AUGMENTED REALITY

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As we sensed at the beginning of the year, stock markets recovered sharply from the mood of panic prevailing at the end of 2018, through a rebound fuelled by the Fed's U-turn on monetary policy normalisation. The unavoidable question is whether that rebound stands a good chance of continuing over the months to come.

The global economy has slackened further and its weak points are still unmistakably present.

From the build-up of political uncertainty in Europe and the United States to the threat posed by overleveraging at a time of waning GDP growth, investors have ample grounds for wanting to play it safe this year. Over the next few months, these major hazards from the standpoint of investor and consumer confidence – and therefore economic growth – will come to a head, which makes them a cause for short-term concern.

A collision between monetary and economic cycles was the backdrop to market movements in 2018. But it won’t be this year.

We can rather expect a lacklustre configuration that will hardly be conducive to sustainable trends, with the markets gradually and gingerly breaking free from the collision-course conditions that characterised 2018. The world economy as a whole therefore appears to be heading in these first few months of 2019 for a landing – the softness of which will be moderated by central banks, whose plans to tighten monetary policy are increasingly off the agenda.

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In this slow-growth phase, stock price dispersion could strongly influence portfolio returns, contrary to what happened in 2018

This suggests that equity indices are likely to score only mediocre gains with respect to their current levels. The upside of this slow-growth phase is that stock price dispersion could strongly influence portfolio returns, whereas performance in 2018 depended much more heavily on judgements about overall market direction.

More specifically, the shares of companies with reasonable valuations that succeed in sustaining profit margins and business growth will most likely trade at a substantial quality premium in the bleak economic climate we expect to see in 2019. Stock-picking should likewise take precedence this year over making one-way directional bets in the fixed-income market, above all for corporate bonds.

*Source: Bloomberg, 28/02/2019