Markets outlook 2020
A year for political games?
The end of the teenage decade, here come the 20s

Twenty-twenty hindsight is a wonderful thing. But as we look ahead to the year 2020, the future appears less certain than ever. Against a background of continued political populism, shaky economic fundamentals, trade wars, and central bank ruminations, we now have the steady drumbeat of concerns around climate change and artificial intelligence disruption to factor into our world view.

This year, for the first time as part of our Markets outlook, we ran a survey with investment experts inside BNY Mellon Investment Management. Responses came from 107 investment professionals across six investment firms, each with their own unique outlook and culture – and their views made for interesting reading.*

Although no consensus was made as to the direction of markets and asset class opportunity, (see chapter 4 for full responses), political risk remains a dominant influence according to 56% of respondents. A further 35.8% said monetary policy was key.

Elsewhere in this year’s publication, our chief economist and chief strategist discuss their top 10 scenarios to watch for in 2020, while 10 fund managers provide their take on how specific asset classes or themes could play out in the coming 12 months.

Looking ahead is never easy but we hope the views and opinions contained in this publication offer a roadmap of sorts for markets in 2020.

*The BNY Mellon Investment Management survey was conducted between October 14 and November 1, 2019
What are the chances?
10 market scenarios to watch for in 2020
Watching for risks & opportunities

Shamik Dhar, chief economist, and Alicia Levine, chief strategist, BNY Mellon Investment Management, pick out the key risks and opportunities they believe could move markets in the next 12 months. Many of these scenarios may not happen but if they do...

Scenario 1: Risk – The Fed holds fire

In the US, the consumer price index heats up. The US Federal Reserve now has the headroom to resist further interest rate cuts. Markets interpret this as a decoupling stance relative to other central banks. Rate hike expectations return as does a flight from risky assets (e.g. EM hard currency debt).

Scenario 2: Risk – Brexit fallout

In the UK, leader of the Labour Party Jeremy Corbyn wins a general election (perhaps in coalition with another party) on a promise to curb the worst excesses of capitalism. He cancels Brexit and calls another referendum. Fear of nationalization outweighs relief from Brexhaustion and the UK stock market slides. Contagion through the financial sector spreads into other markets.

Scenario 3: Risk – China stutters

Moribund domestic demand tips China’s economy into stagnation. Unemployment rises and unrest in Hong Kong intensifies as factories idle. Investors begin to ask the question: Is globalisation a busted flush?

Shamik Dhar, London-based chief economist, BNY Mellon Investment Management

LISTEN: Political events in UK to watch closely in 2020

Click here for transcript and important information. For explanation of chart on left please see definitions section at end of chapter.
Scenario 4: Risk – Middle East geopolitics

Iran and its proxies engage in further conflict with Israel and Saudi Arabia (and their respective proxies). Primary direct engagement follows, disrupting oil supplies and raising the risk of crossborder escalation.

Scenario 5: Risk – Faltering free trade

EU subsidies for Airbus provide cover for the White House to open another front in its ongoing trade war. This time, the European auto sector is in the crosshairs. President Trump digs in to send a strong signal to China.

Fast facts on Airbus v Boeing
- US$22bn: State aid received by Airbus from EU countries, according to a 2006 complaint filed with the WTO by Boeing.
- US$23bn: State aid received by Boeing from the US, according to a counter claim filed with the WTO by Airbus.
- Thirteen years and counting: Duration of the Boeing/Airbus feud, making it one of the world’s longest and costliest trade disputes. (Bloomberg, October 22, 2019 and Deutsche Welle, July 2, 2019)

Scenario 6: Risk/opportunity – No deal

A hard Brexit proves less economically disruptive than feared. Sterling assets do well on the back of a sharp fall in the currency. (See below exchange rate of pound vs US dollar in recent years.)

Source: Bloomberg, 22 October 2019.
Party Breakdown in the US House of Representatives and US Senate

Scenario 7: Opportunity/Risk – Presidential wrangling

The House impeaches. The Senate acquits. Election hype takes center stage. Markets shrug off political machinations – up to the November result, after which, in the absence of radical or anti-business change, they are likely to plot a steady course.

The election cycle in the US is upon us but the important dates are not in November they are in February... the Iowa caucuses (Feb 3) are the first look at how the Democrats are ranking their candidates. Iowa doesn't always pick the nominee but it can tell you who it is not going be."

Alicia Levine, chief strategist, BNY Mellon Investment Management

Click here for transcript and important information.
**Scenario 8: Risk/opportunity - Fiscal frolics**

Germany unleashes a fully-fledged fiscal policy under prompting from ECB president and former French finance minister, Christine Lagarde. Bund yields pop and global yields spike leading to losses in bond portfolios. The bull market lives.

**Scenario 9: Opportunity - Trade war pause**

President Trump signs a trade deal with China before the US general election. Even though this is a ‘skinny’ deal, markets are so relieved that cyclicals rally. Banks outperform.

**Scenario 10: Opportunity - Earnings surprise**

US corporations surprise on the upside with reported earnings, after their overly cautious indications in their 2019 guidance. The US retains its place as the global economy’s leader of the pack.

(Horizontal axis of chart on right is the percentage impact on GDP of the seven largest economies should there be a 1% reduction in world trade.)
Definitions
Explanation of chart from page 1 of chapter 'China manufacturing/non-manufacturing PMIs': Manufacturing purchase managers' index (left hand side), non-manufacturing purchase managers' index (right hand side). **Purchase managers' indices (PMIs)** are an indicator of the economic health of different sectors of the economy and are based on a monthly survey of supply chain managers on new orders, inventory levels, production, supplier deliveries and employment conditions. A reading above 50 is deemed to be a 'positive reading', while a reading below 50 is deemed to be a 'negative' one.

**Consumer price index**: A measure of the average change over time in the prices paid by urban consumers for a basket of consumer goods. **Stagnation**: An economic stagnation refers to a period of lack of activity, growth or development. **'Hard' Brexit**: Another way to say a clean break from Europe by the United Kingdom – giving up membership of the EU's single trade market, an arrangement that enables members of the UK to trade freely with European partners without restrictions or tariffs. **Bund**: German government debt. **Current account balance**: The current account records a nation's transactions with the rest of the world—specifically its net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments. A country's current account balance may be positive or negative depending on whether the country is a net importer or net exporter of goods and services. **GDP**: Gross Domestic Product, a measure of economic growth. **'Skinny' deal**: Referring to a potential deal as a 'skinny' trade deal is another way of saying not all areas of contention will have been discussed/negotiated but some form of agreement is in place. **West Texas Intermediate (WTI)**: WTI is crude oil that is produced from various states as well as offshore regions of Texas and Mexico. It is one the grades of crude oil which are traded in the New York Mercantile Exchange (NYMEX). It is also used as a benchmark or marker crude oil for pricing other varieties of crude oil imported from other countries into the boundaries of the United States.
10 opportunities in 2020

Does 2020 promise a fresh start or will it be another year of mixed messages?
10 bright spots for 2020

Against a shifting macro backdrop with rising political risks, managers from across BNY Mellon Investment Management’s suite of investment firms pick some key opportunities they believe could materialize in the next 12 months and assess some potential hurdles.

1. Straight to the core

The strength of the US consumer could power some opportunities in the credit space says Gautam Khanna, senior portfolio manager for Insight.

We think 2020 will produce opportunities in front-end consumer asset backed securities (ABS), which are US centric. Attractive yields can be found relative to alternatives and we believe the current health of the US consumer helps justify this view. Also, the principal component of these assets typically amortize on a monthly basis which can further reduce the risk profile over time.

We also see upcoming opportunities in corporate-exposed ABS, where we believe AAA-rated collateralized loan obligations (CLOs) of selective issuers may offer an attractive risk and reward, and we see some value in aircraft enhanced equipment trust certificates (EETC) at the top of the capital structure.

Within investment grade corporates, we’re expecting attractive opportunities for bottom-up security selection within several sectors including: wireless telecom, pipeline, utilities, and food and beverage. We also like technology and cable issuers exposed to secular growth trends as well as selective issuers that are clearly on a deleveraging path.

Last but not least, in leveraged finance we like upper tier biased BB exposures in selective names and also shorter-dated maturities in issuers where there’s clear evidence for a refinancing event or debt pay down.
2. Working with inverse relationships

Further downward pressure on yields in certain markets could be turned into a positive for those hedging back into US dollars, according to Brendan Murphy, portfolio manager at Mellon.

Headed into 2020, we believe North Asian local interest rates will remain relatively suppressed, if not fall further, as these economies struggle to grow above potential and inflationary pressure remains largely non-existent. While specifics vary from country to country, we believe China, Korea, Taiwan and—to a lesser extent—Singapore are at the mercy of the same constellation of structural forces.

The first and most obvious factor effecting these countries is the ongoing US/China trade dispute and falling global trade volumes. All four economies are also undergoing a transformation, from trade-dependent growth models to domestically-driven growth models, which will likely take place over a long period of time with multiple headwinds.

High levels of household debt in Korea, (as the chart on the right shows), have made it harder for monetary policy to be effective. The left-hand axis shows disposable income and household debt in Korean won (KRW) and the right-hand axis shows the ratio of household debt to disposable income (which has spiked since 2015).

Unfavorable demographic trends are also firmly in place with a dependency ratio, which is likely to continue its uptrend.

Lastly, these bonds offer attractive hedged yields relative to treasuries. On a currency-hedged basis, the positive carry offered by these markets relative to treasuries, as well as the potential for price appreciation gains as yields fall, makes this region our preferred source for interest risk globally in 2020.
3. The 'power' of the coupon

Investors might have to march to the beat of a different drum in 2020 due to continued doubt around the pace of economic growth in the US, says Alcentra portfolio manager Leland Hart.

As the drumbeat for slower economic activity persists—reflected in recent Global Manufacturing Purchasing Managers' Index (PMIs)—credit is being hit by two opposing forces.

On one end you have the need for absolute yield, which is global due to low/negative base rates continuing to increase the amount of fixed income paper that trades below a yield of zero, and on the other you have what were once exogenous factors, driven by changes in monetary and fiscal policy as well as a constant barrage of ‘twitter policy’ and macro developments like the trade war.

Unfavorable demographic trends are firmly in place and likely to continue.

Brendan Murphy, portfolio manager, Mellon

I think investors will regard the US loan market, as a relative port of calm. They may not know how something is going to be priced everyday but at least they know they’re owed a contractual coupon and principal, which will likely be deemed quite attractive as volatility continues and the outlook remains uncertain. We oftentimes refer to this as the 'power of the coupon'. We believe this backdrop shows that monitoring economic fundamentals and lending standards is imperative.
4. US energy independence strengthens

Oil production in the US has grown very steadily—to the point where we’re barley importing any oil. From that perspective, it’s completely shifted the geopolitical climate for the US as well as how it behaves with foreign policy, specifically in regards to the Middle East. In 2019, we had the single largest outage of oil production in history and within a week’s time, we had already broken down to make new lows.

With this risk, you would think the market would’ve kept their price there and thought: ‘An attack is able to take out that much oil... well maybe it can happen again’. Well, it may very well happen again. But the way the world responded suggests either we’re overflowing with oil, people are ready to look towards another fuel alternative, or maybe a combination of both.

That in itself makes the market interesting and attractive. We see a lot of value out there but we think the biggest opportunities in 2020 are going to be the tailwinds for equities that have exposure to environmental solutions or the energy transition.

5. Shareholder rights move up Japan’s agenda

As Japanese corporations make strides in the governance arena, Walter Scott’s investment team eyes potential beneficiaries.

Governance reflects the mindset of a business culture. For some, the historical picture of corporate Japan has been one where the rights of the minority shareholder have sometimes sat uncomfortably with the orientation of management. However, recent years have seen meaningful steps forward in corporate governance across the country.
The Nissan debacle should not be taken as a read-across for Japan Inc. That would deny the considerable strides that companies have made in the governance arena. Through our regular engagement with management teams, we’ve seen an increasing focus on shareholder rights and enhancing returns in Japan.

Prodded and goaded by investors and government codes alike, slowly - sometimes intermittently - but surely, companies are improving disclosure, paying higher dividends and sharing more of the wealth they create with minority owners. This inexorable shift is not a one-year process, but we believe further progress will be made in 2020 opening up a reservoir of return potential for shareholders.

6. Banking on value stocks?

The growth versus value debate will never be fully settled but which will dominate in 2020? John Bailor, portfolio manager at Mellon, discusses.

In our view, the most appealing opportunities within US large cap are arising within value stocks, particularly in cyclically-oriented sectors.

We believe value stocks are as cheap as they’ve ever been versus the broad market. In the past, when valuations have been this cheap, the value portion of the market went on to generate significant excess returns. We’re finding strong value opportunities in cyclical sectors such as materials, energy and financials. We believe these sectors offer attractive valuations and business momentum with sustainable growing dividends, which in turn should lead to compelling excess returns.

For dividend investors, the story around US bank stocks, specifically is a strong one as dividend yields from these names range from approximately 2.5% to over 4% and their management continues to return capital to investors through dividend increases and share buybacks.

At the other end of the spectrum, we worry many growth stocks are ‘priced for perfection’ and require unrealistic future earnings growth to justify their valuations.

Similarly, we believe ‘bond proxies’ within utilities, real estate and consumer staples have lofty valuations but little earnings upside to justify those valuations in our view. While dividend investors may like those yields now, we think they will be disappointed with returns when interest rates rise.
This chart shows the spread between the value of top fifth (quintile) of US stocks large cap stocks versus the average US stock. In the midst of the financial crisis in 2008, large cap stocks were prized for their perceived liquidity, so there was a surge in their value relative to the rest of the market. Today that spread is much lower as shown by the chart.

7. Yield-hunters eye municipal bonds

A scarcity of high quality assets with an attractive yield, globally, may lead to a growing appetite for municipal bonds from overseas investors, says Mellon's Sherri Tilley.

Fixed income markets should anticipate a rise in taxable municipal issuance in 2020. Taxable and non-taxable investors alike are beginning to find that municipal bonds have the potential to offer a greater benefit to their overall portfolio.

This includes their potential to offer a differentiated source of total return and greater diversification given the sector's relatively low correlation to other higher-risk fixed income sectors.

Taxable municipal fixed income has more recently attracted global investors due to its high level of current income from vitally essential 'brick and mortar' projects. Global demand for taxable municipals continues to rise given the scarcity of high quality global assets with an attractive yield.
Overseas investors also favor the fundamentally strong credit characteristics associated with the taxable municipal fixed income space. For instance, when comparing the default level for municipals versus global corporate credit, historical figures show a significantly lower level of credit default for municipal fixed income compared to global corporate credit.

We believe taxable municipals should inherently benefit from increased global market acceptance for the asset class in a higher supply environment. Improved supply is a further catalyst for overseas demand as taxable municipals secure a larger position in investment universes for benchmark-driven investors looking to meet investment liabilities.

**The global tailwind bolstering US muni demand**

Global demand for taxable US municipal fixed income has gradually increased over the years...

...as the current scarcity of high quality global assets with an attractive yield becomes more pronounced...

...and improved supply of municipal bond issuance could create more opportunity for investors.

Top chart: Source: Federal Reserve Flow of Funds as of September 30, 2019. For illustrative purposes only and does not represent the results of any investment.

Bottom chart: Bloomberg, Firm data as of September 30, 2019. These states/sovereigns were chosen based on comparable credit quality. Federal Reserve Flow of Funds as of September 30, 2019. For illustrative purposes only and does not represent the results of any investment.
8. The (red) elephant in the room

Regardless of progress (or lack thereof) towards a US-China trade deal, the second-largest economy in the world is the one to watch in 2020, says Newton portfolio manager, Suzanne Hutchins.

Continuing uncertainty surrounding political risk looks inevitable for 2020. While there is still much focus on a potential trade deal between China and the US—and mystery surrounding whether the global economy is decelerating, or at best stabilizing—we expect the upcoming US presidential election ongoing Brexit saga in the UK add further to the fragility. However, the real elephant in the room is China.

China has been the biggest driver of the credit-fueled boom over the past decade. If its economy slows down too quickly then that could be a huge risk.

The other area I am concerned about is high yield credit. We are in a period of financial transition, against a backdrop of uncertain monetary policy and shifts in central bank direction. There is a huge amount of leverage in the financial system and a lot of zombie companies have kept in business through cheap financing.

Despite these risks, there are opportunities to be found. We strongly believe gold, which is often seen as a safe haven asset, is a robust real asset with the potential to do well in both inflationary and deflationary markets.

Looking ahead, perhaps the key to 2020 will be to understand and interpret shifting policy moves and their likely impact on investment.

China has been the biggest driver of the credit-fueled boom over the past decade.

Suzanne Hutchins, Newton
9. Tapping emerging consumer themes

Emerging market equities are notoriously volatile, making it vital not to over-generalize at the country level, says Naomi Waistell, portfolio manager at Newton.

For 2020 the investment backdrop in emerging markets is likely to remain unstable. However, on a relative basis, overall growth for some emerging markets is forecast to improve, owing to both low base effects, but more importantly to supportive reform agendas such as tax cuts in India and the long awaited final passing of a new pension reform bill in Brazil.

Looser central bank policy globally and less potential for dollar appreciation should also aid emerging market performance next year, potentially reigniting their growth premium over developed markets.

Emerging market economies and opportunities are not heterogeneous and to look at them in aggregate causes a number of distortions, not least the terms of trade shock experienced by the commodity-reliant bloc of countries, whose poster child has been Brazil.

As China rebalances away from heavy commodity-fueled, investment-led growth, towards a consumption and services led model, the growth of certain emerging markets has waned.

Due to this, we continue to believe the best long-term emerging market investment opportunities sit within the consumer sectors, such as the internet, education or specific discretionary spending areas. Thematically supported areas such as this, with structural growth, are not immune from cyclicality, but tend to be far more defensive.

Recently, we have witnessed a significant de-rating, even for stocks with good growth prospects, which contrasts with the US equity market which has re-rated. We believe this bodes well for future emerging-market equity performance as emerging market equities appear cheap, not least for the high sustainable growth rates of a number of companies.

Emerging market economies and opportunities are not heterogeneous and to look at them in aggregate causes a number of distortions.

Naomi Waistell, portfolio manager, Newton
The chart above demonstrates how consumers in emerging markets have seen their ability to buy goods or services (also defined as purchasing power) increase in the past decade. Simultaneously, more advanced markets have seen the reverse effect. Purchasing power parity is an economic ‘apples-to-apples’ approach used to compare the ability of consumers in different countries or regions to purchase the same basket of goods by taking the currency exchange rate into account.

### 10. Focus on fiscal stimulus

Politics is going to be key in 2020 and we expect the influence of populism and 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 in 2020 as they were in 2019.

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, though 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.
Depending 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 mix providing scope for currencies to diverge. This, in turn could bring new opportunities for global bond investors able to take advantage of wider currency movements.

In terms of government bonds we do not expect yields to go much lower in 2020, though there is perhaps some room for more flexibility and downward movement in the US. Given the prevailing market conditions, we may also see a steepening in the yield curve across a number of markets.
Definitions

**Absolute yield**: Fixed income investments yielding positive or above zero. **Bond proxies**: Investment areas presumed to be safe enough to resemble bonds in terms of ability to provide low-risk income, but with higher yields. **Cyclically-oriented sector**: A sector that is sensitive to business cycle, such that revenues generally are higher in periods of economic prosperity and expansion and are lower in periods of economic downturn and contraction. **De-rating**: Attributing a less optimistic outlook for a specific stock or sector. **Deleveraging**: Process or practice of reducing the level of one's debt by rapidly selling one's assets. **Domestically-driven economies**: An economy where growth is more influenced by its citizens, or consumers spending, rather than trade. **Fixed income**: Investment security that pays investors fixed interest payments until its maturity date. **Headwinds**: Describes a situation that makes economic growth more difficult. **Hedge**: An investment to reduce the risk of adverse price movement in an asset. **High yield**: A bonds that is rated below investment grade. **Leveraged finance**: An area within the investment banking division of a bank that is responsible for providing advice and loan to private equity firms and corporations for leveraged buyouts. **PMIs (Purchase Managers' Indices)** are an indicator of the economic health of different sectors of the economy and are based on a monthly survey of supply chain managers on new orders, inventory levels, production, supplier deliveries and employment conditions. A reading above 50 is deemed to be a ‘positive reading’, while a reading below 50 is deemed to be a ‘negative’ one. **Priced (in regards of stocks)**: The price that the market is attributing to a specific security based on its economic outlook. **Tailwinds**: Describes a condition, or situation, that will help move growth higher. **Trade-dependent economies**: An economy where international trade makes up a large percentage of its economy. **Upper tier biased BB exposure**: BB ratings are a designations used by the top three credit rating agencies for a credit issue that signify the probability of default risk. BB are rating below investment grade but the second highest rating in the non-investment grade bracket. Upper tier biased BB exposure means a preference for those credit issues that are rated BB but viewed as stronger in comparison to other credit issues in that rating category. **Yield curve**: The difference between interest rates on long-term government bonds and short-term government bonds. **Zombie companies**: Companies that earn just enough money to continue operating and service debt, but are unable to pay off their debt.
A road to nowhere?

BNY Mellon Investment Management sentiment survey results
Moving sideways: will 2020 go nowhere?

The coming year could bring greater uncertainty for the global economy with markets moving sideways and political risk continuing its influential dominance. At least that’s the conclusion that could be drawn from the inaugural 2020 BNY Mellon Investment Management sentiment survey.

Investment professionals across six investment firms at BNY Mellon Investment Management (Alcentra, Dreyfus Cash Investment Strategies, Insight, Mellon, Newton and Walter Scott) were almost exactly divided between a bullish and bearish outlook for the coming year. Of 107 respondents, 27.1% were bullish while 28% were bearish - with the remainder (43.9%) neutral. *(Due to rounding, some of the figures, will not add up to 100%)*.

Matt Oomen, global head of distribution BNY Mellon Investment Management, comments: “Nothing highlights uncertainty more than asking a diverse group of people their opinion and getting no definitive answer. The investment firms that took part in the survey have five distinct and diverse cultures and outlooks and yet to some extent their views canceled themselves out with neither bulls nor bears being the dominant voice. This is unusual and suggests we may be heading towards a crossroads of sorts as we move into 2020, creating a challenge for managers and investors aiming to thread a path through the vagaries of markets.”

That said, when isolated by asset class - equities and fixed income - it is the bond managers/analysts that are more pessimistic on prospects for 2020: 40.5% of fixed income respondents were bearish compared to just over 18% of equity professionals. Neutral responses remain the largest choice in both categories.

While many of the bond participants say they are bearish, their pessimism is somewhat subdued. Just 11% of bond respondents expect a global recession in the coming year, with 81% expecting a sideways move.
This compares to the equity view where expectations were just 3% of the 63 participants believing a recession is likely in 2020 and 52% thinking a sideways move is probable.

When asked what they felt would exert the largest influences on asset class returns, more than half of the respondents chose political risk, with 36% opting for monetary policy. Just under half of all participants chose the US as the expected cause of ongoing political risk, while a quarter of respondents chose China.

"We have had a few years of rising equity markets, it is probably a time for correction, however, there are not many signs the global economy is slowing down, in my view."

Survey respondent

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**Reasons cited for macro-economic, or 'big picture', view**

- A lot of geopolitical uncertainty may overshadow a fairly stable economic environment.
- I expect risk assets to make a solid start to the first half of 2020 as macro data stops deteriorating/improves modestly and a trade truce materializes, but ultimately I don't expect strong growth momentum. Equities could thus slip back as the first half progresses.
- I'm moderately bullish. Lots of stimulus from central banks, money supply moving higher, equity valuations reasonable with value stocks looking attractive.
- Softening economic data offset by central government actions/stimulus likely means low equity returns in 2020.
- Policy is insufficient to sustain the current economic cycle.
- Valuations are high and Chinese stimulus looks difficult.
- I think recession risk will fade while central banks remains accommodative, leading to a continued search for yield that supports risk assets.
- The global economy is showing signs of stabilization while negative interest rates are losing popularity and proving to be ineffective in stimulating economic activity. Given this environment, it seems likely that bond yields can rise over the first six months of 2020.
- I am bullish on fixed income from a rates perspective, but bearish from a credit quality one.
- I think dividend yields on major indices remain attractive relative to cash.
- Supportive underlying fundamentals persist.
- I think inflation pressures will remain low and the global economy will continue to slow.
- Consumer spending should remain strong given the robust labor market. Corporate profit margins remain healthy.
Equity view

From a pure equity perspective, China is also considered the second greatest area of political risk. When isolating just the equity responses from the 107 survey responses, 25.4% of the 64 participants chose China with a further 9.5% selecting the Middle East.

Despite this, the majority of the equity survey participants believe emerging market equities will offer good opportunities (52%) in the year ahead; only nine respondents singled out this area of investment as likely to pose negative returns or underperform the wider market. When asked to rank emerging market, developed equities, thematic equities, equity income, alternatives and absolute return, few were strongly optimistic, despite their overall bullish outlook.

Topping the predictions of "good" returns in 2020 was emerging markets (52%), followed by thematic equities (47%) and equity income strategies (47%). When it came to developed market equities, the picture was mixed. While 6% believe developed market equities will perform very well, 43% of those equity professionals surveyed believe performance will be “good” in this area of the equity market; 38% forecast returns in this area would be static and 9% believe they will be negative.

What do RIAs think?

In a similar BNY Mellon Investment Management sentiment survey conducted with RIAs at a conference in North America, 51% of respondents expected to see "more of the same" in 2020. Over half (52%) of the RIAs expected a trade deal to be reached between the US and China in the next 12 months. Yet almost half (47%) also did not expect US GDP growth to be higher than 1.5% in 2020. There was some good news, however, with only 5% of respondents believing there would be a recession in the US in 2020.

1. BNY Mellon Investment Management surveyed 103 RIAs between November 4-7, 2019, in San Diego, CA.
**Fixed income view**

Developed market bonds come in for a similar treatment from the bond specialists surveyed. Just 17 of 43 bond participants thought returns from developed market sovereigns would be good or very good; a further 13 thought returns would be static.

The outlook for sovereign emerging market debt (EMD) was on par with developed markets - 11 thought returns in this area would be good or very good, 12 said they would likely be static. Among the fixed income survey participants, 32% thought developed sovereigns would make negative returns in 2020, while 34% said the same of EMD sovereigns.

Corporate debt was seen more favorably by the 43 fixed income survey participants, as was private debt and alternatives. Some 41% believe corporate bonds will fare well in the coming year, while 46% said returns from alternatives would be “good”; 35% said private debt returns would be good in 2020.

Again showing the wide ranging views for the year ahead, 24% (each) believe corporate debt and private debt will produce negative returns.

Geographically, the opportunities the fixed income investment professionals do see lie in US (48%) and Europe including the UK (26%).

This, despite the fact that 61.9% of fixed income respondents believe political risk will have the largest influence on markets and that the US will be the greatest source of that risk (57%).

This survey was conducted by BNY Mellon Investment Management between October 14 and November 1, 2019.

**Cash perspective**

The 23-strong investment team at Dreyfus Cash Investment Strategies also responded to our survey, offering a team outlook on 2020. Describing their 2020 view as "neutral", the team believes the year will likely move sideways. The team believes North America offers the best opportunities in 2020 while the Middle East poses the largest political risk to markets.
Important information
No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

Management risk is the risk that the investment techniques and risk analyses applied will not produce the desired results and that certain policies or developments may affect the investment techniques available to managing certain strategies. Asset allocation and diversification cannot assure a profit or protect against loss.

Commodities contain heightened risk including market, political, regulatory, and natural conditions, and may not be suitable for all investors. Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. Bonds are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. There is no guarantee that dividend-paying companies will continue to pay, or increase, their dividend. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. High yield bonds involve increased credit and liquidity risk than higher rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis. Municipal income may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. Capital gains, if any, are taxable.

The natural resources sector can be affected by events occurring in nature, inflation, and domestic and international politics. Interest rates, commodity prices, economic, tax, and energy developments, and government regulations may affect the natural resources sector and the share prices of the companies in the sector. Currencies are subject to the risk that those currencies will decline in value relative to a local currency, or, in the case of hedged positions, that the local currency will decline relative to the currency being hedged. Each of these risks could increase the fund's volatility. While the U.S. Government guarantees the timely payment of principal and interest on its securities, portfolios that invest in such securities are not guaranteed and will fluctuate in value. Small and midsized company stocks tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories.

Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY Mellon Investment Management product.

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