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BONDS & ISSUES

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LOOKING BACK AND A PERSPECTIVE OF 2013

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The world did not end in 2012 but it did mark the fifth year since the Global Financial Crisis began. On reflection, we will remember that the Dow traded between 1,000-point fluctuations and at one point in November 2008, it was trading below 8,000 points.

The financial markets have changed and many institutions, some with very long histories have disappeared. Computers have taken over more of the trading at unimaginable speeds. Yet mistakes or fraud, costing billions of dollars can happen in the hands of a single trader. So, perhaps not much has changed. Too little ethics and too much greed.

Another factor that has come into prominence since the crisis is the dominance of politics as a determinant of markets, sovereign debt being the chief reason for this. Governments around the world have had to grapple with the debilitating effects of servicing interest on their debt. Austerity has become a buzzword and so has PIGS.

Political elections took on more significance for the markets. It is interesting to note that coincidentally, the four neighbours in North Asia; namely China, Japan, North and South Korea are all going through political transitions.

The world heaved a sigh of global relief as "Grexit" which looked like a certainty did not materialise. Perhaps we have underestimated how much the Europeans want to stay together. If we would only pause for a look at their war-ridden history, we could perhaps understand why. The Norwegian Nobel Committee may well be right in awarding the recent Peace Prize to the European Union.

In the face of more bond buying in Europe and quantitative easing in the US, the crisis seemed to have stabilised somewhat. The first steps in a difficult journey in European Banking Union have been taken. The immediate danger of collapse, at least, has been averted. The proverbial "can" has been kicked further down the road, buying us all more time to hopefully come up with more permanent measures.

So, the past year has been a good year for stocks. Other than the second quarter which saw some set-backs, global equities came in at around 9.78%. It was a similar story for emerging market equities which did 11.75%.

Our bond selections fared well too. Templeton Global Bond pulled in a stellar performance with 15.6%. Not to be out-done, United Asian Bond and United Emerging Market Bond returned 12.8% and 10.6% respectively.

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Henderson Global Property and Global Technology Funds grew 19.4% and 6.4% respectively. This has helped our portfolios. First State Global Resources provided a dampener as demand for commodities slowed. It fell 10.7%.

Gold funds also suffered set-backs last year. Schroders AS Gold & Precious Metals lost 2.4% while United Gold & General lost 13.7%. We had started to allocate some gold to our portfolios so they got hammered. We will maintain our allocation to gold in the face of continued demand for the precious metal by many countries. China for example purchased a lot of gold in 2012 despite being a major producer herself. Global property and technology will also remain a part of our mainstay for the global portfolios.

LOOKING FORWARD TO 2013, SENTIMENTS ARE MOSTLY BULLISH.

These sentiments come amidst averting the most pessimistic scenarios. Our worst fears of a break-up in Europe did not happen. There's more dialog and desire to solve problems. The US continues to prod along and there too, market sentiments are also bullish on the back of a nascent recovery in the housing market.

Indeed, collateralised-debt-obligations (CDO) on properties are back-in-vogue. China, tethering between a soft and hard landing managed a 7.8 % growth. While any growth below 8% would have spelt disaster in past years, the Chinese economy has gone through much restructuring. Focus is trending towards the inland regions thus reducing migration of rural workers to the coastal cities. A lesser known statistic is that China will be pumping US $250 billion a year towards upgrading the educational level of its youth population with a view to match those of developed economies. In short, there is more to China than just cheap labour. Prospects for India are also looking up as the effects of reforms begin to kick-start a sluggish economy.

The Middle-East and Sub-Saharan Africa may also surprise on the upside.

In summary, we favour emerging markets in general and Asia in particular. Within Asia, the twin-engines terminology may be coming back to popular usage. China and India represent good bets.

Apart from specific country bets, we are launching the API (Asia Power Income) Series of portfolios of Asian equities and Asian bonds. Back-testing for a 5-year horizon using indices over a 12-year period from 2000 to 2012 showed robustness for portfolios with at least a 30% exposure in each asset class. (See chart).

For the first half of 2013, our recommendation is for a more aggressive stance towards equities.

ASIAN-BALANCED PORTFOLIO

Allocation	2000-2004	2001-2005	2002-2006	2003-2007	2004-2008	2005-2009	2006-2010	2007-2011	2008-2012
70 Bond / 30 Equity	40.41%	85.19%	98.91%	114.54%	36.37%	74.07%	65.64%	39.85%	40.39%
60 Bond / 40 Equity	33.25%	84.37%	105.34%	132.83%	35.26%	76.26%	68.43%	36.33%	34.03%
50 Bond / 50 Equity	26.07%	83.24%	111.65%	152.30%	33.76%	77.89%	70.64%	32.34%	27.46%
40 Bond / 60 Equity	18.92%	81.82%	117.84%	173.01%	31.86%	78.91%	72.23%	27.91%	20.72%
30 Bond / 70 Equity	11.82%	80.10%	123.89%	195.03%	29.55%	79.28%	73.15%	23.05%	13.85%

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