

April 8, 2019

## After a stellar first quarter, what's next for financial markets?



The first quarter of 2019 was somewhat of a 'eucatastrophe<sup>4</sup> on financial markets. J.R.R Tolkien fans will know that this is the opposite of a catastrophe – referring to a sudden turn of events which ensures the tale does not end with some terrible, impending, and very plausible and probable doom... After one of the worst years on record for markets, they roared back in Q1.

Just to give a synopsis, 2018 saw almost every class end in the red. Throughout the year, investors had to contend with extreme volatility. Just to illustrate this: the Dow has swung 1000 points in a single session only 8 times in history: 5 of those were in 2018! What's more is that in the end, market participants weren't rewarded for the stress they endured – equities had their worst year in a decade. The S&P 500 Index missed official bear market status by a whisker,

falling 19.8% between September 20<sup>th</sup> and Christmas Eve. The last month of the year was particularly dreadful – the S&P 500 was down 9% and the Dow was down 8.7% — making it the

1

worst December since 1931.

On the tails of this, expectations for 2019 were grounded and recession fears were rife. But then, a 'turn of events' helped risk assets make a comeback – the global central bank collective pivoted towards more dovish monetary policy. And now, the first quarter is done and dusted, having produced some of the best quarterly returns for equities since 2012 – highlighting the importance of a longer-term strategic approach when it comes to investing. The value of the MSCI world index has surged some \$6 trillion year-to-date. Bloomberg reports that over the quarter, US stocks have gained 13%, European, 12% and Chinese, an incredible 25% - trumped only by Colombia. The Colcap index is up 29% in dollar terms. Oil has gained 30%, and Brent is now flirting with \$70 per barrel.

Anticipation has the habit to set you up for disappointment, but Q1 optimism is already spilling into Q2 – especially as reports emerge that the US and China are making headway on trade negotiations. On top of that, upbeat manufacturing data coming out of China recently offered investors a glimpse of hope that the world's second-largest economy was stabilizing. So what do we expect moving forward?

In terms of macro, we expect that the global slowdown will continue, but that central banks will do what they can to prolong the cycle. IMF Managing Director Christine Lagarde this week acknowledged that global growth has lost momentum since the start of the year, though a recession isn't likely in the near term. The IMF's updated global growth forecast will be published tomorrow (April 9<sup>th</sup>).

We see the US economy 'slowing but still growing'. We are less optimistic on the eurozone and believe that for investors, ECB dovishness is not enough. We need to see macro data find a floor otherwise a negative feedback loop could develop whereby fear makes market participants act in a way that eventually causes recession. We believe that the Chinese government is wellequipped to keep its economy afloat, and Beijing seems to be willing to do 'whatever it takes'.

In these later of the stages, when growth is slowing, historically stocks have had a good run. For this reason, as well as the fact that companies now have a lower hurdle to leap in terms of earnings expectations, we remain exposed to equities, primarily in the US. That said, we believe that the current environment calls for more risk containment. For this reason, we favour Growth, Quality and Momentum styles and also insulate positions with a layer of core Government bonds. The next catalyst for equities could be a truce in terms of trade between the US and China, populists being kept at bay in the European elections, and/or the UK avoiding an 'EU catastrophe' in terms of Brexit.

<sup>1</sup> The prefix borrows the Greek word 'eu', meaning 'good'.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified, All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352 4590 6699 I www.bil.com.

