QUARTELY CLIENT
NEWSLETTER

THE PIAS QUARTERLY

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Stay informed and empowered with The PIAS Quarterly. Your essential guide to invaluable financial insights.

The curated newsletter features client-focused articles that provide knowledge and inspiration, whether you are seeking professional financial guidance or looking to address personal financial circumstances.

The PIAS Quarterly covers a range of topics from well-known and trusted finance organisations, ensuring you stay ahead of the curve.

INSIDE THIS ISSUE

SECURING YOUR CHILD'S EDUCATIONAL FUTURE: **A GUIDE ON HOW TO START**

Income Insurance Limited

Planning for your child's education is stressful. In *Singapore* the mere thought of it is enough to give some of us a mild panic attack.

That's why we're here to help make things as stress-free as possible.

As a parent or parent-to-be, planning out your child's educational future is essential to ensuring your finances are healthy even when it's time to fork out large sums of money for your child's tertiary education.

Not sure where to start, or what to think about when making these plans? Don't worry, we'll guide you through taking that first step (and subsequent ones) to ensure you're more than ready to meet your child's educational needs in the future.

Think About Your Own Financial Protection First

Wait, aren't we talking about providing for your child's future education? Why is it about you now? This can seem a little counter-intuitive, but do hear us out.

As parents with dependants, your own financial well-being is key to managing your family's finances. Should anything happen, such as unexpected medical expenses or financial instability from losing a job, then your means of supporting your family can be significantly impacted.

So while your child's education is undoubtedly important, it's essential to first have a "backup" for yourself, so your finances and savings are protected from unexpected hiccups.

Manage The Spending on Your Child

One thing that parents often overlook is their current spending on their children with regards to tuition and extra-curricular lessons. While providing your child with the very best is ideal, it must be balanced out by whether it makes financial sense in the long term.

Do weigh out the costs of different tuition centres, and also manage the number of extra-curricular activities your child attends to ensure you have enough saved for their future in addition to cover your family's daily expenses.

The Importance of Early Planning

Education is costly, and expenses are expected to rise in the future, at the very least due to inflation.

So, while it may seem like it's 15 years too early to be planning for your child's university education, starting early and preparing yourself for the future outlay will take away a lot of pain when the time comes.

Let's do some simple calculations to illustrate this.

If a local university course costs S$40,000, then saving early with a monthly outlay of S$300 at an interest earning rate of 4% annually, for 15 years, can potentially cover most of the cost of 2 children's education.

Year 1: S$300 x 12 months x 1.04 = S$3,744

Year 2: (S$300 x 12 months + S$3,744) x 1.04 = S$7,637.76

Year 15: If we continue these calculations, you'll end up with an amount of **S$74,968.31.**

In comparison, if you start 5 years later and save at the same rate for a period of 10 years, then you'll only have **S$44,950.87** at the end of the term, which might only be able to cover 1 child's education.

How To Start Planning and Working Out Your Savings Gaps

Scoping out the possible education paths and costs

While your child is a long way from their tertiary education, it's always good to have a vision in mind to start your planning, whether it's studying abroad or locally.

Normally, an overseas education is what will drain your finances if you're unprepared. If the time comes where your child wishes to apply for overseas universities, you would not want finances to stand in the way of your child's goals. As a first step, search online for the approximate cost of tuition fees in popular countries such as Australia, the UK, and the United States. Remember to also factor in costs for accommodation, insurance, and living expenses. However, do bear in mind that such figures are subjected to inflation till the time your child enters tertiary education.

Whereas for those who prefer tertiary institutions in Singapore, costs could differ depending on whether you choose a local or private university – do check out current and previous years' course fees as an estimate. Following which, take a prudent estimate of annual inflation rate, to calculate how much your preferred course might cost by the time your child enters university.

To conveniently calculate your savings milestones, you can consider using this Savings Calculator[1]. In just 1 minute, you will be able to find out how much you can accumulate, or how much you need to save to reach your goal.

Evaluate your saving options to reach your savings goal

Once you work out approximately how much you need, evaluate your savings options to understand the gap you have. You can then easily work out how much you'll need from an insurance savings plan to send your child to an overseas university. Uncertain about saving so much only to *not* need it for your child's education down the road? No worries, at least you know you'll still be able to use this saved up sum of money elsewhere, or even reinvest the maturity proceeds.

Choosing The Right Insurance Savings Plan

Now that you have a figure in mind, it's time to find the right insurance savings plan for you.

Insurance savings plans, also known as endowment plans, are designed to offer both protection benefits and savings. This means that such plans not only include a life protection component, but are also able to accumulate a cash value over time.

A crucial consideration in all of this is your risk appetite. If you're not looking at a high-risk investment or it's your first time dipping your toes into investing, then a good place to start could be a plan with guaranteed capital upon maturity to provide peace of mind. This means that you can get back at least all of the premiums that you have paid once the plan matures, which makes such plans an ideal low-risk option for your child's education savings.

There is also the flexibility of how long you wish to pay for your premiums, and the subsequent number of years of your policy term. This will depend on your own lifestyle and financial situation and goals.

To maximise the benefits of your insurance savings plan, consider the following pointers:

1. Explore additional riders — depending on your needs, consider adding riders to enhance the coverage of your policy.
2. Start early — This is something we've mentioned above, and we can't stress how important it is to allow more time for your money to grow through compounding.
3. Review regularly — Review and adjust your insurance savings plans periodically with your advisor, as life circumstances and financial priorities may change.

Time is of the essence - kickstart your savings journey today to set aside a comfortable sum for your child's education.

About Income Insurance Limited (Income Insurance)

Income Insurance Limited (Income Insurance) is one of the leading composite insurers in Singapore, offering life, health and general insurance. Established in Singapore to plug a social need for insurance in 1970, Income Insurance continues to put people first by serving the protection, savings and investment needs of individuals, families and businesses today.

For more information, please visit www.income.com.sg

Important Notes

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Income Insurance is not responsible to any party for this article. You should seek financial advice from a qualified advisor if in doubt. Buying insurance that are not suitable for you may impact your ability to finance your future insurance needs.

[1] This savings calculator is for educational and illustrative purposes only. We strongly encourage you to speak to a qualified advisor if you require any professional advice.

STEP UP FROM CASH-ONLY TO **CASH++**

How to keep ahead of falling interest rates, without taking on too much risk

Yields are falling

Interest rates around the world are expected to fall over the next two years. In the US, UOB Asset Management believes interest rates will ease gradually from its current 5.25 – 5.50 percent range, and will bottom at around 3.0 – 3.5 percent over the long term.

Singapore is not immune to this trend. Although the 1-month SORA (Singapore Overnight Rate Average) currently stands at around 3.5 – 3.6 percent, ie still well above 1.0 – 2.0 percent rates seen in the three years pre-Covid, and the 0.25 – 0.50 percent immediately post-Covid, this will likely weaken once the US cuts its rates.

The appeal of high-yielding investments

Anticipating this, Singapore banks have already started to ease their fixed deposit (FD) rates to around 2.5 percent averaged across the three largest Singapore banks. Understandably, those who remember where interest rates were in the late-1990s and early-2020s will still find this to be very attractive.

However, in today's environment, other interest-paying instruments are paying up to three times higher in yields, as shown below. And when US interest rates start to fall, likely in the second half of 2024, we can expect these instruments to also deliver good capital appreciation. This means the disparity between cash and low-risk investment returns is set to increase further.

Figure 1: Solutions that provide higher income than fixed deposits

Source: UOBAM/Bloomberg, as of 13 June 2024. Cash Plus solution: Projected rate net of fees based on a portfolio holding a Money Market Fund and Enhanced Liquidity Fund. Short maturity bonds: ICE BofA 1 -3 year Global Broad Market Index. High yield bonds: ICE BofA All Maturity Global High Yield Index.

Fixed deposit yield based on the average rate offered by Singapore's local banks for a 12-month placement of S$100,000 (DBS: 3.2%, OCBC: 2.8%, UOB: 1.5%), as of 20 June 2024.

How to step up your returns?

As a result, many savers are already on the hunt for higher yields and ready to diversify away from cash, but in a gradual and controlled way. To enjoy a step up in returns without a big step up in risk, here are three options to consider:

Step Up 1: Very low-risk cash-plus solutions

Cash plus solutions currently offer yields of around 3.7 percent, that is, more than 1 percent higher than average FD rates. Despite this, they are deemed to be very low risk given that they hold very short-term (less than 1 year), high-quality assets such as Treasury bills (T-bills), very short duration bonds and fixed deposits. Many also offer the added benefit of daily liquidity.

Step Up 2: Low-risk short maturity bond solutions

Such solutions are based on slightly longer duration bonds (1 – 3 years), and are therefore able to pay yields of about 4.2 percent on average. This is because they are able to lock in current yields for some time and can benefit from price rises when rates fall. Plus, because these solutions typically hold high quality government and corporate bonds, their returns tend to be stable with very few negative years.

Step Up 3: Medium-risk high yield bond solutions

High yield bond solutions invest in corporate and government bonds with credit ratings of below BBB-. Due to their lower quality, such solutions are able to offer about 8.0 percent yield, and have capital appreciation potential. Given forecasts of better corporate earnings, the corporate default rate has fallen significantly to an estimated 4.5 percent from 16.8 percent in 2020. With the MAS expecting Singapore inflation to average 3.0 percent this year, these solutions offer substantial *real* income, that is, income net of inflation.

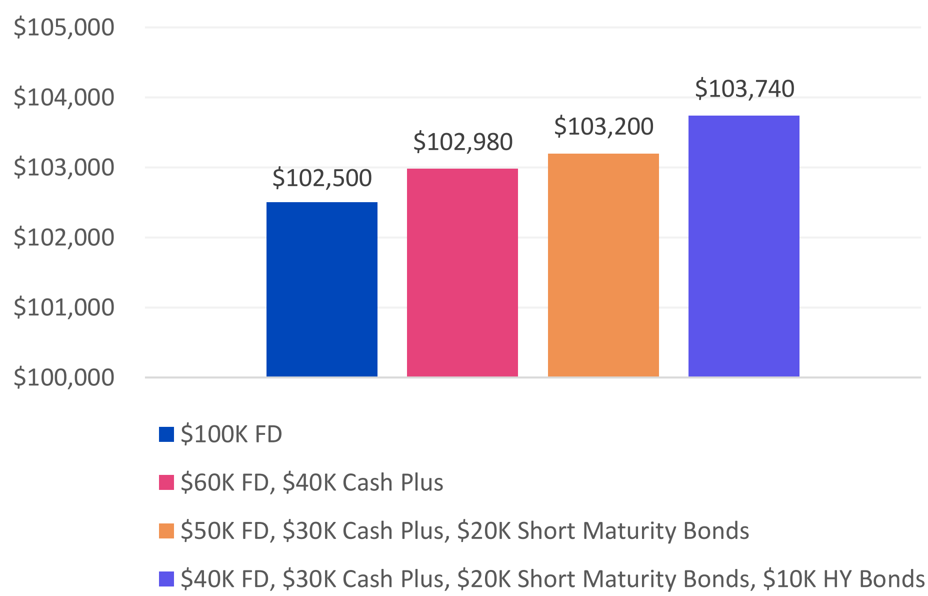
How much to invest?

Many people are cautious about the percentage they should hold in cash versus investments. An adequate amount of cash is necessary to deal with regular expenses as well as unforeseen events. So how much more can you achieve by investing in cash++ solutions?

Figure 2: 1-year growth of $100,000 allocated to different instruments

Source: UOBAM/Bloomberg, as of 13 June 2024. Cash Plus solution: Projected rate net of fees based on a portfolio holding a Money Market Fund and Enhanced Liquidity Fund. Short maturity bonds: ICE BofA 1-3 year Global Broad Market Index. High yield bonds: ICE BofA All Maturity Global High Yield Index.

Fixed deposit yield based on the average rate offered by Singapore's local banks for a 12-month placement of S$100,000 (DBS: 3.2%, OCBC: 2.8%, UOB: 1.5%), as of 20 June 2024.



Let's assume you have **S$100,000** in savings. If you put all of this in a 12-month FD, and based on a **2.5 percent**[1] per annum FD rate, you can expect to earn **S$2,500** per annum. But what if you put some of this in a portfolio of lower risk investments?

To give you an idea, here are three different portfolio options assuming that you still retain **US$40,00** -**S$60,000** of your savings in FDs. Our calculations show that you stand to receive between **S$480** and **S$1,240** more than your FDs per annum.

This suggests that by diversifying a cash-only portfolio, and without taking on high equity-like risks, it is possible to passively, and yet substantially, increase your annual income.

[1] Based on the average FD rate offered by Singapore's local banks (DBS: 3.2%, OCBC: 2.8%, UOB: 1.5%), as of 20 June 2024

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UOB Asset Management

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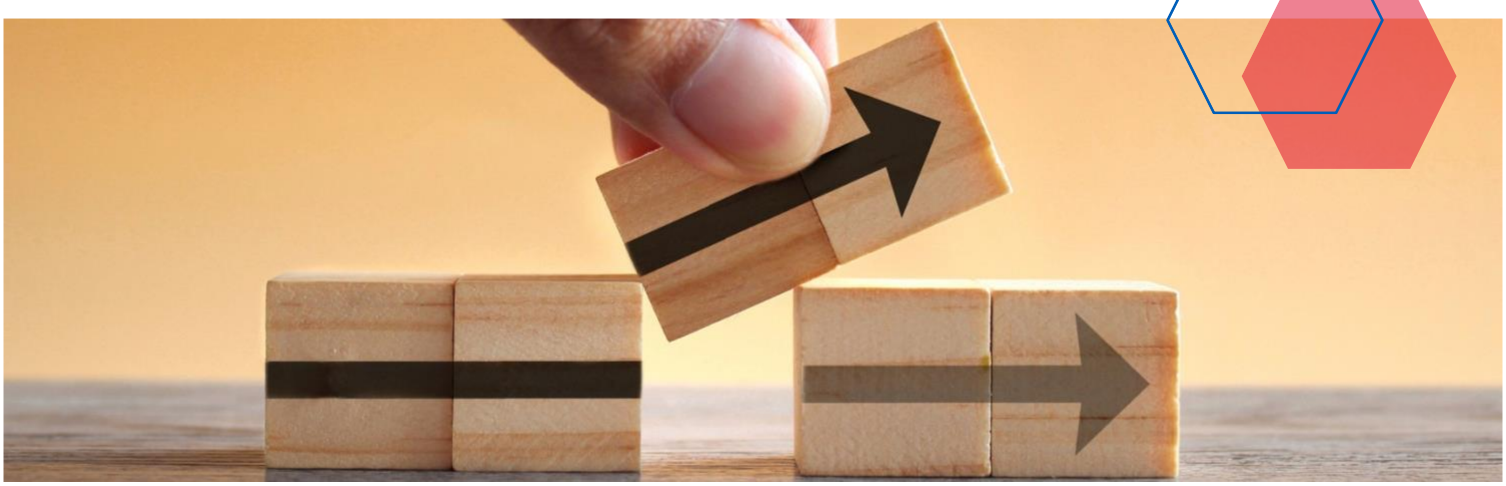
For more information, please visit: https://www.uobam.com.sg/about-us/index.page



PIAS INVESTMENT OUTLOOK (Q3 2024)

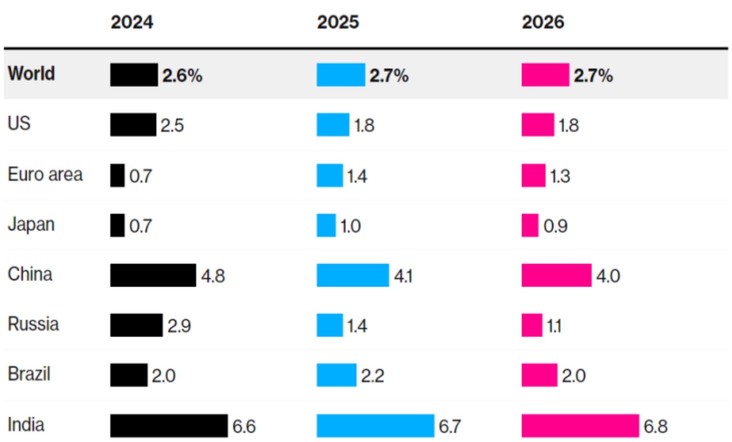
Author | Investment, Product Management | PIAS
Source | Bloomberg, World Bank Global Economic Prospects, June 2024 & HSBC, Bloomberg, June 2024

- The global economy is in a phase of growth and stabilization. After demonstrating resilience in early 2024, the global economy continues to show signs of strengthening and is poised for growth through the second half of 2024. Economic activities have remained robust this year, supported by a healthier equilibrium in labour markets and consumer demand. **The World Bank has revised its global economic forecast, projecting a 2.6% expansion for this year, driven by sustained growth in the US (Chart A). The global economy and the US economy have demonstrated unexpected resilience despite the implementation of high interest rates by the Federal Reserve and other central banks.** In the US, despite ongoing challenges such as inflation, reduction in pandemic savings, and elevated interest rates, it has demonstrated resilience in the first half of 2024, driven by robust consumer spending. **Notably, investment spending has remained strong despite higher interest rates, supported by healthy corporate balance sheets, government incentives, and increased demand for AI technology. Strong economic fundamentals, solid corporate earnings, and optimism regarding potential interest rate cut(s) by the Federal Reserve later in the year are also likely to sustain positive sentiment. Therefore, we maintain a cautiously optimistic outlook on US equities.**

- China, the world's second-largest economy after the US, is currently grappling with challenges such as its troubled real estate market and subdued consumer confidence. As a result, the Chinese economy is forecasted by the World Bank to slow down to a growth rate of 4.8% this year, down from 5.2% in 2023 (**Chart A**). Although China's NBS Manufacturing and Non-Manufacturing PMI in May was below expectations, the Caixin Manufacturing and Services PMI surpassed the estimates due to growth in new business and export orders. Amidst the challenges, the Chinese GDP exceeded expectations in Q1, boosted by supportive measures from Beijing. Moreover, unemployment remained stable at 5% in April and May, with a slight decrease in the Youth Unemployment Rate to 14.7% in April. **Nevertheless, we believe that the ongoing trade wars, such as US restrictions on chip shipments and increased tariffs on Chinese imports in May, and the EU's plan to raise tariffs on Chinese electric vehicles in July to counter subsidies, could further hinder China's economic progress in the coming quarters. As such, we maintain our neutral view of China.** In Q2 2024, India's equity market has shown continued growth. India's Manufacturing PMI remained positive throughout Q2, rebounding to 58.5 in June after a minor decline in May due to heatwave-related disruptions in work hours (**Chart B**). The Services PMI surpassed expectations in June, rising to 60.4 from 60.2 in May, driven by increased new export orders in both manufacturing and service sectors (**Chart B**). **Looking ahead, we maintain our slight optimism in our view about India due to its favourable business prospects anticipated for the next quarter.**

- The European Central Bank initiated its first 25 basis point rate cut during its June meeting, leading the way among developed market central banks. On the inflation front, May's reading showed a slight increase to 2.6% from April's 2.4% and the PMI reading of Europe disappointed expectations by declining to 50.8 in June, signalling only a slight expansion in the Eurozone. **Despite having initiated its first interest rate cut, with the ongoing French political uncertainty, coupled with a trade dispute between the EU and China, we maintain our Neutral outlook on Europe.** In Japan, the depreciation of the yen has dampened sentiment among foreign investors despite a strong performance of Japanese equities in the first half of 2024, driven by economic reflation, accommodative policies, and corporate reforms. The falling yen has also pushed up the costs of imports and impacted consumer spending with the economic growth projected to slow down to 0.7% this year, according to the World Bank (**Chart A**). **As a result, we have revised our outlook from Slight Positive to Neutral for Japanese equities. Nonetheless, we believe that the Japanese market is still expected to find support from the BoJ's accommodative stance amidst fragile economic growth and ongoing TSE reforms aimed at enhancing shareholder returns.**

- **Although we do see positive developments, we remain cautious about the upcoming quarter due to factors such as geopolitical tensions alongside persistently high inflation and interest rates. Nevertheless, proactive policies and ongoing reforms are expected to provide investors with reasons for optimism during the 3rd quarter of 2024.**



World Bank Global Growth Outlook for 2024 (Chart A)
Source: Bloomberg, World Bank Global Economic Prospects, June 2024

India's Services and Manufacturing PMI (Chart B)
Source: HSBC, Bloomberg, June 2024

About PIAS

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Established in 2001 and licensed by the Monetary Authority of Singapore, PIAS is a multi-award winning financial advisory firm in Singapore.

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Vision, Mission and Values

Vision

To be Singapore's leading and respected financial services brand and be recognised as the 'preferred and chosen' partner – for our clients, advisers, product providers and the community.

Mission

To be the financial life partner of our clients, delivering quality financial advice and solutions that are tailored to the needs of our clients. To provide the framework and support for our advisers to allow them to build rewarding and sustainable businesses.

Values

These are the values that guide us as we pursue our vision and perform our mission. These values are described by the acronym PIAS itself.

Professionalism
Setting the professional standard f o financial advice in Singapore.

Integrity
Doing the right things.

Accountability
Taking ownership.

Synergy
Capitalising on our individual abilities to achieve a shared organizational goals and visions.

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