

Matthews Asia Perspective

Asia's Stock Valuations Open Opportunities



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Tough times appear to lie ahead for Asia's markets. Is this cause for fear or an opportunity for investors?

Maybe some degree of caution is warranted, yes. There is no respite from negative headlines on trade. No respite from concerns over the tightening of monetary policy by the U.S. Fed. And no respite from an S&P 500 Index that is struggling to achieve new highs. I do think it best to be a little cautious. But I say that as one of life's cautious, conservative types—at least when it comes to investment.

Is there nothing that gives me cause for optimism at the moment? Well, yes, one thing—valuations.

Valuations are nowhere near as stretched in Asia as they are in the U.S., in my view. As I write this, the broad U.S. market is trading at about 17X next year's forecasted earnings. And these earnings are based on high margins, historically speaking. So, it is difficult to see average earnings in the U.S. growing at more than low single digits. Asia, on the other hand, is currently trading at just 14.5X next year's earnings, off margins that have been declining over the past few years—although they appear to have troughed.

Overall, valuations in Asia look reasonable to me in an absolute sense. They look attractive in a global context. And they also look attractive given that long-term structural economic growth and the medium-term profit cycles across Asia look favorable.

The pushback I often get with this kind of comment is: "Yes, but valuations don't help me if the dollar is strong and markets are weak!" And yes, over the short term that is true. It is hard to time the markets at all; it is even harder if you seek to do so from valuations alone. But that is not what I am trying to do.

As an Asia specialist, I am always going to be fully invested in Asia. I don't trade one region for another. Rather, I ask myself, where am I getting good value right now? I think Asia is well set to emerge from any near-term weakness with some of the best valuations globally. That certainly gives me some sort of comfort and some sort of cushion. Southeast Asia, in particular, is feeling the monetary squeeze quite abruptly. I think there may be opportunities there.

So the way I approach any future weakness in the markets is with a mindset of opportunity, rather than fear. For I remain convinced that long-term growth will continue to be higher in Asia than in any other large region of the world.

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