Schroders

Schroder Investment Management (Hong Kong) Limited
Level 33, Two Pacific Place
88 Queensway, Hong Kong

施羅德投資管理﹙香港﹚有限公司
香港金鐘道 88 號太古廣場二座 33 字樓

Tel 電話：+852 2521 1633 Fax 傳真：+852 2530 9095
www.schroders.com.hk

News Release

Silver lining in Asia amidst US-China trade tensions

15 August 2018

The escalating trade tensions globally have become key drivers of markets and investor sentiment amidst a sense of heightened uncertainty. With the first set of tariffs having taken effect between the US and China, destructive trade conflicts are not in anyone's interest. Schroders said at its "Trade Tension and its Impact on Emerging Markets" conference today that whilst the real risk to earnings in emerging markets and Asia remain hard to gauge, economic fundamentals within the region are still intact, and that there are ways that investors could mitigate impact from escalated market volatilities.

Jack Lee, Head of China A-Share Research, Deputy General Manager and Chief Investment Officer, Schroders Shanghai, said: "It is difficult to determine the real agenda behind the US. Could it be purely trade-related so to narrow the trade deficit with China, or could it be the US is trying to oppress China's economic emergence? The US government should be aware that its trade actions will not help narrow its entire trade deficit at all, because manufacturers who may not want to bear the escalated costs will only shift from China to other countries with lower manufacturing costs, and not necessarily return to the US.

"Having said that, we should not view the current US-China trade situation too negatively. The earlier market correction in A-shares has reflected quite a lot of bearishness already. There could be a 180-degree turn if negotiations between the US and China (which was confirmed by US President Donald Trump's social media feeds) come to fruition. This could potentially happen before the November US House of Representatives election, and President Trump could use the outcome as leverage to help the Republican party in the election. Overall, we think any sort of positive developments could spark an abrupt market rebound.

"Given the fluid situation and uncertainties, we could only try to avoid areas which may have more direct impact from trade tensions in our equity portfolio. As such, we favour select domestic consumption, insurance, healthcare and medical services, and high-end manufacturing. We are also turning more positive towards cyclicals, and given the challenges from the external environment, we may see more policies coming out from the Chinese government to support growth."

Schroders

Nonetheless, Schroders has seen steady fund flows into emerging markets and Asian assets.

Jason Yu, Head of Multi-Asset Product, North Asia, Schroders, said: "Despite global trade tensions in the background, emerging markets equities staged a rebound in July, led by Latin America as Brazil and Mexico posted strong gains on easing domestic political concerns and strong second quarter earnings.

"Emerging markets is a growing asset class with abundant investment opportunities given its sound fundamentals and being in the recovery phase of the economic cycle. The expanding US economy has been providing some support for Asian export-oriented economies, which has contributed to the positive earnings in emerging markets and Asia.

"To manage risks, we tend to avoid trade-sensitive currencies such as the Korean won and new Taiwanese dollar. We continue to maintain a preference for high carry currencies with stable fundamentals, such as the Indonesian rupiah and Indian rupee. Going forward, we believe that an important driver for emerging markets currencies will be correctly assessing the trade-off between positive growth dynamics and increasing political risks, as the prospects for individual markets diverge.

"Asian companies with domestically focused revenue sources and being defensive in nature, such as properties and REITs, look relatively more attractive in the current environment.

"In addition, dividend yield is positively correlated with earnings growth, and can be a stable component in contributing to total return in a portfolio."

Schroders believes an unconstrained investment approach that focuses on understanding a company's business model, risk and return drivers, management's track record and corporate governance are important, no matter we are in times of volatility or in a normal environment.

###

For further information, please contact:

Thomas Kwan Hume Brophy (Hong Kong)	Tel: +852 9018 2500 Email: thomas.kwan@humebrophy.com
Zita Lo Schroder Investment Management (Hong Kong) Limited	Tel: +852 2843 7559 Email: zita.lo@schroders.com

Schroders plc

As a global investment manager, we help institutions, intermediaries and individuals meet their goals, fulfil their ambitions, and prepare for the future. But as the world changes, so do our clients' needs. That's why we have a long history of adapting to suit the times and keeping our focus on what matters most to our clients.

Doing this takes experience and expertise. We bring together people and data to spot the trends that will shape the future. This provides a unique perspective which allows us to always invest with conviction. We are responsible for £449.4 billion (€508.2 billion/$593.3 billion)* of assets for our clients who trust us to deliver sustainable returns. We remain determined to build future prosperity for them, and for all of society. Today, we have 4,600 people across six continents who focus on doing just this.

We are a global business that's managed locally. This allows us to always keep our clients' needs at the heart of everything we do. For over 200 years and more than seven generations we've grown and developed our expertise in tandem with our clients' needs and interests.

Further information about Schroders can be found at www.schroders.com.

Issued by Schroder Investment Management Limited. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority. For regular updates by e-mail please register online at www.schroders.com for our alerting service.

*as at 30 June 2018

Important Information:

Schroder Investment Management (Hong Kong) Limited
Level 33, Two Pacific Place, 88 Queensway, Hong Kong
www.schroders.com.hk