

CHINA TO BE DOMINANT SUPERPOWER IN FIVE YEARS

- But Investors still wary about investing there

Luxembourg, July 2008. China will overtake the USA to become the world's dominant superpower within five years, according to a global sample of international and expatriate investors by one of the world's largest specialist share dealers, Internaxx, a joint venture between Fortis Bank and TD Bank.

In its Olympic year, 46% of investors think China will achieve global superpower status within five years, with only 28% backing the US. India came third at 16% and Russia last at 10%.

Although economically very optimistic and bullish on the long term, expatriate and international investors remain cautious with their short-term exposures in Asia. Positive sentiment towards Chinese equities rose dramatically in 2008, up from 42% in 2007 to 68%, but this did not result in a commensurate rise in investment. Despite this optimism, the number of investors exposed to China remains far lower at 36%. Indian equities also scored highly, with 69% positive, but again exposure is even lower at 24%.

Investors are optimistic about Asia's economic prospects. 64% of respondents are positive and only 7 % negative about both China and India, and 52% are positive about Hong Kong, with 7% negative. However, figures coincide with a rise in concerns over Asian market volatility, up three-fold since 2007 to 25%, and corporate governance, which doubled (to 27%) in under a year. This, despite fewer investors citing lack of knowledge about the Asian markets as a reason for non-exposure (35% falling to 28%),

Says Internaxx General Manager Robert Glaesener: "Investors are very confident about Asian markets on a macroeconomic level but they feel disconnected from them. They see the promise of markets that will inevitably be integrated into the global financial system and be fully open up to foreign liquidity, but they are too put off by their sudden peaks and troughs. The combination of volatility and uncertainty are a disincentive to invest. Consequently, investors have become far more cautious about Asian markets than they were in 2007".

Sentiment towards UK equities became more polarised than in any previous survey, with far more optimists (45% today up from 14% in 2007) and far more pessimists (36% today, 16% in 2007). Less than one in three are optimistic about the UK's economic prospects as a whole. Says Glaesener; "Investors fall into two camps, those that thrive on market volatility, and those with a more cautious approach, hence the current climate seems to benefit some and concern others".

Positive sentiment towards European equities improved from 22% in 2007 to 50% today, though negatives also rose from 11% to 27%. Twice as many investors are positive about Europe's economic prospects, with 28% positive v 15% negative.

About half the sample is positive about Middle East equities (44%) and US equities attracted the most negative sentiment at 71%. Investors also fear the adverse effect of the USA's economic problems on China.

Global Outlook

Overall 73% of investors matched or outperformed the market, down from 86% last year. With twice as many underperforming this year (27%) compared to 2007 (14%) this was the first decline since the first Internaxx survey in 2005 and coincided with a steep increase among those who think markets will become weaker in 2008/09.

For the first time in five years, investors became more cautious about the evolution of financial markets. In previous surveys, investors always predicted the evolution of the markets accurately.

With the prescience that comes from a global outlook, international investors accurately predicted rises in the FTSE All World Index in surveys from 2004. Their neutral and positive results of 79%, 46% and 31% accurately predicted rises in the FTSE of 11%, 13% and 13%. Investor optimism regarding China and India since 2004 also matched a consistent rise in the Hang Seng, while their pessimism regarding the US was reflected by the S&P500's 15% drop over the same period.

As in previous surveys, investors rely on their own decisions rather than take advice, but by a larger margin than in previous surveys (68% in 2007 to 78% today). To protect themselves against the drop in markets they foresee, international investors are diversifying their portfolios quickly, with a stronger interest in precious metals such as gold, commodities, REITS (more than doubled to 10%), mutual funds (44% to 48%), blue chip shares (36% to 41%), forex (24% from 14%) and small caps.

Interest in hedge funds, ETFs, futures and options waned significantly.

Property was popular at the start of the year (33% to 48%), with the biggest rise in exposure apparent in the Middle East (5% to 12%), Asia and the UK, though property exposure in Continental Europe dropped significantly (to 11% from 21% for expats). But with 70% now thinking international property is overvalued, more than 50% of investors will review their holdings in 2008/09.

The forecast for 2008/09 is for higher oil prices (72%), devaluation in the value of the dollar (63%) and a worsening in the global sub prime crisis (47%). However, more than 70% claim to take the environment into account when investing, with as many people mentioning damage to the environment and growing food prices as threats to the 2008/9 economy as they did the American economy and high oil prices.

The proportion of expat investors wanting to retire in their expat market continues to rise, from 62% in 2007 to 68% in 2008. But whereas expats have broadly adapted to the local culture (85%), less than one 1 in 2 claims to have found a good social life and only 44% have found the right education for their children. Only 29% think they have achieved a good work life balance.

Says Glaesener; "When volatility will stop, we will see a pent up demand for Asia from retail investors who want to follow in the footsteps of their institutional peers. When they reach the tipping point and their optimism outweighs their concern, I can see the tables being turned with investors regarding Asian economies as viable and the boom and bust economies of the UK and US as volatile".

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Editors Note

About Internaxx

Internaxx is an international online brokerage service based in Luxembourg, and a joint venture between TD Waterhouse and Fortis. It offers online real time share dealing, FX and derivatives trading to several thousands of expatriate and international investors worldwide. Internaxx can be accessed online 24 hours a day and 7 days a week via www.internaxx.lu, or through a multi-lingual Call Centre during trading hours. For more information, visit www.internaxx.lu.

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