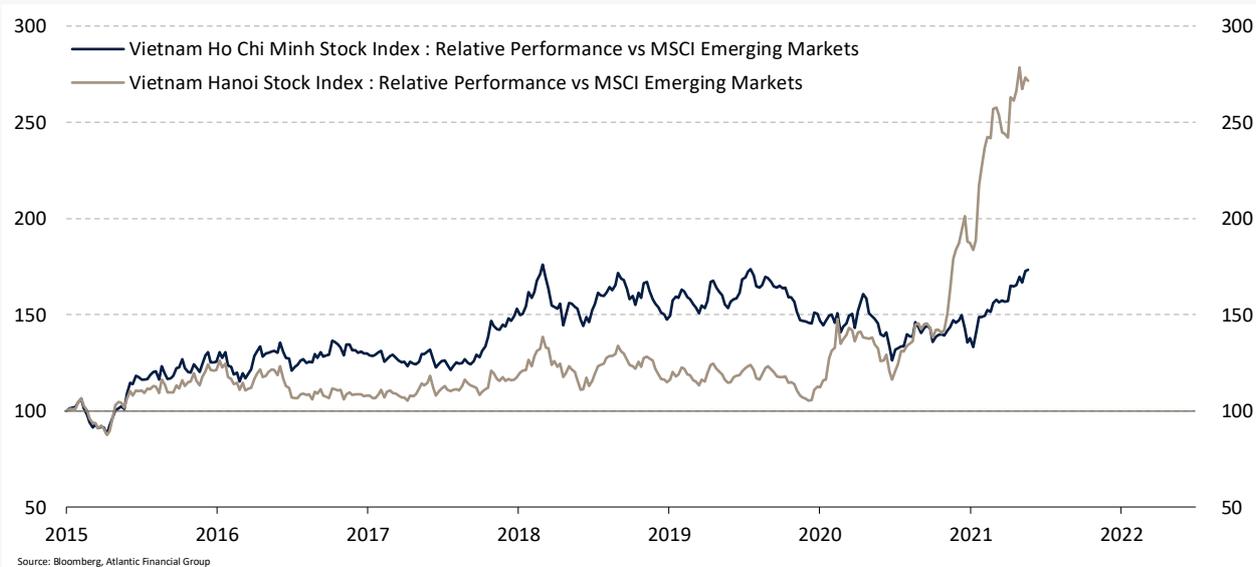




## " VIETNAM, THE COUNTRY WHERE UNICORNS DANCE "

- ◆ Vietnam is seen as the second biggest factory in the world
- ◆ It is the main beneficiary of trade tensions between China and the US
- ◆ Its upcoming upgrade from Frontier to Emerging market will attract foreign investment
- ◆ Ho Chi Minh and Hanoi stocks will take the opportunity to increase their lead

### CHART OF THE WEEK: " Vietnam outperforms, especially small businesses "



## FINANCIAL MARKET ANALYSIS

The unicorn dance or "Mùa Lân" is a tradition practised during festive days in Vietnam, with the aim of bringing happiness, fortune, peace and good luck. It is therefore no coincidence that **investors looking for the next unicorn among developing economies are increasingly focusing on Vietnam**. This "small" country of 97 million people is growing fast thanks to favourable demographic trends, rapid urbanisation and a strong middle class. The country has a dynamic industrial fabric, is very well positioned in the globalisation puzzle and has low labour costs (see Figure 2). A less well-known but important advantage is that Vietnam

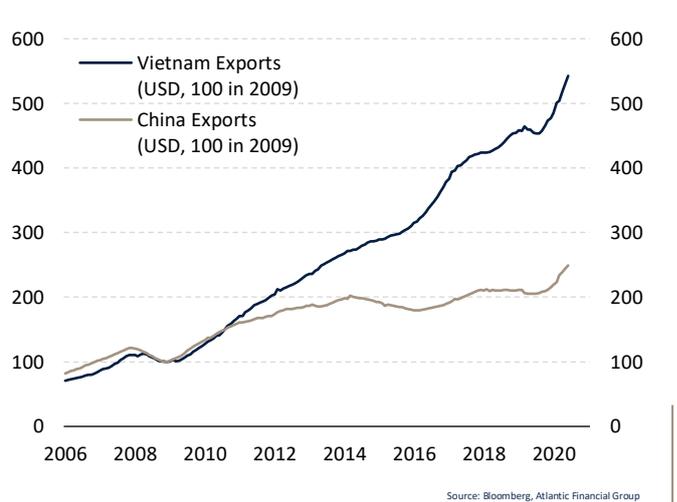


has extensive road, airport and port transport infrastructure, all of which are being upgraded to meet growing export demand. **Vietnam is the Southeast Asian country that benefits most from the trade tensions between China and the United States and the resulting relocation.** This is especially visible as the powerful post-Covid global recovery is boosting industrial production and exports. The latter rose by 28% year-on-year (see Figure 3) to reach \$157 billion.

Fig. 2 – Labour costs in Asia



Fig. 3 – Exports from Vietnam and China



As proof of its incredible dynamism, Vietnam is one of the few countries to have ended 2020 on a positive note, with a Gross Domestic Product (GDP) growth of +2.5%. The government has set a target of +6.5% for 2021 and it seems to be on track to achieve it. In the first and second quarters of 2021, annual growth was 4.7% and 6.6% respectively (see Figure 4). Despite the dynamic recovery, inflation is not a concern in Vietnam as consumer prices rose by 2.4% in June compared to a year earlier (see Figure 5), mainly due to food and commodity prices, as elsewhere in the world.

Fig. 4 – Vietnam's economic growth

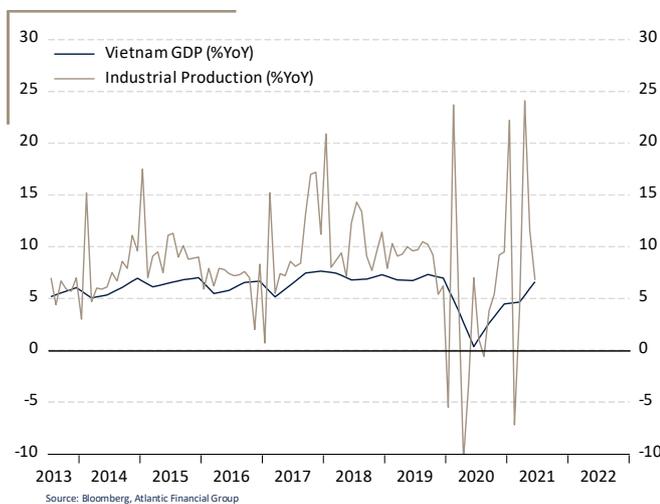
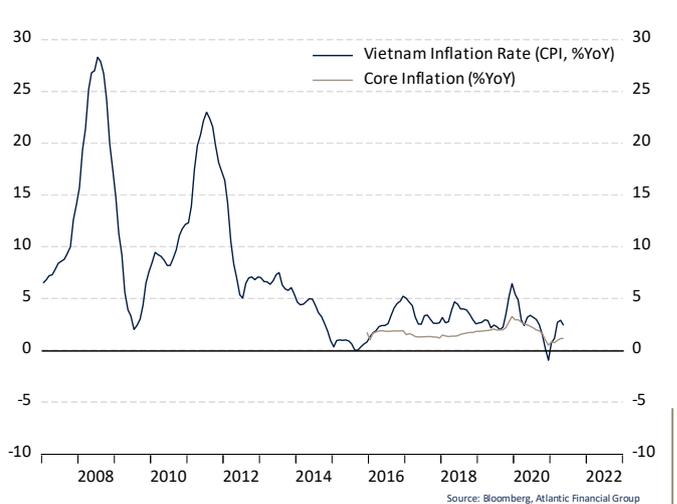


Fig. 5 – Inflation in Vietnam





**All these elements will allow Vietnam to move from a Frontier to an Emerging market, likely within the next two years.** The country currently has the largest weighting in the MSCI Frontier Markets Index. It meets all the quantitative criteria to make the switch to the MSCI Emerging Markets, such as the size of its stock market or daily trading volume. It still needs to improve some qualitative criteria, such as exchange rate liberalisation and openness to foreign investment. When it does materialise, this upgrade to the emerging market will generate a significant capital flow and favour securities listed on the country's main stock exchange, Ho Chi Minh. The inclusion of Vietnam in emerging market benchmarks, MSCI or FTSE, will result in billions of dollars of flows into Vietnamese equities, both passively and via active fund managers who refer to these benchmarks.

The advantages of Vietnam for investors were developed in depth in our previous article (see [WIF of 12 October 2020](#)). The theme is as topical as ever, but a post-pandemic update should reassure investors who might be tempted to question the initial analysis.

After successfully containing three waves of Covid-19 in 2020, with mass lockdowns and a strict system of tracking and quarantine, Vietnam is now facing a fourth wave. On 29 May, **the country announced that it had detected a hybrid of the English and Indian variants.** Global giants such as Samsung Electronics and Foxconn have had to temporarily reduce production in northern Vietnam.

The virus is now spreading in industrial areas and major cities, including Hanoi and Ho Chi Minh City (see Figure 6).

This situation reinforces the need to vaccinate as many people as possible, as soon as possible. At present, only 3% of the population has had access to vaccines. The authorities are seeking to increase the pace of vaccination and hope to achieve herd immunity by the end of the year, or early next year. In the meantime, they have responded by severely restricting mobility and activity. Cafés, restaurants, hairdressers and massage parlours, as well as tourist and religious sites, have been closed in many areas. As the country is using the same methods that were effective in the previous three waves, the short-term disruptions should not affect the long-term growth potential.

Fig. 6 – Vietnam Map





From a political and trade perspective, **Vietnam is accelerating its partnerships with major developed economic areas**, including the US and the UK. A Vietnamese ambassador recently met with the US senator from Alaska to increase Vietnamese access to vaccines against Covid-19, but also, in the longer term, to strengthen cooperation in energy, agriculture and tourism. The Vietnamese ambassador to the UK is also finalising a ten-year strategic partnership between the two countries. **Both agreements will strengthen an already strong trade balance.** The latest available data show that Vietnam's exports (see Figure 7) were mainly purchased by the US (23%), China (14%), the Euro Area (13%), Japan (8%) and South Korea (7%). The main Vietnamese export products (see Figure 8) include machinery and electrical equipment (44%), clothing (11%), footwear (8%), but also tea, rice, pepper, wood or sea products. **These figures show that the Vietnamese economy is well diversified, both in terms of production goods and export areas.**

Fig. 7 – Exports by destination

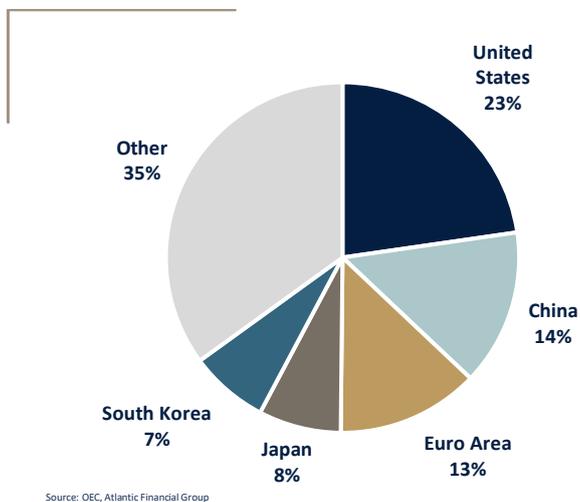
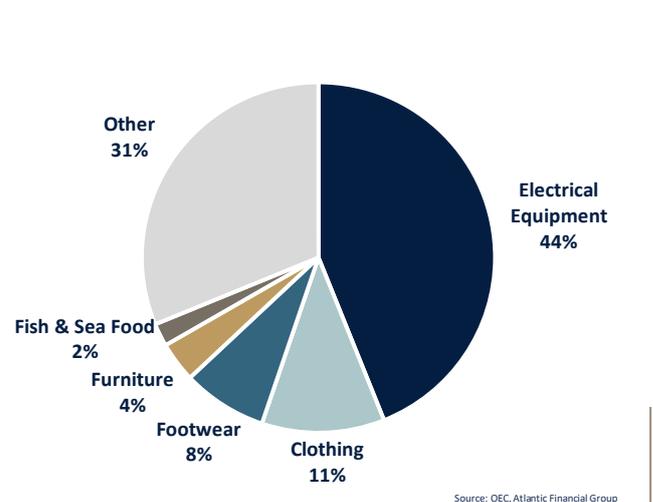


Fig. 8 – Exports by type of goods



**It is sometimes forgotten but Vietnam is seen as the second biggest factory in the world.** More and more goods producers are moving their factories from China to Vietnam **in order to get around the US tariffs imposed on made-in-China products.** The country is, for example, the world's second largest producer of smartphones after its big neighbour. Samsung has set up a mega-factory in the north of the country, which employs 60,000 workers and manufactures a large proportion of its phones. LG produces televisions and Microsoft produces smartphones. The textile and footwear industries are also well established. Brands such as Nike and Adidas have moved some of their Chinese factories there.

In this buoyant environment, it is not surprising that listed Vietnamese companies have strong balance sheets and are gaining market share. **Over the past five years, the Vietnamese stock market has significantly outperformed the MSCI Frontier Markets Index** and is positioned above the MSCI Emerging Markets Index (see Figure 9). This is even more true for Hanoi-listed stocks, mainly small and mid-caps linked to domestic demand (see Chart of the Week). As a result, the main listed stocks are valued at a price/earnings ratio of 16.9x, slightly higher than the MSCI EM Asia's 16.2x but well below the MSCI World

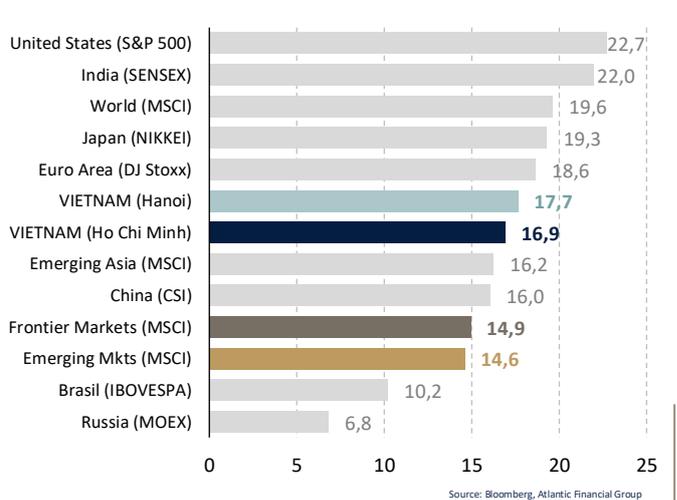


ACWI's 19.6x or the S&P500's 22.7x (see Figure 10). The comparison with the MSCI Emerging Markets has its limits as Brazil and Russia distort the average valuation of the index.

Fig. 9 – Stock markets



Fig. 10 – Stock valuation (PER FY1)



Beyond performance and valuation criteria, there are other elements that support the Vietnamese stock market. **Unlike in the past, it is made up of large companies in various sectors.** In 2015, the Ho Chi Minh Index had only 2 companies with a market capitalisation of more than USD 5 billion. There are now 11 above this threshold. Finally, Vietnamese retail investors are actively participating in the market and contribute to ensuring relatively high liquidity. They are sometimes even too active. On 1<sup>st</sup> June, massive purchases by retail investors pushed the Ho Chi Minh stock market to its historic high. For the first time in its 21-year history, the financial authorities suspended trading for the entire day to avoid overheating or technical problems.

### Conclusion:

With a strong economic base, ideal trade positioning, effective health crisis management and booming stock markets, Vietnam is an alternative and exciting choice for investors. For many years, the country where the unicorns dance looked like an interesting strategy but difficult to invest in (too small, few stocks, illiquid). This is no longer the case. Better still, the market will move from Frontier to Emerging over the next couple of years, attracting billions in new foreign investment.





# RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2021 Year-to-Date (%)	2020 (%)	2019 (%)
<b>Equities</b>							
World (MSCI)	721.8	60.94	0.5%	1.3%	12.8%	16.9%	27.3%
USA (S&P 500)	4 334	67.93	1.3%	2.9%	15.9%	18.4%	31.5%
USA (Dow Jones)	34 677	58.65	1.3%	0.3%	14.2%	9.7%	25.3%
USA (Nasdaq)	14 565	70.50	1.1%	5.8%	13.1%	45.1%	36.7%
Euro Area (DJ EuroStoxx)	454.5	52.16	-0.6%	0.8%	16.5%	0.8%	27.3%
UK (FTSE 100)	7 116	54.68	0.2%	0.8%	12.3%	-11.4%	17.2%
Switzerland (SMI)	11 948	65.54	-0.1%	4.7%	15.0%	4.3%	30.2%
Japan (Nikkei)	28 783	48.42	-0.5%	-0.3%	5.4%	18.3%	20.7%
Emerging (MSCI)	1 368	51.36	0.1%	-1.3%	6.9%	18.8%	18.8%
Brasil (IBOVESPA)	126 536	42.78	-3.0%	-2.0%	5.6%	2.9%	31.6%
Russia (MOEX)	3 871	62.56	1.0%	2.9%	20.1%	14.8%	38.4%
India (SENSEX)	52 485	57.62	-0.7%	1.0%	10.2%	17.2%	15.7%
China (CSI)	5 081	40.57	1.6%	-1.6%	1.1%	29.9%	39.2%
Communication Serv. (MSCI World)	115.96	62.66	0.6%	2.0%	15.9%	24.2%	25.1%
Consumer Discret. (MSCI World)	409.9	65.28	0.7%	1.9%	8.6%	37.0%	28.2%
Consumer Staples (MSCI World)	277.7	46.61	0.2%	-0.5%	5.1%	8.8%	22.4%
Energy (MSCI World)	184.9	52.59	-1.1%	1.5%	30.8%	-27.7%	13.9%
Financials (MSCI World)	145.4	45.49	0.0%	-3.4%	19.2%	-3.1%	24.1%
Health Care (MSCI World)	349.2	68.04	1.1%	4.7%	10.9%	15.4%	23.3%
Industrials (MSCI World)	324.6	51.01	0.2%	-1.4%	13.2%	11.8%	27.2%
Info. Tech. (MSCI World)	508.5	70.22	1.0%	6.1%	12.4%	46.2%	47.5%
Materials (MSCI World)	365.8	41.86	0.1%	-4.8%	13.2%	21.6%	20.8%
Real Estate (MSCI World)	222.1	45.88	-0.8%	0.4%	15.3%	-5.7%	24.0%
Utilities (MSCI World)	151.1	39.72	0.0%	-2.0%	1.5%	4.8%	22.3%
<b>Bonds (FTSE)</b>							
USA (7-10 Yr)	1.44%	61.68	0.1%	1.4%	-3.4%	9.3%	7.4%
Euro Area (7-10 Yr)	0.06%	57.53	0.2%	0.5%	-2.0%	4.5%	6.7%
Germany (7-10 Yr)	-0.23%	53.66	0.1%	0.5%	-2.9%	3.0%	3.0%
UK (7-10 Yr)	0.71%	57.33	0.1%	0.8%	-3.8%	5.4%	4.8%
Switzerland (7-10 Yr)	-0.24%	51.84	0.0%	0.3%	-1.4%	0.4%	2.0%
Japan (5-10 Yr)	0.05%	62.21	0.1%	0.3%	0.1%	-0.1%	0.0%
Emerging (5-10 Yr)	4.30%	58.68	0.0%	0.6%	-1.5%	5.2%	13.3%
USA (IG Corp.)	2.06%	63.17	0.6%	1.6%	-1.3%	9.9%	14.5%
Euro Area (IG Corp.)	0.34%	57.68	0.2%	0.3%	-0.4%	2.8%	6.2%
Emerging (IG Corp.)	3.86%	64.52	0.1%	0.4%	0.7%	8.1%	13.1%
USA (HY Corp.)	3.72%	88.82	0.4%	1.3%	3.8%	7.1%	14.3%
Euro Area (HY Corp.)	2.80%	66.14	0.0%	0.3%	3.1%	2.3%	11.3%
Emerging (HY Corp.)	6.19%	47.68	-0.1%	-0.2%	0.8%	4.3%	11.5%
World (Convertibles)	452.3	63.16	-0.1%	1.9%	5.6%	38.8%	17.3%
USA (Convertibles)	611.1	65.23	-0.1%	3.1%	6.2%	54.5%	22.8%
Euro Area (Convertibles)	4 177	56.00	-0.2%	0.6%	1.5%	6.1%	7.6%
Switzerland (Convertibles)	186.7	55.78	0.0%	0.1%	0.0%	0.5%	2.4%
Japan (Convertibles)	198.6	48.70	-0.1%	0.1%	2.2%	2.8%	2.6%
<b>Hedge Funds (Crédit Suisse)</b>							
Hedge Funds Indus.	716.3	73.56	n.a.	2.6%	5.5%	2.5%	9.3%
Distressed	942.4	76.00	n.a.	1.7%	8.0%	1.5%	1.4%
Event Driven	787.9	76.48	n.a.	1.9%	8.3%	3.1%	8.2%
Fixed Income	388.6	77.31	n.a.	1.2%	3.4%	2.2%	6.1%
Global Macro	1 200.7	79.89	n.a.	3.5%	6.4%	2.0%	10.4%
Long/Short	907.3	72.35	n.a.	0.4%	6.0%	3.6%	12.2%
CTA's	337.4	67.83	n.a.	2.7%	5.0%	-3.2%	9.0%
Market Neutral	284.4	66.09	n.a.	2.4%	3.3%	-0.1%	1.6%
Multi-Strategy	686.6	78.76	n.a.	2.2%	4.4%	1.4%	7.3%
<b>Volatility</b>							
VIX	14.54	42.73	-3.1%	-13.5%	-32.0%	65.1%	-45.8%
VSTOXX	16.83	49.12	2.2%	-5.6%	-24.1%	67.5%	-41.5%
<b>Commodities</b>							
Commodities (CRB)	554.3	n.a.	0.1%	0.4%	24.9%	10.5%	-1.9%
Gold (Troy Ounce)	1 784	40.20	0.1%	-6.5%	-6.0%	24.9%	18.3%
Oil (WTI, Barrel)	75.25	71.05	1.4%	11.1%	55.1%	-20.5%	34.5%
Oil (Brent, Barrel)	76.01	69.04	1.2%	8.7%	48.9%	-23.0%	24.9%
<b>Currencies (vs USD)</b>							
USD (Dollar Index)	92.465	69.78	0.7%	2.8%	2.8%	-6.7%	0.2%
EUR	1.1842	29.79	-0.8%	-3.0%	-3.1%	9.7%	-2.2%
JPY	111.30	36.23	-0.5%	-1.6%	-7.2%	5.3%	0.9%
GBP	1.3778	33.77	-0.7%	-2.8%	0.8%	2.8%	3.9%
AUD	0.7494	35.63	-1.3%	-3.4%	-2.6%	9.5%	-0.4%
CAD	1.2360	42.53	-0.6%	-2.6%	3.0%	1.8%	5.0%
CHF	0.9241	32.92	-0.7%	-2.8%	-4.2%	9.8%	1.4%
CNY	6.4713	38.78	-0.2%	-1.4%	0.9%	6.7%	-1.2%
MXN	19.863	54.98	-0.2%	0.2%	0.3%	-4.9%	3.8%
EM (Emerging Index)	1 734.1	39.65	-0.1%	-1.2%	0.8%	3.3%	3.1%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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