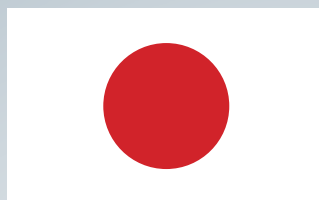


## Profits at risk from slower economic growth and rising wage pressures



### Highlights:

#### US

##### Confident Fed

The Federal Open Market Committee raised its interest rate target to 2.0-2.25% while continuing to suggest a further quarter-point increase in December and three more in 2019. Annual growth of hourly earnings rose to 2.9% in August, a nine-year high.

#### China

##### Further slowdown

Money and credit trends remained weak, suggesting that a shift towards policy easing since early 2018 has yet to gain traction. Official and private sector manufacturing purchasing managers' indices fell sharply in September, with export orders sliding further.

#### Japan

##### BoJ still dovish

The Bank of Japan (BoJ) strengthened its forward guidance, promising to maintain current low interest rates for an extended period. The economy was hit by natural disasters last quarter but a rebound is expected in late 2018.

#### Eurozone

##### Wages pick-up

Economic news continued to disappoint but the European Central Bank pressed ahead with plans to halt securities purchases at year-end. Annual growth in compensation per employee rose to 2.3% in the second quarter, the highest since 2011.

#### UK

##### Inflation concern

The Monetary Policy Committee raised Bank rate to 0.75%, citing inflationary risks from weak supply-side growth – estimated at only around 1.5% per annum. Consumer price inflation rebounded unexpectedly to 2.7% in August, a six-month high.

#### Emerging markets

##### Rising rates

Central banks in a number of emerging economies tightened policies, mainly in response to currency weakness. In addition to crisis-hit Argentina and Turkey, interest rates were raised in India, Russia, Indonesia, Philippines and the Czech Republic last quarter.

### Trends to watch:

#### US

##### Economic slowdown

Weak money trends suggest that economic prospects have deteriorated, probably reflecting Federal Reserve tightening, negative tariff effects and slowing global activity. Softer data could contribute to the Fed pausing its rate hike campaign in early 2019.

#### China

##### Capital outflows

Forecasters expect higher infrastructure spending and further monetary policy easing to cushion economic weakness. A pick-up in capital outflows, as in 2015-16, could limit the authorities' room for manoeuvre, increasing the risk of a "hard landing".

#### Japan

##### Inflation firming

Consumer price inflation remains well below the 2% target but is rising again as a drag from earlier exchange rate strength fades. With labour shortages pushing up wage growth, the increase could be sustained – barring another yen surge.

#### Eurozone

##### Profits squeeze

Wage growth has picked up but core consumer price inflation remains stuck at a low level, suggesting that firms' pricing power has been constrained by a slowing economy. Profit margin compression could depress business investment and hiring.

#### UK

##### Fiscal easing

Public sector borrowing is undershooting and the Chancellor could signal a 2019 give-away in his forthcoming Budget – either to cushion a cliff-edge Brexit or in anticipation of a medium-term boost to tax receipts from a successful deal with the European Union.

#### Emerging markets

##### Inflation pick-up

Consumer price inflation is under upward pressure from currency-driven import cost rises, with stronger dollar oil prices providing an additional fillip. Inflation concerns could force central banks to step up policy tightening despite slowing economic momentum.

## Key market data

Equity market returns for Q3 2018 (%)	Qtr local currency	YTD local currency	Qtr Sterling	YTD Sterling	Qtr Dollar	YTD Dollar
US S&P 500	7.2	9.0	8.5	13.1	7.2	9.0
Japan: Topix	5.0	0.0	3.6	2.8	2.4	-0.8
Euro area: Euro Stoxx	0.4	-1.9	1.1	-1.5	-0.2	-5.1
FTSE All Share	-1.8	-2.2	-1.8	-2.2	-3.0	-5.7
MSCI Far East ex Japan (US\$)	-	-	-1.3	-4.4	-2.5	-7.8
MSCI Emerging Markets (US\$)	-	-	0.8	-6.2	-2.0	-9.5

Source: Thomson Reuters Datastream, Janus Henderson Investors, index price returns, as at 30 September 2018.

### Constituents:

Euro area: EU member states using euro currency (currently 19)

Asia: China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam

BRICs: Brazil, Russia, India, China

World: G10, Eastern Europe & Africa, Asia, Latin America, Middle East

Consensus GDP growth forecasts (%)	2018	2019	2020
US	2.9	2.5	1.9
Japan	1.1	1.1	0.6
Euro area	2.0	1.8	1.7
UK	1.3	1.5	1.6
Asia ex Japan	6.1	5.9	5.7
BRICs	5.7	5.6	5.5
World	3.3	3.2	3.2

Source: Bloomberg, economic forecasts, as at 30 September 2018. Forecast GDP = real gross domestic product.

Bonds	30 Sep 2018 yield	Qtr return (%)	YTD return (%)
US 10-year Treasury	3.06	-2.24	-6.46
Japan 10-year government bonds	0.13	-0.81	-0.59
Germany 10-year Bund	0.47	-0.99	0.62
UK 10-year Gilts	1.48	-1.20	-2.11
Corporate bonds: (Barclays Global Aggregate Corporate Index \$)	-	-0.28	-4.36
High Yield: (Merrill Lynch Global High Yield \$)	-	2.01	0.48
Emerging market debt (JPM Global Emerging Markets Debt \$)	-	1.87	-3.46

Source: Thomson Reuters Datastream, Janus Henderson Investors, as at 30 September 2018.

The above data is intended for illustration purposes only and is not indicative of the historical or future performance or the chances of success of any particular strategy. References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security.

	Forecast P/E		Forecast EPS growth	
	2018	2019	2018	2019
World	16.0	14.6	15.8	9.8
Developed	16.7	15.3	16.0	9.5
Emerging markets	12.1	10.8	14.4	11.8
UK	13.6	12.6	10.4	8.0
US	18.4	16.7	23.4	10.5
Eurozone	14.2	12.9	6.2	10.1
Japan	14.1	13.6	38.5	4.0

Source: Thomson Reuters Datastream, Janus Henderson Investors' calculations, and IBES (Institutional Brokers' Estimates System) estimates for MSCI Indices, as at 30 September 2018. Forecast P/E (price-to-earnings ratio), Forecast EPS (earnings per share).

Consensus inflation forecasts (CPI %)	2018	2019	2020
US	2.5	2.3	2.3
Japan	1.0	1.1	1.5
Euro area	1.7	1.7	1.7
UK	2.4	2.1	2.0
Asia ex Japan	2.5	2.6	2.7
BRICs	2.7	2.9	2.9
World	3.3	3.2	3.2

Source: Bloomberg, economic forecasts, as at 30 September 2018. Forecast CPI = consumer price index.

Currencies and commodities	30 Sep 2018	Qtr change (%)	YTD change (%)
Yen/\$	113.59	-	-
Yen/£	148.12	-	-
\$/£	1.30	-	-
Euro/\$	0.86	-	-
Euro/£	1.12	-	-
S&P GSCI Total Return Index \$	-	1.34	11.84
Brent oil (\$/barrel)	-	4.22	24.29
Gold bullion (\$/Troy oz)	-	-4.77	-8.59

Source: Thomson Reuters Datastream, Janus Henderson Investors, as at 30 September 2018.

## Multi Asset Team: asset allocation dashboard

### BONDS



	Outlook	Comments
Global corporate	▼	Global credit appears over-owned, offers little yield and is vulnerable to both rising interest rates and the end of quantitative easing.
UK gilts	◆	Positive data around rate hikes and foreign selling have pushed yields higher, while Brexit uncertainty remains a headwind.
Global sovereign	▼	Upwards pressure remains on yields due to the unwinding of quantitative easing, tightening monetary policy conditions and lower growth expectations.
Emerging market debt	◆	Country-specific and trade war risks have led to negative returns while yields on hard currency debt present a good entry point at attractive spreads.
High yield	▼	Spreads have further compressed in the US despite tightening credit conditions and the ending of quantitative easing.

### EQUITIES



	Outlook	Comments
UK	◆	The UK market appears attractively valued, as do dividend yields. However, Brexit-related uncertainty continues to weigh on investor sentiment.
Europe	◆	Political uncertainty will continue to cloud the market outlook but we remain constructive owing to attractive valuations and the composition of the market.
US	▼	Economic data and the markets reflect persistent positive momentum, but share price valuations remain high as monetary stimulus fades.
Japan	▲	The Japanese market has proved itself resilient to escalating trade tensions, while Abe's re-election provides further support.
Asia	▲	While trade tensions have been a headwind to the region, share price valuations and corporate earnings remain constructive.
Global emerging markets	▲	Idiosyncratic risks and a strong dollar have provoked outflows, but sentiment seems bearish in light of attractive share price valuations.

### CURRENCIES



	Outlook	Comments
£/\$	◆	Brexit-related volatility plagues the UK, while a building debt burden and trade war concerns dampen dollar bullishness.
£/€	◆	Political developments seem likely to continue to drive headlines and market moves on both sides of the Channel.
£/¥	◆	Risk sentiment is likely to affect the yen, while Brexit drives news flow and Japanese monetary expansion continues in the background.

Positive ▲ Neutral ◆ Negative ▼

### ALTERNATIVES



	Outlook	Comments
Property	◆	Property appears expensive and typically struggles in a rising interest rate environment. However, yields remain higher than many asset classes.
Gold	◆	Returns have been weak amid dollar strength, but gold remains a useful hedge in light of geopolitical uncertainty.
Oil	▲	The losses from sources such as Iran, Libya or Venezuela have offset the rising output from OPEC <sup>1</sup> in an effort to balance supply and demand.

# Janus Henderson

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