

News

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BMO Global Asset Management Five-Year Outlook Report: Steady Global Growth Most Likely Scenario for Near Future

TORONTO / CHICAGO / LONDON / HONG KONG, 21 November, 2017 – BMO Global Asset Management today released its annual *Five-Year Outlook* report, which examines the trends expected to dominate the global economy and markets over the next five years (2018-2023).

The report has placed a 60 per cent likelihood that the global economy will continue to grow at a steady pace with modest inflation. The report highlights three scenarios of which the ‘Steady As She Goes’ scenario is expected to play out over the next five years.

Scenario #1: Steady As She Goes

According to BMO Global Asset Management’s ‘Steady As She Goes’ base-case scenario, the global economy is set to continue growing at a steady pace with modest inflation. The gradual withdrawal of monetary accommodation, in the form of higher interest rates and reduced quantitative easing, is likely to be tempered by muted inflation pressures and flexible markets, reducing these headwinds to a gentle breeze rather than a disruptive gale.

The report cautions that, as a pre-condition, Europe must surpass the U.S. and lead the world in growth. With the world economy remaining in good shape and healthy profit margins being maintained, risk assets should generally do well in this scenario. Gradual tightening by central banks is a headwind, albeit a mild one, which will limit overall returns. Government bonds are likely to underperform and with spreads likely to widen, corporate bonds could fare even worse.

Scenario #2: Policymakers Pull the Punchbowl

In 2018, the risk of a downside scenario has increased given concerns over policy errors. The second scenario, ‘Policymakers Pull the Punchbowl,’ which is given a 30 per cent chance of happening – suggests that a global recession is a threat. This is because of two reasons: past monetary policy may have over-stimulated the markets; subsequently this could fuel further inflation, which might then coincide with the quantitative tapering and exaggerate the impact. This could lead the U.S. first into a recession, followed by the rest of the world.

On the flip side, central banks may take an aggressive approach to unwinding. The pace of tightening could be too fast, resulting in an economic downturn, a squeeze in corporate profits and a global recession.

This recession-based scenario would ultimately see a significant correction in equity markets and a rally in bonds. Government bonds could sell off in the early stages of this scenario as inflation and interest rates rise, before rallying hard as equities underperform – kick-starting a recession.

Scenario #3: Perfect Policy Prevails

The third scenario, 'Perfect Policy Prevails,' – to which BMO Global Asset Management has assigned a 10 per cent likelihood – suggests that central banks are successful at bringing economies back to full employment smoothly, without pushing up inflation. It also suggests that central bank balance sheets and interest rates are normalised in a smooth manner, which ensures consistent market and investor behaviour. In this 'perfect world,' risk assets perform strongly, bonds come under only limited pressure and volatility remains low.

Richard Wilson, Chief Executive Officer & Chief Investment Officer, BMO Global Asset Management, said:

“The findings in this report reflect the key themes presented at our Global Investment Forum. We believe that the report helps investors make sense of the world we are operating in, allowing them to feel more confident in making informed investment decisions.”

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To obtain a copy of the report, visit <http://www2.bmogam.com/2018-five-year-outlook>

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About BMO Financial Group

Established in 1817, and currently marking its 200th year of operations, BMO Financial Group is a highly diversified financial services provider based in North America. With total assets of \$709 billion as of 31 July, 2017, and more than 45,000 employees, BMO provides a broad range of personal and commercial banking, wealth management and investment banking products and services to more than 12 million customers and conducts business through three operating groups: Personal and Commercial Banking, Wealth Management and BMO Capital Markets.

About BMO Global Asset Management, part of BMO Financial Group

BMO Global Asset Management is a global investment manager with offices in more than 25 cities in 14 countries, delivering service excellence to clients across five continents. Our four major investment centres in Toronto, Chicago, London and Hong Kong are complemented by a network of world-class boutique managers strategically located across the globe: BMO Real Estate Partners, LGM Investments, Pyrford International Ltd. and Taplin, Canida & Habacht, LLC. BMO Global Asset Management is a signatory of the United Nations-supported Principles for Responsible Investment initiative (UNPRI).

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