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How to navigate the investment markets in 2H 2017

Despite an uncertain market environment heading into the second half of the year, some investment specialists believe any pullback should be a buying opportunity – especially given continued economic growth, positive earnings and liquidity.

Panel speakers

- ***Mohd Fauzi bin Tahir,*** *Chief Investment Officer, Equities, RHB Asset Management*
- ***Ted Low,*** *Partner, GAO Capital*
- ***Clement Lee,*** *Director, Business Development, Head of Sales - Singapore & South-east Asia, Legg Mason*
- ***Shan Saeed,*** *Chief Economist, IQI GLOBAL*
- ***Michael Chang,*** *Chief Investment Officer, Fixed Income, RHB Asset Management*
- ***Jeremy Ng,*** *Chief Executive Officer, Singapore and Head of Sales, Asia, Leonteq Securities*

The market environment today is one that some investment specialists say continues to stay volatile.

Indeed, such a lengthy period without a correction is unusual, leading some investors to extrapolate that a prolonged sell-off is coming.

Bad streaks always follow good ones, but the good streaks can last a long time.

Yet although a market pullback is quite possible over the next several quarters, this should be viewed as a buying opportunity.

This is based on the fact that the three pillars of a higher market remain intact: the economy continues to slowly move forward; earnings continue to surprise to the upside; and liquidity remains abundant.

The macro environment, interest rates, inflation and fund flows will all impact performance in the coming months.

But just how resilient the performance is, depends on how fund managers can articulate these moves and manage risks to turn them into opportunities.

Against this backdrop, some of the predictions from speakers at annual Hubbis Malaysian Wealth Management Forum 2017 in Kuala Lumpur in July included:

- A likely further weakening of the US dollar due to political uncertainty – despite earlier expectations of it strengthening in 2017

Ted Low
GAO Capital

hubbis

- An appreciation of emerging market (EM) currencies
- Equity markets generally either retracting or not performing as well as in the first half of 2017 as the market gets expensive, plus a lot of good news and optimism is already reflected in higher prices relative to earnings
- ASEAN and China as the main growth regions – especially in the real estate, logistics and infrastructure sectors
- As China floods its products to other countries, the US weakening as a result of the over-production in China and falling consumer demand in the US
- With increasing geo-political risks arising from North Korea, Russian-IS tensions, a cross-Taiwan Strait war that draws the US and China into direct conflict, deteriorating US-China trade relations – the demand for bonds will remain supported given market timing is a challenge
- Equity markets likely to be supported by corporate earnings as economies improve. However, there will not be price earnings multiple expansion as the macro economy is not as strong as investors expected
- Possibly one more rate hike in the US as part of normalisation of interest rates by the Fed
- In the Euro-area, while no rises in interest rates will happen yet, asset purchases may end by 2018
- The combination of Fed balance sheet reduction and ECB tapering to end by 2018 is likely to lower overall central bank net asset purchases sharply
- A question-mark over whether the global financial markets can absorb in a smooth way this retreat of central banks

Mohd Fauzi bin Tahir
RHB Asset Management

TAPPING INTO TRENDS

According to some practitioners, some of the more sophisticated HNW investors in Asia have been looking at more tangible assets – including gold, silver, art and real estate.

Getting investors interested in infrastructure assets, for example, is also an easier conversation than in the past

Clement Lee
Legg Mason

While investing in these assets was traditionally only possible via private equity vehicles, it can now be done through listed infrastructure equity funds.

Meanwhile, some investment specialists are recommending corporate bonds to generate income, with a mix between government paper and cash due to expected volatility in the second half of the year.

This is with a view to trying to ensure more consistent returns – in turn requiring bonds to be within portfolios, also providing the added benefit of liquidity.

Shan Saeed
IQI GLOBAL

STRUCTURED PRODUCTS GROWTH

While growth in the US might slow, many large- and small-cap companies have been announcing positive results on the upside, leading to continued strong interest in US equities.

Some of the more sophisticated HNW investors in Asia have been looking at more tangible assets – including gold, silver, art and real estate.

Jeremy Ng
Leonteq Securities

Indeed, bullish markets since the start of 2017 have also resulted in increased structured products issuance.

This has mainly been in the equity space, directly correlated with the rise in the underlying.

Investors have broadly taken one of two stances.

Some of them have been looking to enhance their yield over and above their direct equity investments, so they have been in search of a higher participation rate in the underlying market.

Other investors, however, have adopted some caution in case of a market correction. ■

Michael Chang
RHB Asset Management