

# Asian govts need to sell inflation-linked bonds

It may protect region's retirees as population ages

By GENEVIEVE CUA

ASIAN governments need to start to issue inflation-linked bonds if they are to help their citizens build their retirement portfolios.

At the moment no Asian country has any inflation-linked bonds. Investors who want some inflation hedge can buy Treasury inflation-protected securities, but this would spell US dollar risk for the Asian retiree.

SG Asset Management's Michala Marcussen, head of strategy and economic research, is concerned about inflation and the impact that it would have on retirees. "Emerging Asia has so far had a deflationary impact. But in 20 years as its population ages, it may have an inflationary effect. If governments believe they can keep inflation low, why aren't they issuing inflation-linked bonds?"

"The shift from a defined benefit to defined contribution pension system is very tough from a social point of view. You force individuals to take inflation, longevity and capital risk. You tell individuals to cover those with investment risk and they don't know how to do that. Developing good products for a defined contribution pension savings is a big challenge for our industry."

Ms Marcussen's own retirement portfolio has equities and inflation-linked bonds. She is also considering investing in real estate which offers an inflation hedge.

"Yes, there is a risk that house prices will go up and down. But once you're locked into the housing market you've secured yourself for your need



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for housing consumption. It's a big academic debate on how ageing will impact house prices. One of the interesting things we should develop is a pension product that will help you with housing."

Investors should also be wary of the supposed benefits of an investment in commodities, she says. This is because the weight of new monies into commodities has come from financial investors, as opposed to fundamental investors in the past. This is set to change the way the assets' prices move in correlation to financial

markets. "Now that commodities are driven by financial investors and liquidity, will they be as de-correlated with other assets as in the past? Maybe. But a lot of returns had come from the shape of the forward curve which was very inverted. Today, forward curves are much flatter. We have to be very critical of conventional wisdom."

She says there are a number of structural trends that are wielding a cyclical impact. One of these is the demand for long bonds among pensions in Europe as part of their liability management. This has depressed long bond yields and flattened yield curves. Pensions are also looking to private equity and adding to the frenzy for the asset class.

Governments are also creating sovereign wealth funds, which will be looking to invest. "We're going to see in the future a lot more interest in-acquiring strategic companies. New investors will be looking to acquire high technology or natural resources."

SGAM is moderately overweight on equities; it is also positive on corporate, high yield and emerging debt. Ms Marcussen, however, is somewhat concerned over the absence of business spending among US corporates which have, instead, taken on leverage to invest in financial markets.

"This year, we'll probably see a more volatile picture in equities. But the fundamentals are still OK... We're crossing our fingers and hoping business spending will pick up, because if it doesn't, it's likely we're heading for a more severe slowdown in the US economy. It is much more attractive today to have financial investments, but ultimately that can't sustain itself."