News Release

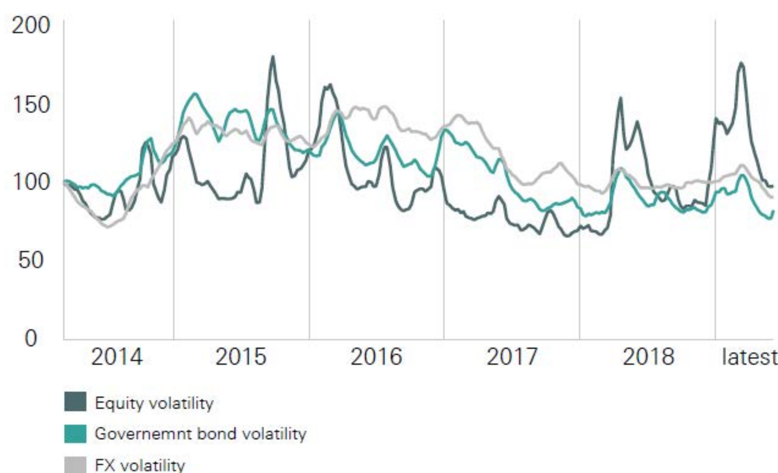
30 May 2019

Volatility is here to stay

Market volatility is expected as investors seek out reasons to become more cautious
Another major factor contributing to the market volatility is the geopolitical risks such as US and China trade relations

Where do we go from here? Every quarter, this seems to be the perennial question on investors' lips. And it's easy to understand why. Despite commentators suggesting at the start of the year that the economy might be slowing, the stock market has gone from strength to strength with the US stock market reaching an all-time high in April. Emerging Markets have also been very impressive, with China in particular returning over 6.8%[1] as of 17 May 2019.

The Volatility Index (1-month moving average)
Low volatility is uncharacteristic at this late stage of the cycle.



Source: Refinitiv Datastream, data as of 29 March 2019

We are still positive about the stock market. At the start of the year, we re-iterated our preference for equities compared to bonds, and in particular, upgraded US equities to Overweight from Neutral. This call was correct and the stock market has continued to climb. During the recent earnings season, the vast majority of US companies reported better earnings than expected. This gives us comfort that the stock market has further to go still.

However, we aren't expecting a smooth ride. At this late stage of the business cycle, we expect bouts of volatility as investors seek out reasons to become more cautious amidst a continued rally. Also, another major factor contributing to the market volatility is the geopolitical risks such as trade relations between the US and China that remains on the horizon as US tariffs on $200billion worth of Chinese goods were raised from 10% to 25% on the 10 May 2019. The US-China trade tension continued its chaotic

[1] Source: Bloomberg, as at 17 May 2019. Year-to-date return is based on Hang Seng China Enterprise Index.

trajectory when China subsequently announced plans to raise tariffs on $60billion worth of US goods.

In the midst of the ongoing negotiations of the US and China trade tension, there has been a spike in the overall market volatility.

“Hence, rather than trying to cherry-pick specific geographies, we prefer to invest in global equities across different geographies in developed and emerging markets. At this time, we don’t have a high degree of conviction that any particular geography will outperform another. Although we have a slight preference for Emerging Markets such as China due to favourable economic conditions and more attractive valuations,” said **Jon Chivers, Head of Wealth, Retail Banking and Wealth Management, HSBC Bank Malaysia.**

Another area of focus is to ensure portfolios are diversified with high quality bonds. High quality bonds, whether issued by governments or corporations, have the ability to insulate portfolios from any unexpected shocks that may arise. This might help curb the risk arising from the volatile global market conditions.

However, when investing in bonds, we are mindful of the risk of higher than expected inflation, particularly in the US, where economic activity may end up better than expected. Should this happen, interest rates may increase despite US authorities indicating that rates would remain low in 2019. Our preference is for short-duration or short-dated bonds, which would be more resilient to higher interest rates in the event of higher inflation.

“On the local front, Bank Negara Malaysia reduced the Overnight Policy Rate (OPR) by 25bps, from 3.25% to 3% on 7 May 2019. Investors who opt for safer and relatively secured alternatives such as fixed deposits due to current market volatility might be earning lower interest on their fixed deposits after the recent OPR cut. Hence, this provides more reasons for investors to consider other investment alternatives suited to their respective risk tolerance level and needs,” said Jon.

“So to summarise, volatility remains a risk and while we are not too worried about this, it is prudent to protect portfolios through high quality bonds, preferably short-dated ones,” he added.

Now is not the time to exit the market abruptly. Stay the course and remain invested, while bracing for the occasional rocky ride. There are options available to protect one’s portfolio and investors should focus on those, as opposed to simply exiting the market. Investment discipline will be key to navigating the rest of the year.

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