

Where to invest in 2009?

Investors can benefit from buying equities in Asia this year, writes *Eddy Wong*

Last year was a horrible year for the global equity and commodity markets. Global bonds should have benefited from the global interest rate cuts, but only the U.S. Treasury Department delivered a decent return for investors in 2008.

With the continued volatility in global equity markets, 2009 is shaping up as a tough year for investors too.

There are, however, a few silver linings. After a big slide in stock prices since last October, a sufficient level of pessimism has now been factored into the market. As of January, the earnings yield averaged 10 percent for 14 major markets around the world, with estimated price-earnings ratios for most

of these markets at five-year lows. In comparison, the average five-year bond yield was about 3.7 percent as at the end of January, making equities much more attractive than bonds this year.

Market indicators show that investors are more optimistic this year. The Chicago Board Options Exchange Volatility Index, which measures the level of fluctuations in equities, has plunged from historical highs of more than 80 at the end of last year to the range of 40-50 in February (*see chart*).

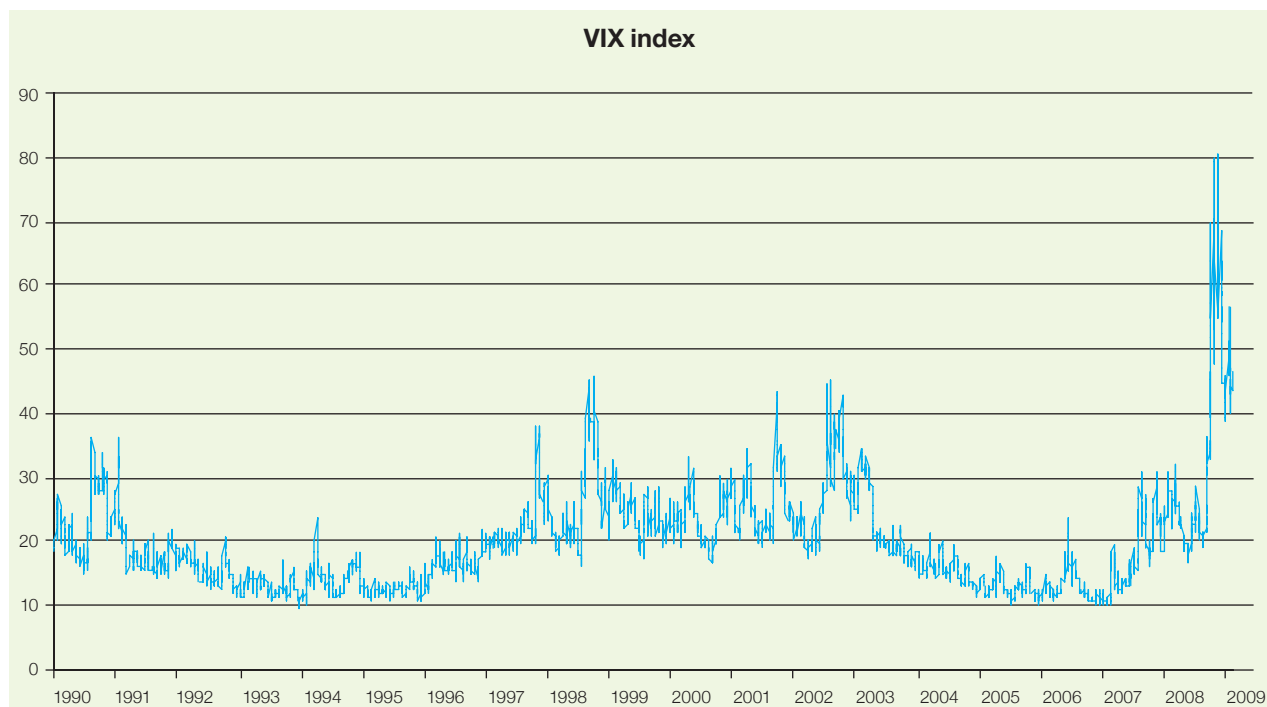
Asia, excluding Japan, is the best regional market to invest in this year. The region's financial sector has been unfairly battered down, given that Asian financial companies' balance

sheets and overall health are sound, and can quickly rebound when sentiments improve.

With an estimated price-earnings ratio for 2009 standing at only 10.2 times as at the end of January, Asia has very attractive valuations now. The price-earnings level is comparable to that during the SARS crisis in 2003 and the Asian financial crisis in 1997-98. With the Asian Development Bank forecasting a 5.8 percent growth for many developing areas of Asia this year, their share prices are undervalued right now.

China, as the world's fastest growing economy, will likely be the top performer in the region.

Chart: Chicago Board Options Exchange Volatility Index



Source: Chicago Board Options Exchange

According to the International Monetary Fund's World Economic Outlook Update published in late January, China is forecast to grow by 6.7 percent this year, compared to a global GDP growth of 0.5 percent.

However, China's exports, one of three traditional factors that drive China's economy, may be very weak in 2009, as global demand for Chinese exports has fallen sharply since the fourth quarter of last year. According to JP Morgan's estimates, net exports accounted for 22 percent of China's economic growth in 2007. In 2008, however, its net exports contribution decreased 13.9 percent to only 8.1 percent and may not contribute at all to China's GDP growth this year.

Therefore consumption and investments, which accounted for 91.1 percent of China's economic growth in 2008, will be the pillars sustaining the country's economy. The four trillion yuan stimulus package and aggressive rate cuts approved last year by mainland officials can help boost investment.

This year, the government will also implement new policies to boost consumption, such as raising the ceiling for tax-free income, expanding health and education subsidies for low-income households and possibly increasing the price ceiling for grain procurement. Such anticipated plans will likely produce positive results by the second quarter.

Investors will have to watch out for a higher-than-expected fall in corporate earnings margin and a further slowdown in exports demand in Asia.

Some export-oriented economies such as Taiwan and South Korea may slow sharply. For China, because of excess capacity built up in the past few years, production may fall and the mainland government's stimulus measures may fail to boost consumption to a desired level.

Despite these drawbacks, Asian equities remain an attractive investment this year.

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