

Seminar on Capital Markets: What Does the Future Hold?
38th Annual Meeting of the Board of Governors
Asian Development Bank
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ICEC, Istanbul, Turkey

On the occasion of ADB's 38th Annual Meeting In Istanbul, Turkey, ADB organized a seminar on "Capital Markets: What Does the Future Hold?". Speakers were David Fisher, Chairman of Capital Group International Inc. and Capital Guardian Trust Company; Jeremy Grantham, Chairman of Grantham Mayo van Otterloo & Company; Bill Miller, CEO and CIO of Legg Mason Capital Management; and Laurence Fink, Chairman and CEO of Blackrock Inc. William Pesek, Jr. Asia-Pacific columnist of Bloomberg News, moderated the seminar. Mr. Bindu Lohani, DG RSDD and Chair, Investment Committee, ADB Staff Retirement Plan announced the start of the seminar, while Vice President Kempheng Pholsena gave the opening remarks.

In her opening remarks, VP Pholsena said that, as the world becomes more integrated, capital markets play a vital role in providing liquidity and investment instruments as well as in maintaining global financial stability. They are not only the markets where debt and equity funds are bought and sold, but also an essential source of financial innovation and opportunities.

There is continued abundance of global liquidity and improved credit quality in mature and emerging financial markets, including a rapid growth of assets in Asia. Many of these assets have found their way into global and regional capital markets, as investors seek the best prospects for returns.

However, potential disruptions to market performance loom in the background. These include, among others, the persistence of high oil prices and continued global growth imbalances across industrial countries, which increases the risks of a disorderly adjustment of currency and capital markets.

In his presentation, Mr. Fisher said that international investing is not just an issue of diversification, but primarily a means of seeking out the highest returns, wherever they may be. As an asset class, emerging market stocks, which became the new frontier of global investing in the late 1980s only to be followed by an exceptionally long span of volatile and disappointing returns, will continue to serve investors extremely well over the long-term. Given their attractive growth rates, emerging markets will continue to represent a larger share of the global capital markets.

Mr. Grantham cautioned on investing in overpriced assets. He looked at, among others, inflated house prices in the UK, Australia, and the US, and the increased role that housing price increases have played in sustaining the expansion of credit and consumption.

According to Mr. Grantham, all bubbles break, though not at the same speed. A breaking bubble in an important asset class will definitely affect animal spirits, investing intentions, and consumption. This effect may or may not be offset or postponed by monetary or fiscal moves. He said nothing that Mr. Greenspan (chief of the US Federal Reserve) and his successor do will prevent this reversion to the mean of asset prices, although their actions may have a very substantial and beneficial effect on how badly the economy fares in an environment of falling asset prices.

In his presentation, Mr. Miller liked what is out favor and unloved, and said he had never seen such angst amid opportunity in the US equity market as he could see right now. He mentioned that the recent decline in US stock prices was correlated with the resumption of the rise in the price of the world's largest and most important commodity – oil.

If oil price continues to climb, the market would struggle to make any progress. If oil declines in conjunction with a moderating pace of economic growth, then not only would that encourage investors, it would remove the inflationary impact of rising commodity prices from the economic equation, and may lead the Federal Reserve to make a more benign view of what constitutes neutrality than markets now expect.

Mr. Fink examined the global bond markets, tracing their development in size and complexity over the past 25 years and the forces that continue to drive their evolution globally. He then turned to the challenges facing institutional investors. He said that the increasing array of investment choices offer great opportunities to deploy capital advantageously, but to do so, investors must clearly define their investment objectives and have the ability to continuously evaluate and manage the risk/return profiles of their assets and liabilities.

The speakers lauded ADB for organizing the seminar and maintaining an ongoing dialogue among global market participants.

Prepared by:

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