

## **UBS delivers its investment outlook to the Honorary Treasurers Forum**

Dean Turner, UK economist at UBS Wealth Management was welcomed by The Honorary Treasurers Forum as our guest speaker on 19<sup>th</sup> November.

Delivering the annual UBS lecture on investment, Dean discussed a broad range of subjects from growth figures, to which economies are performing best, through to when we might expect an EU referendum or interest rates to rise.

### **Growth and troubles in China**

UBS predicts that global GDP will be around 3% this year; down from 3.4% in 2014 and presented the good news that we're not returning to global recession anytime soon.

One key issue for investors is the underperformance of emerging markets compared to the more stable and robust developed markets – a reversal of the situation in these markets a decade ago.

Dean highlighted that the continued economic slowdown in China, the world's largest economy, is having a ripple effect on other Asian economies, however, we shouldn't be unduly concerned looking at the longer term outlook.

Growth is still predicted to be 6.8% this year, falling to 6.2% in 2016 and then 5.8%.

Whilst this is clearly a slowdown, China's economy isn't grinding to a halt or moving into recession. What's more, Chinese authorities have already intervened to improve things by introducing greater liberalisation into the market and cutting interest rates.

One major risk is a potential collapse in the Chinese housing market. Two thirds of household wealth is tied up in property and there is an over supply of new builds.

However, overall there are more positive indicators. Wages are growing by 10% each year, there is a strong Labour market, strong demand for services and retail sales are up 10% too.

China is transitioning to a more service-driven economy and Dean predicts that in the coming years its economy will be more stable with less volatile.

India remains a bright spot in the emerging markets, with its economy set to expand by 7.5% this year and with further growth expected next year. Latin America, meanwhile, appears stuck in a negative cycle. Constraints on commodity export flows and persistent government and trade deficits look likely to keep Brazil in stagflation this year.

### **What is happening in the US?**

The US economy is leading the global recovery in the developed markets. UBS predicts growth at 2.5% for the US this year and 2.8% for 2016, as economic confidence strengthens. With an improved Labor market and rising household incomes next year, recovery will be domestically driven, and this domestic demand will drive the US economy.

### **What about the Eurozone?**

The Eurozone was described as 'the most interesting' economy. There has been low consumer confidence, financial crises in countries like Greece and the European Central Bank was the last to introduce QE.

However, QE has had a major impact and lowered the cost of borrowing and investment and, the falling Euro price against the dollar has benefitted countries who rely on exports

including Germany, Spain and Italy. With Government borrowing costs falling, Dean said there is a chance that in heavily indebted countries, they may get back into the limits of the budget deficits.

#### **What about Britain?**

Britain is the best performing G7 economy, having experienced 12 consecutive quarters of growth, low unemployment and rising household incomes. Our service-driven economy is similar to the US – 79% of our economy is based on services. UBS predicts that growth in Britain will continue to be 2.5%.

#### **Will interest rates rise?**

Not anytime soon predicted UBS. Whilst interest rates should be higher as the economy is growing above trend, interest rates will remain low.

#### **What about the EU referendum?**

UBS predicts that the EU referendum could be in October 2016. With elections coming up in May, it will get pushed to October and if pushed, UBS predicts that we will stay in Europe – owing to the ‘Dave’ factor. If Cameron can show strong support for it, then the electorate is likely to back him.

#### **Where to invest?**

Europe would be the best place to invest right now and another key areas where double digit growth is expected is Japan and UBS is also favouring equities over safer assets such as Bonds and Cash – Dean concluded that single digit growth is expected in the Equities market and that some of the best returns could be expected in Corporate earnings.

To conclude, the situation in China isn't as bad as some are making out and that the low inflation economy will remain and the outlook for growth is positive.