

Is unpredictability the new normal?



UBS Investor Watch

Global perspectives / Q2 2017
Hong Kong market insights

Do we live in turbulent times?

UBS Investor Watch is UBS Wealth Management's international analysis of issues facing people who have seven-figure sums to save and invest. In each edition, we will take an in-depth look at a current issue affecting these High Net Worth Individuals (HNWIs) and their plans for the future.

For this first edition, we interviewed more than 2,800 millionaires in seven markets around the world (Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK) to assess how unpredictability is shaping their attitudes and actions. This included 401 millionaires in Hong Kong.

The past year saw many unexpected events with major political, economic and social consequences. The election of Donald Trump as President of the USA, the UK's vote to leave the European Union, tensions over North Korea, high profile terrorist attacks and severe natural disasters, to name but a few.

At the same time, a series of powerful long-term trends continues, including climate change, a rising tide of populism, the development of artificial intelligence and robotics. Each has the potential to cause significant disruption and uncertainty.

Opinions differ on whether or not this is anything out of the ordinary. Some feel we live in very unpredictable times, while others consider such events to be no different to those experienced by previous generations.

So, just how unpredictable is the world in HNWIs' minds? What drives uncertainty in their view and how do they respond to it? What impact does unpredictability have on their wealth? This edition of UBS Investor Watch sets out to answer these fundamental questions.

UBS Investor Watch: An unpredictable world?

? Do millionaires feel the world has become more unpredictable, and why? What is causing the unpredictability and how are people responding to it?

We sought the views of
2,800 millionaires...

...across **seven** markets: Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK



...each with **USD 1 million** in investable assets

1

Unpredictability: What did we find?

Despite being the most unpredictable period in history...

- **80%** of millionaires in Hong Kong believe this is the most unpredictable period in history.
- **80%** believe voters today make their choices based on emotions not facts, and local political uncertainty is evident.
- Hong Kongers value having a wide variety of information sources when making key decisions and traditional forms of media are widely trusted.
- However, more millionaires in Hong Kong (**79%**) suffer from information overload than anywhere else in the world.

...driven by global economics and local politics...

- Economic risks dominate the thinking of Hong Kong's millionaires. **82%** see the global financial system as a source of unpredictability.
- Closer to home, there are concerns about local politics and the effect of social unrest on Hong Kong's development as a financial hub.
- The distraction of short-term risks is a challenge, say **80%**, though many are still trying to take a long-term focus.

...optimism about the future prevails

- **69%** of Hong Kong's millionaires believe they can accurately assess financial risks arising from uncertain events.
- Finding safe places to invest their wealth is not a problem either. **77%** see cash as a safe option in uncertain times despite the downsides of holding this asset.
- Nearly **40%** plan to hold more cash this year in light of uncertainty, but **83%** do recognize the need to diversify their portfolio away from Asia.
- Overall, Hong Kong's millionaires remain optimistic for the future, both in terms of their personal financial situation and the wider economy: **52%** expect their finances to improve in the next 12 months compared to just **11%** who expect a decline.
- The majority (**50%**) are also optimistic about reaching their long-term financial goals, compared to just **12%** who are pessimistic.

“What is happening in the world today is not something you can control. You can only prepare for the worst.”

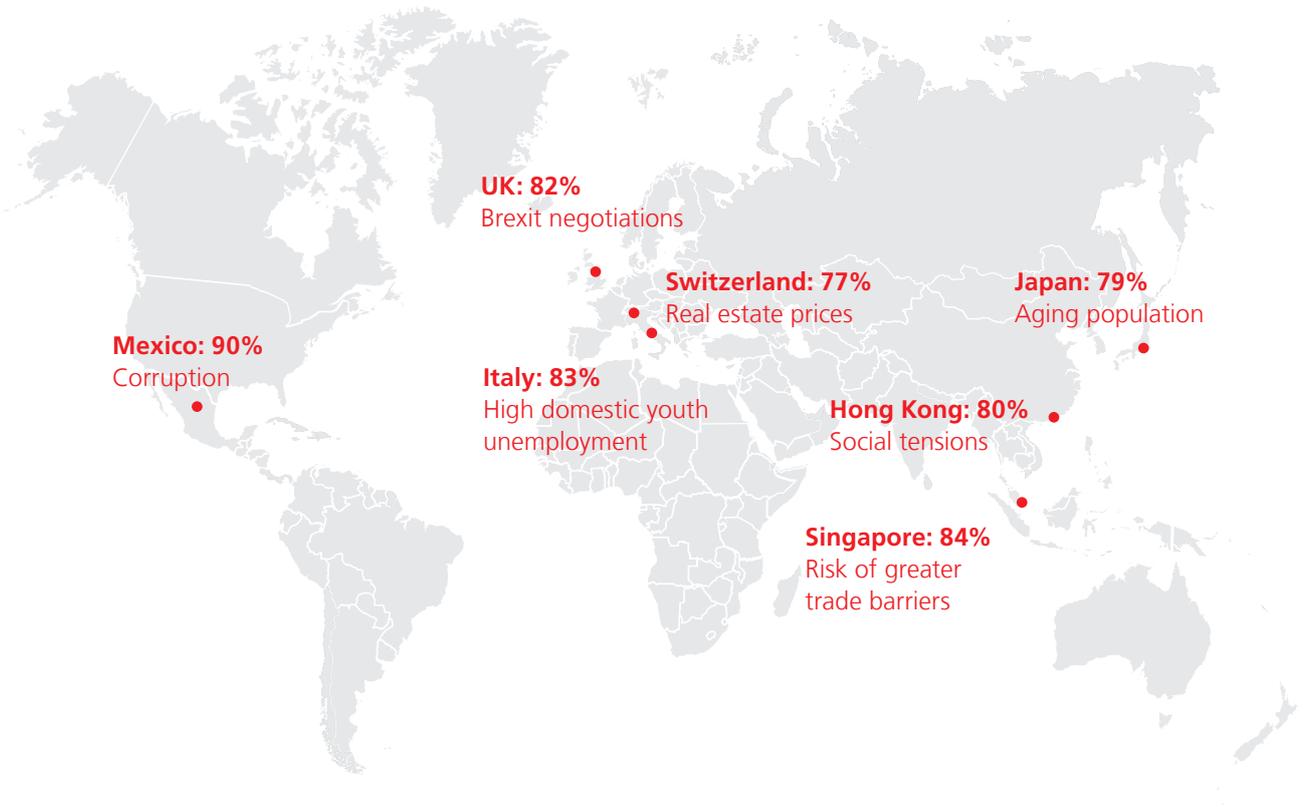
Employed (Male, age 39) – Hong Kong

80%

of Hong Kong's millionaires believe we are living through the most unpredictable period in history

Do you agree or disagree with the following statement: "We are currently living through the most unpredictable period in history"? (percentage who strongly or somewhat agree)

What is the biggest source of domestic uncertainty?



"Everything feels uncertain."

Employed (Female, age 36) – Kwun Tong

2

Why does the world feel unpredictable?

In Hong Kong, 80% of millionaires believe this is the most unpredictable period in history. What drives those perceptions, and are they accurate?

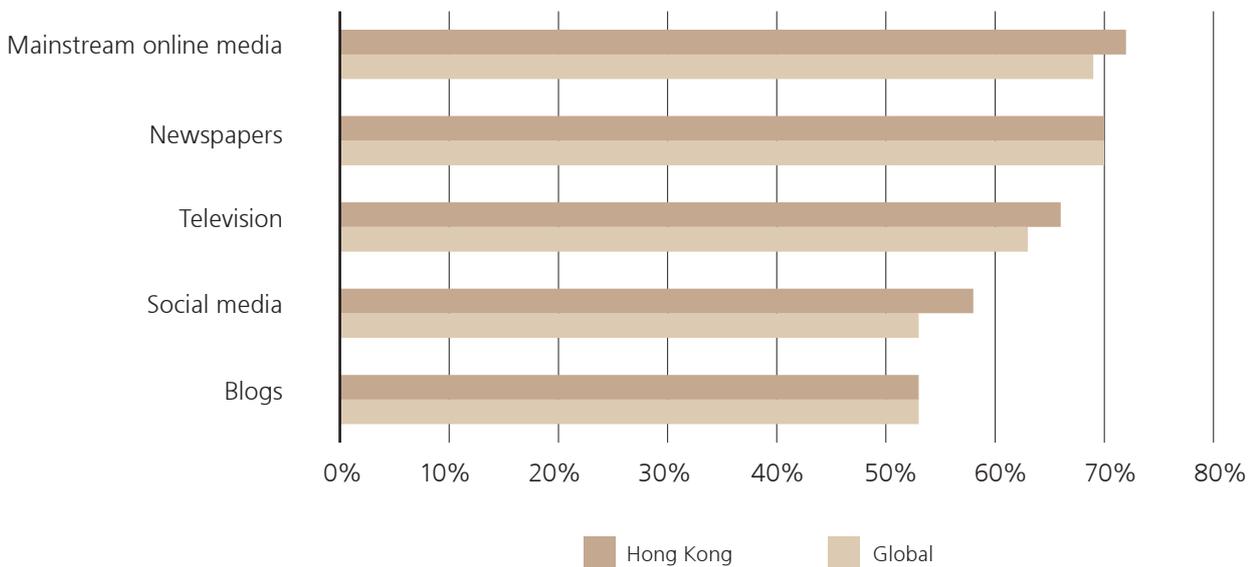
Trusted media sources but also information overload
With news feeds being created almost in real-time, millionaires consume a range of information sources when making their decisions. But this hunger for news and data has a downside: information overload.

Hong Kong's millionaires typify this trend. Over 80% say a wide variety of information sources helps them make good decisions. Traditional sources of information, like television and newspapers, are highly trusted in Hong Kong, though not quite to the same degree as in Singapore.

Newer sources, such as social media and blogs, are viewed with more caution, although more than half still trust them when making decisions.

There are limits to the value of information, though. Nearly 80% say they suffer from information overload, the highest figure in the world, and a significantly larger percentage than Singapore or Japan.

What level of trust do you have in these information sources when making important decisions? (percentage who strongly or somewhat trust)



Local political certainty front of mind

Like their peers around the world, Hong Kong's millionaires believe that the choice of voters is based more on emotions, rather than facts or expert opinion.

Likewise, three quarters think elected governments can only respond to short-term dangers, a figure significantly higher than elsewhere in Asia.

Can technology come to the rescue?

In some international markets, there is little support for the idea that technology can help us deal with unpredictability. In Hong Kong though, the picture is more nuanced.

More so than anywhere else, Hong Kong's wealthy say big data can help with uncertainty. 60% believe this is the case, compared to just 46% globally.

Support for other technologies is much lower though. Artificial intelligence is seen as a potential solution by only 38% – far fewer than in Singapore.

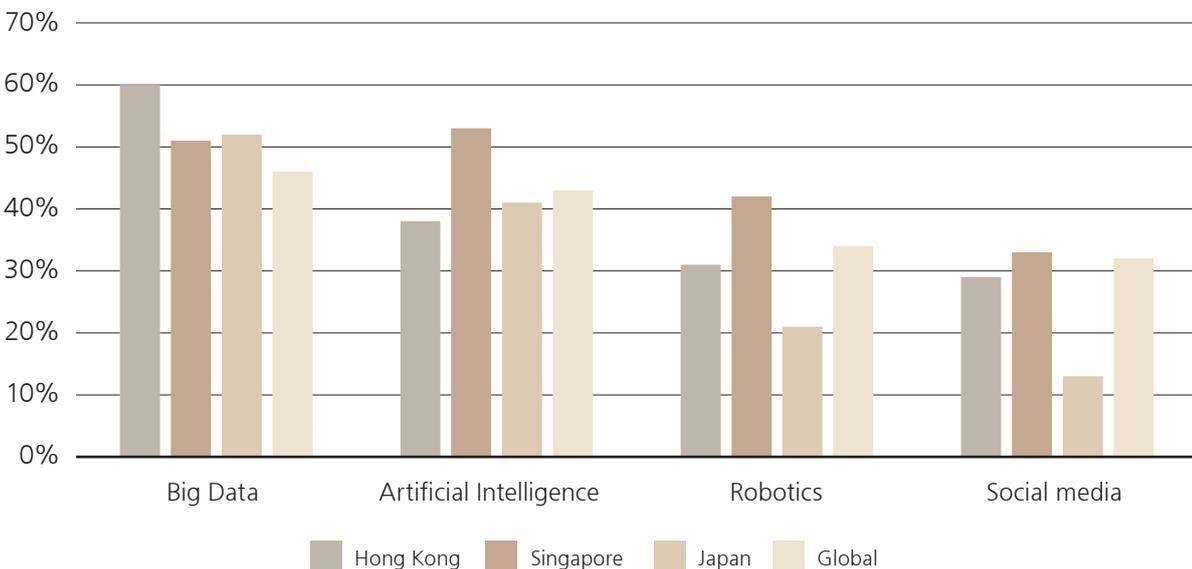
“Don't be too emotional about unpredictable events.”

Employed (Male, age 50) – Hong Kong

Interestingly, Hong Kong's entrepreneurs are far more positive about big data, artificial intelligence and robotics than other citizens.

Millionaires also believe technology has an important role to play for businesses. Over 80% believe that innovating and adapting to new technology will help a business manage uncertainty. Both entrepreneurs and company employees feel equally strongly about this.

Which, if any, of the following technologies do you feel are making the world more predictable?



3

Short or long-term uncertainty: Which matters more?

When preparing for the future, millionaires recognize the need to separate short-term shocks from longer-term trends.

Hong Kong's millionaires are wary of short-termism

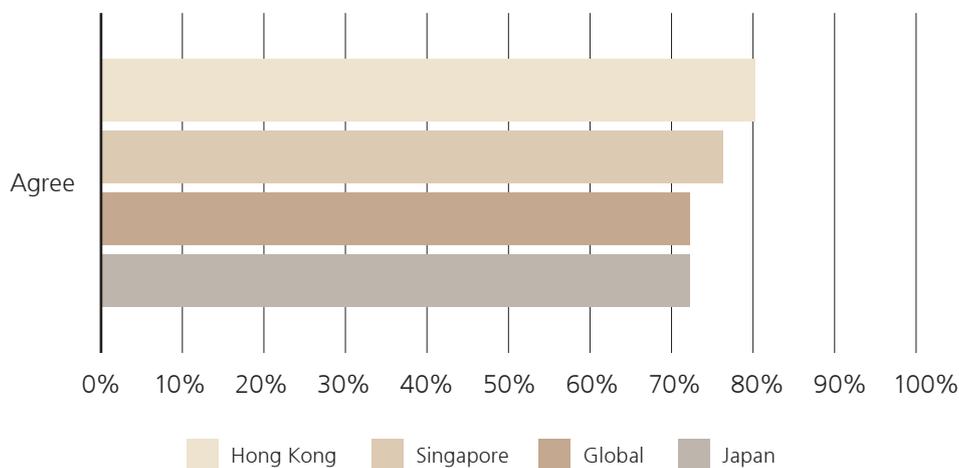
The majority of Hong Kong's wealthy focus on a mixture of long and short-term uncertainty. Few though, are focused purely on the short-term.

Yet despite this, 80% of those interviewed admit that short-term risks often distract them from their long-term investment planning, the highest share of all international markets.

"We need to wait and see before there is a clearer picture!"

Retiree (Female, age 63) – New Territories

Do you agree with the statement: "I am often distracted from long-term investments by short-term risks"? (percentage who strongly or slightly agree)

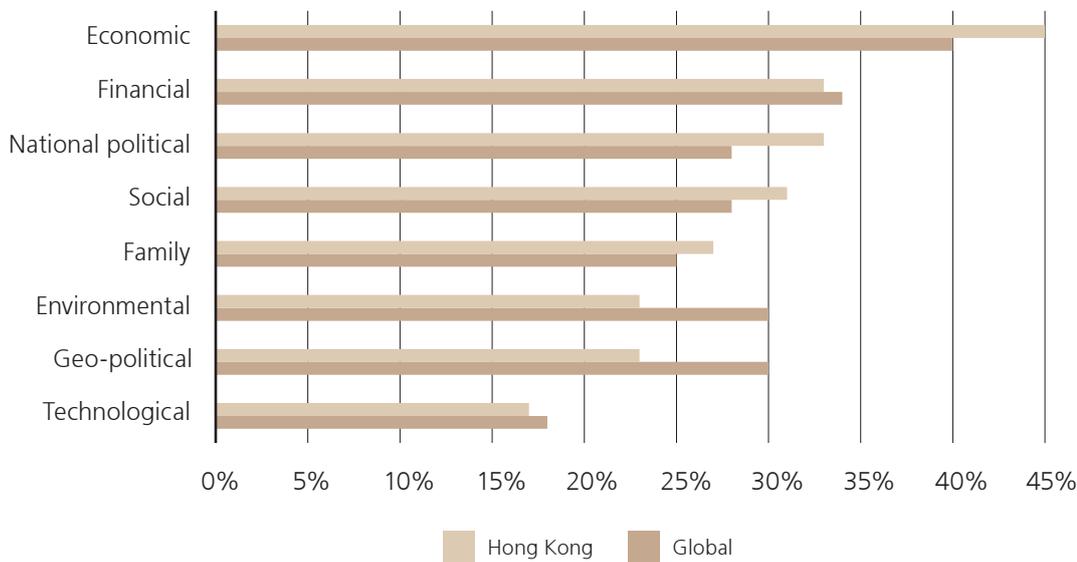


Social concerns at home, economic risks globally

Of all the potential causes of uncertainty facing them, it is economic risk which most concerns Hong Kong's millionaires. In a similar vein to wealthy individuals around the globe, economics is top of mind, both short and long-term.

Global finance is a source of unpredictability as well, say 82% of millionaires in Hong Kong.

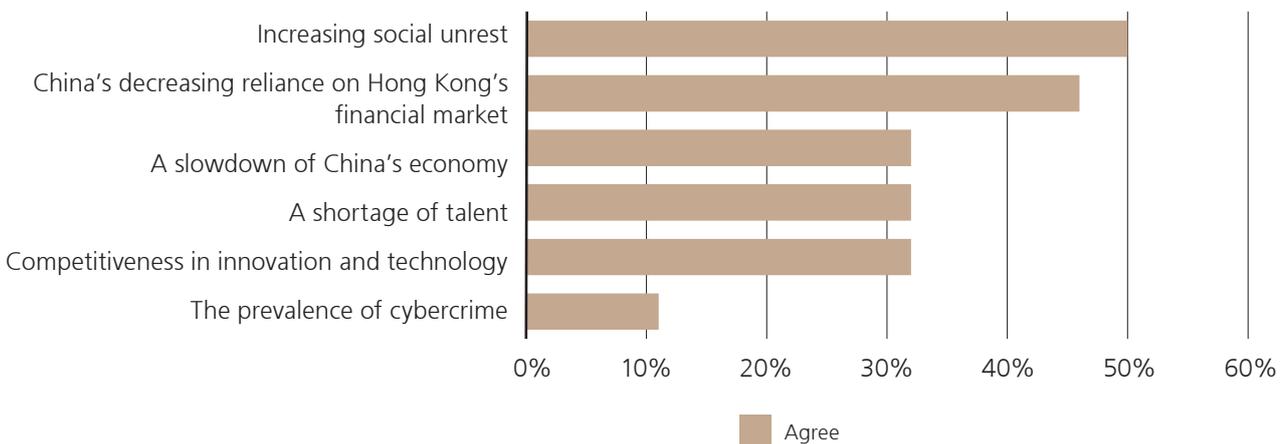
Which of the following risks or causes of uncertainty are you most worried about in the long-term?



Closer to home, and unlike wealth holders elsewhere, it is local politics and social tensions that are uppermost in millionaires' minds. Both short and long-term, national political risk is the second highest concern.

The specific events driving this are also clear. Half cite increasing social unrest as the biggest barrier to Hong Kong's development as an international financial hub. And nearly as many cite social tensions relating to the poverty gap as the biggest domestic source of uncertainty.

What are the biggest challenges to Hong Kong's mid to long-term development as an international financial hub?



4

Unpredictability: Opportunity or threat?

In the “most unpredictable period in history,” how do Hong Kong’s millionaires make choices about their wealth and their investments?

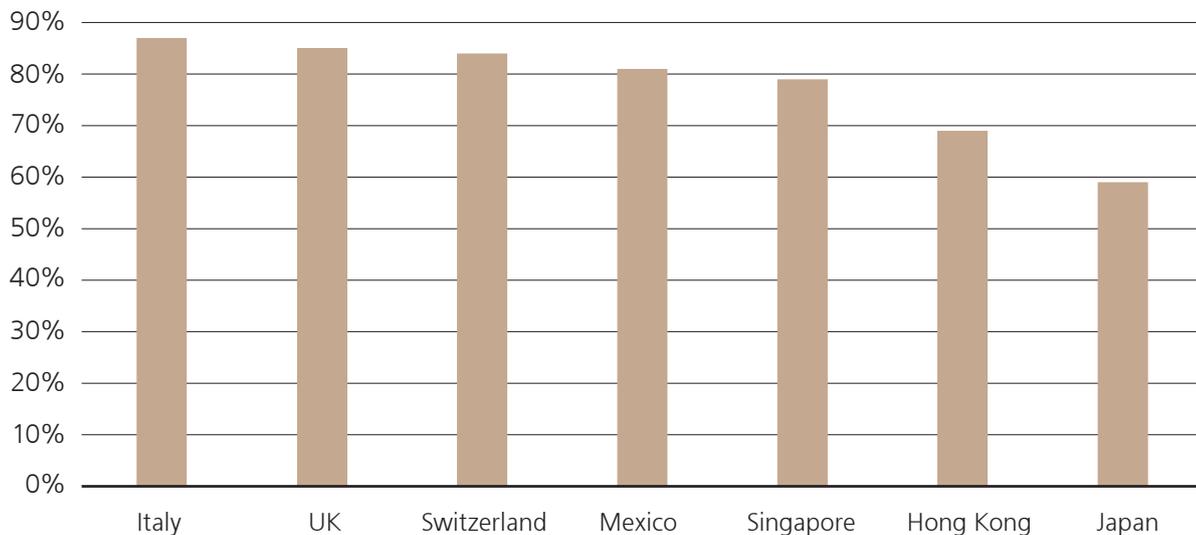
Unpredictability is a threat, but it can be dealt with
Like their peers across the world, Hong Kong’s wealthy see unpredictability as more of a threat than an opportunity, though nearly half see it as a combination of the two.

Regardless of this view, most are confident they can deal with uncertainty. Nearly 70% are confident in their ability

to assess financial risks relating to an uncertain world, though this is a lower figure than in most places across the world, including Singapore.

In addition, Hong Kong’s wealthy are more willing to take risks following the 2008 global financial crisis than their peers anywhere else. Over a third of those under 35 feel this way although the proportion declines among people approaching retirement age.

How confident are you in your ability to accurately assess financial risks relating to uncertain global events and trends? (percentage who are very or fairly confident)



Cash is a popular choice in uncertain times
Some millionaires try to bulletproof their portfolios in order to respond to uncertainty. In Hong Kong, a quarter are reviewing their investments as a result of recent uncertain events. A further 56% plan to do so.

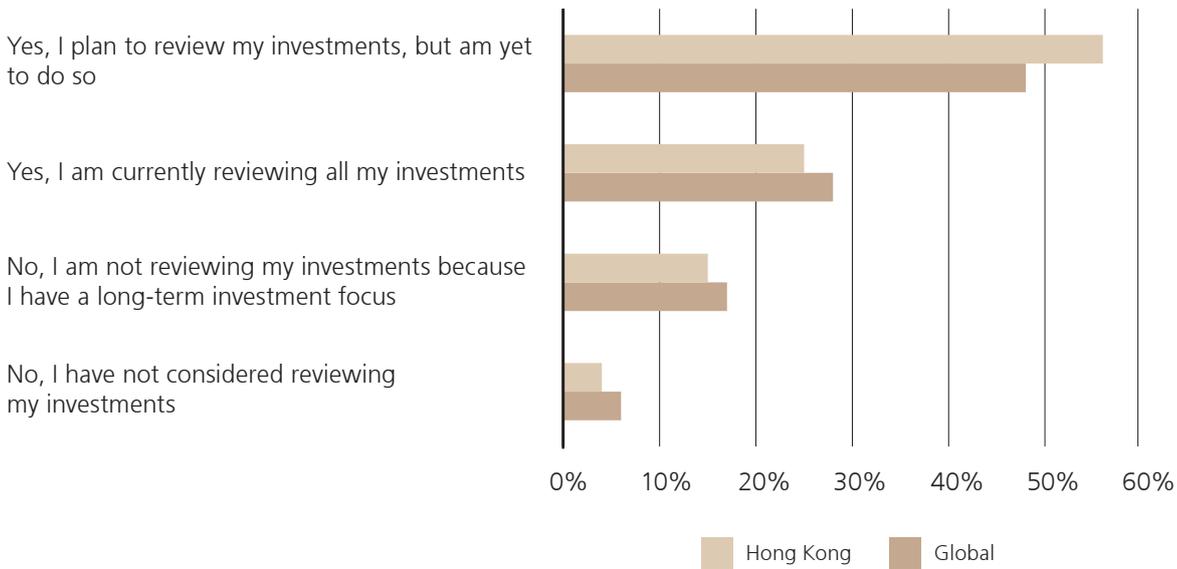
Finding safe investment options for wealth is not an issue. Nearly 80% believe they exist and 71% say Hong Kong itself is a safe market to invest in.

Cash is also a popular choice for those seeking security, despite the downsides of holding this asset. 77% believe cash offers financial safety, with the under 45s favoring it in particular. Physical assets, like property or art, are also seen as safe investments.

“Unpredictability does not affect my portfolio at all.”

Employed (Male, age 35) – Hong Kong

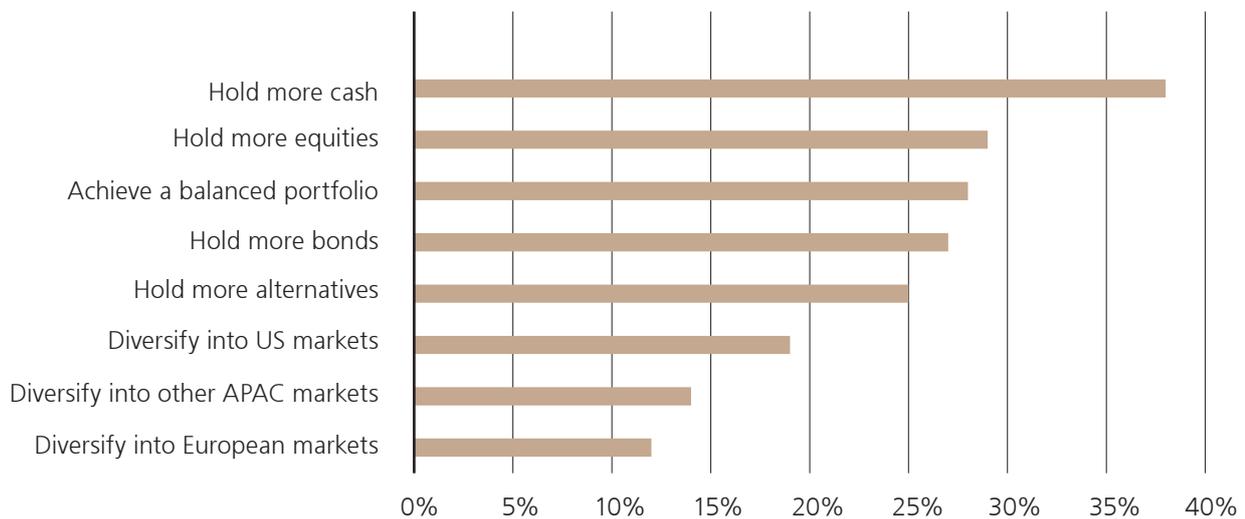
Are you reviewing your investments as a result of recent global unexpected events?



That belief in the safety of cash is reflected in the changes that Hong Kong’s wealthy plan to make to their portfolios. Nearly 40% will move more funds into cash this year. Nearly half of women over 45 will take this action.

Building a balanced portfolio is also on millionaires’ minds, but diversification into other geographies is not. In the face of uncertainty, less than 20% will diversify into the US and only 12% into European markets. This is despite the vast majority agreeing that diversification away from Asia is important.

In light of heightened levels of uncertainty, how do you plan to change your portfolio in 2017?



5

The UBS Confidence Index

The UBS Confidence Index tracks the confidence and optimism of High Net Worth Individuals (HNWIs). It looks at four measures of millionaires' confidence in their own prospects and the outlook for the world economy. Our analysis produces an average of the number of people confident about each measure:

- Confidence in their personal financial situation over the next 12 months
- Confidence in the economic outlook over the next 12 months
- Optimism in reaching their long-term financial goals
- Optimism in the long-term global investment climate

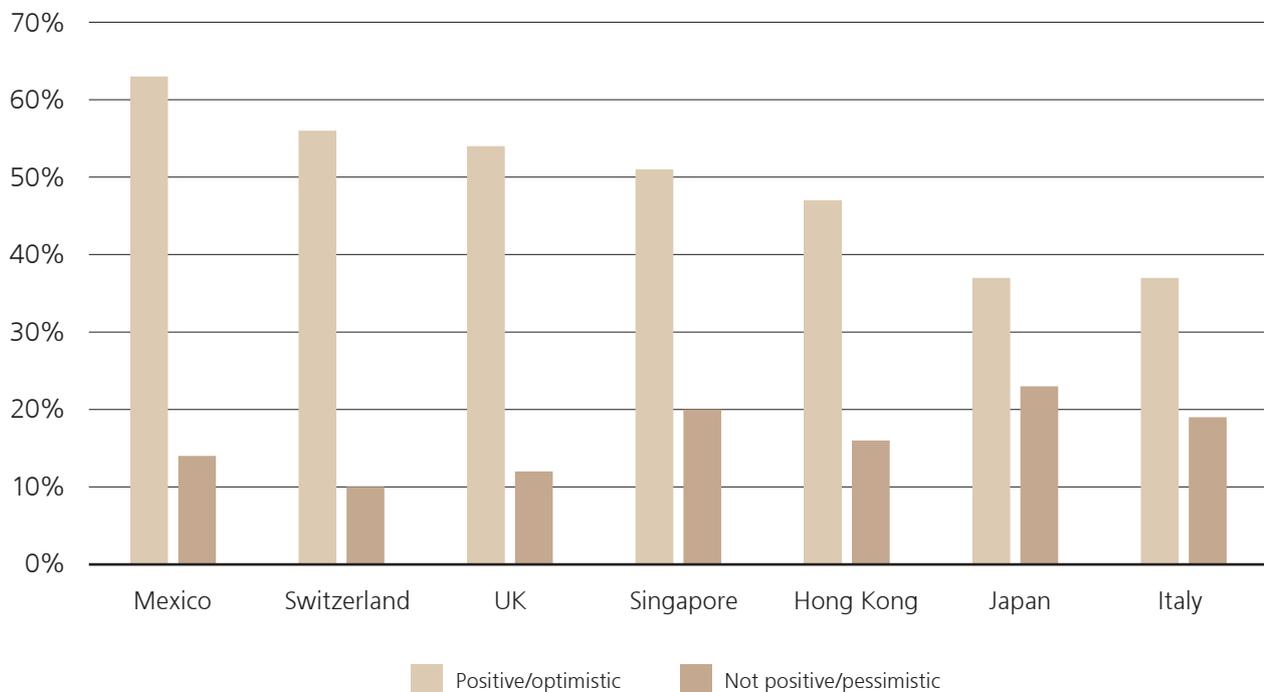
Confidence is generally high

Hong Kong's wealthy are reasonably confident about the future, both for themselves and the wider economy, reflecting the global trend.

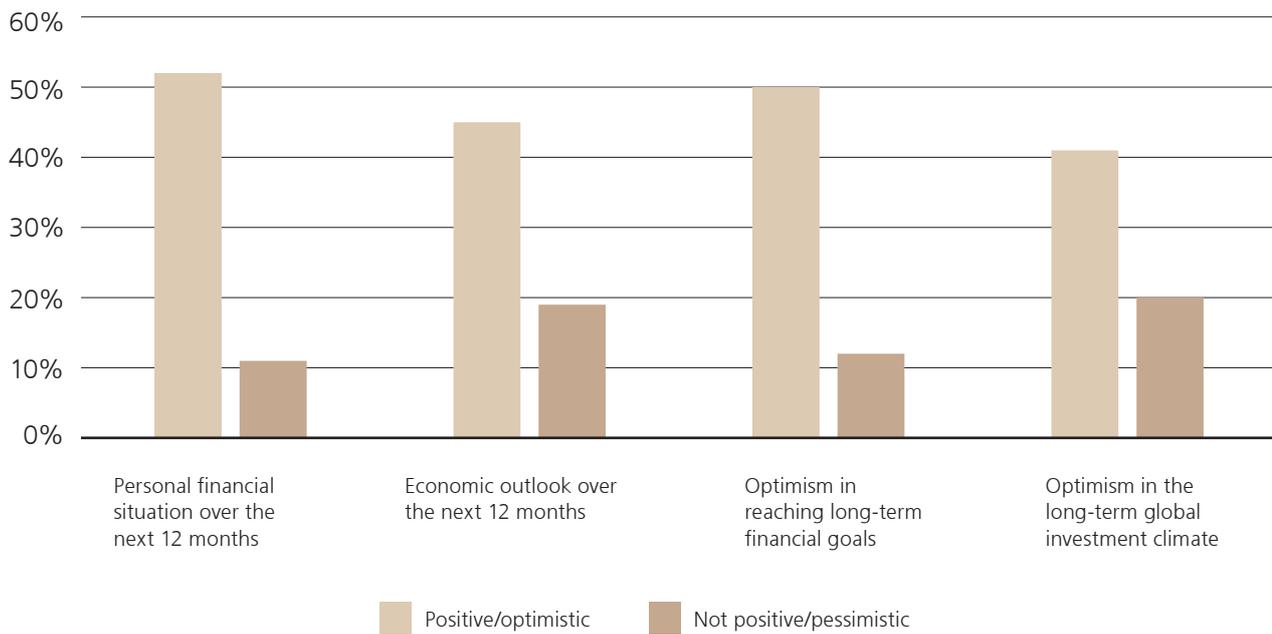
Nearly five times as many respondents expect to see an improvement in their finances over the next 12 months as expect to see a decline. And 45% expect the economic outlook to improve over the same period of time.

Confidence levels over the long-term are higher than over the short-term, although not as high as in Singapore.

The UBS Confidence Index – country by country



The UBS Confidence Index for Hong Kong



Entrepreneurs more bullish

In an unpredictable age, Hong Kong's entrepreneurs are more optimistic than the national average.

They are 16 percentage points more likely to say they expect their financial situation to improve over the next 12 months, and 15 percentage points say they expect their situation to improve in the long-term.

6

Unpredictability is a fact of life, but it can be dealt with.

Uncertainty comes from many angles – the financial system, various forms of politics and government, new and traditional media sources.

Short-term thinking is dangerous. Long-term risks are abundant. Unpredictability is more of a threat than an opportunity.

Yet, confidence is high in dealing with our uncertain world. The critical question is how we translate this confidence into tangible results for our wealth.

Four things in particular can help to deal with unpredictability:

1. **Focus on the long-term.** Avoid responding to short-term events or distractions. Cutting through this noise has never mattered more, because there has never been so much of it.
2. **Consider all wealth dimensions.** Investments, business, family: the wealth dimensions are interconnected and require an integrated wealth planning approach.
3. **Maintain a diversified portfolio.** Exposure to a broad range of assets and geographies is essential. It helps to avoid the risks of domestic biases. Adding alternative investments can provide another source of protection against global and regional uncertainty while offering attractive yield opportunities in the mid to longer-term.
4. **Be wary of overestimating the safety of cash.** Cash may always be attractive, especially in an unpredictable world. But inflation erodes its value, meaning that cash assets can damage your financial health in the long-term.

Do we live in the most unpredictable age in history? Possibly. Is confidence in our ability to navigate it a good thing? Probably. Does it guarantee success in protecting and growing wealth in the years to come? Not necessarily.

People have relied for centuries on an outside voice offering a sober perspective and considered advice. In an unpredictable age, that advice appears even more important.

“You can only be prepared.”

Employed (Male, age 58) – New Territories

7

More about us and our survey

About UBS Wealth Management

UBS is one of the world's leading financial firms. Protecting and managing wealth is at the heart of what we do: by providing investment advice and solutions to our clients and helping them to protect their assets in difficult market environments.

UBS has long been known for its leading investment research. You may also be interested in our annual Billionaire's Report, which explores the attitudes and opinions of the world's Ultra High Net Worth Individuals.

About the survey

UBS commissioned international research firm Censuswide to investigate the beliefs and attitudes of millionaires worldwide.

Combined with our own insights, the UBS Investor Watch report is a global research platform to help you understand the views, interests and concerns of the world's High Net Worth Individuals.

The sample comprised 2,842 US dollar millionaires across seven of the world's major markets: Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK.

At least 400 were surveyed in each market, and at least 30% of respondents were women. Interviews were carried out online during January and February 2017.

In this study, millionaires are defined as those with over USD 1 million in investible assets, excluding their primary property.



UBS AG

Two International
Finance Centre
52/F, 8 Finance Street
Central, Hong Kong
Tel: +852-2971 8888
www.ubs.com/wmhk

This material has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and is published solely for information purposes. No representation or warranty, either express or implied is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the developments referred to in this material. This material does not constitute an offer to sell or a solicitation to offer to buy or sell any securities or investment instruments, to effect any transactions or to conclude any legal act of any kind whatsoever. Nothing herein shall limit or restrict the particular terms of any specific offering. No offer of any interest in any product will be made in any jurisdiction in which the offer, solicitation or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation or sale. Not all products and services are available to citizens or residents of all countries. Any opinions expressed in this material are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or divisions of UBS AG or its affiliates ("UBS") as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. Any charts and scenarios are for illustrative purposes only. Historical performance is no guarantee for and is not an indication of future performance. Neither UBS AG nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this material. UBS specifically prohibits the redistribution or reproduction of this material in whole or in part without the prior written permission of UBS, and UBS accepts no liability whatsoever for the actions of third parties in this respect.

© UBS 2017. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

