Outlook 2020

IMPLICATIONS FOR THE NORDIC MARKETS

EVLI

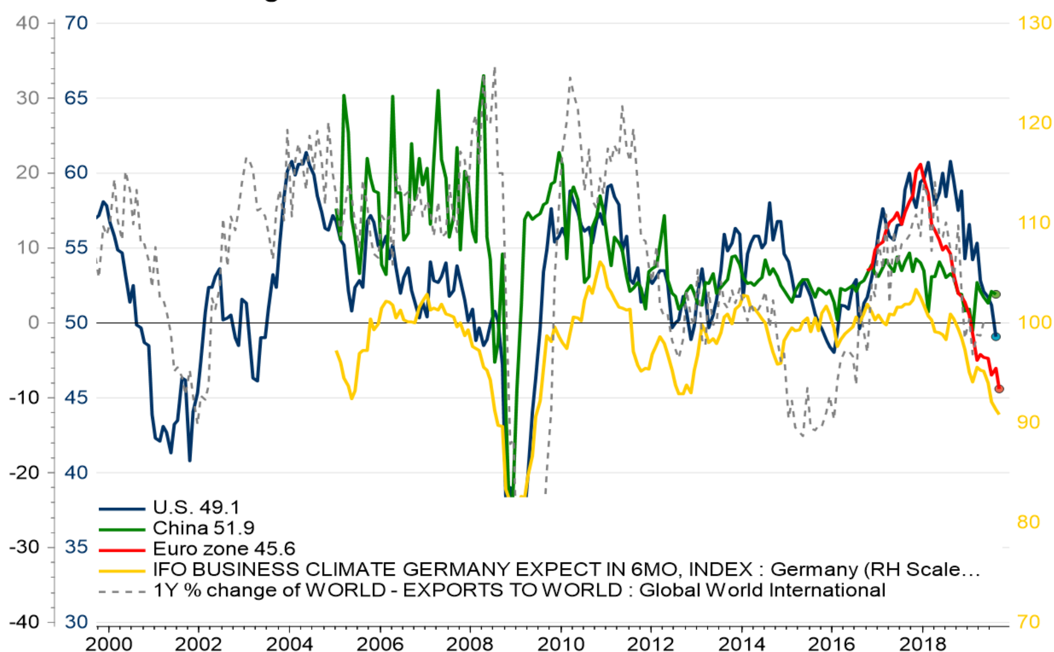
This is a summary of an investment outlook for 2020 by Evli Asset Management. Please see the end of this document for disclaimers.

Global economic and market outlook and expectations for 2020

1. Looking back on 2019
2. Monetary and fiscal policy in the United States and Europe
3. Economic outlook for the United States and China, trade relations and politics
4. Key issues in the European economy: Brexit, Italy, Germany
5. Hot spots: Hong Kong, the Persian Gulf, Barcelona, Venezuela
6. Capital market outlook: global earnings growth for companies, long-term interest rates and investment streams
7. Our return expectations for various asset classes

1. The year 2019 in the global economy and markets

The year 2019 began with a rapid rise from the slump experienced in late 2018. The past year has been characterized by trade negotiations between the United States and China. The import duties imposed by the two countries on one another, in addition to uncertainty concerning their future trade relations, caused global trade volumes to decrease and overshadowed the outlook for industrial production globally.



As a result of slower investments and industrial production, the global economic growth rate was at its lowest since the financial crisis. In the United States, several indicators are pointing to an increased probability of a recession. The ISM Purchasing Managers' Index fell below 50, to 47.3 points. In the fixed-income market, the difference between the 10-year and 2-year interest rates, which reflects recession expectations, stayed close to zero, with a negative yield curve indicating a recession. The earnings growth of S&P 500 companies stagnated, and preliminary information shows a decrease in their third-quarter results. In addition, growth in the number of new jobs at the monthly level has slowed and fallen clearly below the trend witnessed over the past three years.

Therefore, it looks like the record-long economic upturn in the United States is nearing its end, and a downturn is looming ahead. **This leads us to the most important question: how long and how deep will this recession be?**

Economic growth in China also suffered from the trade war, falling to an annual rate of 6.3%. However, the reduction was less than expected, thanks to stimulus measures implemented by the authorities. Nevertheless, the growth rate is expected to slow further, even below 6%, unless China enters into a trade agreement with the United States.

In Europe, the main attention was on the **political situation in the United Kingdom and Italy**. The UK's exit from the European Union has still not been completed, and the continued uncertainty has burdened UK and European companies. However, Brexit is no longer a surprise, and many operators are highly prepared. After Brexit, the Brits will be faced with a long path of negotiations to build new commercial and societal relationships with the EU and other countries.

In Italy, the populist government elected in 2018 fell, and the new, more moderate coalition has been positively received in the markets. The risk premiums for Italian government bonds decreased considerably during the year, in comparison with German government bonds.

The uncertain outlook eventually forced the central banks to loosen their monetary policies again. The ECB kept its interest rate on the main refinancing operations unchanged at 0.0% but reduced its rate on the deposit facility to -0.50%. The ECB also announced that it would restart its asset purchase program at a monthly pace of EUR 20 billion and continue the program for as long as necessary. The Fed lowered its key interest rate by 0.50 percentage points. These measures implemented by the ECB and the Fed failed to meet the most enthusiastic market expectations and were met with a moderate response in the market. Neither of the interest rate decisions was unanimous.

Long-term interest rates fell to record-low levels globally. In the United States, the 10-year interest rate decreased by 0.50 percentage points to 1.50%, which is close to an all-time low in the country. In Germany, the return level of 10-year government bonds reached the lowest level of all time at -0.70%. The total amount of fixed-income investments with a negative interest rate increased to more than USD 17 trillion globally. The heavy interest rate fluctuations in August reflected investors' pessimistic views of the state of the global economy and the emergence of potential problems. The prices of safe-haven investments, such as the Swiss franc and gold, increased.

2. Monetary and fiscal policy in the United States and Europe

The weakening economic outlook has increased pressure and expectations to loosen monetary policy **in the United States and Europe**. In the United States, President Trump has expressed his dissatisfaction with the current policy and the management of the Fed. Ensuring the independence of central banks has become an important topic of economic policy discussions.

From the Fed's perspective, the US economy is in a relatively good state. Economic growth has continued, the unemployment rate is the lowest in more than 50 years, and the inflation rate has remained moderate. Expectations of a recession, in addition to various risks, **made the Fed change its monetary policy "just in case."** According to the Fed's estimate, moderate decreases in the key interest rate will reduce or at least mitigate the period of slower economic growth that is in sight.

In the fixed-income market, the Fed is expected to lower its key interest rate by 0.50 percentage points by next summer. However, the impact of decreases in interest rates on long-term interest rates, which affect companies' and consumers' financial expenses, and on companies' investment decisions and inflation expectations, is ambiguous.

Long-term interest rates have decreased because of factors beyond the Fed's control, with key factors including a **global oversupply of capital**. The reasons behind the oversupply include demographic factors in various countries and regions, political uncertainty and globally low inflation expectations. Long-term interest rates may resume growth despite the measures implemented by the Fed. This can be seen as a healthy phenomenon **if the increase reflects a recovery in growth expectations**. However, the increase may be alarming if it reflects an increase in risk premiums or inflation pressure.

In terms of many long-term investments, financial expenses are currently less significant than many other uncertainties. **In addition to political uncertainties, rapid technological development and a change in consumption habits are** creating change and adjustment pressure, and the eventual effects of this pressure are difficult to estimate at this point. Major changes will be seen in the automotive industry in particular, in terms of both production logistics and the increasing demand for electric cars.

Consumer price development is affected by two major global trends. Global trade growth is slowing as a result of increased protectionism, which limits international competition. On the other hand, the share of goods and products of consumer price indices is decreasing, while the share of services is increasing. One of the characteristics of the long upturn in the global economy and the US economy has been lower salary inflation than in previous upturns. In the United States in particular, the tight labor market may increase salary pressure if it continues. Some signs of this have already been seen.

The Fed has been reluctant to start strong monetary stimulus. According to the Fed's estimate, the state of the economy is currently good, but risks of slowing arise from uncertainties related to the global economy. The Fed's strategy is to continue to make gradual monetary policy adjustments based on the prevailing economic situation and to avoid the pitfalls of the turbulent political situation in the United States.

With its recently elected new president, Christine Lagarde, the European Central Bank will enter a new era. Lagarde is expected to bring a new kind of monetary policy thinking and perhaps also to emphasize aspects other than monetary factors in decision-making.

Persuaded by its former president, Mario Draghi, the ECB is committed to continuing its securities purchase program **for as long as necessary**. However, the **negative interest rate level** is causing ill feeling among banks, and in Germany in particular. Traditional deposit bank operations are dwindling in the eurozone, but financing based on securities is still far away from the depth of the US market, for example.

The capital adequacy requirements for banks continue to increase with the implementation of the Basel IV regulations. This limits banks' risk ability and appetite in both customer financing and capital market operations.

The ability to affect the supply of and demand for loans through monetary policy is generally being regarded as lower than before. In terms of long-term investment decisions, a few basis points are not that significant compared with other risk factors.

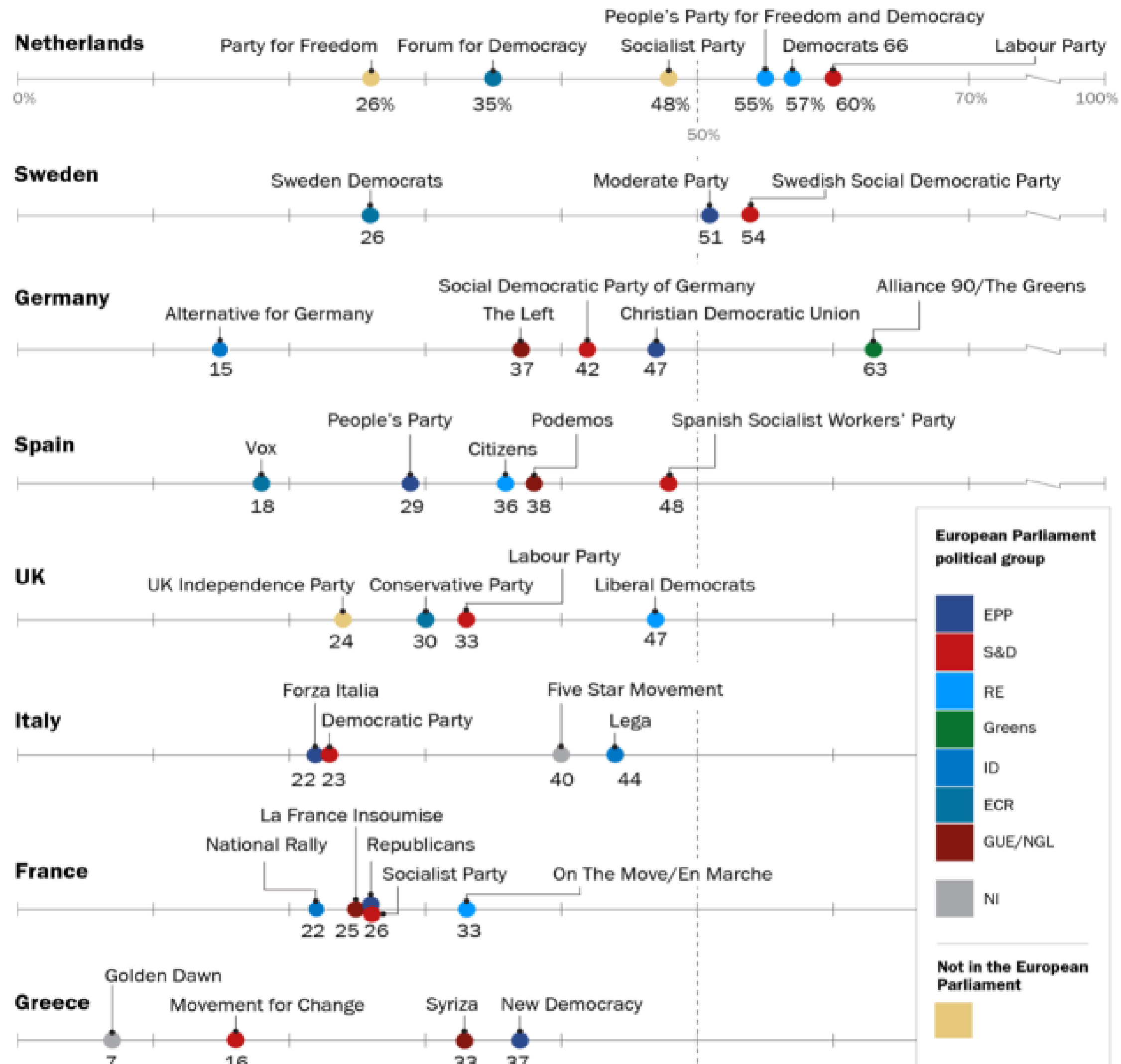
The economic outlook for countries in the eurozone is currently weak, with low growth expectations for 2020, mainly because of factors related to the global economy. Inflation is also expected to remain low. Resumed economic growth in China and other Asian countries offers a glimmer of hope for the eurozone countries, but growth does not seem probable unless major progress is made in terms of international trade relations.

The eurozone economies are **prone to external shocks, with limited leeway in monetary and fiscal policy**. The same old monetary policy measures are not likely to produce new results.

There have been requirements to boost economic development through **fiscal policy**. **In Germany in particular,** fiscal policy is seen to hold the most significant potential for investments or tax reliefs. The challenges include uncertainty about how these would affect the rest of the eurozone. From Germany's perspective, its fiscal policy has already helped eurozone countries with deficits, and direct financing is out of the question. For most other eurozone countries, increasing their budget deficits and public debt would drive them further away from the agreed-upon restrictions.

In many countries, the rise of populist parties is causing pressure to increase public spending. On the other hand, the rise of green parties is increasing willingness to make environmental investments. In addition, the possibly increasing debt of the eurozone looks less alarming than the increasing US federal debt.

Figure: Popularity of parties in European countries



EVLI

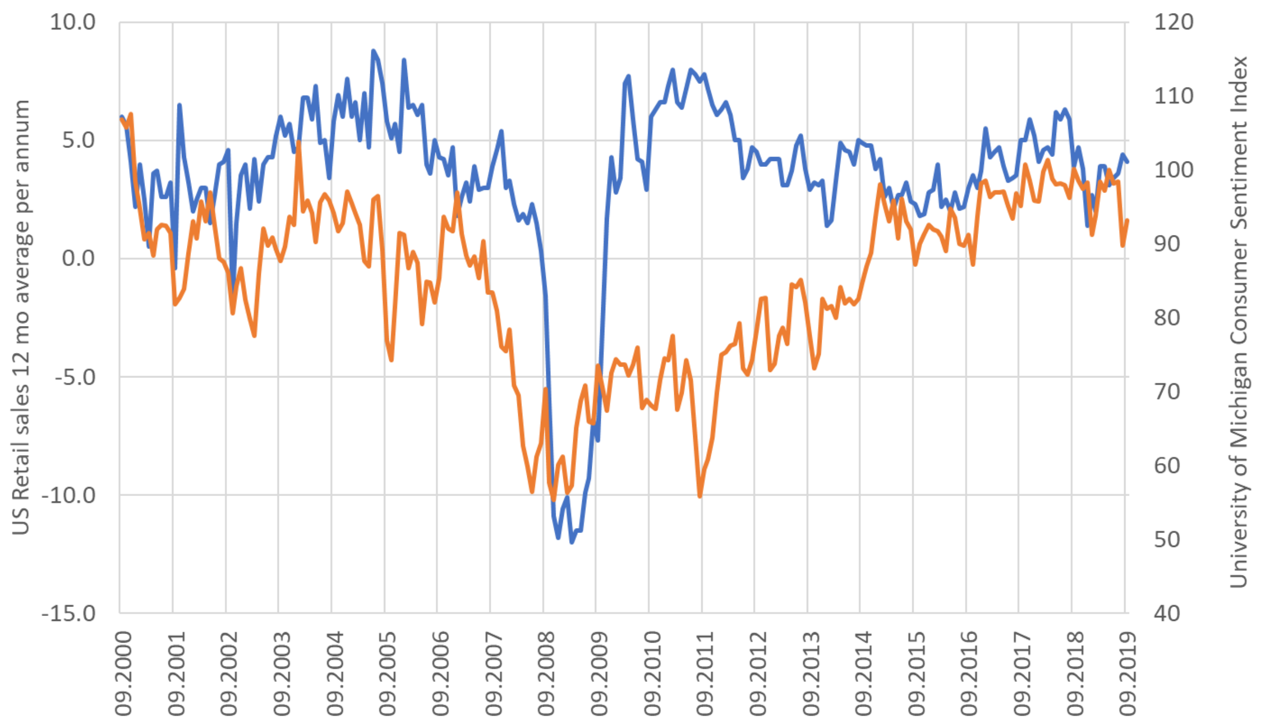
3. Economic outlook for the United States and China, trade relations and politics

The export of goods and products represents 12% of the GDP of the United States. The United States is considerably less dependent on exports than the eurozone, where exports represent 46% of the GDP.

Trade disputes, particularly those with China, have received a great deal of attention in the media and markets. However, **American companies' business operations outside the United States** are much more significant, but there is a long way to go in terms of finding easier opportunities to operate in the Chinese market. This requires not only successful trade negotiations, but also changes to legislation and the operating culture. On the other hand, American digital giants are under heavier scrutiny by the European competition and tax authorities.

For this reason, the **development of domestic demand and consumption** plays a key role in economic growth in the United States. Consumer confidence has remained relatively strong, even though there have been early signs of weakening in the labor and housing markets. Despite President Trump's controversial actions, lower income taxes must be seen as a benefit for consumers. If the Democratic candidate wins the presidential election, consumer confidence may begin to decrease.

Figure: Retail sales and consumer confidence in the United States



Data: Refinitiv

The presidential election in November may become a turning point in the United States. At the moment, President Trump seems to be a strong candidate to win the election. Even though the president has been criticized by the members of his party, the Republicans do not have an alternative candidate, not at least for the time being. **The impeachment inquiry by the Democrats** will probably

be stopped by the Republican majority of the Senate. Joe Biden, Elizabeth Warren and Bernie Sanders are currently the top Democratic candidates. Sanders and Warren are clearly on the political left, whereas the strengthening of the political extremes may cause the more moderate Biden's popularity to decrease. Old age may become a hindrance to Sanders and Biden, although Donald Trump is not much younger. If Donald Trump is elected for a second term, the turbulence is likely to continue, whereas a Democratic win could lead to a turning point in many respects.

The relations between China and the United States may well improve, as both parties would benefit from progress. The markets **will welcome all signs of détente**. However, the two countries' views of the timeline are still far apart. Trump hopes for and needs quick achievements, while China is prepared for a longer process to ensure its continued strength. In addition to trade issues, **geopolitical surprises** on the Korean Peninsula or in Hong Kong, Taiwan or the South China Sea may cause a setback.

The trade disputes have had a **slowing effect on the Chinese economy** through slower growth in exports and increased caution among consumers and companies. During the current five-year period, the Chinese economy is undergoing a change process to decrease its dependency on exports and investments. At the same time, measures are being implemented to increase domestic demand. The foreign trade disputes are strengthening this development, and the authorities have implemented **minor stimulus measures through monetary and fiscal policy**. Such measures can be expected to continue for as long as there is external pressure. In any case, the economic growth rate is likely to fall below 6%, which is regarded as a critical limit.

Table: Monetary and fiscal policy measures in China in 2018–2020

Summary of monetary and fiscal expectations of participants

Monetary/credit	RRR	MLF 1y rate	OMO 7d rate	LPR 1y	BACA (chg)
2018	-250bp	+5bp	+5bp	no change	-4.1pp
2019 Q1-Q3	-150bp	no change	no change	-11bp	+0.6pp
2019 Q4 (expected)	likely	likely	likely	lower each month	
2020 (vs 2019)	similar	more cuts	more cuts	more declines	

Fiscal	Fiscal deficit (as % of GDP)		LG bonds (in CNY)		Tax cuts (total as % of GDP; items in CNY)			
	Budget	Augmented	General	Special	Total (% of GDP)	(i) Individual income tax	(ii) Corporate VAT	(iii) Corporate income tax
2018	2.6%	11.2%	0.83trn	1.35trn	1.4%	~100bn	~400bn	~170bn
2019	2.8%	12.2%	0.93trn	2.15trn	2.2%	~400bn	~1000bn	~200bn
2020 (expected)	2.8-3.0%	12-13%	~1trn	~3trn	less	unlikely	unlikely	likely

Source: Wind, Barclays Research; **NOTE:** Q4 and 2020 figures are based on the feedback received during meetings and are **not** Barclays forecasts

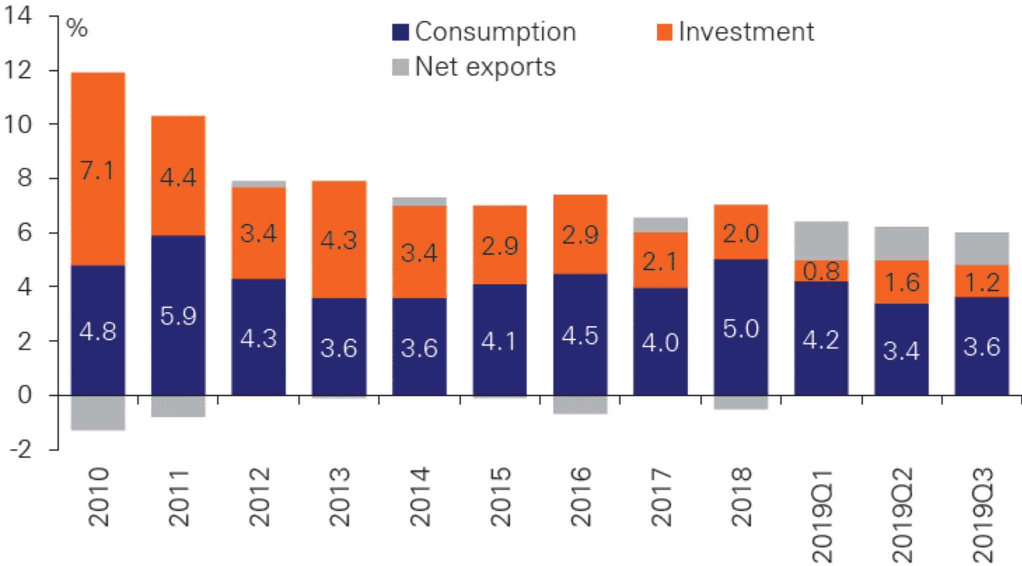
The increasingly affluent Chinese middle class continues to be the most significant economic driver, supported by urbanization, employment and salary development. However, economic productivity growth is likely to slow with lower exports, in addition to efforts to keep the citizens satisfied.

Slower growth will cause the resurfacing of **previous bad choices**, including overinvestment, high valuation levels in the real estate market and non-performing loans in the banking system. The Chinese Central Government is aware of the situation, which is why the government might avoid to

EVLI

escalate further the dispute with the United States . On the other hand, China has no hard or compelling pressure to seek a quick solution.

Figure: Chinese GDP development in 2010–2019



Source : Deutsche Bank Research, NBS, WIND

Chinese companies' position in the global market and foreign companies' position in China are key issues in terms of trade relations. China will probably seek to open and deregulate its domestic market over the long term. However, combining this shift with a centralized political system remains an unresolved challenge.

Table: Comparison of potential in China's economic sectors

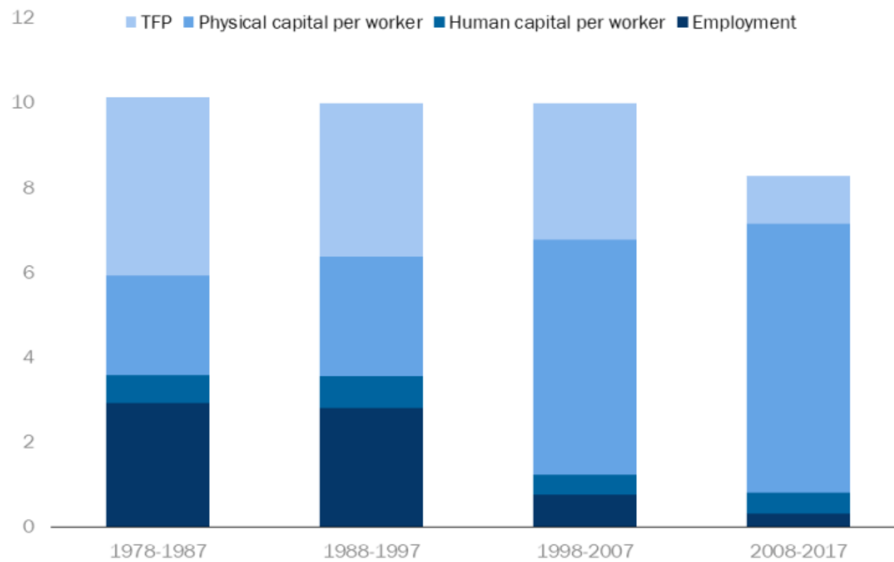
China has achieved global scale, but more can be done.

	China's scale	More room to globalize further
Trade	China has been the world's largest goods trading nation since 2013, accounting for 11.4% of global goods trade in 2017	… but China accounted for only about 6.4% of global services sector trade in 2017
Firms	China has 111 Global Fortune 500 companies, comparable with the US	… but they are still anchored in the domestic market (18% of revenue earned overseas vs 44% for S&P 500 firms)
Capital	China has a large financial system (the largest banking system, and second- and third-largest stock and bond markets, respectively)	… but cross-border flows (3–4x smaller than US flows) and foreign participation are limited (foreign ownership is less than 6% in banking, stock, and bond markets)
People	China is the world's largest source of outbound students (17% of international tertiary degree students in 2017) and tourists (Chinese tourists made 150 million outbound trips in 2018, the most in the world)	… but people flows are still geographically concentrated (~60% of outbound students go to the United States, Australia, and the United Kingdom), and migrant flows to China are only 0.2% of global total
Technology	China has invested heavily in its R&D (the world's second-largest spender with $273 billion in 2018)	… but still relies heavily on imported technology (more than half of technology import contracts come from just three countries) and intellectual property (China's IP imports are six times larger than exports)
Data	China has the most internet users in the world (more than 800 million), generating huge amounts of data	… but cross-border data flows are limited (8th highest in the world, but only 20% of US flows)
Environmental impact	China accounts for 45% of global renewables investment	… but it is still the world's largest source of carbon emissions (28% of total)
Culture	China has invested heavily in developing global cultural presence (12% of top 50 world movies shot in China vs 2% in 2010)	… but cultural reach is still relatively limited (exports of television dramas one-third of South Korea's)

Source: McKinsey Global Institute analysis

On the other hand, Chinese companies are often frowned upon in other countries. In many respects, they are considered to compete with artificially low prices and to play by different rules. **Increased protectionism** in many countries may protect domestic companies, but this approach comes with a price if it maintains inefficiencies.

Figure: Chinese companies' productivity in 1978–2017



4. Key issues in the European economy: Brexit, Italy, Germany

Will Brexit have been delivered by the beginning of 2020? Regardless of the situation, the significance and impact of Brexit is diminishing. A significant proportion of companies and public-sector operators **are prepared for Brexit** and have contingency plans and arrangements in place.

At the time of writing, in late October 2019, it seems probable that the withdrawal agreement between the United Kingdom and the European Union will be approved, but **there is no certainty about its implementation yet.** Continued uncertainty is the worst possible situation for the economy and the markets, because it maintains caution among companies and consumers.

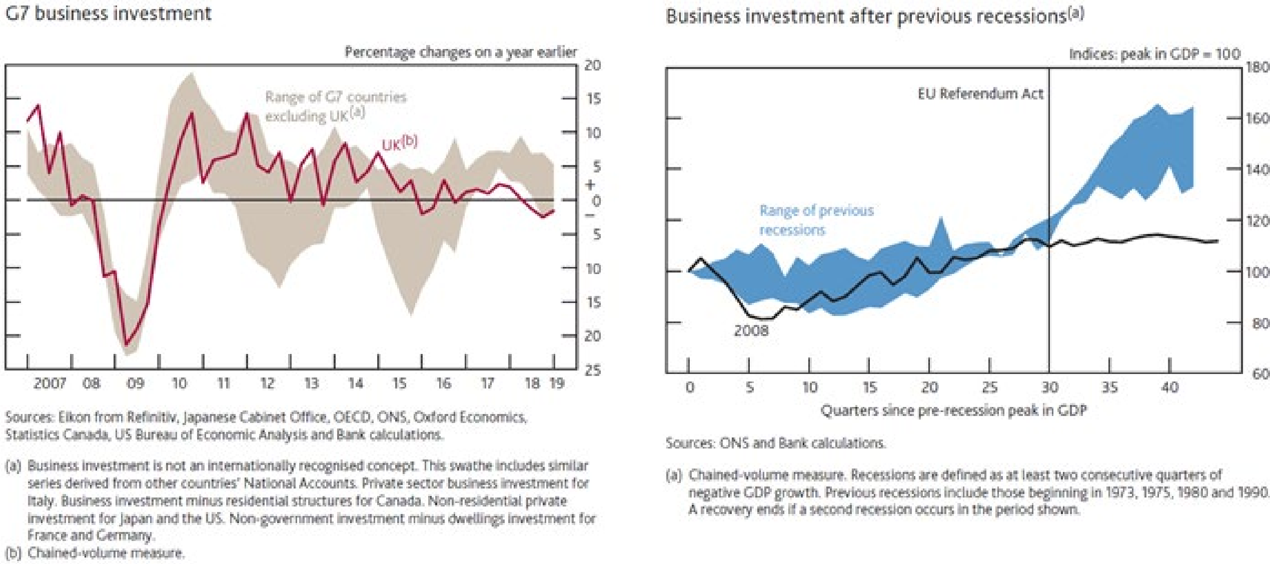
The Brexit preparation costs are already having ripple effects on the economy. At this point, it is only possible to guess what their total amount will be. A long time ago, the EU estimated these costs to be around EUR 100 billion. It remains to be seen how this amount will be divided between the United Kingdom and other countries, between consumers and companies and between taxpayers and public-sector operators.

A hard Brexit—a British exit without an agreement—despite the negotiations would be a **surprising turn of events**. Although it would not be the end of the world, it would certainly cause confusion over border formalities and goods transport and in companies' business units. However, the congestion and delays would decrease over time with the emergence of new operating methods.

In any case, the United Kingdom is faced with **lengthy negotiations** with the EU and with other countries and economic areas on the new rules. Will the United Kingdom be able to ensure a better

position than before? Will the new arrangements and agreements be more beneficial for the UK and less beneficial for the other parties?

Figure: Corporate investment in the UK has decreased



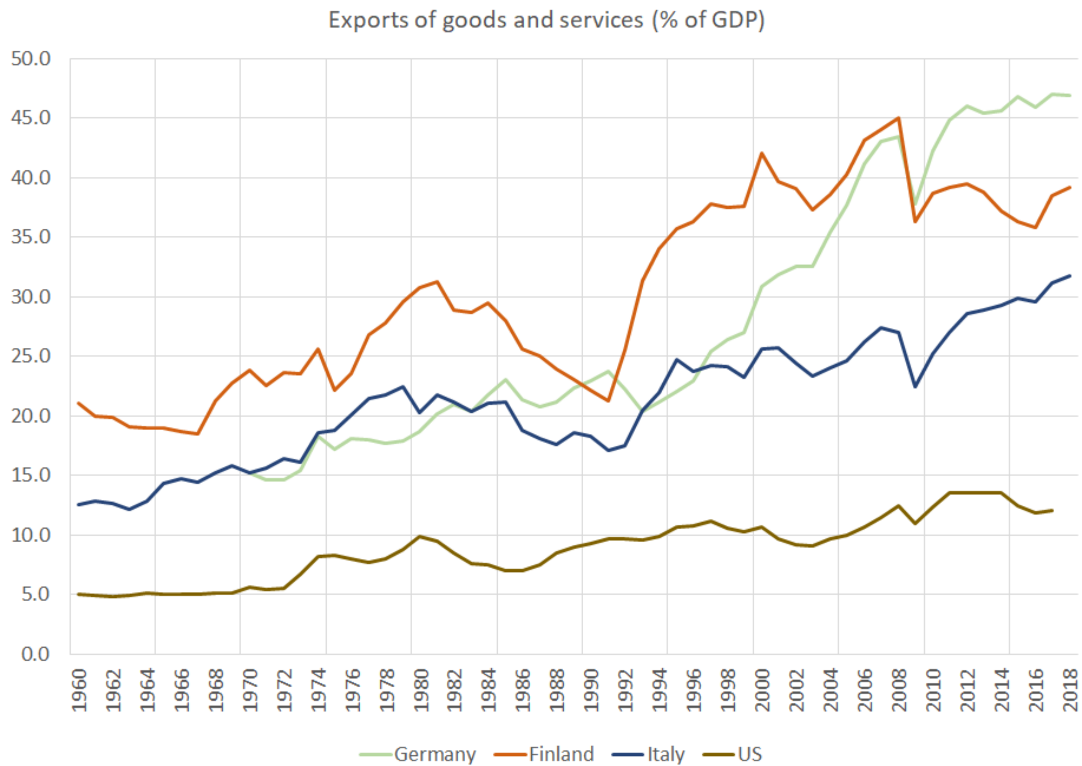
Economic development in Italy is one of the key issues in the eurozone. The Italian economy is still struggling, the country's public debt has remained high, and political uncertainty has continued. The change of government in the fall of 2019 brought some moderation to the most extreme and populist views, a shift that met with a positive response in the fixed-income markets.

However, the Italian **political system** is known to be unstable, with short-lived governments. Decisions about economic reforms are painfully slow and complicated, with their implementation even more so. For this reason, Italy continues to be prone to external shocks, and in the event of any external shocks, the country's **high level of indebtedness is a considerable risk**.

The Italian banking system has seen **some improvements**, with banks' non-performing loans decreasing and capital adequacy increasing. Nevertheless, the banking system continues to be fragmented. In addition, Italian banks cannot avoid the major trends that are changing the entire sector.

Economic difficulties in Italy could mean serious trouble for the eurozone, because the country is **too large to collapse while also being too large to save**.

Image: Proportion of exports of national economies



Source: World Bank national accounts data, and OECD National Accounts data files

The German economy has fallen into a slump over a short period, with global demand decreasing. German industry has suffered from the trade disputes between the United States and China to some extent, and from its challenges with the automotive industry. The Germans are not willing to invest or consume, even though the low interest rate levels and the weakening euro also support Germany.

It looks like **strict budget control** will continue in Germany. Domestic consumption is showing no signs of acceleration, even though savers are subjected to negative interest rates and other extreme measures to increase consumption. Détente in trade disputes and the recovery of global demand provide glimmers of hope for the German economy.

Changes in Germany's political position may bring changes to economic policy and to the European Union. With Chancellor Angela Merkel about to step down, opportunities will arise for new decision-makers and politicians. The rise of the Greens is reflected in environmental issues and investments in Germany. The country's weight and authority in EU issues is also decreasing, even though the exit of the United Kingdom will leave a void in decision-making in the EU.

EVLI

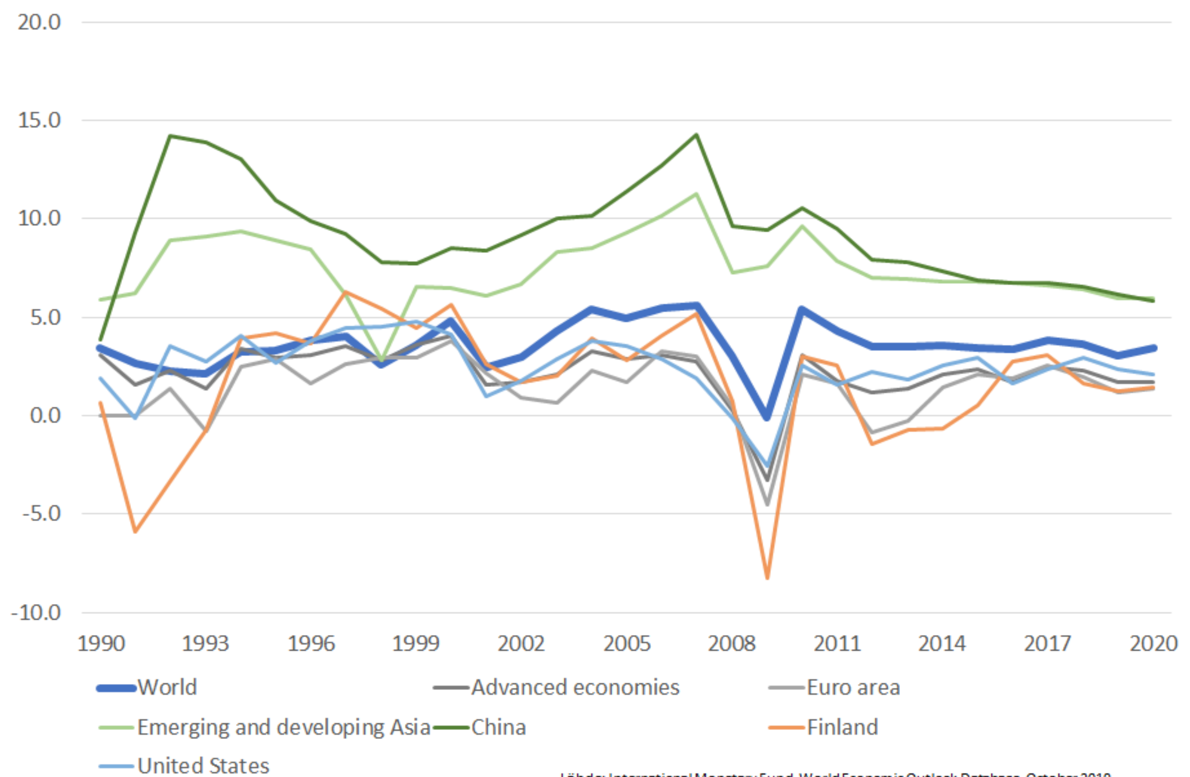
Table: Annual changes in GDP in various regions and countries

Gross domestic product, constant prices, change (%)	2014	2015	2016	2017	2018	*2019*	*2020*
World	3.6	3.5	3.4	3.8	3.6	*3.0*	*3.4*
Advanced economies	2.1	2.3	1.7	2.5	2.3	*1.7*	*1.7*
Eurozone	1.4	2.1	1.9	2.5	1.9	*1.2*	*1.4*
Major advanced economies (G7)	2.0	2.2	1.5	2.3	2.1	*1.6*	*1.6*
Emerging market and developing economies	4.7	4.3	4.6	4.8	4.5	*3.9*	*4.6*
Emerging and developing Asia	6.8	6.8	6.7	6.6	6.4	*5.9*	*6.0*
Emerging and developing Europe	1.9	0.8	1.8	3.9	3.1	*1.8*	*2.5*
Latin America and the Caribbean	1.3	0.3	-0.6	1.2	1.0	*0.2*	*1.8*
China	7.3	6.9	6.7	6.8	6.6	6.1	*5.8*
Finland	-0.6	0.5	2.8	3.0	1.7	*1.2*	*1.5*
Germany	2.2	1.7	2.2	2.5	1.5	*0.5*	*1.2*
United Kingdom	2.9	2.3	1.8	1.8	1.4	*1.2*	*1.4*
United States	2.5	2.9	1.6	2.4	2.9	*2.4*	*2.1*

Preliminary estimate for 2019 and IMF forecast for 2020

Source: International Monetary Fund, World Economic Outlook Database, October 2019

Figure: Annual changes in GDP in various regions and countries



5. Hot spots: Hong Kong, the Persian Gulf, Barcelona, Venezuela, cyberspace...

Can **regional unrest in different parts of the world** develop into factors that destabilize the bigger picture?

The ongoing protests in Hong Kong are burdening local economic development and may jeopardize capital market activities in the worst-case scenario. **China's patience** in monitoring the situation is essential. As long as the dissatisfaction does not expand beyond the island of Hong Kong, China does not have a pressing need to intervene. However, the developments are being **monitored closely in Taiwan**, which has unresolved issues with China.

The tension in the Persian Gulf is not only about crude oil deliveries. The hostility between Saudi Arabia and Iran may lead to conflicts or attacks with far-reaching effects. In addition, both countries have interests in the Middle East, and their internal situations are far from ideal. The unrest is likely to continue.

The tense situation in Catalonia has escalated again. Any continued and escalated unrest would become a burden for Spain, and increased demands for independence would foster similar aspirations in other countries. Even if the economic effects of the unrest are limited, the rise of nationalism and populism will also pose challenges to economic policy in various countries. Such unrest is often related to distribution of income, which makes it **increasingly tempting to make political promises concerning money**.

Economic problems and pressure for a change of government in Venezuela are causing the regional crisis to continue. The unrest and the conditions in Venezuela are forcing people to leave for neighboring countries. Venezuela is a **significant oil producer** and has major oil reserves, which makes it a strategically important country. Fluctuations in production may affect the oil market, especially if other production areas are undergoing shutdowns at the same time.

Of other types of risk, **cyber or hacker attacks** may have more extensive effects than before through their possible side effects. Assessing such risks is impossible, but with the perpetrators being more skillful and systematic than before, the consequences may be severe, even though the level of preparedness has improved. Many countries apparently aspire to attack or interfere with elections through more or less sophisticated methods.

EVLI

6. Capital market outlook: global earnings growth for companies, long-term interest rates and investment streams

The challenging global economic situation and outlook have an impact on companies' revenue and earnings development. A global economic growth rate of less than 4% **indicates zero development** in terms of both revenue and earnings. Companies are taking action: investments are being postponed to save capital and prevent new costs, and cost structures are being streamlined.

As is typical, stock market analysts' forecasts for 2020 have initially been more optimistic but have been adjusted downward during the fall. However, bottom-up market forecasts continue to be considerably higher than the top-down figures projected from the macroeconomic perspective. **The analysts' forecasts will be further adjusted downward** unless positive signals can be seen in the economic environment.

Figure: IBES consensus earnings growth forecasts for the eurozone

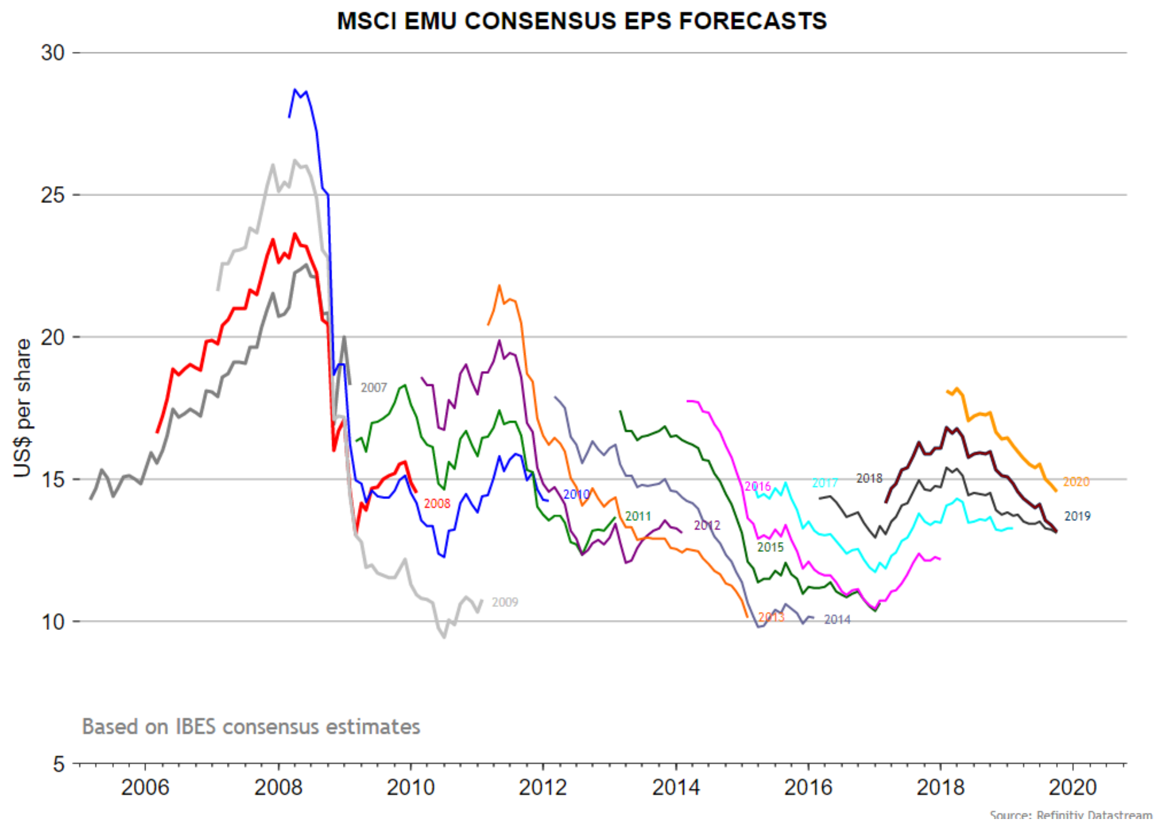
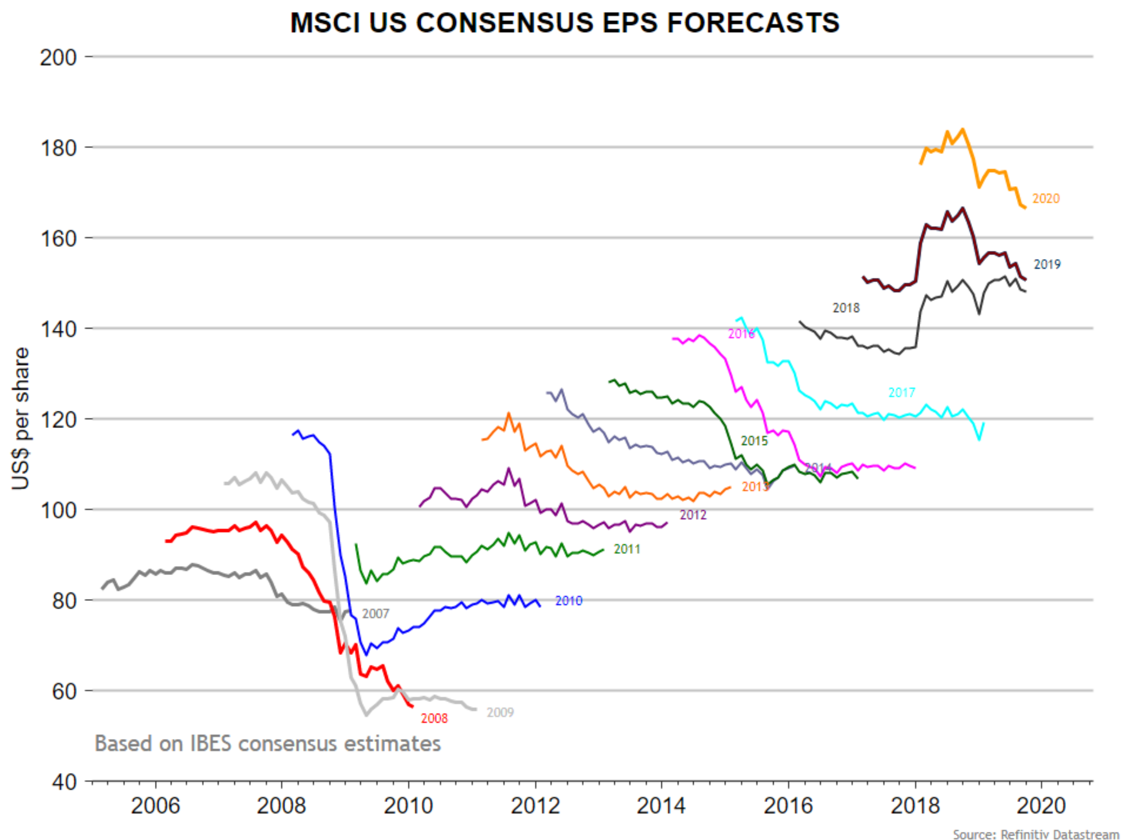


Figure: IBES consensus earnings growth forecasts for the United States



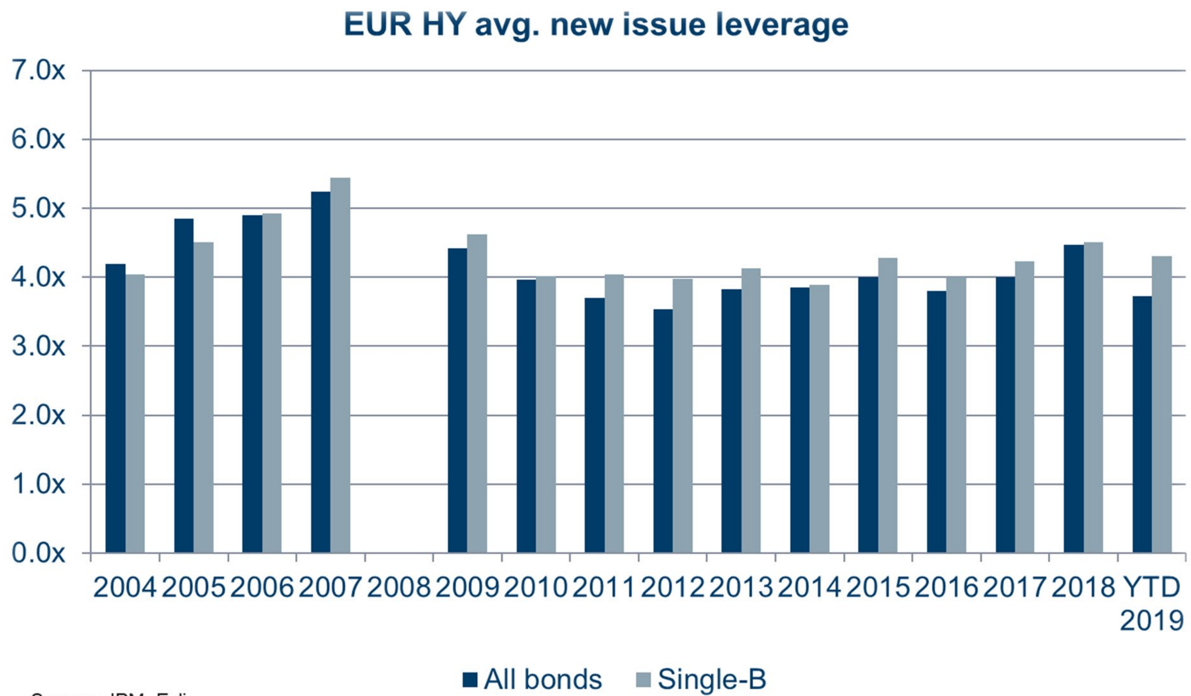
Energy companies' results have fluctuated strongly in recent years, and their weight is significant in terms of the entire market. In the United States, energy companies' results are expected to improve by more than 25% in 2020, which is clearly higher than the average earnings growth rate of 10.8% for S&P 500 companies, in accordance with analysts' bottom-up forecasts. In Europe, energy companies' earnings growth rate is expected to be clearly higher than the average earnings growth rate of 15.0% for Stoxx 600 companies in 2020.

Energy price development is **typically volatile**, and a recovery in global economic growth or interruptions in production may cause energy prices to increase rapidly. Crude oil producers hardly wish to go back to playing musical chairs in the same manner as in 2015. Interesting details include the potential listing of Saudi Aramco or ownership arrangements within the company. If the company is listed, it is expected to become the world's largest company in terms of market capitalization.

Companies' **cash flows from operating activities** are mainly sufficient to cover debt management expenses. **Further increases in debt are moderate,** with new investments and projects having been postponed. Negative interest rates are problematic for companies' **cash management**, since they make it costly to hold cash assets. Negative interest rates increase pressure for more efficient operating capital management, and if there seems to be a longer-term excess of assets, it makes sense for companies to distribute such assets as dividends or even repay their loans.

EVLI

Figure: Indebtedness of Euro High Yield issuers



The number of materialized payment defaults and bankruptcies has remained low. Looking forward, weak economic development and low revenue growth will increase credit risks. On the other hand, the continued low level of interest rates **will keep financial expenses low**. Corporate bond risk premiums are sufficient for a moderate increase in the number of bankruptcies. Considering the factors in sight, an **exceptionally large increase in their number is not expected**.

Table: Corporate bond risk premiums and the implicit number of bankruptcies

		Risk premium for a 5-year maturity	Implicit number of bankruptcies[1)]	Worst year[2)]	Average
EUR	Investment grade	103	6.2%	2.4%	0.4%
	High yield	349	19.4%	38.8%	11.5%
USD	Investment grade	112	6.7%	2.4%	0.9%
	High yield	410	22.9%	30.9%	17.0%

1) 20% recovery assumption
2) Cumulative 5-year amount

Source: Deutsche Bank

Figure: Number of materialized bankruptcies among Euro High Yield issuers

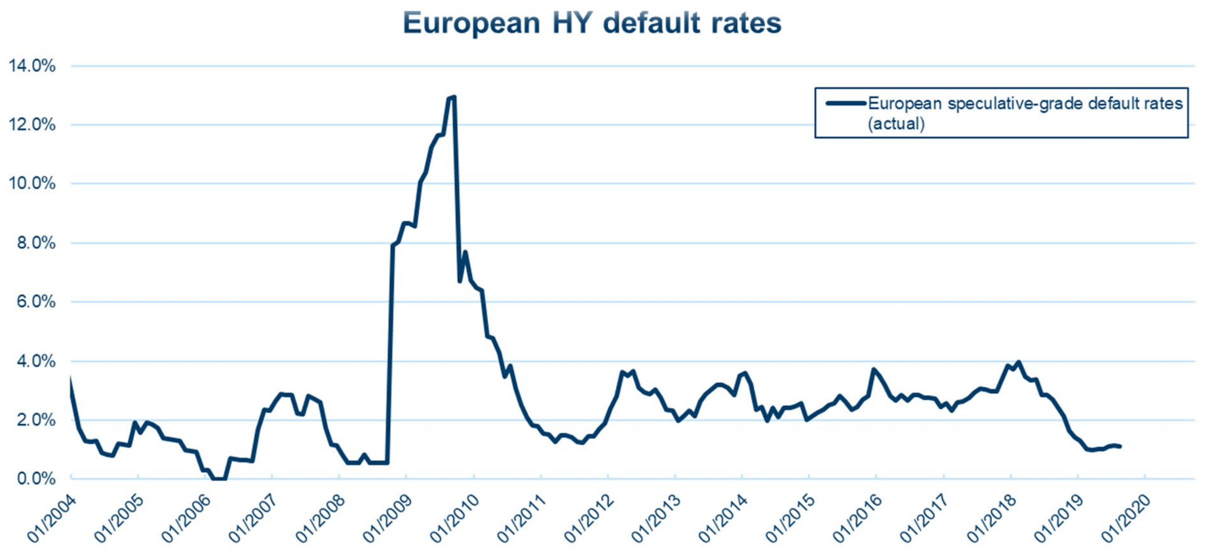
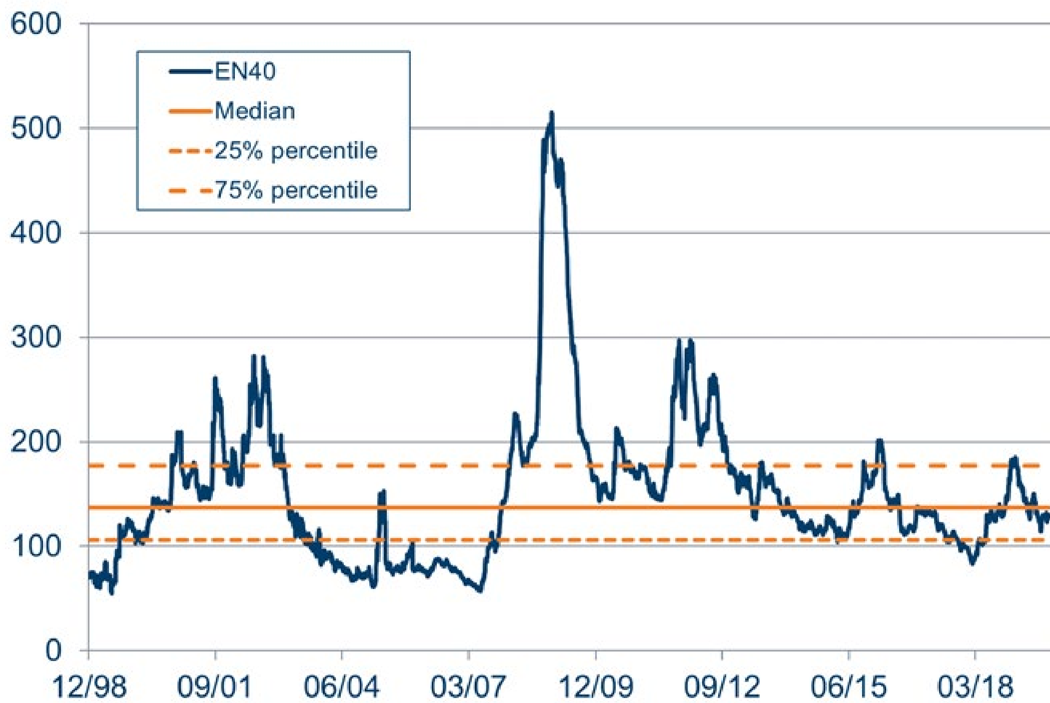


Figure: Risk premiums for European investment-grade companies



With government bonds in the eurozone mainly generating **negative returns**, investors continue to seek yields by investing in corporate bonds. The continuation of the European Central Bank's purchase

program is keeping the return levels for government bonds exceptionally low, in addition to maintaining **demand for corporate bonds**.

Figure: Yield curves for eurozone government bonds

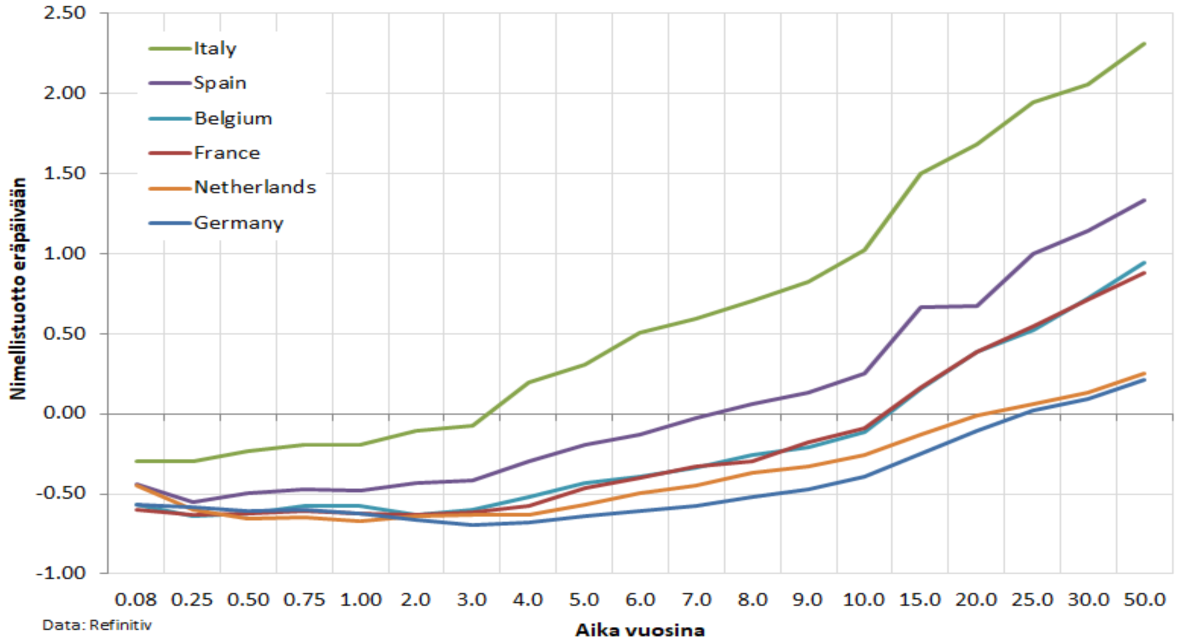
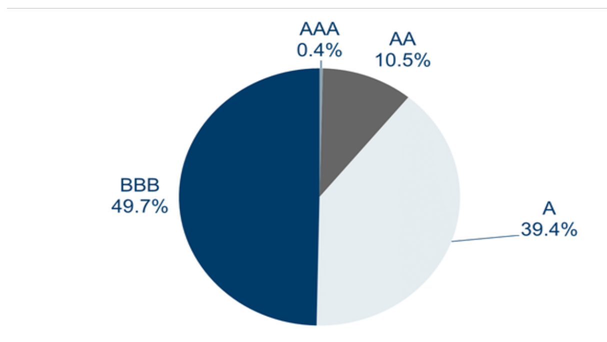
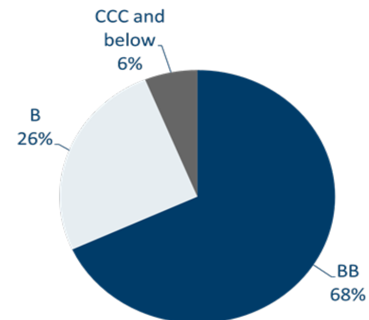


Figure: Structure of euro corporate bonds

	Euro Investment Grade*	European High Yield**
Tuotto (%)	0.50	3.89
Modifioitu duraatio	5.26	4.20
Keskim. Luokitus	A-	BB-
Keskim. hinta (%)	106.89	102.32
Korkoero valtionlainaan (bps)	112	380
Velkakirjojen lkm.	3275	555
Markkinan koko/nim. arvo (bln €)	2396	291

*) ICE BofAML Euro Corporates Index *Päivitetty 30.09.2019 tilanne*
**) ICE BofAML European Currency Developed Markets High Yield Constrained Index





In the eurozone equity markets, **investor sentiment** is low, considering the share price performance, and **investments have been transferred outside** equity funds registered in Europe, which indicates caution and reduced risk appetite among investors. Correspondingly, investments have been made in

fixed-income funds. With the sentiment being low, positive news has the potential to trigger a strong upswing.

Figure: Euro Stoxx Index and Sentix Investor Confidence Index

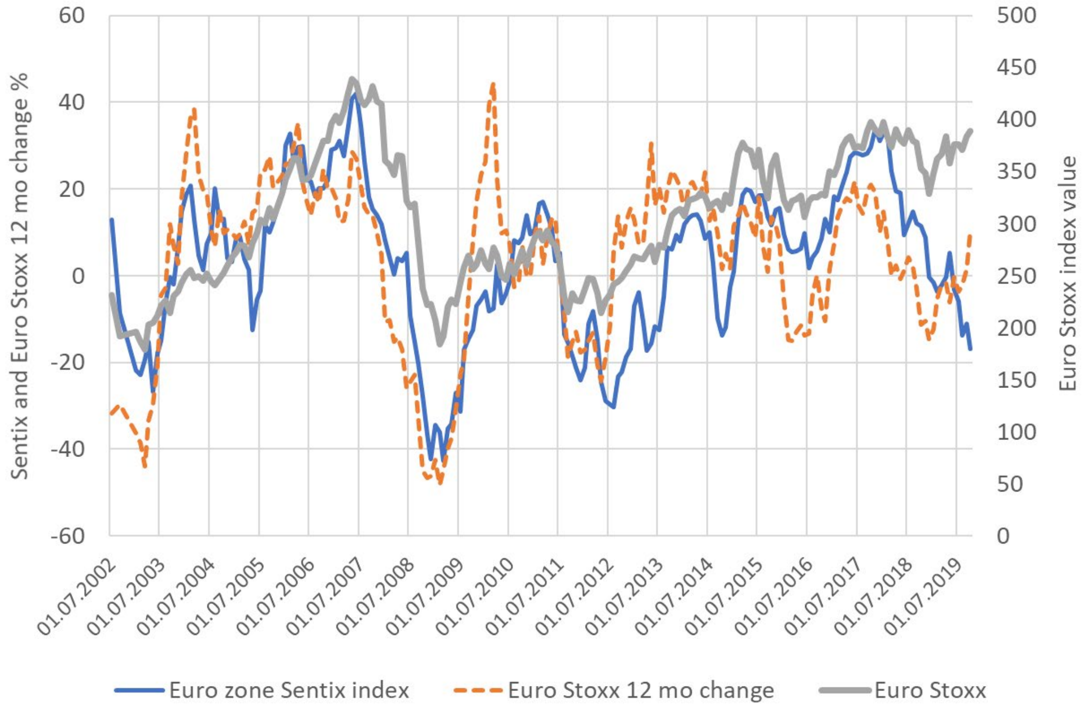
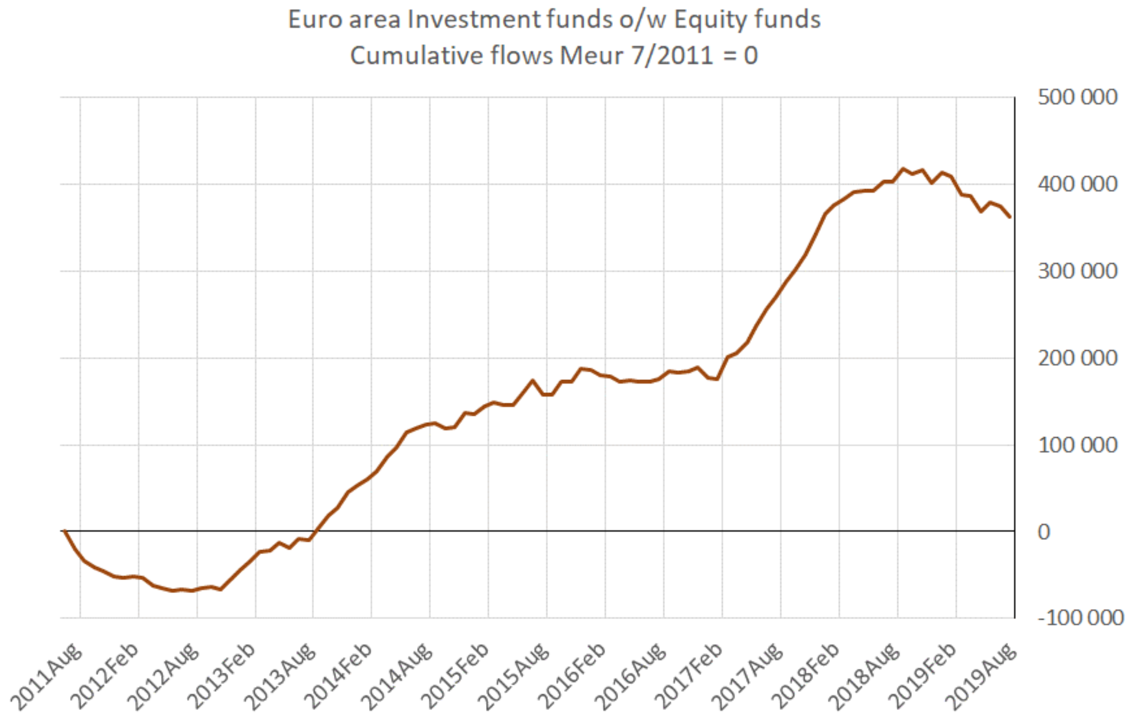


Figure: Cumulative change in the capital of equity funds registered in the eurozone



7. Our return expectations for various asset classes

The global economic situation is not all bad:

- Companies' indebtedness is moderate, and banks' capital adequacy is considerably stronger than before.
- Furthermore, consumers are not over-indebted. The development of employment and earnings has created a buffer.
- On the other hand, increasing public debt is a concern in many countries.
- There is no upward pressure on inflation, and central banks have quickly loosened their monetary policies.
- Ample liquidity is available.
- Despite the long-term upturn in the equity markets, equity valuation levels are not overpriced.

All these signs suggest that the **downturn may be moderate**.

Political risks remain high: Brexit, in addition to the trade disputes between the United States and China, may lead to permanent structural changes in the global economy.

Any **unexpected turn** in the fixed-income market may pose a challenge to the markets.

If new uncertainties do not emerge, global capital will gravitate toward high-risk asset classes in the hope of returns, even though economic growth will not yet pick up significantly.

Asset class	**Return expectation for 2020**
Money markets	0.4
Government bonds €	-2.0
Investment-grade corporate bonds €	0.5
High-yield corporate bonds	3.0
Emerging market bonds €, hedged	3.0
Europe, equities	5.0
Finland, equities	3.0
United States, equities	4.0
Japan, equities	3.0
Emerging market equities	7.0

EVLI

This presentation is intended solely for the private use of the client.

The presentation is based on information from sources that the Evli Group considers to be reliable. The Evli Group or its employees do not guarantee that the information, opinions, estimates or forecasts provided in the presentation are correct, accurate or complete, and they are not liable for any damage caused by the use of the publication.

The Evli Group is not liable for any material or information included in the presentation that has been produced or published by a third party. The information provided in the presentation is not considered to be investment advice or a recommendation to buy or sell a financial instrument.

The information and estimates provided in the presentation are based on the situation at the time of publication and may later change unannounced. Past performance is not a guarantee of future returns.

This presentation must not be copied, distributed or published in the United States, and it is not intended for citizens of the United States.

Furthermore, the presentation is not intended for persons living in a state where the Evli Group's operations are not authorized in accordance with the judicial system.

This presentation or any part thereof may not be copied, shared or published without prior written consent from the Evli Group. All rights are reserved.

Evli or its employees are not responsible for the materialization of the return or risk calculations or other forecasts presented here. The client is always financially responsible for their investment planning. Please note that the prices of investment instruments may rise and fall. Past returns or risks are not a guarantee of future performance.

The views presented in this report do not constitute recommendations for measures concerning the capital market or securities.