



A View From Asia

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Topsy Turvy: In utter confusion or disorder; with the top or head downwards.

It is stating the obvious that trade wars will likely hurt economic activity for all involved. From a Goldilocks-like situation for global economic growth, this tit-for-tat introduces an unexpected degree of uncertainty. With US markets already buffeted by concerns of potential regulation on technology stocks, central banks withdrawing liquidity and normalizing monetary policy, this tariff war is a completely unwelcome development. My expectation that the synchronized global economic recovery which started in late 2016 would likely persist a while is looking increasingly tenuous.

With that moderation in view, I have made some changes to the portfolio. I've started to pare back on some of the cyclical holdings, raised some cash while starting positions in a few core holdings. In the past 12-15 months, a few stocks from our core screening universe had either de-rated or seen a strengthening of competitive positions.

One such name I've bought back in the portfolio is a Korean company that has three main businesses: two of which are mature and the past three years' margins have trended lower on account of raw material cost inflation. However the third business – the cosmetics business - was and still remains the key growth driver. It represents over half the group's total revenues. You might recollect in September 2016, relations between China and South Korea hit a very rough patch. The then South Korean president moved unilaterally to deploy a missile defense system (bought from the US) ostensibly to protect against a North Korean missile attack.

China's reaction was swift and strong. The Chinese authorities targeted several South Korean businesses in China. One group had several of its department stores and supermarkets shut down on inspections from authorities. There were 'suggestions' to travel agents in China not to book group tours from China to South Korea. The Korean company's business was affected, both in mainland China, where some customers boycotted its products, and in Korea, when Chinese tourists, who are the largest buyers of these products, stayed away. It was a challenging time for the company yet it managed to survive this unexpected slowdown. Ultimately, consumers desire for their cosmetic products remains strong and the company kept spending on brand promotion and advertising throughout that period.

Much water has flowed under the bridge since. The then president of South Korea was impeached and removed from office, and the new president has taken a more conciliatory tone towards China. In this recent trade war between the US and China, the Korean company's cosmetics business might turn out to be the potential beneficiary. China's relations with South Korea have improved since that missile episode and the Chinese will likely woo its neighbors in this economic tit-for-tat with the US. Tourist traffic from China has resumed and queues at Korean department stores in Seoul for buying cosmetic products have started to get longer.



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Sources for all data: JOHCM/Bloomberg (unless otherwise stated)