The Nation

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Column: BIZ INSIGHT: Portfolio to guard against fourth-quarter volatility

BIZ INSIGHT

Portfolio to guard against fourth-quarter volatility

FED CHAIRMAN JANET YELLEN SAID LAST MONTH AT JACKSON HOLE THAT ECONOMIC FACTORS HAVE BEEN POSITIVE IN THE PAST COUPLE OF MONTHS. WITH A STRONGER LABOUR MARKET, PICKUP IN ECONOMIC ACTIVITIES AND AN INFLATION RATE MOVING TOWARD THE TARGET, IT INCREASES THE ODDS OF THE FED RAISING THE INTEREST RATE.

SPECIAL TO THE NATION

WE HAVE seen tremendous volatility in the global financial market throughout the first three-quarters of the year. All eyes have been on issues such as the deceleration of the Chinese economy, QE policy and interest rates to boost thriving economies, the course of the Fed's interest rates and Brexit.

However, most can agree that the two unfolding issues that will cause volatility in the final quarter are the Fed rate hike and the US presidential election on November 8.

Fed chairman Janet Yellen said last month at Jackson Hole that economic factors have been positive in the past couple of months. With a stronger labour market, pick-up in economic activities and an inflation rate moving toward the target, it increases the odds of the Fed raising the interest rate.

According to analysts, the Fed in September had all the reasons to withhold any information to the public. From our experience, the Fed is unlikely to create any significant financial measures during the final course of the presidential election. December is anticipated to be the month of the rate hike.

Otherwise, it could come as early as Q1 next year.

Without doubt, the result of the US presidential election will have a direct impact on the US financial and monetary policies, and consequently all markets globally.

Hillary Clinton and Donald Trump clearly have different stances on these policies, especially regarding international trade. Clinton is oriented towards an open market, while Trump is focused on protecting the US domestic market and promoting protectionist measures.

With the US being the world's largest economy, Trump's policy may benefit the US economy in the short run, but many voices are concerned with the long-term outlook of the US economy. Moreover, the mix of the Democrat and Republican senators will play a huge factor in the election. Therefore, Clinton could win the election, but the Republicans could occupy the majority of seats in Congress. All in all, Clinton will have a hard time executing her plans.

These two hot topics have played a major role with the market volatility in Q3 and Q4. They are also decisive factors driving the fund flow back to emerging markets.

So far this year, the flow has been phenomenal. Year-to-date, the volume inflow of iShares MSCI Emerging Markets ETF is $6,720 while iShares JP Morgan Emerging Market Bond ETF is significantly lower at $4,279 (Source: FactSet Research, 14 Sept., 2016).

Correspondingly, equity year-to-

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date return in emerging markets has been promising.

For instance, MSCI Emerging Markets return is 11.45 per cent (Source: Bloomberg, 14 Sept 2016). With that being said, equities in Asean countries will continue to be eye-catching due to attractive valuations along with potential future growth.

Today we recommend high risk-takers to allocate their assets as: foreign stocks 14 per cent, Thai stocks 35 per cent, domestic bonds 28 per cent, foreign bonds 14 per cent, alternative assets (eg oil, gold, property) 5 per cent and cash 4 per cent.

Nonetheless, investors need to stay up to date with the market and utilise timing as a core strategy to create opportunities for returns during these highly volatile conditions, as it seems to be throughout Q4.

Investment contains risk. Therefore, investors should revise thoroughly prospectuses, product features, return conditions and risks before making a move. Contributed by Asset Plus Fund Management