

# Outlook as of November 2017

## WORLD ECONOMY

- The muted pace of the economic recovery following the 2008/2009 global recession appears to be extending the expansion phase, with most economies expected to experience continued positive growth through 2018.
- A key driver of US GDP growth has been capital investment by businesses, with an incremental lift to business confidence from the promise of corporate tax reform. We believe the healthy state of US consumers and more competitive trade environment can allow the current growth rates to be sustained into 2018, even without the promised fiscal policy boost.
- The year to date strength in European currencies has had a minor impact on GDP growth across the region. The separatist drama in Spain appears largely confined to the Spanish economy thus far. Spending by more confident German consumers and the promise of competitive restructuring in France can help maintain Eurozone GDP growth at 2+% into 2018.
- Longer term demographic issues continue to impede Japanese consumption, despite very low unemployment. The economy remains heavily dependent on exports, particularly to the neighboring Asian countries. Accelerating growth among many of Japan's trading partners should allow for continued growth of the domestic economy.
- China appears to be adopting a philosophy of targeting environmentally sustainable growth, which should cause an inevitable work down of excess industrial capacity. To maintain stability, the government will strive to buffer the impact of the resulting cutbacks and job losses.
- Other emerging market economies continue to benefit from higher commodity prices, the return to more normalized growth in the developed economies and the relative weakness of the US dollar this year.

## MONETARY POLICY & CURRENCIES

- New leadership at the Fed should continue the process of very gradual tightening into a much improved economic environment with still very low inflation. The current tightening policy should end in 2019 at a terminal Fed Funds rate between 2.50%-3.00%.
- Concerns about the economic impact of Brexit should allow the Bank of England to resist calls for a programmatic tightening, despite a marked pickup in inflation due to the weaker pound.
- The European Central Bank has finally announced plans to reduce bond purchases for the first nine months of 2018, although they did not specify an end date and will maintain the current deposit rate well past the end of the QE policy.
- There appears no end in sight to the asset purchase program currently underway at the Bank of Japan. Frustratingly stubborn currency strength is preventing the desired consumer driven deflation needed to take pressure off of monetary policy.
- The directional difference between the central bank policies of the Fed and the other developed market central banks should allow the dollar to recover most of its year-to-date losses as we move into 2018.

## BOND MARKETS

- Better economic growth and less bond buying by the Fed should cause a rise in bond yields across the maturity spectrum. We expect to see a flatter yield curve by mid-2018, as we pass the midpoint of the monetary tightening cycle.
- Municipal yields are expected to move in a similar fashion to the Treasury market, with the only pockets of credit pressure in states with the most severe underfunded pension obligations.
- Credit spreads in the high yield market have narrowed to the extent they fully reflect current low projected default rates. Increased issuance and higher balance sheet leverage in recent years make the sector more vulnerable to any economic downturn, although we do not expect this to be a concern over the coming year.
- While developed market central banks continue to buy bonds, they are buying incrementally fewer issues. The low current yields do not provide enough income to compensate investors for even a slight risk of rising rates in the coming months.
- Many emerging market central banks still have ample room to cut rates in the event of a downturn, which could generate capital gains for investors. Relatively high current yields should allow the asset class to withstand a gradual Fed tightening cycle that causes only mild appreciation in the dollar.

## Outlook as of November 2017

### EQUITY MARKETS

- US equity valuations may still advance further in a continued low interest rate environment, although earnings growth is expected to slow over the coming quarters from the heady double digit rates of the first half of 2017. Any disappointments around tax reform will likely lead to heightened volatility in this unusually tranquil environment.
- European equities have outperformed their US counterparts this year solely due to currency appreciation, so the favorable valuation differential versus US equities is still intact. Although corporate earnings have been quite strong in 2017, we are keeping a watch on the unfavorable impact of the strong euro on future reports.
- The BoJ's pledge to continue its extremely loose monetary policy has taken some pressure off the yen and allowed Japanese equities to catch up to the price appreciation in other markets around the world. Favorable valuations and the dominance of Japanese manufacturers in their equity markets should allow further gains into year end.
- After two strong years of price appreciation, emerging market equities will likely move more in line with developed markets over the next quarter. Still cheap valuations, better earnings growth, and gradual tightening by the Fed should continue to serve as tailwinds for these markets.

### ALTERNATIVES & COMMODITIES

- The surprising success of the OPEC supply reductions is driving oil prices to the upper end of the trading range established over the last two years. As prices rise, we anticipate US shale producers to ramp up production to create a natural upper limit around \$60 per barrel.
- Incrementally tighter monetary policies around the developed world, but especially in the US, will limit the appreciation potential of gold and other precious metals.
- The substantial appreciation this year in industrial metals prices leaves them vulnerable to a slowdown in Chinese demand, as well as any delay or disappointment around the passage of US infrastructure spending legislation.
- Persistently low market volatility has stymied many hedge fund managers since the global financial crisis. Movement towards policy normalization by central banks should create a more favorable environment for managers following differentiated strategies, benefiting investors seeking to mitigate risks from unstable markets or policy and geopolitical uncertainty.
- High asset valuations have made it difficult for private equity managers to acquire assets at reasonable prices. We maintain our focus on seasoned, disciplined managers and continue to seek value in dislocated markets, or those experiencing disruption from technological or regulatory change.



Ben Pace is the Chief Investment Officer and a member of the Investment Committee. Prior to joining Cerity Partners, Benjamin Pace was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has more than 25 years of experience in investment management. Prior to joining Deutsche Bank in 1994, he managed equity income funds for two investment organizations.

Cerity Partners LLC (“Cerity Partners”) is an SEC registered investment adviser with offices in New York, Illinois, Ohio, Michigan and California. This commentary is limited to general information about Cerity Partners’ services and its financial market outlook, which may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this brochure will come to pass. Investing in the financial markets involves risk, including the risk of loss of the principal amount invested; and may not be appropriate for everyone. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. All information is deemed reliable but is not guaranteed. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure web site ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)). For additional information about Cerity Partners, including fees and services, send for our disclosure statement as set forth on Form ADV Part 2A using the contact information herein. Please read the disclosure statement carefully before you invest or send money.