JOHCM Funds

A View From Asia

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Ebullience: An issuing forth in agitation, like boiling water; overflow; enthusiasm, extravagance.

What a difference a year makes. Gloom enveloped equities in Asia at the beginning of 2017. This year could be hardly different. There is a general sense of optimism as global economic growth shows signs of acceleration. China, at least in the near term, neither faces a capital account crisis nor deflationary bust. China and other related North Asian economies are recovering from a deep slowdown of 2015/16. While debt still is the elephant in the room, incremental cash flows and earnings for old stack companies display robust positive trends. Stock prices are made at the margin; with data looking positive to distinctly bullish, equities are responding to this fundamental evidence.

This chart of China's foreign exchange reserves captures the dynamic very well.

China's improving foreign exchange reserves

Source: People's Bank of China as at December 2017.

You would be excused in feeling ultra-bullish on markets. Several sell side strategists have increased their targets for returns and pronounced this uptrend in its second or third innings. Even the dreaded geopolitical issue of North Korea and the spectre of a nuclear war have receded. Last week there were indications of a potential conversation between South and North Korea.

I do not have much to add to the comments in the press, whether on economics or geopolitics. Stars seem to be aligned at the moment; our job is to monitor developments and watch for risks. Apart from the company-specific risks that are asymmetric in nature, the ones that I think we still need to keep a watch on are: protectionism for general trade; regulation for the tech sector (internet companies in particular); rising inflationary pressure forcing the Federal Reserve to hike more than expected; and a sudden shake out of liquidity as central banks reverse their QE policies.

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