Harvest Global Investments
嘉實國際資産管理

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Asia markets continue to rally following the MSCI weighting increase of A-shares

Yannan Chenye, Head of China Equity Research, Portfolio Manager, Harvest Global Investments comments on the China markets:

MSCI China rallied in February, due to expectations that an agreement will be reached between the US and China on trade talks, further MSCI inclusion of A-shares, and more policy stimulus from the Chinese government. Continued rebound in the U.S. market as well as a more dovish U.S. Fed also fueled investor sentiment, with more fund flows from the US and other developed markets to emerging markets such as China. Sectors that got hit the most last year, such as IT, auto, healthcare, insurance and brokerage rebounded the strongest and outperformed the index. Most other sectors also rallied but underperformed the index, with defensive sectors such as telecoms, consumer staples and utilities being the main laggards.

Regarding macro data, the recent total social financing data is a lot stronger than the market expected, at 10.4% YoY in January (vs 9.8% YoY in December 2018). This is partly a result of the Chinese government’s easing policy , which gave the market more confidence towards the economy in 2019. However, we still need to pay attention to the fact that the main contribution to the data is bill financing, which is not encouraged by the government. Additionally, the Spring Festival was earlier this year compared to 2018, which interferes with the accuracy of the data. We may need more data to confirm the strength of the stimulus policy. The PMI data in February worsened to 49.2, which is in line with market expectation, indicating that the GDP growth is still slowing down in the first quarter of this year. However, the new order sub index saw some improvement at 50.6 in February vs 49.6 in January.

During the month of February, we further reduced cash level and added to auto, brokerage, insurance and A-shares. Our overweight in insurance and healthcare stocks contributed most positively during the market rally.

Investment Strategy & Outlook

In the near term, we still expect slower growth in exports, capital expenditure, and consumption in the coming months. However, we have observed some positive factors recently. For example, infrastructure investment is expected to be higher than last year, and according to field research, the new projects in the spring are also predicted to be strong. There will also be more stimulus policy in the future, including rate cut and tax reduction. Meanwhile, we expect the U.S.-China trade negotiations will result in a favorable outcome in the next few months. China shares may consolidate in the near future after the strong rally year-to-date, but we maintain our positive outlook for the market. We believe any market correction would be a good opportunity to accumulate China shares.

June Chua, Head of Asian Equities, Portfolio Manager, Harvest Global Investments comments on the Asia markets:

Asian markets continued its rally into February. The trend remained similar to January when, with the exception of India, all markets registered positive gains year to date. China and Hong Kong were the biggest gainers with the hope that a deal may be brokered in the trade war. Talks of MSCI increasing the index weight of China A-shares lifted the markets further.

Taiwan's technology sector outperformed Korea during the month of February as stability returned. Taiwan's leading company, TSMC's decision to pay quarterly instead of yearly dividends was a welcome move. Korea's technology sector however was sold down on weaker memory chip prices while the market was impacted by news of U.S./North Korea talks breaking down. As the larger North Asian markets rallied ahead, the smaller markets of Thailand, Indonesia and Philippines had diverging performances. Thailand fared well with stronger oil prices as the index has a large weighting in the energy sector. Indonesia faltered as investors sold off a bell-weather automotive conglomerate on weak auto sales. Philippines saw the market dragged down as oil prices rose. Singapore fared well on better than expected results from the banking sector. Malaysia was rather muted with local investors more focused on district elections. India was again the laggard as tensions flared between India and Pakistan.

For the Frontier markets Vietnam returned as the darling, led by renewed investor interest in the large caps. Gains were largely led by index heavyweights. Bangladesh gave back some gains recorded in January, consolidating after the general elections. Sri Lanka continued to be under pressure from slowing growth and declining business sentiment.

Investment Strategy & Outlook

In the short-term, we continue to hold the view that news flow of trade wars will continue to dominate the headlines. A pause in U.S. rate hike is a welcome result for Asian markets. Our recommendations we made in November to move into smaller markets such as Thailand, Indonesia and the Philippines have presented us with positive results so far. However, we will become cautious towards these smaller markets should we see further strength in oil prices. With a delay in imposing increased tariffs on China, we believe investors will be rewarded based on fundamentals. Given Asia's attractive valuations, it would not be a surprise to see Asia continue its outperformance against its developed peers. We continue to be vigilant and will take profits, but if fundamentals do not support our view, we will look to buy into weaknesses. The strategy mantra remains "buy on weakness, sell on strength". Local elections taking place in India, Indonesia and Thailand, alongside a potential no deal in the trade war, are all risks to be aware of in the immediate future.