EQUITY RISKS TO MONITOR IN 2018

Ask the PORTFOLIO MANAGER

How do you view the current risk regime for equities?

Transcript of a video recorded on November 8, 2017.

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Michael Grant, SVP, Senior Portfolio Manager, says 2019 could be the broad topping year for equities. He and his team are monitoring two real risks for equities: the end of the expansion and competition of other asset classes.

The risk regime for equities is currently very good. We've characterized 2017 as the bull year for equities. Equities are behaving as if we're coming out of a profit recession, and in fact that's true. Globally, last year was a profit recession. And since December of last year, the year over year rate of improvement in corporate fundamentals has been accelerating. It's very rare for equities to top before that period of acceleration, which we think goes into Spring 2018, is over.

So, our view is that this was the bull market year for equities. 2019 will probably be a broad topping year for equities as investors increasingly focus on the end of cycle risks. And then the key question is whether or not we get a recession in 2019 that leads to a cyclical bear market. So, it's premature right now to think about that, but I think that will be on the agenda by spring of next year.

There are two real risks for equities. One, of course, is the end of the expansion, which I'll come back to. The other is competition from other asset classes. With respect to the end of the expansion, my guess is that by spring of next year with two or three more Fed hikes on the horizon, we will be reaching a pinch-point with respect to the expansion. So, that's one risk to monitor.

The second question is competition for equities. One of the most common statements I hear is that equities are expensive. And, of course, in an absolute sense looking at P/E multiples, that's an accurate statement. But valuation doesn't make sense without a context of interest rates. Interest rates are like the gravity in the financial world that holds everything together. And because interest rates are so low, equity evaluations at these levels make a lot of sense. So, I don't see competition for equities as a financial class until interest rates here in the U.S. get much closer to 3%. And again, I don't see that happening until at least spring of 2018.

WATCH VIDEO

Video recorded 11/8/2017.

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