

20181004

ASIA CHART OF THE WEEK

Beckoning valuations

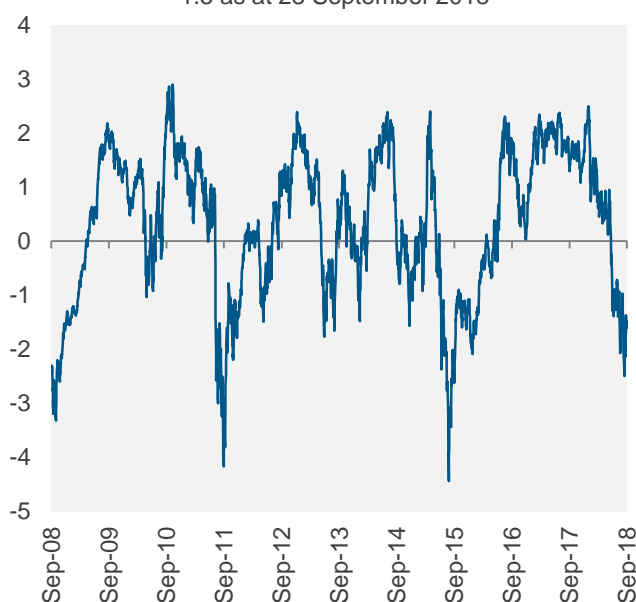
Beckoning valuations

- The Asia Pacific ex Japan region has been gutted by trade war tensions, profit downgrades and a general concern that global economic growth might be rolling over.
- However, investors are also cognizant that of the benefits of rising intra-Asia trade, growing corporate cashflow, reduced leverage and more fiscally prudent governments. Perhaps these factors contribute to mitigating the weakness experienced by Asia Pacific ex Japan equities year to date.
- From a valuations point of view, the present is a good time to consider the attractiveness of the region. In relative terms, the spread between the Price to Book measure of Global Equities and Asia Pacific ex Japan equities is at its 10-year peak **[Right chart]**. That implies that the markets think the prospects of Global corporates, in totality, are currently at its absolute 10-year best when compared to Asia Pacific ex Japan companies. It currently reads 0.9 versus a two standard deviation measure of 1.0.
- When compared to its own 10-year history, the Z-Score of Asia Pacific ex Japan equities' price level reads -1.5. This means that Asia Pacific ex Japan equities is 1.5 standard deviations below its 10 year mean and it has only happened a handful of times over the last 10 years

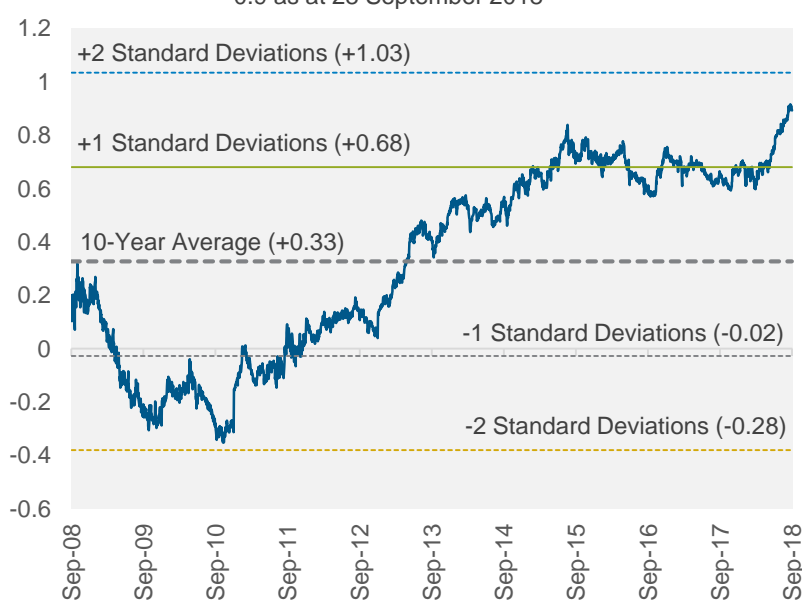
The bottom line

- Timing the market is like catching a falling knife; results are sub-optimal either way. On the other hand, being aware of relative and absolute valuations is a good way to begin looking for investment opportunities that match a particular risk-return profile. From a valuations perspective, Asia Pacific ex Japan equities are looking attractive.

MSCI Asia Pacific ex Japan Z-Score
(250 Day Rolling Basis).
-1.5 as at 28 September 2018



Price to Book Spread
MSCI World Index - MSCI Asia Pacific ex Japan Index
0.9 as at 28 September 2018



Note: The Z-Score statistic is a numerical measure of a data point's relationship to the mean in a group of data. A Z-score of 0 means the data point is equal to the mean of the data group. A Z-score can be either positive or negative and also shows how many standard deviations the data point is above or below the mean.

Source: Legg Mason, Bloomberg, as of 4 October 2018. Data in USD, 30 September 2008 to 28 September 2018. Asia Pacific ex Japan equities refer to the MSCI Asia Pacific ex Japan Index. **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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