



No Man Is An Island

Robert Lloyd George is writing from Hong Kong, in very uncertain times. Not so suddenly, China is everywhere.

Georgian Capital is not directly exposed, but one hopes that the media version of the Corona Virus proves exaggerated.

Comments or questions always welcome.

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Investment Outlook

NO MAN IS AN ISLAND*

Writing in the last week of February, everything depends on the global impact of the Corona Virus, or COVID-19, as it has been renamed. Our information from China indicates that cases there have peaked, and are beginning to subside, thanks to the draconian measures taken by the Chinese authorities to contain the virus in Wuhan. Although there is always some doubt about the Chinese statistics, we believe that the virus will burn out as the weather warms up in the 2nd quarter, and that it will follow the normal trajectory of flu infections like SARS in 2003.

The real concern now is the spread in Japan, South Korea, Iran, and Italy, to name the countries which have most recently reported increasing cases. Judging by the complete slowdown or stoppage of transport, travel, and trade in China, we are going to see something similar in these other countries; and, eventually, this could affect the European economy as a whole. Our best guess is that there will be a sharp GDP slowdown in the 1st quarter, and some increase in inflation, both in the US and in Europe. The global share markets are correcting sharply at this time, and gold and bonds have risen as safe havens.

However, the CDC in Atlanta has just announced that it expects the Corona Virus to spread to the US, and could significantly slow the US economy in 2Q, and perhaps impact the November presidential election. These imponderable factors are now weighing on investors' minds, after the year started with optimism and complacency. Ironically, in China, where 95% of cases have occurred, there is now greater optimism that the worst is over.

Our investment strategy is to hold on to our core positions in China, Taiwan, South Korea, and SE Asia, because we believe there that will be a strong rebound, particularly in the technology



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sector, within the next 2 months. Another market which is relatively unaffected, is India. Although GDP has slowed down to below 5%, we have seen a meaningful recovery in the manufacturing PMI, and in new orders this month. Earnings in the past quarter have also been stronger than expected, with 17% growth in net corporate profits for Indian companies. The Indian budget was recently announced, with nearly \$30 billion worth of privatizations planned; and some investor-friendly measures to abolish dividend distribution tax, and reduce income taxes for lower - and middle-income taxpayers. We believe that Prime Minister Narendra Modi, like Donald Trump, is disliked by the liberal media, but is, in fact, implementing pro-business policies, which will lead to a stronger Indian economy and stock market.

Elsewhere in SE Asia, there is clearly a very negative impact on countries such as Thailand, Malaysia, Singapore, Vietnam, and Indonesia from the sharp slowdown of Chinese investment and, most importantly, tourism, which has been a big contributor to this region in recent years. Our hope and expectation is that this will be a short-lived phenomenon; but the more worrying aspect is the impact on supply chains, especially automobiles and electronics with components coming from Chinese factories. Hyundai has stopped production in South Korea, for example. There are even concerns about pharmaceutical products depending on Chinese ingredients in antibiotics and paracetamol, for instance. Clearly China's dominant role as a supplier of low-cost goods will be called into question by the disruption caused by virus.

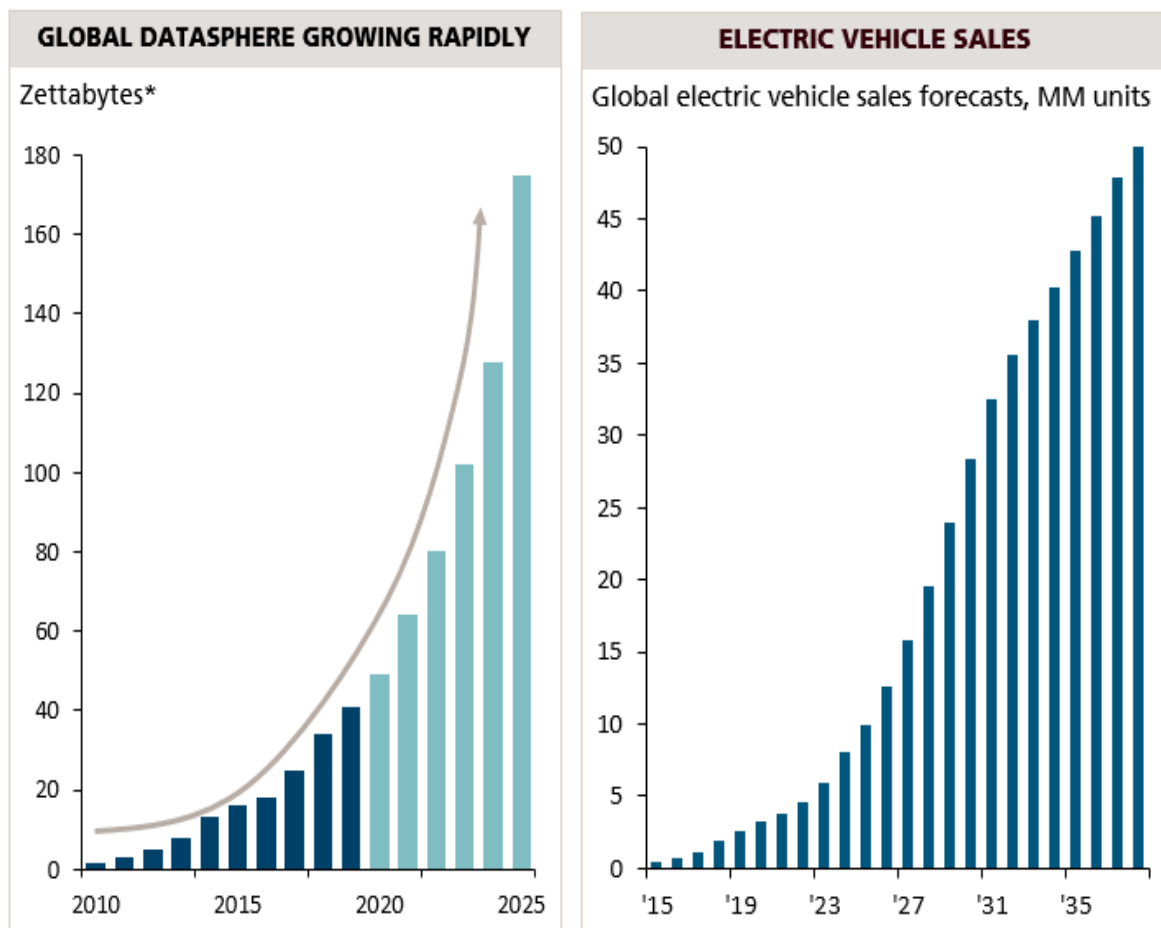
Hong Kong is the worst affected region, with almost 90% fall in tourists coming from China, in retail sales, and hotel and restaurant bookings. Our two major holdings, AIA and Link Reit, have not been much affected by the slowdown; and we believe that Hong Kong will continue to represent an important gateway to China in the years to come, with 70% of inward foreign direct investment going through the territory. Chinese private companies' debt financing in Hong Kong has more than doubled in the last 5 years, so its importance for China as a financial center has in no way diminished.

Looking longer term at investment themes, we have been very struck by the rapid growth of electric vehicle sales, and the focus on ESG and climate change, among investment managers, which is leading them to dump oil shares and buy companies like Tesla (which most investors



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agree is extremely overpriced). The other themes, which we have focused on in our Asian investment strategy, are e-commerce and electronic payment systems, which are more advanced in China than anywhere. We still believe that emerging markets will outperform developed markets over the next 5 years because of their favourable demographic trends, especially those that are less exposed to trade tensions between the US and China. We are also looking for ways to play the megatrends of growth in data, artificial intelligence, and cyber security.



Source: JP Morgan

The advent of 5G in the telecommunications sector is going to be an important theme, not only in China but in many developing countries, and in Europe; and Chinese companies will clearly play a central role.



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**The full quotation from John Donne's sermons:*

No man is an island entire of itself; every man is a piece of the continent, a part of the main. If a clod be washed away by the sea, Europe is the less, as well as if a promontory were, as well as if a manor of thy friend's or of thine own were. Any man's death diminishes me, because I am involved in mankind. And therefore never send to know for whom the bell tolls: it tolls for thee. [John Donne]

Robert Lloyd George
28 February 2020
Hong Kong

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