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Will Singapore market recover? Yes, says AAA-rated PM

The Singapore equity sector returned -10.1% over one year and -9.5% over three years ending August.

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With Singapore's economy expected to shrink by 7.6% in the third quarter, it is no wonder investors in the market remain cautious.

The Straits Times Index is currently trading at 2,536 points, shy off its 3,280 high in January. And the Singapore equity sector has returned -10.1% over one year and -9.5% over three years ending August.

Still, one fund manager remains hopeful of a market recovery. ‘Come 2021, we believe that Singapore equities will recover from current depressed level, underpinned by an improving economic outlook as domestic and ultimately, international borders reopen,’ Erica Lau, a portfolio manager at Lion Global Investors, told *Citywire Asia*.

The Citywire AAA-rated manager, who received her rating in January, manages the $31.27m LionGlobal Singapore Trust strategy. She currently tops in the Singapore equity sector over three returns and ranks second over one year returns.

During the pandemic, Lau used the time to examine the changing global environment to sharpen her investment strategies.

She found that amidst a rapidly changing global environment ‘driven by climate change, technological developments and geopolitical shifts, there are several sectors in Singapore that could be vulnerable if no significant effort is taken to adapt to changes,’ she said.

‘Given its traditional focus on the oil services industry, Singapore’s offshore and marine engineering sector may be made redundant if it is not able to diversify into climate friendly or growth segments such as gas and renewables,’ Lau added.

Businesses that embrace opportunities created by macro trends like digitalisation and rapid urbanisation will be future-proof, the manager believes.

‘The growing need for more data, smart cities and connectivity bodes well for businesses like digital banks, data centres, e-commerce and telecommunications,’ she said.

Stock picking

Lau’s top portfolio holdings currently consists of 16.2% in DBS, 12.0% in OCBC and 8.3% in UOB. SingTel and Reits like CapitaLand, Keppel and Ascendas also hold significant weightings in the fund.

However, the local banks only make the fund’s top positions on an absolute basis due to their sizeable index representation – which is close to half of the MSCI Singapore Index weight.

‘On a relative basis, we have a significant underweight position in these banks,’ she said. With all three banks underperforming in the current environment, Lau is waiting for a positive catalyst from macro conditions and stabilisation of earning downgrades to turn positive on the finance sector.

The manager believes the local equity market is structurally inefficient. This means that long-term returns and value can still be found if investors hold discipline in their investment strategies.

‘An in-depth fundamental research, focus on valuations, understanding what is priced in by the market and what the key stock catalysts are,’ she said.

In the domestic recovery story premised on the reopening of the economy, retail and transportation stocks continue to struggle, although Lau believes it provides attractive valuation given an expected uptick in domestic demand.

Travel and tourism, on the other hand, will lag the domestic recovery, due to uncertainty in the reopening of travel and earnings recovery, she said.