Navigating Choppy and Uncertain Markets in 2019

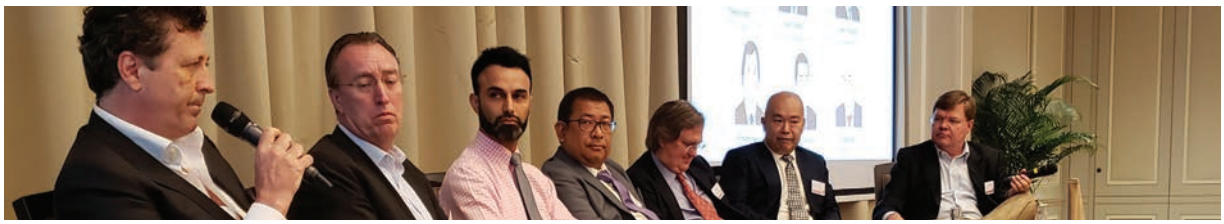
A 'Magnificent Seven' of panellists at the fourth discussion of the Hubbis Independent Wealth Management Forum surveyed the prevailing themes and trends facing investors in the current unsettled conditions by looking to the past, where history has a tendency to repeat itself, and also to the future, where a social conscience is likely to reap rewards. If lessons are learned from what has happened before in times of volatility and uncertainty, there is hope for investors to weather the storms.

These were the topics discussed:

- *What are the main investment themes and the products that will be most relevant in 2019?*
- *How has the Investment environment changed in Asia from 2017 to 2019?*
- *How will you generate income in 2019?*
- *What's your view on global equity markets and do you think real estate (real assets) provides an interesting opportunity at this time (un-correlated)?*
- *What is your client's expectation on yield today?*
- *Managing and understanding risk – how do you estimate risk, and how does it impact your investment process?*
- *How do you think Asian equity market performance will be in 2019?*
- *What is interesting to clients in the fixed income and credit universe today?*
- *Is there an increasing interest in ESG?*
- *What's the outlook for emerging markets? Asia?*
- *Is the US market over heated? Are we heading to the next financial crisis in 2020?*
- *Is Asia warming to index and ETF products?*
- *What's the interest of private clients today in; Alternatives, Private equity, Hedge funds, Infrastructure, Property*

PANEL SPEAKERS

- **Bryan Henning**, Self Employed
- **Deep Singh**, Head of Investments, EFA Group
- **Gary Dugan**, Chief Executive Officer, Purple Asset Management
- **Gary Tiernan**, Head of Investments, Crossinvest
- **Richard Harris**, Chief Executive Officer, Port Shelter Investment Management
- **Arnulfo de Pala**, Chief Investment Officer, TriLake Partners
- **Bryan Goh**, Executive Director, Chief Investment Officer, Bordier & Cie



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THE KEY TAKEAWAYS

Where are we and is "D" day coming?

An expert opined that there is a general consensus that something bad is coming because the world economy is weakening while the three Ds - debt, deflation and demographics - are huge problems to overcome. The markets might have recovered in early 2019, but they remain potentially volatile and unpredictable.

Can investors accept lower returns?

Wealth managers are finding that investor's expectations must be carefully managed in this new environment, but if it is explained to them that a conservative approach is safer and leads to solid, albeit lower, returns they can gradually accept the new normal.

China beckons

Panellists focused on if and how China is weathering the global storms. One expert declared China a long-term underperformer, one declared that the economy remains relatively weak compared with past growth, but others argued that China should be one of the better markets going forward, partly driven by low valuations and partly by changes to MSCI inclusions, which are attracting more foreign investors.

Sustainability is an investment buzz-word for 2019

Younger investors want to invest responsibly, and it is more than a flash-in-the-pan fad. Wealth management professionals are urged to consider ESG investment as a good bet moving forward.

Dial down the risk

Investors and investment managers should dial down risk and take a much more rigorous and analytical look at what they are buying and why.

Hope for fixed income

Central bank policy is going to be more supportive for the bond market than the equity market, said one panellist. Growth might fall by the wayside, but the central banks cannot afford to sacrifice the credit markets, hence the advice is to stick with your bonds.

DEEP SINGH
EFA Group

THE DISCUSSION BEGAN WITH ONE EXPERT noting that the actions of the US Federal Reserve and central banks around the world can only delay major asset price corrections, which is what happened during 2018, but the risk is that the eventual crash becomes more dangerous.

"There is a general consensus that something bad is coming," another added, "it's going to be sharp, it's going to be pretty dangerous," an attendee warned. "What will the world look like after that? If you look at the three Ds—debt, deflation and demographics things are not going so well for the world."

Looking broadly, an expert then explained that large countries like China are starting to suffer, while Japan, South Korea and Singapore are seeing negative population growth, and that most countries are more heavily indebted than they were in any point in their history, while deflation is a real issue. There is also the trade war between the US and China to consider, which is currently at an impasse and hurting the global economy.

Balancing the books?

"We have to remember that that [global] mountain of debt is actually offset by a larger mountain of assets," an expert reassured the audience. "I am more afraid of a long grinding downward turn of the market than just ripping off the band-aid."

"In the Middle-East and Asia, there used to be an aspiration of 10-15% returns," said another panellist, "but after we explain that the GDP numbers are

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Port Shelter Investment Management

BRYAN GOH
Bordier & Cie

falling and the interest rates higher, investors are starting to accept that 3-5% is more achievable," added another attendee. "Volatility is here to stay and rather than being a negative, it is simply a return to normal."

Moderating expectations

An expert then argued that while investors can accept the lower returns, they are not happy about them. "Markets are becoming more sentiment-driven again," he explained, "and the choice is to either set up your portfolio and ride through or try to enhance returns by making some tactical plays."

The panel then focussed upon the expectations of investment professionals and how they match with client expectations. "It was a pretty rough 2018, and we are trying to manage expectations accordingly," a guest summarised.

"When we think about asset allocation and how we ensure consistent returns for our investors, we take a conservative approach," a delegate explained. "Investors are starting to understand and adjust their expectations. We therefore construct our portfolios in a more income-driven, conservative fashion."

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China's low valuations appeal

The panel turned their attention to China, one of the best-performing markets thus far in 2019, with growing interest from international funds.

"Since its big rally of 2015, China has been going down, so it is not surprising to see it pick up now, but the Chinese economy is still bearish," an expert commented. "With urban unemployment of 5.5% compared to 7.5% in Germany, China is approaching a western profile, with low growth and high unemployment as well as increasing debt."

But another panellist observed that the market in China is very cheap with a lot of foreign money coming in as MSCI increases China's weighting in global indices. "It is important to separate the

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TriLake Partners

GARY TIERNAN
Crossinvest

negativity of the economy from the potential positivity of what Chinese stocks can actually achieve," he said.

Ideas for diversification

A delegate then commented that in terms of non-correlated returns, private debt is an interesting space that has been paying out good returns. "Look to private equity, where there is close to USD2 trillion of private equity money waiting to be invested." Another guest then added that there are attractive returns to be had in the alternatives, hedge funds, relative value and trade finance.

Another guest explained that in Asia, real estate has been a popular investment for a long period of time, and India offers a lot of value, provided investors can keep steady for the longer duration. "Australia and New Zealand will also be offering a lot of value in the next 6-10 months," he added.

The socially-empowered investor

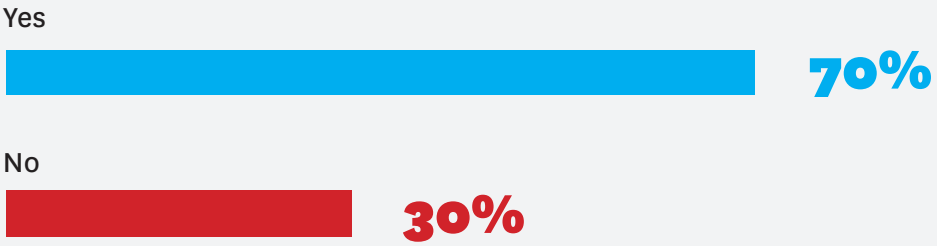
The panel then shifted to investment driven by Environmental, Social and Governance (ESG) metrics. "What if it is nothing but a fad, not worth spending time on?" an attendee wondered, as a discussion-starter.

On the contrary, the panel appeared to agree that in recent times there will be a sustained upturn of interest in ESG investing. "Sustainability is a buzz-word, and there is a prevailing view that the environment should not suffer at the expense of the economy," an individual pointed out. Indeed, pollution issues in

GARY DUGAN
Purple Asset Management

BRYAN HENNING

WILL THE EQUITY MARKET IN CHINA END THE YEAR ..



Source: Independent Wealth Management Forum 2019 - Singapore

China are creating immense distress, disease, and huge costs to the Chinese economy.

When choosing the right spaces in which to invest, an expert suggested that the returns from well-constructed ESG-compliant portfolios are at least as good, if not better than traditional portfolios, and that the younger generation really cares. The challenge, however, is that as yet no one can easily and precisely define ESG factors around the world.

Which way for 2019?

"This year we need to focus upon good old-fashioned analysis as it is going to become more important as we weather the next bubble and crash," an expert explained. "Stay invested yourself, and invest in your yourself, your family, your children and take a generational view. It is time to get back to family."

"We have dialled down risk at this point," a delegate replied. "These ideas are informed not so much by the macro analysis but by looking at the plumbing of financial system and realising that the Fed has certain realities to how it manages its balance sheet, how it transmits its policies into the real economy. Our portfolio has become ultra-macro, informed by an understanding of the underlying infrastructure of finance."

"The central bank policy is going to be more supportive for the bond market than the equity market," predicted an expert to end the discussion. "They will not be able to save the growth, but they will save the credit because without the credit everything falls, so stick with your bonds," he advised. ■