



ASIA INSIGHT

10th June 2019

Review

The MSCI AC Asia ex Japan Index fell 8.5% in May while the MSCI AC World Index declined 5.9%.

China (-13.1%) led the region lower with the other regional industrial powers - Taiwan (-7.8%) and Korea (-9.3%) - in hot pursuit as hopes of a US/China trade deal fade away. Buoyed by PM Modi's crushing victory at the polls (see chart below), India (+0.2%) bucked the trend as did the Philippines (+0.7%). By sector, Consumer Discretionary (-14.3%), Information Technology (-10.8%) and Communication Services (-12.8%) declined while safe heavens such as Utilities (-0.5%) and Consumer Staples (-3.9%) outperformed.

All figures above are total return and in US Dollar terms. Source: Bloomberg.

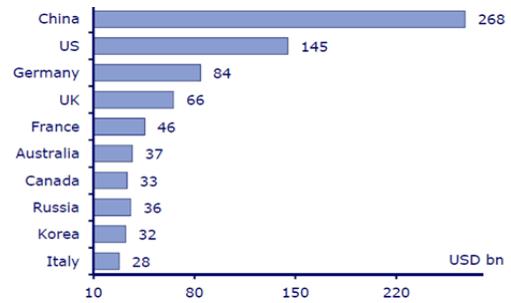
Magical Modi?

Any sitting Prime Minister who increases his majority at election time is doing something right. That said, the structural changes pushed through in his first term such as Demonetization, RERA (Real Estate Regulation Act), GST (Good & Services Tax) and the Bankruptcy Act - all of which we highly approve of - probably did him no favours. While all are magnificent long term policies they have caused shorter term pain and dislocation. The less 'headline' policies of hugely increasing the percentage of villages with electricity and toilets probably helped him considerably more.

India is not without problems, for example the crisis in the Non-Banking financial companies continues and the Government's fiscal position remains weak, but the country has an enormous demographic tailwind. The hugely ambitious 'Housing for All', or PMAY, program launched several years ago aims to build 50mn new houses by 2022. The multiplier impact of this program should not be underestimated. There is talk that a major reform of India's somewhat archaic labour laws will be a major focus together with a shake up of equally archaic regulations governing the agricultural sector.

Economic growth slowed sharply in 1Q19 with GDP up 5.8% y-o-y versus 6.6% y-o-y in the prior quarter. Consumption growth was softer but a sharp fall in investment was probably the culprit. The Central Bank has reacted by cutting interest rates. We, and many others, have been waiting for an upturn in the Indian investment cycle and perhaps - with political stability assured for another five years - we will see more positive indications of an upturn in 2H19.

International tourism expenditure: Top 10 in 2018



Source: WTO, World Bank

China

Readers will be aware that Chinese outbound tourism has grown rapidly in recent years but the chart above places the size of this tourism expenditure in perspective. Chinese tourism expenditure is already nearly twice that of the USA, is over three times that of Germany and over four times that of the UK (see the chart above). It continues to grow rapidly (+10.8% in 2018).

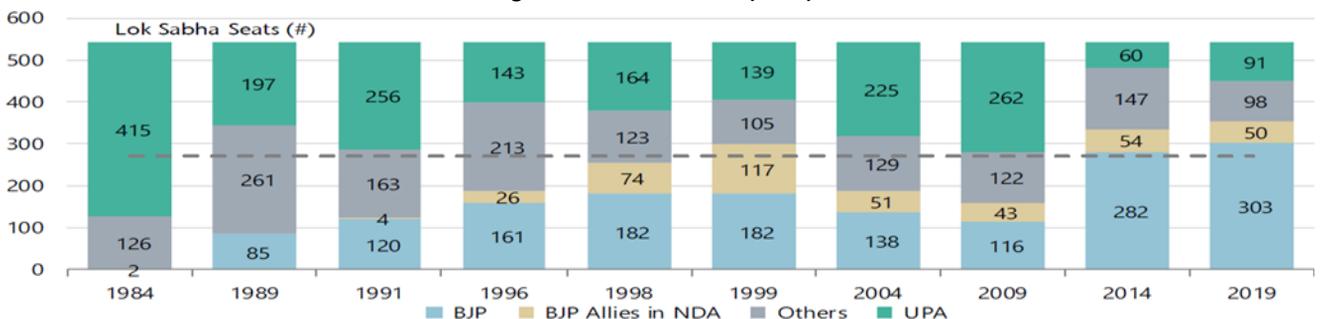
President Trump can bang on about trade, demand the opening of China's domestic markets, accuse the Chinese of 'wrong doing' and target companies such as Huawei. What The Donald cannot do is stop the economic rise of China and indeed the continued growth across the Asian region.

Outlook

The slowdown in the global economy continues amid rising trade tensions and many Asian central bankers are reacting by cutting interest rates (India being the latest to do so). Markets are pricing in a reduction in US interest rates. In the short term the uncertainty created by the trade war is unlikely to abate and markets hate uncertainty.

Asian equities will most probably continue to struggle in the short term but the longer term outlook remains very, very exciting. While further downward earnings revisions seem likely, the recent swift decline in Asian stocks has taken valuations back to attractive levels with the price to book ratio down to 1.4x.

India general election results (seats)



Source: Jefferies, Election Commission of India