Annual Market Review and Outlook

Standard Life

December 2017

Annual Market Review 2017 and Outlook 2018

An outlook on worldwide markets

Andrew Milligan, Head of Global Strategy at Standard Life Investments discusses the key lessons we can learn from 2017 and what to watch out for in 2018.

Key lesson from 2017: profits were more important than politics

“It’s understandable that many commentators flagged political issues at the forefront of the investment scene: Trump’s tweets, Macron vs Le Pen, the ever-spinning Brexit negotiations to name just a few.

As we know, some of these events prompted short-term reactions in markets, for example causing investors to move towards emerging market and Japanese equities. **However, the year as a whole showed the wisdom of holding a diversified group of global companies, reassured by firms showing strong profits growth, and healthy prospects ahead.**”

The push and pull on profits into 2018

“ Financial markets have priced in a steady economic recovery and reasonable profits growth next year. Looking ahead, there are several positive and negative factors to consider.

- Profits could be supported by a sizeable tax-cutting package in the US.
- On the other hand, profits could be squeezed, for example by disruption in the Middle East leading to a sharp rise in oil prices, or developments in China affecting commodity prices.
- And for some companies, especially in the tech sector, government decisions on taxation and regulation could have an effect.”

2018 isn’t going to be as ‘easy’ as 2017

“ 2017 may have seemed an eventful year but there are even more complex economic, structural and political factors in play as we head into the New Year.

On the surface, it looks like we’re entering a phase of more synchronised growth across regions, low inflation and steady policy-making by central banks. Underneath the surface though, while growth is picking up speed in some areas, such as Europe, but looks to be slowing in others, such as China. This can lead investment managers to change how much they’re invested in these areas.

In particular, any significant rises to inflation would give central bankers the ammunition to be more aggressive with their interest rate moves.

Slowly falling unemployment is keeping populist pressures at bay but governments in many countries face difficult decisions to balance conflicting demands. Meanwhile, several trends are becoming ever more apparent.

- high profits for a small number of tech companies
- the unstoppable rise of the digital economy
- taxation, regulation and industrial policies.

These varied and significant factors are all leading to a new list of winners and losers for our fund managers to choose from.”

What does all this mean for investments?

“ At Standard Life Investments we have a cautiously positive outlook over the medium term.

Equities

Within equities, we favour Europe and emerging markets and, to a lesser extent, the US and Japan. The uncertainty around Brexit and a slower economy means we’re less positive about UK equities.

Bonds

Record low interest rates and central bank policies, such as quantitative easing or QE, have really supported bond markets in recent years. **Now, with the world’s major central banks looking to raise interest rates or withdraw QE, we see limited value in most government and corporate bond markets.**

Commercial property

We’re neutral about the major commercial property markets. In a world of moderate growth, the income the asset class offers remains attractive but there seems to be limited scope for property prices to rise significantly from their current levels.”

Please talk to your financial adviser for more information.

Standard Life

Standard Life