Letter to investors

Stefan Kreuzkamp
Chief Investment Officer

A matter of perspective

Global gross-domestic-product (GDP) growth as well as growth in U.S. corporate earnings seem poised to slow in 2019. The central banks are currently changing tack: quantitative easing is morphing into quantitative tightening. In effect, the world's three major central banks are now siphoning liquidity off the market. Meanwhile, political risks persist and appear increasingly difficult to resolve. Populist governments are making political forecasting harder as gut feeling replaces expertise. Bond markets remain nervous and many risk premiums are heading north. The sharp pullback in oil prices continues to put pressure on some market segments.

The above sums up the current situation, which sounds depressing enough to justify a continuation of the recent market weakness. It is, however, possible to see matters in quite a different light. Based on our current forecasts, we believe the global economy will again expand at a rate of more than 3.5% in 2019. We do not expect a recession in 2020 either. Corporate profits continue to grow at an impressive rate; in the United States we expect roughly 6% growth. Monetary policy is tightening marginally overall but remains very loose in historical terms. And though investors are watching every rate-hike move of the U.S. Federal Reserve (the Fed) like a hawk, any slowdown in growth would mean that the Fed might abstain from tightening the screws quite so much. Even the currently heightened political risks are increasingly attributed to individuals which implies they could – in theory – be reversed quickly, especially if – in practice – pressure from the capital markets were to speed up the decision-making process. Italy might be a case in point. And cheap oil has more friends than foes anyway.

This rosier take on the world sounds fairly plausible. It does, however, rest on some rather optimistic assumptions. Instead, periods of severe market stress could result from several risks escalating at the same time. Some politicians might prefer to ignore market signals or even blame "speculators" for any woes. The truth probably lies somewhere inbetween. We therefore enter the New Year with humility, projecting only mid-single-digit returns. But this also means that we remain guardedly optimistic – in our view, the cycle is not over yet.

„The economic foundation for the coming year is basically solid. It needs to be – because we will have to withstand some tremors.“

Stefan Kreuzkamp, Chief Investment Officer

Glossary

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Monetary policy

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

Quantitative easing (QE)

Quantitative easing (QE) is an unconventional monetary-policy tool, in which a central bank conducts broad-based asset purchases.

Quantitative Tightening (QT)

Quantitative Tightening (QT), as opposed to Quantitative Easening, describes the process of a Central Bank reducing its monetary stimulus by shrinking its balance sheet.

U.S. Federal Reserve Board (the Fed)

The **U.S. Federal Reserve Board**, often referred to as "**the Fed**", is the central bank of the United States.

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