Trade War Or Trade Bluff Asian Markets Are Wary

Campaign rhetoric from President Elect Donald Trump has China and other Asian nations in fear of trade war, or does it?

Fund Managers Get Ready For China In The Age Of Trump

The election of soon-to-be President Trump has brought a certain amount of uncertainty to global markets. On the one hand his trifecta of tax reform, infrastructure spending and job creation bodes well for the US and the world at large. The US is the world’s single largest economy, when it is expanding the world is expanding. On the other hand countries like China are in danger of having trade deals and other long standing agreements ripped to shreds and thrown in the garbage. The Trans Pacific Partnership only one deal in question and one that affects dozens of countries in the Asian economic arena.

The campaign rhetoric certainly made it sound like the old deals were out, the new Trump, President Trump, sounds much more mellow and willing to deal. In the end the deals are likely to stand, but with modifications brought to the table from both sides of the deal. After all, global trade is good and in the end both countries will benefit. China's reply so far has been to counter with threats of its own, and to seek support from other nations within the scope of the agreement.

Nevertheless the uncertainty remains and has brought with it an extra element of risk when it comes to investing in China. What will happen with the deals? How will they change? Which industries and what companies will be affected? While it is assured that both countries will benefit from continued trade which benefits more is in question; the US with an economy worth more than $18.5 trillion or China's as yet emerging economy worth roughly 60% of that?

These questions and more and are running through the minds of traders and investors alike, and this is on top of an already dubious economy. Recent data from the Chinese government, if it is to be believed, shows that the Chinese economy is still growing at a moderately strong 6.7% but it also shows that economic footing is tenuous. Retail sales and industrial output are still expanding at a pace well above the global average, but both are also running well below the peak set a few years ago and below current expectations. Retail sales in October were up 10%, down -0.7% from the previous month, while industrial output held steady at 6%.

Despite the uncertainty China and the greater Asian economic arena remain attractive from an investment standpoint. The risk is high but so are the rewards. The key is to have sound guidance and that is best done through actively managed funds, you get the benefits of single fund ownership combined with decades of experience and boots-on-the-ground perspective. The Asia Pacific Fund, managed by Value Partners, is one such fund. It is a closed end fund targeting small and medium cap companies throughout Asia, ex-Japan, with a focus on China. Fund managers have this to say about the current outlook for the region.

“Insert Comments From Management”

Value Partners is the largest money manager in Asia and the oldest to be listed on the Hong Kong Stock Exchange. ~~The company~~Value Partners took control of the Asia Pacific Fund since October, 2013, and the Fund is managed by Norman Ho and Philip Li. The two have a combined experience in excess of 30 years, backed up by the full weight of the Value Partners investment team, ~~and~~ specializing in China and Asian investments.

Strategy

During the month of October, 2016, our holdings in a China construction firm attributed positively after it announced better-than-expected earnings with over 30% YoY revenue growth. Meanwhile, a China leading oil and gas company, one of our key holdings, yielded positively as its recent cost reduction enhanced balance sheet strength and expectation on higher gas prices drew market attention. Our positions in China property developers, however, were among the detractors as expectations on policy tightening weighed on share prices. While sales volume shall moderate in the near term, we remain constructive given tighter supply with record-low inventory level. In Korea, our holdings in cosmetic company were dragged by market concerns on Duty Free Shop revenue drop in light of slower China tourist visits. In addition, the share price of our holdings in a Korea power supplier corrected as a recent tariff review posted uncertainty on earnings.

Outlook

We remain constructive in Asia ex Japan as there have been signs of improvements in earnings momentum, corporate profits and balance sheets healthiness which are crucial to drive dividend growth. Policies in the region shall remain accommodative while fiscal spending would be supportive, particularly in China. While near-term volatility shall remain given the heightened uncertainties under the new US political landscape post Trump's presidential victory, this may generate renewed investment opportunities for the region which showcases stronger economic stability relative to other parts of the world.