On US economy, equities, & China's property bubble

Views of forum speakers differ widely

By TEH SII NING

FROM the strength of the US economy's recovery, to which equity markets are likely to perform better, views ranged more widely at the 9th Business Outlook Forum than they have in recent years - perhaps a reflection of the better global economic outlook.

UBS wealth management research's chief investment strategist in Singapore Kelvin Tay, one of three invited speakers at the annual forum organised by the Singapore Chinese Chamber of Commerce & Industry and BT, thinks that though the US recovery has been dismal thus far, it will gain momentum and be "the determining factor" for this year's economic outlook.

With so much of Asia's trade still dependent on US, the improved personal income and retail sales outlook there bodes well for this region too. The risks to counter this picture include inflation - with strong capital flows and oil and commodity prices on the rise - as well as the situation in Europe, raised in the panel discussion chaired by BT associate editor Vikram Kianna.

Mr Tay was confident that though sovereign debt issues would be a constant source of irritation to the market this year, reassurances would be provided and none of the indebted European economies would go under.

In fact, he thinks the worst possible scenario for Singapore would be a dramatic slowdown in China's economy - should there really be a bubble that pops in China's property market.

He thinks this is unlikely to happen though, echoing fellow speaker Prof Deng Yongheng, director of the Institute of Real Estate Studies at the National University of Singapore.

Prof Deng added that any sharp correction in China's house prices would not unravel the way the US sub-prime crisis did, as home buyers in China tend to have more equity to provide more cushion to shield the banking system.

Financial risks related to developers, especially state-owned ones active during the boom, will be key though. Any decline in house prices could also hit investment, a key driver of China's real economic growth, and mean a significant loss of wealth for many consumers. Prof Deng added.

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- Hugh Young, managing director, Aberdeen Asset Management Asia

Turning from the economics to remind the audience that the biggest mistake an investor can make is to "dwell on the economics, and not on where your money is ending up", Hugh Young, managing director of Aberdeen Asset Management Asia, said he is less optimistic than Mr Tay about the US recovery though that has not tainted his view of US companies.

"US is in a mess, but should we avoid US corporates? Absolutely not," he said, explaining that many are now invested in external growth in Asia and other emerging economies.

Mr Tay acknowledged that there are many bargains to be found in the US market's consumer and IT sectors too.

In Asia, Mr Tay said Taiwan is his favourite market due to it being the most cyclically leveraged economies and likely to benefit from the IT sector's rebound. But it was also the market Mr Young named as the one he "does not generally like" due to its quality of companies, save for exceptions like TSMC.