



QUARTERLY OUTLOOK: DISRUPTION DRIVING DISPERSION AMONG GLOBAL EQUITIES

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David Eiswert

Portfolio Manager, Global Focused Growth Equity Strategy



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- U.S. GDP growth is decelerating, having peaked as a result of corporate tax cuts and fiscal stimulus globally
 - Europe stands to benefit from an easing in trade tensions and stabilising Chinese growth
 - With innovation trends leading to dispersion between winners and losers, investors should seek to be on the right side of change

Our outlook for the global economy is informed by a view that the world continues to pass through an ongoing cycle of Crisis, Response, Improvement and Complacency. The world is now moving out of stimulus-driven Complacency and back into the Crisis and Response phases.

LOW PROBABILITY OF A NEAR-TERM RECESSION

Coming into 2019, we were of the view that we had passed “peak growth” in economic and earnings terms that had been fueled by U.S. corporate tax cuts and fiscal stimulus globally and that we would have a slower-growth year. While the term Crisis is too strong to describe what is actually happening in the U.S. with too much debt, too much oil, and too much automation, GDP growth is indeed decelerating. However, we believe the probability of a near-term recession remains low.

China has been in the Crisis part of the cycle for a couple of quarters already, driven by falling GDP growth and the impact of a potential trade war. This fade into Crisis is somewhat inevitable given the intense period of Chinese, and more recently U.S., stimulus that is now rolling off.

AUTHORITIES UNDERTAKE MEASURES TO STIMULATE GROWTH

China is leading the way into Response by acting to support the growth level by re-stimulating through various government measures. The U.S. has followed suit, with the Federal Reserve’s recent pivot to a more dovish stance. If a trade agreement between the U.S. and China is reached, we think Chinese business confidence will improve and the economy should start to stabilise. Such a scenario would also be positive for Europe, as the region benefits disproportionately from Chinese growth.

BENEFITS OF BEING ON THE RIGHT SIDE OF CHANGE

Innovation is unleashing powerful secular forces that are generating new business models and creating significant disruption. It is getting more and more valuable in a low-growth world to own companies that are disrupting industries and gaining market share, even if they trade at a premium. With disruption occurring across nearly every industry, being on the right side of change, and Improvement, will be paramount for investors given the dispersion of outcomes between winners and losers.

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