

How do you Prepare for the Unexpected?

Featuring: **Zhen Wei**, Head of China research

Adam: This is MSCI Perspectives, your source for weekly research insights as investors respond to the COVID-19 pandemic. I'm your host Adam Bass and today is April 17th 2020. This week, we spoke with Zhen Wei, MSCI's head of China research. Zhen has been managing the effects of this crisis since the year began. Zhen, thank you so much for joining us. Now, in the US, we are still adjusting to social distancing, working from home, but you've been there for a few months now. How are things going?

Zhen: Here in Asia, we have been first hit by the Corona virus. So probably a bit, you know, have a bit more experience handling the working from home, et cetera.

Adam: Now, this is not the first time you've been in the belly of the beast during a crisis, right?

Zhen: Yeah, I was working for the investment banks named Lehman Brothers, right? This is just a few months prior to the bankruptcy of the firm. Back then none of us didn't know it, the vulnerability that's shown in one sector of the economy could lead to catastrophe if the governments are not prepared or determined enough, or coordinated enough to address it, right?

Adam: Shifting back to the present, what does the economic picture look like in Asia and APAC as a whole?

Zhen: Well, I think so far China and including Hong Kong and Taiwan were doing great in the recovery stage, right? And Korea was doing great. But not so obvious in other countries as of now such as, you know, South East Asia and Singapore where we see a potential second wave. And India and Australia are seeing, you know, are still in the first wave, right? So even in APAC we are at various stages of the outbreak and the recovery cycle.

Adam: What are the signs we've seen that economies are picking up?

Zhen: So we've been seeing early indications of resumption of economic activities in general in APAC. Despite the risk of second outbreak, when you look at economic activities definitely there is, you know, more lagged version of economic data where you can even look at industrial productions, you know, PMI's, but lately I think people start to look beyond those traditional indicators by looking at also alternative data, big data, right? An example includes data referring to traffic congestion and referring to, for example, residential property activities. What we've been seeing, China is, you know, people start to drive again on the road, there's some traffic congestion similar to the level we see end of 2019, right? And there are data been looking at air pollution levels and coal consumptions, right? So if you're looking aggregately, both are economic indicators and alternative data. We would say roughly China would have returned to roughly 80% of economic activity of the end of 2019 levels, right?

Adam: And how have investors reacted?

Zhen: First of all, I think a number of clients start to look into potential market dislocation out of these market reactions and volatility during the recent weeks, right? I'm just citing some example. After this

recent market reactions, still we have been seeing North America was in terms of valuations is still valued around historical average, is not exceptionally cheap, where if you compare the regions versus other regions such as the Pacific, right? Especially the developed APAC region, the valuation is actually relatively high. We have been seeing small caps is valued cheaply versus large caps, versus its history. And in terms of sectors, for example, there has been fundings that financial sectors has been relatively cheap valued versus communications service sectors, right?

Adam: What has a potential recovery in China meant for equity markets around the world?

Zhen: First of all we should recognize statistically, China has been a bigger share of global economy and trade, right? So consequently China are exerting much greater influence in global economy and the financial markets, right? To citing IMF and the World Bank, China's share of global trade rolls from 5% in 2003 where the SARS outbreak started from China, to 11% in 2018. And if you're looking at our MSA indexes, China has only been around 7.9% of our MSA emerging market index back in 2003. And this China weight has steadily rised to beyond 34% at the end of 2019.

Adam: What other global trends have you seen?

Zhen: One trend we've definitely seen across client segments in APAC is the renewed interest on sustainable investing in both international and local investment context, right? I think this is basically driven by a number of factors. First of all ESG and sustainable investment strategies really showed resilience, right, broadly throughout the crisis so far. And another reason is that given the outbreak, there's more, you know, in-depth reflections how sustainable investments could clear a row in the strategic asset allocations of various investors. So these are all interesting trends we've been observing so far.

Adam: Really interesting that you should bring that up. Every single guest we've had on has mentioned it. Absolutely a trend to watch. But let's go down one level from markets. What about individual companies?

Zhen: That, I think simply the Corona Virus situation is going to reshape the global megatrends and how companies are evaluating their business opportunities.

Adam: How so?

Zhen: Why is definitely the globalization versus regionalization of a supply chain and how that affects operations and national securities, right? And also some long term effects such as supply chain disruptions and potential reorganization of supply chain. And the second broader discussion is really about the so called future of work and the consumption and how technology could play a role. There is definitely a bigger role that's being played by ecommerce, you know, remote working technologies and learning tools. There is a lot more utilization of also, you know, food deliveries remotely, you know, learning remotely. There is basically a general re-think about the issue of a social contacts, right? And how the role of individuals and institutions play a role in the overall organization of states and society.

Adam: Let's go back to your time in Lehman in 2008. What did you take away from those experiences?

Zhen: So what I learned personally from this experience is really first of all, any such short-term volatility will pass if you look beyond, far beyond the short-term volatility. In such periods of heightened market volatility, those could have long-term investment views that especially can equipped with the right tools and data information are felt far better to position for a rebound and investment opportunities ahead.

Adam: That's all for this week. Thanks to Zhen and to all of you for joining us. Be sure to follow us on the MSCI LinkedIn page and to bookmark www.msci.com/coronavirus for all our crisis related content. Until next week, I'm your host Adam Bass and this is MSCI Perspectives. Stay safe everyone.

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