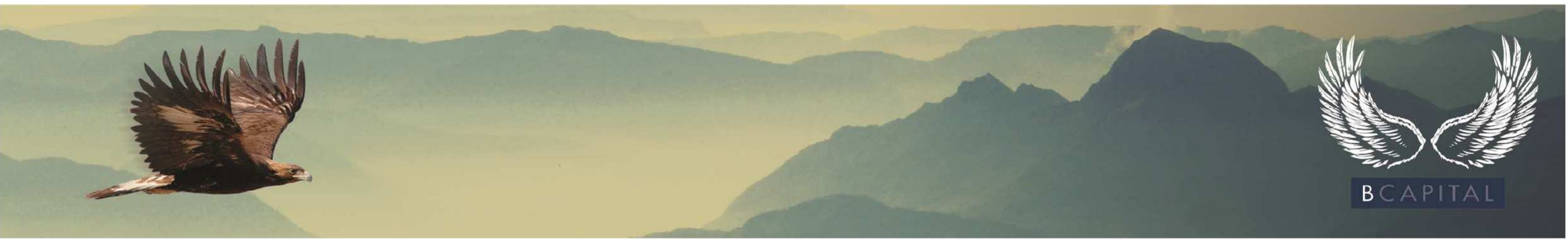

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B Capital 1Q2020 Outlook

Recessions are inevitable. Maybe though, the next one just got pushed back a little farther out. 2019 saw markets rebound after a period of building pessimism that culminated in 2018 being the worst year since the financial crisis a decade ago. The growth concerns faded as the Trump trade war became more 'business as usual' instead of the doom of global trade entirely, and in Europe separatism and infighting dropped to a quieter focus on allowing the UK to leave, even if that was unsuccessful and rolls forward into 2020. Overall investors managed to digest newsflow better than in 2018 and those that remained invested throughout the year saw substantial returns from equities.

The main driver of returns was from equities, where data and news point to a bottoming-out of the growth dip and both Europe and Asia showing signs of stability, even if the former is still the global laggard growing at only half the pace of the USA (2.1%) and far below the other pack leader, China which is still growing at pace (6.0%) despite its own challenges. As noted in past performance reports we continue to see improving services growth whilst there is ongoing pressure on manufacturing sectors. The beneficiaries in the technology and e-commerce sectors are the most apparent and we suggest that this trend will continue for some time yet.

The bullishness we are seeing at the year-end should be tempered with some caution, however. The trade war has not yet been resolved and there may be some bumps along the road as the US and China go head to head before a deal is agreed. This comes amid a global growth picture that may have stabilised but which is now slower than it should be for there to be such optimism. The US economy often leads sentiment and it is possible that it could slow further in 2020. The counter to this may be the consumer, who is benefitting from record low unemployment, low inflation and low-interest rates. Europe and in particular Germany, France and the UK are all grinding along at around 1.0% expansion rate, which leaves little margin for any deterioration this year. Loose monetary policy is likely to stay throughout the year and this will provide some support for asset prices but we will need to see a pick-up in growth indicators (through the PMI data amongst others) in order to feel that the slowdown has been checked or even reversed.

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It is good of course that inflation remains soft enough to allow central banks to maintain such loose monetary policy in this period. The JP Morgan Global Composite PMI rose to 51.7 in December and this was an 8-month high (since April 2019) indicating that things are improving across the world despite the obvious worries. That may feed into better first-quarter results for global listed companies and our own forecast is for around 6% earnings growth in the next reporting period for the S&P500.

During the second half of the year across all strategies we added some precious metals exposure, notably silver and gold, which have benefitted from monetary easing and some risk aversion (or disbelief) as the equity rally continued. We see support for the metals going into 2020 and there is a hedging element in holding precious metals as well. The ETF providers continue to reduce the costs in an ongoing price war and we analyse and act on changes that might benefit our models. We have effected some switches that save costs and which also will be more tax-efficient for future dividend income streams due to tax rates set according to the jurisdiction of issuance.

Risks also remain in the geopolitical space, notably the potential for a sudden rise in the price of oil (an "oil shock') should the Strait of Hormuz be closed because of the US-Iranian crisis. Such an event could push the global economy towards an unexpected recession through the input of sky-high energy prices into the cost of production, thereby wiping out profitability of manufacturers and decreasing demand from consumers. It is not a base case scenario but existential threats such as these can tip the balance, acting as a trigger when a backdrop of weaker growth combined with high asset prices already exists.

We expect 2020 to be a year of moderated but broadly positive returns after the strong rebound of 2019. The all-important effect of accruing dividends for equity investors is again worth remembering, and coupled with better growth prospects (albeit not yet strong enough) suggests maintaining a diversified model portfolio of mainly equities, some short-duration fixed income coupled with some alternative yield-producing asset classes and also precious metals, just in case that recession fear factor comes back to scare us once again. Further reading on the global outlook for 2020 can be found on our website at www.b-cap.ch on the "Investment Outlook" page where we publish forecasts and analysis issued by our global investment partners.

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