It is that time of the year again when everyone looks forward to receiving their annual bonuses and working out what to splurge on and what to invest in. Whilst we have no crystal ball and cannot predict the future (if we could we would give up our day jobs as business editors), we have talked with some of the world’s largest investment banks to come up with a list of some of their best ideas for 2020. Sometimes the banks are in agreement, and sometimes not. But whichever way you choose to invest your money, we wish you good luck and all the cunning you can muster in the year of the rat.

Idea 1: Buy China stocks, sell Southeast Asian stocks
Credit Suisse says it prefers North Asian markets, particularly China, over South Asian ones to take exposure to potential cyclical recovery.

Within this market, China property is their preferred sector. They expect authorities to support real estate investment growth in 2020, with some local governments already loosening demand-curbing measures with the relaxation of its Hukou policy. Its analysts expect revenue and earnings to grow by 21% and 18% in 2020, respectively. “Valuations are at attractive levels. If policies are relaxed, valuations could mean-revert to their historical average, offering a 20% upside. Property stocks also pay a high dividend yield of 6.3%,” they noted.

Idea 2: If you must buy ASEAN stocks, buy Singapore
Amongst ASEAN markets, Singapore is Credit Suisse’s pick of the bunch. They expect Singapore equities to perform in line with regional markets in 2020 as the subdued growth environment continues to cap upside for the market despite their favourable valuation.

Further, the market is expected to deliver 3.5% earnings growth over the next 12 months; however, a high dividend yield of 4.0% should attract investors and continue to provide support to the market on the downside. If you are looking into particular sectors, you may want to avoid Singapore banks, because lower interest rates are likely to cap the upside for banks.
Even REITs aren’t an excellent bet. Credit Suisse argue that after a 20% rally this year and with the 10-year Singapore government bond yield near historical lows, near-term capital upside in Singapore REITs could be more constrained. "Nonetheless, we see limited risk of a material correction as long as interest rates stay low globally. REITs with strong acquisition pipelines and with asset recycling and enhancement opportunities are likely to outperform,” they noted.

However, for HSBC’S Herald van der Linde, head of equity strategy for Asia Pacific, the Philippines offers the best potential for 2020 by growing 17.9%. Singapore stock prices, on the other hand, are projected to increase by just 9.6%.

**Idea 3: Short-duration high-yield Asian corporate debt**

If you’re going to invest in a company’s debt, be wary of developed markets where low interest rates have made for tight credit spreads which are inadequate to compensate for the risk of rising defaults, argues Credit Suisse. Instead, investors should look at Asian investment grade bonds and notes which would be a resilient segment for investors looking for cash alternatives. The bank forecasts Asia investment grade debt could deliver a total return of 3% in the next 12 months. For yield-seeking investors, the short-duration Asia high-yield of 7% is interesting as the region’s credit outlook improves.

Governments, particularly in China, are loosening their reins to make it easier for companies to keep earning and repay their debt. For example, Chinese authorities have taken steps to prevent the real estate sector from overheating, and Credit Suisse believes that their actions are not aimed at depressing or constraining the sector, given the weakness in manufacturing. Leading property developers have also reported reasonable year-to-date sales growth and will likely to continue to do so.

A constrained near-term issuance schedule should work to ease default risk by forcing some deleveraging of developer balance sheets, and finally, the greater-than-7% yield of Asian high-yield bonds remains attractive relative to developed markets and is not expensive compared to its 10-year average, the analysts note. They forecast Asia high-yield bonds to deliver 6% total return in the next 12 months.

Bank of America Merrill Lynch largely agrees and expects both Asian investment grade and high yield bonds to provide respectable returns. With 10-year treasury bonds already trading close to 2%, BofAML has stronger conviction on their Asian high-yield return forecast than on investment grade bonds. After a weak performance in 2018, year-to-date 2019 Asian high-yield debt yields have dropped from 10.1% at the beginning of the year to 7.4% currently. But despite this drop, the valuation has remained quite attractive.

Another sector worth highlighting would be HK investment grade corporates, reckons the bank. The adverse impact from the longer-than-expected social unrest and riots in the city is concerning, said BofAML. Whilst the bank believes a short-term recession is inevitable, they see a manageable impact on credit fundamentals of Hong Kong developers. Falling property prices and rentals should hurt HK developers’ earnings and NAV, but their ability to cover interest payments should remain solid, given their substantial holdings of investment properties with solid recurring income and relatively low indebtedness levels.

But not all debt is equal and the bank cautions investors to merely seek out higher yielding bonds. “We stress credit selection is key as we have seen increasing size of distressed debt and higher refinancing needs for HY credits next year. Specifically, we prefer Chinese HY property on better fundamental outlook and improved technicals but remain cautious on Chinese HY industrials over its higher default risk. For yield enhancement, we recommend short-end high beta Bs and long-end higher quality issuers for better risk-reward combination,” they add.

**Gold (and other precious metals)**

Gold has never really been out of fashion, and makes many an appearance in stories dating back to the biblical age. The past year saw a jump in gold prices, begging the question of whether investors have missed the boat or if prices will climb even further. There is probably more speculation about the price of gold than actually buying the glittering
metal, but Credit Suisse thinks gold prices and other precious metals are likely to remain supported as long as (real) yields remain low or even if negative and economic uncertainty persists. They note that whilst speculative long positions in gold are high, they see no clear catalysts to trigger a major unwind of these positions.

Union Bancaire Privée group CIO Michael Lok says another catalyst for gold is the negative deposit rates in Europe. In 2019, the European Central Bank (ECB) cut its deposit rate by 10bp to -0.5% whilst also resuming its bond-buying programme and amending its forward guidance policy. Sweden’s Riksbank and the Swiss National Bank have also maintained negative deposit rates of -0.25% and -0.75%, respectively. As retail banks begin to pass on the costs of negative deposit rates to their customers, physical gold will attract increasing attention from retail investors, providing strong support for gold prices over the course of 2020. “Because central banks want to avoid buying negative-yielding bonds, gold reserves should become increasingly attractive,” argues Lok.

Macquarie Bank is more cautious, arguing that not all that glitters is gold. 2019’s been a good year for all precious metals and the complex is up 10-30%, according to Macquarie. Collapsing real rates in the US and Europe, combined with rising global trade/political tension, was a winning combination of price drivers for gold, silver, and platinum. However, these factors are now largely ‘priced in’, reckons the bank, such that trade resolution or a general growth recovery probably are the key short-term risks for the precious metal’s price outlook.

For non-gold precious metals, the bank said that the sticky Palladium to Platinum price differential of over USD$600/oz is still in play. “We now accept that the market conditions that delivered it in late 2018 are probably unresolvable for now: platinum’s features a supply-chain surplus + diesel-hit demand; palladium lacks stocks + petrol-based demand’s rising. But as vehicle manufacturers are unwilling to make a risky Pd-Pt switch so close to an electric vehicle evolution the differential looks set to persist.”

**Idea 5: The Chinese empty-nester**

Despite having urbanised and having gotten wealthier, China as a society struggles with ageing. This has given rise to more investment opportunities for companies that are set to grow by selling to wealthy, urbanised empty nesters.

In 2019, Global Demographics estimates that c44% of all adult consumers in urban China are aged between 40 and 64, the so-called "empty-nester" cohort, and account for c53% of all urban consumer spending in China, reported HSBC. These empty-nesters tend to shift their consumption to experiences rather than things significant implications for the growth or decline in demand for specific products and services.

In particular, a survey revealed that these nesters are more interested in travel, sports, and home improvement than in cars or TVs and that they also aim to upgrade by buying products which are of higher quality or a stronger brand. HSBC’s van der Linde believes this is why companies like Ctrip can confidently argue that their international business, which currently accounts for one-third of revenue, will grow to c.50% in next four to five years, and why sportswear companies – benefiting from empty-nesters trying to stay fit – reported 15-30% revenue growth in 2019.

**Idea 6: Asia’s smaller cities**

HSBC also noted that the big growth in ASEAN is not occurring in the capitals, but in smaller cities where factories are setting up, and this is driving changes in consumption.

The key, Van der Linde stressed, is to understand that urbanisation in ASEAN – with the exception of the Philippines – is accelerating. In addition, the region’s urbanisation is unique in that it is increasingly driven by people moving to medium-sized and smaller urban centres, not the metropolitan cities.

The list of small- and medium-sized cities that were expected to grow by beyond 50% up to 2015 included places such as Gresik, Makassar, Denpasar and Batam in Indonesia; Cebu in the Philippines; and Samut Prakan in Thailand. A lot of this has to do with improved access (think roads and bridges) to these cities, allowing factories to establish themselves near these smaller cities, and driving employment as well as income growth.

Three examples of companies set to benefit from the rise of the smaller cities are Indonesia’s telecom operator XL Axiata, food producer Mayora Indah, and Thailand’s Home Product Centre. A list of HSBC’s top stock picks is below.

**Idea 7: Investing for good**

What would Greta Thunberg say if she saw your stock

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**Key thematic picks into 2020**

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<th>Country</th>
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<th>Ticker</th>
<th>Sector</th>
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**Diversified Growth Exposure**

- Indonesia Bank Mandiri (Bank Mandiri) BMF US Financials 23,431 18 7,075 Harshwardhan Modi OW
- China New Oriental Edu EDU US Education 218,784 128 118 DJ Kim OW
- China Huaxi Healthcare 4,430 28 21.5 Ming Hang OW

**Localisation of Supply/Demand in Asia**

- Taiwan Mediatek 2454 T Technology 21,366 116 4,077 Gaurav Puri OW
- Taiwan TSMC 2330 T Technology 212,246 283 82,474 Saurabh Kumar OW
- India Aditya Birla Fashion 3,375 28 82.5 Gaurav Puri OW

Source: Price as of 19 Nov 2019, J.P. Morgan Asia Equity Strategy; J.P. Morgan Equity Research
portfolios that are chock-full of tobacco companies, coal miners, oil drillers and dirty power corporates? She may say “how dare you”, but can you be a good investor and a good human being at the same time? JP Morgan thinks that not only can you do this, it also makes good sense to invest in companies that have favourable Environment, Sustainability and Governance (ESG) scores.

On the environmental front, there is global cooperation amongst companies and organisations on issues like climate change, with a focus on emissions and renewable energy, global carbon pricing, pollution control and recycling, water and forest conservation, carbon capture, plant-based protein, amongst others. On the social front for corporates, issues like addressing discrimination, employee well-being, and contribution to communities are increasingly discussed.

Recently, the US Business Roundtable marked a remarkable turn in this direction when it updated its statement of purpose to suggest companies should strive towards benefiting all stakeholders, not just shareholders. Similarly, for the first time in its 19 years of surveying CEO transitions in the world’s largest companies, a PwC study found that in 2018 more CEOs were dismissed for ethical lapses than for financial performance or board struggles.

Union Bancaire’s Lok says responsible investing can also be used to identify new investment opportunities at a time of accelerating global change. Electric vehicles, sustainable farming and financial services in developing countries are just a few examples of large industries that owe their success in part to businesses’ efforts to contribute more to sustainability, he adds.

**Idea 8: Asian companies that will benefit from the trade war**

America’s trade war with China is seeing factories move to other Asian countries and with that are more opportunities. There is also an increase of intra-Asian trade and investment at the expense of global trade. After years of decline, the intra-regional share of global goods trade is now rising, according to an analysis by McKinsey. That share has increased by 2.7 percentage points since 2013, and the trend is most marked in Asia and EU-28 economies and most apparent in global innovation value chains where there is a need to integrate many suppliers closely in just-in-time sequencing. Around 60% of goods trade (an increase from 56% in 2007) and 60% of services trade (from 46% in 2007) took place within Asia in 2017. In 2000, only three corridors within Asia had trade volume of more than US$50b; by 2017, there were 15, notes JP Morgan. Taiwan and Korea came next as beneficiaries of high-end supply chain moves and re-shoring.

**Idea 9: Chinese e-commerce players**

BofA Merrill Lynch believes Alibaba and JD.com will continue to benefit from the robust growth in China’s e-commerce industry. China’s e-commerce market should continue posting healthy growth in 2020, driven by increasing adoption of online shopping in lower tier cities and steady rise in average customer spending. They forecast e-commerce in 2020 to grow 22% YoY to US$2.09t (vs 24% YoY in 2019E), the number of online shoppers to reach 709 million by 2020 (+8% YoY from 660 million in 2019E) and online retail penetration to rise to 31.6% in 2020 from 28% in 2019E. Alibaba and JD.com are expected to maintain their dominant market positions with an estimated 50% and 12% share of China’s e-commerce market in 2020, respectively.

**Idea 10: Keep buying American stocks**

Donald Trump likes buying American, so perhaps you should too. American stocks are currently at record highs, up 24% by the end of November, so a contrarian investor may think now is not the best time to pile in and buy more. Indeed, nothing feels worse than buying in at the top of a market only to see it plunge in a crash. Yet many banks reckon the American market still has legs to run.

Amongst them is BofA Merrill Lynch, who notes that the S&P 500 broke out into a new secular bull market as of April 2013. The prior bull markets from September 1950 to February 1966 and July 1980 to
March 2000 lasted 16 to 20 years, which suggests that the current secular bull market could last another decade. Rallies after cyclical corrections of 12% or more during secular bull markets tend to be strong. These rallies have lasted 30.5 months on average (31.3 median) with an average return of 89.92% (64.77% median). This equates to the S&P 500 achieving 3,874 (median return) and 4,465 (average return) in July/August 2021. If the three biggest rallies in excess of 100% and the smallest rally of 24.4% 24.4% are removed, the average and median returns for the remaining rallies suggest SPX 3750-3765.

In case you were wondering whether it’s really a good idea to keep buying American stocks or switch to other markets, BofA Merrill Lynch has some advice. “Many investors are asking: When does the US equity market top out vs international equity markets? The S&P 500 (US) has had a leadership trend vs MSCI ACWI ex-US (rest of the world or ROW) since bottoming in late 2007/mid 2008. As of late November 2019, there are no major signs of top and the US is setup for another new relative high within an 11-year+ leadership trend vs ROW. We would get more concerned about a loss of US leadership if the US vs ROW ratio broke below its rising 26 and 40-week MAs.”

The US Dollar likely holds the key for US vs ROW. If the US (S&P 500) is to top out relative to ROW (MSCI World ex-US, MXWOU), the US Dollar Index (DXY) likely needs to weaken. Whilst it is not a perfect fit, DXY weakness has generally coincided with weakness for the US vs ROW. Examples of this include the 1985 and 2001 peaks for the DXY, which preceded significant periods of weakness for the US vs ROW. If the DXY struggles in 2020, the risk is that the US equity market begins to struggle relative to the rest of the world.

Idea 11: Buy Singapore, sell Hong Kong

Morgan Stanley thinks that there is more potential for medium-term outperformance of the banks and property sector in Singapore vs Hong Kong. This is a result of the lower relative growth of the underlying economies, with MS forecasting a 2018-20 average GDP growth of 0.4% in HK versus 1.2% in Singapore. Morgan Stanley’s Nick Lord and Selvie Jusman note that Singapore banks have experienced earnings downgrades throughout 2019 as the market has adjusted to the impact of lower rates on NIM and the impact of lower GDP growth on lending. However, undemanding valuation multiples at the beginning of the year, plus high capital ratios, which gave the market some comfort on dividend sustainability, meant that the banks have performed well despite this. Valuation multiples are still undemanding, even though they do not expect EPS to grow much, if at all in 2020. “Our preference is for UOB, which we see as having the most defensive business mix of the Singapore banks. OCBC (EW) is least preferred given the overhang of potential M&A on capital returns.”

Meanwhile, Morgan Stanley’s Wilson Ng and Derek Chang note that Singapore developers are trading at discounts to RNAV around 1 standard deviation wider than their historical (18-year) averages, despite steady growth in home prices where volatility is limited by potential regulation changes. On the other hand, Singapore REIT valuations are less compelling, trading at dividend yields near 1 standard deviation more expensive than their historical averages.

Morgan Stanley’s Anil Agarwal and Irene Zhou also report that the HK economy is slowing quickly, and although bank stocks have corrected in 2019, they would continue to avoid the segment. Stocks are trading below long-term averages but the historical average is probably not an instructive comparable – as they observed in other markets (Korea/China) where ROEs structurally trended down. Such bank stocks have looked attractive versus their own history for a decade, but kept derating. The large HK banks face a similar challenge over the next few years, and we may end up seeing a comparable derating.

Hong Kong property remains in a bad state because of the social unrest, with analyst Praveen Choudhary forecasting office rents to decline 5% HoH in H2 2019 with falls up to 10% in 2020. The outlook is worse for the battered luxury malls, with tourist arrivals down 26% YoY in Q3 2019.

Within the HK property space, Morgan Stanley prefer residential stocks with farmland exposure over office and retail landlords.