

0107 | 2019

ASIA CHART OF THE WEEK

Cash does not necessarily grow assets

There has been much fanfare about cash outperforming US bonds and US equities in 2018. A deeper dive suggests that this occurrence is more the exception than the norm.

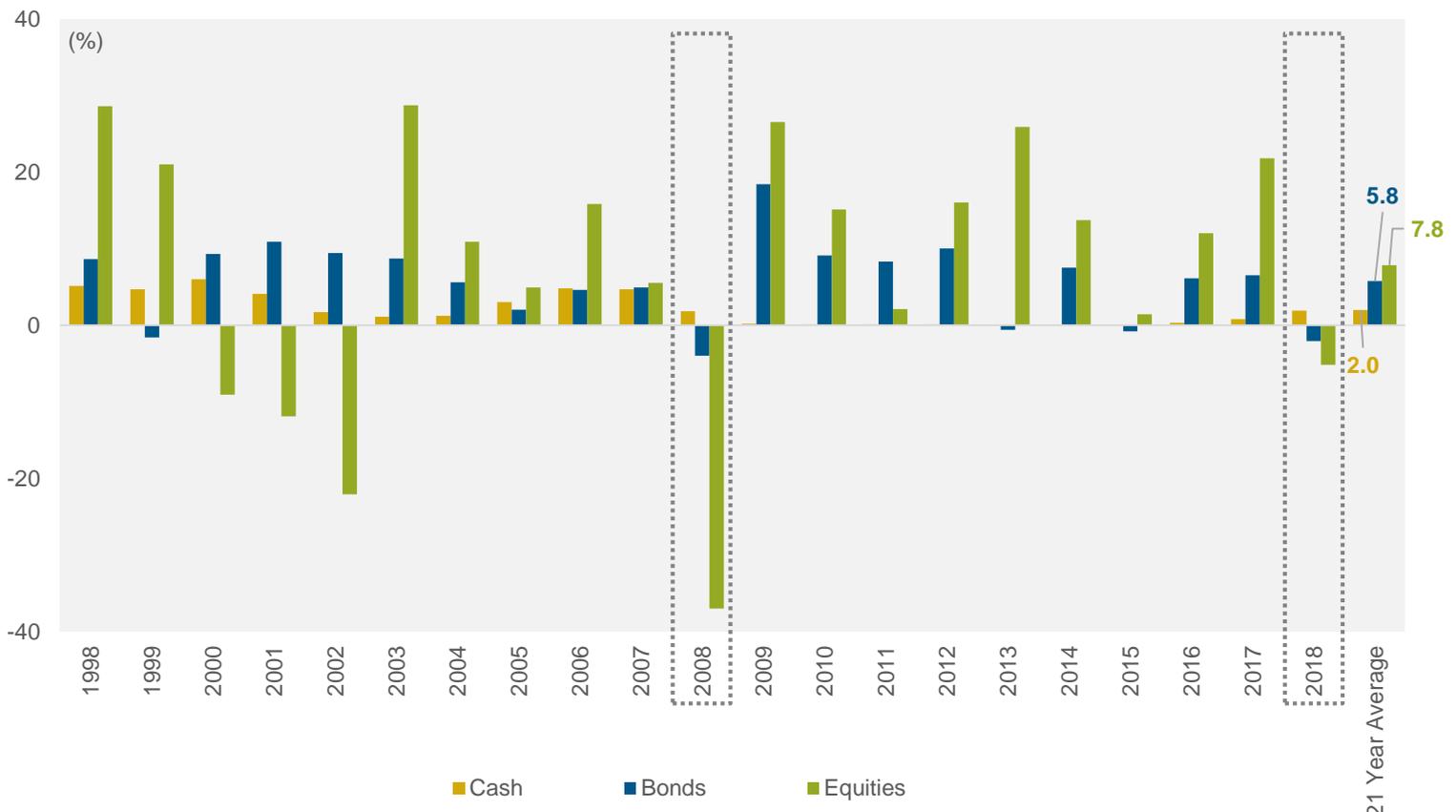
A review of US data from 1998 to 2018 offers the following observations.

- Cash has only outperformed bonds and equities twice from 1998 to 2018. Each time cash has outperformed, bonds and equities were both in the red.
- Cash and bonds were less volatile than equities but lacked the overall return capabilities of stocks.
- Over the last 21 years, cash has not had consecutive calendar year wins, while bonds and equities have pieced together winning streaks. Equities have had the longest and most frequent outperformance when compared to cash and bonds.
- For cash to outperform again, both bonds and equities have to finish in negative territory for consecutive years...an event that has not occurred for two decades.

The bottom line

Cash can be a refuge when major asset classes are headed for losses. However when held for too long, the value of cash risks being eroded by inflation or dragging portfolio returns should markets head north. While cash has played good defense in 2018, at some point, bonds and equities may be better options of meaningfully growing assets over the long term.

Annual performance of Cash, Bonds and Equities in the US over the last 21 years. (1 January 1998 to 31 December 2018).



Source: Legg Mason, Bloomberg Barclays, ICE BofAML, Standard and Poor's, 7 January 2019. Data as of 31 December 2018, USD. Cash refers to the ICE BofAML US 3-Month Treasury Bill Index. Bonds refer to the Bloomberg Barclays US Corporate Bond Index. Equities refer to the S&P 500 Total Return Index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

Only For Use With All Investors In Hong Kong And Singapore, The PRC Investors Investing In The QDII Product Offered By PRC'S Commercial Bank, Distributors And Existing Investors In Korea, Distributors In Macau And All Investors In Taiwan. Please Refer To The Important Information On The Final Page.

IMPORTANT INFORMATION:

Source: Legg Mason, 7 January 2019. Data as of 31 December 2018, USD.

All investments involve risk, including possible loss of principal.

The value of investments and the income from them can go down as well as up and investors may not get back the amounts originally invested, and can be affected by changes in interest rates, in exchange rates, general market conditions, political, social and economic developments and other variable factors. Investment involves risks including but not limited to, possible delays in payments and loss of income or capital. Neither Legg Mason nor any of its affiliates guarantees any rate of return or the return of capital invested.

Equity securities are subject to price fluctuation and possible loss of principal. Fixed-income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls.

International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

Commodities and currencies contain heightened risk that include market, political, regulatory, and natural conditions and may not be suitable for all investors.

Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

The opinions and views expressed herein are not intended to be relied upon as a prediction or forecast of actual future events or performance, or a guarantee of future results, recommendations or advice. Statements made in this material are not intended as buy or sell recommendations of any securities. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. This information has been prepared from sources believed reliable but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data. Individual securities mentioned are intended as examples of portfolio holdings and are not intended as buy or sell recommendations. Information and opinions expressed by either Legg Mason or its affiliates are current as at the date indicated, are subject to change without notice, and do not take into account the particular investment objectives, financial situation or needs of individual investors.

The information in this material is confidential and proprietary and may not be used other than by the intended user. Neither Legg Mason or its affiliates or any of their officer or employee of Legg Mason accepts any liability whatsoever for any loss arising from any use of this material or its contents. This material may not be reproduced, distributed or published without prior written permission from Legg Mason. Distribution of this material may be restricted in certain jurisdictions. Any persons coming into possession of this material should seek advice for details of, and observe such restrictions (if any).

This material may have been prepared by an advisor or entity affiliated with an entity mentioned below through common control and ownership by Legg Mason, Inc. Unless otherwise noted the "\$" (dollar sign) represents U.S. Dollars.

All Investors in Hong Kong and Singapore:

This material is provided by Legg Mason Asset Management Hong Kong Limited in Hong Kong and Legg Mason Asset Management Singapore Pte. Limited (Registration Number (UEN): 200007942R) in Singapore.

This material has not been reviewed by the Securities and Futures Commission in Hong Kong. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

Intended recipients in the People's Republic of China ("PRC")(excluding Hong Kong, Macao and Taiwan for the purpose of this document):

This material is provided by Legg Mason Asset Management Hong Kong Limited to intended recipients in the PRC. The content of this document is only for the PRC investors investing in the QDII Product offered by PRC's commercial bank in accordance with the regulation of China Banking Regulatory Commission. Investors should read the offering document prior to any subscription. Please seek advice from PRC's commercial banks and/or other professional advisors, if necessary. Please note that Legg Mason and its affiliates are the Managers of the offshore funds invested by QDII Products only. Legg Mason and its affiliates are not authorised by any regulatory authority to conduct business or investment activities in China.

This material has not been reviewed by any regulatory authority in the PRC.

Distributors and existing investors in Korea:

This material is provided by Legg Mason Asset Management Hong Kong Limited to eligible recipients in Korea.

This material has not been reviewed by any regulatory authority in Korea.

Distributors in Macau:

If this document is distributed in Macau, this may not be used other than by the Distributors.

This document has not been reviewed by the Monetary Authority of Macau in Macau.

Issuer: Legg Mason Asset Management Hong Kong Limited.

All Investors in Taiwan:

This document is provided by Legg Mason Investments (Taiwan) Limited (Registration Number: (98) Jin Guan Tou Gu Xin Zi Di 001; Address: Suite E, 55F, Taipei 101 Tower, 7, Xin Yi Road, Section 5, Taipei 110, Taiwan, R.O.C.; Tel: (886) 2-8722 1666) in Taiwan. This document is for information only and does not constitute an offer or invitation to the public to purchase any shares in any fund in Taiwan.

Neither Legg Mason nor any officer or employee of Legg Mason accepts any liability whatsoever for any loss arising from any use of this document or its contents. The information in this document is proprietary. This document may not be reproduced, distributed or published without prior written permission from Legg Mason. Any person coming into possession of this document should seek advice for details of, and observe, such restrictions.

If the Press would like to re-edit the press release from their own point of view, it should base on the public information provided by the Legg Mason Investments (Taiwan) and the information contained in such press release shall be not over-promising or exaggerating.

Legg Mason Investments (Taiwan) Limited is operated and managed independently.