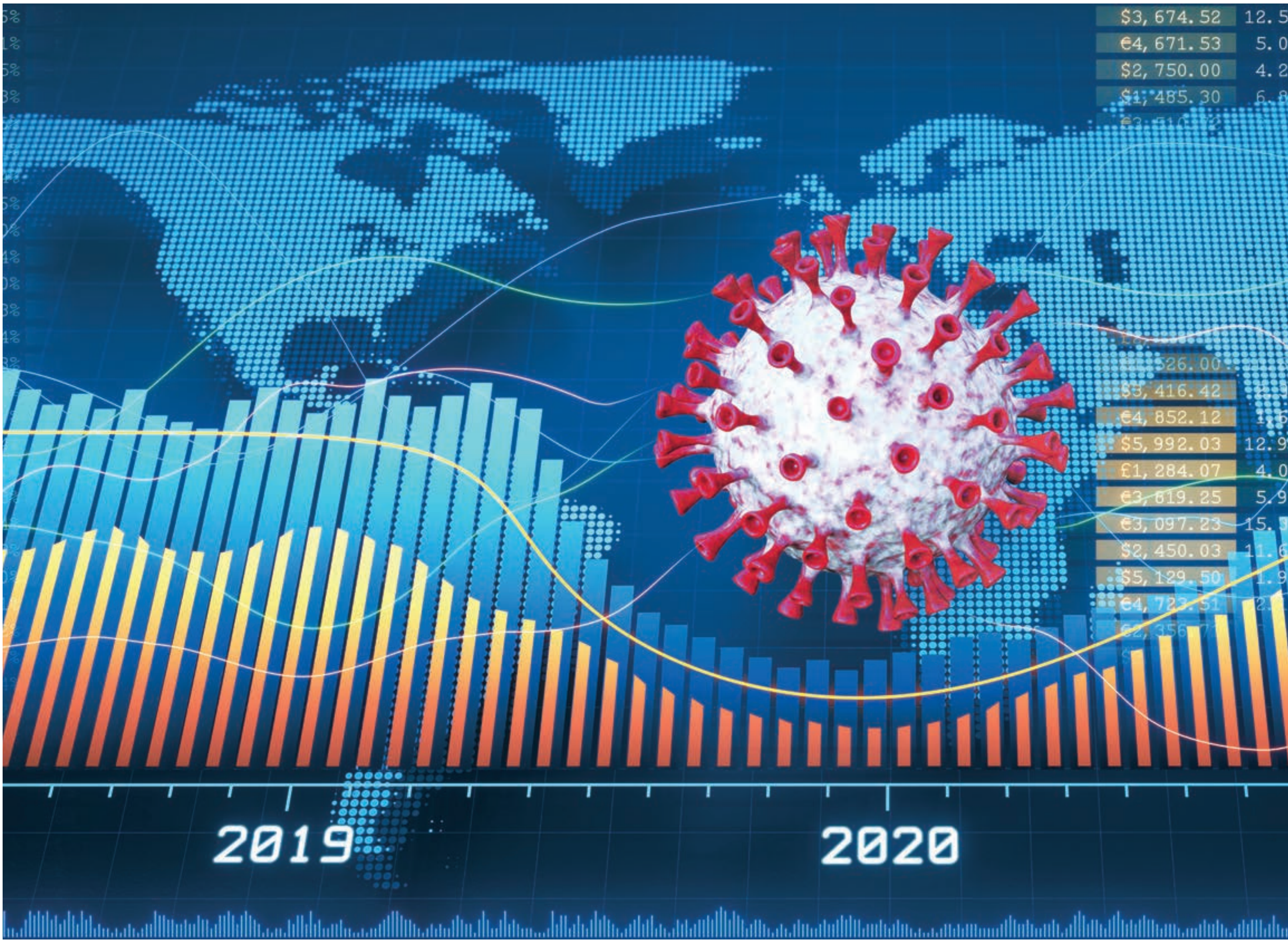

WHERE TO INVEST IN A POST-COVID WORLD?

Investors are seeking avenues to invest safely and successfully in the midst of a pandemic

By **Lee Min Keong**

To say that 2020 has been a walk in the park for investors is a gross understatement to say the least. It has been more of a roller coaster ride especially with gut wrenching plunges and soaring back to new highs for the equity markets.

The ensuing global recession still needs to work itself out. And with a potentially contentious US Presidential Election to boot, volatility in the markets has returned just as a Covid-19 second wave rears its ugly head in the winter months.

The coronavirus pandemic has held centre stage these past 10 months and demolished much of our pre-conceptions when it comes to investing. As we move into a new year, ordinary investors are understandably a bit jittery and are seeking reassurance that they can safely continue on their investment journey in 2021.

Some quarters believe the Covid-19 pandemic may have changed the common man's investment strategies. However, iFAST Capital Sdn Bhd research analyst Shawn Low Tian Hao begs to differ.

"We advocate value investing so investing in reasonable valuations and holding investments over a long time horizon should still stay," he explains.


Shawn Low Tian Hao

Nevertheless, given the current pandemic, he says there's a need to reassess the fair valuations for different sectors. For example, technology stocks which have been on a tear in recent months may cause some worries of a potential bubble.

"However, earnings have also grown and the expected earnings have been revised upwards. The pandemic has brought to light the importance of technology, accelerating the trend on a global level. As such, we opine that it is not unreasonable to adjust the fair P/E (price-earnings ratio) of tech stocks upwards.

"On the other hand, we may have to moderate the earnings expectations for sectors that have been victims of Covid-19 such as the tourism sector," he says.

He says other sectors that could be affected are those with the availability of options such as real estate investment trusts (REITs). Offices may be more open to a remote working environment while retail businesses may favour online distribution channels instead, he notes.

"The change in capitalist behaviour could thus structurally affect the REITs sector as demand for brick-and-mortar space will be affected. In this case, investors may want to take these changes into account by moderating the fair P/E levels of the sector," he adds.

Effects of monetary easing

One of the realities of the pandemic is that central banks have embarked on an unprecedented money printing spree in a bid to keep their economies afloat. This has seen interest rates drop significantly, to near zero in many countries in the developed world.

While this benefits borrowers, it has penalised the savers. So, where can Malaysians put their money to get good investment returns?

Low agrees that central banks have been easing monetary policy aggressively since the start of the Covid-19 pandemic. Similarly, Bank Negara Malaysia (BNM) has thus reduced interest rates by 125 bps in 2020.

"Given the low interest rate environment, we opine that riskier assets such as equity and high yielding debt securities are likely to benefit going forward. Investors are being compensated more per unit of risk taken as risk premium increases," he says.

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He expects the current environment to contribute to the valuation expansion of risky assets. "Lastly, a global hunt for yields alongside attractive bond carry is also likely to keep demand for high yielding securities relatively robust," he adds.

Maybank Asset Management Sdn Bhd chief executive officer Ahmad Najib Nazlan says most investors would try to adjust or increase their risk-taking activities slightly to ensure they could maintain a certain level of returns if not matching what they used to achieved earlier.

"Meanwhile for the very risk-averse investors, capital preservation strategies for example, fixed income funds, could be the next level alternatives to fixed deposits to get at least 100bps to pick up with very good liquidity within 10 days.

"Investors may also participate in funds that invest in high yielding blue chips, especially the bashed down


Ahmad Najib Nazlan

core cyclical stocks, which will benefit from the impending economic growth post-Covid-19 episode once vaccines are made available to the masses," he adds.

Fixed income for a balanced portfolio

Given the volatility in the markets, Ahmad Najib says fixed income should still be an essential part of one's portfolio even after it performed very well year to date. This is especially given the imminent threat of the second wave of Covid-19 with the coming winter season for Europe and America, where the virus has more propensity to spread in the cold weather.

"Asian bonds may offer better returns, but it comes with higher risks and is more volatile, especially on the high-yield papers.

"Some of the bonds may be exposed to systemic risk, for example, property-related bonds originating from China due to them being heavily geared when the sector is consolidating," he says, adding that currency fluctuation also needs to be taken into consideration when investing outside Malaysia.

iFAST's Low emphasises that fixed income should always be part of an investor's portfolio in normal or abnormal times as it may be hard to accurately predict future volatility.

"It is beneficial for investors to have a balanced mixture between equity and fixed income exposure as the latter gives the much-needed stability factor to investors' portfolio especially during such uncertain times.

"Given that the pandemic situation remains fluid and the low interest rates are expected to remain lower for longer, the demand for fixed income should endure for the foreseeable future," he adds.

Investors may also participate in funds that invest in high yielding blue chips, especially the bashed down core cyclical stocks, which will benefit from the impending economic growth post-Covid-19 episode once vaccines are made available to the masses.

Banking on China's recovery

In terms of markets to invest in, Low has a "positive view" of China as well as the Asia Ex-Japan region.

"The draconian measures implemented by China during the early stages of the pandemic has contributed to the economy having a faster resumption in economic activities. Better management of new cases is also done via targeted lockdowns."

The efforts of policymakers are also beginning to show in recent economic data and Low expects the recovery to continue. Given the interdependence of China with its neighbours which is likely to be reflected in the trade numbers, he opines the recovery of China may lend support to the Asia Ex-Japan region.

The current environment should also be beneficial to growth sectors. "These sectors are major beneficiaries from lower rates and a flatter yield curve due to having to rely on longer term debt.

"Globally, we are still positive on sectors such as tech and healthcare given the secular trend forming decent tailwinds over the long term.

Likewise, Maybank Asset Management's Ahmad Najib is positive on the information technology (IT) sector. "With an increasingly digitalised world where production, trade & services including transportation/logistics are increasingly reliant on internet-based technologies

A NATURAL HEDGE AGAINST INFLATION AND UNCERTAINTY

In uncertain and volatile markets, should investors consider investing in precious metals and cryptocurrency?

Maybank Asset Management Sdn Bhd chief executive officer Ahmad Najib Nazlan says other than gold, precious metals and cryptocurrencies can be more volatile than traditional assets during market uncertainties. "Hence, we should focus more on the assets backed by strong business fundamentals.

"In uncertain markets, gold is a good asset class to diversify one's investment portfolio. Unlike other asset classes like equity or even fixed income, gold prices have historically risen in times of uncertainties, making them a good asset class to hold for diversification purposes.

"Further with the US dollar likely to decline given their large budget and trade deficits accompanied by a large increase in money supply, demand for gold as an alternative safe-haven asset is likely to go up.

However, he does not advocate investing in cryptocurrency as the cryptocurrency market has been "very volatile". "Being a relatively new asset class, we don't know if Bitcoin or any of the top coins will be the one that dominates and survive, what more their value into the future."

iFAST Capital Sdn Bhd research analyst Shawn Low Tian Hao also sees precious metals such as gold as a hedge against inflation and uncertainty. "A possible reason for its recent rally could be due to the low interest rate environment, which reduces the opportunity cost (of holding the metal)."

Gold swept past its previous all-time high of US$1,920 per ounce end July and touched a new high of US$2,075 in early August.

Low adds the increased money supply is also likely to put upward pressure on inflation, reducing the value of the US dollar, and supporting the prices of the precious metal.

"Uncertainty revolving around the developments of the US-China trade war also lowers investors' animal spirits. These factors are some of the reasons how precious metals may be used — to hedge against inflation, uncertainty, and diversify one's portfolio."

Low says the fundamental drivers for cryptocurrencies may be fuelled primarily by sentiment. However, he advises that investors not put more than 10% of their equity portfolio into cryptocurrency to prevent overexposure into these investments.

and with industries striving to automate to improve efficiency, the technology/IT sector globally should do well."

"Within equities, we continue to like the US market where many of the world-class companies are listed. We also like Asian equities where governments have generally managed the pandemic crisis better and are better poised for recovery. This is further supported by better valuations," he adds.

Forex Trading: Is it the right time?

Apart from the more traditional investment options like trading stocks, ETFs, and bonds, another major market that is often overlooked by local retail investors is foreign exchange (forex).

Jin Dao Tai, founder and MD of ForexBriefcase, a leading global multi-account manager, says the convenience and ease of access of forex trading makes it more popular when compared against other assets.

"Because of this, the forex market is active 24 hours a day for five days a week. This is the reason why forex trading sees the largest traded volume per day – almost US$5.1 trillion."

HISTORICAL LESSONS FOR A POST-PANDEMIC WORLD

There is considerable debate about the long-term impact of Covid-19 on economies around the world. Many have argued the coronavirus pandemic will dramatically accelerate ongoing shifts in the economy or that it will create new trends entirely.

In its recent report 'History's Lessons for Navigating the Post-Pandemic World', investment research firm Morningstar lays out a framework for understanding the post-pandemic economy.

The report looks at five historical episodes to best understand the world after Covid-19:

1. World War II and rationing;
2. Surge in US female labour force participation during WWII;
3. The 1970s oil price shock;
4. Impact of the Sept 11 terrorist attacks on US air travel; and
5. Pandemics in recent history.

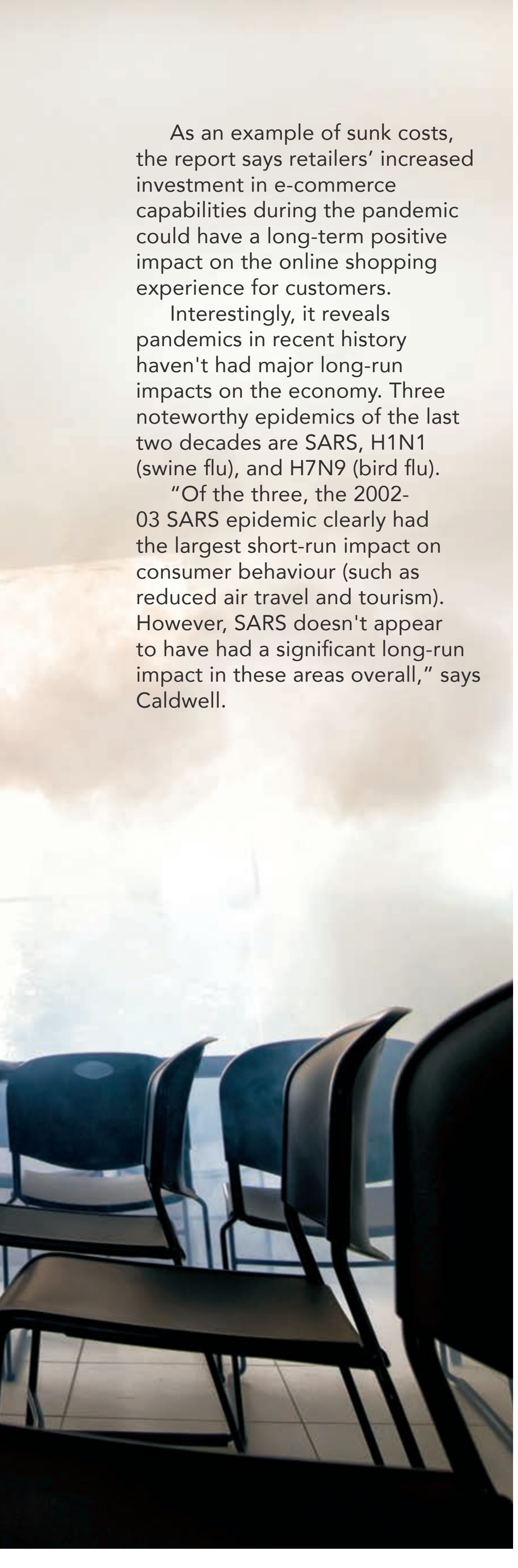
"Our goal is to understand, in general, what happens when the economy is perturbed by an extreme but temporary external shock. Pandemics are one type of this class of events, but so also are wars, political upheaval, and related disruptions," says Preston Caldwell, senior analyst – Economics at Morningstar Equity Research.

The report identifies three main causal channels whereby Covid-19 could have a long-run impact on economic outcomes.

"First, consumer habits could permanently change because of the pandemic. Second, fear of the next pandemic could make consumers reluctant to engage in social activities. Third, sunk costs incurred during the pandemic could change the long-term economic calculus of consumers and firms," Caldwell explains.

He notes overall, these episodes provide only modest support for the idea that the three channels will have a long-term impact on the post-Covid-19 economy. "Habits could change during the pandemic as people get used to doing less of certain activities like eating out, causing lasting changes in consumer behaviour. Fear of the next pandemic could make consumers reluctant to engage in activities involving a high degree of social contact.

"And sunk costs incurred during the pandemic could change the long-term economic calculus of consumers and firms."



As an example of sunk costs, the report says retailers' increased investment in e-commerce capabilities during the pandemic could have a long-term positive impact on the online shopping experience for customers.

Interestingly, it reveals pandemics in recent history haven't had major long-run impacts on the economy. Three noteworthy epidemics of the last two decades are SARS, H1N1 (swine flu), and H7N9 (bird flu).

"Of the three, the 2002-03 SARS epidemic clearly had the largest short-run impact on consumer behaviour (such as reduced air travel and tourism). However, SARS doesn't appear to have had a significant long-run impact in these areas overall," says Caldwell.

He points out that the biggest advantage of investing in forex is that it is easy to start. "All one needs is a laptop and a brokerage account – and this can be started with less than US$500 – and they can begin their trading journey.

"However, as easy as it is to get started, beginners diving headfirst into the market and making trades without learning the craft can see them empty their accounts very quickly," warns Jin, who also founded LCMS Traders, Singapore's leading forex trading education company.

Nonetheless, he says the current climate is "a great time to begin trading" as the Covid-19 pandemic has affected markets across the globe, seeing equity prices reach multi-year lows during February and March before recovering almost entirely in the following months.

For the beginner trader, this recent market volatility gives them the opportunity to experience many different market conditions in a relatively short space of time, he adds.

"After all, learning to trade effectively and make a profit through forex is like a lot of things we do: easy to get started with but takes time and effort to master – and there is no better time than the current season to get started," advocates Jin.

Jin Dao Tai

How to succeed as an amateur trader

When it comes to forex trading, there is no quick and easy method to making a profit. Jin explains that beginner traders looking to start should consider their risk profile to manage their aggressiveness or tolerance, and the amount of capital and time they are able to commit.

These will filter into selecting a strategy for the trader that will suit their style and preference as they learn the ins and outs of the forex trading craft. Next, it is important for traders to have realistic and repeatable goals as they work on the path towards success.

"Finally, the common characteristics of a successful trader regardless of experience lies in their ability to wait for good trades. Aim for small-but-consistent wins, and be okay with losing trades.

"They need to be focused on the mindset of accumulating wins rather than expecting a windfall. And especially given the volatility in the forex market, it can be easier and faster to achieve repeated smaller wins instead of banking it all on one big win," advises Jin.