OCBC Fund Poll
Outlook for 2011

15 December 2010

MANAGERS BULLISH ON ASIA & EMERGING MARKETS FOR 2011

OCBC Bank's Wealth Management unit polled 19 fund managers for their views on the investment outlook and opportunities they foresee in 2011.

Aberdeen Asset Management, Amundi Asset Management, Allianz Global Investors, APS Asset Management, Aviva Investors, BlackRock Investment Management, BNP Paribas Investment Partners, Castlestone Management, DBS Asset Management, Deutsche Asset Management, First State Investments, Henderson Global Investors, ING Investment Management, Lion Global Investors, Phillip Capital Management, Prudential Asset Management, Schroder Investment Management, UBS Global Asset Management and UOB Asset Management participated in the poll.

More optimistic about the economic and earnings outlook

Most fund managers were more optimistic about the economic and earnings outlook for 2011 compared to this year.

Optimism about Asia and Emerging Markets was especially evident as these regions have better growth prospects compared to their peers in developed markets.

Lion Global Investors said that while the developed world is likely to experience an extended period of slow growth, Asian economies should do better due to superior fundamentals and growing domestic consumption.

BNP Paribas Investment Partners also thinks that the outlook is brighter in Emerging Markets, which are gradually shifting from export-led growth to growth driven by internal demand.

Equities the preferred asset class

Fund managers were more positive on equities compared to bonds.

Aberdeen Asset Management for example said that it preferred equities over other asset classes as valuations are still manageable and monetary conditions globally are expected to stay loose, which is supportive of stock prices.

Amundi Asset Management also prefers equities because it said interest rates will remain low, fuelling liquidity for stock markets.

Bullish on Asia and Emerging Market equities

In terms of preference among global equity markets, the bias among several fund managers was clearly towards Asia and Emerging Markets.

Lion Global Investors said that Emerging Markets, especially Asia ex-Japan stands out as the clear favourite given their strong economic fundamentals, generally prudent governments and policy makers, competitive workforces, supportive demographics and appreciating currencies.

First State Investments sees Asia Pacific and Emerging Markets offering good long term opportunities because many countries, companies and individuals in these regions are not heavily geared, while demographics and wage increase will support consumption growth.

Schroder Investment Management said that if Asia is able to keep inflation in check, it prefers the region's bourses given their more favourable growth outlook compared to developed markets.

Phillip Capital Management believes that Emerging Markets and Asia will continue to outperform the developed markets as global investors seeking growth, will reallocate funds to these regions.

Some attractive markets in Asia to keep an eye on

Among Asian bourses, China came through clearly as a preferred choice among several fund managers.

BlackRock likes China and India given their strong domestic economies, although it expects these markets to be volatile in the first half of 2011.

Aside from China and India, ING Investment Management is also positive on Indonesia which has a large domestic economy as well.

China, India and Indonesia were also UBS Global Asset Management's picks as it was able to find attractive companies on a bottom-up basis in these markets. These economies are supported by their favourable demographics, growing urbanization and low penetration which should continue to drive domestic consumption.

APS Asset Management also cited China as the market it liked, although the fund manager also sees opportunities in Korean technology companies which are seeing recovery and have low valuations.

Aviva Investors stood out from the pack with its call on the Korean bourse which it deems to be the "most attractive Asian market at present" as the economy still looks strong and valuations are reasonable.

Don't ignore developed markets altogether

Despite the preference for Asia and Emerging Markets among fund managers, some of them highlighted that investors should not ignore selective opportunities in developed markets.

Henderson Global Investors for example said that it favours a barbell strategy of exposure to Asia together with an allocation to higher yielding quality stocks with sound business models from the developed markets.

"One part of that strategy should deliver favourable growth, while the other has the potential to deliver encouraging income through access to firms with strong stable franchises in the West," said Henderson.

Aside from Emerging Markets, Deutsche Asset Management said that it expects growth in the U.S. to surprise investors, and consequently sees U.S. equities doing well.

Allianz Global Investors also stood out from the pack for its preference for European and Japanese equities as their current valuations are low in historic terms.

Selective opportunities seen in bond markets

While fund managers were more positive on equities compared to bonds, they nevertheless saw selective opportunities in bond markets, especially among Asian and Emerging Market bonds, denominated in local currencies.

Castlestone Management for example said that among bond markets, it is most positive on Emerging Market bonds for 2011. The fund manager said that inflation protection will gain prominence and income investors will need to search hard for yield, which means a growing focus on Emerging Market debt.

UOB Asset Management also likes local currency denominated Emerging Market bonds and said that it will focus on ways to capture attractive spread compression opportunities while trying to neutralise some of the interest rate risk.

Prudential Asset Management said that despite policy risks, it remains sanguine on Asian corporate bonds in view of the region's robust fundamentals. It sees value in financials and defensive high yielding non-financials, and expects them to perform well in the medium term.

DBS Asset Management is also positive about Asian bonds, which it thinks will benefit from the current low yielding environment in developed markets and the continued strong demand for yield by investors. The main risk it sees for Asian bonds is the potential for capital controls by the region's governments to curb capital inflows.

Sanguine on the commodity sector

Most fund managers were sanguine on the commodity sector and see it as another area offering investment opportunities.

Aberdeen Asset Management said that the strong growth in the Emerging world and the abundance of liquidity are likely to provide continued support for commodities, although it cautioned that speculation is on the rise in the commodity sector, which means that any lapse in risk appetite may be the catalyst for a substantial correction.

Lion Global Investors said that given its positive view of Emerging Markets, particularly China, it remains bullish on commodities and expects the cycle to peak over the next couple of years. On gold, the fund manager said that uncertainties and rising inflationary pressures are likely to send gold price to new highs over the next 12 months.

Deutsche Asset Management is also positive on the outlook for commodities, especially soft commodities and gold. It sees gold appreciating to around US$1600/ounce over the next two years.

BlackRock also sees gold price trending higher due to continuing worries about sovereign debt and given easy monetary policy.

Key risks that fund managers see for 2011

Some fund managers including First State Investments, Henderson and Amundi see inflation as an emerging risk that investor ought to be mindful of as it may force central banks to raise interest rates.

According to Prudential, a “double dip” in which the U.S. slips back into recession and squeezes Asian growth is a risk that is worth watching. Other risk factors to watch for include trade restrictions and a disorderly decline in the US dollar.

Other risks mentioned by fund managers included an escalation of the European debt crisis, the risk that U.S. unemployment will remain high despite monetary and fiscal stimuli, the threat of trade and currency wars which could lead to greater protectionism, and the risk that China may tighten monetary policy significantly causing a sharp slowdown in its economy and resulting in a significant correction of its red-hot property market.

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