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GUIDE TO

2017 INVESTMENT OUTLOOK

PROTECTING YOUR PORTFOLIO FROM ANY POSSIBLE SURPRISES

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GUIDE TO 2017 INVESTMENT OUTLOOK

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After a game-changing 2016, the investment environment was not only mixed but characterised by uneven global growth and political events such as Brexit and the US elections. Many of the drivers that affected markets in 2016 will almost certainly remain the focus for 2017.

Looking ahead to this year, gradual repair of the global economy and greater political clarity in the USA should allow investors to take advantage of opportunities in 2017. However, political events could again trigger further turbulence this year, but central banks will probably continue to suppress market risk. In such an environment, market corrections can offer opportunities for appropriate investors.

Investors will remain concerned with world tension – current tension in the Middle East, including Syria, has the capacity to rapidly escalate and cause significant volatility in financial markets. In addition, China is increasingly having an impact on markets, and any further slowdown there could certainly be negative this year.

Whether stock markets move significantly higher in 2017 will in part depend on the strength of the global economic recovery, and the value of shares will need to be supported by significant sales growth and companies maintaining current profit margins.

FISCAL EXPANSION

Global growth should improve somewhat in 2017 but remain well below pre-crisis levels. The differentials between countries are likely to stay pronounced, not least as high debt limits the leeway for fiscal expansion in the weaker economies. Commodity price stabilisation in 2016 suggested that inflation should edge up. With the inflation upturn more advanced, the US Federal Reserve is likely to raise rates further, albeit cautiously. Other central banks should maintain a more accommodative stance, but shift away from mechanical balance sheet expansion.

Interest will be given to watching US policy and investment plans to see how these are going to be delivered following the seismic US election. Areas of greatest impact for the US economy are increased fiscal spending, an issue with clear bipartisan support and the more negative uncertainty associated with Mr Trump's trade policy.

Within Europe, there will be continued key Brexit negotiations that will impact on economies and corporate profitability. Overriding that, in 2016 there was a very strong US dollar so it will be interesting to see how this plays out for international companies.

IMPORTANT FACTORS

The price of oil will again be very important. It recovered gently in 2016, and it will be interesting to see whether supply contracts and whether we see a rise in the price – both of which tend to dent global growth. Undoubtedly, there will be a lot of important factors that will have a bearing in 2017, and trying to judge how they all interact will be the key to making investment decisions.

Some analysts expect global growth to improve in 2017, though any acceleration is likely to be limited. Due to stabilising commodity prices and the advanced US business cycle, inflation should edge higher but not pose a threat.

LONGER-TERM GROWTH

The Eurozone, the USA and Japan should see continued moderate economic growth. The longer-term growth outlook for the UK is clouded, as Brexit could depress investment. The path to Brexit will continue to dominate the headlines and take up a great deal of political energy. An important consideration for the markets is how and when the European Central Bank chooses to normalise its monetary policy. It also promises to be an eventful year in the broader (EMEA) region.

Due to the divergence between a slightly tighter Fed and a still very accommodative ECB, the EUR is unlikely to make gains against the USD. The GBP should stabilise given its drop below fair value in 2016.

EQUITY VALUATIONS

US earnings growth is needed to sustain higher equity valuations. With fewer buybacks, rising yields and earnings expectations vulnerable to disappointment, the S&P 500 total returns are expected to be in the region of 3–5% in 2017. Non-US investors will need to look out for further bouts of dollar weakness to offer opportunities to accumulate the US currency and add asset exposure for yield and potential currency gains through 2017.

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STABLE GROWTH

Asia should look forward to stable growth in 2017, underpinned by a structural transition from manufactured exports to services-based consumption. A supportive confluence of firming economic growth, reasonable valuations and improving profitability have lead many commentators to suggest that emerging Asian equities should perform well in 2017, possibly outperforming their global counterparts.

After a prolonged period of weakness, there are signs of a moderate growth improvement in Latin America, while inflation is retreating. Central banks should be able to ease policy, albeit cautiously. Still fairly high real interest rates bode well for continued gains in Latin American fixed income. The outlook for Latin American equities looks more muted than in other emerging markets given fairly high valuations. ■

IS YOUR PORTFOLIO PROTECTED FROM ANY POSSIBLE 'SURPRISES'?

The level of uncertainty in markets means it's crucial you review your investments. The most important thing is to make sure your investments are diversified. This should ensure a degree of protection if any of the possible 'surprises' mentioned in our guide do occur. To find out more or to review your investment goals, please contact us.

ARE YOU PLANNING TO MAKE ANY MAJOR CHANGES TO YOUR INVESTMENTS IN 2017?

It's important to know exactly what you want to achieve and ask yourself, truthfully, how much risk and volatility in your investments you are actually willing to tolerate. The start of a New Year is the perfect time to review your situation.

If you would like to discuss your plans, please contact us

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