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'Diversify more into equities'

BY MAXINE YONG

Investing in today's volatile global financial markets has never been more challenging. Yet, there are opportunities to be found, according to the speakers at the *The Edge*-Citigold Wealth Forum 2017 held at Grand Hyatt Kuala Lumpur on March 11.

The forum, themed "Riding the new wave", was held to provide *The Edge* readers and Citigold members with insights into where the global economy is headed. There were four presentations followed by a panel discussion, with the speakers moderated by The Edge Media Group publisher and group CEO Ho Kay Tat. About 500 people attended the forum.

In his welcome speech, Ho said investors should pay attention to what the year has in store for them, which will dictate where to put their hard-earned money. "Will the Federal Reserve finally raise interest rates in a significant way? Can Trump pull off another surprise by giving a further boost to an already recovering US economy? Will the economic risks posed by a slowing Chinese economy be significant enough to impact the rest of the world? These are what investors should keep their eyes on."

Citibank Bhd CEO Lee Lung Nien said in his opening address that last year was a roller-coaster one of unexpected surprises and complex uncertainties. This year, investors are up against more uncertainties, including the impact of Trumponomics, China's growth and reform and the outlook for the Asean market.

"The politics of the unknown continues to dominate the global economic agenda. The global economy is still coming to terms with Brexit and the reality surrounding a Trump administration," he added.

During the panel discussion, the speakers said investors should hold more stocks in their portfolios. Teng Chee Wai, managing director of Affin Hwang Asset Management Bhd, advised investors to increase their equity holdings.

"Within the Asian space, investors can buy equities in Malaysia and some in the northern market. For developed markets, valuations of US equities are not cheap. Investors can allocate some of their money to Europe and be patient as the politics plays out. Eventually, I see recovery taking place in the continent and the numbers are strong," says Teng.

Citibank's Asia-Pacific head of advisory, strategy and multichannel communications (regional wealth management) Florence Tan says a fairly aggressive portfolio should hold 60% equity and 40% fixed income. She likes Latin America as the equity space there looks interesting.

"For Latin America, the appeal lies in the commodity story. If infrastructure spending in Asia and the US kicks off, commodity companies will benefit from that. Furthermore, these companies are earning revenue in US dollars, but a lot of their costs are denominated in local currencies. This will improve margins and profitability," she says.

Within the developed markets, investors should

keep an eye on Europe and Japan, says Tan. "In the US, because it has been so expensive, we are very selective within the banking, consumer discretionary and industrial sectors. Within the fixed-income space, we like emerging market debt, US investment grade credit and US high yields."

Patrick Chang, chief investment officer at CIMB-Principal Asset Management, says the team has had a bias towards the equity space since the end of last year as rising inflation rates augur well for equities to outperform bonds. He advises investors to diversify into both developed and emerging market equities.

"Even in times of major market volatility, emerging market equities are very defensive because they have dividend yields. On the fixed-income front, I will go for high-yielding assets such as emerging market bonds," he says.

Will oil prices return to their recent highs? Citibank's Tan says prices will always be capped on the upside because when oil reaches a certain level, shale producers come in and start to drill. However, she stresses that this is not the start of a new commodity super cycle and oil will not go back to US\$100 per barrel. Citibank's forecast is US\$60 per barrel by the end of this year.

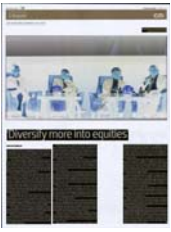
CIMB-Principal Asset Management expects oil prices to remain at US\$50 to US\$60 per barrel, says Chang. "The key is stability. An oil price recovery gives governments a base case that GDP will be more stable than it was last year. There will be more predictability in terms of fiscal and trade positions and governments can plan their budgets better."

On the home front, Johor seems to have an oversupply of housing projects, owing to a huge influx of Chinese investments. On whether the investments bode well for the country, Affin Hwang's Teng says he is worried about the funding ability of the Chinese, the risk of these projects and the squeezing-out effect on local construction companies.

"I think most people take comfort in China's reserves and conclude that funding will not be an issue for them. But its reserves have been dropping and China gated its system to take money off at the end of last year," he points out.

Teng sees a mismatch between the prices Chinese developers aspire to have and what locals can afford. Under such circumstances, most buyers will come from abroad and they may not contribute to the community or local economic activities.

"Moreover, if Chinese construction companies continue to gain market share [as many of them have been appointed by property developers in Johor], it will have a squeezing-out effect on local construction companies because they are not able to compete in terms of their balance sheet. While it is good for the country to have some investment influx, these are the side effects that need our attention," he says. ■



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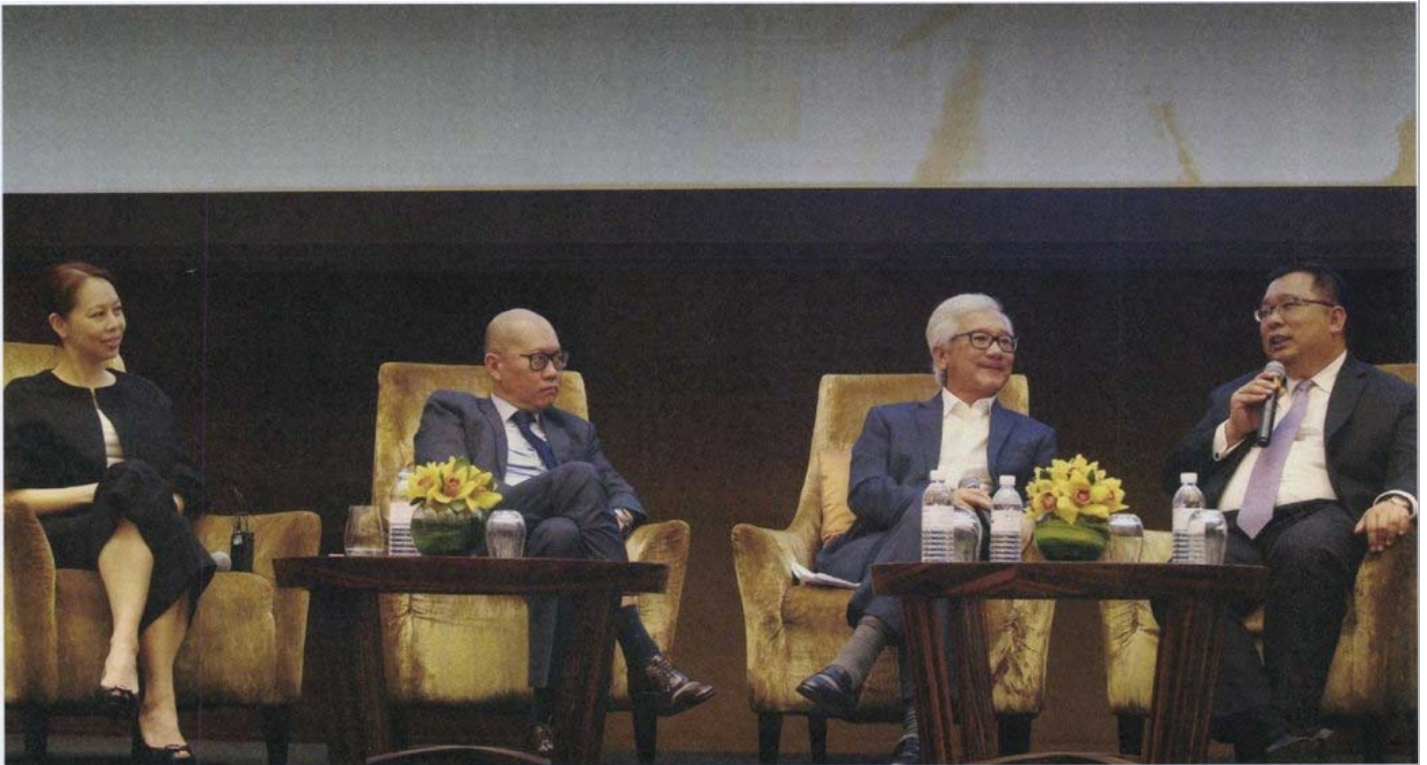
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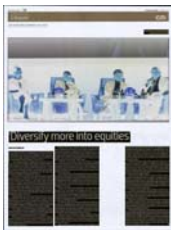
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(From left) Tan, Chang, Ho and Teng during the panel discussion



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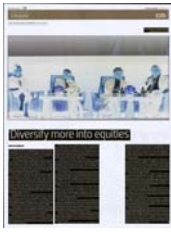
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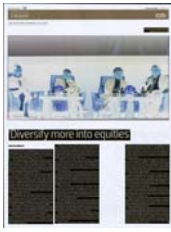
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SUMMARIES

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