INVESTMENT TALKS

Global Macroeconomic Outlook for 2017

January 2017

Monica Defend
Head of Global Asset Allocation Research

Edited by **Claudia Bertino**
Head of Financial Communication

2017 looks like being the year when policy emphasis shifts from monetary to fiscal.

Monica Defend, Head of Global Asset Allocation Research at Pioneer Investments, discusses Pioneer Investments' outlook for global markets in 2017. Monica also provides insights of current market themes and cross-asset class investment implications.

The economic outlook for 2017 is constructive, but still lacks a structural engine to make growth sustainable, balanced and inclusive over the long term, with a clear increase in productivity rates.
Inflation in developed markets is finally coming back, but will be mainly driven by the cost side rather than demand pressure, with the exception of the US, where the labour market is in full employment. The outlook remains more scattered for emerging markets.

2017 looks like being the year when policy emphasis shifts from monetary to fiscal. US monetary policy is becoming slightly less accommodative as the Federal Reserve follows a process of normalization, but elsewhere the overall stance should remain accommodative. Meanwhile, the fiscal stance will become easier, albeit to varying degrees country-by-country. However, the path to fiscal easing will not be an easy one as debt has piled up since the Great Financial Crisis and any further increase in debt will need to be temporary.
While economic conditions seem resilient, if not improving, risks to stability conditions remain, amid threats to the geopolitical equilibrium and the worry of rising levels of populism everywhere.

Notwithstanding the exceptional economic backdrop of changing inflation patterns and monetary policy positions, our base-case "Muddle Through" scenario, based on late cycle/asset reflation, should favour the outperformance of risk assets.
Regarding bonds, we expect yields in developed markets to gradually increase, with the German Bund rising at a slower pace. Focusing on the credit market, even though valuations look stretched, especially in the investment grade space, economic factors remain supportive with high yield offering the highest carry. Furthermore, EM sovereign credit should benefit from the broad growth pick-up that is supporting external rebalancing, the constructive commodity outlook and more stable growth in China.

Moreover, in a reflationary environment inflation-linked bonds, loans, floating rate and steepening strategies could also offer opportunities.
Moving on to currencies, we expect the USD to strengthen versus the Euro and Yen in the first of half of the year based on Trump's expansionary prospects, but this trend should reverse once the election season in Europe is over. Yen dynamics will fully depend on rates differentials while the movement of the British Pound will be linked to Brexit newsflow. In emerging market currencies, we think there are still undervaluation gaps to be filled through selective positioning.
Looking at equities, global EPS will cyclically rebound to 8% over the next year, according to our analysis. While some pressure will weigh on US margins, currency dynamics should help EPS growth in Europe, Japan and also in Emerging Markets.

Absolute valuations are above historic averages, while in relative terms Asia is more attractive than the US and Europe and the Emerging Market space is varied. Tactical factors are supportive for global equities. Corporate risk premiums have improved dramatically on better fundamentals while equity positioning remains light.

Commodities should perform in line with global equities thanks to improving growth in the US and China, supply restructuring and more favorable USD and inflation dynamics.

This outlook may offer opportunities for investing with an active and risk aware mind-set.

From an investment perspective, we believe that this outlook may offer opportunities for investing with an active and risk aware mind-set. In particular the increase in inflation, boosted by pro-growth fiscal policies, could offer reflationary opportunities for a flexible and unconstrained approach to fixed income.
A second area of opportunity is in equities globally and in particular in the US, Japan and Asia where a stronger economy, increasing inflation and earnings growth will all be supportive. Macro factors such as monetary policy, yield curve movements, Trumponomics and the USD will be key in sector allocations, where selection will be imperative.
A final aspect that investors should consider is hedging. With multiple risks on the radar, we believe that broadening the source of diversification and incorporating efficient hedging strategies will continue to be extremely important to try to protect investors' assets.

Important Information

Unless otherwise stated, all information contained in this document is from Pioneer Investments and is as of January 25, 2017.

The views expressed regarding market and economic trends are those of the author and not necessarily Pioneer Investments, and are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading on behalf of any Pioneer Investments product. There is no guarantee that market forecasts discussed will be realized or that these trends will continue. Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested.

This material does not constitute an offer to buy or a solicitation to sell any units of any investment fund or any services.

All investments involve risks. You should consider your financial needs, goals, and risk tolerance before making any investment decisions

Pioneer Investments is a trading name of the Pioneer Global Asset Management S.p.A. group of companies.

Date of First Use: January 26, 2017.

Follow us on:

www.pioneerinvestments.com

PIONEER Investments®