

Why Small-Mid Caps (SMC) outperform ASEAN 2021



Chart 1: MSCI ASEAN Small Cap vs MSCI ASEAN, March 2020 – Jan 2021

Since equities reached their March 2020 bottom, SMCs have outperformed. The MSCI ASEAN Small Cap Index has increased by 68% vs the MSCI ASEAN Index which increased by 29%. **More than 2x their large-cap peers.** The question is, do Small Caps in the region still have room to run?

The old adage goes, history does not repeat but it does rhyme, and we see that being the case for SMC's in ASEAN for 2021 and onwards. Historically, post the Global Financial Crisis (GFC) in 2008, SMC's outperformed their large-cap peers, increasing by **270% vs 160% across a 4 year period from December 2008-2012.**



MSCI ASEAN Indices Post GFC

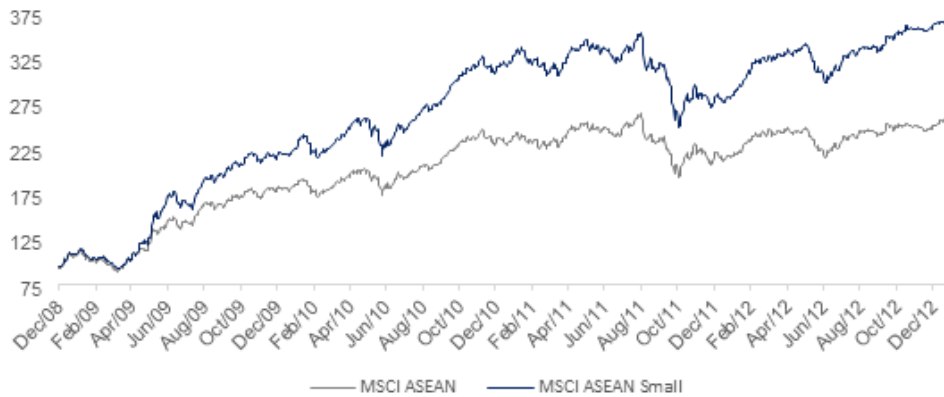


Chart 2: MSCI ASEAN Small Cap vs MSCI ASEAN, December 2008 – December 2012

There are similarities in the environments today and over a decade ago including:

- Fiscal and monetary stimulus
- Abundance of Liquidity
- Attractive valuations relative to interest rates

What is different:

- ASEAN signed the World's Largest Free Trade Agreement, the RCEP in November 2020.
- Reduced competition from smaller non-listed companies.

We see vaccinations being rolled out globally, the likelihood for economies opening are coming close to fruition. Similar to (more recent) history, when the globe exited its first lockdown in the 2nd Quarter of 2020 there was an explosion of demand on a local level. Today we see, similarly, a second explosion of demand, with the key differentiation being that it will be global.

These combined factors of attractive valuations, economic openings, an abundance of liquidity give us confidence that SMC's will continue to outperform their large peers for the coming years.

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