

# ASEAN – Best Entry Point in 35 years

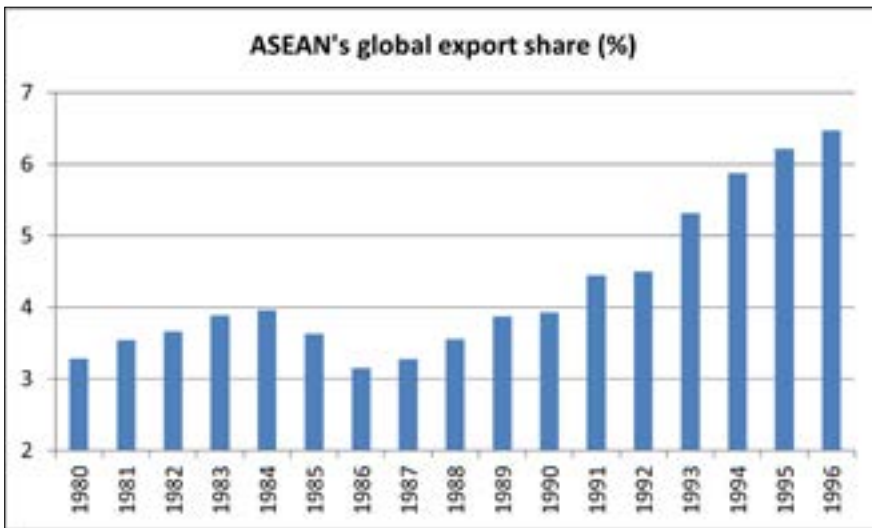


Trade tensions between the United States and China, combined with the macro environment and a potential backlash from the COVID-19 pandemic provides the necessary foundations for a return to the ASEAN golden equity era.

During the early 1990's China's rapid rise in manufacturing was at Southeast Asia's expense, but this period of dominance is starting to dwindle due to higher relative wages and backlash in the post COVID-19 era.

## **Historical Timeline**

The current trade tensions between the United States and China are very similar to the 1980s when there were significant trading disagreements between the United States and Japan. Following Japan's rapid manufacturing rise and subsequent large trade imbalance with the United States, export quotas on Japanese cars were imposed in 1981 followed by steel quotas in 1984. Finally, the Japanese Yen was forced to revalue by over 50% from 1985 through 1988 (under the "Plaza Accord"). As a result, Japan's share of global exports peaked at 8.9% in 1986 (currently its just 3.6%).



*Sam Coatham*

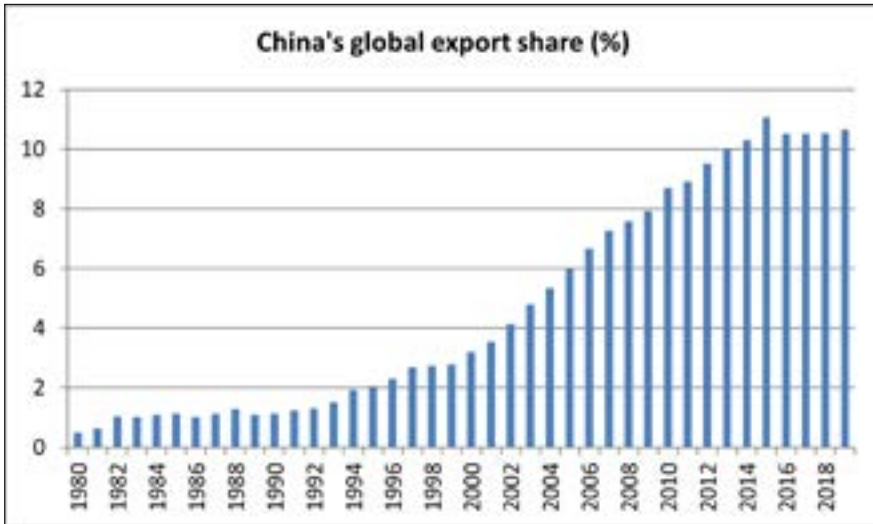
This backdrop saw a massive hollowing out of manufacturing from Japan, the initial beneficiary was a doubling of Southeast Asia exports, 3.1% to 6.5% over a 10 year period post 1986. Incidentally China's share rose from 1.0% to 2.3% over the same period. Thailand, in particular was a key beneficiary of the Japanese manufacturing shift where its share of global GDP doubled from 1986 through 1996 - incidentally Thailand's equity market rose 12x (from 135 in 1985 to 1683 in 1993).



### **The China Effect**

From 1990, China's share of global exports increased a staggering 11x over a 25 year period; from 1.1% to a peak of 11.1% in 2015. China dominated foreign direct investment into Asia during this period which rose from an average 0.7% of GDP from 1982 through 1991 to an average of 3.5% in subsequent years through 2019. In 2019, it stood at the lowest level since 1991.

China's surge in manufacturing has been at the direct expense of competitors in Southeast Asia, particularly into the US market where its share of US imports surged from 6.1% to 21.5% from 1995 through 2015. Southeast Asian saw its share decline from 8.3% to 6.6% over the same period. However, China's market share has declined from 21.5% in 2015 to 16.5% in 2020. Southeast Asia's share has increased from 6.6% to 9.2% over the same period.



### Why ASEAN Now

History shows that the Southeast Asian region is a key beneficiary to falling US interest rates in combination with a declining US dollar.

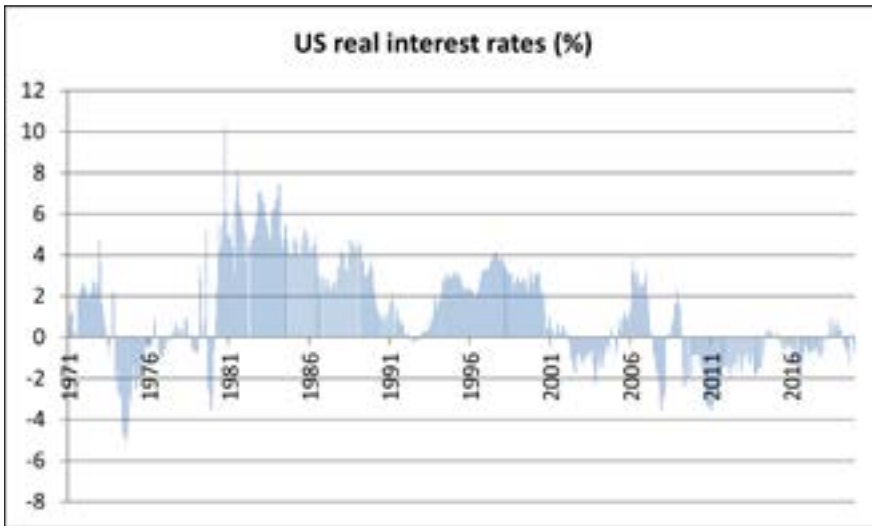
Southeast Asia's golden equity era was 35 years ago; from 1985 through 1993. During this period, Japanese companies relocated to the region, real US

interest rates fell from 4.5% to 0% and the US dollar index fell from 141 to 93. The second best ever period for investing in Southeast Asia was 18 years ago; from 2002 to 2007 where the average MSCI Indices of Thailand, Malaysia, Indonesia and the Philippines rose 4x and real US interest rates were negative to slightly positive with the US dollar index falling from 111 to 80.



The macro and political backdrop of US vs China is not dissimilar to the tensions that developed between the US vs Japan during the 80's. Fast forward to today, with the record government debt levels, negative real interest rates and a weakening US\$ provides again a fertile environment for ASEAN equities to rediscover their mojo. This is in-conjunction with

the manufacturing shift from of China due of trade tensions and post COVID-19 backlash enhances the evidence that the ASEAN golden era is returning.



## The Portfolio

The current portfolio trades on 9x earnings (vs 21x for the MSCI Global Index) with a 5% dividend yield. The concentrated book is focused primarily on Southeast Asian, smaller companies (sub U\$1b market cap) that are typically off the radar screens of larger institutional investors. Holding periods can be from a couple of months to

years, basically until the market realized the true value of the positions. Hence, valuations of our undiscovered companies tend to be attractively priced.



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Hauck & Aufhäuser Fund Services S.A.

1c, rue Gabriel Lippmann  
L-5365 Munsbach  
Grand Duchy of Luxembourg  
Phone: +352 45 13 14 500  
Fax: +352 45 13 14 519  
Mail: [info@fondstrends.lu](mailto:info@fondstrends.lu)  
Website: [www.fondstrends.lu](http://www.fondstrends.lu)