

# Countdown to 2019: starter for 10

From Trump's harrumphs to May's delay, 2018 has been a year of surprises. As we hastily forge our new year's resolutions, our attention has turned towards what's coming next.

Here are the 10 themes we'll be mulling over before we chant Auld Lang Syne...

## 10 YEARS

In August 2018 the US equity market reached all-time highs, and — despite the bumpy ride — we are still in the longest bull market<sup>1</sup> (when share prices are continuously increasing) in American history. If it continues uninterrupted, the end of the first quarter of 2019 will mark its 10-year anniversary. Similarly, if in June 2019, US economic expansion hits 10 years, it will become the longest on record<sup>2</sup>. The resilience of the last decade is remarkable, but the question on everyone's lips is: when will it end? Thankfully bull markets and economic cycles don't simply die of old age; there needs to be a catalyst, so read on to see how they stack up against our health check...



## 9 MONTHS

Besides investing, we have our sights set on a host of sporting events. In September 2019, England will participate in the Men's Rugby World Cup, as well as the FIFA Women's World Cup and the men's Cricket World Cup during the summer. As far as domestic assets are concerned, we think sterling will continue to be volatile but it is one of our favourites to outperform expectations (setting aside a hard Brexit scenario).

## 8 billion PEOPLE (ALMOST)

The global population sits at 7.7 billion and is forecast to be 8 billion by 2023, but growth rates have been declining for decades now<sup>3</sup>. Slower population growth may have contributed to lower inflation in developed economies over the past decade. Technology and the digital age have also been touted as factors. In 2019, the trend could be offset by a move towards populism and tightening labour markets, which might engender higher short-term inflation.



## 7 TWEETS

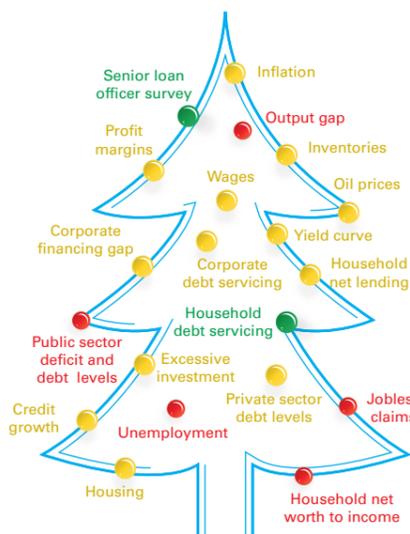
Although President Donald Trump seems to be living his presidency through Twitter, since taking office he has trimmed his daily dose to around seven tweets per day. Seven too many, some might say, but that's approximately 4,683 tweets until the next US presidential election! If Trump hasn't faced impeachment by then (and there is a roughly 50/50 chance of that happening, if you believe the bookies) he is currently the favourite to win. That said, there's a chance the US could have entered a recession by the time he runs for re-election, which could spell bad news for Trump fans. More on that later.



## 5 FLASHING RED LIGHTS

Given the age of this economic cycle, our economists are keeping a close eye on it and have developed a broad range of recession indicators. Our economists keep a close eye on this and have developed a broad range of recession indicators. Currently, five out of 20 indicators are flashing red. One of the most important indicators is inflation and it is currently flashing amber. That said, we feel quite confident that recession risk for next year remains low, but we see that rising for 2020.

US recession indicator heatmap



## 6 60%

General Electric (GE) shares have plummeted 60% since the start of 2018, making the company the worst performing amongst the world's largest companies, or mega-cap stocks this year. GE was once the biggest company in the world. It now ranks around 64th. GE is a good example of why we believe diversification is so important in portfolio management. Our multi-asset funds not only aim to be well diversified at a stock level but also across asset classes, regions and currencies.

## 3 MONTHS UNTIL 'BREXIT' (OR MORE?)

We've prepared for multiple Brexit outcomes using a probability tree, pruning it as events evolve. At the moment we think there are four possibilities — 'soft Brexit', 'hard Brexit', a second referendum or an European Economic Area plus "Norway-style" deal. The daily news flow is dominated by meaningful votes, confidence votes, deals, no deals and backstops. All in all, the British political landscape feels rather scrambled, and managing sterling exposure in this environment will be fundamental.



## 2 DEGREES CELSIUS

The Paris Agreement was a 2015 pledge to keep global warming to below 2.0 degrees Celsius above pre-industrial times. Here at Legal & General Investment Management (LGIM), we developed our own Climate Impact Pledge a year ago — committing to engage with 84 of the world's largest companies to improve their strategy. We have already seen many companies taking positive steps. LGIM has been recognised internationally for the management of climate risk in investments, being ranked number two globally by the Asset Owners Disclosure Project<sup>4</sup>.

## 4 TRILLION, 4 HIKES?

The US Federal Reserve (Fed) currently has \$4.1 trillion on its balance sheet, a figure which has been declining for over a year now. If quantitative easing propped up equity markets and suppressed volatility, perhaps quantitative tightening (QT) will have the reverse effect once it gets going in earnest. Alongside performing QT, the Fed also sets interest rates in the US. We feel there is a stronger probability of more hikes in 2019 than the market suggests. Too many interest rate hikes could stifle the US economy; too few may move inflation uncomfortably higher.

## AMERICA 1ST?

After much bluster during Trump's presidential campaign and afterwards, assets in 2018 were hit by actual trade skirmishes as the US president attempted to carve out a more isolationist stance. The imbroglio with Mexico and Canada was resolved through a deal, but Trump has escalated conflict with China through a barrage of tariff increases. All this has left us wondering: will there be peace on earth this Christmas?

That's all, folks! Wishing you a great break and a wonderful start to 2019!

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1. A "bull market" is defined as a period of rising prices without a drop of more than 20%. US equities measured by S&P 500.  
2. 34 expansions and 33 recessions since the early 1850s  
3. <http://www.worldometers.info/world-population/>  
4. <https://aodproject.net/managers/>

