Tigers, bears and bulls

Oliver Haill travels to Asia to take a closer look at its leading stock exchange markets – Hang Seng, Shanghai and the Nikkei – as one major event beckons for China; the world's second largest economy

China's 19th Party Congress this November will culminate in a leadership transition process where the next five-year plan is to be mapped out and new senior leadership will be appointed.

In light of President Xi Jinping's strong position, he is likely to take reforms to the next level. As well as improving regulations, new policies could focus on creating a more favourable business environment for foreign investment.

This comes after sharp gains were enjoyed in Asian markets in 2017, bolstered by a strong first half, and an uptrend in July.

The Nikkei (*jpx.co.jp*) topped global market performance during President Trump's first 100 days, while Hong Kong's Hang Seng Index (*hsi.com.hk*) was among the world's best-performing stock benchmarks this year. The Shanghai (*sse.com.cn*) continued to recover from a drop in the May crash and is heading towards a strong year-end.

China is at war against pollution and is emerging as a leader in environmental protection and the largest cleantech market. With green investment expected to reach 2.7% of China's GDP by 2020, more than 350 Chinese listed companies provide solutions for water, soil and air pollution.

Karine Hirn of Hong Kong-based East Capital highlighted waste management and clean transportation technologies as an area for investment: "It will take a long time for China's skies to become blue again and it is a compelling structural trend and investment story," she explained.

Above: **Stock markets are back on the rise in China and Japan**

Robust economic growth in most markets, reassuring reforms, strong exports and a booming tech cycle has led to renewed confidence in the region for investors in the first half of the year, with any weakening of the US dollar also likely to provide further fuel.

China's stock markets are better positioned than two years ago, when a local plunge triggered a mini global crisis amid regulatory tightening mingled with the slump in oil prices and concerns over a 'hard landing' as the country's once high-flying growth rate slowed.

Since the froth was knocked off the Shanghai stock market, it has regained a relatively smooth and steady growth rate for the last 20 months.

Likewise, Japan's economy was recently confirmed as having grown for a sixth straight quarter in the three months to June. The Nikkei, boosted by a resurgence in domestic demand, has charged through impressive growth since last summer.

Hong Kong remains a key international hub, playing the integral role of gateway to China as the second-largest market for initial public offerings (IPOs) over the past two decades. It took top spot last year as the world's largest IPO market by value, when US$24.53bn was raised.

Since that 2015 Chinese crash inspired local market precedence and threatened to condemn the Hang Seng to a four-year low, Hong Kong's equity benchmark (whose two largest components are Tencent and HSBC) is approaching levels not witnessed since pre-2007.

Many investors still see strong value in the wider Asia region with companies such as BYD leading the way in the production of new energy vehicles (they produced 96,000 cars in 2016 – 20,000 more than Tesla).

"Compared to developed markets, emerging Asian markets still trade at a discount of around 22% and even more to the US, where valuations are getting very pricey," said East Capital's Hirn.

There are, of course, potential clouds looming for all three major indices, but the outlook for Asia is positive. Investors around the globe still undervalue the region, while investment inflows are likely to continue to strengthen stocks markets. ■

Above: **Shinjuku skyscraper cityscape in Tokyo's CBD, home of The Nikkei**
Right: **The Hong Kong Dollar and Yen look strong**