



ASIAN MARKETS IN THE WAKE OF TRUMP'S TRIUMPH

Donald Trump's campaign spiel has given Asia much to fret over. In particular, he has spoken about pulling out defence forces and labelled certain Asian countries as currency manipulators, threatening to impose massive tariffs on Asian exports to the U.S. As he takes over the White House, the concerns remain but he could surprise on the upside with tweaks to his stand, given that he needs the support of the Senate and the House without which his power is somewhat limited.

What is worrying about Trump's ascension is his lack of predictability. Predictability is fairly important for financial markets; without it, investors could turn defensive or risk averse. This not only applies to financial markets but to every investment. Trades and investments into different sectors would fall under greater scrutiny, and this could impact the emerging markets, which is generally an asset class that is dependent on trades, flow of goods and services, labour and investments. Sentiment will be impacted and a wait and see attitude could slow down such investments, which could be negative for Asian economies.

On a positive note, Asia in itself is now a huge economic bloc and domestic consumption can cushion some of the slowdown from developed markets. At the same time, intra-regional trades and capital surpluses that have been accumulated over decades can mitigate some of the outflows from the region. From a stock market perspective, significant pension and mutual funds that have been building up over the last 20 years will likely make up for the money that is leaving the region.

So on the basis of what he said on his campaign trail (although what he said on the campaign could be far removed from the reality that evolves later on), the likely impact will be:

1. Mutual Defence Treaty. This is likely to be the most controversial part of his policy. At a time of increased tension in the South China Sea and East China Sea, provision of balance by the U.S. would be ideal. Trump's view on this is still unclear but if he does pull defence out of the region, it will be seen as a reversal of policies that have been in place since World War II. This will probably lead to a race for increased defence spending across the Korean Peninsula, Japan, Taiwan and Southeast Asian countries. The market already seems to be suggesting this with the surge of defence stocks across Asia on Trump's victory.

At present, no one is truly clear about what his defence policy in Asia would be and whether he can rally enough support for his intentions.

2. Tariffs and Trade War? We doubt there will be an all-out trade war as supply chains might be difficult to build across U.S. overnight and forcing certain low value added goods to be manufactured there is likely to lead to significant inflation for these goods. It is estimated that an Apple iPhone BOM (Bill of Materials) will certainly almost double if it is fully manufactured in the U.S. (not to mention that it is impossible right now as more than half of the parts are manufactured in Asia). This does not take into account the logistics of the supply chain and the potential inability of U.S. to find enough workers! (Hon Hai, the smartphone assembler headquartered in Taiwan, employs more than 1.4m workers across Asia).

However, if Trump follows through with his threats against 'currency manipulators', countries with significant trade surpluses with U.S. in Asia could be targeted. These include China, Korea, Taiwan, Singapore, Hong Kong and Thailand. China could be the primary target and assuming a worst case scenario, the re-export trade from other Asian countries could also be impacted negatively. Exporters and

companies with significant USD revenues will likely be affected. While, companies with manufacturing facilities in the U.S. will likely face fewer problems, their supply chains could be impacted as most of them supply the parts from their Asia factories.

From a portfolio perspective, we are and have been focused on the domestic sector which is likely to be less impacted. Trump's victory is disruptive to Asian bourses, but that could be mitigated if he is stymied by domestic issues. It remains to be seen what he can achieve domestically.

As bottom up stock pickers with a longer term outlook, we have been positioned more defensively, with greater focus on domestic sectors dependent on the rising middle class in Asia. We have avoided countries with a bigger fallout probability from Trump winning and companies and sectors where the outcome is binary. While the structural story of Asia remains fairly strong, Asian markets remain guarded about the changes Trump's reign could herald.

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