Symposium Overview

Every year in early January, the Atlanta Consulting Group invites a select group of economists, investment strategists, and asset allocators, across a wide range of disciplines, to take part in a series of meetings to discuss their views on the economy, policy and capital markets. Our annual symposium is an effort to help us evaluate the economy and opportunities in capital markets across different asset classes, geographies, and investment disciplines. Our goal is to incorporate their thought leadership into our process as we navigate 2020 and beyond.

2020 Participant List

Lawrence V. Adam III, CFA, CIMA, CFP	Raymond James
John Tousely, CFA	Goldman Sachs
Dr. David Kelly, CFA	J.P.Morgan
Matthew Toms	Voya Investment Management
Catherine LeGraw	GMO
Joseph Zidle	Blackstone

Key Takeaways

The Economy

Globally, growth is expected to be on trend in developed markets with inflation remaining contained. The 2010s was the first decade that the US economy did not have a recession since the mid 1800s (earliest data available). In the near term, the US economy is expected to continue to do well and no speakers expect a recession as their base case for 2020. The current expansion has been slower than past expansions and the length of this expansion is not unprecedented from a global perspective. Unemployment is low, wages are increasing, and government and business spending are expected to continue to be robust, which are all positive signs for the economy. Inflation is expected to stay firm and not move meaningfully higher although wage growth could result in some upward pressure.

Matt Toms from Voya expressed concerns about current fiscal policy on long-term economic growth. Increasing budget deficits is likely to lead to lower growth in the future as deficit spending pulls growth forward. According to Mr. Toms, the focus should be on avoiding negative growth rates and achieving stable long-term growth, not trying to achieve better upside on growth in the near-term.

Some classical signals of a recession may not be as powerful as they were historically. Manufacturing data, commonly viewed as a proxy for the strength of the economy, has shown softening. However manufacturing is a much smaller portion of the US economy today and we can endure a manufacturing downturn much better than we have been able to in the past. Yield curve inversions have also been signs of a recession in the past. Historically, the average time between a yield curve inversion and a recession is 22 months. With the first inversion happening in August 2019, using this indicator we could expect a recession in the first half of 2021. Not all speakers are convinced that yield curve inversions have as strong of a predictive power as they have in the past.

Central Banks and Interest Rates

We have been experiencing a global synchronized easing cycle. Following three rate cuts in the US in 2019, most speakers expect the Fed to stay on the sidelines in 2020 unless inflation materially increases, something that is not expected. While status quo is the general expectation for the Fed, if a move is made, it is more likely to be a rate cut than a rate hike.

The yield curve in the US steepened over the course of 2019 and is expected to continue to do so with the long end of the curve edging higher, albeit modestly. As negative rates in countries such as Germany and Japan move off of all time lows, that allows US yields to increase and the yield curve to steepen.

Geopolitics

The Phase 1 trade deal between the US and China will be signed imminently. This should be positive for consumer confidence as the trade war will no longer be front page news.

In the US 2020 is a presidential election year. The most significant factors to consider with respect to the election outcome are unemployment and equity markets. So long as unemployment remains low and equity markets generate strong results, President Trump is likely to be re-elected. With respect to electoral votes, President Trump needs to win Wisconsin or Pennsylvania to get re-elected.

While the Senate impeachment trial for President Trump will grab headlines, it's a near impossibility that the Senate would have enough votes to remove him from office.

Markets

Speakers largely agreed that the coming year would be more challenging for markets than the past year and that long-term (5-10 year) returns would annualize at lower levels than the recent past. As many asset classes look expensive, most speakers indicated that security selection is paramount and they are looking at relative valuations when considering where to invest. Broadly speaking, equities are more interesting than fixed income, emerging markets equities and debt are more fairly valued than domestic markets, value looks cheaper than growth, and small cap equities are favored over large cap.

Within equities, 2020 performance is expected to rely on earnings growth whereas P/E expansion drove performance in 2019. Valuations in the US are viewed as fair value to expensive but with continued strong underlying fundamentals. Valuations can stay high for long periods of time and markets can stay expensive for multi-year periods. Valuations in international markets are lower than the US as a result of lower earnings outside the US in recent years. However, an allocation to international equities is important for long-term portfolio returns. Emerging markets equities, notably value stocks, are a favorite amongst the speakers who shared their views. Emerging markets benefit from accommodative central bank policies and valuations are still at attractive levels.

Low global rates, including $11.5 billion of negative yielding debt, constrains return expectations for fixed income. Yields are generally a good proxy for future returns and a return of 2-3% is expected within US fixed income markets over the next five years. The speakers were cautious in fixed income, agreeing that security selection is important in this environment. From a geographic perspective, those that discussed the topic feel that emerging market debt presents the best relative opportunity.

The longest dollar bull market in history seems to be losing its momentum. Speakers believe the dollar will soften going forward. The budget deficit and trade deficit in the US are headwinds to the currency. Monetary policy, the Fed pausing while other countries ease, could also contribute to a lower dollar. A weakening dollar will be a tailwind for non-US investment.

This year, the ACG Investment Symposium took place on January 6 and 8.