

ECONOMICS & MARKETS

Five key themes to watch out for in 2020

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A few of the dynamics that played out around the globe in 2019 give us strong indications of what 2020 might look like. Here are five of the themes that I think will dominate the economic and investment landscape over the next twelve months:

1. Global growth

First, global growth is set to improve. Central banks around the world have embraced monetary easing over the past year, a strategy which seems to finally be gaining traction, with a number of business surveys showing recent signs of improvement. Along with the possibility of a de-escalation in the trade war between the U.S. and China should, this should fire up global growth again after the slowdown we've seen over the last couple of years.

2. Profit growth

Second, profit growth will follow. Stronger global economic conditions should underpin a pickup in company profits, which should ultimately flow through to investment markets.

3. Lower for longer

Third, despite these trends we will still be living in a world of very low inflation and low interest rates. Usually, after a turnaround of this nature, it can take at least a year or so before spare capacity in the economy is absorbed before inflation starts to become an issue and interest rates are raised as a result.

Locally, we expect growth to be somewhat constrained in the first part of the year and pressure will continue on the Reserve Bank for further rate cuts through the early part of the year, potentially followed by a program of quantitative easing. So, as a result, monetary conditions should remain loose into 2020, especially for the first six months.

4. Some upsides

Fourth, we can expect more upside than down for share markets as a result of all these factors. Market performance might not be as strong as in 2019, and there may be more volatility, but the combination of improving growth, higher profits and continued low interest rates should support markets along their way to decent gains over the course of 2020.

5. Bonds on the move?

Finally, we should bear in mind that bond yields fell substantially in 2019. We're probably due for a correction in 2020, and returns out of bond funds might suffer as a result.

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