

Limit Your Risk in 2013



Ng Weiwen, Macro Analyst, Phillip Securities

In the equity space, we are currently Overweight on ASEAN for its resilient domestic demand and infrastructure boom. Within ASEAN, we prefer Philippines, Thailand and Singapore. In view of downside risks arising from the G2 fiscal front, ASEAN is likely to maintain its outperformance. However, comparatively, the reward to risk is dimming for ASEAN and instead North Asia (particularly China) looks more promising for long-term investors.

2012, a year of economic uncertainty and market volatility, is drawing to a close. As the new year approaches, it is timely for investors to review and revise their investment strategies, either to ensure that they still align with the current economic climate, or to make a fresh start. Here, Ng Weiwen, a Macro Analyst from financial services provider Phillip Securities goes into details about the outlook for 2013 and offers suggestions for investment strategies.

What is the market outlook for end 2012?

Markets are not out of the woods yet - at least till the end of 2012. Notwithstanding the re-election of President Obama, uncertainty over the looming fiscal cliff still persists. With around US\$600 billion of spending cuts and tax hikes scheduled to take effect at the turn of the year, the fragile US economy could easily tip into recession if nothing is done to avert it.

Nonetheless, the US economy is unlikely to have to deal with a full-blown fiscal cliff. US equities rallied on the back of constructive comments of a possible compromise between President Obama and the Republican-dominated House on tax positions which might defuse the stalemate on the fiscal budget. This provides comfort to markets in view of intense partisan tensions post-election.

At this juncture, markets are optimistic that a deal would get done by Christmas, but we caution that if there are no concrete details at least trickling out into the market, the recent equities rally may turn into a dead cat bounce. But once a definite compromise (with concrete details) is reached over the fiscal cliff, US equities will likely see a bullish reversal.

Moving forward how does 2013 look?

Heading into 2013, we are getting increasingly positive on global equities. Firstly, if the fiscal cliff gets resolved, investment in the US which has been held back, will reaccelerate. Secondly, China is showing signs of stabilisation and rebalancing, with consumption now contributing more than half of 2012 growth. Possible reform measures by the new Chinese leadership next year could also return confidence to the country. And thirdly, ASEAN is undertaking massive infrastructure spending which will continue to boost their domestic demand.

What factors should we consider in formulating our 2013 investment strategy?

We have to be mindful of bouts of volatility arising from possible materialisation of downside risks. These include:

1. A sharper-than-expected US fiscal withdrawal
2. An escalation of the ongoing Eurozone sovereign debt crisis which is lurking in the backdrop
3. A flare up in Middle East tensions
4. Weaker-than-expected growth on the China macro front

Considering these risks, what is a good approach to take?

We advise investors not to be deterred by the potential market volatility and dig in for the long haul, rising on broader macro themes change. Broader macro themes will be: the rise of middle-class consumerism, massive infrastructure building and favourable demographics unfolding in Asia. Thus, stay focused on Asian equities and bonds in a balanced portfolio. Phillip Securities Research frequently undertakes macroeconomic reviews of ASEAN, North Asia, and the G2, all of which are available when clients log into the POEMS platform.

Investors should look into countries which have political stability, rule of law, an educated workforce, social justice, and a business friendly environment, as these generally stand a better chance of sustained long term growth. As stock picking might be challenging to the ordinary investor, ETFs might be an apt and cost-efficient way to capitalise on the macroeconomic potential of a country or region. Investors who are keen to learn more about ETFs can approach PhillipETF, a department under Phillip Securities Pte Ltd, which offers educational seminars and analytical tools.

1Q2013 Market Outlook – How Can Passive Investment Strategy Work For You?

Date	13 Jan 2013
Time	1pm - 5:30pm
Venue	NTUC Auditorium 1 Marina Boulevard
Registration	http://1q2013marketoutlook.eventbrite.com/