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EQUITIES – WHAT AND WHERE NEXT?



In 2008, equity mutual funds around the world experienced record redemptions. Since then, global data indicate that while bond funds have seen net inflows, equity funds have not. Given how strongly equities have performed over the past year, many may find it surprising that the rally has been so strong without net inflows into mutual funds. But with the strong rally in the past year, should investors stay on the sidelines or go into equities, albeit cautiously?

Anthony Raza, Senior Director and Head of Asset Allocation at UOB Asset Management Ltd, shares his views on the equities markets going forward

The start of 2010 was choppy for equity markets. Volatility rose as investors were confronted with uncertainty on several fronts: China embarked on monetary tightening earlier than expected; and fiscal risk came to the forefront with Greece's sovereign debt problems.

It is my belief that despite the legitimate concerns about the problems in the developed markets, the overall investment climate really is quite strong and investors should consider investing again in equities. That said, I think the market is ignoring some of the upside 'risks'. Simply put, I think it may be potentially more 'dangerous' to be short than long. Put another way, the concerns of the market are more priced in than the upside potential.

In my interactions with retail investors, I find that they are much more knowledgeable about potential downside risks than they are about what is positive about the current investment climate. I would highlight six factors that could potentially make current investing very attractive and investors may want to consider it when they think about how to deploy their investments.

I would say that:

- 1) The global recovery data continue to be strong and almost all the major indicators are actually tracking the shape of strong recoveries in the past such as that in 1982;
- 2) Corporations across the world are very healthy with very strong cash levels and healthy profits due to cost-cutting;
- 3) Earnings continue to positively surprise and every quarter's forecasts have been raised;
- 4) Valuations are very reasonable and signs of the bubbles that many seem worried about do not seem to be evident;

- 5) Policies are very likely to remain accommodative for another year which historically has been very positive for asset prices; and
- 6) At some point in time, investors will eventually come back to invest in equity funds again and thus help continue the rally.

If I were to use one economic data to try to convince you that the world may have some positive surprises yet, it would be the US retail sales. Yes, I know that everyone is aware that the US consumer is unemployed and not spending. Or is he? The fact is that excluding autos, housing-related items and gas, the US retail sales have just surpassed the previous peak from before the recession. This partly explains why exports are rebounding at rates of 20%-40% across Asia, and are close to surpassing previous peak levels of exports. There is some surprise to many investors that exports can be so strong when the US is so weak. But in items of traditional exports such as electronics and textiles, Americans are already spending more than they ever did. While it may still take a while for housing in the US to rebound, the fact is that the US has not been building many houses for three years now and their growing population will eventually catch up with supply.

The bottomline is that my advice would be for investors to get invested again, particularly in Asia. Asian economies are in relatively good shape with most countries running healthy current account surpluses and low government debt-to-GDP ratios. With China and India showing the way, Asian economies are expected to lead the world in tightening monetary policy in the second and third quarters of 2010. My view is that the recent tightening concerns have largely been factored into share prices, valuations are not excessive and earnings continue to surprise, making the valuations even more attractive with each positive revision.

In terms of asset allocation outlook for the second quarter of 2010, at UOB Asset Management, we recommend being overweight in equities and commodities. While we are underweight in fixed income overall, we are overweight in corporate bonds relative to government bonds. We still like emerging markets in Asia and Latin America for both equities and credit. We still like gold, which has positive supply/demand dynamics and at worst will provide a hedge to the positive cyclical positioning of our funds.

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