

WORKING

the

crowd



**EDDIE LEE**  
DBS BANK  
Hong Kong

Within the emerging market (EM) equities space, we prefer Asia ex Japan Equities. In particular, we see opportunities in Hong Kong and China as the markets are buoyed by attractive valuations and policy stimulus. We believe the January rally for Asia ex Japan Equities will sustain, as Asian government and central banks have flexible policy options to cushion any slowdown from a potentially long-drawn trade war.

In terms of valuation, it has come down close to one standard deviation below the 10-year historical average. This is also the level at which Asian equities used to bounce – as seen from previous market stress episodes such as the eurozone crisis in 2011/12, the taper tantrum in 2013 and the Chinese yuan devaluation in 2015/16. Furthermore, the Asian equity risk premium suggests the region's equities are inexpensive against current rate conditions.

A China equities fund is one of our focus funds in the first quarter of 2019. Within China, we prefer funds with higher exposure in China A shares.



**KEVIN LIEM**  
CBH ASIA  
Hong Kong

Since the substantial sell-offs in 2018, we have been overweighting EM equities, as valuations were attractive compared with DM equities. We are most favourable with Hong Kong and China, as the Chinese economy continues to be the world's growth engine, supported by an emerging middle class. More attention to its domestic policies should help stabilise growth and accelerate reform programmes to enhance corporate profitability. In that context, we expect further policy easing from Beijing and a turnaround regarding the US-China trade tension, which would trigger flows from DM back to EM. In addition, EM currencies were vulnerable in 2018 due to the capital outflow that resulted due to the strength of the US dollar, which forced some central banks to hike interest rates to protect their currencies, in turn penalising corporate profitability and competitiveness. As we expect the strength of the US dollar to diminish, central banks in EM and Asia should have greater flexibility to adjust their monetary policies to promote economic growth, which should benefit the equities and local currencies bond markets.

Our understanding is that many institutional investors have been underweighting their EM and Asian equity allocations. As such, we do not believe it will suffer significant drawdown similar to Bitcoin, especially after the sell-offs in 2018.

We are currently overweight EM equities, especially those in Asia, as they continue to trade at attractive valuations – even after the rally in the first two months of the year. One of our managers is the Asia Dividend strategy, managed by Matthews Asia.



**HAKIM NAJIB**  
EIGHTSTONE  
Singapore

A challenging US dollar liquidity environment and a slowing Chinese economy translated into considerable outflows from EM and poor performance in 2018. But this year EM benefited from being one of the first asset classes to react to changing monetary conditions.

This rally should continue if we get the following three catalysts: a dovish Federal Reserve; China stimulus; and relative EM growth versus developed markets (DM). So far, it seems that the Fed and the Chinese

policymakers have blinked. The missing part is making sure that we have passed the trough in EM growth and are entering a period of growth stabilisation. Also, reduced trade tensions could improve investors' sentiment, but we should not take it for granted – it will likely remain an ongoing issue.

Risks remain, of course, with some potential binary events in Mexico, Brazil and South Africa this year, as well as key elections. But despite their warnings post-rally, EM bears should remember that EM capital flows are highly correlated to the EM-DM growth differential.

The Polish poet Stanislaw Jerzy Lec said: "The weakest link in a chain is the strongest, because it can break it." Hence, a sustainable EM rally without an improving China looks like an unsolvable equation.



**ARNULFO DE PALA**  
TRILAKE PARTNERS  
Singapore

In some ways, the survey is a collective finger pointing away from us and towards fund managers that we deem more behind the curve than ourselves. Portfolios have different time horizons and risk-return profiles. When someone says a particular trade is overcrowded, that may say more about the opinion-giver than the trade.

There is a sense of optimism right now about EM investments and some of that may be unjustified wishful thinking about US dollar depreciation, continued Fed dovishness and Sino-US trade deals. Anything less could dash that optimism and nullify the rally of the past several weeks. EM has sat in overbought territory for most of 2019 and so have other asset classes. But for a growth portfolio with a 10- to 15-year accumulation phase, it would seem like a tiny bump on a very long road towards a future where India, the Asean countries, China et al dominate global economic activity. I doubt we will look back 10 years from now and say: "See? I told you EM was a crowded trade in February 2019."



**DARYL LIEW**  
REYL SINGAPORE  
Singapore

EM equities was a consensus long at the start of 2018 and that proved to be a bad

call, as several macro factors combined to trigger a sharp correction last year. The strong rebound in 2019 is mainly due to an easing of some of these macro factors – notably the Fed hitting pause in its rate-hike cycle and the easing of US-China trade tensions.

Decelerating global growth is still a key concern; this has resulted in a sharp downward revision in expected corporate earnings for global markets in 2019. MSCI EM equities has seen earnings growth expectations for 2019 cut significantly from 11.2% at the end of 2017 to just 5.6% in February 2019. EM equities currently trade at a price/earnings ratio (PE) of 12.2x – still a reasonable level and a big discount to US equities, with the S&P 500 trading at a PE of 16.6x, with expected earnings growth of just 4.6%.

I believe there are more legs in the EM equities rally as macro headwinds abate and the deceleration in economic growth troughs out. In this regard, China's economic figures need to be closely monitored. There are encouraging signs that the shift in Chinese policy is starting to have a positive effect.

We are currently invested in various individual EM stocks and single-country ETFs and funds.



#### IN A NUTSHELL

by Audrey Raj, Editor

DBS prefers Asia ex Japan within the EM equities space. The bank sees opportunities in Hong Kong and China, as the markets are buoyed by attractive valuations and policy stimulus, says Eddie Lee.

Similarly, CBH Asia is most favourable to Hong Kong and China. As the strength of the US dollar diminishes, the firm expects central banks in Asia to have greater flexibility to adjust their monetary policies, says Kevin Liem.

Reyl Singapore is invested in various individual EM stocks and single-country ETFs and funds. Daryl Liew believes there are more legs in the EM equities rally as macro headwinds abate and the deceleration in economic growth troughs out.

Risks remain, of course, with some potential binary events in Mexico, Brazil and South Africa this year, as well as key elections, Hakim Najib cautions.