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THE VIETNAMESE STOCKS ARE POISED FOR OUTPERFORMANCE IN 2023

Key points of the Investor Letter:

2022

- PYN Elite YTD -24,7%
- VN-Index YTD -29,8 %
- Vietnamese market hit the bottom in November at 900 points, now index at 1040 points.

2023

- The counter-movement with the dollar will continue when the expectations of further rate hikes end.
- The State Bank of Vietnam gets relief for interest rates, liquidity, and the foreign exchange rate management.
- The 2022 slump of Vietnamese equities valuations will lead into stock rerating and push them back up the following year.
- The overvaluation of the dollar moderates and Asian currencies strengthen against the dollar.

VN-Index hit the bottom on November 2022

Index needs to come up 30% in order to reach the average P/E



Source: Bloomberg

The past year turned out to be tougher than expected for the Vietnamese stock market when the regulators implemented disciplinary measures in the financial market. Retail investors experienced a shock when shares of speculative companies dived and corporate bond investments became uncertain. The jitters of Vietnamese investors who had put their money in corporate bonds grew to the extreme in mid-November, and at the same time, margin calls of certain stocks took the VN-Index to its bottom for the year on November 15, 2022. As an afterthought, however, it must be said that the regulators' actions have achieved important positive results when the blatant manipulation of certain companies' share prices has been tackled and the real estate companies that unethically marketed bonds have had to improve their manners.

Vietnamese bond market has calmed down

Graph is illustrating the average corporate bond yield with last marking at 16%



Source: Maybank Investment Bank

Vietnam's average corporate bond yield, reflecting the nervousness of the bond market, was at its worst level at 28 percent, when there were plenty of sellers and the buyers disappeared from the market. Since then, the situation has started to stabilize, with the yield level already falling to 16 percent. The average yield level is still staying a bit high because of a few struggling real estate companies and their bonds. Several real estate companies have started to buy back their bonds and have offered house-swaps for bonds. The market will gradually calm down, although some investors will eventually lose money because of these bad investments.

Vietnam's stock market is the cheapest among ASEAN – its' stocks have the highest earnings outlook

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Stock Market YTD	+2.0%	-6.2%	-10.0%	-2.1%	-29.8%
Forward P/E 2023	13.9	13.0	11.3	14.9	9.7
Earnings growth forecast 2023	+1.4%	+11.2%	+ 13.4%	+5.2%	+13.9%

Source: Bloomberg

Vietnam's stock market's weak performance this year is extraordinary. In the autumn, in a very short period of time, the value of the Vietnamese dong fell, interest rates rose, the corporate bond market got frozen and stocks faced forced selling. There have not been declines of the same magnitude in other stock markets in the ASEAN region, and therefore it is expected that Vietnam's stock market will bounce back up when the disruption is corrected. Confidence in the market has already improved, and we can expect the VN-Index to follow the growth path of the Vietnamese economy and the company earnings direction in the next 12 months. Among ASEAN countries, the outlook for economic growth and earnings growth of listed companies in the next few years is strongest in Vietnam.

Foreign investors have aggressively taken advantage of the turbulent conditions in Vietnam's financial market. Foreigners were 685 million USD net buy on the Vietnam market in November, which is a record number. Thanks to the net subscriptions of the PYN Elite fund and the strengthening of the euro, we were able to buy stocks at the bottom with our accumulated cash reserves. We built a completely new bank position, which now has a weight of 9 percent in the PYN Elite portfolio.

Vietnam's exports +13.4% YTD, in November -9%

Vietnam exports growth 2022 YoY										
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
+8%	+16%	+17%	+26%	+18%	+21%	+10%	+28%	+10%	+5%	-9%

Source: Vietnam custom

In November, Vietnam's exports recorded the first decline of the year, but the growth numbers for exports for the whole year are still robust at +13.4%. Asia's recent weak export data and the sharp declines in preorder guidance made by large international brands to factories in the region indicate a rapidly weakening consumer demand in the US economy. China's exports fell by -8.7% in November, and the decline was particularly in exports to the US: -25%. For the next six months, it is reasonable to expect Asian export numbers to remain weak. Similarly, it is reasonable to anticipate that the US will be going into recession already this winter, although some investors still hope that the US economy will experience a soft landing during 2023 or that the recession will only occur in 2024.

Vietnam's exports declined in 2009 but the economy kept expanding

Vietnam 2009 data	
VN-Index starting point	316
VN-Index ending point	495
VN-Index performance	+56.8%
GDP growth	5.4%
Exports growth	-8.9%

Source: Bloomberg, GSO VN

The sudden shock in the Vietnam's financial markets led to rising interest rates, and this will temporarily slow the growth in Vietnam's housing market and consumer demand. Despite all this, we can still expect the economy to grow strongly in 2023. PYN Elite's outlook for Vietnam's economic growth next year is 5.5%. This is about one percentage point lower than the government's 6.5% growth target, due to our weaker expectations in exports.

The last time Vietnam's exports declined was in 2009, when the interest rates also moderated. At that time, Vietnam's economy managed to grow by +5.4%, even though exports contracted by -8.9% at the same time. In Vietnam, there is no significant inflation risks, but bank deposit rates have risen exceptionally high due to the disruptions in the markets. Deposit rates, which are important for Vietnamese banks' lending, may start to normalize downward in the next few months.

Deposit rates in banks in ASEAN region

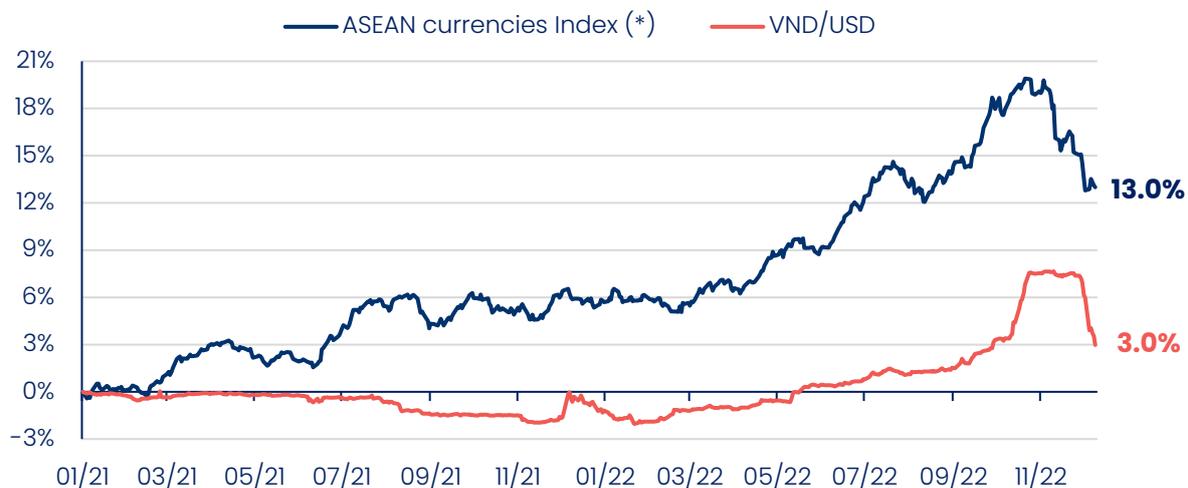
Data is based on each country's largest commercial bank's 12 month deposit rate.

Indonesia	Malaysia	Philippines	Thailand	Vietnam
2.1%	2.85%	0.5%	1.0%	7.4%

Source: Vietcombank, Siam Commercial Bank, BDO Unibank, Malayan Banking Berhad, Bank Central Asia

The US dollar has strengthened against all other currencies for the last two years. In November, the foreign exchange market took a turn, when expectations of next year's US interest rate hikes moderated. We believe that in the next couple of years, Asian currencies have the potential to strengthen against the dollar when excessive dollar positions are liquidated and at some point, we will also enter the new period of rate cuts in the US. Vietnam's dong remains four percent weaker than it was at the start of 2022, despite Asian currencies strengthening in recent weeks.

US dollar strengthened against ASEAN currencies



* USD against currencies of Thailand, Malaysia, Philippines and Indonesia

Source: Bloomberg, PYN Fund Management

We will get to the holiday season with cheerful minds. These recently experienced crazy days of the Vietnamese stock market will actually improve the outlook of our returns next year because in November we were able to take advantage of the market turbulence. The Vietnamese administration has already taken measures to restore confidence in the market, and we also believe that in the coming months the news related to corporate bonds will create positive support.

Happy Holidays,

PYN Elite

Petri Deryng

Portfolio manager

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