

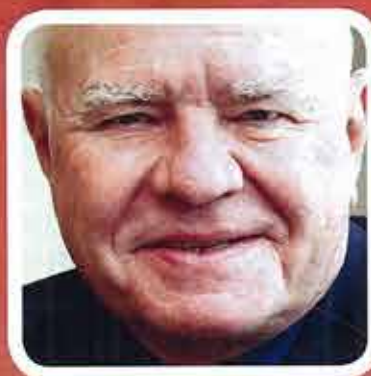
personal **WEALTH**



Dan Fuss,
Loomis Sayles & Co.



Dominic Rossi,
Fidelity Worldwide Investment



Marc Faber,
The Gloom, Boom & Doom Report



Michael Strobaek,
Credit Suisse



Tan Teng Boo,
Capital Dynamics

WHERE to put your MONEY in **2015**

Personal Wealth's panel of fund managers and strategists give their views on the best asset classes, equity markets, stocks, bonds and currencies to bet on in the coming year

Personal Wealth

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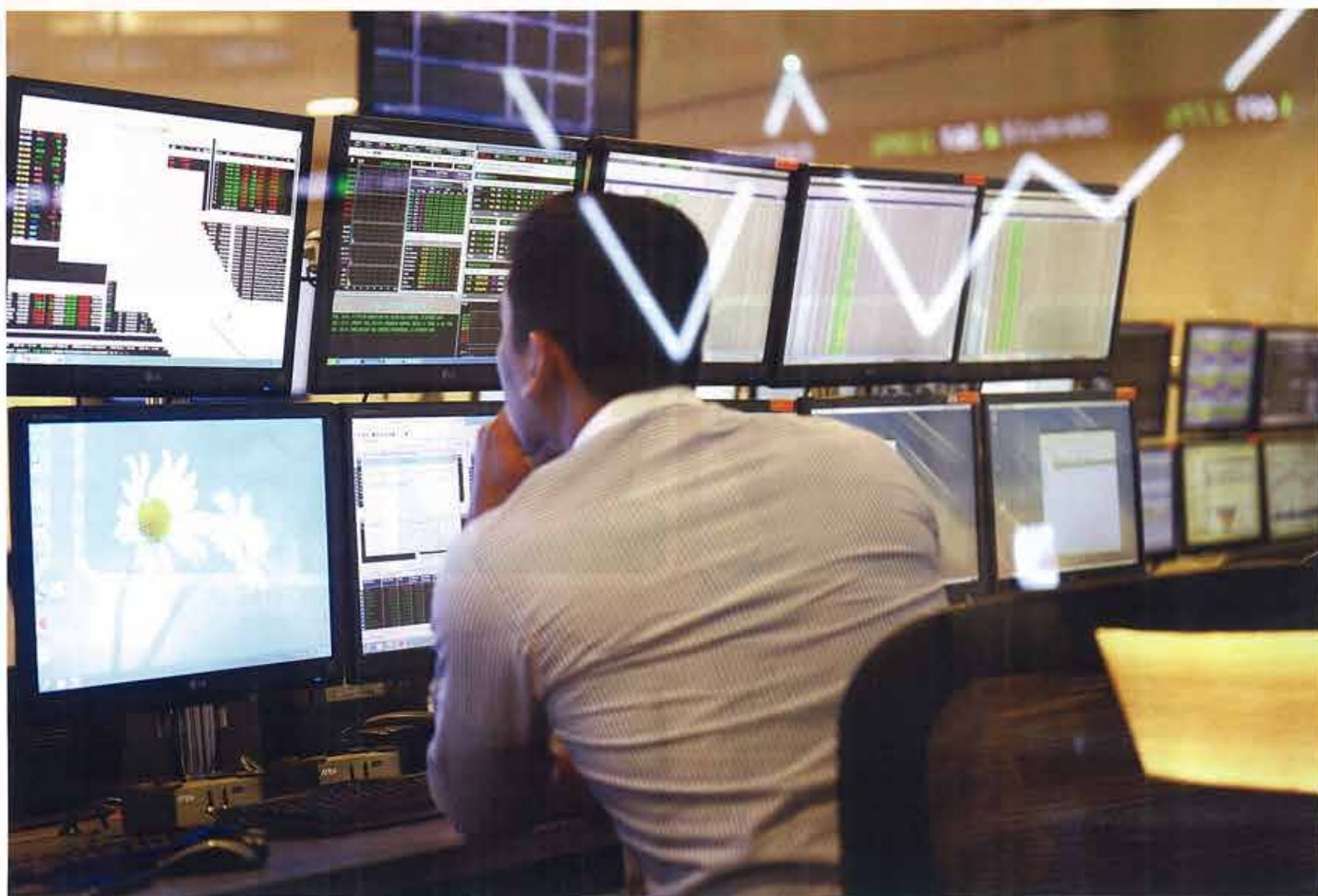
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Investment outlook 2015

What are the best equity, bond, commodity and currency plays for next year? To find out, *Personal Wealth* spoke to five experts for their best investment ideas.

| STORIES BY KELVIN TAN |

The year 2014 was a topsy-turvy one for investors of different asset classes. Performance swung from positive to negative territory during different periods over the past 12 months. As at Dec 16, US equities as measured by the Standard & Poor's 500 index, which hit an all-time high in early December, delivered gains of close to 8% while European, Japanese and emerging-market equities all recorded year-to-date losses in US dollar terms.

The brightest spots for global equities were in Asia, which saw the bourses of China, India, Thailand, Indonesia and the Philippines all turning in double-digit gains. The top performers were the Shanghai Composite Index and the Sensex 30 Index, which turned in handsome returns of 42% and 26% respectively for the year in local currency terms as at Dec 16. On the other end of the performance spectrum, Russian stocks and energy-related securities recorded steep losses on the back of a collapse in oil prices. Oil has fallen below US\$60 a barrel in recent weeks.

Indeed, 2014 did not start well for global financial markets, which were plagued by worrying events such as the tapering of the US Federal Reserve's quantitative easing (QE) programme, wild currency swings in emerging mar-

kets and Russia's annexation of Crimea in Ukraine.

Global equity prices rebounded in 2Q2014, but risk aversion returned in 3Q2014 when deflation fears in Europe surfaced. Other disquieting events such as escalating military conflicts in the Middle East, plummeting oil prices and the fresh outbreak of the Ebola virus in several countries outside West Afri-

ca caused global equity markets, particularly those in Europe, to plunge in September and October, which saw the end of the Fed's QE programme and expanded monetary stimulus in Japan.

"In October, many people thought that we were going into a bear market," recalls Michael Strobaek, global chief investment officer at Credit Suisse Private Banking & Wealth Management. The



Fuss says nobody expected government bond yields to come down so rapidly and long-dated Treasuries to outperform in 2014

strong US dollar, fears of US interest rate hikes in the coming months and persistent weakness in oil prices continue to weigh down prices of global equities, particularly those of oil-exporting emerging markets, towards end-2014.

Apart from equities, one of the year's biggest surprises was the decline in global bond yields, particular those of 10-year German Bunds and US Treasuries. Yields on 10-year Bunds have sunk more than 1% since the start of this year to 0.6% as at Dec 16, while yields on 10-year US Treasuries fell from 3% in early January to as low as 1.88% in mid-October. Nobody expected government bond yields to come down so rapidly and long-dated Treasuries to outperform in 2014, admits legendary bond fund manager Dan Fuss, the 81-year-old vice-chairman and bond portfolio manager at Loomis, Sayles & Co. But, with QE over and the Fed close to its first rate hike, it will be difficult for bond markets to deliver strong returns in 2015, Fuss tells *Personal Wealth*.

Will stocks, bonds and other asset classes such as commodities and gold fare poorly in 2015, with the Fed expected to raise interest rates in mid-2015, the first hike since 2006? Will US equities continue their winning streak despite increasingly lofty valuations? And will emerging-market stocks underperform

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Yield on 10-year Treasury will drift higher next year

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in a strong US dollar environment?

To get some perspective on the investment landscape next year, *Personal Wealth* recently spoke to a panel of investment veterans. They include Loomis Sayles' Fuss; Credit Suisse's Strobaek; contrarian investor Marc Faber, editor and publisher of *The Gloom, Boom & Doom Report*; Capital Dynamics founder Tan Teng Boo, a well-known fund manager in Malaysia and Singapore who runs two global equity funds; and Dominic Rossi, Fidelity Worldwide Investment's global chief investment officer of equities.

Looking ahead to 2015, there are mixed views on equities from the experts. Rossi is most bullish on US equities whereas Tan reckons that will be a big crash for the S&P 500 over the course of next year. The bearish Tan, whose global funds currently hold nearly 70% in cash, plans to mop up his favourite stocks when US equities slump 30% to 40% next year. "Why am I holding so much cash? The simple truth about investing is that it is never symmetrical. If you lose an investment opportunity, it is fine, as you still have your capital intact. But if you lose 50% of your capital, then you have to make 100% back to break even. It is not easy to make 100% returns," he says.

Most investment experts whom *Personal Wealth* spoke to are bullish on the prospects of Chinese equities in 2015. Elsewhere, Strobaek favours Japanese and European stocks but is cautious on high-yield bonds, which he thinks are vulnerable to a big selloff in 2015. "Dr Doom" Faber, on the other hand, is sticking with US Treasuries, as he believes the US economy could see a slowdown, while betting on Indian equities, Singapore REITs and plantation stocks. Read on for more of their views on the outlook for equities, bonds, commodities and currencies in the coming year.

What have been your best and worst investment calls this year?

Faber: I was long in US Treasuries, mostly 10-year notes and some 20-year ones. The US dollar has appreciated and bond yields have gone down. These US government bonds have been very good investments this year compared with the risk involved. I have also invested in the equity markets of Thailand [up nearly 14% year-

to-date as at Dec 16] and India [up 26%]. My portfolio has appreciated quite a lot, more than the S&P 500 this year. But my positions in gold and gold shares have been disappointing. Gold price has not gone down a lot. It is kind of flat for this year. Gold shares went up 40% from early this year until May and June, but they came down and are now down around 15% since the beginning of the year.

Tan: Best calls? There weren't many this year. In Malaysia, perhaps our best call this year was to sell *Petronas Dagangan Bhd* before the stock tumbled. [Share prices of this Malaysian oil company were down 50% year-to-date as at Dec 16.] We haven't bought a single stock this year. We have been a net seller. Maybe our worst call was keeping a lot of cash.

Fuss: US Treasury yields came down a lot and outperformance of long-dated Treasuries in particular hurt us the most this year. At the beginning of this year, I thought interest rates would be flat or rise slightly. Looking back, long Treasuries would have been a wonderful idea. They offered sub-par yield but money was flowing into US Treasuries. As rates came down, liability matching in the corporate sector, especially the defined benefit plans, made a strong push in the long end of the bond markets. Rates came down and compounded themselves. [For the best calls], this is a year in which individual bond-picking success has dominated for us.

Strobaek: The most costly decision has been the interest rate decision. We were among many others [who didn't expect bond yields to go down this year]. Early this year, 10-year Treasury yields were around 3% and they went down as low as 1.88% during the market panic in mid-October. That has taken everyone by surprise. Everybody had been short in duration, including many hedge funds. We closed



Strobaek: The high-yield space remains most vulnerable to a big selloff when risk-aversion hits

our duration call before the big selloff but it has been the one that is most costly in our portfolios. Our best calls have been within equities. Our cautious stance on high yields has been right. We sold out of high-yield bonds before the summer sell-down. Our long US dollar call has also been right.

Will bonds as an asset class underperform in 2015 when the Fed starts to hike interest rates?

Fuss: If US interest rates rise, bond prices in general will decline. You have to be careful, though. What the Fed will do is to focus on the federal funds rate and the short end of the yield curve. In theory, the [yields of short-duration bonds] can go up without the rest of the bond market being affected. But, in practice, that is a bad theory. It will get a little tougher as you move up the yield curve. You will have unusual pressure as you get [interest rates up] 50 basis points from the current level. The bond markets have co-variance with the level of rates, and that would affect long-duration Treasuries too. Spreads might be a little bit wider. And although Treasury yields might not

go up quite as much, it will be uncomfortable in general for the bond markets. Yield on 10-year Treasury will be higher than it is right now. It will drift higher but slowly, with bumps along the way.

But the Fed is well aware of the impact [of higher US interest rates] on other parts of the world, such as in the developing markets. So, if they start to see big fund pullouts and weakness from those markets, they would slow things down. I don't think they will reverse, but they may stop [rate hikes] for a while. That is a way to stabilise the bond markets.

[Floating rate fixed income securities such as] bank loans look wonderful [in a rising rate environment] as long as the borrower doesn't have any problems and is able to meet its debt obligations. We have been buying bank loans but, lately, the quality of new bank loan deals in the market seems to

be deteriorating.

On the whole, we still find bonds that are mispriced in the market, by our estimation. We will buy them but we have gradually moved up our cash reserves and cash equivalents. Now is a good time to hold back and build some reserves.

Faber: It is far from certain that the Fed will increase interest rates next year. It will depend on the US economy, which could actually be quite weak. So, they may not increase interest rates in 2015. I could see a scenario in which the Fed increases interest rates and still long-duration bonds rally. If US interest rates went up and, immediately, the US economy slows down, then the long-duration bonds will rally. If the equity markets sell off, bonds will rally too. Therefore, I am keeping my 10-year Treasuries position. I don't think they are good investments, as you just get yields of over 2%. But they are a good investment compared with cash, which is yielding nothing.

The 10-year government bond yields in Europe are even lower than those in the US. Ten-year Treasuries' yields are higher than those of 10-year Spanish government bonds and more than twice those of 10-year French government bonds. On that basis, 10-year Treasuries do not look like such bad investments in a zero interest rate environment.

BlackRock favours Japanese, European and Indian stocks

Stocks in Japan and Europe could outperform their US peers in 2015, according to an outlook report by the BlackRock Investment Institute (BII), which is advising investors to consider hedging against downside risk in the coming year on the back of rising market volatility.

"Pockets of volatility are likely," notes Ewen Cameron Watt, BII's global chief investment strategist, in the report. "It's key for investors to develop a plan to prepare for a return to a more normal volatility regime. Readiness rules in 2015. Equity and fixed income markets could fall in tandem, challenging traditional diversification."

BlackRock expects the US Federal Reserve to start tightening monetary policy and hike interest rates in 2015. When it comes to the impact of higher rates on US equities, defensive low-beta stocks — which historically do well when rates are falling — could underperform high-beta cyclical ones. Cyclical stocks tend to do well when interest rates rise gradually. "If history repeats itself, this bodes well for cyclical stocks in 2015," says the BlackRock report.

In Japan, monetary stimulus from the Bank of Japan and the recent decision by the nation's US\$1.2 trillion (\$1.6 trillion) Government



Watt: Pockets of volatility are likely

Pension Investment Fund to more than double its allocation to Japanese equities will boost the local stock market. Japanese stocks are poised to climb on the back of cheap valuations, higher dividends paybacks and an increase in stock

buybacks by Japanese companies. Non-Japanese investors should hedge their yen exposure, however, because the currency should continue to weaken against the US dollar and other major currencies.

Elsewhere, eurozone growth could yet surprise on the upside, according to BlackRock. With the European Central Bank likely to "deliver on market hopes for full quantitative easing", even a moderate cyclical rebound would be a boost for European risk assets, the report points out. "We like Japanese and European equities, owing to cheap valuations and monetary boosters," says Watt.

For Asia ex-Japan equity markets, Andrew Swan, head of Asian equities at BlackRock, is most bullish on the prospects of the Indian bourse in 2015. "India remains our most favoured market in Asia. Reform, especially at the local level, has advanced, leading to the strong potential for GDP growth acceleration. Favourable conditions for equities are emerging, with rising growth combined with falling inflation. There remain challenges for Prime Minister [Narendra] Modi, but he has laid the foundations for growth, for instance, with administrative reforms to increase ease of business," Swan says at a recent press conference in Singapore.

Which group of bonds looks most vulnerable to a big selloff next year?

Fuss: Emerging-market debt across the board. As yields go up in the US, it tends to pull money into the US. Quite a bit of that money will come from investors of emerging-market-debt mandates. You also have a similar but somewhat different situation with high-yields. If the bids start to leave the high-yield bond market, then that is also a vulnerable area. We are cautious on emerging-market debt and long-duration bonds. Our average bond maturity is around 6½ years and our exposure to emerging-market debt is very light. For high-yields, the five-year ones look okay because the re-investments will be at a higher rate. But you have to bear in mind the credit environment will be tougher next year and you need to be invested in reasonably strong companies.

Strobaek: We are concerned about high-yields. The high-yield space remains most vulnerable to a big selloff when risk-aversion hits. A lot of assets have gone into high-yields and these are lower-quality assets. Investors should avoid poor-quality stuff like low-grade high-yields. They should be in the middle of the

credit curve. If you want to get into high-yield, they should be BB-rated or B-rated types. In Europe, you can invest in peripheral European sovereign bonds. Within emerging markets, our preference is Asian credits. Asian currencies could remain relatively resilient in a strong US dollar environment. We like renminbi bonds, and Indian and Indonesian local currency credits.

Faber: You could have a significant increase in yields of corporate bonds and not in the yields of government bonds. For corporate bonds, the yields could go up substantially. A lot of companies are not in a very good financial position. The oil and gas industry in the US, for instance, could face some financial problems if oil price continues to fall. If yield spreads widen, that could be negative for the corporate bond markets. The junk bond area looks vulnerable.

How will equities as an asset class fare in 2015?

Rossi: Financial markets experienced a pick-up in volatility in the last quarter of 2014 and investors should expect further bouts in 2015, given the prospect of interest rate rises in the US. However, I believe the US stock market will deal with these rate rises quite comfortably. With subdued inflation and weak commodity prices, I think the speed and extent of rate rises are likely to be slower and more contained than many commentators are predicting. In my view, the US bull market will continue right up to the presidential elections in 2016. Growth prospects for the US economy remain robust, allowing investors to continue to focus on positive corporate earnings and dividend growth.

I believe the US-led bull market is still intact and we will see new highs in 2015. It has ultimately been market confidence in the US recovery that has underpinned the bull market in equities and there is little reason to expect any change in that dynamic. Indeed, interest rates in the US will only move up because the recovery is felt to be strong and sustainable. The fact that inflation is low and likely to remain subdued, owing to weak commodity prices, gives the Fed room to manoeuvre.

Strobaek: We still expect equities to outperform as an asset class in 2015, but with high volatility. Volatility in interest rates will lead to volatility in equity markets. Equities could withstand the impact of higher interest rates in the US. It will be a single-digit-return environment for equities next year.

In October, many people thought we were going into a bear market. I simply cannot see a bear market happening, as the conditions are not in place for one. We still have a 3% US growth rate and a positive yield curve, and relative valuations of equities are still attractive. How people can say that we are going into a bear market, I just don't know. But I am happy they believe so because we will take the opposite side of their view.

Faber: Stocks are not cheap at current prices. Asset prices are high and we do not know how much higher they can go before they implode. If you look at different asset classes, the most expensive are US stocks, then come European and emerging-market stocks. I would rather hold emerging-market real estate and stocks. US equities to me seem to be fully priced. This year, 40% of shares in America are down around 20% from their highs. You will not make a lot of money in equities in 2015.

Tan: We could see a big stock-market crash next year. That is why I am holding cash at twice the level I was holding in 2008. [Tan's iCapital Global Fund currently has 70% of its assets parked in US dollar cash.] All markets will be hit hard. The question is which one will be down 30% and which one will be down 40%. You can't have a bearish market without a bullish one. In the US, the rally has

been there for almost six years. Valuations are rich. If you have a bull market for so long and at such rich valuations, anything can trigger a sell-down. All you need is some negative news that is unexpected. Even a hint of a 25bps rate hike by the Fed can trigger a 7% to 10% plunge in the US stock market. A market downturn can happen any time.

When I look at it logically, the only time US equities have gone up so long without a 20% crash was between 1992 and 1999. Now, the bull run is already in its sixth year and the current environment is not as supportive as in 2000, when the US had a budget surplus. Now, we have a lot of headwinds.

The budget deficits for the US, Japan and Europe are high. If we have a crisis over the next year, these countries will not be in a position to take fiscal spending.

But, at a forward price-to-earnings ratio (PER) of 16.6 times for the S&P 500, valuations for US stocks are not looking too stretched.
Tan: For valuations, we don't use forward PE. Analyst forecasts are very arbitrary. If you want to use a PE that is more objective, use Shiller PE ratio, or the CAPE [cyclically adjusted PE] ratio, which accounts for earnings in good as well as bad years [The Shiller PE or CAPE ratio is based on average inflation-adjusted earnings from the previous 10 years.] Ten years are long enough to capture most scenarios. If you use that ratio, the S&P 500 is trading at 26 to 27 times. In the last 114 years, CAPE ratio of the US market was above 26 times during only three occasions — in the market peaks of 2007, 1999 and 1929. Bear markets followed after those peaks.

Which equity markets will you bet on for 2015?

Rossi: The US will continue to lead global markets next year. The US economy continues to grow at a healthy pace; the structural improvements in the twin deficits are ongoing and will support further US dollar appreciation. The collapse of hydrocarbon imports, owing to shale production, has significantly improved the trade deficit, while the possibility of exports offers further scope for repair. More important has been the improvement in the fiscal deficit, which has shrunk from around 10% at the start of the Obama presidency to around 3% now. The present administration has reduced the profligacy of the Bush era, and federal outlays have actually declined as a result of the cessation of two costly wars in Iraq and Afghanistan.

As a result, I believe Obama may end his presidency with a modest fiscal surplus — an impressive turnaround by any standard. I think the outlook for US earnings also remains positive and it will be earnings and dividend growth that drive the market higher, more than compensating investors for the short-term headwinds provided by interest rate rises. Some sceptics have been anticipating a mean reversion in profits for some time now. I disagree with this — I think profits can stay high, supporting further valuation expansion. Over the last 12 years, we have seen a shift in the distribution of wealth in favour of companies and capital and away from labour. This relationship shows little signs of reversing.

The bull market of 2003 to 2008 was about Chinese leadership and emerging markets outperforming developed markets with strong commodities, thanks to a weak US dollar. However, today's continuing bull market is about US leadership and intellectual property sectors such as pharmaceuticals, biotech and technology outperforming hard assets against the backdrop of a firmer US dollar.

The dollar's appreciation is a result of ongoing structural improvements in the US. While these have been occurring for some time, what has changed is the monetary policy backdrop. Until recently, an environment of loose monetary policy was effectively keeping a lid on dollar appreciation. With the prospect of rate

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Strong US dollar may not hurt EMs as hard as before, says JPMorgan's Tai

Robust US economic recovery, global monetary policy divergence and an improved current account position in the US, which is seeing growing self-sufficiency in energy and increased capital inflows, should continue to be supportive of US dollar strength in 2015. In addition, global investors have started to shun emerging-market assets, which tend to do poorly in a strong US dollar environment.

"Historically, emerging markets have underperformed in an environment of US dollar strength. This is partly due to the balance of payments financial crises in the 1990s. However, we believe a number of improvements have taken place to reduce the risk of another such crisis," says Tai Hui, Asia chief market strategist at JPMorgan Asset Management, in a report.

Tai reckons that the risk of a widespread 1990-style currency crisis is low, owing to more currency flexibility and better fundamentals of EM countries today. Unlike the 1990s, EM countries now adopt a more flexible exchange rate system,



Tai: Differentiation is key for investment in EMs

with increased forex reserves, and their external debt has been managed in a more prudent way, he points out. The better fundamentals of many EM countries such as those in Asia are reflected in their higher sovereign credit ratings in the past decade.

"Moreover, current valuation of EM equities is low relative to its 20-year average, with mediocre earnings growth. Differentiation is key for investment in EMs, considering the external payment positions

of individual markets as well as the ability to benefit from the US economic rebound. Idiosyncratic factors, such as economic policy and reforms, will also be a critical factor in determining the outlook for a particular market," he says.

EMs with a current account surplus and export exposure to the US are expected to see greater stability, while commodity exporters could continue to face headwinds, owing to sluggish global demand growth for raw materials,

according to Tai. The strategist says valuations on EM and Asian equities currently look attractive, relative to both their 20-year historical averages and developed markets.

"Overall, we believe the economic environment in 2015 should remain supportive of equities and increasingly challenging to fixed income," says Tai. Equity investors could consider sectors that would benefit from cyclical growth while enjoying a good dividend yield, he adds.



Frankfurt Stock Exchange. Equities in the eurozone have moved to the 'cheap side of fair value', says Simar.

European dividend stocks look attractive, says ING's Simar

The big valuation gap between US and European equities presents a good opportunity to buy European stocks with decent dividend yields, says Nicolas Simar, head of equity value at ING Investment Management.

At current valuations, eurozone stocks are "highly attractive" versus US equities, which are at a record valuation premium, observes Simar, who points out that the price-to-earnings gap between equities in the two regions is now at a 30-year record high on a cyclically adjusted basis.

Equities in the eurozone have moved to the "cheap side of fair value" after posting poor performance year-to-date, says Simar in a recent report. "They are now trading at a lower price than that recorded at the point of peak stress in 2012, when the eurozone breakup was almost the base case." As at Dec 12, European equities, as measured by the Euro Stoxx 50 Index, were down 10.5% year-to-date in US dollar terms, whereas the Standard & Poor's 500 index was

up more than 8% this year.

Another attractive feature of European stocks is that their dividend yields are significantly higher than the region's government bond yields. Germany's 10-year Bunds are yielding less than 1%. "European earnings are still 30% below the previous peak in 2007 while US earnings are 20% above their previous peak. This gap will close as the [European Central Bank] remains accommodative, and a declining euro will add to top-line growth in Europe," says Simar, who favours dividend growth stocks in Europe. "European banks are the best example of future dividend growth, especially post the ECB's Asset Quality Review."

On the whole, Simar likes European cyclical dividend sectors such as banks, materials and media versus defensive dividend sectors. Defensive dividends are overvalued, driven by multiple reratings in pharmaceuticals, real estate and telecoms, he adds.

Outperformance of Chinese stocks to continue

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rises in 2015, coinciding with further quantitative easing in Europe and Japan, that lid has now been lifted. We could be in for a sustained and significant move higher in the US dollar combined with weaker commodity prices. Such a combination has traditionally been supportive for US equities

Strobaek: Our highest conviction and overweight is in Japan, where you can find healthy earnings growth and monetary policy support from the Bank of Japan. Valuations are very appealing in the Japanese stock market and the earnings dynamics for corporate Japan look good. For the US, we are neutral on this equity market. When we move closer to US interest rate normalisation, the US equity market could see a pullback, driven by interest rate movement. Investors of US stocks should stick to the large caps. There will be more risk in US small caps.

Faber: I would long emerging market stocks versus US stocks. But, obviously, you have to hold them for a long period of time. For China, I am negative about the economy. But that doesn't relate to stocks. The stock market of China has miserably underperformed since 2006, relatively to the S&P 500. The valuations of Chinese stocks are relatively low in terms of price-to-book ratio. Since July, Chinese equities have begun to outperform US equities. I think this outperformance will continue.

Another market which I see to have improvement is India, whose stock market is up more than 25% in US dollar terms this year. India could go up another 15% next year. And it has the world's best central banker — Raghuram Rajan. [Rajan, a former University of Chicago professor and ex-International Monetary Fund chief economist, is governor of the Reserve Bank of India.]

Japanese stocks have done okay in yen terms this year but not in US dollars terms. [Year-to-date, the Nikkei 225 Index was up 2.8% in yen terms as at Dec 16 but down 7.76% in US dollar terms.] For Japan, everybody is buying the Nikkei and shorting the yen, so I am not that interested. From a long-term perspective, I would rather invest in Asia ex-Japan, where demographics are favourable and equity markets are not yet saturated. In Japan, the demographics are horrible and the stock market is saturated. So, I don't think Japanese stocks look very attractive long term.

Tan: The only equity market that I would like

to put some money in is the Chinese stock market. If you can take a five- or 10-year view, that would be the best market to bet on. China is the only major country that is in a good position to be able to do some kind of crisis response if global financial markets collapse. China has not undertaken any QE yet and interest rates in the country can be cut further. From that perspective, China is in the best position. People are saying that the high-growth era for China is gone. But, for me, the exciting period is over the next 30 years for China. GDP per capita will increase, the quality of companies and corporate transparency will improve and corruption will go down. With many companies in China to choose from, that's mind-boggling. The opportunities are not only for the next one year but for the next 10 to 30 years. I think the opportunities [for Chinese stock investors] are far better than what they got over the past 30 years.

The only emerging market that has good value is China. Everywhere looks expensive. If you have a PER of nine to 10 times like the Chinese stock market, if there is a lot of bad news, the stock market will still generally stay at that level because a lot of bad news has already been priced in.

Elsewhere, I always feel that Indonesia has tremendous long-term potential compared with Malaysia and Vietnam. Indonesians are creative and hardworking. The domestic market in Indonesia is big and the country has huge natural resources. All they need is for [President Joko Widodo] to maintain stability. The concerns for Indonesia at the macro level include its current account deficit. But that problem can be tackled if Indonesia does a lot of infrastructure spending.

Will emerging-market stocks generally underperform in the strong US dollar environment?

Strobaek: Overall, we are underweighting EM equities. They tend to do very poorly in a strong US dollar environment, which we are moving into. The strong environment for the US dollar could be a year-long event. Our technical analysis guys have also been very cautious on EM. We are neutral on Russia and underweight Brazil, owing to their commodity exposure. In terms of valuations, Brazil is still trading at a premium versus other EM peers. The re-elec-



Tan: For me, the exciting period is over the next 30 years for China

tion of the [incumbent Brazilian] government is not great for the Brazilian equity market.

Within EM, our preference will be Asia. We favour Taiwan, which will be a winner on the back of strong US growth. We like China for its deep valuation discount and positive progress in reforms. We also favour Thailand within Asean. This country, which has restored political stability, could deliver strong cyclical recovery.

Rossi: In the last bull market of 2003 to 2008, emerging markets had the benefit of two key tailwinds. The first was the rapid emergence of China and its double-digit economic growth; the second was the debasement of the US dollar and the concurrent rise in commodity prices. The export-led model that worked so successfully for many emerging markets in the last decade has now run aground. Individual emerging markets can succeed if they embrace structural reform and successfully adopt a more domestically orientated economic agenda.

What are your views on European stocks?

Strobaek: With the prospect of more monetary stimulus from the European Central Bank, European stocks could do better. With the

global economy recovery and weak euro, which is down more than 8% against the US dollar, earnings dynamics in Europe will become better. If the ECB does more quantitative easing, which we believe they will start doing, that will be an inflation trade that is good for stocks. Currently, valuations of German equities are quite appealing. Many export-oriented companies in Germany look interesting. Healthcare and financials in Europe also look attractive.

Rossi: Europe appears to be stuck in the middle; on the one hand, structural challenges remain, real growth is hard to come by and we are seeing a widening of credit spreads in the periphery. On the other hand, a weaker euro will be a significant support, particularly in combination with the falling oil price and weaker commodity prices generally, which act as a tax cut on economic activity generally. Together, these factors could give a modest boost to activity in 2015. Given the adjustment that has taken place in valuations,

I am as positive on Europe as I have been for some time.

Faber: I quite like telecommunication companies in Europe, which I don't think are terribly expensive. Healthcare companies and Swiss blue-chip counters such as **Novartis**, **Nestlé** and **Roche** with dividend yields of more than 2.5% also look okay.

What are the stock names in your 'buy' list?

Tan: There are many stocks that I will buy during a market crash. I like **AIA** in Hong Kong. Life insurance in Asia is still seeing good growth and the industry has yet to reach maturity. But AIA is not trading at a price I would like to buy at.

In Europe, there is a company called **Trealt Plc** that provides ingredient solutions to the flavour, fragrance and personal care industries. It is listed on the London stock exchange. The company has a new CEO who is more dynamic. The previous one was within the family. Now, the business is being re-energised under the new CEO. There has quite a lot of upside to it. I like the business but not its valuations. I like also kitchen appliances and coffee machine

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India is the only bright spot in emerging markets, says Schroders' Tedder

The performance of global equities is likely to be mixed in 2015 on the back of economic recovery diverging across different regions, according to Alex Tedder, head of global equities at Schroders. "While fundamentals remain positive in the US economy, which should help drive global growth in 2015, uncertainty lingers in Europe, Japan and most of the emerging markets," he says in a recent report.

Tedder is starting to see a slowdown in earnings momentum in the US as companies "struggle to maintain levels of strong growth seen over the last couple of years". Market consensus still expects high-double-digit earnings growth in 2015, which may be a challenge, given a slower growth backdrop and pressure on margins, he adds.

Tedder says he is more constructive on Japanese equities relative to those in Europe. "Japanese Prime Minister Shinzo Abe's recent decision to

delay the second consumption tax increase will be supportive for the economy and for domestic equity buyers, while improved corporate governance is likely to attract more foreign equity buyers. Furthermore, corporate tax cuts over the next few years will boost companies' earnings."

He observes that European companies have managed to post decent financial results, owing largely to extensive cost-cutting measures, while actual revenue growth has been negligible. Overall, the softer European economy is likely to weigh on the market in 2015 and curtail the ability of European companies to generate meaningful earnings growth, he warns.

In emerging markets, Tedder is similarly not too optimistic about the earnings prospects of companies in Brazil, Russia and China. "Emerging markets are a concern, and our earnings outlook

for three of the four BRICs is negative," he says. India, with its exceptional demographics and vibrant private sector, is the only bright spot in emerging markets, according to Tedder.

"India has an exciting investment story. Although the economy and the market have both done well in 2014, we think they have further to go. The new government's policy initiatives are encouraging and should benefit domestically orientated companies, particularly those with exposure to fixed capital formation and financial services. The Indian consumer should also receive a welcome boost from lower energy prices and reduced inflationary pressure," he predicts. "On the whole, we see 2015 as being characterised by an ongoing divergence in global growth and monetary policy that will create attractive pockets of investment opportunity for stockpickers."



Tedder: India has an exciting investment story

Oil prices could continue to plunge

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maker **De'Longhi**, which is listed in Milan. I like its business and management board but not its stock price. I also like **IP Group**, which is listed in London. It is a spin-off from Oxford University. This company helps commercialise university intellectual property rights and research done by universities.

There are a lot of global names that we have been watching patiently. In the US, there is a company called **Church & Dwight**, a manufacturer of household products. It operates in an unglamorous industry but has a proven business model. The company is very focused on the US market. You could say it is a very recession-proof company that would be a good stock to have for the long term. I have been waiting for years to buy Church & Dwight but the price hasn't dropped. That is one of the stocks that we are looking at in the US. Once the market is able to bring valuations back to reality, we will start buying some good names such as **Estée Lauder**.

Faber: If you own REITs in Malaysia and Singapore, you should be okay. If the economies of Singapore and Malaysia strengthen, then the rental revisions of REITs there will be higher. But if the economies there weaken, I suppose the yields on these REITs will not go up substantially. Nevertheless, they still look very attractive compared with cash yields. I own most of the S-REITs. In Singapore, I can buy a portfolio of REITs giving me a yield of 5%. Cash is yielding 0% and bond yields in Europe range from 0.5% for Switzerland bonds to 2.5% for Spanish bonds. So, what would you rather own; Spanish government bonds or REITs in Singapore and Malaysia? They are not very attractive investment opportunities, but it is a question of what is the least ugly.

With the collapse in agricultural prices, plantation companies such as **IOI** in Malaysia and **Wilmar** in Singapore are now looking attractive in terms of valuations. IOI has a dividend yield of 4% and Wilmar has a dividend yield of 2%, which is more than the 10-year government bond yield in Singapore.

Rossi: We now have a glut of savings in the global financial system. With policy interest rates near zero and bond yields near record lows, this wall of money effectively has no 'pricing power', forcing investors to put their money to work to achieve a decent return. Within a broad global asset class context, dividend-paying equities still look attractive versus other assets such as bonds, and should continue to attract inflows from investors. Indeed, with the S&P yielding more than 10-year Treasuries and European markets yielding around 4%, I believe the equity income story will be one of the key catalysts that support stock markets as the persistent thirst for yield continues in earnest.

What other asset classes do you like for 2015?

Tan: Cash in US dollars. If you are a Singapore dollar-base investor, you might get 2% to 5% from currency gains with the US dollar in 2015. The currency I am parking my cash in is the US dollar, which I think will continue to strengthen in 2015. During a crisis or stock market collapse, investors will still see the US dollar as a safe haven.

Faber: Cash is an underappreciated asset. Right now, nobody wants cash and everybody wants to invest. But cash offers you some flexibility. When there is a crisis here or there,



Rossi: The equity income story will be one of the key catalysts that support stock markets

at least you have cash reserves to take advantage of it. Agriculture commodities are reasonably attractive. Palm oil prices are bottoming out. Real estate in the emerging economies is an attractive asset class.

Gold shares and gold are looking depressed as well and sentiment there has been very negative. I would hold some gold as catastrophe insurance and accumulate gold on weakness. I think it is not a bad time to buy some gold around US\$1,150 an ounce. There are still buyers of physical gold.

Strobaek: For alternatives, we still generally like hedge funds. This is an area in which you can get added value if you pick the right managers. We have diversified hedge fund portfolios for clients. But we have to depart from the notion that hedge funds will deliver net gains of 8% to 10% each year. That is not the case.

We are neutral on commodities. The balance of supply and demand has shifted to lower commodity prices. The super cycle for commodities is over. On real estate, some of the alpha we generated this year came from our positive views on REITs, which are still benefiting from investors' hunger for yields.



Faber: I would hold some gold as catastrophe insurance and accumulate gold on weakness

We still like the REITs story.

For currencies, we think the US dollar will continue to strengthen against major currencies. In Asia, we only expect the Philippine peso to strengthen against the US dollar because we expect two more interest rate hikes in the Philippines, given the strong macro momentum in the economy.

Will crude oil prices continue to plummet?

Tan: Chances of crude oil prices going down to the US\$30-to-US\$40 level in 2015 aren't slim. There are three reasons for that. One is the strength of the US dollar; second is on the supply side. Shale gas supply from North America has been incredible and the increase in demand for oil has been weak. In 2008, oil prices went from US\$150 a barrel to US\$30 but, within a year or so, it bounced back to over US\$100. But I think oil prices in 2015 will drop and stay low. There is not going to be a V-shape bounce like in 2009. Oil prices could stay low at US\$30 to US\$50 a barrel for a long time. I am looking at oil price because it has multiple impacts on economies. Falling oil prices could push Japan and the eurozone into deflation.

Faber: If oil prices were to drop to US\$40 a barrel, it will probably bankrupt a lot of the US oil industry players. The reason oil prices have been coming down is that we still have a global economic slowdown. A lot of people believe that the global economy will improve next year. My view is that the global economy is going to slow down. There will be no growth in Europe and Japan. In US dollar terms, the Japanese economy has contracted 40% because of yen weakness. Abenomics, or 'Abegeddon' in my view, is a complete disaster in Japan. In the US, there is a likely weakening of the economy. That is going to occur. So, where is the growth going to come from? The Chinese economy will not reaccelerate anytime soon.

Name one event or scenario that could unfold in the global financial markets in 2015?

Fuss: There are a lot of unexpected scenarios. There are still geo-

political risks on the international side such as in Eastern Europe, the Middle East and the South China Sea. Things there seem to have backed off of late but [an unexpected geopolitical event] in those areas could knock liquidity out of the markets for a while. In the bond markets, the bid could go away at the time you are selling. The bond market is really a dealer's market, not an auction market.

The way things look right now, the fund flows are moving into the US, not so much coming for economic or value reasons. The valuations of assets are already higher than in other parts of the world, such as Europe. People anticipate that the US currency is going to rise. Currency forecast is about the most difficult thing I can think of. For me, it is a lot of guesswork.

Faber: I am not that optimistic about the US dollar. I think it is on the high side. Everybody is so positive on the US dollar. The disappointment could be that US economy slows down and the US dollar weakens again. But are other currencies any better? I don't know. I would diversify so that I have a currency basket. I wouldn't put all my money in US dollars for sure.

Tan: In the property markets of Asia such as Singapore, Hong Kong, Malaysia and the Philippines, there is too much complacency. Many still believe that their property prices will rise forever. That frightens me a lot. Loans have outgrown deposits for some banks in Singapore. The last time that happened was in 1997.

[Fed chair] Janet Yellen continues to say the Fed is going to keep interest rates low for [an extended] period of time even when they know their forecast on US unemployment has been wrong. If US unemployment drops to 5.4% [from the current 5.8%] in the coming month, will the Fed continue to say it is a jobless recovery in the US and will it continue to wait till the unemployment rate hits 3% or 2% before raising rates? That is why I think the Fed is totally behind the curve and has to raise interest rates more aggressively. If the US central bank still does not take the necessary action, the market will take it for them. I could be wrong [about a bear market] in 2015. But if the bull market persists beyond 2015, the crash is going to be larger.

Strobaek: The biggest risk in the market is still the misinterpretation of what the Fed is going to do. The Fed has been careful about their communication with the markets up until very recently. [On Dec 17, the Fed said it would be 'patient' on the timing of the first US interest rate hike since 2006, and removed the phrase 'considerable time' in its statement.] They have to be careful not to confuse everyone, especially now with data suggesting something completely different. We think the Fed is going to move interest rates higher by mid-2015. Some people believing in the 'patient' message may believe it is going to happen only in 2016. The Fed has to be clear about what they are going to do, or else there will be interest rate volatility.

Rossi: Investors should not be unnerved by the occasional bouts of volatility in 2015, as markets factor in interest rate rises. Fundamentally, I think the positive economic and earnings growth prospects for the US economy will ensure the five-year-long US equity bull market has further to run. While other markets can also continue to perform well, I do not see a fundamental change in leadership in this bull market, particularly given the prospect of a stronger US dollar, which is traditionally a headwind for commodity-dependent emerging markets or those that still have significant dollar liabilities.

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