

# The SiSAM Connect

*Discover the opportunities*

## **MARKET COMMENTARY**

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For our first newsletter in 2018, we summarize the main takeaways from our discussions with industry peers comprising investment managers, analysts and economists regarding their market outlook for 2018. Overall, there is a consensus on a positive outlook for this year.

### **Consensus**

- Global economic growth should meet respective government's key economic targets in 2018
- Equity markets are likely to have another positive year; many recognise there may be higher volatility but advocate "buying on price dips"
- Corporate earnings in 2017 were generally positive and may offer positive surprises this year
- In Singapore's property market, despite the recent feverish collective sale fever amidst an overall subdued rental market, market watchers remain sanguine about the residential market with residential property prices forecasted to grow in the region of 5% in 2018. This is mainly due to pent-up demand from property investors/upgraders and replacement purchases by collective sale beneficiaries
- Top sectoral regional picks are Healthcare, Financials and Technology
- Key risks or themes to note are inflationary pressures, rising interest rates, U.S. fiscal policy, the Eurozone and Japan's change of policy stance as well as China's economic growth

With the prevailing positive sentiments, we adopt the stance of cautious optimism (keeping a close watch on the above-mentioned risk factors) but anticipate greater volatility in the equity markets after the low market volatility of the past year. Since a good start at the beginning of the year, there has since been a meaningful correction in equity markets. We do believe that the correction is a positive event which bodes well for the medium-term health of the markets i.e. no need to press the panic button yet. The correction also signalled to us that the markets will remain susceptible to intermittent knee-jerk sell-offs, becoming more reactive and sensitive (as compared to the previous year) to risk concerns that would manifest from time to time this year.

Our view is that the global economy will continue to chug along with less headroom for any upside surprises, but should provide for another overall positive year in the equity markets. Afterall, the interest rate environment will still be low even with further U.S. rate hikes expected this year and liquidity remains in abundance. Asset valuations will continue to be stretched, offering less compelling risk-reward trade-offs for investors. As such, we recommend that investors be more selective in their portfolio allocation. In view of greater volatility in the traded markets, investors should consider re-allocating a portion of their portfolio into the private equity space, particularly in the securitised credit segment.

Based on a 2018 BlackRock report, we believe that the credit fund space especially that of securitised credit (similar to SiS Credit Fund's offering) should continue to outperform other assets in terms of risk-reward profile this year.

### **CGS CIMB Securities Investor Forum (24 Jan 2018)**

In this issue, we also like to take the opportunity to extend our appreciation and thanks to our investors who were able to join us at the CGS CIMB Securities Investor Forum held last month, at which we were invited as one of the forum presenters. 2018 will certainly offer another year of opportunities and we look forward to continue working with you in uncovering more attractive investment opportunities!

## WHAT'S HAPPENING ON THE GROUND?

- The recent hike in the top marginal rate of the buyer's stamp duty (BSD), along with the substantial premiums developers pay for residential sites, may translate to higher prices for new projects in the future, according to Augustine Tan, president of the Real Estate Developers' Association of Singapore (Redas). While the BSD hike may "add some friction to transaction volumes" as buyers are still price sensitive, it is unlikely to derail the recovery. He also added that the property market is in the early stages of a recovery and positive buying sentiments are likely to continue. Barring unforeseen circumstances and on the back of a stronger-than-expected economic growth outlook in Singapore, sale momentum of 2017 is likely to carry through to the next few years. (Business Times, 23 Feb 2018)
- A spate of collective sales, coupled with a rebound in the property market at the start of the year, may indicate that Singapore developers will be more cautious in adding to landbanks and about their pricing strategies, analysts say. Collective apartment sales in the first two months of this year totalled over \$3.1 billion, almost twice the \$1.66 billion seen in the last peak of the collective sales market in 2007, according to Nomura. The sales appear to be cutting into the willingness of developers to pay premium prices after three of four deals transacted last week were sold at asking prices. (Straits Times, 20 Feb 2018)
- CapitaLand has acquired the iconic Pearl Bank Apartments in a collective sale for \$728 million, and plans to redevelop the site into an 800-unit condominium project. CapitaLand's offer for Pearl Bank Apartments matched the reserve price, which translates to a land price of about \$1,515 per square foot per plot ratio (psf ppr), after factoring in a \$201.4 million premium for a lease top-up to a fresh 99-year lease. (Business Times, 14 Feb 2018)
- The Singapore government has raised the top marginal buyer's stamp duty rate from 3% to 4% for residential properties worth more than \$1 million. The new rate will apply to all residential properties acquired from 20 Feb 2018. Buyer's stamp duty is payable on the acceptance of an option to purchase agreement or sale and purchase agreement. The 4% rate will apply to the value of the property in excess of \$1 million. Currently, buyers of residential properties pay a 1% to 3% stamp duty tiered as with personal income taxes. (Straits Times, 19 Feb 2018)
- Singapore's economy expanded 3.6% in 2017 - faster than initial estimates - thanks largely to strong growth in the manufacturing sector. Growth this year is expected to moderate but remain firm, according to the The Ministry of Trade and Industry's (MTI). The Singapore economy, which grew 2.4% in 2016, picked up pace in 2017 on the back of surging global demand for electronic gadgets. This trade-driven lift helped push 2017 growth above an earlier estimate of 3.5% - which was already more than double initial forecasts. (Business Times, 14 Feb 2018)
- The U.S. Fed voted unanimously in January 2018 to keep its key interest rate unchanged at 1.25% to 1.5%, a relatively low level that the Fed said would help support continued job growth and stronger inflation. In a statement following its two-day policy meeting, the Fed praised the "solid" gains in hiring, household spending and business investment. The next meeting of the policymaking committee is scheduled for 20 and 21 Mar. If the Fed raises rates, it would be the sixth consecutive quarterly tightening of monetary policy. (New York Times, 31 Jan 2018)

### Current Funds by SISAM

SiS Credit Fund | SiS Intrepid Venture | SiS Real Estate Opportunity Fund

To find out more, email [enquiry@sisasset.com](mailto:enquiry@sisasset.com)