

BIZ INSIGHT

Keep an eye on the causes of global volatility

SPECIAL TO THE NATION

THE GLOBAL market didn't have the best start to the year, declining over concerns about weak global economic data, a yuan devaluation and falling commodity prices.

The global equity market sell-off has led to an MSCI world year-to-date performance of minus 8.7 per cent (Bloomberg, as of January 19).

Though it is the only beginning of the year, there will be further unexpected events that could cause higher volatility throughout 2016.

Here is a list of things that all investors should keep an eye on.

First of all, the US equity market could quite well post a negative return and fall into bear-market territory. A stronger dollar and a weak manufacturing sector would put pressure on corporate earnings, and in turn suppress the valuation of the market.

On the other hand, after its first interest-rate hike for years in December, the US Federal Reserve may post only one hike this year.

A weak US economic back-drop, poor corporate performance, volatility in emerging markets, a high yield credit spread and falling ISM (Institute for Supply Management) manufacturing could raise concerns over the Fed's path of increasing interest rates, which at most would be just once in 2016, or even cause it to reverse its course to an easing policy.

Since the Fed has already exhausted the quantitative-easing policy option, the next round of easing would be to an extreme case of fiscal easing.

Secondly, China – one of the big sources of surprise that could pose a huge downside risk – might only just escape a hard landing.

China's approximate debt-to-gross domestic product ratio of 250 per cent and rising non-performing loans will cause problems for banks.

More importantly, if real-estate debt

accounted for 15 per cent of GDP, a bubble could be another source of surprise.

There has been a clear sign of overbuilding in China, with new housing starting to be well above the stock sold, especially in Tiers 3 and 4, while the property rental yield is far below the mortgage and money-market rates.

Another potential surprise is the possibility that China will lose control over its capital account, which would lead to a depreciation of the yuan.

Oil prices are another significant factor, and if global crude fell to around US\$20 (Bt717) per barrel, this would add pressure and slow economic growth around the world.

The major cause of such a further price fall is the dispute between Iran and Saudi Arabia, with a high-yield oil company facing an increasing probability of default.

A strengthening euro, meanwhile, is something else to monitor. The euro zone is running a large current-account surplus of about 3 per cent of GDP, with equity inflow picking up as additional quantitative easing has been implemented – and this could push pressure for a stronger euro.

Moreover, the difference in the leading economic indicators, such as the PMI (Purchasing Managers Index), suggests stronger activity in Europe relative to the

US, which could also attract more inflow.

Given these factors and continued volatility, timing is – as one would expect – the effective strategy in order to win an appreciating-return opportunity.

Asset allocation and closely watching the market are also key matters that investors should concern themselves with.

For those investors who have no time to monitor market conditions, it is recommended selecting global equity mutual funds managed by experienced fund managers.

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