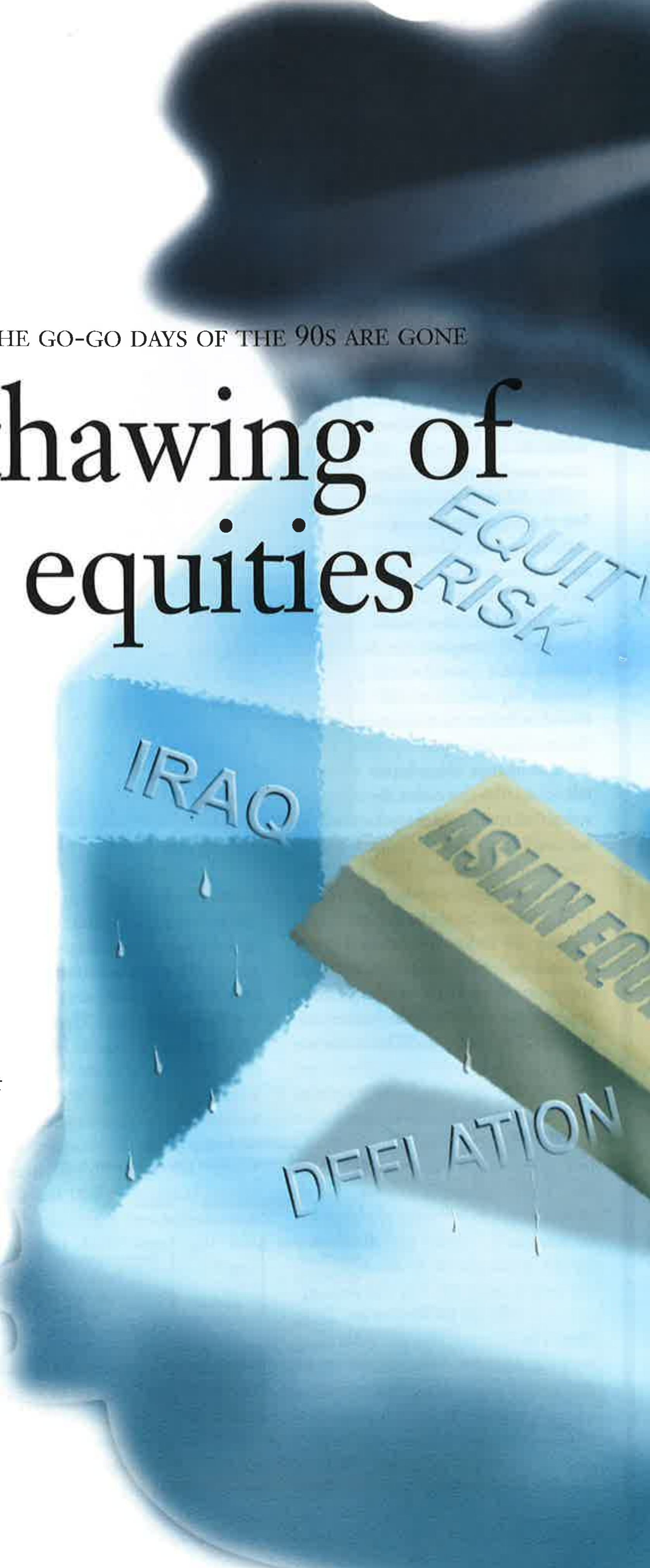
IT WILL HAPPEN, BUT THE GO-GO DAYS OF THE 90S ARE GONE

The thawing of Asian equities



By CHITO SANTIAGO

Once the more glamorous side of investing, equities have been playing second fiddle to bonds given the risk premium associated with them has remained high the past 18 months. When there is a recovery, however, investors expect that Asia will lead the way. Still, don't expect the sort of returns from equity investing seen in the 1990s. Those days are over and as investors interviewed for this special update on the state of the equity markets point out, the concept of investing in equities has changed

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economic growth may unfold in the next 10 years."

Meanwhile, to cope with the difficult market environment, fund managers are adopting diversified investment strategies. For Baring, the philosophy is "unrecognized growth at a reasonable price".

Baring, he notes, invests in countries where there is a diversity of companies that have good management and good track record, a healthy balance sheet and whose businesses are competitive in the world. "These are companies that are likely to produce sustainable earnings and cash flows, and which will, on a long-term basis, surprise on the upside rather than the downside," he adds.

On such a basis, Baring is overweight in Hong Kong, Singapore and Korea. One of its wildcard plays is the Philippines, which Do says is a market that very few people like. "No one owns this market," he points out. "It is completely ignored. Few foreign investors have even visited the country over the past 12 months. Even when there are further bad news, this market is unlikely to fall apart since it has already priced in a lot of negative expectations. This is one which could be a winner in 2003."

Liu: Bullish about the China market

Corbetta says Pioneer is also overweight in Korea for a number of reasons. "With the market trading at 7x, the worst had already been discounted," he says. "A lot of market bad news had already been priced. Korea can cut its short-term rates further since there is still a big gap in spread against the rates in the US and in Europe. It can also use its fiscal balance to stimulate domestic demand."

Corbetta says 6% of the Pioneer funds is in cash these days, up from the usual 2% to 3%, as they expect some redemption given the war in Iraq – which is quite normal during the first month of any such hostilities.

Oliver says Henderson is looking to buy into any weakness in the markets. "Even though investors are very nervous about equities having such a rough ride, the alternative investment vehicles have low returns as well," he points out.

Soon, on the other hand, is playing the China angle through the Taiwanese companies that have manufacturing facilities in the mainland. "It is quite difficult to get a good exposure to pure China play because of the quality of its management," she says. "But we like China on the macro angle. It is going to mirror the Asian growth story of the 1980s."

Liu is bullish about the China market, which she says boasts of the three factors that will drive its performance. She explains: "China offers profitability since many companies in the mainland are making money. Secondly, China is currently trading at historically low valuation – 10x the 2003 earnings – as compared with the rest of the region, outside Japan. Thirdly, liquidity is no longer a problem in China. There is a huge deposit estimated at US$1 trillion sitting in the banks waiting for investment opportunities."