News

View from Asia

In a new era, investors need discipline

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19 Jun 2022

TAM! TAM! Thank you MAN – with apologies to Slade.
As the Federal Reserve pivots, TAM (Total Addressable Market) morphs to MAN (Margins Asset turns and Net profits).

Asian stock markets remained under pressure. Fears veered between the effects of fallout from the war in Ukraine, the likelihood of a US slowdown, the Fed's tightening and China's zero tolerance for COVID cases. Stocks are pricing in a fair degree of pessimism yet risk appetite remains subdued. The fund performed marginally below the index. We have a bit of cash in the fund, which we will look to deploy, mostly in China.

I too plead guilty to employing clichés in my presentations about markets in Asia. Huge population; low per capita metrics for goods (cars/housing) or services (insurance/online payments); vast economic opportunity and a long runway for growth.

Those metrics are factual. Asian economies have grown substantially over the past two decades. Post the Asian financial crisis, employment grew, per capita income rose, and aggregate wealth exploded. Yet today, we are all captive to the decisions of the few at the Federal Reserve. No matter how we cut it, ultimately, their actions, in both setting rates but more so in opening and closing the spigots of liquidity, determine the trajectory of growth. That one exogenous factor overwhelms almost everything.

The current monetary environment imposes discipline on all of us. In the past decade, an abundance of cheap capital spawned several businesses (especially disruptive start-ups). All that mattered was 'how big is your TAM'. Attaining profitability was a distant if secondary objective. That is now changed.

Subsidies and discounts fuelled top line growth. Now, markets demand cash flows and profits. Inflation is affecting business costs while shrinking disposable incomes for consumers is a reality. In absence of subsidies, many consumers will not afford to buy (discretionary) goods and services. A period of generally slower growth and a demise of cash guzzling businesses is upon us. Consolidation amongst disruptive businesses is inevitable; the path there involves disruption of a different kind.

For investors, there is nowhere to hide. Preservation of capital is at the forefront of our minds. Even though I remain constructive on China's equity markets, the continuing zero-COVID policy so far undermines my view. I do still hold the opinion that current valuations factor in most of the risks. Any positive policy shifts either on lifting lockdowns or a stimulus could lead to upside. Meanwhile, I have reduced exposure to India. I continue to own what we consider quality long-term growth businesses. Yet, inflation is an immediate challenge while extended valuations are a headwind.

Samir Mehta is manager of the JOHCM Asia ex Japan Fund. Learn more about the fund here.

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19 April 2022

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