UOB Asset Management paints bright outlook for 2018

Award-winning fund house optimistic given global economic expansion, muted warning signs

As financial markets worldwide continue to rally and the global economic outlook seems bright, the biggest question is how long the expansion can last.

It might not be until 2020 that one should get more concerned, said Mr Anthony Raza, Head of Multi-asset Strategy at UOB Asset Management (UOBAM) as he spoke on three key themes influencing investors' decisions in 2018: Business cycle, valuations, and risks.

For though the current phase of global economic growth is one of the longest in history, relatively mild growth thus far might allow the expansion to go on.

"The bulb that burns half as bright could possibly burn twice as long," Mr Raza said.

Out of a checklist of seven indicators that might predict a recession in the coming year and a half, none are flashing any warning signals, he noted. For example, there are no signs of high loan growth, junk bond selloffs, and bank liquidity problems.

"We're bullish for 2018, with a slight overweight on equities and a slight underweight on fixed income. Returns on equities should be 8 to 10 per cent, and for fixed income, in the low single-digit range."

While companies around the world are taking on more debt, they seem to be doing so more in an opportunistic way to take advantage of low interest rates, he said.

In any case, he expects interest rates to eventually hit 3 per cent at end-2019, a level which is "not overly problematic for most corporates".

Mr Raza was speaking to 300 regional and local clients including institutional partners and fund distributors at UOBAM's 2018 investment outlook seminar.

The seminar also featured panel discussions on planning for retirement in an ageing Asia and how institutional investors are investing in 2018. There were also presentations on alternative assets, the promise of Asean, and the role of technology as a driving force in investing.

Among the audience, one common concern is whether historically high valuations can persist.

Markets can stay at above-average valuations for many years, Mr Raza replied. He said that in any case, after adjusting for lower than usual interest rates, valuations are not abnormally high.

Another question is around the geopolitical risks of 2018. On the threat of Middle East tensions as the key geopolitical risk that would trigger a correction, Mr Raza said his base case is that no alarming paths will be selected by all parties.

In Europe, Italy and Spain are countries to watch, but the continent has stabilised a lot and key economies are strong.

Spotlight on Asean - Favouring Singapore and Thailand

In Asean, prospects remain bright due to young populations driving rapid growth, said Mr Victor Wong, UOBAM Head of Asean Equities.

He favours Singapore and Thailand, is neutral on Indonesia, and does not prefer Malaysia and the Philippines as much.

"We are generally positive on Asean banks. Singapore banks are leading the way on earnings growth and are at the forefront of digital initiatives today that will improve margins," he said.

Mr Wong also likes the real estate and offshore and marine sectors in Singapore.

Property in Singapore is in a synchronised up-cycle, he said, with unsold inventories at a multi-year low and limited supply expected to rise to meet demand only in 2020.

Meanwhile, higher oil prices will support new contracts for oil services firms and improve their cashflows, he said.

From left to right: Ms Lorna Tan, Invest Editor, The Straits Times moderated the panel discussion on "Planning for Retirement in Ageing Asia", joined by panellists Mr Suan Teck Kin, Head of Global Economics and Markets Research, UOB; Mr John Doyle, Chief Investment Officer (Equities and Multi-asset), UOBAM; Ms Joyce Lim, Head of Regional Wealth Management Advisory and Funds, UOB and Mr Scott C. Geary, Senior Managing Director, Partner and Head of Global Relationship Group Asia Pacific, Wellington Management.

Latest awards

- 'Best Fixed Income Fund House' at Morningstar Awards in 2017
- 'Best of the Best Performance Awards for Asian Bonds (10 years performance)' at Asia Asset Management Awards in 2017 and 2014
- 'Best Investment Management Company' awarded to UOBAM (Thailand) from World Finance in 2017, 2016 and 2015
- 'Best Alternative Investment Manager' awarded to UOB Alternative Investment Management at the 5th WealthBriefing Asia Awards in 2017

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Mr Anthony Raza
Head of Multi-asset Strategy, UOB Asset Management

"Asean possesses a consumer market of substantial size. We have outstripped global growth for the past 30 years, and we will continue to do so, not just because of a large population but because of a young population."

Mr Victor Wong
Head of Asean Equities, UOB Asset Management

"There might be some corrections in the fixed income markets. However, just like how the Lucky Cloud in the seminar's visual identity has a silver lining, we look to the positive side of things and expect rates to start to stabilise and the fixed income markets to perform again in the second half of the year."

Mr Chong Jiun Yeh
Chief Investment Officer (Fixed Income and Structured Investments), UOB Asset Management

"The valuations of oil and gas companies are at such low levels now that any surprises will trigger a rerating."

As for Thailand, Mr Wong likes the Kingdom's better-than-expected economic growth. Indonesia by contrast is facing weaker consumer spending.

In Malaysia and the Philippines, corporate profitability has not recovered. Investors are also nervous in Malaysia due to upcoming elections, and in the Philippines, valuations are deemed expensive, he said.

Diversifying into different assets for retirement planning

Investors in mature societies like Singapore are faced with the challenge of ageing populations potentially causing future economic growth to weaken.

Moderating a panel discussion on how people should approach retirement, Ms Lorna Tan, Invest Editor of The Straits Times, said she is creating multiple retirement income streams for her needs and wants.

"There will be guaranteed income flows like Central Provident Fund payouts, which are secure and reliable to fund a basic retirement. Beyond that, I definitely look at investing in different higher-return instruments to stretch my savings and have a better lifestyle," she said.

Ms Joyce Lim, Head of Regional Wealth Management Advisory and Funds at UOB, said that having multi-asset portfolios, combined with a disciplined approach and risk management, is the way to go.

"When an investor makes money from the stock market, the instinctive reaction is to take profit and hold cash while waiting for the next opportunity. However, inertia sets in and the pool of money remains in cash generating low returns. A fund manager, by contrast, is always looking for opportunities to redeploy the money, to allow the compounding effect to continue," she said.

As for what to invest in, the consensus is that equities remain the place to be. However, given how equities are in the later part of their cycle, investors should look hard at managing the risk of a decline in asset prices.

Mr Scott C. Geary, Senior Managing Director, Partner and Head of Global Relationship Group Asia Pacific at Wellington Management, said that mitigating downside risk is essential.

"The power of compounding is even more powerful on the downside," Mr Geary said.

A traditional balanced fund with a mix of stocks and bonds might still mean that 95 per cent of the risk – the fluctuations in asset prices – can come from the stocks portion, he said.

How institutional investors invest

In a second panel discussion, speakers from the world of institutional investing also said investors must diversify within and among asset classes.

Mr Aje Saigal, a Government of Singapore Investment Corporation (GIC) veteran who founded investment firm Nuvest Capital, spoke of his experience as the Chairman of the Investment Committee of the Singapore Indian Development Association (SINDA).

SINDA conservatively allocates 65 per cent of its portfolio to bonds and 35 per cent to global equities.

Investing in a global equity portfolio is important as having a home bias can result in a sub-optimal outcome. Today, technology allows smaller investors to access instruments like exchange-traded funds (ETFs) to get access to global markets, he said.

Mr Peh Kian Heng, Head of the Corporate Investment Unit at UOB, said it is very challenging to meet return objectives in an environment of high asset prices and low interest rates.

"We want to make sure that we are well compensated for the risk we take," he said.

To diversify from the traditional asset classes like equities and bonds, the bank invests in alternative risk premia which provide uncorrelated sources of return. For example, momentum-based strategies can provide the necessary downside protection in a market where the main asset classes are selling off, he said.

The importance of alternatives

Non-correlated sources of returns can come from the alternative asset class, said Mr Low Han Seng, Chief Executive Officer of UOB Alternative Investment Management, a subsidiary of UOB Asset Management. The alternative asset class includes hedge funds, private equity and venture capital, and real estate.

For many years, alternatives had been an important part of the portfolios of sophisticated investors like endowment and pension funds.

Recently, more access in alternatives has been offered to the man on the street through "liquid alternative" strategies.

"They allow investments at a smaller size, and have enhanced liquidity, even daily liquidity, almost like unit trusts. There is also enhanced regulation with greater transparency and reporting requirements, as well as reduced fees, even no performance fees," he said.

Mr Saigal, speaking in his capacity as Founder and Chief Investment Officer of Nuvest Capital that manages a global multi-asset fund, said volatility is likely to go up in 2018 as central banks seek to withdraw liquidity against a backdrop of stretched equity and bond valuations.

"While we are currently still constructive on equities, there is no room for complacency. Global growth is strong but earnings disappointments or upside inflation surprises could spell trouble for the bull market. At the other end of the spectrum, we are de-emphasising bonds because of rising yields," he said.

"One third of Nuvest's investment portfolio is allocated to highly liquid alternative strategies," he added. "These are uncorrelated to equities and bonds and have delivered good risk-adjusted returns for the fund. Given the challenging environment ahead for traditional assets, alternative strategies play a very useful role in diversifying portfolio risk."

New digital advisory service UOBAM Invest surfs the tech wave

With innovation and disruption a continuing theme, UOBAM Group Chief Executive Officer Thio Boon Kiat said the house is focusing on increasing its scale, capabilities, and use of technology.

UOBAM recently launched its digital advisory service, UOBAM Invest, Singapore's first digital advisory service for companies to manage their discretionary investments in the fund house's proposed portfolio solutions. The new digital service will be available to United Overseas Bank's (UOB) Commercial Banking clients initially.

Developed through a partnership with UOBAM's technology partner FNZ Group, the platform allows clients to submit their financial information, obtain their risk profile, and receive an investment portfolio proposal within minutes.

Clients can choose to invest in the proposed portfolio or adjust it based on their desired returns, investment horizon and risk appetite.

"We look forward to introducing the service to more corporates and retail investors across our regional network," Mr Thio said.

Five conference takeaways

- Equities remain in favour with global economic growth, continued corporate profit growth and no signs of recession, though volatility is expected to rise.
- Valuations are not abnormally high after taking into account low interest rates. Given mild inflation, rates might only be 3 per cent at end-2019.
- There is upside in Singapore and Thailand, with Singapore banks, real estate, and offshore and marine firms favoured.
- Investors should aim to create multiple income streams, diversify their risks across and within multiple asset classes, and mitigate the risk of a price decline.
- Alternative asset classes like hedge funds and private equity can diversify a portfolio and provide risk-adjusted returns. They have become more accessible to retail investors, and can be liquid and well-regulated.

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