

Countdown to 2020

Rates, candidates and friendly cats

10 Years

Despite a decade of austerity and political surprises, the period from January 2010 to December 2019 has been kind to investors, with total returns on global equity markets just over 10% p.a.¹ But valuations aren't as low as in 2010 and there is less scope for the global economy to grow. A degree of humility is advisable in making decade-long forecasts, though: an article published by The Independent on New Year's Eve 2009 looking at the decade ahead did predict a 'Great Unforeseen Event' for the UK in 2015 (albeit a year out, but also that PM Peter Mandelson would lead Labour against a 'trusted grandfather-type' Conservative leader in a 2020 election.²



9 Political protests

From Hong Kong to Lebanon and Paris to Santiago, nine major protest movements were identified around the world in 2019. Their typical shared causes of inequality, corruption and a lack of political freedoms chime with our 'New Political Paradigm' theme. Anger drives votes, votes drive policymakers, and policies can drive markets. It's hard to predict the short-term outcomes of protests, but it usually steers investors away from local assets which, in our opinion, can create interesting investment opportunities.

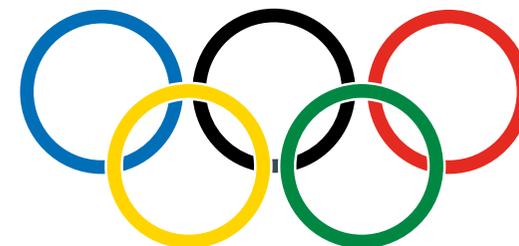
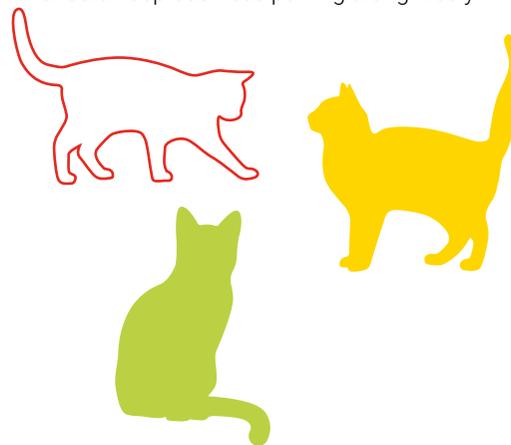
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Friendly cats



The UK ranks eighth in the world in the World Bank's ease of doing business index.³ The country did very well on the protection of minority investors, an issue on which LGIM has been very focused through our active engagement with companies and regulators.

The UK also has about eight million cats, meaning we are estimated to have the eighth biggest cat population in the world... that should keep business purring along nicely.



7

Months

July 2020 sees the start of the 29th Summer Olympic Games, hosted in Japan. When Japan last hosted the event in 1964, the country was prowling along as one of the Asian tigers, poised to make its mark on the global economy. During the late 80s, asset valuations rose even higher, but the bubble burst, and the furor vanished, to be replaced by the lost decades; despite current Prime Minister Abe's three arrow policy (known as 'Abenomics'), Japan's potential has certainly dropped compared to 1964.

1. based on MSCI World Net Total Return Local Index, annualised, 31/12/09 to 30/11/19
2. <https://www.independent.co.uk/news/science/the-world-in-2020-a-glimpse-into-the-future-1853924.html>
3. <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ>

6 Women

There are more FTSE 100 CEOs called Steve or Stephen than there are women, (with just 6 women in CEO positions at the UK's 100 largest listed companies),⁴ and more 'Steves' than company leaders from ethnic minority backgrounds.⁵ As a major asset owner, LGIM influences companies on social issues through corporate engagement, and closer to home we are taking an active role through industry wide diversity and inclusion initiatives.



5 One in five

20% of UK retail sales are now online,⁶ up from just 8% ten years ago, reflecting changes in technology and lifestyles. This has led to hard times for the high street and some companies like House of Fraser and BHS, but areas such as logistics and warehousing have benefited. A longer term shift towards remote working may also affect other real estate assets. Hopefully that will mean the Northern Line becomes less busy in the morning and that Christmas shopping on Oxford Street may one day be a pleasant experience!



4 Candidates

Of the four serious candidates for Democrat Party leadership in the 2020 US Presidential elections, Biden, Warren and Sanders are all in their 70s (as is the current President), with just Pete Buttigieg being a sprightly 37. Michael Bloomberg, a potential fifth candidate, is also in his 70s. We wish all candidates the best of health, but they should be aware of the Curse of Tippecanoe, a pattern by which US Presidents elected in years divisible by 20 suffer either death or assassination attempts while in office.



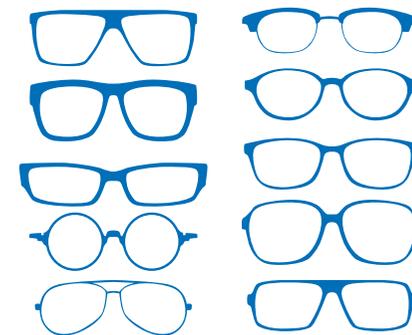
3 Rate cuts

In 2019, the US Federal Reserve cut its main interest rate three times, in the face of slowing economic growth and the threat of trade wars putting the brakes on international trade. It seems to have done the trick, with financial markets moving higher and economic data showing some stabilisation. What lies in store next year? The US has set the bar high for rate hikes, but further easing would need to be fuelled by more bad economic data, so we expect very little in terms of monetary policy movement for 2020. In other countries, we see more resistance to very low or negative interest rates, with Australia the latest to voice its disapproval, while at the same time outlining the path to potential quantitative easing in the future if need be.



2 Billion people

While this countdown is trying to give a sense of 2020 vision, the world falls a long way short of perfect eyesight. It is estimated that across the emerging world over 2 billion people need glasses but don't have them. Research has shown that tea pickers who needed and were provided with glasses increased their harvesting by 20%.⁷ It sounds great economically but, on a macro level, increased productivity means fewer people may be employed, and those who are unable to afford or access such technology may get left behind. It's easy to see how on a micro level technology may improve lives but, at a macro level, may cause inequality.



1 Question: What's the one trillion elephant in the room?

This answer is the US government deficit, which stands at just shy of one trillion at \$984 billion for 2019.⁸ The US Congressional Budget Office is projecting a deficit of, on average, \$1.2 trillion over the next decade – that's 4.7% of GDP.⁹ This is unusually large for an economy that hasn't been doing badly, and it will take the US debt-to-GDP ratio close to 100% by the end of the decade. Perhaps it is less of a problem amid low interest rates and expandable central bank balance sheets. But with increasingly unconventional politics and central bank actions, it raises the prospect of a two-pronged attack of co-ordinated quantitative easing and government spending in the next downturn. That's one way to find out how much debt is too much.



4. <https://www.independent.co.uk/life-style/ceo-women-business-sexism-ftse-100-a9073391.html>
5. <https://economia.icaew.com/news/february-2019/more-steves-are-ftse-100-ceos-than-ethnic-minorities>
6. <https://www.bheta.co.uk/news/industry-news/online-now-at-almost-20-of-total-retail-sales-ons/>
7. <https://www.ft.com/content/dcc50e04-b100-11e8-99ca-68cf89602132>
8. <https://www.cnbc.com/2019/10/25/federal-deficit-increases-26percent-to-984-billion-for-fiscal-2019.html>
9. <https://www.cbo.gov/publication/54918>