A weakening economic outlook for major markets...

GOVERNMENT’S BORROWING COSTS HAVE FALLEN

...could prompt some governments to increase fiscal stimulus against a backdrop of falling borrowing costs...

...creating potential opportunities for bond investors if currency markets diverge.

Source: Refinitiv (formerly Thomson Reuters) as of August 21, 2019.

1A PMI above 50 indicates expansion compared to the prior month whereas below 50 indicates a contraction.
Politics will be key in 2020, and we expect the influence of populism, as well as the ongoing debate over US/China trade tariffs, to remain firmly on the agenda. Overall, we believe geopolitical risk levels will be just as high this year as they were in 2019.¹

On the economic front, a key mood shift looks likely on monetary policy across some markets as its underlying ability to manipulate or produce stronger economic growth appears to have faded. At the same time, we look to be facing an economic slowdown,² although we anticipate global markets will probably avoid a full-blown recession in 2020.

In policy terms, we believe some governments are more likely to look towards fiscal stimulus, rather than relying on central banks to turn things around in the year ahead. While markets with the scope to cut interest rates – such as the US – should have a degree of flexibility, we anticipate other markets such as Europe and Japan will most likely look to some form of fiscal stimulus if economic weakness persists.³

Depending on where money is spent, fiscal stimulus has the potential to boost specific sectors and will benefit some, but not all, companies. From a currency perspective, we expect to see new opportunities emerge with the change of fiscal and monetary stimulus providing scope for currencies to diverge. We believe this, in turn, could bring new opportunities for global bond investors who are able to take advantage of wider currency movements.

Paul Brain, fixed-income leader, Newton.
ESMA: ESMA finds continued high risks as financial markets remain highly volatile. February 19, 2020.

The Guardian: Will coronavirus trigger a global recession. February 26, 2020

WSJ: Fed’s wait-and-see posture tested by spread of coronavirus. February 25, 2020

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