AMG Market Commentary

September 2009

Adjustment is good chance for long term investors

Last month, Hong Kong and China stock markets had started an adjustment. Shanghai Composite index was more than 20% below previous peak, while Hong Kong's Hang Seng index also fell to around 19,500. But, European and U.S. market were still on the rise.

China and Hong Kong's stock market fell mainly on investors' worries about tightening liquidity and government policy changes. New bank loans in China fell sharply to about RMB 370 billion in July after the central government voiced concerns about explosion in bank loans. Recently, the central government further proposed to curb investments in industries like steel, cement and petro-chem to avoid over investments. It added to the worries among investors.

So, stock market had a correction as investors feared about policy changes. What does it mean for investors?

We think that the recent correction is healthy. As many have warned Hong Kong and mainland stock markets were not bargains, it is just understandable that it made a correction when investor's sentiment changes.

But, we should know that fundamental factors for China are still very supportive for long term growth. Government led investment and private consumption are expected to drive the economic recovery. The 8 trillion stimulus plan was a 2 years plan. So that, there will be more projects to come later this year and next year. It will not stop despite micro adjustment is announced recently. For private consumption, it was the envy of many countries. Private spending managed to keep increasing in double digits in 2008 and so far in 2009. Strong investment and consumption make China in better position to recovery from the financial tsunami.

Of course, we cannot rule out risk of further adjustment. But, it is clear that China economy and stock market is returning to an uptrend. We would rather take the corrections as chances to add to the investment in China.

US : Positive

More and more data showed that U.S. economy on the mend. Besides the indicators for business activities such as industrial productions and PMIs, those for housing market and employment market are also improving in recent months. It showed that the trend to bottom out is getting more widespread.
However, improvements in economic situation led to concerns about government to back out from stimulus policies. U.S. Treasury Secretary Tim Geithner had response by pointing out that U.S. economy is still fragile and government stimulus should not be removed unless a recovery is secured.

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Europe : Positive
Positive surprises came from Germany and France. Both of them reported 0.3% growth in GDP while the expectations were further contraction. Moreover, according to Markit statistics, Germany's service industry and France manufacturing PMIs returned to growth in Aug 2009. The positive surprises from economic data helped European stock markets to play catch up last month.

Japan : Neutral
Political power change hand in Japan. Liberal Democratic Party lost the elections for Lower House of Parliament. The opposition Democratic Party of Japan won a majority of seat to become the new ruling party. Yukio Hatoyama will take over as Japan's Prime Minister. It is expected that the new government will soon announce their plan to revive the economy. But unfortunately, the Japanese economy is heavily dependent on exports. We still expect Japan need to wait for the recovery of consumption demand in major countries to help it turnaround.

China : Positive
Fundamentals are still very supportive for recovery and long term growth in China. Thus, investors should take adjustment in Hong Kong and China markets as chances to add to their holdings.

India : Positive
India announced 2Q2009 economic performance last month, it had expanded 6.1%. What's more encouraging is that GDP growth picked up from 5.9% in the last quarter. Some worries that dry monsoon season is going to have a negative impact on agricultural output and consumption in India. But, the country has started to rain recently and the impact of lack of monsoon rain shall subside gradually.

Commodities : Positive
Gold is heading towards USD 1,000. China's plan to buy IMF bonds stoked concerns about status of USD as reserve currency. But, IMF special drawing right is in fact not a viable alternative to USD. The impact for the news is not expected to last long and gold is not expected to break out from USD 1,000 in near future.
Crude oil also rose on hopes for economic recovery. It has once touched USD 75 in August. In the short term, the major risk factor for oil price is supply disruption due to hurricanes.

Hedge Fund : Neutral
Hedge funds continue to benefit from rising asset prices. Barclay Hedge Fund Index rose 2.24% last month, and the cumulative return in 2009 has increased to 16.61%.

Government Bonds : Negative
Better economic data led to concerns about governments to take back economic stimulus. Still, it is unlikely for U.S. to raise rate anytime soon. It is because U.S. need to keep interest rate low to support the massive Treasuries bonds issuance plan and help the economy to recover. It is a bit too early to talk about rate hike in U.S.. But for Australia, the chance for rate hike is higher. It is because Australia economy is coming back quickly on the back of commodities prices. Thus, RBA is in a better position to consider adding to the interest rate.

Things to Look Forward :
Government exit strategy on economic stimulation becomes a concern for many investors and government officials. News related to the government exit strategy could be market moving and we expect more announcements about it after the G20 summit in Pittsburgh next month.

* All figures and information are collected from Bloomberg.com & Barclay Hedge.

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