UOB Asset Management points the way forward for investing in 2019

Award-winning asset manager favours 'first principles-based' investment approach to navigating volatile markets

The severe market correction at the end of 2018 posed a challenge for asset managers in making an assessment on this year's investment outlook.

Fears over sluggish growth, geopolitical uncertainties and trade tensions contributed to the cloudy view. Amid this volatility, UOBAM's Head of Multi-Asset Strategy, Mr Anthony Raza, shared his assessment on whether to call a time-out on UOB Asset Management (UOBAM)'s constructive stance on markets at the UOBAM 2019 Investment Outlook Seminar on Jan 17.

"Ultimately, the 2019 call boiled down to whether we determined that the fourth quarter correction was a warning signal to dial back risk or an aberration from which markets can rebound," said Mr Raza, pointing out that the December 2018 equity market correction was more severe than other bull market corrections.

At the end of the day, Mr Raza favoured a 'first principles'-based investment approach to make sense of the markets. "We believe that our fundamentals-driven process is especially essential in times of volatility as it provides a grounded approach for us to make sense of the financial markets.

"This includes a review of indicators such as global economic growth, corporate earnings, equity valuations, bond yields and recession risks. Our assessment is that they point to a positive outlook for 2019," he added.

Professor Annie Koh of Singapore Management University and the panellists debate and discuss the opportunities and risks of each asset class in 2019. PHOTOS: UOBAM

Fundamentals remain intact

Firstly, global economic growth continued to be supportive with the International Monetary Fund[1] forecasting global real gross domestic product growth[2] for 2019 at 3.5 per cent.

Corporate earnings globally are also likely to continue growing at high single-digit levels, which bode well for equity yield valuations. As such, UOBAM expects equity returns of 10 to 15 per cent for 2019. At the same time, with interest rates having risen over the last two years, bond yields are at attractive levels and overall returns for fixed income are expected to be four to six per cent for the full year.

Other factors on UOBAM's fundamentals checklist such as recession indicators including economic data, debt levels and bond yield spreads also led to the conclusion that a recession in 2019 was not likely, despite some market concerns.

Recession check and key risks

A poll of more than 220 participants was conducted at the start of the seminar to ask respondents whether they expect the next recession to happen in 2019 or after. Most respondents, who included UOBAM's local and regional institutional investors and fund distributors, concurred that a recession was not expected in 2019, with a majority indicating that they think it is more likely to occur in 2020.

Another question posed was: "How many times in history has global growth been above trend, global earnings growth been double-digit, inflation under control, and yet leading to a year of both equity and bond losses?" Most responses pointed to this being a rare occurrence. In fact, it had never happened — until last year, that is.

To make sense of this market aberration, participants were also polled on what they thought was "wrong with the markets". A majority indicated trade tensions, which were starting to impact growth and profitability; and late cycle worries, where an ageing market cycle triggers investor jitters at the first hint of a correction. Other concerns included the US Federal Reserve (Fed) raising interest rates too rapidly with Quantitative Tightening being too aggressive; US policy leadership; and Brexit uncertainty.

During a panel discussion at the seminar, UOBAM's Chief Investment Officer, Equities and Fixed Income, Mr Chong Jiun Yeh, cited US Fed policies as his top concern.

While the UOBAM house view was for the US to raise rates once or twice more, Mr Chong said he hoped to see the Fed stop at the current level, as well as slow down in shrinking of its balance sheet.

Investment strategy recommendations

"Keeping in mind the potential of increasing recession risks in 2020, we will manage our risk-taking amid the market volatility," said Mr Raza.

UOBAM's broad recommendation is to remain driven by positive fundamentals to stay invested and balanced, but follow risk mitigation signals to help deal with market volatility.

Across asset classes, it is recommending to be slightly overweight on equities and slightly underweight on fixed income for the first quarter of 2019. "The US Fed has taken a more cautious view of its domestic economy and inflation. As such, we think that it may pause its interest rate increases in the first half of the year," said Mr Raza.

Historically, both equity and bond prices have benefitted from such gaps and UOBAM prefers equities to fixed income as bond yields are expected to be muted in the first quarter before rising to higher levels for the rest of the year.

Across regions, the asset manager is most optimistic of US equities on the back of estimates of high single-digit percentage increases in corporate earnings. While overall Asian market performance and corporate profitability will continue to be affected by China's softening economy and its trade tensions with the US, UOBAM remains overweight on South-east Asian markets such as Singapore and Indonesia.

Overall, UOBAM favours defensive sectors such as consumer staples and healthcare, and blue-chip companies, as well as stocks with high dividend yields to provide income to cushion market volatility.

Opportunities in diversification

UOBAM also favours alternative investments such as hedge funds and private equity as tools to seek capital protection and returns. These investment strategies help to reduce risk and enhance long-term risk-adjusted returns irrespective of general market conditions.

During the panel discussion, UOB Alternative Investment Management Chief Executive Officer, Mr Low Han Seng pointed out: "Regardless of what markets do, there are assets and companies that are growing. We just need to look harder." Some of these opportunities lie in the private domain and require a long-term view to harvest returns for the patient investor.

In a similar vein, UOBAM Chief Investment Officer, Multi-Asset, Mr John Doyle, noted that post the global financial crisis, investors have moved into higher-risk investments to keep up with inflation. "There is a need for risk management now more than ever," he said. His team is looking to add more "uncorrelated beta" to its portfolios to provide more diversification.

Likewise, UOB Personal Financial Services, Group Wealth Management Funds and Advisory Head, Ms Joyce Lim, shared: "As a retail client, I want to have it all." She recommended clients to allocate to short-term fixed income such as bonds with duration of less than a year, investing the bulk in equities and to also have exposure to alternatives.

The key was to stay invested, she said, pointing out that over the last 10 years, no matter whether investors invested at the peak, trough or middle of the previous global financial crisis, they would have made positive returns.

In rounding up the panel discussion, Professor Annie Koh suggested that participants adopt the "ABCDE" approach to investing: be "Adaptive and Aware", be "Balanced", proceed with "Caution", "Diversify" and stay "Engaged, Enthusiastic and Energetic".


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UOBAM Head of
Multi-Asset Strategy

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Mr Victor Wong,
UOBAM Head of
ASEAN Equities

> "Do you have to sacrifice returns to include ESG in your investment criteria? The answer is "No"."

Retirement fallacies, creating value through innovation and impact investing

In examining ways to ensure pension systems are sustainable, Global Chief Retirement Strategist of State Street Global Advisers, Dr Amlan Roy, called for a rethink of several paradigms, such as abolishing a mandatory retirement age, closing of the gender gap and fine-tuning immigration policies. Sectors expected to benefit from the demographic advantage include pharmaceuticals and biotech, financial services, leisure and luxury, infrastructure and emerging markets.

Mr Philip Brooks, Managing Director and Investment Director of Investment Products and Strategies, Wellington Management Singapore, who spoke on the way today's world is being shaped by innovation, expected similar sectors to be winners.

"We are especially positive in parts of the market benefitting from innovation and disruptive change," he said, adding that these include leaders of change across various broad industries, not restricted to the IT sector.

As innovation and sustainability are natural twins, Mr Victor Wong, UOBAM Head of ASEAN Equities, discussed the evolution of how investors moved from excluding undesirable stocks in the early 1960s model of ethical and socially responsible investing, to developing responsible investing and ESG (environmental, social and governance) criteria in the 1990s-2000s. Mr Wong noted that investors are now going beyond and looking at "Impact Investing". They demand not just financial returns on their investments, but also a measure of how other non-financial targets such as the United Nations Sustainable Development Goals (SDGs) are met.

Interestingly, Mr Wong showed that investments incorporating ESG criteria actually outperformed on a long-term basis, putting paid to concerns that investors have to sacrifice returns when choosing to do the socially responsible thing.

At the seminar, UOBAM also showcased its corporate digital advisory service, UOBAM Invest, which provides customised digital investment portfolios for corporate investors. The new service is the fund house's very own take on innovation in the investment management space.

For more insights on UOBAM's 2019 investment outlook, visit UOBAM.com.sg/theyearahead

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Notes:
1. Source: *World Economic Outlook Update, January 2019*, International Monetary Fund.
2. Real gross domestic product (GDP) refers to inflation-adjusted GDP.