Market Insights
What the latest ECB moves mean for Asia dividend investing

September 2014

In early September 2014, the European Central Bank (ECB), in an attempt to revive the real economy, announced further cuts to deposit and refinancing rates. Further guidance was also provided on the banks plans to increase liquidity through the purchase of asset backed securities. But what does this mean for investors? Here are a few thoughts:

- **Expect slower global growth ahead, especially from developed economies –** with the exception of the US where we see a more promising economic recovery. The eurozone faces challenges to achieve its 1.5% 2015 gross domestic product (GDP) growth target with muted inflation. Japan is expecting softer year-on-year growth and faces the dilemma of implementing its second consumption tax hike amidst a softening of economic data since its initial hike in April 2014. Please refer to Figure 1.

Figure 1: Bloomberg economic growth (%) forecasts

	2014	2015
US	2.00	3.00
Euro Area	1.00	1.51
Japan	1.40	1.20
Australia	3.10	3.00
China	7.40	7.20
Hong Kong	3.00	3.50
Taiwan	3.50	3.60
Singapore	3.50	3.70
South Korea	3.60	3.80
India	-	5.40
Thailand	1.50	4.05
Indonesia	5.20	5.60
Philippines	6.30	6.50
Malaysia	5.60	5.20

Source: Bloomberg, as at 5 September 2014.

- **Similarly, expect accommodative monetary policies –** whilst the US undergoes the advanced stages of tapering and further easing is anticipated from the European Union (EU) and Japan, global rates will likely remain at very low levels for years ahead. We may see the long-anticipated interest rate hike in the US finally materialize, but the magnitude of the hike is expected to be mild. We foresee with subdued growth prospects for other major economies.

- **Yield investing will continue to be a powerful theme –** with negative carry in the eurozone, European investors will look aboard to chase yield. Risk assets such as developed market equities also appear rich in valuation terms, with US equities trading at historically high levels and European corporate earnings yet to return to pre-crisis levels.

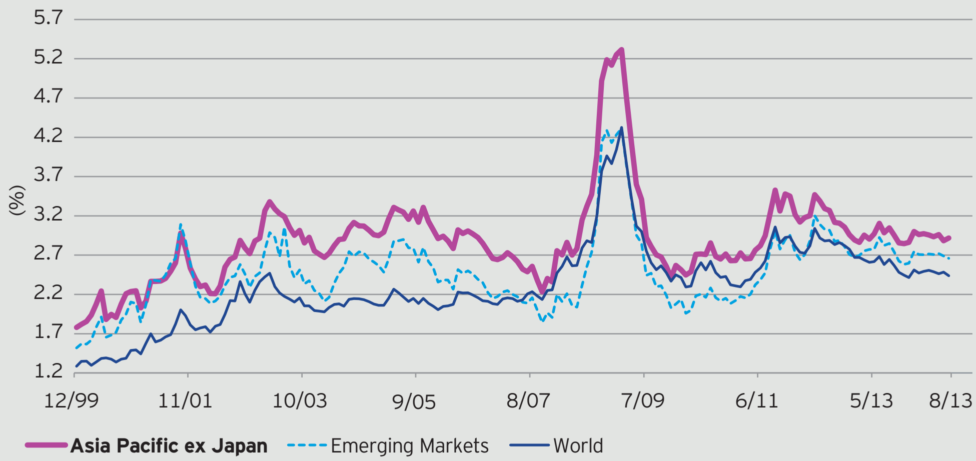
- **A solid investment case for Asia ex Japan –** with the region expected to deliver 6.2% GDP growth in 2015, global investors and asset allocators are looking to invest abroad. Already we have seen quick money from dedicated emerging market exchange traded fund (ETF) flows in recent months. Markets such as India and Indonesia have become more promising with the momentum from their election outcomes translating into concrete steps being taking to implement reform.

Market Insights
What the latest ECB moves mean for Asia dividend investing

September 2014

- **Asia ex Japan dividend investing has just become more attractive.** In addition to providing historically higher yields than emerging markets and world equity markets (refer to Figure 2), latest government policies in Asia have become more accommodative for yield investors. The two biggest Asian markets have implemented measures that encourage companies to enhance shareholders' return via dividends. China's state-owned enterprise (SOE) reform emphasizes dividend returns via cost cuts, capital expenditure reduction and capacity redundancy minimization. Meanwhile, Korea has announced a series of pro-dividend tax measures to encourage corporates to distribute cash to shareholders. On top of the potential higher dividend yields, Asian companies also have strong capital growth potential. Asian economies are expected to grow at 6.2% for the full year of 2014 – an impressive pace especially in a slow-growth world. This robust growth momentum will translate into potentially better earnings growth and capital appreciation opportunities.

Figure 2: Asian equities: trailing 12-month dividend yields



Source: CLSA Quantitative Research, as at 31 August 2014.