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Macquarie Investment Management releases 2019 Global Investment Outlook

Tighter trade, monetary policy, and potential inflation pose challenges, but growth opportunities remain

PHILADELPHIA, Dec. 6, 2018 — Macquarie Investment Management today issued its *2019 Global Investment Outlook*, affirming that trade tensions, tightening monetary policy, and potential inflation will affect most asset classes and may lead to an inflection point for investors. In the report, titled *The Way Forward: 2019 Global Investment Outlook*, Macquarie investment experts provide in-depth views across equities, fixed income, real assets, and other alternative markets.

"In 2018, the story was all about US performance and volatility, which cast a shadow over other markets," said Shawn Lytle, deputy global head of Macquarie Investment Management and president of Delaware Funds® by Macquarie. "As we enter 2019, all eyes will be on rising rates, trade tensions, and inflation fears. Given this backdrop, we see a broad array of investment opportunities for active managers."

Following are highlights of the firm's 2019 outlooks for specific asset classes:

Global equities

"We have been in a sustained period of an extreme lack of volatility in most developed markets and almost lulled into thinking it's the new normal," said John Leonard, global head of equities for Macquarie Investment Management. "History would suggest that's not the case. We have already seen volatility ratcheting up this year, and Macquarie believes it's likely to come back in 2019."

Macquarie sees the following market themes across its 12 boutique equity investment teams:

- The biggest market risks are geopolitical and could present in the form of a trade war. But if the environment remains fairly stable, Macquarie believes opportunities could likely be found in the United States, in other developing markets, and in emerging markets.
- Cyclical trends suggest greater recovery potential in non-US markets, such as Europe and Japan, that have experienced slower and more extended recovery periods than other regions and continue to benefit from ongoing stimulative monetary policy. They stand in contrast to the extended position of the US market, which has enjoyed a decade of strong growth, with interest rates now rising and unemployment near all-time lows.
- Macquarie expects a reasonably good year for the US, as strong pent-up demand among corporations for making capital expenditures appears likely to extend into 2019.

- The US rally isn't over, but there are also no wildly optimistic price targets in Macquarie's view. Macquarie believes the S&P 500® Index will retake the 2,800-point mark in 2019, flat to slightly higher than the close of 2018.
- Although trends are largely positive, cyclical concerns remain. Global trade wars or an overly aggressive Federal Reserve are risks, but what will likely finally end this run will be inflation. Likely the stimulus from both monetary and fiscal resources will eventually cause prices and yields to rise and bring about change in the current constructive economic conditions. Rates are still historically low in the US, and many foreign countries have bond yields near zero, so while corrections can happen at any time, Macquarie does not believe the US is nearing a recession or bear market and growth-oriented companies should do well.

Global fixed income

In 2019, Macquarie expects that fixed income markets could be marked by some of the same forces affecting 2018 — divergence in growth between the US and the rest of the world, the effect of rising interest rates, and other vulnerabilities exposed by the receding tide of accommodative central bank policy.

"When the weather report warns of low visibility, you know to expect a reduced line of sight," said Roger Early, global co-head of fixed income for Macquarie Investment Management. "We think that's an apt description for global fixed income markets as we enter 2019."

Key expectations include:

- The state of policy affairs between the US and China, alongside high valuations for fixed income assets, will result in an environment for incremental defensiveness. The choices of these two superpowers will influence the rest of the globe via interest rate, foreign exchange, and commodity price trends.
- The federal funds rates might well be near the upper end of their range. While 2019 is expected to be a year of continued tightening, in Macquarie's view it will not be as big as many might think.
- The 10-year US Treasury is likely to head higher in the short term, unless US growth drops off, in which case considerable softening could occur. Yield curve flattening should continue, and an inverted yield curve could be a real possibility in 2019. Beyond the US, rates should tick up slightly, but Macquarie sees no sharp moves.
- Expect a year with flight-to-quality episodes favoring risk-free assets as investors contend with Fed actions and the potential ripple effects.
- Macquarie believes there is a strong case for some convergence among developed economies in 2019, but it's not likely to come from a surge in growth. It's more likely to be a result of easing momentum in the US as the aftershocks of its 2018 strength start to filter back into economic activity.

"A trade war is a huge uncertainty," said Brett Lewthwaite, global co-head of fixed income for Macquarie Investment Management. "If the talk on restrictive trade escalates to policy, it might cause a partial walk-back of the strong benefits of globalization, which could create complexities and challenges for many multinational corporations. The path forward is not clear, but it is evident we've gone from an in-sync world to one marked by divergent interests."

Real assets and alternatives

"Slowed US growth in 2019 means investor attention could turn toward China, Japan, and emerging markets," said Stefan Löwenthal, chief investment officer for the global multi-asset team, Macquarie Investment Management. "With the US growing at 4%, for example, suddenly emerging market growth of 4% to 5% doesn't seem so hot. We find there's no need to assume emerging market risk if the growth is on par with the US. The US just overshadowed every other market, but we might see a reversal in that sentiment."

Key expectations include:

- While Macquarie does not expect a recession, it does anticipate a slowdown. That could spur emerging markets to grow faster than developed markets, leading to renewed outperformance from emerging markets equities.
- Currency devaluations can make a big difference in some markets that were giving investors major concern. Those moves either have led, or will shortly lead, to reductions in current account deficits in these nations; in some cases, current account surpluses could appear for the first time in more than a decade.
- Global listed real assets present a promising opportunity in 2019. The subgroups that comprise real assets — listed infrastructure, natural resources, and real estate investment trusts (REITs) — all have some inflation protection and benefits depending on the market cycle. Macquarie currently leans toward listed infrastructure because it is well suited for a slightly inflationary, late-cycle environment.

To view the complete *2019 Global Investment Outlooks*, visit: macquarieIM.com/outlooks

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About Macquarie Investment Management
Macquarie Investment Management is a global asset manager with offices throughout the United States, Europe, Asia, and Australia. As active managers, we prioritize autonomy and accountability at the team level in pursuit of opportunities that matter for clients. Our conviction-based, long-term approach has led institutional and individual clients to entrust us to manage $US253.3 billion in assets as of Sept. 30, 2018. In the US, retail investors recognize our Delaware Funds by Macquarie as one of the longest-standing mutual fund families, with more than 75 years in existence. Macquarie Investment Management is a division of Macquarie Asset Management, a global asset manager with $US397.2 billion in assets under management as of Sept. 30, 2018.

Investing involves risk including the possible loss of principal.

The views expressed represent the Manager's assessment of the market environment as of the date indicated and should not be considered a recommendation to buy, hold, or sell any security, and should not be relied on as research or investment advice.

Duration measures a bond's sensitivity to interest rates by indicating the approximate percentage of change in a bond or bond fund's price given a 1% change in interest rates.

The **S&P 500 Index** measures the performance of 500 mostly large-cap stocks weighted by market value and is often used to represent performance of the US stock market.

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