

# A VIEW FROM ASIA



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- Markets have changed dramatically over time; at a simple level, we have democratised access to investing, trading and speculating across age groups and income levels.
- Once illiquid asset classes hampered by regulatory and trust-induced barriers are now tradable at the click of a button.
- Is there an unseen benefit to this proliferation of apps that motivate a penchant for debt and democratise access to trading?

## JOHCM Asia ex Japan Fund

**Amplification – the action of enlarging upon or adding detail to a story or statement; the action of making something more marked or intense.**

Have you ever wondered how new products or services become the norm? Think smartphones versus clunky fixed-line phones or Uber instead of hailing cabs. It reminds me of my favorite couch that now sports a mould of my aging body. If not for old photographs, that couch seems custom-made for me today. At a recent social gathering, a heart surgeon asked me to explain Gamestop, call options and implied volatility. That he thought I might explain something so complex to him, was a function (I am convinced) of the spirit in the glass he held. The conversation moved to Non-Fungible Tokens (NFT's) and Blockchain. By then I was truly beyond my depth. I mentioned in my last monthly that markets seemed too bubbly and probably necessitated some caution. I did not expect a rapid sell-off in government bonds leading to turbulence across all asset classes. As I reflect on my conversation with the doctor, what struck me was how markets too have changed dramatically over time. At a simple level, we have democratized access to investing, trading and speculating across age groups and income levels. Once illiquid asset classes hampered by regulatory and trust-induced barriers are now tradable at the click of a button. Apart from stocks, think mortgages, baseball cards or even sneakers. Soon, a Picasso, a digital clip, an ancient tapestry or a historical plaque could be tokenized for investing or trading. Not too long ago, traditional brokers and banks made you jump through hoops to trade options or take on debt. Business models of online brokers and peer-to-peer lending apps are now designed to gamify and drive adoption. Cheap and abundant access to capital combined with longer tolerance for losses in start-ups facilitate explosive growth for many businesses. The inescapable underlying truth of our 'financialised' system is ever increasing debt levels and a penchant to kick the problems down the road.

Is there an unseen benefit to this proliferation of apps that promote debt and democratize access to trading? The best outcome, in my view, is the sheer amplification of economic and market cycles. Market sell-offs, painful as they may be, do not last very long – at least not so far. Every possible worst case/best case scenario is priced into markets in the blink of an eye. Similar to us getting used to technological progress, accepting diametrically opposing economic and market outcomes within just a year is now pretty standard. Central banks have a universal desire to 'protect' markets on the downside. Look no further than the boom bust in stock markets post Covid-19 in the past year. In April 2020, I too had no clue of what might happen in the economy and markets. There were times I extrapolated scenarios of an extended bear market and a lasting economic downturn. Currently, markets are starting to discount sharply higher interest rates and persistent inflation. Some suggest we are possibly staring at a repeat of the 1970's. I have little idea as to what might happen on inflation or interest rates. One thing is certain. Central banks are unlikely to resist the temptation of fighting back. The Reserve Bank of Australia intervened heavily to prevent a rise in yields while market participants are suggesting some kind of yield curve control (don't ask). From a portfolio perspective, I have and continue to moderate exposure to China and technology names. That is where I think most of the froth is. Not that they are all bad businesses; just that too much optimism is reflected in current valuations. We have to be mindful of the impact of rising rates on equity valuations; yet I do find several companies able to take advantage of large markets and low penetration of their products and services at a time when Asian economies are starting to get back to normality. As of now, I do not consider the risk of rising rates significant enough to derail a positive outlook. If I do change my view, rest assured it's my well-worn sofa from where I pen that view.

## JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

### Discrete 12 month performance (%):

	28.02.21	29.02.20	28.02.19	28.02.18	28.02.17
A USD Class	57.28	1.89	-17.17	22.23	19.31
Benchmark	41.94	-0.01	-8.11	31.73	26.79
Relative return	10.81	1.90	-9.85	-7.21	-5.90

### Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 28 February 2021. The A USD Class was launched on 30 September 2011. Benchmark: MSCI AC Asia ex Japan NR (12pm adjusted). Performance of other share classes may vary and is available on request.

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