PROFESSIONAL INVESTMENT ADVISORY SERVICES

Quarterly Client Newsletter

Issue Forty-Eight
2022

INSIDE THIS ISSUE

CONTRIBUTORS

Nikko Asset Management Singapore

Headquartered in Asia since 1959 and with US$206.1 billion* under management, Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of equity, fixed income, multi-asset and alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia's leading exchange-traded funds (ETFs).

*Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of 30 June 2022.

More info: https://www.nikkoam.com.sg

Income Insurance Ltd

Income Insurance Limited (Income) is one of the leading composite insurers in Singapore, offering life, health and general insurance. Established in Singapore in 1970 to plug a social need for insurance, Income continues to serve the protection, savings and investment needs of individuals, families and businesses today. Its lifestyle-centric and data-driven approach to insurance and financial planning puts Income at the forefront of innovative solutions that empowers better financial well-being for all.

More info: https://www.income.com.sg/

Professional Investment Advisory Services ("PIAS")

Established in 2001 and licensed by the Monetary Authority of Singapore, PIAS is a multi-award winning financial advisory firm in Singapore. PIAS offers a diversified suite of financial services and solutions with a personalised approach. With one of the largest, most respected and fastest growing network of advisers in Singapore, PIAS' professional advisers provide sound and comprehensive financial advice at both individual and corporate levels.

More info: www.proinvest.com.sg

Asia Bonds: Calmer seas ahead

Region’s relatively milder inflation pressure and healthy macro fundamentals favour Asia bonds.

Author | Edmund Ng, Senior Portfolio Manager

We explain why we are more positive on Asia bonds than we were at the beginning of 2022. For example, inflation in Asia is less severe compared to other regions, lessening the need for Asian central banks to tighten aggressively. This also makes Asia bonds attractive from a real yield perspective.

Background: Tough and volatile start to 2022 for the broader bond market

War, inflation and aggressive central bank tightening

Most of us would agree that the bond market experienced a tough start to 2022 as a confluence of negative factors, notably the Russia-Ukraine war, surge in global inflation and aggressive monetary policy tightening by the Federal Reserve (Fed) and other central banks exposed the market to a significant amount of volatility. Against such a backdrop, yields rose sharply across the world, with Asia being no exception.

Focus seen shifting from inflation to growth concerns

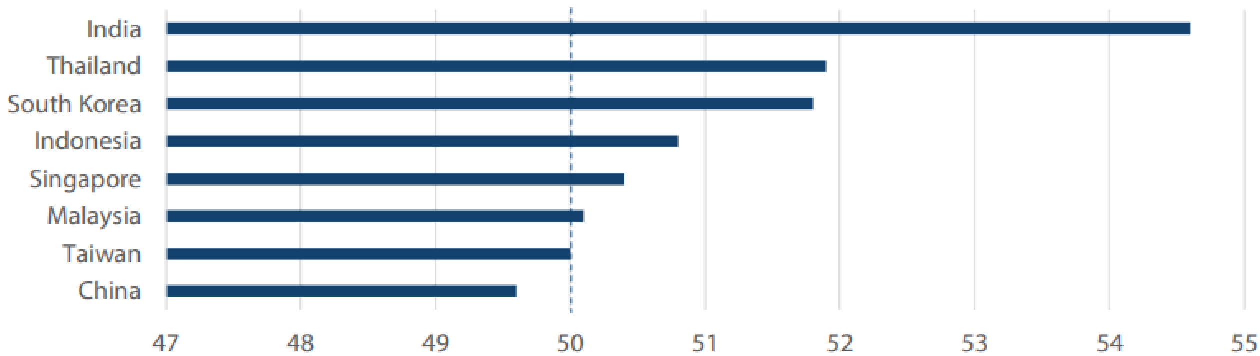
The Fed has hiked interest rates aggressively in the first half of 2022 in an attempt to tame inflation in the US, which hit a 40-year high, and the central bank is expected to continue tightening for the foreseeable future. However, we believe that the market has already priced in a significant amount of Fed tightening. US breakeven inflation rates show that inflation expectations showing signs of stabilising. The market’s focus is expected to gradually shift from inflation to economic growth concerns. This could ease pressure on US Treasury (UST) yields, which have surged so far in 2022 but could begin consolidating through the remainder of the year.

Economic conditions facing Asia bonds

Asia's economic activity back to pre-pandemic levels

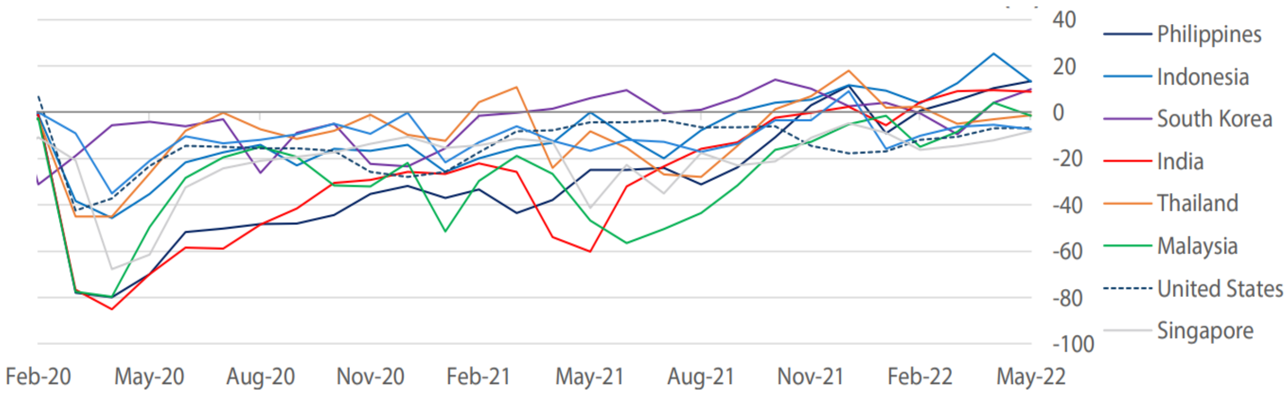
While many parts of the world struggle with inflationary pressures and other headwinds, how are Asian economies currently faring? Chart 1 shows that the purchasing managers' index (PMI) of most Asian countries are above 50, which represent expansion. Chart 2 shows that domestic activities in Asia have recovered roughly to pre-pandemic levels. We are currently seeing both manufacturing and domestic activities in a healthy recovery phase in Asia.

Chart 1: Manufacturing PMI in May 2022



Source: Bloomberg as at end-May 2022

Chart 2: Domestic activities in retail and recreation vs pre-covid levels (%)



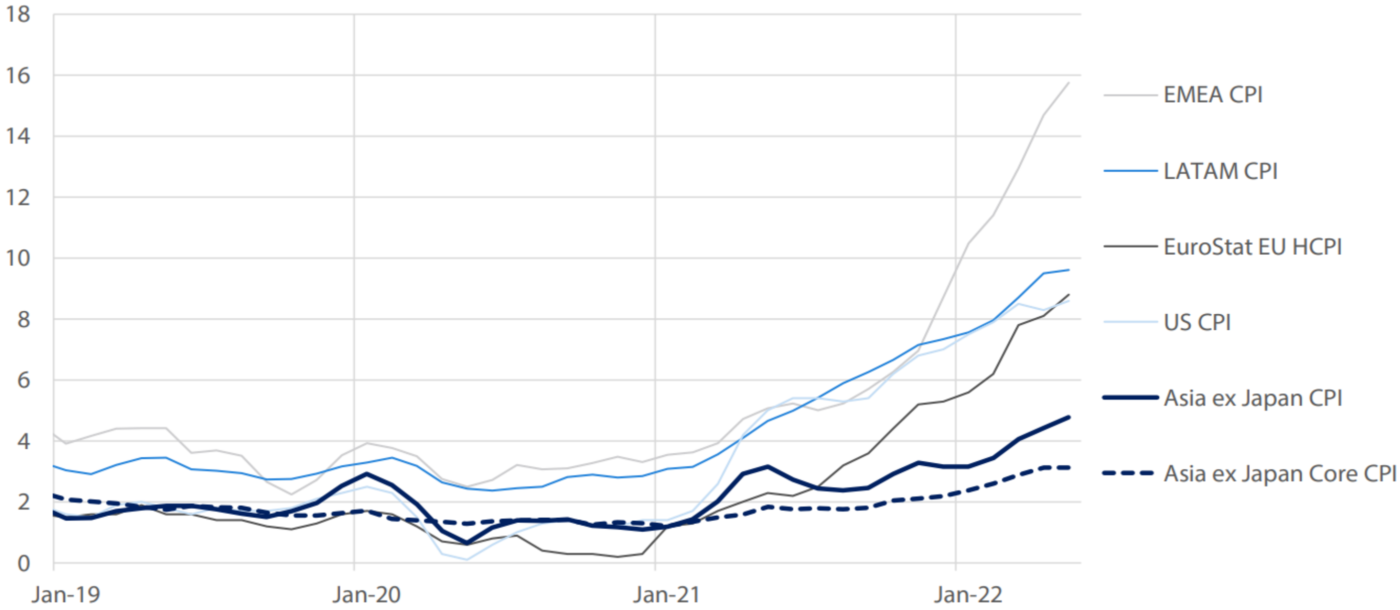
Data is sourced from Google Community Mobility Report. The base value is the median during the 5-week period of 3 January–6 February 2020
Source: Bloomberg and Google as at end-May 2022

Inflationary pressures not as strong in Asia, central banks under less pressure to hike rates

Let us next look at inflation in Asia. Chart 3 shows Asia ex Japan CPI and Asia ex Japan core CPI1. Both the Asia indices have climbed higher, although the rise is not as severe as in the US, Europe and Latin America. This is partly due to domestic subsidies implemented by Asian governments and their relatively better management in the supplies of some items such as food.

1The Consumer Price Index (CPI) measures the cost of living for a typical person based on a representative basket of goods and services over time. Core CPI typically excludes food and energy from the CPI calculation, however, please note that Core CPI exclusions may vary from country to country.

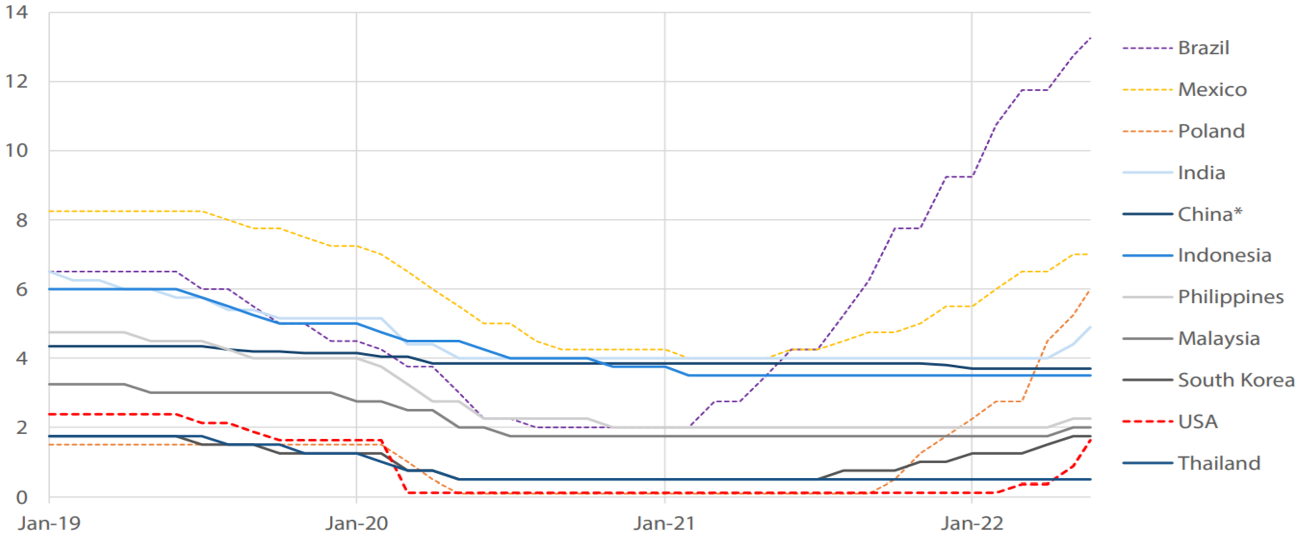
Chart 3: Asia's CPI vs other regions and countries



EMEA: Czech Republic, Egypt, Greece, Hungary, Poland, Kuwait, Saudi Arabia, South Africa, Turkey, Qatar
LATAM: Columbia, Brazil, Chile, Mexico, Peru
Asia ex Japan: Singapore, Indonesia, India, Malaysia, Thailand, Philippines, China, South Korea
Source: Bloomberg as at May 2022

What the current state of inflation in Asia means for monetary policy is that the region's central banks are under less pressure to hike interest rates compared to their peers in other parts of the world. Chart 4 shows that some of these countries, such as Brazil, Mexico and Poland, have to be very aggressive in hiking rates to tackle inflation in their respective economies. Asian central banks, which do not face as much pressure to tighten as aggressively, can afford to take a more gradual approach in carrying out monetary policies that aims to control inflation.

Chart 4: Central bank policy rates

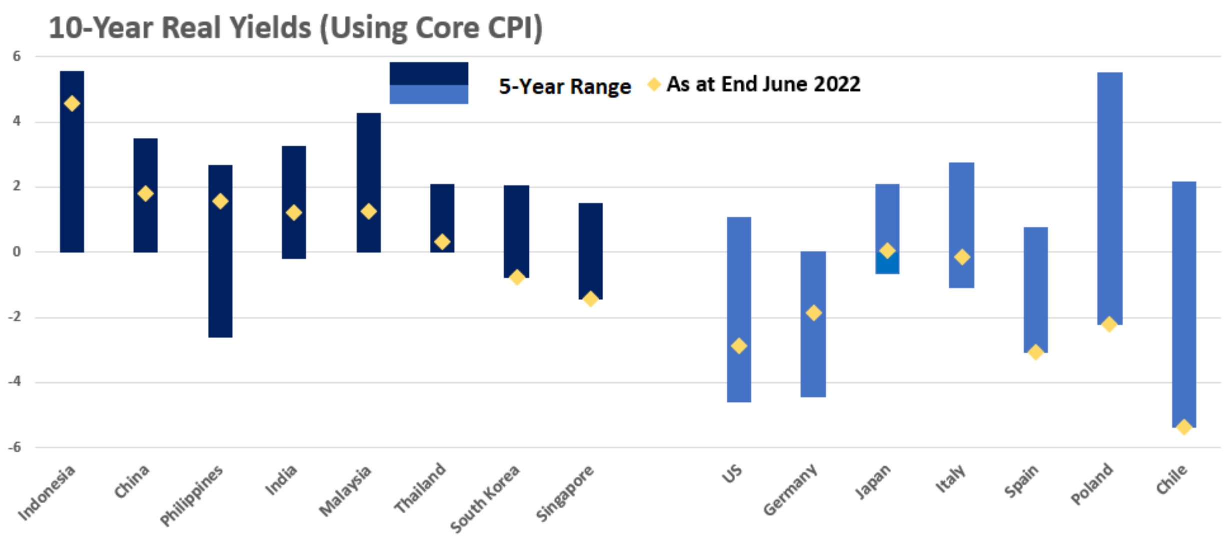


*China: 1yr medium-term lending facility (MLF) rate shown here as there is no official overnight (O/N) policy rate. The overnight rate is the interest rate at which a depository institution (e.g., banks) lends funds to another depository institution overnight. In many countries, the overnight rate is also the interest rate the central bank sets to target monetary policy.

Source: Bloomberg as at June 2022

Asia offers real yields at relatively decent levels since inflation in the region is not as high. Chart 5 below shows the 10-year real yields of various countries, adjusted using core inflation (which strips out the volatile components). Indonesia, for example, offers more than 4% in real yield and countries like China, Philippines, India and Malaysia offer more than 1% in real yield. In contrast, countries like US, Germany, Poland and Chile offer negative real yields.

Chart 5: 10-year real yields as of end June 2022 and 5-year range (monthly)



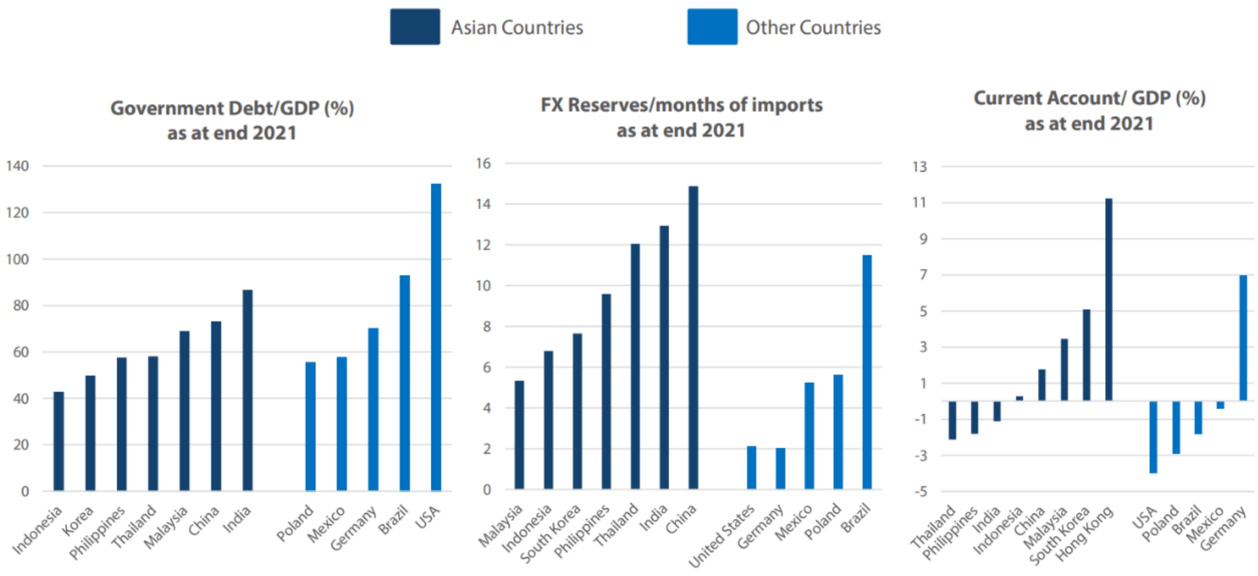
Note: The figures above are calculated by subtracting June Core CPI from 10-yr government bond yield on 30th June 2022.

Source: Bloomberg as at end-June 2022

Asia's macro fundamentals are healthy

Asia is also in a favourable position from a macro fundamental perspective. Chart 6 shows that Asia government debt is more manageable compared to the rest of the world. Asian countries also boast strong FX reserves, measured in terms of months of imports. This means that Asian countries have large war chests to fall back on in case they need to support their currencies.

Chart 6: Asian macro fundamentals relative to other countries



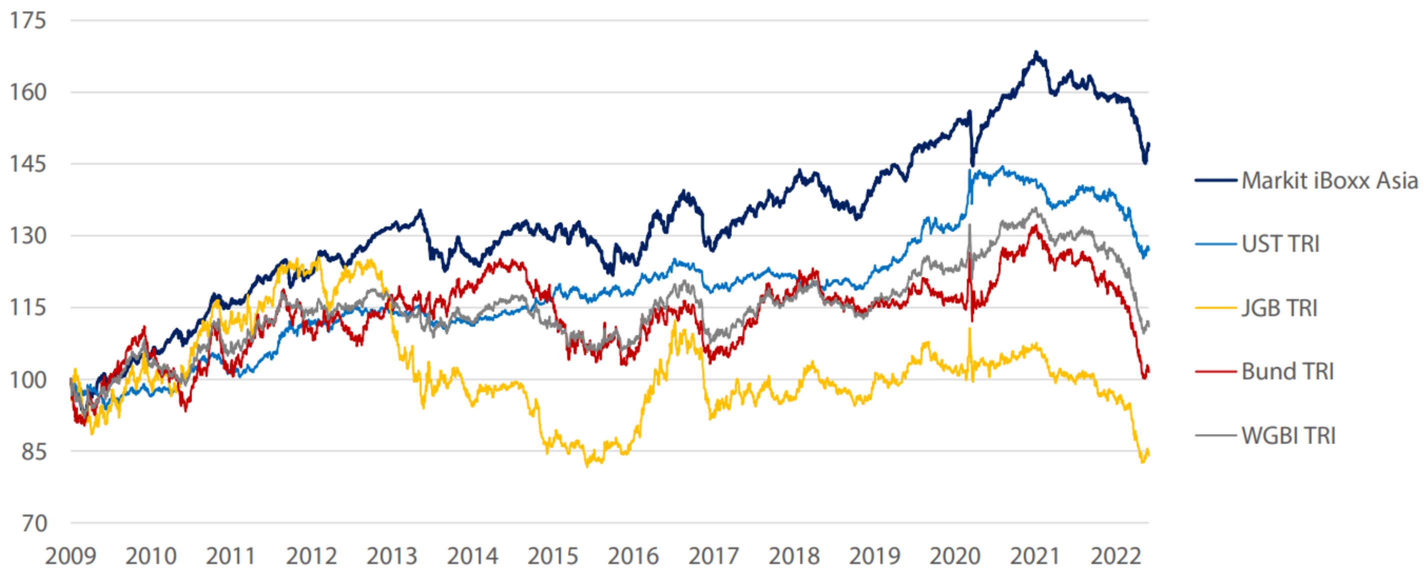
FX reserves in Thailand, India, China, US, Germany, Mexico, Poland are 2020 figures, and the rest are 2021 figures.
Source: World Bank, Bloomberg

Asia bonds have outperformed over the long term

Several factors support the outperformance by Asia bonds

The long-term performance of various global bond indices is shown in Chart 7. Since 2009, Asian bonds have outperformed USTs, Japanese government bonds (JGBs), German bunds and the World Government Bond Index (WGBI). The outperformance by Asia bonds can be attributed to several factors. As mentioned above, Asia offers robust fundamentals which have continued improving. Their outperformance is also a reflection of growing confidence shown towards the assets by foreign investors. The attractive yields Asia offers relative to other parts of the world is another significant reason.

Chart 7: Daily returns of global bonds January 2009 to May 2022 (1 Jan 2009=100, returns in USD terms)



* Asia Local Bonds = Markit iBoxx Asia Index, US Treasuries = Bloomberg US Treasury Index
* WGBI = FTSE World Global Bond Index, Bunds = Bloomberg German Government All Bonds
* JGB = Nomura BPI JGB Total Index
Source: Bloomberg and Markit as at June 2022

Asia bonds can improve a portfolio's Sharpe ratio, help investors diversify

By adding Asia bonds to a pure portfolio of USTs, JGBs, bunds and even global bonds (WGBI), the overall Sharpe ratio[2] actually improves. For example, the Sharpe ratio of 0.28 for a pure US Treasury portfolio increases to 0.55 when Asia bonds are added (Chart 8).

[2]Sharpe ratio measures an investment's risk-adjusted returns, calculated by comparing its return to that of a risk-free asset. A higher Sharpe ratio would imply a greater investment return relative to the risk adapted by the asset or portfolio.

Chart 8: 10 years to end-May 2022, daily returns, USD terms

	iBoxx Asia	UST		JGB		Bund		WGBI	
	iBoxx Asia	*UST 100/0*	*UST + Asia 50/50*	*JGB 100/0*	*JGB + Asia 50/50*	*Bund 100/0*	*Bund + Asia 50/50*	*WGBI 100/0*	*WGBI + Asia 50/50*
Ann. Ret	2.1%	1.1%	1.6%	-3.2%	-0.8%	-0.8%	0.6%	-0.4%	0.8%
Ann. Vol	4.4%	4.0%	3.0%	8.9%	5.3%	8.0%	5.0%	5.5%	4.0%
Sharpe Ratio	0.47	0.28	0.55	-0.36	-0.16	-0.10	0.13	-0.06	0.21

Source: Bloomberg and Markit as at end-May 2022

Asia bonds can also help investors looking to diversify their portfolios. The first column in Chart 9 shows the correlations between Asia bonds and their peers; Asia bonds have a relatively low correlation to other bonds and can therefore serve as a good asset class for diversification.

Chart 9: Correlations between Asia bonds and their peers

	iBoxx Asia	UST	WGBI	JGB	Bunds
iBoxx Asia	1				
UST	0.28	1			
WGBI	0.51	0.73	1		
JGB	0.34	0.61	0.8	1	
Bunds	0.44	0.49	0.9	0.6	1

Source: Bloomberg and Markit as at end-May 2022

Summary

We believe that the market has priced in most of the Fed's tightening; with UST yields facing less upward pressure in the second half of 2022 as inflation expectations could stabilise and as the global growth outlook may become less optimistic. Oil is a key risk, although it is worth noting that we have started to see a correction in commodity prices. Barring further escalation of geopolitical tensions or oil price spikes, we see US dollar strength dissipating and lending support to Asian currencies. Most of the inflation we are seeing in Asia is mostly supply-side driven, which are mainly related to food and energy prices with demand-side factors playing a relatively limited role. Within Asia, we see monetary policies that control inflation are starting to take divergent paths as compared to the rest of the world. This means there are opportunities in Asia for actively-managed bond strategies; most importantly, we believe that Asian government bond yields are looking attractive after the recent market adjustments.

Important Information

This document is purely for informational purposes only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. It should not be relied upon as financial advice. Any securities mentioned herein are for illustration purposes only and should not be construed as a recommendation for investment**. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you.** Investments in funds are not deposits in, obligations of, or guaranteed or insured by Nikko Asset Management Asia Limited ("Nikko AM Asia"). **Past performance or any prediction, projection or forecast is not indicative of future performance. Investments are subject to investment risks, including the possible loss of principal amount invested.**

Nikko Asset Management Asia Limited. Registration Number 198202562H.

nikko am
Nikko Asset Management

Pay Yourself First: How to Start Saving for Retirement

Author | Income insurance limited

With Singapore slumping into a recession (Source: CNA) last year, saving for retirement might be the last financial goal on your mind. However, setting money aside to ensure a comfortable retirement isn't an option - it's a must. The sooner you start, the more you'll have stashed away for your golden years.

That's because you're harnessing the power of compound interest. This is the process by which your savings grow exponentially over a long period of time, due to interest building up on itself year after year. When you start your retirement savings early, a small sum has more time to grow. The longer you put it off, the harder you'll have to work to build your nest's egg.

A poll done last year found that 60% of Singaporeans (Source: TODAY) are not ready for retirement. Even affluent Singaporeans are worried that they'll miss their retirement goals. Recession or not, you owe it to yourself to start securing a comfortable future for yourself.

Here's how to kickstart your retirement savings, even when the economy is bad.

Before anything else, build an emergency fund

Before you begin saving for retirement, make sure you have 3-6 months worth of living expenses in cash. The last thing you want is to get the ball rolling on your retirement fund, only to have to surrender it if a financial emergency happens.

Retirement savings are not designed to be emergency savings; they are long-term investments that grow year after year. Surrendering your plan early not only stops its long-term growth; it means losing all valuable benefits under the policy, such as death or disability care benefits.

So get started on your emergency fund first. In case the worst happens, this cash safety net will keep you afloat, while keeping your retirement savings safely growing.

Control your spending

Spending less than what you earn is the foundation of financial security. To achieve that, you need to control your spending. This means using your money to pay for things that are absolutely essential, such as your education loan, mortgage, or groceries, and cutting out the frills. This helps you funnel more cash into your emergency fund.

Once you have that covered, the extra cash can start going into retirement.

To do this, look at your spending from the last month, and identify your “non-essential” purchases.

These can include online shopping (let's be honest, those 8.8, 9.9, 10.10 sales can be very tempting!), food delivery or even indiscriminately splitting your tabs with friends on nights out, without looking into what you're actually paying for.

Other things to look at are your recurring subscriptions. See if you can cancel plans for services you rarely use, or if you can downsize your mobile phone plan.

The easiest way to control your spending is to eliminate purchases that were nice to have in good times but can go away during leaner times. You might feel uncomfortable giving these up at first, but remember that to plan for your retirement, you really need to put your (future) self first.

Start small

One common myth about retirement savings is that you need to stash away large amounts each month. However, even small amounts under $500 is a worthwhile start, especially if you're still in your 20s.

A 25-year-old who saves $100 per month, earning a lower rate of just 3% on the savings, could end up with more than $92,000 by the time he or she retires at the age of 65. A return of 5% would result in savings of more than $153,000.

Think of setting this money aside as "paying your future self first." The simplest way to do this is to get a retirement plan that allows you to save regularly.

Starting small helps set yourself up for success, and makes it easier for you to start building your retirement fund today. When you do it regularly enough, saving for retirement becomes a natural financial habit.

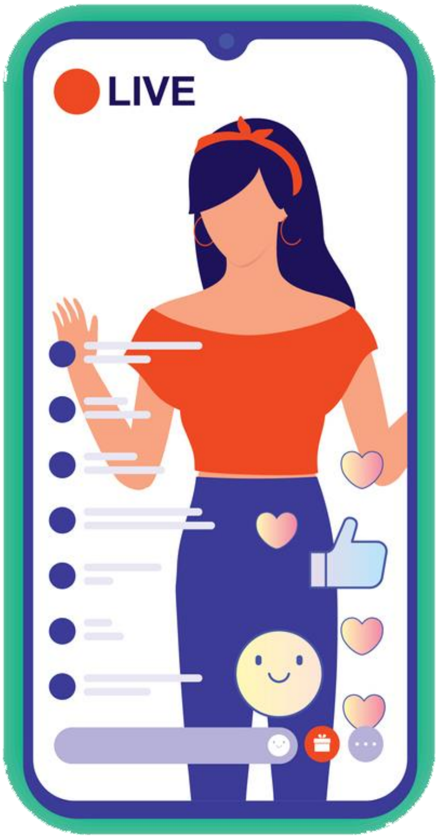
Find a side gig

If trimming your budget isn't giving you enough to save on, consider starting a side gig. The extra money you earn can go into your retirement fund or boost your emergency savings.

Look at your schedule and figure out how much time each week you can realistically devote to your side gig. From here, it's easier to see if you need something with flexible hours, or if you can commit to a gig with fixed hours. Working on your own terms might be more suitable with a full-time job.

If you want something that feels less like work and more like fun, consider monetising a hobby. If you play the guitar, you could offer guitar lessons. If you like to do graphic design, sign up to do freelance work on weekends. Be prepared to try different side gigs before you end up finding one that suits your schedule and interests.

Whatever you end up doing, make sure to save part, if not all, of your income from your side gig.



Your future self will thank you when you put your financial goals first today.

Working more and cutting back on expenses doesn't seem like a fun way to live. We'll be honest - it can feel frustrating to be unable to splurge. To keep the momentum going, remind yourself that everything you're doing today is a way of paying your future self.

Think of it this way: all the money you're stashing away will eventually be for your own benefit. You may not be able to spend as you wish today, but you'll have more security in the future. Your savings mean a cash safety net during emergencies, and a comfortable retirement whenever you decide to stop working.

So start saving today, and keep up your monthly savings habit for the benefit of your future self.

About Income

Income Insurance Limited (Income) is one of the leading composite insurers in Singapore, offering life, health and general insurance. Established in Singapore in 1970 to plug a social need for insurance, Income continues to serve the protection, savings and investment needs of individuals, families and businesses today. Its lifestyle-centric and data-driven approach to insurance and financial planning puts Income at the forefront of innovative solutions that empowers better financial well-being for all.

income made yours

PIAS Investment Outlook (Q4 2022)

Author | Tan Yong Feng, Investment Strategy, Partnership Management, Professional Investment Advisory Services Pte Ltd.

As the World Economic Forum's Chief Economists Outlook survey has remarked, the outlook for the global economy has "darkened" and the world is at a point of "significant economic danger". This pessimistic view of the world economy stems from several headwinds which fuelled an increasing risk of a global slowdown or even recession. The global economy has lost much of its strong growth momentum, palpable in the prior year 2021, since the start of the Russia-Ukraine war. High inflation coupled with the tightening economic climate and ongoing geopolitical conflict has put a brake on global growth. **With the world grappling with the balancing act of cooling rampant inflation while not limiting economic growth, the Organisation for Economic Co-operation and Development (OECD) has projected global growth to be 3.0% for the year 2022. (Chart A).**

As the Russia-Ukraine conflict intensifies with the partial mobilisation in Russia and the annexation of four regions in Ukraine, Europe faces an uphill task to curb inflation due to rising energy prices. The energy crisis in Europe had intensified following Russia's retaliatory cuts of gas supplies to the European region. The Euro Area inflation rate had surged to a record high of 10% in September, from August's 9.1% figure, reaching double-digits for the first time. Although Europe's exports may potentially be supported by a weaker euro and the gradual reopening of China, its domestic consumption will be affected by a hawkish ECB, with a recent 75 basis points hike in September. **As such, our view of the region remains slightly negative as we believe the geopolitical and inflationary crisis would not be resolved in the near term and any further escalation in the Russia-Ukraine war will intensify the energy crunch that Europe is currently facing.**

The US inflation figures remained stubbornly high in the third quarter, with core inflation increasing to 6.3% in August. This has led to the Fed aggressively raising the benchmark interest rate in an attempt to fend off inflation. A third successive 75 basis point interest rate hike was introduced in the September FOMC meeting, with two more increases on the table in the last quarter of the year. The impact of the Fed's hawkish tone and aggressive tightening had sent market indices into corrections and recessionary fears to grow. Although the US economy faces challenges with the tightening climate, **we maintain our neutral views on the US region as bright spots such as its robust labour market, strong corporate finances and consumer demand will continue to support the region.**

OECD Interim Economic Outlook GDP projections September 2022 (Chart A)

Table 1. **OECD Interim Economic Outlook GDP projections September 2022**

Real GDP growth, year-on-year, per cent

	2021	2022		2023	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	5.8	3.0	0.0	2.2	-0.6
G20[1]	6.2	2.8	-0.1	2.2	-0.6
Australia	4.9	4.1	-0.1	2.0	-0.5
Canada	4.5	3.4	-0.4	1.5	-1.1
Euro area	5.2	3.1	0.5	0.3	-1.3
Germany	2.6	1.2	-0.7	-0.7	-2.4
France	6.8	2.6	0.2	0.6	-0.8
Italy	6.6	3.4	0.9	0.4	-0.8
Spain[2]	5.5	4.4	0.3	1.5	-0.7
Japan	1.7	1.6	-0.1	1.4	-0.4
Korea	4.1	2.8	0.1	2.2	-0.3
Mexico	4.8	2.1	0.2	1.5	-0.6
Türkiye	11.0	5.4	1.7	3.0	0.0
United Kingdom	7.4	3.4	-0.2	0.0	0.0
United States	5.7	1.5	-1.0	0.5	-0.7
Argentina	10.4	3.6	0.0	0.4	-1.5
Brazil	4.9	2.5	1.9	0.8	-0.4
China	8.1	3.2	-1.2	4.7	-0.2
India[3]	8.7	6.9	0.0	5.7	-0.5
Indonesia	3.7	5.0	0.3	4.8	0.1
Russia	4.7	-5.5	4.5	-4.5	-0.4
Saudi Arabia	3.4	9.9	2.1	6.0	-3.0
South Africa	4.9	1.7	-0.1	1.1	-0.2

Source | OECD, Sept 2022

With China's slowing domestic consumption and zero-covid policy bringing forth several lockdowns in major cities, **China's GDP Growth target of 5.5% for the year 2022 seems increasingly more unattainable.** OECD's economic outlook has put China's Real GDP growth projections for 2022 at 3.2%, a considerable gap compared to China's targeted growth **(Chart A).** Nevertheless, **our views on China remain neutral as a comparatively lower inflationary environment in China had allowed China to maintain its dovish stance of accommodative monetary and fiscal policy, which would serve to support China's economic growth.** However, we are still cautious about the real estate sector in China as credit stress lingers, even though regulators have stepped in to ease funding stress to contain any potential fallout.

As we recognise that the economic climate has darkened due to geopolitical challenges and accelerated economic tightening, we will expect much more muted growth in the final quarter of 2022 compared to the previous year. We believe that geopolitical tension will continue to persist and major central banks will remain in tightening mode until the end of the year. **Therefore, we can expect market volatility to persist, as such, we encourage investors to stay invested in a well-diversified portfolio and focus on downside management to tide through this volatile period.**

YOUR PRIVACY

Your privacy is important to us. If you do not wish to receive information of this kind in the future, please contact your adviser.

DISCLAIMER

The views expressed in this presentation reflect the views of the Professional Investment Advisory Services Pte Ltd (“PIAS”). The information provided herein is intended for general circulation and are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use will be contrary to local law or regulation. This presentation may not be copied, either in whole or in part, or distributed to any other person without our specific prior consent. PIAS and its affiliates, directors, associates, connected parties, employees and/or Representatives may own or have an interest in the securities covered in this material. PIAS does not make any representation or warranty (express or implied) as to its accuracy, completeness, timeliness or correctness for any particular purpose.

The content in this presentation may consist of the past performances of markets, sectors and funds. These are provided for reference only and do not have regard to the specific investment objectives, financial situation or the particular needs of any recipient. Henceforth, the contents shall not be construed as an offer or solicitation to buy, sell or subscribe for any investment or life insurance product or the giving of advice thereof. Accordingly, no warranty whatsoever is given and no liability whatsoever will be accepted by PIAS for any loss arising whether directly or indirectly as a result from you acting based on this information.

All investments, past performance of the mentioned collective investment schemes and life insurance policies and any projection of the economies, stock markets, bond markets and the economic trends of the markets are not necessarily indicative of the future performance. All investments, collective investment schemes and life insurance policies are subject to investment risks, including the possible loss of the principal amount invested. Opinions and estimates are subject to change without notice. You are advised to read very carefully the applicable prospectus, product highlight sheet and/ or profile statement of the collective investment schemes, as well as the applicable product summary, benefit illustration and product highlight sheet in respect of the life policies. To the maximum extent permitted by law, PIAS accepts no liability for any losses or damages (including direct, special, indirect, consequential, incidental or loss of profits) if any kind arising from or in connection with any reliance and/or use of the information (including any error, omission or misstatement, negligent or otherwise) or further communication, even if PIAS has been advised of the possibility thereof.

Please seek advice from a Financial Adviser Representative or consult a professional regarding the suitability of the investment product, taking into account your specific investment objectives, financial situation or particular needs, before making a commitment to purchase the investment product. In the event that you choose not to seek advice from a Financial Adviser Representative or a professional, you should consider whether the product in question is suitable for you.

This advertisement has not been reviewed by the Monetary Authority of Singapore.

Co. Reg. No. 2001063462 | Financial Advisory Licence No. FA000008-4

Head Office
6 Shenton Way, OUE Downtown 2,
#09-08, Singapore 068809

T: +65 6372 5700
F: +65 6372 5950
E: pias.enquiry@singlife.com
W: www.proinvest.com.sg

PIAS
PROFESSIONAL INVESTMENT ADVISORY SERVICES