

2016 EQUITY OUTLOOK

ASIAN EQUITY SALE – THE NUMBERS DON'T LIE



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Q1. How cheap are Asian equities right now?

The numbers don't lie. And they are telling us today that Asia Pacific ex Japan equities are more than 1 standard deviation cheap – that means very cheap relative to history.

In fact they have only been this cheap on a few occasions in the last 20 years. The end of the Global Financial Crisis inspired bear market of 2009, after the tech bubble burst in 1998 and in the volatile aftermath of 2001.

We think that current economic and corporate conditions are not in line with these crisis-like valuations. And historically - entering the market at these levels has on average led to very attractive investment returns from Asian equities.

However, as always, not all is equal across Asia. We see huge dispersion between stocks, sectors and countries.

As such we think it's essential to put significant time and effort into identifying those companies whose shares have been oversold relative to their fundamental earnings potential and also to avoid those that have become expensive due to highly correlated, crowded, emotional trades.

This is how our Asian equity portfolios are positioned and we believe they can deliver outperformance for our clients.

Q2. How is China's slowdown affecting your portfolios' positioning for 2016?

As price sensitive investors my equity team thinks of volatility and fear as friends not foes. More than anything, the Chinese government's intervention in 2015 created both volatility and fear.

We believe that created opportunities to add to names at great prices that had been sold off without consideration for their medium term earnings prospects.

While it's clear that the Chinese economy is slowing, this must be kept in context of its own impressive track record for growth along with the growth premium that the rest of Asia shows relative to the rest of the world.

Whether the outlook for Chinese GDP (Gross Domestic Product) growth is 7% per annum, or 6% per annum, we believe the economy will continue to support many companies with steady sustainable earnings in the medium term.

Finding those companies with undervalued earnings is where we focus our efforts and where we are trying to make money for our clients. And while headline valuations for China are at 1.2x price to book and with large dispersion between stocks we can find many.



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