Strategists expect Asian equity rally in 2021

By : LEE MEIXIAN

THE market rally in Asia in the first five weeks of 2021 is not "overexuberance"; it has fundamental underpinnings, and legs to run further. These were investment strategists' views shared at The Business Times Market Outlook 2021's webinar on Tuesday, which sought to identify key investment themes for this year.

All signs point to an exuberance in global markets. The S&P 500 Index is up 20 per cent since the beginning of 2020, driven by big tech names. The Straits Times Index (STI) has also recovered strongly since last October, even trading above the 3,000 level this year, although it has pulled back slightly since. It ended on Tuesday at 2,935.27, up 3.87 points.

The MSCI Asia ex Japan Index is also up about 10 per cent since the start of the year, outperforming US, Europe and Japan by a significant margin, fuelled in part by an expectation of loose monetary policy in the US and bullishness on vaccine developments.

Geoff Howie, market strategist at the Singapore Exchange, said: "We are seeing it not just in the stock market, but at a regional level when we look at manufacturing and services PMIs."

Joanne Goh, senior investment strategist at DBS bank, believes there will be a V-shaped recovery for global economies as well as corporate earnings. For instance, the US economy which shrank 3.5 per cent last year, is expected to grow up to 5 per cent this year, well above its usual 2-3 per cent annual gross domestic product (GDP) growth. China, whose GDP rose 2.3 per cent in 2020, is gunning for 7-8 per cent growth in 2021.

Francis Tan, investment strategist at United Overseas Bank Private Bank, is overweight on Asean; and Vasu Menon, executive director of investment strategy at OCBC Bank, likewise believes that US and Asia-ex-Japan equity markets will trend upward over the next 12 to 18 months.

The short squeeze of the stock of US video game retailer GameStop and Tesla's Monday announcement that it was buying US$1.5 billion in bitcoin may hint at some irrationality in the market, but Mr Menon said this is not evident in the broader market. FAANG and other tech stocks aside, valuations remain reasonable, he said.

He also cited US$4.3 trillion in money market funds sitting on the sidelines that he expects will enter the market at any sign of a pullback.

He is overweight on US and Asia ex Japan stock markets, while remaining neutral on Europe and Japan, and is more positive on value stocks compared to growth, given the former's underperformance last year. "Value stocks could pick up the baton now that economic recovery is gaining traction," he said.

Over the longer term, he sees secular trends such as ESG investments in the ageing population and disruptive technologies being big drivers that will make for multi-year investment narratives. The best way to get into these secular themes is by investing in actively managed funds or exchange-traded funds for diversification purpose, he said.

Ms Goh, on the other hand, advocates investing in tech stocks in US and China, believing that growth counters will outperform their value peers in the long run. "I suspect that once bond yields starts to go up, value trade will die off or become less important. Right now, bond yields are slowly going up."

In Singapore, she has faith that chipmakers will continue to do well, driven by demand from manufacturers of cars, computers and mobile phones. "At DBS, we've coined 'IDEA' - I for innovation, D for disruptors, E for enablers, A for adapters. For tech stocks, you can always look along this (acronym) and look for the winners."

In the Singapore context, Mr Howie pointed out that drivers in the stock market are different from the tech focus in the US. The STI for instance is 40 per cent made up of the three local banks, so the financial composition is actually greater than that of tech stocks. For now, the three banks' average price-to-book ratio of about 1.07 times is in line with the market value of global banks.

The three banks were trading at an approximately 15 per cent discount to book value as at end-October last year, in line with global banks, and snapped back to trade at or slightly above book when vaccine news kicked in. But they still remain well off valuations of 1.4 times price-to-book in April or May 2018, he said.

The broad agreement among the panel is that interest in bonds is waning compared to equities, amid dwindling yields, with the only exception being high-yield bonds. They recommend putting money in gold instead, given the yellow metal's inverse correlation with the US dollar and bond yields.