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A VIEW FROM ASIA

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Observations on the coronavirus

“A novel coronavirus (CoV) is a new strain of coronavirus that was previously not identified in humans. Now recognised as the cause of an outbreak of respiratory illness first detected in Wuhan, China. Early on, many of the patients in the outbreak in Wuhan, China reportedly had some link to a large seafood and animal market, suggesting animal-to-person spread. However, a growing number of patients reportedly have not had exposure to animal markets, indicating person-to-person spread is occurring. At this time, it is unclear how easily or sustainably this virus is spreading between people.” – World Health Organisation.

I lived in Hong Kong in 2003 when the SARS virus ran amok. There was palpable fear, especially after an outbreak in Amoy Gardens (a block of condominiums in Hong Kong) over 300+ people were infected of which 74 died due to the spread of the virus through poor sewerage. Many of my friends and their families temporarily relocated away from HK. Naively, I chose to stay. Fortunately, the virus was contained and, after what was a very difficult six months or so, life went back to normal.

This time around, I live in Singapore. A perennially warm country, (not many complaints about heat this time; viruses thrive more in the cold) much better prepared for dealing with pandemics after the SARS episode, life in Singapore is marginally affected. There was panic buying of masks and hand sanitisers. Traffic on the roads is slightly below normal and travel tourism, entertainment and dining out are the worst affected.

No one can say how this virus will behave. A few unknowns will determine how prolonged and how serious its effect might be.

1. Will the steps to quarantine cities and geographies work?
2. Is there adequate healthcare coverage – physical hospitals/clinics and doctors/nurses to deal with the surge in cases?
3. Will the virus mutate? In which case all calculations need to be revised

Social media and its capacity for widespread dissemination of rumours and half-baked facts have led to understandable caution and, in some cases, panic. However, in this scenario, I can see a few positives on the health side.

1. The mortality rate is still quite low compared to SARS in 2003
2. Science has progressed to an extent that clinical trials for a phase 1 vaccine cure could start in 3-4 months
3. Outside China, the mortality rates are even lower; developed countries like Singapore/HK are in much better state of preparedness

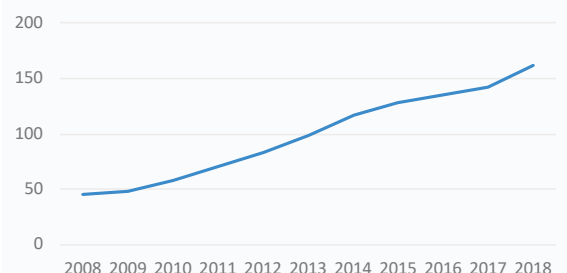
These rational arguments mean nothing much for economics and markets. Without a doubt, China’s importance to regional and global growth cannot be underestimated. In 2003, China’s GDP was close to US\$4 trillion, today it is US\$14.5 trillion. As a source of growth, China remains a big driver of demand for many industries.

Chinese tech demand growth

Product	2003			2019		
	China	Global total	% of Total	China	Global total	% of Total
TV	33.0	180.0	18%	51.0	220.5	23%
PC	13.0	169.1	8%	48.7	260.3	19%
Handsets/Smartphones	77.0	524.4	15%	370.0	1363.0	27%
Servers	0.3	4.7	6%	3.8	12.8	30%
Autos	2.1	64.5	3%	21.4	77.5	28%
Unweighted Total	125.4	942.7	13%	494.9	1934.1	26%

Source: IDC, Gartner, CS estimates.

Chinese outbound tourists (m)



Source: CEIC; Statista.com

More relevant is the stoppage of travel, whether intra or inter-city and or country, especially within China. By way of example, over Chinese New Year, traditionally the strongest period for Macau’s casinos, visitor numbers were down up to 90% compared to last year.

With commerce and travel at a virtual standstill in China for at least two or three weeks, the impact on GDP will be large over the next two quarters. For the large manufacturing and supply chains, will adequate numbers of workers return to get the economy running back at normal levels? It is impossible to quantify how bad it can get since human behaviour has morphed substantially in the short term. Besides, as I noted above, the risk of a potential mutation, if any, and its effects are also unknown.

A few observations from our end:

1. Tourism, hospitality and related service industries will take the brunt of the adjustments
2. For the rest of the economy, I would characterise it as a postponement, not disappearance, of demand



3. Stock markets have already had the knee jerk reaction
4. Volatility will remain elevated as news on the virus fluctuates from hope to despair
5. In many industries, inventory will be drawn down as production is halted - that is quite positive in my view for supply constrained industries
6. The return of migrant workers back to their jobs is critical to monitor – therein lies the risk to manufacturing and supply chains

Yet, I would not panic. We live in a world drowning in liquidity with central banks eager to stave off any potential downtrends. There are three themes manifest in asset prices

1. Central banks continue to extend liquidity support
2. Governments will increase subsidies for the low income stratas of society as well as subsidise some business costs
3. The strong and dominant businesses will get stronger
4. Lower commodity prices in view of this growth scare are equivalent to a tax cut for individuals and a margin reprieve for those strong and dominant businesses

I am weeding out a couple of names that I think might be adversely affected for the long term but other than that most of our quality names should hold their own and come through. Beyond these few stocks, I do not envisage making major changes to our portfolio.

JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.01.20	31.01.19	31.01.18	31.01.17	31.01.16
A USD Class	7.15	-22.70	32.28	15.65	-14.35
Benchmark	5.40	-14.61	43.47	21.52	-18.26
Relative return	1.66	-9.48	-7.79	-4.83	4.79

Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 31 January 2020. The A USD Class was launched on 30 September 2011. Benchmark: MSCI AC Asia ex Japan NR (12pm adjusted). Performance of other share classes may vary and is available on request.

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