
Investors will face plenty of risk, but also opportunity, during the Year of the Ox in 2021

Where to invest your money in 2021

2020 was a year of disruption for many investors but there is light at the end of the tunnel. Here are eight diverse investment ideas to consider for 2021

Political upheaval, social unrest, and continuing trade wars marked a tumultuous year for business and investors alike in 2020. And that's even before the global impact of the COVID-19 pandemic – and the ongoing lockdowns and business restrictions – were factored in.

But while what goes down doesn't necessarily have to come back up, the overwhelming view of economists and investment managers is that recovery is on the cards in 2021. Fast work on several COVID-19 vaccine options, coupled with a greater understanding of spread minimization techniques among policymakers, has meant many have rung in the New Year with a renewed sense of confidence.

Andrew Tilton, Chief Asia Pacific Economist with Goldman Sachs Research, has told the firm's *Exchanges* podcast that he is also optimistic about growth in the Asia Pacific region in particular.

"China – the biggest economy in the region – has already recovered quite a lot, and is now showing growth on a year-by-year basis," he said, adding that effective vaccination programmes will be provide another kick-start to local markets. "It's really widespread vaccination that will allow those remaining restrictions to be lifted and have another reacceleration of growth to get back to more or less normal."

Nigel Green, CEO and founder of independent fintech advisory deVere Group, says 2021 is set to be a year of major investment risks – but also massive opportunity.

"2020 was a year for which nobody had planned," he said.


Andrew Tilton


Ronald Chan

"This included investors, many of whom were caught spectacularly off-guard by not having properly diversified portfolios, he added.

"Looking ahead to 2021, it is likely that investment headwinds will still exceed the tailwinds – but, I believe, that there are also more major investment opportunities to be had in the next year than perhaps in the last decade."

Whilst we here at *Hong Kong Business* have no crystal ball, and can't predict the future, we have talked to some of the leading analysts and institutions from across Asia and around the world. What follows are eight of the most interesting examples from their advice to clients for the year ahead.

Whichever way your investment portfolio heads in 2021, and the Year of the Ox, we wish you all the best of luck and prosperity. Stay well, and invest with care.

Idea 1: **Asian equities**

When it comes to regional views of the stock markets, Asia is seen as a likely strong rebounder in 2021, according to a wide range of analysts and guidance.

Ronald Chan, Chief Investment Officer (Equities, Asia ex-Japan) for Manulife, describes the investment outlook for the Asia region as "greater than the sum of its parts". He says robust fiscal and monetary stimulus globally and in Asia allowed equities to recover the worst of the pandemic-induced downturn, with regional equity indices ending the year with a nearly 19% return in 2020 (albeit with significant volatility across different markets and industries).

He is expecting growth of roughly 5.5% overall during what will still be a period of gradual and uneven recovery.

BlackRock, meanwhile, says the region is well placed to take advantage of the global recovery. "Many Asian countries have been more effective at containing the virus – and are further ahead in the economic restart," it has advised clients. "We see the region's tech orientation allowing it to benefit from structural growth trends."

Schroders is also bullish on Asia, but has a particularly confident outlook for Chinese equities. These have already rebounded faster and stronger than other markets, in line with the "first-in, first out" story of the Chinese economy's pandemic. "We believe sectors providing exposure to long-term growth themes in the country will continue to outperform. In particular, we like areas including industrial automation, electric vehicles and components, and supply chain localisation," said Louise Lo, Head of Greater China Equities for the global fund manager, based in Hong Kong.

Idea 2: Asia-Pacific REITs

Many real estate investment trusts (REITs) took a significant hit from the lockdowns of 2020, but several analysts say that gives them strong room for renewal and growth in 2021. Hui Min Ng, Portfolio Manager within Manulife Investment Management, says this is particularly true where "lower for longer" global interest rates are now providing a generous tailwind for property development.

"Moving into 2021, we envisage the macroeconomic backdrop should gradually improve across the region, with significant dispersion in economic growth across the region," she says. That should create a recovery in cashflows for retail landlords (given the low base of 2020), while industrial REITs are likely to remain stable throughout 2021 "with growth boosted from accretive acquisitions".

"The main attraction of Asia Pacific REITs as an asset class is the stable, sustainable payout of dividends to investors. While this assumption was challenged in early 2020, the response by governments and central banks helped to stabilise the real estate sector (and) moving into 2021, we believe an improving economic outlook and continued low interest rates should be beneficial for the asset class," Ng said.

In Singapore, DBS Bank is also confident of the local REIT market, but says mid-cap trusts are offering particularly good value to investors at this time.

Top 10 Asia Pacific REITS

	Country	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)
GOODMAN GROUP	AU	24.21	14.50
LINK REIT	HK	18.83	11.28
SCENTRE GROUP	AU	11.13	6.67
NIPPON BUILDING FUND	JP	8.55	5.12
MIRVAC GROUP	AU	8.02	4.80
DEXUS	AU	7.92	4.74
STOCKLAND	AU	7.69	4.61
JAPAN REAL ESTATE INV	JP	7.60	4.55
CAPITALAND INTEGRATED	SG	7.40	4.43
ASCENDAS REIT	SG	7.25	4.34
Total		108.61	65.06

Source: The MSCI AC Asia Pacific REITs Index, December 2020

Louisa Lo

Mary Jane McQuillen

"In general, mid-cap REITs are usually able to produce better returns because of their ability to act quicker than large-cap REITs, while also being more financially stable than their small-cap counterparts," the bank has advised.

"And now, mid-cap industrial S-REITs have ample valuation buffers, while some have also gradually increased their overseas portfolio over the years, making them more diversified."

Idea 3: Technology

Technology assets, particularly those with exposure to cloud computing and the work-from-home revolution that was a hallmark of 2020, enjoyed a surge in valuations over the past 12 months. While many have predicted that rate of growth to slow down in 2021, some analysts are predicting an unprecedented rally well into the New Year.

Scott Glasser, Co-Chief Information Officer and Portfolio Manager with ClearBridge Investments is one such investor still bullish on big tech. "Simply looking at valuations would suggest technology stocks are overbought and most at risk of disappointing investors in 2021," he says. "Yet much of market forecasting is based on past analogs and we would argue that given the unique nature of the COVID-19 pandemic, which caused voluntary shutdowns of broad swaths of the economy, such analogs are not as applicable today."

Research from State Street in Asia Pacific goes some way to backing this theory up. Its survey of institutional investors in the region found a majority (64% in Asia Pacific, and 68% globally) expected continued and improved investment in new technology in 2021. Those moves to replace legacy IT systems with new tech and services are likely to maintain demand and revenues across the global tech market.

Idea 4: ESG Investing

Successfully managing environmental, social, and governance issues has become so vital for organisations throughout the developed world, that it even has its own investment trend that has gained plenty of interest – and funds – from the finance community. UBS' Chief Investment Office says sustainable, or "Impact Investing" is also seeing some strong relative returns for its dedicated funds, portfolios, and indicies.

"So far, during the global coronavirus outbreak, MSCI Asia ex-Japan ESG Leaders have outperformed the regional benchmark by over 200 basis points," it advised clients in 2020. "While past performance is no guarantee of future performance, we expect ESG considerations to continue to influence corporate and investor actions in Asia in the future."

Mary Jane McQuillen, Head of ESG Investment at ClearBridge is similarly upbeat about the sector's growth prospects in 2021.

'We expect many of the drivers of strong returns for stocks with strong sustainability characteristics to continue in 2021," she says. "We believe renewable energy will enjoy long-term secular growth as the world transitions to a less carbon-intensive economy and as solar and wind power has become more cost-competitive with fossil fuels. The push to lower emissions and increased energy efficiency will (also) continue to support the growth of electric vehicles (EVs) and their evolving supply chains."

Idea 5: Gold

While the world is looking forward to a year of recovery and growth in 2021, the previous year has taught us that uncertainty will likely persist for many years to come. That has brought some of the tried and tested safe haven investments back into focus, and the most trusted of these continues to be gold.

HSBC is describing gold as an important "portfolio diversifier" in 2021, particularly with ultra-low yields on high-quality bonds expected to persist.

"(Gold's) strong relationship to real interest rates should offer protection against positive inflation surprises,"it added. "There remains an abundance of uncertainty, with the imminent risks of Brexit, continued geopolitical uncertainty, and the as-yet uncertain success of a coronavirus vaccine."

Goldman Sachs is also preparing for a continued rally of gold prices and associated assets. It holds a US$2,300 per ounce target for 2021, which would represent a 22% rally from current levels. In a recent investors' note, Goldman analysts Mikhail Sprogis and Jeffrey Currie said this prediction was based on expectations for renewed concerns over inflation globally.

But not everyone is convinced. Some analysts suggest gold's safe haven status has come under pressure during the current crisis, leading to greater than expected volatility last year. There is also growing demand pressure from a very different asset that many are claiming has alternative safe haven properties. That forms the basis of our next investment idea.

Idea 6: Bitcoin

It's been a tumultuous ride for the world's best-known cryptocurrency over the last few years, but 2020 saw it catch the eye of a serious level of institutional investment. Bitcoin's price grew over 300% last year, boosted in part from its acceptance by mainstream companies such as Paypal. Many now see it as an alternative safe-haven for gold over the long term (the term "digital gold" is now being used to describe bitcoin), although with significantly greater price volatility in the short term.

Nikolaos Panigirtzoglou, Senior Global Markets Strategist with JP Morgan, believes that the adoption of Bitcoin by institutional investors has only just begun compared to holdings of gold. He sees Bitcoin's intrinsic value rising significantly over the coming years as mining activity improves, although near-term risks are clearly skewed to the downside.

"The sponsorship we have seen for bitcoin through corporates and respectable asset managers is changing the views of many baby boomers (who have long-held a preference for gold as their investment safe haven of choice)".

Idea 7: Green hydrogen

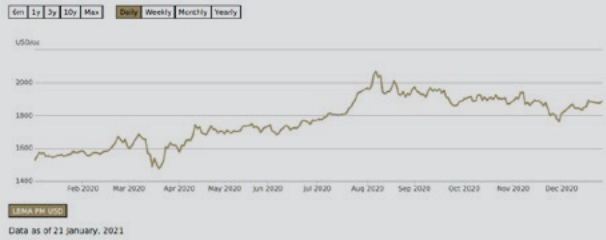
It's the first, lightest and most abundant element in the universe, and it could provide a low-impact solution to the world's energy needs. While currently, 99% of hydrogen is captured using fossil fuels, climate scientists say the technology to "greenify" these carbon-heavy processes is now within sight.

Bank of America Global Research says the stars are about to align for a potential $11 trillion market, with green hydrogen supplying up to 24% of energy needs by 2050. It says the falling cost of electrolysers (down 50% in the past five years, and estimated to fall 60% - 90% further before the end of the decade) used to produce green hydrogen, technology improvements, and the global focus on sustainability all highlighting the potential of green hydrogen as a revolutionary fuel source.

"Scaling up any new technology entails challenges, but we think now is the time to look at it, before it goes mainstream," the Bank advised in a Hydrogen Primer report from September last year.

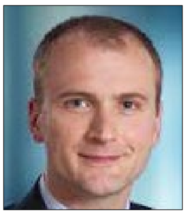
Beneficiaries of an effective green hydrogen solution will include the renewable energy sector, utilities, industrials, and chemicals. The oil and gas industry and coal sectors, meanwhile, can expect significant loss of global demand, Bank of America Global Research says.

Gold price rises during volatile 2020



Source: www.gold.org/goldhub

Nikolaos Panigirtzoglou



Nicholas Hardingham

Idea 8: Emerging market bonds

Both corporate and government-based bonds offer a stable investment choice in 2021, but analysts have an overwhelming preference for emerging market bases for these assets.

Nicholas Hardingham, a Senior Vice President with Franklin Templeton Fixed Income, says the growth gap between advanced economies and the emerging markets is set to widen further this year, with China in particular heading for an 8.2% expansion of GDP. "This is important because China is a growth engine to which many other emerging markets sell their commodities," he said.

Emerging market government bonds are currently yielding around 4% more than their counterparts in advanced economies, and Hardingham sees that trend likely to continue into the year ahead. "As 2021 starts, government debt is expected to rise to 125% of GDP in advanced economies, compared with 62% in emerging markets."

Standard Chartered's Wealth Management Advisory is also positive on emerging markets, particularly Asia. "We prefer Asian USD bonds and Emerging Markets bonds as they should benefit from the weaker USD, stronger inflows, reduced geopolitical risks given the US election results, and potential for capital appreciation given cheap valuations," it advises in its *Market Outlook 2021* report.