Navigating a Year of Choices, positioning for a Decade of Transformation

In 2019, global economic growth is on track to fall to a post-financial crisis low, driven by slowdowns in the US, Europe and China. Although growth weakened as the US-China trade conflict hurt business confidence and curbed fixed investment, the labor market and consumption both remained relatively healthy. This resilience, combined with looser monetary policy, has supported strong performance in financial markets.

Year-to-date global equities have delivered returns of around 22% and 10-year US bond yields have fallen by around 1ppt, contributing to robust 2019 performance for most balanced portfolios.

What can investors anticipate for 2020? In CIO’s base case, it expects sub-trend growth to continue. CIO forecasts global growth of 3.0%, following 3.1% in 2019. But in a Year of Choices—for policymakers, electorates and investors alike—the two-way uncertainty around CIO’s base case is greater than usual.

CIO sees three key “choices” defining outcomes:

• Stick or twist? Elections will take place in the US and, in December 2019, the UK. The polarization between candidates, the magnitude of issues and the market capitalization of the US and UK markets make these elections relevant for investors around the world.

• Deal or no deal? Trade turmoil between the US and China could flare up again in 2020, even if an interim deal is reached soon. But, equally, a deal to reduce or remove existing tariffs and a pledge to stop adding more could dramatically reduce global economic uncertainty, unlock pent-up investment demand and enable US President Donald Trump to “declare victory” in an election year.

• Fiscal or monetary? The effectiveness of traditional monetary policy is now diminished, and given a divided US Congress, Eurozone budget constraints and China’s concerns about managing leverage, meaningful fiscal stimulus in 2020 appears unlikely. But low inflation and interest rates do provide the leeway to take a fresh look at the role of government spending, and coordinated fiscal and monetary action could offer material upside to CIO’s growth expectations.

CIO thinks that market performance in 2020 will depend in large part on the outcomes of these political choices. But investors can reassert some control over their portfolios by seeking investments less sensitive to political outcomes:

• Within equities, CIO recommends quality and dividends, and choosing domestic and consumer-focused companies that are likely to provide more reliable returns than those exposed to trade and business spending.

• In fixed income, CIO suggests a middle-of-the-road approach given low yields on the safest debt and the rising credit risks among some high yield issuers. CIO favors emerging market sovereign debt, select “crossover” names in Europe and sustainable over traditional bonds.
Elsewhere, CIO likes precious metals over cyclical commodities, expects US dollar underperformance and advocates a low beta posture within alternatives.

Looking further ahead CIO expects a Decade of Transformation. Working-age populations in developed countries will begin to shrink, and a less favorable political backdrop could emerge for higher-income individuals. CIO also expects significant environmentally and technologically led innovations to disrupt existing norms in a deglobalizing world.

Overall, CIO thinks all this will mean lower returns and higher volatility for most financial assets than in the past decade. Investors targeting a given level of return in well-diversified portfolios may therefore need to increase their allocation to riskier assets such as equities.

To balance the risks of a Decade of Transformation with potential long-term opportunities, investors will have to build a robust financial plan. CIO believes the Liquidity. Longevity. Legacy.* approach can help investors achieve their financial objectives, reduce their anxiety about short-term risks and enable them to take advantage of longer-term opportunities.

With this in place, investors will also enjoy ample chances to benefit. Particularly exciting trends CIO highlights center on digital transformation, genetic therapies and water scarcity.

Meanwhile, many of the UN Sustainable Development Goals have such large-scale capital requirements that CIO believes they offer compelling investment opportunities for private investors to earn attractive returns, while contributing to goals ranging from eliminating poverty and lessening inequality to ensuring access to clean water and quality education. By replacing traditional with sustainable investments, investors can better position their portfolios to benefit from the most significant trends over the next decade.

For more on our outlook, read the full Year Ahead 2020 report.

*Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

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