

## Almost Everything Wall Street Expects in 2020



For the professional prophets and market gurus of Wall Street and beyond, “The double-digit returns of 2019 will be hard to repeat” is a phrase littering almost every investment outlook for global markets in 2020. (Not too surprising though, given that 2019 started on the back of a 17.5% fall of S&P500 in Q4 of 2018).

Despite the trade war, political turmoil and more, many major assets just posted a ‘once in a decade’ performance - and even uber-bulls know the chances of repeating the feat are slim.

So I thought that (with thanks to Bloomberg) I would provide a ‘Reader’s Digest’ of research notes for the year ahead from 6 of the worlds leading financial advisory firms - who no doubt think they have it all worked out for 2020!

The notes are made across 3 consistent areas for the 6 institutions...

- A ‘Base Case’ general overview
- Growth
- Trade

We will return to review these ‘predictions’ at the end of 2020 and provide a rating of each institutions’ ability to look into their own particular crystal ball. We should get an idea of whose ‘reality’ is closest to the real thing.

This article is just for fun really, but let's see if we are better-off to listen to the 'experts' New Year predictions or just throw a bunch of darts at a newspaper sheet of stocks on January 1<sup>st</sup> – Which, as you know if you regularly read my blogs, has proved to be more successful in the past!

Ok, here we go...

### Blackrock Investment Institute

Base Case	Growth	Trade
Our base case is for a mild pickup supported by easy financial conditions, with a slight rise in U.S. inflation pressures. We see China's economy stabilizing, but little appetite for replays of the large-scale stimulus of the past. We see the growth uptick taking root in the first half of the year, led by global manufacturing activity and rate-sensitive sectors such as housing.	Growth should edge higher in 2020, limiting recession risks. This is a favorable backdrop for risk assets. But the dovish central bank pivot that drove markets in 2019 is largely behind us. Inflation risks look underappreciated, and the lull in U.S.-China trade tensions could end. This leaves us with a modestly pro-risk stance for 2020.	We see any fiscal support from China as limited and not delivering the countercyclical boost it has in the past. A material escalation in U.S.-China trade tensions could shift China's fiscal policy stance. But our base case is that tensions move sideways and do not escalate.

### Capital Economics

Base Case	Growth	Trade
We think that returns from "risky" assets – equities, corporate bonds, REITs and industrial commodities – will generally beat those from "safe" ones – government bonds and precious metals – again over the next two years, as the global economy finds its feet. However, in our view both will be weaker than in 2019.	With the euro-zone economy likely to struggle next year, and no meaningful fiscal loosening on the horizon, we think that the ECB will surprise markets with at least some additional easing.  Also, the risk of the U.K. trading with the EU on WTO rules after December 2020 would limit the size of the rebound in GDP growth and the pound.	Despite recent progress on trade talks between the U.S. and China, we think that most of their differences will remain unresolved. And the recovery in global GDP growth is likely to be lacklustre, with China missing out.

### Columbia Threadneedle

Base Case	Growth	Trade
Our base case is that there is unlikely to be an acceleration in growth and we are equally unlikely to see a deep recession. In that environment, the long-duration element of markets – be that in fixed income or equities – remains relatively attractive.	There is inherently more growth in emerging markets than in other places over the long term, and the growing middle classes in Asia (especially India) remain key, but regionally we favor the U.S., for the sheer number of companies that have the potential for growth.	The trade war remains key and could go either way. While recent noise on trade has given us reason for a more cautiously optimistic stance, we are mindful that events can take a sudden and dramatic turn, aided by the speed with which social media proclamations can spread.

### Deutsche Bank Wealth Management

Base Case	Growth	Trade
History suggests that years of sharp gains (as in 2019) are not usually followed by falls, but often instead by more modest growth - so 2020 should still be worth approaching in a positive spirit.	We expect slower global economic growth in 2020 and think that there is only a limited probability of a U.S. recession. U.S. growth is forecast to slow from an estimated 2.2% in 2019 to 1.6% in 2020 and euro zone growth from 1.1% to 0.9%. China will continue to experience a soft landing, with growth slowing to 5.8% in 2020 – but much will depend on finding a more comprehensive solution to the ongoing U.S./China trade dispute.	Mild Yuan depreciation could be caused by China's continuing macro slowdown and accompany any possible future setbacks in U.S./China trade talks.

### Goldman Sachs

Base Case	Growth	Trade
Risky assets benefited from central bank easing in 2019, but now growth will need to drive returns. We expect moderately better economic and earnings growth, and therefore decent risky asset returns. But we also see plenty of risks, and more challenging valuations, so the upside is limited.	<p>We are not expecting the type of go-go global growth environment that would sink the dollar or result in a major bear market for bonds.</p> <p>As economic activity finds its footing, we see upside in a variety of cyclically sensitive assets, including emerging-market equities and breakeven inflation in the bond market, and expect cyclical sectors to outperform in equities and credit. Risky assets will, in our view, produce decent returns for the year as a whole across regions.</p>	There are plenty of risks here, including the trade war and the possibility that the next Congress will reverse the 2017 U.S. corporate tax cut. If the 2017 corporate tax cut were to be entirely reversed and the bill applied retroactively to the start of the year, S&P 500 earnings growth in 2021 would contract by 7%, compared with our strategists' baseline estimate of +5%

**J.P.Morgan Chase & Co**

Base Case	Growth	Trade
Looking into 2020, we believe that the positive drivers will continue, at least for the first half. Some negatives could start dominating later on, making 2020 a proverbial year of two halves.	Global growth to return to above-trend, characterized by fading U.S. outperformance, a European step-up and stable Mainland China. The Fed should ease again, as will several EM central banks.	<p>Potential concerns: The U.S. politics could become a lose-lose proposition, and trade uncertainty, as well as hard Brexit risk, could come back.</p> <p>The main risk to our view could come from U.S. trade policies, i.e., an escalation of the trade war that would inject volatility into financial markets and could even cause a recession.</p>

Let's see what 2020 brings, and we'll come back to this at the end of the year!