

Macro and Market Outlook – as of 30 June 2019

(12-month outlook, updated quarterly)

Neg. N Pos.



Central Bank

(same*)

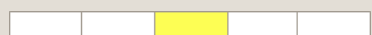


Liquidity & Credit

(increase by 1*)



Economic (same*)



Valuations (decrease by 1*)



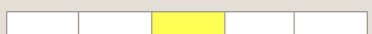
Sentiment (increase by 1*)



Technical (decrease by 1*)



Overall (increase by 1**)



- The raising cycle for the US Federal Reserve has ended for now and we expect at least one rate cut in the subsequent quarter. With weakening economic conditions, we expect the Fed will make at least one insurance cut. “An ounce of prevention is worth a pound of cure.” Chairman Powell
- Monetary support is likely from the European Central Bank. The Reserve Bank of Australia has already reduced rates.
- Yields are down. Spreads are down. Credit is easily accessible.
- Italy is borrowing at lower rates than the United States, Austria is issuing 100 year bonds and \$13 trillion of government bonds have negative yields.
- Financial conditions are overall supportive.
- The economic outlook is mixed. There are clear signs that trade tensions are impacting global growth with the leading indicators declining and manufacturing slowing. Strength is largely seen in employment with growing jobs, low unemployment and higher consumer spending.
- The record highs in the US markets has been achieved through multiple expansion and not from earnings. Lower interest rates are supportive of higher multiples. Second quarter earnings growth are forecast to be flat, but the full year is still forecasted to be positive.
- Negative yields on fixed income indicate extreme valuations.
- Consumer confidence had peaked and is now trending lower.
- Institutional sentiment is improving after the declines in 2018.
- Private investors in the US have become quite pessimistic.
- Over the short term, momentum and trends continue to be positive and supportive with a further upside of 5% (S&P 500) possible. However, the rotation to defensive stocks, the narrowness of the advancing shares and weakness of technology indicate that beneath the surface conditions are less optimistic.

Conclusion:

The components of our outlook have changed since our previous outlook, but our overall position remains neutral. We are clearly alert for signs of a change in direction, but the short to medium term outlook is supportive of a continuation of current trends.

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