MULTI ASSET QUARTERLY MARKET INSIGHTS

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QUARTERLY MARKET INSIGHTS KEY TAKE-OUTS

1. 2018 will be remembered as a year where market volatility returned, underpinned by the loss of three key multi-year anchors – rising economic growth, massive central bank liquidity injections and investor's 'buy the dip' mentality. The reversal of these tailwinds culminated in the MSCI World Index recording its largest quarterly decline in seven years (of -12.8%) with the December quarter decline in the US market (-14%) being the third largest since 1941.

2. The 2019 sharemarket outlook is challenged as expectations remain elevated, growth is slowing across the world and margins are under considerable revenue and cost side pressure. At present, analysts expect +7.6% EPS growth in 2019 for the MSCI World Index but our model indicates that it is more likely to be negative than positive. While earnings growth is being downgraded to levels better aligned with the economic environment, this process has a considerable way to go, but central banks are seemingly stepping back from their policy withdrawal guidance, which provides some downside cushioning (through valuations), if the prospects for global growth can stabilise.

3. Global growth has entered its third deceleration phase of this cycle. While we can attribute the first two to concentrated drags – the European debt crisis in 2011-12 and from the unwind of a commodity supply and EM corporate credit boom in 2015-16 - the forces weighing on global growth nowadays are a bit more complicated. Nevertheless, at the epicentre of this is Chinese growth and global trade, the latter of which highlights how important net exports are to growth trends, and how dangerous it is as a political football. There were material slowdowns in Europe, Japan and China in 2018 and only the latter has unleashed stimulus to cushion downside risks. Other economies are stepping back from the policy withdrawal process, but so far have not turned the stimulus taps back on, which limits the upside risks to global growth.

4. After two years of above-trend growth, the global economy is set to return to a below-trend pace in 2019. Much of the growth slowdown in 2018 (a decline of -0.2% to 3.0%) came from the trade channel, but this is expected to flow through to consumption and investment, especially in the US. As 2019 progresses, investment in shale production capacity will decline given lower oil prices and consumption will slow as the impact of tax cuts fades. Consequently, the US growth slowdown (-0.6% in 2019) will be greater than China (-0.4%), Japan (-0.3%) and Europe (-0.1%).

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