INVESTMENT INSIGHTS

What now for Asia

LIM Fang Suan, Lion Global Investor's manager of the LGlobal Funds - Asia High Dividend Equity strategy answers questions on the outlook for Asian equities, themes he is following and performance drivers in the dividend yield space

Q: The appetite for Asian equities seems to run in cycles. Presently, capital is being withdrawn from the region. What could reverse that trend and when do you think that reversal could occur?

The current sharp downturn in Asian markets has its roots in the concerns over Fed tapering, rising bond yields and weakness in economies such as China and India. The confluence of these factors has led to capital outflow from the region.

In order for this trend to reverse, investors need to see some policy clarity from the Fed regarding its tapering programme as well as further stability in bond yields. Signs of policy action are also required from countries such as China and India that can address the cyclical and structural issues affecting their economies and put them back on the path of sustainable growth.

Q: Are Asian equities now a more attractive investment destination and do you see value emerging in any of the key Asian markets after the recent correction?

Asian equity markets remain an attractive investment destination because of their long term growth prospects. Following the recent correction, Asian markets currently trade at a discount to the developed markets, as measured by the former's forward PE with higher earnings growth. Comparing with historical valuations, Asian markets are trading at less than 1 standard deviation from their historical mean valuation.

Q: Is the risk-on trade for Asian markets over for now and do you expect volatility to stay for some time?

Asian markets will remain volatile in the short term as investors react to any hint of the Fed's possible tapering. Nevertheless, the medium term outlook for Asia looks bright. A more positive US economic outlook, as well as in Europe and Japan, bodes well for global growth prospects. This should have a positive spill-over effect on Asian economies.

Q: Does the rise in bond yields spell the end of the dividend investment theme?

Investing in dividend strategies has been shown to outperform the broad market over the long term. While higher bond yields may make investing in dividend yielding stocks appear less attractive, this only applies to the segments of the market which have low growth or higher gearing. In an environment of rising bond yields and an improving economy, dividend investment strategies can still outperform, by focusing on companies which are more closely tied to the economy and where earnings and dividend payouts are rising.

Q: How has the Asia Pacific ex-Japan Dividend Equity strategy performed recently? What themes are you following in the portfolio?

The Asia Pacific ex-Japan Dividend Equity strategy has outperformed the broad market over the last 3-month and 6-month periods[1]. The outperformance comes on the back of our strategy of focusing on more developed markets in Asia such as Singapore, Australia, Malaysia and Taiwan while underweighting markets and sectors which are more exposed to China's slowing economy.

Q: What will drive the performance of your dividend yield strategy in future?

The performance of the dividend yield strategy will continue to depend on our rigorous investment discipline which seeks to identify companies that are trading at a discount to their intrinsic value, while at the same time being in the top quartile of their peers in terms of dividend yield with low volatility characteristics.

With Asia having to deal with the implications of China's slowdown, we like sectors that have structural growth drivers. This means we remain overweight in the telecoms, consumer discretionary, consumer staples and industrial sectors while maintaining our underweight in the financial, energy and material sectors.

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[1] The Strategy indicated is the Asia Pacific ex-Japan High Dividend Yield Composite in USD, which is benchmarked against the MSCI AC Asia Pacific ex-Japan Index (Ex-Ante Beta Adjusted). Past performance is not necessarily indicative of future performance.

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