Comfortable With the Uncomfortable

We believe markets can continue to rise, but risks are elevated.

November 2019

Looking into 2020, global capital markets should be supported by a slow-growth and low-inflation environment. However, investors could face a number of risks, including central bank policy errors, political uncertainty, and potential valuation excesses.

Elevated risks create the potential for a wide range of potential outcomes, T. Rowe Price investment leaders say.

Meanwhile, innovation and automation continue to disrupt global industries, including health care, media, energy, and utilities. This dynamic is likely to persist in 2020, says David Giroux, chief investment officer (CIO), equity.

A low or negative yield environment in 2020 should strengthen the case for high yield bonds and emerging markets debt, according to Mark Vaselkiv, CIO, fixed income. But markets may have little tolerance for fragile businesses, particularly energy companies.

Although international equity markets have lagged the U.S. in the current bull market, there are signs that growth and inflation expectations in the non-U.S. economies are bottoming, notes Justin Thomson, CIO, equity.

David Giroux
Chief Investment Officer, Equity

Justin Thomson
Chief Investment Officer, Equity

Mark Vaselkiv
Chief Investment Officer, Fixed Income

An uncertain outlook suggests that investors will need to "be comfortable with the uncomfortable" to find opportunities amid disruption.

Four Key Themes for 2020

Politics, Populism, and Policy

Starting with the elections in Taiwan in January and extending to the U.S. presidential elections at the end of the year, politics promises to be a significant factor in markets in 2020. The U.S. election is the main event, but Brexit, the trade war, unrest in Hong Kong, the U.S.-China strategic rivalry with an emphasis on China's 2025 strategic plan, debates over climate change, and more loom over 2020, creating geopolitical uncertainty.

Challenges to Global Growth

The upside for global growth is limited, with risks skewed to the downside. However, while U.S. growth has slowed, the U.S. economy is in a late-stage expansion, a scenario that potentially can last for a long time. Globally, we expect a near-term economic pickup is on the horizon as global trade concerns ease and manufacturing economies stabilize. Inflation is broadly low around the world relative to central bank targets.

Disruption 4.0

The secular forces powering technological disruption are robust and here to stay. The next stage of disruption, which we term Disruption 4.0, is not a discrete phenomenon limited to specific standalone sectors but is transforming business models across almost every sector of the global market. As a consequence, we believe investors need to think about disruption in a more diverse way.

Central Banks and the Search for Yield

Around the world, central banks have generally renewed accommodative policies, extending the current cycle with cautious optimism about reflation. More than USD 16 trillion in global sovereign bonds now have negative yields. As a result, the search for yield has intensified. Although we don't expect rates to go meaningfully higher in 2020, at current levels even slight increases would negatively impact bond performance.

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