What are the top investment opportunities in the Year of the Pig?

Where to park your money in 2019

It was an undeniably terrible year for equities, but experts are not completely writing them off in 2019. Other opportunities also lie in the oil services sector, U.S. regional banks and attractively priced Japanese companies.

Investment analysts and asset managers began 2018 with a bullish outlook on equities, but most equities have languished during the year, amidst heightened uncertainty and volatility. Experts have not written off equities entirely in 2019, seeing investment pays in China, Europe and the U.S.; but some signaled the need for a broader scan of the market as opportunities ranging from the oil services sector, U.S. regional banks and attractively priced Japanese companies arise. For investors desiring safety, a shift towards defensives and EM bonds could offer some protection amidst signs of weakness amongst tech giants like Facebook, Apple, Amazon, Netflix and Alphabet's Google (FAANG), rising interest rates and continued global trade tensions.

"Most equity markets have performed poorly in the first 10 months of this year. It wasn't a great year from most asset classes either. This was due to a host of factors including tighter US monetary policy which contributed to a stronger U.S. dollar and caused a sharp pullback in Asian currencies and asset markets," said **Vasu Menon**, vice president and senior investment strategist, wealth management at OCBC Bank.

Menon reckoned investors need to ready themselves for a "very bumpy" ride in 2019, which will require investors to steer away from concentrated bets in sectors or regions. "It's best to still diversify across asset classes and regions and also to time-diversify by buying gradually over the course of 2019 instead of trying to time the markets."

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"Investments ahead in a more divergent policy environment require more active asset allocation," said **Anthony Chan**, chief investment strategist Asia at Union Bancaire Privée. "Good investment ideas must incur means for protection amidst continued market volatility arising from growing policy divergent, geopolitical risk and possible ending of globalisation."

Hong Kong Business rounded up the most promising investment opportunities and listed some life hacks to guide investment decisions based on investor outlooks and conversations with industry experts and observers. The usual caveat applies, here at *Hong Kong Business* we don't have a crystal ball and merely gathered ideas from the experts. If we have a crystal ball, we'd give up publishing and just be professional investors. Nevertheless, here are 10 investment ideas to consider at in 2019.

1. Chinese equities, property

The valuation for Chinese equities, in particular, is becoming attractive after the pullback in 2018 due to their low valuation, the government stimulus and resilient corporate fundamentals, said **Tuan Huynh**, managing director, chief investment officer, and head of discretionary portfolio management for Asia Pacific at Deutsche Bank.

Huynh added that China's high-yield property sector should also draw in investors, on the back of property firms' solid profitability and attractive valuation amidst the current cautious investor sentiment. There is also possibility that the Chinese government may slightly loosen property market restrictions in 2019, further boosting the sector's appeal. China, with its deep valuations, would be a tactical opportunity especially if U.S. and China reach a cease fire on trade war and the latter reflation policy in 2019, said Chan.

2. U.S. equities

To better protect against spikes in volatility, which could produce higher losses than investors have been accustomed to in recent years, portfolios should remain invested, but with hedges against short-term drawdowns, according to **Liz Young**, senior investment strategist at BNY Mellon, suggesting that investors overweight U.S. equities relative to international and emerging markets, or EM, in the first half of 2019. Huynh prefers U.S. equities to eurozone equities in 2019, favoring in particular the healthcare sector, as the latter could be hit by slower growth and political events such as Brexit. However, Chan cautioned that U.S. equities should be avoided on expectations that the technology sector de-rating will start to drag overall performance and the U.S. market will likely peak.

3. U.S. dollar

The U.S. dollar staged a surprise rebound in 2018 and is poised to strengthen in 2019 despite some vulnerability to a pullback given the crowded positioning, said **Jasslyn Yeo**, global market strategist at J.P. Morgan Asset Management.

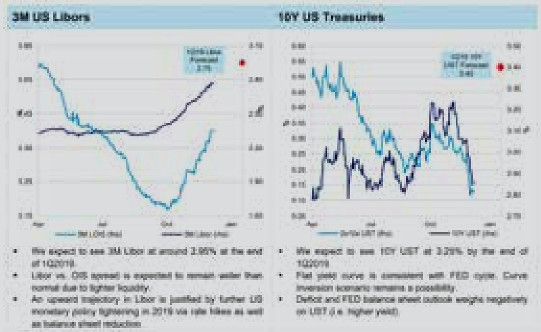
"Twin deficits' concern that dragged the U.S. dollar in 2017 had moved to the back seat especially, in the aftermath of U.S. midterm elections; market is now less worried about President Trump's ability to push out big fiscal stimulus that would significantly widen U.S.'s fiscal shortfall," said Chan.

Huynh also expects the U.S. dollar to strengthen at the start of 2019 on the back of strong U.S. growth momentum and higher Treasury yields. "However, U.S. dollar strength could be eroded later in 2019 by central bank policy catch-up and increasing concerns around the U.S. twin deficits."

4. EM Asia equities

Whilst the tailwinds that buoyed EMs in early 2018 such

US Treasuries



Source: UOB Global Economics and Market Research

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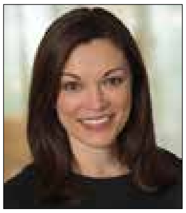


Liz Young

Jasslyn Yeo

OUTLOOK

Bankers, investment managers weigh in on the outlook for 2019

Vasu Menon, vice president and senior investment strategist, wealth management at OCBC Bank

Overall we think that 2019 will be a year where investors will face several headwinds from tighter monetary policy and less support from fiscal policy as Trump's fiscal stimulus in 2018 wears off. In addition, trade protectionism could remain an issue, China seems headed for a further slowdown and geopolitical developments in Europe could hurt sentiment. So investors need to brace themselves for a very bumpy ride and volatile markets. 2019 will be challenging year and not a year for investors to take concentrated bets in sectors or regions. So even though we are positive on Asia and EM High Yield bonds, we are not suggesting that investors focus only on these asset classes. It's best to still diversify across asset classes and regions and also to time-diversify by buying gradually over the course of 2019 instead of trying to time the markets.

Anthony Chan, chief investment strategist Asia at Union Bancaire Privée

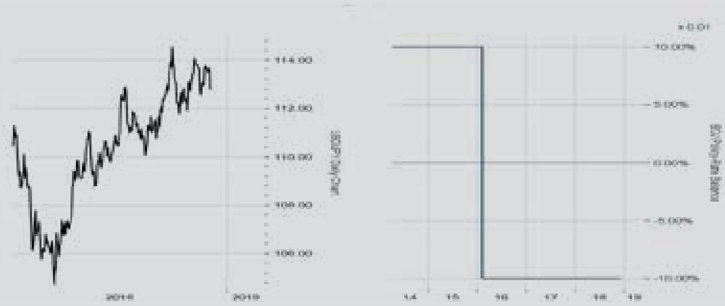
EM was the worst investment in 2018, and the strong USD will remain a headwind to the sector in 2019, for at least the first half. The recent collapse in oil prices have also caused some rebound in local-currency bond performance, most noticeable of which in Asia is the fall in Indonesia and India local bond yields as well as the IDR appreciation. However, it will require other headwinds - strong USD to reverse course, UST yields and Fed policy rate to truly peak out – to turn to tailwind for re-entry opportunity in EM assets (on deep valuation of course).

The global backdrop is one that is shifting from prolonged synchronized global growth and policy to desynchronized growth and policy from 2019 onwards.

Eoin Murray, head of investment, Hermes Investment Management

2019, then, is the year for the investment industry to truly pick up the challenge – I firmly believe that social diversity is the last free lunch of diversification – we've enjoyed spreading our capital across asset classes, sectors and geographies, and now we must take advantage of diversity, if for no other than good economic reasons. It simply makes commercial (and investment) sense. Our investment focus will change in other ways too and a long-term investment focus will come to the fore.

Japan



Source: UOB Global Economics and Market Research


Gary Greenberg


Andrew Jackson


Geir Lode


James Rutherford


Eoin Murray

as improved economic resilience, rising commodity prices and a benign U.S. dollar have given way to headwinds such as trade disputes, spiralling currencies and declining growth rates, "EMs are broader – and better – than the crisis-stricken economies that have dominated newsflow," **Gary Greenberg**, head of emerging markets at Hermes Investment Management. "We believe that many companies will progress despite the changing winds, and that investors can profit from this."

Huynh shares this more sanguine outlook, foreseeing EM Asia equities, which underperformed in 2018, to likely outperform in 2019, supported in part by an expected stabilisation in U.S. dollar strength and the potential easing of the U.S.-China trade row.

5. EM bonds

Investors seeking safe haven have found a surprising shelter: EM bonds. "Their perfect storm has already hit, and the combination of low spreads and rates during the last few years means that bonds very clearly take on an attractive convexity profile when some widening occurs," said **Andrew Jackson**, head of fixed income at Hermes Investment Management.

6. Japan

Japan has risen in appeal, with the market valuations becoming harder to resist. "In Japan we are also finding stocks with strong fundamentals at attractive prices," said **Geir Lode**, head of global equities at Hermes Investment Management, adding that 2019 will be a strong year for investors focusing on a wider range of fundamental characteristics. Chan, meanwhile, said Japan is his favourite market based on valuations.

7. Europe

The European market also looks good based on valuations, according to Chan, and "may present tactical entry opportunities especially if the market over-prices geopolitical risk, such as Brexit, Italian budget or even the break up of the eurozone." Young said that within international, she is constructive on European equities since she projects them close to hitting a bottom and that they will be supported by positive momentum in 2019.

The current pessimism towards European equities stems from Brexit negotiations, Italy's fiscal laxity that put the country on a collision course with the EU, and the region's high sensitivity to the global economy. "Whilst much of this is reflected in valuations, investors have become increasingly skittish," said **James Rutherford**, head of European equities at Hermes Investment Management. Rutherford cited the weaker euro as potentially lending a useful tailwind for the asset class, and reckoned that "given the uncertainty, we think the opportunities will tend to reside among structural growers that have a high degree of earnings visibility." As investors focus less on technology in 2019, Chan reckoned European stocks may have the chance to play catch up.

8. Defensives

Amongst sectors, defensives should be preferred over cyclical sectors, and investors should keep an eye out for structural growth plays, said Yeo. "For example, IT software and services companies that are benefiting from the widespread adoption of technology, and biopharmaceutical companies that are benefiting from the rising healthcare spending and an innovative drug pipeline." Yeo also pointed out the investment potential in so-called "wide moat" companies with a better ability to defend their market share amid rising wages, input costs and interest expense because of their strong pricing power and healthy balance sheets. "As we move into the later stages of the business cycle, investors should be considering a more defensive portfolio tilt for 2019."

In contrast, cyclical sectors including materials, industrials and financials all underperformed in 2018 and despite the possibility of a tactical rebound, Yeo reckoned it is harder to get excited for these sectors, especially when considering the challenges they will face in the coming year.

9. Industrial commodities

Investors could also consider a shift in focus from energy to industrial commodities, where supply lags demand and inventory continues to run low, according to Chan. "Prices may gap up especially if global growth and China's domestic demand recovery surprise on the upside."

10. ESG, diversity and inclusion

2019 will also see investors increasingly focus on environmental, social and corporate governance, or ESG, particularly climate change following warnings from the Intergovernmental Panel on Climate Change report in October, according to **Eoin Murray**, head of investment at Hermes Investment Management.

Murray also sees further boosts to the cause of diversity and inclusion in the coming year. "2019, then, is the year for the investment industry to truly pick up the challenge," he said. "We've enjoyed spreading our capital across asset classes, sectors and geographies, and now we must take advantage of diversity, if for no other than good economic reasons. It simply makes commercial (and investment) sense."