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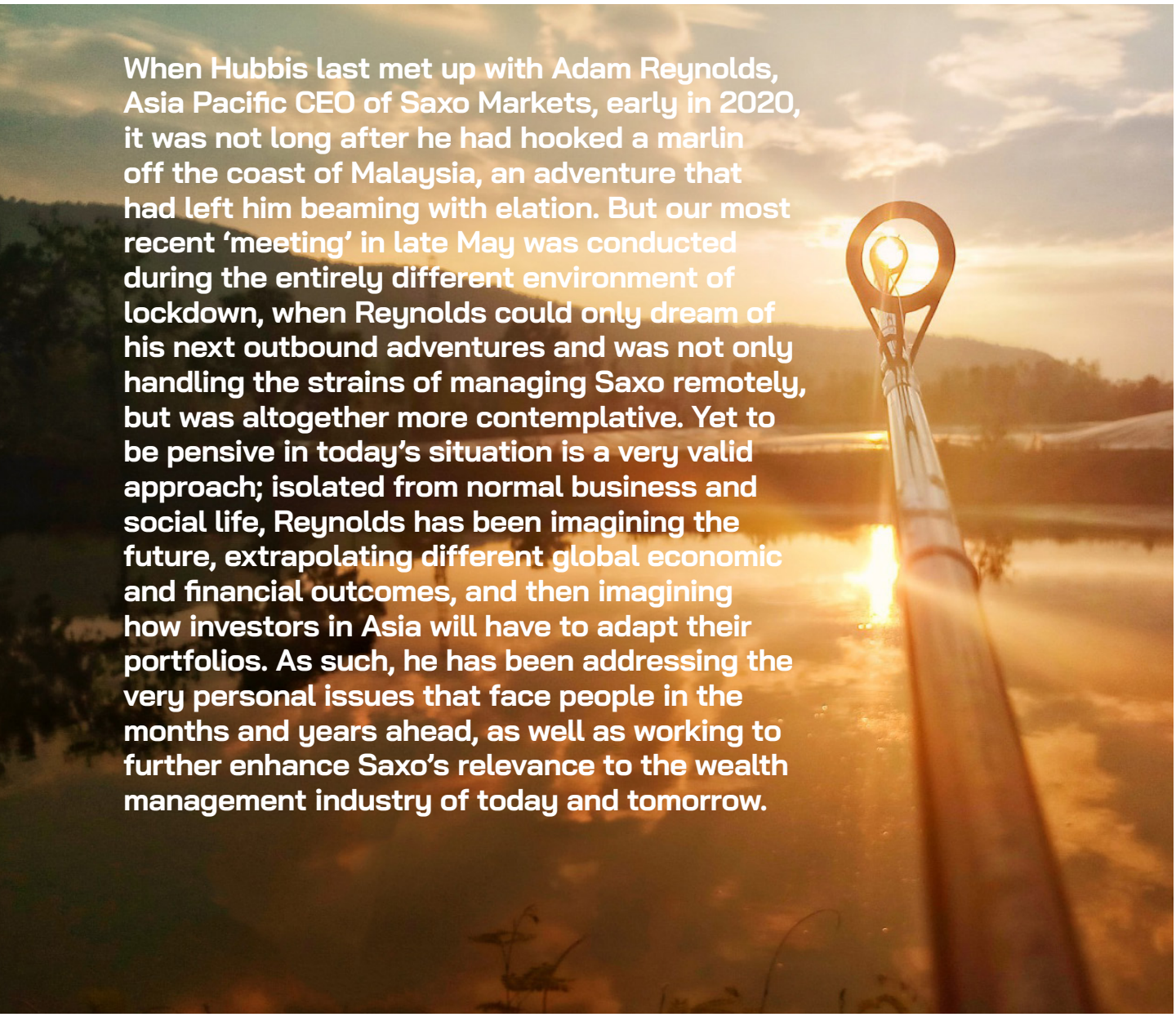
Saxo Markets' Adam Reynolds on Re-Imagining and Future-Proofing Asia's Investment Portfolios



When Hubbis last met up with Adam Reynolds, Asia Pacific CEO of Saxo Markets, early in 2020, it was not long after he had hooked a marlin off the coast of Malaysia, an adventure that had left him beaming with elation. But our most recent 'meeting' in late May was conducted during the entirely different environment of lockdown, when Reynolds could only dream of his next outbound adventures and was not only handling the strains of managing Saxo remotely, but was altogether more contemplative. Yet to be pensive in today's situation is a very valid approach; isolated from normal business and social life, Reynolds has been imagining the future, extrapolating different global economic and financial outcomes, and then imagining how investors in Asia will have to adapt their portfolios. As such, he has been addressing the very personal issues that face people in the months and years ahead, as well as working to further enhance Saxo's relevance to the wealth management industry of today and tomorrow.

"This is a hugely interesting time for the markets," he begins, "and we are going to see a massive difference in the way that people manage their portfolios. We all see the vast QE and stimulus measures being taken by governments and central banks around the world. The key question for all of us, I believe, is whether we will soon return to some sort of pre-virus normality, or see a heavily deflationary depression, or perhaps a hugely inflationary stagflation environment. Those are the three base scenarios we might expect."

Of course, only one of which is a return to the relatively benign investment environment of the past five to ten years, while the deflationary or inflationary spirals anticipated in the other two scenarios are altogether more worrisome.

Turn defence to attack

"If either of the two negative outcomes come about, and I personally do not see a return to normalcy as likely," he comments, "investors would have to adopt very different strategies for their investments, and their pensions and wealth planning. This is, therefore, an enormously important moment for the wealth management industry to really step up their thinking on how to help clients adapt portfolios, as soon as possible, to cope with these potential outcomes. Defence is often the best means of attack."

This is naturally highly relevant to Saxo Markets, which as Reynolds detailed in early 2020 in considerable detail in a previous Hubbis feature article, offers an extremely diversified platform in terms of the number of investment products across the globe.

"With the immense depth and breadth of our Saxo offering," he comments, "we believe we are ideally positioned to help transition portfolios to the new era we predict lies ahead. This is also of considerable personal interest, as I am someone who spends a lot of time on my own portfolio, thinking about how this is going to impact my own finances."

Open dialogue

The key, Reynolds maintains, is for the wealth industry to open and expand conversations with their clients, from a short- and longer-term perspective. "Some people might have adjusted their holdings and leverage very rapidly in January or February, ahead of the worst market conditions in March," he remarks, "but for those that adjusted after the fact, they have effectively missed out on the incredible 30% plus bounce."

Reynolds observes that the bounce is driven largely by the view that the pandemic is transient, that the global economy will rebound strongly, and that normality will resume sooner rather than later. "But I for one," he reports, "do not believe that is the most likely outcome, even if it is still a possible and quite reasonable outcome. Hedge funds and some investors might have done incredibly well by buying the dip in recent weeks, but we also know that this remarkable bounce is not yet supported by fundamentals."

Positioning for the future

He comments that with those initial excess moves in the past now, the markets may be relatively stable for a period, but the economic environment remains decidedly poor, so it is what lies ahead and how we position ourselves that is vitally important.

He observes that the US Federal Reserve has paid out in the region of USD180 billion in grants to every single US household, and similar abundance is seen across the EU, Japan, the UK and other G20 economies.

"That liquidity must flow somewhere," he says, "but what we need to do is determine where. And the answers are not at all clear. I certainly do not know the answer. However, what I can report from my vantage point in the financial industry is that the two very divergent schools of thought emerging around the future view – deflation or inflation – are going to become more and more prominent in the months ahead."

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The two extremes

And with that, he offered more detail on these two worst-case scenarios. The first is a very

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Saxo Markets

negative environment in which the world is heading to long-term depression, with debt deflation, many (not all, however) commodity prices heading ever downwards, economic activity collapsing, and therefore the markets are simply bouncing on trader activity, not on any sound rationale.

If indeed the negative does overcome the positive, and fear invades the world of assets, then a colossal debt deflation will result in a credit crisis with massive insolvencies – especially amongst vulnerable sectors such as oil, airlines, autos, hospitality and so forth.

"And that means a large second wave," he explains, "and here I mean not of the virus but of selling in the markets, so that the bounce becomes a frightening bear trap, with numerous investors trapped inside. This might not be my core prediction, but it is what a lot of smart people think could well transpire."

The opposite end of the spectrum is the view that government monetary stimulus across the globe and printing money to pay for fiscal deficits will inevitably conspire to create inflation, or more probably hyper-inflation, as this is effectively the only avenue to managing national debts.

"This is a hugely risky scenario and dramatically different to what most investors have seen in their lifetimes," he warns. "It is one that the financial sector and wealth management industry are not at all well-positioned for. I am talking here about the entire financial and asset management universe, as modern portfolio theory of the past 50 or so years could potentially be turned on its head."

Look back to the 1970s

He notes that it is now half a century since the world of the 1970s in which there was very strong inflationary growth. "We have had declining inflation or disinflation from the 1970s all the way to the early 2020s," he explains, "and people are simply not now used to the idea that we could have a period wherein bonds and stocks fall significantly, and that wealth is eroded if people are not positioned against high inflation or even hyperinflation."

Radical adjustments required

Reynolds moves on to elaborate on his fundamental view that the money printing globally spells the possible continuing collapse of value in fiat money. "I am more of the mind that inflation will take grip," he says. "We have already seen the US dollar weakening; we are seeing gold going up, we are seeing Bitcoin being very well supported. And all that spells inflation, not deflation. And that, in turn, means that portfolios need radical adjustment, but meanwhile, the more stocks recover, the deeper in the trap investors will bury themselves."

Reynolds therefore advises investors and advisers to keep their eyes closely on the price of gold and Bitcoin. "If we see Bitcoin again break above USD10,000 robustly, and gold strongly above USD2,000 and the dollar declining at the same time," he warns, "then this will mean the world of institutional money is incredibly fearful of the implications of a Federal Reserve balance sheet that has ballooned in size just this year."

The Fed's balloon

By way of background, total Federal Reserve assets stood at USD4.16 trillion on February 26, slightly below the total on January 1, and had shot up to USD7.17 on June 2, a rise of more than USD3 trillion and an increase of more than 72%. In mid-2007, before the global financial crisis hit, total Fed assets stood at USD870 billion and by late 2008 had surged to USD2.23 trillion, then rising more gradually to plateau at around USD4.5 trillion, before falling gradually for the next five years. That is until Covid-19 struck.

"Whatever transpires, whichever of the three different outcomes we face," Reynolds says, "they all have hugely different implications for the value of your money going forward, and investors, and the wealth industry must work out how to defend in each one of those three situations, especially in real terms if inflation does burst back to life."

Hedging against inflationary corrosion

Expanding on the future of an inflation-afflicted world, he extrapolates that gold, gold miners, Bitcoins and other investments

could surge, as gold is limited and a natural hedge against dollar weakness, and Bitcoin supply is finite. And for gold, do investors buy the physical asset, or gold ETFs, gold miners, or futures? "Whatever strategy adopted, the reality is that more and more people will lose more and more faith in fiat currencies," Reynold warns.

Globalisation shifting to regionalisation?

Reynolds also contemplates what the world ahead might look like as life gradually returns to some stability. He highlights the tougher measures being taken in Asia Pacific in particular compared to the liberalised Western economies. He notes that within the region, countries such as Australia, New Zealand, China, Hong Kong, Singapore, Korea, Japan, and also the other leading ASEAN countries are adopting very tough measures to eradicate the virus, and not open borders to anyone until they know they have succeeded.

"But however things turn out, the world we all face is likely to be considerably different, and we will all have to adapt our lives, our business lives and our investments to the world ahead. We will need to be as agile as possible. There are of course, great challenges, but also in many cases, great opportunities ahead."

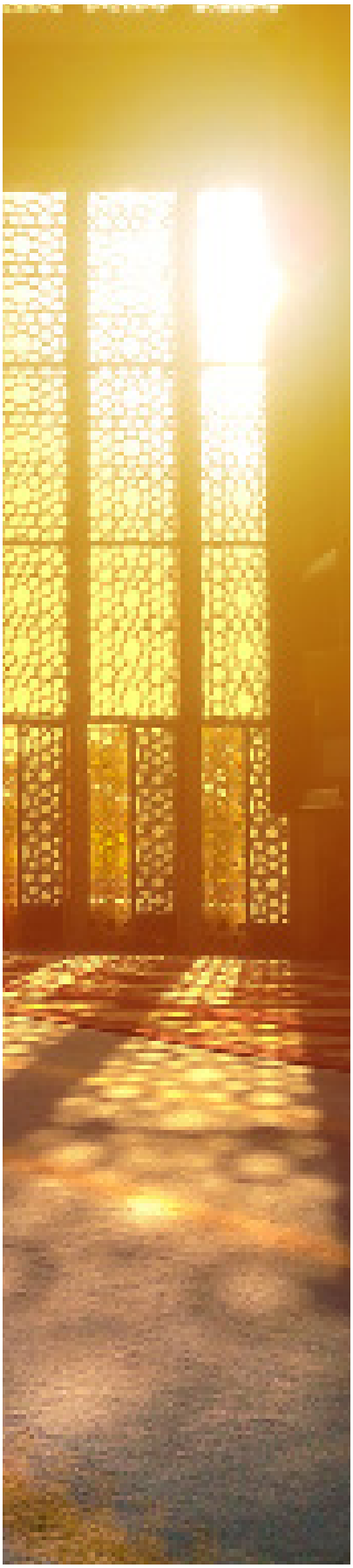
"We are likely to get one free travel zone in Asia which includes many leading countries in the region allowing people to travel within that zone," he says. "But in Europe and the US, there is less stomach for such tight controls, and greater potential for social unrest, more calls for freedom and more concerns about the impact of lockdowns on the state of financial and personal health. So the US and Europe may make up a second distinct travel zone. I am assuming that people will not be allowed to easily come into the Asia Pacific region, from the rest of the world, as eradication of the virus has largely been more successful in APAC to date."

The result, he extrapolates, could be that economic and social activity for some time could take place much more within these distinct travel regions, for example, the US/Europe and many countries within Asia Pacific, but also that some countries, for example, India, and many in Latin America and Africa, might literally be left out in the cold.

"We are then faced," he says, "with a radical geographic divergence potentially, "Of course, all this would change dramatically if there is a vaccine, or several viable vaccines, but we are not there yet, and for the moment we are only able to better treat the actual symptoms."

An imaginative response

Whatever the eventualities, Reynolds maintains that the wealth management industry must be both imaginative and holistic in its approach to investors' portfolios and forensic in their selection of products and solutions and advice.



"The industry must move to a vision of the longer-term health of portfolios," he declares, "even if that perhaps results in less activity within the portfolios themselves. Wealth management must rise above product selling."

For Saxo itself, Reynolds indicates that the firm has been moving further towards offering more advanced portfolio construction and other solutions in recent years (see box on Saxo and Quantifeed below).

"This situation has certainly accelerated the impetus for that continuing shift," he says, "and we are working even harder to improve the tools we offer wealth managers and also improve the communication we have with them about how they construct portfolios. Moreover, the range of products that we offer continues to expand, so we have managed portfolios within the platform, for example, and I am talking to some of the big asset management companies about collaboration, for instance how they could construct portfolios for us to put on the platform for investors and clients to access."

Reflecting realities

These portfolios might reflect degrees of the three outcomes Reynolds had outlined, as well as degrees of extreme within the two more worrisome scenarios of deflation or inflation.

As to positioning, Reynolds indicates that there are some basic reactions to each of the three scenarios. The first environment - the short-term jolt and a fairly robust return to normalcy – should imply the obvious reaction is to return to the investment approach taken over the past five to 10 years.

"But in a deflationary scenario," he says, "being long bonds – sovereign rather than corporate - and mildly underweight equities while being largely dollar centric and short EM currencies makes a lot of sense."

And in the inflationary spiral environment, the portfolio should be skewed towards inflation-linked bonds, gold, Bitcoin or selected liquid cryptocurrencies, and should be long commodity assets such as gold and other underlying products that are likely to benefit from an inflationary period ahead. And investors should be short the US dollar and probably the Euro, while stocking up on currencies such as the Aussie dollar, the Kiwi dollar, those currencies that will benefit from underlying commodity rises such as gold and other assets.

"For example," he elucidates, "faced with a real possibility of strong inflation ahead, someone in their 40s or 50s might then consider it very logical to buy into such a strategy. Fixed income in a time of high inflation is potentially a disaster."

Finger on the pulse

Reynolds is a well-known figure in the Asian wealth management community. A veteran of the financial markets, his passion to explore the future investment seas, estuaries, rivers and tributaries remains undiminished.

"I have a fundamental personal and corporate interest in these ideas, and future portfolio positioning and construction is core to our business model and that of the banks and other providers," he says, "and as such, we are having many discussions with industry leaders on these vital matters."

Reynolds reiterates that the three core outcomes are all, of course, base scenarios, so there will be grades and nuances within each. "But however things turn out," he concludes, "the world we all face is likely to be considerably different, and we will all have to adapt our lives, our business lives and our investments to the world ahead. We will need to be as agile as possible. There are of course, great challenges, but also in many cases, great opportunities ahead." ■

Saxo and Quantifeed: Ready for the New World Ahead

Saxo was busy in 2019 forging several new partnerships and deals. One of those emerged in November when Saxo Markets and Quantifeed announced a joint solution to enable financial advisers to scale quickly in a challenging environment. They signed a Memorandum of Understanding to deliver a platform-based solution that will help financial advisors provide planning and advisory services with greater efficiency, flexibility and scalability. Clearly, the timing was good, as it is precisely this type of agility that banks and other wealth management providers will require in the months and years ahead.

"The solutions we are building with Quantifeed will be available very soon," Reynolds explains, "and will allow clients to spend more time thinking about portfolios and portfolio construction. The Quantifeed portfolio construction tool that can bring in different asset classes and different products and look at how portfolios have performed in interesting environments. It is a strong offering and especially welcome at this difficult time."

Built on top of Saxo's OpenAPI, Quantifeed's robo-advisory technology is designed to bring a comprehensive solution that streamlines the digital wealth management experience. "This," Reynolds reports, "will provide seamless integration of backend functions, freeing advisers from administrative work to focus on client-centric advisory activities, which is particularly vital and valuable in the environment we all face ahead."

The platform will include three core functions: portfolio and account management, which lets advisers construct, customise and rebalance portfolios and screen investments in just a few clicks; CIO notices, which provides advisors with actionable intelligence that enables them to help customers respond nimbly to market events; and "interactive investment journey", a tool through which advisers can deliver a simple, fast, informative, transparent and personalised investment journey to customers digitally.

The venture will result in Saxo and Quantifeed offering advisers a variety of digital solutions advantages in onboarding and of course greater speed of access to Saxo's world of over 4,000 ETFs and more than 500 Unit Trusts worldwide, over 19,000 stocks across core and emerging markets on 37 exchanges worldwide, and access to more than 5,000 government and corporate bonds.

"Moreover," Reynolds explains, "and again this will be particularly valuable, there will be a state-of-the-art tool for rebalancing client portfolios across large numbers of advisers and end clients. And it will offer a huge increase in operational efficiency by optimising and digitising operations and backend functions, as well as significantly boosting the ability of advisers to deliver in-depth and personalised investment advice to customers more quickly and effectively."