

Back on the Right Track

After a lackluster 1996, Asia is set to shine

AMERICAN MONEY HAS BEEN a driving force behind Asia's bull runs in recent years. In 1993, it was U.S. fund managers who pushed Hong Kong to new highs. Warwick Negus is not an American — he's Australian — but he heads up the Asian asset management business for U.S. powerhouse Goldman Sachs. So his investment decisions count. Based in Singapore, he juggles at least \$720 million in funds invested in the region. In addition, Negus, 35, is joint head of the American firm's global emerging markets division. A graduate of the University of New South Wales, he spent seven years as a vice-president at Bankers Trust Australia, where he headed the Southeast Asian investment team before joining Goldman Sachs. He has also worked at natural-resources giant Broken Hill Proprietary. Negus recently spoke with Asiaweek's Steven K. C. Poh.

What will 1997 be like for Asia?

At Goldman Sachs, we are overweight in emerging market equities. We especially like Asia and a number of Eastern European countries. If we are any indication of how the rest of the fund management industry feels, then 1997 should be a positive year for the region.

How about Wall Street?

We expect modest gains this year. However, that depends on continuing low inflation and interest rates. A reversal of these factors would put market valuations under pressure. If the U.S. falls, then Asia would also decline somewhat. Even so, we expect to be heavy buyers in this region. Asia is cheaper than Wall Street, with better earnings-per-share growth. No one should be fooled by the cyclical downturn in its exports. Asia's growth is still with us. This year, we believe it will outperform the U.S.



(Sources: Datastream, Morgan Stanley)

Could there be a regional bull run?

Liquidity in Asia has been adversely impacted by the strength of the U.S. dollar and declining export revenues in general. This has surprised most Asian governments. Many had expected a positive movement in export growth by now. But that has not materialized. Does this mean a bull run is impossible? No. But to get it started would require more than just portfolio inflows into Asia. In fact, such inflows tend to lag stock market success. There would need to be signs of a cyclical pick-up in the world economy to ignite a broad-based bull run in Asia.

What are the major concerns for Asia's economies this year?

For starters, the direction and speed of U.S. dollar movements. A strong greenback puts pressure on local interest rates and, eventually, currencies. U.S. rates and Asian exports are important. But these will also be affected by changes in the value of the dollar. The price of oil is another important consideration for Asia. Currently, there seems to be little threat of global inflation. But a change in the market fundamentals of oil could alter that.

But don't Asian markets work independently of the U.S.?

True, Asia has its own inherent strengths. But, as we've seen in recent months, when exports slow it impacts on the domestic liquidity of countries region-wide. Movements in the U.S. dollar are important [in affecting the competitiveness of Asia's exports]. Secondly, there is a correlation between the S& P 500 and Asian stock markets. If the U.S. tanks, Asia is likely to follow. But in 1997, I would view this event as a buying opportunity [in Asia].

Which Asian markets do you like?

We favor Hong Kong, India, Indonesia, the Philippines and increasingly Malaysia. We also like the currencies of Indonesia and Malaysia. Given the relative economic health of the two countries, interest rate spreads are more than ample. If anything, both currencies may have a tendency to appreciate against the greenback. As for bourses, we are serious about Hong Kong. It is experiencing its best economic conditions this decade. Confidence is high, especially in real estate. Fund managers cannot afford to ignore the opportunities Hong Kong will continue to offer [after the July 1 handover to the mainland].

What sectors do you like?

For value, we favor banks across the board. The benefits from strong lending growth in 1996 are now being felt, together with a worldwide trend towards trimming operating costs. We also see restructurings, spin-offs and mergers among the region's conglomerates as an additional means to create banking profits. Of course, there are exceptions. Thailand is the most obvious example. Other sectors that we like are insurance, ASEAN real estate and consumer-related stocks in general.

What stocks do you prefer?

Among finance counters, we like HSBC Holdings in Hong Kong, Malaysia's Commerce Asset-Holding and Metrobank in the Philippines. In real estate, we favor Straits Steamship Land and Parkway Holdings, both from Singapore. In India, our preferred consumer stocks are Hindustan Lever and Colgate. Hong Kong's AsiaSat also offers great value.