Not missing an investment trick in 2017

A panel of market experts at the 5th annual Hubbis event for Asia's independent wealth management community look around the world to give their outlook for various regions and asset classes for investment portfolios in 2017.

Panel speakers

- ***Juerg Kiener**, Managing Director & Chief Investment Officer, Swiss Asia Capital*
- ***Vinit Sarangdhar**, Managing Director, Alpha Quest*
- ***Noli de Pala**, Chief Investment Officer, TriLake Partners*
- ***Carlo Rossi**, Managing Director, Trendlab*
- ***Andrew Hendry**, Managing Director, Asia, Westoun Advisors*

Identifying the investment hotspots around the world in 2017, as well as the danger zones, is a harder task that in many years gone by, it seems.

There are no easy or clear answers. In fact, given the low-growth, low interest rate environment that the global economy is stuck in, accompanied by growing geo-political uncertainties in Europe, investors are struggling to find any answers at all.

What does seem clear, is that against this uncertain backdrop, it pays to be diversified.

Apart from traditional asset classes, alternatives should also play a role in portfolios. Of course, the term is a broad one. But in the quest for higher yield, some of the wealthier clients in Asia are already venturing into private equity deals.

This is according to senior industry practitioners, speaking at Hubbis' flagship annual forum in Singapore for the independent wealth management segment.

Andrew Hendry
Westoun Advisors

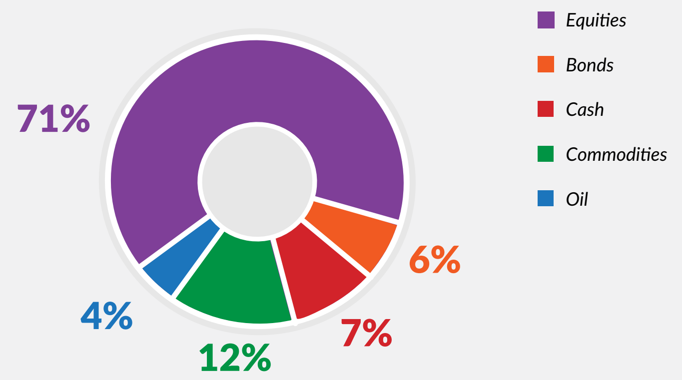
EUROPE

Practitioners have mixed views about the Eurozone. Many investors are already short on the euro and sterling, and with important elections coming up in Germany, France and the Netherlands, there is high caution on European equities.

Nevertheless, for those with a higher risk appetite, German stocks, on a selective basis, could be considered, according to one speaker.

In contrast, investors should avoid French stocks given that presidential elections are taking place on April 23 and May 7. The latest opinion polls suggest centrist candidate Emmanuel Macron has a slight edge over far right candidate Marie Le Pen, who was considered the frontrunner until recently.

WHICH OF THE FOLLOWING WILL PERFORM BEST IN 2017



Source: Hubbis Independent Wealth Management Forum 2017, Singapore

Yet it seems that the anti-establishment that rocked the UK (Brexit vote) and the US (Trump's victory) is sweeping over Europe as well; there are concerns about the implications of a far-right victory.

Some investors did voice a preference for small-cap European stocks across sectors but that is tempered by the upcoming MiFID II rules.

The new regulations involve big changes to how asset managers pay for research, which is likely to affect stock coverage going forward. Small-cap stock coverage could therefore be vulnerable under the new regime, according to some experts.

US

In America, despite high valuations, domestic equities remain in favour among most market participants – on the bet that the new US administration will implement pro-infrastructure policies along with tax cuts.

But given there is a bubble underway, practitioners advise investors to be highly selective. While it's difficult to predict when the bubble will burst, there is a good chance that when monetary policy reverses, valuations will tumble.

Within commodities, one market expert was upbeat on copper, primarily because the fundamentals seem to be improving. There is a growing chorus of views that expects to see a steady shift from a market in balance to a slight deficit; this will be good news for prices.

Carlo Rossi, Trendlab

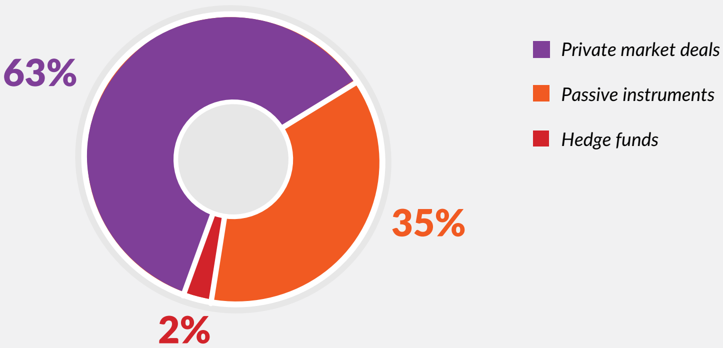
Commodity prices rallied in 2016, although copper prices lagged for most of the year. However, it recorded an end-of-year surge after Donald Trump, who pledged to increase infrastructure spending in the US, was elected as US president in November.

Juerg Kiener, Swiss Asia Capital

RUSSIA

The best-performing stock market in 2016 got a cautious thumbs-up among practitioners, as investors bet that a thawing in the Washington DC-Moscow relationship will be good for the Russian economy.

WHICH OF THE FOLLOWING WILL SEE THE BIGGEST INFLOWS AMONG HNW CLIENTS IN ASIA IN 2017?



Source: Hubbis Independent Wealth Management Forum 2017, Singapore

Nevertheless, the always-looming geo-political risk that Russia represents cannot be ignored.

Earlier this year, renowned investor and long-time China bull Jim Rogers also told investors seeking opportunities in the Trump era that they should buy into Russia.

For investors with a high-risk appetite, there are some companies whose business is uncorrelated to what is happening in the rest of the world, and have limited downside.

Investing in Russia does offer long-term benefits, according to practitioners, but is accompanied by extremely high volatility.

INDIA

The country's recent demonetisation – where the government voided the 500 and 1,000 rupee notes in a bid to root out black money while encouraging a shift to a cashless, digital transaction-led economy – has affected consumption and the quantity of money in circulation in the short term.

Yet the longer-term picture remains one of strong potential for growth.

Vinit Sarangdhar, Alpha Quest

Speakers are urging investors to look at Indian companies that enjoy a relatively dominant share in their industries, enabling them to have pricing power and higher profit margins.

Asian Paints was cited as one example; it enjoys a dominant 60% share in the retail paints market. The software industry was another, where opportunities are available for the discerning investor.

Increasingly, the venture capital industry is also another area of consideration, with many companies having half the valuations of those in Silicon Valley. However, this is an opportunity for investors taking the private markets route.

Meanwhile, the consumption story holds for India, but for the time being, many of those companies boast high valuations.

CHINA

With Donald Trump as US president, practitioners appear to be more cautious about China in the short term – investors remain uncertain whether America will pursue trade policies that could be detrimental to Chinese interest.

In the longer term, education, tourism and healthcare and green/clean technology are some of the industries that experts are upbeat about.

One investment specialist was also upbeat on foreign and domestic companies selling premium products to Chinese consumers.

As always, there is wariness about China's debt levels. Plus, many practitioners remain concerned about the heavily-leveraged real estate sector.

LATIN AMERICA

When it comes to other parts of the world, there is moderate interest in Latam bonds, especially from Brazil.

The expectation among practitioners is that Latin American GDP growth will return to positive territory this year as price reflation and commodity price stabilisation boost these economies.

While oil prices have dropped again in recent weeks, some experts are adopting a 'wait and watch' approach to commodity and oil bonds from Brazil and Mexico, which could potentially offer good returns.

Broadly, however, emerging market bonds overall remain vulnerable to higher US inflation and policy rate expectations.

ALTERNATIVES

Beyond specific geographies, there also seems to be fair interest regarding private equity among UHNW families in Asia. Some new money, for instance, (meaning savvy individuals/families who sold their tech ventures) is looking for the next big 'multiplier' investment.

Investors in Singapore also continue to show interest in leveraged credit, according to practitioners.

One expert noted there could be some good opportunities in 'nano' or 'small cap' stocks, which typically have the character of private equity because there is so little coverage on them, while also being listed on stock exchanges. These could be considered alternative because of their private/public characteristics.

One investment specialist believes that hedge funds which look for yield arbitrage, have lower risk and higher Sharpe ratios, could be an excellent portfolio diversifier as well.

Meanwhile, although cryptocurrencies and blockchain technology made news headlines in 2016, experts do not see these as big investment opportunities currently.

With automated Chinese trading accounting for 96% of annual trading volumes in Bitcoin, the most well-known cryptocurrency, there seems little interest among professional investors in this space for now. Despite the media coverage, a lack of understanding or confidence in cryptocurrencies still hampers the market. ■

Noli de Pala, TriLake Partners

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