

# Outlook for March 2019

## WORLD ECONOMY

### United States

- While it is slowing down, U.S. GDP should grow 2.5% in 2019 due to a healthy consumer and an expected revival in capital spending.
- Easing trade tensions and a stabilizing dollar could produce a positive surprise in net exports over the second half of the year.

### Developed Markets

- Three events should pull the European economy from the brink of a recession: the currency depreciation in 2018, fiscal stimulus domestically and in important export destinations such as China, and a successfully-negotiated Brexit agreement. One tangible risk to this recovery is renewed U.S. focus on trade, particularly German auto tariffs.
- Chinese fiscal stimulus should bolster Japanese exports. However, the government will likely need to scrap its proposed sales tax hike. In its current state, the Japanese economy wouldn't be able to absorb any tightening measures.

### Emerging Markets

- If trade negotiations result in fewer tariffs or tariff threats, then the spending and tax measures introduced over the last few months should allow the Chinese government to achieve its target of roughly 6.0% growth for 2019.

## MONETARY POLICY & CURRENCIES

### United States

- The U.S. Federal Reserve appears to be at or near the end of its tightening cycle that began three years ago. To avoid alarming investors like he did in Q4, Chairman Powell will need to effectively communicate the Fed's data-dependent approach to rate policy and the runoff of its balance sheet of government securities.
- The end of monetary tightening should stop further dollar appreciation. Easy monetary policies at most other central banks may prevent a meaningful decline.

### Developed Markets

- The U.K. economy appears strong enough for the Bank of England to move away from historically low interest rates. However, the specter of Brexit will delay any moves until more clarity develops around the economic impact of the divorce.
- Even the more hawkish members of the European Central Bank concede that the Eurozone economy isn't strong enough to begin tightening rates in 2019.
- The Bank of Japan has little choice but to maintain monetary policy at its extremely easy levels. The bank's biggest concern is its perceived lack of tools to react to any economic downturn in the future.

### Emerging Markets

- Fiscal expansion has been the policy lever of choice for the Chinese government to influence economic growth. The Peoples Bank of China is in a better position to assist now that the renminbi has moved away from the 7.0 level against the dollar.

## BOND MARKETS

### United States

- With the approaching end to Fed tightening, the U.S. Treasury yield curve has stopped flattening, and the threat of actual inversion has lessened. Longer term rates are expected to increase gradually as the year progresses with the 10-year note hitting 3.0% by year-end.
- The prospect of continued U.S. economic growth and the stabilization of oil prices have brought the yields of high-yield bonds to levels that are no longer considered cheap, but better reflect the continued low default rates forecasted over the next twelve months.
- Municipal bonds should travel a similar path as their taxable counterparts with yields meandering higher throughout the year. However, the slowdown in issuance should prevent any meaningful price depreciation.

### Developed Markets

- Yields on international bonds, especially those of the healthier economies, are so low that the returns do not adequately compensate investors for the risk of rate increases.

### Emerging Markets

- Chinese fiscal stimulus, higher oil prices, and the impending end of Fed tightening have driven emerging market debt prices higher in both dollars and local currency. A reduction in tariffs and tariff threats may be needed to drive further price appreciation.

# Outlook for March 2019

## EQUITY MARKETS

### United States

- The recovery from last year's sharp Q4 decline has been surprisingly swift and largely indicative of a U.S. economy still growing at a healthy rate with little inflationary pressure. Valuation may again become a barrier, but with rates remaining relatively low, further price appreciation is expected.

### Developed Markets

- European equities have benefited from continued monetary ease and reduced concern about a global recession. Further upside will depend in part on the resolution of domestic issues, including Brexit, the Italian budget, French protests, and Spanish unity.
- Japanese equity markets may react more positively to the continuation of the Bank of Japan's extreme monetary ease and the adverse effect it's beginning to have on the yen. Stocks in the export sectors of the economy should benefit from both the currency moves and Chinese fiscal stimulus.

### Emerging Markets

- Despite the strong year-to-date price performance, emerging markets equities remain very cheap relative to developed markets. Now that oil prices have stabilized and the Fed has tabled further rate hikes, any signs that the Chinese fiscal stimulus is taking hold and U.S. - China trade relations are thawing should set the stage for emerging markets equities to rebound and potentially outperform other international equities this year.

## ALTERNATIVES & COMMODITIES

### Oil

- Reduced concerns about a global recession and the magnitude of the Chinese slowdown have heightened confidence in the outlook for oil demand and driven prices higher. U.S. supply should react positively to these higher prices, preventing them from increasing meaningfully above current levels.

### Gold and Industrial Metals

- Gold has reacted positively to what appears to be the end of Fed tightening. Look for the price to drift down in the coming months given the continued lack of global inflation.
- Industrial metals, especially copper, should benefit from the level of growth expected in both China and the U.S. Reduction and delays in current and future tariffs, while still uncertain, should further boost the prices of these metals.

### Hedge Funds

- [Same forecast as last month] The global market sell-off and resulting spike in market volatility during Q4 2018 demonstrated the benefit of exposure to categories such as equity long/short, global macro and multi-strategy managers to help protect capital during turbulent markets.

### Private Equity

- [Same forecast as last month] After a challenging period of ever-rising valuations, the Q4 2018 market sell-off reduced public market comparables, which should help private equity managers acquire good companies at more reasonable valuations than in recent years.

## Important Information



Benjamin Pace  
Chief Investment Officer

Ben Pace is the Chief Investment Officer and a member of the Investment Committee. Prior to joining Cerity Partners, Benjamin Pace was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has more than 25 years of experience in investment management. Prior to joining Deutsche Bank in 1994, he managed equity income funds for two investment organizations.

Cerity Partners LLC (“Cerity Partners”) is an SEC-registered investment adviser with offices in New York, Illinois, Ohio, Michigan and California. This commentary is limited to general information about Cerity Partners’ services and its financial market outlook, which may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this brochure will come to pass. Investing in the financial markets involves risk, including the risk of loss of the principal amount invested; and may not be appropriate for everyone. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. All information is deemed reliable but is not guaranteed. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure web site ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)). For additional information about Cerity Partners, including fees and services, send for our disclosure statement as set forth on Form ADV Part 2A using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

©2019 Cerity Partners LLC, an SEC-registered investment adviser. All Rights Reserved.

(03/19)