QUARTELY CLIENT
NEWSLETTER

THE PIAS QUARTERLY

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INSIDE THIS ISSUE

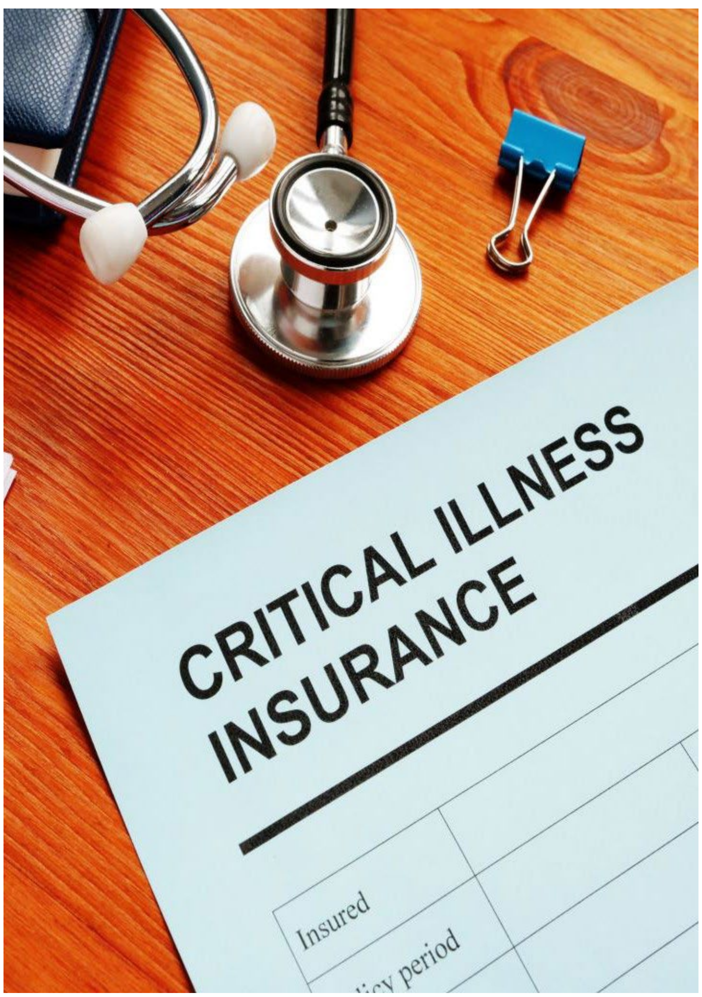
HOW CAN I BE PROTECTED AGAINST CRITICAL ILLNESSES?

China Taiping Insurance (Singapore) Pte. Ltd. ("CTPIS")

Many people believe that wealth comes in the form of fame or fortune, while others advocate that true wealth is being healthy in both mind and body. Although both claims are true, the latter is arguably better if you wish to lead a long and happy life and live it to the fullest. But despite our best efforts to stay fit and eat healthily, life's unpredictability means that it could throw us a curveball in the way of critical illnesses at a moment's notice.

You may not have been afflicted with any sort of serious illnesses, hence that is why the thought of getting medical insurance has never crossed your mind. However, believing that you will always stay in the best of health is not a prudent assumption, especially when our bodies are only set to grow older and more vulnerable to diseases by the day.

Below, we cover some of the critical illnesses that Singaporeans may face in their lifetime and how having an insurance plan with critical illnesses coverage helps protect them and their loved ones' future.



Five Common Major Illnesses in Singapore

Several major illnesses affect many Singaporeans each year, often leading to loss of life. According to the Ministry of Health's statistics on the Principal Causes of Death in Singapore, the following five most common critical illnesses make up more than half of the total number of deaths:

- Cancer
- Ischaemic heart diseases (including severe heart attacks)
- Pneumonia
- Cerebrovascular diseases (including stroke)
- External causes of morbidity and mortality

(Source: https://www.moh.gov.sg/resources-statistics/singapore-health-facts/principal-causes-of-death)

Why Do We Need Critical Illness Coverage?

Critical illness insurance is essentially a form of protection against major illnesses such as Cancer, Stroke etc. This coverage, in most cases, is the only thing that stands between you and financial ruin, given that getting treatment for any of the five critical illnesses above will generally incur an exorbitant cost that not everyone can afford nor is covered in any standard health insurance plans.

By having this critical illness coverage, you can have peace of mind knowing that you or your family will not be heavily burdened financially in such circumstances. The lump sum payout benefit allows one to seek medical treatment and also supports one’s daily living expenses since one may not be able to continue working and earn a steady income while getting treatment and recovering from the illness.

Protecting Yourself with Insurance Coverage

In whole life insurance plans, age is the most crucial factor in determining the premium for your coverage. The younger you are, the lower your premiums will be.

Buying insurance while you are young enables you to benefit from a lower premium as age is a key factor when it comes to Critical Illnesses insurance charges. Moreover, no one is sure when their health condition may change. At any given moment, one may be diagnosed with a disease regardless of their age or how seemingly healthy they appear to be. When this happens, they will be at risk of being excluded from certain coverage or even be wholly uninsurable in the worst-case scenario. Thus, it is wise to get protected while you are young and healthy. Get ahead of any potential conditions and stay on top of knowing your health status with regular health check-ups.

Critical illnesses coverage is available either as a standalone plan or as an optional rider in whole life insurance and term insurance plans.

Conclusion

Health is wealth, and it is always in our best interests to secure our well-being today and in the future. By getting critical illnesses coverage on top of regular health insurance, you can rest assured that no matter what hurdles life may throw at you, you have sufficient protection to overcome them all. If you’re interested in learning more, please consult and speak to your trusted financial advisor today.

About China Taiping Insurance (Singapore) Pte. Ltd.

China Taiping Insurance (Singapore) Pte. Ltd. ("CTPIS") is a leading insurer for both life and general insurance businesses.

As a one-stop financial solutions provider with a globally recognized financial standing, we have been assuring our customers in Singapore with financial peace of mind for 85 years.

More info : www.sg.cntaiping.com

PROSPECT OF RECESSION POINTS TOWARDS **NEW MIX OF ASSETS**

Finding portfolio balance will be paramount for investors amid changing economic environment

By Justin Simler, Global Head of Multi-Asset Solutions and Alternative Investment Solutions, abrdn

For two decades, traditional balanced portfolios investing 60% in global equities and 40% in global bonds performed well to defy regular forecasts of their imminent demise.

These bellwether strategies beat moderate allocation funds [1] with an equity weighting of 40-65% net of fees in 18 out of 21 years up to 2022. [2]

Only in 2005, 2009 and 2022 did the moderate allocation sector trump 60:40 funds, which equates to outperforming just 14% of the time – a noteworthy drop from 70% outperformance for moderate allocation in the previous decade (see table).

For the ten years up until 2002, the moderate allocation sector had outperformed the 60/40 funds 70% of the time.

Period	Moderate allocation	60:40 portfolio	Outperformance
1992-2002	6.20%	7.30%	70%
2002-2022	3.60%	5.50%	14%

Source: abrdn, Morningstar 2023.

What characterised the period from 2002 to 2022 was negative correlation between equities and bonds. That meant that even in periods of extreme equity market stress, bonds helped to offset losses for 60:40 portfolios.

However, high inflation – something not seen for most of the past 20 years – has resulted in a sharp change in correlations between equities and bonds which reduced the diversification benefits in 2022.

Now it is for investors to determine whether 2022 was an aberration or if the increased correlation between equities and bonds is likely to continue.

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[1] We use USD Moderate Allocation Morningstar Sector return, which is the equal-weighted return of funds in the sector, to show the return of funds vs 60:40.

[2] Analysis by abrdn, Morningstar of 1992-2002 and 2002-2022.

Although 60:40 portfolios could perform better over the longer term, we see three reasons to believe this trend reversal will persist in the short term and why 60:40 portfolios could continue to underperform genuinely diversified strategies with flexible asset allocation:

1. The macro-economic environment is changing.
2. Equity and bond indices are increasingly concentrated.
3. A regime change could mean the correlation between equities and bonds is less predictable from now on.

Macro Environment

Our economists believe the global economy is transitioning from overheating to contraction. Growth is resilient but starting to plateau, while inflation is high but starting to fall. Central banks in many developed markets remain hawkish but may pivot to a more neutral stance over the medium term.

However, the transition is taking longer than expected and asset classes are out of step with one another – bond yields and interest rates remain high to combat inflation, while equities are already pricing in a benign growth outlook.

Difficulty in identifying the timing of this transition and how asset classes will react makes this a challenging time for investors.

The US Federal Reserve (Fed) has raised rates 500 basis points since the start of 2022, making this the strongest tightening cycle in 30 years, and our economists anticipate one or two more rises.

But it takes time for policy tightening to work through the system and slow the economy. We believe the transition from overheating to contraction will be delayed, but not avoided.

At some point in the first half of next year we expect the US and global economy to show definitive signs of recession as the impact of high rates takes its toll on growth and earnings.

While 60:40 funds might be able deliver reasonable returns over the long term, their returns over the short term are highly dependent on how quickly inflation falls and the impact this has on growth. In a recession scenario, we estimate that a hedged 60:40 portfolio would return -9.68% over 12 months (see table).

With an improvement in US productivity and a better-functioning jobs market, it's possible the Fed could slow growth and tame inflation without causing a recession. In this 'Goldilocks' scenario, which would be good for equities and bonds, we estimate a hedged 60:40 portfolio would return 6.6% over a 12-month period.

But in a scenario where high inflation remains sticky in the coming months, the Fed would likely be compelled to tighten policy more strongly than forecast. In this case we estimate a hedged 60:40 portfolio would return -13.9% over the same time period.

Scenarios	Performance of 60:40 portfolio
Recession	-9.68%
Goldilocks	6.62%
Sticky inflation	-13.91%

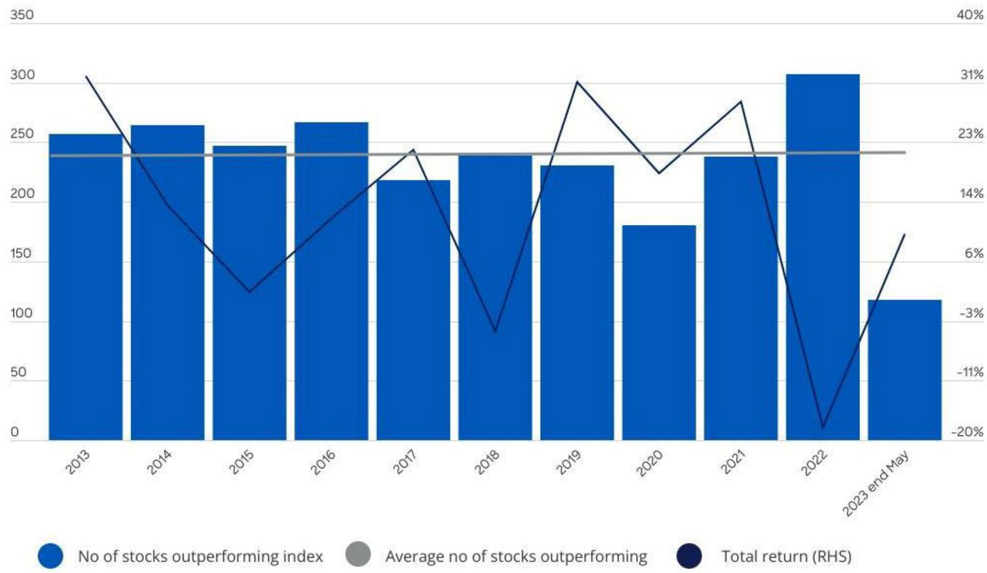
Source: abrdn, 31 May 2023. Portfolio is 60% MSCI World and 40% Global Aggregate, both hedged to USD. Projections are based on certain assumptions. They are not guaranteed and actual events or results may differ materially.

Whichever scenario plays out, the narrowness of the path ahead for a 60:40 strategy over the next 12 months – or indeed any balanced funds that are not genuinely diversified and flexible – will likely be a cause for concern for investors.

Concentration Risk

Increasingly, the S&P500 Index is being driven by the returns of mega-cap technology stocks, highlighting how the performance of equity markets particularly in the US has become more concentrated and less diversified.

Over the decade to 2022, some 245 stocks outperformed the mean on the S&P500 Index. But this year to end-May, only 118 stocks outperformed the index and the top 10 contributors provided 108% of overall performance (see chart). It means a very small number of stocks have become responsible for driving performance.

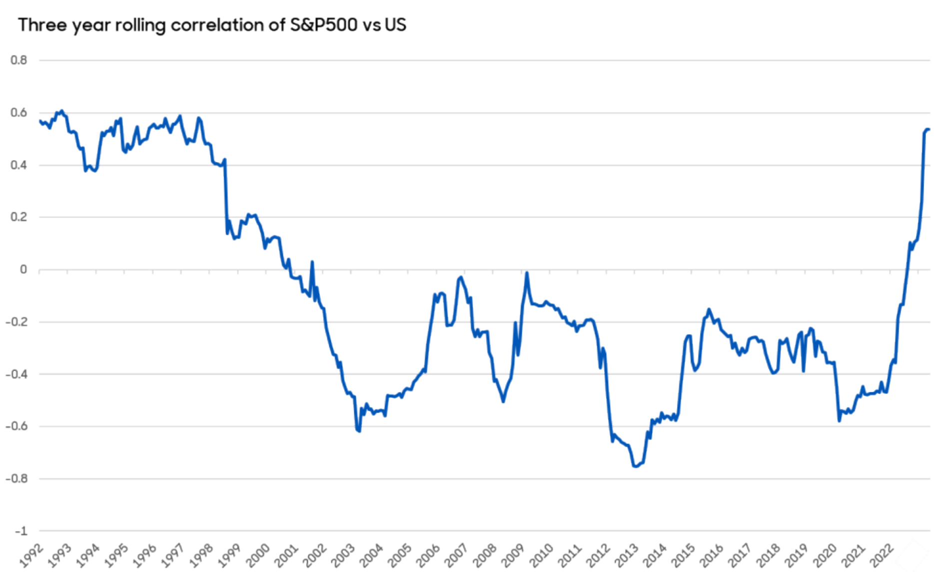


Source: abrdn, Factset, 31 May 2023.

While index performance could broaden out, it's also quite possible that it remains highly concentrated, making it especially hard for equity investors to diversify their equity risk.

A change of regime leading to a correlation breakdown

We've seen a major increase in correlation between bonds and equities in the US over the past few years (see chart). This has implications for a 60:40 portfolio, which traditionally relied on negative correlation for diversification and returns in a deflationary world.



Source: abrdn, Refinitiv, May 2023.

Under today's economic environment, neither the growth of equities nor the historically defensive role of bonds are as assured as they were, in our view.

Global markets are only just emerging from a policy regime that began under former Fed chairman Paul Volker and ex-US President Ronald Reagan – characterised by inflation-fighting conservatism amid a backdrop of rising globalisation and deregulation. This led to deflation, low interest rates and booming markets.

But the inflation crisis of the past two years caught most central bankers by surprise. Primarily it was caused by prolonged stimuli to counteract the Covid19 pandemic, supply-chain disruption and the rebound in demand for goods and services. It was exacerbated by Russia's invasion of Ukraine that sent energy prices rocketing.

While we expect inflation to ease and interest rates to decline eventually, it's not necessarily the case that the era of ultra-low inflation and low interest rates will return anytime soon. The globalisation that propelled the global economy for two decades once China joined the World Trade Organisation in 2001 has been replaced by greater domestic market protectionism.

Offshoring has become onshoring, the geopolitical sands are shifting and the world is facing new supply shocks such as the war in Ukraine and increased US-China tensions against the backdrop of the green energy transition. We have likely entered a period where elevated inflation will remain more persistent and more volatile than in the recent past.

This being the case, we believe investors will need to increase exposure to real returns via allocation to assets that can benefit from (or at least keep pace with) inflation, such as infrastructure, commodities, floating-rate bonds and real estate.

Beyond 60:40

Looking ahead, we continue to see risks to the base-case for 60:40 portfolios and anticipate that demand will remain strong for non-traditional assets able to offer attractive returns and diversification benefits.

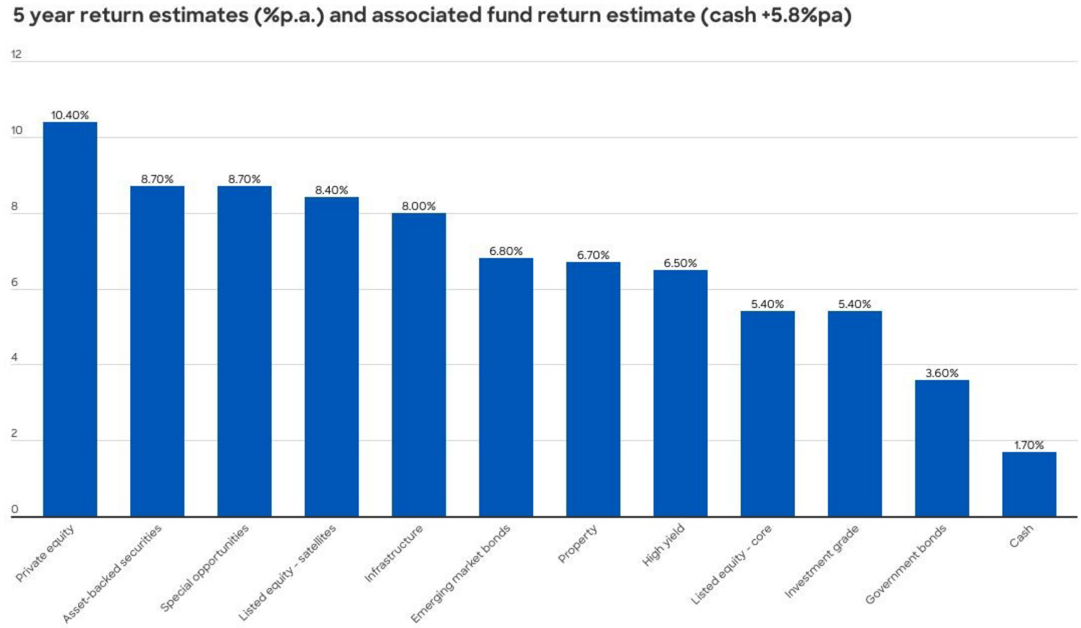
Within fixed income, this might include emerging market debt and asset-backed securities, both of which offer differentiated risk-adjusted return potential over time.

We also see an increased role in portfolios for alternatives such as infrastructure, specialist property (such as student accommodation or healthcare), private equity and special opportunities (such as secured lending to life sciences companies, litigation finance or precious metals royalties).

In many cases, these assets have low sensitivity to economic cycles and can generate differentiated revenue streams that aren't tied to rises and falls in the market.

While these asset classes were traditionally only available to institutions and wealthy investors, now they're accessible to individuals via closed-end funds listed on exchange. The chart below shows generally higher 5-year return expectations for alternative versus traditional assets. [3]

[3] Source: abrdn, Diversified Assets Return Assumption as at 1 January 2022 over 5 years p.a. in EUR and includes allowance for outperformance within some asset classes and from tactical asset allocation. Estimates are offered as opinion and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially. For illustrative purposes only. Figures may not add up due to rounding. Expected return is not an indication of future results.



Finding a balance

Investors face a challenging environment in which high and potentially volatile inflation threaten to undermine the diversification benefits of a traditional balanced approach.

As we look ahead, we believe investors will be searching for three things above all: stable income; attractive long-term returns; and the ability to diversify to mitigate risk and volatility.

As such, we think they will benefit from accessing a much broader range of asset classes, including alternative assets with low sensitivity to the economic cycle and to traditional markets.

In addition, we believe that generating returns in this environment will require a more flexible approach to asset allocation.

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More info: abrdn.com/sg

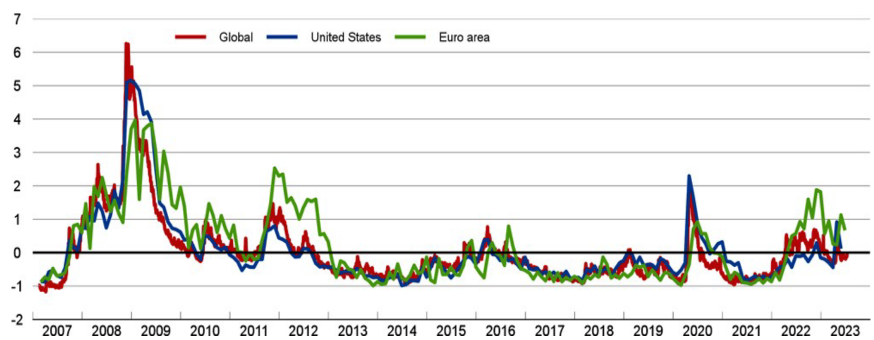
PIAS **INVESTMENT OUTLOOK** (Q3 2023)

By Investment Strategy, Partnership Management | Professional Investment Advisory Services Pte Ltd ("PIAS")
Source | Charts extracted from OECD, June 2023

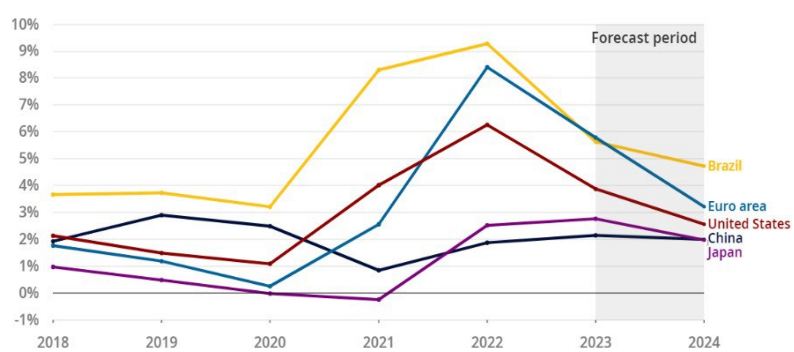
- The first half of the year was eventful with the failure of some of the US and European banks, but confidence was restored when the banking crisis is contained with limited contagion risks (**Chart A**). The US debt ceiling negotiations also brought about some market turbulence, but a default was averted when a deal was eventually agreed. Despite these headline-grabbing events, the moderating growth and a brewing recession, the global equities trudged along with the MSCI World index gaining more than 15% year-to-date. **Meanwhile, the headline inflation data across various major geographical areas continue to soften (Chart B), implying the tail end of rate hike cycles. However, inflation remains a pain point for central bankers as numbers persist to be above average, yet policy pivots may not be in sight for now, on the backdrop of healthy economic indicators. The higher-for-longer narrative should remain until such time when a recession sets in, potentially a shallow one, as the market widely expects.**

- In the US, the consumer price index (CPI) had surprisingly eased to 3% in June, almost halved from the readings early this year. However, the higher-for-longer monetary stance is expected to stay as inflation is still above the Federal Reserve's desired average of 2%. A policy pivot is, therefore, not expected in the near term. **As a result, a soft-landing of the economy, instead of a deep recession, may pan out because the US economy remained resilient with employment and consumption data pointing towards the healthy tip of the scale. As such, we retain our neutral view of the US equities.** However, we are also aware that the technology sector set the motion and accounted for the bulk of the gains so far this year. We may expect this sectorial divergence to prevail as the Artificial Intelligence revolution pans out.

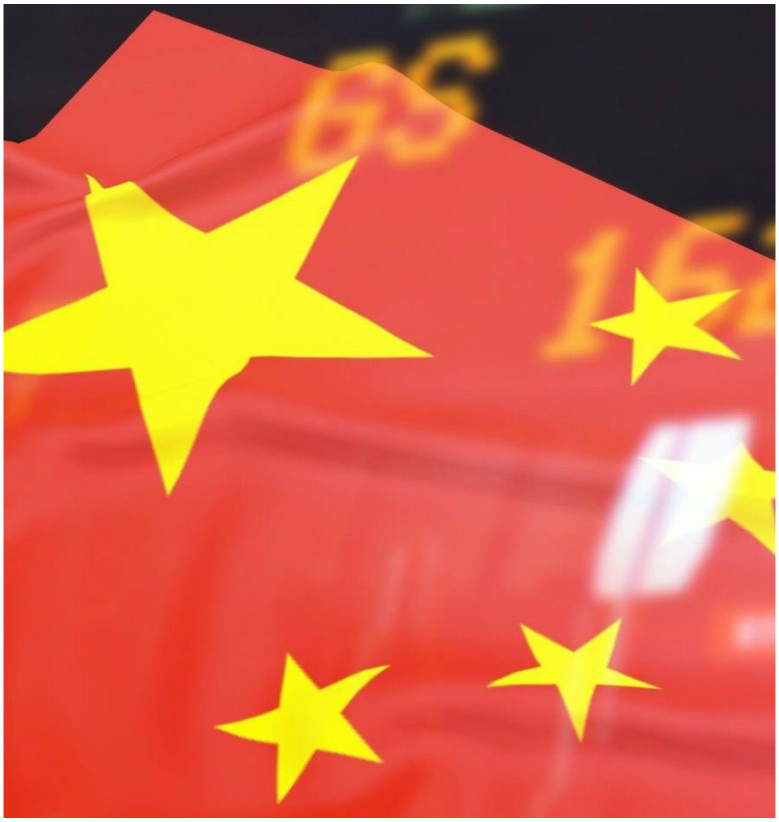
- Across the Atlantic, inflationary pressures of energy prices continue their downward trend as Europe shifts to renewable energy to reduce its reliance on Russian gas. However, food prices and wage growth persist, underpinned by a historically low unemployment rate and strong wage growth, further fuelling the inflationary pressures. **The ECB has expressed concerns over the lingering inflation and is forecasted to maintain its tightening cycle for longer, increasing the odds of a recession in the process.**



Indicators of systemic stress in financial markets (Chart A) | Source: OECD, ECB, Federal Reserve of Kansas City, June 2023



Headline Inflation of various geographical areas (Chart B) | Source: OECD, June 2023



- China's much-anticipated reopening since the end of last year was reflected in the exuberance in the Chinese indices early this year. However, the momentum had dwindled into the second quarter after the release of disappointing manufacturing data, a slower-than-expected recovery in its property market and the lack of a sizeable stimulus. More brakes were applied to the Chinese rally when some mid-sized property developers defaulted, amidst a simmering Sino-US geopolitical tension. However, in June, PBOC commenced a policy U-turn by delivering its first rate cut in 10 months and we believe there may be further stimulus to achieve its growth target of 5% for this year.

  We remain Slight Positive on China, as the anticipation of more stimulus and a relatively muted inflation could lead China to a stronger recovery than previously expected, with spillover effects to the Asian region. While we are aware of the ongoing geopolitical tensions and the lagging Chinese real estate sector, policies previously implemented may take time in restoring homebuyer's confidence. That said, these risks may have been considerably priced-in, with valuations looking attractive.

To sum, we observed that the short-term global economic conditions have improved – supported by softening price pressures, labour tightness and China's recovery – with a shallow recession on the table, an upgrade from the previous provisions of a rough landing. **However, the high-interest rate environment in developed worlds is far from over as the last phase of bringing down sticky inflation may turn out to be the toughest and most protracted. We are mindful of recessionary risks as a by-product of continued monetary tightening, coupled with headwinds from geopolitical conflicts. As such, we recommend investors to stay invested but seek out opportunities in a well-diversified portfolio.**

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