

Asian Equities Outlook for 2017

December 2016



Angelo Corbetta
Head of Asian Equities

Our favourite markets in Asia right now are Japan, Australia and Taiwan because they have quality operations, they have been investing in R&D in a consistent way over the last 5-10 years and, more importantly, they own operating assets in foreign countries.

What is the optimal way to access Asian equities, through a diversified approach or through a country specific approach?

Right now, we believe the best way is to invest in a pan-Asia product, simply because you do not want to take too much specific risk given recent volatility in currencies and recent tensions in global yields. Another reason is that by investing with a pan-Asia approach, you can invest in Japan and Australia, which are two developed markets better positioned compared to the Emerging Markets in Asia. Japan and Australia are the only two markets where companies own foreign assets. Australian and Japanese companies invested many years ago in foreign assets in the U.S. and in Europe. Therefore, they are not in a vulnerable position in terms of the weakening global trade.

What will be the drivers for Asian equities in 2017?

I think currencies' volatility will be very important and we will need to see what happens. Recent developments in the U.S., and what we can expect from the new U.S. administration, may not be very positive for global trade and this might affect Emerging Markets in Asia, which historically have been highly geared to exports. Of course, if this materialises, currencies will be under pressure. Therefore, we need to watch local currencies. I think in the short term, we need a stabilisation period and I don't expect much to change in the next 3-6 months. Therefore, the most important factor to monitor is really the volatility of currencies and the tensions on the long part of the yield curve.

What is your most favoured and least favoured market in Asia?

My favourite markets in Asia right now are Japan, Australia and Taiwan. My least favourite markets in Asia are Thailand, Indonesia, Malaysia and Korea. I like Japan, Australia and Taiwan because they have quality operations, they have been investing in R&D in a consistent way over the last 5-10 years and more importantly, they own operating assets in foreign countries. This is really crucial because owning that type of asset in a foreign country means you are less likely to be hit by any trade friction. A comment on China and India: India is still in a strong position in the medium- to long-term, but there was a big event recently – the government took some important steps to reduce the importance of cash settlement in the economy. The objective is to improve the tax revenues to GDP ratio, so it is a very important step that could work well in the long term. Unfortunately, in the short term, it will be a bit painful because the Indian economy relies heavily on cash – the portion of payments done by cash is very high. Therefore, in the short term there may be a negative impact on GDP. China is ok because it is quite an insulated market and it will not be easy for the U.S. to label China as a currency manipulator. Technically, it is really highly unlikely. What we expect to see is more reforms and vibrant domestic demand to support the local economy.

How can an allocation to Asian equities benefit an investor's portfolio?

I think diversification¹ is really crucial – we believe you need to consider diversifying your bets. On the equity side, we should not forget that Asia has become quite inexpensive historically in terms of price-to-book value and in terms of financial gearing which has been coming down. So don't underestimate possible surprises on the upside. You want to consider diversifying your portfolio, and you don't want to take a very bearish call right now on a region which is not expensive.

¹ Diversification does not guarantee a profit or protect against a loss.

Important Information

Unless otherwise stated, all information contained in this document is from Pioneer Investments and is as of November 24, 2016.

The views expressed regarding market and economic trends are those of the author and not necessarily Pioneer Investments, and are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading on behalf of any Pioneer Investment product. There is no guarantee that market forecasts discussed will be realized or that these trends will continue. These views are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested. This material does not constitute an offer to buy or a solicitation to sell any units of any investment fund or any service. Pioneer Investments is a trading name of the Pioneer Global Asset Management S.p.A. group of companies.

Date of First Use: December 6, 2016.

Follow us on:

www.pioneerinvestments.com