BMO Global Asset Management

News

FOR IMMEDIATE RELEASE

BMO Global Asset Management 2018 Global Investment Forum: A Positive Outlook for Risk Assets

Toronto / Chicago / London / Hong Kong 25 October 2018 – BMO Global Asset Management today released its 2018 Global Investment Forum report, which includes detailed perspectives on key themes and asset allocation from its investment managers, economists and strategists from around the globe.

The Global Investment Forum report tunes out the day-to-day market noise and focuses on key market drivers over the medium term.

Base scenario:

Global economy in good shape
Despite the recent market correction, BMO Global Asset Management judges the world economy to be in good shape and expects this to be reflected in stock markets. The global economic upswing has been long but shallow and inflationary pressures remain subdued. This creates a fertile environment for risk assets. Equities are expected to perform reasonably well, with corporate earnings continuing to grow, but even against the headwind of rising interest rates, government bonds and corporate credit, they may be vulnerable as central bank stimulus is wound down. The overall economic view remains upbeat, however, there are clouds on the horizon; the U.S. Federal Reserve (Fed) and other central banks currently raising interest rates and the escalating trade war between the U.S. and China.

A US recession unlikely
Although a slowdown in U.S. growth is inevitable, given the hectic pace at which the economy has expanded this year, BMO Global Asset Management believes it is unlikely that a U.S. recession will happen in 2020, as some have predicted. Declining union power and increasing corporate concentration are limiting wage pressures. The rise of intangibles, assets such as goodwill, brand recognition and intellectual property that are not physical in nature, means that supply can respond rapidly to strong demand without putting pressure on inflation.

UK economic fortunes in hands of politicians
The UK financial markets are highly sensitive to Brexit headlines. The Global Investment Forum report concludes that, with some sort of deal being in the interests of both the UK and the 27 countries of the European Union, a deal is not certain but is a most likely scenario. This would likely cause a significant rise in sterling, reducing the sterling value of UK companies' foreign earnings which could therefore see the FTSE 100 weaken in this otherwise positive scenario.

Europe still on track
Growth in Europe has been disappointing this year, but the eurozone is still growing at an above-trend rate, unemployment is falling and deflation is no longer a threat. This means that the European Central Bank (ECB) can finally start to wean the region off monetary support by ending its asset purchase programme at the end of this year and slowly start to raise interest rates from their negative level, probably sometime in the second half of 2019. While Italy's disaffection with the European project is a significant risk, the region's economy is now on a firm enough footing to withstand the gradual removal of unprecedent monetary support.

Pendulum to swing back in favour of emerging markets
While there are short term challenges in emerging markets, such as the function of trade war concerns, political problems, a stronger U.S. dollar and rising U.S. interest rates, BMO Global Asset Management believes that these markets offer tremendous investment opportunities in the longer term. The demographics are attractive and the ability to use technology to leapfrog in areas of education, finance and agriculture is enabling global growth. There is, nevertheless, an opportunity for governance improvements to make emerging markets more resilient to financial downturns, whilst enhancing the efficiency of their stock markets. Emerging market companies still face headwinds, but the assets are cheap and offer good opportunities on a selective basis.

Trade wars will fade
BMO Global Asset Management's view is that global trade wars will have a limited impact on the world economy. Chinese companies look set to be the most affected, but its exports to the U.S. are a small share of GDP and will be diverted to other markets, especially if the 25% tariff goes ahead. Tariffs will have a modest negative impact on U.S. growth and an upward impact on U.S. inflation. Considering the strong performance of the U.S. economy, the overall impact should be relatively small. The recent trade deal between the U.S., Canada and Mexico supports the view that the Trump administration does not want a full-scale trade war, but is focusing on China.

Steven Bell, Chief Economist, BMO Global Asset Management, comments: "The key themes outlined in the Global Investment Forum report are at the core of our thinking behind any investment decisions. Our view is that the global economic recovery has further to run, even though monetary policy is slowly normalising and some economies are close to full capacity. We expect earnings to continue to be healthy and expect yields to continue to rise**.** A feature of the next five years is likely to be the end of the recent 'synchronised growth' phase of the global economy and a return to uncorrelated growth rates."

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To obtain a copy of the report, visit www.bmogam.com/gif

Media Contacts:

Campbell Hood
campbell.hood@bmogam.com
Tel: +44 (0)20 7011 4243

FTI Consulting
bmo@fticonsulting.com
Tel: +44 (0) 20 3727 1888

About BMO Global Asset Management

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 specialist managers strategically located across the globe: BMO Real Estate Partners, LGM Investments, Pyrford International Ltd. BMO Global Asset Management is a signatory of the United Nations-supported Principles for Responsible Investment initiative (UNPRI).

BMO Global Asset Management is a part of BMO Financial Group, a highly diversified financial services provider based in North America with total assets of CDN $765 billion as of 31 July 2018, and over 45,000 employees.

Views and opinions expressed by individual authors do not necessarily represent those of BMO Global Asset Management.