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2017 Outlook More upside for Global ETFs

The broadening global reflationary environment has brightened the outlook for exchange-traded funds (ETFs). So far, global economic data has surprised on the upside. Forward guidance indicators also reflect growing confidence that the economic outlook will continue to improve.

Against an upbeat backdrop, investors may consider adopting a balanced diversification strategy across different regions and sectors. DBS shares its views on the global ETF opportunities.

US Diversified ETFs – Cyclical plays are preferred
US Diversified ETFs saw record inflows in the first quarter of 2017. The biggest winners were Power Shares QQQ Trust (QQQ) ETF [up 15.8%], Vanguard Growth ETF (VUG) [up 12.2%] and iShares Russell 1000 growth ETF (IWF) [up 11.3%]. The SPDR S&P 500 (SPY), the world's largest ETF with $212 Billion, also gained 6.8%.

US equities are more expensive in this rising rate environment, we remain selective in our US ETF picks, preferring cyclical to defensive ETFs. We believe the cyclical plays in financial, technology, healthcare, industrials and energy sectors will outperform the defensive ones in 2017 as the global recovery gains pace.

Foreign ETFs – Opportunities in Japan and Europe
Despite the political elections risks in Europe, the first four months witnessed strong performance by foreign equities. Investment sentiments were positive as inflows picked up.

Top performing European ETFs were WisdomTree Europe Hedged (HEDJ) [up 13.4%] and iShares MSCI EMU ETF (EZU) [up 14.1%]. Japan's ETFs also did well, led by Ultra MSCI Japan ETF (EZJ) [up 11.5%], iShares MSCI Japan Small-Cap ETF (SCJ) [up 9.8%] and WisdomTree Japan Small Cap Dividend Fund (DFJ) [up 9.7%].

Overall, investors remain positive on Japan due to a weaker yen and improving global growth, while investors in Europe are encouraged by the European economic recovery and the global reflationary environment led by higher corporate earnings.

Emerging Markets – Outperform developed markets
Riding on the positive turnaround in 2016, emerging markets continued to outperform its developed peers in the first four months of 2017.

The case for investing in Emerging Markets remains strong due to attractive valuations and the widening gap between the growth of emerging and developed markets. Year to date, emerging market ETFs are led by WisdomTree India Earnings Fund (EPI) [up 19.82%], iShares MSCI India ETF (INDA) [up 17.46%] and WisdomTree Emerging Markets Small Cap Div Fund (DGS) [up 14.75%]. Winners in the China ETFs include Ultra FTSE China 50 ETF (XPP) [up 23.0%], Direxion Daily CSI 300 China A Share Bull 3x ETF (YINN) [up 33.3%], and Krane Shares CSI China Interest ETF (KWEB) [up 29.2%].

In Latin America where there were six years of economic stagnation, bright sparks can be found in its 2017 economic recovery, the global recovery of commodities and steady progress toward democracy. In Asia, a stabilized economic outlook led by China, should signal that the worst is behind us.

Singapore – ETFs with high dividend yield
During the first four months, one of the best performing ETFs in Singapore was the SPDR STI ETF (STTF), which gained 9.2% in total return including dividends. ETFs exposed to REITS and with high dividend-yielding stocks in the region have also become available to investors, reinforcing Singapore's reputation as a dividend and REITS haven. Examples of these ETFs are Phillip SGX APAC Dividend Leaders REIT ETF, NikkoAM-StraitsTrading Asia ex Japan REIT ETF, and One Stoxx Asean Select Dividend ETF. High dividend-paying REITS ETFs can be attractive in the current environment where there is limited upside for longer-term bond yields.

Commodities – Energy and Gold ETFs
Gold price rose 9.1% in the first four months, rising to a high of US$$1,290.9 before softening to US$1,263.2. In particular, the ETF exposed to the physical gold — the SPDR Gold Trust (GLD) gained 9.3%. This looks attractive when compared with an 8.1% rise in global equities.

Best ETF Ideas
US Diversified Funds
SPDR Technology Sector ETF Sector
SPDR S&P Biotech ETF Sector
Energy Select Sector SPDR Fund
Financial Select Sector SPDR Fund
Foreign ETFs
iShares Currency Hedged MSCI Japan
iShares Core MSCI Europe
WisdomTree Europe Hedged Equity
Hong Kong / China ETFs
CSOP FTSE China A50 ETF-HKD
Hang Seng H-shares Index ETF
CSOP S&P New China sectors ETF
Tracker Fund of Hong Kong
Emerging market ETFs
iShares Core MSCI Emerging Market
Singapore listed ETFs
SPDR Straits Times Index ETF
db x-trackers FTSE China 50 UCITS ETF
NikkoAM-StraitsTrading Asia exJ REIT ETF
Philip-SGX Apac Dividend Leaders REITS ETF
One Stoxx ASEAN Select Dividend Index fund
SPDR Gold Shares

While gold is typically considered a 'safe haven' for investors, it should be noted that today's commodity ETFs are neither passive nor active. The amount of flows is declining. Investors should actively manage their portfolios, examine technical charts for trading levels, and monitor the USD movement.

The energy sector has not performed well during the first four months this year. The Energy Select Sector SPDR Fund, the energy ETF's largest asset was down 10.2% YTD. As OPEC and other oil producers continue to work out the supply glut, we expect the energy price to be under range bound in 2017, but one should consider investing selectively in the energy ETFs with their cheap valuation and improving sales growth.

Bond ETFs – limited upside in a rising rate environment
Without price appreciation from higher yields, this asset can only provide marginal returns going forward. Even as spreads tighten again, we expect credit and corporate dividend growth to outperform government bonds as rates marginalize. In the first four months, the two best performing ETFs were iShares iBoxx $ High Yield Corporate Bond ETF (HYG) [up 1.4%] and iShares TIPS Bond ETF (TIP) [up 1%].

*Call **6636 2669** or email **ETF@dbsvickers.com** to start your ETF investment journey today.*

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