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Investment markets looking reasonably positive after a challenging year

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Where will Asian private clients look for value in 2023 after a challenging year?

2022 was very, very difficult. Both bonds and equities went down significantly, a lot of hedge funds and alternative strategies underperformed as well, so many private investors and institutional investors for that matter are nursing heavy losses. In contrast, pretty much from about beginning to the middle of November, markets started to recover. More and more value has emerged across the board, and braver investors and their advisors who suggested going back into markets at these low valuations have been able to capture good opportunities, both fixed income, particularly as the market took the view that maybe the Fed is nearer the end than the beginning, have recovered, and together with it risk premium has also been positive.

Equity markets led by longer-duration technology names have bounced, but the biggest winner, if you like, in the last two or three months has been China. The unexpected, yet unprecedented reopening both in terms of speed and quantum has brought significant bounce in Chinese equities, and China, let's put things into context, has been in a bear market for the last two years, and the last two months of double digit gains attracted a lot of attention. After a very difficult year, it's typical to have multiple opportunities that investors should consider, and again, good diversification across portfolios is warranted. But there are a number of interesting opportunities for investors to get involved with at the moment.

Where will clients find income this year?

Again, the interest rates in the US in particular have risen significantly and the market is currently pricing peak rates of around 5%, give or take a little bit over that. Europe and the UK are also catching up. Emerging markets, in contrast, were early into the interest rate rising cycle and the markets are starting to look through that and expect some central banks to start normalising, i.e. reducing interest rates from these levels. So, the last few months have all been about the dollar, as have the last several years. Will the dollar now start

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going sideways and potentially weaken against both other developed market currencies, and high-yielding emerging market currencies? In fixed income, depending on the risk appetite, there are several opportunities that investors could and should be looking at.

Investment grade is looking interesting, particularly specialist investment grade strategies like subordinated debt are offering higher yields for investment grade type risk issuers. Investment grade issuers, particularly in the financial services industry, are offering very decent yields. The other areas are, of course, non-standard or alternative sources of income, both liquid and illiquid. Within the liquid space, something that we are very good at GAM is insurance-linked securities or also commonly known as catastrophe bonds. After Hurricane Ian of last year, and associated losses, the spreads have widened considerably and the opportunities are now to receive double-digit yields from something that is very uncorrelated with traditional fixed income as well as with economic factors. And last but not least, I alluded to if and when the dollar starts moving sideways to weaker, emerging market assets will also provide significant opportunities.

Specifically, what is your view on the Equity markets?

The equity markets have recovered somewhat from the lows of 2022, but interest rates have risen significantly. On one hand, as a measure of opportunities in equities, one needs to look at dividend yield and compare that against yields in fixed income assets, i.e. to calculate the risk premium on equities and in years where risk premium is sufficiently high, there is plenty of opportunities within equities. Currently, in the US market in particular, equity yields are somewhere in the range of 5.5 to 6% with Fed fund rates expected to rise sometime in 2023 to around 5%. So, at 1.5, 1 to 1.5% equity risk premium one has to be very selective in equity markets and to pick the right opportunities.

Conversely, if one takes the view that interest rates will start rolling over, particularly in the US again from the current levels because inflationary pressures will abate, then longer duration equities, anything that's disruptive, anything that is technology equity or growth related will continue to outperform. NASDAQ has been outperforming over the last couple of months, and again, depending on one's view of inflation and peak level of interest rates, their outperformance may well continue. So, we're positive on longer-duration assets for the time being until further clarity emerges on the pace of interest rates.

What are the priorities for GAM Investments in Asia this year?

Priorities for us are really linked to where we have core competence and very strong results. A number of strategies are top decile currently. I alluded to a great deal of opportunities in our opinion in fixed income, our catastrophe bond strategy is very strong, and we see a strong demand from both institutional and wholesale investors to capture and participate in that opportunity. The market will be able to raise significant capital this year to replenish insurance companies' portfolios. Staying with fixed income, our credit opportunities strategy which invests the majority of its assets in subordinated debt of financial institutions is also delivering very strong returns. So, yields to the tune of 5.5, 6, and 7% from investment-grade issuers are very attractive.

On the equity side, as I alluded to earlier, the direction of the dollar relative to developed market and emerging market currencies will potentially provide significant opportunities within emerging markets, both fixed income as well as equities and significant outperformance of the US market over the last years, pretty much since the global financial crisis, may give way to some stronger returns out of European equities as well as Japanese equities which have substantially been neglected. In the last six or seven weeks, we've seen both Europe, Japan, and some emerging markets outperformed US equities. With some dollar weakness, that trend is likely to continue. ■