

Global cyclical investment outlook remains weak

By [Anik Sen](#)

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2016 is expected to be another year of generally low equity returns in the low-growth, low-inflation environment, and will prove to be somewhat of a challenging year due to elevated valuations in stable and visible growth stocks and a lack of discernible catalysts to drive corporate earnings expectations higher.



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However, it isn't all doom and gloom for the asset class and he expects 2016 to bring opportunities in long-run themes that play across several industries. In the equity markets, these include automation, media, non-residential construction, the Internet of Things, and China's 'new economy'.

While a new year often brings a renewal of risk appetite among investors, the coming twelve months may prove to be less satisfying. We find that many of the same issues from a year ago are present today and the global cyclical outlook remains weak.

Further, we believe the world's major central banks will continue to be largely convergent rather than divergent in their actions. The Federal Reserve is likely to remain highly accommodative and supportive of risk assets, but uncertainty about the pace of rate hikes will act as a headwind and a source of volatility.

Index level returns

All this means it won't be an easy year for investing in equities. Index level returns are likely to be low yet again in the low-growth, low-inflation environment. Broad-brush investment style choices, such as among size, growth, value, and quality, are unlikely to be rewarded in 2016 due to historically high valuations and the muted cyclical outlook.

The corporate restructuring opportunity is in its final stages and may yet surprise with the more complex and large companies coming under pressure to improve returns from activist shareholders. Once again, stock selection will be key to investment success.

PineBridge Investments is broadly indifferent between the US and European equity markets but find pockets of opportunity in both. European equities trade at a small discount to the US equity market, which is in line with history. The trajectory of reforms in many parts of the European Union, along with a weakening euro and the potential for further large-scale asset purchases by the European Central Bank, may put Europe in a more positive investment light than the US.

However, Europe offers a narrower range of opportunities at the stock level than the much broader and deeper US equity market, and this makes it difficult for investors to translate a stronger top-down thesis into similarly strong bottom-up investment opportunities. We will also need to monitor closely the impact of the migrant crisis and recent terrorist activity on trade and inward investment on the region.

Structural changes

Japan equities are likely to continue to be driven by structural changes designed to deliver a more profitability oriented corporate sector. In Japan, our investment focus in 2016 is on companies that have differentiated technologies and supply global industries that are connected to the structural change in consumer demand in China and Asia more broadly. We also focus on those that are able to show a turnaround in profitability through restructuring.

China equities will offer attractive investment opportunities in 'new economy' industries in 2016. Overall, we expect China to continue to slow economically and GDP growth to be supported by ongoing monetary and fiscal easing, which are still at an early stage.

Overall, I expect 2016 will be another year of generally low returns in the equity markets, but there are always exceptions. Our investment process calls for the constant evaluation of the best investment opportunities. Over the coming year, we expect to focus more on the structural changes occurring in Asia and Japan, as many of these opportunities are in powerful, long-run investment themes.

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