OUT OF THE FRYING PAN

For investors, 2019 was a year of political turmoil, policy tightening and trade tensions. With a US election on the horizon, will 2020 offer more of the same?

DIANA ROBINSON
JP MORGAN PRIVATE BANK
Hong Kong

Looking back, disappointing hedge fund performance took us by surprise. We expected hedge funds to have exploited the volatility and dispersion in the markets.

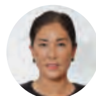
As we head into 2020, we see a modest upside to equities. Co-ordinated global central bank easing helped to offset several intimidating headlines. Macro data, while mixed, does not signal the end of the cycle. We continue to like equity long/short strategies that can exploit opportunities in sectors where dispersion is high. We also see a modest upside to China with a preference for domestic onshore equities, given the limited impact of global fund flows and sensitivity to any policy stimulus. Within fixed income, we see opportunities in emerging market debt, distressed credits and relative value credit strategies.

ANDREA CIACCIO
AZ INVESTMENT MANAGEMENT
Hong Kong

One sector that took us by surprise in 2019 was technology, particularly so-called 'secular growers'. This group of stocks had seen a marked slowdown in their year-on-year earnings growth, and in some cases a contraction of between 10% and 20%, yet have still managed to outperform the general index thus far.

Looking ahead to 2020, we think that the energy sector is a good candidate for a rebound after having gone nowhere for three years. From a macro perspective, we expect mild 'stagflation' to emerge in the US. That is a condition of decelerating GDP growth and accelerating inflation, which will favour the investment in commodities. From a micro perspective, we anticipate a decline in capital expenditure, particularly in the US, to curtail aggregate oil production. In order to profit from a potential energy renaissance we have broadened our infrastructure exposure by switching it to the

Morgan Stanley Global Infrastructure fund, the investment mandate of which includes energy infrastructure, primarily pipelines. Just over a third of its portfolio is in fact allocated to oil & gas storage and transportation, a subset that is not part of the investment universe of several infrastructure funds given its higher cyclicality, and so it could respond positively to an oil price rally.



JULIE KOO
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After significant policy tightening in 2018, we expected the Fed to turn towards easing in 2019 and adjusted our asset allocation to extend duration and added high-quality bonds to client portfolios. The large global bond rally that followed exceeded our expectations. On the equity front, despite deep worries over growth, performance has been strong in 2019, particularly in our favoured healthcare and technology sectors. With ongoing US-China trade war tensions and upcoming US elections, it was difficult to convince our clients to participate in these sectors. We did, however, see some of our more sophisticated clients looking to protect against downside risk by investing in some of our technology and healthcare long/short funds, which delivered strong absolute performance.

Looking ahead to 2020, we are focused on helping our clients realign their income portfolios. Key risk areas such as the trade war are likely to be less dominant and global economic growth is likely to improve moderately as a result of significant policy easing. With 50% of all investment-grade debt (excluding the US) now delivering negative yields, and nominal global bond yields, including high-yield and emerging market debt, having fallen to record lows, clients are looking elsewhere to find income.

We believe it is a good time to look towards equities, where dividend yields have been higher than bond yields in every region except for emerging markets. We think it is sensible for clients to add some quality dividend equities to their portfolios, which we believe are well placed to outperform globally.

With the entire traditional investment return curve having flattened, investors will increasingly have to look towards alternatives. We believe credit-focused hedge funds and private credit are good places for investors to find higher yields as well as low correlations to their existing holdings.

ARNULFO DE PALA
TRILAKE PARTNERS
Singapore

We entered 2019 with a good amount of optimism for credit and duration risk because we believed the US Fed had cut one too many times. However, the continuing strengthening of the US dollar through the first three quarters was a surprise. Other surprises included the torrid equity recovery in Q1, Hong Kong, and the resilience of the global oil supply.

It's way too early to have any strong investment convictions for 2020. After selling in late summer, we are building back our positions in gold. US stock markets are still robust but our exposure is growing more concentrated among quality dividend payers as we head into a political campaign season like nothing before. I'm afraid Trump's fight for a second term will provide an ugly context for any trade détente, deal or denouement, any large contract or concession.

It's not all noise but investors will be challenged to look beyond that and focus on things within their control.

KARIM MRANI-ALAOUI
SINGLE FAMILY OFFICE
Singapore

Apart from healthcare, energy and IT, most US sectors were pretty much in line with the broad index. The energy sector's underperformance was completely expected despite the tensions experienced by producing countries, as we had a poor outlook on global growth.

Healthcare and IT, which underperformed and outperformed respectively, came as surprises. We expected a more defensive positioning from market participants, which usually favours healthcare. As for IT, it seems that strong earnings reinforced investor belief in a structural shift of added value in tech companies, which we thought had overshot.

For 2020, our central scenario is a renewed poor economic outlook, but one supported by central banks and lower rates: normalisation seems far-fetched now. As a result, good-quality credit is likely to do well, as well as bonds, despite record low yields and spreads, and we have a positive bias towards Asia. Real assets such as property or gold could be an interesting play as some safe-haven seekers may be reluctant to invest in low or negative-yielding fixed income.

We particularly like the **Oclaner Asian Bond fund**, a Singapore-based boutique asset manager that has a solid track record in Asian credit and exhibits a good balance between rates and credit exposure.

IN A NUTSHELL

by Audrey Raj, Editor

With the year of the rat just around the corner, we asked fund selectors their bets for the year ahead.

JP Morgan Private Bank sees modest upside to equities. Within fixed income, the bank is focused on opportunities in emerging market debt and distressed credit.

Similar sentiment was expressed by Citi Private Bank, which recommends investors add some quality dividend equities to their portfolios, as well as credit-focused hedge funds and private credit.

AZ Investment Management thinks that the energy sector is due a rebound next year. From a macro perspective, the investment management company expects mild stagflation to emerge in the US.

Meanwhile, Single Family Office pointed out that real assets such as property or gold could be an interesting play for investors reluctant to invest in low or negative-yielding fixed income.