GLOBAL SNAPSHOT - July 2018

Janus Henderson INVESTORS

Global economy losing momentum as policy risks rise

Highlights:

US

Hawkish Fed

The Federal Reserve hiked rates again while signalling an increased likelihood of two further increases in 2018. The central bank raised its inflation forecast while lowering its projection for the unemployment rate to 3.5%, well below "equilibrium".

China

Currency reversal

The renminbi posted its largest weekly fall since the August 2015 devaluation as fears rose of a US-China tariff war. Economic news was mixed, with retail sales and infrastructure investment slowing but housing activity picking up.

Japan

Low inflation

The Bank of Japan kept policy stable despite forecasting that consumer price inflation – excluding the impact of a scheduled consumption tax rise – will remain below the 2% target in 2019-20. Wage growth edged higher as labour shortages intensified.

Eurozone

Negative surprises

Activity data continued to undershoot forecasts but consumer price inflation rose to 2.0%, reflecting higher energy and food prices. The European Central Bank signalled that bond purchases will slow from September and end in December.

UK

Monetary weakness

The Monetary Policy Committee backtracked on plans for a May rate hike following weaker-than-expected activity data. Annual money growth fell to half its pace in late 2016, suggesting subdued economic prospects and receding medium-term inflation risks.

Emerging markets

Rising rates

Currency weakness contributed to central banks in a number of countries tightening policy, with others scrapping planned easing. Official rates rose last quarter in Turkey, Indonesia, India, Mexico, Philippines, Czech Republic, Argentina and Romania.

Trends to watch:

US

Inflation pick-up

Core inflation – as measured by the consumption price index excluding food and energy – rose to 2.0% in May, a six-year high. A further increase could force the Federal Reserve to keep tightening policy even if the economy slows.

China

Weak money trends

The People's Bank of China has started to ease monetary policy to support the economy but the impact could be offset by tightening credit market conditions and capital outflows. A cautious view of economic prospects is warranted until money growth recovers.

Japan

Stronger news?

Gross domestic product (GDP) posted a surprise contraction in the first quarter but available data suggest a second-quarter rebound. Consumer price inflation may also reverse a recent decline, supporting stable Bank of Japan policy.

Eurozone

Weakening confidence

The purchasing managers' composite output index fell to an 18-month low in May but optimists claim that its level is still consistent with solid economic growth. Money trends and leading indicators suggest a further slide, however.

UK

Unemployment reversal?

Weak economic growth is feeding through to the labour market, with total hours worked stagnant over the past year. A rise in unemployment would surprise the Monetary Policy Committee and argue against raising rates.

Emerging markets

Capital outflows

Investor outflows from emerging markets have so far been modest and foreign exchange reserves remain at a healthy level in most economies. A US-China tariff war could accelerate selling and sustain downward pressure on currencies.

Key market data

Equity market returns for Q2 2018 (%)	Qtr local currency	YTD local currency	Qtr Sterling	YTD Sterling	Qtr Dollar	YTD Dollar
US S&P 500	2.9	1.7	9.4	4.2	2.9	1.7
Japan: Topix	0.9	-4.8	3.0	-0.8	-3.2	-3.1
Euro area: Euro Stoxx	0.8	-2.2	1.7	-2.6	-4.3	-4.9
FTSE All Share	7.9	-0.5	7.9	-0.5	1.6	-2.9
MSCI Far East ex Japan (US$)	-	-	-0.9	-3.2	-6.7	-5.5
MSCI Emerging Markets (US$)	-	-	-2.9	-5.4	-8.7	-7.7

Source: Thomson Reuters Datastream, Janus Henderson Investors, index price returns, as at 30 June 2018.

Constituents:

Euro area: EU member states using euro currency (currently 19)
Asia: China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam
BRICs: Brazil, Russia, India, China
World: G10, Eastern Europe & Africa, Asia, Latin America, Middle East

Consensus GDP growth forecasts (%)	2018	2019	2020
US	2.9	2.4	1.9
Japan	1.1	1.0	0.4
Euro area	2.2	1.9	1.6
UK	1.3	1.5	1.7
Asia ex Japan	5.9	5.9	5.8
BRICs	5.6	5.7	5.6
World	3.8	3.7	3.2

Source: Bloomberg, economic forecasts, as at 5 July 2018. Forecast GDP = real gross domestic product.

Bonds	30 Jun 2018 yield	Qtr return (%)	YTD return (%)
US 10-year Treasury	2.86	-1.29	-4.3
Japan 10-year government bonds	0.03	0.10	0.22
Germany 10-year Bund	0.31	1.78	1.63
UK 10-year Gilts	1.33	0.52	-0.92
Corporate bonds: (Barclays Global Aggregate Corporate Index $)	-	-1.62	-4.09
High Yield: (Merrill Lynch Global High Yield $)	-	-1.29	-1.51
Emerging market debt (JPM Global Emerging Markets Debt $)	-	-3.51	-5.23

Source: Thomson Reuters Datastream, Janus Henderson Investors, as at 30 June 2018.

	Forecast P/E		Forecast EPS growth	
	2018	2019	2018	2019
World	15.3	14.0	15.6	9.4
Developed	15.9	14.6	15.5	9.1
Emerging markets	11.8	10.6	15.9	11.5
UK	13.5	12.7	10.8	6.1
US	17.3	15.7	22.6	10.2
Eurozone	13.8	12.6	7.3	9.5
Japan	13.4	13.0	38.5	2.7

Source: Thomson Reuters Datastream, Janus Henderson Investors' calculations, and IBES (Institutional Brokers' Estimates System) estimates for MSCI Indices as at 30 June 2018. Forecast P/E (price-to-earnings ratio), Forecast EPS (earnings per share).

Consensus inflation forecasts (CPI %)	2018	2019	2020
US	2.6	2.3	2.2
Japan	1.0	1.0	1.5
Euro area	1.6	1.6	1.7
UK	2.5	2.1.	2.0
Asia ex Japan	2.2	2.6	2.7
BRICs	2.3	2.8	2.9
World	3.3	3.2	3.2

Source: Bloomberg, economic forecasts, as at 5 July 2018. Forecast CPI = consumer price index.

Currencies and commodities	30 Jun 2018	Qtr change (%)	YTD change (%)
Yen/$	112.56	-	-
Yen/£	151.02	-	-
$/£	1.34	-	-
Euro/$	0.84	-	-
Euro/£	1.13	-	-
S&P GSCI Total Return Index $	-	9.9	5.8
Brent oil ($/barrel)	-	15.7	17.5
Gold bullion ($/Troy oz)	-	1.5	12.6

Source: Thomson Reuters Datastream, Janus Henderson Investors, as at 30 June 2018.

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Multi Asset Team: asset allocation dashboard

BONDS

	Outlook	Comments
Global corporate	▼	Global corporates appear over-owned, offer low yields and are vulnerable to both rising interest rates and the end of quantitative easing.
UK gilts	◆	Sluggish economic data and a general risk-off mood following Italian political turmoil have driven yields lower. However, gilts have outperformed relative to other developed market government bonds.
Global sovereign	▼	Upward pressures remain on yields due to the unwinding of quantitative easing, tightening monetary policy conditions and growth expectations.
Emerging market debt	◆	Both local currency depreciation due to country-specific risk and a strong dollar have been a headwind. We remain positive on hard currency debt owing to attractive yields and wider spreads.
High yield	▼	High yield has sold off since February. We believe there is still some way to go as quantitative easing ends and credit conditions tighten.

CURRENCIES

	Outlook	Comments
£/$	◆	Brexit-related volatility plagues the UK amid an improving macro backdrop, while a building debt burden moderates the dollar bull case in a maturing cycle.
£/€	◆	Broadening economic activity supports both currencies but political developments will continue to drive the headlines and market moves.
£/¥	◆	Risk sentiment is likely to affect the yen as investors seek safe haven assets. Brexit drives news flow and Japanese monetary expansion continues in the background.

Positive ▲ Neutral ◆ Negative ▼

EQUITIES

	Outlook	Comments
UK	◆	The UK market seems attractively valued while dividend yields also remain attractive. Brexit-related uncertainty continues to weigh on sentiment, however.
Europe	◆	The cyclical tilt of this market should take full advantage of the global growth trend. However, political uncertainty is, and will continue to remain, a tail-risk.
US	▼	Both economic data and the markets have reflected persistent positive momentum. While the effects of fiscal stimulus have seemingly outweighed the trade developments, we continue to monitor for potential escalations.
Japan	▲	The Japanese market has proved somewhat resilient to rising trade tensions. A weaker yen and corporate reform have provided support to the performance of this export-driven market.
Asia	▲	Trade tensions have been a headwind to this market. However, valuations and corporate earnings remain constructive.
Global emerging markets	▲	Although the risk-off environment has provoked outflows, we remain positive on the opportunities in global emerging markets.

ALTERNATIVES

	Outlook	Comments
Property	◆	Property appears expensive and typically struggles in a rising interest rate environment. However, yields remain higher than many asset classes.
Gold	◆	Gold has effectively hedged against recent market volatility and remains a useful asset to hold should geopolitical uncertainty persist.
Oil	▲	The losses from sources such as Iran, Libya or Venezuela have offset the rising output from OPEC[1] in an effort to balance supply and demand. This has maintained an upward pressure on prices.

Source: Janus Henderson Investors, as at 30 June 2018. These comments reflect the views of Janus Henderson's UK-based Multi-Asset Team and should not be construed as investment advice. These views may differ from those of other Janus Henderson fund managers.

[1]OPEC = Organization of the Petroleum Exporting Countries

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