



**Asset managers are the serious participants in the global markets, operating on a scale that means they very much need to have their finger on the pulse. We spoke with Didier Duret, CIO of ABN AMRO Private Banking International about the real investor's perspective.**

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## NEW GROWTH OPPORTUNITIES

Moreover, while low inflation and cheap oil keep the energy sector struggling, they reduce cost inputs for manufacturers and enhance consumer spending power. "The higher consumer spending levels we are seeing now don't go hand-in-hand with an impending economic recession." For the longer run the picture is more uncertain, so ABN AMRO will be keenly monitoring the fundamentals of the global economy before deciding on strategy.

"It's true that we have inherited structural impediments such as high public debt, too much dependency on growth in emerging markets and a low-inflation, low-yield environment that comes with an era of post-crisis financial repression, but the nature of economics is that where there is turmoil there is also opportunity." He refers to Schumpeter's theory that 'creative destruction' occurs at a time when economies and societies are undergoing a major period of change and upheaval.

"Out of the upheaval and restructuring of old industries new ones are born that lay the foundations for a new period of growth." Seen this way, people may just look back at this moment as a dynamic catalyst of future development, especially if it marks the transition into the next evolution in technology-based economies. "One of the problems at the moment is that the investment base of growth opportunities is too narrow, but there are enterprises started up every day by a new generation that is using innovative

technology and concepts to transform the economy. It is part of a decentralising process going on at the moment in which many of the premises of the old economy are being challenged to their core. It's confusing in some ways, but also highly exciting."

Banks tend to invest in medium to large enterprises, where there are also many high and low tech possibilities both in the short and especially in the longer term. "Within these, we are focusing on sectors such as the emerging tech industries while also looking at demographic trends that create opportunities in healthcare and consumer-driven fields."

The latter requires investment strategies based on a keen understanding of consumer trends. "We've seen the globalisation of production, the next step is the further globalisation of consumption as more and more services are consumed outside of one's immediate environment. It is developments such as these that will propel us into the next phases of growth, and a sound investment policy has to simultaneously reflect all these factors, from the short to medium-term recovery of the markets to recognising where future growth comes from. Ultimately, spotting opportunity and added value is how a private banker delivers returns."

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**M**ost people who cast even a casual glance at the markets will have heard of the tumble stocks have endured over the past few months and the trillions of dollars of wealth wiped off them since. Companies, funds and whole industries have been shaken up by a process that began with serious stock market falls in China last year and culminated in one of the worst starts to a year's trading ever.

Was it entirely unexpected? No, for some time now analysts have been saying that the markets were overvalued, their indexes buoyed by years of 'cheap' money that flowed from a post-crisis monetary regime of quantitative easing. As this bout of QE came to an end, many expected not just market volatility but also feared economic recession, and indeed, industrial indicators, low growth in China, weakness in the emerging markets and the slump in oil prices all seemed to point that way.

The only thing between us and a recession is consumer spending, some would say, while others look at the economic fundamentals and see no real indicators of an impending downturn. In fact, where the instinctive reaction is to run and hide, experienced investors know that's often the worst thing to do – just like when you're confronted with a real bear – so the best way is to seek the opportunity within what seems like a bear market right now.

### TAKING A POSITION

"The financial markets have been in

upheaval and are still fragile," says Didier Duret, "but things have started to stabilise and you can see a process of healing going on." He agrees that a correction in values was due, yet believes that it has been exaggerated, driven on by the fear of a large price collapse and ensuing recession. "The expectation of a marked slowdown has become a self-fulfilling prophecy, but when the markets recover before the underlying factors become evidently positive, this provides the bedrock for confidence to return."

The obvious comparison is China, where the preponderance of retail investors caused a capital flight that even the PRC government and the likes of Goldman Sachs found difficult to predict and prepare for. In the more mature markets, however, it is the large financial institutions that have the greatest influence, and they are beginning to see the silver lining. "At ABN AMRO, we believe the correction in stock values was such that it allows for value seekers to return to the market and take positions again."

The bank's private banking arm is already doing that by rebuilding its exposure – not just back to pre-correction levels but beyond them. "We are convinced that equity markets can crawl up until they reach a more realistic equilibrium point. The market forces are underpinned by the main fundamentals, which include a recovering oil price, rising commodity prices, a comprehensive stimulus package in China and positive core inflation in the US."