Quarterly Investment Outlook

3rd Quarter 2019 June 2019

ameliora
WEALTH-MANAGEMENT

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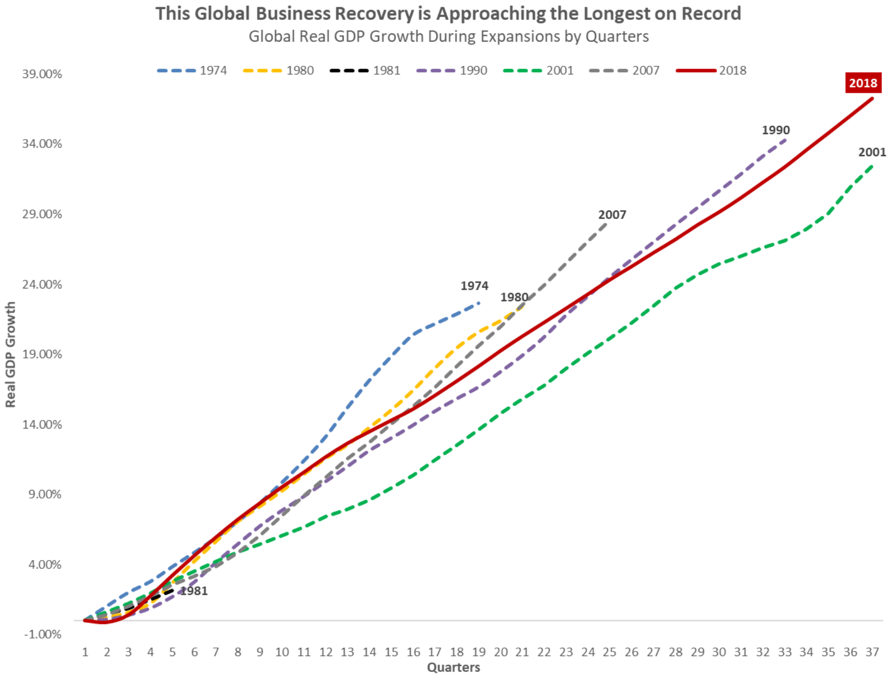
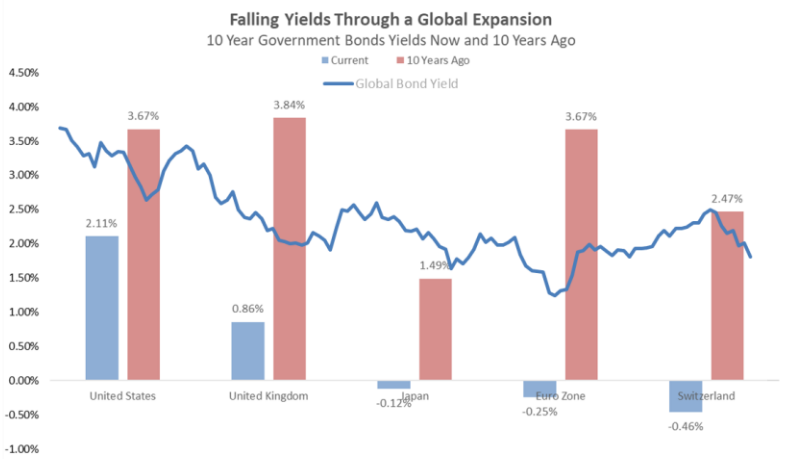
Advisor's Commentary

June 24th, 2019

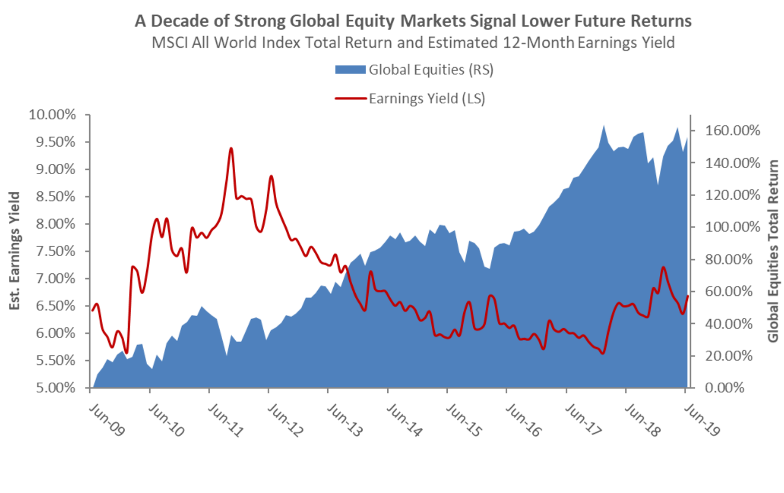
One of the longest global economic recovery in post-war history is in the making. The expansionary environment that has prevailed since the Great Financial Crisis is approaching 10 years and will soon eclipse all other global growth cycles. Despite being the longest on record, it is also been one of the weaker ones with the annual rate of growth in the bottom historical quartile. However, the sheer duration of this expansion has led us to think we are in the later stages of the business cycle. We believe we are approaching an inflection point that eventually will bring slower economic growth and possibly global contraction. There are numerous signals and indicators that support this, some of which we discussed in our March 2019 outlook. However, timing such an economic fallout is challenging. So instead we try to gauge current asset values to better understand how changing economic conditions could impact future asset returns. One caveat about this expansion is that it has been underpinned by accommodative global monetary policies by lowering interest rates and subsequently discount factors. This has made cash flow producing assets more expensive and we think this has moderated the potential future returns from global assets.





The trend of falling long term interest rates is an anomaly in expansionary cycles. Healthy economic growth normally stokes inflation and shifts capital to riskier assets and results in higher bond yields. This conundrum has left dependable income producing assets such as government bonds and quality investment grade debt highly priced and particularly low yielding. A large part of the bond universe is in fact negative yielding in real terms even with subdued inflation. In developed nations such as Japan and Europe nominal yields have been negative for an extended period of time. Since these rates also serve as pricing mechanism for other fixed income assets, and that global bond yields are below 2%, it is reasonable to infer that the future total returns from bonds at this stage will be marginal.

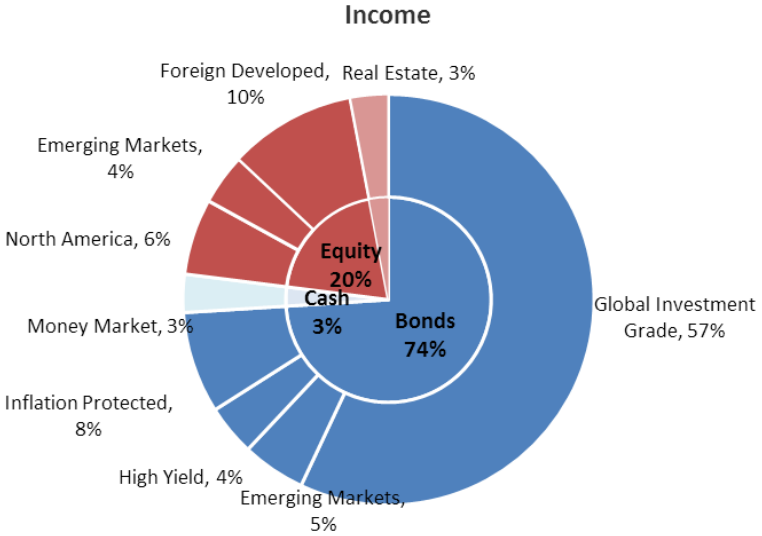
A decade of falling interest rates has also benefitted the global stock market. Measured by the risk premium, i.e. the implied excess return earned by holding equities over bonds, global stocks have offered more rewarding return properties. That incremental return has been between 4-5% per annum, well above its historical average of ca. 2%. Coincidentally, the accomodative monetary policies of central banks have moved in lockstep with a major bull market in global equities. Since the Crisis the global stock market has risen 150% or about 9.5% per annum. During that period central bank assets increased by an unprecedented $10 trillion or ca. 100%. Falling interest rates and quantitative easing has undoubtedly benefitted the stock market up until now, but fatigue is emerging as the market fails to make new highs and future company earnings recede. Historically, during a full business cycle, with both booms and busts, returns from global equities have been ca. 5%, or half the run rate of this expansion. As such, going into the next phase of this cycle, tapering return expectations is the advisable thing to do.

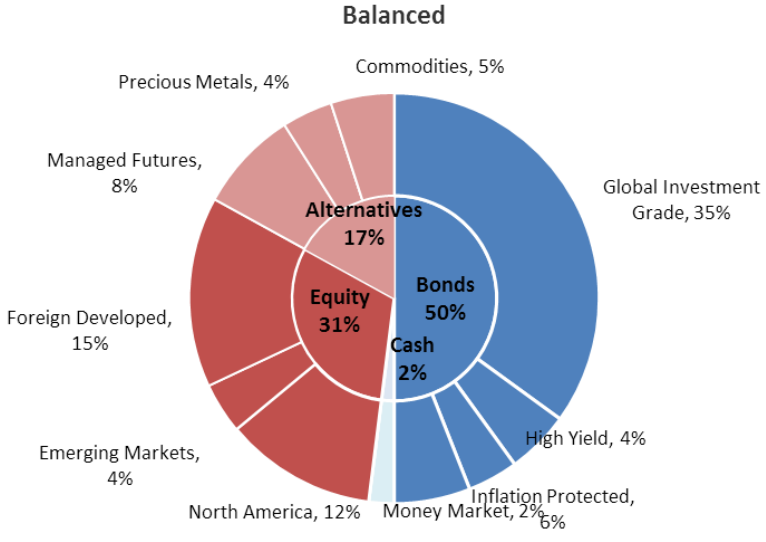


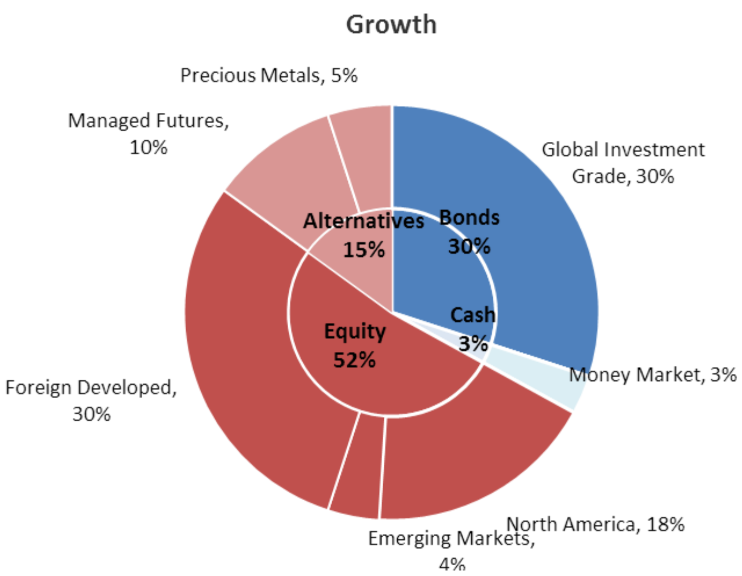
Sources: *Ameliora Wealth Mgmt., Bloomberg, LP*

Asset Allocations

June 24th, 2019







***Source**: Ameliora Wealth Management as of 1st June, 2019. Asset allocation weights are subject to change without notice and represents investment strategies in USD*

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