



News

A View from Asia

Taking stock: Samir Mehta, manager of the JOHCM Asia ex Japan Fund, takes a look back at markets over the last 18 months.



Samir Mehta



12 Oct 2021

Gratitude: the quality of being thankful; readiness to show appreciation for and to return kindness.

On 30 September 2021 we marked the 10th anniversary of our fund. Heartfelt thanks to all our clients - present, past and prospective. You reposed trust in me, but also indulged me by spending (some might say wasting) your time reading what I write. I relish writing this monthly. Usually it takes me a day or two, working through distractions and hoping I write something that provokes thought.

For this 10-year anniversary article, I had initially planned a trip down memory lane - perhaps posting links to the monthlies I most enjoyed writing. Some reflected my prescience, but there were others where I had to eat humble pie. But then I read a quote from Amor Towles describing the way he structured his exquisite book *A Gentleman in Moscow*: *“As you may have noted, A Gentleman in Moscow has a somewhat unusual structure. From the day of the Count’s house arrest, the chapters advance by a doubling principal: describing the events that occur one day later, then two days later, five days later, ten days, three weeks, six weeks, three months, six months, one year, two years, four years, eight years, and sixteen years to the day after his arrest. At this midpoint, which occurs in 1938, a halving principal is initiated with the narrative leaping to eight years ahead, then four years, two years, one year, six months, three months, six weeks, three weeks, ten days, five days, two days, one day until the book’s conclusion. While somewhat unusual, I believe this accordion structure suits the story well, as readers get a very granular description of the early days of confinement; then they get to leap across time through eras defined by career, parenthood, and changes in the political landscape; and finally, readers get a reversion to urgent granularity as they approach the denouement. As an aside, I think this is very true to life, in that we remember so many events of a single year in our early adulthood, but then suddenly*

Deficit	RATE OF CHANGE SLOWER	Income	MARGINALLY UP	Growth	CONSTRAINED
Debt	DOES IT MATTER?	Wealth	HIGHER	Costs	HIGHER ENERGY; SUPPLY CHAIN; RAW MATERIALS
Monetary Policy	RESTRICTIVE (CAN CHANGE)	Spending	FLAT TO DOWN (INFLATION IS A TAX)	Margins/Growth	LOWER
Interest Rates	LIKELY HIGHER	Debt	STILL SOUND	Cash Flows	SOUND
				Banks	Sound

Source: JOHCM

Opportunities abound

On balance, I do expect some challenges for Asian economies and markets. Risks in China have progressed much farther than other Asian geographies. Even though Evergrande in particular and the property sector in general have significant issues, I do not think this is likely to be a “Lehman moment”. The PBOC can loosen policy and the central/provincial governments will nationalise part of the debt. Ramifications are manifest in slower growth in China. Added to this are the sporadic disruptions in critical supply chains and energy shortages. We have to calibrate risks very specifically and hence remain vigilant that even the best businesses might be hit temporarily. Given the recent sell-off in China, I have to ask what can go right; I have steadily added three new Chinese names to the portfolio.

India meanwhile, in my view, has some structural advantages and big opportunities. The investment cycle in India has faltered badly over the past decade. Cash flows for companies in India are as robust as ever. Can India get the much-needed investment and become a competitive alternative to China? Government policies are falling in place and perhaps this time they might succeed. The two obvious wrinkles are rising energy prices which impact profitability and stock market valuations which impact returns. I will stay invested in the structural winners in India, but perhaps trim the edges to manage valuation risks.

The exciting part is ASEAN where you will notice my allocation has risen substantially in the past three months. Covid-19 related health impacts, slower economic growth and lower incomes have created burdens, yet valuations here are attractive. Similar to India, during these tough times I can identify many businesses that have survived and are taking advantage of the situation. In my opinion, it is only a matter of time before the rest of the market latches on to them.

Thank you once again for your support and I look forward to meeting up in person soon.

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