Standard Chartered Bank's CIO for Asia Extols the Virtues of Long-term Views and Flags the Importance of the 60-40 Model for the Average Investor

Steve Brice is the CIO for Asia at Standard Chartered Wealth Management in Singapore. Hubbis met with him recently to hear of his outlook for the markets, and exactly what sort of approaches and ideas he and his CIO team colleagues are advising clients to adopt in the face of the ongoing inflationary environment in the US and Europe, and of course in light of much higher rates in those Western market economies. He points to the continuing importance of the close Standard Chartered alignment between the CIO Office and the bank's DPM team to help guide wealthy Asian private clients through the confusion. He continues to believe that being under-invested is riskier than being well-invested, but with a shift to fixed income and yield and also towards Asia and emerging markets, where he sees better growth ahead than in the US, for example. While many are talking about the death of the 60-40 model, Steve outlined that for the average investor this is still a good way yo think about investing.

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STEVE BRICE
Standard Chartered Bank

Brice opens the conversation by commenting on how, in the broadest of terms, the typical HNW and UHNW private clients should be thinking about optimising their investments today. He explains that across the affluent spectrum of investors, it is key to build a foundation first, before thinking about trading and shorter-term investments.

Diversification and the long-term view

"Clients need a diversified portfolio that can stand the test of time, and that they can tweak occasionally," he explains, "but they need to make sure they are invested through the economic cycle. Too often in Asia, we see investors focus on the short-term trading ideas without having built the foundations, so we help them do exactly that."

These foundations that Brice refers to are based on his team's long-term expected returns for different asset classes. Of course, they can only promote certain investments to ordinary investors and the more esoteric or less liquid to accredited private investors, hence their starting point is the more mass affluent type portfolio. "We build our allocation around models that are variants of the traditional 60/40 model, adjusted for individual risk appetites and objectives. Today, the core investments are cash or equivalents, fixed income, equities and gold."

He explains that higher wealth clients all the way up to UHNWIs can then layer in different assets within the broad allocation model, adding in private equity or debt, hedge fund strategies and more complex instruments.

The return of normality?

"The 60/40 conversation was pretty much dead heading into and through 2022, especially for wealthier investors, but we should not totally throw it away. Our long term expected returns for both equities and bonds have increased significantly over the past 12 months. Therefore, investors limited to these asset classes should not get distracted by the rhetoric about 60-40 model being dead. On top of the core foundations, we then overlay tactical asset allocation overlay, making sure we steer clear of bias."

He explains that his team look at capital market assumptions more than market capitalisation to determine their allocation to different models within the broader equity-bond structure.

Tailored to potential not weightings

"We see that most people focus on market size, so equities should therefore be 50% US, for example, but we prefer to focus on expected return forecasts, whereas we believe the US market is likely to underperform Asia over the next 7-10 years. Moreover, we see the same outperformance in the debt space as well, hence our overall allocation to emerging markets is 35% to 40% in the DPM portfolios, because of those expected returns."

He remarks that such views also serve to help differentiate the bank from competitors. And another differentiator is that they build portfolios with ETFs first, adding actively managed funds only when they are convinced the managers will outperform after fees are taken into consideration.

In October 2022, for example, they promoted four preferred Amundi 'active' funds targeted more at the retail and mass affluent market. "Those funds have won solid traction, but they are long-term in perspective, not opportunistic, offering investors a story to help them build the foundations I was talking about," Brice elucidates

Protection as well as growth

He adds that wealth protection has to be central to the allocation model. "In the past ten to 15

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years, there have been many opportunities for clients to earn bragging rights that they invested in a particular sector, or perhaps stock, such as Tesla. But he says that so many people failed to recount the story of the stocks in the same sectors that failed to perform, or that today are struggling.

"The reality is that in taking up our DPM mandates, these investors get our professional management, but it does not necessarily make for a great dinner-table story or bragging rights," he quips. "Their money is on autopilot with us, and they can focus on what they are best at themselves."

Looking at the lifecycle picture

Brice shifts his attention to a more philosophical view of wealth and what it can achieve for clients. He says they try to look at it along different time horizons which he describes as Today, Tomorrow and Forever. Today is about cash flow management, so the clients can ensure they have enough to cater to their annual expenses and needs. Tomorrow is more medium-long term in nature such as planning for children, education and retirement. Forever is about the very long term, contemplating the legacy that clients want to leave behind.

In all these areas, he says the events of 2022 have shifted the goal posts, with clients seeing a far greater need to manage their risks. They had been so used to markets rising but now markets are struggling, the outlook is uncertain, inflation is troublesome, rates are up significantly and major central banks have shifted their focus to containment rather than worrying about deflation, and of course, leverage is more difficult to obtain.

Getting Personal of Steve Brice

Brice hails from Rugby in England and for most of his years through to university lived in a small village near Stratford-upon-Avon. He studied Economics and Finance at Newcastle and then completed his Master's in Liverpool in Macro Economics.

Based in Singapore, Brice has over 27 years of financial markets experience in senior positions. His previous roles for Standard Chartered include Head of Global Markets (Southern Africa), Head of Research (Middle East and South Asia) and Chief Economist (SE Asia).

"It has been an interesting and diverse career with the bank, working in the Middle East, Africa and of course Asia," he reports. I remember the challenges of managing the bank's balance sheets in Zimbabwe during a period of hyperinflation – that was rather interesting!"

He is married with two sons, one of whom is this year heading to university and the younger one to follow next year. "We are looking at being empty nesters by later in 2024," he says, "which will make for an interesting transition. I took up golf again in 2021 as the worst of the pandemic ebbed and will perhaps have a bit more time for that and other pursuits."

He enjoys watching sports, especially rugby and cricket, and also his favourite football team, Liverpool, which he says has had a mixed season, but he hopes that might perhaps be a springboard for a full-scale resurgence again next year.

He admits watching England play rugby has been quite painful, but is more excited about the English test and white ball cricket teams' performances, some of which have been truly remarkable.

A new environment

"We might not have 5% inflation for a long time, but instead of very low numbers, we're probably going to be at 2% to 2.5% for a longer time, and that means yields are going to be higher for longer," he says. "But to generate 4% or 5% yields, you need to take less risk today than you had to take 24 months ago, which is a positive in many respects."

It is also an easier environment in which to promote outsourcing portfolio management either through DPM mandates or, for example, through the Amundi funds Brice had mentioned.

Adjusting the bank's CIO model

Brice also reports that the team has shifted to a regional CIO model, with CIO offerings tailored to regions and with the aim of delivering solutions that are more specific to, for example, North Asian clients, and delivered in their languages as well for greater accessibility.

"Rather than us opining solely from our Singapore base, Private Banking clients, in particular, want people to advise them locally, so we have hired regional CIOs in Hong Kong and Dubai to deliver that model," he reports. "This makes us more responsive to client needs and makes our offerings more relevant."

Sceptical at best over cryptos

Brice is absolutely not a believer in cryptocurrencies. He agrees with leading figures in the establishment who argue that cryptos are both useless and dangerous unless they are central bank created and managed digital currencies.

And as to tokenisation, he is also wary but not so dismissive. "I do not believe the world really needs it," he states. "If you want to buy an individual bond, in many cases, you have to commit a lot of money, but there are other ways to build a diversified fixed income allocation, for example with ETFs. On the other hand, perhaps there might be some value in tokenisation of real estate for greater access to a wider market."

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Moving away from the sound bite approach

He closes his observations by focusing on ESG, remarking that instead of it being promoted as a more abstract and well-intention approach, the investment community needs to become far more granular about what the objectives are.

Brice says there are many ways for the asset management and wealth industries to justify and market an ESG label on a fund, but in the future investors should be focusing more on specific objectives, whether the E, the S, or the G. "A much more granular and tailored approach going forward to achieve more specific objectives will take us away from this broad-brush approach, which I think we have today, and which right now is very politicised," he comments. ■