Asian Financial Forum 2017

Concurrent Workshop: Year Ahead 2017

Synopsis

Markets keep rising, but global economic problems remain. The US presidential election result was not what investors expected. Could the prospect of a major fiscal boost from a Trump public investment and tax cut package outweigh any negative policy uncertainty effects? In the post-US election era, will investors turn to Asia for the relatively compelling economics fundamentals and outlook? Is a “reset” for markets overdue? The UBS workshop aims to help make sense of the markets from a private investor's perspective and how to best position your portfolio in the face of the risks and opportunities.

Moderator

- **Mr Eric Tang**
  Head Distribution Management Greater China, Investment Products and Services, UBS Wealth Management

Speakers

- **Mr Thomas Deng**
  Managing Director, Regional CIO Greater China & Chief China Strategist, UBS CIO Wealth Management
- **Mr Gordon Ip**
  Head of Fixed Income, Value Partners Limited
- **Mr Dominic Schnider**
  Managing Director, Head Commodities & Head APAC Forex, UBS CIO Wealth Management

In a fast-paced debate between the moderator and panellists, each weighed in on how the global economy would be impacted by the incumbent President Trump, and to what extent he would fulfil his promises to implement the policies and initiatives he discussed during his campaign. Questions about which sectors would rally despite uncertainty in the global market led to thought-provoking exchanges on how Hong Kong and China would be impacted. Tackling the issues from a private investor’s perspective, the UBS led panel provided their insights as to the risks and opportunities that lay ahead this year.

In 2015, the global GDP, which rose by 3.1 per cent, was very much in line with what was expected.

Three key lessons that Thomas Deng suggested we learned since 2016:

- “Stay invested.” According to Deng, global markets “took a rollercoaster ride in 2016,” however what we can take away from that is “if we stay invested, performance will be positive” and the turnaround should amount to about 6 per cent.
- Maintain a diversified portfolio, and then your resulting return on investment will be good.

Gordon Ip said: “If we look back at 2016, this was a direct result of years of easy money in the system, but last year it was a fast and furious year… as richer people got richer and poorer people got poorer.” He went on to say that 2016 was a year of change and uncertainty, and if you were invested in financial assets, you were relatively safe. However, “if you consider the economy as a whole, we have seen a rise in populism.”

Dominic Schnider suggested that, “we should be humbled by the fact that the forecasts turned out completely different than what we originally thought e.g. commodities really rallied, and some things rose out of the ashes unexpectedly.”

Eric Tang asked the panel whether they think that Trump would bring an “animal spirit” to the presidency when he was sworn in?

Mr Ip commented that the Republican agenda was “friendly to business” and since Trump became the President elect “he’s already created a lot of jobs.” In his view, it really remains to be seen “whether he will live up to his campaign rhetoric, which includes building infrastructure - which the US needs because it has a deficit in this area” - and “whether Trump will end up cutting taxes which would also be a business friendly move.” Thomas made the point that if Trump also focused on employment and reindustrialization, this would “bring back an animal spirit to the economy” but the market would have to rally hard.

Mr Deng commented that “in the long term, the US economy would still be considered the most competitive in the world,” and it would dominate international markets. He observed “accelerated growth would translate into bottom line growth for the US equity market.”

His view was that in terms of different sectors, “the banking industry would benefit from de-regulation and previously imposed regulations would be removed.” Remarking that “rising interest rates would be conducive to commercial bank earning” he additionally noted that “the tech sector would do well” though he advised that investors should be “cautious.” He noted that the shipping industry had stalled for a long period, and people would need to be cautious in this sector. Also, because of Trump’s retrenchment policies, it looked likely that he would turn “inwards rather than outwards.”

On expectations following the US interest rate hike, Mr Schnider was “sceptical” as to what Trump was really capable of delivering. He noted that a combination of the stronger US dollar, the higher interest rates, and a lot of monetary tightening, would all have an impact on the economy. The expectation was that the economy would grow at rate of 2.5 per cent, if Trump was strong in passing fiscal support, but it would serve investors well to stay cautious.

Bringing the debate closer to home, Mr Tang asked how Hong Kong would be impacted by the interest rate movement, and whether or not Trump make good on implementing his promises.

Mr Ip suggested that the Trump presidency would lead to an inflationary US economy and a high degree of protectionism. By this he meant that the inflation would lead to a stronger dollar. In terms of protectionism, he asserted that " a full blown trade war wouldn't happen" because this would ultimately "hurt China and bring about a backlash on the US economy." It would behove Trump to be "supportive towards emerging markets" in addition to Hong Kong and China.

As to whether or not Trump would fulfil the promises he made, he remarked that one president would not fix all the problems that are currently being faced over the course of one administration.

Mr Deng was not fazed by a hard landing in China, stating that there had been a lot of wealth creation there, however he referenced four underlying drivers of growth that investors should focus on:

1) The fact that China was delivering up more engineers and techies
2) More students were returning to China and bringing their tech and business skills back to the PRC
3) Urbanization
4) More capital formation

Mr Deng commented that amidst uncertainties in the market, Trump's rhetoric against China was hawkish, particularly because he wanted to label China a currency manipulator, and this could bring about short-term volatility.

Commenting on the bonds space, Mr Ip noted that not all bonds were created equal and some were sensitive to interest rates, while others were not. Noting general trends around the world, Europe its own issues to contend with. For Europe, it was terrorism, populism and the uncertainty brought about by Brexit, and this was far from the norm. Accordingly, investors needed to be nimble in the market if they were looking to line their pockets. On a more upbeat note, he concluded that it was a bit too early to conclude that the boom market was ending.

As to the massive fluctuations in oil, given that it fell sharply in 2016 and then rallied discernibly by Q4 2016, Mr Schnider was bullish about the prospects for oil in 2017. He went on to say that the year could be looked in two separate halves and that demand would continue to grow but the supply chain would reach an inflection point by this summer. This was because drilling activity was up in the States and it would peak at somewhere between US$60-65/barrel.

In concluding the discussion, Mr Tang invited the panel to weigh in on their predictions as to what would make the best investments for the year.

In Mr Schnider's view, precious metals, specifically platinum and gold would be the best strategic investment for 2017.

Mr Deng advised people to "stay invested" and to consider alternative investment.

Mr Ip remarked that people had to come in with a new mind set about investment given that pre-GFC money was easy to make, but in a post Lehman era, nobody really knew where the market was going next. A good strategy was to focus on what your competitors were not homing in on.

Ends