Asia remains an attractive source of income and growth for investors

by daljit dhesi

Lim Suet Ling said despite some near-term challenges arising from mounting global political risks,volatile commodity prices and global growth concerns, the region's investment potential should always be viewed through a long-term lens.

KUALA LUMPUR: UOB Asset Management (M) Bhd, which manages assets worth RM6bil, said it remains confident of Asia's long-term potential for attractive earnings growth and yields.

Its CEO Lim Suet Ling said despite some near-term challenges arising from mounting global political risks,volatile commodity prices and global growth concerns, the region's investment potential should always be viewed through a long-term lens.

"In the near-term, the outlook in Asia remains challenging due partly to the issues in China, which has been facing a conundrum of rising debt and slower economic growth. In addition, there have been only marginal improvements in the Purchasing Managers Index (PMI) , new housing projects and foreign exchange reserves.

"We believe that Asian markets continue to look attractive given Asia's potential, favourable demographics and rising income, and these structural trends should deliver investment opportunities for astute investors in the long-term," she added.

To add to its appeal, Lim said Asian equity valuations are attractive and Asian bonds have presented some good occasions to lock in favourable yields over the long term.

As for the sectors that provide the strongest investment opportunities, she added that UOB Asset Management was positive on the longer-term outlook for the consumer and technology sectors, noting these sectors benefit from exposure to strong domestic demand and e-commerce growth in the emerging economies.

She said the asset management company also see opportunities within niche segments across high-growth industries. “Rising internet and smartphone penetration is expected to accelerate technological disruption across various sectors including retail, financial services, travel and transportation,” Lim said.

This trend, she added presents rich bottom-up stock picking opportunities where UOB Asset Management has the opportunity to invest into high-growth companies with strong financial fundamentals.

In addition, she said the asset management firm also like the infrastructure sector, particularly in member countries of Asean as the under-development in infrastructure in Asean countries presents investment opportunities.

The United Nations Conference on Trade and Development estimates that Asean would need at least US$110bil in annual investment to fund power, transport, telecommunication, water and sanitation projects through to 2025.

Infrastructure development would have a longer-term positive impact on the rest of the economy,helping to improve productivity and connectivity, thereby allowing economic growth to accelerate.

On the performance of Malaysia’s financial markets by year-end, Lim believe that prospects for the domestic bourse are better this year compared with last year.

“This is because some factors that were a drag on the market last year,namely the weak Ringgit, low oil prices, muted consumer sentiment, uncertainty in China and foreign portfolio outflows, are showing signs of improvement.

“Our forecast is for Malaysia’s gross domestic product (GDP) growth to pick up in the second half of the year. Our view is underpinned by rising consumer sentiment and infrastructure spending. We also expect Malaysia, a major oil-exporting country, to benefit from higher oil prices following expectations for more balanced supply and demand levels over the next 12 months. Further, Malaysia could see positive impact from foreign portfolios looking for a laggard play,” Lim said.

She added the recent strengthening of the Ringgit and stabilising oil prices are also expected to positively influence Malaysia’s domestic bond market, noting that the continued monetary stimulus by global central banks could provide further support to local bond yields.

However, she cautioned that a potential interest rate hike by the US Federal Reserve may pose a headwind in the near-term.

With global bond yields at record lows, where does the asset management firm see value across the bond markets? For the long term, Lim likes emerging market (EM) bonds and its bond strategy for 2016 has been ‘to buy the fear’. This means going against market sentiment and buying at lower prices when everyone is selling.

She added: “Over the last decade, we have seen EM bonds recover stronger than ever through different economic and financial crises. The asset class has matured and markets are also better managed with economic and financial safety buffers at hand to battle global headwinds.

“This asset class trades at a tighter spread than developed market bonds, and there are always opportunities to buy into mis-priced bonds at attractive prices even during times of uncertainty. This allows investors to lock in attractive yields over the long term."