

Perspectives

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Top 10 questions for 2020

Will we see a US or global recession? No. We believe that 2020 should show a continued rebound in economic activity, albeit moderate. We expect growth to remain around trend levels for major economies, but believe the US could surprise on the upside.

Will the US-China trade truce hold? Yes. We expect the recent truce to last as both sides have strong incentives to avoid further escalation. However, we believe that other 'phases' or an all-encompassing trade deal are likely to prove illusive, with talks are likely to stall.

Will the UK manage a trade agreement with the European Union by the end of December? No. Boris Johnson campaigned on "getting Brexit done" and no further extensions to the transition period past December 2020. However, we find it unlikely that a full trade deal is agreed in only a few months. We expect an extension, but acknowledge the possibility of exiting with WTO rules to continue negotiations from the outside.

Will major central banks remain on hold? Yes. We believe the Federal Reserve will not need to cut further given an improving global backdrop, and that inflation will not rise enough to justify a hike. We expect the European Central Bank to remain on hold as well, while pressuring policymakers for fiscal support. We believe the Bank of Japan will continue to sound dovish but will be limited in its actions. The Bank of England may need to cut to support a fragile economy.

Will core inflation rise much in the US? No. Inflation is likely to rise, especially with base effects on oil, but we believe that core inflation will remain contained, suggesting there will be little pressure on the Fed to hike rates.

Will politics & geopolitics continue to drive markets? Yes. Trade is likely to remain in the headlines, and not just for the US and China, but with Europe as well. With the upcoming US election and political questions in Germany, Italy and France, internal politics could also take over. In addition, with forward guidance from central banks relatively clear, they should take a backseat.

Will we see positive equity markets again? Yes. We believe that an improving global backdrop and reduced uncertainty surrounding trade and Brexit will continue to support risk appetite, and therefore equity markets. Higher volatility should persist, as demonstrated by the US-Iran tensions.

Will yields rise sharply? No. We believe that better growth and improved investor sentiment implies yields continue to drift higher, but growth fears will not disappear, and with inflation muted, yields are likely to remain contained.

Will value stocks outperform? No. The recent upswing is likely to continue in the short term, which should see European assets continue to do well, but we expect demand for quality to remain, supporting growth stocks and the US market over the medium term.

Will oil prices spike? No. While tensions in the Middle East are likely to continue to simmer, suggesting a higher risk premium for oil prices, supply remains ample thanks to US shale, Saudi Arabia and Russia, suggesting no spike in prices. Growth is unlikely to jump, which should also act as a cap on prices.

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