

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 2019¹

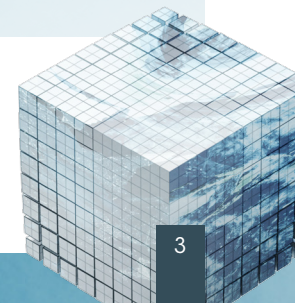
VALUATIONS MATTER

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 2018³



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 3Q18⁴

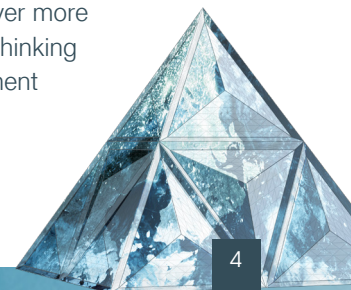
BE ACTIVE

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 T⁵

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

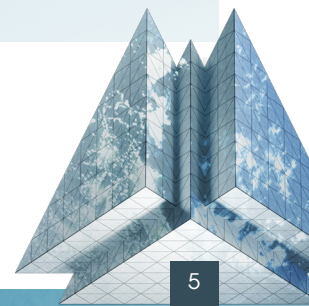
BE AWARE OF CHANGING MARKET DYNAMICS

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 T⁶



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.

Issued in Hong Kong by Janus Henderson Investors Hong Kong Limited, licensed and regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.

The content herein is produced for information, illustration or discussion purposes only and does not constitute an advertisement or investment advice or an offer to sell, buy or a recommendation for securities in any jurisdiction and do not purport to represent or warrant the outcome of any investment strategy, program or product, other than pursuant to an agreement in compliance with applicable laws, rules and regulations. Not all products or services are available in all jurisdictions. Investment involves risk. Past performance cannot guarantee future results.

Janus Henderson Investors is not responsible for any unlawful distribution of this document to any third parties, in whole or in part, or for information reconstructed from this document and do not make any warranties with regards to the results obtained from its use. It is not intended to indicate or imply that current or past results are indicative of future profitability or expectations. In preparing this

document, Janus Henderson Investors has reasonable belief to rely upon the accuracy and completeness of all information available from public sources. Unless otherwise indicated, the source for all data is Janus Henderson Investors.

This material may not be reproduced in whole or in part in any form, or referred to in any other publication, without express written permission.

Anything non-factual in nature is an opinion of the author(s), and opinions are meant as an illustration of broader themes, are not an indication of trading intent, and are subject to change at any time due to changes in market or economic conditions. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use.

Janus Henderson and Knowledge. Shared are trademarks of Janus Henderson Group plc or one of its subsidiary entities. © Janus Henderson Group plc.