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A positive outlook from our Hong Kong friend attached. Enjoy and invest. Dividends will continue strong; our Georgian Capital specialty.

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LLOYD GEORGE
ADVISORY

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Investment Outlook

The Year of the Chicken

As well as the USA, Asia presents investors with the best long-term growth opportunity in the world. In 2017, Emerging Markets could stage a more general recovery if commodity prices strengthen on the back of Trump's reflationary plans and tax cuts. The main question mark remains over how serious the Trump administration will be about enacting a new trade policy. China seems to be in the most vulnerable position, and it would be difficult to maintain the 6.5% GDP target (which my Chinese sources have already hinted to be flexible) if exports continue to weaken and the Renminbi versus US Dollar exchange rate will depreciate further.

The Yen has fallen 10% since Trump's victory, which has certainly made a positive impact on exports and business confidence in Japan. Prime Minister Abe has now been in office since 2012, and there is a good chance that Japan could be a beneficiary of the reflationary trend.

Inflation will be the main concern in 2017 both in the US and more especially in Asia where we already have Consumer Price Inflation exceeding 5% in several countries, including China and the Indian subcontinent. Even in Japan, we see reflation taking place with stronger wage inflation finally exceeding 2%, and for the first time in many years, opportunities to invest in businesses with rising prices. This means that our long held aversion to property, mining and energy is now being changed, and we will consider investment in those sectors. Our Indian Ocean Fund, launched in December, has access to energy for example through holdings in Hascol, an exceptional company that has partnered with Vitol to create Pakistan's best fuel distributor. I met the Chairman, a long-time Shell veteran, on my November trip to Karachi. The stock is up 600% since listing in 2014 and it continues to reflect exception growth. Karachi as a whole is up 260% in the last five years.

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In addition, we expect defense spending to grow rapidly in North East Asia, as a result of the tensions emanating from the Korean peninsula, and from the potential withdrawal of US umbrella support to Japan and Korea. Several other countries are already expanding their defense spending as a result of China expansion in the South China Sea. Overall, our main theme would be domestic consumer spending rather than exports which are subject to US trade policy.

In China, we will continue to focus on those sectors that have done well for us in 2016 such as travel and tourism, education, healthcare, the internet and on line spending. In South East Asia, we see a lot of opportunities now, with Singapore recovering in terms of earnings growth and trade. Malaysia, Thailand and the Philippines are all making a new start (with possible political changes occurring), and strengthening commodity prices will help Indonesia, one of our favourite long term destinations for investment.

India has slowed down from its 7.5% growth rate as a result of the surprise November 8th demonetization which has impacted consumer spending, especially autos, real estate, textiles, gold and gems. The beneficiaries, we believe, will include the banks and non-financial groups, including credit cards and software providers. India will move rapidly towards a cashless and digital economy. In December 2016, in some sectors, tax receipts were up 30%. It would seem to be a rout for black money. We remain convinced that India is, in the medium term, the best market for investors in Asia based on its pro-business political government, stable Rupee, strong growth, and young consumer population.

In a world of “multipolarity”, China will look to build new trading relationships particularly in South East Asia and Central Asia through the “One Belt One Road” strategy, as it makes up for the potential loss of market share in the US or the potential tariffs. This will benefit China’s Asian neighbours and enable trade growth to accelerate.

In conclusion, we are positive about the outlook for Asian markets in 2017 and believe that courage and conviction will win over apprehension and gloom.

Investors should take Trump "seriously but not literally". We are in a new world, geopolitically as well as economically but a strong US economy is good news for Asia and for Emerging Markets. We believe common sense will prevail, and business deals will be done, growth will be stronger, and there will be plenty of good investment opportunities in the Asia Pacific region.

We wish all our readers a very prosperous year of the Rooster!

R. Lloyd George

Robert Lloyd George
12th January 2017
Hong Kong

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