BMO Global Asset Management

News

FOR IMMEDIATE RELEASE

BMO Global Asset Management's Global Investment Forum: Risk Assets Expected to Outperform in 2020, Despite Recession Edging Closer

LONDON, 24 October 2019 – BMO Global Asset Management today released its annual 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. Below we outline the six key market drivers to emerge from the 2019 Global Investment Forum:

- **Edging towards a US Recession?**

Fears of a US recession are on the increase. These fears have been fed by the inverted Treasury bond yield curve, a reliable predictor of recessions in the past. Trade tensions increase the risks: A full 25% tariff would reduce Chinese growth by 1% and US growth by 0.5%. Their direct impact may be limited but they have hit business confidence and investment. The US economy has certainly slowed but a recession is not seen in the near term. The Federal Reserve has already cut interest rates and has scope to go further. Consumers, secure in their jobs and receiving decent wage increases, are happy to keep spending. And with 2020 being an election year, President Trump will be keen to secure a vote-winning trade deal with China, thereby removing that drag on sentiment.

For the world economy 'muddle through' is the order of the day with manufacturing staging only a slow recovery.

- **Continued uncertainty after Brexit**

The UK's departure from the European Union will undoubtedly be a seismic event for the country in many ways. The EU accounted is the UK's biggest trading partner by far and the financial markets and some economists anticipate a major UK recession on a no-deal Brexit." If the UK leaves the EU without a deal, the market expects the Bank of England to cut interest rates and ease monetary policy in other ways. While the hit to growth of a no-deal outcome is potentially very serious, a dynamic UK service sector would continue to reach out successfully around the world. Deeper ramifications of Brexit could be felt in the political arena, with Irish reunification and Scottish independence seemingly moving closer. UK politics could potentially polarise further, with Labour's agenda for mass nationalisation clouding the outlook for utilities. Even if there were a deal, the UK would still have to negotiate their future relationship with the EU on trade and a host of other areas. Political risk and economic uncertainty look set to continue.

- **Options are running out for monetary policy**

With interest rates at rock bottom and the impact of financial asset purchasing programmes apparently waning, central banks are running out of monetary policy options for tackling the next global economic slowdown. Fiscal policy is gaining increasing backing as the next solution, with proponents of ‘Modern Monetary Theory’ advocating the use of quantitative easing to finance government spending. With low and stable inflation giving them more flexibility, central banks are talking up the need for fiscal expansion, and speculation is rising that it could be used to fund green policies.

- **The end of globalisation?**

The last 25 years have been the era of globalisation. Fuelled by the birth of the internet and the emergence of multi-national technology giants, it is a phenomenon that has driven an unprecedented expansion in trade and financial flows. But the pendulum now appears to be swinging against it, with voices from both the political left and right rejecting it for being either too capitalist or too centralised. The retreat from global leadership by the US is arguably accelerating the process. As China also turns more introspective in its economic policies, globalisation is starting to give way to regionalisation. Any shift to regionalisation will likely present increasing economic and political risks. While it is not expected that globalisation will be reversed, it has stalled and the break-neck economic expansion of the last two decades is unlikely to be repeated.

- **The challenge of decarbonisation continues**

There is no timelier and more pertinent topic of climate change than the need to decarbonise the global economy. The UK, France and Sweden are now amongst the countries that have set themselves the objective of net zero carbon emissions. Meanwhile, big corporate names like Amazon.com, Daimler and Duke Energy, one of the largest electricity companies in the US, trumpeted their own net zero carbon commitments. If the target of zero net carbon emissions is to be met and dangerous global temperature rises avoided, the population will need to make fundamental changes to the current way of living. The pathway to decarbonisation is straightforward in some sectors. In energy generation, for example, renewables are taking an increasing share and are falling in price. Feeding an expanding global population in a carbon-neutral fashion is, however, more problematic. Negative emissions technology offers hope that the carbon budget can be balanced, but the pace of this type of innovation needs to be accelerated.

- **Potential automobile breakdown in Germany**

Selling massive volumes of high-value cars across the world has been the foundation of Germany’s economic strength in recent decades. But as the structural switch to electric gets under way, this highly successful model is under threat. With other key sectors such as chemicals and plastics also facing challenges, Germany’s economic dominance will be tested. The impact could be so great that France, with its low reliance on auto exports and recent labour market reforms, could assume the leadership of the Eurozone economy.

These views are mapped to provide BMO Global Asset Management with its overarching asset allocation view that sentiment remains broadly positive on equities given the generally dovish rhetoric of the main central banks and reasonable performance of corporate earnings. However, the positioning is neutral on government bonds, where the benefit of supportive monetary policy and low inflation is being offset by stretched valuations and ultra-low yields. While rich valuations also weigh on the credit market, the emerging sovereign bond market looks better set on the back of supportive central bank policy and low global inflation. In currencies, the positioning is negative on the US dollar given the prospect of further easing by the Federal Reserve. The outlook is positive on the euro and the yen on relative valuation considerations.

Steven Bell, Chief Economist, BMO Global Asset Management, comments: "Our view is that although aggregate demand is starting to slow, we do not feel that we are nearing a recession. Profits are high, earnings are increasing, and consumers have increased their savings, which will provide further influx into the economy. We have identified key pockets of opportunity, as well as highlighted areas where we see risks, such as inflation. We believe the major opportunity for 2020 lies within investing in risk assets, which we expect to outperform in the coming year."

"These views outline the core of our thinking that lays behind any investment decision."

- ENDS -

To obtain a copy of the report, visit https://www.bmogam.com/gif-2019/

Media Contacts:

Campbell Hood
BMO Global Asset Management (EMEA)
Campbell.hood@bmogam.com
Tel: +44 (0) 20 7011 4243
Mob: +44 (0) 786 091 1622

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 and 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 $830 billion as of 30 April 2019.