

Global Equities Outlook for 2017

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Marco Pirondini
Head of Equities, U.S.

What is your outlook for global growth and global equities in 2017?

We are constructive on the outlook for the global economy going into 2017 given the renewed attention on fiscal policies that will work alongside still supportive monetary policies. We have seen this in Japan, now in the US and probably in the UK. We think that all this will support global growth and more importantly will support earnings. Further support is coming from improving rebounding commodity prices and we think that the market next year will appreciate at least in line with earnings growth.

What will be the major drivers to watch in the market?

In equity markets it is always important to watch earnings - whether they are growing and the cost of capital. The cost of capital is probably going up with some little inflationary pressure that we see especially in the United States. However, earnings growth is likely to resume after 7 quarters in a row of extremely poor dynamics and we think this will be very supportive for the markets.

What will be the major macro and geopolitical risks to watch in 2017?

The world is a dangerous place these days, and there are a lot of factors to consider. I think it will be important to understand the political dynamics in Europe. The political year in Europe is particularly difficult and this can pose some risks to the market. Additionally we will have to monitor which and how the policies of the new American administration will be implemented. Our judgement on these policies from an economic point of view is generally positive but some of these policies are potentially high risk and we will need to monitor them very carefully during the year.

Which markets and sectors do you favour and why?

We have favoured the United States for a long time and after so many years of outperformance, I think that we will also start to see some opportunities outside the United States. We do still like the U.S. but also we see many opportunities in Japan and in some selective Emerging Markets. From a sector point of view, we like some cyclical sectors, we like some industrials and technology, but more so we like financials especially in the United States and in some Emerging Markets. Between the more stable sectors we think that there is a lot of value in healthcare after the correction that we have witnessed this year.

How should investors be positioned in global equities to maximize risk-adjusted returns?

We think that investors should be focused on countries where the economic policies are stimulative, the fiscal policies in particular. So we like the U.S., we like Japan, we like the U.K. and some Emerging Markets that are more dependent on internal consumption rather than on global trade or commodities.

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