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INVESTMENT STRATEGY QUARTERLY

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If the World Steps Away From a Trade War, Can Europe and the Emerging Markets Step Up?

Chris Bailey, *European Strategist, Raymond James Investment Services*

"It is during our darkest moments that we must focus to see the light" Aristotle

The year 2018 will not go down in financial market history as a traditional one for most investors. Can a new year bring new hope?

2018: HEADWINDS HAD A STRONGHOLD

If you had to sum up why world, ex-US, financial markets typically underperformed during 2018 then economic growth, currency movements, and trade talk uncertainties would be the three most influential headwinds. Simply put, U.S. economic growth surprised on the upside whilst other major economies did not, the dollar appreciated against most other currencies, and concerns about essential future trading relations impacted the more export-focused European and emerging markets last year. In order for international markets to gain momentum over the U.S. in 2019, these concerns need to be quelled.

GLOBAL TRADE

Economic growth and trade policy are inevitably and deeply integrated, as even a cursory glance at the economic history of the 1930s and 1970s illustrates. The more conciliatory signs from the early December G20 discussions in Buenos Aires suggest a hopeful position on global trade should be adopted in 2019, as all sides fear the impact of a vicious cycle of additional protectionism and lower growth rates. After all, the easiest way to induce something which feels like a global synchronised recession is to shift global trade trends into a sharp reversal. However, significant ongoing discussions are still required, and the world trade discussions are just one piece of the economic growth story.

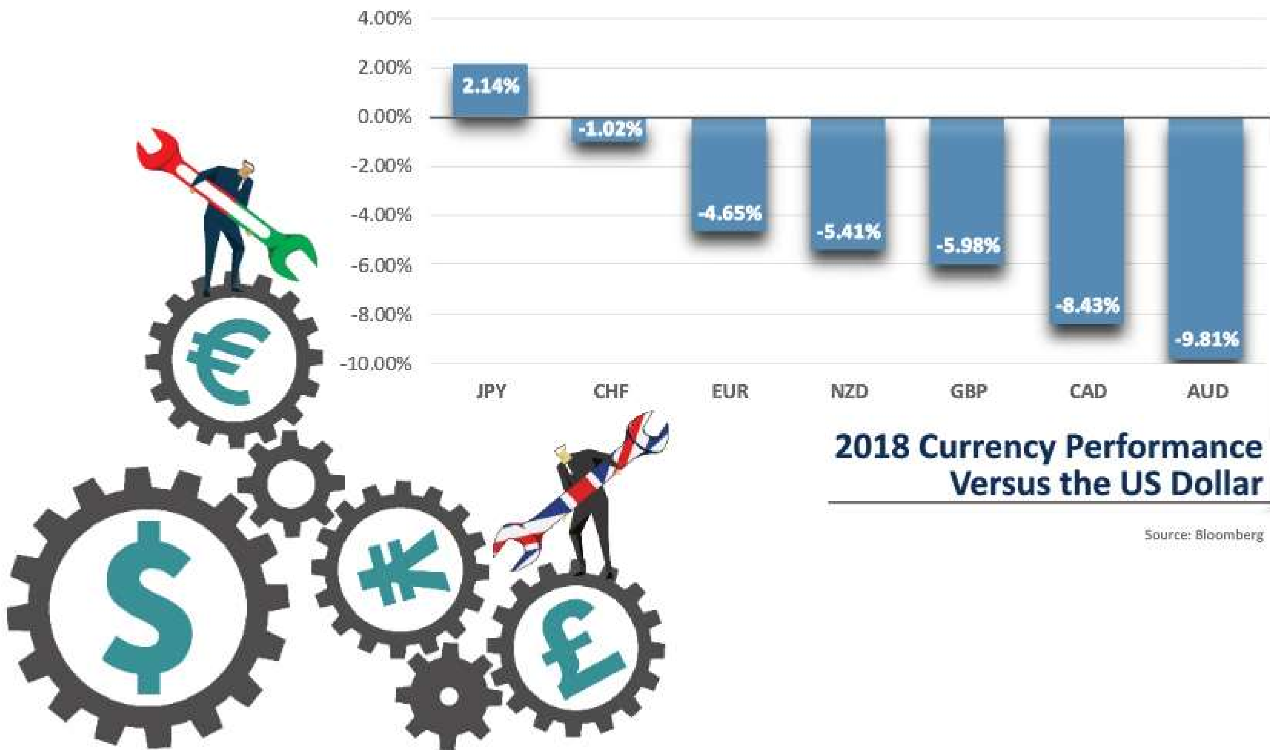
> With trade tensions progressively pressuring global market performance throughout 2018, both Europe and emerging market countries did not do themselves any favours from a domestic standpoint

SELF-INFLICTED SLUGGISHNESS?

With trade tensions progressively pressuring global market performance throughout 2018, both Europe and emerging market countries did not do themselves any favours from a domestic standpoint. In Continental Europe, leading incumbent European Union politicians struggled to connect with voters, let alone generate any meaningful regional economic reform. Elsewhere in Asia, the Chinese economy slowed as higher corporate and

Dollar-Denominated Currency Conundrum

Given its dominance in currency markets, the U.S. dollar drives both the exchange rate and relative value of foreign currencies. Due in part to the robust growth of the U.S. economy and tightening monetary policy, the dollar has appreciated, precipitating a fall in the relative value of other foreign currencies. Separately, Brexit and Italy's budget negotiations with the EU have influenced the value of the Pound and Euro, respectively.



consumer debt levels, and a more stagnant property market, negatively impacted growth. Still, China's performance remained significantly healthier than most other major emerging markets where change and crises have become the norm.

HOPE ON THE HORIZON?

CHINA

Reflecting this latter point, progress is most visible in China where policymakers continue to have significant room to manoeuvre, a luxury not afforded by most other economies around the world. This flexibility has been demonstrated through targeted loosening of monetary and fiscal policy and an ongoing internal reform effort focused on shifting the Chinese economy towards the expansion of consumption. Collectively, these efforts - along with the development of and open access to bond markets - should allow the Chinese economy to continue to experience decent economic growth rates in 2019, especially if they bend with the wind on the trade front.

A clear rationale exists for China and America not to blow up current fluid commerce flows - after all, the President's best bet to get re-elected is via a strong economy, whilst the Chinese want a stable external environment in order to get on with their hugely necessary domestic economic reforms. In the same vein as President Xi's famous 2017 Davos speech, China gets material value to its World Trade Organisation membership. Noise around intellectual property shifts and market access changes are in line with the maturing of this membership and helpful to a calmer world trade backdrop. It also aids in deeper political and economic power shifts China is undertaking, such as the Belt and Road initiative, which stretches deep into Western Europe and Africa. Despite the difficult timing of a certain well-publicised arrest in Canada I am heartened to read

"Corporate earnings growth watchers will also note Europe as a region that looks relatively strong versus the United States using current estimates for 2019, and this has not been the case for some time."

recent reports about good progress in the initial discussions of the ninety day negotiation period and expect this better tone to continue into 2019.

EUROPE

If some policy flexibility is apparent in China, Europe seems to be more fixated on binary choices, although the reality is much more complex than that. Outside of the Brexit debacle, pan-European market participants are deeply focused on the ongoing saga of the Italian budgetary debate, which pitches the wishes of a populist Italian government to spend more money against a more financially-orthodox European regional leadership. Typically, this does nothing but cause more uncertainty around the future path of local growth rates. Followers of the European Union decision-making process get familiar quite quickly with an abundance of "late-in-the-day" negotiations, so recent noise around more flexibility in the Italian budget is not surprising and the tentative deal struck in late December is a positive.

No one benefits from the Italian budget debate as it further deepens investor angst over euro zone prospects. The euro zone is already grappling with challenges as the European Central Bank (ECB) - as reconfirmed during its December policy meeting - seeks to avoid the Bank of Japan "policy trap" by phasing out quantitative easing and making fiscal policy (and ideally other supply-side structural reform measures) more of a focus in 2019. The challenge will be to control the degree of use of the fiscal policy lever to maximise its effectiveness. European Union leaders also know that the best backdrop for increased regional growth and job creation is more faith and hope from consumers and entrepreneurs. Such supply side policies - which aim to boost flexibility, entrepreneurship and dynamism - however are largely out of the ECB's hands, with the requisite policy levers resting with national governments.

The debate over the future structure of the Greek economy a handful of years ago taught us all about the 'reforms for cash' compromises that the European Union is willing to make. In Italy's case, it resembles more of a clunky 'reforms for budget deficit allowances' reality. Still, it is something for global investors to grasp. Europe looks down and out, but lower trade concerns combined with some regional policy compromises (as recently offered by President Macron of France) could go a long way, even getting a notable number of protesting French citizens off the streets. Corporate earnings growth watchers will also note Europe as a region that looks relatively strong versus the United States using current estimates for 2019, and this has not been the case for some time.

If both the Chinese and pan-European markets surprise fund managers from a sentiment standpoint, then the story will likely change. The chances of the Euro and Chinese Yuan appreciating against the dollar becomes much more likely, countering the third observation which beleaguered global markets last year: a rising dollar.

EMERGING MARKETS

A stronger dollar is good news for U.S. travellers but it has delayed global reform and altered initiatives in Europe and Japan. This has also resulted in strife in broader emerging markets (most notably in countries such as Turkey) due to the extensive amounts of outstanding dollar-denominated debt.

Emerging Markets: Structural Forces in Place

"Emerging markets appear to be in the strongest position to spring a positive surprise in 2019 relative to other non-U.S. assets."

SUPPORTIVE TAILWINDS

A Weaker U.S. Dollar

Higher Commodity Prices

Improved Growth Trends

A weaker dollar and reduced trade angst, aligned with less fear toward important global economies such as China and Continental Europe would be particularly helpful to emerging markets in 2019. Whilst emerging markets collectively contain a multitude of challenges and influences, as a broad asset class, it appears to be in the strongest position to spring a positive surprise in 2019 relative to other non-U.S. assets.

Certainly, the actions of new political leaders in both Mexico and Brazil will be watched carefully, but a world that avoids a plunge into trade angst should see the supportive tailwinds of a weaker dollar, higher commodity prices and improved underlying growth trends. Emerging markets, after all, still retain all the structural forces they are famous for, including population growth, urbanisation, the rise of the middle class, and consumption catchup capabilities.

In short, as long as global trade talks stay on track, the outlook for markets outside the United States for 2019 looks a lot better than it currently feels, even if we have to rely on leading global politicians to help deliver it.

KEY TAKEAWAYS:

- Both Europe and emerging market countries did not do themselves any favours in 2018.
- A weaker dollar and reduced trade angst would be particularly helpful to emerging markets in 2019.
- In China, policymakers continue to have significant room to manoeuvre.
- Europe looks down and out but some regional policy compromises could go a long way.

2019 UK Market Outlook: Is it all About Brexit?

Chris Bailey, *European Strategist, Raymond James Investment Services*

"My whole outlook on life is, never judge a book by its cover" Floyd Mayweather, Jr.

Given his flawless record as a pugilist, Floyd Mayweather would seem like a perfect person to have on your side during troubled times. For UK investors in 2019, however, channelling his above quote will be prize enough.

BREXIT - WHERE WE'RE AT

Is there anything new that can be said about the Brexit debate? For many months now, important issues around the withdrawal of the UK from the European Union have dominated both the UK Parliament and the perceptions towards the UK financial markets. There is little surprise to this given the obvious importance in the precise definition of future trade relations with an economic bloc that directly and indirectly accounts for such a high proportion of UK trade.

Despite this, there has still been a lack of sufficient political initiative to forge enough of a compromise to give clarity for businesses and consumers about the future structure of Brexit, with now less than three months to go before the key end of March 2019 decision point. Dynamically, this has necessarily cascaded concerns to all elements of the UK economy and financial markets, so that everything appears intimately linked with the Brexit debate.

Modern economies are complex structures however, and in our varying roles as consumers, or possibly as industrialists/ entrepreneurs, we are subject to a variety of influences, even before we take account of the impact of government policy or the wider exogenous world.

WILL COMMON SENSE PREVAIL?

At this point I could write that the spectre of the UK breaking away from the European Union does not seem likely. A clear majority - in both Parliament and in more recent general population voter polling - is in favour of a more compromise-style approach, or a 'soft Brexit' as it has been dubbed. A plausible outlook for the first few months of 2019 is lots of political noise, including talk about a second referendum or a general election and ultimately a thick slice of common sense to permeate the Brexit debate, quite possibly initially via a delay to the current Brexit timetable in order to quell the growth of uncertainty scenarios. And, logically, positive moves in this broad area would likely support both the British Pound and UK domestic financial assets after a difficult last couple of years, which has seen UK

Key 2019 (and beyond) Brexit dates

Week of 7 January	House of Commons debates
Week of 14 January	Indicative meaningful vote
Until 29 March	European Union ratification
29 March	Brexit day
After 30 March	Trade talks and transitional arrangement talks
23 - 26 May	European Parliamentary elections
31 December 2020	Potential end to transitional period

Source: Author estimates based on current newsflow at the time of publication

assets amongst the most disliked by global fund managers (relative to their asset allocation norms). As always, too much fear by shorter-term focused 'voting machine' investors leads to opportunities for more medium and longer-term oriented 'weighing machine' investors. Certainly, the current combination (versus recent history) of low valuations and high dividend yields in aggregate for the UK markets highlights some opportunity among all the threats.

Something akin to the above would be my central scenario for 2019. However - I would admit - there are some obvious potential challenges to this. Shorter-term political expediency could occur - including a change of government which could worry some in the business community - and 'a clear majority' can have their heads turned away from one scenario to another. Yet 'muddling through' still appears to me the most likely scenario in a situation where views are split on an issue which has morphed from a simplistic 2016 referendum question to a multiple shades of grey modern economic, social and political reality.

WAGE INFLATION & INTEREST RATES

A 'muddling through' Brexit backdrop reality also starts to give weight to other drivers towards the UK economy and the UK financial markets. Consumption is typically two-thirds plus of a modern developed economy and the progress of real (i.e. after inflation) wages is unsurprisingly an important influence. The quiet rise in UK wages is both a push back against aggressive Brexit gloom and also a nod towards some skill and labour shortages in the UK economy. Clearly, any material wage pressure can be a burden on corporate profit and loss statements, but in the context of the UK economy in 2019, is more of a net positive than a negative. Additionally, the notion that the Bank of England is going to materially tighten policy in 2019 is clearly wide of the mark. In fact, caught between the inevitable Brexit uncertainty and a little bit of wage inflation, a policy of constant monitoring but no change in UK interest rates is very plausible. This is better news in avoiding serious issues for other important elements of the UK economy including corporate borrowing and the housing market and even the fixed income market (where yields however remain far lower than those available in the UK equity market). Additionally, 2019 is highly unlikely to see any contraction in the Bank of England's quantitative easing boosted balance sheet, in contrast to the Federal Reserve policy in the United States, for example.

UK government policy should naturally be focused on minimising Brexit angst, but the recent UK Budget did indicate a loosening of the fiscal purse strings, which is a policy shift also apparent in many other countries around the world. As an economic contributor at the margin this is another plus.

> "As always, too much fear by shorter-term focused 'voting machine' investors leads to opportunities for more medium and longer-term oriented 'weighing machine' investors."

MUDDLING THROUGH

Putting it all together, Brexit naturally dominates the UK economic and investment markets landscape but a combination of calmer heads and an effective 'muddling through' reality will encourage investors to rediscover UK assets instead of diving to hold more cash, as well as other influences on the UK economy including real wage growth and interest rate and fiscal policy trends. The real success story for the UK economy in 2019 may be that in a year's time the word 'Brexit' will not be quite so omnipresent.

KEY TAKEAWAYS:

- Brexit has dominated the UK investment and economic outlook.
- A 'muddling through' Brexit backdrop reality also starts to give weight to other drivers.
- The quiet rise in UK wages is a push back against aggressive Brexit gloom.
- Low valuations and high dividend yields in aggregate for the UK markets highlights some opportunity.

2019 U.S. Economic Outlook

Scott J. Brown, Ph.D., *Chief Economist*

The 2019 economic outlook is dominated by many of the same themes of a year ago. While fiscal stimulus (tax cuts and government spending) should provide support in the near term, labour market conditions will become more binding, Federal Reserve (Fed) policy is set to become tighter, and trade policy adds uncertainty.

RECESSION: POSSIBLE BUT NOT LIKELY

If the current economic expansion continues past June, it will become the longest expansionary period on record. So, many investors ask, when will the next recession occur? The likelihood of entering a recession, a period of declining economic activity, usually lasting two quarters or more, does not depend on the length of the expansion. That is, we are never "due" for a recession. There are few signs of a pending economic downturn on the immediate horizon, but economists have raised the odds of a recession beginning in late 2019 or 2020 – still not likely, but also not out of the question.

The stage is typically set for a recession by a period of over-investment or mal-investment, often fuelled by increased leverage. Fed policy is often a factor, typically by raising short-term interest rates too rapidly or by previously raising them too slowly (and then having to play catch-up). In past decades, sharp increases in oil prices were also a catalyst, dampening consumer spending. Every downturn has its own story.

> "We are never 'due' for a recession."

FISCAL STIMULUS

The Tax Cut and Jobs Act of 2017 (TCJA) lowered the corporate tax rate and many economists remained doubtful of the impact it would have on the economy since firms were generally flush with cash and borrowing costs were low. Research has shown that corporate tax cuts are more likely to increase share buybacks and dividends than to fuel capital expenditures and, for the most part, that was the case in 2018. However, business fixed investment, while uneven from quarter to quarter, was generally stronger.

The other component of the TCJA was reductions in personal tax rates, which will expand in early 2019. While the impact will vary across income levels and regions, overall consumer spending, which accounts for 68% of overall economic activity, should see a boost in the first half of the year as a result. The impact of fiscal stimulus will fade over time, but job gains and wage increases are expected to drive consumer spending.

Stimulating Spending

Though it was signed into law in 2017, the effects of the Tax Cut and Jobs Act are expected to continue to drive consumer spending via higher discretionary income and wage increases.

THE LABOUR MARKET

The labour market continued to tighten in 2018, with job growth trending well above the pace needed to absorb new entrants to the workforce. The unemployment rate continued to fall, yet employers cited difficulty in finding skilled labour. Wage growth has picked up, and can be expected to rise further in 2019.

While investors continue to look to commodity prices as an early indicator, the labour market is the widest channel for inflation pressure. The Fed's dilemma lies in the possibility that there may be more labour market slack than is generally believed. A tighter job market and rising wages should lead to a more efficient allocation of labour, reduce underemployment, and provide younger workers with opportunities to acquire important job skills. However, if firms are able to pass higher costs along, consumer price inflation will trend higher – and the Fed will have to work harder to suppress inflation.

MONETARY POLICY

The Fed continued to gradually move short-term interest rates toward a more normal level in 2018, and in the second half of the year began debating the risks of a policy error. Monetary policy affects the economy with a long and variable lag, so the Fed needs to account for the impact of previous actions. Policy decisions will remain data dependent, meaning how the incoming information affects the outlook for growth and inflation. The Fed raised short-term interest rates once a quarter in 2018, but is likely to be more cautious with raising rates in 2019.

The Fed has continued to reduce the size of its balance sheet, letting a certain amount of maturing Treasury securities and mortgage prepays roll off each month. The Fed views this as "background," not "active" monetary policy. All else being equal, the unwinding of the balance sheet may add 50 basis points (0.50%) to long-term interest rates, but over a period of three years or more.

Deficits and Debt: The Domino Effect

Falling tax revenues, rising interest rates, and rising entitlement spending are expected to widen the federal budget deficit, which currently stands at approximately $1 trillion (or 4.6% of GDP).

INFLATION

Inflation moderated in the second half of 2018 and Fed officials are more concerned with future inflation than past inflation. The low trend heading into the new year should allow the central bank more leeway in deciding how quickly to raise short-term interest rates. Starting in 2019, the Fed chairman will conduct a press conference after every monetary policy meeting (eight times per year), rather than after every other meeting.

TRADE POLICY

Trade policy will be a major uncertainty in early 2019. Tariffs on Chinese goods were set to expand at the start of the year, but that has been postponed, allowing more time for negotiations. It's unclear whether an agreement will be reached. An escalation of trade tensions would further disrupt supply chains, add to inflationary pressures, and dampen overall growth through retaliatory efforts abroad. The worst-case scenario, in isolation, would not be enough to cause a recession – but it would likely restrain growth to some extent, possibly offsetting the impact of the fiscal stimulus.

Focusing on bilateral trade deficits doesn't make a lot of sense. China is largely an assembler, importing raw materials and shipping intermediate and finished goods to the rest of the world. Its trade surplus with the rest of the world is small as a percentage of its Gross Domestic Product (GDP).

Ideally, the U.S. should focus its efforts on promoting U.S. exports. China's questionable trade conduct would be better addressed through a coordinated international effort and a shoring up of the World Trade Organization. Tariffs are a tax on U.S. consumers and businesses, not on foreign suppliers, and retaliation hurts U.S. exporters, including farmers. Moreover, global supply chains are complex, disruptions are costly, and policy uncertainty is a negative factor for business fixed investment.

FISCAL STIMULUS AND THE BUDGET DEFICIT

The trade-off to fiscal stimulus in 2019 is a larger federal budget deficit. Recall that the deficit rose to $1.4 trillion, 9.8% of GDP, in fiscal 2009, reflecting the severity of the 2008-09 recession, but then fell to 2.5% of GDP in fiscal 2014 as the economy recovered. The deficit is now expected to approach $1 trillion in fiscal 2019, about 4.6% of GDP.

Additional pressure will arise as the aging population will continue to boost spending on entitlements (Social Security and Medicare) in the years ahead and higher interest rates will add to the government's interest expense. If we don't reduce entitlements and defence spending, there's not a lot left to cut. Non-defence discretionary spending is a little over 3% of GDP.

> "The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue."

Tough choices lie ahead. There's no reason to believe that the national debt is a burden to our children and grandchildren. It doesn't have to be paid off. The key issue is whether the U.S. can service its debt and roll over existing debt as it matures. No problem there. However, prudent management of the budget would require lawmakers to work to stabilise the debt-to-GDP ratio over time.

THE DEMOCRATS GO TO WASHINGTON

In the November 2018 election, Democrats gained control of the House and Republicans retained control of the Senate. This split may prompt the two sides to work together on a number of issues, but we are more likely to see sharp partisan divisions continue. Democrats in the House are expected to conduct hearings into the inner workings of the Trump administration, and the Mueller investigation has the potential to create a period of political uncertainty, adding to investor anxiety.

"THIS TIME IS DIFFERENT?"

All else being equal, a strong economy, the Fed's unwinding of its balance sheet, and the increase in government borrowing should put upward pressure on bond yields, yet long-term interest rates have remained moderate, due in part to global rate disparity and demand.

The slope of the yield curve (the difference between long- and short-term interest rates) is, by far, the best single indicator of a pending recession. The flattening of the yield curve was a significant concern for investors in 2018 as it typically signals increased uncertainty about where the economy is headed. We could see an inversion of the yield curve in 2019, which has historically signalled that a recession is on the way. Some economists, and even a few Fed officials, have suggested that "this time is different," as there are a variety of factors keeping U.S. bond yields low, including the fact that long-term interest rates remain low outside of the U.S. We'll see.

Economic growth was strong in 2018, but beyond a sustainable pace. We know this because the unemployment rate fell, which clearly can't go on forever. The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue.

KEY TAKEAWAYS:

- There are few signs of a pending economic downturn on the immediate horizon, but economists have raised the odds of a recession beginning in late 2019 or 2020 – still not likely, but also not out of the question.
- Fed policy decisions will remain data dependent, meaning how the incoming information affects the outlook for growth and inflation.
- Trade policy will be a major uncertainty in early 2019. Tariffs on Chinese goods were set to expand at the start of the year, but that has been postponed, allowing more time for negotiations.
- We could see an inversion of the yield curve in 2019, which has historically signalled that a recession is on the way. Some economists, and even a few Fed officials, have suggested that "this time is different."
- The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue.

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2019 Washington Outlook

Ed Mills, *Washington Policy Analyst, Equity Research*

With the election now behind us, Washington turns to mapping out what the results will mean for legislative dynamics in 2019 and what (if any) areas can see meaningful progress in a divided Congress.

We believe the incoming Congress may offer opportunities for some surprise bipartisan compromises, especially on potential infrastructure, immigration, trade, and government funding issues. The House may produce more headline risk for the market as Democrats gain subpoena and investigative powers, but the current deregulatory track of the Trump presidency will largely be sustained given the Republican Senate's nominee confirmation powers.

A theme we're starting to track that may produce an overhang in the coming year is the tilting of the scales from market tailwinds to headwinds on the D.C. agenda. Over the past year, we have seen the deregulatory agenda, fiscal stimulus, and tax cuts dominate the conversation, providing a boost to investor sentiment. Now, with those big-ticket items largely behind us, the focus is turning toward more potential market challenges, particularly trade policy uncertainty, rising geopolitical risk, and the potential for ramped up investigations. We will be watching to determine the impact Congress will have on this transition and whether investors value market fundamentals over perceived risks on the horizon.

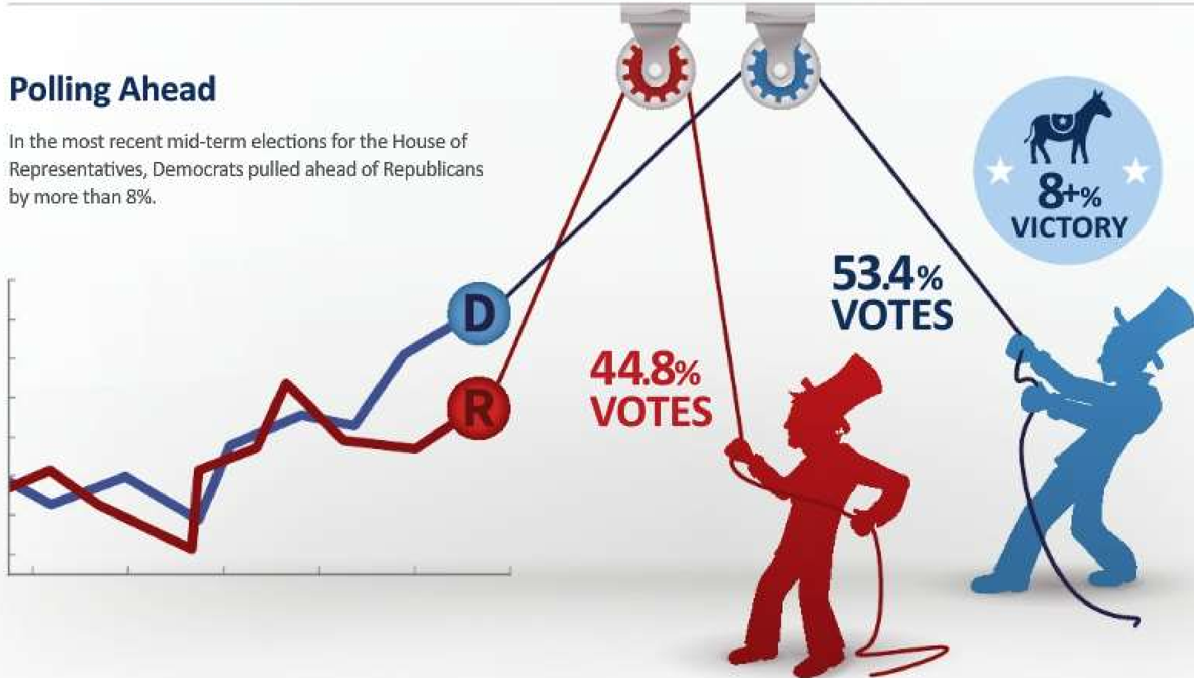
The D.C. Agenda:
From Tailwinds to Headwinds

Deregulatory Agenda
Fiscal Stimulus
Tax Cuts
Infrastructure

Trade Policy
Tariff Uncertainty
Geopolitical Risk
Personnel Uncertainty
Investigations

Polling Ahead

In the most recent mid-term elections for the House of Representatives, Democrats pulled ahead of Republicans by more than 8%.



DIVING DEEPER: ELECTION RESULTS IN FOCUS

In many ways, the election produced a historical result that will heavily weigh on the dynamics of the incoming 116th Congress. The split decision we saw in November (where one party decisively flipped control of a chamber of Congress while the other party added to their majority in the other) is unprecedented in U.S. politics. Democrats needed a net gain of 23 seats to gain control of the House of Representatives and a net gain of two seats to flip control of the Senate. We saw Democrats flip 40 Republican seats in the House with Republicans gaining two seats in the Senate.

On a national level, Democrats saw 60,109,539 votes compared to Republicans' 50,864,077 – a victory margin of more than 8% for the House. Democratic voter participation was almost up to Presidential election cycle levels – Hillary Clinton saw 65,853,514 votes in 2016. This is a significant departure from the norm as Democratic voter participation has historically drastically dropped off in non-Presidential election years.

Although Democrats won a significant share of the popular vote, they enter the new Congress with a modest majority (235 Democrats, 200 Republicans). Given that almost 20% of Democrats in the House will now be from formerly Republican-represented areas of the country, there will be pressure on those members to produce results for their constituents if they want to keep their seats in two years. This sets up a key dynamic to watch where a faction of Democrats may deviate from their party's agenda on certain issues and sets the table for some surprise bipartisan compromises in 2019. In our view, infrastructure and immigration stand to be the biggest beneficiaries of the new House dynamics.

The Senate result produced quite the opposite story. Republicans defeated a handful of vulnerable Democrats in Republican-leaning states in order to expand their majority to 53-47. As the Senate controls the confirmation of presidential appointments to key regulatory and judicial positions, an expanded Senate majority allows for an easier and faster confirmation process. This, in essence, locks in President Trump's executive powers and de-regulatory agenda for the remainder of his first term.

POST-ELECTION CONGRESSIONAL AGENDA

The new year is likely to start off with a focus on the administration's short-term trade actions as all eyes are on China, but trade, in general, will be a significant theme for 2019. Beyond that, we are likely to see debates on an infrastructure package, technology regulation, and healthcare policy.

TRADE: SIGNIFICANT MILESTONES AHEAD

The trade dispute with China remains a significant wildcard that threatens to spill over into the technology sector should talks break down. Tariff increases loom large in the fight and are attracting significant speculation, but another "under-the-radar" concern is the restrictions on technology investment and exports that may be the next source of leverage for the Trump administration.

"In our view, infrastructure and immigration stand to be the biggest beneficiaries of the new House dynamics."

Beyond China, we will see negotiations and potentially a vote to ratify the revised NAFTA agreement with the U.S., Mexico, and Canada (USMCA). Democrats are beginning to voice their opposition to the deal as negotiated, and may use the ratification vote as leverage on other issues. Car tariffs may also attract lawmakers' attention next year. Trump administration officials have raised the prospect of placing tariffs on car imports again, an effort likely to draw Congressional opposition.

INFRASTRUCTURE: BIPARTISAN POSSIBILITIES

On this issue, both parties start at a common point of agreement that there has been significant under-investment in infrastructure. This raises long-term competitiveness and even safety concerns as deteriorating and unmaintained roads, bridges, and communication networks can constrain economic growth in the long term. However, the two sides are far apart in terms of the size and scope of the plan, and, importantly, on the appropriate way to fund infrastructure investment.

Tax changes to pay for large-scale federal funding will likely be a non-starter with Senate Republicans, and a more-targeted $200 billion infrastructure package would likely be dismissed by House Democrats for not offering meaningful investment. The clearest path to a successful bipartisan push on infrastructure lies in both parties needing to claim a win as they run for re-election in 2020. Many of the new House members come from swing districts and will want to avoid being cast as obstructionists. This sets up infrastructure as a natural vehicle for bipartisanship that leads to investment in both rural and urban areas while creating jobs and contributing to continued fiscal stimulus.

TECHNOLOGY REGULATION

Another potential area of bipartisan compromise could be regulation of technology platforms, specifically on data protection and privacy standards, after a series of high-profile scandals in 2018. Landmark privacy standards, similar to the European Union's enacted General Data Protection Regulation (GDPR), could be on tap given agreement on both sides that "rules of the road" should be set for major technology platforms.

HEALTHCARE POLICY

Healthcare emerged as a winning issue for Democrats in 2018 in a way that shifts the debate away from repeal of the Affordable Care Act (ACA) toward a renewed push for lowering drug prices. However, the two sides are likely to approach this issue from vastly different angles, and President Trump likes to keep this issue close as a potential achievement heading into the 2020 campaign. These dynamics may hamper efforts at a significant bipartisan compromise.

KEY TAKEAWAYS:

- We believe the incoming Congress may offer opportunities for some surprise bipartisan compromises, especially on potential infrastructure, immigration, trade, and government funding issues.
- A theme we're starting to track that may produce an overhang in the coming year is the tilting of the scales from market tailwinds to headwinds on the D.C. agenda.
- The focus is turning toward more potential market challenges, particularly trade policy uncertainty, rising geopolitical risk, and the potential for ramped-up investigations.
- Infrastructure and immigration stand to be the biggest beneficiaries of the new House dynamics, in our view.

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2019 U.S. Equity Outlook

Michael Gibbs, *Managing Director, Equity Portfolio & Technical Strategy* and
Joey Madere, CFA, *Senior Portfolio Analyst, Equity Portfolio & Technical Strategy*

As we begin 2019, the U.S. equity markets are under pressure due to uncertainty regarding trade talks with China, concern over the sustainability of U.S. economic growth, the path of the Federal Reserve's (Fed) tightening cycle, and moderating economic growth abroad.

BEAR SIGHTINGS?

We recognise the heightened risk environment, but feel the sharp weakness in December is overdone for the short term. Moreover, we do not feel the recent weakness is the beginning of a *lasting* bear market for equities. We expect U.S. economic concerns to be proven premature as U.S. GDP will likely reach low- to mid-2% growth in 2019. Earnings growth for the S&P 500, while slowing from the unsustainable 20+% growth rate of 2018, will still be healthy as we project 5% to 6% growth for the year.

Attractive valuation further supports a positive bias with the S&P 500 price-to-earnings ratio (P/E) trading under 15x, relative to the long-term historical average of 16.5x (and 22% lower than the September peak P/E of 18.8x). Our base case S&P 500 target of 2,957 by year end 2019 renders 25% upside price movement from the December 24 close of 2,351.

"Trade negotiations are expected to remain the centre of investor focus in 2019."

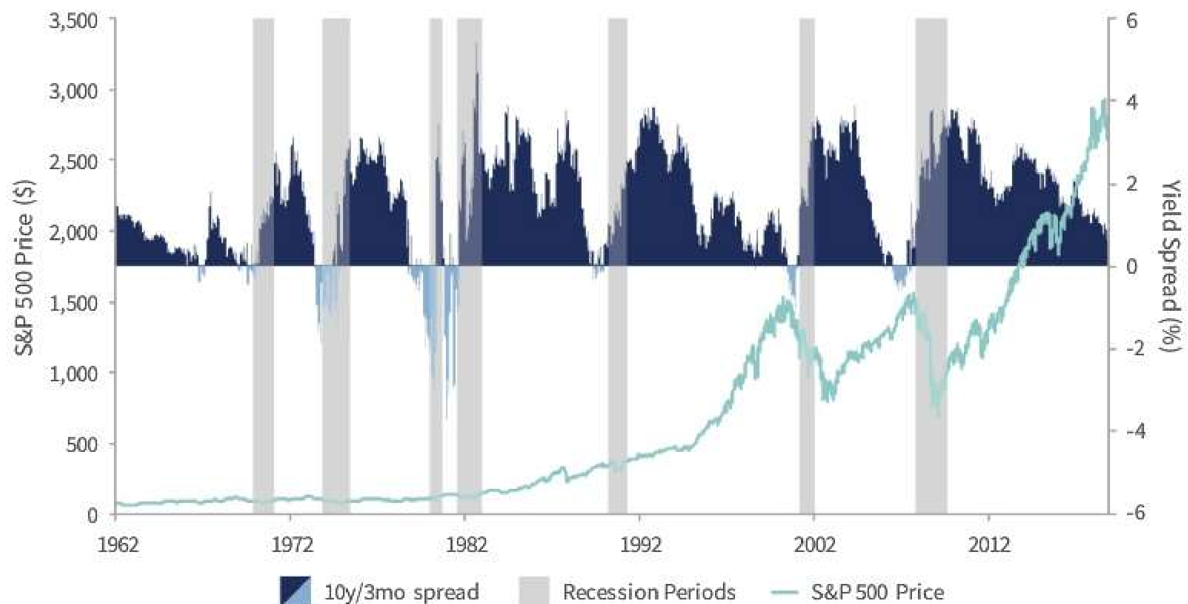
Despite our bullish posture, we admit a lot needs to go right in the year ahead to achieve our target. With delicate issues, such as the U.S.-China trade talks, a volatile road lies ahead. We widen the range between our potential bull and bear case scenarios to account for the heightened risk environment. Our year-end bear case of 2,415 is 2% above the December 24 close, reflecting a lack of progress from the current oversold conditions. In our bull case scenario, the 3,305 target renders a 40% gain from the December 24 close. With the issues delicate and the outcomes uncertain, especially regarding trade, our probability odds in our bull case are lowered to just 5%, while our bear case odds increase to 30%. Our base case odds are the highest at 65%. Progress on the trade front could alter our cautious bull/bear case probability odds dramatically.

TRADE POLICY: THE PRIMARY INFLUENCE

Trade negotiations are expected to remain the centre of investor focus in 2019. Despite the G20 "trade-truce," challenges to a "deal" are elevated with both sides appearing hardened regarding intellectual property rights. For this reason, reaching an agreement by the 90-day deadline suggested by President Trump is unlikely.

Yield Inversion = Equity Reversion?

Historically, an inversion between the yields on the 3-month and 10-year Treasuries (i.e., when the yield on the 3-month Treasury is higher than the yield on the 10-year Treasury) has often preceded an impending recession. However, its success in predicting future equity market performance has been less certain. In other words, an inversion in Treasury yields does not necessarily precipitate a reversion in equity prices.



Source: FactSet, Bloomberg, Raymond James as of 12/15/2018

Nonetheless, we feel the two sides can and will deliver a message of progress to reassure the financial markets as the deadline nears. With the stakes (to global sentiment) high, we are optimistic both sides can arrive at acceptable terms as the year progresses. Stock market volatility will likely remain elevated with the path to an agreement rocky.

SOFTER GROWTH OR NOISE?

Investor concern over the health of the economy is heightened, with housing trends softening and initial jobless claims ticking slightly higher. The softening trends are likely noise, in our opinion, and with the economy late cycle, uncertain readings are not a surprise. Conversely, other economic readings, such as unemployment, leading indicators, consumer confidence, and Institute of Supply Management (ISM) surveys, all point to a healthy environment.

YIELD CURVE INVERSION

The flattening yield curve, often a signal of pending economic weakness, adds to investor angst. The narrowing spread between the 2-year and 10-year yields (as low as 10 basis points, or 0.10%) stoked concern in early December. We are watching yield spreads, but since we put more weight on the 10-year and 3-month yield spread, we are not overly concerned at this point with it comfortably above the zero mark (0.30%). Long lead times to recessions after previous yield curve inversions and false signals cause us to refrain from overconcern at this point, as well.

Raymond James Equity Portfolio & Technical Strategy 2019 Year-End Outlook

S&P 500	EPS ESTIMATE	P/E	PRICE	% CHANGE FROM 2,351	SCENARIO ODDS
Bull Case	$174	19x	3,306	40%	5%
Base Case	$169	17.5x	2,957	25%	65%
Bear Case	$161	15x	2,415	2%	30%

Source: Raymond James Equity Portfolio & Technical Strategy

Nonetheless, with investors focused on the shape of the yield curve, it is likely to influence equity market direction, at least over short periods. The predictive power of yield curve inversion and forward stock market returns has a mixed history. The chart above highlights periods of negative spreads between the 3-month and 10-year yields (which we remind you is positive). Many of these periods occurred at or near stock market peaks (1966, 1968, 1973, 1980, and 2000). However, stocks moved higher after, or during, inversion periods (in late 1966, 1967, 1989, and 2006). The yield curve is an important indicator to watch, but using it as a sole source for stock market direction is a failed approach, in our opinion.

INFLATION AND INTEREST RATES IN CHECK

Our belief that inflation will remain anchored and interest rates will not run away to the upside further supports a positive bias. Low global bond yields and the likelihood of only one Fed rate hike in 2019 should keep the U.S. 10-year Treasury yield from spiking again. As a reminder, in 2018 a jump in interest rates triggered both 10% drawdowns in the equity market.

POLITICS

In addition to trade and economic worries, political brinkmanship due to a split Congress will add to the list of stock market headwinds, as noise around impeachment, government shutdowns, and approval of the U.S., Mexico, and Canada Agreement (USMCA) will garner headlines.

U.S. EQUITY OUTLOOK: A DEEPER DIVE INTO 2019

EXPECTED EARNINGS

Fundamentally, earnings are set to slow from the 20%+ growth in 2018. There has been plenty of noise around "peak earnings," but it is a mistake to confuse "peak earnings growth" with "peak earnings." We estimate earnings will grow 5% in 2019 to $169 per share. Such growth, if realised, is adequate to support higher equity prices.

The overhanging issues and technical damage done during the decline will limit equity upside in the coming months. Negative headlines will influence stocks to test the low end of the range. However, a healthy U.S. economy, a growing earnings stream, and attractive valuation should serve as downside support. We believe the current pullback is overdone in the short term. Success or failure with trade negotiations will likely influence the equity markets next significant directional move.

BASE CASE: 65% PROBABILITY

In our base case scenario for 2019, trade issues linger, but enough progress is made (by year end) to allow a more positive tone. Our base case assumes that the U.S. economy does not falter, the Fed

"In summary, we have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term. We view valuation as attractive and expect supportive economic and earnings growth."

pauses the tightening cycle after one move in 2019, the Treasury yield curve does not invert as measured by the 3-month to 10-year spread, and earnings rise as expected.

We apply a P/E of 17.5x to $169 in earnings to reach 2,957 (+25%, as of December 24). Our P/E adequately discounts late-stage economic risks, which will likely linger. We place a 65% probability of this scenario playing out.

BULL CASE: 5% PROBABILITY

Our bull case scenario for 2019 is a "Goldilocks" environment in which trade differences are worked out more rapidly (and without as many issues as feared), the U.S. economy hits its targets, inflation remains muted, the yield curve steepens in a controlled fashion, the unemployment rate stops falling (allowing the Fed to pause the tightening cycle), and investor optimism returns.

We use a 19x P/E, which was the P/E at the September peak and has been the historical median P/E when inflation is in the 2-2.5% range. Earnings surpass our estimate and reach consensus forecasts of $174. Applying a 19x P/E to $174 earnings gets a 3,306 bull case scenario (+40% from current levels).

BEAR CASE: 30% PROBABILITY

In our bear case scenario, the trade conflict escalates and slows economic and earnings growth (without entering a recession). Our base case assumes that the Treasury yield curve inverts as measured by the 10-year and 2-year spread and the Fed stops tightening and leans toward looser policy (which helps to limit the downside in stocks).

In this scenario, we feel earnings will be flat with 2018 (~$161). Negative sentiment could keep the S&P 500 P/E down near 15x (~9% below the historical average of 16.5x). Applying a 15x P/E multiple to $161 earnings results in a bear case scenario of 2,415 on the S&P 500 at 2019 year end (+2% from current levels before dividends and -17.5% from the 2,930 September peak).

OVERALL: POSITIVE BIAS

In summary, we have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term. We view valuation as attractive and expect supportive economic and earnings growth. Numerous factors are impacting the environment and investor sentiment (on the positive and negative side). These factors will not go away anytime soon.

Therefore, for the next several months and possibly into mid year, the S&P 500 is likely to remain volatile as investors balance the headwinds and tailwinds. If the U.S. and China eventually work out trade differences and the U.S. economy remains healthy (two outcomes we expect), improving investor sentiment and solid earnings may allow equities to post healthy gains by the end of 2019.

KEY TAKEAWAYS:

- We have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term.
- Trade negotiations are expected to remain the centre of investor focus in 2019. With the stakes (to global sentiment) high, we are optimistic both sides can arrive at acceptable terms as the year progresses.
- Long lead times to recessions after previous yield curve inversions and false signals cause us to refrain from over-concern at this point.
- If the U.S. and China eventually work out trade differences and the U.S. economy remains healthy (two outcomes we expect), improving investor sentiment and solid earnings will allow equities to post healthy gains by the end of 2019.

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2019 Energy Outlook

Pavel Molchanov, *Senior Vice President, Energy Analyst, Equity Research*

After a volatile year for the global oil markets, Pavel Molchanov reminds us that short-term gyrations should not obscure the fundamentally bullish oil picture.

A VOLATILE VOYAGE FOR OIL

2018 was certainly a "round-trip" journey for the global oil markets, with West Texas Intermediate (WTI) crude prices starting the year in the low $60s per barrel (Bbl), reaching four-year record heights of $76/Bbl by early October before a turbulent descent to the low $50s by the end of November. Brent's premium to WTI was similarly volatile. On a calendar-year basis, oil prices averaged their highest level since 2014, though there is no disputing the rough end to the year.

Commodity markets are volatile by nature, reflecting both fundamental drivers and additional factors, such as the impact of the rising U.S. dollar, which placed significant pressure on already strained oil prices. Technical/momentum trading also contributed to this intense sell-off. It is important to keep in mind that short-term prices are essentially unpredictable, so we do not encourage investors to focus on short-term volatility – whether it is taking off or on a nerve-wracking descent.

BIG PICTURE, BOTTOM LINE

The global oil market was under-supplied in 2017, becoming broadly balanced (demand equalling supply) in 2018. We forecast under-supply persisting in 2019 and 2020. The four-year period 2017-2020, therefore, translates into consecutive drawdowns in global petroleum inventories – a virtually unheard of string of decreases by historical standards.

> "Short-term prices are essentially unpredictable so we do not encourage investors to focus on short-term volatility."

While many U.S. investors tend to focus on the Department of Energy's weekly inventory reports as the only real-time data source, to get a holistic view of the oil market, it is essential to look at global metrics.

DEMAND AND SUPPLY

After four years (2015-2018) of demand growing above the long-term average of 1.4% per year, we envision growth slowing in 2019, and even more so in 2020. While a potential economic slowdown is among the factors here, it is not the main one. Rather, this under-supplied market must see oil prices rise in order to meaningfully curtail demand growth. As oil becomes more expensive, consumers gravitate to more fuel-efficient (or electric) vehicles, and businesses take steps to reduce fuel usage as well.

On the supply side of the ledger, there is a wide variety of "line items" to track. High profile developments include pressure on Iranian exports due to the U.S. sanctions and Venezuela's political/economic crisis and resulting collapse in production. These are counterbalanced by the record production in Saudi Arabia and

"To get a holistic view of the oil market, it is essential to look at global metrics."

Russia. Less headline-grabbing themes include restraint in capital allocation by larger U.S. oil producers. While the U.S. - especially the Permian Basin - should remain the world's pre-eminent source of supply growth in the years ahead, there are still supply declines in several non-OPEC geographies such as China and Mexico. Additionally, the limited number of long-lead-time oil project approvals translates to the gradual diminishment of this source of supply uplift over time.

RENEWED STRENGTH

Putting everything together, we anticipate back-end-loaded oil price strength in 2019, to an average of $62/Bbl WTI and $72/Bbl Brent. For 2020, while visibility that far ahead is admittedly limited, we currently envision a cyclical peak of $93/Bbl WTI and $100/Bbl Brent. The main reason for this cyclical peak is global implementation of the International Maritime Organization (IMO) 2020 low-sulfur fuel regulations – arguably the most important yet under-appreciated oil market story for the next several years. While some regulatory uncertainty remains, our estimate is that the overall impact in 2020 will effectively erase 1.5 million barrels per day, or 1.5% of global supply. Not only is our 2020 price forecast at the high end of consensus, but it is even more striking when compared to the futures curve. While we do not think that triple-digit oil prices will become the new normal, it may be necessary, at least temporarily, to squeeze demand out of the system, thus preventing even steeper inventory declines. Beyond 2020, our forecast is $75/Bbl WTI and $80/Bbl Brent – a normalized level of prices that should enable moderate demand growth (even with increasing adoption of electric vehicles) as well as a level of industry-wide capital spending that could generate the incremental supply for accommodating that demand growth.

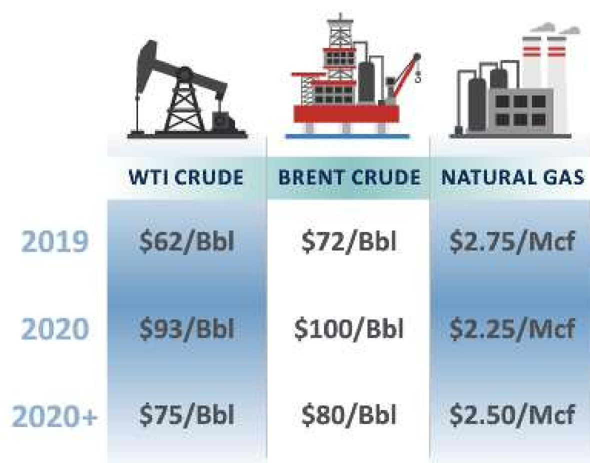
NATURAL GAS: NOT SO NOTABLE

In contrast to our upbeat view on the global oil market, we are much less enthused about North American natural gas. The unusually cold start to the 2018/2019 winter temporarily pushed Henry Hub gas prices above $4.00/thousand cubic units (Mcf), but such prices are emphatically not sustainable. We remain bearish relative to consensus and futures pricing. Our forecast is an average of $2.75/Mcf (down modestly year-over year) in 2019, followed by a cyclical trough of $2.25/Mcf in 2020 and a long-term normalised level of $2.50/Mcf. The backdrop for our bearishness is the U.S. gas market's "inverse" relationship with oil prices. As higher oil prices spur growth in oil production, they also drive an increasing supply of associated gas – whether or not anyone actually wants that gas. Simply put, the better things get for oil prices, the worse the read-through for gas. Improving takeaway capacity from the Permian will only exacerbate this, along with increased access to Northeast markets from the Marcellus and Utica Shale Formations.

The supply side of the gas equation outweighs the mostly upbeat story on the demand side, led over the next three-to-four years by the ramp-up of U.S. liquefied natural gas (LNG) exports. Pipeline exports to Mexico are also a growth driver, whereas the power sector is more of a mixed picture as retirements of coal-fired power plants are disproportionately being displaced by wind and solar rather than gas. Meanwhile, the European gas market is also rather weak, with demand near 20-year lows, as wind and solar are capturing market share in the electricity mix to an even greater extent than in the U.S. Gas demand in Asia is growing, led by China, but not as much as the industry would have hoped.

Outlook on Prices

Looking Ahead



	WTI CRUDE	BRENT CRUDE	NATURAL GAS
2019	$62/Bbl	$72/Bbl	$2.75/Mcf
2020	$93/Bbl	$100/Bbl	$2.25/Mcf
2020+	$75/Bbl	$80/Bbl	$2.50/Mcf

Source: Raymond James Equity Research

Going Green

United States Climate Alliance Coalition

CURRENT MEMBER STATES

STATES SET TO JOIN

U.S. ENERGY POLICY OUTLOOK

Since we are on the topic of commodity markets, let's address the outlook for U.S. energy policy following the 2018 mid-term elections. At the federal level, essentially nothing is changing. The Trump administration remains in control of the regulatory agencies: the Energy and Interior departments, as well as the Environmental Protection Agency (EPA) and the Federal Energy Regulatory Commission (FERC). To the extent Congress may take up impactful energy legislation – and it rarely does – anything will have to pass the Democratic-controlled House and Republican-controlled Senate. This, of course, is a recipe for gridlock.

At the state level, there were four high-profile initiatives on the ballot – in Colorado (drilling restrictions), Washington State (carbon tax), California (reduction of fuel taxes), and Arizona (upsized renewable portfolio standard) – but all four were defeated. On the other hand, three new governors – in Illinois, Michigan, and New Mexico – are set to join the U.S. Climate Alliance, a coalition of currently 16 states that are enforcing the Paris Agreement's decarbonisation targets. While any specific regulatory changes will have to go through utility commissions, it is a safe bet that the new administrations will push to accelerate retirements of coal plants. This is more bad news for the coal industry – but bullish for renewables.

KEY TAKEAWAYS:

- It is important to keep in mind that short-term prices are essentially unpredictable, so we do not encourage investors to focus on short-term volatility.
- The global oil market does not have enough available supply to sustain the current pace of demand growth – thus, prices must move higher to slow demand likely peaking in 2020.
- We remain bearish relative to consensus and futures pricing for North American natural gas.
- As for U.S. energy policy, at the federal level, essentially nothing is changing. At the state level, a growing number of states are enforcing decarbonisation rules.

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Should Investors be Afraid of Populism?

Chris Bailey, *European Strategist, Raymond James Investment Services*

"Being naked approaches being revolutionary; going barefoot is mere populism" John Updike

If you look up a definition of populism it will say something like 'the quality of appealing to or being aimed at ordinary people' which does not sound particularly worrisome for investors. However, when professional investors are asked about their greatest fears for 2019, 'populism' tends to rank highly.

WITH CHANGE COMES UNCERTAINTY

The reason for this investor concern is centred on 'regime change'. We are always told that change is good but it can also bring uncertainty, which can worry investors who may have made valuation judgements based on an expected future. Of course the way the financial markets onboard new ideas and ways of thinking is via price volatility, an element which has been much more apparent as 2018 progressed across most geographies and asset classes.

THE RETURN OF MERCANTILISM

If we leave aside the issue of progressively tighter controls on global immigration, there are two current main strands of populist thought that have captured the attention of the financial markets. The first I will call 'the return of mercantilism' and has the current President of the United States as an apparent supporter. For those unfamiliar with mercantilism, it drove much economic thought up to a couple of hundred years ago, and is centred on the concept that a country should attempt to amass wealth via exporting more than it imports when it trades with other countries and hence increasing stores of gold and precious metals (which were used at the time to underpin banking and financial systems). Now it has been many decades since the gold standard had any material role in the global financial structure, but the idea that policy shifts are required to close trade deficits, has come back to the centre of the current political debate, especially in the dusty area of trade policy. The US President's rhetorical and actual willingness to slay some recent sacred cows of US trade policy is driven by the perceived inequalities of the current arrangements. Now, whether this is justified or not is another issue, but it raises the spectre of a return to 'beggar-thy-neighbour' trade policies which were disastrously last employed in the 1930s, as other important countries such as China or the economic trading blocs such as the European Union consider retaliatory measures. This is why - correctly - world trade disruption and angst is perceived as the biggest challenge for the global economy today.

Characterisation of Populism in Europe

(min = 1; max = 10)

	All Political Parties	Populist Parties
Anti-establishment rhetoric	4.5	7.1
Economic protection	5.2	7.2
Short-termism	5	6.2

Source: Centre for Economic Policy Research

REVERSING THE RISE OF INEQUALITY

Fortunately I think saner heads will prevail on this issue due to the deeply interconnected nature of the global economy and business supply chains. What may become more striking during 2019 is the second main populist thrust: 'reversing the rise of inequality', a nod towards recent trends which has seen the post quantitative easing influenced global economy see more proportional wealth gains accrue to those typically higher up the income/wealth spectrum who own proportionately more financial and physical assets.

If politics is a circle, classically, populism used to be perceived as existing more towards the extremities of traditional 'left' or 'right' wing views. As the John Updike quote above satirically notes, real revolutionists always regarded it as inherently lightweight. However the malaise of the political centre has led to a range of alternative parties and politicians surprisingly taking power. The current Italian coalition government which is made up of two non-mainstream political parties is one example. The unconventional political style of President Trump in America, or even the recently elected President Jair Bolsonaro in Brazil, are certainly others. However the latter two examples - so long as they do not linger on the politics of mercantilism - would generally be perceived as being broadly pro-business and therefore ultimately less likely to truly upset the applecart. By contrast, the political platforms of the Italian coalition is more interventionist and redistributory focused, reflecting the perception that the stagnation of the local economy means that change is necessary and required.

And this is what theoretically concerns financial markets: policy actions which, in short, could hinder capital and bias towards labour and typically increase the role of an interventionist government in an economy. Such a world is typically associated with lower valuation multiples (that overhang equity markets) and bigger government deficits (which impact fixed income markets) and ultimately weak national currencies, which can hinder purchasing power

SO HOW LIKELY IS THIS?

The better news for financial markets in 2019 is that the market mechanism provides a safety valve in the form of lower share prices, higher bond yields and currency crises. In today's financially interrelated world, policies that worry struggle to get the airtime to play, as we have seen in both Greece and more recently Italy. The risk - as shown in Japan and progressively in swathes of the European Union - is that malaise and inaction can result... which is no solution.

A truly politically popular approach may be a cherry picking of the best ideas from the populist strands by the current or next generation of more mainstream politicians, and blending them with their own natural instincts and policy choices. In this sense, Italy will be a fascinating political experimental zone in 2019, seeing how an instinctively populist government fuses their policy platforms with a need to remain fiscally prudent and market friendly. With current low expectations there could be surprise... and if so this would change European politics for the better. And

"In today's financially interrelated world, policies that worry struggle to get the airtime to play- as we have seen in both Greece and more recently Italy."

given the last decade's poor economic growth record, a bit of change can at least offer some different opportunities. After all, the last big regime change in the early 1980s did not work out too badly for many, did it?

With populists and unconventional parties picking up material support across many countries, electorates are clearly feeling unhappy about something tangible and the older, more traditional ways seem to need an update at least. Imitation is the sincerest form of flattery after all. So do not be too worried about the populists. Their rising popularity may just be the nudge more conventional politicians need to really step up and inspire.

KEY TAKEAWAYS:

- Populism worries investors because of the scope for a regime change.
- The threat of the return of mercantilism is not likely to occur.
- Attempting to reverse the rise of inequality may prove to be more of a realistic populist policy thrust.
- Watch for incumbent political parties to imitate some aspects of populist agendas.

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Head Office Broadwalk House 5 Appold Street London EC2A 2AG

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