

The investment case for Asia



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How underperformance in the 2010s could lead to outperformance in the 2020s

**A Special Report by
Ned Davis Research**

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Special Report

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Executive Summary

Authors Daniel Grioli and Robert Schuster, in a recent Ned Davis Research (NDR) White Paper

“Tactical Asset Allocation - Why you need it now Part II”, reported that investors in the United States faced **four challenges when saving for retirement**. The four challenges are as follows:

1. people living longer,
2. declining diversification (now that bond-equity correlations have turned positive),
3. higher priced inflation for consumers exposed to more medical and housing costs (core consumption items for those over 65 years old), and
4. over-valuation among US financial assets.

This led Grioli and Schuster to conclude that retirees run a higher risk of **outliving their savings** in old age. This, however, would not be the case if future U.S. investment returns looked

more promising. The problem is that — according to their analysis — they do not.

At the time, a 60% equity/40% bond allocation was only expected to generate an annual return of +3.6% for the next 10 years (and subsequent gains in the equity markets now point to a lower estimated portfolio return of +2.4%).

If correct, this leaves U.S.-exposed investors little left for themselves, once they have paid their management fees to their financial advisor, their taxes, and taken higher inflation on their consumer purchases into effect. Those retirees relying on drawing on their underlying asset base (to cover their monthly household expenses) may also need to rethink their strategy.

This conclusion fascinated this Hong Kong-based author, who wondered if it was best to look

elsewhere and to those financial markets **outside the U.S.** ... and to the potentially superior returns in the **Asia Pacific region**.

It makes sense to increase one's Asian exposure on account of our analysis. While our estimated annualized return of a 60 / 40 Pacific equity / bond portfolio leads us to a higher annualized total return of +4.7%, investors should also consider the following: a lower bond allocation (and a higher equity one), lower investment costs and/or a strategy involving something a bit more tactical. Investors in Hong Kong and Singapore stand to do best, should our projections come true.

A combination of all these considerations could help to alleviate the risk of shortfall in retirement income, providing retirees with **a better means to meet their financial needs**.

Introduction

In this report, we discuss:

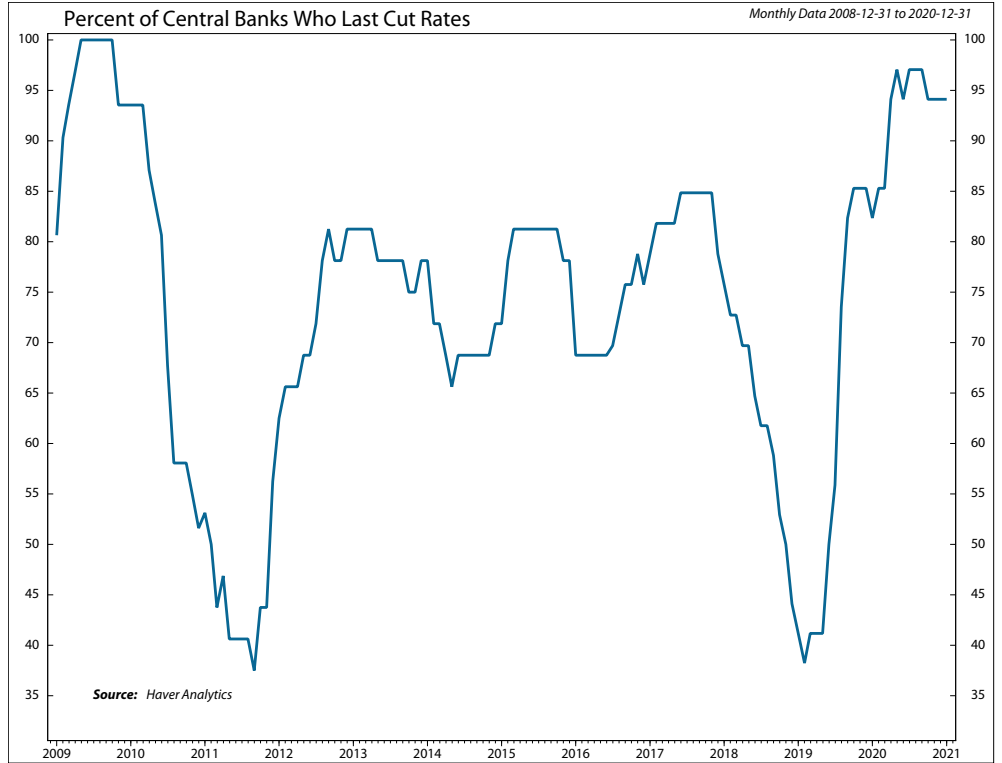
- What happened in Asia and the U.S. during the 2010s,
- a narrative for what might happen in the 2020s,
- a structure to make long-run stock market forecasts, and
- long-run bond market forecasts

The story thus far ... the post-2009 investment cycle

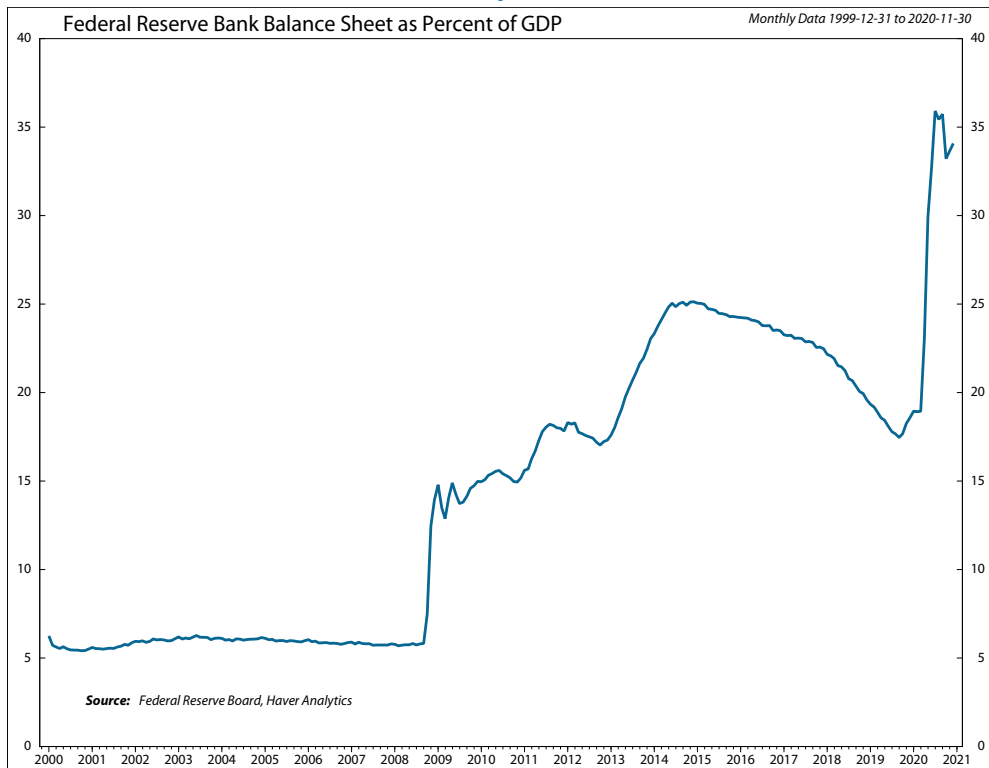
Ask investors about how best to describe the post-2009 investment cycle and many would say the global economy has been stuck in low gear, experiencing a lackluster combination of both **low growth** and **low inflation**. This is despite the best efforts of the world's central banks, who were hoping for higher rates of economic growth from more accommodative monetary policy.

A great number of them, including the Federal Reserve, the ECB, and the Bank of Japan, did what they could, undertaking huge monetary stimulus via **interest rate reductions**. The chart to the right shows this concerted effort since 2009.

The vast majority of central banks have been cutting rates



The Fed's balance sheet has exploded

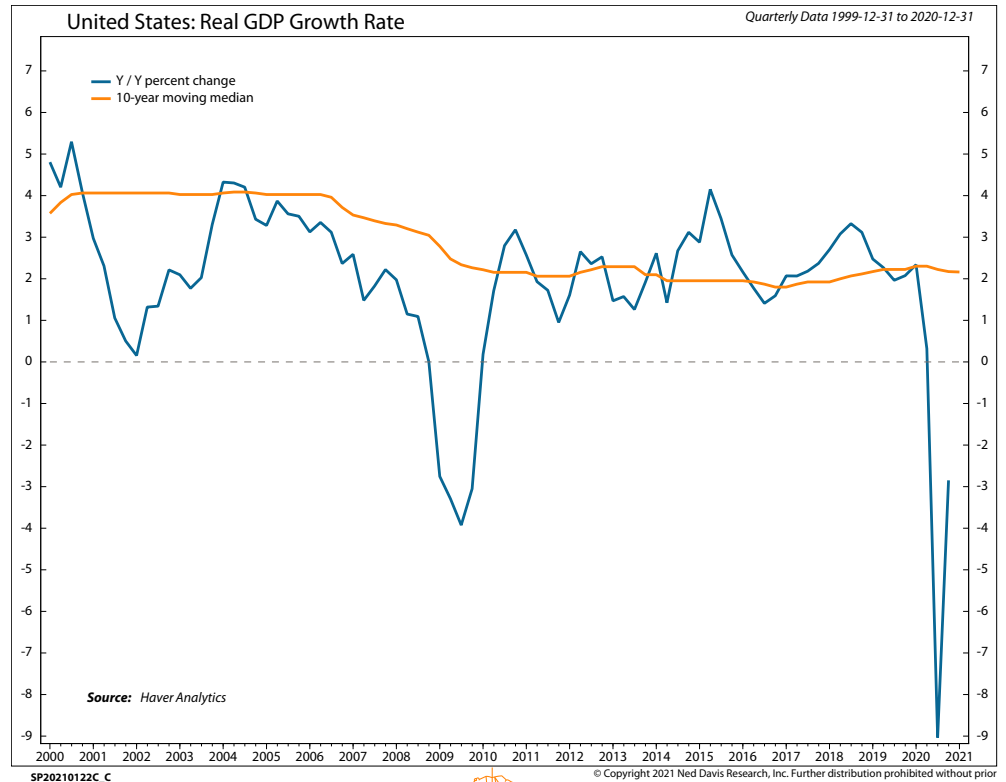


Central banks globally have also relied on **asset purchases**. For example, the Federal Reserve's balance sheet assets amounted to about 5% of U.S. GDP in 2008, before the Financial Crisis, but is now 34% (see chart to the left).

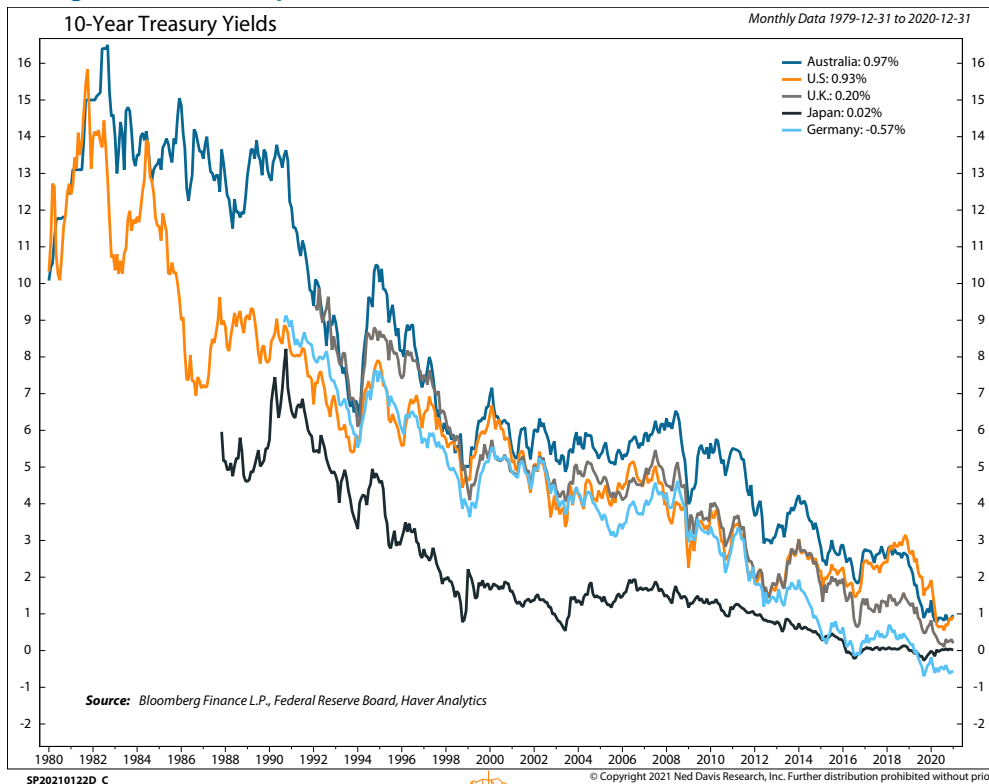
In response, **real GDP**, for instance, in the U.S. could only muster growth of about +2% per annum (see chart to the right), while the EU and Japan could do no better, managing to lift their economies each year by only +1%. What's more, China (the main contributor to global growth) has seen its growth rate halve to around +7% over the last 10 years.¹

Seeking an answer for this disappointment, we note that **animal spirits within the corporate world** have waned during the 2010s decade, as stricter regulations and lower net interest margins have curtailed both the banks' (the traditional providers of investment capital) enthusiasm and their ability to lend.

U.S. economic growth has slowed in the 2010s



Long-term bond yields continue to fall



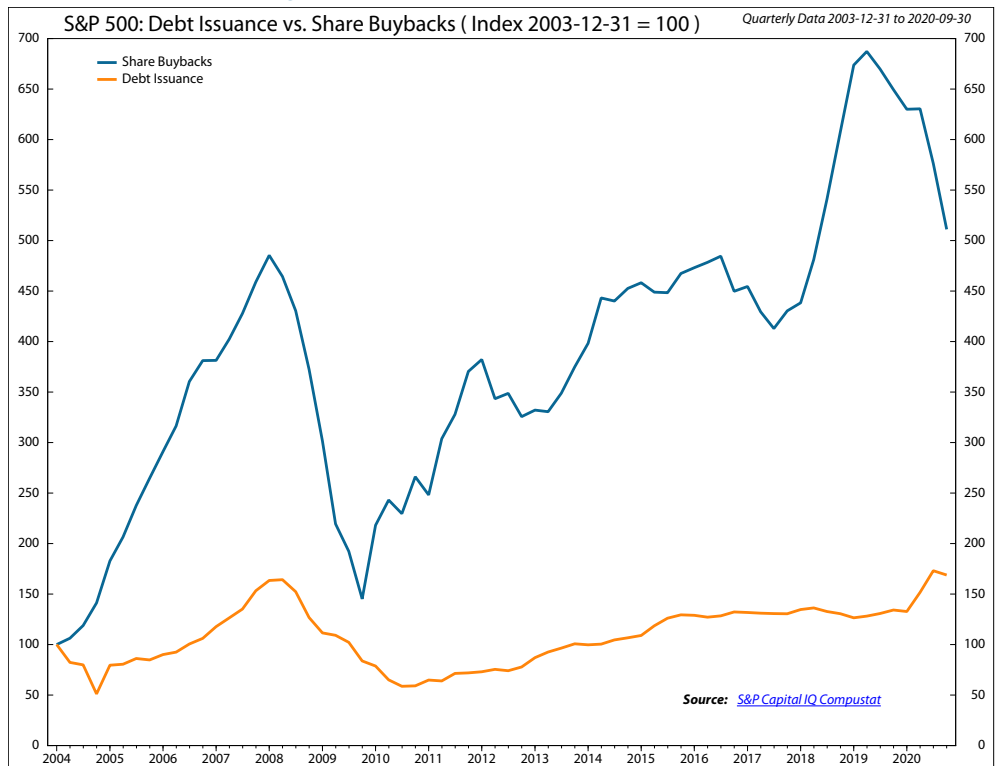
In addition, central banks have largely failed to meet their **inflation targets** during the post-crisis era. A combination of ongoing **globalization** (allowing greater access to the global pool of **labor** as opposed to a more domestic one) and the emergence of new **disruptors** (e.g. robotics and the emergence of companies such as Uber and AirBnB) have both kept wages, goods, and services prices in check for the developed world.

Nonetheless, this macroeconomic backdrop has worked extremely well for those participating in **the financial markets**. Low growth and low inflation has been a boon for **global bonds**, while large asset purchase programs by central banks have further helped bring 10-year government bond yields to historic lows (currently about 0.35% on average for the U.S., U.K., Australia, Germany, and Japan tenors - see chart to the left).

In sum, the 2010s were a great decade for **global fixed income** investors, helping to extend the long-term secular bull market in bonds, which began in the early 1980s.

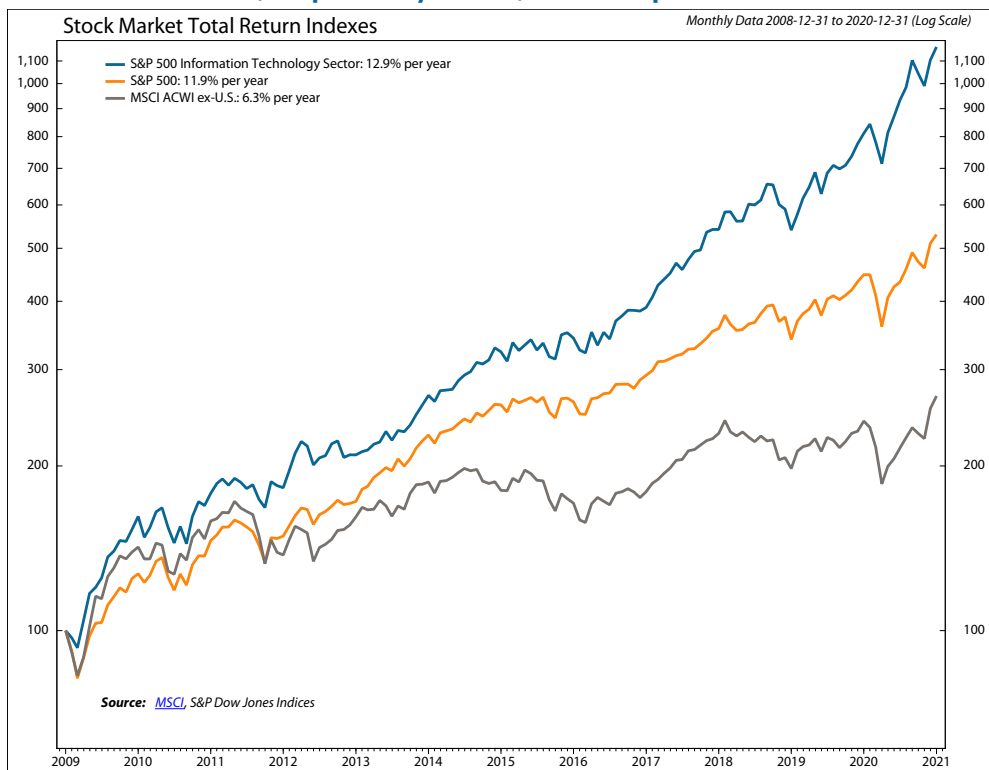
The 2010s, however, have also been a great decade for **U.S. equities**. With low bond yields and tighter credit spreads, U.S. corporates have **issued debt** to retire equity via **share buy-backs** ... and therefore shrinking the available pool of outstanding shares. The chart to the right illustrates this dynamic.

Companies buying back shares with cheap debt



Source: S&P Capital IQ Compustat
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The U.S. market, especially Tech, has outperformed



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Monetary stimulus in the 2010s might have been well-intended, but it seems to have gone amiss for those exposed to the real economy. And although the combination of central bank and corporate actions has not resulted in an acceleration in real GDP growth, it has brought about two factors, namely:

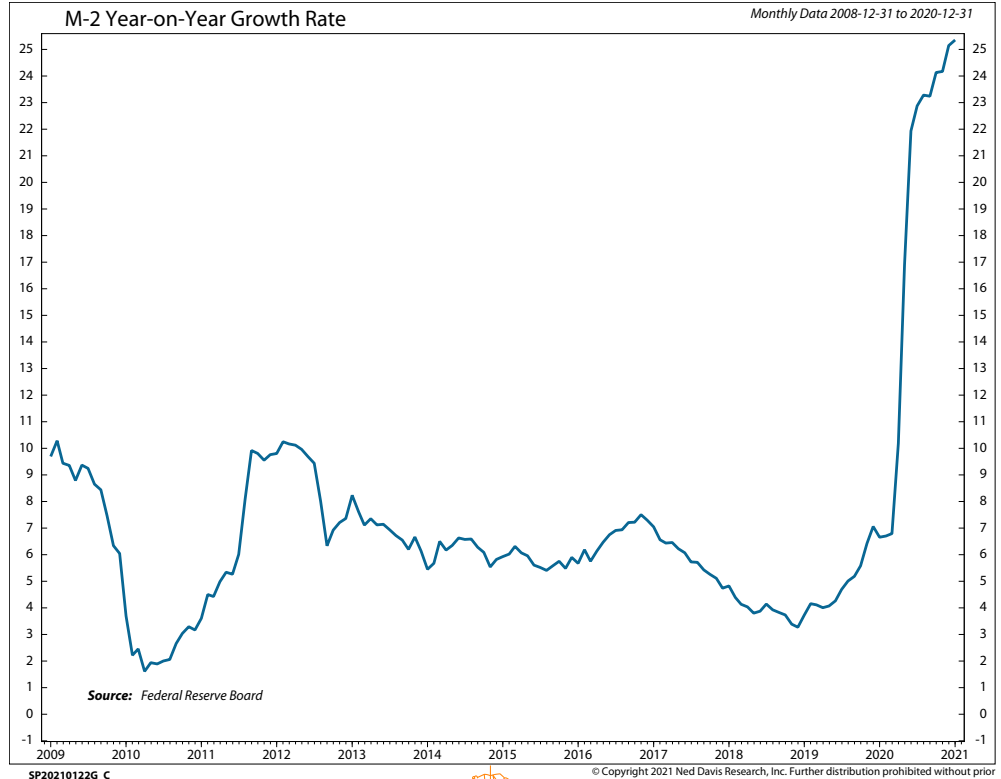
1. a higher global debt/GDP ratio, which is now equal to about 260%² and
2. **a surge in financial asset prices** led by U.S. equities and its now-dominant IT sector (see chart to the left).

The big question is, what happens next?

The next investment cycle — liquidity and populism in the 2020s

If financial markets were highly-valued to begin with, then the emergency policy responses to the COVID-19 pandemic has only made them more so, taking some into over-valued territory. This has mostly benefited the **wealthy 1%** who own them (sometimes collectively referred to as “Wall Street”). The chart to the right shows the recent extraordinary rise in U.S. M-2 money supply growth, some of which has found its way into the equity markets.

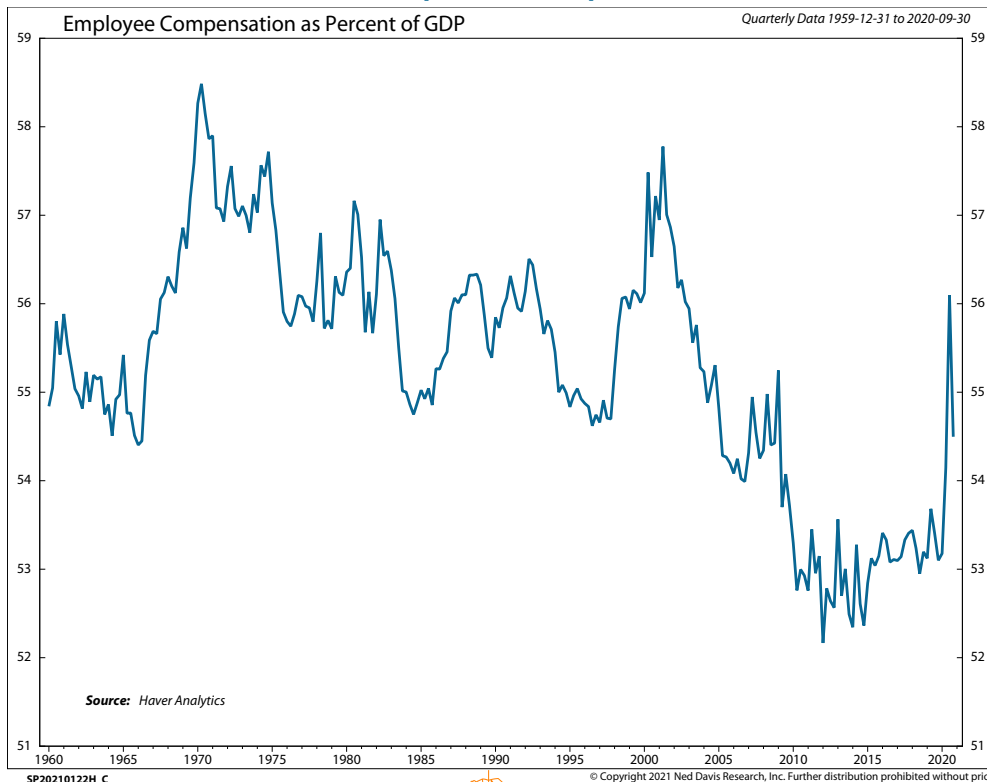
Money supply growing at much higher rates



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General downtrend in compensation per dollar of national income



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Conversely, although the share of labor income to U.S. GDP is now ticking higher, as the chart to the left shows, the **remaining 99%** (sometimes referred to collectively as “Main Street”) have been largely left behind both financially and economically, so much that the divergence between the two now help explain the following:

1. rising **inequality** across the U.S. (between “Wall Street” and “Main Street”) and in other countries and,
2. rising **populism** (e.g. the 2016 U.S. Presidential election, Chinese trade tariffs, and Brexit).

Many U.S. households struggled to get by in the 2010s and will — unfortunately — probably continue to struggle in the 2020s.

The chart below shows how medical care and housing costs, two large household expenditures, have consistently grown at a faster pace than prices in general.

It is why as we enter the 2020s we could argue that the world is more unstable, both politically and economically.

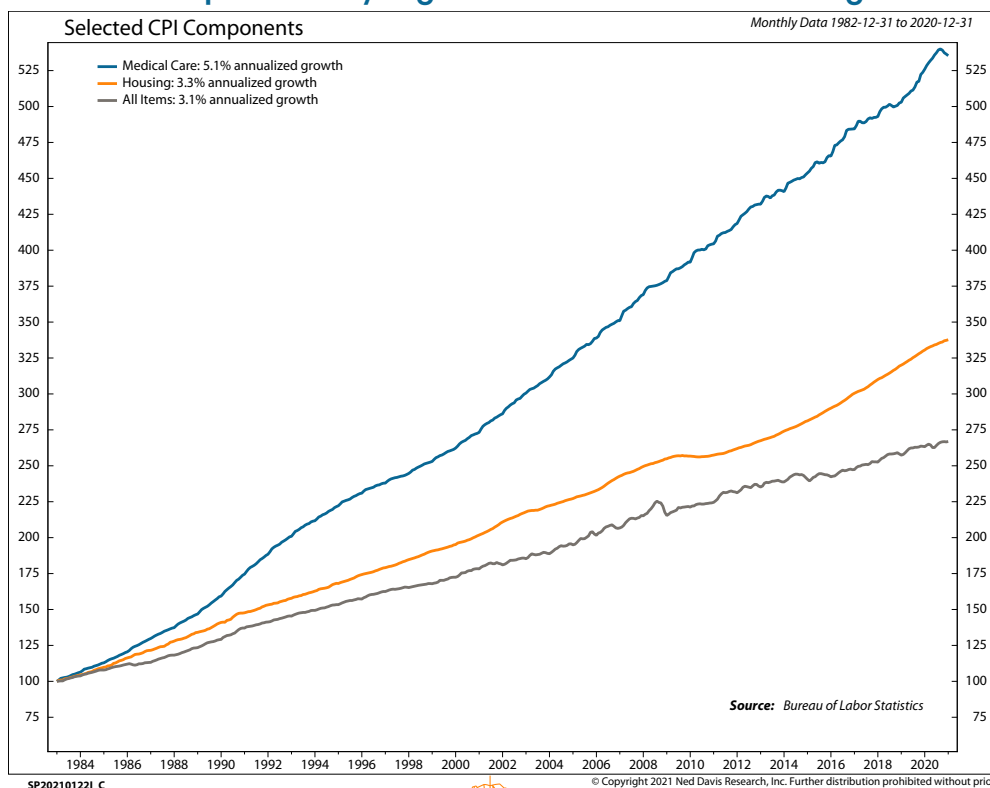
What this means for the **2020's investment cycle** is still unclear at this stage, but as history often dictates, we can be certain that the world will be quite different by the **end of 2030** than what it is currently ... as investors navigate a new set of policies designed to address factors 1 and 2 on the previous page.

This could result in the following:

1. **A preference for isolation > globalization. COVID-19** is creating the catalyst for self-sufficiency and the re-shoring of overseas production. Note that the U.S. economy has benefitted hugely from lower-priced imports, helping to cap core CPI since the NAFTA agreement in the mid-1990s.
2. **Peak capitalism** could potentially point to higher taxes (for wealthy “Wall Street” and Silicon Valley), a redistribution of incomes (i.e. higher wages for “Main Street”) and more regulations going forward (i.e. bigger government). Ongoing social activism is a key factor here where health and social issues are increasingly preferred to wealth.
3. **Policies** (both monetary and fiscal) are pro-inflation, where higher rates of inflation are one way to temper near-record government debt-GDP ratios. Should government bond yields rise,

however, central bank independence could diminish, should they intervene to keep government borrowing costs low. Inflation might move higher as a result just like it did in the early post-World War II era.

Households pinched by high medical care and housing inflation



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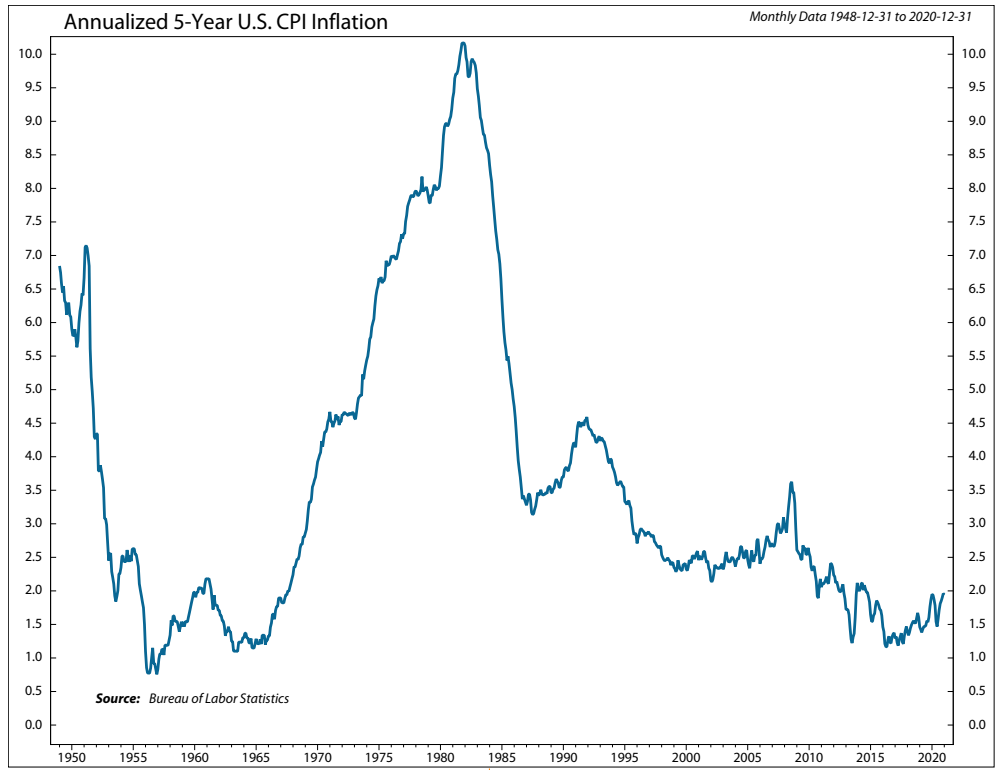
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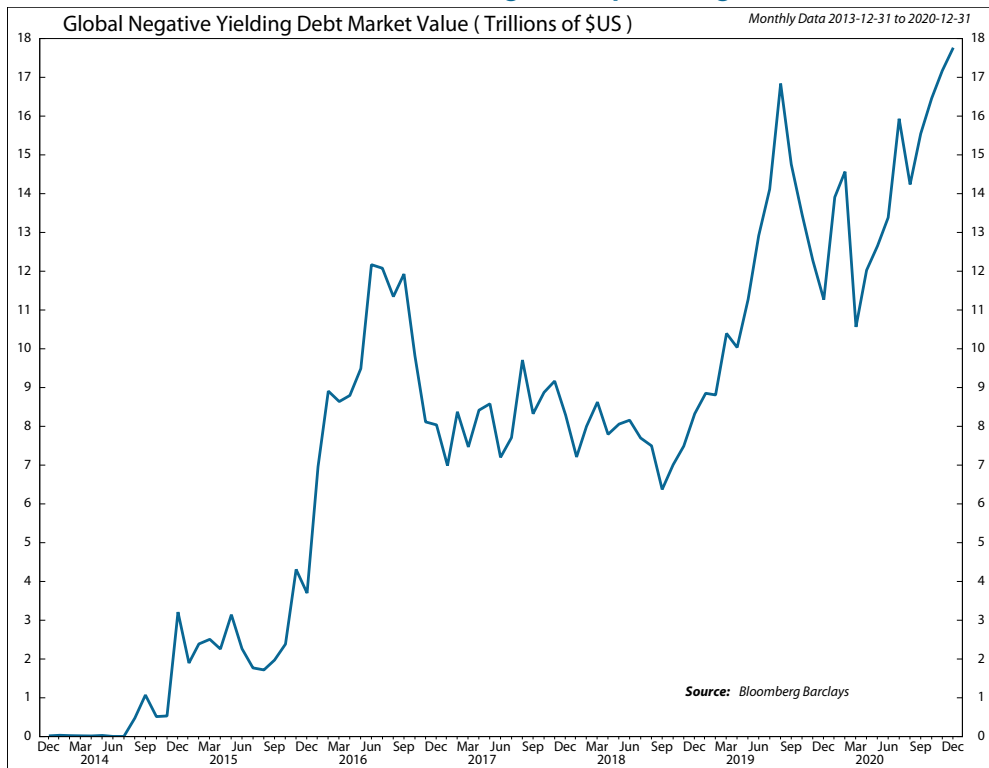
We acknowledge that thoughts about higher inflation **may run against today's consensus** and more so against current market positioning. It is still not clear if higher inflation will emerge in the 2020s given that global deflationary forces are still strong. But - as the chart to the right shows - long-term rates of inflation in the U.S. may have bottomed, while further gains in the years ahead could pose a significant risk to the current Goldilocks scenario of low growth and low inflation ... and more so to the current enthusiasm for those stocks and bonds, which are strongly in favor right now.

Is long-run inflation starting to rise?



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A massive amount of debt is negative yielding



Over-owned and expensive are weak combinations

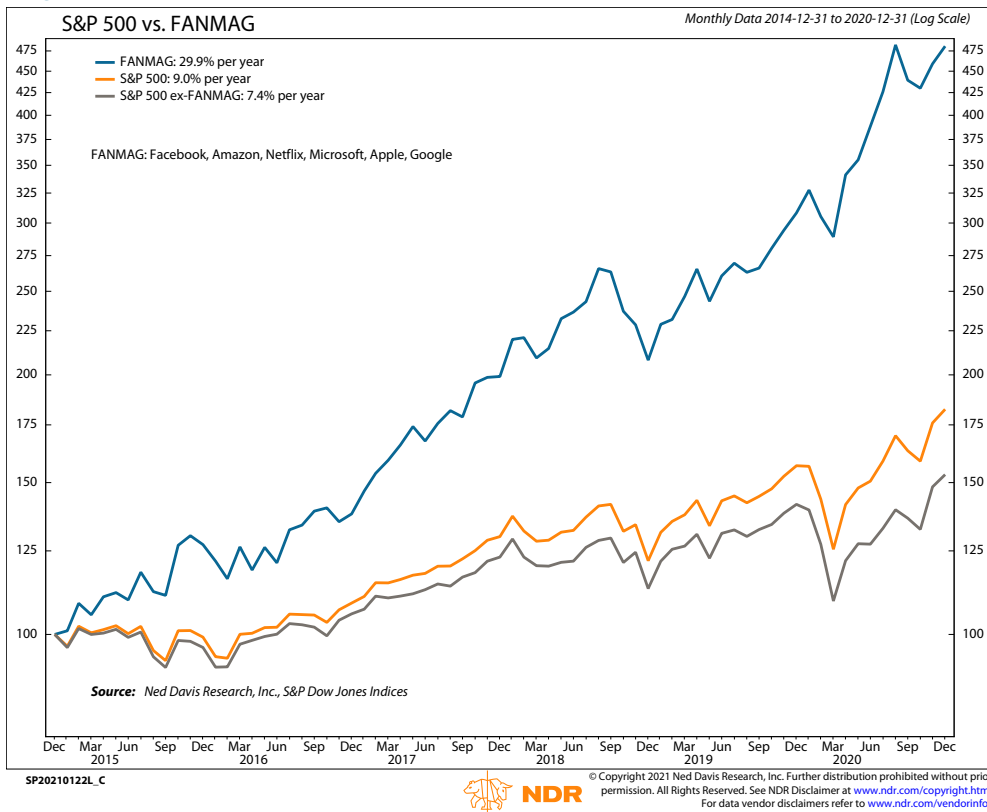
Overall, we find global investors currently long “duration” assets, with a particular preference for the following:

1. **Bonds** – close to \$18 trillion of the global bond market is suffering from negative yields (see chart to the left).

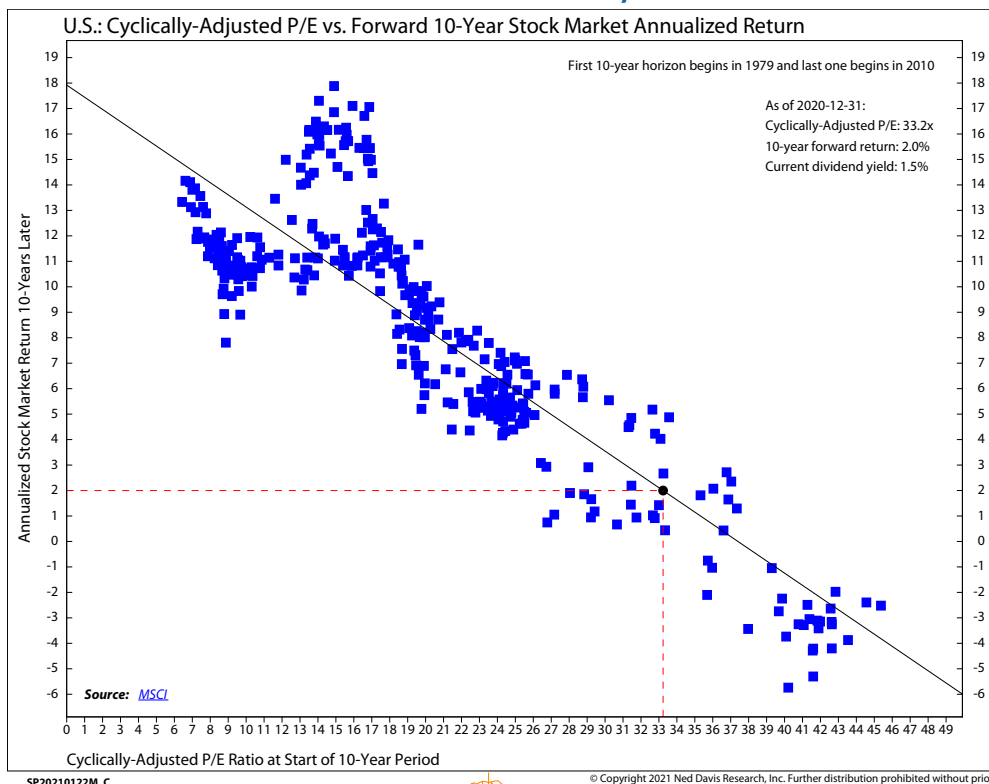
2. Investors also appear to be in “love” with the **FANMAG**³ stocks, judging by sizable ETF fund inflows for the QQQ ETF⁴ (the chart to the right shows return performance). So much so, that NDR strategists have put this group of names on “bubble watch”.⁵ Although earnings projections continue to rise for these names, valuation multiples have risen much more to such an extent that the market capitalization of **Amazon** is now larger than the entire **Australian stock market**.⁶

3. **U.S. stocks/S&P 500 Index** also look overvalued (largely due to the FANMAGs). The cyclically-adjusted PE multiple (or CAPE) has proved a reliable indicator for estimating future long-term returns for the S&P 500 index and — as seen in the chart below — now points to lower ones in the next 10 years. The current CAPE multiple of 33.3x implies

Big Tech stocks continue to outperform



Lower forecasted returns over next 10 years



annualized price returns of +2% through to the end of this decade, a markedly lower return versus what investors have experienced — and enjoyed — during the 2010s.

4. Other over-inflated assets may include **Bitcoin** and **venture capital**. The Thomson Reuters Venture Index has posted spectacular annualized gains such as 54% in 2019 and 68% in 2020.⁷ With regard to venture capitalism, the problem with the creation of **asset over-valuation** is that it tends to do two things: 1) it diverts capital away from more productive areas of the economy and 2) lowers investment returns. For instance, we could argue that infrastructure spending in the U.S. would be more beneficial to the country than the likes of space travel (even if we think space travel is cool).

What is left? The unloved and the undervalued

An old adage reminds us that **investor returns are always highest where capital is scarce**.

Which assets could possibly meet our criteria of being unloved (as defined as having suffered poor annualized returns and/or decennial ETF fund outflows) and undervalued?

Below, we lost some potential candidates:

1. **Global energy stocks.** The rising popularity of ESG investing, increasing environmental activism, and a negative WTI oil price in April 2020 have left many lowly-rated U.S. energy companies unable to raise fresh capital (the cost of borrowing has surged for many lower-rated U.S. energy companies). U.S. energy production has since fallen as a

result.

2. Similarly, **commodity prices** have suffered negative 10-year annualized returns (see chart below).
3. **Non-U.S. equities** have significantly underperformed the S&P 500 index since 2009 (as shown at the bottom of page 4). Vanguard's FTSE Pacific ETF has suffered net outflows to the tune of \$1 billion since the end of 2017 and, as we will see, now trades at sharply lower valuation multiples vis-à-vis their U.S. corporate cousins.⁸

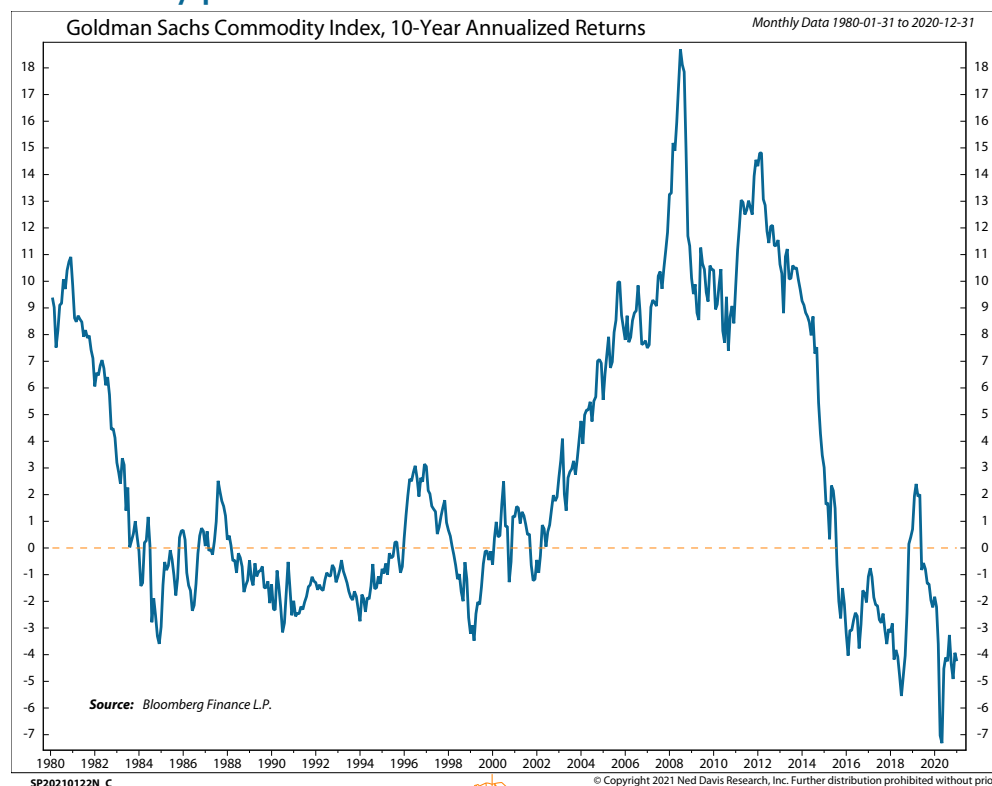
Such examples should give us pause for thought when trying to identify those financial assets, which could surprise investors via superior returns in the decade ahead.

Could the U.S. equity market, for example, finally give way to better performance

elsewhere in the MSCI AC World?

Moreover, could an increased allocation outside of the U.S. help address the retirement issues mentioned in the Executive Summary?

Commodity prices have fallen over the last decade



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Equities in the Pacific region

For the purpose of this research paper, we will assess the outlook and 10-year returns for the Pacific region (as defined by the **MSCI Pacific Index** with its constituent markets being Japan, Hong Kong, Singapore, Australia, and New Zealand and the regional **Bloomberg Barclays Asia Pacific Bond Index**).

Although Chinese equities are not part of this MSCI index, we also include them, given their global importance.

Certainly, equity valuations look much more attractive for the Pacific region.

The CAPE of the Pacific region's largest companies, for instance, is now trading close to its record valuation discount to its equivalent in the U.S. (see chart below).

Market commentators often cite the merits of using the CAPE — where they use historic 10-year earnings adjusted for inflation — to forecast long-term future returns.

The historical data bears this theory out, where a low CAPE multiple often points to higher annualized price returns ahead and vice versa.

After years of significant gains, however, the current elevated reading for the **S&P 500 Index's CAPE multiple** implies a miserly +2% per annum for the next 10 years.

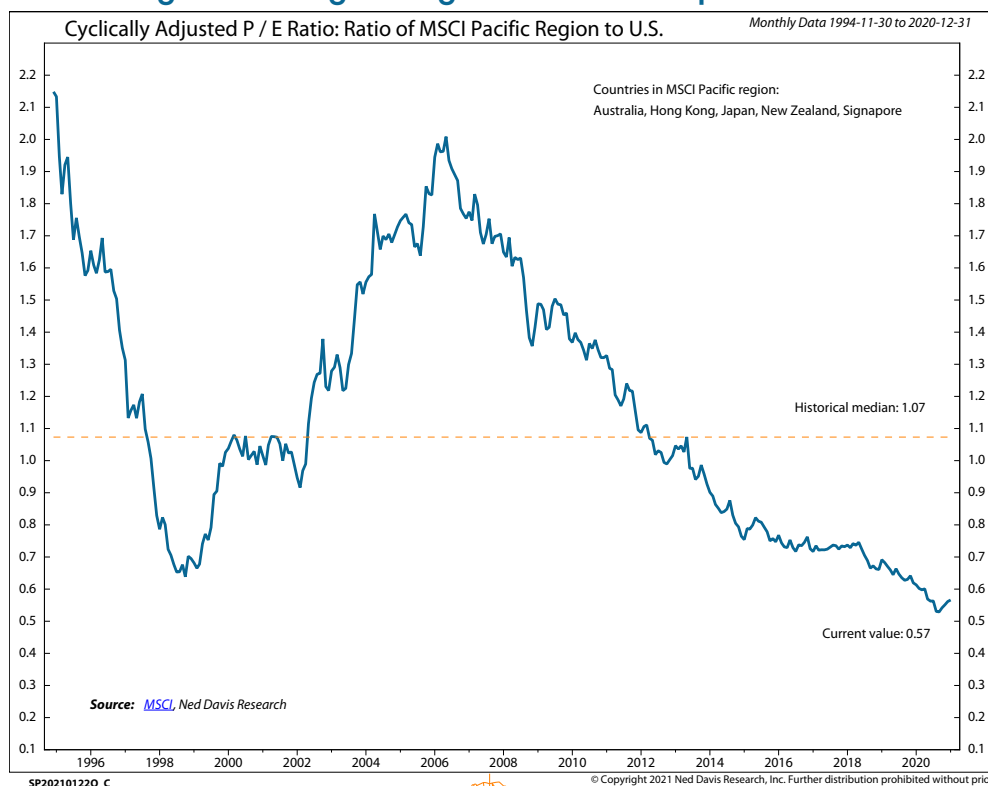
Does the CAPE valuation methodology work in Asia though?

Although the region's history is much more limited versus the S&P 500 Index (Asia's first data point begins in 1979), the good

news is that this valuation multiple seems to have decent predictive powers.

In this sense, the same inverse relationship between CAPE and the forward 10-year returns seen in the U.S. also appears in the Asian countries.

Pacific region trading at huge discount compared to the U.S.



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What's more, the forecasts for Asia look **marginally better**. The 10-year annualized price return for the MSCI Pacific Index is forecast to be in the region of +4.2% (although some countries register much higher returns than others - see the table below).

Adding the current dividend yield to generate a total return projection, the MSCI Pacific Index is on course for annualized total returns of around +6.4% (versus +3.4% for the S&P 500 index).

If this projection proves correct, a \$100 exposure to the MSCI Pacific Index at the end of 2020 would therefore be worth \$186 by the end of 2030 (before fees, taxes and inflation), comparing most favorably with the S&P 500 Index outcome of \$140.

Within the Pacific region, local investors should favor Australia, Hong Kong, and Singapore ahead of New Zealand. New Zealand might be the only developed country in the region which could disappoint versus the S&P 500 Index.

Some observations

As we can see, the projected results for the region above are relatively impressive versus the U.S. To gain greater comfort, we now stress test these forecasts by breaking the total market equity return down into its three main components, namely:

1. the dividend yield,
2. future earnings growth, and
3. the change in the PE valuation multiples (should it ever revert to its historical value).

We look at the dividend first.

10-Year Stock Market Returns

	Predicted 10-Year Price Only Return	Current Div Yield	Predicted 10-Year Total Return
MSCI Pacific	4.2	2.3	6.4
U.S.	2.0	1.5	3.4
China	4.8	1.5	6.3
Hong Kong	9.5	2.8	12.3
Australia	6.7	2.8	9.5
Japan	6.4	2.0	8.4
Singapore	7.0	4.1	11.1
New Zealand	-0.3	1.6	1.3

All figures annualized.
Source: Ned Davis Research.

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Dividend yield

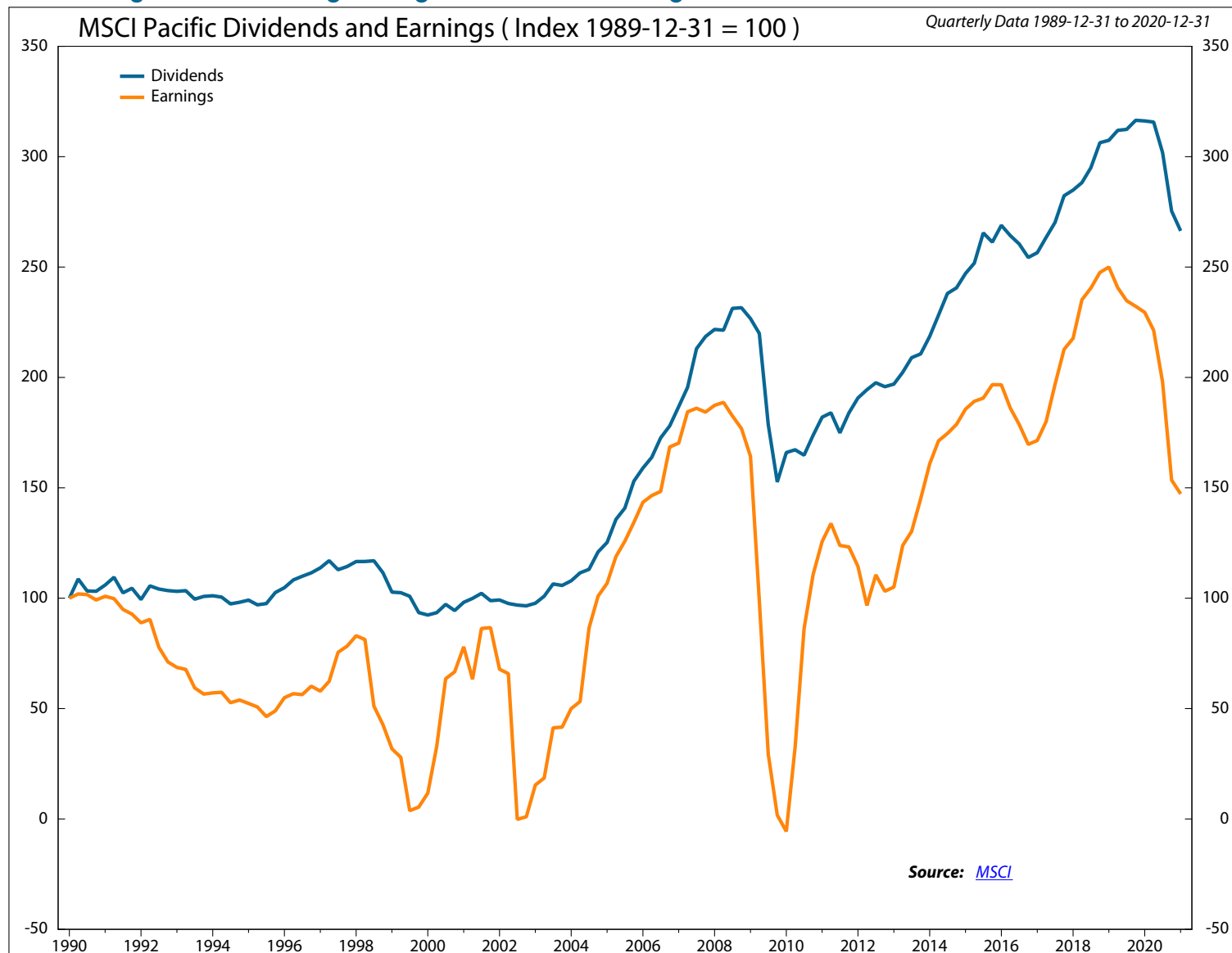
Dividends tend to give investors greater comfort for the two reasons below:

1. Corporate dividends tend to **rise** over time. In the Pacific region, it is noteworthy that Asian management is increasingly returning a higher
2. Dividends tend to be **more stable** than earnings. This is especially true of the U.S. (where dividends rarely decline) and to a lesser extent in the Pacific region

(an index of the region's dividends can be seen in blue – see chart below).

The bigger the yield, the better, which is good news for the Pacific region (2.3% versus 1.5% on the S&P 500 Index).

Pacific region dividends growing faster than earnings



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Earnings growth

What about the **earnings outlook** for the U.S. and for Asia?

In the previous White Paper, we noted a solid long-term relationship between S&P 500 Index earnings and U.S. GDP per capita (they tend to rise and fall together).

From time-to-time, however, one deviates from the other, but the deviation does not last for long.

As a matter of fact, we have just seen such a divergence. During the 2010s, S&P 500 Index earnings growth vastly outpaced U.S. real GDP by +5.4% (+7% versus +1.6%), leading us to believe that earnings will slow in the years ahead.⁹

A surge in share buybacks might explain the positive result for corporate EPS during the 2010s.

Whether the benefits of ongoing economic

expansion continue to accrue to the American corporate remains debatable.

We believe that it cannot and will revert back. Whether this is due to higher corporate debt levels and/or policies designed to favor employees relative to their employers/business owners) remains to be seen.

Nonetheless, weaker U.S. earnings growth might not be a huge negative for equities, however, the current combination of high earnings expectations and high valuations could be.

And **Asian earnings**? This is much harder to answer as the relationship between Asian earnings and its economy is not particularly strong, making it difficult for us to draw comparisons via the U.S. analysis.

Overall, Asian earnings tend to lag real GDP (with the exception of Japan) and why this might be could be down to two factors, namely:

1. Movements in the **trade-weighted USD** versus Asian currencies (a weak trade-weighted USD is often a positive for the Asia Pacific earnings — as it was in the 2000s — before turning it turned negative in the 2010s) and
2. The Pacific region's preference to seek funding via the equity market (rather than via its debt capital markets). With the exception of Japan, Asian companies have been persistent **net issuers of equity** (to the tune of around +4.5% of market value since December 2009)¹⁰, weakening the earnings link to real GDP (and helping to explain why Asian EPS growth lags). This net issuance in the region compares unfavorably with the net reduction in the U.S. (and why the U.S. has, up until COVID, just posted a decade of relatively stronger EPS).

The combination of a weaker USD and more focus on improving shareholder returns would be an optimal outcome for earnings in the Pacific region.

The valuation multiple

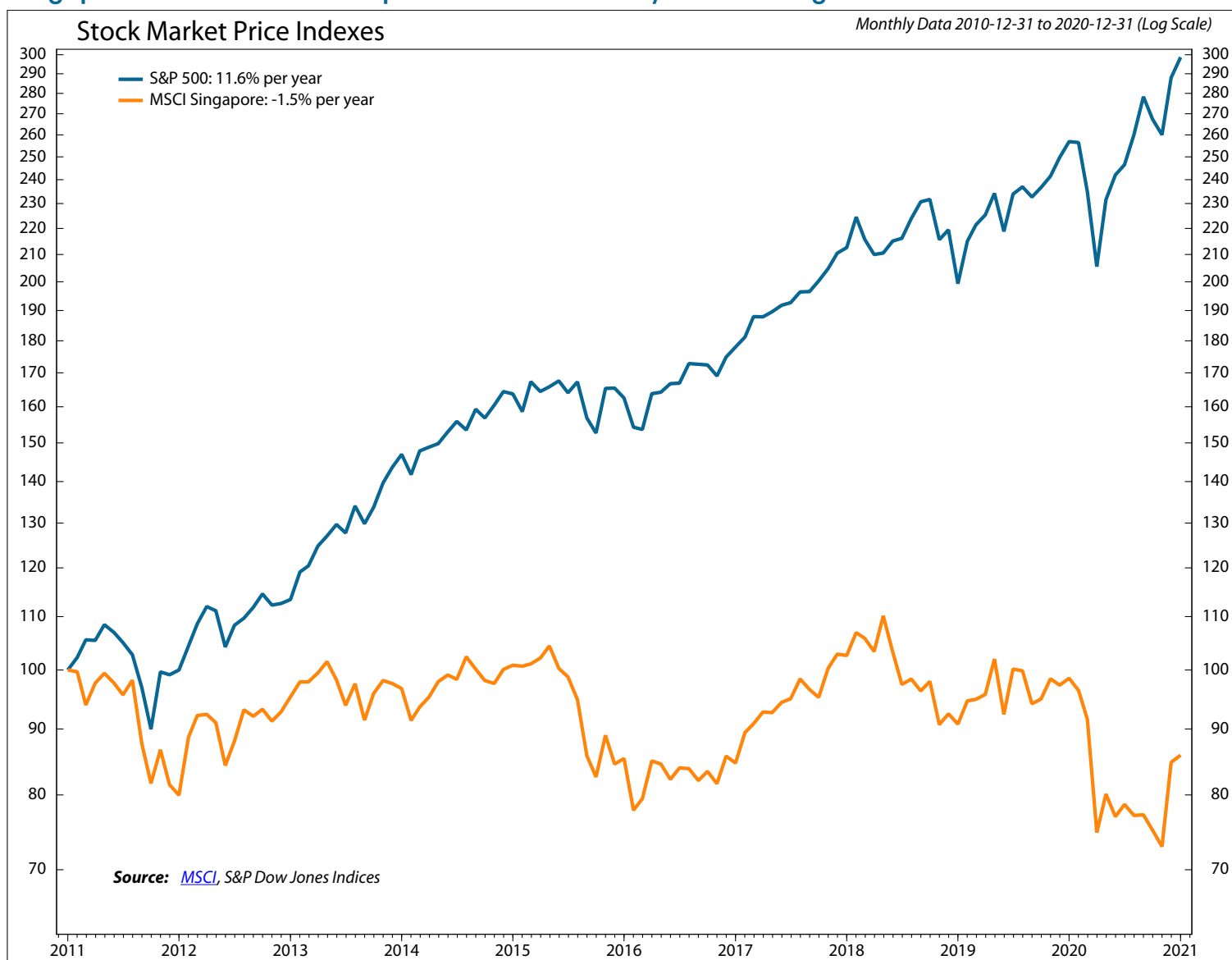
With the exception of New Zealand, the Pacific's equity markets have largely suffered a torrid time when compared to the large annual price gains the S&P 500 Index has recorded. Worst among the region's **poorest performers** is the MSCI Singapore index (see chart below).

The good news for those investors looking 10 years out is that this lackluster past performance is now showing up in **relatively attractive valuations** versus their history. This is encouraging.

For example, should we move a country's CAPE multiple back in line with its long-term median valuation? This could contribute

annual price upside of +0.6%, +7%, +0.1% and +8.5% for Hong Kong, Singapore, Australia, and Japan respectively. A reversion in the other direction, however, would act as a drag on total yearly returns for New Zealand to the magnitude of -8.1% (the only country in the region, whose CAPE valuation looks worse when compared to the S&P 500 Index).

Singapore stocks have underperformed the U.S. by a wide margin



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Is there any reason why the Pacific region's CAPE multiples will revert to its long-term median?

Here, we turn to **demographics** for an answer.

The chart below shows a ratio called the **Mature-to-Young** (the number of 35 to 49 year olds relative to those aged between 20 and 34 years old - yellow line in the chart below) for Singapore and its relationship with the MSCI Singapore index (blue line).

The premise behind this relationship is that when there is a rising proportion of mature-aged individuals to young ones, the underlying equity market tends to rise (and vice versa).

Why this might be is because **mature workers** tend to be more experienced/

productive, and thus, tend to make more money than those starting out in their careers.

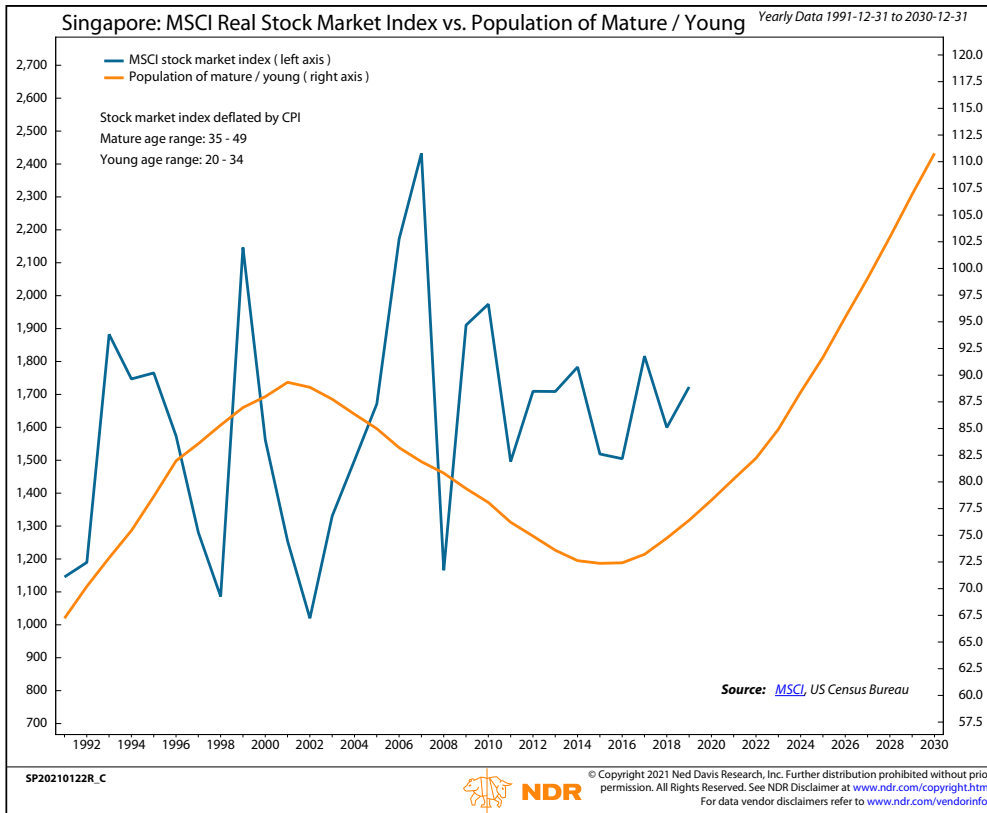
Mature workers will also start to turn their attention toward retirement and the realization that they need to start saving for it.

Any surplus savings they earn are therefore channeled into assets such as real estate, bonds, and/or equities (listed or private).

For the purpose of this section of the research paper, our focus is on the equity markets and the MY results are positive for Singapore, Hong Kong, and Australia going forward (albeit negative for Japan).

It is why that, if the MY relationship holds, more domestic investors could lift long-term equity valuation multiples.

Singapore's labor force is projected to become more productive



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Asian bond returns for the 2020s

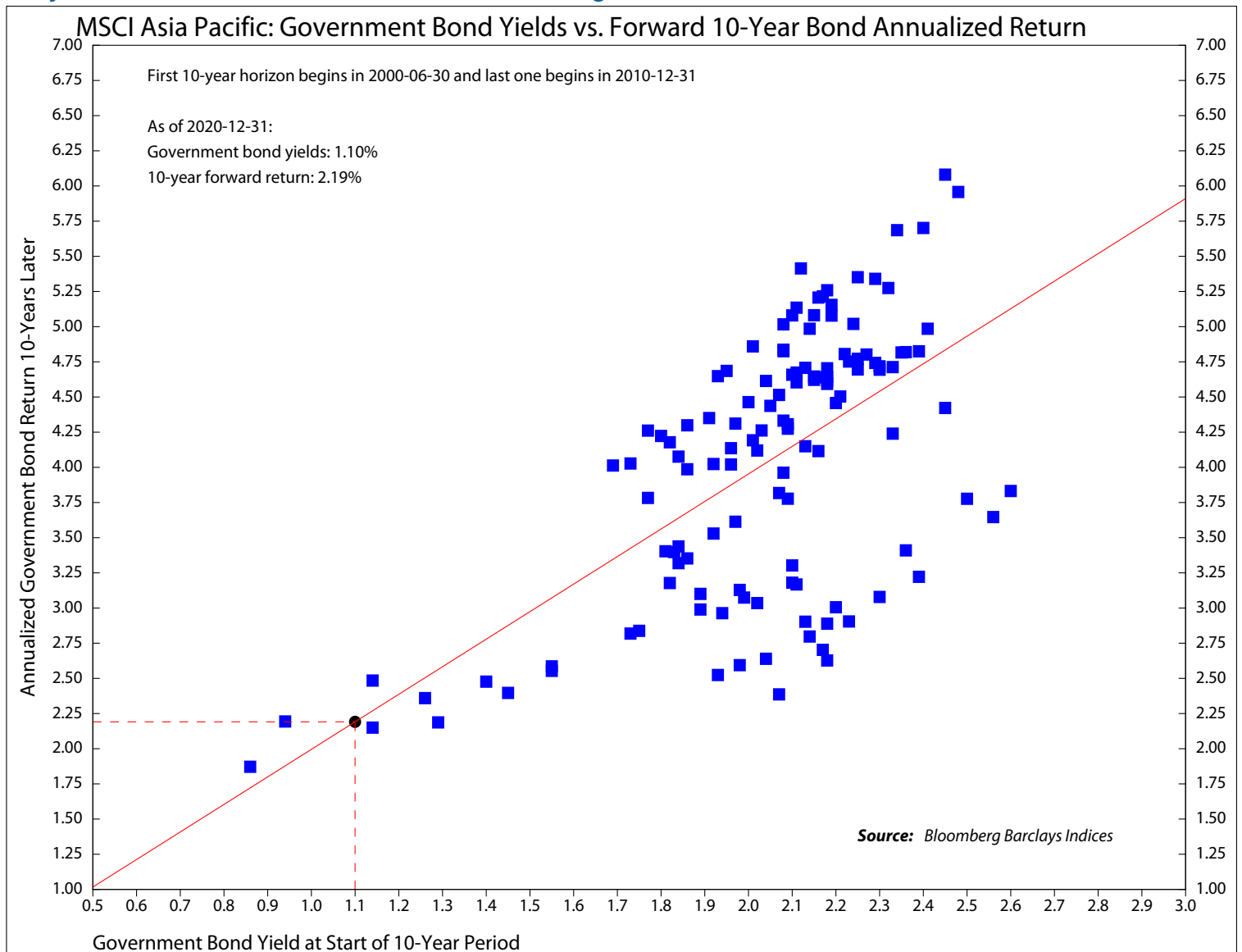
If the equity section appeared complicated, then readers will be relieved to learn that bonds are much simpler. This is because long-term bond returns are largely a function of the prevailing interest rate at the time of purchase (as borne out in the Grioli and Schuster White Paper). That is, future

returns are largely a function of current bond yields.

So, today's 10-year US Treasury yield of around 0.9% implies a subsequent 10-year annualized return below 1%. Note that U.S. corporate bonds typically come with higher yields than Treasuries, given that there is greater risk attached to the repayment.

In Asia we see a similar relationship (see chart below). The current government bond yield of around 1.1% corresponds with a subsequent 10-year return of +2.2% (or it has done in the last 20 years). If achieved, this will be a marginally better outcome vis-à-vis the U.S.

Projected bond returns for the Asia Pacific region



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Nonetheless, this projected outcome may disappoint some investors for the reasons below:

1. Fixed income has often been a **source of retirement income**, but at current yields, this is no longer the case. A combined yield of a 50 / 50 portfolio of U.S. government and prime corporate bonds is only 1.9% ... surpassing the previous post-World War II low of 2.27% (see chart below). If the Federal Reserve has things right, bond yields could stay low for the time being¹¹, therefore rendering the asset

class **unattractive** from the perspective of income-seeking baby boomers (however, the outcome could be worse if interest rates ever managed to rise).

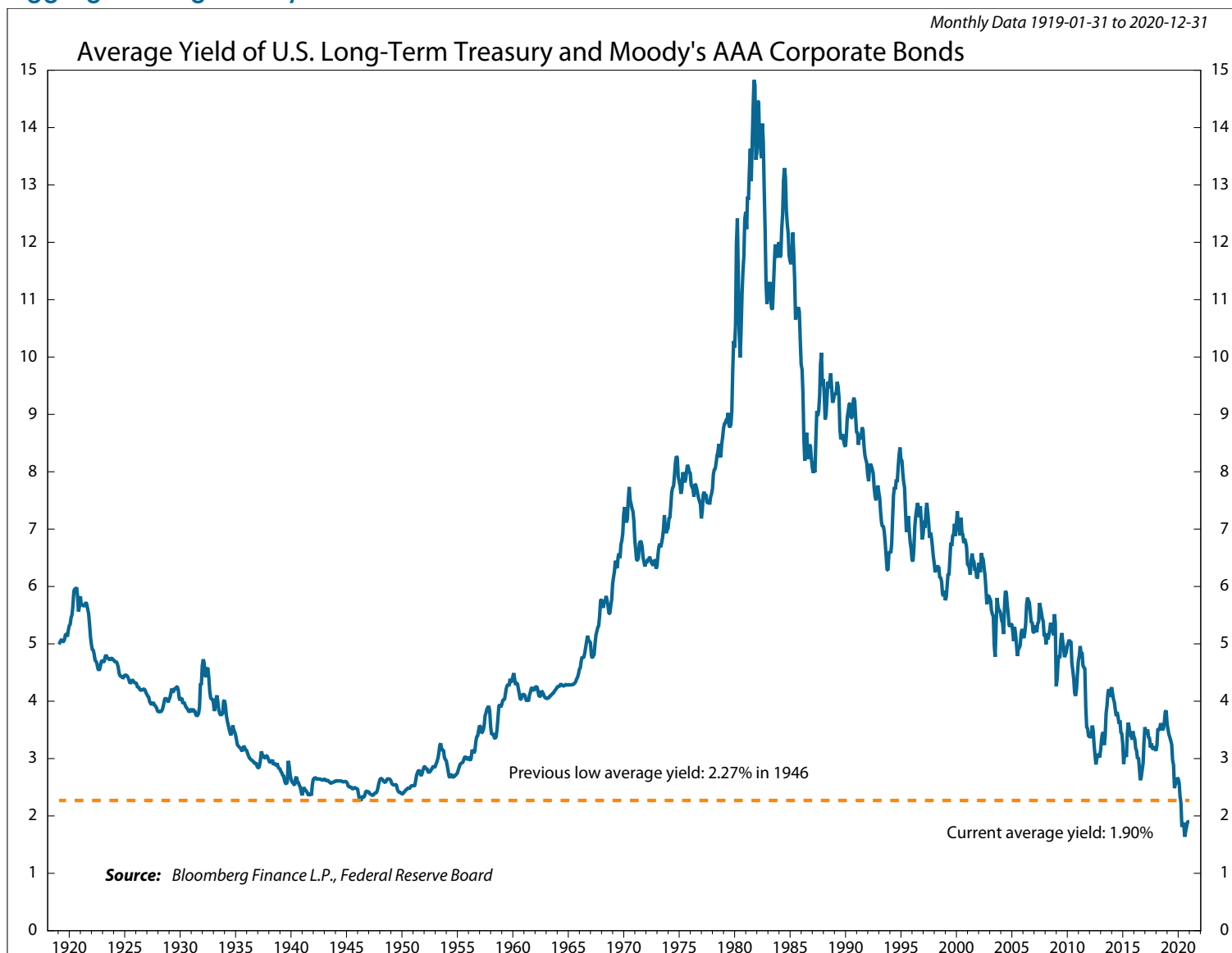
2. Financial markets seem to have been turned on their heads. Although they are more volatile than bonds, investors can now generate superior income in the **equity markets**.
3. The yields we use above are nominal. Once we **adjust for local rates of inflation**, however, many of the nominal gov-

ernment bond yields become negative.

What's more, as shown at the top of page 6, **essential living expenses** for retirees — such as housing and medical care — have consistently risen faster than the CPI for all items. With current low yields, bonds may not be able to sustain many in retirement.

4. Also, **global demographic** changes could also have a negative effect on bond prices.

Aggregate long-term yields are at historic lows



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The chart below shows that roughly **two-thirds of the world's population** today is of working age (i.e. 15 to 64 years old - black part of bar). A quarter is under the age of 15 years (i.e. at school - blue) with the remaining 9% in retirement (i.e. over the age of 65 years - red part of bar). In sum, 34% of the world's population rely on the 66% to help them out.

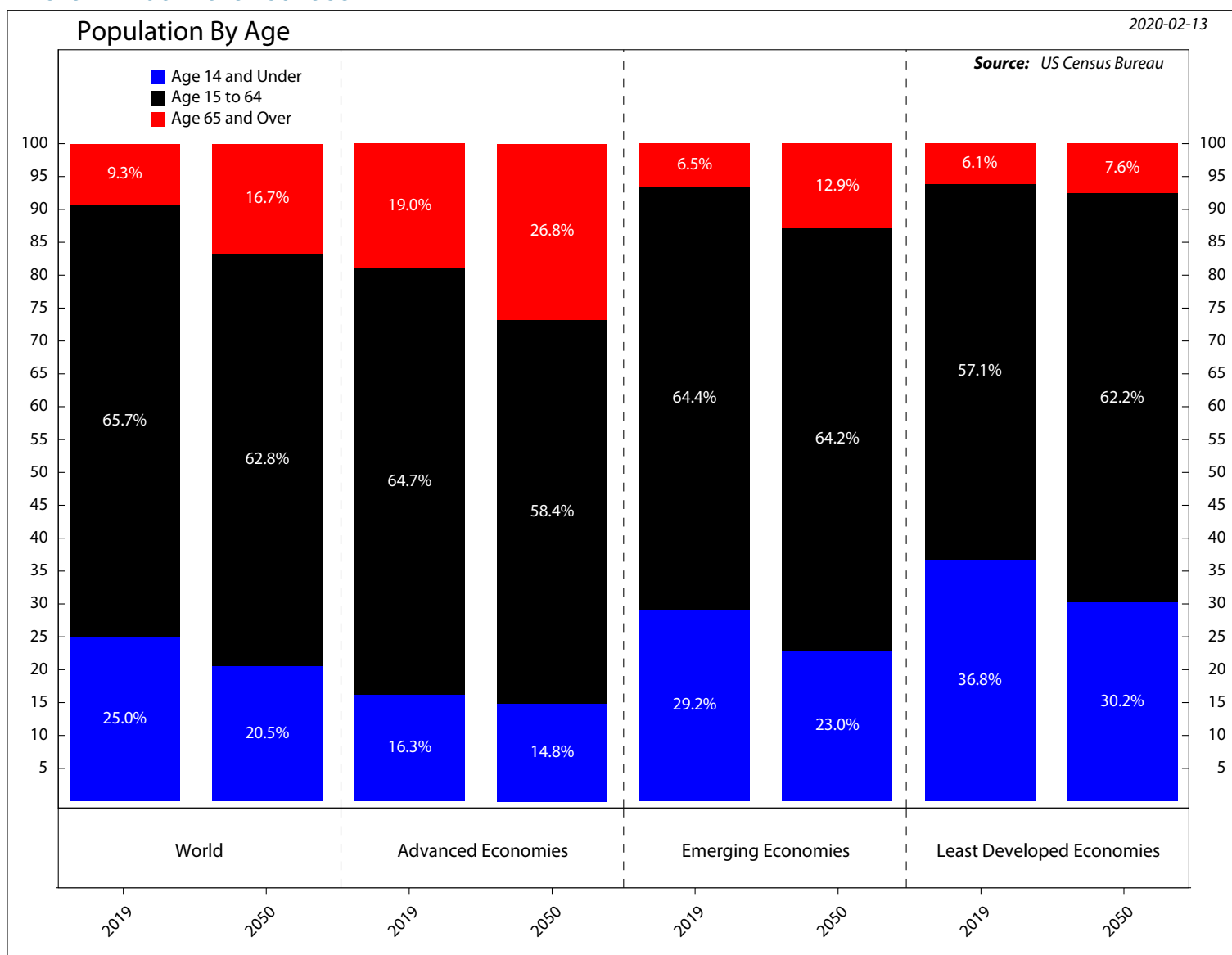
Some say the 34% is “unproductive” — meaning, they do not produce goods and services.

Many **retirees, however, draw on their savings** to pay for their upkeep, health care, and housing. At the other end of the age scale, schoolchildren might earn pocket money from their parents, but this is small in relation to their needs and overall expenditure.

Demographic changes ahead could have macro-economic implications given that the “unproductive” section is set to reach 37% of the world population by the year 2050 (driv-

en by an increase in the **elderly population**, rather than an increase in new-born babies). Should the latter continue to **draw on their savings to fund their retirement** at the same time there is a higher dependency on a smaller workforce, interest rates, wages and maybe even inflation could rise in the years ahead (a negative outcome for bond returns). It is possible this may not happen given the Japanese experience.

There will be more retirees



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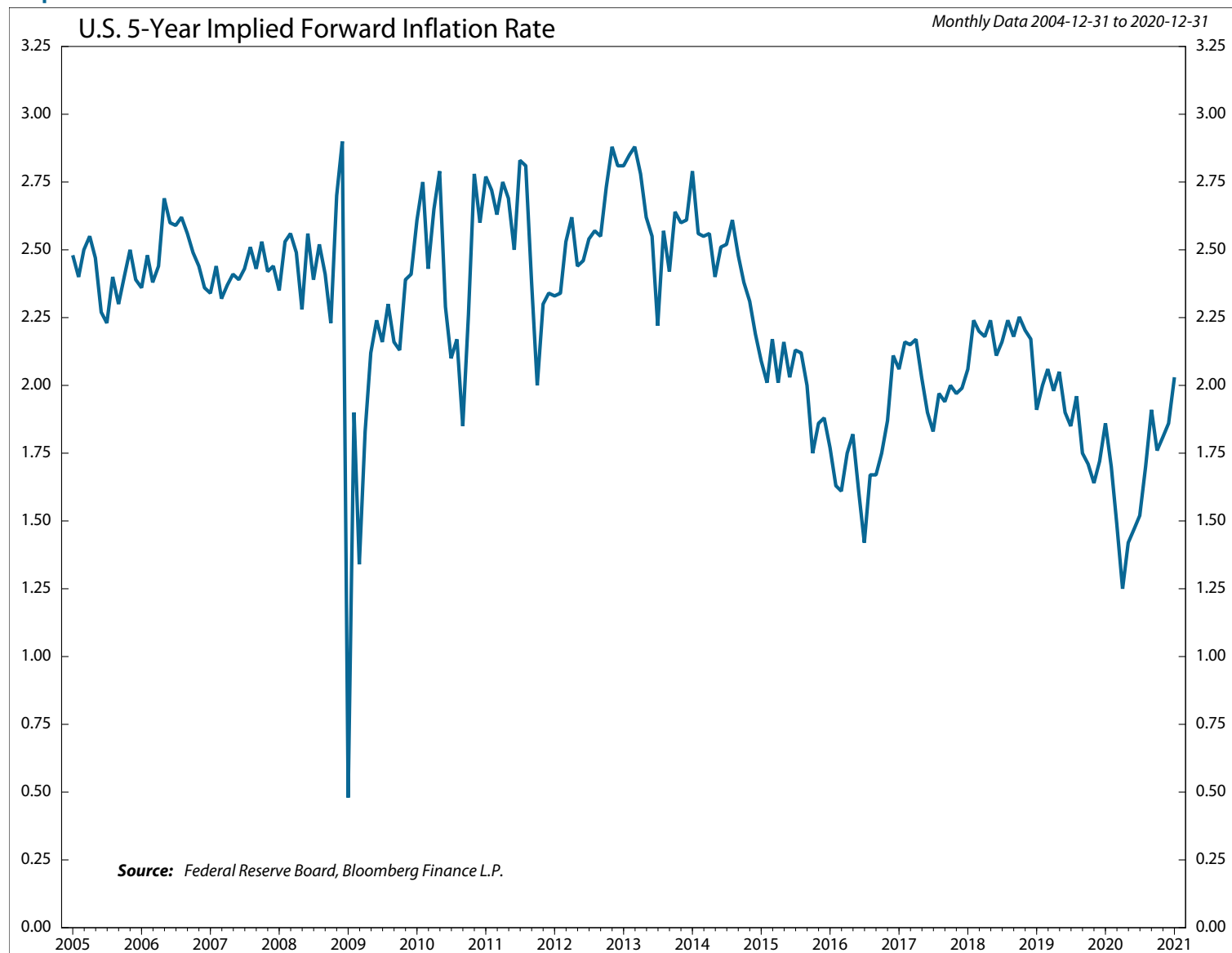
Nonetheless, we should be alert to this reality: that **global bond markets** are largely priced for low economic growth and low inflation (see chart below) as seen via near-record/negative low bond yields currently. Should the global macro environment turn more inflationary, bonds

with lower duration (i.e. those with a lower price sensitivity to rising interest rates) should do relatively better.

A combination of higher yields and lower duration is, interestingly enough, largely found in **riskier bonds** which include

EM/Asia bonds (i.e. diversity outside the US, although note that the Asia Pacific Government Bond index above has a higher duration vis-à-vis its U.S. peers — 8.2 years versus 6.4 years), U.S. high yield corporate bonds, inflation-linked, and/or floating rate ones.¹²

Expected inflation remains low



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Conclusion

Grioli's and Schuster's investment conclusion was to adopt a 90% equity/10% bond asset allocation using U.S. assets tempered with a tactical model to reduce risk.

Nonetheless, it is deemed necessary to help generate returns high enough to sustain those in retirement, offsetting both household inflation and higher health care costs.

This was the situation back in May 2020 and strong performance in U.S. equities since have only made the situation more difficult.

Our study was to see if there were any alternatives to the over-valuation currently seen in both U.S. equities and bonds.

In essence, should investors seek higher diversification outside of the U.S., an allocation shift towards the Pacific region could help them achieve a higher portfolio return through 2030.

This is because results from our study into the Pacific region point to higher potential returns through 2030. A 60 / 40 equity bond

allocation leads us to an estimated annual total return of around +4.7%, higher than +2.4% estimated for the U.S.

Therefore, \$100 invested today in the Pacific region could be worth \$158 come 2030, compared to \$127 in the U.S.

Multiple action plans/considerations are also available to readers (with a 10-year timeframe in mind), as follows:

1. Reduce exposure to **global bonds** (preference for higher yields and lower duration should interest rates rise).
2. Reduce exposure to the **FANMAGs/U.S. equities** with a preference for **non-U.S. equities** (with the Pacific region an attractive alternative).
3. Inflation trades have enjoyed a rebound, but expectations for inflation remain low. Our emphasis is on real returns, so higher rates of inflation would be a clear negative for bonds. Readers should seek more **inflation protection** (e.g. real estate, gold, commodities, TIPs). These are often higher risk, but currently enjoy low levels of correlations to those assets which have performed strongly (e.g. bonds and IT stocks).
4. U.S. investors should recognize that

an estimated +2.4% total annual return (based on a **60 / 40 US portfolio**) may not be enough to cover their living **expenses**.

A closer look at one's investment management expenses is also highly prudent.

5. A **90 / 10 US equity bond portfolio** would generate an estimated annual return of +3.2%, marginally better than 60 / 40 outcome (albeit with higher portfolio risk). However, complementing this approach with **NDR's tactical positioning** via its ETF Asset Allocation model may help to reduce risk. A **90 / 10 Pacific equity bond portfolio** would generate an estimated annual return of +6% (although we acknowledge this is a highly unlikely allocation for those investors based in the U.S.).
6. Pursue tried-and-tested techniques that can **amplify your investment returns** via an emphasis on the long-run, reinvesting dividends when they occur (for those who do not need the income), and keep your transaction costs low/deal less (wherever possible).

We wish everyone the very best of investment success.

Endnotes

1. GDP growth rates calculated by Ned Davis Research using data from Haver Analytics
2. Ratio calculated by Ned Davis Research using data from the Bank for International Settlements and Haver Analytics
3. FANMAG is an acronym for Facebook, Amazon, Netflix, Microsoft, Apple and Google
4. Approximately \$20 billion in net inflows over the two year period ending in December 2020, as calculated by Ned Davis Research using data from IHS Markit
5. Ned Davis Research “Trend of the Week”, December 11, 2020
6. As of December 31, 2020, Amazon’s market cap was about \$1.6 trillion, and MSCI Australia was about \$1.1 trillion in USD. Source: MSCI
7. https://www.refinitiv.com/content/dam/marketing/en_us/documents/fact-sheets/venture-capital-index-fact-sheet.pdf
8. Calculation by Ned Davis Research using data from IHS Markit
9. Calculated by Ned Davis Research using data from Haver Analytics and S&P Dow Jones Indices
10. Calculated by Ned Davis Research using data from S&P Global Compustat
11. During the December 2020 FOMC meeting, all 17 participants saw no change in rates in 2021, only 1 saw an increase in 2022, and 5 saw an increase in 2023 (<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20201216.pdf>)
12. Source: Bloomberg Barclays Indices



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Dan Chin, PhD, Senior Research Analyst, Custom Research Solutions, conducts quantitative research on behalf of the firm's clients, including asset allocation modeling, equity selection, and in-depth market analysis. Dan is also the lead editor for the series of white papers published each year by the Custom Research team.

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Stephen Corry

Founder of Corry Wealth Coaching LLC

Stephen Corry has worked in the financial services industry since 1994 when he started as an investment research analyst at General Accident Insurance Company. He founded Corry Wealth Coaching LLC in 2018 and coaches individuals to help put them on a path to greater financial independence and freedom.

Stephen brings over 25 years investment experience from across the UK and Asia on both the buy and sell-side of the sector and has worked for Sun Life of Canada, Merrill Lynch and LGT, the largest private banking and asset management group in the world to be owned by an entrepreneurial family.

In 2007, Stephen moved from sell-side research to wealth management (first with Merrill Lynch followed by LGT) in the roles of Chief Investment Strategist and Chief Investment Officer. On a day-to-day basis, he was responsible for communicating the firm's investment strategy to its high net worth individuals. His time at Merrill Lynch gave him access to some of the bank's smartest minds in its research division, and his latter move to LGT allowed him to focus on investment strategy centered on portfolio construction and strategic asset allocation.

In 2017, Stephen took early retirement, and subsequently, to assist others on their journey along the same path, he founded Corry Wealth Coaching LLC. His coaching service educates on the main issues of early retirement, which may not be everyone's preferred choice, but it provides an emphasis on saving more, and by investing a little smarter, can help some realize their goal of early retirement.

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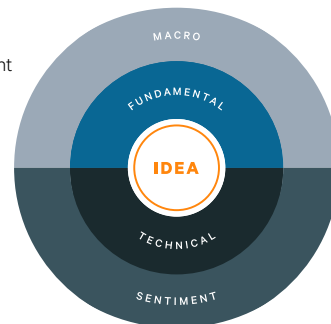
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