2020 Perspective

PLURIMI

Patrick Armstrong, Chief Investment Officer

3 January 2020

After massive gains for both bonds and equities in 2019, this year will be more difficult for balanced investors. The primary driver of the rally, loose central bank policy, will remain in place but will not positively surprise in 2020 the way it did in 2019.

We expect the global economic expansion will continue but growth will remain subdued. A 2020 recession is unlikely, but the conditions for a robust pick-up in growth next year are not in place.

The US economy will continue to lead the developed world. This will allow the Fed to keep rates on hold, but a growing Fed balance sheet will continue to provide liquidity to markets. The ECB will ease through broader QE and the PBOC will continue with non-conventional easing.

The 'phase one' deal between the US and China will keep a fragile peace, but it will not evolve into a all encompassing deal. Competing strategic goals between the two countries are more important to them than the economic benefits of a broader trade deal.

The 2020 presidential election may be an inflection point for US equities with the significant policy differences between the various candidates.

Japanese equities offer the best value and the Summer Olympics may draw attention to the country.

UK equities should outperform if quick progress is made on a trade deal with Europe, but that is far from a foregone conclusion. No progress leads to another cliff edge at the end of 2020.

In EM we favour consumer focused technology. Indian equities should benefit as growth picks up.

We expect that the US dollar will weaken marginally vs. its trade weighted basket. The Canadian and Australian currencies will lag in the next downturn.

Gold should continue to move higher on reserve diversification and geo-political hedge demand.

2019

Performance by asset class (%)

Source: Bloomberg, PW

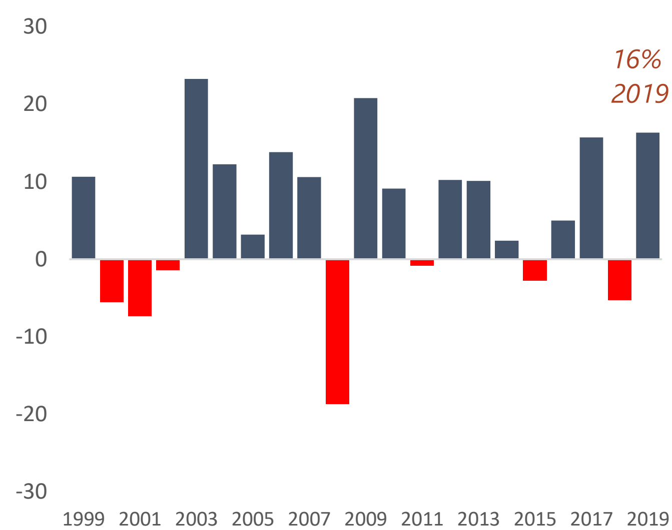
2019 was as good as it gets for balanced investors with equities, bonds, gold, and oil all rallying together despite a weakening economic backdrop throughout the year. Despite a steady escalation of a trade war between the US and China with delays and uncertainty surrounding Brexit market performance was very strong. Dramatic u-turns by the Fed and ECB were the most significant driver of returns. Both central banks cuts rates, and the Fed began increasing its balance sheet in Q3.

Central bank policy drove bond yields lower and risk assets higher, leading to best year for balanced portfolios since 2009

We had mixed results in our 2019 forecasts. We called for a continued economic expansion driving a recovery in equities but we had expected global bonds would be weaker. We got our call on gold spot on, as we expected gold prices to move higher by more than 10% on political risks, large debt levels, and a potential diversification of reserves. All these drivers remain in place for 2020. We were completely wrong in expecting central banks to continue a gradual unwind of monetary stimulus. This was based on expected progress in US China trade relations and a Brexit deal being agreed in Q1 2109. Central banks actually significantly increased stimulus based on an uncertain economic backdrop. In 2020 we expect government bond yields will move slightly higher. Central bank policy will anchor the short end and the long end will continue to steepen marginally on increasing debt levels on populist policies and fiscal stimulus.

Equity markets had a stellar 2019, more than recovering the ground lost in 2018. The majority of returns have come from multiple expansion thanks to the substantial loosening of monetary policy. Earnings growth has been weak or negative in most markets, and in aggregate earnings have fallen globally. While we think that earnings will recover slowly this year, and monetary policy which drove up valuations in 2019 looks unlikely to be repeated. This suggests to us that equity markets will make only modest gains in 2020.

Balanced global equity & bond (% annual growth)



50% Barclays Global Aggregate and MSCI World (USD)
Source: Bloomberg, PW

Asset Allocation

Late in the cycle, with increasing liquidity

Overall	--	-	N	+	++
Equities			■		
Fixed Income		■			
Cash				■	
Commodities			■		
Alternatives					■

Regional Equities	--	-	N	+	++
Australia		■			
Canada		■			
Euro Area			■		
Ex- Germany			■		
Germany				■	
Hong Kong		■			
Japan					■
Switzerland				■	
U.K.				■	
U.S.		■			
Emerging Markets				■	
Commodity Exporters		■			
Commodity Importers				■	

Global Equity Sectors	--	-	N	+	++
Consumer Discretionary			■		
Consumer Staples		■			
Energy		■			
Financials		■			
Health Care				■	
Industrials				■	
Information Technology				■	
Materials		■			
Real Estate			■		
Telecom Services		■			
Utilities		■			

Fixed Income	--	-	N	+	++
Duration		■			
Government Bonds		■			
Yield Curve				■	
Inflation Protection				■	
Investment-Grade			■		
High-Yield				■	
EM Sovereign USD				■	
EM Sovereign Local				■	

Government Bonds	--	-	N	+	++
Australia				■	
Canada				■	
Euro Area		■			
Ex- Germany			■		
Germany	■				
Japan			■		
Switzerland		■			
U.K.		■			
U.S.		■			

Currencies vs USD	--	-	N	+	++
Australia		■			
Canada		■			
Euro Area				■	
Japan				■	
Sweden			■		
Switzerland			■		
U.K.			■		
Emerging Markets				■	

Alternatives & Structured Opps.	--	-	N	+	++
Dispersion				■	
Dividends EuroStoxx				■	
Range Accruals				■	
Covered Call Integrateds				■	

Source: PW

Global economic dashboard

Indicator	Derivative 1st	Derivative 2nd	Interpretation & outlook
Growth			
Global leading economic indicator	0	+	Weak economic indicators continued, but have bottomed
ZEW/IFO	-	+	Remains weak, but has improved in recent months.
US ISM manufacturing new orders	0	0	US and China improving, but UK and Germany remain contractionary.
Consumer confidence	+	-	Still strong but below Q4'18 peak, risk of rolling over.
Business confidence	0	-	Remains positive, but has topped
Global PMI	0	-	Expansionary but has trended lower.
G7 employment	+	0	Positive and no signs of slowing yet.
Global trade volume	-	0	Global trade has not grown, and has fallen as a % of GDP.
Oil prices	+	+	Oil prices up significantly in 2019
Policy			
Real policy rate	+	+	Global policy continues to loosen. Fed's renewed balanced sheet expansion adding liquidity.
Nominal GDP-bond yield gap	+	0	Positive gap is reflationary.
G7 credit growth	+	0	Positive and stable.
Financial stress	+	0	Ample and growing liquidity and low default rates through 2019. Repo spike has been addressed.
Fiscal thrust	0	+	Fiscal drag disappeared, with US stimulus, while Europe may be moving away from austerity. MMT next?
Inflation			
Core CPI	0	+	Deflation risks have dissipated, US core CPI is 2.3%. Eurozone and Japan show no signs of inflation
Wage growth	+	0	Wage growth > inflation in developed world.

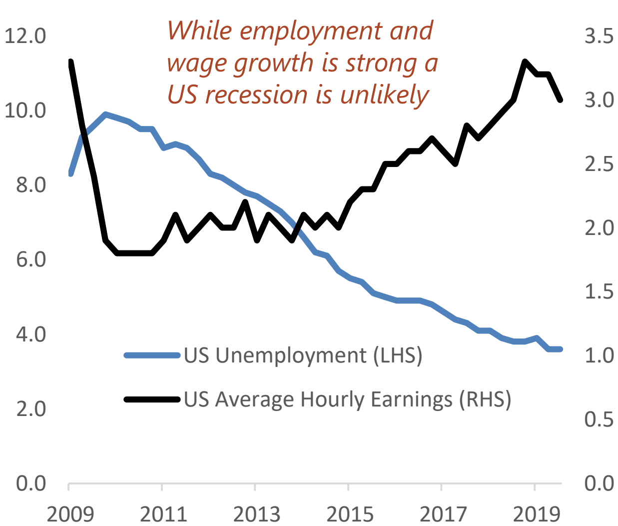
Source: Bloomberg, PW

Global Economy

Global manufacturing has bottomed and economy rebounding?

Our global economic dashboard shows an economy which is expanding, but well past peak growth. Policy rates are the primary contributor, supporting high employment and meaningful wage growth. We expect policy will remain supportive but do not expect additional cuts from the Fed or ECB in 2020. The global economy entered a manufacturing and industrial profits recession in 2019, but a resilient services sector and strong consumer kept the economic expansion alive. Much was made about the potential for a recession in 2019. The services sector and the US consumer drove the economy forward. While employment and wage growth continue to be strong it is difficult to see a 2020 recession.

US Unemployment and Wage Growth (%)



Source: Bloomberg PW

An exogenous shock or a policy mistake which impacts employment and confidence is the mostly likely cause for a 2020 recession. Central bank policy is more likely to extend the cycle. Falling asset prices such as Japan in 1990 or globally following the collapse of the tech bubble have caused recessions in the past, but again central banks seem to prefer to inflate asset prices than deal with any slow down. Our base case is a global growth momentum will gradually improve with manufacturing activity picking up moderately next year.

An exogenous shock or a policy mistake are the most likely causes of a 2020 recession.

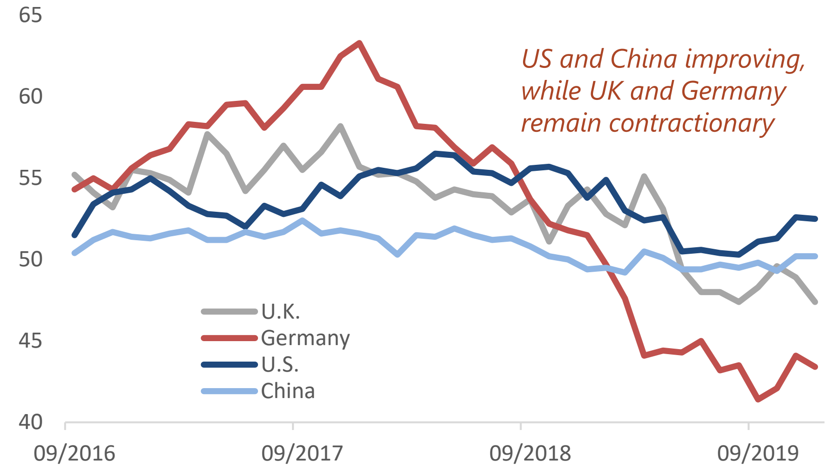
Global Economy

In early 2020 we will learn details of the US and China 'phase one' trade deal. Increasing trade tensions and tariffs throughout 2019 have had a negative impact on sentiment and restrained investment. We expect the deal will lead to a fragile truce in the trade war, but do not expect an all encompassing deal to be reached. On the back of this and easier financial conditions we anticipate global growth will improve.

Manufacturing has been very weak around the world, and a trade truce should lead to a recovery manufacturing. A subtle improvement is already apparent in the US and China PMI surveys. The global economy will likely continue to be restrained by subdued capital spending and uninspiring trade growth. German manufacturing was the laggard in 2019, and is the bellwether for judging shifts in growth momentum and sentiment. Recent PMI have bounced slightly, but remain in contractionary levels. The biggest risk for the burgeoning manufacturing recovery is if the US President turns his trade war elsewhere, following a deal with China. German manufacturing would be one of the most likely targets.

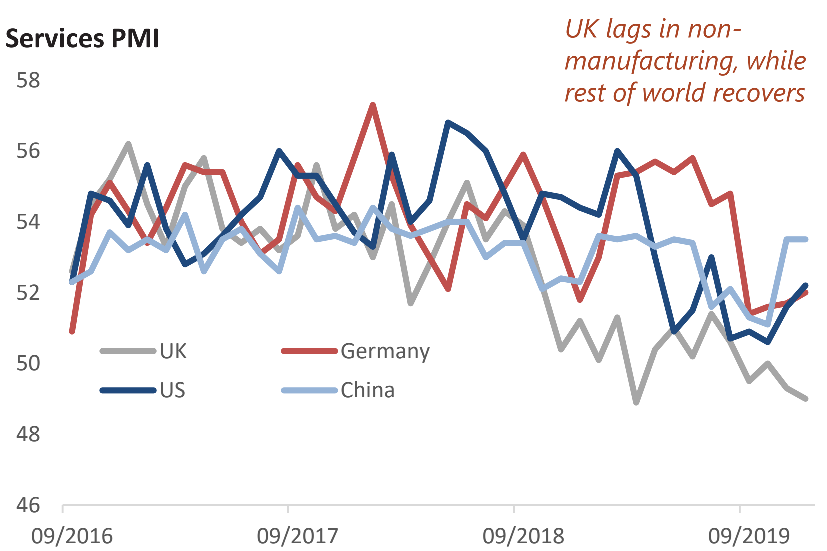
While manufacturing fell into a recession in 2019, services slowed but remained relatively resilient.
In the 2011-2012 and 2014-2015 manufacturing
downturns, services also stayed strong. This proved to be a harbinger of continued economic expansion, and we expect a similar scenario in 2020. By year end 2019 most regions saw services PMI's rebound, with the UK being the exception. We expect the this will recover in 2020 as the Brexit drag begins to reverse and fiscal policy should also boost growth. Potentially offsetting this is another looming cliff-edge on a 'hard deadline' for a EU UK trade deal

Manufacturing PMI



A bottoming out on PMI's show the manufacturing recession may be ending.

Services PMI



Source: Bloomberg, PW

For 2020 we expect a continuation of the moderate growth and low inflation environment that has prevailed over the past two years. Growth will be muted by sluggish productivity gains, aging populations in the developed economies, and a structural slowdown in China.

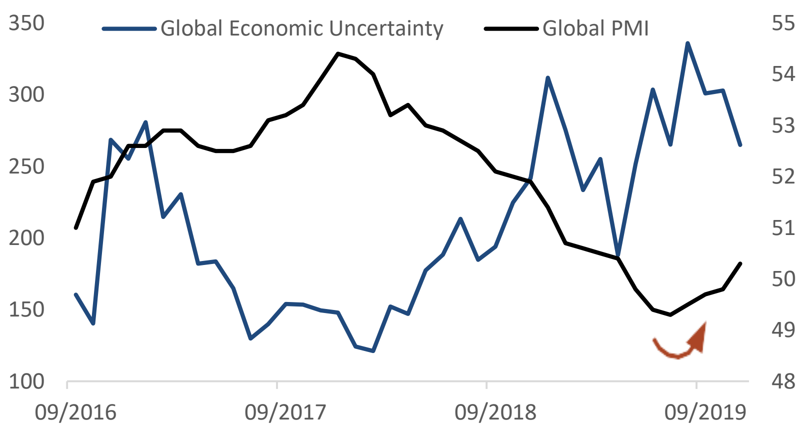
The direction of growth is balanced between upside and the downside risks. Weakness from rising political populism and renewed trade wars remain. US politics is more likely to surprise negatively than positively. Renewed protectionist policies, impeachment risks or a more leftist Democratic presidential win next year are range of outcomes. Offsetting these are potential positive surprises from fiscal stimulus and greater investment and capital spending in 2020.

Global GDP growth

	2018	2019e	2020e	2021e
World	3.7	3.1	3.2	3.1
Developed	2.3	1.7	1.8	1.7
Emerging	5.1	4.2	4.8	4.8
US	2.9	2.3	2.2	2.0
Euro	1.9	1.2	1.2	1.2
China	6.6	6.1	5.8	5.6
India	7.5	5.2	6.3	6.9

Source: Bloomberg, OECD, PW

Economic policy uncertainty vs. Global manufacturing PMI



Source: Bloomberg, PW

Policy uncertainty has definitely impacted global PMI and trade in 2019.

Economic uncertainty remains elevated but has improved with the UK election and an apparent US/China trade deal.

We project Global real GDP will expand by 3.2% in 2020. Improving emerging market growth, led by a re-acceleration in the Indian economy and the developed world continuing to grow near economic capacity. We expect the eurozone to continue to lag the developed world growth, as the needed fiscal policy is not likely to be delivered.

Economic policy uncertainty remains elevated but has pulled back in Q4 2019. Global PMI's troughed in the summer, and have shown a small improvement during the final quarter. Continued loose monetary policy, combined with increasing fiscal spend and less uncertainty are the key ingredients that will drive a durable expansion in 2020. Reduced trade uncertainty will likely help global trade volumes recover from their drop over the past year. Anything upsetting that recipe will create economic headwinds.

With trade tensions high global trade contracted over the past year. The worst of the deterioration may have passed, but conditions have not yet turned robustly positive. A tepid rebound in exports is expected next year, which should support some growth in global corporate earnings.

Global trade

Source: Goldman Sachs

China Economy

The Chinese economy will show divergent trends in 2020. Positives from infrastructure and manufacturing rebound will be offset with a slow down in the with the property sector. Consumption may also lag and any weakness here is the likely catalyst for additional monetary stimulus.

The Chinese economy definitely felt the impact from tariffs in 2020. Confidence and retail sales fell throughout much of 2019, with retail sales growth falling to a low of 4% in August before to 8% by year end. Industrial profits show a similar story, weakening throughout most of the year but showing a recovery in line with a recovering manufacturing PMI by year end. As we entered 2020 Chinese businesses were the most confident in new export orders than they have been at any time over the previous five years.

If 2019 taught us anything, things can still go wrong with a trade deal that seems concluded. We expect a deal which will remove the US threat of a 15% tariff on roughly $150bn in imports from China and a roll back of some of the tariffs previously put in place. The Chinese economy will benefit as this headwind dissipates in 2020. Any investment or consumption which was deferred due to uncertainty may lead to a catch up in Q12020.

In 2019 Chinese policymakers managed the economy relatively well and prevented a sharp slowdown despite difficult circumstances. China allowed its currency to depreciate and several other steps were taken to boost growth. The continued downward path for the reserve ratio provided a monetary boost despite

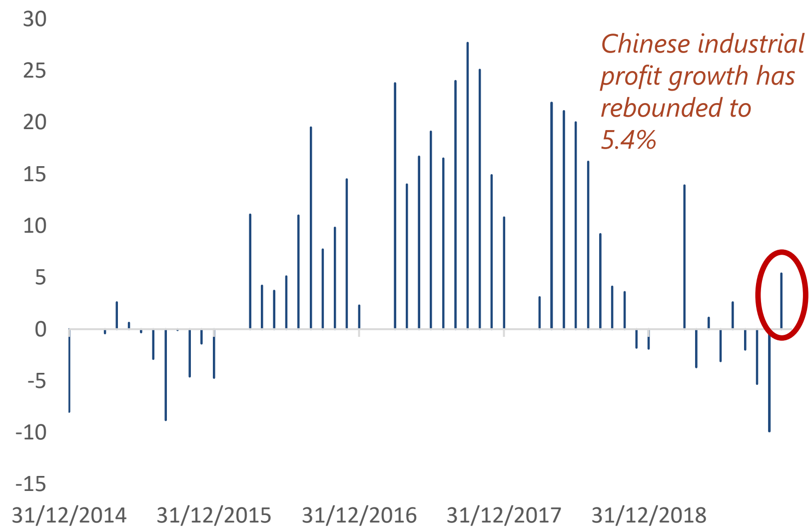
We expect a he PBOC will keep rates on hold and continue to marginally loosen policy through other methods.

China's economy is slowing and will need additional stimulus even with fading trade headwinds.

China retail sales and industrial production

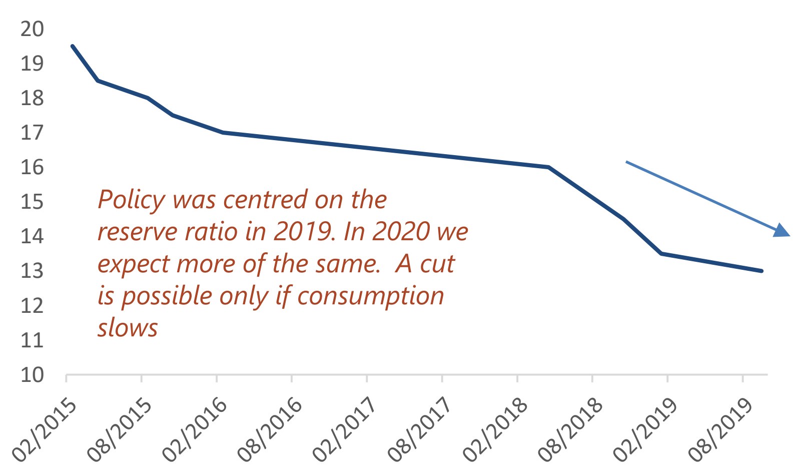
Source: Bloomberg SEB, PW

China Industrial profits (yoy %)



Source: Bloomberg PW

Chinese Reserve Ratio (%)



Source: Bloomberg PW

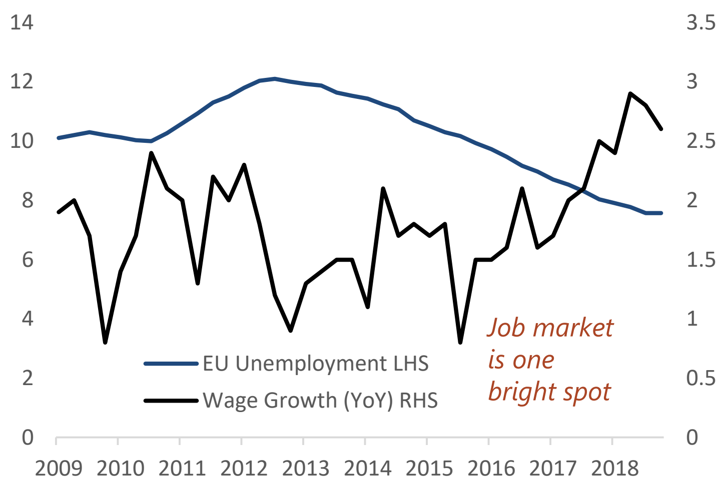
European Economy

Europe's economy likely grew by a little more 1% in 2019, and we expect similar for 2020. Threats from global protectionism, a hard Brexit and a slump in China all remain, but are less acute than last year. 1.2% growth is probably not far off the long term potential for this region. German industrial production is falling, and its economy narrowly avoided a technical recession. After a dire three quarters, things started to get a bit better in the 4th quarter. Economic indicators remained weak, but started to beat expectations. The Citi Economic Surprise index for Europe turned positive. Improving trade and progress on Brexit seemed to boost confidence. Uncertainties persist in Italy, with new elections in 2020 very likely and Spain (with a hung parliament).

Citi Economic Surprise Global and Europe

Source: Citi, Bloomberg

Eu unemployment rate and wage growth



Source: Bloomberg

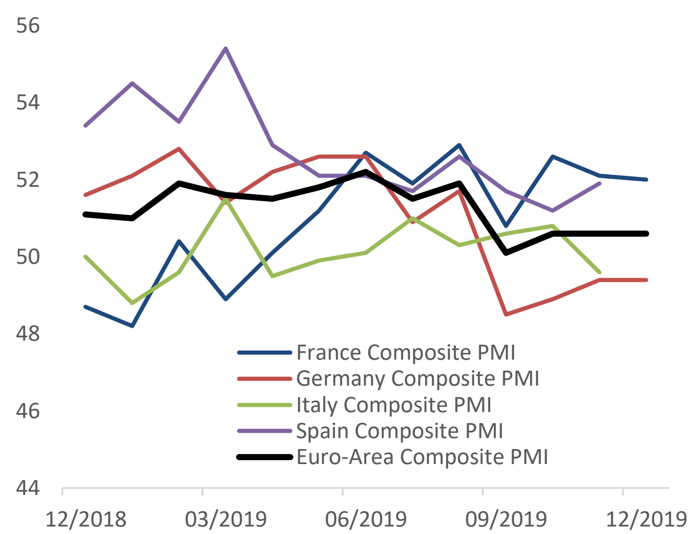
European economic indicators stayed weak but started to beat expectation in Q4.

Europe's job market is providing some hope. The unemployment rate fell to 7.6%, which is the lowest in a decade. Wage growth has moved up over the last few years, which may support consumption as core inflation remains stuck at 1%.

An improving PMI sentiment and business confidence surveys give us confidence that growth has bottomed in the eurozone, but we do not expect a strong rebound. Global trade volumes remain weak, and a trend towards protectionism remains in place even if there has been some thawing of US and China trade relations.

The aggregate Eu economy has a strong balance sheet, economic growth below potential, significant unemployment and a sizeable current account surplus. This means governments should be engaging in more fiscal stimulus, but it is hard to see a meaningful change here in the near term. Populist forces may start to move the dial in France, Italy, and Spain, at least as much as Germany allows it to happen.

Aggregate EU PMI has hovered just above 50



Source: Bloomberg, PW

A more positive trade backdrop will provide a floor to growth in 2020.

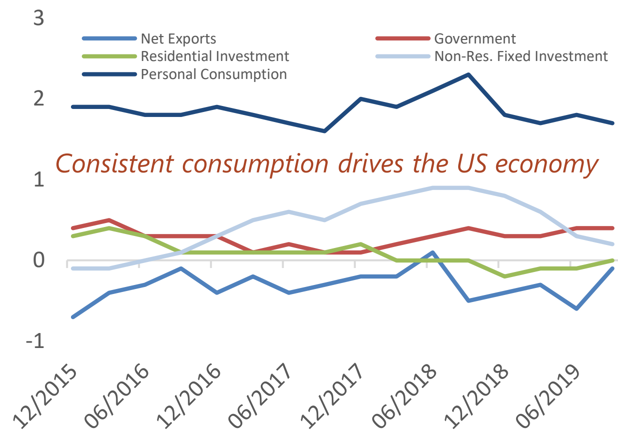
US Economy

The US economy is in its 11th year of expansion but growth has slowed towards its long term potential. The usual late cycle problem of rising inflationary pressures does not look threatening. Inflation is close to the Fed's target and interest rates remain in accommodative territory. Wages have risen in response to labour market tightness and unemployment is at 50 year lows. This bodes well for a continuation of the expansion. While the US consumer is confident, employed and with access to credit the economy will continue to expand. Consumer confidence has stayed near record highs throughout the year. This is a late cycle indicator. Should this deteriorate in the coming months, it will be a warning sign for a looming recession, but if manufacturing improves as we expect a confident consumer should persist.

With uncertainties stemming from the US-China trade conflict waning, a pick up in manufacturing should lead to the economy to deliver 2.2% growth in 2020. Easier financial conditions should provide a boost and business investment may also improve with a less volatile trade backdrop. Finally a drag from the inventory adjustment should also come to an end.

Political risks and an unexpected new wave of protectionist policies from the White house are the most likely risks to our constructive outlook.

Components of US GDP



Source: Bloomberg, PW

The US consumer is the bellwether for the global economy.

US Consumer confidence (Recessions shaded)

Source: Bloomberg Plurimi

US Unemployment

Source: Bloomberg PW

Central Banks — The Fed & ECB stay on the side-lines in 2020

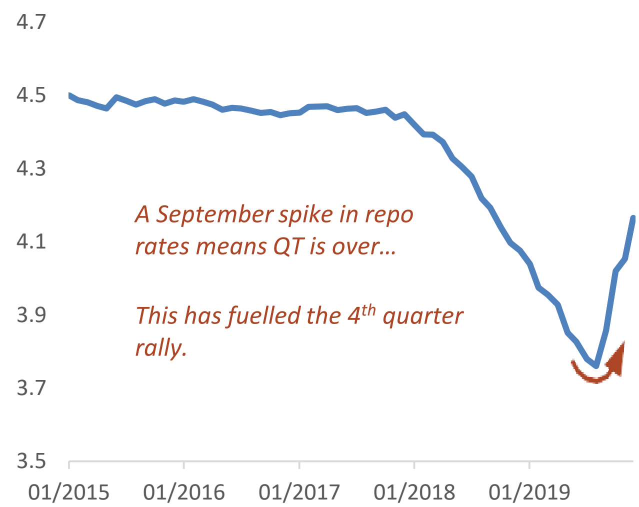
In the preceding year and preceding decade Central bank policy has been the most important determinant of asset prices. As we entered 2019 the ECB and the Fed were expecting to normalise policy. As the year played out, trade tension rose and both central banks needed to cut rates. The Fed has indicated it has a 'high bar' for any change in policy in the coming quarters. We do not see any scenario which will provoke a hike and only something which materially changes the employment outlook should provoke a cut. The market is pricing an 80% chance of a cut from the Fed in 2020 which is inconsistent with out positive macro outlook.

We do expect continued liquidity injected into markets throughout the year. The Fed will likely continue with a 'not QE' growing of its balance sheet. In September US banks had need for more cash than was available in the system, and the Fed needed to step in to normalise the overnight market. This saw the start of a new balance sheet expansion. We expect the Fed will continue to add liquidity, which will see its balance sheet expand throughout 2020. Chairman Powell has indicated additional unconventional measures would be preferable To negative interest rates should the economy move into a sharp slowdown.

Pushing on a string perfectly describes the issues the ECB faces at this point. The economy has no inflation, little growth and is facing an external demand slowdown, which is hitting the German economy particularly hard. Monetary policy is approaching its limits of effectiveness. We expect that weak growth and low inflation will prompt expansion of the ECB balance sheet, but do not expect a further 10bp cut. QE will be extended via lower inflation projections, and more corporate bonds may be added. Christene Lagarde's most notable target may be coercing some fiscal support to compliment her monetary policy.

Should global growth disappoint we expect more unconventional policies to be discussed. MMT is being discussed by some democratic presidential candidates and more radical policy could be an upside surprise for markets.

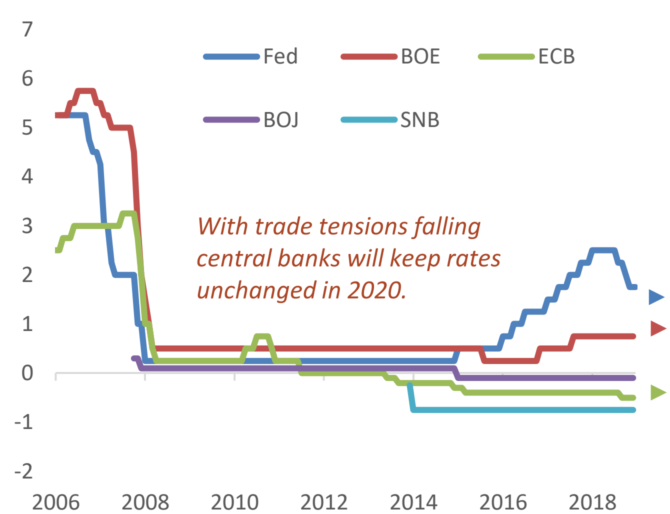
Fed balance sheet ($ trillion)



Source: Bloomberg

Should global growth disappoint more radical policy could be an upside surprise for markets.

Major CB policy rates (%)



Source: Bloomberg

Global Politics

Impossible to ignore

Politics is always a potential wild card to the direction of both capital markets and the global economy. A laundry list of threats including renewed trade war, a new Brexit cliff-edge, protests in Hong Kong and an impeachment

US / China trade: Coming into 2019 we had expected a deal to be agreed in the first quarter. It now appears the 'phase one' deal will be announced in mid-January 2020. This truce will remove some of the overhang on the economic outlook for the world, and for China in particular. However, even with a signed deal there remains significant risks. Disagreements about enforcement may lead to a new waive of trade tensions. We also do not expect there will be much, if any, progress on a 'phase two'. Frustrations about lack of progress may lead to increasing tension.

Market is pricing positives on US China trade, but things can turn sour quickly

Iran: We expect tensions to remain high for the coming quarters. The implication for global capital markets are for more volatility, and creating a weak floor under oil prices. Any escalation will see higher oil prices and increase demands for safe havens.

Situation in Iran most likely simmers in the background but has potential for dramatic flare ups

Impeachment: Trump will probably not be removed by the Senate, but it is a definite distraction. The most important consequence in the proceedings is it likely ends chance for bipartisan infrastructure deal. Animosity between Trump and Congress has many potential consequences, probably too many to list. The frequency of presidential tweets has definitely increased since the Democrats started the impeachment process.

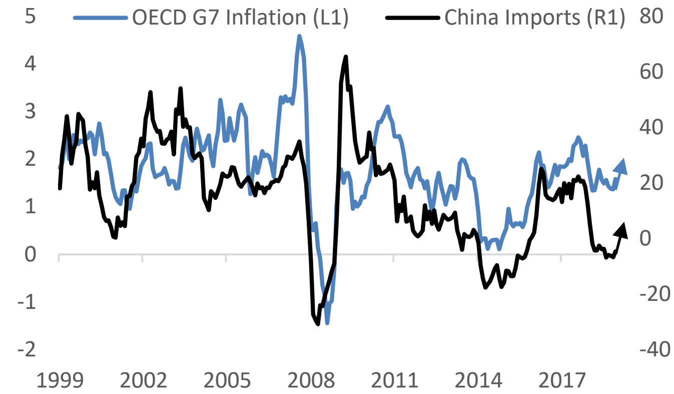
EU Harmony. A new political coalition in Italy never lasts long. In December three senators from the Five Star Movement absconded to the far-right League party and the education minister quit. New elections may lead to new conflicts with the EU on budgets. In Germany the Christian Democrat-Social Democrat coalition is divided at a time when Franco-German relations appear strained.

EU harmony may be threatened with new elections

Hong Kong protests. Hong Kong has fallen into a recession and if Chinese growth slows, there is a possibility unrest also spreads to the mainland.

Potential Surprises **Not probable but possible**

Inflation : Most investors have written off inflation for dead. What if the Phillips curve matters again, and inflation moves above central bank targets? Record low unemployment, accommodative policy and the removal of a trade overhang would be the traditional ingredients. Chinese imports have correlated with G7 inflation, and the trade truce should see these rise again. The central bank put options investors think they own may need to be reconsidered and bond yields pricing secular stagnation would need to be re-assessed. We expect this would also see value outperformance as growth assets face higher discount rates. (20%)



A recovery in Chinese demand could push prices higher

UK/EU Trade Deal: Boris Johnson has ambitious plans to carve out a trade deal with the EU in 2019. We think his timeframe is unlikely but if it gets done UK equities could see 25% gains given the depressed multiples they trade at and GBP moves to 1.40 vs. USD. (20%)

UK equities could move significantly higher on trade progress

Trade wars resume and currency wars follow: Stagflation results. Lower growth, higher tariffs and competitive devaluation of currencies. Gold is the biggest beneficiary rising to $2000 as equities and bonds sell off together. (20%)

European bank mergers: European banks feel the urge to merge. EU banking union and government acceptance of job cuts spurs consolidation. Strong European banks merge and Canadian and US banks use more expensive stocks to make accretive acquisitions. SX7E rises 50% and trades above book value in 2020. (15%)

EU is moving towards a banking union, but we expect slow progress.

Hong Kong protests move to mainland: Hong Kong has fallen into a recession and if Chinese growth slows, there is a possibility unrest also spreads to the mainland. This would exasperate already weak growth and be a headwind for global growth. (5%)

Big Tech make new crypto: Not Libra but Facebook, Alphabet, Amazon, Tencent, Alibaba, Apple agree a token that can be used to purchase goods across their platforms. Immediately it is a medium of exchange, a store of value and unit of account. These companies pay staff bonuses in this token and entrench competitive moats. Other companies begin to accept these tokens but only big 6 can print them. Big tech sets the stage for plutocracy overtaking democracy. (1%)

Asset Allocation

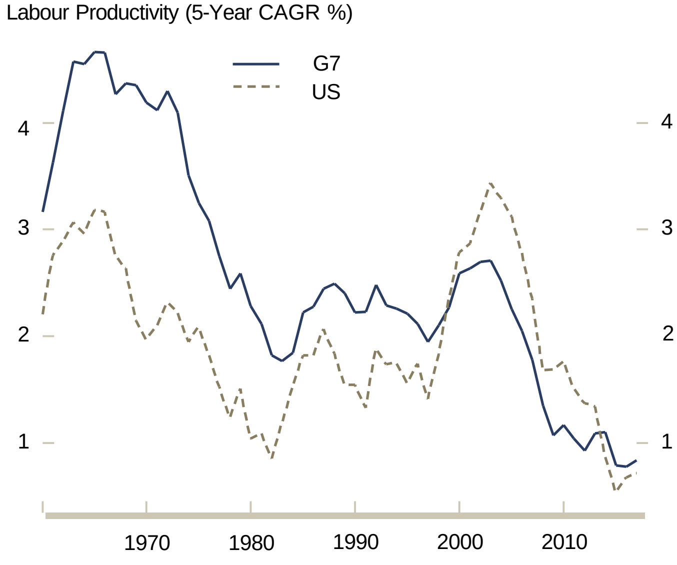
Long term outlook

Country/Region	Economic Forecasts (2019-2029) Real GDP (% CAGR)	Population (% CAGR)	GDP Deflator (% CAGR)	Historical 2008-2018 Real GDP (% CAGR)
Brazil	2.8	0.6	3.6	1.2
China	4.4	0.11	2.1	7.9
Euro Area	1.1	0.1	1.8	0.8
India	6.9	0.9	4.1	7.5
Japan	0.3	-0.4	0.7	0.7
Switzerland	1.2	0.6	1.4	1.5
UK	1.3	0.5	2.0	1.3
US	1.8	0.7	2.0	1.8
Developed Markets	1.3	0.3	1.8	1.3
Emerging Markets	4.1	1.1	3.5	5.0
Global	2.6	1.0	2.6	2.7

Source: IMF World Economic Outlook, MRB and Plurimi calculations. Population forecasts from UN, Compound annual growth rate

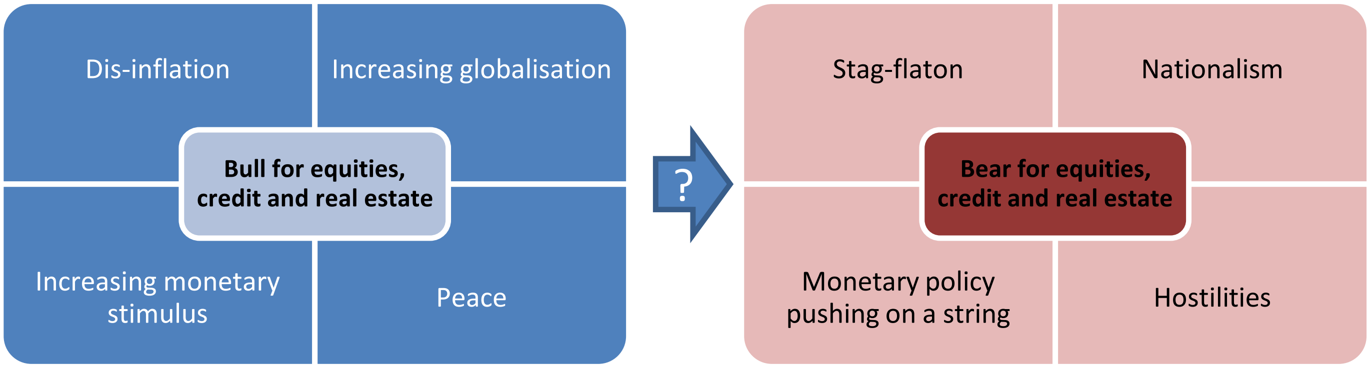
The current economic expansion is now the longest on record and has delivered solid returns for global multi-asset investors. Favourable tailwinds from globalisation, disinflation, relative peace, and record level of monetary stimulus have led to a significant re-rating of bonds and risk asset classes. Global equities have delivered a 12% real compound annual return over the past decade (effectively since the 2009 bottom), while a basket of G7 10-year government bonds has produced a real compound annual return of 1.6%. While we forecast economic growth in the coming decade will roughly match the previous decade, the tailwinds that have boosted returns across all asset classes in this cycle and for most of the past four decades are fading, and may swing the other direction. The consequence will be below average returns on balanced portfolios.

Productivity has constrained GDP growth



Source: US Conference Board, MRB

Longstanding tailwinds may turn into headwinds this decade?



Equities — World (Neutral)

MSCI WORLD	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	20.60	53	20.98	19.74
BEst P/E Ratio	18.25	91	15.85	15.76
Long Term Price Earnings Ratio	25.16	79	22.12	21.78
Price to Book Ratio	2.58	74	2.38	2.34
Price/EBITDA	10.23	98	7.67	7.25
Price to Sales Ratio	1.79	99	1.31	1.30
Enterprise Value/EBITDA	12.57	92	10.64	10.59
Profit Margin	8.46	88	6.18	6.54
Operating Margin	11.53	74	10.44	10.44
Dividend Yield	2.36	55	2.25	2.25
10Y Yield	1.92	10	3.91	3.92

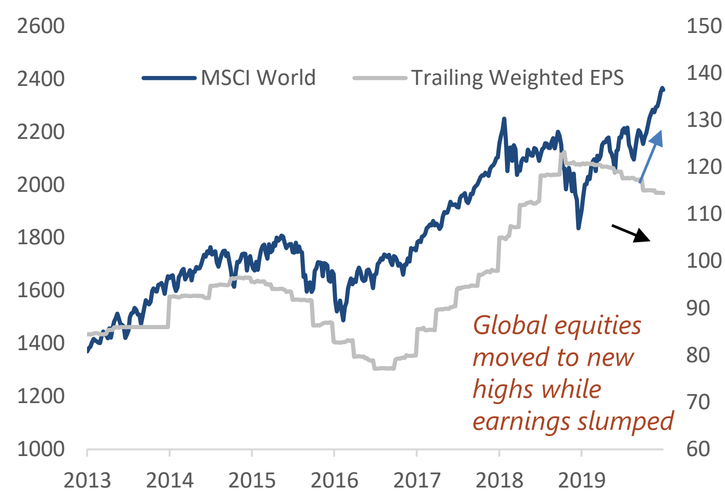
Source: Bloomberg. Jan 1995 to Dec 2019

Following the significant rally this year, which was not matched by higher earnings and cash flow, global equities are now trading at an average 84th percentile on a range of valuation indicators. Equities still look attractive vs. bonds but are very expensive on ebitda & revenue measures where they trade at record valuations. Rising valuations have been the main contributor to the strong performance of global equities last year. While cyclical economic conditions are poised to improve modestly in the year ahead, limited upside for either valuations or earnings imply middling equity price gains in 2020. The direction of markets will be dependant on the competing forces of peak valuations, and very high liquidity. In our opinion equities are already pricing in our expected economic recovery.

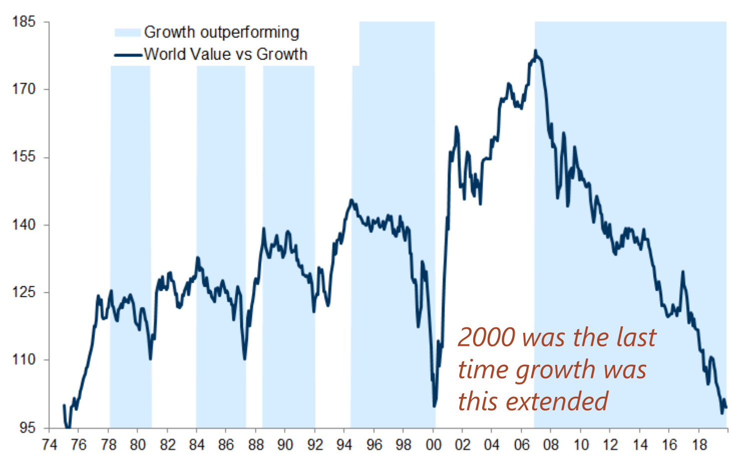
Laggards such as healthcare and Japan represent the best value. The growth potential of dominant consumer technology companies is also appealing. The health of the global economic expansion will be a key driver of relative equity market for the remainder of the year. Should the global expansion regain momentum based in improving trade Europe, Japan, and emerging markets will have greater potential to outperform. Conversely a global economy falling into a trade war induced recession will likely see relative 'leadership' from Switzerland, the US, and even the UK. Growth is trading at massively elevated valuations vs value but until there are higher long term yields or a bear market the drivers for growth outperformance may continue.

We think thematic exposure into healthcare, AI & robotics, 5G beneficiaries, and ESG companies will produce stronger than market returns in 2020. Autos, banks, and loss making technology companies without a path to profitability will lag.

Global earnings and equity performance

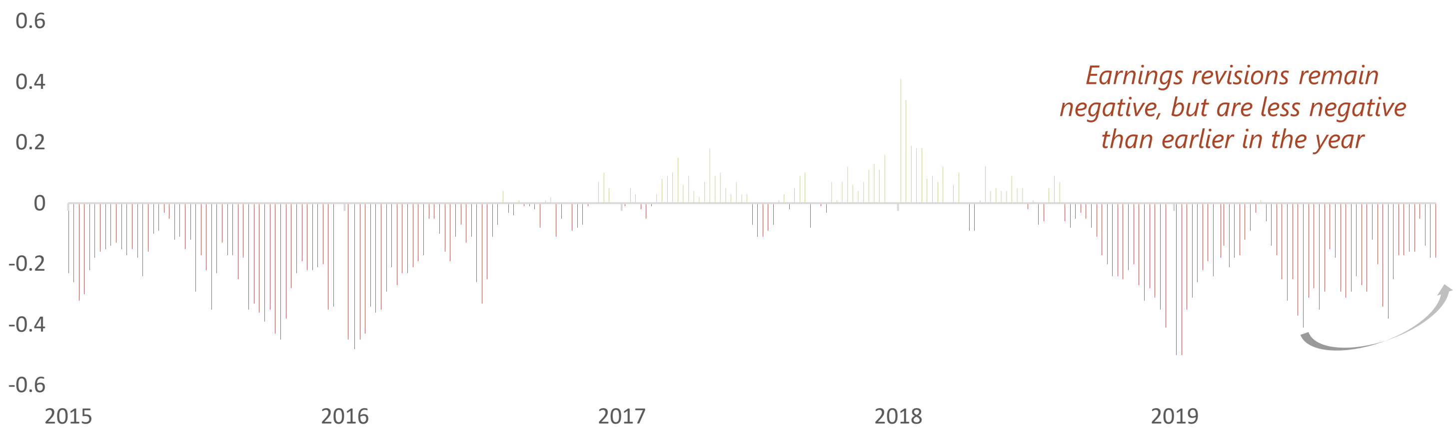


Growth vs. Value



Source: Goldman Sachs

Citigroup Global Earnings Revision Index



Measures the number of equity analyst revisions upgrades (positive) and downgrades (negative) globally. Source: Bloomberg, PW

Global equity earnings expectations have moved lower since the end of April 2019. The Citigroup earnings revisions have become less negative in the final quarter. We expect positive earnings growth in 2020 but it will be limited to revenue growth of 3 to 4% as margins are unlikely to expand. The current consensus estimates for 9% earnings growth next year are too optimistic.

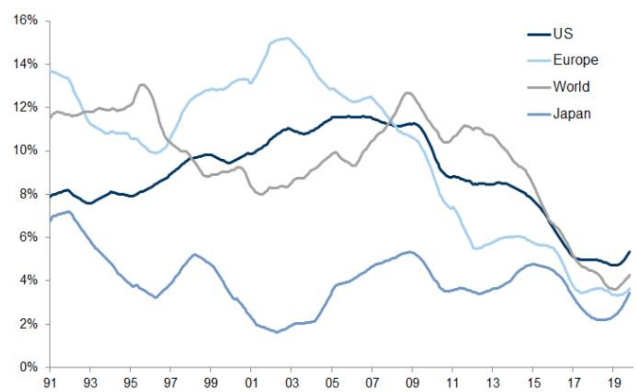
Japan will be the best performing region based on recovering earnings and undemanding starting valuations.

	31/12/2019	31/12/20 e	Price Return	Total Return
MSCI World	2358	2430	3.1%	5.5%
SP500	3231	3200	-1.0%	1.0%
Stoxx 600	3745	3850	2.8%	6.1%
Topix	1731	1900	9.8%	12.0%
FTSE 100	7542	7800	3.4%	8.2%
Swiss Market	10617	11000	3.6%	6.6%
MSCI Asia ex Japan	688	750	9.0%	11.9%

Source: Bloomberg, PW

We expect the US to lag based on other regions being more exposed to global trade. The elevated valuations, and political uncertainty may also limit upside for the region, but it may outperform should the world economy slow more than our base case. The US generally offers lower earnings beta than the rest of the world. Its earnings cycle is the most stable of the major markets driven by secular growth in dominant technology companies. Japan should see a profits recovery this year and is our highest expected return. The summer Olympics and improving trade backdrop will be supportive for the economy and stock market.

YoY sales growth (%)



With meagre top line growth, margins are key for earnings and we do not see significant scope for expansion

Source: Bloomberg, PW, MRB

Equities US (Underweight)

S&P 500	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	21.69	73	19.63	18.76
BEst P/E Ratio	19.85	85	16.98	16.46
Long Term Price Earnings Ratio	29.17	86	22.33	21.35
Price to Book Ratio	3.64	87	2.88	2.78
Price/EBITDA	12.12	100	7.79	7.43
Price to Sales Ratio	2.37	100	1.49	1.51
Enterprise Value/EBITDA	14.06	99	10.61	10.74
Profit Margin	9.75	96	6.74	7.25
Operating Margin	12.91	70	11.66	12.24
Dividend Yield	1.80	29	2.09	1.97
10Y Yield	1.92	8	4.47	4.41

Source: Bloomberg. Jan 1995 to September 2019

US equities trade at elevated multiples, with exception of price to trailing earnings, where the market trades in line with its historical average. The region is unambiguously expensive on ebitda, sales and book value. We expect US companies to grow revenues and earnings at about 3-4% this year. The large weight of dominant technology companies is a positive for US equities. A steeper yield curve should improve financial sector fundamentals. A significantly steeper yield curve may create risks for the toppy valuation of the US growth companies which have driven the market to record highs.

Should the global economy slow more than our base case we will upgrade US equities to neutral. Relative earnings may lag in an expansion but would lead in a slowdown.

US healthcare has rallied significantly since we recommended it August, but it still sticks out as the best combination of growth and value in the US. We expect the rhetoric from democratic candidates is more bark than bite, but it is something to monitor as the year progresses. Tech regulation is another potential risk investors should consider. Antitrust regulators, and the Department of Justice are already conducting a review.

Long:
Alphabet, AbbieVie, BestBuy, Bristol Myers, Facebook, Mondelez International, LuLu Lemon, Mastercard, Visa,

Short:
Dell, Dollar Tree, Edison Ford, GM, Dupont

S&P500 is has grown more rapidly than earnings

Source: Bloomberg. Jan 1990 to Sep 2019

Premium valuation combined with falling EPS estimates is usually problematic, but 'bad news' has been 'good news' for US equities last year as Fed policy drove asset prices higher

Equities — UK (Overweight)

FTSE 100	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	18.25	55	24.82	17.48
BEst P/E Ratio	13.96	71	12.69	12.60
Long Term Price Earnings Ratio	17.24	64	16.29	15.19
Price to Book Ratio	1.79	28	1.95	1.89
Price/EBITDA	6.66	24	7.31	7.22
Price to Sales Ratio	1.14	44	1.18	1.17
Enterprise Value/EBITDA	8.71	46	8.96	8.79
Profit Margin	6.75	45	6.92	7.17
Operating Margin	10.93	61	10.68	10.41
Dividend Yield	4.77	91	3.85	3.79
10Y Yield	0.82	4	3.07	3.20

Source: Bloomberg. Jan 1995 to September 2019

UK equities lagged other regions in 2019 and are now one of the few regions which are trading below its historic average on book, ebitda and sales. UK equities offer the highest yield in developed world. The decisive outcome of the UK election should help equities begin to close the large valuation gap with other developed markets. Multiple expansion from progress on a trade deal with the EU may push stocks higher, but near term risks remain skewed to the downside. We expect rhetoric establishing bargaining positions to be the focus for the first three quarters of the year, rather than making actual progress. Boris Johnson has surprised us in the past and got a Brexit deal agreed when it was looking unlikely. We will move the region to overweight if the UK economy brightens on reduced political uncertainty and a large fiscal boost. Multinational companies should see improvement from the external environment as well. UK banks look like good value but will suffer from flat yield curve, macro uncertainties and a strict regulatory environment. While the threat of a December hard-Brexit remains an overhang for the UK economy we think the region may be not see increased multiples.

UK equities offer the highest yield in developed world. Multiple expansion with progress on trade may move stocks higher, but near term risks are skewed to the downside.

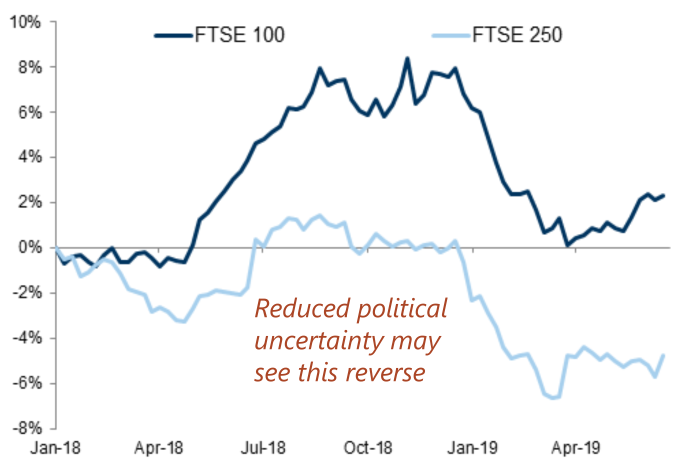
Long:

Assoc. British Foods, Bodycote, IAG, Legal & General, Plus500, Unilever.

Short:

HSBC, RBS , Rolls Royce

Cumulative change in earnings estimates for UK



Source: Goldman Sachs, PW

Equities Europe (Neutral)

Stoxx 600	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	20.83	59	22.44	19.01
BEst P/E Ratio	16.15	94	13.45	13.41
Long Term Price Earnings Ratio	21.04	81	17.63	17.64
Price to Book Ratio	1.93	68	1.86	1.84
Price/EBITDA	8.39	92	6.53	6.32
Price to Sales Ratio	1.35	99	1.08	1.11
Enterprise Value/EBITDA	10.80	93	9.15	9.34
Profit Margin	7.26	64	6.16	6.31
Operating Margin	10.27	60	9.76	9.88
Dividend Yield	3.49	58	3.39	3.39
10Y Yield	-0.26	3	2.37	2.67

Source: Bloomberg. Jan 1995 to Dec 2019

European equities are cheap vs. other regions but are now vs. their own history. Part of this is a lowering weighting to cheap banks but part is from general appreciation without any earnings growth. Given the lacklustre growth and political issues facing the region the current multiples are driven by extraordinary monetary policy. With interest rates near zero for corporate debt and a dividend yield nearing 3.5% this support equity prices. European companies may begin to be their own catalyst. As the cost of debt has fallen (to almost zero in some instances), we expect companies to follow US styles share buy backs. More than 75% of European companies have dividend yields higher than their corporate bonds, so buy backs will actually be cash flow positive.

75% of European companies pay dividends greater than their corporate bond yields.

The potential for growth will be driven primarily by earnings expectations. Any positive outcomes that result in the EU muddling through with growth of more than 1.2% will now be viewed as a positive surprise for markets.

A more positive trade environment will support a German recovery, but the US trade threat may turn to Europe . In a positive economic environment we expect Europe will be a major beneficiary of a rotation from more expensive US equities to equities which are pricing in a more pessimistic economic outlook, but this is not a certainty by any means.

European cash flow and dividends attractive vs bonds

Source: Goldman Sachs

Within Europe we favour multi-national healthcare and staples companies. We continue to own industrial companies but they are looking more fully valued as we enter 2020.

As the cost of debt has fallen (to zero in some instances), we expect companies to follow US styles share buy backs

Long:
Airbus, Anheuser-Busch, Capgemini, Novo Nordisk, OMV, Porsche, Roche, Vestas Wind

Short:
Carrefour, Continental, Natixis, SEB

Equities Japan (Overweight)

Topix	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	15.74	18	58.60	21.92
BEst P/E Ratio	14.78	35	20.26	15.74
Long Term Price Earnings Ratio	21.39	39	28.08	24.14
Price to Book Ratio	1.24	31	1.57	1.50
Price/EBITDA	6.62	64	7.04	6.21
Price to Sales Ratio	0.79	70	0.70	0.69
Enterprise Value/EBITDA	8.65	23	10.62	9.68
Profit Margin	5.01	90	2.26	2.33
Operating Margin	7.23	74	5.31	5.59
Dividend Yield	2.30	89	1.43	1.14
10Y Yield	-0.0	6	1.43	1.33

Source: Bloomberg. Jan 1995 to Sep 2019

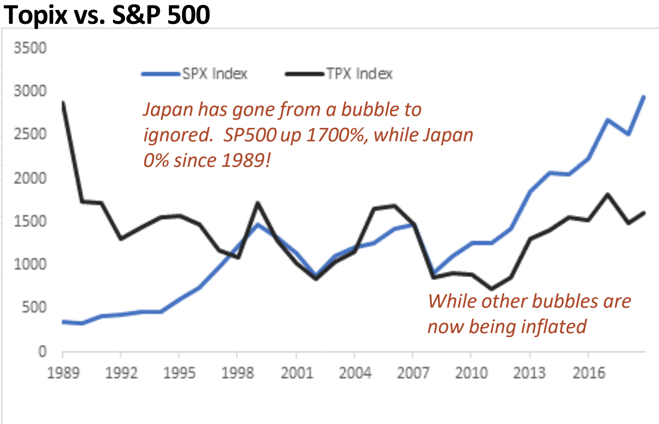
Japanese equities have never been much cheaper than they are currently. A dividend yield of 2.3% is above its historic average and much higher than 10 year bond yields. Over the past 25 years Japanese equities and 10 year bonds have generated a similar yield but today equities yield is at 89^{th} percentile, while bond yield is at 6^{th} percentile.

Japanese companies with a domestic focus should provide a currency benefit during any period of risk aversion, while global factors are far more of a risk to the broader Japanese market. Japanese equities and Japanese Yen are both undervalued on most of the measures we look at. The currency is about 25% below its fair value on PPP, and the Nikkei has never traded at a significantly lower p/e multiple or offered a higher dividend yield than it does currently. More than half of the stocks in the Nikkei now trade below their book value.

Domestic dividend payers and real estate are attractive ways to be long yen and get paid a yield

Accommodative monetary policy, fiscal stimulus and structural reforms have all improved the investment environment in Japan. The Japanese economy has been subdued but has benefitted from these policies over the past decade. Domestic demand has actually been Japan's strongest component. High dividend paying companies with a domestic focus represent the best way to be long Yen in our opinion.

Topix vs. S&P 500



Source: Bloomberg. 1989-Dec.2019

Long:

NTT Docomo, Tokyo Electron, Japan Post, Nintendo, Shin Etsu, Sony,

Short: Nissan, Rakuten

Equities | **Emerging markets (Overweight)**

MSCI EM	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	15.48	75	14.82	13.48
BEst P/E Ratio	14.65	93	11.56	11.88
Long Term Price Earnings Ratio	17.47	69	16.60	15.92
Price to Book Ratio	1.70	69	1.56	1.55
Price/EBITDA	7.15	88	5.26	5.53
Price to Sales Ratio	1.36	77	1.15	1.13
Enterprise Value/EBITDA	9.74	97	7.04	7.33
Profit Margin	8.99	54	8.81	8.92
Operating Margin	12.15	30	12.88	12.97
Dividend Yield	2.67	67	2.44	2.43
10Y Yield	1.87	8	3.92	3.93

Source: Bloomberg. Jan 1995 to Sep 2019

The balance between an accommodative Fed and risks of a weak and vulnerable global trade cycle are most pronounced in emerging market (EM) equities. A mildly weakening USD should support EM equities. We have increased recommendation to overweight on the prospect for improving global trade and continued loose policy. The MSCI Emerging markets index has been driven by liquidity since 2016. Bank of America show a 94% correlation between the region and the size of central bank balance sheets. EM continue to trade at discount to the developed word but are now expensive vs their own history.

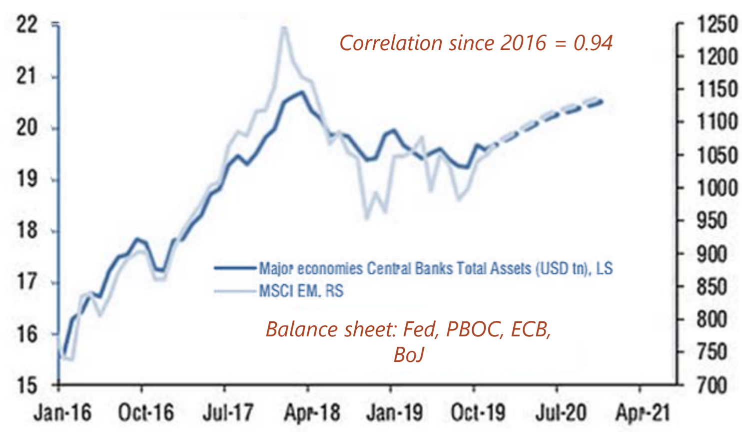
The direction of equities is geared toward China and semiconductors in Asia, and commodities in other EM markets. Improving trade is need to support both types of EM economies. Indian economic growth and eps in domestic equities look to accelerate in 2020.

The climate will be choppy in the near term. As recessionary fears fade we expect EM to outperform based on longer term stronger demographic and purchasing power trends.

Long:
Alibaba, Tencent.

Short:

G4 central bank sheet (USD tn) and MSCI EM



Source: BofA Global research

Fixed Income

Long duration does not offer value and the insurance has already been paid

As growth looks set to firm we are becoming more negative on the cyclical outlook for G7 government bonds, and also bearish on the long term valuation. Bond yields have bounced form August lows but still reflect a recession, a future deflation shock and permanently distorted monetary policy. These macro outcomes are possible, but are not base case. Anything better than this is a risk to bond prices. One of our longstanding themes has been that the deleveraging drags in the global economy have progressively faded over the past decade, with the healing of household and bank balance sheets in the US and euro area. The front end for G7 government bond yields will remain anchored by central bank policy, but the long end will remain vulnerable should a healthier macro backdrop occur. Over the long term a country's bond yield has been roughly equivalent to its nominal growth. Should bond yields converge with our expectations for nominal growth over the next 7 years, real returns for bond investors will be significantly negative. Japan is often cited of a warning of things to come for the developed world bond markets. We disagree with this premise. (Next page)

Given recent Fed rhetoric, it would be very surprising if the Fed were to cut rates anytime soon. We expect a further, albeit limited, steepening of yield curves in the G7 as economic conditions gradually improve. The US 2/10 curve has rebounded after briefly becoming inverted in August. The German curve has also steepened slightly following the rise at the long end. Against a backdrop of a moderate rise in 10-year bond yields, history indicates that Treasuries will underperform the global bond benchmark. We caution, however, that current prices on select European bonds imply potentially outsized total return losses on even modest rises in yields.

We are maintaining our mild underweight stance on fixed income within a global multi-asset portfolio, expecting yields to rise as the global economy firms. Government bonds have a place in a defensive portfolio as a hedge but are likely to deliver an annual return below the current yield to maturities.

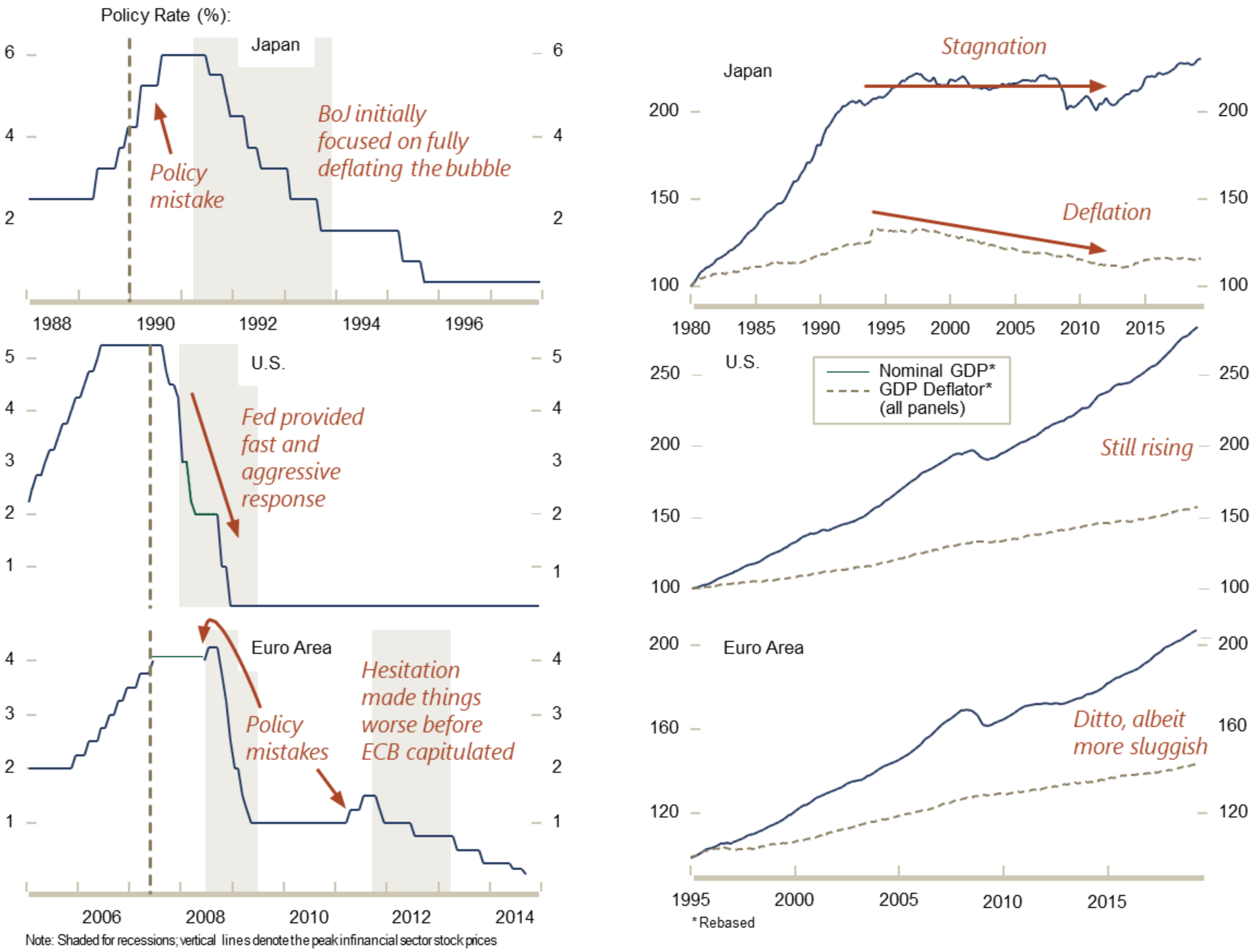
Investors should favour credit over government bonds, curve steepeners, and inflation protection on a 6-12 month horizon.

2/10 Curve (US and Germany)

Source: MRB, PW, Bloomberg

It has become common place to claim that the Western world of today is following the path of Japan, and bond markets are merely pricing in this inevitable outcome. We dispute this, and find little compelling economic support for this narrative. Depressed central bank rates and G7 bond yields this are basically the only thing the G7 has in common with Japan. During the late 80's and 90's Japan experienced a stagnating economy with chronic deflation. Japanese policymakers were fearful of rekindling asset price inflation and proceeded to tighten policy well after the bubble bust. Japan also resisted bailing out their banks. Conversely both the Fed and ECB have been on the front foot in easing policy. The ECB has had a couple of missteps, but not to the same degree as the BoJ. The US and Euro area have suffered subdued growth, but not stagnation of nominal GDP which Japan experienced.

Japan 1988-2000 and US and EU 1995 to present



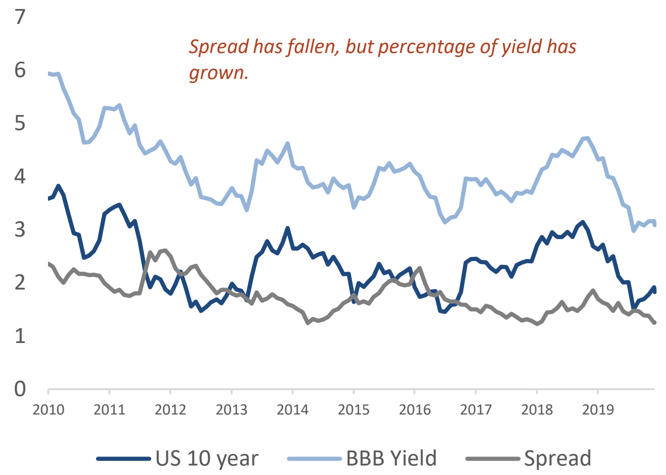
Source: MRB

US and euro area policymakers are determined to avoid the Japanese policy mistakes. The chance of a recession is significant but it is being priced with certainty in by bonds. Long duration exposures in bonds could be punished on 12 month horizon if threats to growth recede and global manufacturing and trade soon find a bottom. In the alternative, we are not convinced that bond yields at record lows will offer the protection investors have come to expect. Short duration stance in government debt offers better risk reward, given central banks anchoring the short end.

The US economy is set for below trend growth in the coming year and any slow down beyond our forecast will provide support to the bond market. We prefer the front end of the curve where yield is almost the same and duration risk is less.

Corporate and emerging market bonds looks attractive to us over a market cycle, given their carry and re-investment benefits but near term the risks may not be worth the reward. Should the economy avoid recession as we expect, high yield and leveraged loans will continue to see low levels of defaults, but may suffer as economic numbers disappoint.

10 year treasury vs. BBB



Source: Bloomberg. PW

Yield gap between US Corporate High Yield Index and 10-year Treasury note (recessions shaded)

Source: Bloomberg. PW

Spreads for US junk bonds have not signalled a looming recession. Spreads have not moved higher this year despite slowing growth. This is either due to a combination of liquidity and a hunt for yield, if you are a cynic or strong corporate fundamentals if you are an optimist. Within high yield we look for companies that are of strategic importance to their governments, such as coco bonds from banks in the developed world and large resource producers in the emerging markets.

Foreign Exchange

Favour Yen

The long-term prospects for local currency EM sovereign debt is most attractive, with projected yields of nearly 6%. We expect carry demand and reasonable growth will support emerging market currencies in 2020. Most EM currencies are attractively priced and a thawing trade backdrop may support appreciation. Idiosyncratic factors may create some dollar weakness.

The US dollar will depreciate mildly on political risks, diversification of reserves, and valuation.

The euro priced-in a lot of negative news this year. The biggest headwind for the currency has been weakness in the German manufacturing sector. Should German manufacturing activity firm we expect euro would rally. Significant fiscal stimulus is unexpected, but it would also be a positive for the currency.

The Japanese yen looks to be the best value on most measures. Despite the soft patch in domestic growth conditions this year, underlying fundamentals have become gradually more supportive for the yen. In an expansion and resumption of trade growth we expect a flat performance from Yen, but it would benefit from risk aversion created by any external shock or unexpected slow down.

The British pound will depend on the outlook for trade with the EU. While Brexit may occur on late-January, the negotiations merely begin rather than end on that date, and the true economic costs of an EU departure will ultimately be exposed. We expect it to trade between $1.30-1.35 for much of 2020, but with a move lower if a trade cliff edge becomes a base case.

Major currency vs. USD on Purchasing Power Parity

	PPP Consumer	PPP Producer	BIG MAC
CHF	7.6	-9.5	20.1
GBP	-1.7	-22.5	-26.7
EUR	-6.4	-13.3	-16.4
JPY	-30.1	-36.8	-35.2

Source: Bloomberg. PW

The Japanese yen looks to be the best value on most measures.

Commodities **Precious Metals**

We continue to recommend gold in multi-asset portfolios. Gold is a commodity which will benefit from the low interest rate environment and it should also provide a hedge against deteriorating trade relations, and broader geo-political risk. As trillions of dollars worth of government bonds are now providing negative yields, the attraction of a zero yielding gold is looking more appealing. The global economy is also seeing low levels of investment. A fundamental rule of macro accounting is savings should equal investment. A decline in capex and a growing cash balances is seeing a savings surplus develop. This should also provide a boost for gold prices.

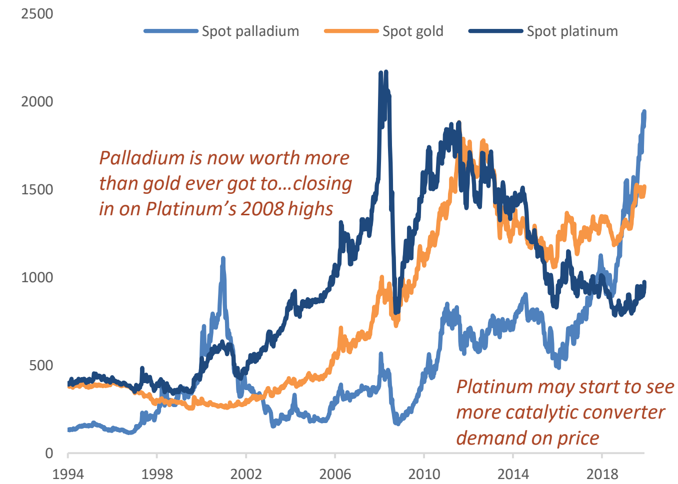
Should our base case of moderating economic growth and a trade truce occur, the safe haven benefits of gold may not be as attractive. However we do expect gold will see increased demand as a reserve asset in any economic scenario. Central bank demand is gaining momentum and we expect 2020 purchases to be well over 700 tonnes growing by 10% over 2019 levels. China has added to gold holdings every month this year.

The ideal scenario for gold is that trade wars turn into currency wars. This is not our base case, but it is the logical conclusion if trade tension escalate.

Palladium was the star performing precious metal in 2019 rising by more than 50%, while Platinum delivered similar returns to gold, rising by 20%. Following a decade of underperformance we think there may be some catch up from platinum in 2020. Palladium has often been used for petrol catalytic converters and Platinum for diesel, this has seen demand for platinum fall with lower diesel engine sales. Cost has favoured palladium in the past, but this is now an incremental advantage for platinum and should provoke some increased demand.

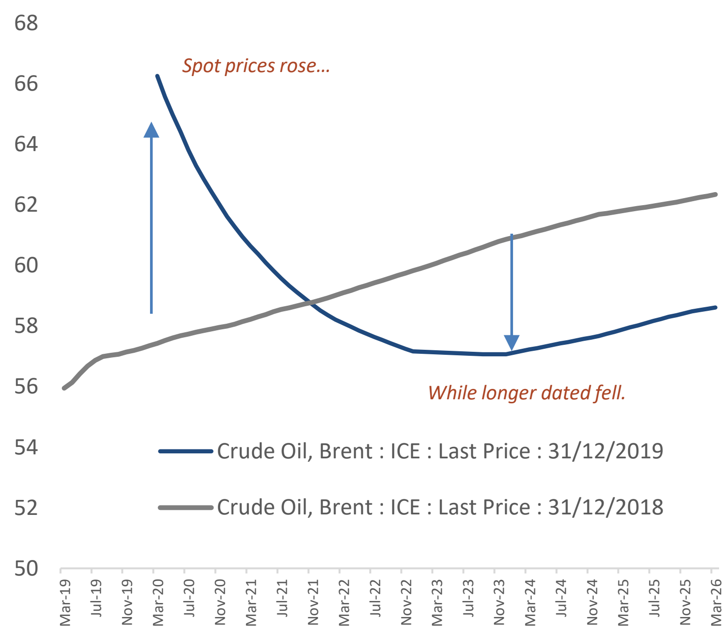
We think the oil market is marginally oversupplied at the moment, with OPEC production the wild card. We expect Brent prices to be supported at around $60/bbl. The headline returns for oil in 2019 were very strong, but longer dated contracts actually sold off as the curve moved into backwardation. Geo-political risks may create spikes in spot prices but supply overhang will be the main factor in oil markets in 2020, leading us to $60 year end target for Brent.

Precious Metals ($/oz)



Source: Bloomberg. PW

Brent futures curve (12/19 and 12/18)



Source: Bloomberg. PW

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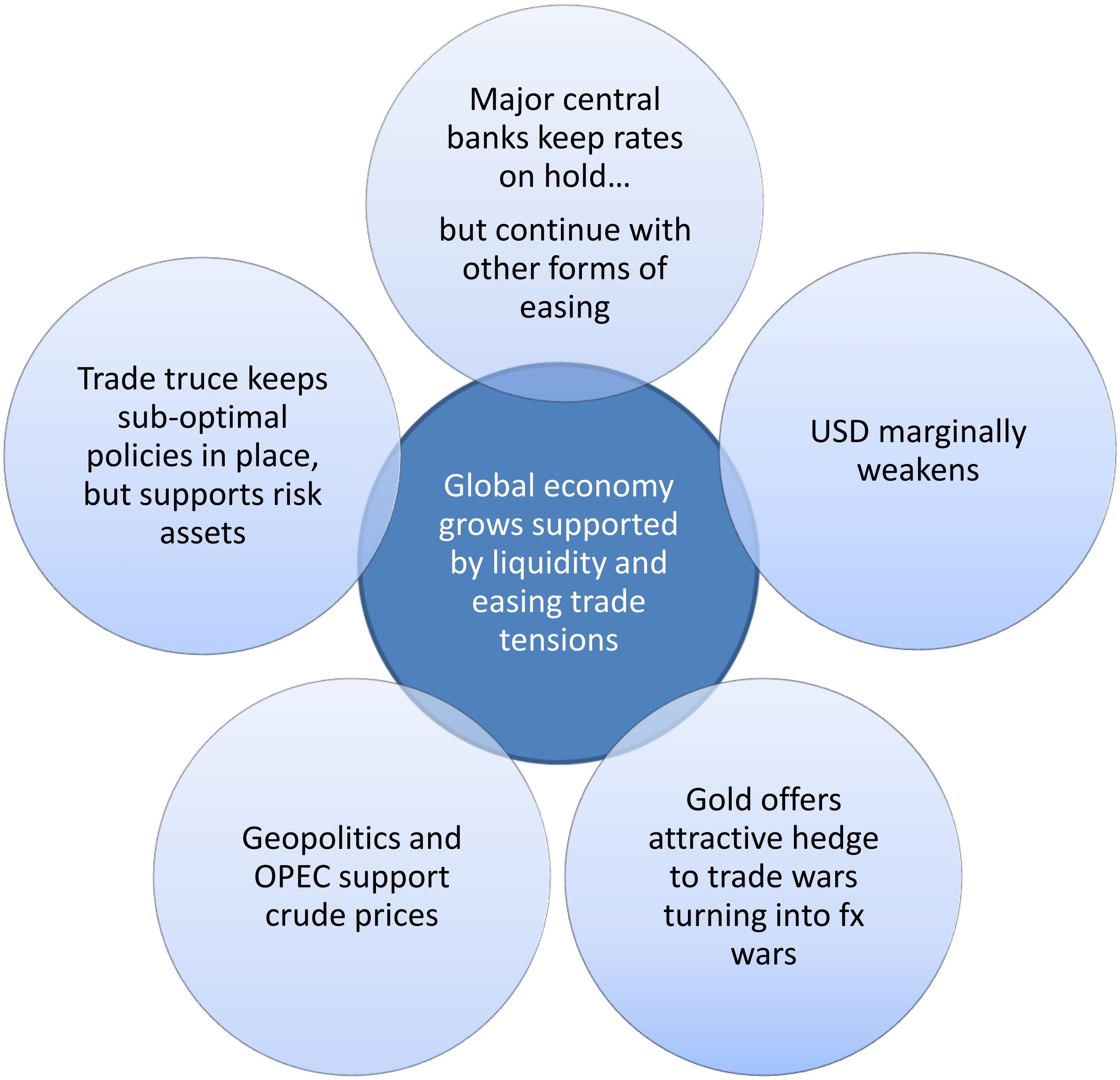
Summary



PLURIMI

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