Manulife Investment Management

Cash is king?

Amid volatile market conditions and higher interest rates, seeking security by burying your savings in a deposit account could be tempting. After all, you may have minimised the risk of losing your capital and could capture a higher nominal rate, so everything should be fine.

As the saying goes, “cash is king”. Or is it?

However, remaining invested while managing risk could potentially earn higher returns, especially when inflation rises and stays elevated.

RISING INFLATION + LOWER GROWTH: DOUBLE WHAMMY

Rising inflation but lower growth

The global economy is increasingly characterised by elevated inflation and the rising chance of a recession. This stagflationary backdrop may harm economies, resulting in sluggish growth, lower production, and reduced employment.

What's worse, when inflation takes hold, the prices of essential goods and services, such as food and energy, increase. This means you have less cash to spend on other items.

Do higher deposit rates offset pressure?

Banks currently offer higher deposit rates due to aggressive interest-rate hikes and elevated inflation across Asia. As a result, savers can earn higher nominal interest income from cash deposits. However, we should also take into account inflation and focus on real interest rates.

WHAT ARE REAL INTEREST RATES?

For savers, the real interest rate is the bank deposit rate minus the rate of inflation.

Why real purchasing power matters right now

In several countries and regions across Asia, real interest rates are currently extremely low – even negative in some cases. When real interest rates are negative, the purchasing power of your money decreases. Moreover, holding excessive cash over an extended period can undermine your saving objectives.

Over time, inflation erodes the purchasing power of your money. But you can take steps to protect your wealth and investment portfolio. By shifting a portion of your excessive cash held in bank deposits to other higher-income investments that earn more, you may potentially increase your capital without taking on excessive risk.

Real interest rates (local currency) in Asia[1]

Local currencies	3-month time deposit rate (nominal, %, per annum)	Consumer Price Index (CPI[2], year on year change, %)	3-month time deposit (real, %, per annum)
Vietnam	5.4	4.31	1.09
India	4.5	6.44	-1.94
Singapore	3.7	6.6	-2.9
Philippines	3.375	8.6	-5.225
Hong Kong	2.9	2.4	0.5
Malaysia	2.7	3.7	-1.0
Indonesia	2.56	5.47	-2.91
China	1.25	1.0	0.25
Taiwan	1.035	2.43	-1.395
Japan	0.004	4.3	-4.296

1 Bloomberg and local banks – data as of 1 March 2023. **List of local banks:** Vietnam: Vietcombank; India: State Bank of India (SBI); Singapore: ICBC Singapore; Philippines: Philippine Bank of Communications; Hong Kong: HSBC; Malaysia: Maybank2U; Indonesia: BNI; China: Bank of China; Taiwan: CTBC Bank; Japan: MUFG Bank. **Real interest rate (deposit) in Asia** is calculated by subtracting headline CPI inflation from a 3-month time deposit rate, excluding fees/charges and tax. For illustration and reference purposes only.
2 As of January 2023: Singapore, Hong Kong, Malaysia, Japan. As of February 2023: Vietnam, India, Philippines, Indonesia, China, Taiwan.

STAY INVESTED FOR THE POTENTIAL OF HIGHER RETURNS TO BEAT INFLATION

History tells us that **equities, bonds, and some income-oriented investments** have the potential to deliver higher long-term returns than cash and could potentially outstrip inflation.[3]

While investment returns for these asset classes have varied from year to year, over the longer term they've compounded to reach levels that potentially beat inflation and are higher than the current nominal rates for time deposits.[4]

For example, over the past 14 years (2009-2022)[4]:

Asian equities and Asian bonds delivered compound annual nominal returns of 8.15% and 4.38%, respectively.

For income-oriented investments, such as Asia Pacific REITs, the annualised return was +11.38%. Meanwhile, for Asia high yield, the annualised return was +6.39%.

To navigate any market volatility, investors can also diversify their risk exposure with dollar cost averaging.

Cash holdings are still high in Asia

Reviewing your investment holdings and future financial goals with a professional financial advisor could be helpful, as you may currently hold excess cash. In a survey of key Asian markets, Manulife Investment Management found that cash and deposits account for around 40% of asset allocation.[5] Indeed, other investment options may potentially provide a higher real return within an acceptable level of risk.

INVEST AND ACT WITH WISDOM

Act now. Review your portfolio as soon as possible and consider transferring excess cash deposits into other assets. This could counter the negative impact of low real interest rates and rising inflation.

For more information, please contact your Manulife financial advisor.

3 Cash refers to 0–3-month Treasury Bills, as represented by BofA Merrill Lynch 0-3 Month US Treasury bill Index. The compound annual growth rate of the index from 2007 to 2022 is 0.88%.

4 Source: Bloomberg, as of 31 December 2022. Asian equities' return is represented by the MSCI Asia Pacific (ex-Japan) Gross Total Return USD Index. Asian bonds' return is represented by 50% JP Morgan Asia Credit Index + 50% the HSBC Asian Local Bond Index (2009-2012)/Markit iBoxx Asian Bond Index (2013-2022). Asia-Pacific REITs returns are represented by FTSE EPRA NAREIT Asia ex Japan REITs Index; Asian High-Yield returns are represented by JP Morgan Asia Credit non-investment grade total return index. Total return in USD. All returns in US dollar. Compound annual returns represent the compound annual growth rates (CAGR) of the respective indices during 2009-2022.

5 Manulife Investment Management commissioned NielsenIQ to conduct an online survey of 2,000 people from Hong Kong, Taiwan, Indonesia, and Malaysia – 500 people from each market – who are aged 20 to 60 between 25 August and 6 September 2022. The research aims to assess people's retirement readiness and aspirations, including savings and investments, and lifestyles and family issues they consider when planning for retirement.

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