

## **In Conversation: Desmond Kuang and Julie Ho**

### **Desmond Kuang**

Hello, everyone, thanks for tuning in to today's dialogue.  
I'm very happy to have Julie Ho  
Managing Director and  
Portfolio Manager for Emerging Markets and Asia Pacific Equities Income Strategy  
from J.P. Morgan Asset Management  
here today with us.

Welcome, Julie.

### **Julie Ho**

Thank you.

### **Desmond Kuang**

I want to start with the outlooks for the Asian markets.  
As you know, the Asian markets have performed pretty well over the past year  
outperforming Europe and the US.  
Recently, the Middle East tensions have increased volatility quite a lot.  
What is your outlook for the Asian markets in general in the next 6-12 months?

### **Julie Ho**

Great. Thank you for having me here.  
As you say, 2025 was really the first year,  
in which Asia finally outperformed the US  
after a long, 10-year+ period of US outperformance.  
I think actually we've arrived at the pivot point now  
with 2025 marking the first year.  
When you think about the structural forces  
they've not changed given what's happened in the world in the last few months.  
These structural forces are that  
the earnings growth is really getting a big boost structurally  
from where the innovation is coming from.  
We've had a problem in the last 10 years  
when innovation was very much in the asset-light software area.  
But in the next 10 years, innovation, as we know, is so hardware-focused  
and that's where Asia comes into play.  
I'll share a stat with you.  
If you look at data center CapEx  
40% of what goes into the data center value-wise, comes back to Asian companies.  
I think from anywhere, from hardware, semis  
to renewable energies we need in the future of robotics, and now EVs  
these are all very Asia-specifics.  
So I think there's a general structural force for Asia.  
That will not change and still in place.  
Next, when we talk about the valuation  
there is a significant "self-help" element.

What I mean is the ROE having a driving force behind it.  
In China, you have a value-up trend.  
That's present in the rest of Asia as well.  
We've seen it in Korea and ASEAN.  
Value-up is in corporate control,  
which is basically to do better capital allocation.  
Whatever capital they don't need is given back to us shareholders  
as a way of lifting ROE, as a way of re-rating the stock valuations.  
And that's very much still in place in our control.  
Then thirdly, currencies in Asia have been cheap and continue to be cheap.  
Given what's happened in the world in the last few months, these are all in place.  
That said, to be very realistic  
there are some cyclical forces that have been impacted.  
I think the consumer is at the heart of this.  
Things are more expensive. There are more inflationary forces.  
Central banks were more accommodative last year. I think that comes to a pause.  
We just don't know how the inflation landscape would come.  
Given all of that  
we do end up with a market situation where we're quite narrow in breadth  
meaning that a lot of the earnings growth  
is very much dependent on the tech, on the industrial part.  
Actually, Asian markets here today are up 16% already.  
That's mostly driven by the momentum that we have in place on the structural force.  
So when I look at the next 6-12 months, to answer your question  
volatility will continue to be with us  
just because we need time to digest the positives of the earnings momentum.  
On the real economy  
I think we'll continue to see some negativity or negative momentum  
come out from the oil fallout.  
So at this time,  
it's very important to be diversified in your portfolio  
investing not just in tech,  
but in some of the defenses and in some of the values and cyclicals.  
Just have a bigger basket of stocks to help us to get that upside captured  
and also protect us when the market has a bit of pullback.  
It's going to be a bit of a bumpier ride.

## **Desmond Kuang**

Thank you very much, Julie. That's a fantastic overview.  
As you said, volatility looks like being constant right now.  
What are the highest-conviction markets and sectors you have in mind across Asia?  
Are there any specifics in terms of investment opportunities there?

## **Julie Ho**

So we are very much a bottoms-up shop. That's our bread and butter.  
there are a few factors that have been left behind in this market rally.  
Lots of defensive stocks and quality stocks have been left behind.  
We tend to find these types of stocks are where we're finding more opportunities,

particularly in the Australian market.

We're very overweight Australia as a market.

We're also finding a lot of bottom-up opportunities in the Hong Kong and China markets as well.

Let me give you a few examples of sectors that we like.

I think I could broadly separate them into four different types of areas we like.

First of all, insurance.

This really comes down to the fact that outside of China, there are a lot more inflationary pressures.

So we're really looking for areas where they can offset inflationary pressures and are less cyclically exposed.

Insurance is a sector that is not so much sensitive to the current macro economy.

It's much more about how good underwriting standards are and how good investment returns are.

We're finding many opportunities in Australian insurance as well as in Hong Kong, Chinese insurance companies where earnings are finally coming through in 2025.

We think the momentum continues this year.

Then what's dear to my heart as an income manager?

The second area would be defensives.

And I'm finding a lot of defensive opportunities in Asia across telecoms where we've had rounds of telecom consolidation.

You and I know that we cannot live without a phone.

If anything happens, we'll continue to pay our phone bills.

And our phone companies are exercising that pricing power to charge us, as big users of phones, more so that ARPU, average rate per unit is increasing.

When we think about supermarkets, that's a classical defensive area and also don't forget supermarkets tend to have very high operating fixed costs.

So in an economy where – again, outside of China – there are more nominal pressures because of inflation that actually helps the profit margins of supermarkets.

So we're finding quite a few opportunities in these hard-asset areas.

But I do want to go to a more structural theme: renewable energy.

That's a big area for us.

By that, I mean batteries

but there are also infrastructure companies that help with grid infrastructure or transmission companies

as well as those involved directly in new renewable energy generation.

These are all structural themes where we're finding opportunities.

And the fourth, which is very much dear to me because I'm an Asian fund manager, is value opportunities.

If we look at the Korean market, we're so enamored by certain Korean memory names.

But there are actually a lot of corporations that are also really going through the ROE uplift, what we call the "value-up,"

with fundamental reasons to raise their valuations.

Again, this won't be distracted by what's happened in the world in the last few months.

I think these four broad areas in Asia will help us to diversify that portfolio rather than being so narrowly focused.

## **Desmond Kuang**

Thank you.

I think you touched upon a few traditional investments that are really favored by income strategies for example, the insurers, the retailers, the renewables, and some value opportunities. I would say that AI is the trade of the era nowadays. How would you view the current stage of the cycle? How does the AI play come into the income strategy?

## **Julie Ho**

I thank you for so carefully phrasing that question about where we are in the cycle. I think AI is here. It's real. It's a structural trend that's going to happen. But don't forget, we're also in year three, year four of a very big CapEx trend. So far we've seen very strong momentum in terms of that the models keep getting better and the cadence of tech upgrades keeps getting faster. Therefore, it's really causing more component upgrades and more pricing power. And I think a lot of that is already what you're seeing in the market. But I sit here and I worry, because I think we never see a straight linear path. We've had a great run for three or four years. I'm at the point where I want to be more careful. I don't have much of a valuation cushion. I'm looking for those companies – perhaps not the first-tier companies but the second-tier companies that will also benefit – where the valuation gap is just too big against the incumbents. Some of the risks I do see are, I think, very many-fold, right? The market is becoming more and more concentrated in tech and within tech, we're more and more focused on AI. That comes down to four or five model players in the US and their CapEx spending. I worry that what if we have consolidation there? What if one player drops out or CapEx gets cut? That could have huge implications for us. I worry that we all know the financing needs are increasing, not just in the equity market. The bond market is increasingly scrutinizing how they're monetizing returns. I worry that data center build-outs may be delayed. We're hearing that 30% of data centers that are supposed to be delivered this year are getting pushed out. There are real-world constraints. And on the society level is this happening too fast? These are all somewhat tail risks as well as risks we're seeing today. In terms of how we're playing

it is really about being back as an income investor.  
I need to have that proper valuation and therefore that proper yield  
to be compensated, despite momentum being strong.  
But at the heart of me, it's valuation discipline that keeps me still invested.  
30% of my portfolio is still in there  
but I need that valuation cushion, and I need that diversity.  
So we've been taking some profits  
and actually moving more into China  
where we've seen the stocks have lagged – some stocks have lagged –  
just to broaden my opportunity set.

## **Desmond Kuang**

Now that we've talked about discipline  
I'm very curious about what you've done to your portfolio during Q1,  
which was a bumpy ride.  
How do you keep your portfolio resilient and agile?

## **Julie Ho**

Let's see.  
The big answer is I came into this year with a portfolio that had a beta of 0.94.  
Currently, we're running a portfolio that has a 0.9 beta.  
But that doesn't mean I'm just buying defensives.  
I'm always rotating.  
So what we've done is we've added,  
especially in March, when we saw the big pullback in the market.  
We added to some structural names that we like.  
So we've added to, for example, Australian energy names.  
We've added to Chinese material names that saw a big pullback  
and also added a bit to Korean memory names that saw a big pullback.  
So there are some structural areas that we want to be in.  
But I've also pulled back on some of the cyclical names.  
I mentioned I'm more worried about the consumer  
so I pulled back on some Chinese exporters.  
Because I'm a bit more worried about  
how Western consumers will react to the increasing inflation in the system.  
I've pulled back on some banks even.  
I've pulled back on Indian banks. I've pulled back on Australian banks.  
Because I do worry that there could be increasing asset quality issues  
and banks could increase their provisioning.  
I've pulled back on some cyclicals  
but I've continued to add to the structural areas that I like  
while keeping more of a bottoms-up approach  
for opportunities in defensives and in quality names.  
And that's how I'm able to bring the beta down in the portfolio to now 0.9.

## **Desmond Kuang**

Thank you, Julie.  
I think people often associate an income strategy with just holding dividend stocks.

What are the key building blocks, philosophies, or tools that you apply when trying to enhance an income strategy fund?

**Julie Ho**

We have been running a vanilla equity income fund for over a decade. And 2.5 years ago, in response to your question on building blocks we added one more big block to it, which is an index-level call overlay strategy. In our case, we're using a very minimal amount of call overlay just 30% of call overlay options. We do forgo some of the market upside in exchange for converting today's market volatility into today's income. We take down the volatility of investing in Asian equities by 10-15%. Because we're not overwriting a lot of options clients still have the majority of the market's upside and 100% alpha opportunities that we offer. So over the cycle, they still get market-like returns. With that, they're able to buckle in, stay invested in Asian equities and enjoy that longer-term return profile.

**Desmond Kuang**

Fantastic. Thank you, Julie.

**Julie Ho**

Thank you.