GEORGIAN
CAPITAL PARTNERS

Predictions for 2019

Still convinced that the key is the Chinese consumer will lead the way. Certainly likely that any deal would help U.S. stocks, as it is true that they have been favoured on the import balance to date.

Georgian Capital's only exposure is to dividend-growing U.S. equities – a safe, but not likely euphoric, option.

Enjoy the read. As always, comments and questions welcome.

David Knight | Partner | Georgian Capital Partners
Scotia Plaza, 40 King Street West, Suite 3405 , Toronto, ON M5H 3Y2
Toronto: (416) 640-4100 | E-mail: dknight@georgiancapital.ca
www.georgiancapital.ca

January 11, 2019

LLOYD GEORGE
MANAGEMENT

January 2019

Investment Outlook

Predictions for 2019

As 2019 opens, we see cause for optimism with the following trends or events relevant to the Asia Pacific markets.

1. The US dollar peaks out, and the increase in interest rates by the Federal Reserve will be slowed down.

2. The oil price stays near to US$50 a barrel, and this is a huge tax cut and economic boost, especially to the Asian importers.

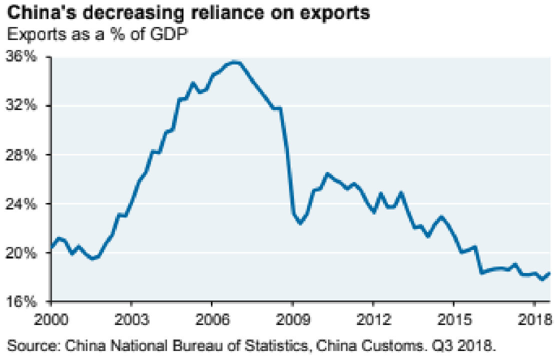
3. There is a comprehensive trade deal between the US and China by March or, perhaps by extension, in the summer. This will comprise a significant increase in China's purchases of US products, including energy and food; an enhanced agreement to open up China's markets, especially the financial sector, the auto sector, and other major industrial product sectors; a respect for intellectual property, which can be monitored; and an agreement not to impose new tariffs on each side.

4. This will lead to a strong rally in the most depressed stock market in the world, the China Benchmark CSI 300 Index, which finished the year 2018 down 25%, being the worst performing market last year. We expect it to be among the best performing in 2019.

5. We expect that the Indian election in May 2019 will result in a successful re-election of Mr. Narendra Modi and the BJP, which will boost the performance of the Bombay stock market in the coming 2 years.

Most observers agree that Emerging Markets are now undervalued. It is interesting to analyse the growing weight and influence of China on the Emerging Markets universe

Therefore what happens in China's economy is increasingly important to the whole world. We expect that China's growth rate will settle down to about 4% by 2020 and that debt levels managed by the PBOC. The Renminbi, however, would devalue by 10 to 15%.

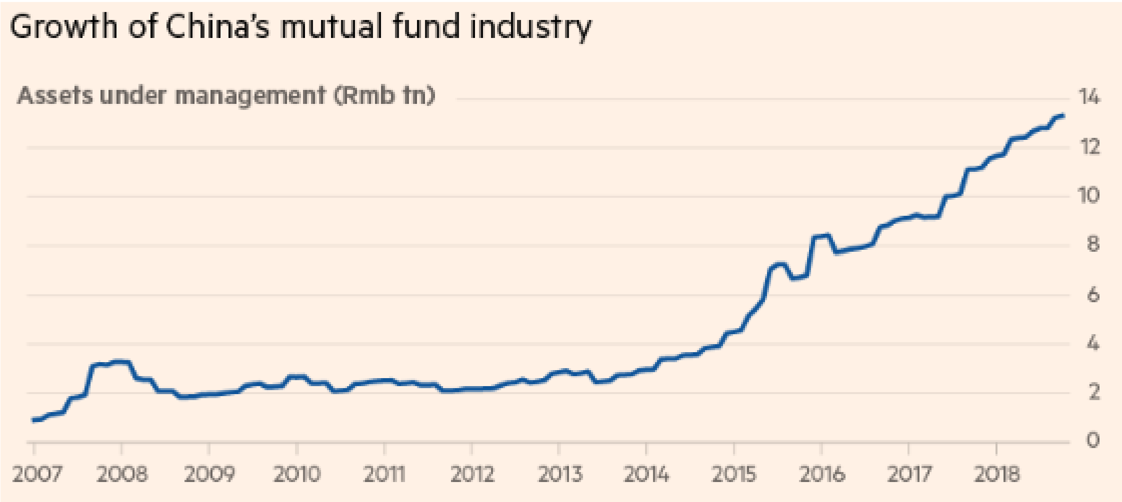


The Chinese government has reversed policy, from one of deleveraging to stimulation. The PBoC cut the RRR another 100 basis points at the beginning of the year. Fixed-asset investment has been picking up for 3 straight months from a bottom in August 2018, and the government has announced that investment in railways will jump by 40% in 2019.

If previous rounds of stimulus relied largely on investment, this time Beijing is looking to the consumer, by introducing the first personal income tax deductions for key spending areas like healthcare, education and housing beginning this year, which is expected to contribute up to 1% GDP growth.

It is clear that the government is more concerned about the state of the economy and is under more pressure to stabilize the situation at hand. Combined with the possibility of a trade deal, we think the point of maximum bearishness could be behind us.

The New Year opens with brighter prospects of US-China trade tensions easing, and if the 90 day period is extended, some accord will be reached before summer. Meanwhile China is determined both to support its economy, currency and technology sector, and also to provide its 1.4 billion consumers with more choice. We see strong growth in tourism, in cosmetics, in food and beverage sales, in sportswear and even in mutual fund sales.



The opening of China's savings and investment sector is undoubtedly one of the biggest opportunities of the next decade. China has a savings rate of almost 50% of national income, which is equivalent to US$5.4 trillion in 2017.

Last month we made a research visit to the Philippines which, with 105 million population of whom over 11% work overseas, is a medium sized Asian economy of over US$330 billion GDP (about US$3,100 per capita). The growing middle class economy is reflected in the success of companies such as Jollibee, which is the only competitor to McDonald's, worldwide, which has won over 50% market share in its home market. Another significant trend which we observe all around South East Asia is the growing importance of China, as a source of investment, trade and tourism (Chinese tourist numbers are growing 40% p.a. in the Philippines), which will impact infrastructure and telecoms particularly. Foreign Direct Investment flows have reached 3.2% of GDP, second only to Vietnam in the emerging ASEAN markets.

Tourism in Asia

2017 Total Visitors

Hong Kong	58,472,157	76%	of which, Chinese tourists
Thailand	35,381,210	28%	
Japan	28,690,900	26%	
Malaysia	25,948,459	8%	
Singapore	18,587,558	23%	
Indonesia	14,040,000	12%	
Korea	13,335,758	31%	
Vietnam	12,900,000	31%	
Taiwan	10,700,000	25%	
Australia	8,120,000	17%	
Philippines	6,600,000	15%	

Our focus in South East Asia remains on the consumer sector, where we see the strongest companies with sustainable growth – Ace Hardware in Indonesia, D&L Industries in Philippines. Infrastructure is covered by Hoa Phat in Vietnam, Siam Cement in Thailand, and Ayala Corp in Philippines. On balance, this year we see ASEAN as an outperformer.

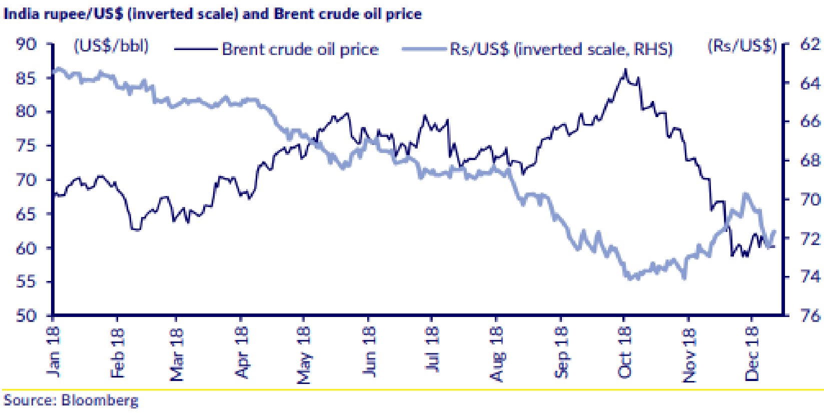
India will benefit from an easing monetary policy (with inflation at 3% and rates at nearly 8%, India has the highest real borrowing costs in the world) in the approach to the May general election. The clean-up of the banking sector continues under the new governor, Mr. Shaktikanta Das and is expected to add more liquidity into the system. India is expected to remain fastest growing economy and corporate India's profit is estimated to grow at 18% CAGR over the next two years.

<u>2019 Forecasts for Asia</u>

GDP Growth	2018	2019	2020
United States	2.9	2.4	1.5
Euro Zone	1.6	1.6	1.3
China	6.6	6.3	6.1
India	7.2	7.8	8.0
Japan	0.9	0.9	0.6
Australia	3.0	2.7	2.7
Hong Kong	2.9	2.6	2.5
Indonesia	5.2	5.1	5.1
Korea	2.0	2.5	2.4
Malaysia	4.5	4.6	4.0
Philippines	6.1	6.4	6.2
Singapore	2.3	2.6	2.3
Taiwan	2.6	2.3	2.0
Thailand	4.7	3.8	3.5
Vietnam	7.0	6.8	6.7

Source: LGM estimates

The fall in the oil price also benefits nearly all Asian economies especially China, Japan, India and Indonesia. Economic growth is expected to accelerate in India, Indonesia and Philippines.



LLOYD GEORGE
MANAGEMENT

There are still uncertainties and 'unknowns' in the 2019 market prospects, especially as they relate to the unpredictable nature of politics, and of US leadership in the world, a certain 'vacuum' of power has developed in both the Middle East, as well as Asia, which opens the door to dangerous players such as Iran.

On the other hand, North Korea appears much less threating than it did a year ago. China's role in Asia has strengthened despite the apparent concessions it is making to the U.S. in Trade. President Xi Jinping's recent speech highlighted his intransigence, when it comes to national priorities such as Taiwan. Nonetheless, we do not see China's economic momentum being seriously constrained in the next few years. There are still great opportunities in the world's 2nd largest economy which is driven 80% by its domestic consumers.

R. Lloyd George

Robert Lloyd George
10 January 2019
Hong Kong