

# **Insurance Institute of Leeds**

## **Economic & Investment Outlook**

### **Chris Hills – Chief Investment Officer**

**July 2018**



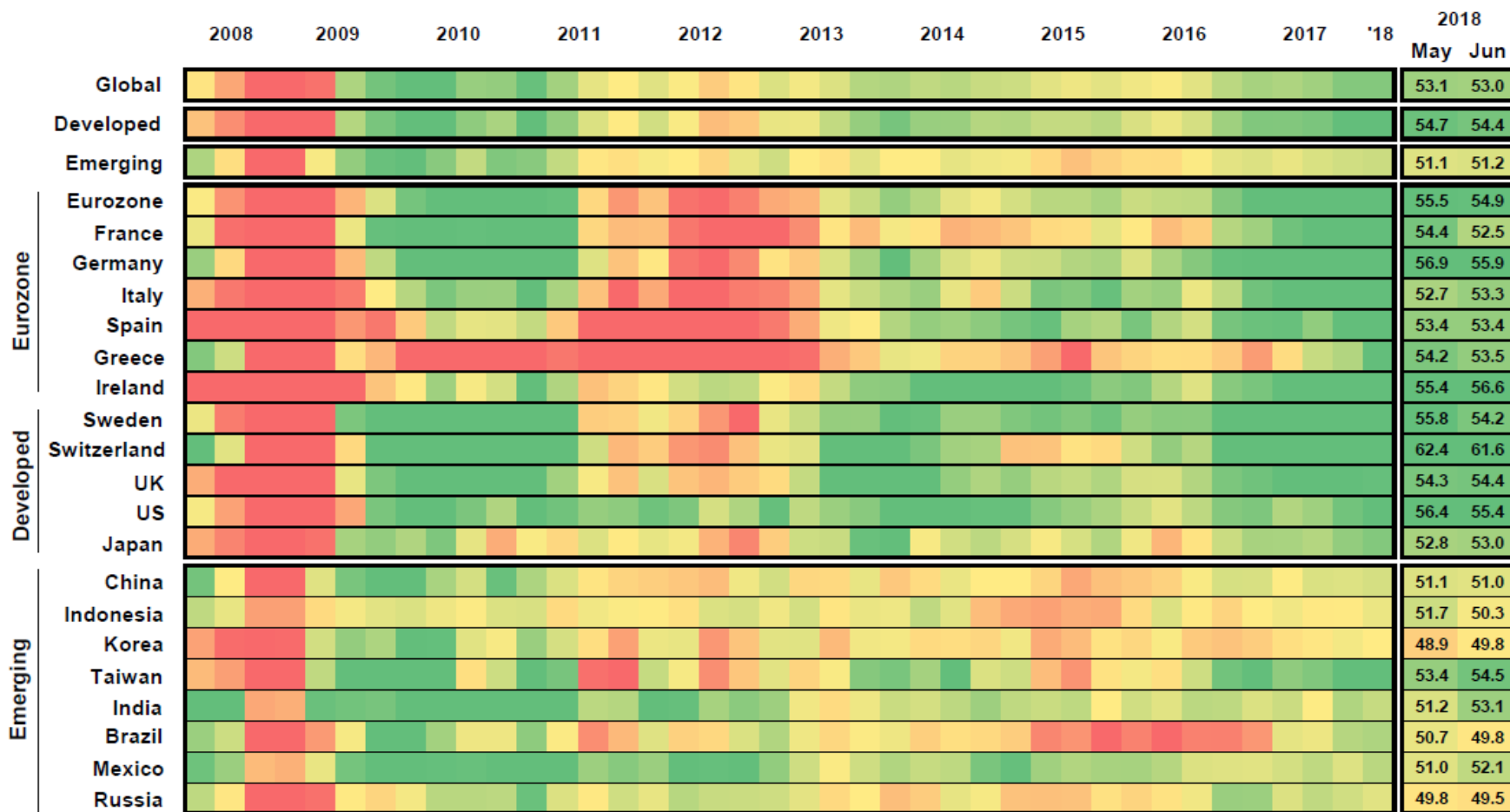
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 **Investec**  
Wealth & Investment

# Global Economic Growth – Purchasing Managers Indices

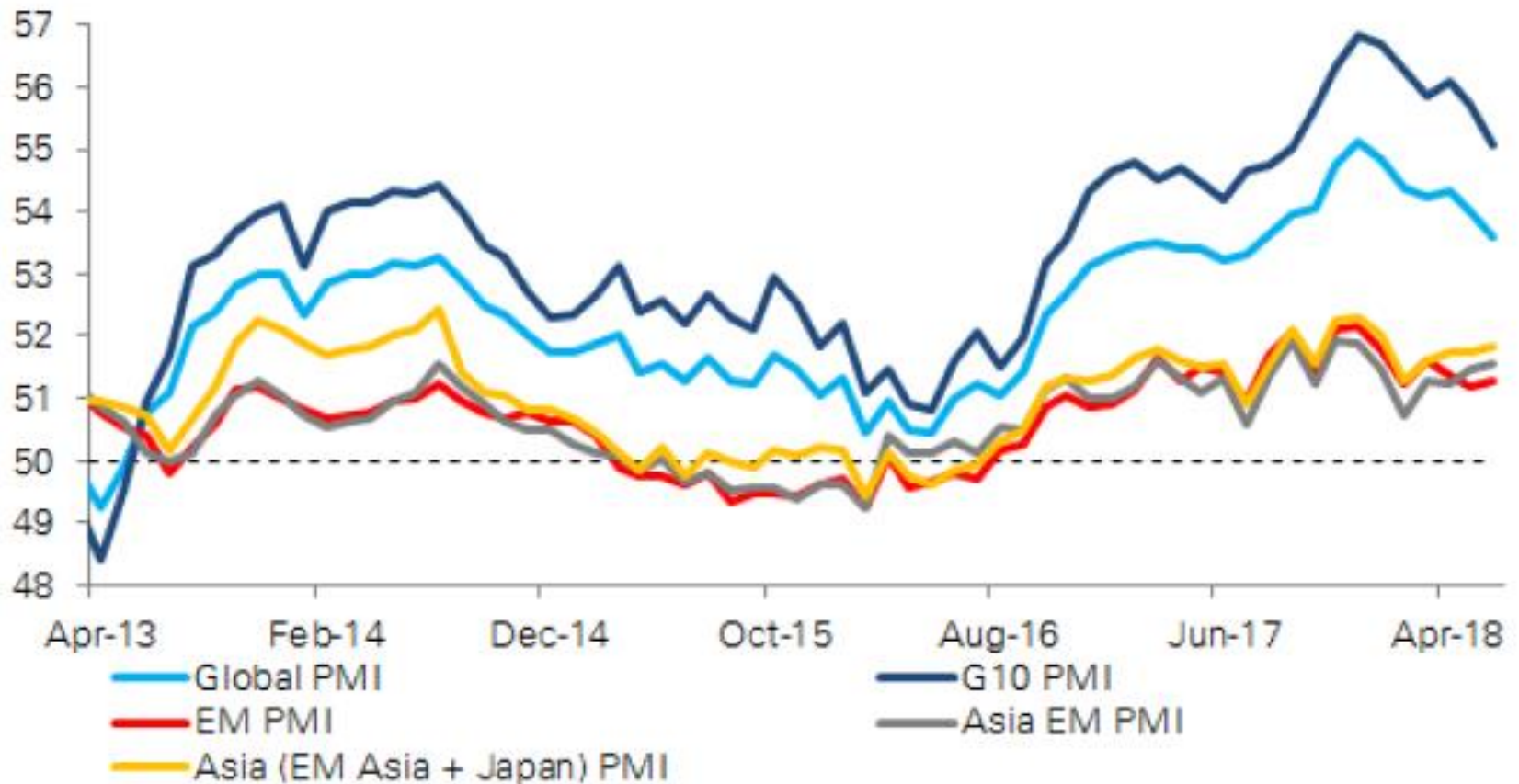
Slight cooling of growth in 2018 – just an aberration or a concern?



Source: JPMorgan

# Global Economic Growth – Purchasing Managers Indices

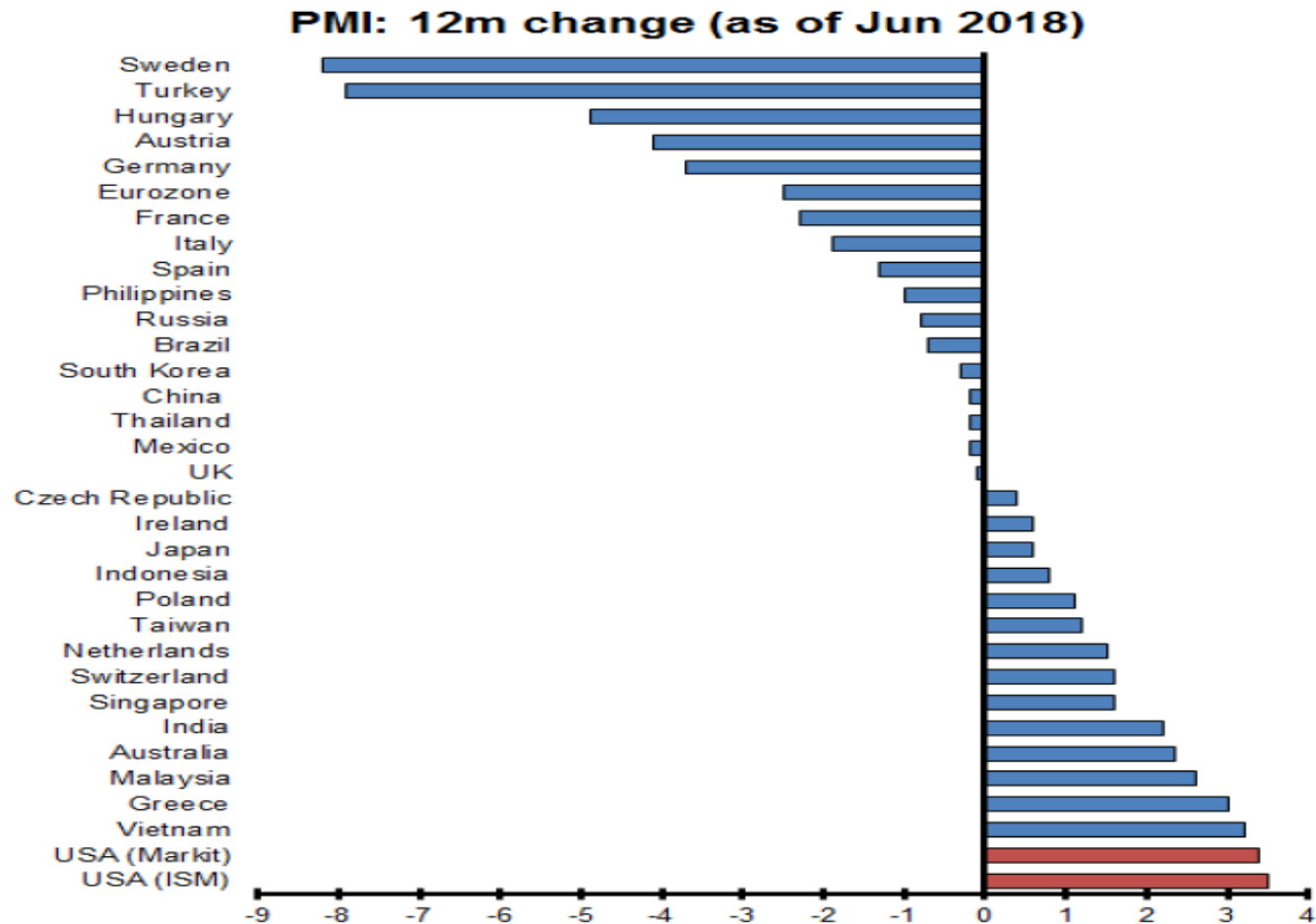
...but the majority of the World is still well above the 50 trigger...



Source: Deutsche Bank

# Global Economic Growth – Purchasing Managers Indices

...albeit becoming more dependent on the US...



Source: Deutsche Bank

# The speed of monetary tightening is a function of inflation...

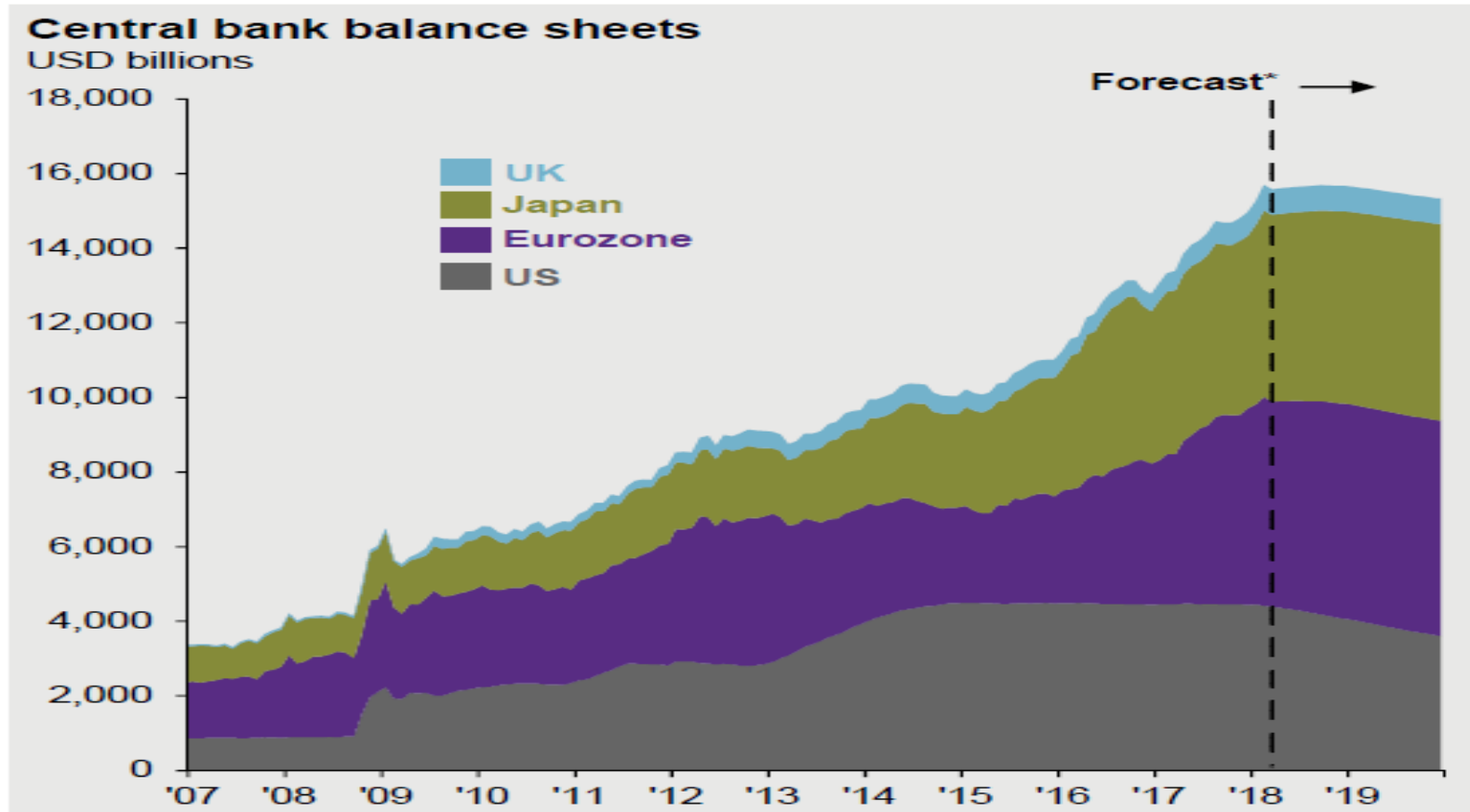
...but there are not too many red flags yet

		2016							2017												2018				
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Global		1.6	1.5	1.5	1.7	1.8	1.9	2.1	2.4	2.2	2.1	2.1	2.0	1.8	1.8	2.0	2.1	2.0	2.2	2.2	2.1	2.3	2.2	2.2	2.4
Developed		0.6	0.5	0.6	0.9	1.1	1.2	1.5	2.0	2.1	1.8	1.9	1.6	1.4	1.5	1.7	1.8	1.6	1.8	1.8	1.8	1.8	1.9	1.8	2.2
Emerging		3.2	3.2	2.9	3.0	3.1	3.1	2.9	3.2	2.4	2.5	2.6	2.6	2.4	2.3	2.6	2.5	2.7	2.7	2.9	2.5	3.2	2.8	2.7	2.8
Eurozone	Eurozone	0.1	0.2	0.2	0.4	0.5	0.6	1.1	1.8	2.0	1.5	1.9	1.4	1.3	1.3	1.5	1.5	1.4	1.5	1.4	1.3	1.1	1.3	1.3	1.9
	France	0.3	0.4	0.4	0.5	0.5	0.7	0.8	1.6	1.4	1.4	1.4	0.9	0.8	0.8	1.0	1.1	1.2	1.2	1.3	1.5	1.3	1.7	1.8	2.3
	Germany	0.2	0.4	0.3	0.5	0.7	0.7	1.7	1.9	2.2	1.5	2.0	1.4	1.5	1.5	1.8	1.8	1.5	1.8	1.6	1.4	1.2	1.5	1.4	2.2
	Italy	-0.2	-0.2	-0.1	0.1	-0.1	0.1	0.5	1.0	1.6	1.4	2.0	1.6	1.2	1.2	1.4	1.3	1.1	1.1	1.0	1.2	0.5	0.9	0.6	1.0
	Spain	-0.9	-0.7	-0.3	0.0	0.5	0.5	1.4	2.9	3.0	2.2	2.6	2.0	1.6	1.7	2.0	1.8	1.7	1.8	1.2	0.7	1.2	1.3	1.1	2.1
	Greece	0.2	0.2	0.4	-0.1	0.6	-0.2	0.3	1.5	1.4	1.7	1.7	1.5	0.9	0.9	0.6	1.0	0.5	1.1	1.0	0.2	0.4	0.2	0.5	0.8
	Ireland	0.1	0.1	-0.4	-0.3	-0.4	-0.2	-0.2	0.2	0.3	0.6	0.7	0.0	-0.6	-0.2	0.4	0.2	0.5	0.5	0.5	0.3	0.7	0.5	-0.1	0.7
Developed	Sweden	1.2	1.1	1.2	0.8	1.1	1.3	1.7	1.5	1.9	1.4	2.0	1.8	1.8	2.3	2.2	2.2	1.7	1.9	1.7	1.6	1.6	2.0	1.8	2.0
	Switzerland	-0.6	-0.5	0.0	-0.3	-0.3	-0.2	-0.2	0.3	0.7	0.5	0.7	0.4	0.4	0.6	0.5	0.8	0.8	0.8	1.1	0.8	0.5	0.7	0.4	1.0
	UK	0.5	0.6	0.6	1.0	0.9	1.2	1.6	1.8	2.3	2.3	2.7	2.9	2.6	2.6	2.9	3.0	3.0	3.1	3.0	3.0	2.7	2.5	2.4	2.4
	US	1.0	0.8	1.1	1.5	1.6	1.7	2.1	2.5	2.7	2.4	2.2	1.9	1.6	1.7	1.9	2.2	2.0	2.2	2.1	2.1	2.2	2.4	2.5	2.8
	Japan	-0.4	-0.4	-0.5	-0.5	0.1	0.5	0.3	0.4	0.3	0.2	0.4	0.4	0.4	0.4	0.7	0.7	0.2	0.6	1.0	1.4	1.5	1.1	0.6	0.7
Emerging	China	1.9	1.8	1.3	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8
	Indonesia	3.5	3.2	2.8	3.1	3.3	3.6	3.0	3.5	3.8	3.6	4.2	4.3	4.4	3.9	3.8	3.7	3.6	3.3	3.6	3.3	3.2	3.4	3.4	3.2
	Korea	0.7	0.4	0.5	1.4	1.5	1.5	1.3	2.0	1.9	2.2	1.9	2.0	1.9	2.3	2.6	2.1	1.8	1.3	1.5	1.0	1.5	1.3	1.6	1.5
	Taiwan	0.9	1.2	0.6	0.3	1.7	2.0	1.7	2.2	-0.1	0.2	0.1	0.6	1.0	0.8	1.0	0.5	-0.3	0.3	1.2	0.9	2.2	1.6	2.0	1.6
	India	5.8	6.1	5.0	4.4	4.2	3.6	3.4	3.2	3.7	3.9	3.0	2.2	1.5	2.4	3.3	3.3	3.6	4.9	5.2	5.1	4.4	4.3	4.6	4.9
	Brazil	8.8	8.7	9.0	8.5	7.9	7.0	6.3	5.4	4.8	4.6	4.1	3.6	3.0	2.7	2.5	2.5	2.7	2.8	3.0	2.9	2.8	2.7	2.8	2.9
	Mexico	2.5	2.7	2.7	3.0	3.1	3.3	3.4	4.7	4.9	5.4	5.8	6.2	6.3	6.4	6.7	6.4	6.4	6.6	6.8	5.6	5.3	5.0	4.6	4.5
	Russia	7.5	7.2	6.9	6.4	6.1	5.8	5.4	5.1	4.6	4.3	4.1	4.1	4.4	3.9	3.3	3.0	2.7	2.5	2.5	2.2	2.2	2.3	2.4	2.4

Source: JPMorgan

# QE will become an increasing headwind

Will global growth be sufficient to support markets?

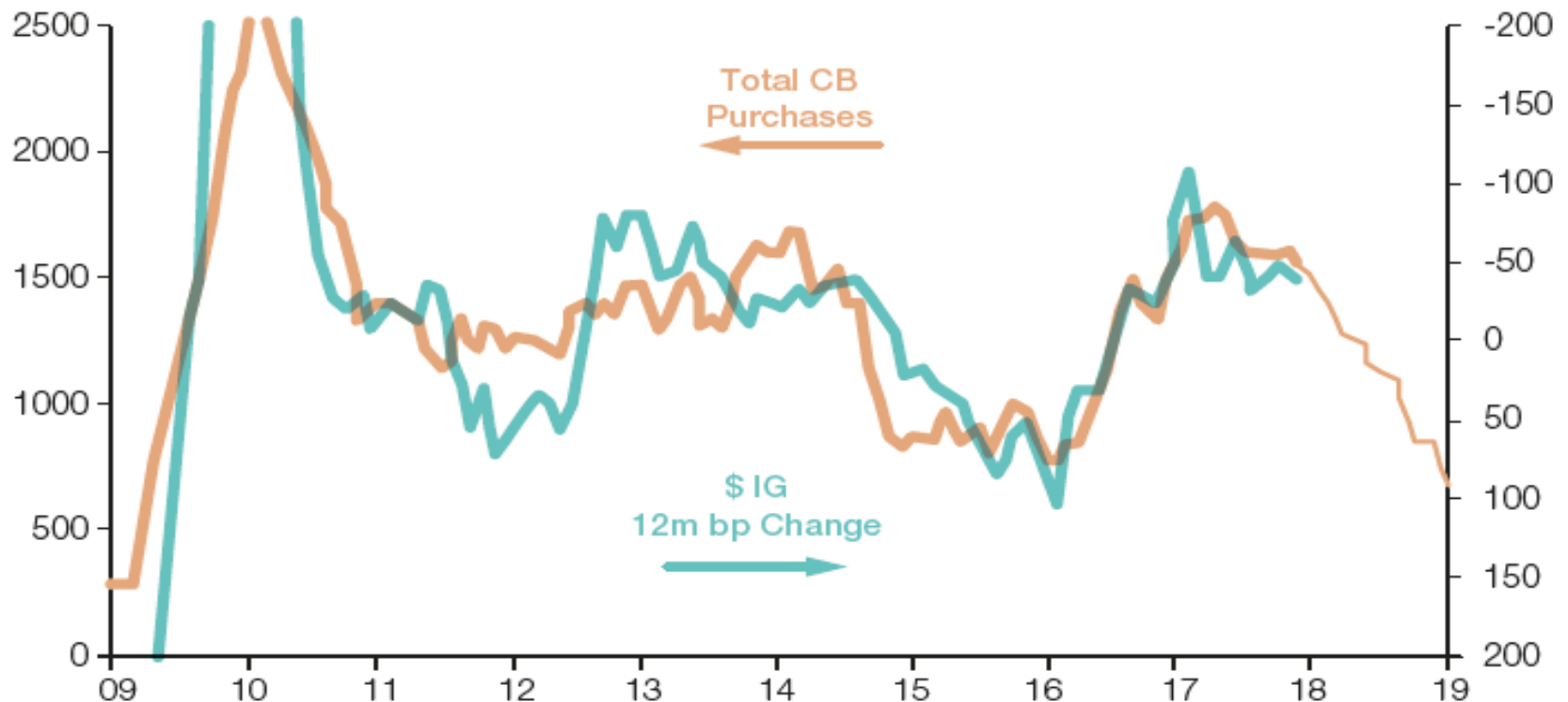


Source: JPMorgan Asset Management

# QE will become an increasing headwind

Might the best of (US) corporate bond performance be behind us?

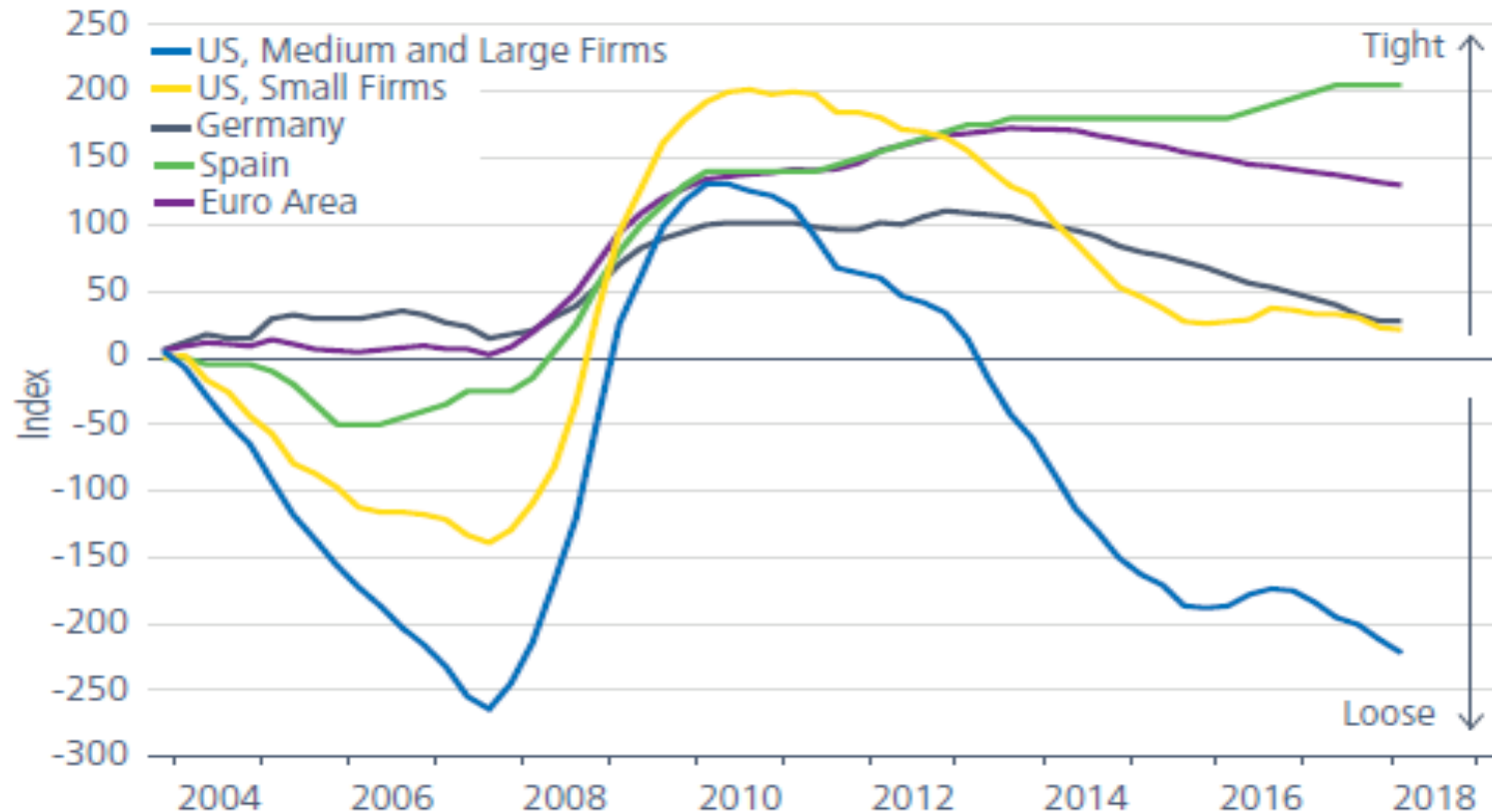
Central Banks Securities Purchases (\$bn) vs US IG Credit Spread 12m Change (bp)



Source: Citi Research

# Why is the Fed tightening policy?

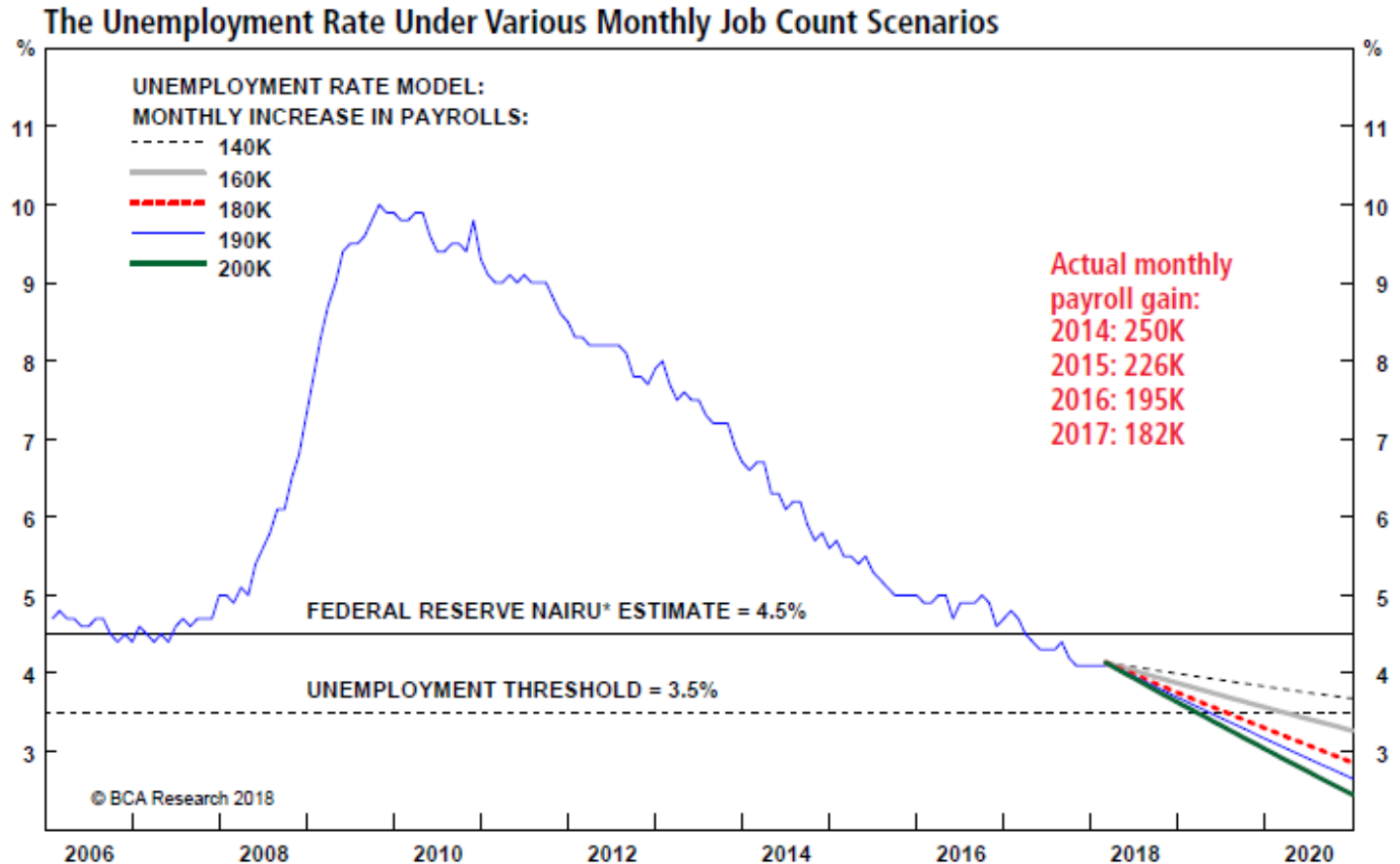
Not merely the threat of wage growth...



Sources: Aviva Investors, Macrobond, as at 31 March 2018

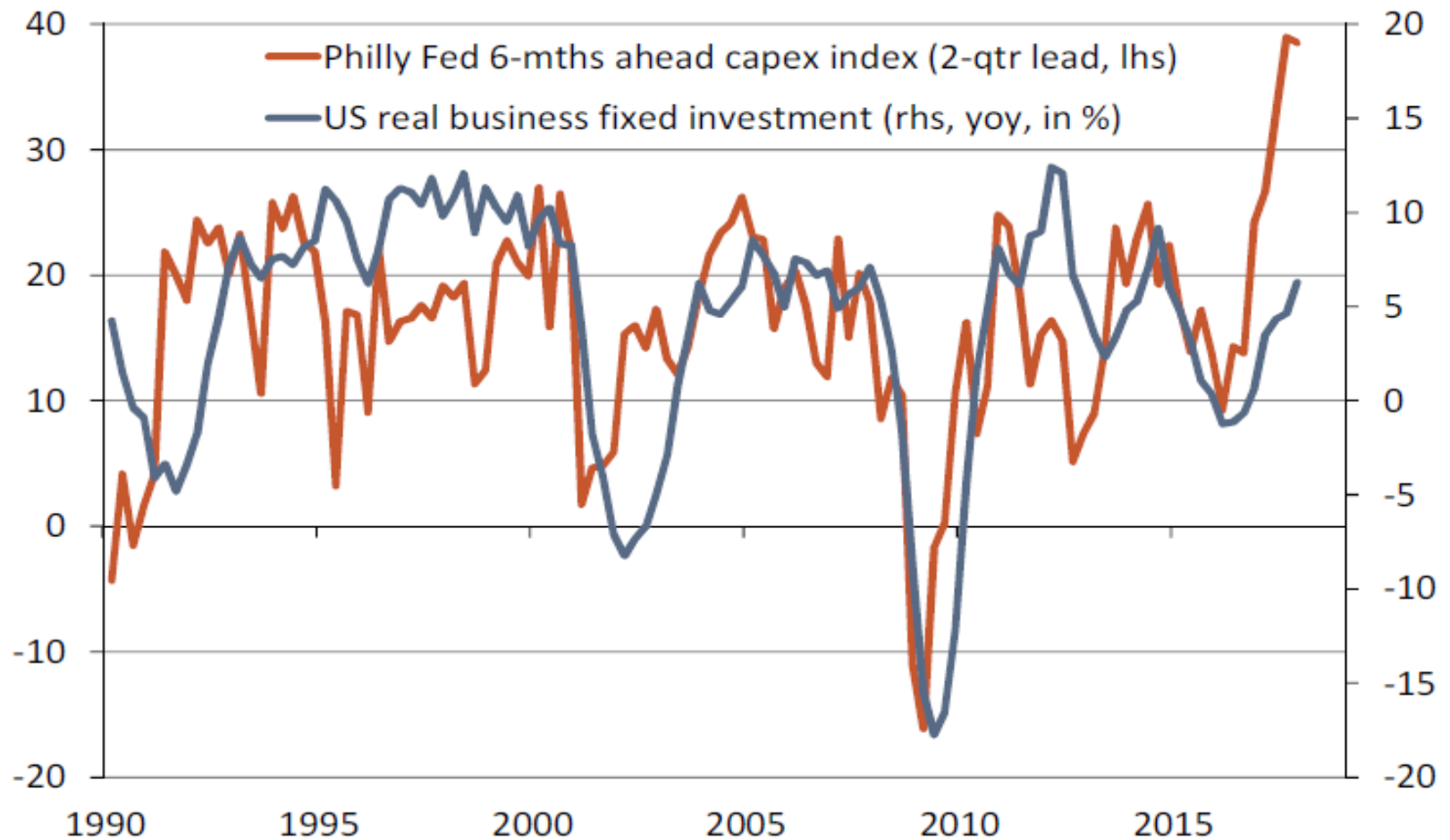


# US economy – when will the bottleneck appear?



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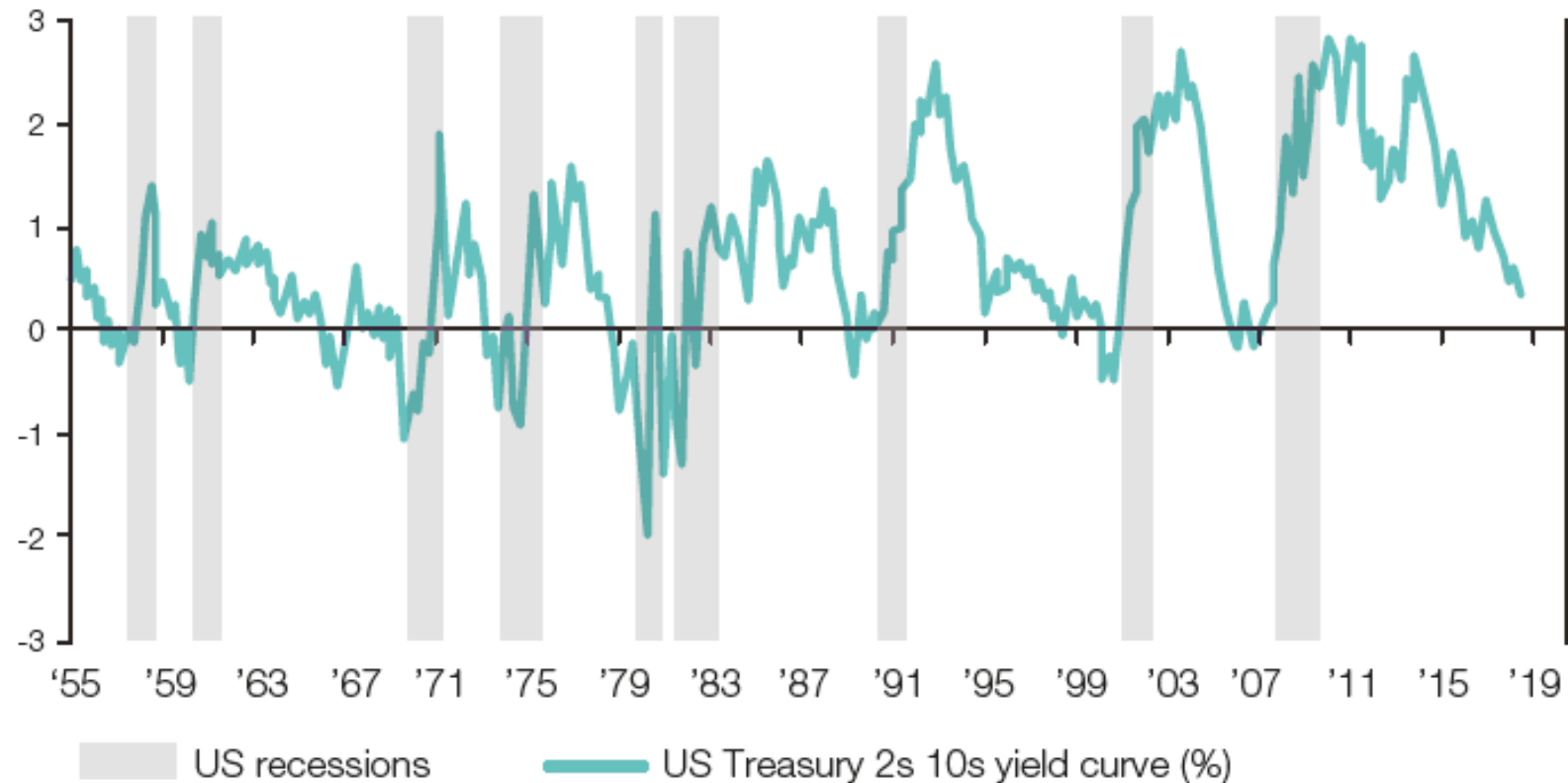
Capex should start to accelerate



Source: Berenberg March 2018

# US economy – will higher Fed rates prompt a recession?

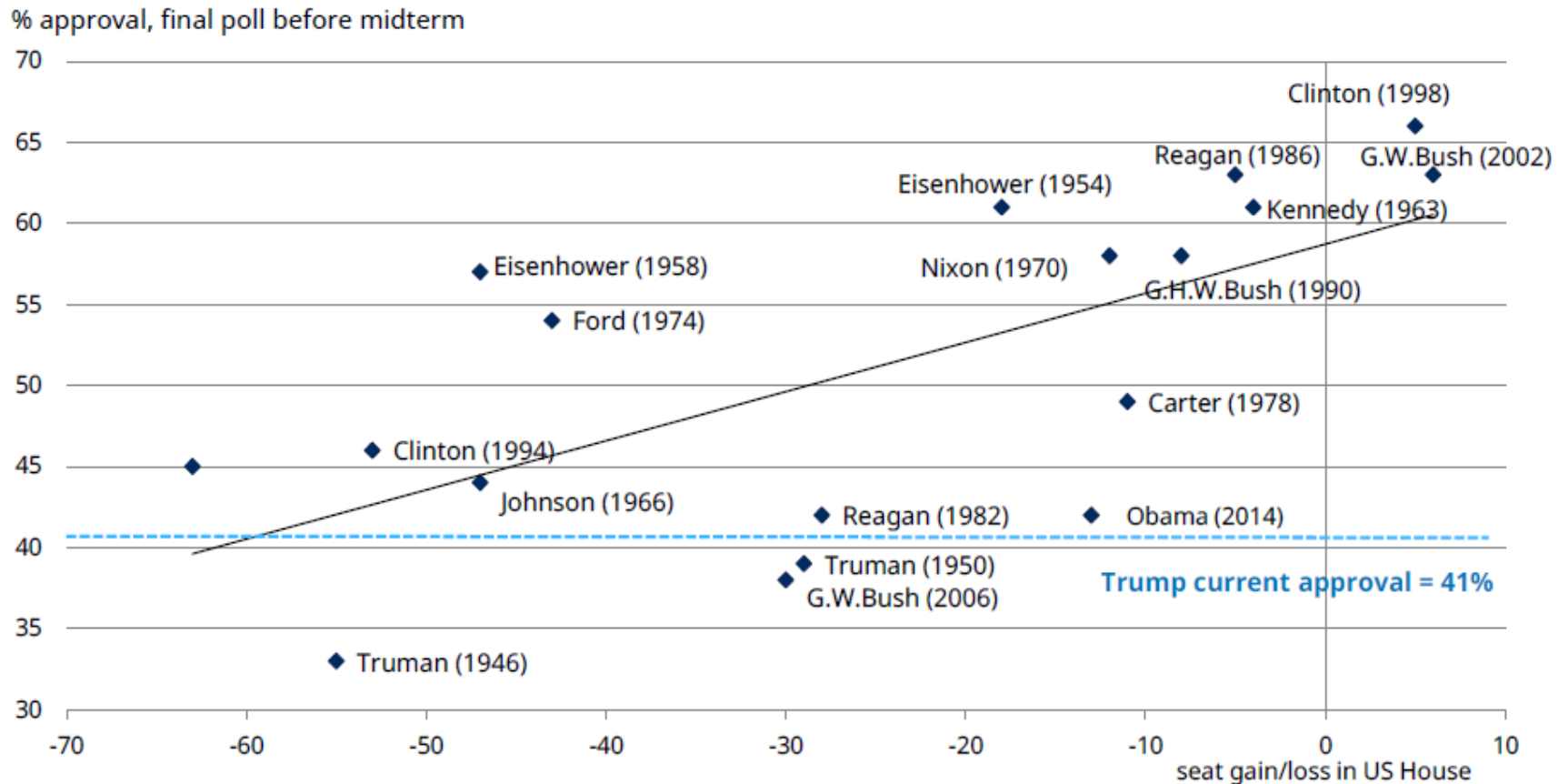
US Post-war recessions and yield curve



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, Global Financial Data

# US economy – what about the mid-term elections?

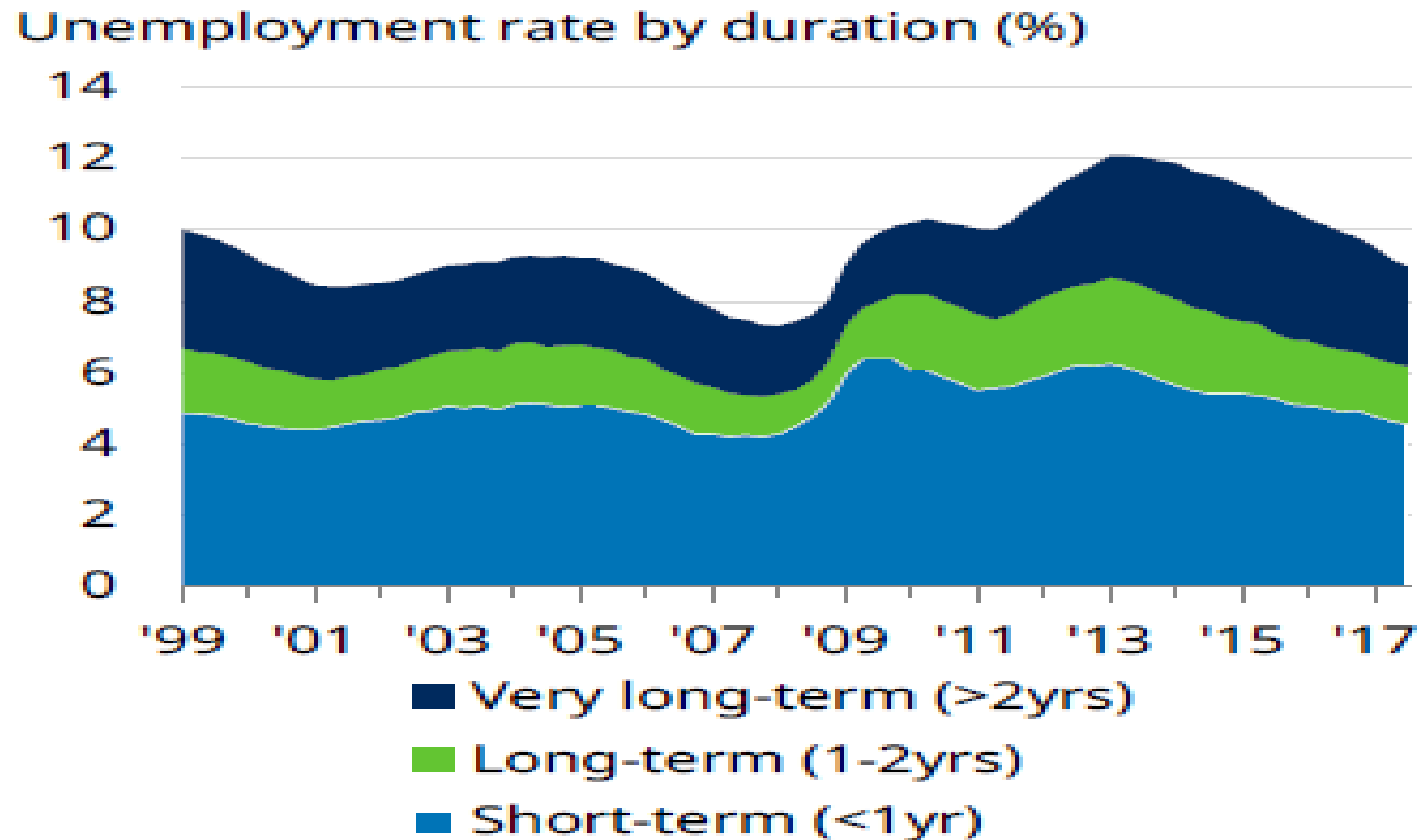
Is this why President Trump has initiated tariffs?



Source: Schroders 2018

## ...and what about Europe?

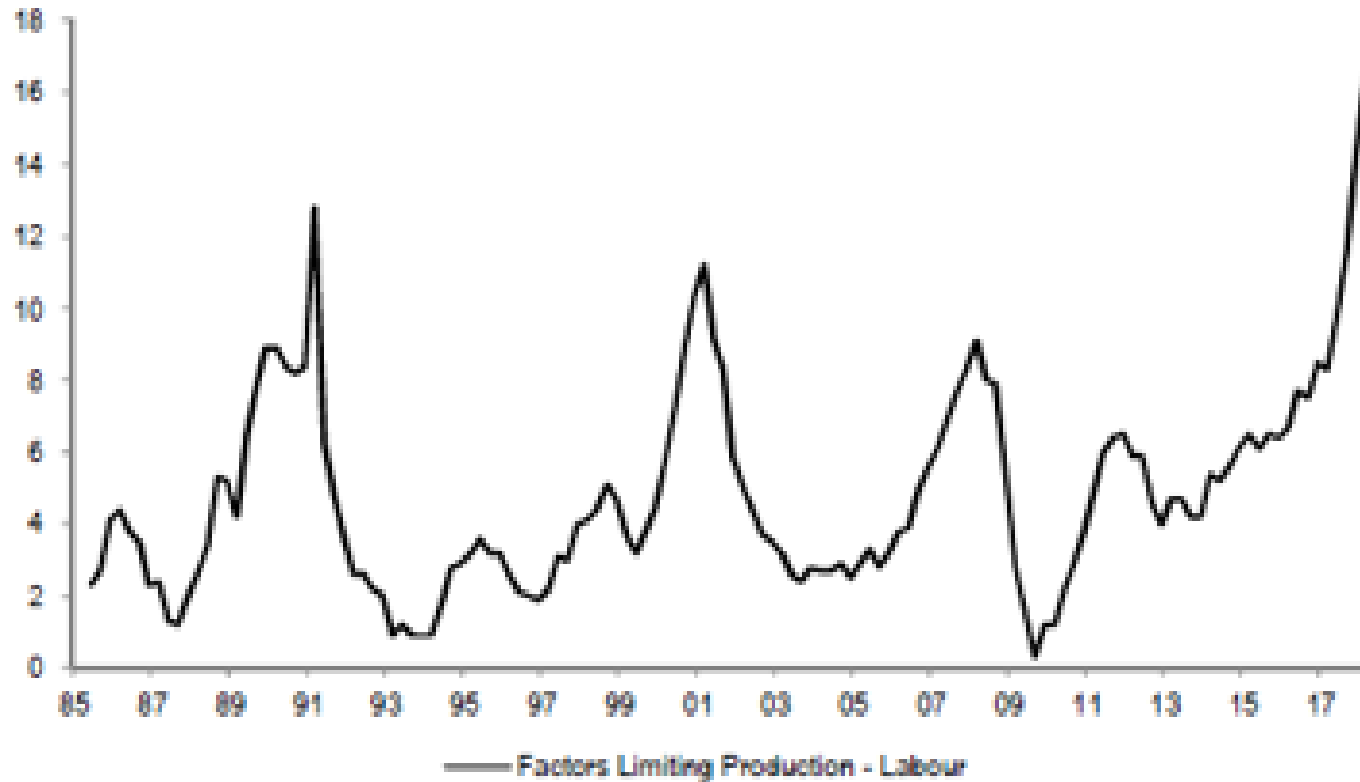
Plenty of unemployment but how many of them are employable?



Source: Schroders Economics Group Spring 2018

## ...and what about Europe?

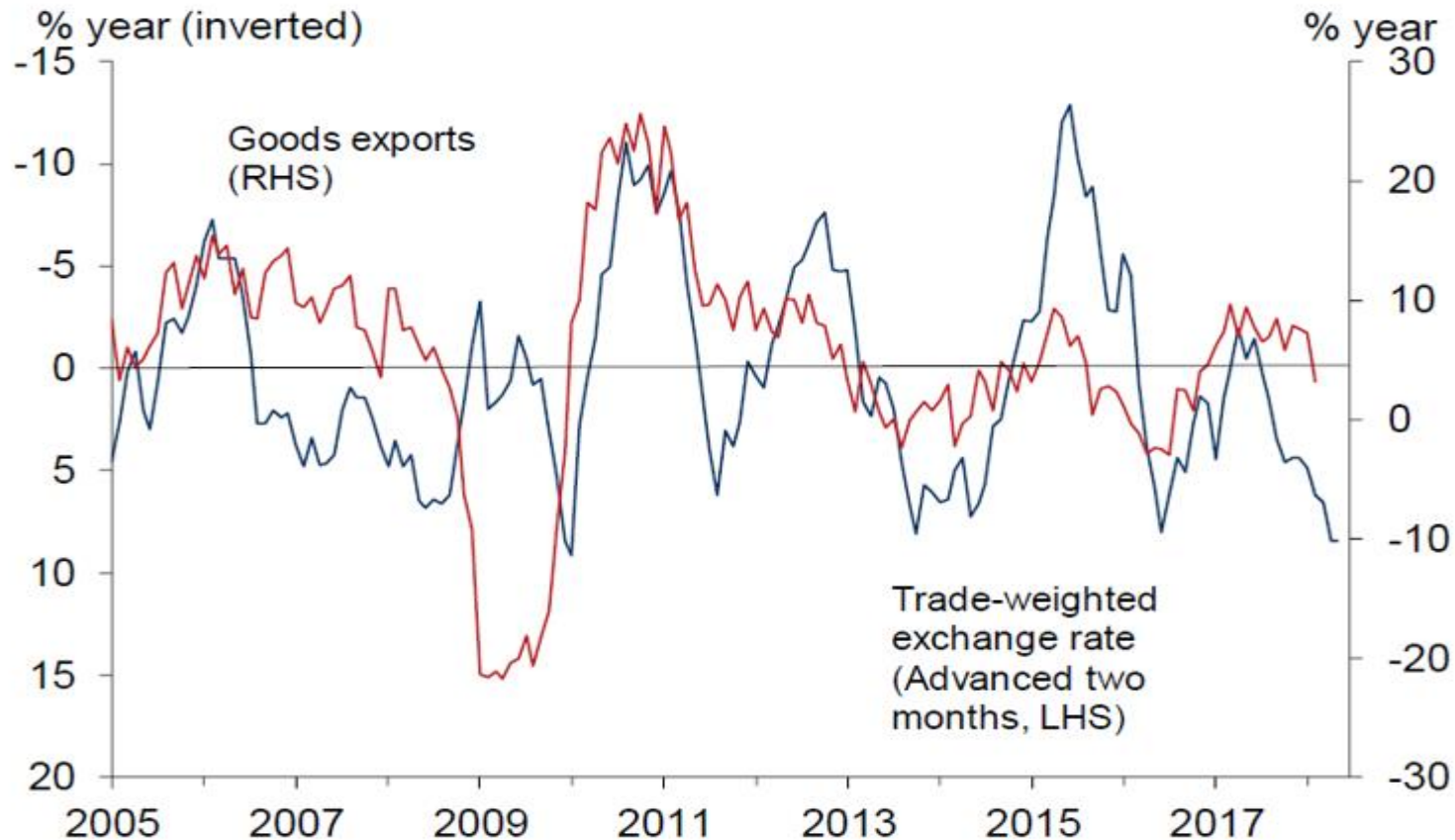
More firms citing labour shortage as a constraint



Source: European Commission Spring 2018

## ...and what about Europe?

Will the currency strength act as a brake on growth?

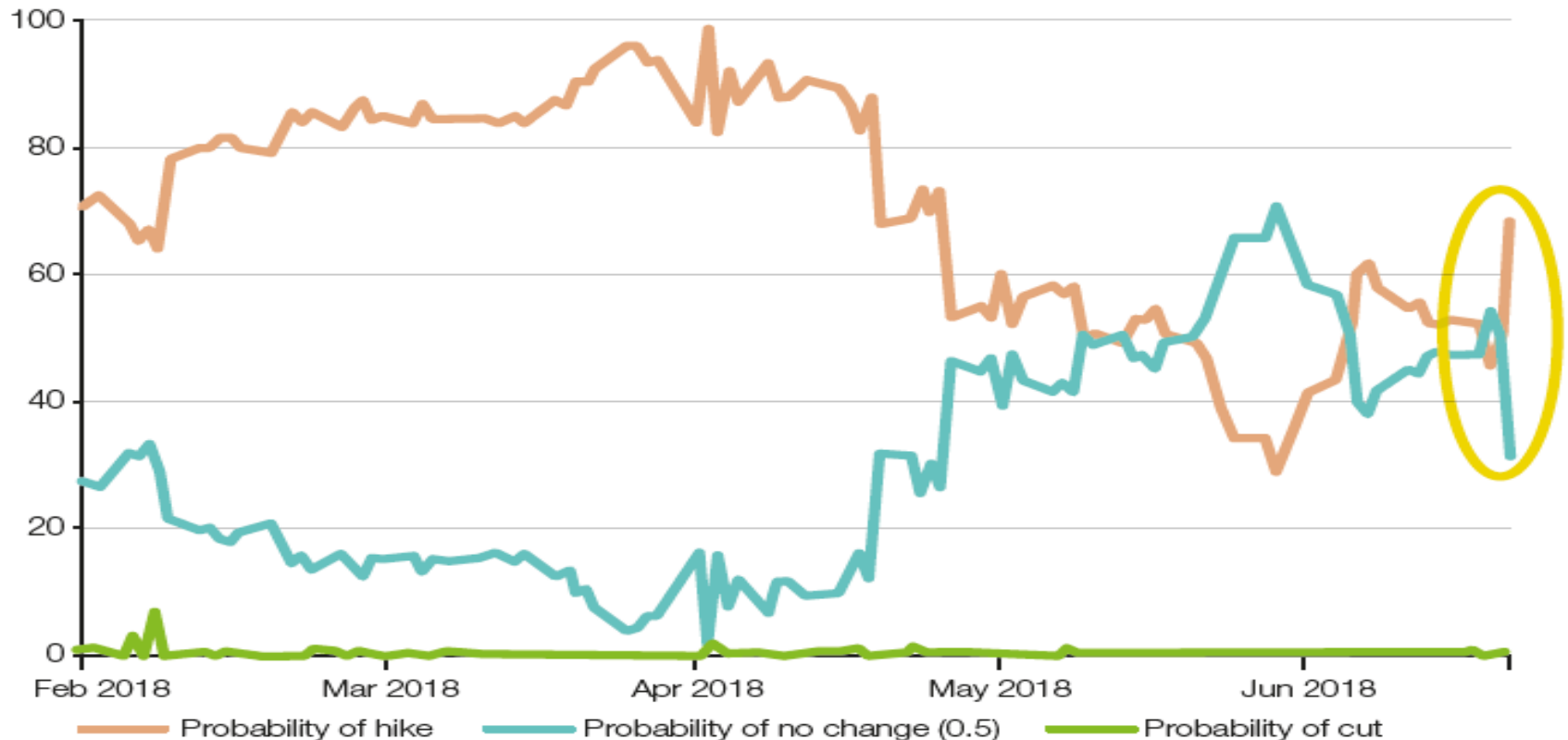


Source: Oxford Economics/Haver Analytics

# UK inflation has peaked

...so what is the outlook for UK rates?

UK Interest Rate Expectations for August 2018

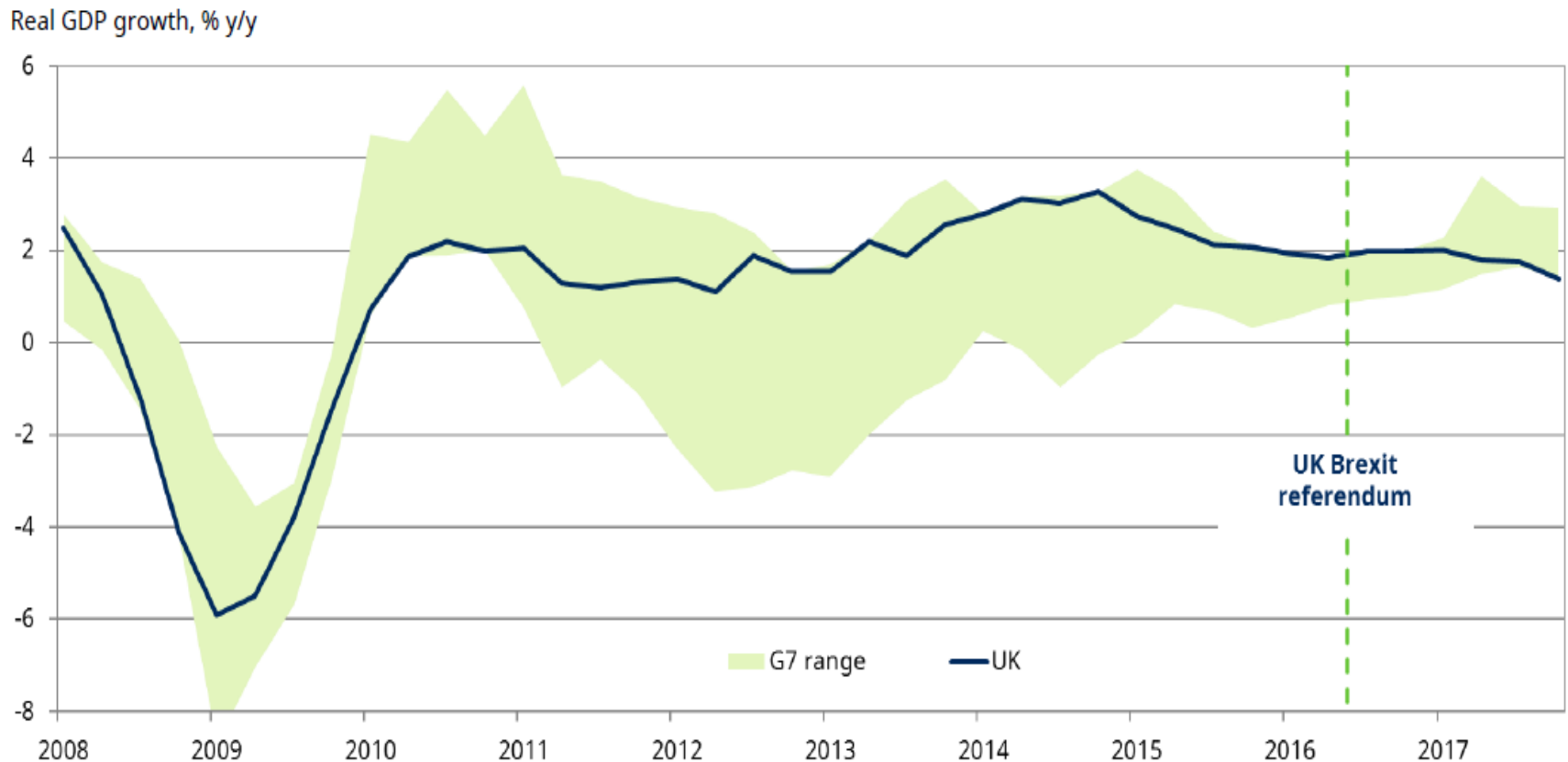


Source: Berenberg/Bloomberg data



# UK – is Brexit slowing the economy?

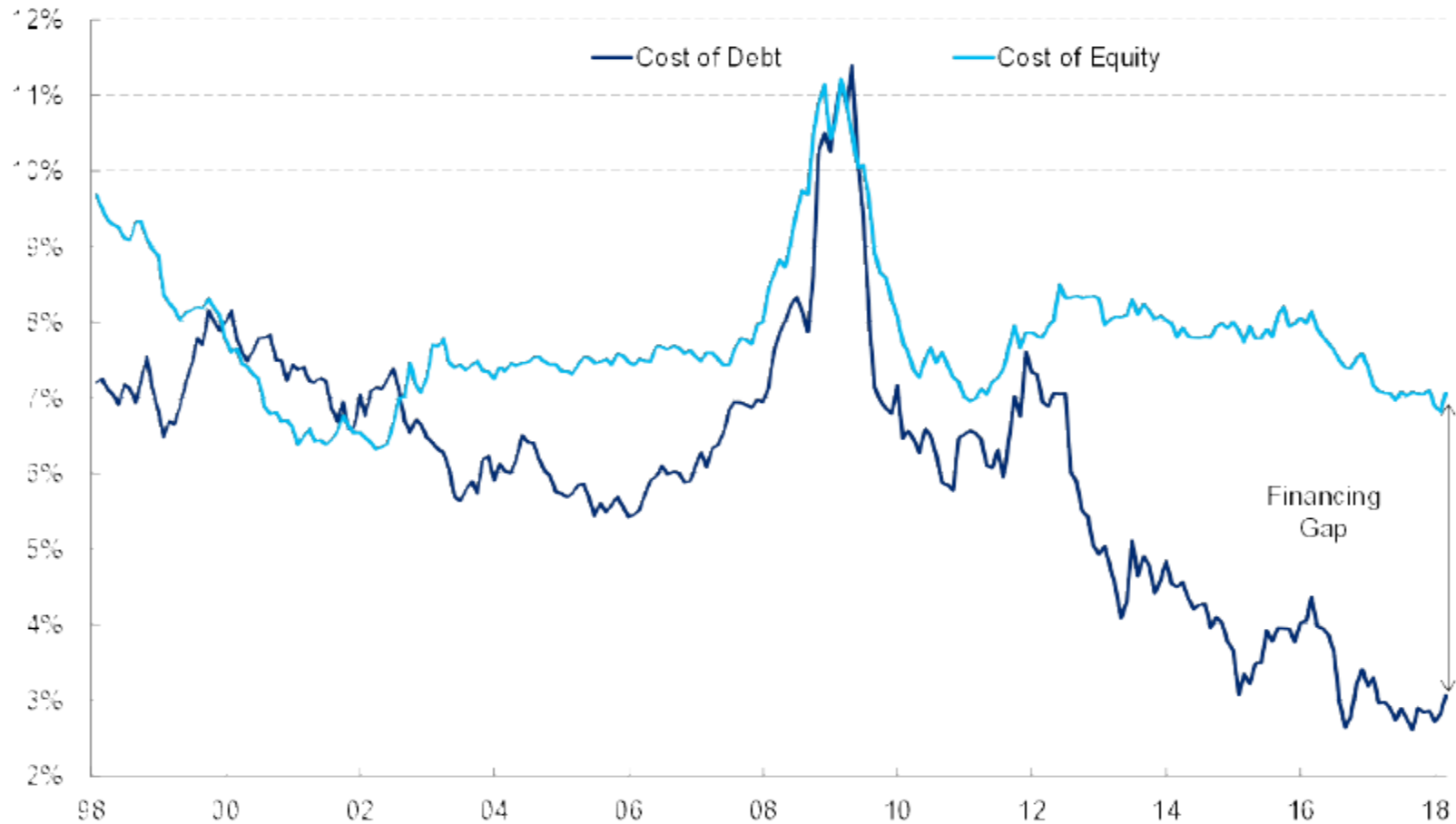
UK growth now at the bottom of the G7 league tables



Source: Schroders Economics Group March 2018

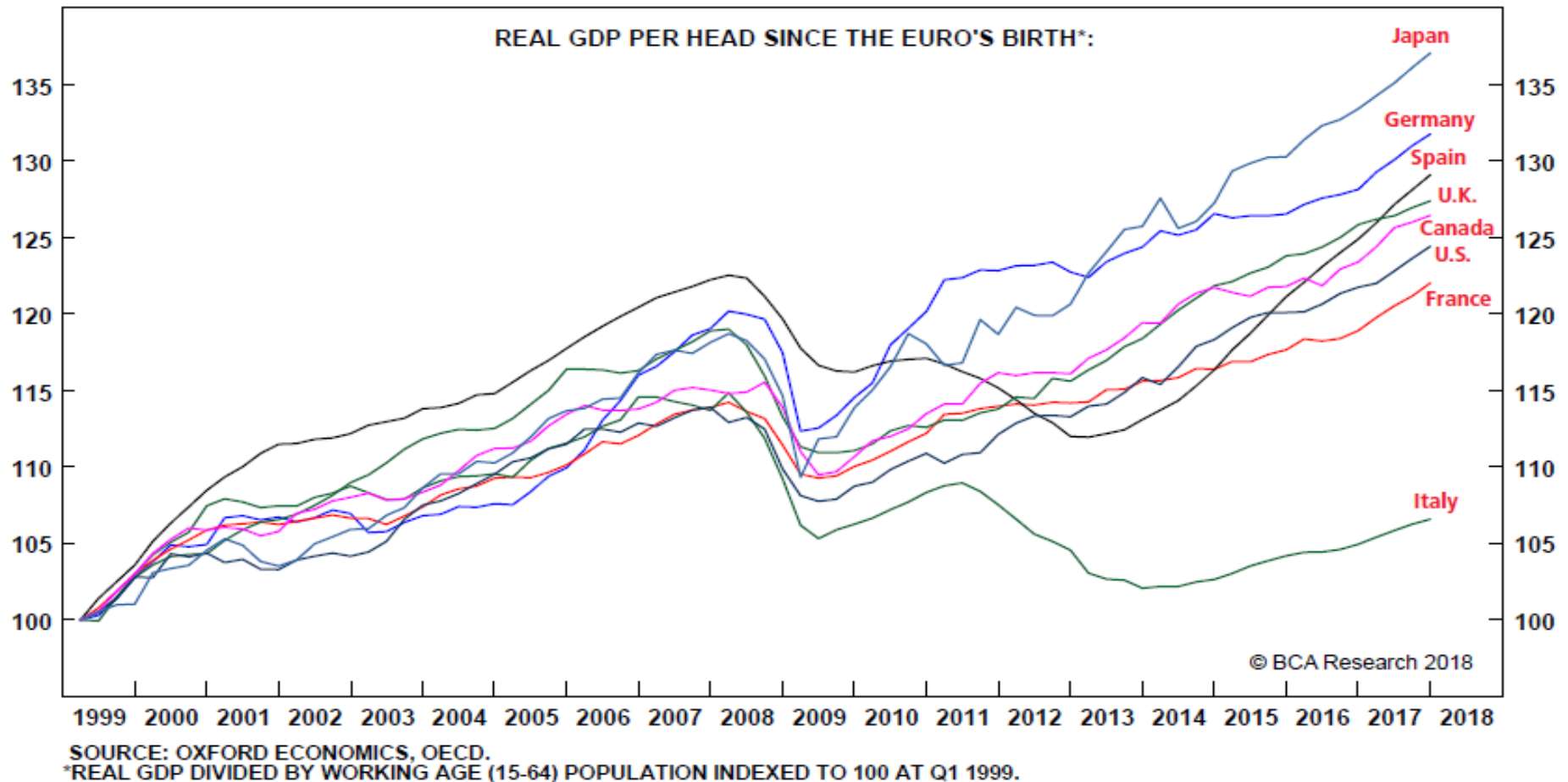
# UK – will companies continue to do buybacks and takeovers?

Large financing gap supports use of debt to buy shares



Source: Citi Research 2018

# Japanese growth has been good, but only at the per capita level



# Japan has self help – look at the upside in return on equity

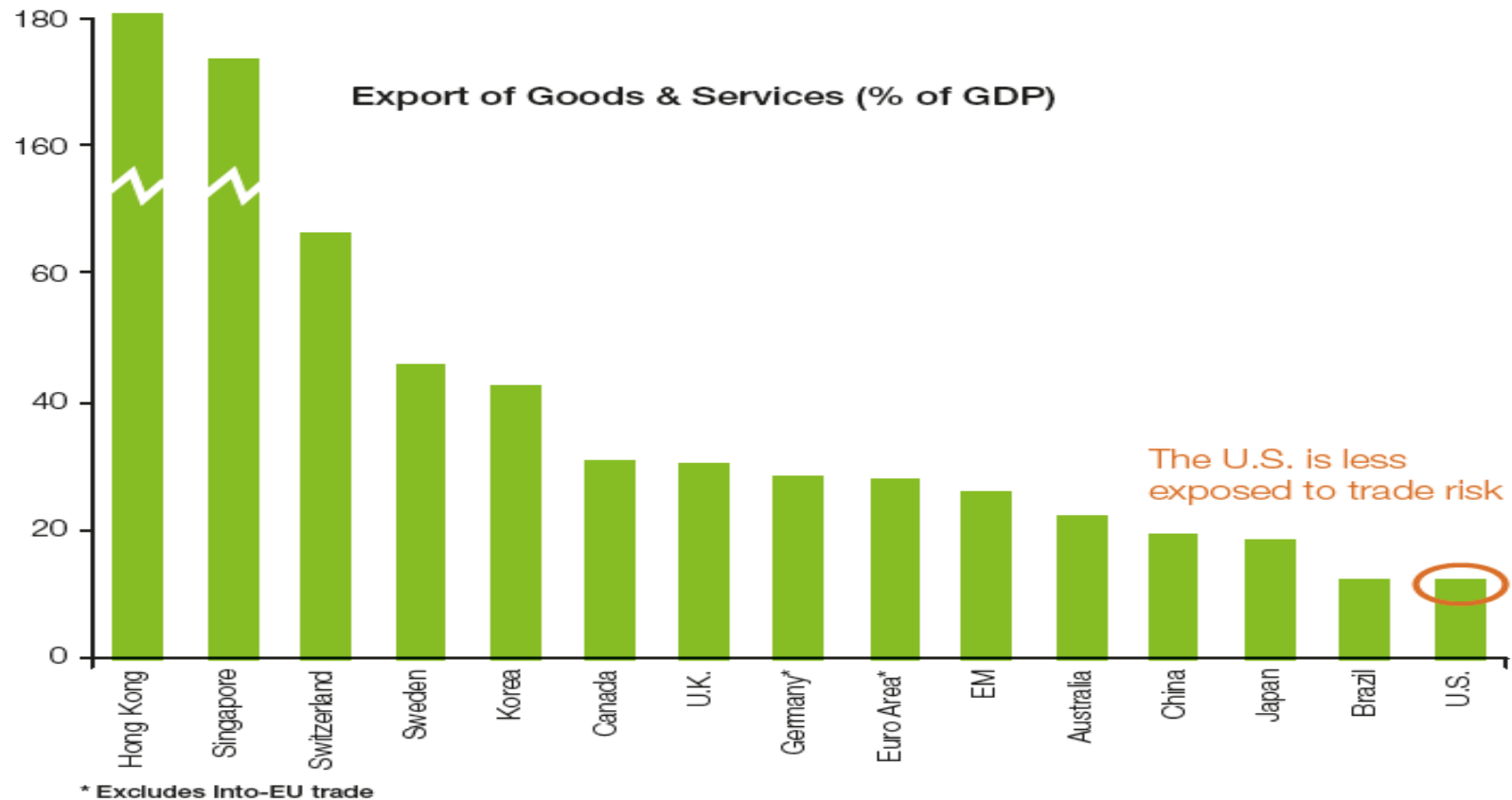
Moving from 9.3% to 11% could add 25% to share prices



\*Source: MSCI

MRB Partners Inc © 04/2018

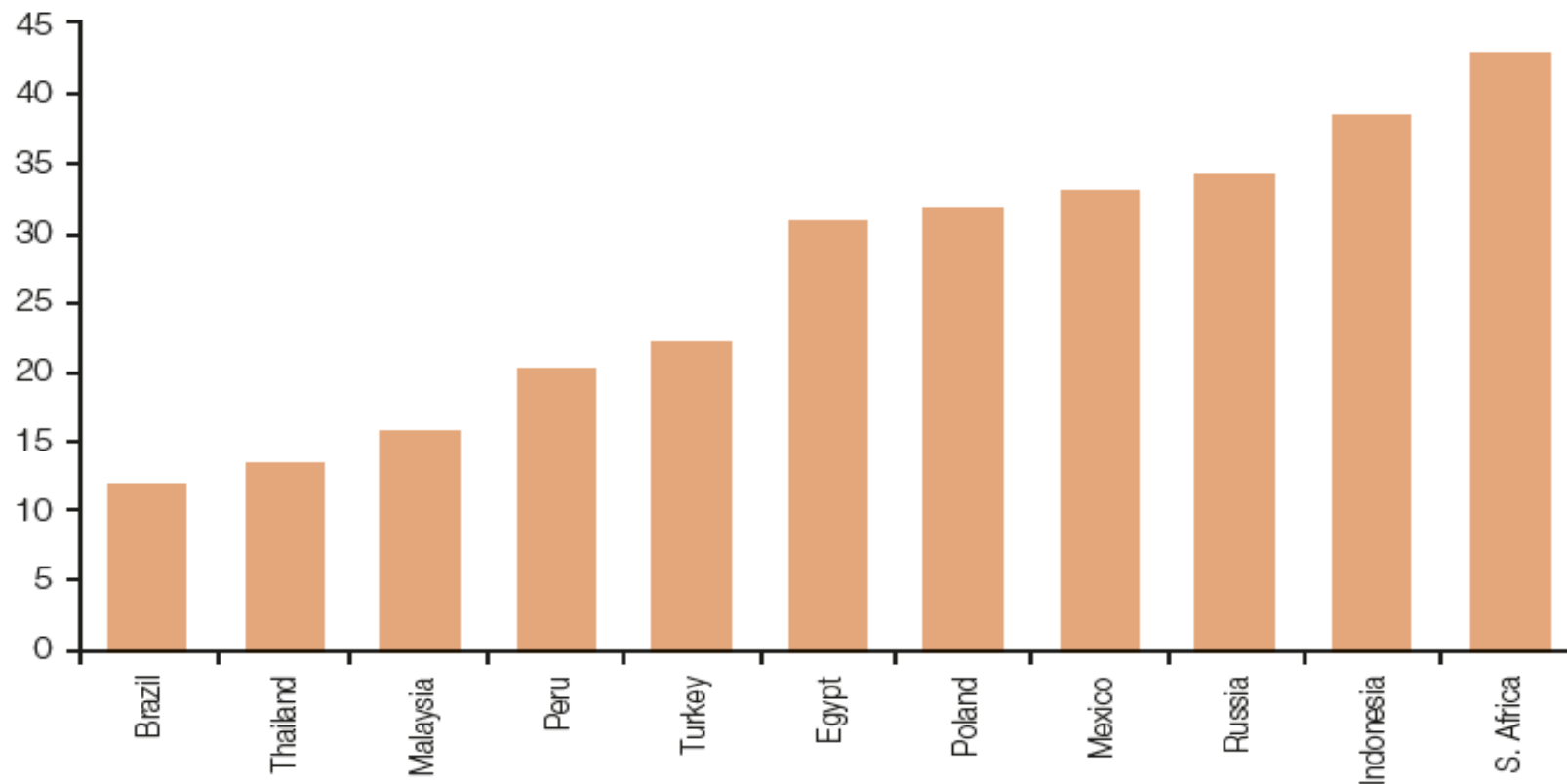
# Emerging Markets vulnerable to tariffs?



Source: MRB Partners Inc

## ...and vulnerable to international capital withdrawal?

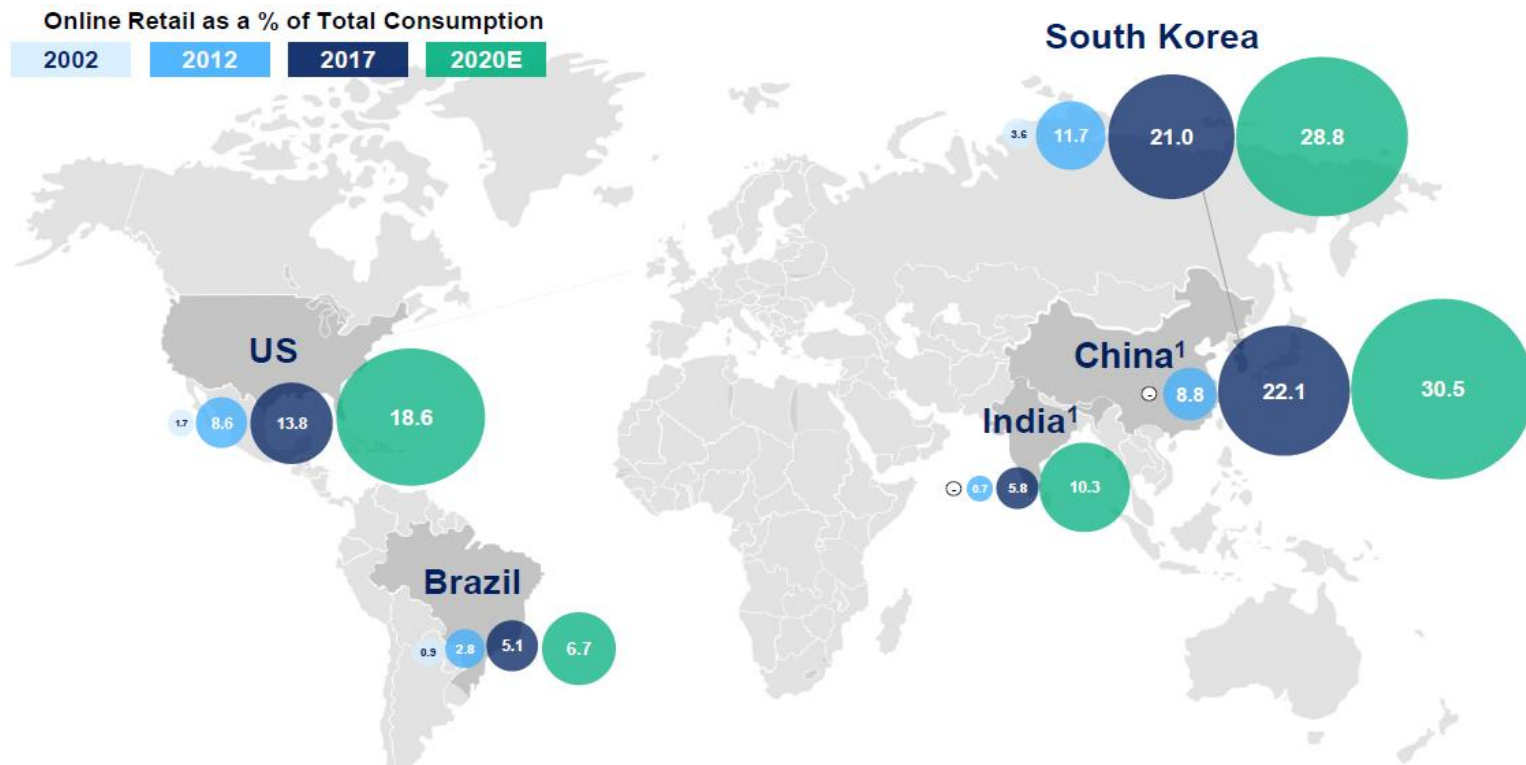
Non resident share of local debt market, %



Source: Oxford Economics/Haver Analytics

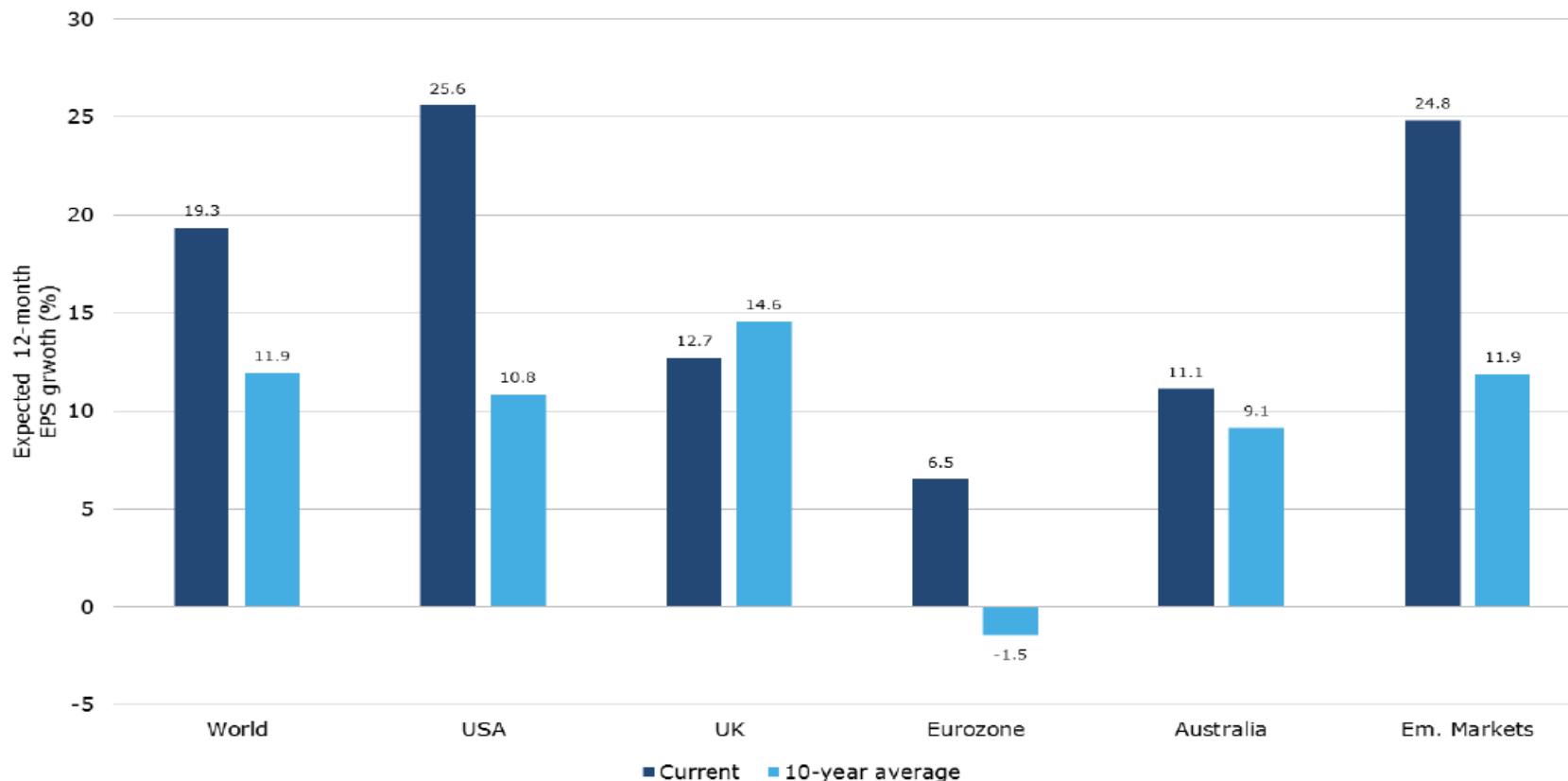
# Emerging Markets an internet, rather than commodity, play?

## Changing pattern of consumer retail behaviour



Source: Goldman Sachs

## Profits are rising, but are investors getting too optimistic?



Source: Fidante Capital March 2018



## Profits – big upgrades in Q1, but was it too rapid?



Source: Bloomberg July 2018

# The asset classes we use and their characteristics

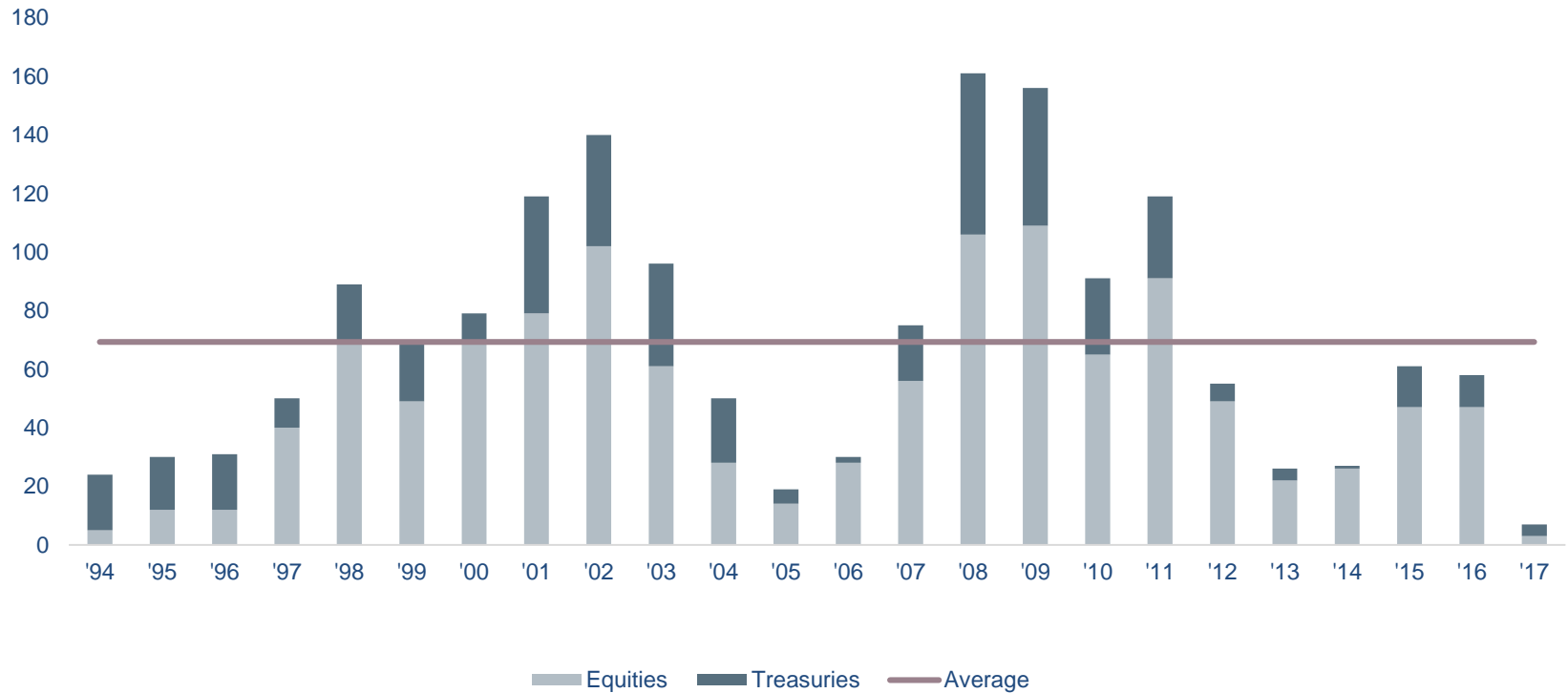
	Income	Income Growth	Capital Gains	Predictability	Current stance
UK Equities	✓✓	✓✓	✓✓	XX	<b>Underweight</b>
US Equities	✓	✓✓	✓✓	XX	<b>Underweight</b>
European Equities	✓✓	✓✓	✓✓	XX	<b>Overweight</b>
Japanese Equities	✓	✓	✓	XX	<b>Overweight</b>
EM Equities	✓	✓✓	✓✓	XX	<b>Overweight</b>
Sovereign Bonds	✓	XXX	X	✓✓	<b>Underweight</b>
Corporate Bonds	✓✓	XXX	✓	✓	<b>Neutral</b>
Commercial Property	✓✓✓	✓	✓	✓	<b>Neutral</b>
Hedge Funds	XXX	XXX	✓	✓ <i>probably</i>	<b>Underweight</b>
Infrastructure Funds	✓✓	✓	✓	✓✓	<b>Overweight</b>
Commodity Funds	XXX	XXX	✓	XXX	<b>Underweight</b>
Private Equity	✓	XX	✓✓✓	XXX	<b>Overweight</b>
Cash	XX	✓	XXX	✓✓✓	<b>Neutral</b>

Source: Investec Wealth & Investment

# Volatility in 2017 was far too low...

...so be prepared for some choppy waters ahead

Large Daily Trading Movements  
World Equities (1%) + US Treasuries (0.5%)



Source: Bloomberg



### **Chris Hills**

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Chris has over 40 years of experience in the investment management industry, half spent working within three very distinct institutional asset management businesses and the other half in his current role at Investec.

He splits his time between the internal task of ensuring that the firm plays to its collegiate strengths in research and portfolio management, together with the external tasks of ensuring the firm receives the best input from its suppliers amongst the large investment banks and asset management organisations and presenting the firm's thoughts about current markets to a range of external clients and interested advisers.

Chris assists clients in developing appropriate investment benchmarks and policies to meet their needs.

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