

Gulf funds keep powder dry awaiting correction

By Shveta Pathak on Thursday, August 20, 2009

GCC funds are holding on to their cash as they prepare for a possible correction in market valuations. This is in stark contrast to a global trend of a reduction in cash holdings in response to a positive sentiment.

Cash levels have continued to stay high, in some cases exceeding 25 per cent, during the past one year, fund managers told Emirates Business. In boom times, cash levels were negligible or even negative. "We are positive on the GCC markets but we have raised our cash levels to around 15 per cent from eight per cent a month ago in our Arab Falcons Fund," said Baldwin Berges, Director at asset management firm Silk Invest.

Globally, portfolio managers have started to increase cash utilisation. Average cash balances have fallen to 3.5 per cent from 4.7 per cent in July, their lowest level since July 2007, according to a fund managers' survey by Bank of America Securities-Merrill Lynch. Only Europe has bucked this trend.

"European growth optimism has finally caught up with other regions, but fund managers have yet to fully act on this and cash levels have actually increased and overall sector conviction is near record lows," said Patrik Schöwitz, European Equity Strategist at BAS-ML Research.

Globally, optimism has peaked, the survey said, and portfolio managers are "putting their cash back into equity markets", the survey said. Equity allocations have risen sharply month-on-month with a net 34 per cent of respondents overweight the asset class, up from a net seven per cent in July. In the Gulf, however, fund managers are waiting for liquidity to increase before venturing forth. "Currently we not investing in GCC because of low liquidity. We want to see positive trends in future and ensure that liquidity is high enough. It should make it easy for investors to get in or out," said Dennis van Leeuwen, Managing Director of Superfund Financial (Middle East).

"During the past one year, we increased our cash levels. This was done with a view to having a good buffer in case of events such as sudden redemptions. It was important for stability," said Firas Mallah, Head of Middle East at Dexia Asset Management.

Fund managers said higher cash utilisation could well be an indicator that market volatility would continue. "Many investors are in the same crowded trades – one of the key problems in 2008 that led to the excessive sell-off in the last quarter. If market sentiment changes, we can see very big price swings again," said Kevin Dougherty, Portfolio Manager at Pharos Financial Group.

Even the BAS-ML survey indicates that optimism about corporate earnings notwithstanding, there is still a lack of conviction about the durability of the economic recovery.

"With four out of five investors predicting below trend growth for the year ahead, a nagging lack of conviction about the durability of the recovery remains," said Michael Hartnett, Chief Global Equities Strategist at BAS-ML Research.

The survey said global emerging markets, led by China, and technology stocks are the strongest engines behind the early recovery. "Investors would rather be overweight emerging markets than any other region, and by some distance. More than one-third of the panel prefers to overweight emerging markets, while investor consensus is to remain underweight the US, the euro zone, the UK and Japan."

Emerging markets are less popular than in July when 48 per cent of the panel wanted to overweight the region. And Europe is a lot less unpopular, the survey said.