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2020 Forecasting the Future

Every year, people always ask what the next year will bring. They frequently expect that we will see lots of market volatility, and are nervous about the future. That's a direct result of reading the headlines. The newsmakers know that "bad news sells", but it also means they make their own bed when it comes to forecasting the economy, and the fact that nobody wants to spend a little extra money on papers.

I caught a great headline last week. It was using scare tactics to influence your investment decisions. Often the writer is the latest expert that has predicted 14 of the last 2 market crashes! In the past few months, I've had more inquiries than in the past 5 years about the next big correction.

I do not know when it will happen. I do know that it's prudent to take some profit when we've seen a better than average year, which we did in 2019.

Markets do correct, and sometimes these corrections can be substantial. However, we also know that even in difficult times, there are some strategies that can make money. So, it's more about strategy than it is about full exposure to the market. We also know that the markets do not stay down indefinitely, and getting out can mean giving up the quickest growth, which happens when things start to recover, and the income flow that gets paid along the way. Right now, many dividends are paying better than bonds.

Of late, I have done a great deal of reading in terms of what to expect. Here are some forecasts from many experts for 2020!

1) Growth in the Cdn market is expected to continue at a modest pace. However, Blackrock believes it will still outpace some other areas, as Canada's position has appeared to be very flat. Some forecasts put Cdn equity market growth dropping below 20 year average of 7.2%, being about 6% over the coming years. The same is expected of Cdn bonds, providing a yield of 1.9%, down from the longer term averages of 4.8%. This substantial drop in income from the safer components of the portfolio is why many analysts see the market continuing to rise, albeit more slowly. People will continue to take more risk in the portfolio to chase better returns.

2) China will continue to drive world growth, as will other emerging markets, where middle classes are developing. It is changing the trend of money flow, and demand of products to the Eastern continents, rather than the West.

3) Negative interest rates will continue to hinder the world economy, and have potentially negative impact on the banking system and global growth. The intended consequence is to stimulate spending. But unusual circumstances such as negative interest rates often mean more caution is evident, and therefore, the result is not as effective as hoped. As more countries adopt negative interest rates, it starts to have more impact across the board. It causes more banks, insurance companies and pension companies to find it harder to generate revenues, and to meet their deposit obligations. For more details on this impact, see the list of articles below.

4) Late cycle trends means favouring better quality companies; those with strong balance sheets, high qualify products with little competition, solid earnings and cashflow and low debt. These companies tend to weather market uncertainty better than those with high debt, or stiff competition.

5) The ongoing monetary easing over the past decade is setting the pace for increased inflation. It's not been on anybody's radar, but could start to appear eventually, and being invested in assets that keep up with inflation over time is 1 way to stay ahead of the curve.

6) Tactical strategies are important to consider. In late cycle periods, and in times of extremely low interest rates, it's important to hold items that provide a complement to market volatility. As bonds do not have much protection at this time, more tactical strategies are worth considering as a complement. This allows a part of your portfolio to act as a hedge against a downturn. There are many more options available now to the retail investor. These strategies are not for everybody, but they do provide some diversification.

Interested in additional reading on what's expected in 2020, here are some suggested articles.

https://www.advisor.ca/news/industry-news/why-markets-in-2020-will-require-a-tactical-diversified-approach/?utm_source=EmailMarketing&utm_medium=email&utm_content=advisor&utm_campaign=AM_Bulletin&oft_id=74004767&oft_k=h4dySy1i&oft_lk=XrCrfe&oft_d=637121271000500000&fpid=133638&m32_fp_id=PS0R5u&ctx=newsletter&m32_fp_ctx=DI_MASTER_Relational

Blackrock's 2020 Outlook

https://www.blackrock.com/ca/intermediaries/en/literature/market-commentary/bii-outlook-2020-ca.pdf

Negative Interest Rates

https://www.pimco.ca/en-ca/insights/viewpoints/negative-rates-negative-view?utm_source=marketo&utm_medium=email&utm_campaign=19q4-ca-can-em-best_reads_12_14-5893&utm_term=mkid:3342531&utm_content=assetid:31588_tier+1_article_1_title&mkt_tok=eyJpIjoiTkRaak5qRXlPRE5pTURnMCIsInQiOiJNUFdpQWRLa2toUjBDUFJiMUlFbVB2T01ZUFZMOGoySXlCU2xtRitkYzNlcDd6QTVUVFUwK2RYY3BLR1dCdHhBV0xWOEZwYSt6UUk5SHpZRFpIM2ZvUUxaQmpCVVFqeUo0T2UwTWNPTGJTWWlleUs4T0JzRWhrVEx5eHBTeklvMiJ9

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