



# Investment Outlook

## Year-end review and 2020 outlook: The Age of Uncertainty

December 2019

# What has happened in markets and the economy in 2019?

Investment markets have shown strong performance in 2019, with positive returns across asset classes.

- ◆ Global equities are the clear stand-out, with returns over 20% this year<sup>1</sup>
- ◆ Fixed income has also been positive, particularly with global bonds and credit returning around 10%<sup>1</sup>
- ◆ This meant that diversified portfolios delivered relatively steady performance over the year, with positive bond returns smoothing some of the short-term fluctuations we saw in equities

## Backdrop

Returns overall have been impressive, especially considering the political and economic uncertainty that characterised 2019.<sup>1</sup>

This year saw a synchronised slowdown in growth across the globe, and significant political events across the major economies. As an example, this year saw more elections held across the G20 countries than any year since 1958.

These factors led to what we've called **“the age of uncertainty”**.

## So why were financial markets' returns so strong?



## Outcome

The global shift to monetary policies supportive of economic growth was probably the most important reason for many asset classes performing strongly in 2019.

More than 15 global central banks cut interest rates during the year, supporting riskier asset classes like equities.

Furthermore, investors' expectations at the beginning of the year around growth and company earnings were pessimistic. As such, when outcomes were not as bad as feared, investors reacted positively.



## Did you know

A central bank is an institution that manages the currency, money and interest rates of a specific country or region.

Accommodative policy is when a central bank maintains interest rates at lower levels to support economic growth, by incentivising more spending and investment.

**Investment involves risk. Past performance is not a reliable indicator of future performance.**

1. Source: MSCI All Country World Index Net (equities) and Bloomberg Barclays Global Aggregate Treasuries Total Return Index (bonds), as at 31 October 2019 in USD, total return, month-to-date terms.

# What is our outlook as we head into 2020?

## Key considerations



### Recovering global growth

After a period of a slowdown in 2019, a number of leading indicators seems to be showing signs of recovery in the economy.

Looking ahead, we anticipate modest recovery in Europe, stability in Asia and Emerging Markets; and the US<sup>2</sup> continuing around its long-term growth potential.



### Selective opportunities

While risk of deterioration in the economy and investment markets can be limited by policy easing, broad uncertainty also has the potential to limit gains.

Even so, we see a number of good opportunities for yield or carry in select fixed income and equity markets.

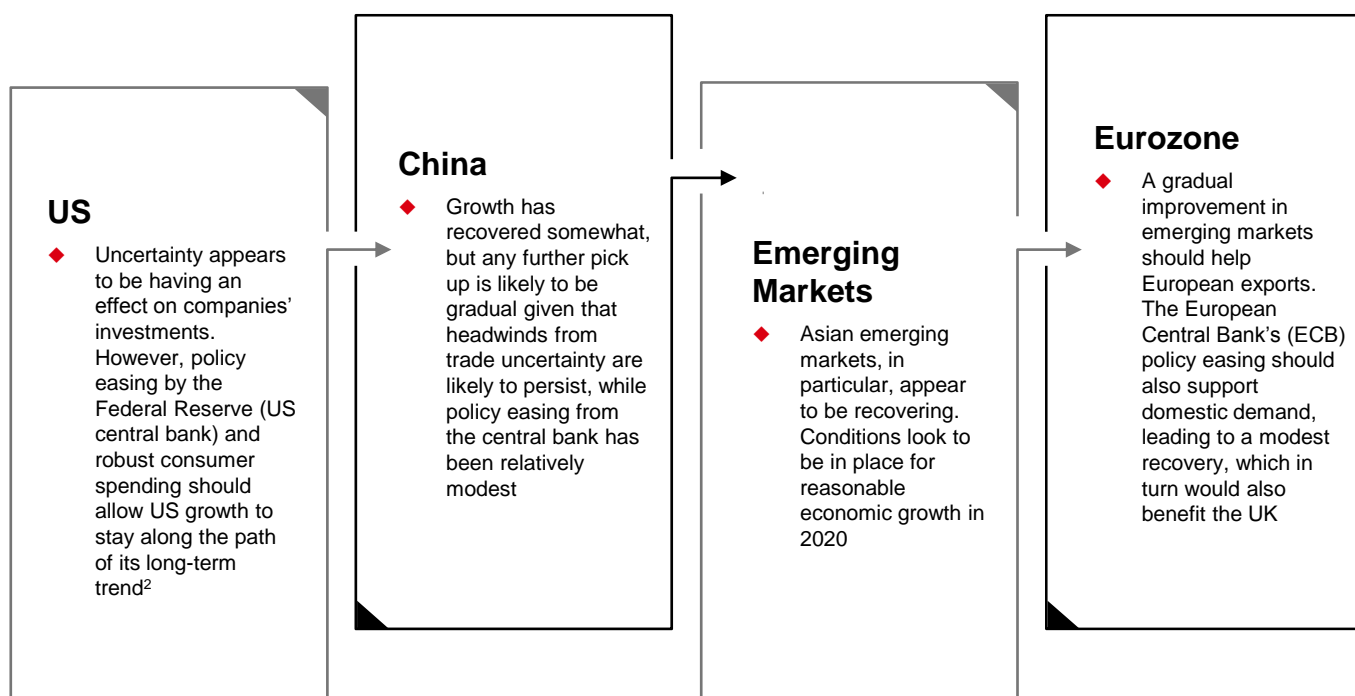


### Political uncertainties

Political uncertainty remains a key challenge for investors because they can impact markets quite strongly.

For instance, next year's US election, Brexit and trade tensions can all be potential contributors to uncertainty in 2020.

Our outlook for 2020 is relatively favourable. We anticipate slow and steady economic growth, low inflation, and accommodative policies.



**The age of uncertainty adds further importance to being dynamic in how we build our portfolios, and expanding our investment strategy across more geographies and asset classes.**

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2. Source: HSBC Global Asset Management, US long-term growth trend around 2%, November 2019.

# Multi-asset outlook

## The age of uncertainty

Overall, policy and political uncertainty have been elevated. Trade tensions between China and the US have been the dominant story, of course, but other events have impacted market sentiment too. We can track this quantitatively; statistical measures of “global policy uncertainty” are at all-time highs.

There are a number of big, unresolved issues and a sequence of other key political events could play out adversely - or perhaps, better-than-expected for the economy and financial markets.

Investors should understand that continued uncertainty can potentially cap growth in economies and investment markets. Accommodative policies can continue to provide support, but we don't expect significantly more from central banks next year.

## Favourable baseline looking forward

We see the global outlook as one of slow but steady growth, muted inflation and mildly supportive monetary policy in 2020. We call it the “favourable baseline”.

With many political and economic unknowns, we will need to be vigilant. However, the really big lesson from 2019 is that even if uncertainty remains prevalent, we shouldn't automatically be seduced into adopting a defensive investment strategy. Going into cash at the start of 2019 felt safe and sensible, but it turned out to be very costly for those investors who did.

## Compounding the carry in 2020

We believe there are still a number of opportunities for investors today. Market prices remain attractive for some risky asset classes, especially versus the traditional fixed income areas, where yields are low. That means we should still be pro-risk in our asset allocation.

However, given that uncertainty has the potential to limit gains next year, we prefer opportunities to “compound the carry” (carry refers to the return from holding an asset). Asset classes like emerging market equities and European equities can offer such opportunities, with high dividend and earnings yields.

## Smart diversification

Although government bonds have done very well over the last couple of years, the forces that have supported bonds so far may be gradually beginning to reverse. This suggests that global bonds might be a less reliable diversifier going forward than they have been in the past.

We think that investors could benefit from smart diversification through less traditional and new asset classes and geographies.



Vast unknowns could play out adversely or better than-expected next year.

Favourable baseline of steady growth, low inflation and supportive monetary policy.



We see opportunities in equities as well as less traditional asset classes for portfolio diversification. Smart diversification is key.



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# Equities outlook

## How has the year been for equities?

For most of the year market sentiment has, in our opinion, been overly negative, even as equity markets notched up solid gains amidst a set of accommodative policies from central banks across the world.

Despite the rise in global equity markets, we have to acknowledge that global growth concerns, trade tensions and other uncertainties have had an impact on corporate earnings. There has been a well-recognised slowdown in earnings growth across regions, but more recently we have seen a recovery amidst improving economic data.

## How do you see equity investment opportunities for 2020?

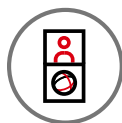
We remain positive on global equities in 2020, against the backdrop of a potential upturn driven by a rebound in manufacturing, and signs of recovery in key industries in Asia.

We see stronger corporate earnings growth in emerging markets in the upcoming year. Within that, Asia stands out in our view, potentially led by improvements in China. We remain positive on China, supported by the latest data indicating growing resilience in the economy. As for other emerging markets, India also looks positive thanks to the unexpected tax cuts and implementation of its reform agendas.

## And what are the key risks for equities?

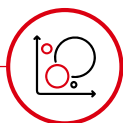
Going into 2020, major global central banks are expected to remain accommodative to prepare for any possible risk of a slowdown. Although trade conflicts will continue to draw investors' attention in the new year, investors will be more focused on the progress in the global growth recovery.

In the run-up to US presidential elections in 2020, there are certain developments that may need to be monitored more keenly including US-China trade relations. However, in our experience, the results of the election are less of a concern as markets have typically tended to shrug off early apprehensions and expectations and chart their course, irrespective of the parties or candidates that assume power.

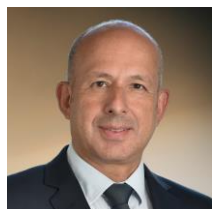


Recovery in corporate earnings growth expectations after a slowdown.

We see stronger corporate earnings growth recovery in emerging markets in 2020.



Political risks continue to pose a threat to equities.



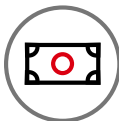
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The shift from central banks was the main driver in 2019, pushing global bond yields even lower.

In a world of low economic growth, interest rates will remain at relatively low levels over the medium-term.



Increasing corporate debt levels could be challenging if stronger growth doesn't materialise.

## Bonds outlook

### What happened in bond markets in 2019?

Amidst the challenges throughout the year, fixed income investments showed very solid performance in 2019.

The shift from central banks was the main driver, pushing global bond yields even lower, especially in Europe, where much of the market has seen negative yields. As yields decline, this increases the value of existing bonds.

### How do we see 2020 for bonds?

In a world of slow and steady economic growth, interest rates are likely to remain at relatively low levels over the medium-term. However, in the absence of further economic deterioration, any additional interest rate cuts will be minimal, removing a performance driver for government bonds.

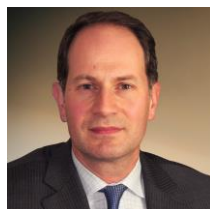
We are now ending the year with low yields across bond markets, making it harder to find strong opportunities. With corporate earnings growth slowing and debt levels creeping up, corporate defaults may begin to increase from current very low levels. As such, we approach 2020 with a cautious stance, adopting a selective approach to navigate market turbulence.

We continue to value the diversification benefits of emerging market bonds. Economic growth in these countries is less correlated with the US than most developed markets. However, returns will depend on country selection, where individual risks in certain markets are a concern. We see opportunities in local currency bonds, with a view that local currencies in emerging markets have room to appreciate against the US dollar.

### What are the key risks to our outlook for bonds?

Looking ahead, although we anticipate improvements in economic growth, the slow pace of recovery and any potential increase in companies defaulting on their debt would be a negative for corporate bonds.

Geo-political risks such as next year's US election, Brexit and trade tensions all have the potential to pose challenges in 2020. These uncertainties could cause some spikes of volatility next year. Considering the environment, we think investors should be selective going forward.



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