

INVESTMENT WEEK

Daryl Liew on Asia Pacific ex Japan



A confluence of factors have presented the ideal backdrop for Asian equities to stage an impressive rally this year. The global economy is rebounding nicely, evidenced by global PMI indicators all over 50 and still expanding. The resulting pick up in global trade has been a boon for Asian economies which are dependent on the global trade cycle.

Meanwhile, the USD has lost ground against most Asian currencies as the Trump-reflation trade unwound due to the failure to pass key legislation. This is important because Asian equities have traditionally struggled when USD strengthened, as these times coincide with outflows of funds from the region.

Finally, commodity prices have mostly been kept in check, providing a benign inflationary environment, giving Asian central banks scope to maintain easy monetary conditions. It is not surprising then that Asia ex-Japan equities have surged over 20% this year.

While macro conditions are likely to remain favourable, investors probably should be more selective in deciding which Asian markets to invest in for the second half of the year. Korea has been the standout leader in terms of performance, but despite this, the KOSPI is still the second cheapest Asian market (forward PE of just 9.6x) after China H-shares. This is because the rally has mostly been

Bull Points

Macro conditions remain favourable
Valuations more attractive than developed markets

Bear Points

USD could potentially rebound
Risk of protectionist policies with the collapse in US-China trade talks

driven by earnings growth. With President Moon just starting to implement policies to turnaround the economy and restructure corporate Korea, it appears that there is further upside for Korean stocks.

However, investors should be cautious on India, the second-best Asian performer, which enjoyed a strong rebound following the demonetization shock last November. While Prime Minister Modi is tackling several structural issues which should be positive for the country in the middle-to-long term, there will be a short-term adjustment period when new policies are introduced.

India is also one of the more expensive Asian markets, possibly already pricing in much of the good news, and could disappoint in the short term if earnings growth fails to meet expectations.

Daryl Liew is head of portfolio management at REYL Singapore

(IA) Asia Pacific ex Japan: Over three years

	3yr % chg	Rank	Vol monthly	Fund size (£m)	Morningstar rating™
Top 5					
BlackRock Asia Special Situations	77.64	1	4.22	139.19	★★★★★
Hermes Asia Ex Japan Equity	75.58	2	4.53	2,728.29	★★★★★
Veritas Asian	73.50	3	3.84	538.94	★★★★★
Baring Eastern	72.10	4	4.30	65.60	★★★★
Smith & Williamson Oriental Growth	70.97	5	4.31	12.34	★★★★
Bottom 5					
CF Canlife Asia Pacific	31.31	81	4.05	121.94	★★★
Matthews Asia Funds Asia Small Co	31.20	82	3.87	63.51	★★★
Templeton Asian Growth	28.95	83	4.57	3,805.32	★★
Aberdeen Global Asian Smllr Coms	22.34	84	3.65	1,550.29	★★★
Emerise Pacific Rim Equity	21.93	85	4.21	138.12	★
SECTOR AVERAGE	48.68		4.22	592.86	

Performances calculated bid to bid, net income re-invested, GBP to 30/07/17. Source: © 2017 Morningstar.