2020 Outlook - The Dance Continues: Two Steps Forward, One Step Back

Video Commentary – Investment Advisory Group for BB&T Wealth

Publication Details

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Publication Date
December 16, 2019

Transcript

Keith Lerner: At SunTrust, now Truist, we’re committed to uncovering and analyzing long-term trends and near-term influences that create investment opportunities for our clients. After stellar gains across the capital markets during the past year, we expect the global economy and markets to take two steps forward in 2020 as stimulus measures lead to firming global growth, but policy uncertainty will cause markets to periodically take a step back. Against this backdrop, we focus on three main themes.

Mike Skordeles: We anticipate a slight improvement to global growth in 2020, mostly due to the lagged effect of aggressive monetary stimulus measures and easing geopolitical tensions. The US economy should remain steady, growing slightly above 2% as the resilient consumer helps extend this record-long expansion.

The unemployment rate remains near a 50-year low while wages are rising, translating into bigger paychecks. We expect the housing market to experience a mini resurgence, which should offset a less robust business spending outlook. China’s slower but still enviable growth rate should continue, while emerging markets collectively should see slightly better economic activity. Meanwhile, Europe’s economy is set to stabilize at a low level.

Downside risks to watch for include a flare up in trade tensions and the overhang of the US elections, while upside risks include a more substantial breakthrough in US-China relations and the adoption of fiscal stimulus by countries around the globe.

Lerner: We see the glass as half full for global stocks. We expect markets to remain positive but provide more modest returns. Equities should be supported by a global recovery, accommodative monetary policy, and better earnings. However, this improved backdrop is already partially reflected in valuations, and the bar for positive surprises has risen. Stocks still remain attractive relative to fixed income and we see the path of least resistance as higher, albeit with bouts of volatility.

From a positioning standpoint, we maintain a US equity bias, but emerging and international developed markets should also benefit from firming global economic trends. Within international developed markets, we see a relative opportunity in small caps. From a macro perspective, we expect cyclical sectors like financial services and industrials to outperform.

Andrew Richman: We expect bond returns in 2020 to be muted after the exceptional gains of the past year. US rates are set to gyrate amid a push and pull of various factors. On the push side are stabilizing growth, easing geopolitical tensions, and reduced investor fear. The pull side includes structural headwinds like low inflation, aging demographics, and strong demand for safe-haven assets.

Our positioning balances the fact that rates and spreads remain near all-time lows, yet demand for yield remains elevated. As a result, we maintain a high-quality bias but also a moderate high yield credit position. We expect municipal bonds to perform well on a relative basis despite rich valuations, as investor appetite for tax-free income remains strong. Finally, we expect the push and pull of global factors to present opportunities for increasing duration and adding to credit throughout the year.

Lerner: In summary, for 2020, we see a slightly better global economic growth environment but more modest capital market returns. We also expect tactical opportunities to present themselves and investors should be prepared to adjust as the evidence shifts. Your SunTrust, now Truist, advisor can help you learn more about how our themes will impact your portfolio. We look forward to keeping you informed on our views as the year unfolds.

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High Yield Fixed Income Investments, also known as junk bonds, are considered speculative, involve greater risk of default and tend to be more volatile than investment grade fixed income securities.

International investing entails greater risk, as well as greater potential rewards compared to US investing. These risks include potential economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in emerging market countries, since these countries may have relatively unstable governments and less established markets and economies.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations, and illiquidity.

Emerging Markets: Investing in the securities of such companies and countries involves certain considerations not usually associated with investing in developed countries, including unstable political and economic conditions, adverse geopolitical developments, price volatility, lack of liquidity, and fluctuations in currency exchange rates.

Asset classes are represented by the following indexes:

MSCI ACWI index (Morgan Stanley Capital International All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

The Nikkei is an abbreviation for Japan's foremost, best known, and most respected stock index of Japanese companies. Its full name is Nikkei 225 Stock Average. This index is price weighted and made up of the top 225 industry leading companies which investors trade on the Tokyo Stock Exchange.

Investment grade corporate bonds are represented by the Bloomberg Barclays US Corporate Investment Grade Bond Index which includes publicly-issued US corporate and specified foreign debentures and secured notes which have at least one year to maturity, have at least $250 million par amount outstanding, are fixed rate, and are rated investment grade.

Aaa Corporate Bonds are represented by the Bloomberg Barclays US Aaa Corporate Bond Index which is the Aaa component of the Bloomberg Barclays US Corporate Investment Grade Bond Index.

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Baa Corporate Bonds are represented by the Bloomberg Barclays US Baa Corporate Bond Index which is the Baa component of the Bloomberg Barclays US Corporate Investment Grade Bond Index.

HFRI FOF: Diversified Hedge Fund Index. HFRI Fund of Funds Composite: This is an equal-weighted index of 650 hedge funds with at least $50 million in assets and 12-months of returns. Returns are reported in US dollars and are net of fees. HFRI Fund of Funds: Fund of funds invest with multiple hedge fund managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. HFRI may revise index data from time to time, as necessary.

MSCI EAFE index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI EM index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Russell 2000 Index is comprised of 2000 smaller company stocks and is generally used as a measure of small-cap stock performance.

Bloomberg Barclays Municipal Bond Blend 1-15 Year (1-17 Yr) is an unmanaged index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least $50 million, that have a maturity value of at least $5 million and a maturity range of 12 to 17 years.

Core Bonds are represented by the Bloomberg Barclays US Aggregate Bond Index which is the broadest measure of the taxable US bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, and maturities of one year or more.

JP Morgan GBI-EM Global Diversified Composite is a comprehensive emerging market debt index that tracks local currency bonds issued by Emerging Market governments. It includes only those countries that are directly accessible by most of the international investor base and excludes countries with explicit capital controls, but does not factor in regulatory/tax hurdles in assessing eligibility. The maximum weight to any country in the index is capped at 10%.

BofAML US HY Master index is an index that tracks US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

BofA Merrill Lynch Global Fixed Income Markets Index tracks the performance of developed and emerging market investment grade and sub-investment grade debt publicly issued in the major domestic and eurobond markets.

Leveraged Loans are represented by the Credit Suisse Leveraged Loan index which is a representative index of tradable, senior secured, US dollar denominated non-investment-grade loans.

Bank-loan portfolios primarily invest in floating-rate bank loans and floating-rate investment-grade securities instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark such as the London Interbank Offered Rate, or LIBOR.

The FTSE Japan index is a market-capitalization weighted index representing the performance of Japanese large and mid cap stocks.

The DAX is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

The FTSE 100 is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

It is not possible to invest directly in an index.

CN2019-2989EXP12-2022