



Q&A-Another wave of COVID-19 infections could trigger retest of March lows: AIA Group CIO Mark Konyn



A second wave of COVID-19 infections could trigger a retest of the low hit by the equity markets in March, **Mark Konyn, AIA group chief investment officer in Hong Kong**, told the Reuters Global Markets Forum on Thursday, May 7.

"The market is still pricing about a 30% chance of revisiting the March lows," Konyn said. He added that AIA, which has \$284 billion-worth assets under management as of December 2019, was "watching China closely as they reopen."

Konyn said that AIA had increased its equity positions in mid-March ahead of an expected rebound, while moving allocation from government bonds to corporate credit.

"This has since rotated back to the dollar market in Asia as we saw more issuance," Konyn said.

Following are edited excerpts from the conversation:

Q: How have you churned your portfolio in the coronavirus crisis, and what major shifts do you see coming as lockdowns start getting reversed?

A: We have made changes over the past months. We increased equity positions in mid-March ahead of the dramatic rebound, and took advantage of wider U.S. IG spreads also. These have been the major changes with an allocation from govies to credit. This has since rotated back to the dollar market in Asia as we saw more issuance.

Q: How have your cash positions changed? Have they reduced post the rebound as you deployed more?

A: We typically do not hold a lot of cash structurally as we benefit from strong underlying cash flow from our business

Q: Any particular sectors on the equity side?

A: For sure. It depends in which part of our business. Generally, we have been focused on common themes -- technology, online retail, healthcare. China equities exposure has helped also.

Q: Could you also tell us sectors that you've reduced exposure to?

A: Some of the industrials, financials, leisure

Q: Would you say the equity markets have bottomed out? Or will there be more pain?

A: The market is still pricing about a 30% chance of revisiting the March lows. There is a degree of pessimism on earnings, and a lack of clarity with little or no guidance. Cost cutting will mitigate to some extent. The critical time is the next three months as we learn how the restrictions affect behaviour and also how relaxation can be managed effectively. We are watching China closely as they reopen.

Q: What might trigger the retest?

A: Another wave of infection is top of the list. A weaker consumption return than expected could [also] push markets lower. The bigger risk and unknown is the former. That is the expectation.

Q: A Reuters poll showed that emerging market currencies will struggle against the U.S. dollar over the next three months. What is your view on the dollar for the next 3-6 months?

A: The demand for dollars remains high, and the crowding out effect puts pressure on EM currencies. Those economies [that are] reliant on external flows are exposed. But less so in Asia.

Q: What sort of recovery do you see in the global economy as the lockdowns ease down?

A: We currently have a probability weighted blend of 65% U shaped and 35% L shaped recovery as a framing of our analysis. There is much debate about the path of relaxation from the restrictions and the risks of subsequent waves as the virus is more like seasonal flu than MERS or SARS. At the onset in China we were in the V shaped camp. But the pandemic and lock down globally quickly moved us in to a more long-term framing. The start of the crisis was a one of the supply side and then shifted to be one of demand. The difficulty now relates to how demand comes back online. Behaviours will change, and the risk of further phases hangs over governments who have to assess when and how to relax restrictions.

Q: Which behaviours do you think will have long-term repercussions from a market perspective?

A: Travel and tourism - and the leisure industry as a whole - is in the cross hairs of change. In our region [Asia], economies such as Thailand and the Philippines that rely on tourism may find emergence from the pandemic slower than others as an example.

Q: Moving the discussion to central banks, how much more do you think the Fed can do to keep the economy and markets supported?

A: Some would say they have done quite enough. And we have seen some moderation since the initial programs were launched. Keeping companies afloat and the employment market positioned for recovery has been key, and at great cost. Efforts to support the high yield and securitization markets will be a point of focus. The latter feed through to the consumer directly. The debate has moved now to the longer-term impact of government debt and central bank balance sheet expansion.

Q: Do you see Fed taking any more steps to go provide even more support, say cut rates into negative territory? What could prompt such an action?

A: No. The Fed will be very reluctant for target rates to go negative.

Q: Do you think central banks should shift toward Nominal GDP (NGDP) targeting instead of inflation targeting? Would that help in a better and faster recovery perhaps?

A: Shifting emphasis towards growth targeting and away from price stability is de facto where we are already. However, I don't see this being recognised formally. As you have seen from Larry Fink, among others, there is a fear that money supply growth will cause inflation. Giving up formally on price stability will cause expectations to change. And as we learned in school, expectations drive outcomes!

Q: Is a formal recognition toward such a move not likely due to feasibility or that it won't be politically palatable?

A: I can see other structural considerations getting airtime. It is a subject of debate for sure. But I don't see the change for central banks. [Structural considerations include] the corporate culture in the U.S. of borrowing to buy back shares, the advantageous treatment of debt over equity; At the company level there is wide speculation on how changes in supply chains will impact prices and efficiency. There is also debate on operating cash levels given the experience in March when markets became dislocated and liquidity was an issue.

Q: Our guest yesterday, Jim O'Neill, said that NGDP targeting could help with a better and faster recovery from crises in general, especially the COVID one that we are in now -- Would you agree with that?

A: No. Many of the issues being raised as being a result of COVID have been with us for some time. De-globalization; excessive debt dependency; zombie companies hanging on to outdated operating and business models; etc. COVID-19 has accelerated the impact and hence realization. Going backwards is not an option.

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