Janus Henderson

KNOWLEDGE. SHARED

MARKET GPS

INVESTMENT OUTLOOK 2020

The Janus Henderson Market GPS: Investment Outlook 2020 seeks to address the most pressing issues facing clients globally. Here we summarise the views of our asset class heads and highlight themes to watch in the year ahead. More in-depth insights are also available as part of the series.

At Janus Henderson, we rely on our detailed fundamental research and deep understanding of companies, sectors and asset classes to drive investment decisions. We assess near-term signals and global trends but avoid far-reaching macroeconomic calls.

Our investment teams discuss and debate their views regularly, but are free to form their own opinions of opportunities and risks in the marketplace. We feature commentary from individual portfolio managers on the Insights section of the Janus Henderson website as part of our *Knowledge. Shared* approach.

INVESTOR CONCERNS

We believe in understanding investor needs and helping to deliver solutions. Our Outlook seeks to address current client concerns, including:

- Is now the time to take a contrarian position as part of an Equities allocation – or can recent winners continue to rise? Is now the time to move away from US overweights?
- How should investors position for trade war developments, geopolitical pressure and the US election cycle?
- If low or negative rates are here to stay, how should Fixed Income investors position themselves to profit?
- Are environmental, social and governance (ESG) considerations true drivers of investment returns?
- Can Alternative investments provide genuine diversification opportunities outside of traditional asset classes?

EQUITIES

SENTIMENT SWINGS LIKELY, FOCUS ON FUNDAMENTALS

Stocks hit record highs in 2019 even as geopolitical uncertainty led to heightened market volatility. We believe swings in sentiment could continue in 2020 and that a focus on fundamentals will be more important than ever.

ALEX CROOKE AND GEORGE MARIS
CO-HEADS OF EQUITIES

WEIGH THE RISKS

Can equity markets go higher? We think geopolitics will have an outsized impact on the answer. We also recognise that valuations are above long-term averages and some economic indicators are turning negative. But there are positive offsets: loosening monetary policy, a strong US labour market and the relative attractiveness of stocks to bonds. We think the equity train stays on the tracks but with bumps ahead.

US UNEMPLOYMENT RATE
50-YEAR LOW
of 3.5% in 2019[1]

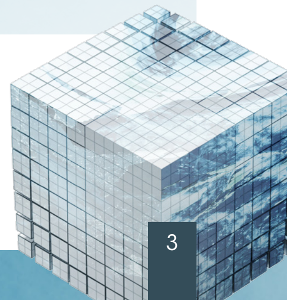
VALUATIONS MATTER

For much of 2019, investors rewarded defensive stocks, but September saw a sharp rotation to overlooked cyclicals. Did this shift in sentiment suggest that investors will no longer pay any price for “safety”? Such scepticism is prudent, and for 2020 we think it is critical to identify companies with sound fundamentals trading on attractive valuations.

GO GLOBAL

We believe investors should diversify geographically. US stocks led global equities in 2019.[2] In 2020, we believe this leadership could expand to regions such as Europe, on which sentiment has been particularly negative, and Asian markets outside of China, which have become beneficiaries of the trade war. Globally, we also think opportunities exist in companies that are innovating, finding cost synergies in mergers and acquisitions or pulling other levers of growth, as well as in firms attuned to ESG.

CHINA’S INVESTMENT IN DEVELOPING ASIA
⬆200%
in 2018[3]



FIXED INCOME

ACTIVE APPROACH CRUCIAL

Negative rates and weak data paint a challenging backdrop, but there is room to be positive within Fixed Income, an asset class that can tolerate mundane economic conditions.

JIM CIELINSKI
GLOBAL HEAD OF FIXED INCOME

SET REALISTIC EXPECTATIONS

Central bank policy will determine if a global recession is avoided in 2020 – and we believe it will. This will be coupled by an extension of the credit cycle supporting corporate bonds, but with the mathematics of already-low yields, investors should prepare for modest returns from Fixed Income generally.

INTEREST RATE MOVES
56 CUTS
in 3Q19
V.
27 HIKES
in 3Q18[4]

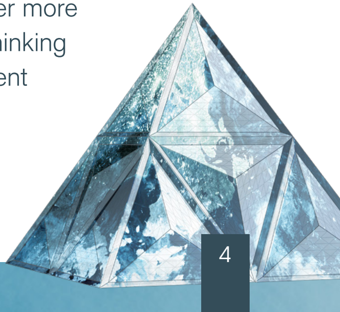
BE ACTIVE

We are cautious on valuations. These are generally high and, with government bond rates so low, there are meagre foundations for meaningful returns. Certain sectors and areas of the market will be susceptible to shocks, particularly in a US presidential year; other areas will find support. We expect an increase in the dispersion of returns and, as disruption continues, active positioning will be key.

NEGATIVE-YIELDING GOVERNMENT DEBT
US$13 T[5]

TAKE A BROAD PERSPECTIVE

The search for yield will force investors to look across the entire range of Fixed Income, with asset- and mortgage-backed securities being of potential interest. ESG considerations will also become ever more relevant. It is important not to become anchored in one's thinking or positioning when navigating the geopolitical and sentiment shifts ahead.



ALTERNATIVES

DIVERSIFY THROUGH SKILLS-BASED INVESTING

Alternative investments have grown markedly in popularity. The asset class is ever more relevant as investors question how much more traditional asset classes have to give. We believe diligence is required when assessing the options.

MICHAEL HO
GLOBAL HEAD OF MULTI-ASSET AND ALTERNATIVES

KNOW YOUR SOURCES OF RETURN

Many Alternatives managers rely on equity beta (market exposure) to generate returns. This won't provide diversification in a downturn. We believe it is critical for investors to understand whether returns are reliant on skills-based investing – with genuine diversification benefits – or exposure to markets when assessing opportunities, and we advocate for the former.

We believe Alternatives investing should provide **NEAR 0%** net exposure to traditional asset classes

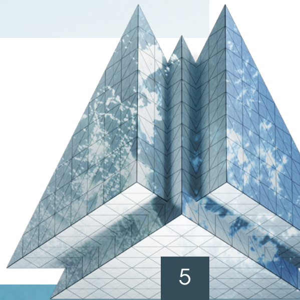
BE AWARE OF CHANGING MARKET DYNAMICS

The increasing number of retirees means that society's sensitivity to investment loss is increasing and the potential consequences more pronounced. It is important to be mindful of the monetary accommodation of the last decade and its impact on asset class returns.

WATCH RISKS TO TRADITIONAL ASSET CLASSES

At this late stage in the cycle, we look for structural shifts that indicate a mispricing of risk. Since 2009, Equities have been artificially buoyed by companies making the most of low-yielding debt to buy back shares. We believe investors should watch for a reversal of this trend, with potentially meaningful results in 2020. In our view, while timely given current conditions, adding truly diversifying sources of return to balanced portfolios is an approach with long-term merit.

EQUITY BUYBACKS BY US COMPANIES SINCE 2009
US$3.7 T[6]



EXPLORE THE FULL MARKET GPS: INVESTMENT OUTLOOK 2020 AT JANUSHENDERSON.COM

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—KNOWLEDGE. SHARED—

[1] Source: Refinitiv Datastream, Bureau of Labor Statistics, US Department of Labor, US Unemployment Rate, Seasonally Adjusted, September 2019.

[2] As of 31 October 2019.

[3] Source: Asian Development Bank, December 2018. Greenfield investments are projects in which investors establish a new business or expand operations in foreign territories.

[4] Source: CBRates.com, November 2019.

[5] Source: Bloomberg, Bloomberg Barclays Global Aggregate Negative-Yielding Debt Market Value, November 2019.

[6] Source: Bank of America Merrill Lynch Research, September 2019.

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