Asia, financial stocks return attractive | Marcel Zimmerman's latest outlook

We translate and publish the market view of our portfolio manager Marcel Zimmermann, taken from Advisor. The original article in Italian can be found at this link: https://bit.ly/3WEFfKw

"The end of zero-tolerance policy on Covid will attract new investors to China"

> *In China, we expect that the opening up of the economy, after the end of the zero-tolerance policy for Covid, will once again attract foreign investors. For the Southeast Asian region, on the other hand, we expect further diversification of the global supply chain away from China more and more. The region will also benefit from the weakening dollar and stable interest rates*

This is the analysis of Marcel Zimmermann, manager of the Lemanik Asian Opportunity fund.

The regional economic situation remained weak during the last quarter 2022, and the Asian Development Bank cut its forecast for 2022 by 0.1 percent to 4.2 percent. The Bank also lowered its forecast for 2023 from 4.9 to 4.6 percent.

Sector performance over the period was **clearly more defensive**, with financial stocks, telecommunications and healthcare outperforming, while energy, commodities and technology lost ground. **Financial stocks benefited from rising interest rate**

margins. The Bank of Japan again intervened in currency markets to support the yen, but Governor Kuroda's move to raise the 10-year bond yield limit from 0.25 percent to 0.5 percent took investors by surprise. The yen rallied sharply on the news against the U.S. dollar.

The **two main factors** contributing to the positive quarterly performance were the **weakening of the U.S. dollar**, which supported the rebound in emerging market stocks, and the **reopening of the Chinese economy**.

In particular, Chinese stocks traded in Hong Kong and the U.S. posted the largest percentage gains after they had hit record lows in valuation during 2022. Among Asian emerging markets, **Indonesia underperformed** as investors took profits on resource-oriented countries and because of the new penal code approved by the government, which indicates a less tolerant form of Islam.

Major geopolitical events have centered in China. **President Xi Jinping consolidated his absolute power** during the 20th National Communist Party Congress, but **faced major uproar across China** against his draconian "zero tolerance" policy. China continues to increase its pressure on Taiwan, and intrusions into Taiwan's air and sea space have reached their highest level since 1949.

> *"Against this general backdrop, the sector allocation of our portfolio has been increased in financial stocks, where we expect a marked improvement in interest margins. We are still mostly hedged on exposure to the yen, given our positive view on the euro versus most currencies. Regional stock valuations remain attractive in our view," Zimmermann concludes.*



Marcel Zimmermann

Marcel has over 30 years of experience in the financial industry in the analysis of financial markets, financial instruments and currencies with a specialisation in Asian equity markets. After 9 years in the Asian Secondary Markets desk of a leading bank in Lugano, he founded an Asset Management company in 1993 and distinguished himself in market research and analysis to support asset allocation decisions and stock picking of Asian companies on behalf of institutional clients….

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