
22 Feb 2023

We live in a multi- polar world and ought to invest like it

Julian McCormack
Analyst, Platinum Asset Management

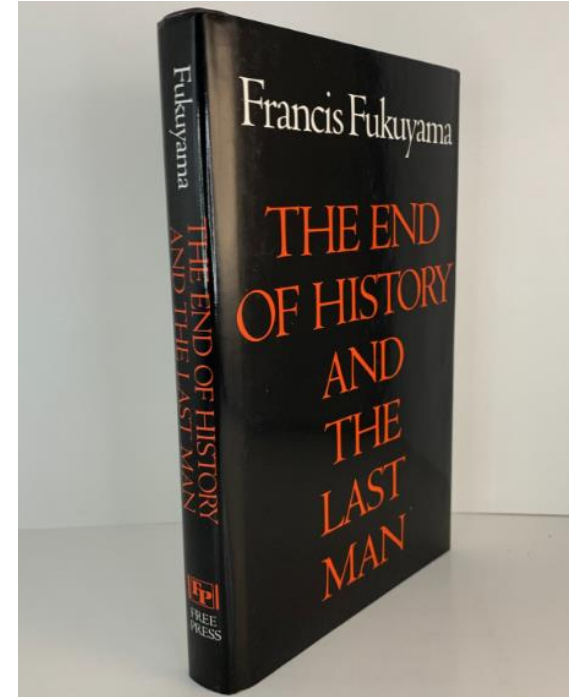
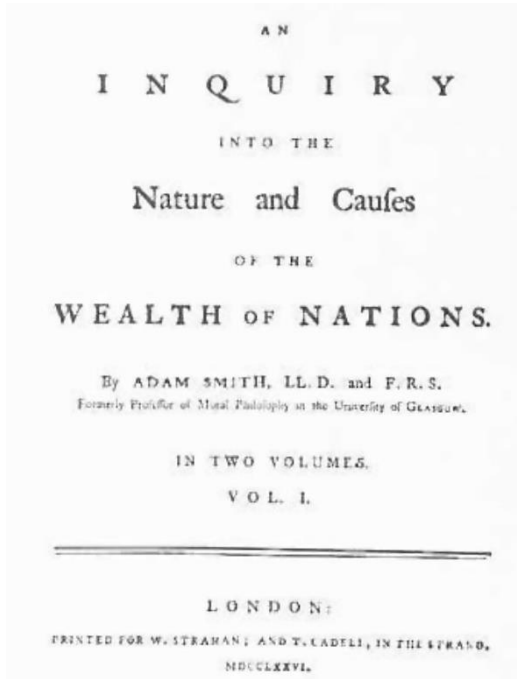


Portfolio
Construction
Forum

We live in a multi-polar
world...

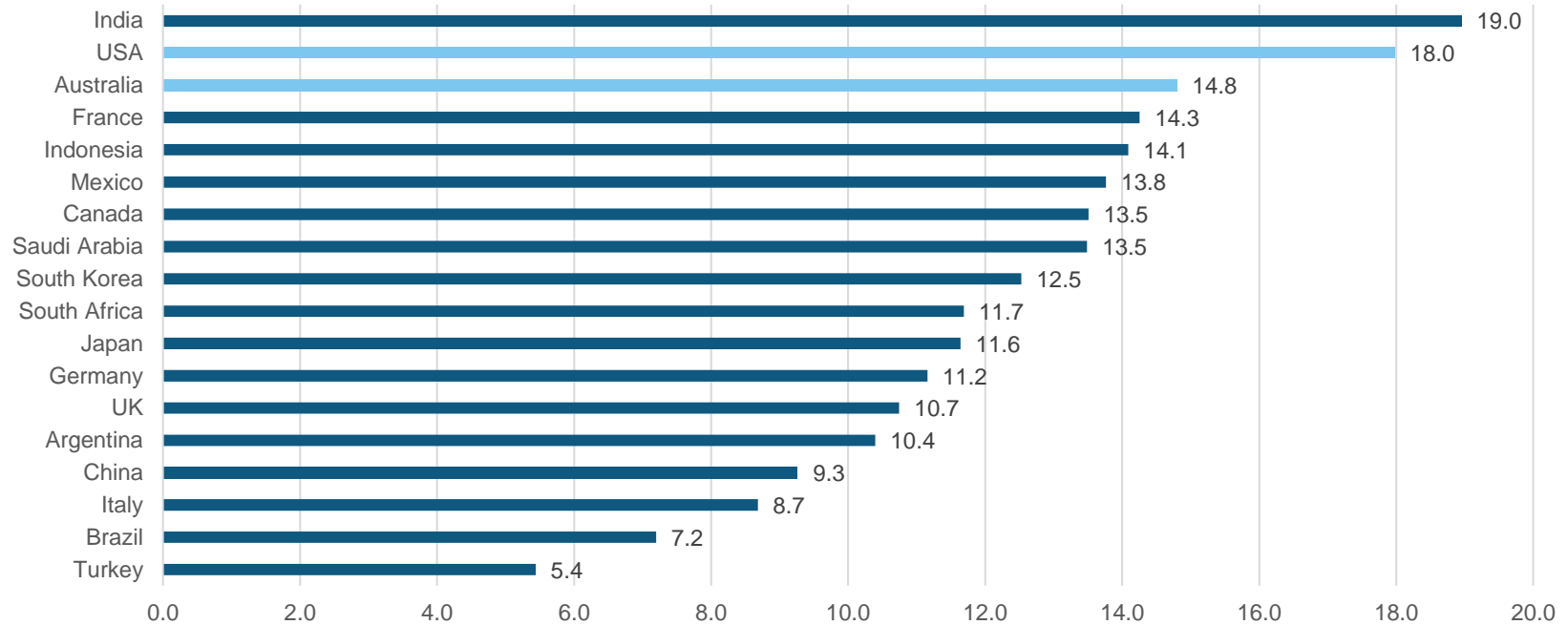
And ought to invest like it.

From superpowers, to sole hegemony, to... now what?



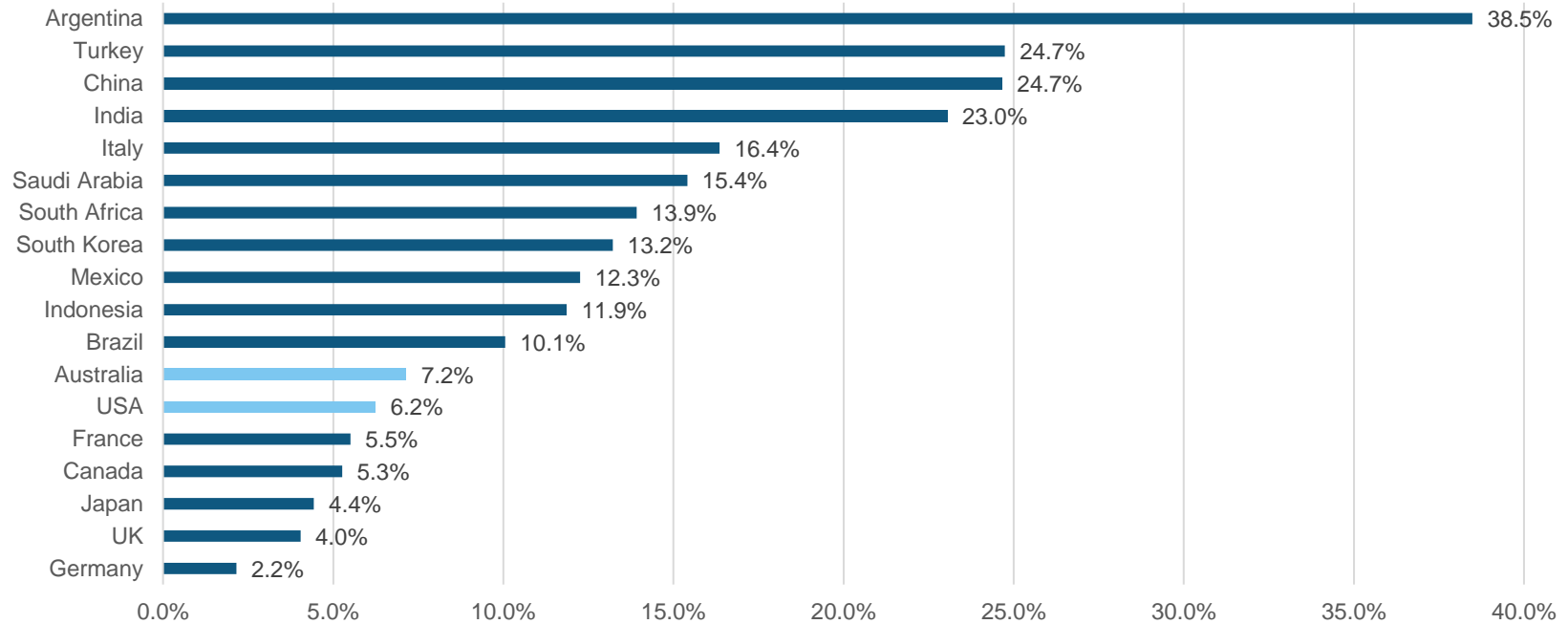
Price-earnings ratios – Next 12 months

PE ratios of select major markets, MSCI national indices



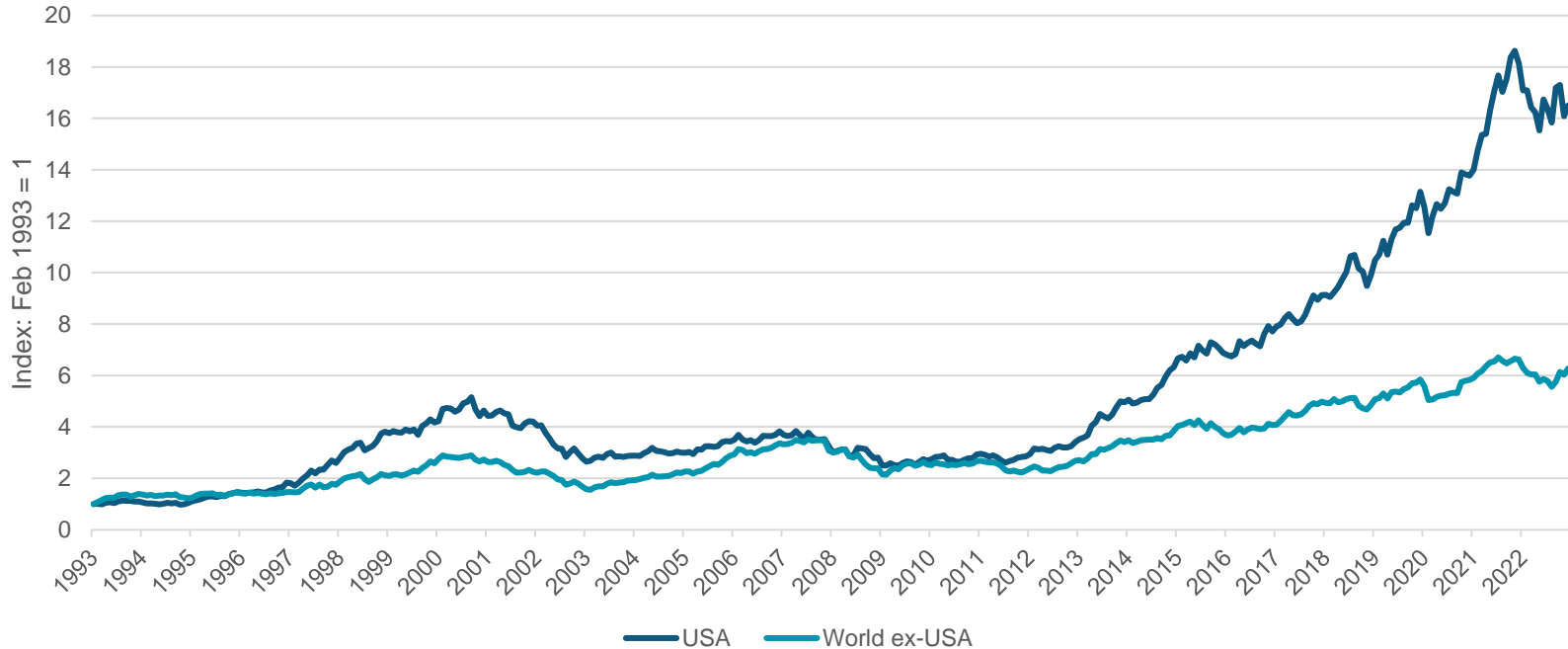
Major market EPS growth – Next 12 months

EPS growth of select major markets, MSCI national indices



Virtually all returns have been enjoyed by one market

MSCI USA versus MSCI World ex-USA

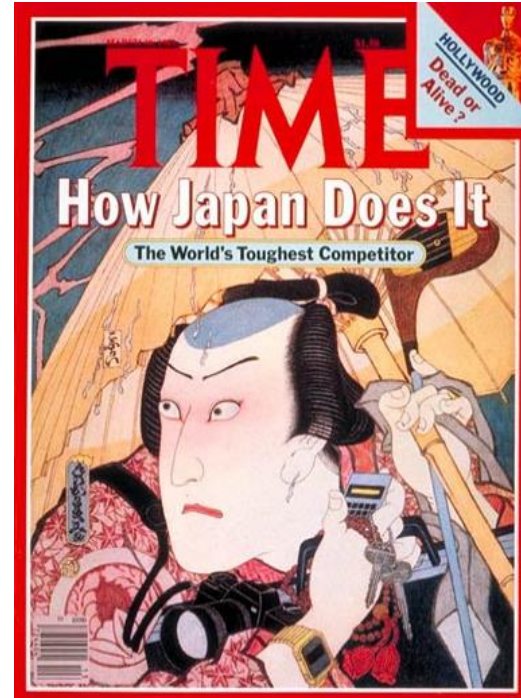
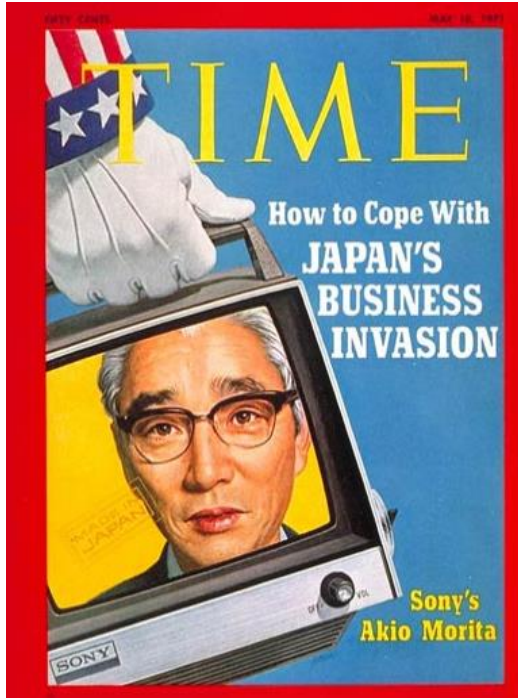


It is all cycles



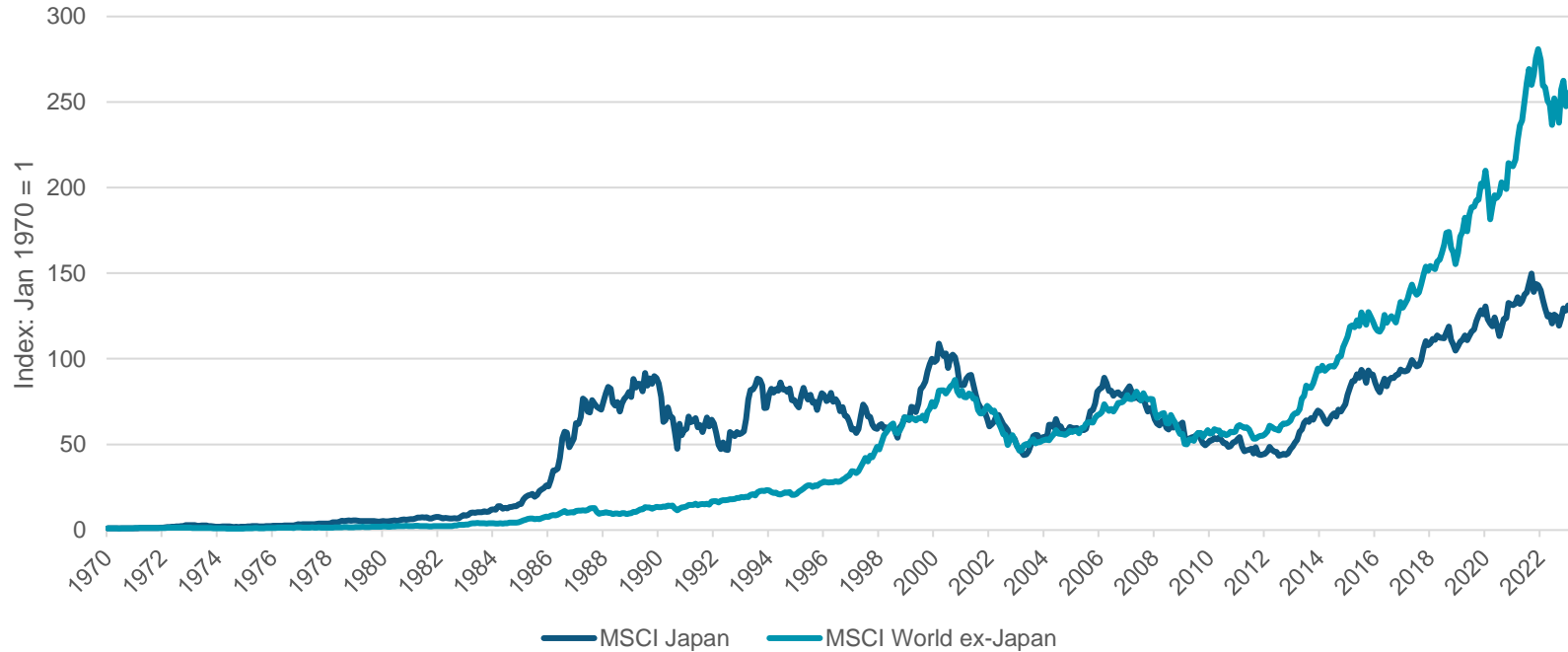
Japan in the '80s: A story of industrial dominance

...or was it?



Beware of yesterday's winners

MSCI Japan versus MSCI World ex-Japan



Chinese residential property...

...is the most important industry in the
world that no one understands



Chinese property: A very boring bubble 1

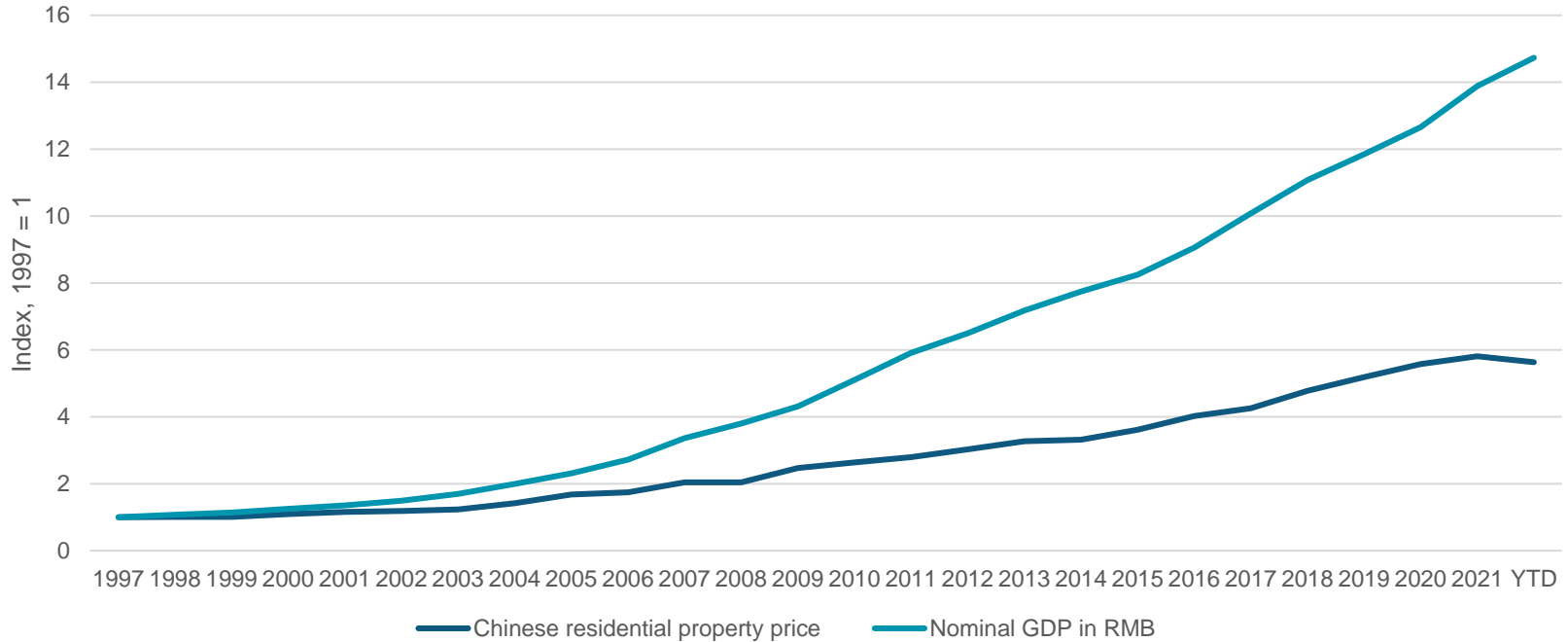
Chinese property prices versus nominal GDP by year

	1998	1999	2000	2001	2002
Change in avg residential property price	0.9%	-0.1%	8.1%	6.0%	3.0%
Change in nominal GDP	7.3%	6.0%	9.8%	8.6%	10.3%
	2003	2004	2005	2006	2007
Change in avg residential property price	3.9%	15.2%	18.1%	4.1%	17.0%
Change in nominal GDP	13.7%	17.5%	15.6%	17.8%	23.7%
	2008	2009	2010	2011	2012
Change in avg residential property price	-0.3%	21.1%	6.7%	6.1%	8.4%
Change in nominal GDP	12.7%	13.7%	18.3%	15.7%	10.0%
	2013	2014	2015	2016	2017
Change in avg residential property price	7.7%	1.4%	9.1%	11.3%	5.7%
Change in nominal GDP	10.5%	7.8%	6.5%	9.9%	11.3%
	2018	2019	2020	2021	22 YTD
Change in avg residential property price	12.2%	8.7%	7.5%	4.2%	-3.1%
Change in nominal GDP	9.9%	7.0%	6.8%	9.7%	6.1%



Chinese property: A very boring bubble 2

Chinese property prices versus nominal GDP, indexed

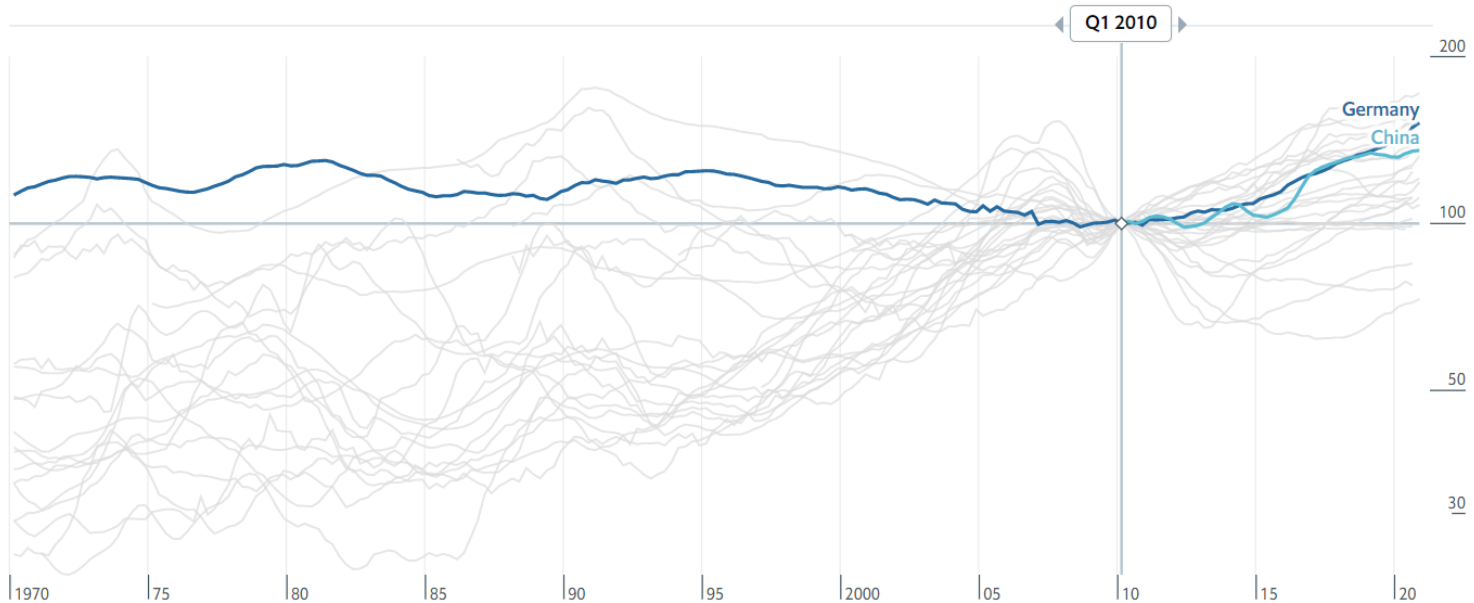


Chinese property: A very boring bubble 3

House prices in **Germany** are **52% higher** now than in **Q1 2010**
House prices in **China** are **35% higher**

Q1 2010=100

Log scale



HOUSE-PRICE INDEX IN

real prices nominal prices

HOUSE PRICES AGAINST

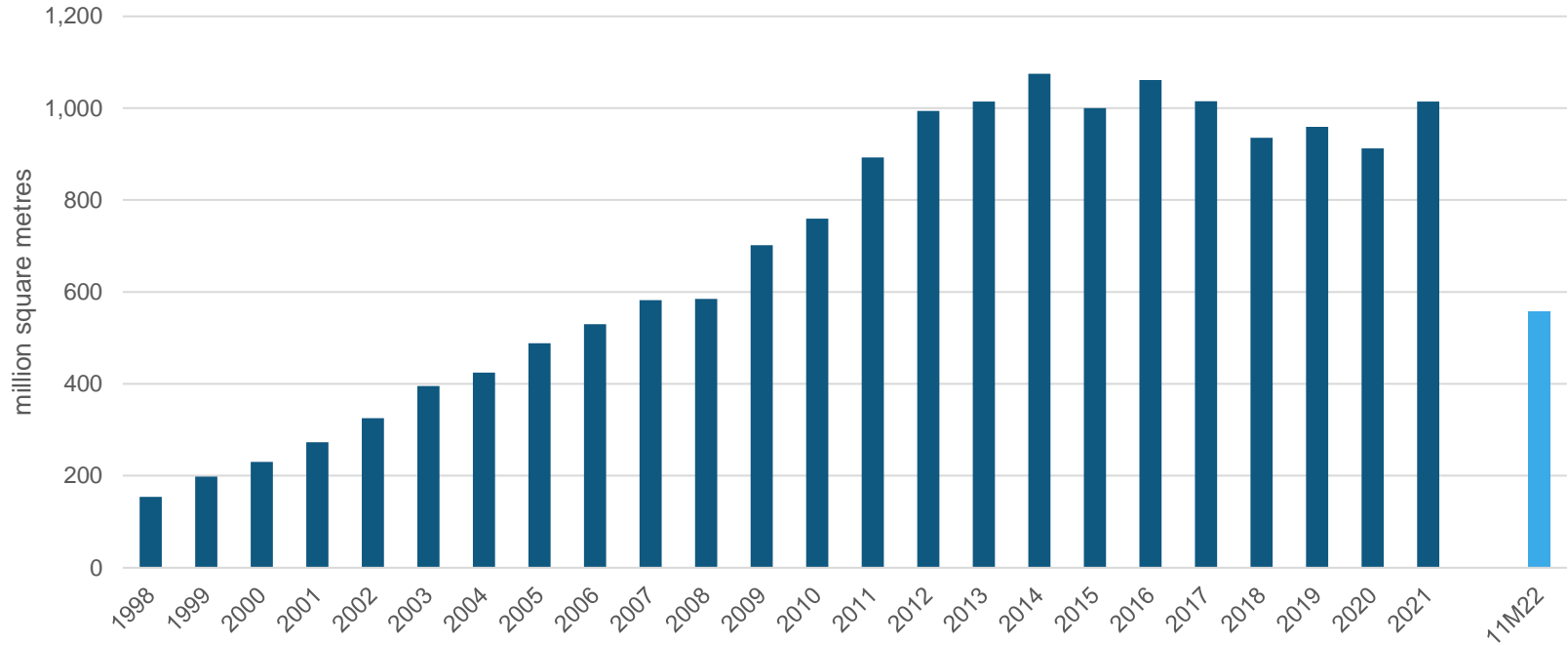
income rent

Sources: national statistics; OECD; *The Economist*



Building a lot: 17 billion square metres

Chinese residential property completions in square metres by year



Some numbers

Population: 1.4 billion

Urbanisation rate: 62.5%

Average household size: 2.6 people

Residential housing area per person:
39m²



Some numbers

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Urbanisation rate: 62.5%

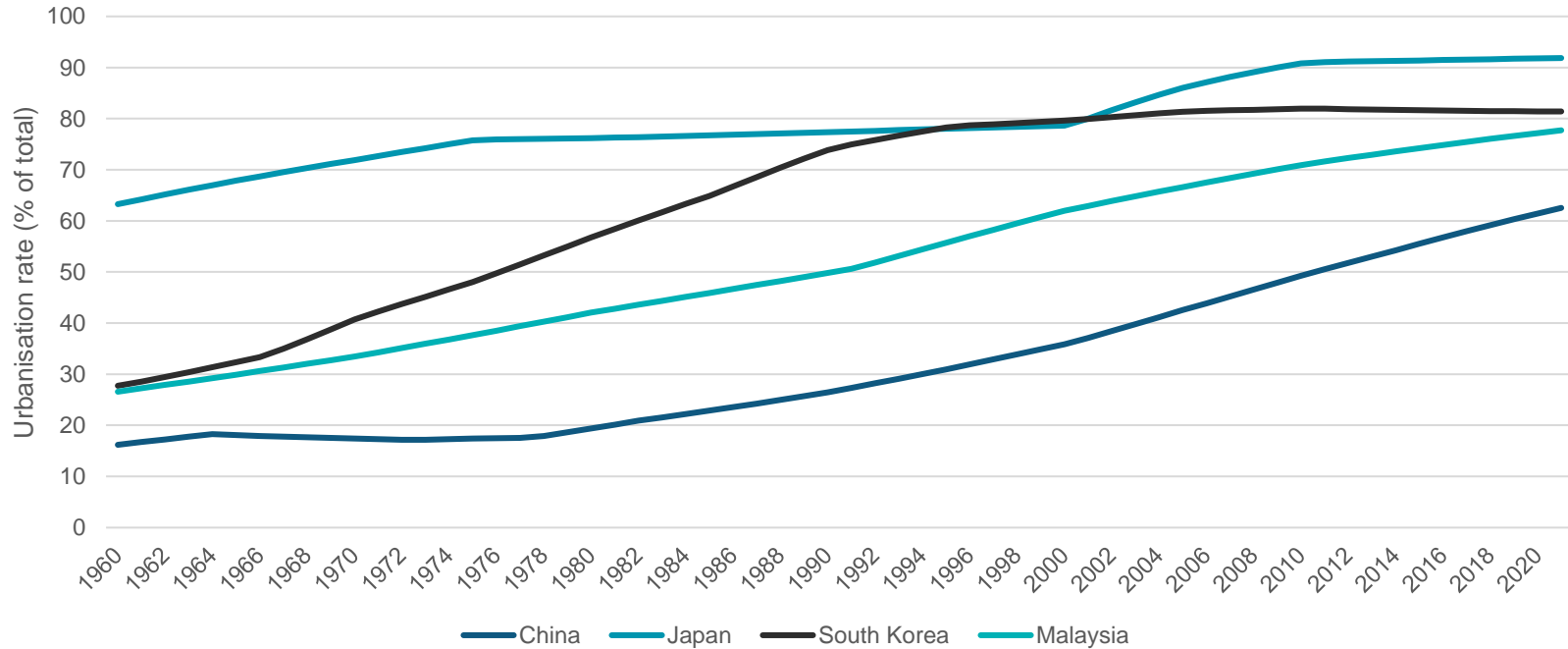
Average household size: 2.6 people

Residential housing area per person:
39m²

Of 875 million
urban
residents, <500
million live in
modern
housing

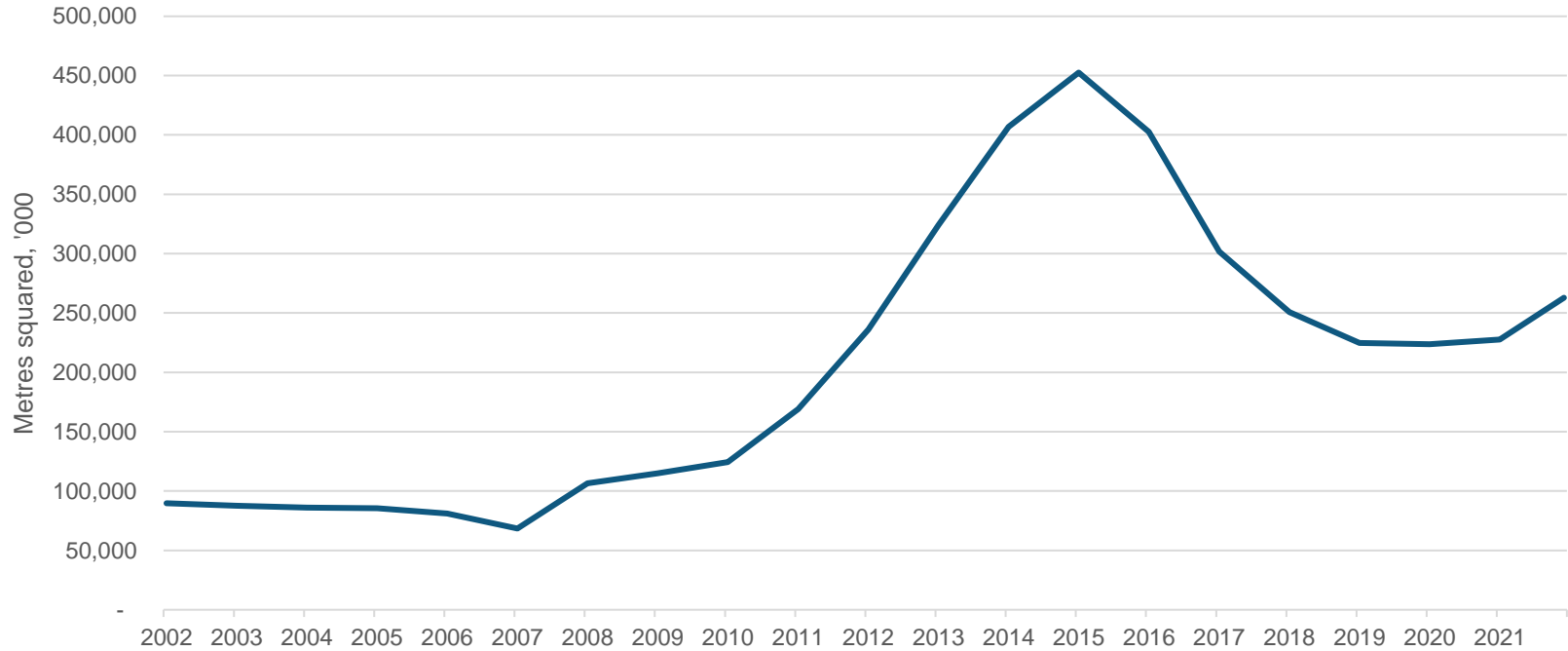


But a lot of building is needed: Asian urbanisation rates



Chinese residential property inventory

A very boring crisis indeed



So who cares? There is money to be made here!

China Resources Land, 1109.HK



華潤置地有限公司
China Resources Land Limited

- ◆ Mid-to-high teens ROE
- ◆ Solid balance sheet – investment grade rating from Moody's, Fitch, S&P
- ◆ 4-year plus land bank
- ◆ Improving industry structure
- ◆ Advantaged by government clean-up of the sector
- ◆ Close to all-time low valuations:
 - PE of 7.4x;
 - dividend yield of 4.9%;
 - price to book ratio of 1.0x

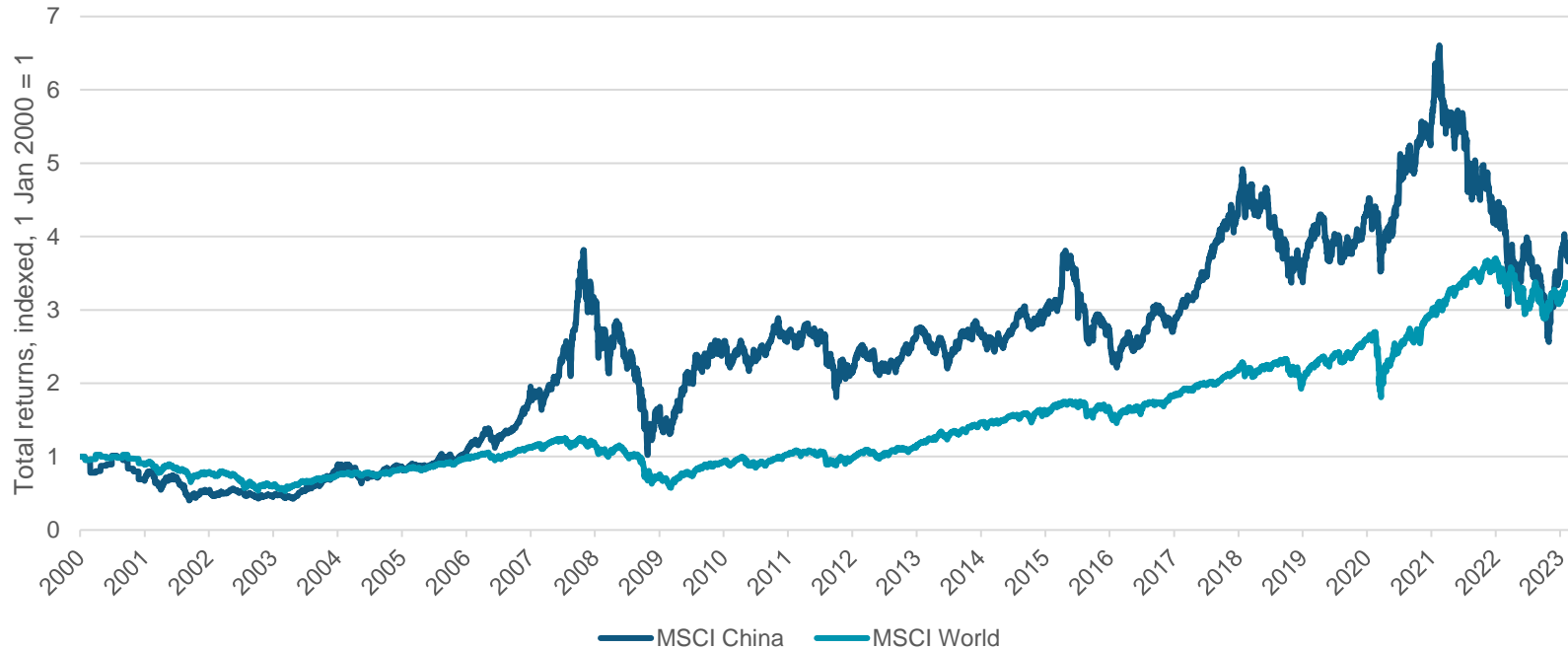


China Resources Land: Total returns & PE ratio



China versus the World – total returns

MSCI China and MSCI AC World, total returns in local currency

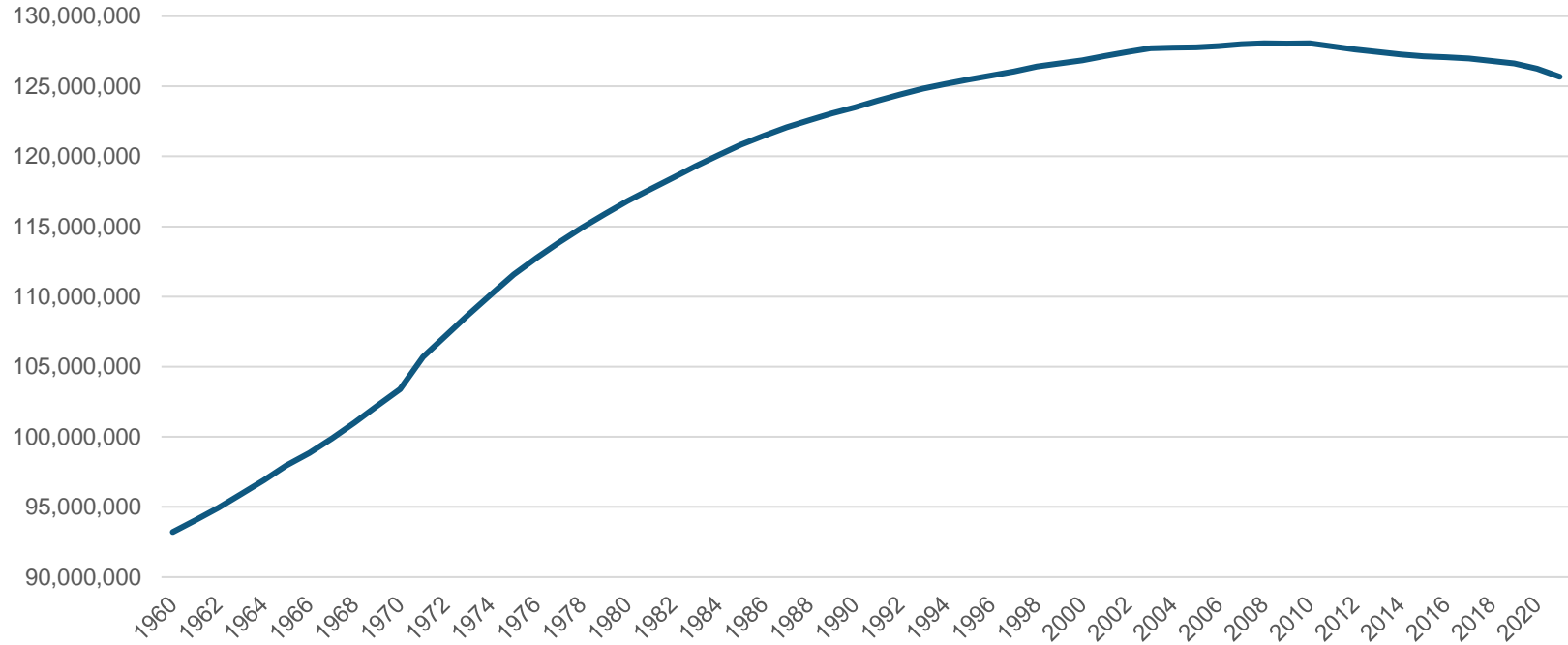


A quick note on Japan



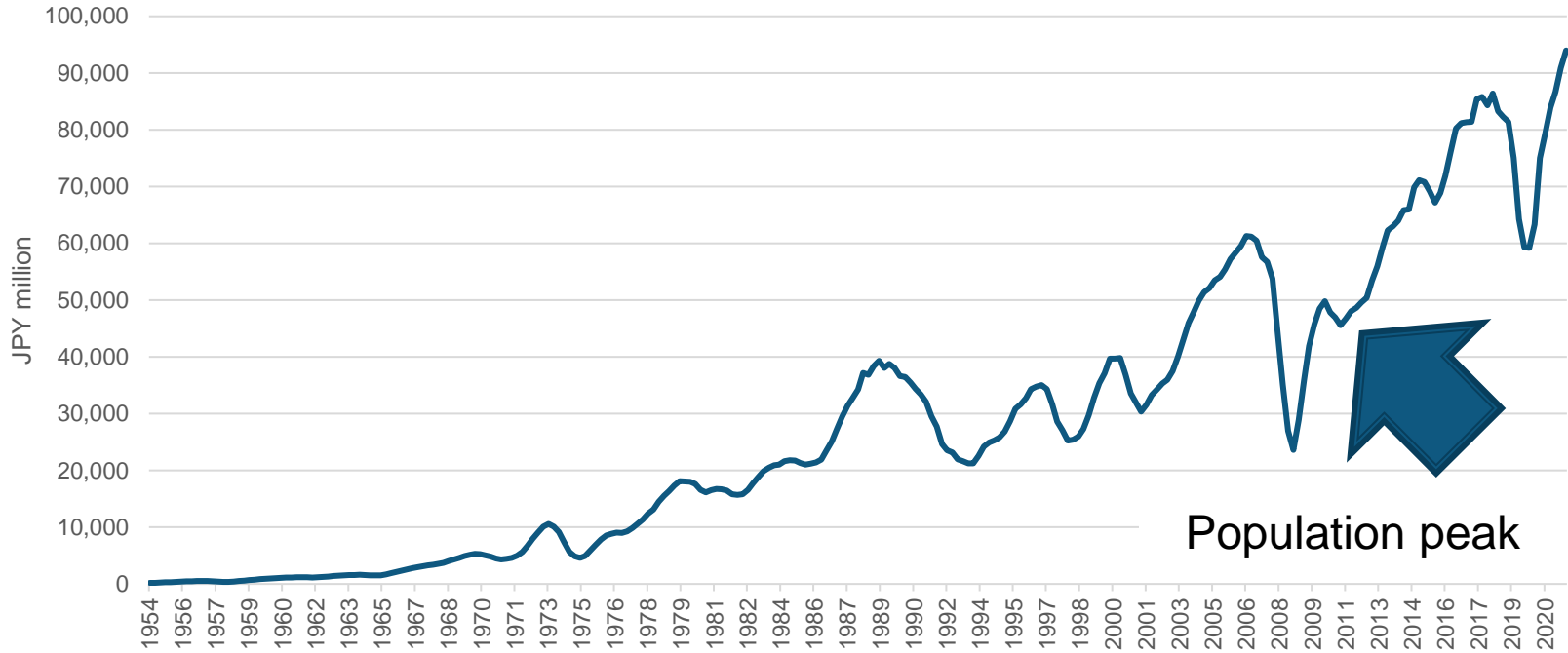
“Demographics is destiny”...

Japan total population



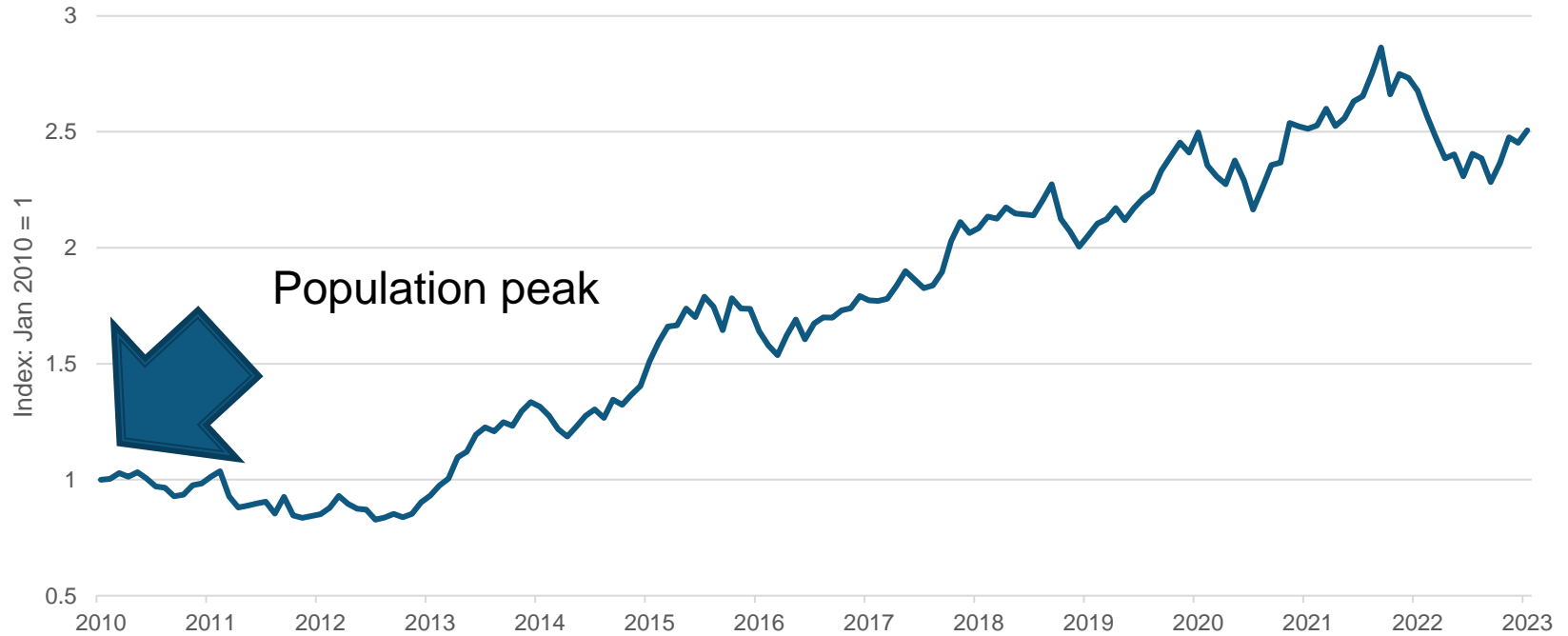
...sort of

Japanese corporate profits



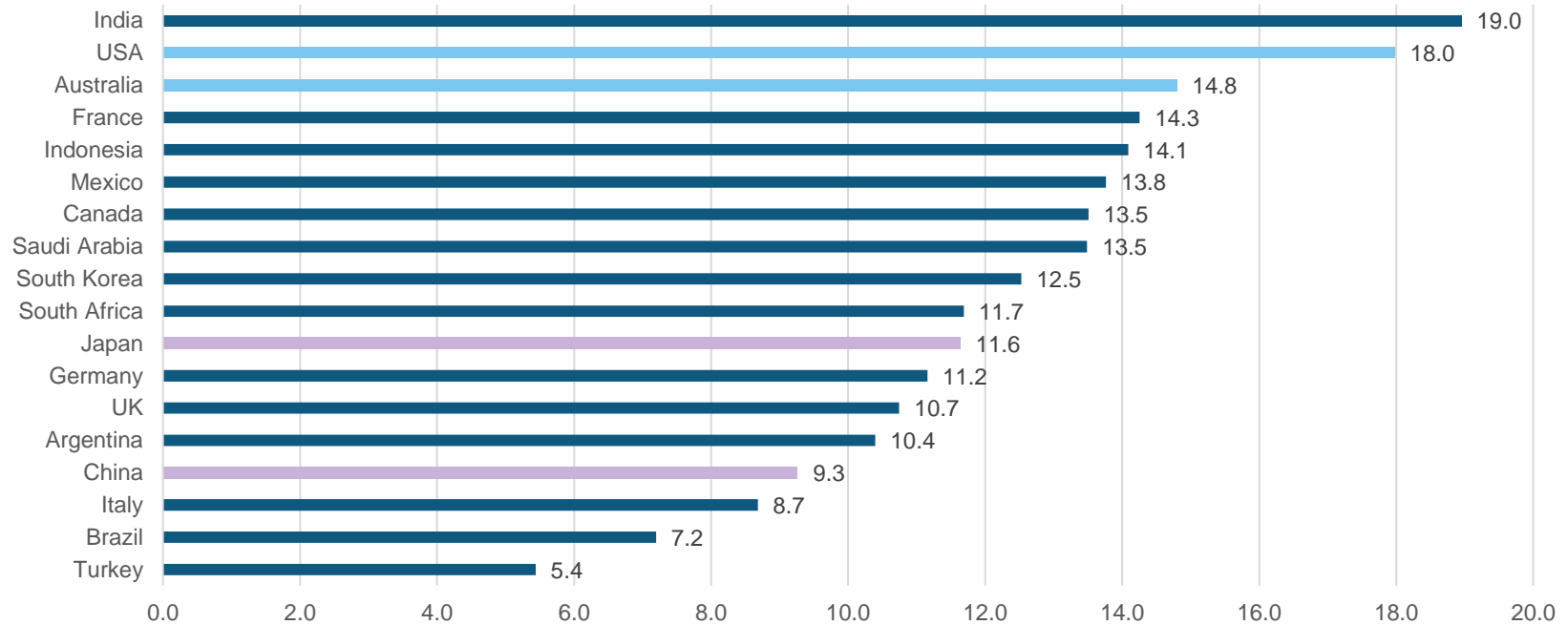
Japanese stocks up 2.5x

MSCI Japan total returns in yen (as Japanese stocks de-rated the entire time)



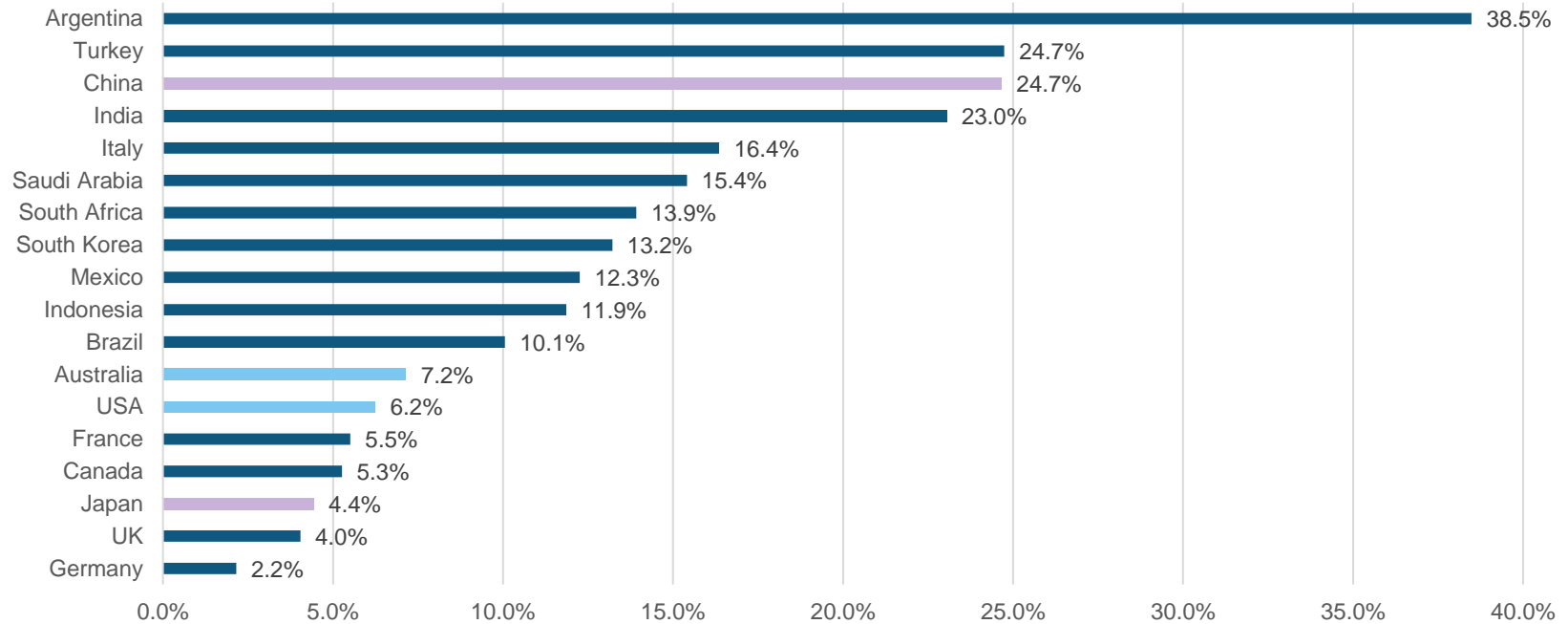
Price-earnings ratios – Next 12 months

PE ratios of select major markets, MSCI national indices



Major market EPS growth – Next 12 months

EPS growth of select major markets, MSCI national indices



Summary

We live in a far more *complex* and *ambiguous* world than almost any financial commentators recognise:

- ◆ The last four decades have been halcyon for investing in US equities
- ◆ This golden period is likely over (I discussed this last year)
- ◆ Cheap simple beta which is over-indexed to US equities is unlikely to deliver optimal outcomes for your clients henceforth

There is a silver lining:

- ◆ However, many markets globally are *very* cheap
- ◆ As most have herded into US equities, they have deserted other markets
- ◆ Truly global investors have the potential to earn strong returns in coming years



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world...

And ought to invest like it.

Suggested reading

- ◆ Julian McCormack, “The Chinese Property Market: The Most Important Industry Globally Which Few Understand”, <https://www.platinum.com.au/Insights-Tools/The-Journal/Chinese-Property-Market-Anti-Bubble>
- ◆ Julian McCormack, “A Reckoning Approaches and the Outlook for Many Markets is Poor”, <https://portfolioconstructionforum.edu.au/article/3960/a-reckoning-approaches-and-the-outlook-for-many-markets-is-poor>
- ◆ Ray Dalio, “Principles for Navigating Big Debt Crises”, <https://www.principles.com/big-debt-crises>
- ◆ Yukon Huang, “Cracking the China Conundrum, Why Conventional Economic Wisdom is Often Wrong”, Oxford University Press, 2017
- ◆ Richard Werner, “Princes of the Yen: Japan's Central Bankers and the Transformation of the Economy”, Routledge, 2003
- ◆ Jamie Halse, “The Zeitgeist is Changing in Japan”, <https://www.platinum.com.au/Insights-Tools/The-Journal/The-Zeitgeist-is-Changing-in-Japan>
- ◆ Cameron Robertson, “Staying the Course in China”, <https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Staying-the-Course-in-China>



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