

## "Japan vs the US: which market to reap profits in 2017"

*Krungsri Asset Management Public Company Limited (KSAM)*

*launched two New Foreign Investment Funds (FIFs):*

*KF-HUSINDEX and KF-HJPINDEX which invest in the US and Japan's stock markets, citing that the countries' economy have been recovering, the markets have strong fundamentals, and government policies are supporting growth of economy and stock markets. Investors should add FIFs to their investment portfolios for short-term speculations while the Thai bourse remains volatile.*



Krungsri Asset Management Company Limited recently held a seminar on "Japan vs the United States, which market to reap profits in 2017," inviting investment gurus: Ms. Chatkaew Khrohthong, KSAM's Director for Alternative Investment Department, and Mr. Kiattisak Preecha-anusorn, KSAM's Assistant Vice President for Alternative Investment Department, to brief on comparative economic data and the US and Japan's stock market outlooks. Pros & cons with risks in investment and impact factors for market growth were also analyzed for investment decision-making. The seminar was held at Access Place, Ploenchit Tower on Thursday, 29 March 2017.

Mr. Kiattisak said that the **US stock market** has grown from robust economic conditions and certain signs of economic recovery that leads to the Federal Reserve's recent raise of interest rates and growth in business sectors - consumption, manufacturing, services, real estate, including and a decline in unemployment rate and increase in wage. According to the International Monetary Fund (IMF), the US gross domestic product (GDP) is forecasted to expand from a range of 1.6% in 2016 to 2.3% this year. Besides, another positive factor for the US economy is US President Donald Trump's policy spanning from a corporate income tax cut from 35% to 15% which could bring profits to the company and entice foreign capital to move back to the country, deregulation in business constraints particularly in the finance & banking and energy sectors which could lead to business expansion, and infrastructure development with

planned spending in projects for more job creation. The US economy has signaled positive signs after Trump took the US presidential office.



Source: MF World Economic Outlook (January 2017)

With respect to risks in stock market - concerns over conformity to Trump's policy according to a recent election voting, depreciating the recent US rate rise, KSAM viewed that Trump's policies will be partly processed but will suffice to keep the economy growing stronger than currently shown. In this regards, there is a difficulty to achieve trade protection policies due to some protests, while the US rate rise will not affect the stock market since its adjustment is at super-low level. However, the stock market tends to rise according to an increase in interest rates being adjust from good economy condition.

For **Japan**, Ms. Chatkaew explained that its economy has recovered at a gradual pace. Japan's expansion came mainly from domestic consumption, the key economic driver which contributes 58% of the nation's GDP. The country's inflation has seen improvement from its prolonged deflation throughout the past two decades.

Besides, "Abenomics," a bold three-arrow strategy of Japan's Prime Minister Shinzo Abe during 2012-2016, was a combination of monetary easing, fiscal stimulus and structural reforms. On the monetary front, money was injected into the system to spur inflation and stimulate people's spending. The fiscal stimulus drove up the public expenditures, while the structural reform extended from cutting the corporate

tax rate to increasing workforce in the system and wages. All of these key Abe pushes lowered the unemployment rate, heightened money in the economic system, revive Japan's stagnant growth and boost corporate profits. Japan's tourism promotion and a host for the Olympics 2020 will be another push for Japan to make a significant recovery.

Talking about Japan's stock benchmark, the Nikkei 225 index has skyrocketed over 80% as a result of Abenomics policy and tends to surge further on the back of consistent supports from both public and private sectors. Last year, the Bank of Japan increased its purchase of ETFs in Japan's stock market from 3.3 trillion yen per year to 6 trillion yen per year. This year is expected to see share buybacks from Japanese private firms from 5 million yen in the previous year to 7.8 trillion yen. Presently, the Government Pension Investment Fund (GPIF), the world's largest pension fund's holding of domestic shares has yet to reach its targeted range of 25% (as of December 2016, the holding was 23.76%). Therefore, there remains a chance for more capital to pour into the Japanese stock market. Besides, the US benchmark rate's expected rises prompt a wider gap between the US bond yield and Japanese bond yield, which could pressure the Japanese yen to depreciate against the US dollar. This likely reaction will be positive to earnings growth of listed companies in Japan. This year, most analysts expect Japan's listed firms to record their earnings growth in a range of 9-12%.

Given the positive factors for both countries' economic recoveries and stock market improvements, investing in US and Japanese stocks look attractive. Investors may opt to invest in either **KF-HUSIDX (Krungsri US Equity Index Hedged FX Fund)** which invests in iShares Core S&P 500 ETF or **KF-HJPIDX Fund (Krungsri Japan Equity Index Hedged FX Fund)** which invests in Nikkei 225 ETF under management of Nomura Asset Management. Both adopt the passive style of investment, focusing on making returns to be close to S&P 500 and Nikkei Index. No less than 90 per cent of these funds are hedged against foreign exchange risks (FX risks). KSAM believes that both US and Japanese markets contain upside at approximately 9%. Investors are advised to watch a right timing to invest for higher returns.

For those who want to adjust their investment portfolios in 2017, KSAM gurus recommend an investment portfolio that focuses on investing in fixed income 37%, equities 63% - 33% in Thai stocks, 20% in developed markets, and 10% in new emerging markets. This portfolio pattern is suitable for investors with medium risk appetite.

Furthermore, In addition, KSAM selects seven FIFs with expected returns and growth potential for long-term investment. Investors may invest in any of these FIFs upon each individual's tolerance level of risks.

- **Krungsri Global Smart Income Fund (KF-SINCOME) and Krungsri Global Collective Smart Income Fund (KF-CSINCOM)** invest in several types of fixed income across the world through a foreign fund titled PIMCO Income Fund, which is an investment option that shows not too high risk but potentials to gain higher returns than the general fixed income funds focusing on government bonds and debentures.

- **Krungsri Japan Hedged Dividend Fund (KF-HJAPAND)** has become an option to help invest in Japanese stock market through a foreign fund titled Eastspring Investments – Japan Dynamic Fund that uses active management strategy to catch up quality stocks with attractive prices.

- **Krungsri BRIC Star Fund (KF-BRIC)** invests in Schroder ISF BRIC Fund which focuses its investment in the world's leading exporting countries including Brazil, Russia, India and China. These countries have positive factors that drive economy in terms of manufacturer and exporter of crucial goods, for example, Russia has an opportunity to grow from manufacturing and exporting oil and natural gas, while India has been an expert in IT and medical industries.

- **Krungsri Latin America Equity Fund (KF-LATAM)** invests in Templeton Latin America Fund which invests in recovering Latin American countries, the global producers and exporters of commodities.

- **Krungsri Global Technology Equity Fund (KF-GTECH)** invests in a foreign fund titled T.Rowe Price Funds SICAV – Global Technology Equity Fund that invests in tech stocks, which is one of the fast-growing industries in the world according to a rise of new innovations that pay an important role to both consumers and global industry sectors. These companies thus have potentials to gain a solid increase in revenue.

- **Krungsri Global Healthcare Equity Dividend Fund (KF-HEALTHD)** invests in a foreign fund titled JPM Global Healthcare Fund which focuses its investment in healthcare firms with sound fundamentals and bright growth outlook according to the estimation that global health expenditure will increase because people have become an elder and live longer.

- **Krungsri Gold Fund (KF-GOLD) and open-ended Krungsri Gold Hedge Fund (KF-HGOLD)** invest in a foreign fund titled SPDR Gold Trust, an investment alternative in gold to help diversify risks to investment portfolios.

#### **Disclaimers**

- Krungsri Asset Management Co., Ltd. (“The Management Company”) believes the information contained in this document is accurate at the time of publication, but does not provide any warranty of its accuracy. Similarly, any opinions or estimates included herein constitute a judgment as of the time of publication. All information, opinions and estimates are subject to change without notice.

- Investors should carefully study fund features, performance, and risk before making an investment decision. Past performance is not a guarantee of future results.

#### **For KF-HUSINDX and KF-HJPINDX**

1. KF-HUSINDX allocates at least 80% of NAV in each accounting year in a foreign fund titled iShares Core S&P 500 ETF (master fund) iShares Core S&P 500 ETF (master fund), which focuses to invest in stocks that are included in the S&P 500 Index. The master fund's objective is to provide investment results that, before expenses, correspond to the price and yield of the S&P 500 Index. KF-HJPINDX allocates at least 80% of NAV in each accounting year in a foreign fund titled Nikkei 225 Exchange Traded Fund (master fund), which invests only in stocks that are included or are due to be included in the Nikkei 225. Thus, both funds may have risks from economic and/or political and/or social changes in the country where the master fund invested in. These risks may affect the stock prices as well.
2. The fund and/or master fund may invest in or make available a forward contract to enhance efficiency in investment management. This means the fund may contain higher risks than other funds and therefore the fund is suitable for investors who prefer higher return with higher risk tolerance than general investors. Investors should make investment only when they understand the risks of the contract by considering their investment experience, investment objectives and financial status.
3. The funds will enter into a forward contract to hedge against the exchange rate risk at a particular time for the value of at least 90% of the foreign investment value, in which case, it may incur costs for risk hedging transaction and the increased costs may reduce overall return.
4. The fund and/or master fund may invest in non-investment grade debt securities or unrated debt securities. The investors may be exposed to the issuer's default risk which results in loss of entire or partial investment and, upon redemption, may not receive full refund of investment amount specified in the prospectus.
5. The asset management company is under the supervision of Securities and Exchange Commission (SEC). The SEC approves of the establishment of KF-HUSINDX and KF-HJPINDX, however, does not take responsibility for the fund management and does not guarantee the fund's unit price.

#### **For other recommended funds**

##### **1. Fund policies and risks**

- **KF-SINCOME and KF-CSINCOM** allocates at least 80% of NAV in each accounting year in a foreign fund titled PIMCO GIS Income Fund (Class I-Acc) (master fund). Since the Fund returns depend on the master fund performance, investors may not receive the returns at a certain time. Risk level: 5.
- **KF-HJAPAND** allocates at least 80% of NAV in each accounting year in a foreign fund titled Eastspring Investments - Japan Dynamic Fund (Master Fund). Risk level: 5.

- **KF-BRIC** allocates at least minimum 80% of its NAV in average in each fiscal year is invested in mutual fund in a foreign countries named Schroder ISF BRIC. Risk level: 6.
- **KF-LATAM** allocates at least minimum 80% of its NAV in average in each fiscal year is invested in mutual fund in foreign countries named Templeton Latin America Fund (master fund). Risk level: 6.
- **KF-GTECH** allocates at least 80% of NAV in each accounting year in a foreign fund titled T. Rowe Price Funds SICAV - Global Technology Equity Fund (Class Q) (Master Fund). Risk level: 6.
- **KF-HEALTHD** allocates at least 80% of NAV in each accounting year in a foreign fund titled JPM Global Healthcare Fund (Master Fund). Risk level: 6.
- **KF-GOLD & KF-HGOLD** allocates at least minimum 80% of its NAV in average in each fiscal year is invested in mutual fund in foreign countries named SPDR Gold Trust (master fund). Risk level: 8.

## 2. Currency hedging policies of the funds

- **KF-SINCOME / KF-CSINCOM/ KF-HJAPAND and KF-HGOLD** will enter into a forward contract to hedge against the exchange rate risk at a particular time for the value of at least 90% of the foreign investment value, in which case, it may incur costs for risk hedging transaction and the increased costs may reduce overall return.
- **KF-BRIC/ KF-LATAM/ KF-GTECH and KF-HEALTHD** may enter into a currency swap within discretion of the Management Company which may incur transaction costs. The increased costs will reduce overall return. In absence of a currency swap, investors may lose or gain from foreign exchange or receive lower return than the amount initially invested.
- **KF-GOLD** is generally not hedged against currency risk and investors may make a loss or profit from currency exchange or may receive payment in the amount lower than the initial investment amount.

For more details or to request for the Fund Prospectus, please contact:

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