Northern Trust | Wayne Bowers: Global Sources of Growth – More Than Just the U.S.

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With all the focus and attention on the US at the moment, we found it was worth bringing to our clients attention the growth opportunities that may exist looking further afield. This week we take a more in-depth look at the broadening global economic picture, highlighting these opportunities and potential risks that may unfold as the year progresses. Global growth saw a dip in 2015 and 2016 driven by contraction, predominantly in emerging markets, like China.

Europe and China did not contract to sharply or as quickly as the market expected, providing a broader platform and more diversification for growth. Looking forward, we expect develop market growth to be modest and stable, with emerging market growth also positive, driven by India, China, and Indonesia. Global GDP contribution from India is expected to rise to 17%, whilst Indonesia is set to become the world's 16th trillion dollar economy.

So with the buy and build US story now in play, in addition to the expectation of stable growth from a broader base of developed and emerging market economies, the outlook for 2017 and beyond looks constructive. Although, geopolitical events can impact and disrupt momentum, as evidenced by the UK referendum and US election, we note that there is growing positivity evident across the world. Most, if not all sentiment surveys in both service and manufacturing sectors indicate an expansion trend with improvement building through 2016 and rolling into 2017. It is worth noting these are forward looking sentiment indicators and not hard economic data points.

However, as mentioned earlier, growth is building from a broader base, supporting the notion that this positive sentiment may translate into higher levels of economic activity. Significant changes in currency levels and corporate tax rates will play a major part in both global GDP and corporate profit outlook for 2017 and beyond. Although, we expect corporate tax cuts in the US to occur this year, it is only playing catch up to the rest of the world. This should prove positive, however, to not just us domiciled companies, but support higher global equity valuations and posy-tax contribution flow.

A combination of lower tax rates and lower currency can support meaningful improvements, economic activity, investor flow, and local market attractiveness, whilst remembering the opposite can also occur with high tax and stronger currency, potentially acting as a suppressor of growth and valuation. We have maintained our portfolio exposure, closing out our underweight to developed ex-U.S. equities last month. Relative valuation differences may provide opportunity for emerging market risks in coming months, especially if we see significant changes in both currency rates and asset valuation levels. Investors still don't need to be cognizant of the currency risk within their portfolio, but we hold firm that the globally diversified portfolio should offer the best case scenario for investors looking to ride market volatility.