Insider

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EM Bond :

Enjoying low interest rates!

Bond yields in emerging markets are falling to record lows as benchmark interest rates around the world stood at historically low level. Central banks in the US, the UK and the euro area have reduced benchmark borrowing costs to levels at least 1.7 percentage points below inflation. In Brazil, Russia and China, borrowing costs are more than 3 percentage points above inflation, the highest real rates among the Group of 20 nations, data compiled by Bloomberg show. The GBI-EM Global Diversified Index on emerging-market bond yields declined about 79 basis points, or 0.79%, this year to 5.79%, the lowest since JPMorgan Chase & Co. started to compile the data in 2003, according to Bloomberg. In addition, consumer price increases in 15 developing nations from Brazil to China slowed to an average 4% last month, even as central banks cut the mean policy rate to 5.5%. The 1.5 percentage-point gap was the widest since December 2009, according to Bloomberg. With global growth slowing, emerging market bonds have tracked developed nations' debt. In the past when there's negative news, you want to sell everything, the bonds, currencies and stocks in developing nations. Now, we see a change from the past when investors abandoned all but the safest assets during economic disruptions. Investors are more confident that the countries can repay debt and cut interest rates without igniting inflation. In fact, rates are coming down and there are no signs of inflation, which is the classic bond bull market type of territory. Among the bond assets, the JPMorgan GBI-EM Global Diversified Index returned 8.2% in local-currency terms this year. US government debt has gained 3.4%, with yields falling 20 basis points to 0.85%, according to Bloomberg. Nevertheless, investors are becoming more concern over a "liquidity trap" around the world, which means that even interest rates remain low, the global economies cannot be stimulated due to structural problems or bearish sentiment over the outlook. Moreover, the drop in yields is stretched as a second-half rebound in economic growth may limit the scope for further interest-rate cuts. It is obvious that if we do see a pickup in growth in the second half of the year, there's no reason for central banks to cut rates recently. As a result, continued weak global growth and easier monetary policy are ideal for fixed income, especially for emerging market debts since the high level of yields are more than accommodating the risk against that of the high credit-rating countries.

Microscope

International Properties - "RICHARD"

The third factor affecting property market is the movement of currency. For a country, which allows foreign investors to purchase her properties, the currency trend may determine whether foreigners will buy overseas properties. In HK, for example, since HK dollar has long been pegged to the US dollar and the officials have emphasized that there is no agenda yet to discuss the change of the peg system, property buyers should take a look at the US dollar. Amid the concern over global recession and the baby-step improvement in Euro-debt crisis, US dollar has been stealing the limelight since the beginning of this year. Together with the track record that US dollar was usually stronger during the year of presidential election, HK dollar is expected to remain buoyant with the US dollar this year. This will deter non-US investors from accumulating HK properties aggressively. That's why, even there is a comfortable margin of rental income above the borrowing cost, HK properties remained steady year-to-date instead of appreciating significantly. However, London properties drew worldwide attention as pound sterling still hovers around the 2-year tough against the US dollar.

MARKET BRIEFING

YTD % (local curr)

Index	Level (YTD %)
US DJ	12,822 (5.0%)
Nasdaq	2,925 (12.3%)
Euro Stoxx 50	2,237 (-3.4%)
HSI	19,640 (6.5%)
Japan NK225	8,669 (2.5%)
China Shanghai Composite	2,168 (-1.4%)
Singapore	3,015 (14.0%)
India BSE30	17,158 (11.0%)
Brazil BOVESPA	54,194 (-4.5%)
Aus All Ord	4,230 (2.9%)
US-10yr Bond	Yield 1.46%

As at 20/07/12

Insight:

"Investment Risk Management"

It is well understood that when you invest, you should take certain risks. With insured bank deposit, you still face inflation risk, which means that you may not earn enough over time to keep pace with the increasing cost of living. With investments that aren't insured, such as stocks and bonds, you face the risk that you might lose money. Just because you take investment risks doesn't mean you can't exert some control over what happens to the money you invest. In fact, the opposite is true. If you know the types of risks you might face, make choices about those you are willing to take, and understand how to build and balance your portfolio to offset potential problems, you are managing investment risk to your advantage. In fact, the major risk is "fear and greed". Sometimes, investors are too greedy to sell at market tops and sell at market bottoms for fear of losing more. Therefore, if we make right investment decision, risk can be managed. When you purchase an investment you expect to appreciate above the current market price, you're actually going against the market. You believe the market has improperly valued the investment. If the majority of the market believed the security was worth more, it would be trading at a higher price. The risk-return trade off is a single stock position can appreciates substantially or become worthless. A diversified portfolio can minimize both extremes.

A-Z Financial Tools

Guaranteed Investment Contract is a contract, that is typically issued by insurance company, guarantees the owner principal repayment and a fixed or floating interest rate for a predetermined period of time. Beside the tax benefit of which most institutions may take, this contract is usually issued with guaranteed returns which are suitable for pension benefits.

Next Insight

"Retirement Planning Pitfalls"

Any information and recommendation above is for reference only. Please contact your financial advisor if there be of any enquiry.