How should Asia's HNWIs be Investing in a Time of Greater Market Uncertainty?

There were some strong views expressed in the last panel discussion of the day at the Malaysia Wealth Management Forum, with one expert warning that Western economy policymakers and their governments have run out of fiscal ammunition and money. The consensus was that Asia is far better placed in terms of its government, corporate and personal finances, and China too, despite the 'noise' of the US-China trade conflict. Alternative investment advisable to underpin the downside and to reduce correlation.

These were the topics discussed:

- *Challenges and Opportunities for 2H 2019.*
- *Managing and understanding risk – how do you estimate risk, and how does it impact your investment process?*
- *How do you think Asian equities will perform for the rest of 2019?*
- *What Macro trends will create opportunities and challenges?*
- *Is Malaysia warming to index and ETF products?*
- *Are private clients moving towards ESG, Alternatives, Private Equity, or?*
- *Are there any thematic ideas gaining traction, for example the environment and climate change?*
- *The outlook for China.*
- *Opportunities in the global equity markets.*
- *Structured Product strategies for today's environment.*

PANEL SPEAKERS

- **Shan Saeed**, Chief Economist, IQI Global
- **Ranjiv Raman**, Head of Investments, Schroders Wealth Management
- **Tony Wong**, Head of Intermediary Sales, CSOP Asset Management
- **Joanne Siu**, ETF Sales Director, Samsung Asset Management
- **Rossen Djounov**, Managing Director, Head of Asia, GAM
- **David Meier**, Director, Sales - Structured Solutions, Leonteq

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THE KEY TAKEAWAYS

Volatility rules

The markets will stay volatile as Western economy governments and policymakers seem to lack the money and policy levers to stimulate growth.

Anti-capitalism

Can capitalism still function when 40% and rising of government debt, roughly USD13 trillion of paper, is in negative yield territory. There is a fear that nobody who is supposedly in "control" can in fact control things when the world of return is upside down.

High yield form higher credits

But an expert advised focusing on higher yield credits and their lower-rated paper, which he said is expensive for the issuers and that will reduce in supply as the banks and other issuers refinance through the equity or the fixed income market.

Asia shines

And outside the Western world, Asia is enjoying more growth and investors have the long-term view that if required the governments have the money and policy instruments to spur growth. Moreover, corporate balance sheets are robust and expansionary.

A new paradigm

In a world heading towards QE4 and where valuations are often at extremes compared to historical means, the classic "balanced" portfolio is no longer fit for purpose. Investors must seek broadly diversified portfolios, and reduce reliance on traditional equity and debt, in favour of hard assets, alternatives, structured solutions and other strategies.

Gold - shining bright

Gold is seen as an ever more important hedge against central bank policy, money printing and against excess valuations of both equities and debt instruments.

Playing China through ETFs

Experts highlighted the opportunity to play China's economy, especially its New Economy through ETFs. For those who missed the FANG boat in the US, the BAT boat is buoyant, comprising Baidu, Alibaba and Tencent.

Leverage and inverse strategies

Several Hong Kong listed ETFs are proving especially popular as they leverage returns on indices or offer returns in inverse relation to downward movements

"THE MAINSTREAM WESTERN MARKETS WILL STAY volatile because investors generally feel that Western economy policymakers are running out of ammunition, lacking the money and policy levers and instruments to stimulate growth. But Asia is enjoying more growth and investors have the long-term view that the governments have the money and policy instruments to spur growth."

He added that looking at the major economies' government debt markets, 30% was trading in negative yield territory in 2016 and now it is 40%, meaning roughly USD13 trillion of paper equivalent.

A topsy-turvy world

"It doesn't make sense," he warned. "You lend some money to somebody and then the pay you back less. Capitalism does not work in negatives; people genuinely have no idea how to cope with negative interest rates, although they will not admit it. Four central banks have got negative interest rates, Sweden, Denmark, Switzerland, and Japan."

Bloodbath coming?

"Frankly," he continued, "I have been expecting a bloodbath for the past decade, but it has not yet come. I remember Janet Yellen on 27 June 2017 on TV stating we will not have another financial crisis in our lifetime, well, the cognitive dissonance in her statement was absolutely breath-taking.

RANJIV RAMAN
Schroders Wealth Management

SHAN SAEED
IQI Global

These people have lost all credibility. Remember in 2016 when oil was below USD30, and every media and analyst was saying there is a glut and it would drop further, yet by end 2016 it was almost double that!"

An expert advised focusing on higher yield credits and the paper they have issued at lower levels - junior or subordinated debt for example - which will reduce in supply as the banks refinance through the equity or the fixed income market, often then repurchasing some of these bonds, especially those no longer forming part of the capital structure beyond 2022. "High yield paper from investment grade rated corporates is a strong advisory," he said.

The same expert highlighted how Europe has structural problems on so many levels that need to be resolved. "Without resolving these problems purely fiscal and monetary measures will not be enough to pull Europe out of the current malaise that they have been in for the last 10 years," he warned. "But having said that, European economy is plodding along, albeit weaker than the US and far weaker than Asia. An issue is that we are talking about the EU which has common currency, but no integrated fiscal and monetary policies and politics often get in the way."

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Don't tell fairy tales

"We must share deeply insightful analytics with our clients, not Cinderella fairy stories," he warned. "We know for example that an inverted yield curve leads to recession within 12 to 15 months, so 2020 will be very interesting. Remember that on November 20 last year, the FANG stocks (Facebook, Amazon, Netflix and Google) lost almost one trillion dollars in value, that is roughly the size of Indonesia! And as to cryptocurrencies, I see it as no more than a Ponzi scheme, a hoax. In summary, I still prefer stocks, but very selectively."

TONY WONG
CSOP Asset Management

Throw away the old play book

Another expert highlighted how the classic 'balanced' portfolio is no longer fit for purpose, and diversification should be enhanced by including non-directional, alpha-generating and relative value strategies. He said opportunities within the credit universe, emerging market debt and commodity trade finance can offer new sources of return that are less correlated with traditional assets.

"We see policymakers doing whatever it takes to maintain liquidity, to support risk taking in the economy," he observed, "and we believe the only game in town is corporate credit and we see that credit ETFs have raised record amounts of money in the first half of 2019. I believe we need to follow policy makers and understand the state of the real economy before we make informed investment decisions."

Diversify, or damn the portfolio

However, he also cautioned that anyone who believes that any region or any country or any corporate can escape the contagion or can be uncorrelated is "grossly" mistaken. "We are highly integrated,"

he stated. "I cannot offer a solution, but we have client money to invest and I believe that diversified portfolios and active investment is much better than slavishly following one specific asset class."

He added that the risk of fixed income ETF expansion is not the growth, but what happens when people become less defensive and want to get out of these ETFs. "As we see it," he commented, "if growth continues as is our central case scenario just to plod along around the trend levels currently without significant inflationary pressures then corporate earnings will be maintained, so there will be a shift to money moving from defensive fixed income and into risk assets."

Alternatives shine

Another expert explained how his firm is focusing on the alternatives bucket. "Nobody really wanted to talk about gold, except for people who want to sound intelligent in cocktail conversations, but gold is an ever more important hedge against central bank policy and the money printing. We are also allocating a lot into less correlated assets like infrastructure, and private equity. As to regions, we like Asia as the corporate fundamentals by and large remain intact, so for us the rest of the world is neutral or negative."

Alternatives + innovation

One guest highlighted the value of innovative solutions and structures, for example a gold-linked structured product that offers a maximum downside risk of 5% and 100% appreciation upside on the value of gold. "This," he explained, "is for clients that want to have exposure to gold but who are wary of the recent rally, so they want to protect their downside, but fully participate one to one on the upside."

SPs, he advised, also offer access to certain asset classes that a normal investor would not usually be able to access. "As an example," he reported, one of the latest products that is very popular, offers three months LIBOR as the underlying."

ETFs and China plays

An ETFs proponent highlighted a suite of Hong Kong listed ETFs offering access to China and also to the first Asia-listed money market fund in Hong Kong, as well as what he described as a two-times

JOANNE SIU
Samsung Asset Management

inverse product based on the Hang Seng Index, a strategy that has garnered an impressive USD2 billion since the end of May. We are seeing more ETF engagement coming from Southeast Asia especially Singapore, Thailand, and Malaysia as well."

Another ETF expert highlighted their leverage and inverse products based on the HIS and the Hang Seng China Enterprises Index. "The leverage ETF basically produces double the daily return on whatever the index does, while for the inverse product if an index is down by 5% today, the inverse product will be up by 5%. In short, the leverage ETF is two times and the inverse ETF is one time." And they also highlighted a China New Economy ETF strategy that focuses on 30 leading internet/tech related stocks, including Baidu, Alibaba, and Tencent.

China, China, and China

The same China expert highlighted in particular the appeals of the 5G revolution in China. "The China equivalent of FANG is BAT," they remarked, "so if you missed FANG, then focus on Baidu, Alibaba and Tencent; they are moving very fast, earning transaction fees from mobile, so very rapid software-related business expansion."

A guest zoomed in further on China, highlighting the appeals of SMEs, with strong fundamentals driven

by a cycle of individual tax cuts, corporate rate tax cuts, and technology, with Chinext an ideal vehicle - like a new NASDAQ in China to play these stocks. "Better to play these themes with an ETF strategy," he advised, "as investors would be lost trying to buy individual shares."

Much in the future depends on the potential for the US-China trade conflict," he added, "and that we cannot predict, nobody can. At the moment, China has a massive trade surplus into the US and buys US Treasuries to help them finance it. The more worrying aspect is that this is evolving into a technology cold war."

Playing the trade wars

"We actually have a structured product that plays the US China trade war but is market neutral," noted a guest. "We selected a dozen underlying stocks, six of them are positively correlated to US policy and six negatively correlated to US policy. It is a one-year products, and investors are not betting on a win or lose, they are betting on the dispersion. We back-tested this for a couple of years, and the average performance has always been in double digits, and we even guarantee a certain return."

The final word

The final word went to an expert who opined on Malaysia and investor trends there. "In the past," he observed, "most Malaysians were in property, stocks, bonds, but in the last two years significantly many Malaysians are going long on gold. Sophisticated and smart investors who factor history and economics always take positions in two asset classes, one is real estate and the other is a gold. And we believe gold is going higher in the next few years. And stocks are likely to rally once the Fed cuts again in late July, and we even see QE4 coming in the market, which will further distort asset prices again. Finally, China is here to stay, so people who think China is going to collapse need to go back and revisit Economics 101." ■

ROSSEN DJOUNOV
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