Năng Lực Quốc Tế. Lợi Thế Địa Phương

NOTE FROM THE CIO'S DESK

24 May 2018

Market turbulence – should we be concerned?

As I noted at the end of the first quarter 2018, the Vietnamese economy has got off to a solid start in 2018. The stock market also reflected the good economic conditions and the strong performance of the companies. The lead index of the Ho Chi Minh Stock Exchange, the VN Index, subsequently reached its all-time high on closing at 1,204.33 points on 9 April 2018. However, since then the market seems to have lost its grip and has ceded over 18% to close under 1,000 points on 22 May 2018, a similar level to the end of 2017 and thereby reversing all of this year's gains. So should we be concerned? Will this continue, in what the press has called a bull trap similar to the market reaching a pinnacle in March 2007 and then remaining weak over many years?

It is natural to be concerned about such turbulence. But it is the job of our Portfolio Managers and the Investment Team always to analyse the conditions calmly and carefully, seeking weaknesses and stress points while also being careful not to overlook and to use opportunities, regardless of periods of relative strength and weakness.

The turbulence so far can be ascribed to both external and internal factors. Externally, we have seen a stream of quite dramatic global political events in 2018; in each case we review the implications for Vietnam and for our investments. Some appear to have been defused, such as the U.S.A.'s imposition of selective import tariffs or the concerns with North Korea. All these cases however bring bursts of new uncertainty, which unsettle the markets and generate more volatility until the impact of the new conditions are understood and addressed. The impact of the most recent external event, the unilateral withdrawal of the U.S.A. from the agreement with Iran and its threat of new sanctions is unclear while the responses of the other five powers, including China and the EU, are being formulated. Clear is that petroleum prices will be a weather wane for these considerations and further developments, which will have inflationary and growth impacts on many economies; Vietnam will fortunately benefit from its inbuilt partial hedge from its own crude oil resources. In addition, concerns over the rate hike by the U.S. Federal Reserve Bank leading to higher borrowing costs and worsening fiscal positions of emerging economies has caused a remarkable sell off in some emerging markets and Vietnam, although in a quite strong economic position, is still not an exception.

Internally, a large part of the rally of the VN Index this year was due to rising prices of some large cap stocks. As a result, the valuations of these stocks increased rapidly to levels much higher than most of the listed companies and above those of comparable companies in the region. To a degree, the subsequent decline of the VN Index can thus be seen as a normalisation of the pricing of these 'super' stocks just as much as a normal market response with heightened caution in periods of greater uncertainty.

Looking ahead, it is difficult as it always is to predict when this turbulence will end. However, what we can see is that Vietnamese economy is continuing to develop very positively and, in contrast to its overheating in 2007, is now on very solid foundations. Manufacturing is performing well, exports are growing and business confidence is good. Importantly, domestic demand is also strong with good consumer confidence and the monetary position stable with inflation under control and international reserves at record amounts. This growth path is the result of a consistent domestic policy over a number of years and has been underlying the positive stock market trend over the period. The Government has committed to continue these policies and build further on these achievements with a stable macro-economic framework.

As investors who have been with us for some time will know, all of our investments are made after a long in-depth analysis to establish a good picture of each company's business, management and sector and to justify a suitable return for the funds over the medium to long term. And just as a reminder: as the Funds don't have exposure to the 'super' stocks and are well diversified in many different sectors, their price volatility, which indicates risks to the Funds' investors, is very low compared to the market, both on the way up and the way down.

In any case, we will continue to be fundamental, long-term investors and focus our investments in those companies where we have the highest conviction and where we believe there is the highest potential return for our investors over the long-term based on our in-house research. We expect future volatility and will be alert to use such volatility to our and our investors' advantage to invest in companies that fit our investment criteria for the long-term growth of our investors' portfolios.

In this context, Sir John Templeton, founder of the Templeton organization (now part of Franklin Templeton – partner of VCBF), one of the wisest and most respected investors, made a fitting remark: "To buy when others are despondently selling and to sell when others are greedily buying requires the greatest fortitude and pays the greatest reward." It is our job, as investment professionals to find that discipline and fortitude which even as individuals is hard to attain. And with this investment philosophy, we believe we will be able to create long-term wealth for Funds' investors, our clients.

Yours sincerely,

Vu Quang Dong, Ph.D
Chief Executive Officer & Chief Investment Officer