

Input 26.02.2019

Good morning

2019 is the Year of the Pig, the 12th of the 12-year cycle of animals that name the years. According to Chinese myth, the pig is the last zodiac sign on the calendar because he overslept and arrived late to the party in which the order of the zodiac was determined. To be sure, there are many reasons to be cautious with respect to China. It is easy to imagine trade tensions reigniting or the economic data disappointing. But the outlook for China is still promising and the performance this year reflects that. After all, it is important to remember the symbolism of the Lunar New Year: With their chubby faces and big ears, pigs are often viewed as a symbol of wealth in Chinese culture.

Stock markets recovered well since December 2018; both China and the US have incentives not to escalate the conflict and December's market volatility in the US stock market has led to wider recognition that trade tensions could hurt domestic business confidence and employment.



Weather forecasts are made by collecting as much data as possible about the current state of the atmosphere and using understanding of atmospheric processes (through meteorology) to determine how the atmosphere evolves in the future. However, the chaotic nature of the atmosphere and incomplete understanding of the processes mean that forecasts become less accurate as the range of the forecast increases. Financial market outlooks became similar, reading many articles between September 2018 and January 2019. The accuracy of all “apocalyptic” economic scenarios made it challenging to hold on to mid- & longterm horizon oriented positions.

As the dust settles, there is a silver lining. Even before the fourth quarter downturn, markets had been cheapening in valuation terms. Relative to consensus earnings forecasts for the next 12 months, US, UK, European and emerging market equities are valued at close to their cheapest levels for four to six years. There is a similar story when prices are compared to the previous 12 months’ earnings. Japanese equities have not been cheaper on either basis since the depths of the financial crisis. In the present environment of low interest rates we suggest to hold on to equity oriented strategies, and to focus on dividend yields versus fixed income. Markets remain unpredictable for sure - interesting reflections can be found within this link: <https://www.forbes.com/sites/greatspeculations/2019/01/16/u-s-stock-market-cycles-point-higher-in-2019/#1580de2e1ad2>



The future of trade in Asia could depend heavily on what becomes of China’s expansive One Belt, One Road initiative, which calls for massive investment in and development of trade routes in the region. As Xi’s trillion-dollar development strategy has snaked away from the Eurasian heartland and into the South Pacific, western Africa, and Latin America, concern has grown. Many Americans fear that the Belt and Road Initiative is an extension of efforts by the Chinese Communist Party (CCP) to undermine the security and economic architecture of the international order. China’s growing largesse, they worry, comes largely at the expense of international institutions and American influence.

The Chinese government has provided concessional loans for Pakistan government’s major transportation infrastructure projects, with a composite interest rate of around 2% in repayment period of 20-25 years. Projects under the CPEC, completed or under construction, amount a total investment of \$18.9 billion. These projects should solve two major bottlenecks hindering economic development of Pakistan: lack of transportation infrastructure and energy

shortage. The Pakistani government has provided sovereign guarantee which hopefully will not backfire. “It is important that the design of the projects be solid and excessive debts which cannot be repaid are avoided,” the IMF chief economist said. US Secretary of State Mike Pompeo said there was “no rationale” for an IMF bailout of Pakistan that pays off Chinese loans to Pakistan. Chinese officials have rejected criticism that the so-called China-Pakistan Economic Corridor projects have burdened Pakistan with unsustainable debts. The article on <http://www.cadtm.org/Is-Pakistan-falling-into-China-s> is more critical than the Chinese officials version.

Your view on present developments is highly appreciated, and I would look forward to exchange ideas at our next personal meeting or chat

Best wishes,

Björn