Sustainable Swiss Private Banking since 1841

Media release

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Bank J. Safra Sarasin: 2020 Economic and Financial Market Outlook

Cyclical recovery to continue in 2020

- **Lack of skilled resources led to labour hoarding during the manufacturing recession and prevented spill-over effects to broader economy.**
- **Overweight emerging markets in a global portfolio.**
- **Global monetary developments to strengthen cyclical forces.**
- **ECB and Fed strategy reviews are likely to strengthen inflation expectations.**
- **ECB asset purchases are unlikely to favour "green-assets", but climate change considerations should be addressed in economic models and financial stability regulation.**
- **More expansionary fiscal policies to gain support in the low yield environment.**
- **Equities with moderate but positive returns in 2020 will remain best-performing asset class.**

Dr Karsten Junius, Chief Economist: "Monetary and fiscal policy will support the emerging global economic recovery in 2020. Difficulties finding skilled labour explain robust income growth, which supports private demand. While central banks will maintain an easing bias, we do not expect any policy rate changes in 2020. Inflation rates should slowly but steadily increase over our forecast horizon, reflecting rising wages but also trade frictions. Political uncertainties will remain an unpredictable but not an unexpected factor of influence for financial markets throughout this year."

We expect that central banks will again be successful in stabilising the global economy. The recession in the manufacturing sector will turn into a moderate recovery even though headwinds for international trade, geopolitical and political uncertainties will remain high this year. The strategy reviews of the ECB and the Fed are likely to lead to slightly higher inflation targets or more dovish monetary policies. These should increase inflation expectations and contribute to higher bond yields. Low and unchanged policy rates in the major currency areas should prevent significant changes in foreign exchange rates. As a result, we expect the Swiss-franc to remain at its high level.

Dr Jan Poser, Chief Strategist and Head of Sustainability Research: "We believe that financial markets will provide ample opportunities in 2020 even though total returns will remain lower than in 2019. Higher inflation expectations will lead to steeper yield curves and higher bond yields. We therefore recommend underweighting government bonds. Emerging market bonds, as well as corporate credits, provide better return perspectives with lower duration risks. As policy makers and businesses are aligning with the global frameworks of the Paris Agreement and the United Nations Sustainable Development Goals, we believe that sustainable assets will provide unique investment opportunities in the years to come."

Equity markets have priced to a good extent a backdrop of firming manufacturing indicators and favourable liquidity conditions, which should cap upside potential and usher some consolidation in Q1. We advise overweighting cyclical regional markets, particularly the euro area, the UK and emerging markets. At the sector level, we favour a blend of growth sectors, including information technology, healthcare as well as cyclical industries like automobile, chemicals, capital goods and banks.

Key predictions at a glance:

Macroeconomic forecasts in %		2019	2020	2021
USA	GDP	2.3	1.8	1.9
	Inflation	1.8	2.2	2.4
Euro area	GDP	1.2	0.9	1.3
	Inflation	1.2	1.2	1.3
Switzerland	GDP	0.8	1.3	1.3
	Inflation	0.4	0.1	0.6
Financial market forecasts		**15.01.2020**	**30.06.2020**	**31.12.2020**
USA	Key policy rate in %	1.75	1.75	1.75
	10yr govt. bond yield in %	1.79	2.20	2.15
	MSCI World	2,392	2,350	2,400
Euro area	Deposit rate in %	–0.50	–0.50	–0.50
	10yr govt. bond yield in %	–0.24	–0.05	–0.05
	DJ Euro Stoxx 50	3,769	3,850	4,000
	EUR - USD	1.12	1.12	1.15
Switzerland	Policy rate (Saron in %)	–0.75	–0.75	–0.75
	10yr govt. bond yield in %	–0.46	–0.20	–0.20
	SMI	10,671	11,000	11,250
	EUR-CHF	1.08	1.08	1.08

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