Views for 2019

Our Predictions

1. **Global growth slowdown.** The impact of protectionist policies and tighter global liquidity conditions will reduce global growth rates to around 3.2% although it is unlikely that a more serious synchronised contraction will occur. US growth should still hold above trend 2.5% as the fiscal stimulus continues to boost the economy.

2. **Inflation should remain muted.** Inflation has been tepid as recent falls in the cost of oil have reduced cost pressures and although unemployment rates across developed economies continue to decline, the traditional relationship between low unemployment and rising inflation has diminished. Inflation expectations have decreased markedly, and central bank policies have been limited in their effectiveness to raise inflation to target levels of 2% particularly in the Eurozone. If inflation does surprise to the upside we expect central banks will focus on stimulating and sustaining growth and look through any short-term rise rather than tighten policy.

3. **Currencies remain volatile.** As central banks seek to utilise monetary policy further, currencies will be impacted by the variation in policies adopted. The US dollar will continue to be strong as the Federal Reserve has been able to raise rates ahead of other countries. The value of Sterling will be dictated by Brexit outcomes. The value of the Pound vs US Dollar could fall to 1.10 on a no-deal outcome or rise to 1.45 on a no-Brexit or 'soft'-Brexit, a range of over 20%.

4. **Brexit developments will be the main driver of UK markets and economic conditions.** Britain is scheduled to leave the EU on March 29th this year and there is still no clarity on the future relationship between the UK and EU. The outcomes range from postponing the exit date to a hard no-deal Brexit. Our base case is that a no-deal Brexit will be avoided and a transition period will be agreed, this should be positive for UK assets. However any positive sentiment towards the UK may be short-term as attention turns to the negotiations regarding future co-operation following the end of the transition period. Business investment in the UK will continue to be decline until there is a final agreement on the relationship between the UK and EU. A positive outcome will be good for investment flows and UK equities.

5. **Volatility will be a feature of markets.** As quantitative easing measures are withdrawn and central banks seek to reduce their balance sheets volatility will increase. Quantitative easing has distorted traditional market behaviour and led to an increase in the value of risk assets. As this measure is withdrawn we expect assets to re-price and provide an opportunity to benefit from the market distortions. It will be important to protect portfolios from 'risk-off' periods through holdings in assets such as gold.

6. **Political Risk and Policy Error remain the greatest threat to stability in financial markets this year.** Markets have already suffered significantly in 2018 as a result of trade tariffs between the US and its trading partners. In particular, the fundamental differences between the US and China in intellectual property linked to national security, seem unlikely to be fully resolved anytime soon. With elections taking place in Europe it is also difficult to assess the likely impact of populism that is gaining traction. Central bank policy may vary between countries but the impact on markets is unanimous and profound. Evidenced only a few weeks ago when The Federal Reserve Bank in the US was forced to reverse its interest rate outlook. They had been advocating a continual rise in interest rates, moving from 0.5% in 2016 to 2.5% in 2018 however further rises will be dependent on the strength of the economy.

7. **Disruption enabled through advancing technology will increase.** The application of technology and artificial intelligence will continue to impact business as well as consumer behaviour. Disrupters have structurally affected the dynamics of retailers, media organisations and the transportation industry. There are opportunities for investors who are placed to take advantage of the secular changes of the fourth industrial revolution.

8. **Safe haven assets in a correlated world.** Correlations between equities and bonds have varied dramatically over the last 10 years undermining traditional asset class diversification, which ultimately aims to provide downside protection and provide optimum risk rated returns. Determining what is 'safe' in asset terms is particularly challenging. However, as growth in many Developed Markets begins to slow, inflation remains contained and with policy makers reluctant to raise interest rates we feel weightings to Sovereign bonds in portfolios will increase to levels typically seen pre the financial crisis in 2008.

9. **Emerging markets will recover**. Valuations of emerging market assets offer appealing entry points after investors' re-evaluated growth and risk expectations last year. The factors that led investors to sell emerging market assets have started to improve as trade tensions between the US and China are unlikely to deteriorate further and the federal reserve has adopted a more dovish tone. China will continue to provide fiscal and monetary support to stabilise growth that will benefit emerging markets as a whole.

10. **Environmental, social and governance (ESG) factors will rise in prominence.** Investors are becoming more conscious of these factors when formulating portfolios. As a result there are opportunities to drive returns within these areas. There is evidence that suggests when ESG factors are integrated into investment analysis there could be long-term performance advantages.