# CIO Perspectives

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## Key Points

- The surprisingly dovish tilt in December's FOMC meeting has driven UST yields lower; S-REITs tend to outperform when bond yields are stable or trending south – the latter translates into a wider yield spread.
- Market volatility is expected to remain elevated in 2019 amid geopolitical and policy uncertainties; This is beneficial to safe-haven assets like S-REITs.
- Adopt a barbell strategy in your portfolio. Build resilience through income-generating assets such as Asian dividend stocks – they have historically outperformed during periods of elevated volatility.

## Global cross assets

Returns of cross assets around the world

| Index | Close | Overnight | YTD |
|---|---|---|---|
| DJIA | 25,169.53 | -0.87% | 7.90% |
| S&P 500 | 2,706.05 | -0.94% | 7.95% |
| NASDAQ | 7,288.35 | -1.18% | 9.84% |
| Stoxx Europe 600 | 360.08 | -1.49% | 6.64% |
| DAX | 11,022.02 | -2.67% | 4.39% |
| CAC 40 | 4,985.56 | -1.84% | 5.39% |
| FTSE 100 | 7,093.58 | -1.11% | 5.43% |
| MSCI AxJ | 641.15 | -0.25% | 7.47% |
| Nikkei 225 | 20,751.28 | -0.59% | 3.68% |
| SHCOMP | 2,618.23 | 0.00% | 4.99% |
| Hang Seng | 27,990.21 | 0.00% | 8.30% |
| MSCI EM | 1,041.97 | -0.62% | 7.90% |
| UST 10-yr yield* | 2.66 | -0.04 | -0.03 |
| JGB 10-yr yield* | -0.02 | 0.01 | -0.01 |
| Bund 10-yr yield* | 0.11 | -0.05 | -0.13 |
| US HY spread* | 4.16 | 0.16 | -1.10 |
| EM spread** | 374.33 | 8.50 | -60.28 |
| WTI (USD) | 52.64 | -2.54% | 15.92% |
| LMEX | 2,965.30 | -0.35% | 5.86% |
| Gold (USD) | 1,310.11 | 0.27% | 2.15% |

Source: Bloomberg
* Changes are in percentage points
** Changes in basis points

# Ask CIO: Do Singapore REITs and Asia dividend stocks add portfolio resilience?

*In recent conversations with our clients, we received many interesting questions, and will be addressing them in a new series of CIO Perspectives, "Ask CIO". We hope you find this insightful and enjoyable.*

The gyration in risk assets since October 2018 has triggered a broad-based flight to safety. One beneficiary of this capital flight has been Singapore Real Estate Investment Trusts (S-REITs). Since the start of the year, S-REITs have rallied 7.2% and outperformed the domestic equity market by 2.9 percentage points. The outperformance stems from two factors:

- A dovish Fed: In its December Federal Open Market Committee (FOMC) meeting statement, the US Federal Reserve removed the phrase "further gradual rises" (on rates), while emphasising the need to be "patient" when it comes to policy tightening – given that inflation in general is deemed as "muted". The surprising dovish tilt in Fed-speak drove the US Treasury (UST) 10-year yield lower.

  Historically, S-REITs tend to outperform when bond yields are stable or trending south (Figure 1) – the latter would translate into a wider yield spread. At current levels, S-REITs are yielding c.6.2% and this translates to a spread of 4.1% over the Singapore 10-year yield (Figure 2).

- Heightened volatility: 2019 is expected to be a year of elevated volatility amid prevailing geopolitical and policy uncertainties. This will be beneficial to safe-haven assets like S-REITs, which display close correlation with the S&P 500 implied volatility (Figure 3).

Adopt a barbell strategy in your portfolio: Build resilience by gaining exposure to income-generating assets. We are also positive on high-dividend-yielding stocks in Asia for their ability to generate regular and superior cash flows.

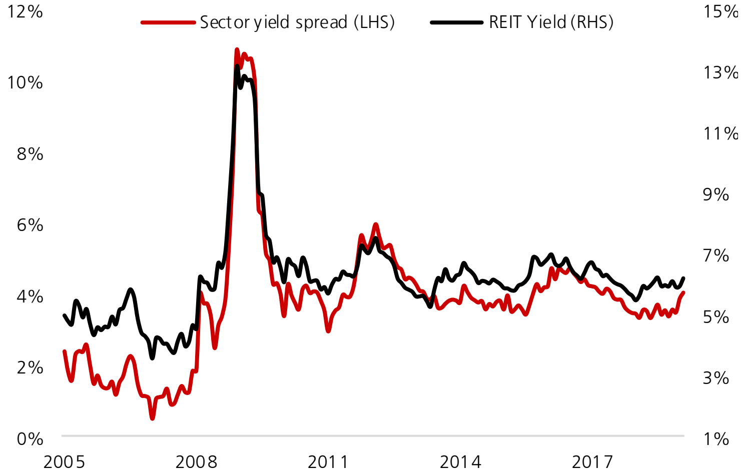
Asian dividend stocks have historically outperformed during periods of elevated volatility. Take the January 1999 to June 2003 period for an instance, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) recorded an average of 25.0 and global equities registered a decrease of 18.4% on a USD net total returns basis. Asian high-dividend stocks, on the other hand, were up 34.3% during the same period – an outperformance of 52.6 percentage points (Figure 4).

Similarly, when the VIX Index averaged at 28.2 from June 2008 to December 2011, global equities lost 16.5% but Asian high-dividend stocks surged 18.2%, outperforming their global peers by 34.7 percentage points (Figure 5).

**Figure 1: A dovish Fed will be positive for Singapore REITs**

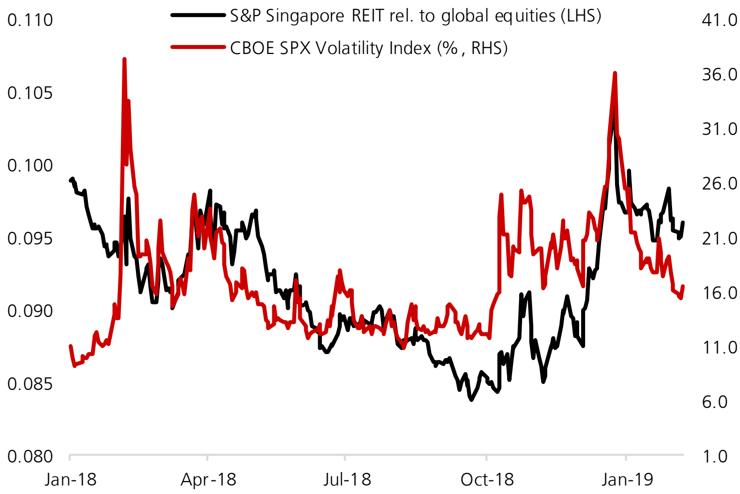

Source: Bloomberg, DBS

**Figure 2: The current S-REIT yield at c.6.2% translates to a spread of 4.1% over the Singapore 10-year yield**



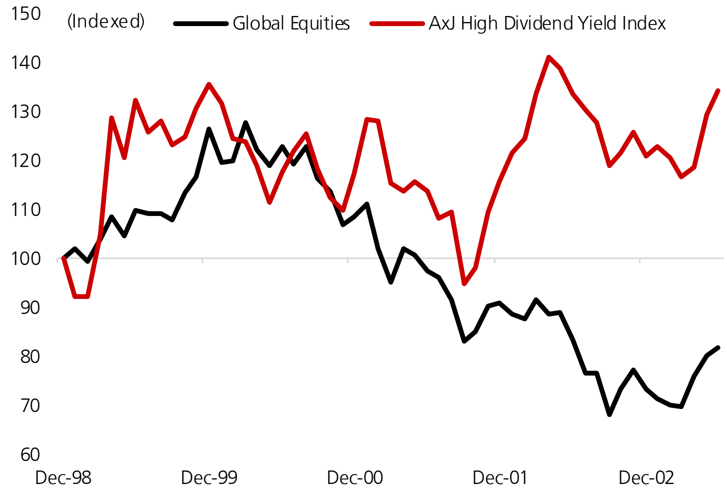

Source: Bloomberg, DBS

**Figure 3: From historical data, S-REITs are likely to benefit amid elevated volatility in 2019**



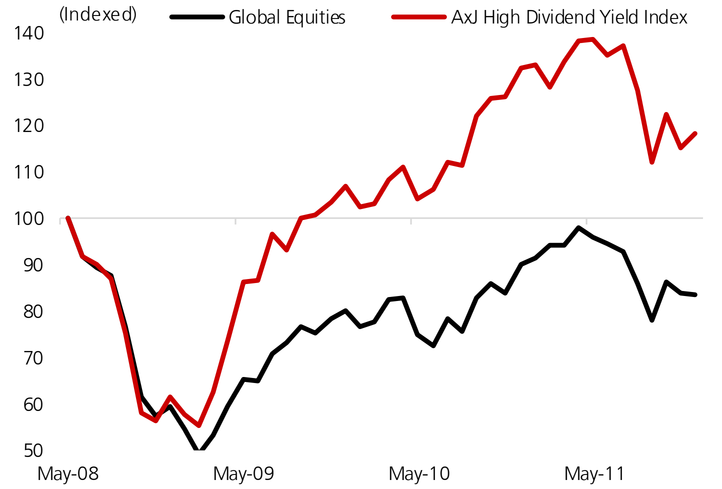

Source: Bloomberg, DBS

**Figure 4: Asian high-dividend stocks outperformed global equities by 52.6 percentage points from January 1999 to June 2003**




Source: Bloomberg, DBS

**Figure 5: Asian high-dividend stocks outperformed global equities by 34.7 percentage points from June 2008 to December 2011**




Source: Bloomberg, DBS

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