0125 I 2019

ASIA CHART OF THE WEEK

Do not be complacent about volatility

Asian equities (MSCI AC Asia Pacific ex Japan Index) started the year strongly, up 4.6% as at 18 January 2019. In tandem, Asian equities volatility (HSI Volatility Index) has eased more than 25%. However, considering that this is only January, there is ample opportunity for uncertainty to ramp up and markets to turn south.

QS Investors' 2019 annual outlook addresses the impending volatility and advocates a place for defensive equities in one's portfolio.

'An allocation to defensive equity strategies, providing exposure to stocks with lower price volatility, higher dividends and strong earnings/profitability, adds a differentiated return stream with potentially more attractive risk-adjusted returns than the broad equity market." (QS Investors, Market Outlook 2019: Choppy Markets Ahead)

The bottom line

Attractive valuations and healthy corporate and fundamentals demand an allocation to Asian equities. However, the persistent presence of external risks suggest guarding against the recent complacency of lower volatility. An option for investors is to take on a defensive equity strategy, which in Asia's experience, has delivered more return per unit of risk when compared its plain vanilla counterpart over 3, 5 and 10 years.

Click for the full QS Investors outlook and explore how Legg Mason's other investment mangers are positioned for 2019.

Chart 1: The MSCI AC Asia Pacific ex Japan Index has risen while the Hang Seng Volatility Index has fallen. (31 December 2018 to 18 January 2019)

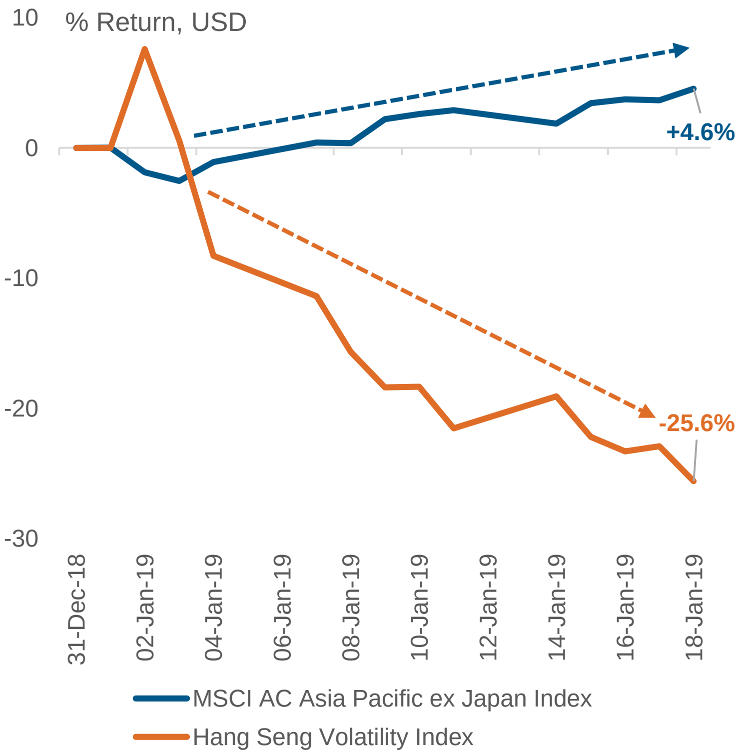
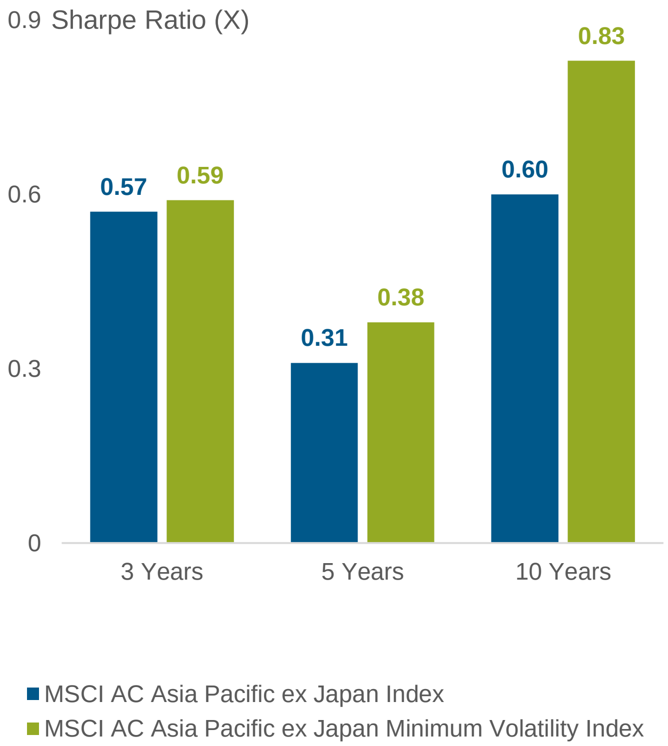


Chart 2: An Asian defensive equity strategy* has delivered superior Sharpe ratios over the last 3, 5 and 10 years. (31 December 2018)



Source: Legg Mason, QS Investors, Bloomberg, MSCI. Data as of 18 January 2019, unless stated otherwise. Returns in USD. *Refers to Asia Pacific ex Japan Minimum Volatility Index. Sharpe ratio refers to the average return earned in excess of the risk-free rate (Based on ICE LIBOR 1M) per unit of volatility. Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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