Personal Finance Society
2017 – A year of living dangerously?

Market Insights Team

This presentation is for Professional Clients only and is not for consumer use.
2017 – A year of living dangerously?
What we said at start of 2016

- Growth and US interest policy key variables for 2016
- Political and geo-political risks
- Low yields weigh on fixed income markets
- Better opportunities in equities than fixed income
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty
- Macro economics
- Markets and strategies
Learning objectives

Following this presentation, you will:

- Understand what will influence the prospects for the global economy in 2017.
- Outline the key fundamental drivers likely to drive asset class performance.
2017 – A year of living dangerously?

- 2016 review
Global – 2016 Performance overview
An excellent year for £ denominated investors

Source: Datastream as at 3 January 2017. Indices used: Global Equities – MSCI AC World, Global Govt. - JPM GBI Global All Mats., Global IG – BofA ML Global Corporate, Global HY – BofA ML Global High Yield, Cash – JPM Global Cash 1m, Commodities – Thomson Reuters Equal Weight Continuous Commodity Index.
UK – 2016 Performance overview
A good year for most asset classes too

Total returns (%)

Source: Datastream as at 17 January 2017. Indices used: Equities – FTSE All Share, Gilts – BofA ML UK Gilt, IL - BofA ML Inflation – Linked Gilt, IG - BofA ML Sterling Corporate, HY – BofA ML Sterling High Yield, Cash – JPM UK Cash 1m, Property – IPD Total Return Index.
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty
  - Trump
The Trump policy conundrum

Source: Invesco Perpetual. For illustrative purposes only.
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty
  - Trump
  - European politics
## Euro zone upcoming political events
### 2017-2018

**France**
- Presidential election

**Germany**
- Federal elections

**Austria**
- General election by spring 2018

**Netherlands**
- Parliamentary election

**France**
- National Assembly elections

**Italy**
- General election by May 2018

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<tbody>
<tr>
<td><strong>Netherlands</strong></td>
<td>Parliamentary election</td>
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<td><strong>France</strong></td>
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<td>National Assembly elections</td>
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<td><strong>Italy</strong></td>
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<td>General election by May 2018</td>
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Source: Invesco Perpetual as at end December 2016. For illustrative purposes only.
How vulnerable is Europe to political upheaval in 2017?

Stephanie Butcher
Fund Manager, European Equities
How vulnerable is Europe to political upheaval in 2017?

Stephanie Butcher
Fund Manager, European Equities
2017 – A year of living dangerously?

- 2016 review

- Political uncertainty
  - Trump
  - European politics
  - Brexit
The Brexit rollercoaster
A lengthy and uncertain process

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>June 2016</td>
<td>Referendum</td>
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<td>Jan 2017</td>
<td>Supreme Court decision on Article 50</td>
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<td>Mar 2017</td>
<td>Article 50 activated</td>
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<td>Mar 2019</td>
<td>Two years to negotiate terms of withdrawal – hard or soft Brexit?</td>
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<td>The UK formally exits the EU at earliest</td>
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<td>May 2020</td>
<td>UK General Election at latest.</td>
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<td>2025?</td>
<td>Negotiations with EU and Rest of World to replace treaties that no longer apply.</td>
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</tbody>
</table>

Source: Invesco Perpetual and Global Counsel as at 5 January 2017.
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty

**Macro economics**
- Overview
What is the economic growth outlook for developed markets in 2017?

John Greenwood
Chief Economist, Invesco Ltd.
What is the economic growth outlook for developed markets in 2017?

John Greenwood
Chief Economist, Invesco Ltd.
Economic growth news flow
Better than expected currently

G10 Citi Economic Surprise Index

Data better than expected

Data worse than expected

Source: Datastream as at 1 February 2017.
US recessions concerns
Current expansion looks long in the tooth...

Duration of US economic expansions (months)

Avg. = 58 months

Source: NBER (National Bureau of Economic Research) and Invesco Perpetual as at 1 February 2017.
Can Trump double the rate of growth?

John Greenwood
Chief Economist, Invesco Ltd.
Can Trump double the rate of growth?

John Greenwood
Chief Economist, Invesco Ltd.
US long-term GDP
Doubling growth may be ambitious

Source: Datastream as at 1 February 2017.
How is the UK economy coping post the referendum?

John Greenwood
Chief Economist, Invesco Ltd.
How is the UK economy coping post the referendum?

John Greenwood
Chief Economist, Invesco Ltd.
## The UK economy post referendum

### Little change

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<tr>
<th>Indicator</th>
<th>Q4 2015</th>
<th>Current</th>
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<tr>
<td>GDP</td>
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<td>Unemployment rate</td>
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<td>Real wage growth</td>
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<td>House prices</td>
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<td>Consumer confidence</td>
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<td>Retail sales</td>
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<td>CPI</td>
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<td>£ Trade Weighted Index</td>
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<td>Broad money growth</td>
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<td>Public and private debt/GDP</td>
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<td>Trade balance</td>
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<td>Composite PMI</td>
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Source: Invesco Perpetual for illustrative purposes. Red = negative; Amber = neutral; Green = positive.
Is fiscal stimulus the right policy to reinvigorate the global economy?

John Greenwood
Chief Economist, Invesco Ltd.
Is fiscal stimulus the right policy to reinvigorate the global economy?

John Greenwood
Chief Economist, Invesco Ltd.
Fiscal stimulus
More, but still limited

Change in OECD underlying fiscal balance as % of potential GDP

Source: OECD as at 23 November 2016.
Inflation expectations
Deflationary impulse waning

G10 Citi Inflation Surprise Index

Source: Datastream as at 1 February 2017.
Rising inflation expectations for 2017

Major developed economies – Consumer Price Inflation outlook (%)

Source: Datastream and Consensus Economics as at 1 February 2017. All annual inflation numbers are based on the average of the monthly year on year inflation numbers.
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty
- **Macro economics**
  - Overview
  - **Monetary policy**
US rate hike expectations
Market expectations more in sync with the Fed’s

Source: Datastream as at 1 February 2017. Fed based on median Fed dots forecast.
What happens when the Fed hikes rates?
Historic performance – full rate hike cycle

Asset Class – Total Returns (%)

Is the current monetary policy stance in the UK appropriate?

John Greenwood
Chief Economist, Invesco Ltd.
Is the current monetary policy stance in the UK appropriate?

John Greenwood
Chief Economist, Invesco Ltd.
UK base rates
No hike for a while?

Morgan Stanley Months to First Rate Hike Index

Source: Datastream as at 1 February 2017.
2017 – A year of living dangerously?

- 2016 review
- Political uncertainty
- Macro economics
- Financial markets
Is the 30 years + bull market in bonds finally over?

Paul Read
Co-Head of Fixed Interest
Is the 30 years + bull market in bonds finally over?

Paul Read
Co-Head of Fixed Interest
UK bond markets
Low returns likely

BofA Merrill Lynch Gilt Index Yield to Maturity (YTM) and 10 Year total return CAGR (%) since 1985

Source: Datastream as at 1 February 2017. TR = Total Return. CAGR = Compound Annual Growth Rate.
Do you still prefer equities?

Nick Mustoe
CIO and Fund Manager, Global Equities
Do you still prefer equities?

Nick Mustoe
CIO and Fund Manager, Global Equities
Equities outperform when growth outlook improves

OECD Composite Leading Indicator and equity relative to bond performance (yoy%)

Source: Datastream as at 1 February 2017.
What are the main issues facing equities in 2017?

Nick Mustoe
CIO and Fund Manager, Global Equities
What are the main issues facing equities in 2017?

Nick Mustoe
CIO and Fund Manager, Global Equities
Global equity market valuations above long-term average

MSCI World index Trailing PE (x)

A 24% premium to long-term average

Source: Datastream as at 1 February 2017.
Potential for a large rotation

Cumulative fund flows (global) since 2006 (US$tn)

Source: BofA Merrill Lynch using EPFR data as at 22 December 2016.
£ has been weak post the referendum. How do you see the currency’s prospects now?

Stuart Edwards
Fund Manager, Fixed Interest
£ has been weak post the referendum. How do you see the currency’s prospects now?

Stuart Edwards
Fund Manager, Fixed Interest
Sterling’s decline has been material

Sterling Trade Weighted Index

Source: Datastream as at 1 February 2017.
2017 – A year of living dangerously?
Key takeaways

- A potential shift in economic momentum - Reflation not low growth, lowflation?

- Political and geo-political risks remain material

- Reflation better for real assets

- Bond bull market over, but no bear market?

- Better opportunities in equities than fixed income
Learning objectives

Following this presentation, you will:

- Understand what will influence the prospects for the global economy in 2017.

- Outline the key fundamental drivers likely to drive asset class performance.
Important information

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