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How to navigate investment markets in 2H 2017

On the back of robust markets in the first half of 2017, especially across Asia, investment specialists in Asian wealth management look at what's in store for investors for the rest of the year.

Panel speakers

- ***Ranjiv Raman,*** *Head of Investments & Treasury - Singapore, Cazenove Capital*
- ***Aditya Monappa,*** *Head of Asset Allocation & Portfolio Solutions, Group Wealth Management, Standard Chartered Bank*
- ***Bryan Goh,*** *Chief Investment Officer, Bordier & Cie*
- ***Pankaj Nagrath,*** *Executive Director, Bank of Singapore*
- ***Michael Chang,*** *Chief Investment Officer, Fixed Income, RHB Asset Management*

The markets have been doing well and investors have benefited accordingly, although risks loom due to various uncertainties including currencies, inflation and geopolitics.

Some of the key considerations for clients in Asia at the moment, therefore, include how to invest for the medium term while keeping in mind the possibility of a coming slowdown or correction after eight years of economic expansion and almost uninterrupted bull market across asset classes post-global financial crisis.

At the same time, investors are looking at how to take advantage of what is cheap in a world where almost all asset markets are trading at stretched valuations.

But these same individuals also need to look at how they can build effective macro hedges in their portfolios.

Indeed, the next 'pain' trade might not be an equity market correction, but a further rally in equity markets, given large amounts of cash sitting on the sidelines with broad investor segments worrying about a host of issues.

These were among the highlights from industry specialists speaking at the annual flagship Hubbis Investment Solutions Forum in Singapore in June.

Ranjiv Raman
Cazenove Capital

MACRO OUTLOOK

From a Standard Chartered perspective, global reflation took a breather amid rising US political risk, dragging down sentiment from lofty levels. However, this has been mostly offset by improving Euro area data. Asia remains resilient even as China's economy slows.

hubbis

The bank's global investment committee continues to assign a combined 70% probability to 'reflation' or 'muddle-through' scenarios unfolding over the next 12 months. However, there has been a subtle shift towards 'muddle-through' at the expense of 'reflation' amid rising US political risks, which could delay president Trump's stimulus plans.

Sentiment and data in the Euro area continues to strengthen, especially after Macron's win in France, helping offset some of the drag from the US.

Aditya Monappa
Standard Chartered Bank

RISK TO WATCH FOR

Among some of the key risks that investment specialists predict are: investigations into Trump's campaign ties with Russia delaying his stimulus plan; a US inflation surge (it remains subdued for now); faster-than expected Fed rate hikes or early ECB tapering; and geopolitics.

In particular, inflation remains a key risk (at 20%) as job markets tighten in developed economies, especially in the US, according to some market participants. Others, however, don't see inflation as a problem – neither is deflation.

Geopolitics, especially in North Asia, is another source of risk, although president Moon's election in South Korea raises the chance of a political solution. Other considerations include the 19th National Congress of the Communist Party of China; the Party elections in November are very important for domestic policy and international engagement.

For the time being, it seems that Europe is in a good spot economically, so the hope is that it doesn't derail itself; Italy could do this, as could Spain, say some observers.

INVESTMENT IMPLICATIONS

What this means for asset allocation, is that conviction on equities, particularly in the Euro area and Asia ex-Japan, remains in place for many.

Earnings expectations continue to be revised higher, reflecting supportive fundamentals. Indicators suggest low potential for near-term volatility, though European elections, US politics and North Asia remain sources of risk.

However, the market is cautious. Some investment experts such not looking at Vix, but rather at Skew.

Within bonds, the general consensus is with increasing geo-political risks arising from North Korea, and Russian-IS tensions, the demand for bonds would remain supported.

Bryan Goh
Bordier & Cie

Standard Chartered, for example, sees an opportunity to shift some exposure from developed market high-yield (DM HY) bonds to Emerging Market (EM) US dollar government bonds. While tailwinds continue to support HY bonds, they are becoming increasingly expensive.

As a result, there is greater value in EM US dollar government bonds, where yields are reasonably attractive and valuations not as extreme.

Some opportunities might be found in some of the more complex, deeply subordinated securities, according to investment specialists.

Pankaj Nagrath
Bank of Singapore

Oil prices, meanwhile, are likely to be supported by agreements among major producers to limit supply, although increasingly efficient US shale oil producers means there is a higher probability that the magnitude of oil price gains will be limited.

Although political risks could act as near-term headwinds against the ongoing shift towards reflation, financial markets broadly remain comfortable with an ongoing shift from a 'muddle-through' environment to 'reflation', according to Standard Chartered.

While the bank remains comfortable with income strategies for income-oriented investors, it continues to favour a multi-asset balanced strategy that offers investors an opportunity to benefit from the ongoing shift to a reflationary environment – while mitigating the risk of temporary equity market pull-backs over the summer.

POSITIONING PORTFOLIOS

To protect the portfolios from, and take advantage of, the large-scale structural shifts in the horizon, investment specialists suggest that wealth managers advise their clients that it is time to be less passive and more active.

When markets were driven by central banks correlation was high, and when politics drove markets, correlation was high.

With correlation now receding, it will continue to recede as fundamentals take over. This means stock-pickers can at last do their job.

The leveraged loan market also offers opportunities, say investment specialists, with floating rate at zero duration. Yet it is an asset class which is over-valued. ■

Michael Chang
RHB Asset Management