JIM MCDONALD: The fourth quarter sell off in financial markets, alongside more dovish commentary from the Federal Reserve, have moved us off our neutral risk stance. We think the prospects for equities have improved while the outlook for interest rates is more balanced after the rally of the last two months.

One element of successful investing is an understanding of investor expectations and how those views will change over time. We began warning in mid-2018 of a growth slowdown in 2019, which we felt would be a disappointment to investors. This came to a head in the fourth quarter, as growth concerns led to a significant reduction in risk appetite and valuations.

We now think sentiment has swung too hard in the other direction, as we don't expect a recession in 2019. This negative sentiment shift improves the odds of an upside surprise over the next year, which we think supports the outlook for risk taking. Another key driver of successful investing is anticipating the impact of changing monetary policy.

We've been expressing concern that the Fed was at risk of making a mistake by continuing to raise interest rates and thus contributed to the risk off atmosphere in the fourth quarter. This tightening of financial conditions has finally caught the Fed's attention. And they have recently backed off their more aggressive plans. We now expect a pause for at least the first half of this year and the Fed to be patient thereafter.

We expect global growth resilience over the next year, which should result in good risk asset returns as the risk of recession is priced out of the markets. In this environment, we expect the Fed to remain market dependent. And the market is now expecting no rate hikes in 2019. The risk case is that better growth and market performance leads to a Fed relapse, where they return to their rate hiking campaign.

Our other risk case surrounds the chance of political miscalculation, whether from the US-China trade negotiations or elsewhere. On balance, we think the outlook for risk taking has improved. For those clients following our global tactical asset allocation policy, we've recommended an increase to US and emerging market equities and global real estate, funded by a reduction in investment grade bonds.