

AN INVESTORS
GUIDE TO THE

2014 ECONOMIC OUTLOOK

TENTATIVE SIGNS OF ECONOMIC GROWTH
– SO WHAT DO I DO WITH MY MONEY?



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Tentative signs of economic growth – so what do I do with my money?

In this guide we provide insights on a range of topics from equities to emerging markets and consider what it means for investors' portfolios. Nobody has a crystal ball, but analysts expect the investment outlook for 2014 to be characterised by a move towards financial markets standing on their own feet, as the global policy support that has provided abundant liquidity to markets starts to be withdrawn. This should mark an important change in the drivers of investment returns.

Instead of liquidity, corporate earnings are expected to move into the spotlight and drive equity performance. The gap between equity and fixed income valuations will continue to normalise as bond yields rise and corporate credit is likely to outperform sovereign debt. Emerging markets are likely to remain volatile.

Following many years of liquidity provision from the world's central banks which supported the performance of risk assets, 2014 is expected to see the global economic recovery put to the test. Financial markets will have to re-engage with reality against a backdrop of significant macro and policy challenges, meaning that investors need to be aware of the consequences

of a changing environment and subsequent volatility. What happens if quantitative easing (QE) is withdrawn too quickly? What risks lie ahead if companies do not deliver earnings growth?

EQUITIES

Regional and sector performance is expected to vary in relation to a bullish equities market. Investors are expected to increasingly shift their focus away from market liquidity to company fundamentals following the US Federal Reserve's announcement last September that it is preparing to taper QE. Companies will have to step up their game and earnings will have to pick up if equities are to come close to matching the rally seen in developed markets during 2013.

US company earnings have been robust, having recovered and surpassed their previous peak. US equities are expected to remain attractive. The banking sector is well capitalised and has started lending again, providing a boost to the economy. While the debt ceiling remains a risk, a combination of low energy and labour costs should support company margins in 2014. Analysts forecast the best performers will be companies in the technology and consumer discretionary sectors.

In contrast, only half of European companies were able to beat earnings expectations in 2013. The region remains beset by relatively poor growth dynamics compared with the rest of the developed world. The stock market recovery seen in 2013 could easily herald a false dawn. The banking sector still has a long way to travel to address its capital shortage, although the fundamentals are much improved. While Europe is likely to return to positive GDP growth in 2014, earnings growth is likely to be steady rather than dramatic. Stock pickers, however, could be handsomely rewarded when concentrating on companies with strong business models, robust finances, experienced managements and, ideally, dominant market positions.



**GDP GROWTH
COULD BE IN
THE REGION OF
2%
THIS YEAR**

While the UK economy is still smaller than it was pre-crisis, there was some very encouraging data in 2013 and GDP growth could be in the region of 2% this year. Unemployment has been falling faster than the Bank of England expectations. The problem is that the positive data has not necessarily translated into domestic profits thus far. On the upside, there has been a pickup in IPO activity and the expected improved economic backdrop should further

HOW DO YOU LIKE TO MAKE INVESTMENT DECISIONS?

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