

Curating a Relevant and Professional Investment & Advisory Proposition for Private Clients

In a comprehensive panel discussion that unfolded at the Hubbis Philippines Wealth Management Forum on March 20 and that was dedicated to the evolving dynamics of private client investment preferences in the country, the experts highlighted several key visible trends. They remarked on greater demand for fixed income amidst higher rates, they pointed to the rising demand for active (rather than passive) strategies amidst higher rates (albeit that the US Federal Reserve will likely reduce before long), and they pointed to the rise of appetite for discretionary and advisory mandates amongst well-to-do private clients wary of a more volatile and unpredictable course for equities and other financial investments. In general, the backdrop for the discussion was the mission for wealth managers to guide clients towards more sophisticated, diversified and forward-looking strategies given the context of an increasingly complex and unpredictable global market environment.

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10 Key Insights from the Experts

Higher Interest Rates and Investment Strategy Shifts: As interest rates have risen from historic lows since the global financial crisis of 2007/8, there's a palpable shift towards active investment strategies over passive ones. This change underscores the increasing importance of strategic investment management in navigating the current economic climate, geopolitical uncertainties and global equity market volatility and unpredictability.

Fixed Income Has Again Become a Focal Point: With higher rates and with expectations of the next downward leg to rates coming through anticipated US Federal Reserve policy adjustments, fixed income investments, particularly those that are investment-grade, are now viewed as more attractive options for safeguarding returns amidst market uncertainties than for many years.

Global Market Dynamics and the Move to Value: The unwinding of momentum trades in favour of more of a focus on value investing reflects a broader recalibration of investment strategies influenced by macroeconomic factors and the anticipatory responses to potential rate cuts by the US Fed.

The Underestimated Resilience of the US Economy: The robust US savings rates and sustained demand within the US economy could present a significant counterpoint to this widespread anticipation of rate cuts, with inflation perhaps not fully tamed, meaning investors need to keep a careful eye on expectations over reality.

Emerging Market Opportunities: The liquidity and underexploited equity markets in markets in Asia such as the Philippines represent untapped opportunities,

Chair:

- » **Alex Ng**
Head of Intermediary Sales, Asia
Janus Henderson Investors

Panel Members:

- » **Caesar Antonino M. Ordonez Jr.**
Head of Investments, Private Banking Group
UnionBank of the Philippines
- » **Jason Gibbons**
Investment Director, Asia
Leo Wealth
- » **Tomas S. Chuidian**
President
BPI Investment Management



with potential driven by major demographic advantages and with a potential shift from cash to equity investments as a result.

The Balance in Portfolio Construction: The discussion underscored a more balanced

approach to portfolio construction, advocating for a blend of active and passive strategies, emphasising the importance of long-term investment returns and perspectives, and highlighting how the 60:40 portfolio is not dead in the water nowadays, even though

it was submerged for many years since the GFC.

Shifting Preferences in Wealth Management: A gradual shift towards discretionary portfolio management among high-net-worth individuals highlights the evolving landscape of wealth management, where personalised strategies align with client values and the complexity of managing larger portfolios, and amidst a more challenging global environment for self-directed investing.

Sustainability and Personal Values in Investment: The alignment of investment strategies with client beliefs, particularly in ESG, sustainability and also private assets, indicates a growing trend towards investments that reflect personal values, aspirations and the rising demand for private assets that offer higher returns and less volatility in return for longer holding periods and greater investor patience.

Regulatory Adaptation and Market Access: The panel stressed the need for regulatory changes to facilitate broader access to more diverse asset classes in the Philippines, including commodities and private markets, reinforcing the trend towards an evolving investment landscape where diversification and personalised strategies are becoming increasingly important.

The Timeless Wisdom of Long-Term Perspectives: The panel emphasised the timeless wisdom of preferring longer-term holdings in the market over timing the market by trying to trade in and out. They counselled a core portfolio that is well articulated and smartly balanced alongside more opportunistic and thematic satellite allocations, all of which can help build interesting, positive and resilient portfolios.

Expert Perspectives from the Panel:

There were many key and valuable opinions expressed, some of which Hubbis has assembled into these quotes:

"The landscape has shifted dramatically from when passive strategies thrived in a zero-interest rate environment. Now, with rates much higher, the pendulum swings towards the necessity of active investment strategies. It's not about choosing one over the other anymore; it's about recognising the place and time for each within the wealth management and investment ecosystem."

"Amidst higher rates and as many anticipate the Federal Reserve's potential rate cuts, fixed income has become more of a beacon for investors navigating through the fogs. There is a strong preference now towards investment-grade securities, highlighting both caution and some optimism."

"There is demand for both momentum and value investing, depending on your outlook for the future. But we can see for certain that there is a growing embrace of AI across various sectors, marking a pivotal shift in investment strategies."

"Amidst market volatility and expectations of Federal Reserve policy adjustments, the resilience of the US economy stands out, buoyed by significant savings, robust demand, and low unemployment. This strength suggests a cautious approach to anticipating rate cuts, especially in an election year."

"In the Philippines, a glaring disparity emerges with a significant asset concentration in cash within Unit Investment Trust Funds, contrasting starkly with minimal equity investments. This imbalance presents a ripe opportunity for growth in the Philippine equity market, driven by a more youthful demographic profile, and the potential for rising valuations as equity grows in appeal stands out."





Expert Perspectives from the Panel:

"The evolution of portfolio construction necessitates a nuanced blend of passive and active strategies. Establishing a baseline or core exposure through passive investments, complemented by satellite thematic or sectoral adjustments through active asset allocation, offering a sensible strategy to navigate strongly momentum-driven markets."

"As interest rates are much higher than in the long post-GFC market run, the allure of non-profitable tech companies has faded, challenging the viability of passive investments in such entities. This shift underscores the critical importance of discerning investment strategies in an evolving and often difficult-to-assess the economic and geopolitical landscape."

"The dialogue on advisory versus discretionary portfolio management highlights somewhat of a generational shift. While the majority of private clients still cling to advisory services and self-directed activity for control, there is also a sharply rising appetite among the younger generation to more strategic discretionary mandates and also towards sustainable and impactful investing."

"The narrative of diversification within family businesses reflects a broader trend towards modernisation of the domestic economic model. But expansion beyond the traditional family business activities must be tempered by aligning such diversification with overarching family objectives and harmony."

"The wealth management industry stands at a crossroads, facing the challenge of aligning investment offerings with the evolving preferences of high-net-worth individuals. This encompasses a pivot towards more strategic asset allocation and a blend of advisory, discretionary, or a hybrid approach to investment management."

