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Investors continue to travel hopefully in world markets

◆ S&P Futures are indicating another moderately positive session in the US tonight.

◆ According to China's official PMIs, its economic recovery continued in August.

◆ The FAB AAC is for the time being remaining slightly underweight in global equities, and overweight in IG bonds and gold

Last week's Jackson Hole symposium (kindly refer to our analysis of the Fed's updated goals in yesterday's Weekly Investment View) rather stole the headlines, which also included the resignation through ill-health of Mr. Shinzo Abe, Japan's longest-serving prime minister. Japan's economy, although beset with well known demographic issues, remains the world's third largest. After some weakness late last week Japan's stock market has steadied as it became clear that Mr. Abe's successor could be installed in quite short order, possibly as soon as the middle of September. A group of contenders has begun to solidify from senior members of the ruling Liberal Democratic Party, including Mr. Yoshihide Suga, a close ally of Mr. Abe's, currently Chief Cabinet Secretary. Policy continuity is expected. While this would hardly be new news, it is interesting to see Mr. Warren Buffett's Berkshire Hathaway investing some \$6 billion in a clutch of Japanese trading companies. We all have books about Mr. Buffett's style of value investing on our bookshelves, and these investing moves by him could in some ways tip the balance in global investment opinion on Japanese equities.

Every few years we are once again tempted to come around to the possibility that the time for Japanese equities must surely come – mustn't it?

Chart : TOPIX Index



After all, for instance, according to Bloomberg the current price to book multiple of stocks in the TOPIX index stands at 1.18 times, and slightly more for next year. This compares to 3.7 times for the S&P500. In practice, investors who dig deeper find that many Japanese companies are entwined in complex cross-shareholdings, however - despite intermittent signs that this practice could unravel - the matrix essentially remains in place. The holdings of cash in Japanese companies are often huge. However, the regulatory background makes it difficult to do takeovers, and/or to unlock value. Otherwise, we are reminded of a famous fund manager who a decade or more ago decided that their successful methodology of investing in equities proven over many years was ripe to be applied to the Chinese equity universe. As you will have guessed - or already know - it didn't work. There were cultural differences that the methodology simply couldn't fathom. Similarly, stock screening that may work for US equities fails to work in many emerging markets, and we have found this ourselves.

In our headlines above we mentioned the good Chinese PMIs published this morning. These came in slightly ahead of expectations. The Manufacturing PMI for August posted 51.0, vs. 51.1 for the previous month, while the Services PMI was 55.2, vs. 54.2 for July. The February low points for these indices were 35.7 and 29.6 respectively, showing considerable recoveries for each set. As a reading of 50 marks the difference between contraction and expansion, what we read elsewhere ties-in quite neatly with evidence of a manufacturing recovery in China (even if self-generated by state support and infrastructure spending). The services data - when we last looked the services sector in China accounted for about 56% of GDP, compared to about 75% in the US - is good, and by itself bodes quite well for a progress report on China's transition to a more consumer-led economy. **While such an assessment may appear simplistic, one of our points is this: Chinese markets and assets will really have to be taken more seriously as their weight in global indices increases. The FAB Asset Allocation Committee is cognizant of this.**

Investment Strategy Update

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