VANGUARD ECONOMIC AND MARKET OUTLOOK 2020: GROWTH SET TO BE LOWER FOR LONGER IN THE NEW AGE OF UNCERTAINTY

- U.K. growth forecast at 1.2% in 2020, assuming an orderly Brexit withdrawal deal. US growth predicted at 1.0%, China at 5.8%.
- U.K equity market anticipated to return 4.0-6.0% annualised, over the next ten years
- U.K fixed income returns likely to be 0.5%-1.5% annualised over the same period.

19 November 2019 – Global growth is set to slow further in 2020, weighed down by the US-China trade standoff and continued political uncertainty, according to the Vanguard Economic and Market Outlook Summary 2020. Investors should expect lower economic growth and periodic bouts of volatility in the near term, given political risk, persistent threats to growth, and high asset prices.

Peter Westaway, Chief European Economist and Head of Investment Strategy, Europe, comments:

"Subdued returns are here to stay for the next decade. Our near-term outlook for global equity markets remains guarded, and the chance of a downturn for stocks and other higher-risk assets remains elevated and significantly higher than that in a 'normal' market environment."

Slowing economic growth

The continued slowdown in global growth foreseen last year intensified in 2019, driven by a deterioration in the global industrial cycle as trade tensions escalated, especially between the US and China. Globally, uncertainty has been the defining feature of politics and monetary policy, with a knock on effect on both production and investment.

"Continued contraction of world trade relative to GDP and ongoing uncertainty are undermining growth," adds Westaway. "It restricts investment and hampers the spread of technologies and ideas which stimulate productivity. As such, we see growth staying subdued well into 2020."

In the UK, Vanguard sees growth of 1.2% next year, assuming the country secures an orderly withdrawal deal In the Eurozone, growth is likely to remain weak at around 1.0% in 2020, due to the trade environment, and the drag from Brexit. US growth is forecast to decelerate to around 1%

in 2020, avoiding a technical recession but below normal trend growth of 2%. China too is expected to slow to a below-trend pace of 5.8% in 2020 – beneath its own 6% target. The picture for emerging markets is mixed. There has been a sharp downturn in Latin America, while some larger Asian economies, including China and Indonesia, have held up better. In all, this has contributed to the global slowdown, in line with developed markets.

Asset returns expected to be modest

"Prospects should improve modestly in coming years once central banks resume normalisation," says Westaway. "Nonetheless, returns are likely to remain much lower than in previous decades and in the post-crisis years. Given our outlook for lower global economic growth and subdued inflation expectations, asset returns will remain lower for longer compared to historic levels."

Vanguard forecasts UK and global ex-UK area fixed income returns to be in the 0.5%–1.5% range, annualised over the next decade. For the UK equity market, the annualised return over the next ten years is expected to be in the 4.0%-6.0% range. Expected returns in global ex-UK area equity markets are lower, around 3.5%-5.5% for unhedged Sterling-denominated investors.

The outlook for fixed income returns has deteriorated further because of central bank policy, lower yields across maturities, and higher corporate bond valuations. The outlook for UK equities has improved slightly from last year thanks to mildly more favourable valuations in 2019, as earnings growth has outpaced market price returns since early 2018.

What does it mean for investors?

Peter Westaway concludes: "In this new age of uncertainty it is essential for investors to focus on what they can control. An increased chance of a downturn highlights the importance of diversification. Equally, in an era of lower returns, it is even more important for investors to keep their investment costs down. Fees of 2% could see a British investor surrendering a third of their potential equity returns. To ensure investors remain on track to meet their investment goals, they may also want to consider whether they need to increase their contributions. On the other hand, investors should absolutely resist the temptation to chase returns into lower-quality stocks or bonds, especially at a time of heightened risks."

The full Vanguard Economic and Market Outlook 2020, including regional breakdowns, will be available to journalists on request from December 11th.

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