

#### **2020** outlook – can the macro cycle be saved?

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### Preparing for 2020 – from macro to markets...

- 1. Global economy have recession seeds been sown...or still 'later cycle'?
- 2. Australia a more stable 2020?
- 3. 2020 portfolios staying invested, stay diversified through the late cycle



### **Global growth outlook – forecasts firm, leaders weak**

#### World growth and business conditions

World @Pgrowth (% YoY)



- 2020 growth seen rising to ~3<sup>1</sup>/<sub>2</sub>%
- Low inflation, low rates supporting
- But 'leaders' flag a sharp slowing

### Global growth outlook – fundamentals still good



- Unemployment rates below trend
- Strong support for consumer spending
- •Australia a bit of an outlier

Sources: RBA, Refinitiv

## **Global growth outlook – but geopolitical headwinds...**

#### **US Tariff Rates on China\***

Weighted average bilateral tariff rate



\* Excludes steel and aluminium tariffs introduced in 2018 Sources: RBA; World Integrated Trade Solution

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US tariffs now at a level not seen since 1971...

 Recent progress on a 'phase one' deal

- Little progress on key areas of tension
- Does Trump need a deal ...late 2019/early 2020?

### **Global growth outlook – ...& market/political uncertainty**

**Policy uncertainty at a peak** Index (average = 100) Index Global Economic Policy Uncertainty\* (LHS) Nominal GDP weighted: US VIX 

Sources: UBS, JPMorgan

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Market value of negative yield bonds as a percentage global bonds\*



The last 5 times an inverted curve signalled a recession, the Fed was hiking, not cutting

## **Global growth outlook – ...weighing on industrial activity**

- **Production and exports continue to weaken** 
  - •Global export growth has stalled...
  - Industrial production approaching 'flat'

Weak business confidence leads to a 'stall' in activity => this can lead to weaker capex and employment



## **Global growth outlook – trade wars weigh on fundamentals**

There is some risk growth and earnings are already destined to correct



#### ...softening jobs markets



Source: Markit, Refinitiv, SG Cross Asset Research/Economics

### **Global growth outlook – US & EU leaders drop**

#### US growth holding near 2%, but leaders have weakened

#### EU weak, Germany nearrecessionary conditions



Sources: UBS, Haver

### **Global growth outlook – can the good times return?**



- Central banks easing to support growth...
- Most CB easing since the GFC...
- Could support activity through 2020

Source: UBS, Haver [Note: chart is quarterly]

### **Global growth outlook – can the good times return?**

A conflict for geopolitical supremacy in the 21<sup>st</sup> century...but some recent progress



\* SOURCE: ANGUS MADDISON.

### **Global outlook – the numbers (according to UBS)**

Real GDP growth (% y/y)								
	2015	2016	2017	2018	2019	2020		
US	2.9	1.6	2.4	2.9	2.3	1.3		
Japan	1.3	0.6	1.9	0.8	1.3	0.7		
Eurozone	2.0	1.9	2.6	1.9	1.1	0.7		
UK	2.3	1.8	1.8	1.4	1.1	0.9		
Asia (excluding Japan)*	6.2	6.2	6.2	6.0	5.3	5.2		
- of which China	6.9	6.7	6.8	6.6	6.0	5.5		
Latin America	0.0	-1.0	0.9	0.7	0.1	0.7		
Emerging EMEA	1.5	1.6	3.5	2.8	1.5	2.3		
Advanced (DM)	2.2	1.7	2.4	2.2	1.7	1.2		
Developing (EM)	4.7	4.7	5.3	5.0	4.3	4.4		
Global	3.6	3.3	4.0	3.8	3.2	3.0		

Global growth to slip below 3% in H1 2020...

- But stabilise thru the year at a 3<sup>1</sup>/<sub>4</sub>% - 3<sup>1</sup>/<sub>2</sub>% pace.
- DM slows much more than EM from here

Sources: UBS

### Australian growth and inflation

Australia – growth and inflation drops in H1 2019

#### Australia – growth slows to under 2% from > 3% 7 Year-ended growth Domestic demand 6 5 4 3 2 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017 2019 1997 1989 1995

#### Underlying inflation still well below the RBA's target



Sources: ABS, Crestone, UBS

#### Australia – an improving outlook Housing stabilisation puts Australia in a better position ahead



- The election result was a positive for both business & housing sectors
- APRA has eased some lending criteria...easing credit constraints
- RBA has cut 75bp...adding to consumer income
- Iron ore > \$60 driving fiscal surplus...scope for fiscal easing beyond recent tax cuts

Sources: Factset, Core Logic, RBA, UBS

### Australia – an improving outlook

#### Jobs growth providing support, but leaders have weakened



- Jobs market has stayed solid with 2.5% jobs growth
- Leaders have been weaker
- Key to RBA policy and economy's outlook

### Australia – an improving outlook



 Despite good profits, corporate investment is soft

 Biz confidence remains subdued, uncertainty high

 Potential for non-mining capex to add to growth

#### **State economic trends - capex**



- •WA & QLD led post mining boom capex slowdown...
- Better trends in NSW and VIC...signs of a plateau?
  - Capex survey suggests nonmining capex should still be growing

#### **Crestone.** Sources: CBA

### **State economic trends - housing**

Recent weakness in actual housing investment/completions in NSW & QLD



Source: CBA, UBS, ABS

### **State economic trends - retail**



- Below expected given tax and rate cuts
- Trends weakest in NSW and Victoria where house price falls are significant
- QLD strong, led by weather and net migration flows

Sources: UBS, ABS

### **State economic trends - unemployment**



- UR still rising in QLD & SA, trending up in NSW & VIC
- Better jobs and retail in WA & QLD could see fall
- Less state dispersion may be ahead in 2020-21

#### Exchange rates - Australian dollar AUD/USD



- A stabilising global economy would be 'negative' the USD...
  - ...it would be 'positive' for the AUD
  - Trade and fiscal positions eventually matter

## How are we positioned? – moderately defensively

Trade tension unresolved – we keep our more defensive portfolio position

#### Our latest tactical asset allocation positions



- 2. ...expressed through EM and Europe
- 3. We prefer credit over bonds, where yields are less attractive
- 4. We continue to favour adding alternative investments

...we are looking for the opportunity to move more positive for 2020, via stabilising growth and trade war de-escalation



### Bond yields collapsed...now rising again



Being underweight government bonds reflects low yields and expensive prices... ...but portfolios still need to have allocations to bonds, as yields could go lower

### Equity market valuations have been rising

*Equities not at extremes, but on the expensive side of fair!* 



**Crestone.** Sources: UBS, Bloomberg, Crestone Wealth Management, 7 October

### Global earnings outlook solid, Australia modest

2020 valuation less demanding, and earnings outlook lower, but positive

	P/E	EPS growth	EPS growth	EPS revision	EPS revision	TSR	
	12mth fwd	CY19	CY20	CY19, 1 month	CY19, 3 month	3 month	
World	16.5	+0.5%	+9.1%	-1.7%	-1.9%	+6.5%	
US	17.7	+1.2%	+9.5%	-0.5%	-1.1%	+5.8%	
Europe	14.3	-0.1%	+9.5%	+1.0%	-1.7%	+6.7%	
Emerging Markets	12.4	+0.6%	+14.5%	+0.4%	-1.3%	+8.0%	
Asia ex Japan	13.4	+1.4%	+13.9%	+0.6%	-0.7%	+9.1%	
Japan	13.9	+5.5%	+7.7%	+0.1%	+0.5%	+14.8%	
Australia	16.7	+2.1%	+3.5%	-2.2%	-5.4%	+3.7%	

Sources: UBS, 7 November 2019

Sources: UBS, 7 November

## Aussie equities – struggling for growth opportunities

No longer 'cheap' relative to the world...Aussie co.'s with offshore earnings beat



Offshore earning stocks are those with half or more of earnings from offshore, excluding the resource sector. Source: S&P. Factset. Datastream. Citi Research

Sources: UBS, Bloomberg, Crestone Wealth Management, 7 November **Crestone.** 

### Aussie equities – struggling for growth opportunities

Investors should continue to focus on offshore opportunities



Based on MSCI Index constituents. Source: IBES, MSCI, Datastream, Citi Research

Percentage of stocks with consensus medium-term growth >10%

- Growth is expensive in Australia, especially tech and other structural themes
- Less than 20% of Aussie companies have mediumterm growth of >10%
- One-quarter to one-half of global companies have >10% medium-term growth

### Asset allocation is the key to successful investing

Allocate efficiently between asset classes with unpredictable performance

2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)
Domestic fixed income 15.0	Domestic equities 37.0	International fixed income 9.3	Domestic fixed income 11.4	Domestic echities 20.3	International equities 48.0	International equities 15.0	International equities 11.8	Domestic equities	International equities 13.4	International hedge funds 5.9
International	International	Domestic fixed	International	International	International	International	International	International	Somestic	Domestic fixed
fixed income	fixed income	income	fixed income	equities	hedge funds	hedge funds	hedge funds	equities	equities	income
9.2	8.0	6.0	10.5	14.1	26.9	12.6	10.8	7.9	11.8	4.5
Domestic cash 7.6	Domestic cash 3.5	Domestic cash 4.7	Domestic cash 5.0	International fixed income 9.7	Donestic equities 20.2	International fixed income 10.4	International fixed income 3.4	International hedge funds 6.5	International fixed income 3.7	Domestic cash 1.9
International	Domestic fixed	Demestic	International	Domestic fixed	Domestic	Domestic fixed	Domestic fixed	International	Domestic fixed	International
hedge funds	income	equities	equities	income	cash	income	income	fixed income	income	fixed income
0.8	1.7	1.0	-5.3	7.7	2.9	9.8	2.6	5.0	3.7	1.7
International	International	International	International	International	International	Domestic	Domestic	Domestic fixed	Domestic	International
equities	equities	equities	hedge funds	hedge funds	fixed income	equitie <del>s</del>	equities	income	cash	equities
-24.9	-0.3	-2.0	-55	5.1	2.3	5.6	2.6	2.9	1.8	1.5
Domestic	International	International	Doverestic	Domestic	Domestic fixed	Domestic	Domestic	Domestic	International	Domestic
equities	hedge funds	hedge funds	equities	cash	income	cash	cash	cash	hedge funds	equities
-38.4	-5.8	-3.3	-10.5	4.0	2.0	2.7	2.3	2.1	0.3	-2.8

Source: Morningstar, Bloomberg, Crestone. Calendar year returns relate to total returns in Australian dollars for the S&P/ASX 200 Accumulation Index, Bloomberg Aus Bond Composite 0+Y TR Index, Barclays Global Aggregate TR USD Hedged Index, and MSCI World ex-Australia NR Index AUD and the HFRI Fund Weighted Composite index AUD. Data as at January 2018.

#### Key messages...

- 1. We are constructive on global growth
  - recent easing of geo-politics could see stabilisation
- 2. But geopolitics likely to remain firmly on the investment horizon
  - later cycle volatility persists
- 3. Australia is in a better economic position
  - but lacks sectors & earnings to outperform long-term
- 4. State economic divergence could narrow
  - housing to drive NSW & Victoria near-term
- 5. Stay invested, stay diversified
  - traditional asset values are challenging, seek 'alternatives'

"The most important key to successful investing can be summed up in just two words—asset allocation"

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Leboeuf (University of New Orleans)

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