

1115 | 2018

# ASIA CHART OF THE WEEK

## Earnings and Dividends Paint Resiliency

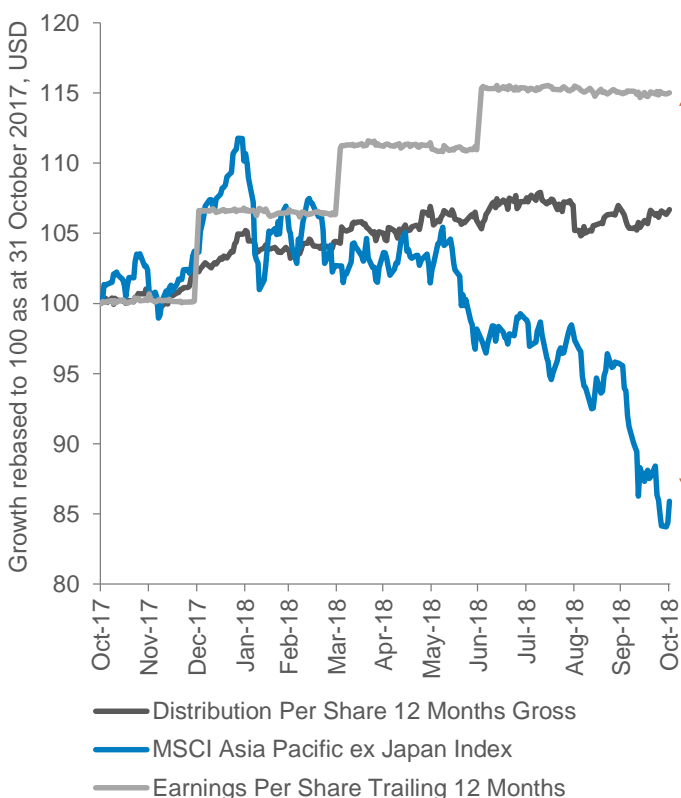
### Dividends and earnings paint resiliency

- Over the last 12 months, the MSCI Asia Pacific ex Japan Index has seen persistent weakness due to a convergence of desynchronized global growth and geopolitics. However, over the same period, strength in bottom up fundamentals has been frequently overlooked.
- A combination of corporate prudence and top line growth have seen trailing 12 months earnings per share rising steadily to 15% over the last year. Dividends, which some argue is a better measure of corporate health, has risen 6% over the same period. The MSCI Asia Pacific ex Japan Index, in contrast, has seen its value erode by over 14%. (Chart 1).
- For the bottom up, value conscious investor, this dissonance between fundamentals and price presents an opportunity, especially when Asia Pacific ex Japan equities are more than a full one standard deviation away from its 10-year Price to Book valuation. (Chart 2).

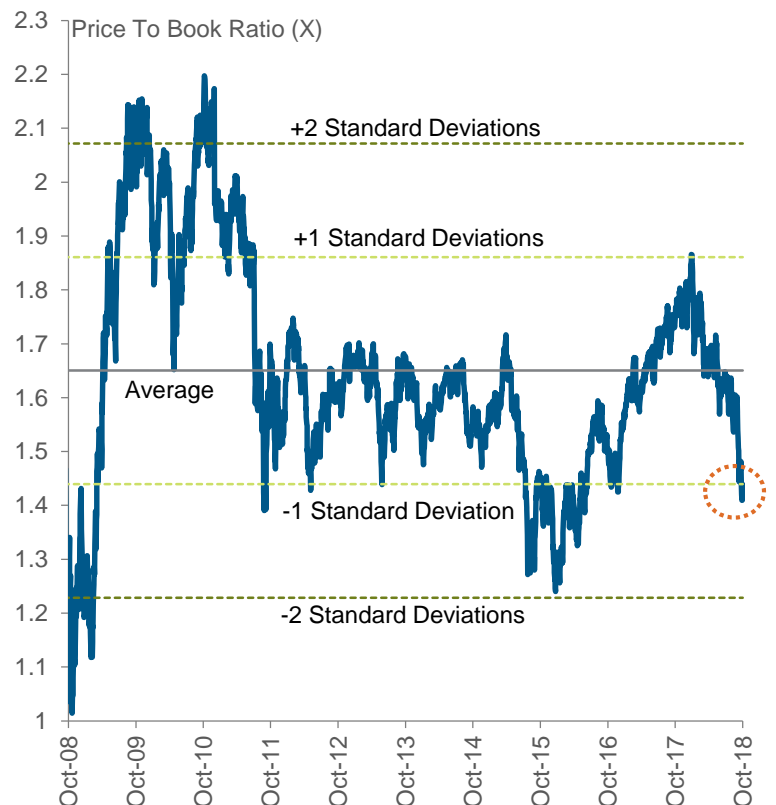
### The bottom line

- Due to higher exposure to external trade, Asia Pacific ex Japan equities have always been more volatile than its global peers.
- As the markets continue to digest short term news flow, long term investors will look beyond the noise and recognize that opportunities emerge when fundamentals and price diverge.

**Chart 1: Over the last year, Asia Pacific ex Japan equities' earnings and dividends have risen but stocks have fallen.**  
(31 October 2017 to 31 October 2018).



**Chart 2: Asia Pacific ex Japan equities' valuations are attractive from a 10-Year perspective.**  
(31 October 2008 to 31 October 2018).



Source: Legg Mason, MSCI, Bloomberg, as of 15 November 2018. Data in USD, 31 October 2018. Asia Pacific ex Japan equities refer to the MSCI Asia Pacific ex Japan Index.

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