTO. Risk reward turns favorable for YTO after it has underperformed the Shanghai Composite Index by 28ppt YTD, pricing in risks from normalized air freight business and soft sentiment due to intensified price-based competition. YTO is currently trading at 10.6x 2024 P/E, which is attractive. Short-term profit growth hiccups could also provide good entry points for YTO. See note here.

Adding Jonjee Hi-Tech (600872.SS) to A-share thematic focus list and removing Glodon (002410,SZ): Carol Xia, MS China Consumer analyst, expects structurally higher growth outlook for Jonjee post its successful board restructure on July 24. We expect Jonjee to take the following steps following its board restructure within the next three years: introduction of professional management, more progressive financial target, incentive schemes and strategic investors, as well as potential settlement on previous litigations and disposal of non-condiment businesses. We expect Jonjee to deliver 14% and 20% sales and net profit CAGR in 2023-25e, respectively, up from 5% and 0% for 2021-23e. Our price target of Rmb45 is based on 7.8% WACC and 3% terminal growth, implying 48x 2023e and 40x 2024e P/E, 1SD higher than its five-year average of 36x NTM P/E on a structurally higher growth and market share gain outlook. See note here.

Exhibit 85: China-A share Focus List

Company Name	Ticker	Market	Sector
Beijing-Shanghai High-Speed Railway	601816.SS	China	Industrials
China Resources Sanjiu Medical & Pharma	000999.SZ	China	Health Care
Focus Media Information Technology	002027.SZ	China	Communication Services
Hundsun Technologies Inc.	600570.SS	China	Information Technology
Jonjee Hi-Tech	600872.SS	China	Consumer Staples
Kweichow Moutai	600519.SS	China	Consumer Staples
NARI Technology	600406.SS	China	Industrials
Sino Wealth Electronic	300327.SZ	China	Information Technology
YTO Express Group Co Ltd	600233.SS	China	Industrials
Zijin Mining Group	601899.SS	China	Materials

Source: Morgan Stanley Research

Exhibit86: Performance of Focus Lists

Name	Performance, US $			
	12 Months		1 Month	
	Absolute	Relative	Absolute	Relative
APxJ Focus List	15.7%	8.7%	8.6%	2.6%
GEM Focus List	23.1%	14.2%	8.5%	2.3%
China/HK Focus List	-12.2%	-16.2%	4.2%	-3.4%
China A-share Thematic Focus List	-10.5%	-15.7%	1.1%	-3.6%

Source: Morgan Stanley Research. APxJ focus list performance is relative to MSCI APxJ index, GEM focus list performance is relative to MSCI EM Index,China/HK focus list performance is relative to MSCI China Index and China A-share Thematic focus list performance is relative to Shanghai Stock Exchange Composite Index. Past performance is no guarantee of future results. Data is total return based and excludes brokerage commissions. Data as of August 1, 2023.

Exhibit 87: Morgan Stanley Asia Pacific ex Japan Focus List - Valuations and Target Prices

Company Name	Ticker	Rating	Market	GICS Sector	Mkt Cap (US$bn)	Date Added	Total US$ Returns Since Added	12M Total Return Perf.		Last Price	Upside to Target Price	MS P/E 2023E	MS P/E 2024E	MS P/Book 2023E	MS ROE 2023E	MS Div. 2023E	MS P/Sales 2023E	Analyst
Alibaba Group	BABA.N	OW	China	Consumer Discretionary	264.2	9-Jan-23	-11.3%	10.0%		100.1	49.9%	17.1x	13.0x	1.6x	9.3%	0.0%	2.0x	Yu, Gary
Bank Negara Indonesia	BBNI.JK	OW	Indonesia	Financials	10.7	15-Aug-22	3.3%	12.0%		8,675.0	41.1%	7.8x	7.2x	1.1x	14.1%	3.8%	2.5x	Jusman, Selvie
Beijing-Shanghai High-Speed R	601816.SS	OW	China	Industrials	38.0	4-Jun-23	-0.7%	14.5%		5.5	37.4%	22.3x	18.1x	1.4x	6.4%	2.2%	6.5x	Fan, Qianlei
CSL	CSL.AX	OW	Australia	Health Care	86.6	11-May-22	-6.6%	-13.2%		269.3	20.7%	31.2x	26.3x	5.1x	16.4%	1.9%	6.1x	Laaman, Sean
Delta Electronics	2308.TW	OW	Taiwan	Information Technology	30.9	4-Oct-22	49.3%	41.0%	✓	372.5	20.8%	28.0x	23.8x	3.7x	13.2%	2.1%	2.3x	Shih, Sharon
Eclat Textile	1476.TW	OW	Taiwan	Consumer Discretionary	4.7	20-Mar-23	19.2%	29.6%	✓	541.0	16.5%	24.0x	18.0x	6.8x	28.1%	3.1%	4.1x	Cheng, Terence
Evolution Mining	EVN.AX	OW	Australia	Materials	4.3	20-Mar-23	31.7%	37.2%	✓	3.8	2.9%	14.9x	10.5x	1.9x	12.6%	1.5%	2.5x	Anand, Rahul
Focus Media Information Tech	002027.SZ	OW	China	Communication Services	15.2	20-Mar-23	16.1%	29.3%	✓	7.5	10.2%	24.3x	19.2x	6.3x	25.7%	2.2%	8.9x	Xu, Rebecca
Hindustan Aeronautics	HIAE.NS	OW	India	Industrials	15.7	9-Sep-22	56.0%	86.3%	✓	3,865.9	-10.2%	25.2x	24.4x	5.0x	19.7%	1.3%	4.5x	Achhipalia, Girish
ICICI Bank	ICBK.NS	OW	India	Financials	84.5	11-May-22	31.5%	16.7%	✓	994.6	35.7%	19.3x	16.6x	3.1x	16.0%	0.8%	7.5x	Kariwala, Sumeet
Kia Corp.	000270.KS	OW	S. Korea	Consumer Discretionary	26.5	2-Mar-23	9.7%	11.2%	✓	83,300.0	26.1%	3.9x	4.0x	0.7x	18.6%	4.8%	0.4x	Shin, Young Suk
Larsen & Toubro Ltd	LART.NS	OW	India	Industrials	45.6	2-Aug-23	NA	41.2%		2,666.7	6.9%	29.7x	23.8x	4.0x	13.5%	2.0%	1.8x	Achhipalia, Girish
Maruti Suzuki India Limited	MRTI.NS	OW	India	Consumer Discretionary	35.7	2-Aug-23	NA	4.4%		9,716.8	14.9%	28.4x	24.3x	4.5x	16.0%	1.6%	2.2x	Singh, Binay
NARI Technology	600406.SS	OW	China	Industrials	26.9	15-Sep-22	15.6%	-5.3%	✓	24.0	16.0%	26.1x	22.6x	4.1x	15.6%	1.4%	3.7x	Hou, Eva
Samsung Electro-Mechanics	009150.KS	OW	S. Korea	Information Technology	9.3	5-Dec-22	11.9%	10.9%	✓	153,200.0	17.5%	15.0x	10.4x	1.5x	9.8%	2.7%	1.3x	Kim, Shawn
Samsung Electronics	005930.KS	OW	S. Korea	Information Technology	334.3	4-Oct-22	45.6%	20.7%	✓	71,100.0	33.6%	37.5x	15.0x	1.2x	3.2%	0.4%	1.7x	Kim, Shawn
SembCorp Industries Ltd	SCIL.SI	OW	Singapore	Utilities	7.6	2-Aug-23	NA	99.7%		5.6	18.3%	11.7x	12.7x	2.2x	18.4%	2.3%	1.7x	Maheshwari, Mayank
SK hynix	000660.KS	OW	S. Korea	Information Technology	71.6	4-Oct-22	62.7%	33.1%	✓	125,100.0	35.9%	-12.1x	22.6x	1.7x	-13.9%	0.8%	2.9x	Kim, Shawn
TSMC	2330.TW	OW	Taiwan	Information Technology	469.2	2-Jun-22	0.6%	9.4%		567.0	26.6%	18.9x	15.6x	4.3x	22.6%	2.6%	7.0x	Chan, Charlie
Zijin Mining Group	2899.HK	OW	China	Materials	47.4	28-Nov-22	40.0%	50.7%	✓	13.3	37.4%	12.6x	11.7x	2.9x	23.3%	1.6%	1.1x	Chan, Sara

Source: ModelWare, RIMES, Factset, Morgan Stanley Research. Note: OW = Overweight. Data as of August 1, 2023. The US$ total return of the Morgan Stanley Asia Pacific ex Japan Equity Strategy Focus List since inception on April 23, 2009 is 420.8% (MSCI APxJ Index total return is 204.0%). This assumes the Focus List constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Results shown represent total absolute return (including dividends) and exclude brokerage commissions. These figures are not audited. Past performance is no guarantee of future results. (X) indicates stock has outperformed MSCI Asia Pacific ex Japan Index since inception in the Focus List.

Exhibit 88: Morgan Stanley GEM Focus List - Valuations and Target Prices

Company Name	Ticker	Rating	Market	GICS Sector	Mkt Cap (US$bn)	Date Added	Total US$ Returns Since Added	12M Total Return Perf.		Last Price	Upside to Target Price	MS P/E 2023E	MS P/E 2024E	MS P/Book 2023E	MS ROE 2023E	MS Div. Yld 2023E	MS P/Sales 2023E	Analyst
Alibaba Group Holding	BABA.N	OW	China	Consumer Discretionary	264.2	9-Jan-23	-11.3%	10.0%		100.1	49.9%	17.1x	13.0x	1.6x	9.3%	0.0%	2.0x	Yu, Gary
Bank Negara Indonesia	BBNI.JK	OW	Indonesia	Financials	10.7	15-Aug-22	3.3%	12.0%		8,675.0	41.1%	7.8x	7.2x	1.1x	14.1%	3.8%	2.5x	Jusman, Selvie
Beijing-Shanghai High-Speed Railway	601816.SS	OW	China	Industrials	38.0	4-Jun-23	-0.7%	14.5%		5.5	37.4%	22.3x	18.1x	1.4x	6.4%	2.2%	6.5x	Fan, Qianlei
Delta Electronics Inc.	2308.TW	OW	Taiwan	Information Technology	30.9	4-Oct-22	49.3%	41.0%	✓	372.5	20.8%	28.0x	23.8x	3.7x	13.2%	2.1%	2.3x	Shih, Sharon
Dino Polska SA	DNP.WA	OW	Poland	Consumer Staples	11.0	20-Mar-23	18.8%	39.3%	✓	449.1	17.6%	30.2x	23.9x	8.7x	28.8%	0.0%	1.7x	Herbst, Henrik
Emaar Properties PJSC	EMAR.DU	OW	United Arab Emirates	Real Estate	16.9	2-Aug-23	NA	32.2%		7.0	12.7%	7.2x	8.7x	0.8x	11.5%	2.9%	2.5x	Iqbal, Nida
Focus Media Information Technology	002027.SZ	OW	China	Communication Services	15.2	20-Mar-23	16.1%	29.3%	✓	7.5	10.2%	24.3x	19.2x	6.3x	25.7%	2.2%	8.9x	Xu, Rebecca
Hindustan Aeronautics Ltd	HIAE.NS	OW	India	Industrials	15.7	9-Sep-22	56.0%	86.3%	✓	3,865.9	-10.2%	25.2x	24.4x	5.0x	19.7%	1.3%	4.5x	Achhipalia, Girish
ICICI Bank	ICBK.NS	OW	India	Financials	84.5	15-Sep-22	5.0%	16.7%		994.6	35.7%	19.3x	16.6x	3.1x	16.0%	0.8%	7.5x	Kariwala, Sumeet
Kia Corp.	000270.KS	OW	S. Korea	Consumer Discretionary	26.5	2-Mar-23	9.7%	11.2%	✓	83,300.0	26.1%	3.9x	4.0x	0.7x	18.6%	4.8%	0.4x	Shin, Young Suk
Larsen & Toubro Ltd	LART.NS	OW	India	Industrials	45.6	2-Aug-23	NA	41.2%		2,666.7	6.9%	29.7x	23.8x	4.0x	13.5%	2.0%	1.8x	Achhipalia, Girish
Maruti Suzuki India Limited	MRTI.NS	OW	India	Consumer Discretionary	35.7	2-Aug-23	NA	4.4%		9,716.8	14.9%	28.4x	24.3x	4.5x	16.0%	1.6%	2.2x	Singh, Binay
NARI Technology	600406.SS	OW	China	Industrials	26.9	15-Sep-22	15.6%	-5.3%	✓	24.0	16.0%	26.1x	22.6x	4.1x	15.6%	1.4%	3.7x	Hou, Eva
Piraeus Bank SA	BOPr.AT	OW	Greece	Financials	4.8	2-Aug-23	NA	301.6%		3.5	21.7%	6.4x	6.4x	0.7x	10.5%	1.6%	1.9x	Iqbal, Nida
Samsung Electro-Mechanics	009150.KS	OW	S. Korea	Information Technology	9.3	5-Dec-22	11.9%	10.9%	✓	153,200.0	17.5%	15.0x	10.4x	1.5x	9.8%	2.7%	1.3x	Kim, Shawn
Samsung Electronics	005930.KS	OW	S. Korea	Information Technology	334.3	4-Oct-22	45.6%	20.7%	✓	71,100.0	33.6%	37.5x	15.0x	1.2x	3.2%	0.4%	1.7x	Kim, Shawn
SK hynix	000660.KS	OW	S. Korea	Information Technology	71.6	4-Oct-22	62.7%	33.1%	✓	125,100.0	35.9%	-12.1x	22.6x	1.7x	-13.9%	0.8%	2.9x	Kim, Shawn
TSMC	2330.TW	OW	Taiwan	Information Technology	469.2	2-Jun-22	0.6%	9.4%		567.0	26.6%	18.9x	15.6x	4.3x	22.6%	2.6%	7.0x	Chan, Charlie
VESTA	VESTA.MX	OW	Mexico	Real Estate	2.5	4-Jun-23	10.0%	88.4%	✓	60.2	16.4%	29.3x	23.9x	1.4x	4.7%	0.5%	11.6x	Lippmann, Nikolaj
Zijin Mining Group	2899.HK	OW	China	Materials	47.4	28-Nov-22	40.0%	50.7%	✓	13.3	37.4%	12.6x	11.7x	2.9x	23.3%	1.6%	1.1x	Chan, Sara

Source: ModelWare, RIMES, Factset, Morgan Stanley Research. Note: OW = Overweight. Data as of August 1, 2023. The US$ total return of the Morgan Stanley EM Equity Strategy Focus List since inception on December 11, 2006 is 206.7% (MSCI EM Index total return is 87.0%). This assumes the Focus List constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Results shown represent total absolute return (including dividends) and exclude brokerage commissions. These figures are not audited. Past performance is no guarantee of future results. (X) indicates stock has outperformed MSCI EM Index since inclusion in the Focus List.

Exhibit 89: Morgan Stanley China/HK Focus List - Valuations and Target Prices

Company Name	Ticker	Rating	Market	GICS Sector	Mkt Cap (US$bn)	Date Added	Total US$ Returns Since Added	12M Total Return Perf.		Last Price	Upside to Target Price	MS P/E 2023E	MS P/E 2024E	MS P/Book 2023E	MS ROE 2023E	MS Div. Yld 2023E	MS P/Sales 2023E	Analyst
Alibaba Group	BABA.N	OW	China	Consumer Discretionary	264.2	9-Jan-23	-11.3%	10.0%		100.1	49.9%	17.1x	13.0x	1.6x	9.3%	0.0%	2.0x	Yu, Gary
ANTA Sports Products	2020.HK	OW	China	Consumer Discretionary	32.0	5-Dec-22	-8.9%	5.1%		89.3	51.2%	22.4x	18.2x	5.6x	25.1%	2.3%	3.5x	Wei, Dustin
Beijing-Shanghai High-Speed Railway	601816.SS	OW	China	Industrials	38.0	4-Jun-23	-0.7%	14.5%		5.5	37.4%	22.3x	18.1x	1.4x	6.4%	2.2%	6.5x	Fan, Qianlei
China Resources Sanjiu Medical & Pharma	000999.SZ	OW	China	Health Care	6.8	11-May-23	-19.5%	32.6%		49.9	50.2%	16.5x	14.1x	2.6x	15.8%	2.0%	2.3x	Tam, Laurence
Focus Media Information Technology	002027.SZ	OW	China	Communication Services	15.2	20-Mar-23	16.1%	29.3%	✓	7.5	10.2%	24.3x	19.2x	6.3x	25.7%	2.2%	8.9x	Xu, Rebecca
HKT Trust and HKT Ltd.	6823.HK	OW	Hong Kong	Communication Services	8.9	24-Mar-21	-0.2%	-9.2%	✓	9.2	31.1%	14.3x	12.7x	2.0x	13.6%	8.4%	2.0x	Huang, Andy
Hua Hong Semiconductor	1347.HK	OW	China	Information Technology	4.4	14-Nov-22	1.3%	14.0%		26.1	37.9%	17.6x	27.3x	1.4x	8.2%	2.6%	1.7x	Wu, Ray
Jonjee Hi-Tech	600872.SS	OW	China	Consumer Staples	3.8	2-Aug-23	NA	-5.0%		34.9	28.8%	37.6x	30.7x	7.3x	19.5%	0.0%	4.8x	Xia, Carol
Kingdee International Software Group	0268.HK	OW	China	Information Technology	5.9	2-Aug-23	NA	-20.5%		13.2	9.7%	-140.4x	-444.2x	6.0x	-4.3%	0.0%	7.1x	Liu, Yang
Meituan	3690.HK	OW	China	Consumer Discretionary	112.1	7-Jun-22	-26.4%	-18.6%		145.5	23.7%	50.8x	28.2x	5.8x	11.4%	0.0%	2.9x	Yu, Gary
NARI Technology	600406.SS	OW	China	Industrials	26.9	13-Jun-19	142.8%	-5.3%	✓	24.0	16.0%	26.1x	22.6x	4.1x	15.6%	1.4%	3.7x	Hou, Eva
Samsonite International	1910.HK	OW	Hong Kong	Consumer Discretionary	4.2	14-Nov-22	17.4%	36.9%		22.8	36.8%	13.3x	10.6x	3.2x	23.8%	0.0%	1.2x	Wei, Dustin
Yum China	YUMC.N	OW	China	Consumer Discretionary	24.1	14-Nov-22	9.4%	22.5%		57.4	32.5%	26.1x	22.7x	3.5x	13.4%	1.1%	2.2x	Lou, Lillian
Zijin Mining Group	2899.HK	OW	China	Materials	47.4	14-Nov-22	35.4%	50.7%	✓	13.3	37.4%	12.6x	11.7x	2.9x	23.3%	1.6%	1.1x	Chan, Sara
ZTO Express	ZTO.N	OW	China	Industrials	22.6	8-Mar-23	6.6%	8.2%	✓	26.9	54.2%	17.5x	14.0x	2.6x	14.6%	1.7%	3.9x	Fan, Qianlei

Source: OW = Overweight. ModelWare, RIMES, Factset, Morgan Stanley Research. Data as of August 1 2023. The US$ total return of the Morgan Stanley China/HK Equity Strategy Focus List since inception on September 3, 2014 is 34.1% (MSCI China Index total return of 16.9%). This assumes the Focus List constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Results shown represent total absolute return (including dividends) and exclude brokerage commissions. These figures are not audited. Past performance is no guarantee of future results. (X) indicates stock has outperformed MSCI China Index since inclusion in the Focus List.

Exhibit 90: Morgan Stanley China-A share Focus List - Valuations and Target Prices

Company Name	Ticker	Rating	Market	GICS Sector	Mkt Cap (US$bn)	Date Added	Total US$ Returns Since Added	12M Total Return Perf.		Last Price	Upside to Target Price	MS P/E 2023E	MS P/E 2024E	MS P/Book 2023E	MS ROE 2023E	MS Div. Yld 2023E	MS P/Sales 2023E	Analyst
Beijing-Shanghai High-Speed Railway	601816.SS	OW	China	Industrials	38.0	11-May-23	-3.3%	14.5%		5.5	37.4%	22.3x	18.1x	1.4x	6.4%	2.2%	6.5x	Fan, Qianlei
China Resources Sanjiu Medical & Pharma	000999.SZ	OW	China	Health Care	6.8	10-Jun-22	16.4%	32.6%	✓	49.9	50.2%	16.5x	14.1x	2.6x	15.8%	2.0%	2.3x	Tam, Laurence
Focus Media Information Technology	002027.SZ	OW	China	Communication Services	15.2	8-Mar-23	19.6%	29.3%	✓	7.5	10.2%	24.3x	19.2x	6.3x	25.7%	2.2%	8.9x	Xu, Rebecca
Hundsun Technologies Inc.	600570.SS	OW	China	Information Technology	10.8	8-Mar-23	-11.1%	19.0%		40.8	47.0%	51.2x	37.6x	9.5x	18.5%	0.2%	10.0x	Liu, Yang
Jonjee Hi-Tech	600872.SS	OW	China	Consumer Staples	3.8	2-Aug-23	NA	-5.0%		34.9	28.8%	37.6x	30.7x	7.3x	19.5%	0.0%	4.8x	Xia, Carol
Kweichow Moutai	600519.SS	OW	China	Consumer Staples	331.9	13-Jun-19	115.9%	-3.2%	✓	1889.0	10.6%	32.7x	27.4x	10.0x	30.6%	1.4%	16.7x	Lou, Lillian
NARI Technology	600406.SS	OW	China	Industrials	27.0	13-Jun-19	142.8%	-5.3%	✓	24.0	16.0%	26.1x	22.6x	4.1x	15.6%	1.4%	3.7x	Hou, Eva
Sino Wealth Electronic	300327.SZ	OW	China	Information Technology	1.4	5-Aug-21	-53.5%	-38.3%		28.7	29.3%	36.5x	25.5x	6.1x	16.8%	1.3%	6.5x	Yen, Daniel
YTO Express Group Co Ltd	600233.SS	OW	China	Industrials	7.6	2-Aug-23	NA	-24.4%		15.8	16.8%	12.6x	10.6x	1.8x	14.4%	2.0%	0.9x	Fan, Qianlei
Zijin Mining Group	601899.SS	OW	China	Materials	47.4	28-Nov-22	39.2%	41.5%	✓	13.1	26.4%	13.5x	12.4x	3.1x	23.3%	1.5%	1.1x	Chan, Sara

Source: MSCI, RIMES, Morgan Stanley Research. Data as of August 1, 2023. The CNY total return of the selected stocks in the A-share thematic list since inception on February 18, 2016, is +136.6% (Shanghai Stock Exchange Composite Index total return +382%). This assumes the group of selected stocks constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Results shown represent total absolute returns (including dividends) and exclude brokerage commissions. These figures are not audited. Past performance is no guarantee of future results. (X) indicates stock has outperformed Shanghai Composite Index since inclusion in the Focus List.

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(as of July 31, 2023)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1347	37%	276	43%	20%	609	39%
Equal-weight/Hold	1659	46%	294	46%	18%	717	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	604	17%	69	11%	11%	227	15%
Total	3,613		639			1554	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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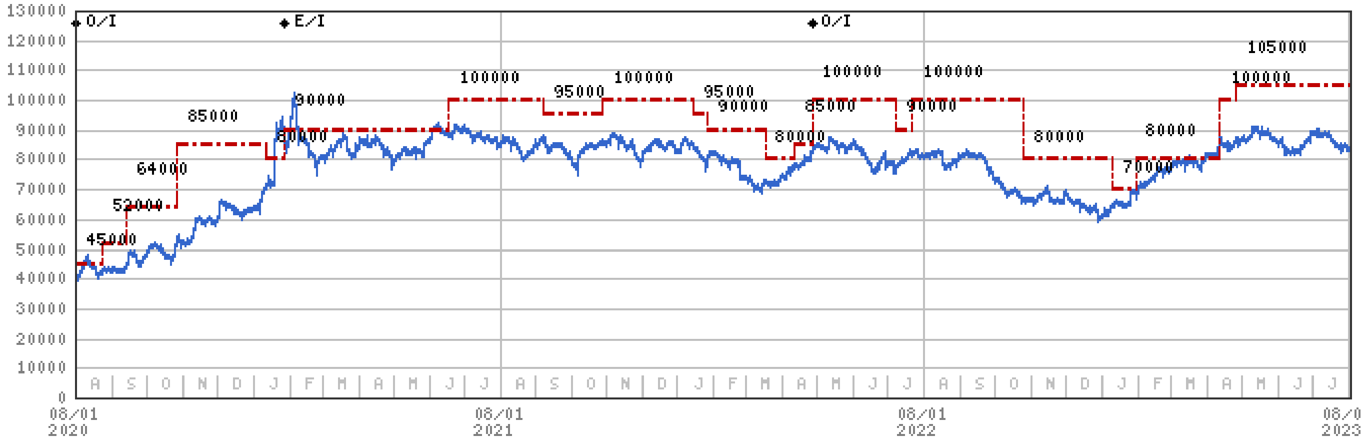
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Kia Corp. (000270.KS) - As of 8/1/23 in KRW
Industry : S. Korea Autos & Shared Mobility



Stock Rating History: 8/1/18 : E/I; 1/9/20 : U/I; 3/26/20 : E/I; 6/2/20 : O/I; 1/28/21 : E/I; 4/26/22 : O/I

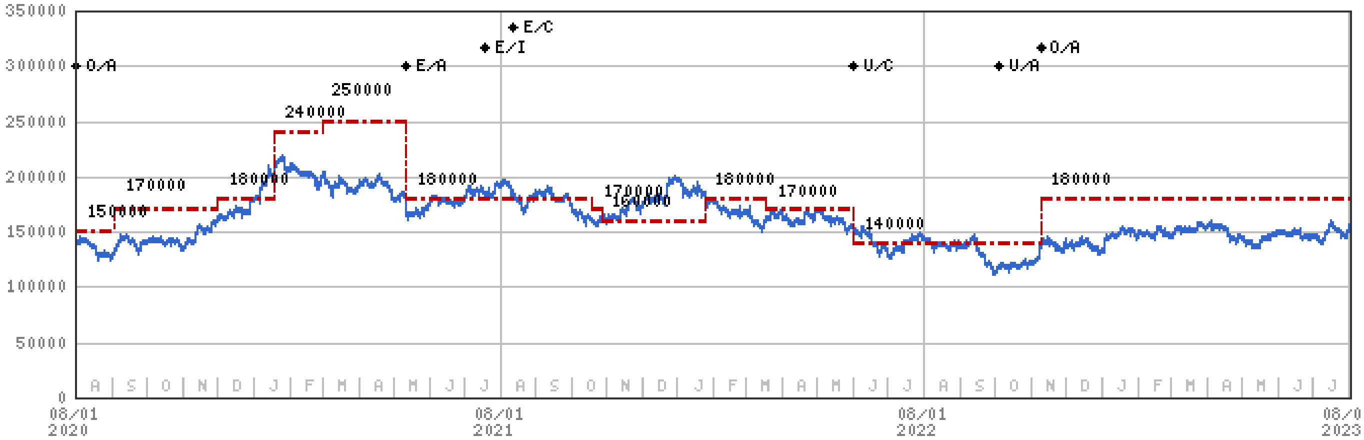
Price Target History: 1/26/18 : 30000; 10/11/18 : 35000; 10/26/18 : 31000; 1/9/19 : 34000; 4/9/19 : 37000; 4/25/19 : 40000; 10/24/19 : 45000; 1/9/20 : 34000; 3/9/20 : 32000; 3/26/20 : 29000; 4/8/20 : 28000; 6/2/20 : 40000; 7/24/20 : 45000; 8/24/20 : 52000; 9/14/20 : 64000; 10/27/20 : 85000; 1/12/21 : 80000; 1/28/21 : 90000; 6/18/21 : 100000; 9/7/21 : 95000; 10/28/21 : 100000; 1/14/22 : 95000; 1/26/22 : 90000; 3/17/22 : 80000; 4/11/22 : 85000; 4/26/22 : 100000; 7/8/22 : 90000; 7/22/22 : 100000; 10/25/22 : 80000; 1/10/23 : 70000; 1/30/23 : 80000; 4/12/23 : 100000; 4/26/23 : 105000

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Samsung Electro-Mechanics (009150.KS) - As of 8/1/23 in KRW
Industry : S. Korea Technology



Stock Rating History: 8/1/18 : O/C; 11/21/18 : E/C; 7/30/19 : E/I; 10/6/19 : O/I; 11/18/19 : O/A; 5/12/21 : E/A; 7/19/21 : E/I; 8/12/21 : E/C; 6/1/22 : U/C; 10/4/22 : U/A; 11/9/22 : O/A

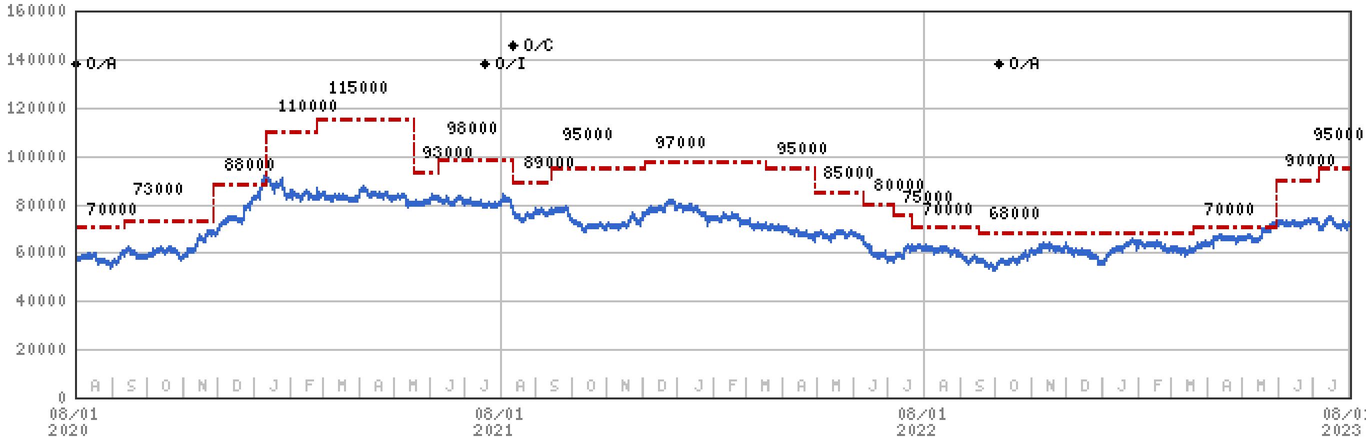
Price Target History: 5/20/18 : 170000; 8/1/18 : 200000; 11/1/18 : 170000; 11/21/18 : 115000; 12/17/18 : 109000; 1/22/19 : 100000; 4/16/19 : 115000; 7/4/19 : 100000; 7/24/19 : 92000; 10/6/19 : 140000; 1/29/20 : 150000; 2/20/20 : 165000; 3/19/20 : 130000; 4/1/20 : 120000; 5/28/20 : 150000; 9/3/20 : 170000; 12/1/20 : 180000; 1/19/21 : 240000; 3/1/21 : 250000; 5/12/21 : 180000; 10/19/21 : 170000; 10/27/21 : 160000; 1/24/22 : 180000; 3/18/22 : 170000; 6/1/22 : 140000; 11/9/22 : 180000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Samsung Electronics (005930.KS) - As of 8/1/23 in KRW
Industry : S. Korea Technology



Stock Rating History: 8/1/18 : E/C; 7/30/19 : E/I; 11/18/19 : O/A; 7/19/21 : O/I; 8/12/21 : O/C; 10/4/22 : O/A

Price Target History: 6/28/18 : 54000; 11/1/18 : 50000; 11/21/18 : 47000; 12/14/18 : 42000; 1/15/19 : 40000; 7/30/19 : 53000; 8/16/19 : 48000; 9/10/19 : 50000; 11/18/19 : 60000; 1/14/20 : 72000; 2/26/20 : 75000; 3/19/20 : 68000; 4/29/20 : 65000; 7/12/20 : 70000; 9/11/20 : 73000; 11/27/20 : 88000; 1/12/21 : 110000; 2/25/21 : 115000; 5/18/21 : 93000; 6/8/21 : 98000; 8/12/21 : 89000; 9/15/21 : 95000; 12/3/21 : 97000; 3/18/22 : 95000; 4/28/22 : 85000; 6/10/22 : 80000; 7/5/22 : 75000; 7/22/22 : 70000; 9/17/22 : 68000; 3/21/23 : 70000; 5/30/23 : 90000; 7/7/23 : 95000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

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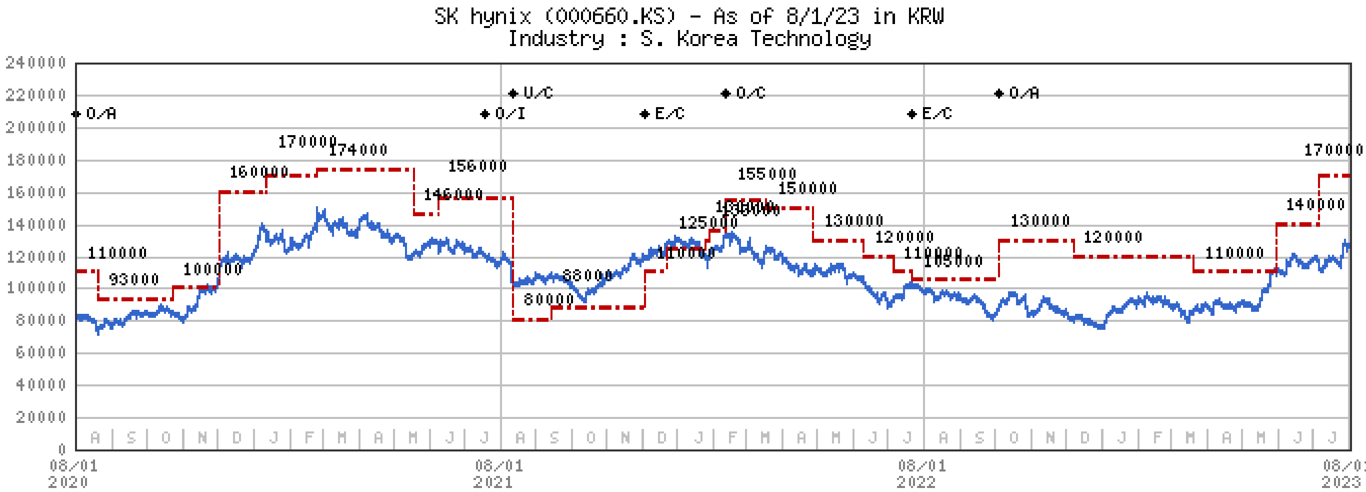

Stock Rating History: 8/1/18 : NA/C; 8/5/18 : U/C; 7/30/19 : E/I; 11/18/19 : O/A; 7/19/21 : O/I; 8/12/21 : U/C; 12/3/21 : E/C; 2/11/22 : O/C; 7/22/22 : E/C; 10/4/22 : O/A

Price Target History: 8/5/18 : 71000; 9/6/18 : 70000; 11/13/18 : 69000; 12/14/18 : 63000; 1/15/19 : 61000; 1/25/19 : 63000; 3/3/19 : 60000; 4/25/19 : 70000; 6/4/19 : 61000; 7/25/19 : 70000; 7/30/19 : 85000; 8/16/19 : 80000; 9/10/19 : 81000; 11/18/19 : 95000; 1/14/20 : 115000; 2/26/20 : 120000; 3/19/20 : 110000; 8/21/20 : 93000; 10/23/20 : 100000; 12/2/20 : 160000; 1/12/21 : 170000; 2/25/21 : 174000; 5/18/21 : 146000; 6/8/21 : 156000; 8/12/21 : 80000; 9/15/21 : 88000; 12/3/21 : 110000; 12/23/21 : 125000; 1/24/22 : 130000; 1/28/22 : 136000; 2/11/22 : 155000; 3/18/22 : 150000; 4/27/22 : 130000; 6/10/22 : 120000; 7/5/22 : 110000; 7/22/22 : 105000; 10/4/22 : 130000; 12/7/22 : 120000; 3/21/23 : 110000; 5/30/23 : 140000; 7/7/23 : 170000

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)

Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View

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