Top Predictions for 2020

January 7, 2020 FAT-AUS-952

The Baker's dozen

With 2019 now firmly behind us, we switch our attention to the key factors that will steer equity markets over the next 12 months. We are once again making predictions on the Top themes which are set to influence market moves, and present our 'Baker's dozen' for 2020.

1. ***The euro/pound breaks out on the upside as Brexit is secured while PMIs pick up in Europe. and the US$ turns down. The Chinese renminbi heads to 6.85, while the greenback also weakens against the Aussie and Kiwi dollars.***

The UK general election in late 2019 took many by surprise with the Conservative Party (aka "*the Tories*") not only securing power but scoring one of the most comprehensive victories in history. As a consequence, the pound/euro (GBP/EUR) rallied and saw new highs, with another layer of uncertainty dissipating, with the UK getting set to leave the European Union as planned at the end of this month, under the existing withdrawal agreement.

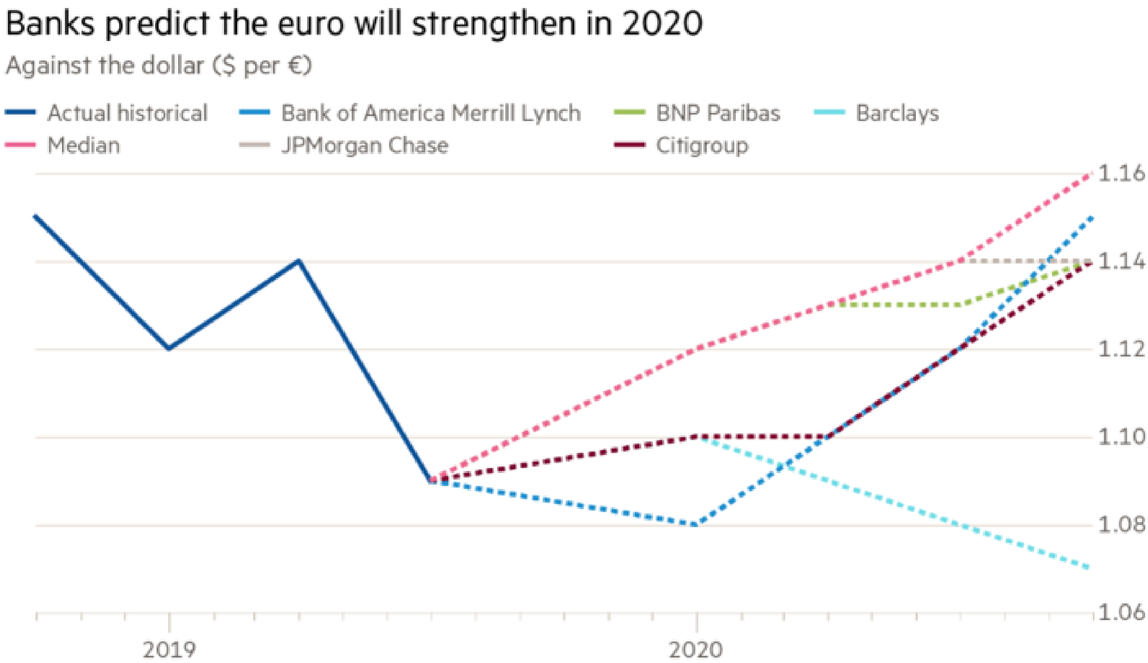
The stance PM Boris Johnson is taking sets the scene for further gains in the pound. Mr Johnson is not looking to extend the transition period, but a 'meeting of the minds' between Europe and UK also means that a hard Brexit should also be averted. With the market's worst fears unlikely to eventuate, and much bad news priced in, we should see the bid continue to go back into sterling. This is also as the domestic economy performs better than prevailing muted expectations.

EUR/GBP

The focus will also increasingly turn to what a new trade agreement looks like. With the Tories having a strong majority, PM Johnson is well positioned to craft a 'good' deal without making too many compromises, or being blocked by coalition partners (like the previous government). A fairly fragile growth situation in the EU – particularly in Germany and Italy – will also mean that officials there are more compelled to get a deal 'done,' especially under new EC president, Ursula von der Leyen, who seems more willing to meet half-way than her predecessor.

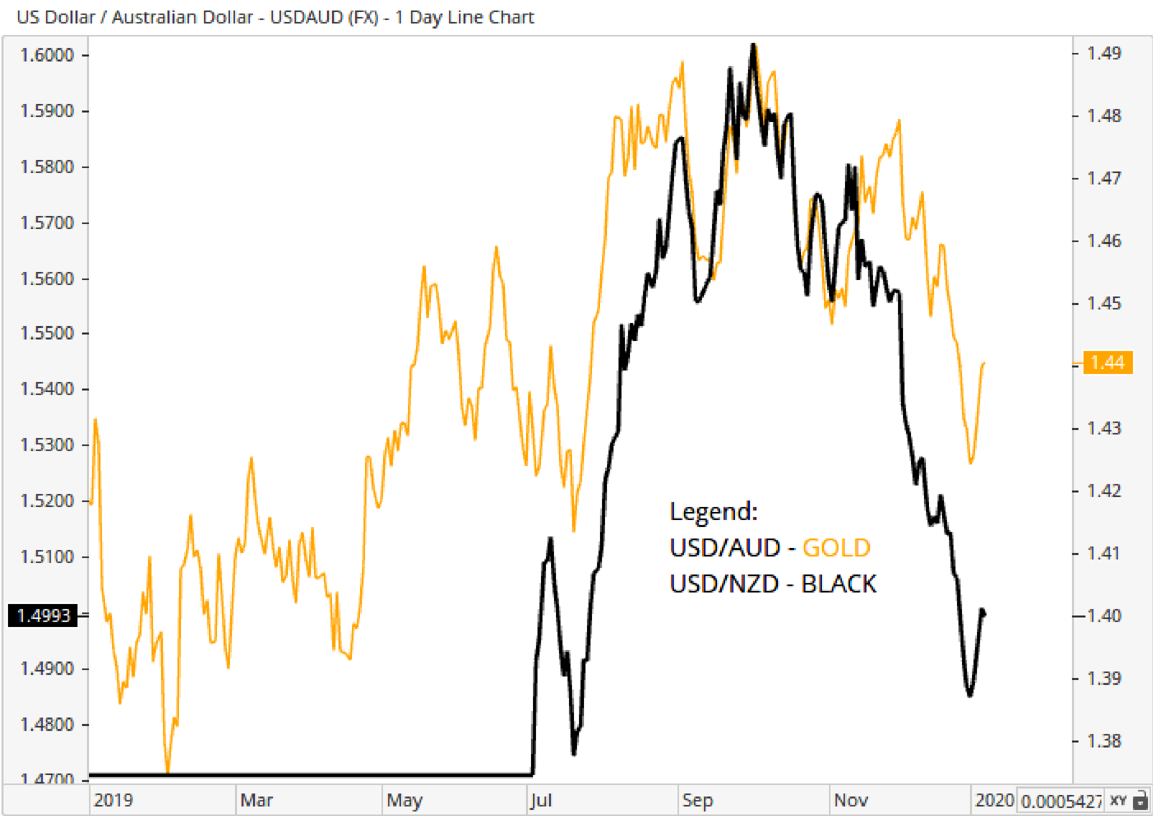
An improving trade situation should also bolster confidence amongst manufacturers in the EU, and particularly in Germany which recently saw its sharpest drop in factory production since 2012. The fact that the US and China are starting to 'come to terms' and end the trade war is also good news for export-driven countries, including those in the EU. We expect this to show up in improving PMI's (purchasing manager indices)

A resurgent global economy should also take some of the 'safe haven' flight out of the US$ which has been very much the 'go to' currency over the past 12 months (and longer). We expect an increasing reversion of the historic relationship where the US dollar declines as investor sentiment becomes broadly more positive and as funds flow into riskier assets such as emerging markets – with growth in China also remaining robust, we see the renminbi hitting 6.85 against the dollar.



Source: Financial Times

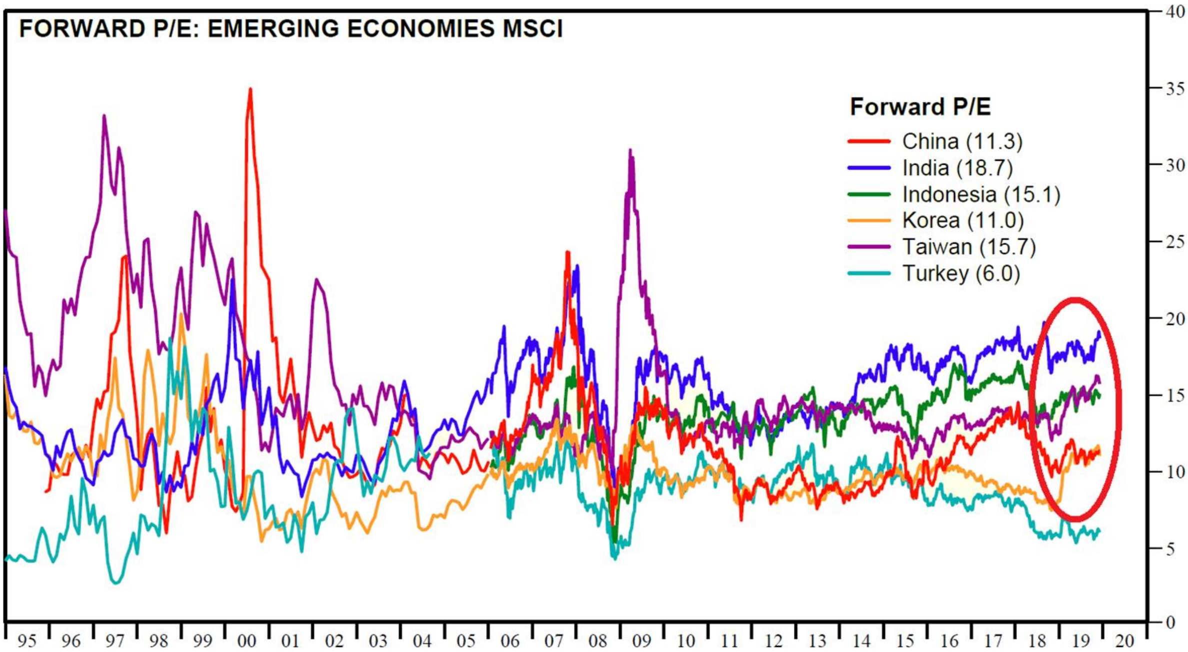
Moving on down under, with emerging markets and especially China on the improve, the Australian dollar, will be another beneficiary. As the country's largest customer, what is good for China is good for Australia, and also for New Zealand, another export-oriented economy. The fact that both the A$ and NZ$ are viewed as 'high yield' currencies should also bolster their appeal in 2020, and with global interest rates remaining low.



2. ***Emerging markets enjoy a good year – China, India, and Korea outperform.***

Following relatively weak economic conditions in 2019, the world economy looks set to pick up in 2020 and extend the longest ever period of expansion – more so for emerging markets. China's bumpy growth rate (also a consequence of the trade war) has been a key driver of the lacklustre performance in the worldwide economy and especially emerging markets which have been reliant on trade.

However, the tables in our view are set to turn, with trade tensions abating, with US-Sino trade relations improving, and also as the UK reaches an amicable exit with Europe. This should also provide a boost to business activity, and also encourage investors to take 'risk on', and in the wake of low to negative interest rates. This is also reflected in the earnings expectations for emerging markets which are pricing in robust growth:



Source: Refinitiv, Yardeni Research

We expect three particular emerging markets to stand out: China, South Korea and India. 2020, looks to be a significant milestone year for China with the government pledging 10 years ago that they would double the size of the economy and average incomes. This will substantially influence Beijing to institute fiscal and monetary policies that ensure economic growth stays on track.

The private sector should consequently benefit from the supportive government policies, and coupled with the resumption of trade, boost overall sentiment for both businesses and consumers. This should readily reverse the negative earnings outlook in the private sector, which has been buffeted for the last 20-plus months by US-China trade issues. **This sets up for a further re-rating of Chinese stock indices** (which are trading at low valuations) in 2020.

The other emerging market leaders, South Korea and India, also have their respective drivers, recovery in global trade aside. South Korea, has been largely 'unloved' as a market for the last couple of years, making it one of the best value globally. The recovery of the semiconductor sector– due to the rise of 5G – should also be a powerful tailwind for the economy and market, including the likes of Samsung, and other local leaders in the space.

With respect to India, we see negative earnings expectations in the region reversing while increased fiscal stimulus from the Modi government should boost economic growth. There is also the fact that PM Narendra Modi has initiated manoeuvres to cut taxes on companies and especially manufacturers, that should have more pronounced economic effects this year and boost corporate sector earnings.

3. ***Japan outperforms, as the world finally wakes up to the 'capital' story, and as no other corporate sector balance sheet has as much cash. The Nikkei hits 26/27,000. The Tokyo Olympics is a raging success.***

At the close of 2019, **PM Shinzō Abe and his government launched a massive fiscal stimulus programme** amounting to circa ¥26 trillion to solve issues such as the damage caused by Typhoon Hagibis as well as upgrade infrastructure for the upcoming Tokyo Olympics (more on that later) and subsequent post-Olympics downcycle.

Putting the figures into context, this is **a massive 5% of GDP** which is multiples larger than last year's supplementary budget of ¥3 trillion. The spending allocations have already been apportioned to various uses with the most immediate towards rebuilding, which should have a direct positive impact on GDP. This sizeable bump in spending is one of the largest 'care packages' Japan has allotted since the GFC (Global Financial Crisis) and we expect should boost GDP by close to 1% – a sizeable jump in a deflationary environment. This unlocking of capital from the government side is also quite timely as it takes advantage of ultra-low to negative rates.

This proves the solid track record of the Abe administration which has enacted important structural changes that also include improvements to corporate governance – these are by no means complete but have already led to many players in Japan Inc making better use of capital and improving shareholder returns by hiking dividends and share buybacks. Japan Inc, after all, has been sitting on piles of cash for years and the **improving corporate governance should unlock the value sitting on the side-lines.**

Nikkei Stock Average 225 - NI (WI) - 1 Day Line Chart - JPY

On that note, with Japanese stocks trading at attractive valuations and significantly underweighted by investors (local & global), Japan is indeed well placed to be a top performer, and in time for the 2020 Olympics. We expect to see the Nikkei jumping past 26,000 and possibly touching 27,000 – levels not seen in almost 30 years!

We also expect the Tokyo 2020 Olympics to be a cracker. After all, this isn't Japan's first time hosting the quadrennial sporting event with the country drawing on to its experience back in 1964, as well as better infrastructure to host such a massive sum of people – Tokyo, after all is one of the world's most heavily populated cities.

The games are also expected to be a massive draw for tourists from all over the world, and particularly nearby China, which accounts for a quarter of annual tourist flows to the country. Demand is already strong with tickets selling faster than pancakes with organisers forced to issue multiple lotteries due to the heavy demand.

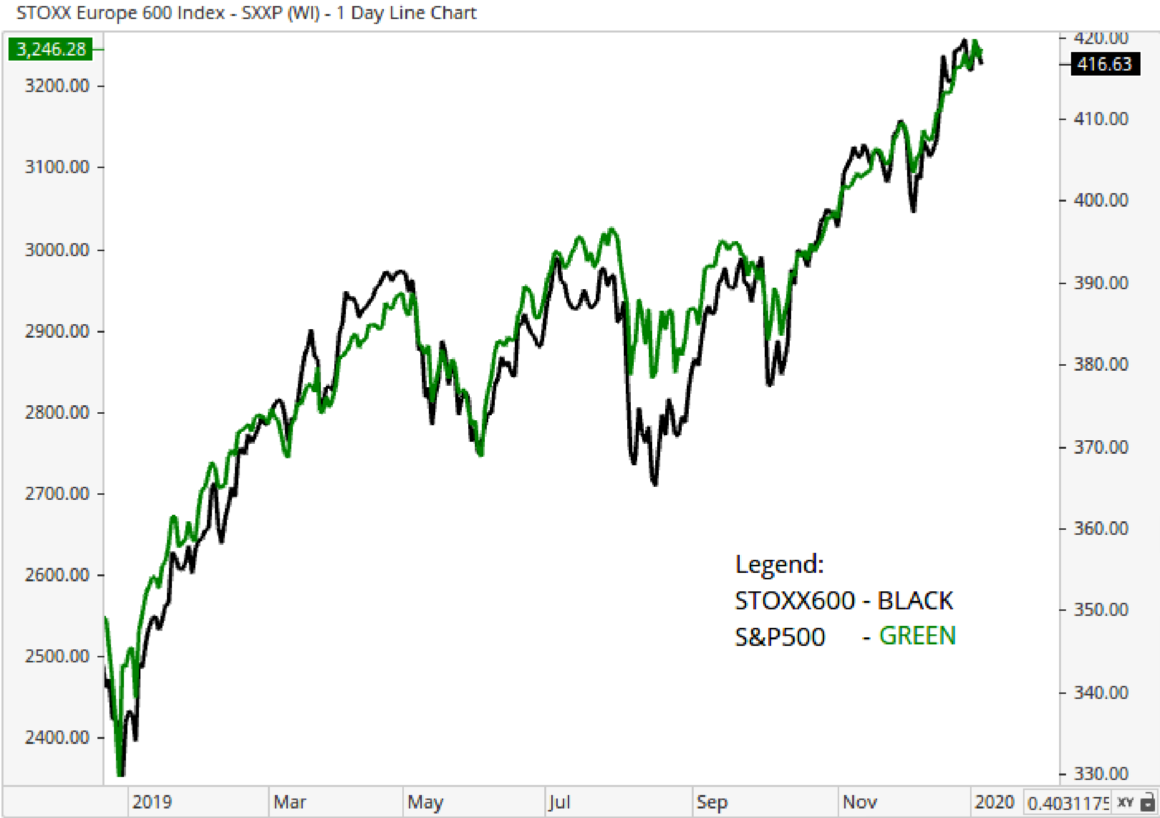
Already more than 7 million tickets have been sold to the event, which kicks off in late July. And forecasts are that as much as 60 million will be requested. Contrast that with the 2016 Rio Olympics which in the days leading up to the opening had sold less than 5 million tickets. **We expect Japan to put on a great show in more ways than one!**

Image Credit: Kim Kyung-Hoon

4. ***European stock markets do better (STOXX) than the US (S&P500) which underperforms on a relative basis. Europe has historically cheap valuations while the US Is stretched. High priced US growth stocks are likely to struggle.***

In 2020, **we expect European stocks to play some catch-up** and outperform US stocks. European stocks are trading on historically cheap valuations while US equities are expensive versus their own history, even if they remain relatively cheap versus bonds.

STOXX600/S&P500



These high valuations for US stocks based on traditional metrics like price-to-earnings make US stocks vulnerable for a correction in 2020 as there is little buffer to absorb any disappointment. US equities have enjoyed a long bull run post the GFC (Global Financial Crisis).

The US economy is in the late stages of its longest (yet relatively weak) economic expansion, and US companies corporate profit margins are already generally around record levels. We expect top line momentum for US companies to be muted in 2020, although if our expectations for a weaker US dollar play out, multinationals will get some benefit when international revenues are translated back into the reporting US currency.

Profit growth is a function of revenues and margins, and with margins already high and only limited revenue growth opportunities about, we see the potential for margins to be pressured by rising costs, driven by wage growth, while interest expenses can't go much lower and companies have already seen the benefits of lower tax rates.

Those most at risk are growth stocks with lofty valuations. We already saw the beginnings of a rotation out of growth stocks in the US back to value in periods of 2019, after a long time 'in the cold' for value. We expect this trend to continue in 2020 as growth stocks struggle to justify their lofty valuations and value stocks look relatively cheaper, and should receive some benefit from the improvement in US-China trade relations.

Meanwhile in Europe, stocks are cheaper than US counterparts on average and have much more scope for earnings to grow. The European Central Bank (ECB) has already announced more easing measures and we believe there is scope for individual countries to follow suit with fiscal stimulus. Germany's manufacturing sector has been in the doldrums and a relative improvement there will have flow on effects that could boost earnings across the region. Economically sensitive stocks (especially those linked to manufacturing) are likely to be relatively strong performers as they have been an unloved asset class in recent years.

5. ***The US dollar going down means gold and precious metals have another run to the upside, building the first step above base, and consolidating last year's breakout move. Precious metals take out the 2018 highs, and this sees buying at the junior end of the stock market as the broader public begins to "speculate".***

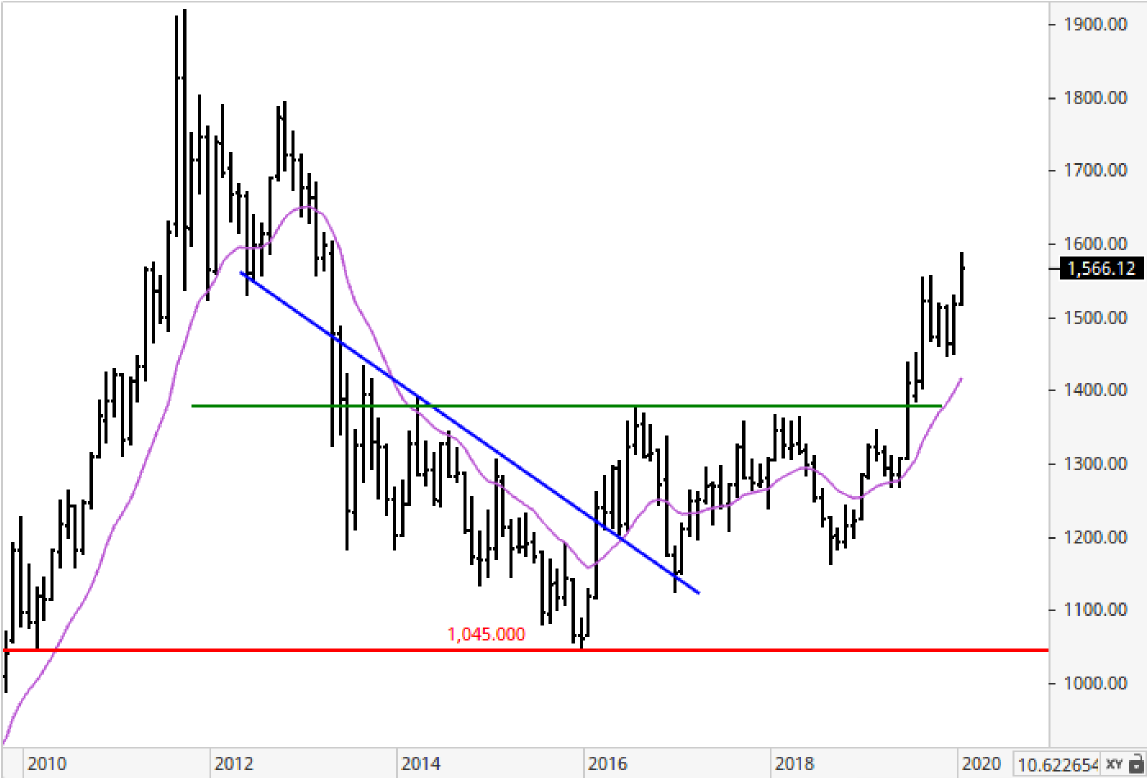
The world in 2020 in our view starts to realise that no one wants a strong currency. We also expect QE to finance fiscal spending (MMT) to rear its head. Given unfunded US social welfare and Medicare obligations of around $80 trillion…no one want a strong currency. Gold's value becomes clear with the entire market capitalisation of the gold sector ($350 billion) tucked that into a corner of Amazon's market cap.

The gold price traded to a high of US$1,550 an ounce during 2019 and is currently back around these levels thanks to rising geopolitical tensions and the latest standoff between the US and Iran. In 2020, we expect the gold price will push further to the upside, with 'safe haven' buying on a number of levels.

We believe **"a storm" is again brewing for gold**, as central banks unfurl easing programmers and currencies are manipulated to the downside, along with volatile geopolitical tensions, with all providing a sound back drop for a stronger gold price in 2020.

Gold Price

Gold Index - GLD (WI) - 1 Month Bar Chart



With the gold price now finding renewed momentum as we enter 2020, the **US Dollar Index is the key. Strategists and economists are almost universally bearish on the US dollar, highlighting that we could soon see the greenback turn down this year.** This is a view that we have had for some time, and looking ahead into 2020, it could be a broad-based rise in the Euro, Pound and other major currencies that may send the US Dollar index lower.

Apart from a potential broad based recovery in the other major currencies in 2020, factors in the US are starting to receive more attention and could be fatal for the US Dollar. The US budget is one, with November showing **a surge in government spending.** The following image shows the US governments' 2019 and estimated 2020 budget positions (the US has an October year-end):

Source: the balance

The 12-month deficit came in above $1 trillion for a second month in a row, while the gap between federal expenditures and receipts grew to $209 billion last month. **In the same month last year, the government budget deficit was $205 billion. Since the start of the fiscal year in October, that gap has grown 12%, and is projected to expand further in the years ahead and at an alarming rate.**

The final piece of the puzzle, and it goes hand-in-glove with the US budget, is US debt which could be a major headwind for the US Dollar in 2020. **Total US debt has ballooned to US$22 trillion, to reach the highest level since records have been kept, with the momentum unlikely to change in the years ahead.** The danger we see in 2020 is in slowing US Gross Domestic Product (GDP) that will significantly impact on the country's debt metrics and weigh on the US Dollar.

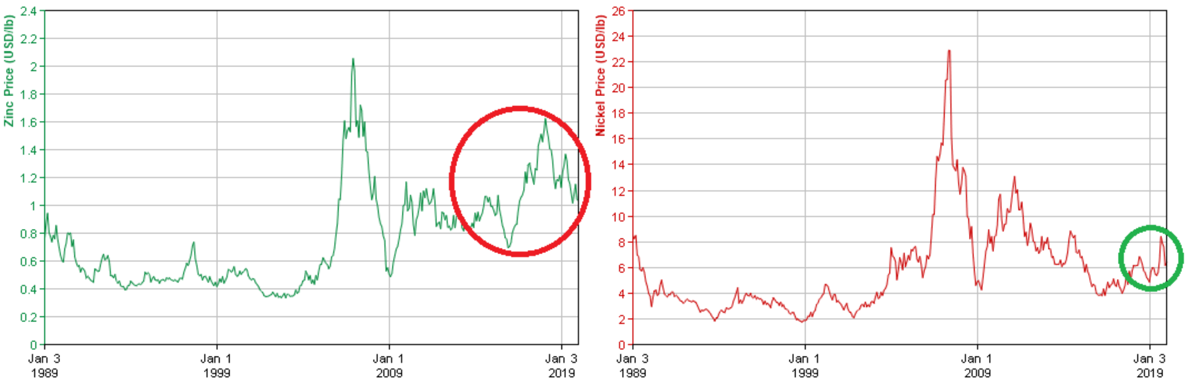
US GDP growth has slowed already from 3.5% in 2018 to the last read for the September quarter 2019 of 2.1%, and a forecast 2020 rate of circa 1.7%. On these metrics, debt to GDP could reach 109% in 2020. **The danger signals are in the wings and are perhaps being ignored, as trade wars, elections and "Brexit" have been at the forefront of investor minds over 2019.**

Our focus on the US Dollar when looking at gold, is the result of a long held negative correlation between its price and the US Dollar. Although the relationship has not always held up, **in times of uncertainty surrounding the US economy, we have found it tends to hold.** With pressure mounting on the US from internal metrics and the potential for other major currencies to rally, **we see the US Dollar index trading in the range of 90 to 93 at calendar year-end 2020.** The index currently sits at 97.2.

Bringing this all back to the gold price, our forecast for a weaker US Dollar in 2020 will, we believe, be a boon for the gold price. **We expect the gold price to forge ahead in 2020, and push into the range of US$1,625 to US$1,675 an ounce.**

6. ***Base metals have a better year, copper the next one to go, breaking up through resistance at 270 per pound. Nickel surges in a bull market for junior resource stocks.***

Base metals have been in a lingering price limbo since the end of the Global Financial Crisis (GFC), with prices off their GFC induced lows in 2008/09, seeing a drawn-out recovery. Since the setting of the price lows, zinc and more recently nickel caught our eye. The following charts show the long-term zinc (left chart) and nickel (right) prices:



Source: infomine.com

Both zinc and nickel experienced price rallies on supply disruptions. For zinc, Glencore shut in 500,000 tonnes of production in late 2016, and for nickel the Philippines, a major nickel exporter, in mid to late-2019 pulled forward an export ban on nickel ore. Both supply disruptions occurred at a time when the demand and outlook for each commodity remained buoyant, and the highlighted price reactions are evident in the above charts. While a tell-tale pointer for both, was a consistent fall in London Metal Exchange inventories to critical days' supply levels.

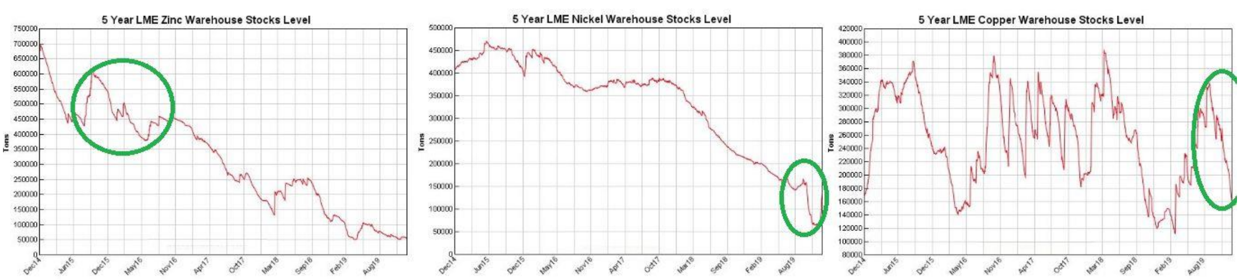
Copper in 2020 could emulate the price trajectories that both zinc and nickel experienced. **Although we cannot see a single major supply disruption for copper, that both zinc and nickel experienced, capital investment in the metal has, as with most base metals, been in the doldrums since the beginning of the Global Financial Crisis in 2008.**

Our attention has been drawn to copper in 2020, on both technical and fundamental grounds. On the fundamentals, <u>**we expect copper will move into a supply deficit in 2020**</u>**.** We premise our view on copper production of circa 22 million tonnes and demand of circa 22.2 million tonnes giving a deficit in supply of 200,000 for the year.

We expect our forecast number will be reached toward the latter part of 2020. <u>The sea change in the auto industry away from the combustion engine to electric engines is now gather pace, albeit from a very small base, and will drive the demand outlook for copper for some years to come.</u> While a growing confidence in global growth, post the now easing US and China trade tensions, will start to add, we believe later in 2020, to greater confidence in the copper price and the broader base metal prices.

We see a weaker US Dollar in 2020, supporting the copper price, and all the base metal prices for that matter. Our views on the US Dollar in 2020 are detailed in Prediction 5.

A telling factor that we have started to take note of is the movement in the London Metal Exchange (LME) inventory numbers, that are showing a clear pattern of diminishing inventories, as we noted in zinc in 2016 and nickel more recently. The following chart shows long-term LME inventories for zinc, nickel and copper and the periods that caught our eye for each are highlighted:



Source: Kitco.com

We remain cautious on copper, and as Members can see from its chart, inventories are volatile, and a number of false dawns have been signalled. As the supply of copper is more open, its movements are less manipulated by any one factor, apart from price.

Turning to the technical aspects, and the key feature from a charting perspective is the symmetric triangle that can be seen in the long-term copper price chart below:

Source: Reuters

The symmetric triangle is from the bottom side, and as the price approaches the apex, we would expect a breakout to the upside. Momentum has been building through an extended sideways channel with a floor of support at US$2.50 per pound (US$/lb) and a ceiling at US$2.81/lb. Recently, the price has been probing resistance at US$2.70/lb and will also have to penetrate resistance at US$3.00/lb, which if completed will confirm the symmetric triangle and a run to US$3.30/lb could ensue.

With the fundamentals for copper turning positive for 2020 and the technical picture showing an upward bias, **we are forecasting the copper price for calendar year-end 2020 to be in the range of US$3.00/lb to US$3.15/lb.** We will err on the cautious side, as we see no one single supply disruption catalyst that zinc and nickel experienced that helped in igniting their price rallies. Copper is currently trading around US$2.80/lb.

On the broader metals space, we remain positive on nickel and have covered off on the metal in many of our daily market updates, throughout the year. Nickel is already down the road of a firmer price, while copper is showing the first initial signs, we believe, for what could be a better 2020. **The total base metals complex, we believe, will benefit from a**

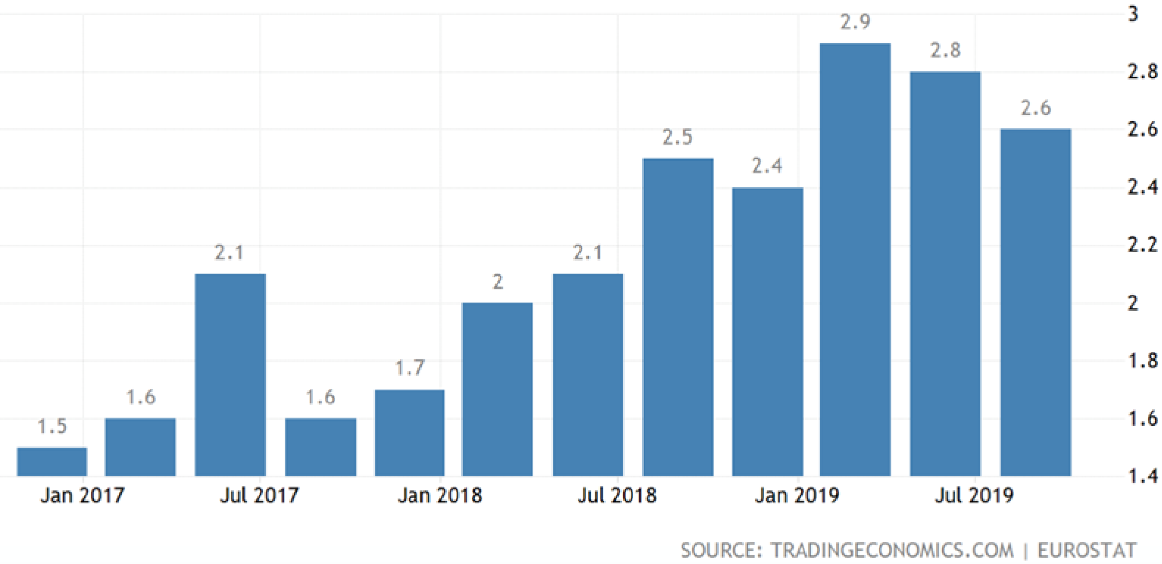
weaker US Dollar in 2020, and the broader recover of the global economy in a trade war free environment.

7. ***In the UK after the Tory's win, Johnson consolidates his power base, and pushes Brexit through. Europe kicks back into life after 10 years of stagnation. The interest rate differential between negative yielding sovereign debt in Europe and underlying stock market dividend yield begins to close.***

After the YouGov poll just prior to the UK general election showed the Conservative Party majority narrowing, the incumbent party swept back into power with an unexpectedly 80-strong majority, paving the way for Boris Johnson to deliver on his promise to 'get Brexit done.' There has already been significant news flow about major reshuffles in government on the way with a focus on getting Brexit over the line and preparing for the intensive trade negotiations to follow that.

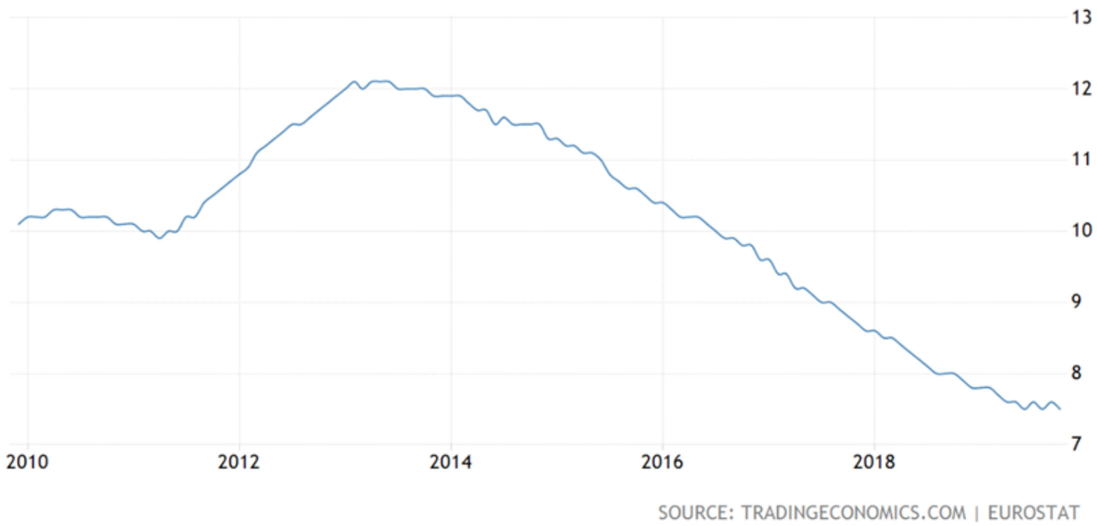
Meanwhile, recent data from the continent suggest the worst of the recent economic malaise in the manufacturing could be over. A breakthrough in the China-US trade war will help boost business confidence and should flow through to increased corporate activity. Meanwhile, the European consumer is looking in better health, with wage growth beginning to flow through.

Euro Area wage growth:



At the same time (no surprise as they have some linkages), unemployment across Europe has been falling after a multi-year peak in 2013. With better employment prospects and some more euros in their pocket, the European consumer is likely to be willing to spend a bit more freely in 2020 and that should be a key driver for an improved economic environment across the region.

Euro Area unemployment rate:

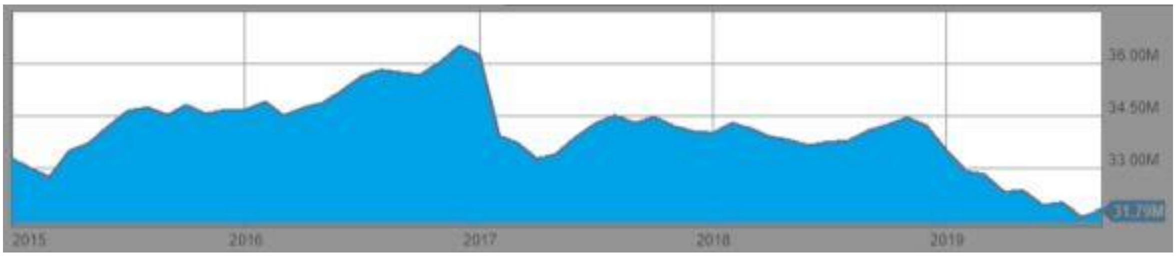


As we noted above when discussing our #4 prediction for 2020, the European Central Bank has already announced more easing measures and we believe there is scope for individual countries to follow suit with fiscal stimulus. Tax cuts and the like are also on the agenda for some countries as they seek to quell civil disquiet.

We expect better relative economic health for Europe to see the interest rate differential between negative yielding sovereign debt in Europe and underlying stock market dividend yield begin to close.

8. ***Oil pushes higher on extension of cuts by OPEC to June and post the Aramco float***

While recent US/Iranian tensions have sparked the oil price higher, the Organization of the Petroleum Exporting Countries (OPEC) had actually already set the base for oil prices in 2020, when at its December and last meeting for 2019, it deepened production cuts by a further 500,000 barrels of oil per day (bopd). The additional "cut" brings OPEC's total curtailment of production to 1.7 million bopd. The following chart shows OPEC bopd production:



Sources: OPEC

The key to the current OPEC cuts, as Members can see from the above chart, is its adherence to maintaining oil production at lower levels. **We expect in 2020 that OPEC will remain compliant with a further 500,000 bopd reduction in production, which will see oil production fall into the range of 29.0 million to 29.5 million bopd across 2020.** At OPEC's 30 November 2019 data read, it was producing in the range of 29.5 million and 29.7 million bopd.

A counter to OPEC's production cuts in 2020, will be US domestic oil production, that acted as a headwind right throughout 2019 on rising production. The following chart shows US domestic bopd production:

Source: Energy Information Administration

Over the course of 2019, US domestic production rose by 1.1 million bopd to peak in late November 2019 at 12.9 million bopd. For 2020, we expect a similar scenario to playout, **but with a significant waning in momentum over the year.** We expect US domestic oil production will plateau in the range of 13 million to 13.3 million bopd over 2020, on the premise that infrastructure will reach maximum handling capacity during the year. Current US domestic oil production stands at 12.8 million bopd.

Overall, we expect oil production curbs by OPEC will, in 2020, exert modest upward pressure on oil prices. Unpredictable geopolitical events (as we have seen lately) will have an impact on oil prices. How serious the influence on the oil price, is directly dependent on the source of oil production effected and its duration.

With supply likely to provide price tension in 2020, demand for oil remains nebulous, given the state of uncertainty around global economic growth. The slowing in global economic growth, as a result of the lingering US and China trade war, has been countered by stimulatory efforts by central banks. **These stimulatory efforts should, with the trade war slowing now likely to be less pronounced in 2020, bolster global growth and with that demand for oil.** However, we see a growing offset, and accelerating, in the change from combustion engines to alternative engines in the auto industry.

We therefore expect global demand for oil will remain flat in 2020 and are forecasting a likely range of 99 million to 100 million bopd. Global oil demand for 2019 stands at an estimated 99.8 million bopd.

Bringing our views on the oil market in 2020 together, **we forecast a modest rise in energy prices over the year.** We expect, by calendar year-end 2020, the Brent oil price will trade in the range of US$70 to US$80 a barrel and West Texas Intermediate (WTI) US$66 to US$76 a barrel. Brent oil is currently trading around US$66 a barrel and US$60 a barrel for WTI.

Ongoing political tension should also underpin the oil price, and also with the situation between Iran and the US heating up in recent days over the killing of a prominent Iranian general in Iraq.

9. ***In Australia, the 'lucky' country remains lucky, avoids a recession with growth a function of housing market, More tax cuts put further RBA rate cuts on hold after a 25 basis points trim in February.***

In Australia all the attention in recent weeks has of course been on the devastating bush fires raging across the country, and our thoughts at this time go out to those affected, and we applaud the tireless work of all the firefighters and other responders involved.

However, domestically, a big concern for investors (the trade war aside) in 2019 was the short-term economic and market impact of a Labor government winning the Federal election in May. In the end those fears turned to relief, with the Coalition not only staying in power, but rolling out a sustained fiscal stimulus package in the form of tax cuts and a major infrastructure roll-out plan. We expect these tailwinds to continue in force in 2020. There will also likely be renewed vigour here post the fires, and also as the drought continues to rage on.

Concerns also abounded about the state of Australia's housing market, with many going so far as to predict a 'crash,' with the rating agencies also effectively putting our economy 'on watch,' as a result. Our belief that these fears were off the mark looks to have proven well founded, with the property market springing into life in recent months, helped by three, 25 basis points, rate cuts by the RBA. The impact of the ongoing, and devastating drought has also been a factor for consideration.

Source: ABS

On the international front, trade has dominated as the key risk, and particularly given the consequent economic impact to China, our largest trading partner. The perils of an escalating trade war were also heavily reinforced in monetary policy commentary from the RBA. With this cloud now lifting, **we see little need for the RBA to cut rates much further, bar one more 25 basis points trim in February.** This decision should also be made easier as the property market continues to turn around.

While it may not seem so at the moment, Australia stayed the 'lucky' country last year, with fiscal 2019/20 marking the 28th consecutive year of economic growth. We expect it to notch up a 29th consecutive year in 2020. The export market and government spending will continue to be tailwinds, as will population growth.

We believe that with trade frictions subsiding, and a number of domestic stimulus initiatives pushing through, we could see further economic momentum in calendar 2020. This would also be positive for the ASX200 and market generally, and particularly given our key benchmark is not expensive versus many offshore peers.

An even lower interest rate environment has also reinforced the appeal of the high yielding Australian market, with a subdued currency also helping to engineer M&A activity by offshore predators. A corporate sector in a reasonable (albeit cautious) state should also provide a tailwind to stocks. This is also while much 'bad news' has been pricing into the financial sector, and particularly the banks.

This should all put the bid back into A$ which pushes well back above 70 cents against the greenback.

A$

The ASX200 will comfortably push above 7000 under our scenario, and benefiting from emerging markets strength, particularly China (Australia's largest customer) which sees its growth rate stabilise, and as trade dispute put to one side (this also gives the government the confidence to roll out infrastructure and fiscal spending).

ASX200

10. ***There will be a market correction in the 10-15% vicinity in early 2020, reflecting a typical risk-off scenario that follows a strong run in stock markets. This endures well into the first quarter of 2020. As growth in Asia/Europe accelerates, this drives many stock markets back to record highs. And with Investors sitting on too much cash and defensively positioned, many capitulate and chase equity markets higher leading to "selling trading" opportunities towards/around the second half of 2020.***

We expect to see a correction in US equities in early 2020 as investors return to the market and fret about the elevated valuations of stocks, which have hit a series of fresh record highs over the course of 2019. Revenue growth is likely to be muted, although large multinationals may get some help if our expectation of a weaker US dollar plays out and international trade improves modestly after the phase one trade deal.

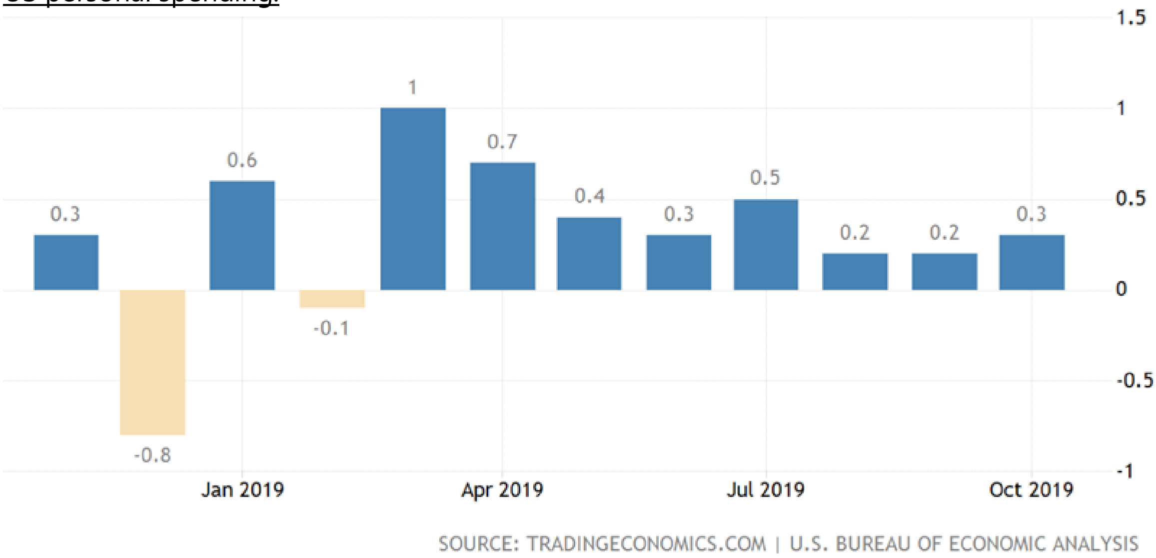
Nonetheless, **the US economy is more than 10 years into an economic expansion** and has already had the support of the central bank and ultra-low interest rates, tax cuts and announced fiscal stimulus. Revenue growth for many companies will be modest and corporate margins are at, or near record levels for many companies (depending on the sector), with little scope for improvement. Instead of capital investment back into the business, management of many companies are now buying back stock, increasing dividends, or seeking M&A opportunities.

Expectations for earnings growth for the S&P 500 companies in 2020 was already around the 10% level as of early December 2019, which will be hard to achieve in our view. Going into 2020 a couple of worrying factors were also taken off the table in the form of the US-China phase one trade deal, and a Conservative Party victory with a strong majority in the UK elections.

This has removed two key sources of concern, leaving stocks vulnerable to downside risk. Hence, we believe after an extended strong bull run, **US stocks could face a 10-15% correction in the first quarter.** And when US stocks sneeze, global equities generally catch a cold, so this could flow onto other stock markets around the world, particularly the likes of Japan and Europe.

We don't foresee a recession around the corner though given the strong support of the Federal Reserve and a healthy US consumer. Although personal spending growth has eased somewhat in recent months it has been positive 10 of the past 12 months.

US personal spending:



Low interest rates and a strong jobs market, with wage growth flowing through are underpinning consumer spending. Unemployment rates are at half-century lows.

US unemployment rate:

Given a resilient US economy, the recent trade deal with China and data suggesting the manufacturing sector has already bottomed in China and Europe, we expect global growth to keep ticking over in 2020. As Asian and European economies outlooks improve from a relatively lower base than the US, along with less demanding valuations, investment flows should drive those markets back towards record highs. This will tempt many of the overly 'cashed up' and defensively positioned investors back into markets and result in "selling trading" opportunities later in the year as some equities overheat.

11. ***Bond yield curves around the world steepen to reflect higher growth rates. The negative yield gap between European bonds and the rest of the world closes rapidly as growth picks up in Europe. Certain bonds may lose 25-30% of their capital values. Money flows into equities.***

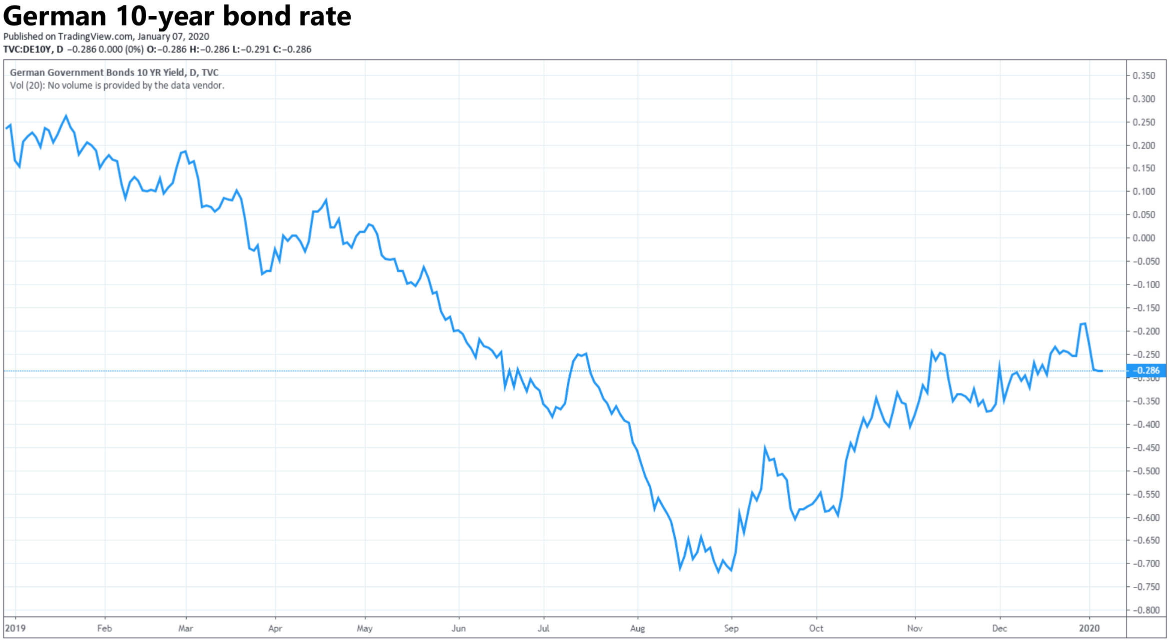
Our notion that equity markets have a reasonable year, necessarily means that bond markets do not. With many central banks near to the end of their easing measures, and the global economy in reasonable shape, we expect to see further upward pressure on long term bond yields. Many major bond yields are well past key inflection points and bottomed out many months ago. **Bond investors are in for a torrid time in our view, with the upward re-rating in yields have much further to go.**

US 10-year bond rate

Source: TradingView

This situation is likely to be particularly prominent in economies where short-term rates are low or even negative, such as Europe. Much 'bad news' has been priced in but further improvements in economic data (particularly in the likes of large economies such as Germany, Italy, and Spain) could see a sharp spike in long term bond rates. This would potentially be good for stock market investors in these countries, but not so for those long bonds.

German 10-year bond rate



Source: TradingView

12. ***The 2020 election. Impeachment proceedings go nowhere, and Donald Trump goes head to head with Michael Bloomberg in the 'Battle of the Billionaires.'***

While making for great headlines and water cooler chatter, the reality is that the impeachment trial of Donald Trump will go nowhere. For all the Democrat's attempts to 'weaponise' politics, **the Republican-led Senate will never remove Trump from office.** And particularly given Trump's 'wins' with the economy, trade, stock market, and arguably the recent show of force against Iran.

Moving on we expect Donald Trump to secure his nomination and go head to head with Michael Bloomberg in the "Battle of the Billionaires' Michael Bloomberg (who is looking to secure the Democratic nomination) has three times as much money and this makes for the most exciting election seen in some time.

The politics are compelling as the media goes into overdrive in what will turn out to be the most overhyped election in some time. It is a hard election to call, and the final battle between the Republicans and Democrats and all we can say it that it will be "*a close run thing*".

13. ***The Royal Family gets a bit more crowded. Meghan and Harry celebrate another pregnancy, as do Kate and Wills.***

After a year to forget in 2019, and following Prince Andrew's dramatic implosion, things get a little bit better for the Royals in 2020. While concerns mount over Prince Phillip's health, the Palace is delighted to announce (in no particular order) the fact that both Kate and Meghan are 'with child.' Speculation also intensifies over the timing of the Queen's descent from the throne, however it becomes apparent that she intends to hold on 'right to the end.'

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