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Investors are concerned that the inversion of the yield curve signals an upcoming recession. While this is a valid concern, it should be confirmed by other signs, like deteriorating credit conditions.

With credit markets healthy, we believe economic growth should be supported by lower interest rates and are made comfortable with the outlook for risk taking.

Leading economic indicators have been slowing since late 2017 with much of the weakness concentrated in manufacturing. The service sector, a much larger part of most-developed economies, has held up reasonably well. The weakness in manufacturing has coincided with the ramp up of the trade wars and is unlikely to reverse course soon.

We should, however, reach some level of stability as global trade resets to a new level. We currently consider the potential for a trade armistice to be an upside risk to the markets as it would positively surprise investors who have settled in for a drawn-out fight.

Central bankers have started to pivot in recent months towards easier policy, including the European Central Bank at its June meeting. In response to slow growth and low inflation, we expect them to restart quantitative easing measures later this year, and European interest rates have dropped accordingly.

The Federal Reserve has also taken a further dovish turn supporting market expectations of a near-term rate cut or cuts. Historically, this has been supportive of equity prices, especially in non-recessionary periods. Other central banks seem likely to follow the lead of the Fed and the ECB in coming quarters.

While there are many crosscurrents in today's markets-- and when aren't there-- we still think it is a positive environment for risk taking. We have three primary themes in our current tactical asset allocation policy. Firstly, we favor US equities over emerging markets as they are less vulnerable to trade risks. In fact, this month we further increased our US equity allocation by reducing our weighting in investment grade bonds.

Secondly, we favor interest rate sensitive real assets such as global real estate and global-listed infrastructure, as they are benefiting from the new lower interest rate environment.

Finally, we like the downside protection and upside participation embedded in high-yield bonds and think they will perform well in the environment we expect over the next year.

Read more about our current investment strategy in our investment perspective newsletter later this week.

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