Weekly Digest

14 January 2020

Outlook for 2020

– *Glyn Owen*

Following the worst year for equity markets since the financial crisis, 2019 was one of the best. Many risks failed to materialise: US-China trade wars moved towards a phase one deal, the UK did not fall over the Brexit cliff edge, the World economy slowed but did not enter recession, China's debt bubble was contained and geopolitics caused ripples but no dislocation. Most important was the policy pivot by the Fed, from a restrictive stance to much looser policy. But corporate earnings were flat, so returns of 28% from world equities leave valuations materially higher than a year ago. Can this bull market, the longest in history, continue?

The big policy pivots by central banks that drove markets in 2019 will not be repeated in 2020. Equally, there is no prospect of a reversal of policy; the Fed is on hold but dovish, while tightening remains a distant prospect elsewhere.

Global manufacturing suffered a recession in the past year but with limited spill-over into consumer and service sectors. Economies slowed, not stalled, and employment remained strong with real wages rising. Conditions suggest modest but sustainable growth ahead.

The removal of the worst fears about trade wars and Brexit reduce risks and help to restore confidence and investment. With the prospect of a hard left government in the UK also despatched, and a government with the vision to grasp Brexit as an opportunity not a disaster, the prospects for the UK are much brighter.

Reduced risks, positive effects of monetary easing and increasing likelihood of fiscal stimulus suggest that the worst of the global growth pause is behind us, providing a better backdrop for the corporate sector. But risks remain.

With unemployment low across the developed world any pick up in growth, and particularly a shift to fiscal policy to stimulate growth, could result in higher real wages, pushing up inflation. While this seems a low risk, it could result in earlier monetary tightening than currently expected and would have a high impact on markets.

The US Presidential election raises uncertainty, especially if the Democrats select a candidate who would roll back Trump's business friendly policies. A second Trump term seems the most likely outcome, and while this suggests continuity it also means continued unpredictability.

That means setbacks in trade wars cannot be dismissed. The President's unpredictability is already evident this year, with a dramatic escalation in the dispute with Iran which could further destabilise the Middle East and deliver an oil supply shock.

Finally, high debt levels remain a headwind to growth and stability. There are no liquidity shortages, banks are well capitalised and ultra-low interest rates make debt more affordable than in previous cycles, but high debt is a constraint to growth and a problem in the event of a turn in the interest rate cycle.

Balancing these risks against the broadly favourable economic and monetary backdrop, we expect markets to make further progress this year. We see the best opportunities in equities but diversification remains the cornerstone of our approach, blending core exposure to global equities with infrastructure and property investments along with non-correlated assets including US Treasuries, specialist fixed income, liquid alternatives and gold. With true diversification and tactical exploitation of the inevitable setbacks, we believe that mid to high single digit returns are achievable in 2020.

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The **Marketplace**

- Tensions between the US and Iran de-escalate
- Indices in the US hit new record highs
- Brent crude fell 5.3% ending the week at $65.0 a barrel
- Gold rose 0.7% ending the week at $1562.3 an ounce

Market **Focus**

US

- The major US index rose 0.7% last Thursday to reach a new record high. The gains were led by tech, energy and financial stocks. The main technology index also broke a new record.
- Nonfarm jobs rose by 145K in December which was slightly below expectations. Average hourly earnings increased by just 0.1%
- The ISM non-manufacturing index for December rose to 55 versus 54 expected. This was the strongest gain since August.

Europe

- Eurozone consumer price index (CPI) rose to a six-month high, at 1.3% in December, compared to the previous year. This makes an imminent interest rate cut less likely
- A positive week for continental European stocks, with Germany's main index increasing 2.4% and the Pan-European gauge rising 0.4%
- The Euro fell 0.4% against the US Dollar last week
- German exports fell by 2.3% in November.

UK

- UK equities fell 0.5% last week
- The new head of the European Commission has indicated that the UK's pledge to finalise its future trading relationships with the EU by the end of 2020 is "basically impossible"
- Pound Sterling fell by 0.2% against the US Dollar last week
- The governor of the Bank of England, Mark Carney, said there was a case for cutting interest rates if 'weakness in activity' persists. This is in addition to continuing with quantitative easing.

Asia/Rest of The World

- Bank of Japan set to revise its GDP forecast for the 2020 fiscal year upwards to 1% following the government's $122 billion stimulus package
- Chinese equities posted their sixth consecutive week of gains with the major composite benchmark advancing 0.3% last week. The 'phase one' trade deal with the US is due to be signed this week
- China's year-over-year CPI came in at 4.5% in December, slightly below estimates of 4.7%
- Iran is now seeing mass internal protests following the admission by the government that it accidentally shot down a Ukrainian passenger jet last week.

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

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Asset Class/Region	Currency	Currency returns			
		Week ending 10 Jan. 2020	Month to date	YTD 2019	12 months
Developed Market Equities					
United States	USD	1.0%	1.1%	1.1%	27.5%
United Kingdom	GBP	-0.5%	0.6%	0.6%	13.4%
Continental Europe	EUR	0.3%	1.1%	1.1%	24.2%
Japan	JPY	0.8%	0.8%	0.8%	16.9%
Asia Pacific (ex Japan)	USD	1.4%	2.1%	2.1%	18.5%
Australia	AUD	2.9%	3.7%	3.7%	24.6%
Global	USD	0.6%	0.8%	0.8%	23.8%
Emerging markets equities					
Emerging Europe	USD	2.2%	3.2%	3.2%	29.9%
Emerging Asia	USD	1.4%	2.2%	2.2%	19.5%
Emerging Latin America	USD	-1.7%	0.1%	0.1%	6.4%
BRICs	USD	1.1%	2.7%	2.7%	20.8%
MENA countries	USD	-0.6%	-0.5%	-0.5%	3.9%
South Africa	USD	-0.7%	-1.3%	-1.3%	2.7%
India	USD	1.4%	1.1%	1.1%	13.9%
Global emerging markets	USD	0.9%	1.7%	1.7%	16.5%
Bonds					
US Treasuries	USD	-0.2%	0.6%	0.6%	7.9%
US Treasuries (inflation protected)	USD	-0.4%	0.6%	0.6%	9.0%
US Corporate (investment grade)	USD	-0.1%	0.6%	0.6%	14.8%
US High Yield	USD	0.2%	0.4%	0.4%	11.4%
UK Gilts	GBP	-0.6%	0.7%	0.7%	7.7%
UK Corporate (investment grade)	GBP	0.0%	0.8%	0.8%	11.8%
Euro Government Bonds	EUR	-0.3%	0.4%	0.4%	7.3%
Euro Corporate (investment grade)	EUR	-0.3%	0.1%	0.1%	6.6%
Euro High Yield	EUR	0.1%	0.3%	0.3%	10.9%
Japanese Government	JPY	-0.2%	-0.2%	-0.2%	1.9%
Australian Government	AUD	0.1%	1.1%	1.1%	9.2%
Global Government Bonds	USD	-0.7%	-0.2%	-0.2%	5.2%
Global Bonds	USD	-0.5%	-0.1%	-0.1%	6.3%
Global Convertible Bonds	USD	0.8%	1.5%	1.5%	11.1%
Emerging Market Bonds	USD	0.6%	0.5%	0.5%	10.8%

Source: Bloomberg. Past performance is not indicative of future returns

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Asset Class/Region	Currency	Currency returns			
		Week ending 10 Jan. 2020	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	0.0%	-0.7%	-0.7%	18.7%
Australian Property Securities	AUD	2.1%	3.4%	3.4%	14.6%
Asia Property Securities	USD	-0.6%	-0.3%	-0.3%	10.4%
Global Property Securities	USD	-0.5%	-0.6%	-0.6%	17.8%
Currencies					
Euro	USD	-0.4%	-1.0%	-1.0%	-3.3%
UK Pound Sterling	USD	-0.2%	-1.5%	-1.5%	2.4%
Japanese Yen	USD	-1.4%	-0.8%	-0.8%	-1.0%
Australian Dollar	USD	-0.8%	-1.7%	-1.7%	-3.9%
South African Rand	USD	-0.3%	-2.4%	-2.4%	-3.2%
Swiss Franc	USD	-0.2%	-0.6%	-0.6%	1.1%
Chinese Yuan	USD	0.7%	0.6%	0.6%	-1.9%
Commodities & Alternatives					
Commodities	USD	-1.3%	-0.3%	-0.3%	5.5%
Agricultural Commodities	USD	1.0%	0.4%	0.4%	-1.0%
Oil	USD	-5.3%	-1.5%	-1.5%	5.4%
Gold	USD	0.7%	2.6%	2.6%	21.3%
Hedge funds	USD	0.3%	0.4%	0.4%	7.6%

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