



Matthews Asia Perspective

Asia's Markets Can Do Without the Drama



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There has been much excitement recently about the rebound in Asia's markets, fueled in part by a possible resolution to the short-term trade disputes. A weaker dollar is taking pressure off some of the more cyclical markets. Hope is rising that a pause in monetary policy might boost short-term sentiment in Asia's equity markets.

Is it time to get back in?

To be whipsawed one way by the markets and then whipsawed back the other way. How exciting! To see the drama of acute declines in the fourth quarter of last year only to experience the joy of a reversal in fortunes at the start of this year.

Precisely this kind of behavior in Asia's markets in the past has deterred the long-term investor. It is such volatility in prices that has frightened the long-term saver and emboldened the short-term speculator. Is there no hope for Asia's markets to evolve into a platform for long-term saving and investment?

Well, actually, I think there is. Rather than just looking at the recent price volatility, let us consider the past few years. It has definitely been a decade of generally superior performance by the U.S. and Western markets. I think Asian policymakers have taken the view that the growth in their own economies ought to have led to better outcomes on average for domestic equity investors. The failure of equity markets to deliver such returns may have been, in policymakers' eyes at least, due to poor corporate governance. We have witnessed a drive for better governance in Japan, soon followed by calls in South Korea for improved corporate structures and capital allocation. In China, policymakers have taken up the mantra of "quality of growth"; companies appear to have responded by improving their internal incentive schemes and better communicating with shareholders.

It is but a start. And I do not think that corporate governance issues are solely to blame for poor equity market performance relative to economic growth. Corporate governance reforms could do much to spur an equity culture, however, and to "democratize" Asia's markets to help ease the burden of savers to provide for their retirement. In providing better returns on capital, markets would also facilitate more consumption.

Indeed, focusing on the long term and on better-managed companies has been a tailwind for returns in Asia over the past few years. It seems therefore appropriate, as investors consider their allocations to Asia, to think through the short-term gyrations of the market, and with at least a portion of their investments allocate to strategies that seek not necessarily to maximize the gains from short-term speculation but to offer better long-term returns for true savers.

As boring as that sounds, a little boredom can be a good thing!

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