# Outlook for October 2019

## WORLD ECONOMY

**United States**

- Strong retail sales over the past few months have helped fuel economic growth. The housing sector may provide an added boost as lower rates and greater affordability drive more first-time buyers into the market.
- Business spending has slowed except for intellectual property and technology products. Companies understand the need to enhance productivity in order to be more competitive in the global economy.

**Developed Markets**

- Most likely, Germany entered an official recession in the third quarter, which may drag European growth below 1% for the remainder of this year going into 2020. The German government may implement an aggressive fiscal policy, including tax cuts and spending initiatives, to help stimulate the economy.
- The Japanese economy should avoid a recession in 2020. However, growth will be less than 1% over the next 12 months as the country absorbs the risk of global trade tensions and the sales tax increase. An apparent trade agreement reduces the risk of direct tariffs on Japanese exports to the U.S.

**Emerging Markets**

- China is starting to feel the impact of U.S. tariffs, which may bring the government to the bargaining table more quickly. Fiscal policy and currency depreciation probably won't be enough to avoid a more protracted slowdown.

## MONETARY POLICY & CURRENCIES

**United States**

- One more 0.25% (25 basis points) rate cut is anticipated by year-end, which would lower the Fed Funds rate to the 1.50%-1.75% range. After that, the Fed is expected to hold rates steady, given the forecast for 2.0% GDP growth.
- Despite the Fed's easing policy, the dollar has reached new highs as U.S. economic growth and interest rates are the most attractive in the developed world. Another Fed rate cut should help mute any further appreciation.

**Developed Markets**

- Regardless of the ultimate effectiveness of negative interest rate policies, the European Central Bank will likely be even more dovish to achieve its 2% inflation target.
- The Bank of England is awaiting a resolution to the Brexit negotiations with the European Union so it can assess the potential economic impact and set monetary policy for 2020. Outgoing Governor Carney is biased towards tightening, but a rate cut over the coming months is more likely.
- The Bank of Japan is also biased towards further easing into a negative rate environment based on the economic impact of a strong currency, fiscal policy tightening, and global trade frictions.

**Emerging Markets**

- The breaking of the 7.0 renminbi/U.S. dollar threshold didn't result in any significant capital outflow. As a result, the Peoples Bank of China may feel emboldened to lower rates by year-end.

## BOND MARKETS

**United States**

- The inverted Treasury yield curve from three months to 10 years should resolve itself through one more rate cut and the 10-year Treasury yield drifting up towards 2% on the back of 2% GDP growth and a slight uptick in core inflation.
- The strength of the high-yield debt market, while rendering the asset class somewhat expensive, is a sign that a recession isn't imminent.

**Developed Markets**

- Finding inherent value in developed market international bonds is a challenge given negative interest rates across the curve in many countries. Speculators counting on continued aggressive central bank purchases will dominate this market for the foreseeable future.

**Emerging Markets**

- The performance gap between local-currency and dollar-based emerging market debt should begin to close as the emerging market currencies react well to the Fed easing cycle and some simmering of trade tensions. While riskier, the better values appear to exist in the local-currency debt.

# Outlook for October 2019

## EQUITY MARKETS

**United States**

- An accommodative Fed and positive earnings growth have driven U.S. equities back up to their all-time highs. Third-quarter earnings reports, released this month, should provide a glimpse into 2020 earnings expectations. Watch the margins in certain sectors where labor costs are increasing without commensurate productivity increases.

**Developed Markets**

- A meaningful fiscal policy initiative combined with an easy monetary policy could help close the valuation gap between European and U.S. equities. A workable Brexit deal would be another positive factor.
- The recent trade agreement with the U.S. should offset the negative impact of current fiscal tightening. As a result, Japanese equities should continue to catch up to the performance of most other developed equity markets.

**Emerging Markets**

- The uncertainty of the U.S. - China trade war and the potential impact on the Chinese economy are meaningful headwinds for the entire emerging markets space. Fiscal policy expansion in India and prospectively other countries will keep investors interested in this relatively cheap asset class.

## ALTERNATIVES & COMMODITIES

**Oil**

- The recent attacks on key production facilities in Saudi Arabia were startling in their bold execution, but also served as a reminder of the changing oil dynamics. Russian and U.S. production are now ample enough to fill any gaps left by the former swing producer. After spiking higher after the attack, prices fell back to the lower end of the $55-$65 range that we expect will exist well into 2020.

**Gold**

- Gold has caught a substantial bid this year as an alternative store of value despite the lack of tangible inflationary pressure. We do not expect much further upside, and prices could drift lower if global inflation remains tame.

**Industrial Metals**

- Industrial metals, led by copper, may continue to fluctuate more with the ebb and flow of trade war news than with the state of the global economy. China's economic growth is the primary driver of copper prices, and the uncertainty around the magnitude of the country's slowdown could present downside bias for the broader group.

**Hedge Funds**

- Our outlook for this market remains the same as reported in September. After a difficult period characterized by abnormally low market volatility, high intra-asset correlations and historically low interest rates, the return to more normal market conditions has allowed hedge fund managers to demonstrate their value-add in both good and bad markets. Defensive strategies provided beneficial downside protection during the Q4 2018 downturn while directional strategies participated strongly in the Q1 2019 rebound.

**Private Equity**

- Our outlook for this market remains the same as reported in September. High asset valuations and fierce competition to invest the rising backlog of committed funds awaiting deployment remain a major challenge for the category, particularly in buyouts. These risks can be mitigated by focusing on specialist managers with a demonstrated record of generating outstanding returns in different market cycles while maintaining investment discipline.

# Important Information

Benjamin Pace
Chief Investment Officer

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 California, Colorado, Illinois, Ohio, Michigan, New York and Texas. 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 website (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.

©2019 Cerity Partners LLC, an SEC-registered investment adviser. All Rights Reserved. (10/19)