Jom Sembang with MAMG: LIVE!

If you missed the Zoom Webinar, here are some of the questions from our session on 20th May 2020 for your reference.

1. **Negative interest rates environment, is it an opportunity or a threat?**

   Negative interest rates are both an opportunity and a threat. In the short term, it is an opportunity as Central Banks wants the banking sector to lend, given the very weak economy and lower GDP growth. However in the long run it is not good as it may create excessive risk taking.

   Hence, given the current Covid-19 situation, we think negative rates are good. However, in the long run it may not be good as investors and the common man will not have enough income to support their families and it may create excessive risk taking by the investing community and financial institutions.

2. **What sectors should I invest in? Is this the right time to invest in fixed income? What are the upside?**

   In terms of Equity, the real economy sector will do well. Such as technology, online shopping, gaming etc. Food, telecoms, consumer discretionary and health care should do well as well during this economic downturn.

   On fixed income, yes, we believe this is the right time to invest in fixed income both in local currency and Asian fixed income. Our view is that as rates will remain near zero for longer, and with major central banks embarking on QE and buying corporate bonds, HY ETF, providing repo facilities and dollar liquidity, fixed income as an asset class should do well.

   Looking at Asia, the saving rates are almost minimal. Malaysia's overnight rate is at 2%, Thailand at 0.50%, Taiwan at 0.25%, Korea at 0.50%, Indonesia at 4.5%, and India at 4%. Which is very low for savings. Compared to deposit rates, Asian Fixed income high grade bonds are yielding anywhere between 3-5% and HY bonds are anywhere between 7-10% which is attractive for medium term investments. Hence we as a group like fixed income investment from a medium term perspective.

3. **What do you think of China A shares? Will a major correction come soon?**

   Actually, China A shares have relatively been insulated from Covid-19 and have not corrected much. Why? Firstly, A shares are mostly domestically traded and are less exposed to global investment flows. Secondly, China has done relatively well in containing the COVID19 and is one of the first countries to come out of COVID19.

4. **Is the S&P500 over valued?**

   In our view, yes, at current prices the S&P500 is overvalued. Trading at a PER of more than 20x. This is higher than the long-term average of 16x PER. However, high valuations does not mean that the S&P500 cannot continue to go up. However, we believe expensive valuations will mean that returns over the long term from the US market will be less attractive.

5. **Is FX a good short term investment area to go in?**

   Yes FX is always good for short term investment. We do like selective Asian currencies against US dollar from a short term basis as we expect USD to weaken due to growing Fed's Balance sheet.

6. **What is your view on commodities? Especially in crude oil in the short and long term?**

   Crude oil in the short term should remain in the range of USD20-40/bbl. In the long run, we believe it will be lower as post Covid-19, the economy is going to look different. Consumers will cut down their travel plans. Corporates will cut costs and will ask employees to work from home and hence power demand globally will decrease. So our long term view is oil should remain in the range of USD40-60/bbl barring any geopolitical risks or any other unprecedented situation.

7. **What is your view on REITs in the short term and long term?**

   Covid-19 will bring about change in the REITs. Without an effective treatment or vaccine, it will result in lifestyle changes. These lifestyle changes (physical distancing and work from home) will mean that malls and offices may not be able to charge rentals that were as high as before. It is too early to say now if there will be a long term impact.

   However, the REITs market is deep and diversified. There are Data Centre REITs, Logistics and Industrial REITS that are benefiting from the current situation, facilitating increased e-commerce activity and increased digitalisation of the economy.

8. **Do you see the risk of China-US trade war resuming or escalate due to the Covid-19 crisis?**

   We do believe the US-China trade tensions will escalate before the US elections and continue beyond the elections. Post Covid-19, we believe the world will have more regulations, more tariffs and supply chain disruptions. Hence we will have to live with global trade wars and tariffs for years to come as every country tries to rebuild their own economies. But as investment managers we believe that this will give us opportunities to add alpha to our portfolios.

9. **What's your advice in terms of asset allocations in our investment portfolios now? Do we allocate more into fixed income and cash for now and go into equity based investment much later?**

   We think for the next 3-6 months, allocation should be more into fixed income and cash as equities have recovered quite strongly despite the actual economy and earnings being weak due to unprecedented stimulus provided by major central banks. However there are still selective equities which investors should hold for the long term and we would be looking to buy equities on any corrections this year.

10. **Even with the covid19 risks, markets have recovered quite well. Any possibilities it will fall again?**

    Our base case is for the market to continue grinding its way up as economies re-open and news flow on successes of covid-19 clinical trials.

    But we do expect intermittent pullback on resurgent increases in new covid-19 cases, the US-China deteriorating relationship and weaker than expected 2nd quarter results. Given the volatile market environment, we are adopting a more active asset allocation stance ie adjusting our cash / equity positioning intermittently.