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Looking Ahead: Capital Markets & Structured Products

Will the markets go up or down? Will investors remain cautious, or turn more bullish? What is the best way to advise Asia's HNWIs to approach their wealth management portfolios? A panel of experts pondered these matters at the Hubbis Investment Solutions Forum.

These were the topics discussed:

- *After the mega structured products bonanza in 2017 - what can we expect in 2H 2018?*
- *Given where we are - what are some of the best ideas to discuss with clients?*
- *What strategies will enable Asian investors get higher returns, whilst been mindful of potential market challenges?*
- *Which assets do clients want? What's the best way to source and deliver on this?*
- *How can you optimise a client's existing portfolio - is this a priority?*
- *Any role for passive and index products?*
- *How can investors be creative in generating yield?*
- *How should clients now view their risk?*
- *What are the key drivers of excess return - sources of alpha - in each asset class? How can they help add to overall performance?*
- *How can HNW clients take advantage of rising volatility?*

PANEL SPEAKERS

- **Ni Yan, Head of Structured Products Asia, Indosuez Wealth Management**
- **Chinmay Patil, Executive Director, Investment Solutions, Leonteq Securities**
- **Lincoln Chow, Director, Head of Sales, Hong Kong & Singapore, Financial Institutions Marketing, Commerzbank**
- **Edward Liu, Senior Vice President, Head of Investment Counselling, North Asia, EFG Bank**

NI YAN
Indosuez Wealth Management

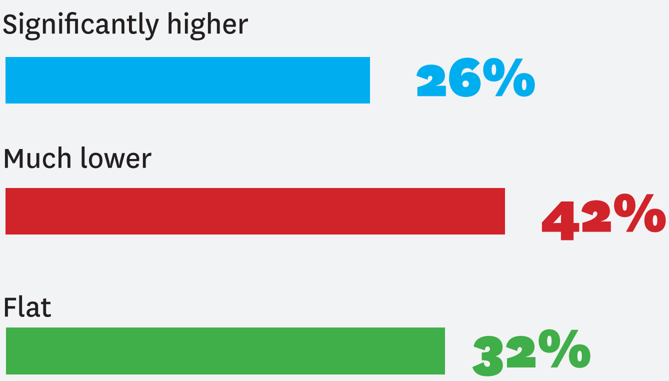
CHINMAY PATIL
Leonteq Securities

EXECUTIVE SUMMARY

The mainstream financial markets are nowhere near as robust as they were in recent years and particularly in 2017, even though the headline index numbers for the US and many European markets remain close to their all-time highs. China and other emerging markets are sharply down this year, but not disastrously so. In short, the world is watching and waiting. How then should high-net-worth individuals (HNWIs) and their wealth management advisers approach these markets?

One way is to focus on structured products, which have enjoyed a boom in demand in recent years as mainstream global investment markets continued their upward momentum. Can structured products be as appealing in more volatile conditions? Yes, a panel of experts opined at the Hubbis Investment Solutions Forum, as they explained how capital protection and increased levels of caution are being incorporated into the new solutions they promote to their clients in Asia.

HOW DO YOU EXPECT THE HANG SENG TO PERFORM IN THE NEXT 6 MONTHS?



Source: Investment Solutions Forum 2018 - Hong Kong

"I SEE 2018 AS A YEAR of consolidation, coming off a remarkable 2017," said one expert on opening the discussion. "The Trump tax cuts in the US have strengthened the US economy, which remains a global engine of growth. I remained generally bullish, but not at all surprised that the markets have not moved ahead. One surprise, however, is the dollar strength and we need to watch that, especially with the Eurozone generally weak, as a stronger dollar will be negative, even though Trump espouses dollar strength."

A structured products expert commented that they allow investors to manage and express any views on the markets. "For example, we saw a lot of bullish opinions expressed in the structured products market, whereas now there is far more caution built in, so investors are seeking more principal protection, whilst retaining some participation on the upside. Last year we saw a lot of fixed income funds as underlying assets and the structure was fully capital guaranteed at maturity of three years. Lately, we are seeing more requests for market-neutral structures, upside on the rise or fall if the markets, obviously with limits on each."

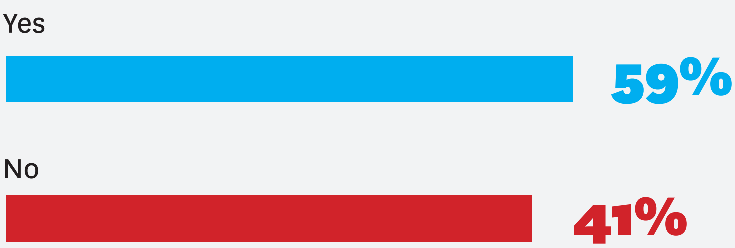
Adversity breeds creativity

He also noted the rising innovation in the structured products sector. "Clients tend to be wary about the end of the bull run, but also do not want to take too bearish a view," he remarked. "We have been devising structured that somewhat replicate the buy-on-dip mentality that many long-only investors have, but in a structured product that still offers some protection on the downside."

A banker commented that their advice to clients is to protect rather than focus on high gains. "It is time to safeguard previous capital gains and hedge portfolios, so, for example, we issue capital protected products from 12 months to 18 months, with a 100% notional redemption at maturity and at the same time, it can protect you down to 20% of the downside of the market. It is focused on risk moderation."

EDWARD LIU
EFG Bank

DO YOU SEE ANY EVIDENCE FROM YOUR CLIENTS THAT THEY ARE MORE INTERESTED IN A DISCRETIONARY CONVERSATION?



Source: Investment Solutions Forum 2018 - Hong Kong

Protect and observe

Another banker concurred, adding that there is a strong trend towards capital protection products. “We also encourage the client base away from solely focusing on equity or fixed income and onto the interest rate curve,” he reported. “The curve is a gradual flattening, but from history when the curve inverted it has indicated US recession, but as we see US indicators and policy the risk of recession over the next 12 or more months is very low, so we see a good opportunity to play the curve.”

Another guest noted that it is far easier to now sell principal protected products as the markets are no longer so bullish and interest rates are higher. “A second area we have had success with is our restructuring product,” he reported. “No surprise that a lot of the investors who bought into structured products late last year or earlier this year have seen a weak performance, so we have been helping them restructure those, through selling those products back to us and taking new products that more adequately fit the conditions.”

China – wealth up, economy not

The discussion turned to China, with one attendee noting that although China’s Shanghai market is still below the 2010 level. “Actually, looking at China we have GDP weaken, we have seen current account surpluses come down, we have seen inflation come down and then go up a little bit, we have seen foreign reserves go up and then come back to nearly where they were in 2010. So, in some ways, one can consider this as China’s lost decade and that might be why there is so much political change taking place.”

On the other hand, he also noted that wealth has increased dramatically, and standards of living have improved markedly, infant mortality rates have been crushed, as has poverty. “The question is when will the economic story change, but with many headwinds out there we do not expect that until at least 202. In short, I reiterate that this is in many ways China’s lost decade.”

LINCOLN CHOW
Commerzbank

Forecast – uncertain

The panel turned their attention to the anticipated market conditions for the remainder of 2018. “We do not expect volatility to be higher than where it is now,” one expert opined. “But the outlook is weak and political matters dominate, including trade wars, so we find clients wanting to take on more puts and capital protected products. Prudent allocation and a cautious approach are best for now. Buying the puts is buying the volatility and hedging appropriately.”

The discussion turned to Trump, with one attendee noting that he has boldly raised a number of issues that were off the table, such as the US being used by other g20 countries as its protector, the US-China trade imbalance, concerns over societal imbalances related to unfettered immigration and so forth. “He also plays a game of shocking and then ending up more conciliatory than he appeared, for example at the NATO meetings,” the banker observed. “At the end of the day, he is a dealmaker and knows that deals have to be made.”

The discussion closed with a few words of warning on what clients should be wary of. One is the emerging market indices, as there might be further lows to plumb and another is that the US equity markets must eventually crack. ■