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Omba Advisory & Investments Limited

The Bear finally Growls!

2019 Outlook, if only we had 2020 vision!

As the financial and economic cycles start to show signs of turning, asset prices are coming under increasing pressure. The correction seen in many markets in late 2018 has diminished some of the markets' fears as valuation levels are now seen as more attractive, or at least less risky. However, cyclical and structural factors are increasingly becoming a concern for future growth prospects. In particular, after approximately a decade of ballooning credit and ultra-low interest rates, the deleveraging in credit markets at a time of slowing growth, poses a significant risk to the sustainability of global economic growth and in turn its effect on asset prices in coming years.

The late legendary investor John Bogle who founded Vanguard has been credited with the statement:

"Mean reversion is the iron rule of the financial markets"

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1. Ten interesting snippets from 2018…

We thought we'd begin by noting some interesting news pieces from 2018 before getting into the detail of our analysis of financial markets.

1. **China effectively banned plastic waste imports** forcing many countries to find alternative solutions. "Some councils [in the UK] are burning 80% of all residual waste, including recyclable plastic and paper."[1]
2. **Voyager 2,** the NASA space probe which was launched on 20 August 1977 (yes, 1977!) as part of the Voyager programme, **left our Solar System** on 5 November 2018. Both Voyagers certainly are in a new, unexplored domain of space.
3. **Bitcoin,** which is one of the first and most well-known Cryptocurrencies (for those who have been hiding in a forest or jungle looking for gold) **fell 84% peak** (18 December 2017) to trough (15 December 2018). OMBA avoided all Crypto exposure since our launch and recall advising numerous investors in 2017 to tread very carefully and "take profit" or avoid investing. It seems as though it may be too early for a cryptocurrency to be adopted en masse. Additionally, regulators do not seem to be particularly positive about its adoption, and regulations could be implemented which may make it more difficult to use.
4. Despite the heavy news flow towards the latter part of 2018 and continuing into 2019 relating to **migrants entering the US** from Mexico as shown in the Economist, who quote US Border Patrol data, "The number of apprehensions of people attempting to cross the border illegally **peaked in 2000**, when America's Border Patrol made more than 1.6m arrests, over 98% of which were of Mexicans. By the end of Barack Obama's term in office, apprehensions had fallen to an average of just 400,000 a year—about where they stood in 2018. In 2017, the last year for which data on migrants' country of origin were available, only 42% of the apprehensions involved Mexicans."[2]
5. In the current century many people will remember hyperinflation in Zimbabwe which was as high as 98% per day during the peak period from mid-2007 to November 2008 where the price of goods doubled in just over 24 hours[3]. In **2018 both Venezuela and Argentina experienced significant inflation with Venezuelan inflation at 1.37 million %[4] for the year and Argentinian inflation peaking at 48%[5].** We remind investors of the importance to diversify and build global portfolios. If you look at the table on page 13 of the referenced report (see endnote), you will see that it is not only emerging market countries which are subject to bouts of hyperinflation.
6. During 2018 the United Nations reported that the crisis in Venezuela had resulted in **3 million migrants leaving Venezuela** to mainly Latin America and the Caribbean[6]. This, of course is a fraction compared to the Syrian crisis but still a significant number. For comparative purposes it is estimated, although extremely difficult to get accurate numbers, that there are over 3 million Zimbabweans living in South Africa who have fled due to the economic crisis in Zimbabwe.[7]
7. "More than **6.3bn tonnes of plastic waste has been produced since the 1950s, more than half of which was produced in the past 16 years,** and plastic production is expected to double again in the next 20 years. ... Estimates suggest there were will be **more plastic than fish in the sea by 2050** and there is evidence that it is present throughout the human food chain"[8]
8. For those interested in fine wine, the top performing wine category in 2018 was the **Burgundy 150 sub-index which was up 34.9% in 2018**. Although it sounds like a no-brainer to have invested in fine wine the Liv-ex Fine Wine 100 Index, which is broader, was down 0.2% in 2018[9].
9. A 1972 painting, Portrait of an Artist (Pool with Two Figures) by David Hockney, an English artist, was sold **for $90.3 million** on 15 November 2018 becoming the **most expensive sale at auction of a work by a living artist**[10].
10. **Roger Federer signed a $300 million 10-year contract** with Japanese retailer Uniqlo ditching Nike after more than 2 decades. Despite this he only ranked 7th on the list of top paid sportsmen and sportswomen with Floyd "Money" Mayweather topping the list raking in $285 million with $275 million in 1 night[11].

2. Overview

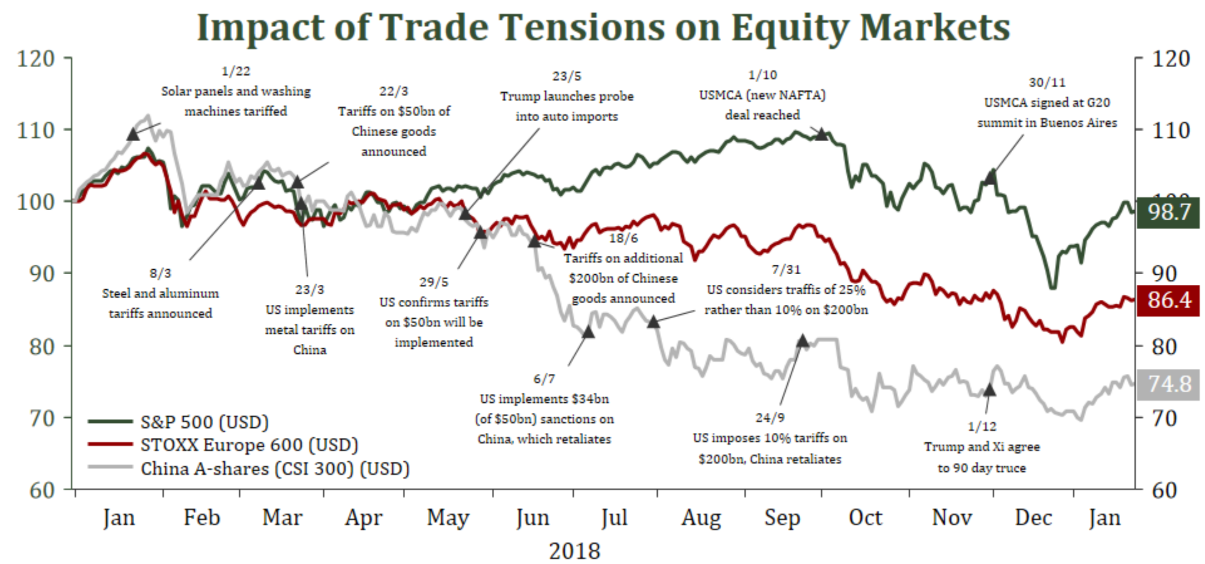
2018 was a challenging year for investors as the escalation of global trade tensions took many investors by surprise. This triggered increased volatility in markets, in particular in emerging economies notably China. In our Outlook for 2019 we will specifically scrutinise global credit markets as the credit cycle shows increasing warning signs amid slowing global growth, tightening monetary policy and geo-political tensions.

Current Market Commentary

2018 started off strongly for most global asset classes, continuing where it left off in 2017. Since late January 2018, there has been a return of market volatility as participants have become increasingly uncertain – the VIX spiked to a level seen on only one other occasion since the Global Financial Crisis (GFC). Asset classes experienced mixed fortunes during 2018, however most major asset classes all ended the year the same way – down. The recent sell-off in risk assets has been relatively stark considering that growth is still moderately positive, albeit starting to slow.

Emerging markets were noted in our 2018 Outlook as a consensus favourite across the street, although we disagreed. During 2018 they were among the first real casualties, as the US continued to tighten its monetary policy which resulted in a stronger US Dollar. Argentina and Turkey's financial woes lead the decline with the likes of South Africa and the Far East also suffering a similar fate with currencies and local stock indices taking the brunt of the downturn. Developed markets initially fared better, however this didn't last as trade-related concerns, worsening sentiment and decreased risk appetite impacted them negatively in the final quarter of the year (see charts in Appendix A).

On the key topic of trade, the Trump administration has spent a lot of time on a few key trade related areas: the US-Mexico-Canada Agreement (USMCA); steel and aluminium tariffs and auto tariffs. The USMCA, although signed at the G20 summit in Buenos Aires on 30 November 2018, still needs to be ratified by Congress. Despite this, it seems as though the US-China trade disputes and negotiations are more likely to cause markets angst this coming year. We think US-China trade issues are less likely to be resolved than the auto-tariffs because there could be retaliatory tariffs from its allies in Europe and Japan who are major exporters of autos to the US. The threat of retaliatory tariffs itself will be a strong deterrent, particularly since many trading partners would likely target politically sensitive exports like agricultural products.



A turbulent December 2018 resulted in market lows during a time of the year in which there is little market liquidity – the S&P 500 hit a low of 2,346.58 at 10:55am on 26 December 2018 (a day when many European markets are closed). The bounce from these lows has been swift as market participants have returned to the markets – in the 16 trading days after the intra-day low the S&P500 rose to an intra-day high of 14.0% on 18 January 2019. Refer to Appendix A to see further context of this drawdown. We do however think that not much emphasis should be placed on the recent drawdown and partial recovery when assessing one's strategic portfolio allocation. As McKinsey's research also suggests, "*The performance of equity markets shows that they have not been a good predictor of past recessions.*"[12] We prefer to consider other indicators to assess economic strength – such as bond yield curve, inflation, various corporate earnings-related metrics and very importantly, the credit cycle. These factors currently show a mixed outlook with earnings and global growth being more positive whereas many other metrics are more negative. The lagged nature of earnings is however important to consider in that substantial investment losses, based on a poor outlook, may be incurred prior to actual earnings figures being released.

Global Dynamics

Decades of strong growth, advancement in technology and globalisation is being challenged by increasingly nationalist agendas – Trump seeks to "*Make America Great Again*", Xi Jinping calls for "*The great rejuvenation of the Chinese nation*" and the UK has been agonising about "*taking back control*" from the EU. International relations now play out in increasingly complex ways and there is a long list of potential flash points which may play out otherwise than by traditional military conflict – such as through cyber espionage or proxy wars (also see 2019 Risks – What to watch out for).

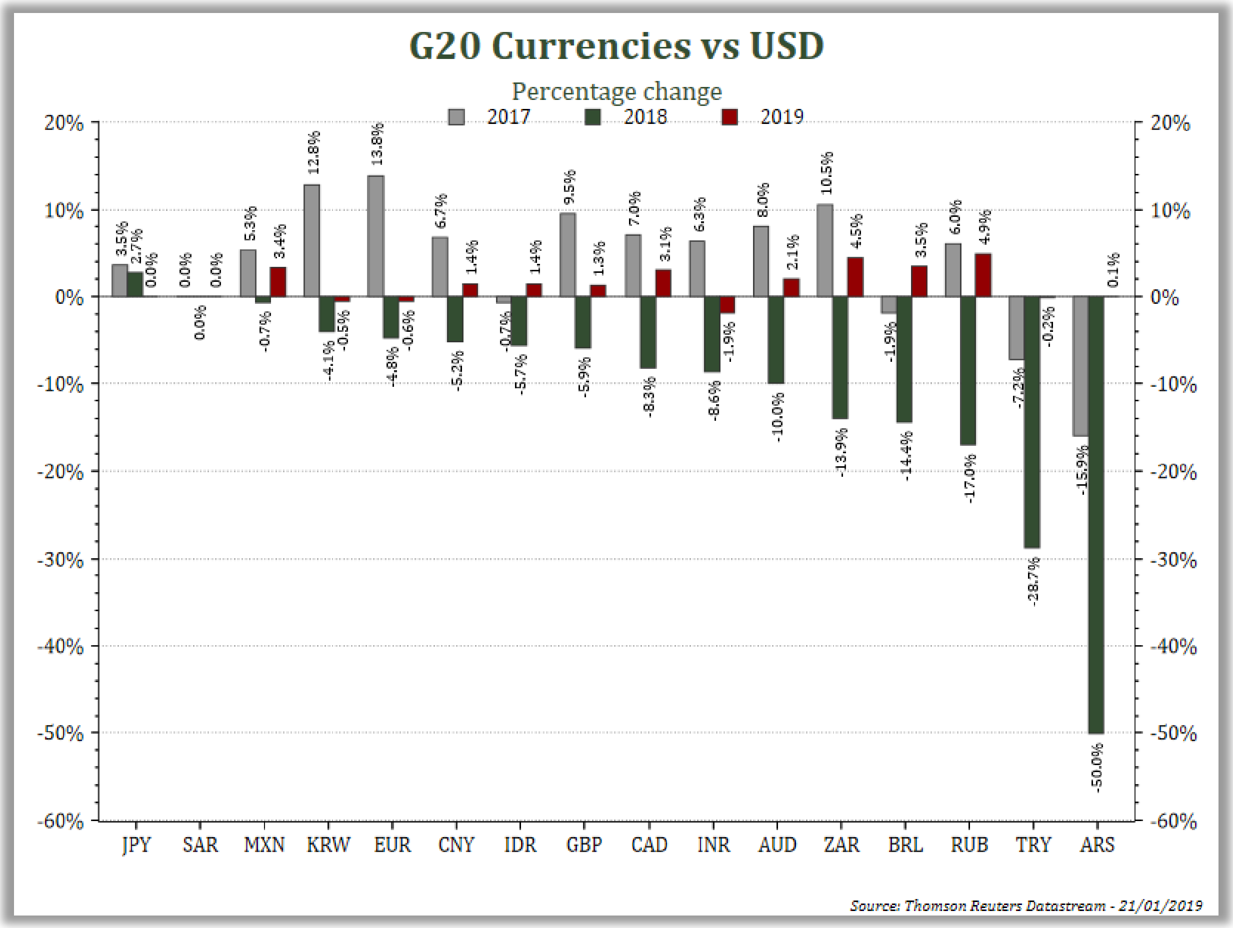
China – China is playing an increasingly important role in the global economy (directly and indirectly through globally-integrated supply chains), originally led by the "reform and opening up" efforts of Deng Xiaoping in 1978. China's attempted rebalancing, from a debt-levered, export-led economy is an important step forward for the Chinese economy. The resolution of the trade conflict with the US is however more pressing. While the bulk of the current trade conflict is with the US, both Japan and Europe have expressed more tempered dissatisfaction with China and the purported benefits that it derives from the World Trade Organisation (WTO) rules.

While China's growth rate in 2018 slowed to 6.6% (the lowest level in almost 3 decades), this remains a significant number. Chinese GDP, in purchasing power parity terms, is in fact already larger than that of the US[13]. The much larger base from which China is now growing naturally impacts future growth rates. Slower, better quality growth that is not debt fuelled, may in fact be a better course for the Chinese economy. Demographics in China are also more favourable than many developing economies which are seeing shrinking work forces and a higher burden from ageing economies. China is not without its own demographic problems – it too is struggling to reverse the effects of its one-child policy, which is seeing many new parents reluctant to have a second child.

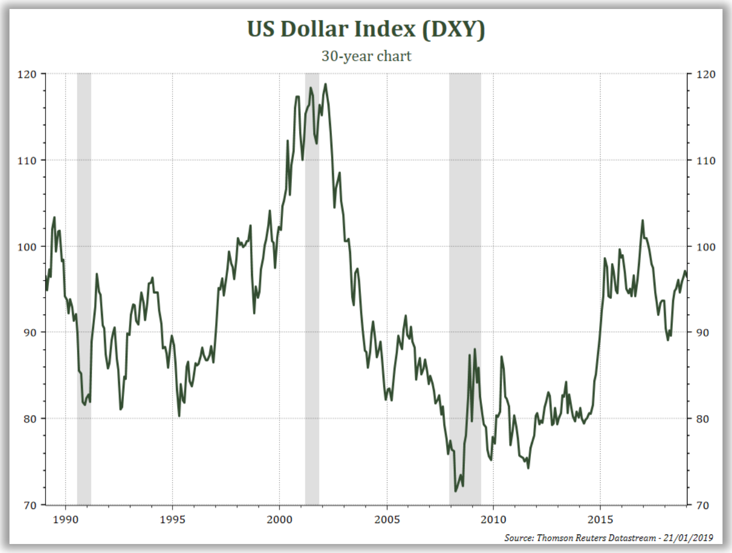
To stimulate the economy, China is implementing various fiscal (tax cuts) and monetary policy (reserve requirement ratio (RRR)) stimulus. In the near-term we feel that sense will prevail by both US and China counterparts in resolving, at least temporarily, the trade dispute. In the medium to long term we expect that there will be more frequent and potentially more severe altercations between the US and China, as China rises to be an even more influential global power, both politically and financially. Disputes may take the form of trade wars, cyber espionage or even a stand-off in the South China Sea. Also see 2019 Risks – What to watch out for.

3. For and against the US Dollar

Outlook for the US Dollar in 2019 is mixed after a strong 2018 in which of the G20, only the Japanese Yen was stronger. The strong US Dollar performance in 2018 was off-the-back of a weaker performance in 2017 (grey bars in the chart below) which saw the US Dollar weaken against most other G20 currencies. The below chart does not consider interest rates in each country which may, to a degree, compensate investors for a depreciation in the higher interest rate currency (e.g. In 2018, higher interest was earned in South Africa compared to the US which would have in part compensated for the 13.9% depreciation of the Rand). While FX is inherently difficult to predict with much conviction, we discuss some of the key factors supporting and detracting from the US Dollar – which still accounts for 61.9% of the world's allocated foreign exchange reserves[14].



JPY – Japanese Yen
SAR – Saudi Riyal
MXN – Mexican Peso
KRW – South Korean Won
EUR – Euro
CNY – Chinese Yuan
IDR – Indonesian Rupiah
GBP – British Pound
CAD – Canadian Dollar
INR – Indian Rupee
AUD – Australian Dollar
ZAR – South African Rand
BRL – Brazilian Real
RUB – Russian Ruble
TRY – Turkish Lira
ARS – Argentine Peso



The chart on the left shows the US Dollar Index (representing a blend of six major currencies versus the US Dollar) over the past 30 years. The US Dollar has had a strong run since the financial crisis in 2009. US Dollar weakness in 2017 can also be clearly seen in the chart. Supporting the strength of the US Dollar Index, over the past 10 years, was the relatively weaker economic performance in the EU (the Euro currently makes up over 50% of the currency basket in the US Dollar Index).

3.1. A Stronger US Dollar

- **US internal factors:** A notable factor influencing US Dollar strength is the expectation around the Fed and other central banks. Should the Fed raise rates quicker or to a level higher than the market is expecting, the US Dollar may to continue to strengthen. Market expectations for the Fed Funds Rate are now less clear than they were just a few months earlier. Current rate hike expectations are largely from 0 to 2 rate hikes in 2019. The timing of future rate hikes, should they occur, also lacks consensus and may only occur in the mid-to later part of the year. Should US corporate earnings other key economic data continue to remain strong, we see a 3-rate hike scenario as likely.
- **General:** The US Dollar together with the Japanese Yen and Swiss Franc are generally seen as safe-haven currencies and in times of global economic weakness and a general risk-off environment, the US Dollar is likely to be favoured as investors (notably US investors) switch non-US Dollar risky assets into the safety of US Dollar bonds and cash.
- **EUR:** With the growth prospects of the euro area looking uncertain (with special concerns over future demand for exports), this may point to a stronger US Dollar should the US economy continue to outpace that of the euro area.
- **Emerging Markets:** After a tough 2017 for EM currencies versus the US Dollar, some EM currencies may rebound off their current relatively low levels, especially in the case of continued global growth (we have already seen a limited rebound in early 2019). Many idiosyncratic factors remain which may not bode well for EM currencies (such as a potential for un-friendly investor policies leading up to elections in South Africa; lower oil prices affecting oil producing countries; slowing demand of commodities from China as Chinese growth slows; Turkey's high overseas debt burden and debt wall; and the US' continued efforts to sanction various countries such as Russia).

3.2. A Weaker US Dollar

- **US internal factors:** The circular nature of poor equity market performance (as seen in December 2018), dampens confidence and slows growth, putting some pressure on the Fed to pause rate hikes as the economy falters. We see any potential pause in rate hikes as temporary, and expect the Fed to continue to hike rates should economic conditions remain resilient. Donald Trump's well publicised criticism of the Fed's rate hikes may be another factor that influences the Fed to slow any hikes, although we think this influence is likely negligible and that the integrity of American institutions will remain intact.

- **General:** US growth has been relatively strong over the last few years, particularly against major regions like Europe and Japan and this has also been supportive of the US Dollar as there has been no need to boost US exports via a weak currency and any financial tightening due to the strong trade-weighted US Dollar has not impacted US economic growth. In an environment where the US slows down due to Fed hiking and the benefit of the Tax Cuts and Jobs Act of 2017 having largely worn off, the growth outlook is not as positive. This was also hinted at during recent bank earnings (released during the week commencing 14 January 2019).
- **GBP:** With the Pound trading at weak levels against the US Dollar, there is upside potential for a stronger Pound vs. the US Dollar should the market assess that a softer or no Brexit be more likely. Bank of England rate hikes may then be on the cards, potentially driving further Pound strength. Although sustained Pound strength is not a likely near-term scenario as Brexit uncertainty persists. Downside risks to the Pound (especially in the short term) do however remain, should UK economic growth suffer as a result of Brexit.

4. Credit and Rates – Something we're watching

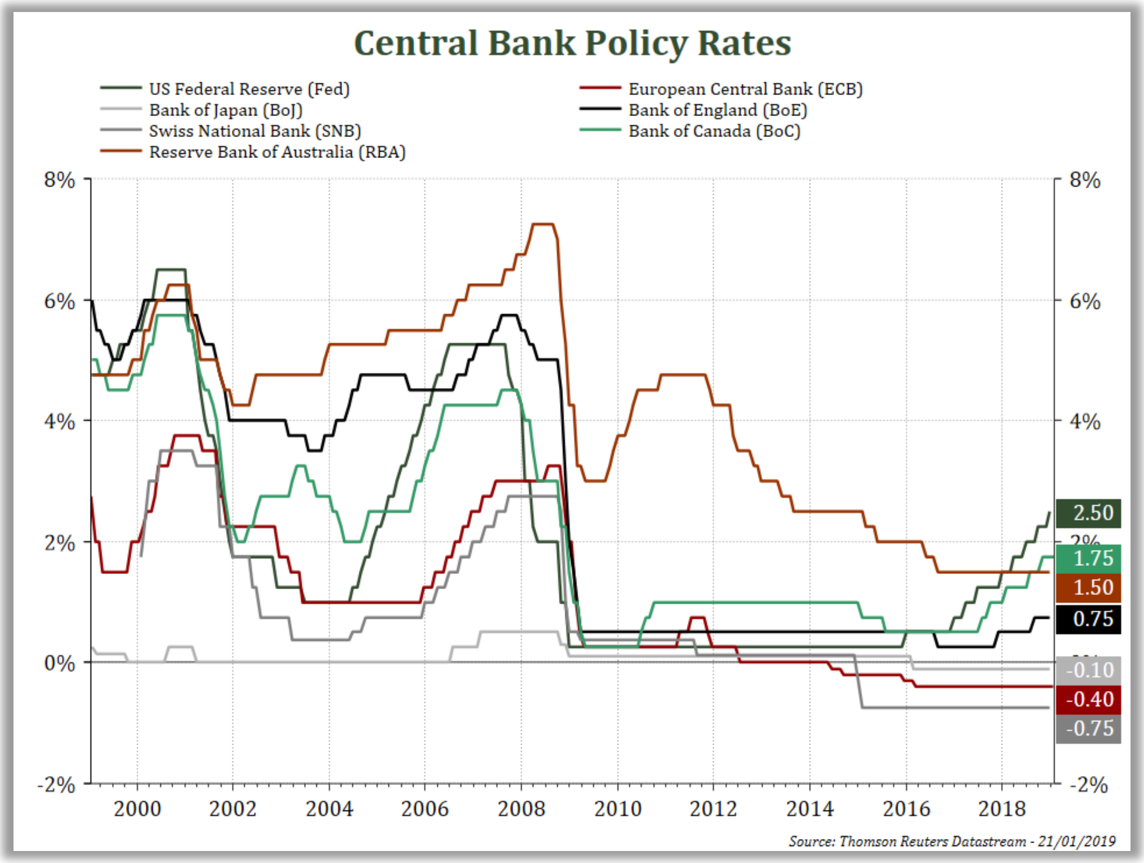
Much of what has driven asset prices over the past decade is down to ultra-loose monetary policy. We discuss below how the current increasing of central bank policy rates and the unwinding of quantitative easing (QE) are affecting and will impact asset prices, and what exactly concerns us.

We first discuss government debt and the divergence of global monetary policy. We then examine corporate and consumer credit at a country or regional level – namely the US, Euro-area and the UK.

4.1. Central Banks and Government Debt

4.1.1. Central Bank Policy Rates

With stronger economic conditions, the US and Canada have led the major, developed-country central banks in the hiking of policy rates and as you can see in the second set of charts below, both developed and emerging markets were tightening policy rates – not just the Federal Reserve. Although rate hikes are for different reasons, (not simply to cool an overheating economy), the trend does not bode well for leveraged economies.

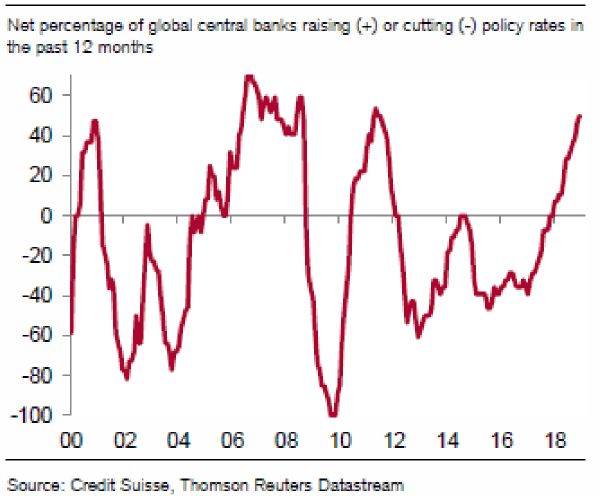


Many market commentators seem to think the **Federal Reserve** will only hike twice in 2019 and towards the back-end (September and December), particularly after Jerome Powell's comments last year about the neutral rate being close. After those comments the futures market went from pricing in 1.6 hikes to just over 1 hike.

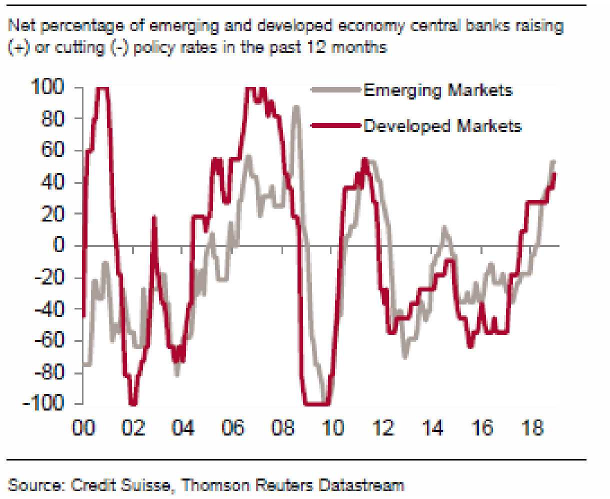
**Policy rates in the chart above refer to:*

US Federal Reserve (Fed) - the top of the Federal Reserve's target range;
European Central Bank (ECB) - the ECB deposit facility rate;
Bank of Japan (BoJ) The Japan policy rate refers to the BOJ deposit rate;
Bank of England (BoE) – Bank rate;
Swiss National Bank (SNB) – mid-point of 3-month Libor target rate;
Bank of Canada (BoC) – target overnight rate;
Reserve Bank of Australia (RBA) – cash rate.

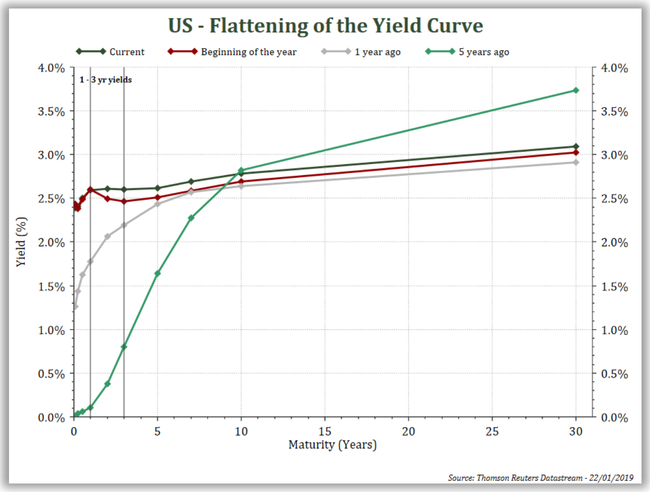
A broad-based tightening in monetary policy in 2018



Both Emerging and Developed Markets were tightening in 2018



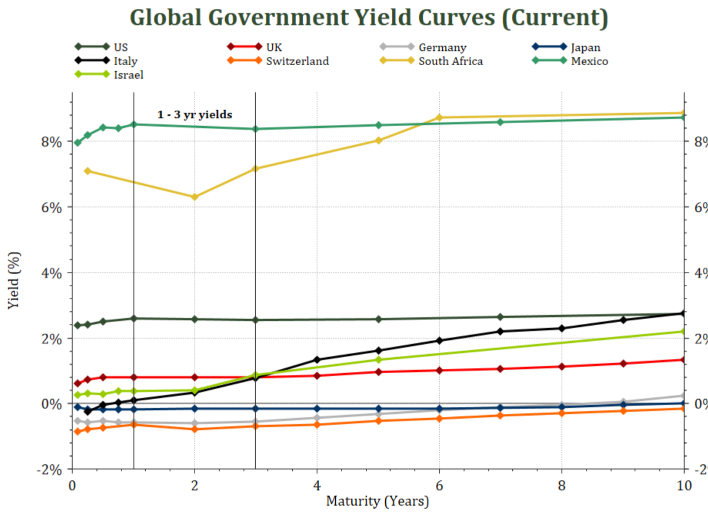
Recently Chairman Powell said that the Fed wouldn't hesitate to make a change if the conditions warranted it, which is in contrast with his previous December 2018 FOMC press conference comments, when he referred to the balance sheet roll-off as on "automatic pilot.[15]" We think the timing of rate increases will depend crucially on incoming data but the likelihood (particularly given the quick recovery in US equity markets following the 26 December 2018 lows) is that the Federal Reserve hike 3 more times this year with perhaps Q1 2019 being skipped.



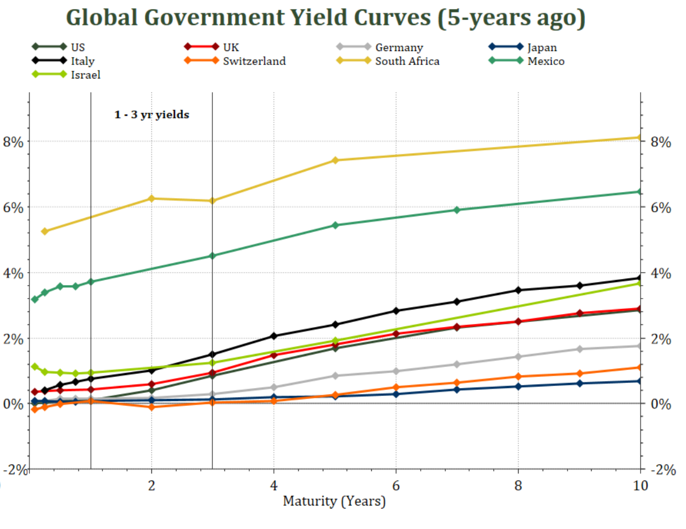
We think the **European Central Bank** will not move policy rates out of negative territory in the first half of the year (potentially only in 2020) following an end to its quantitative easing programme in December of 2018 which they began in 2015. Another important point for the year ahead is to note that Mario Draghi's term as President of the ECB ends on 31 October this year – given the importance of this position there may be volatility around this change as rate expectations get repriced.

The two charts below show the yield curves from 5 years ago (right) and the current yield curve (left). There are 3 interesting points to note:

- **Yield curves have flattened** – an inverted yield curve has previously been a very good predictor of recessions in the US although the timing of the start of the recession is difficult to predict.
- **Short-end yields are now more negative** – yields on Swiss, German and Japanese government bonds are noticeably lower (and negative).
- **Spreads have widened** – the top two lines in both charts have moved higher. These relate to the emerging market economies of South Africa (gold) and Mexico (green). Inflation and implied risks are higher than 5 years ago and as such yields are higher (meaning current values are lower).



Source: Thomson Reuters Datastream- 23/01/20.



Source: Thomson Reuters Datastream- 23/01/2019

4.1.2. Unwinding of Quantitative Easing (QE)

Federal Reserve Bank (Fed): The Fed's balance sheet is already unwinding at an increasing pace of (now) $50 billion a month ($30 billion of treasuries and $20 billion of mortgage backed securities). The total balance sheet (SOMA) in October 2018 was $3.97 trillion.

European Central Bank (ECB): The ECB has ended net purchases under its expanded asset purchase programme (APP) in December 2018. At the end of December 2018, the total value of holdings under the APP were €2.6 trillion. The total expected redemptions over the next 12 months are €203 billion. Mario Draghi's term is due to end on 31 October 2019, after which the ECB will see a new president who may not quite share Draghi's "whatever it takes" determination.

Bank of Japan (BoJ): The gap between the BoJ and other major central banks continues to widen as there appears to be no end in sight for its stimulus packages. Inflation continues to disappoint and the BoJ has lowered 2019 inflation forecasts to 0.9% from 1.4%, but marginally raised it GDP forecast from 0.8% to 0.9%. Furthermore, the BoJ intends to continue "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, from which it remains far short. In its Monetary Policy Meeting held on 23 January 2019, the bank decided, by unanimous vote, to increase ETF and J-REITs purchases at ¥6.09 trillion a year. The balance of Commercial Paper and corporate bonds will remain at about ¥2.2 trillion and about ¥3.2 trillion, respectively.

Bank of England (BoE): The Bank of England's current gilt holdings are £435 billion with a further £10 billion of corporate bonds. No change (up or down) is expected for the next couple of years as the BoE have previously noted that it "*intended not to reduce the stock of purchased assets until [the] Bank Rate reached around 1.5%*"[16] (the Bank Rate is currently 0.75%).

4.1.3. Developed Market Government Debt

Fitch Ratings recently reported that the volume of outstanding global government debt has nearly doubled since the financial crisis hitting $66tn by the end of 2018 (80% of global GDP).[17]

There are only 11 countries that hold the highest possible credit rating (AAA)[18]. The Financial Times reported that the proportion of outstanding government debt that is junk-rated is at a 15-year high.

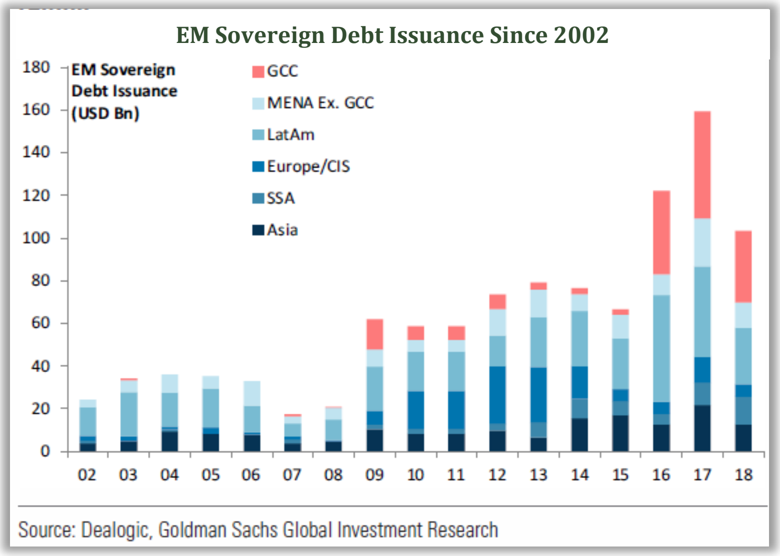
The average rating in developed markets is below AA, while in emerging economies the average rating is just below BB+ (a low since 2005).[19]

4.1.4. Emerging Market Government Debt (USD-denominated)

EM sovereign USD-denominated debt issuance rose sharply in the period 2016 to 2018. This is also on top of the higher levels of debt issuance in the years following the financial crisis (i.e. 2009 to 2015). A notable portion of this relates to issuances by countries in the Gulf Cooperation Council (GCC) (including Saudi Arabia, Qatar, United Arab Emirates, Kuwait, Oman and Bahrain).

Total EM sovereign USD-denominated debt therefore will have additional exposure to the price of oil (which may work both positively – through higher oil prices or simply through better diversification – or negatively). From an investment perspective, it is important to note that the government bonds issued by all members of the GCC may from January 2019 be included in the JP Morgan emerging market government bond indexes (a popular benchmark that tracks and drives the flow of investment in EM government bonds). The balance between supply (through increased issuance) and demand (through increased investability) for these EM government bonds is not expected to materially impact the asset prices.

Another key factor that has recently influenced the EM debt market is the sharp weakening of EM currencies to the US Dollar (as shown in our section For and against the US Dollar). This creates a starkly higher debt burden, higher interest costs and more expensive refinancing for these countries, with Turkey being a good example. With some divergence of economic growth in emerging market economies, the outlook and riskiness of EM debt does vary.

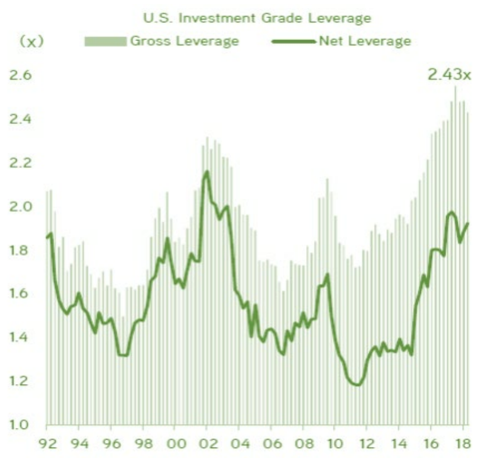


4.2. US Credit

4.2.1. Corporate Credit – US

After a period of deleveraging post the GFC, US corporate debt has been rising significantly since 2014. Investment Grade (IG) issuers have taken advantage of very low interest rates in recent years to issue more debt. Many have used the cheap finance to do share buy-backs which has resulted in increased leverage for these companies (see chart on the right). Worryingly, in the Investment Grade issuer segment more than 50% of the Investment Grade universe is now rated BBB meaning they are on the edge of junk.

US Investment Grade Leverage



Data as at October 31, 2018. Source: Morgan Stanley.

Generally, though, we do not worry too much about the IG debt market yet, for a few reasons:

- IG companies which fund their businesses via the debt capital markets are mostly large cap multinationals;
- The notional size of the bonds issued by the IG issuers are normally large and much more liquid than many other issues in debt markets;
- The ability to refinance and issue more debt as their debt matures is typically quite easy for IG issuers. Where they may face some challenges going forward is the interest rate at which they issue their new bonds – as you will see from the charts below IG bond spreads and absolute rates are higher than they have been in recent years. This doesn't mean the bonds will default or breach covenants but what it definitely means is that the interest bill will be higher (cost of capital higher). This will impact the earnings of the companies which will have a greater impact on equity holders. i.e. share prices will be hurt more by the rising cost of finance than the IG bonds themselves. In fact, as yields rise the IG bond asset class typically becomes quite attractive.
- The IG bond maturity wall really kicks in more meaningfully in 2020, not in 2019, and thus imminent refinancing pressure is currently not there.

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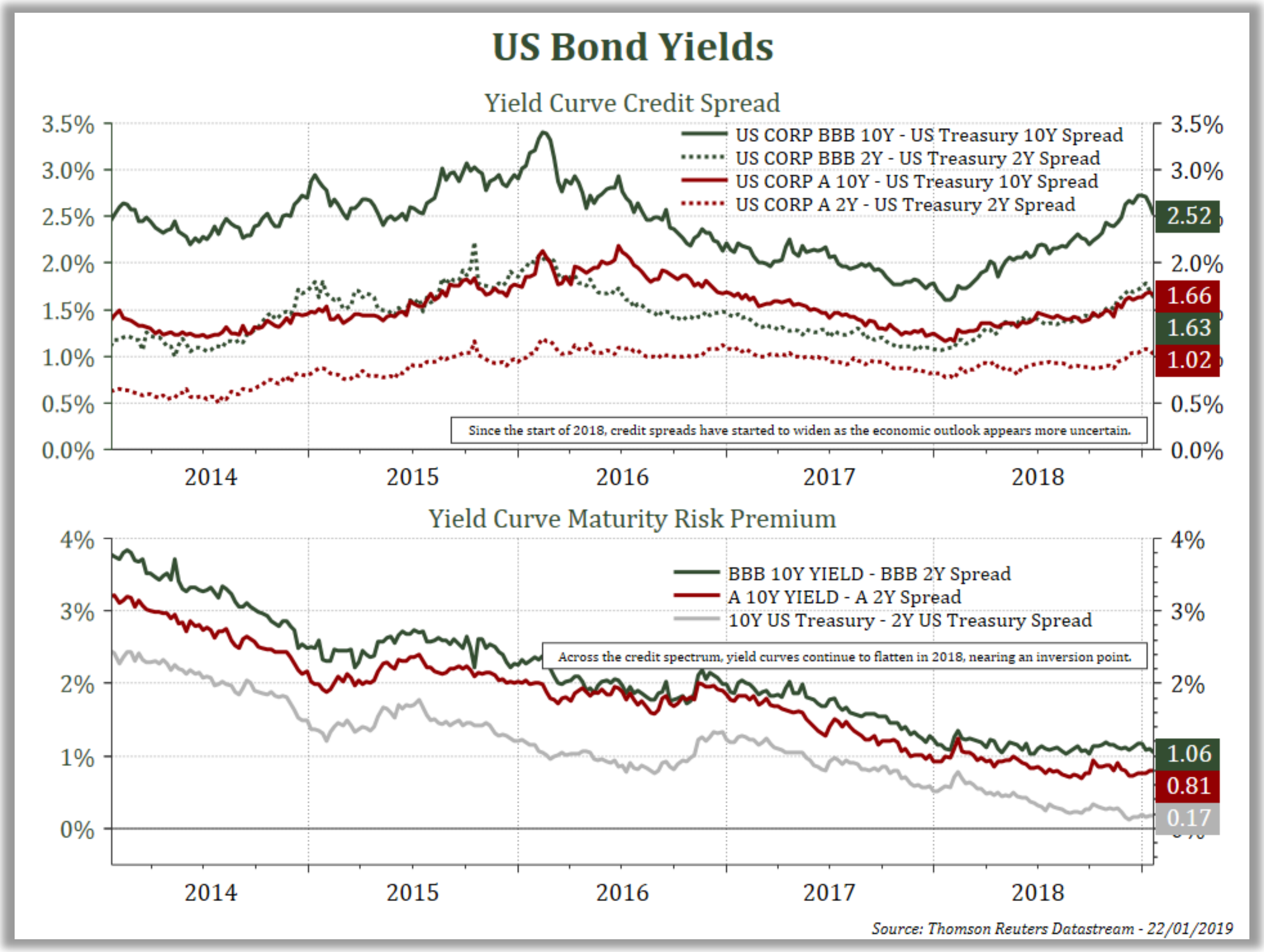
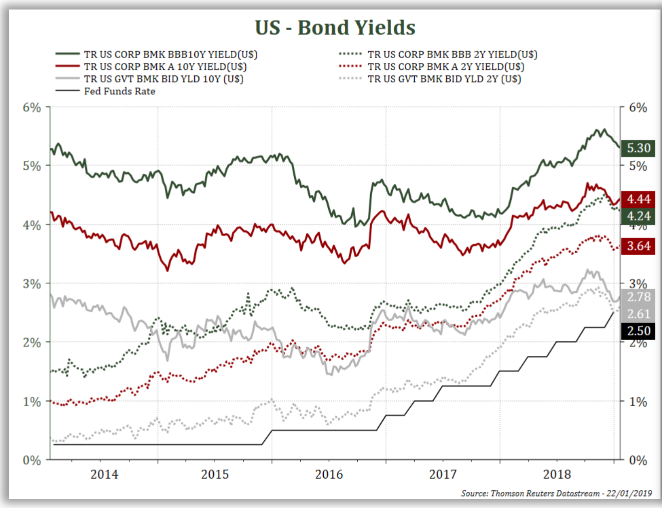
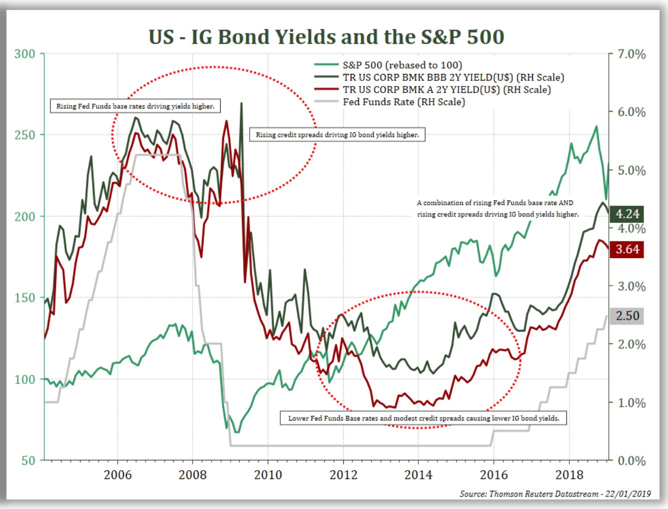






On the above (small) LHS chart you can see A rated and BBB rated 10-year and 2-year bond yields compared to the 10-year and 2-year Treasury Bonds. From this chart, and the larger preceding chart, you can see that there is a convergence of the 10-year and 2-year bond yields (i.e. a curve flattening). It is said that an inversion of the treasury bond curve is indication of an impending recession. Although we don't show it on these charts, during December 2018 the 5-year and 3-year Treasury Bond yield curve became inverted for the first time in more than a decade. Historically recessions following yield curve inversion have occurred anything from a few months to a few years down the line so timing the start of a recession is extremely challenging as an investor, but it's an indicator worth watching closely.

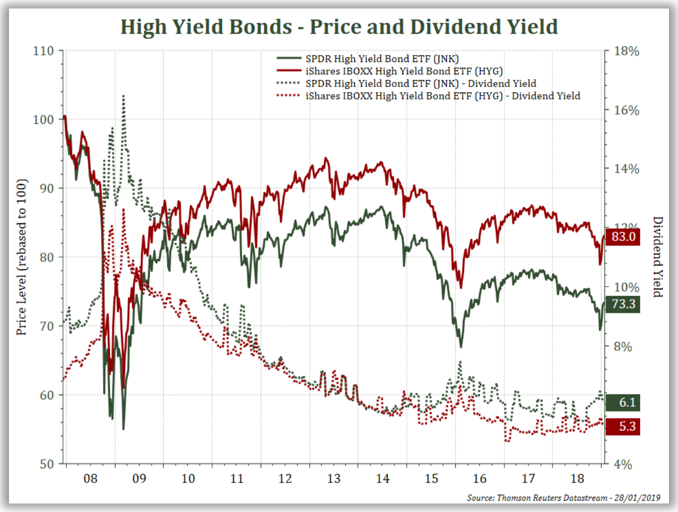
The above (small) RHS chart shows IG 2-year A rated and BBB rated bonds compared to the S&P 500 and Fed Funds rate. The interesting points to note are that in the build up to the GFC, as the FOMC hiked the Fed Funds rate, IG bond yields rose but the credit spread thereon remained quite tight relative the recent period of Fed Funds rate rises where there is a higher credit spread. Thus, the IG bonds yields have recently risen due to a combination of Fed Funds tightening and a widening of credit spreads. Since the 2016 and 2017 period where credit spreads were tighter one can now see a move higher in credit spreads coupled with Fed Funds rate rising. The tricky part is predicting the peak in yields and thus the low in prices.

SIZE OF THE CREDIT MARKETS			
US$ BILLIONS	2008	2018	% CHANGE
U.S. High Yield	$727.6	$1,231.8	69.3%
U.S. Investment Grade	$2,496.9	$6,405.7	156.5%
EM USD	$183.2	$535.4	192.2%
U.S. Loans	$594.2	$1,129.7	90.1%
Total	$4,001.9	$9,302.6	132.5%

Data as at December 12, 2018. Source: BofA Merrill Lynch Global Research, TRACE FINRA.

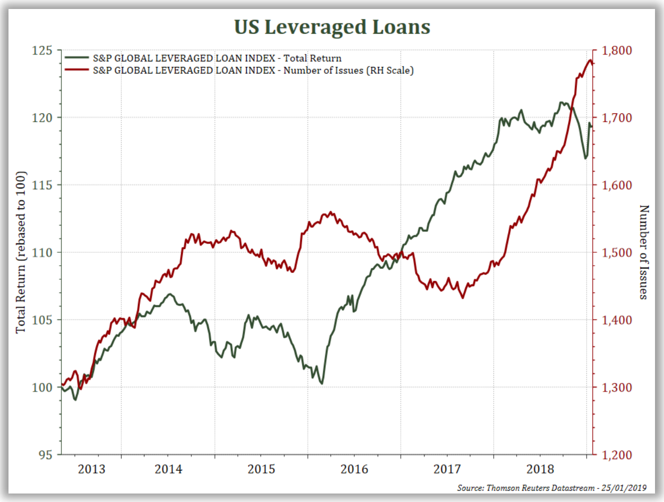
We <u>think the combination now of higher spreads and higher Fed Funds rates makes the IG bond asset class a justified position in a portfolio despite concerns about further Fed hikes as it is likely that some Fed hikes have been priced in already,</u> hence the higher spread vs the preceding years.

On the riskier side of the corporate bond market high yield (junk) bonds saw significant spread widening (>200bps) as during 2018 there were significant outflows from the asset class. Notably, during the middle of January 2019, short interest in HYG and JNK (2 of the largest and most liquid high yield bond ETFs) was above 55% and 30% respectively indicating the concern numerous investors have regarding High Yield bonds. The fact that energy companies account for about 15% of the High Yield bond markets means the fall in oil prices during 2018 further exacerbated the decline in bond prices and rise in yields.



4.2.2. Leveraged Loans

The US Leveraged Loan market has swelled to over $1 trillion. The Bank of England estimates that globally there are more than $2.2 trillion in leveraged loans outstanding worldwide (9% of advanced-economy corporate credit). For context, the value of US subprime mortgages in 2006 was around $1.3 trillion.[20] This market has often catered to lower-rated companies that would struggle to issue high yield junk bonds. One of the attractions of leveraged loans from an investor's perspective is that they have floating interest rates so as the Federal Reserve began to increase interest rates in 2015, perversely, the ability of poor-quality companies to borrow using leveraged loans increased and so the party continued(s).



The chart above shows the 2015 spike in new issues and the big jump in 2018 when new leveraged loans rose significantly.

In a recent FT[21] interview with Janet Yellen, former chair of the Federal Reserve raised the alarm regarding leverage loans, "*I am worried about the systemic risks associated with these loans,*" said the former central banker. "*There has been a huge deterioration in standards; covenants have been loosened in leveraged lending.*" Based on a number of commentators more than 80% of leveraged loans are deemed "cov-lite" – **for us this raises an alarm bell and is one of the riskiest aspects to financial markets today.**

4.2.3. Private Debt

Due to the squeeze on banks to hold more regulatory capital post the GFC, a new direct lending market has flourished. Firms which are too small to go directly to bond markets but too large to rely on their local bank credit lines (which have been curbed) have increased borrowing from the direct lending market. In North America, companies that issue private loans tend to be mid-sized, with EBITDA between $10 million and $50 million and are generally unrated. This direct lending market includes both direct lending funds which have emerged with a specific direct lending focus, hedge funds, private equity funds, pensions funds, insurers and also family offices. Many of these private debt instruments offer attractive yields to the investors but they come with significant risks including illiquidity, often light covenants and limited or no regulatory oversight.

The impact of financial stress on this private debt market is yet to be tested as it is largely a new market which has ballooned post the GFC. Given the lower (or unknown) credit quality of the companies borrowing, and the fact that many funds have been chasing riskier investments (i.e. loans granted) to appease investor yield demands, the subsequent defaults and their impact on investors and borrowers could be messy. Time will tell…

4.2.4. Consumer Credit – US

US Consumer Credit

On 16 November 2018 the Federal Reserve Bank of New York's Centre for Microeconomic Data issued their Quarterly Report on Household Debt and Credit[22] which showed that total household debt (which includes Mortgages, Home Equity lines of credit, Student Loans, Auto Loans and Credit Cards) increased by $219 billion (1.6%) to $13.51 trillion in the third quarter of 2018 (+$557 billion YoY). It was the 17th consecutive quarter with an increase and the total is now $837 billion higher than the previous peak of $12.68 trillion in the third quarter of 2008.

Despite the increase in household debt levels which are worrying to us the delinquency, bankruptcy and foreclosure data is not yet alarming and the last 2 years have seen stable levels. These number are, however, critical to watch as the Fed continue on their hiking path and the impact of higher rates is felt by households.

Mortgages

Specifically, with respect to mortgages, it is worth noting that since the GFC, due to the increased capital requirements, regulation and fines imposed on many large US banks a number of banks have been less enthusiastic to lend to risky customers to the same extent as before – which is a good thing. Concerning for us, however, is that what has emerged in the US is an alternative lending market which is less regulated and borrowers with poor credit have increasingly turned to these lenders. During 2018 the Brookings Institute[23] published a paper which elaborated on these risks in some depth, *"Nonbanks originated about half of all mortgages in 2016, and 75 percent of the mortgages insured by the FHA [Federal Housing Administration] and the VA [Veteran Affairs]. Both shares are much higher than those observed at any point in the 2000s"… "The high share of nonbank lenders in FHA and VA lending suggests that the government has significant exposure to the vulnerabilities of nonbank lenders, but this issue has received very little attention in the housing reform debate".* Only time will tell how the Fed hikes start to impact these borrowers (and the concomitant lenders!).

Adjustable rate mortgage data (ARMs) in the US

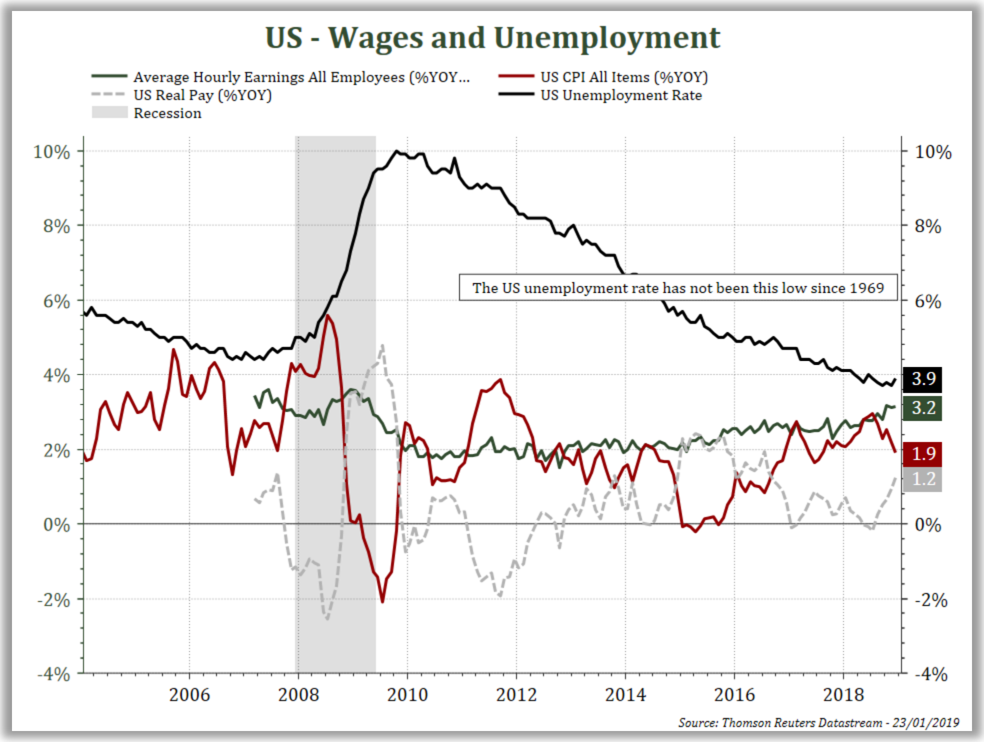
	29 Dec 2017	**9 Nov 2018**	**28 Dec 2018**
MBA 30 Year Fixed Rate Mortgage Rate*	3.99%	4.94%	4.55%
5/1-year Adjustable Rate Mortgage*	3.47%	4.14%	4.00%

* Source: Federal Reserve Bank of St. Louis - https://fred.stlouisfed.org/series/MORTGAGE5US

The above table shows that mortgage financing rates in the US have risen over the course of 2018 peaking around 9 November 2018 before pulling back during December. The impact of this is that is becomes harder for people to get a mortgage and therefore buy a property putting downward pressure on property prices and additionally people who need to refinance their mortgage have to do so at higher rates.

Wages growth and low unemployment

The below chart shows that US unemployment has declined significantly since the GFC and continued to decline in 2018. Although not yet a concern one needs to keep an eye on how the Federal Reserve will react to the wage increases (see Average Hourly Earnings below) and the pass through to inflation. Thus far inflation seems contained and benefited from declining energy prices in 2018.



4.3. Euro-area Credit

4.3.1. Corporate Credit – Euro-area

The dislocation between a common monetary policy in the euro-area and differing fiscal policies has resulted in some country-specific differences. This can be seen in the yield spread difference between German and Italian bonds for example. There are a number of political risks that many corporates in the euro-area face, whether directly or indirectly. Italy's populist government, waning support for President Macron, Brexit uncertainty, Chancellor Angela Merkel (a stabilising leader of Europe) announcing she'll step down in 2021 and general euro-area trade tensions with the US.

The financial strength and growth outlook are another major threat for euro-area corporates. The ECB ended its bond buying programme in December 2018 and purchasing managers indices (PMI) for manufacturing are trending down. The credit ratings outlook for European non-financial corporates has also turned more negative[24].

Investment grade (IG) corporate bond issuance has been at fairly consistent levels since pre-GFC. There has however been a much larger increase in high yield issuances, but the high yield market is considerably smaller than the IG market. The debt maturity walls for IG, high yield and leveraged loans are, however, not of a particular concern.

Euro-area bond yields are not particularly attractive and with the risk that spreads may widen further should financial conditions deteriorate, we do not favour the risk-return opportunity and currently don't recommend overweighting European IG or HY credit.

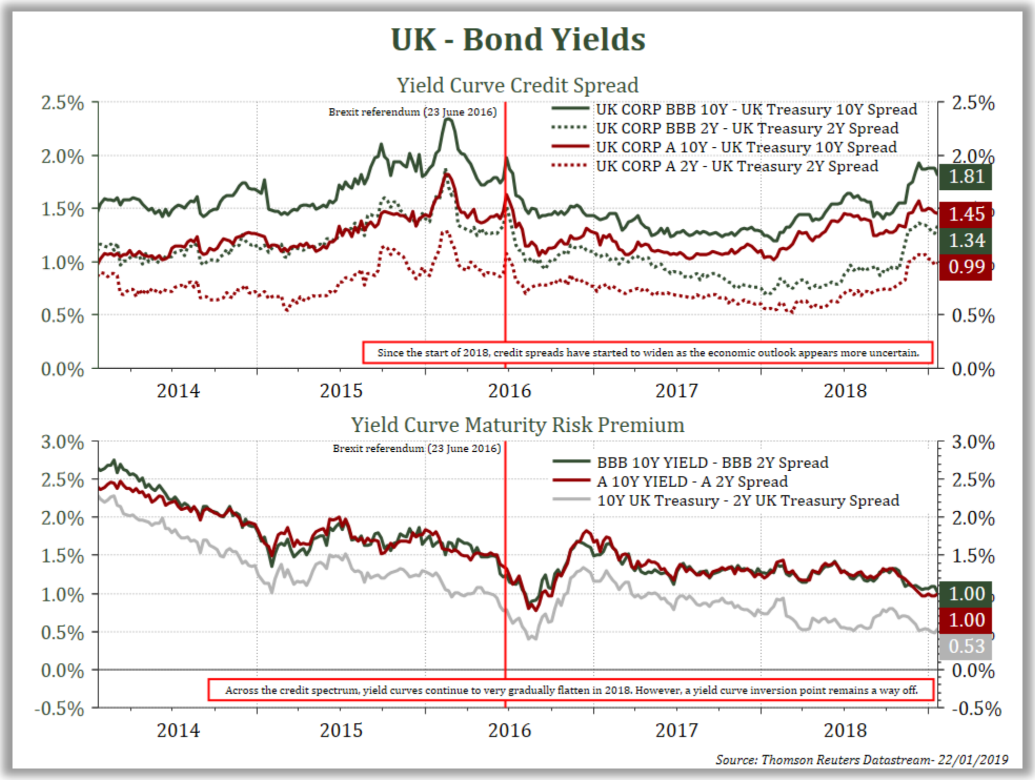
4.3.2. Consumer Credit – Euro-area

As with corporate credit, consumer credit is highly dependent on the outlook for the broader economy, which is uncertain. Gross disposable income has however been increasing (by 3.2% year-on-year) at Q3 2018, with the gross savings rate remaining at fairly constant levels of 12.1%. The household debt-to-income ratio has also improved and decreased from 94.1% in Q3 2017 to 93.6% in Q3 2018.[25] We are therefore not overly concerned about the health of consumers on the whole, but there is some country-level disparity that needs to be considered.

4.4. UK Credit

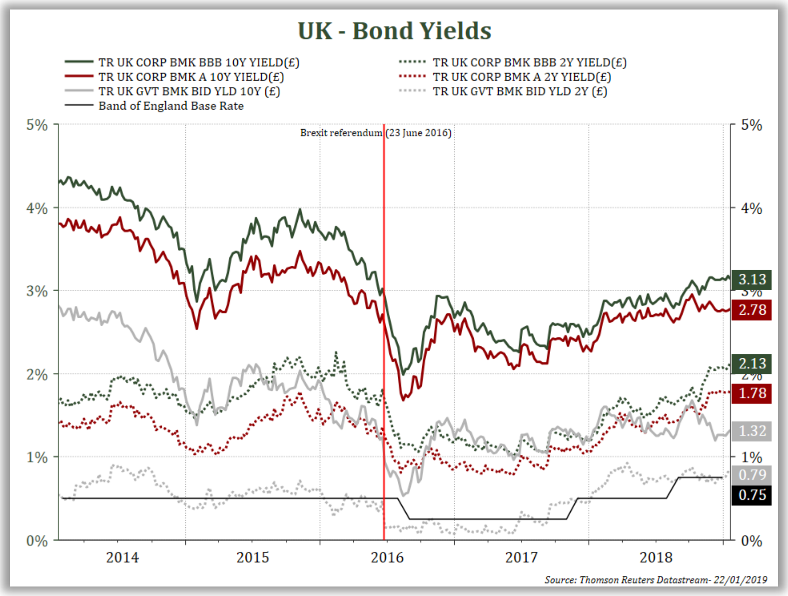
4.4.1. Corporate Credit – UK

As can be seen from the below chart corporate bond yields have started to tick up in the UK but surprisingly the rates do not appear to factor in much Brexit risk, as despite the uncertainty there is no meaningful tick up in the interest rates. These higher rates do, however, make financial conditions tighter and companies must finance at higher rates.



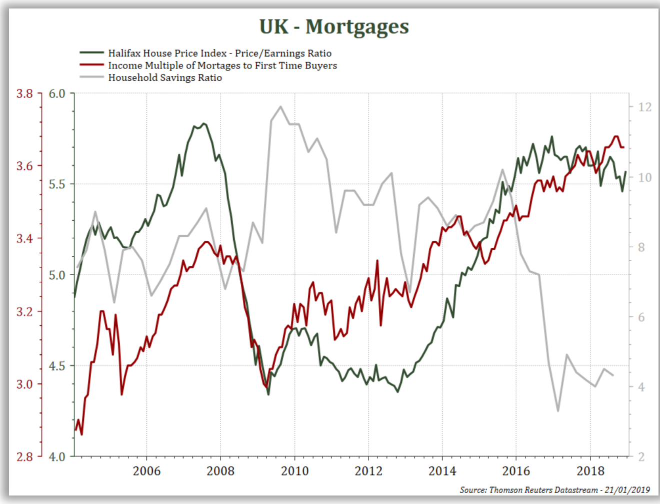
The above charts show primarily 2 things, firstly in the top section it shows that credit spreads (i.e. the risk priced into credit markets) are widening. This helps explain the increase in absolute yields in the following chart. Not only is the increased Bank of England base rate causing higher rates but there is increased credit risk priced in. When one compares the spreads now to Q1 2016 and the middle of 2016 around the time of the 23 June 2016 referendum they do not appear to be pricing in too much of a dire outcome for Brexit. The spike in spreads in Q1 2016 was mainly due to weak PMI data in the UK, which was well below consensus at the time, and the spike in June relates to Brexit.

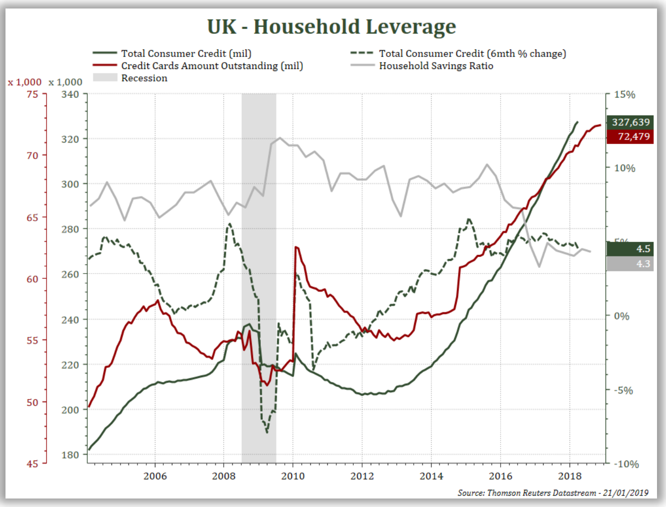
Secondly, the lower section (of the above chart) shows that the curves, both across corporate credit and also government bonds, are flattening. A flattening (and then inverting) yield curve is often a precursor to a recession.



In Q1 2018, the Bank of England ceased its purchases of corporate bonds, which it had previously implemented to stimulate the economy by lowering yields on corporate bonds[26]. They continue to hold £9.6bn of corporate bonds. This has removed some of the drag on yields during the period of bond purchases albeit representing a relatively small portion of the corporate bond market.

4.4.2. Consumer Credit – UK





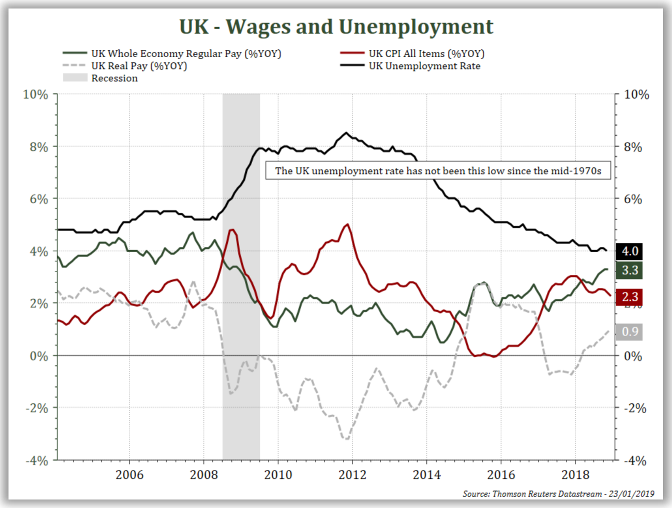
As can be seen from the below data there remains significant vulnerability in the UK housing market (which will impact the UK consumer) should the Bank of England raise rates. 33% of current mortgages are floating rate and more than half of all fixed rate mortgages rotate in floating-rate in less than 2 years.

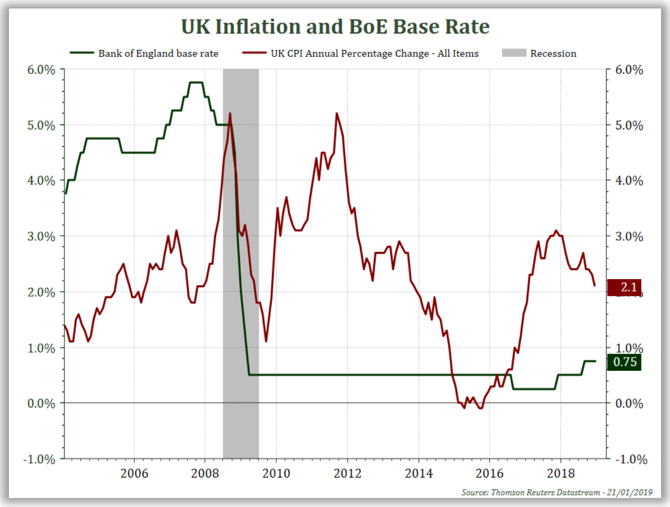
Floating-rate mortgages	Fixed-rate mortgages total		
33%	67%		
	Fixed-rate mortgages of which up to 2 years	Fixed-rate mortgages of which between 3 and 4 years	Fixed-rate mortgages of which 5 years
Source: Bank of England – data as of 30 Sept 2018.	51.6%	7.5%	40.9%

Refinancing of these fixed rate mortgages would potentially be at higher interest rates.

Wage growth and low unemployment

The LHS chart below shows wage growth, inflation and unemployment in the UK. The positives aspects of the graph are that real wages grew in recent months making the UK consumer better off and UK unemployment is at the lowest level since the mid 1970's. The negative aspects are that inflation is above the Bank of England target rate of 2% and given the wage and employment statistics if it was not for ongoing Brexit shenanigans the BoE would be inclined to hike interest rates, which, given the credit discussion above would negatively impact the UK economy.





5. Omba Tilts and Positioning

Below is a summary of our tactical positioning during 2018 within our equity allocations across all the portfolios we manage. These are typically 6-24 months over or under-weights we make to our strategic allocation and are driven by a combination of valuation screening, price dislocation or geopolitical or economic factors which may cause us to change our allocations. As can be seen we moved to be more defensively positioned in 2018 into European Healthcare, US Consumer Staples, a reduction of Asia EM and an increase in cash. We are very happy with our 2018 tilt performance.

	Currency of Return	Under-weight	Over-weight	Tilt 2018 (full year) or holding period (if different)	Funding source return	Performance relative to funding source
EMEA						
Stoxx Europe 600	EUR	– 13%				
Healthcare (*added position in April '18)*	EUR		6%	3.90%	-9.50%	13.40%
European Stoxx 600 Value	EUR		5%	-13.48%	-11.34%	-2.14%
Spain	EUR		3%	-11.80%	-11.34%	-0.46%
Stoxx 600 Oil & Gas	EUR		-	11.49%	2.03%	9.46%
(removed 2% over-weight in May '18)						
AMERICAS						
S&P 500	USD	– 8%				
Consumer Staples (*added position in June '18)*	USD		5%	1.07%	-8.66%	9.73%
US Financials	USD		-	-1.16%	4.59%	-5.75%
(removed 3% over-weight in June '18)						
ASIA PACIFIC						
EM Asia	USD	– 3%				
CASH (increase in H1 from EM Asia) *[1]*	USD		3%	1.83%	-15.71%	17.54%
CASH	USD		2%	1.83%	-6.40%	8.23%

[1] Cash return for this line is based on the average daily overnight USD deposit rates as sourced from Refinitiv.

As you can see from our Tactical Tilts below and above, we have moved to be more conservatively positioned which has added excess return over the broad equity benchmarks.

European Healthcare – we shifted into this globally diversified and defensive sector as it was at multi-year lows and also trading at a discount to the US Healthcare sector. The sector is also supported by long term demographic trends and technological advancements. This, along with the essential nature of healthcare spend, should help insulate the sector from adverse rises in interest rates. The sector is traditionally more defensive and given we are later cycle we prefer more defensive sectors which hold up better in markets which correct.

European Value – we remain overweight value-oriented stocks via a Value Factor Smart Beta ETF. The stocks therein are trading at lower multiples. Again, we favour their defensive nature in the current market conditions where we are seeing an increased likelihood of heightened volatility and potentially a change in market conditions that won't favour growth or momentum stocks but rather more value-oriented ones.

Spain – we remain overweight Spain as the Spanish economy continues to grow faster than most of Europe with unemployment continuing to fall. The political instability (the Catalonia referendum and the ousting of Mariano Rajoy in June through a no-confidence vote) has dented the stock market performance but in doing so has presented an opportunity for potential outsized returns relative to broad Europe as the political uncertainty dies down. The effectiveness of Pedro Sánchez's minority socialist government remains to be seen but we believe we entered the overweight at a sufficiently low enough level to give us a safety buffer.

European Oil & Gas – we removed our overweight position after a strong rally in oil prices (a high since 2014) and at a time when news of US sanctions against Iran peaked and supply-side concerns were generally heightened. We had held this position throughout 2017 when it underperformed the Stoxx 600 as energy prices remained low but had conviction in our thesis that the likelihood of higher oil prices at some point, due to geopolitics or supply side issues, would pan out. This happened at the start of 2018 and we are assessing a potential re-entering into this position.

US Consumer Staples – we increased exposure into this sector due to its defensive nature and relative attractive value proposition, with recent underperformance (and multiple contraction) compared with European and Asian consumer staples. Top holdings are large globally diverse companies. The sector trades at an attractive dividend yield of c. 3.3% compared to the S&P500 Index at 2.3%. Historically the sector performs well on a relative basis in times of stock market volatility.

US Financials – we closed our overweight position to US Financials as the sector came under pressure in late May 2018 as strongly rising rates and the flattening of the yield curve added pressure to the sector, which may underperform in the future as lending slows, bad debts rise, and the short and long-term rate differentials decline (curve flattens). There is the argument that higher interest rates, potentially lighter regulation thanks to the Trump administration and a strong US economy support financials, but we do not feel the upside outweighs the risks.

6. ETF and Passive Industry Snippets

- On 3 August 2018 Fidelity launched a number of passive Index funds at 0% fee. We think this is a highly positive development for the industry. Firms like ours who allocate to passive investments can utilise products like this to reduce total expense ratios of portfolios we manage;
- The Bank of Japan continues to buy ¥6 trillion (circa $55 billion) of ETFs a year as part of its stimulus package;
- The biggest ETF is SPDR S&P 500 ETF with a market cap of $248 billion on 25 January 2019;
- One can buy exposure to the S&P 500 (using a liquid and physically backed ETF) for just a 0.03% fee;
- The SEC again delayed the approval of a Bitcoin-backed ETF, with its Chairman Jay Clayton citing a lack of market surveillance on bitcoin;
- At the end of December 2018, the Global ETF industry had 6,483 ETFs, with 13,148 listings and assets of $4,685 billion from 370 providers on 70 exchanges[27];
- Passive management funds accounted for only circa 10% of equity strategy UCITS funds in the EU[28].

7. 2019 Risks – What to watch out for

Below we identify some risks to keep on the radar in no particular order although items highlighted in red are our main concerns.

Geopolitical	Financial Markets and Economics	Social/ Other
Escalating military conflict in the Middle East	US-China trade tensions	Cyber attacks
North Korea tension with the West	US-Europe Trade Tensions	Global immigration tensions
South China Sea issues escalate	Global monetary policy tightening	Rise of extreme populism
US-Iranian tensions worsen	Worse than expected global growth	Rise of extreme nationalism
US-Russia nuclear treaty ends	Risk of a US recession	Terrorist attacks
Brexit	Significant increase in Bank Loan or High Yield Defaults	
Russia-Ukraine tensions escalate	US consumer defaults rise significantly	
Unexpected oil price spike	Weakening USD puts pressure on the Fed to hike to curb inflation	

8. Conclusion

As our 2019 Outlook discusses, risks are mounting in the global economy. While global growth is slowing as we are late cycle, earnings do remain robust. Tightening monetary policy, coupled with high levels of debt in certain parts of the global economy give us cause for concern. As and when the credit cycle turns, higher financing costs, write downs and reduced consumption and capex will all hurt the economy.

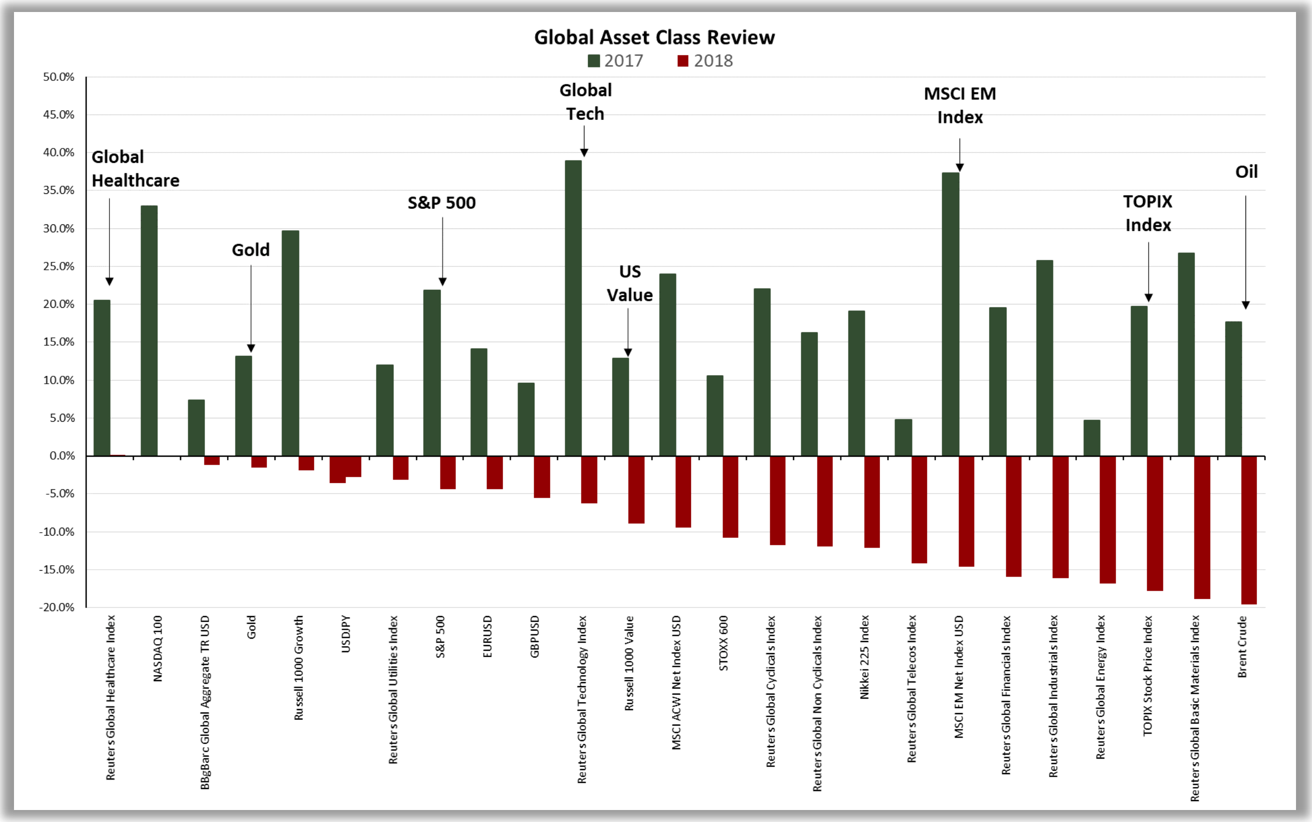
Political risks are elevated and may exacerbate any slowing in the global economy as structural factors play an increasing role in the global economy.

We see 2019 as another year which will present opportunity during bouts of volatility but will ultimately be another tough year for many asset classes. We will continue to watch the Fed, corporate earnings and credit statistics very closely.

Appendix A – 2018 Asset Returns

Source: Refinitiv, 2019

Cross Asset Class Returns – 2017 and 2018



S&P 500 Total Return Index (USD) – 20-year drawdown analysis

What can be seen from the below tables and charts is the peak to trough drawdown and the period over which it occurred. What is important to note is that although it can take a long time to recover the market always does and one of the worst things investors can do is to liquidate a portfolio of risky assets when market have fallen or are falling. Timing the bottom is an extremely difficult task which most people get wrong. As the saying goes, "*it is time in the market, not timing the market, which is most important*".

S&P 500 Total Return Index						
Peak (Start Date)	Trough (End Date)	Time from Peak to Trough	Peak to Trough Drawdown (%)	Recovery Date	Time from Peak to Recovery	Trough to Recovery Return (%)
01/09/2000	09/10/2002	25 months 8 days	-47.41%	23/10/2006	73 months 22 days	90.62%
09/10/2007	09/03/2009	17 months 0 days	-55.25%	02/04/2012	53 months 24 days	123.65%
29/04/2011	03/10/2011	5 months 4 days	-18.64%	03/02/2012	9 months 5 days	23.27%
20/07/2015	11/02/2016	6 months 22 days	-12.96%	18/04/2016	8 months 29 days	14.96%
26/01/2018	08/02/2018	0 months 13 days	-10.10%	25/07/2018	5 months 29 days	11.27%
20/09/2018	24/12/2018	3 months 4 days	-19.36%			

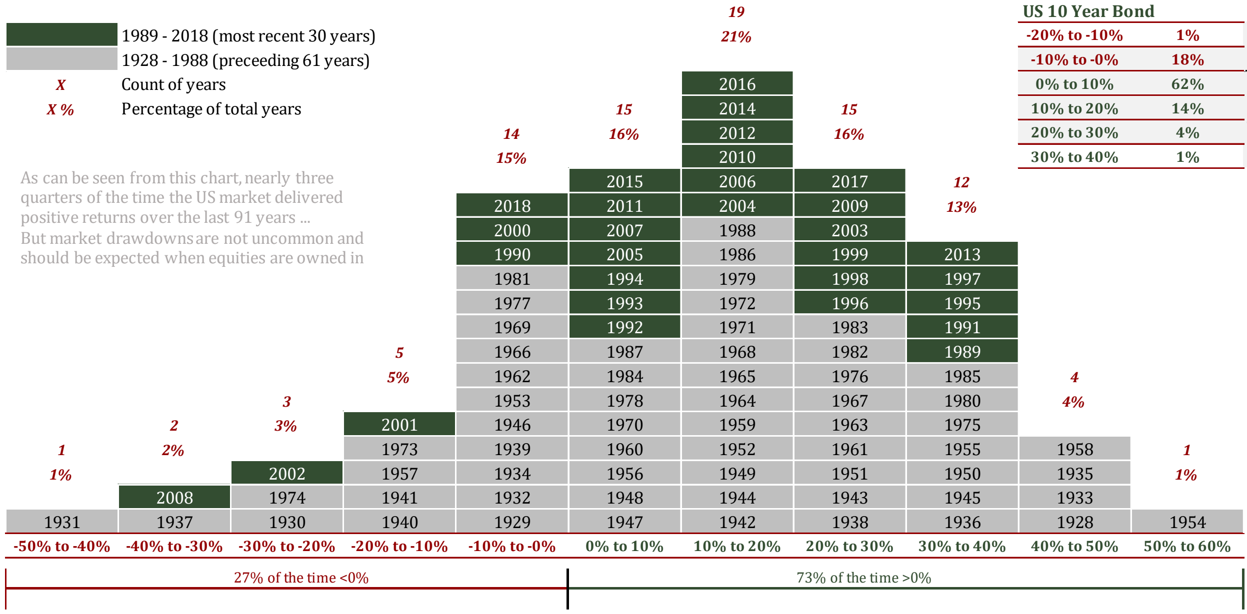
MSCI EM Net Return Index (USD) – 20-year drawdown analysis

MSCI International Emerging Markets Net Index (USD)						
Peak (Start Date)	Trough (End Date)	Time from Peak to Trough	Peak to Trough Drawdown (%)	Recovery Date	Time from Peak to Recovery	Trough to Recovery Return (%)
10/02/2000	21/09/2001	19 months 11 days	-52.18%	02/03/2004	48 months 21 days	109.75%
29/10/2007	27/10/2008	11 months 28 days	-65.25%	19/07/2017	116 months 20 days	187.95%
02/05/2011	04/10/2011	5 months 2 days	-30.06%	03/09/2014	40 months 1 days	42.57%
28/04/2015	21/01/2016	8 months 24 days	-34.19%	26/05/2017	24 months 28 days	52.05%
26/01/2018	29/10/2018	9 months 3 days	-25.03%			

OMBA
ADVISORY & INVESTMENTS

S&P 500 Total Returns Since 1928

Clearly, history demonstrates that statistically it is better to have remained invested in markets and the probability of positive returns is greater than the probability of loss but one must invest with the knowledge that there can be periods of loss and negative annual returns occur almost 1/3rd of the time. For this reason we believe investors should always have equities in their portfolios.



US 10 Year Bond

-20% to -10%	1%	19%
-10% to -0%	18%	
0% to 10%	62%	81%
10% to 20%	14%	
20% to 30%	4%	
30% to 40%	1%	

Equity Sector Heatmap

These are based on Thomson Reuters Global Sector Indices, total return in USD. The key point to note is that there can be significant sector dispersion, and where one year a sector is top performer, the next year it could be a bottom performer. This is why Omba places value on tactical asset allocation to sectors (and countries).

2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Global Healthcare Index 2%	Global Technology Index 40.9%	Global Energy Index 27.2%	Global Healthcare Index 6.9%	Global Healthcare Index 18%	Global Healthcare Index 33.4%	Global Financials Index 22.7%	Global Healthcare Index 6.6%	Global Cyclical Consumer Goods & Services Index 22.4%	Global Basic Materials Index 65.1%	Global Healthcare Index -20.8%	Global Basic Materials Index 37.9%
Global Utilities Index 0.7%	Global Basic Materials Index 29.9%	Global Basic Materials Index 23.2%	Global Non Cyclical Consumer Goods & Services Index 6.4%	Global Technology Index 14.7%	Global Cyclical Consumer Goods & Services Index 29.5%	Global Healthcare Index 20.4%	Global Non Cyclical Consumer Goods & Services Index 4.4%	Global Basic Materials Index 20.4%	Global Technology Index 61.3%	Global Non Cyclical Consumer Goods & Services Index -27.1%	Global Energy Index 34%
Global Technology Index -5%	Global Industrials Index 28.5%	Global Technology Index 12.4%	Global Technology Index 3%	Global Utilities Index 12.2%	Global Industrials Index 29.1%	Global Cyclical Consumer Goods & Services Index 16.1%	Global Telecommunications Services Index -0.7%	Global Industrials Index 20%	Global Cyclical Consumer Goods & Services Index 43%	Global Utilities Index -31.5%	Global Utilities Index 28.7%
Global Non Cyclical Consumer Goods & Services Index -9.5%	Global Cyclical Consumer Goods & Services Index 24.4%	Global Industrials Index 10.7%	Global Cyclical Consumer Goods & Services Index 2.9%	Global Non Cyclical Consumer Goods & Services Index 7.1%	Global Technology Index 26.5%	Global Non Cyclical Consumer Goods & Services Index 11.7%	Global Energy Index -3.9%	Global Non Cyclical Consumer Goods & Services Index 13.7%	Global Financials Index 40.6%	Global Telecommunications Services Index -35.3%	Global Telecommunications Services Index 27.1%
Global Cyclical Consumer Goods & Services Index -10%	Global Financials Index 23.5%	Global Financials Index 10%	Global Industrials Index -1%	Global Financials Index 4.9%	Global Financials Index 21.3%	Global Industrials Index 11.5%	Global Utilities Index -4.5%	Global Energy Index 12.7%	Global Energy Index 34.4%	Global Cyclical Consumer Goods & Services Index -43.3%	Global Industrials Index 22.5%
Global Telecommunications Services Index -10.3%	Global Healthcare Index 22.9%	Global Utilities Index 8.7%	Global Telecommunications Services Index -2.7%	Global Cyclical Consumer Goods & Services Index 3.6%	Global Telecommunications Services Index 20.7%	Global Technology Index 11.4%	Global Technology Index -6.1%	Global Technology Index 11.8%	Global Industrials Index 31.6%	Global Energy Index -45.4%	Global Non Cyclical Consumer Goods & Services Index 20%
Global Financials Index -13.1%	Global Non Cyclical Consumer Goods & Services Index 19.4%	Global Telecommunications Services Index 5.2%	Global Financials Index -4.2%	Global Industrials Index 3.6%	Global Non Cyclical Consumer Goods & Services Index 18.5%	Global Basic Materials Index 10%	Global Cyclical Consumer Goods & Services Index -7.6%	Global Telecommunications Services Index 11.6%	Global Non Cyclical Consumer Goods & Services Index 25.9%	Global Industrials Index -45.7%	Global Technology Index 10.6%
Global Energy Index -13.8%	Global Utilities Index 16.6%	Global Cyclical Consumer Goods & Services Index 3.3%	Global Utilities Index -9.3%	Global Telecommunications Services Index 1.2%	Global Energy Index 14.7%	Global Telecommunications Services Index 5.9%	Global Industrials Index -12.9%	Global Healthcare Index 4.8%	Global Healthcare Index 20.2%	Global Technology Index -46.2%	Global Healthcare Index 5.6%
Global Industrials Index -14.4%	Global Telecommunications Services Index 9.3%	Global Non Cyclical Consumer Goods & Services Index 1.5%	Global Basic Materials Index -13.7%	Global Basic Materials Index -7%	Global Utilities Index 11.2%	Global Energy Index 2.9%	Global Financials Index -17.3%	Global Financials Index 4.4%	Global Telecommunications Services Index 13.8%	Global Financials Index -51.3%	Global Cyclical Consumer Goods & Services Index 0.5%
Global Basic Materials Index -16.6%	Global Energy Index 8.6%	Global Healthcare Index -5%	Global Energy Index -22.7%	Global Energy Index -14.1%	Global Basic Materials Index 2.6%	Global Utilities Index 1.1%	Global Basic Materials Index -20.4%	Global Utilities Index 0.9%	Global Utilities Index 11.6%	Global Basic Materials Index -51.9%	Global Financials Index 0.1%

Appendix B – 2019 H1 Calendar

2019 Global Calendar

	Jan	Feb	Mar	Apr	May	Jun
CENTRAL BANKS						
Americas						
FOMC meeting	29-30	-	19-20	-	30Apr-1May	18-19
Bank of Canada	9	-	6	24	29	-
Central Bank of Mexico	-	7	28	-	16	27
EMEA						
ECB meeting	24	-	7	10	-	6*
BoE meeting	-	7	21	-	2	20
SNB	-	-	21	-	-	13
APAC						
BoJ meeting	22-23	-	14-15	24-25	-	19-20
BoJ minutes	27	-	19	-	1	25
RBA meeting	-	5	5	2	7	4
ELECTIONS						
EMEA						
UK (Local election)	-	-	-	-	2	-
Belgian (Federal election)	-	-	-	-	26	-
EU (Parliamentary election)	-	-	-	-	23-26	-
Spain (Local election)	-	-	-	-	26	-
APAC						
Japan (Local elections)	-	-	-	7 & 21	-	-
India (General election not confirmed)	-	-	-	April	May	-
Australia (Federal election)	-	-	-	-	18	-
OTHER POLITICAL EVENTS						
New US Congress takes power	3	-	-	-	-	-
Deadline for US to submit a list of changes to USMCA agreement	29	-	-	-	-	-
Brazilian President Bolsonaro administration takes power	1	-	-	-	-	-
US to increase tariffs on Chinese exports from 10% to 25%	-	-	2	-	-	-
China's National People's Congress	-	-	5	-	-	-
UK may leave the EU	-	-	29	-	-	-
INTERNATIONAL MEETINGS						
IMF	-	-	-	12-14	-	-
G20	-	-	-	-	-	28-29
EU council	-	-	21-22	-	-	20-21

Appendix C – Further Reading

For those of you who are looking for a more in-depth analysis or further insight, the following links may be of interest to you:

Outlook for 2019

- Citi - https://www.privatebank.citibank.com/ivc/docs/Outlook_2019.pdf
- KKR - www.kkr.com/global-perspectives/publications/outlook-2019-game-has-changed
- Goldman Sachs - www.goldmansachs.com/what-we-do/investment-management/private-wealth-management/intellectual-capital/isg-outlook-2019.pdf
- UBS - https://www.ubs.com/global/en/wealth-management/chief-investment-office/our-research/discover-more/year-ahead/download-exclusive-copy.html
- HSBC - https://sp.hsbc.com.my/outlook/marcodata.html
- JPMorgan - https://www.jpmorgan.com/global/research/global-market-outlook-2019
- BoAML - https://www.bofaml.com/en-us/content/2019-year-ahead.html#line1

Quantitative easing

- ECB - https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html
- Fed - https://www.federalreserve.gov/monetarypolicy/bsd-overview-201811.htm
- BoE - https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility
- BoJ - https://www.boj.or.jp/en/announcements/release_2019/k190123a.pdf

Other

- Federal Reserve Bank of New York - https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2018Q3.pdf

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[2] The Economist – The migrant surge on America's border slowed long ago – 14 January 2019 - https://www.economist.com/graphic-detail/2019/01/14/the-migrant-surge-on-americas-border-slowed-long-ago
[3] World Hyperinflations, Steve H. Hanke and Nicholas Krus, Cato Institute Working Paper, August 15, 2012. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2226980
[4] IMF, https://www.imf.org/external/datamapper/PCPIPCH@WEO/WEOWORLD/ARG/VEN
[5] Source: Refinitiv
[6] UN - UN sounds alarm as Venezuelan refugees and migrants passes three million mark – 8 November 2018 - https://news.un.org/en/story/2018/11/1025231
[7] Zimbabwe's Exodus (Crisis, Migration, Survival), Edited by Jonathan Crush and Daniel Tevera, 2010 - https://idl-bnc-idrc.dspacedirect.org/bitstream/handle/10625/44852/IDL-44852.pdf
[8] Financial Times - Recycling alone will not solve the plastic problem – 5 November 2018 - https://www.ft.com/content/d6558838-db75-11e8-8f50-cbae5495d92b
[9] Liv-Ex Fine Wine Indices - https://www.liv-ex.com/2019/01/fine-wine-prices-2018-merchants-predictions-vs-reality/
[10] Christies - Hockney masterpiece breaks world record in New York, https://www.christies.com/features/New-York-Post-War-results-November-2018-9555-3.aspx
[11] Forbes – The World's Highest-Paid Athletes - https://www.forbes.com/athletes/#9dbbf3c55ae5

[12] McKinsey - A better way to anticipate downturns - https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/a-better-way-to-anticipate-downturns
[13] International Monetary Fund - www.imf.org/external/datamapper/PPPSH@WEO - accessed on 24/1/2019
[14] IMF data as at Q3 2018 - http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4
[15] Transcript of Chairman Powell's Press Conference, December 19, 2018 https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20181219.pdf
[16] Bank of England - The Bank of England's future balance sheet and framework for controlling interest rates - https://www.bankofengland.co.uk/paper/2018/boe-future-balance-sheet-and-framework-for-controlling-interest-rates
[17] Fitch Ratings - https://www.fitchratings.com/site/pr/10059886 - accessed on 24/1/2019
[18] Trading Economics - https://tradingeconomics.com/country-list/rating - accessed on 23/1/2019
[19] FT - Agency Fitch warns governments of credit rating risks – 23 January 2019 - https://www.ft.com/content/cf9fc00e-1ef9-11e9-b126-46fc3ad87c65
[20] Bank of England - How large is the leveraged loan market? - https://www.bankofengland.co.uk/bank-overground/2019/how-large-is-the-leveraged-loan-market
[21] Financial Times, Janet Yellen sounds Alarm over plunging loan standards - https://www.ft.com/content/04352e76-d792-11e8-a854-33d6f82e62f8
[22] Quarterly Report on Household Debt and Credit: 2018:Q3, Federal Reserve Bank of New York https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2018Q3.pdf
[23] Liquidity Crisis in the Mortgage Market, Brookings Papers on Economic Activity, Spring 2018 https://www.brookings.edu/bpea-articles/liquidity-crises-in-the-mortgage-market/
[24] S&P Global - European Corporate Credit Outlook 2019 - https://www.spratings.com/documents/20184/1481001/European+Corporate+Credit+Outlook+2019+Running+Out+Of+Time/48fff97a-54e6-d75e-2187-f1151c9414f7
[25] ECB - Households and non-financial corporations in the euro area: third quarter of 2018 - https://www.ecb.europa.eu/press/pr/stats/ffi/html/ecb.eaefd_early2018q3.en.html
[26] Quantitative easing and the Asset Purchase Facility, https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility, accessed on 22 January 2019.
[27] Source: ETFGI the leading independent research and consultancy firm on trends in the global ETF/ETP ecosystem, based in London, England. Deborah Fuhr, Managing Partner, co-founder, ETFGI website www.etfgi.com
[28] ESMA - Performance and costs of retail investment products in the EU - https://www.esma.europa.eu/sites/default/files/library/esma50-165-731-asr-performance_and_costs_of_retail_investments_products_in_the_eu.pdf