Affin Hwang AM Investment Forum 2019: Geopolitical Flare-Ups Key Market Risk

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Geopolitics will continue to be a fixture of markets for time to come as increasing polarisation and fractures appear in bilateral ties leading to more volatility in turbulent times. “We are entering an unprecedented period of geopolitical risk that investors have to price-in when making decisions in their portfolio,” Teng Chee Wai, Managing Director of Affin Hwang AM said at the company’s annual investment forum held at MITEC, Kuala Lumpur on the 20th July, Saturday.

Teng contends that there is a possibility of US President Donald Trump winning a second term in the White House due to a lack of strong candidates from the Democrats and also Trump’s own ability to rile up political support by tapping into populist sentiment.

“The reality is that investors may have to live with Trump for the next 4 to 5 years if he wins election next year. His penchant for Twitter diplomacy has the ability to influence market behaviour and also introduce policy uncertainty unlike anything we have tread before. Will he be a better president or continue to be reckless if he wins? Nobody knows the answer,” adds Teng.

Unresolved US-China trade tensions which has stretched into a year-long trade war is another key risk that could roil risk-assets. Markets enjoyed a temporary reprieve since Trump and Chinese President Xi Jinping reached a trade truce in June at the G-20 summit in Japan, where both sides agreed to hold off from imposing any new tariffs and resume negotiations. However, the apparent lull in the trade war could easily turn the other way, according to Teng.

“Trade talks between US and China are not going to be easy with many structural barriers at hand. And knowing Trump’s volatile nature, he could just as easily upend negotiations and decide to impose tariffs again. Or he may decide to be best friends (sic) once more with China. This makes investing in this environment very difficult,” said Teng.

“But the market believes that Trump would be incentivised to dial down his rhetoric and soften his aggressive stance as he faces a re-election bid next year. Like it or not, Trump needs a healthy and functioning economy heading into the US 2020 presidential race.

“So market participants believe that Trump would not push the button (sic) and go to the extreme end that would lead to a sharp slowdown in economic growth and subsequently risk his re-election campaign,” Teng opined.

On the local front, Teng remarked on the Pakatan Harapan (PH) government’s shift towards pro-growth policies highlighting the revival of mega infrastructure projects like the East Coast Rail Link (ECRL), Bandar Malaysia development and the Kuala Lumpur-Singapore High Speed Rail (HSR) that could awaken animal spirits back into the domestic market.

“The silver lining is that the government also has the room to spend if they want to. Current revenue projections are running ahead of Budget 2019 estimates due to stronger sales and service tax (SST) collections and also tax contribution under the Special Voluntary Disclosure Programme (SVDP). The government has also underspent in the period (5 months ended May 2019) with operating expenditure below estimates so far.

“Assuming conditions remain stable and there are no external shocks to the macro environment, Malaysia’s fiscal deficit could reach below 3% by the time next year’s budget is tabled in Parliament. That is a very healthy position which provides room for the government to manoeuvre and redivert expenditure,” said Teng.

Braving Markets in Volatile Times

The forum then concluded with a panel session titled 'Investing with Confidence' which does sound a bit like an oxymoron given how choppy market conditions are.

But according to Akmal Hassan, Managing Director of AIIMAN Asset Management, the gap mainly lies due to a lack of information that causes investors to feel unsure of themselves. "It is always good to start with having information. You don't have the confidence most probably because you don't have the information you need to make clear decisions," Akmal states.

Studies have also shown that more millennials today are staying away from the market and are hesitant to invest due to a variety of reasons. Some of these include a fear of volatility and a feeling of intimidation by the vast intricacies of markets. This was also a top question voted by participants via Slido on how an investor can overcome such a fear.

Teng emphasises the power of compounding returns and time as a valuable resource in investments particularly for millennials. "Just bear in mind that time is in your side. You would probably be in that generation that may live beyond 80 years old. So you need to let time work in your favour. Because time is in your benefit, you can afford to take more equity risk," he said.

Mr Akmal Hassan
Managing Director
AIIMAN Asset Management Sdn Bhd

But beyond just equities, the panel session also took a look at fixed income and its role as an asset class in an investor's portfolio. Esther Teo, Director of Fixed Income, Affin Hwang AM thinks that fixed income investment is still quite unfamiliar to most Malaysians to a certain extent, but highlights its defensive attributes as a diversification tool.

Ms Esther Teo
Director, Fixed Income
Affin Hwang Asset Management Bhd

"If you look at insurance companies and pension funds like the Employees Provident Fund (EPF), they do have a significant part of their portfolios invested into fixed income. And why is that so? Because fixed incomes or bonds provide you a regular income stream and is also relatively more stable in terms of returns compared to the more volatile equity market," Esther shared with participants.

The Shariah space also offers opportunities for investors to diversify due to its defensive nature through the use of financial filters that exclude stocks that are highly geared or have low cash reserves.

"If you look at the Malaysia market today from the equity side. The benchmark KLCI is in negative territory down close to 2% YTD. But the FBM EMAS Shariah index is up by about 5%. When it comes into risk profile, these asset classes tend to have a lower volatility as compared to the conventional space. So investors who are a bit more worried about the conventional market, you have the option to consider Shariah compliant investment as well," Akmal notes.