

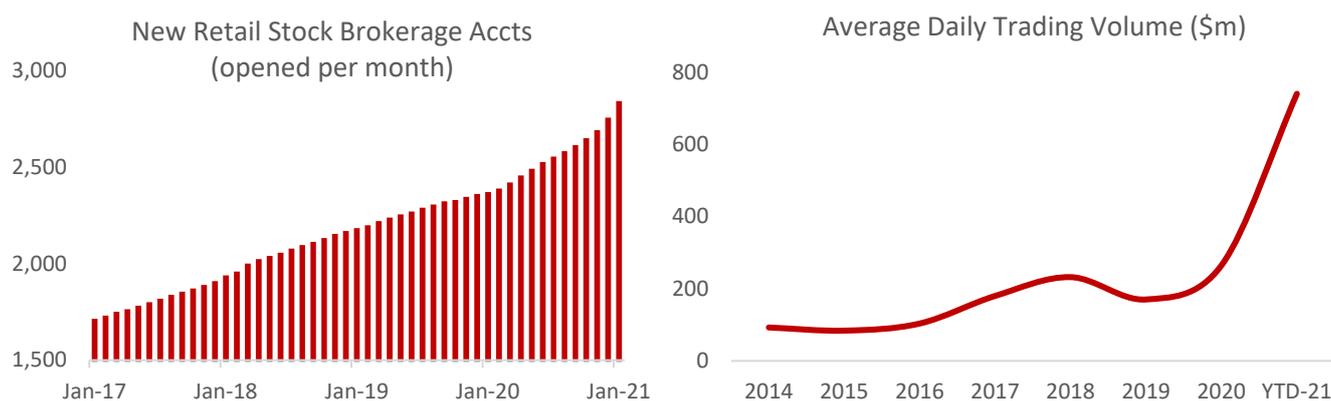
Michael Kokalari, CFA  
Chief Economist

## Vietnam's Stock Market & Economy Are Off to a Good Start in 2021

The VN-Index (VNI) is up 7% YTD, slightly outpacing the performance of its regional peers, despite larger expected rebounds in the corporate earnings in those countries, stemming from the fact that they suffered much bigger economic blows from COVID last year than did Vietnam.

	YTD %	EPS Grw (2021F)	PE (2021F)
<b>Vietnam</b>	7%	21%	14.9x
<b>Emerging Asean</b>	3%	66%	16.8x
Thailand	8%	37%	19.3x
Malaysia	-1%	66%	13.5x
Indonesia	6%	109%	15.9x
Philippines	-6%	47%	18.3x

Retail investor interest in Vietnam's stock market has exploded in recent months, which is helping support Vietnamese stock prices. New retail stock brokerage account openings have surged – as they have in stock markets around the world – but in Vietnam's case, a circa 200 bps drop in the interest rates that savers earn from bank deposits over the last year has been one of the main factors attracting new investors to the stock market. Since retail investors typically account for over 85% of stock market trading volume in Vietnam, trading volumes have surged along with new retail accounts, as can be seen in the charts below.



Unfortunately, surging stock market trading volumes overwhelmed the capacity of the Ho Chi Minh Stock Exchange's systems, leading to a few brief trading interruptions in recent months. This issue understandably concerns both foreign and local investors, so the exchange is taking urgent measures to rectify the situation, but we regard this as a "high quality problem" because it is a by-product of surging local interest in the stock market.

Finally, local retail investors' interest in purchasing gold has also soared this year, which makes the performance of Vietnam's stock market even more impressive, given that gold and real estate compete with the stock market for investment funds in Vietnam. The price of gold in Vietnam typically trades at a 5-7% premium to world gold prices because imports are restricted, but the Vietnam gold price premium soared from around 5% at the end of 2020 to 13-14% in recent weeks. Retail investors in Vietnam – as well as in China/India/Japan - are taking advantage of a circa 10% sell-off in gold prices this year to increase their holdings of gold.

**Better Than Expected Economic Growth in 2M21**

Vietnam’s economic growth statistics were better-than-expected in 2M21, despite the emergence of Vietnam’s third COVID outbreak, which appeared at the end of January and lasted about one month. Consumption and manufacturing, the two strong constituents of Vietnam’s economy that supported the country’s growth in 2020, remain strong this year.

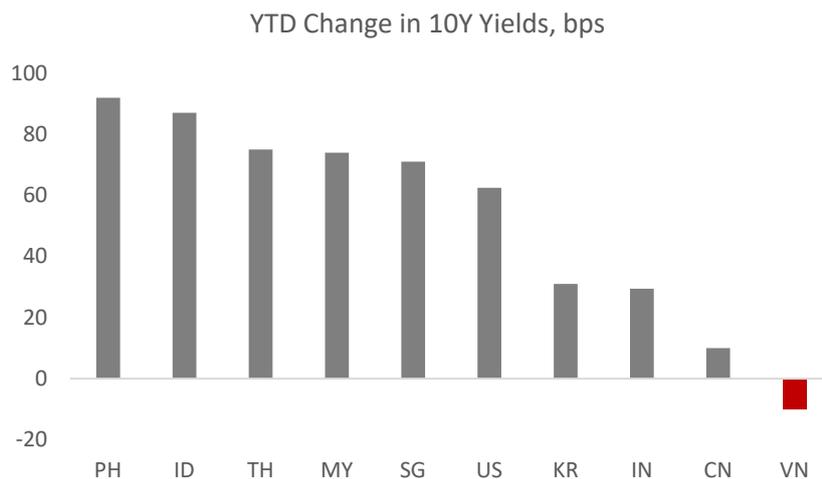
The growth of Vietnam’s real retail sales (i.e., excluding inflation), which is a close proxy for domestic consumption, was nearly unchanged at 5.4% in 2M20, and 5.5% in 2M21, despite the above-mentioned COVID outbreak which prompted the closure of gyms, nightlife venues, and some other businesses in HCMC and Hanoi. The growth of Vietnam’s manufacturing output improved from 7.4% in 2M20 to 10.4% in 2M21, driven by the continued demand for “stay at home goods” that are made in Vietnam and exported to consumers in the US and other developed countries.

Consequently, Vietnam’s exports soared by over 23% yoy in 2M21, driven by 35% growth in exports to the US, and by 27% growth in electronics exports. Furthermore, imports of the components and parts required to make televisions, smart phones, and other high tech products surged by 35% yoy in 2M21, indicating that the strength in Vietnam’s manufacturing sector is set to continue in the months ahead (companies are presumably ramping up imports of production inputs because their order books are full).

**Stable Interest Rates Support Stock Prices**

Concerns about rising inflation are pushing up interest rates around the world. Vietnam’s inflation rate was below 1% yoy in February, but the combination of a 35% surge in oil prices and the “base effects” that were caused by the very weak economic conditions at the height of the COVID crisis in April 2020, is likely to lead to a temporary blip in Vietnam’s inflation rate to above the 3% level by April 2021.

That said, we expect Vietnam’s inflation rate to drop back down to around 2% in H2, after the base effects mentioned above pass. The Vietnam Government Bond (VGB) market seems to agree with our sanguine inflation outlook, because 10Y VGB yields have dropped slightly, YTD, making Vietnam one of the only EM countries in the world in which bond yields have actually *fallen* this year.



**Conclusions**

Vietnam’s stock market is likely to continue climbing higher in 2021, supported by: 1) stable long-term interest rates, 2) surging retail investor participation, and 3) fairly strong economic performance – driven by strong domestic consumption as well as the manufacture and export of “stay at home” goods.

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