Outlook

JANUARY **2019**

Long-term perspective on markets and economies

FOR PROFESSIONAL INVESTORS ONLY

2019 Outlook summary

If you are feeling particularly uncertain about investing heading into 2019, you're not alone. With major economies entering late-cycle territory, volatility rising, monetary policy tightening and a trade war brewing, you may be wondering how to position your portfolio.

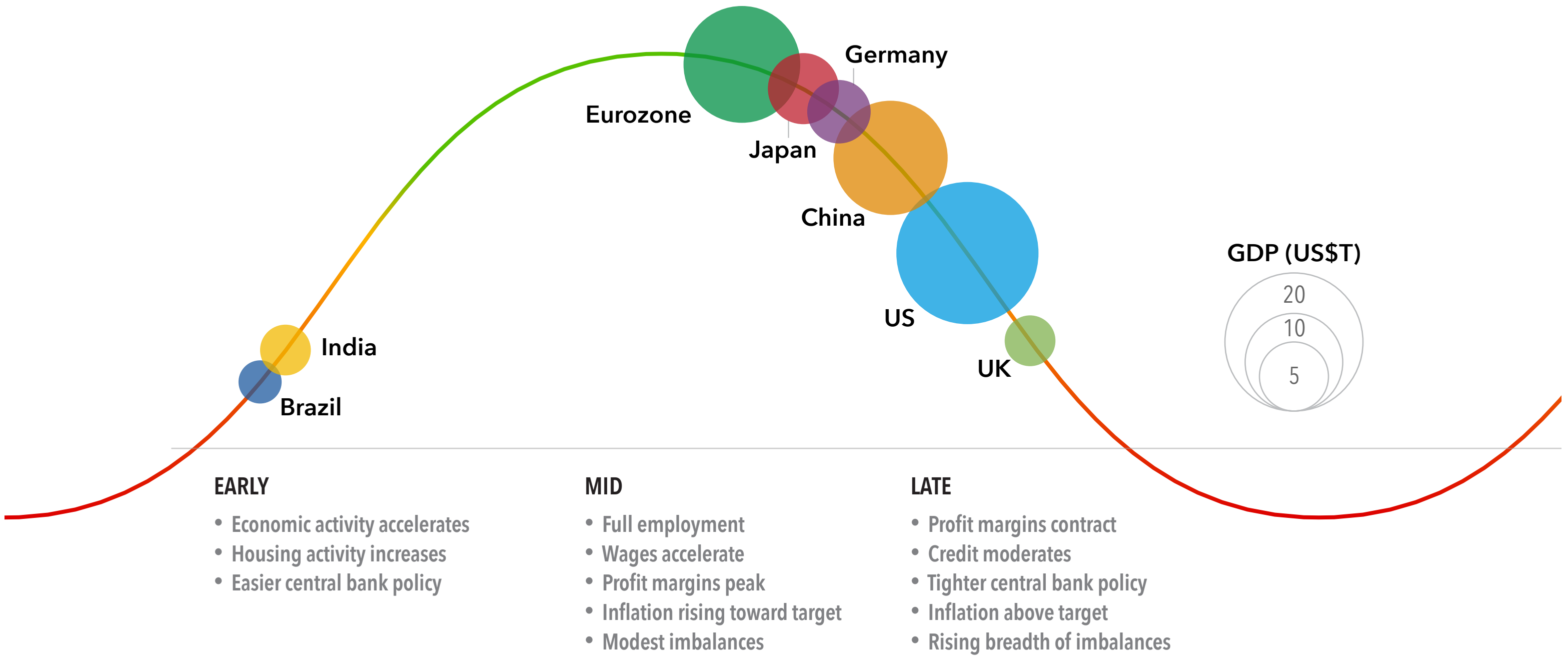
	INSIGHTS	IMPLICATIONS
Macro perspectives	**Prepare for the 3 'T's of volatility.** Tightening: US Federal Reserve rate hikes and removal of quantitative easing will continue to unsettle markets in 2019. Trade: China and Europe are slowing more than expected, and tariffs are causing pain. Too much debt: Countries and companies have taken advantage of cheap debt, which can backfire when economies slow.	The US economy is late cycle, but still experiencing solid growth. We may see many extra innings here. China is the story to watch in 2019 as the world's second-largest economy slows and the trade dispute with the US evolves. Europe will face challenges in 2019, marked by Brexit, Italian politics and new European Central Bank leadership.
Equity opportunities	**Smart companies adapt and thrive.** Amid the uncertainty, select companies will find ways to take advantage of the environment, whether it's rising rates or trade skirmishes. Non-US equities may continue to disappoint. But select companies will stand out as diamonds in the rough.	Investors should manage expectations for US equity returns given today's higher valuations. Looking for growth: seek companies with long runways and large addressable markets. Defensive investors: Focus on firms with solid balance sheets that can avoid dividend cuts.
Fixed income opportunities	**It may be time for bonds to provide balance.** Getting your core fixed income right is always important. But it's absolutely critical in a late-cycle environment. Rising US rates are breathing life back into bond income after years of rock-bottom yields.	All eyes are on interest rates, but don't overlook credit risk. Safe-haven bonds are increasingly attractive in a rising-rate environment. Hard-hit emerging market debt may offer opportunities for investors who can take a long-term view.

A clearer picture: Major economies reach late cycle

US economy, among first to reach late cycle, continues to lead the pack

"We are presumably late in the game, but there is always the possibility of extra innings. These cycles can go on for a long time. It all depends on the fundamentals."

DON O'NEAL
PORTFOLIO MANAGER



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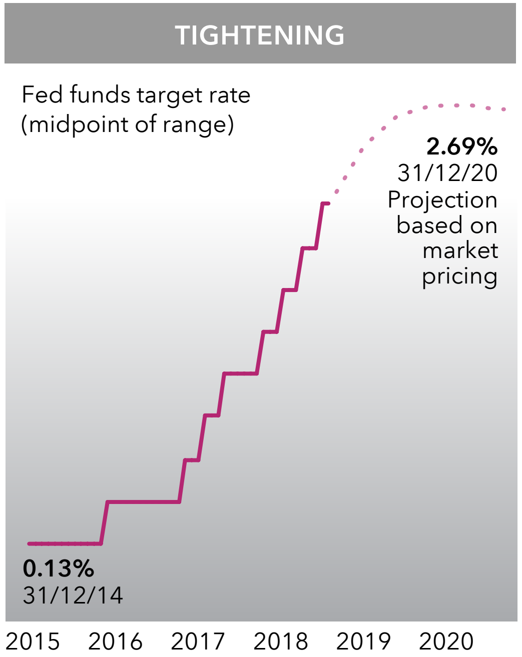
Gross domestic product (GDP) data are in USD and are latest available to 30/9/18. Country positions within the business cycle are forward-looking estimates by Capital Group economists. SOURCES: Capital Group, FactSet

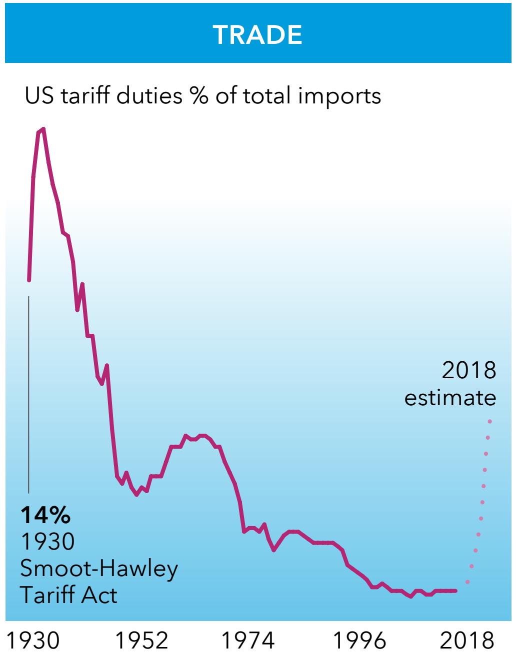
Looking out into 2019, major economies are headed down divergent growth paths – in sharp contrast to the synchronised global growth at the start of 2018. As the US hums along at a healthy rate, growth is slowing, notably in China and Europe. This divergence adds a measure of uncertainty to the global economic picture. Nevertheless, the International Monetary Fund is projecting a reasonably solid 3.7% global growth rate in 2019. Yet, one question keeps surfacing for investors: Where are we in the business cycle? With unemployment at its lowest level in 49 years, wage growth accelerating, inflation pressures mounting and the Federal Reserve tightening policy, the US has entered late-cycle territory. Most developed economies appear to be in or near late cycle, but emerging markets are more mixed. In China – where government policy heavily influences the economy – decelerating credit, capital outflows and a weaker currency also indicate the cycle is late stage.

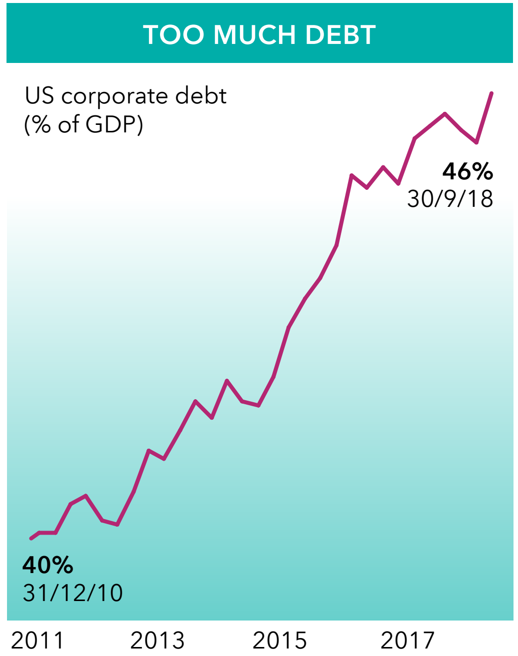
Smart companies adapt to evolving conditions. Software maker Microsoft's subscription model provides relatively steady revenue streams across economic cycles and its Azure business is tapping into exploding demand for cloud computing services. Advances in driverless car technology are driving new opportunities for tech giant Alphabet as well as old-line automaker General Motors.

Tightening, trade and too much debt

Expect three 'T's to unsettle markets in 2019







For illustrative purposes only.
Fed funds target rate projections based on pricing in the futures markets as at 30/11/18. SOURCES: Bloomberg, US Federal Reserve, Peterson Institute for International Economics, Thomson Reuters

GDP: gross domestic product

After years of relative calm, market volatility is back with a vengeance. What's driving it? There are many factors, but the three 'T's are among the most impactful: tightening, trade tensions and too much debt. Those powerful forces are combining to disrupt global markets at times and put investors on edge. Expect it to continue, and potentially intensify, in 2019 as interest rates move higher, global trade disputes mount and debt levels rise.

The US Federal Reserve's (Fed) tighter monetary policy is reverberating around the world. Reacting to a strong US economy, a tight labour market and moderately rising inflation, the Fed is expected to continue raising short-term interest rates in 2019. This is happening at a time when government, corporate and consumer debt are all dramatically on the rise. It was one thing to borrow when rates were at historically low levels; it's a whole different environment today.

At the same time, global trade has taken centre stage as the US, China, Europe and others seek to rewrite the rules of world commerce in their favour. It's important to note that these trade skirmishes may continue for a long time. It's a highly fluid situation that we will be monitoring closely throughout the year.

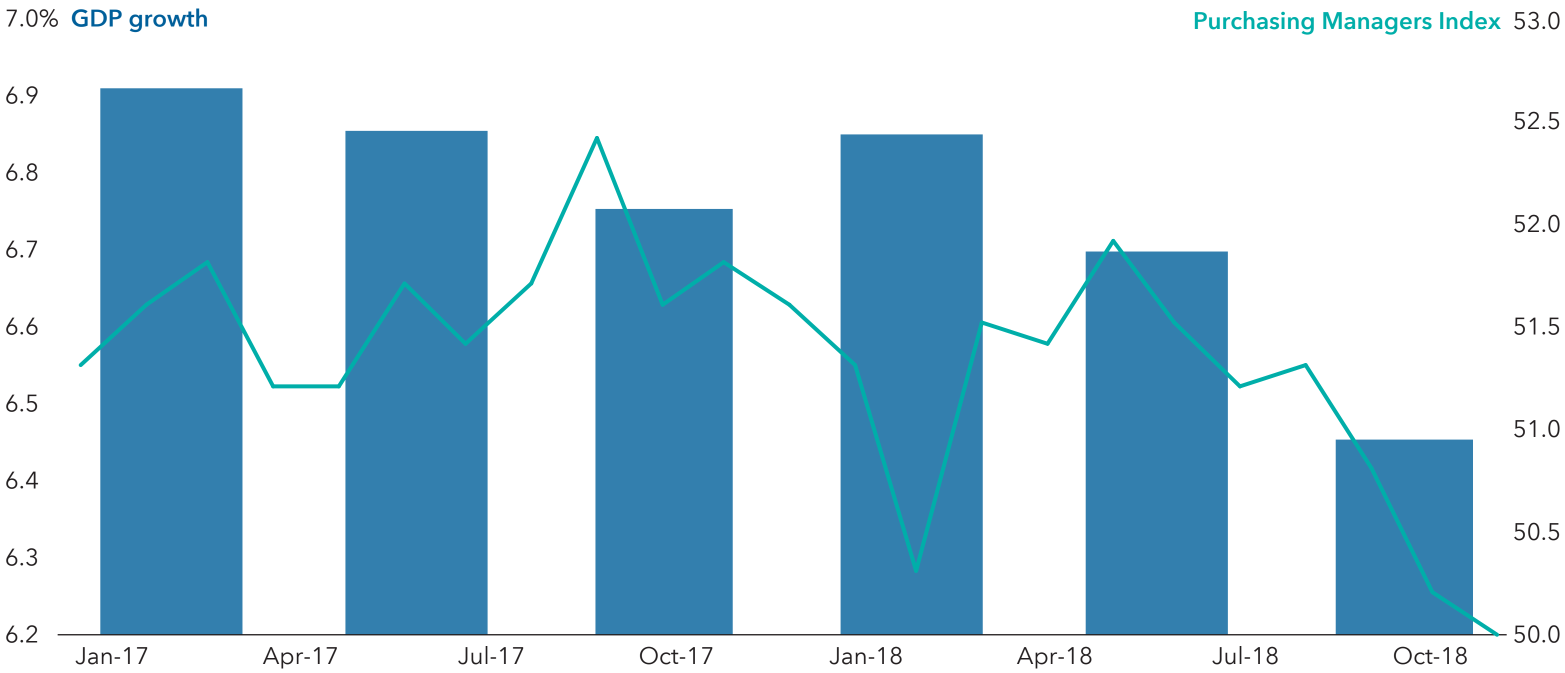
China's slowing economy is the story to watch in 2019

Much depends on the path taken by the world's second-largest economy

"From my travels around the country and analysis of our proprietary data, it's clear that China's economy is continuing to decelerate. Additionally, investors should expect more political uncertainty as the country's leadership takes a nationalist turn amid worsening trade relations with the US."

STEPHEN GREEN

CAPITAL GROUP ECONOMIST



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Quarterly gross domestic product (GDP) data as at 30/9/18. Monthly PMI data as at 30/11/18. SOURCES: National Bureau of Statistics of China, Thomson Reuters

You may be worried about rising interest rates in the US, political instability in Europe or deflationary pressures in Japan. Those deserve to be on the top 10 list of investor concerns for 2019. But consider this for No. 1: China's slowing economy and the impact it has everywhere else, particularly other emerging nations that supply the raw materials needed to support China's growth. A disruptive trade dispute with the US won't help matters.

China's economy is still growing at a decent rate: 6.5% (annualised), according to the official numbers. However, that's a far cry from double-digit growth just a few years ago, and there are signs of more trouble ahead. Consumer spending, manufacturing, credit growth and the housing market are all showing signs of weakness heading into the new year. If these trends continue, China's economic struggles could export more volatility to other parts of the world.

As usual, selectivity is the key to investing in China's (or any other) stock market. Despite macroeconomic headwinds, Alibaba, Tencent and Ctrip are all growing at a rapid pace as China's relatively young population adopts mobile e-commerce like cash never even existed. While Chinese stocks had a tough 2018, the long-term demographic trends present a compelling story for these three well-positioned internet giants.

Looking for growth? Consider companies with long runways

Secular growth stories are taking off across industries around the world

CLOUD COMPUTING

When it comes to potential growth of cloud computing demand, the sky's the limit

Total estimate cloud services spending

2017	$153B
2021	$302.5B

Cloud infrastructure-as-service annual growth rate: 15.2%

IT budgets shifting to cloud by 2022: 28%

Companies: Amazon (AWS), Microsoft

BIOPHARMACEUTICALS

The future of the war on cancer? Prognosis excellent

Total biologics revenue

2018	$150B
2023	$250B

Expected annual growth rate: 10%-15%

Immunotherapies in Phase I – II trials: 300+

Average years of development time before FDA approval: 14

Companies: Abbvie, Gilead, Novartis

GLOBAL AIR TRAVEL

Soaring demand for air travel in Asia could keep aircraft makers busy for years

Air passenger traffic

2018	4B
By 2036	7.8B

First-time passengers in Asia last year: 100M

Aerospace order backlog: >13,000

Years to fulfill backlog: 8+

Companies: Airbus, Boeing

It often pays to think big. Technological advancements and shifting demographics are transforming global industries, creating massive new markets for innovative and nimble companies. Consider cloud computing, software and services that run on the internet. In little more than 10 years, the cloud has grown rapidly, slashing infrastructure costs for companies and transforming business models. By 2021, cloud spending will rise to $300 billion, nearly double the $153 billion spent in 2017, according to industry researcher Gartner. The movement of IT workloads to the cloud is boosting demand for the services of Amazon Web Services and Microsoft's Azure, the two leaders in cloud computing services.

Advances in biotechnology are bringing us ever closer to a cure for cancer. Companies like Abbvie, the maker of rheumatoid arthritis drug HUMIRA®, and Gilead Sciences, developer of treatments for HIV and hepatitis C, have invested heavily in the development of potential cancer therapies. Barriers to entry are high in biologics, which cost billions to develop and many years of trials and approvals to get to market.

It's human nature: we want to travel. For the first time, in 2017 more than 100 million people in Asia boarded planes, reflecting rising affluence in the region. Worldwide, air passenger traffic is expected to reach 7.8 billion by 2036, sending demand soaring for new aircraft. Boeing and Airbus, effectively a duopoly, have backlogs totalling more than 13,000 planes, or eight years of production.

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SOURCES: Gartner (growth of cloud computing market, IT budget data); Wikibon's 2018 True Private Cloud Forecast and Market Shares (infrastructure-as-a-service growth rate); IMS (biologics growth rate and revenue forecast); phrma.org (average development time for approval by the US Food and Drug Administration (FDA)); International Air Transport Association (air passenger traffic); Capital Group, Boeing, Airbus. Values in USD.

Defensive investors: consider firms that can maintain dividends

Select companies and sectors have held up better during market declines

"I look for companies that can maintain their dividends if conditions deteriorate. That often means companies with strong balance sheets and good cash flows. I also look for good visibility into a company's future earnings."

ALAN BERRO
PORTFOLIO MANAGER

Through seven declines, some sectors have finished above the overall market

Above S&P 500 / Below S&P 500

SECTOR SCORECARD

SECTOR	S&P 500 ABOVE	S&P 500 BELOW	DIVIDEND YIELD (%)	1987 (32.9)	1990 (18.7)	1998 (19.2)	2000-02 (47.4)	2007-09 (55.3)	2010 (15.6)	2011 (18.6)
CONSUMER STAPLES	7	0	2.8	Above	Above	Above	Above	Above	Above	Above
UTILITIES	7	0	3.3	Above	Above	Above	Above	Above	Above	Above
HEALTH CARE	6	1	1.5	Below	Above	Above	Above	Above	Above	Above
TELECOMMUNICATION SERVICES*	6	1	5.3	Above	Above	Above	Below	Above	Above	Above
ENERGY	4	3	3.1	Below	Above	Above	Above	Above	Below	Below
CONSUMER DISCRETIONARY	2	5	1.3	Below	Below	Below	Above	Below	Below	Above
FINANCIALS	2	5	1.8	Above	Below	Below	Above	Below	Below	Below
INFORMATION TECHNOLOGY	2	5	1.5	Below	Below	Below	Below	Above	Below	Above
MATERIALS	2	5	2.0	Below	Below	Above	Above	Below	Below	Below
INDUSTRIALS	1	6	2.0	Below	Below	Below	Above	Below	Below	Below

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Includes the last seven periods that the S&P 500 declined by more than 15% on a total return basis. Sector returns for 1987 are equally weighted, using index constituents from 1989, the earliest available. Dividend yield as at 30/11/18. SOURCES: Capital Group, FactSet

* The telecommunication services sector dividend yield is as at 24/9/18. After this date the sector was renamed communication services and its company composition was materially changed.

It's a truism of investing: market downturns are inevitable. But while they can be unnerving, a closer look at seven major market declines shows that broad market index results don't tell the whole story.

Through each of the declines, some sectors held up better than others. Even when the S&P 500 plummeted 55.3% in 2007-09 during the sell-off of the Global Financial Crisis, consumer staples lost about 29% and health care fell 38%. Small comfort to be sure, but while history is not predictive of future returns, the record shows that selectivity and diversification can help add resilience to a portfolio when markets are sliding.

Many of the areas that have held up during prior declines have paid meaningful dividends. Dividends offer steady return potential when stock prices are volatile and can be a hallmark of a disciplined, conservative management team. But not all dividend payers are equal. The key is to identify companies with strong balance sheets, good cash flows and the discipline to maintain dividend payments during declines.

A broad range of US companies across sectors and industries pay meaningful dividends. Among these are: Home Depot in the retail/consumer products sector; Microsoft, Broadcom and Intel in the technology sector; health services provider UnitedHealth, medical device maker Abbott Laboratories and drugmakers Merck, Abbvie and Gilead Services in the health care sector and ConocoPhillips and Exxon Mobil in the energy sector.

What will the next five years bring for US equity investors?

Moderate your expectations: When stocks are pricey, future returns have been muted

"I look at earnings, stock valuations and interest rates, and I don't see how the overall market can generate more than single-digit returns over the next few years. There are still opportunities, but at this stage selectivity is critical."

GREG JOHNSON
PORTFOLIO MANAGER

Future equity returns tend to contract as P/E ratios rise

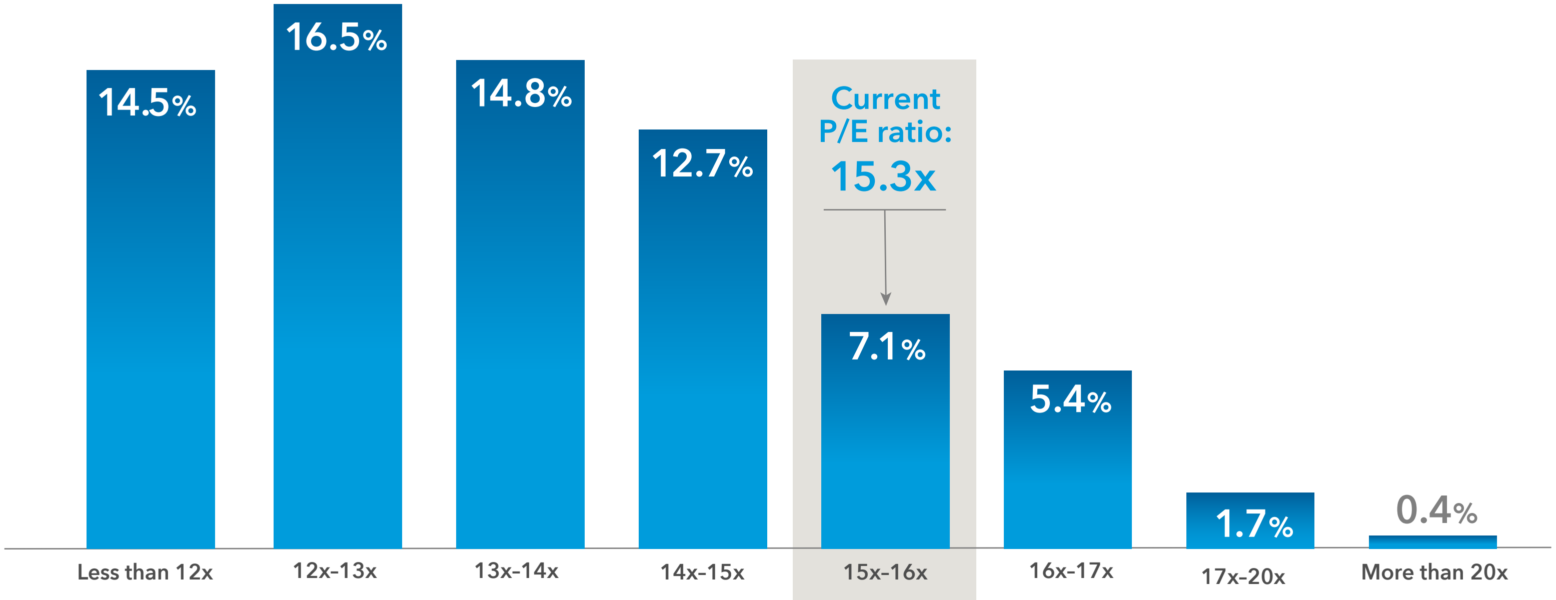

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Chart shows the average subsequent five-year S&P 500 total return by forward price-to-earnings ratio, using monthly data from 31/1/85 to 30/11/18. Current P/E ratio as at 30/11/18. Based in USD. SOURCES: Standard & Poor's, Thomson Reuters

There's just no getting around it. US stocks have become expensive. Even after bouts of unsettling volatility in 2018, the Standard & Poor's 500 Composite Index has advanced nearly 400% since the March 2009 start of the bull market. Although company earnings in recent years have soared along with stock prices, valuations have expanded considerably.

As at 30 November, the forward price-to-earnings (P/E) ratio for the S&P stood at 15.3 – which is elevated by historical standards. And while past results are not predictive, history suggests that investors may want to temper expectations for returns going forward. That said, a small handful of innovative technology and consumer companies have driven much of the market return (online retailer Amazon has soared about 2,700% since the end of the last bear market), leaving valuations in other areas of the market at more modest levels. Of course, given that many other companies have more modest growth prospects and the likelihood of elevated volatility, selective investing will be critical.

Rejuvenated pipelines with potential blockbuster drugs may help biopharma and pharmaceutical stocks power forward, especially after years of negative headlines focused on drug pricing have tamped down share prices. For example, biopharma companies Abbvie and Gilead Sciences have a number of cancer therapies in late-stage development.

Political uncertainty in Europe driving sentiment

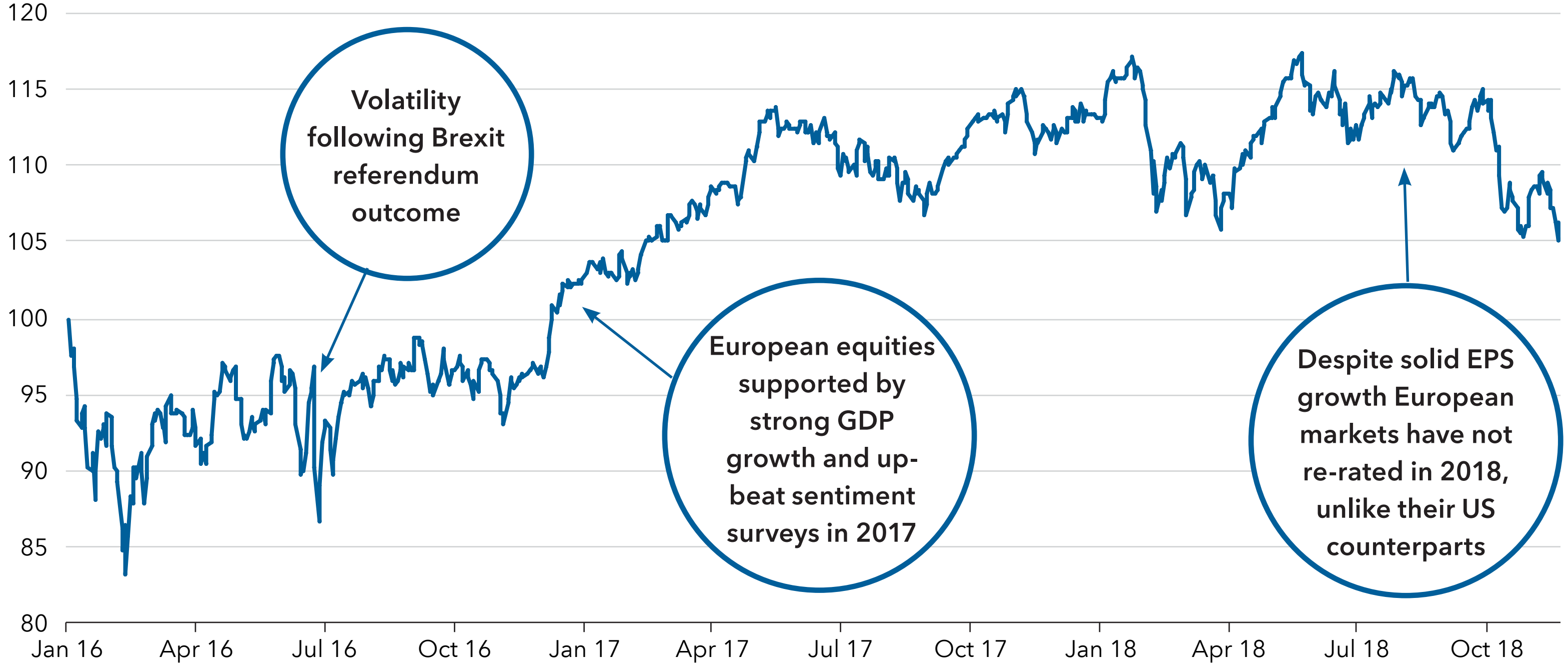
Markets require a larger political risk premium

"If the global economy remains robust, it should benefit many of Europe's internationally oriented companies. Greater optimism about global growth would be particularly helpful to European banks and more cyclical industrial companies."

ROBERT LIND

CAPITAL GROUP ECONOMIST

MSCI Europe cumulative return since December 2015



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As at 11/11/18. Chart shows the cumulative total return of the MSCI Europe Index net dividends reinvested in EUR. SOURCES: MSCI, Bloomberg, Thomson Reuters

EPS: earnings per share. GDP: gross domestic product.

A calendar of political issues continues to cloud Europe's horizon. Brexit negotiations are entering a decisive phase and we could see fireworks ahead of the planned March 2019 departure date. While the most likely scenario is that the UK and European Union (EU) will agree on a withdrawal arrangement, there is still a risk of a no-deal departure.

Italy is too important to ignore and too big to bail out. The question is how does the EU contend with the current national populist government as it pushes for more fiscal room?

National populist parties across Europe could disrupt the hold of traditional mainstream parties at the European Parliamentary elections in May 2019. The European Central Bank (ECB) intends to stop its quantitative easing programme at the end of 2018 and interest rates should remain unchanged until the summer of 2019. If growth and inflation behave as expected, the ECB will likely raise rates modestly in late 2019. The Bank of England has a tightening bias but Brexit uncertainty will likely defer any tightening until there is more clarity on its future relationship with the EU.

European equity markets have traded at a substantial discount to the US. This is at least partially due to European markets seeking a bigger political risk premium. However, selective opportunities exist. Across a range of sectors there are comparable companies trading at lower valuations than their US counterparts. Examples include Airbus vs. Boeing, and Adidas vs. Nike, but there are many more. These are companies with strong balance sheets and long runways, trading at a discount partly due to their address.

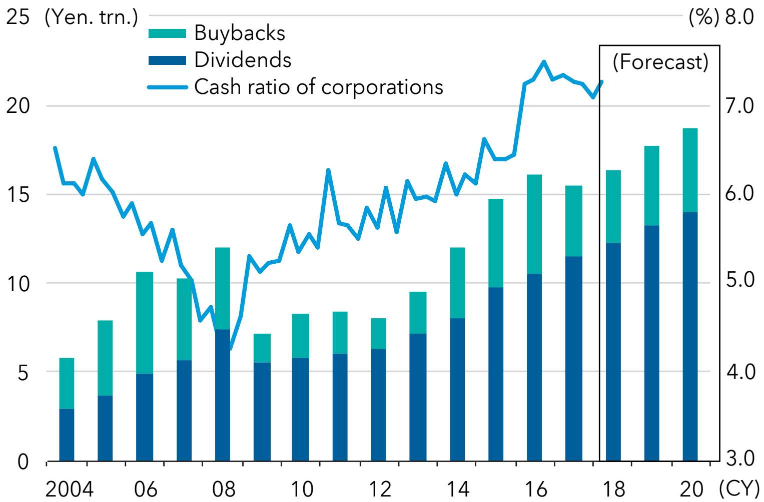
The refurbishment of Japan Inc. continues

Much depends on the path taken by the world's second-largest economy

"Uncovering hidden corporate value by improving shareholder returns and through efficient use of capital can potentially create a virtuous cycle in the Japanese stock markets and economy."

SEUNG KWAK
PORTFOLIO MANAGER

Total amount of share buybacks and dividends by Japanese companies[1]



Japan has a relatively low payout compared with the US and Europe[2]

	Dividend payouts (% of net profits)	Share buybacks (% of net profits)	Total
Japan	29.0%	9.7%	38.7%
US	42.5%	49.5%	92.0%
Europe	51.8%	10.5%	62.4%

As Prime Minister Shinzo Abe continues his third term of service into 2021, so will his policies. Ensuring that Japan keeps up with its nominal GDP growth, which has been favourable over the past few years, will be one of the prime minister's main objectives in order to lift the country out of its fiscal deficit and improve its standard of living.

On the governance front, much is still needed to be done to refurbish Japan Inc. However, notable progress has been made. In March 2018 the Tokyo Stock Exchange revised Japan's Corporate Governance Code and later in the year, the Financial Services Agency enhanced the stewardship code for institutional investors. These guidelines are now more prescriptive and there are signs that improvements can be self-sustained.

Public pension funds are also demanding more accountability from asset managers, pushing some firms to improve dialogue with investors and focus on returns. Japan's Government Pension Investment Fund, the largest pension fund in the world, is using its influence to drive strong corporate governance practices. Furthermore, there is added pressure to increase dividend payouts and share buybacks, which should help enhance shareholder returns.

Regular communication is key to pushing for good governance. Capital Group's investment associates have had longstanding conversations with companies, including those in Japan, on improving governance. "Japan has made a lot of progress and is moving significantly away from the Kansayaku system, where statutory auditors are paid by the company, so they are effectively employees of the firm," says portfolio manager Steven Watson. "The improvements to Japanese boards is a nice transition to watch."

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GDP: gross domestic product; TSE: Tokyo Stock Exchange; FSA: Financial Services Agency

1. As at 31 December 2017. Data for CY18 - CY20 based on earnings-per-share growth forecast by Bloomberg. For illustrative purposes only. CY: calendar year. Cash ratio: gross cash holdings on balance sheets of corporations divided by total assets. Q1 2014 – Q2 2018 for cash ratio (quarterly data). Sources: Ministry of Finance, Bloomberg, Capital Group

2. As at 31 October 2018. Japan: all listed companies, US: S&P 500, Europe: Bloomberg Europe 500. Total refers to total shareholder payout, in terms of dividends and share buybacks, as a percentage of net profit. Source: Nomura Securities

EM valuations are at a discount relative to DM

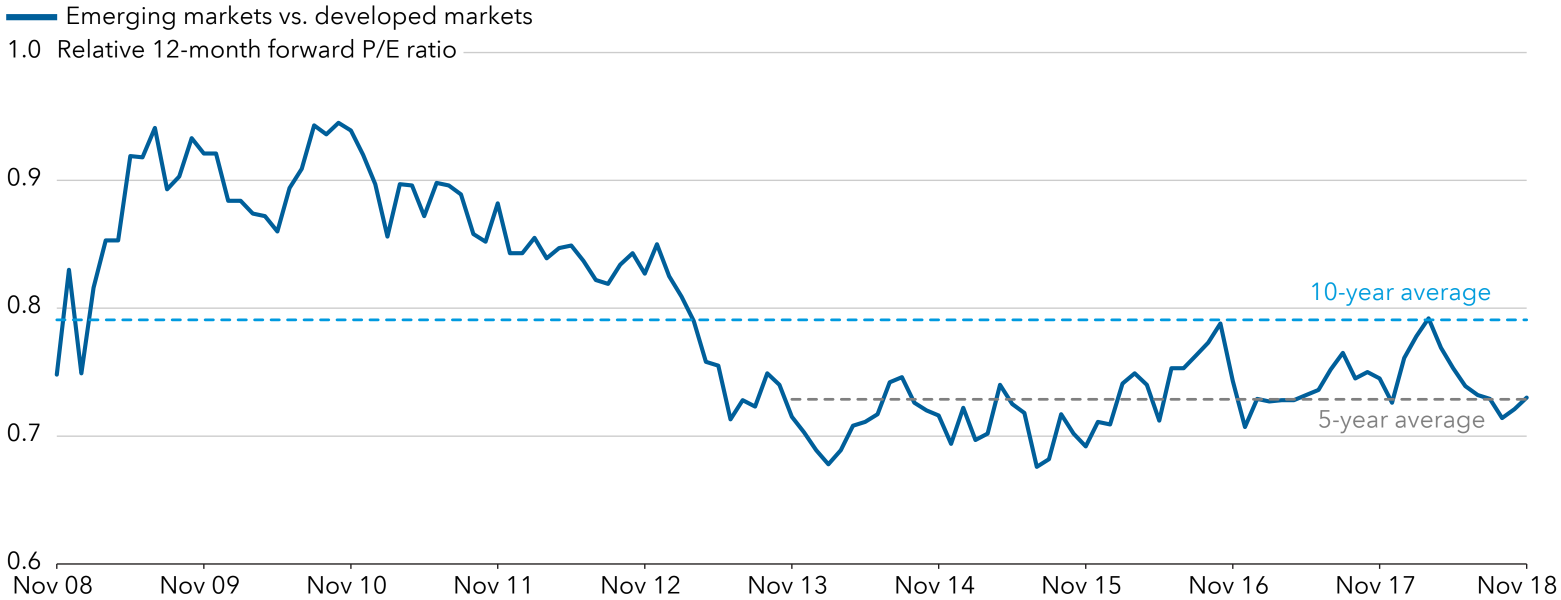
While we could see continued volatility, there are a number of reasons to remain positive

"Some of the risks we see in emerging markets have more to do with country-specific and macro-orientated issues and less to do with certain pockets of the Asia-Pacific, where our managers believe there are attractive, long-term opportunities to invest in companies benefiting from technological disruption and secular growth."

KENT CHAN

INVESTMENT SPECIALIST

Average 10-year historical discount vs. DM was 21% but has trended around 27% recently



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Data from 30 September 2008 to 30 September 2018. Sources: IBES, Thomson Reuters Datastream

Emerging markets (EM): MSCI Emerging Markets Index. Developed markets (DM): MSCI World Index

EM equities have struggled throughout 2018, hurt by country-specific issues, rising US rates, US dollar strength, a less benign backdrop of global growth and global trade uncertainties.

Although we could expect continued volatility in EM amid increases in US rates, trade tensions and the idiosyncratic issues in various countries, there are a number of reasons to remain positive about the asset class. The global backdrop should remain supportive with the easing in monetary policy in China and fiscal stimulus from the United States. Meanwhile, the Japanese and the European authorities seem in no hurry to tighten as inflation remains very low.

The outlook for EM corporate earnings remains strong, with aggregate profits projected to grow by double-digits in 2019. Furthermore, as the chart above shows, the discount of EM equities relative to developed markets is now well below the 10 year average. Meanwhile, the current EM price-to-earnings (P/E) ratio is now at its lowest level since 2015, before the latest EM bull market began in early 2016. The valuation picture vs. the US looks even more stretched, with relative P/Es vs. the S&P 500 approaching the low levels seen during the 2008 Global Financial Crisis and the 2013 taper tantrum.

We see two sides of emerging markets: one defined by innovation and economic stability, and another that is plagued by commodity-related cyclical swings and political uncertainty. The balance of power has shifted to Asian technology and consumer discretionary companies, some of which are now the biggest stocks in the MSCI EM Index. Mainland-listed Chinese companies, known as A-shares, are being added to the index. And India, now more business-friendly after a series of reforms, has surpassed China as the world's fastest-growing economy.

All eyes are on rates, but don't overlook credit risk

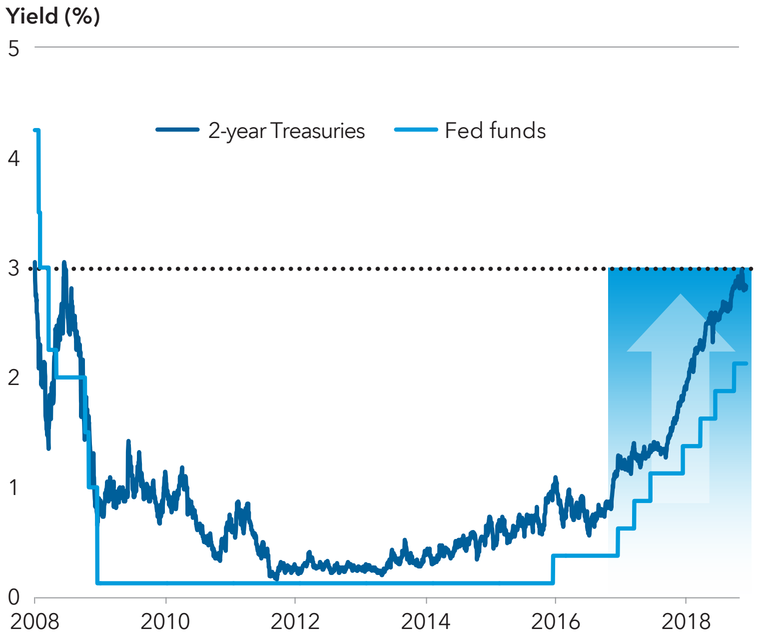
Markets have responded to Fed rate hikes, but credit spreads remain relatively tight

"Concerns about interest rate risk are often front and centre for investors during a rate hike cycle. But it's important to note that while Treasury yields have already climbed, credit spreads remain very tight. Until valuations become more attractive, a degree of caution around credit seems appropriate."

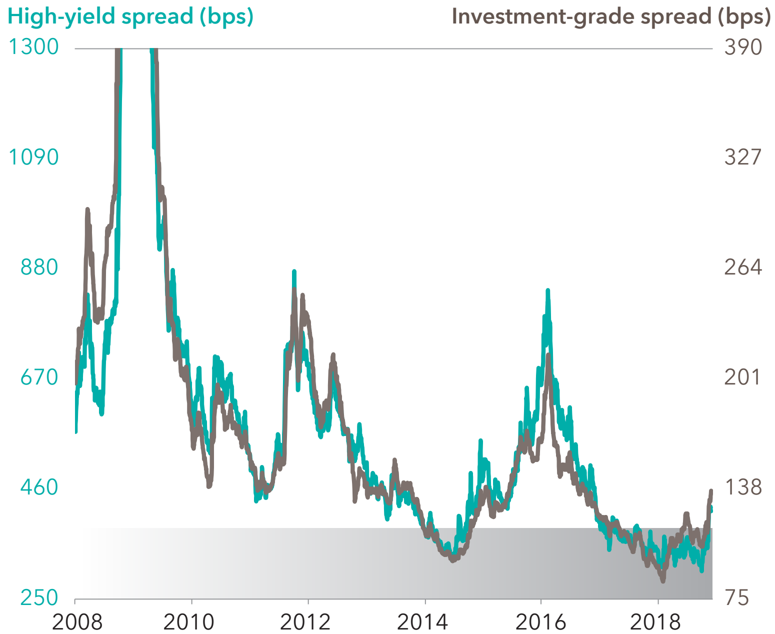
MIKE GITLIN

HEAD OF FIXED INCOME

US interest rates



Credit spreads



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Midpoint of target range shown for Fed funds target rate. Rise in yields shown is from the date of the first Fed rate hike 14/12/15 to 30/11/18. The grey zone indicates high-yield credit spreads are in the tightest quartile, below 383 basis points. SOURCE: Bloomberg Index Services Ltd., US Federal Reserve.

Should bond investors fear the US Federal Reserve (Fed)? The prospect of rising yields as the Fed forges ahead with rate hikes may continue to spook some investors. But maybe it shouldn't.

While unemployment was around 4% for much of 2018, recent inflation has been weaker than widely anticipated. Late in 2018, market pricing indicated a single Fed hike is in the cards for 2019, although expectations have jumped around a lot amid volatility.

Crucially for bond investors, however, short-term Treasury yields already have climbed significantly.

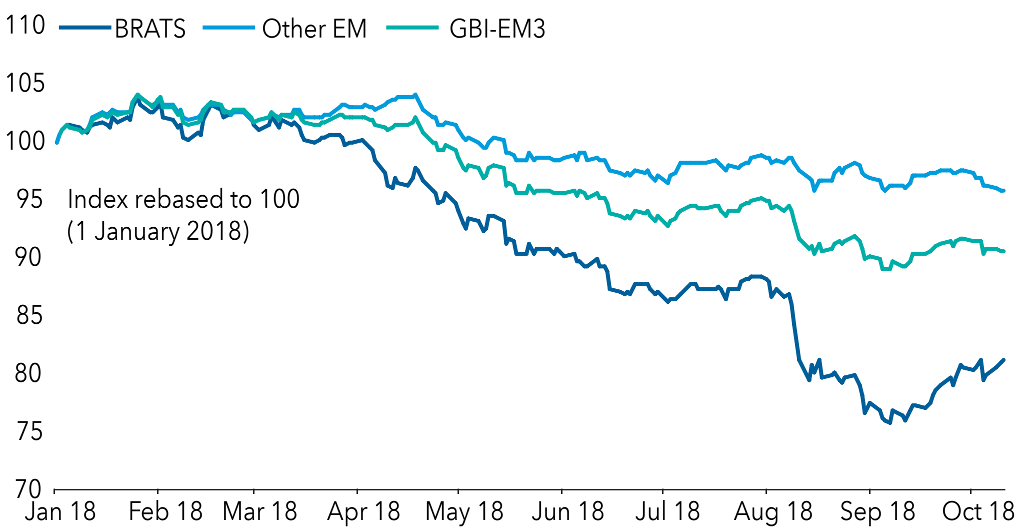
Credit markets are a whole other story. Spreads – the gap between the yield on credit and Treasuries – have remained narrow by historical standards. For bond investors, that means the compensation for taking on credit risk is relatively low, and the upside from here could be quite limited.

Corporate America has prospered, but we are in a late-cycle environment with rising debt burdens. Nearly 50% of investment-grade corporate bonds are BBB-rated. Unless credit valuations ease, it's unlikely to be a good time for investors to take on excessive credit risk. And if you're looking to diversify portfolio income, emerging markets bonds may be worth a closer look.

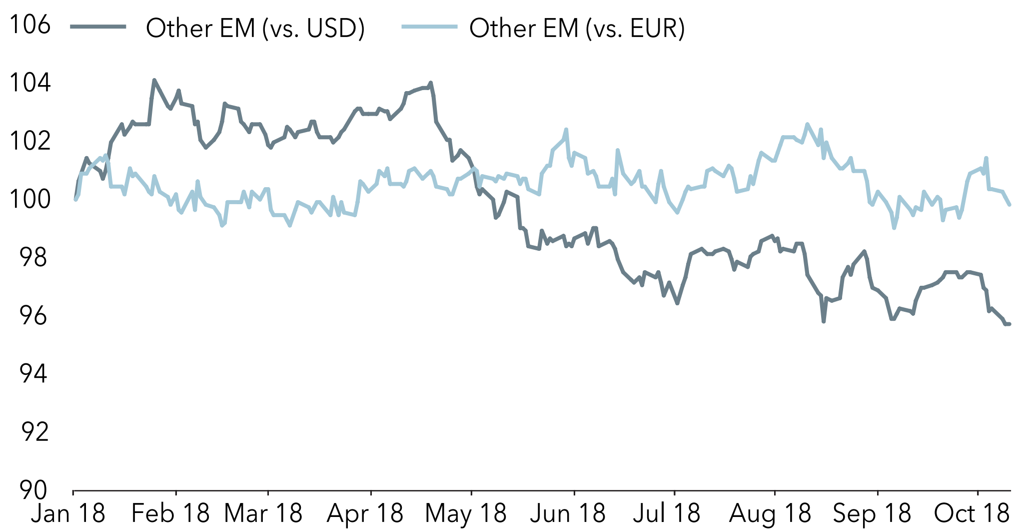
A tale of two emerging markets

Emerging market exchange rate volatility focused in troubled countries

EM exchange rates vs. the US dollar



EM exchange rates vs. the US dollar and the euro



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Data as at 21 November 2018. Other EM: Non-BRATS countries in the JPMorgan Government Bond Index-Emerging Markets (GBI-EM). Source: Bloomberg

EM: emerging markets

The 'BRATS' currencies – Brazil, Russia, Argentina, Turkey and South Africa, which form a group that is known to currently face particular currency and economic challenges – together account for almost all of the exchange-rate weakness (compared with the US dollar) so far in 2018. The remaining 14 constituent country currencies in the EM local currency bond index have cumulatively posted only modest declines against the US dollar during the most recent downturn.

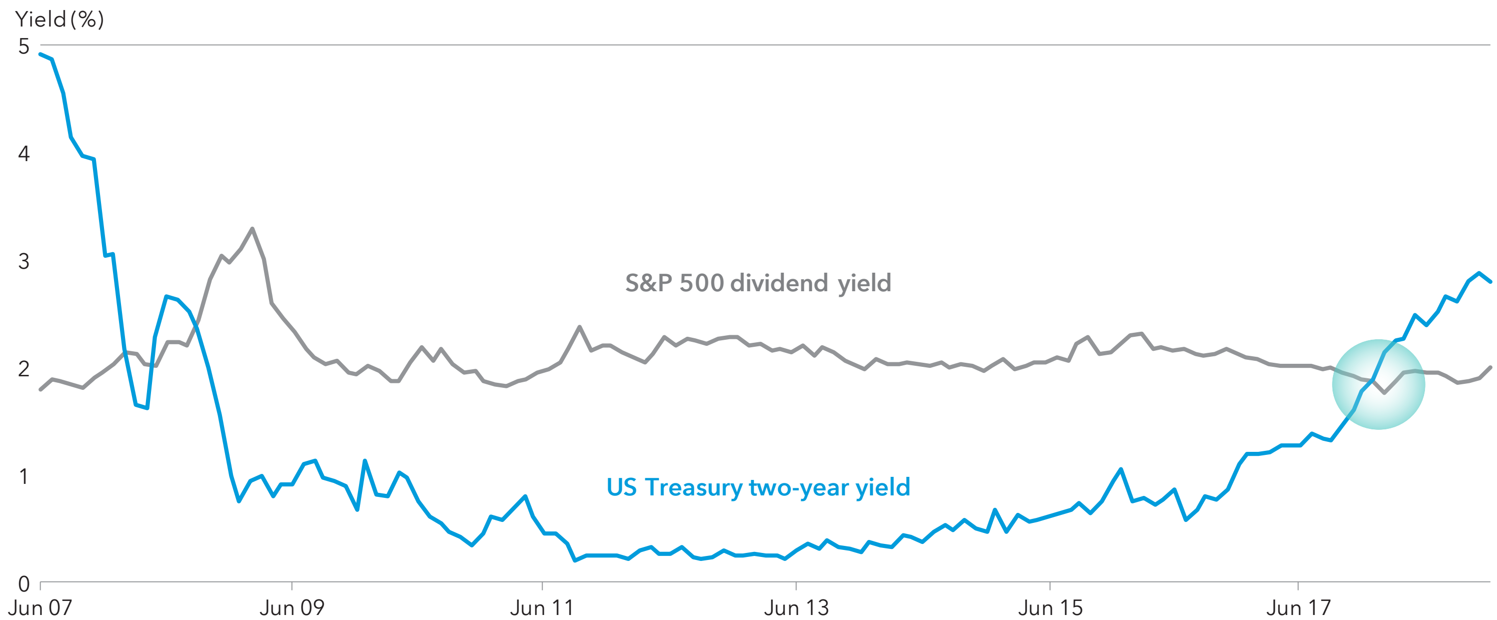
Furthermore, as the second chart illustrates, the BRATS currencies' stability relative to the euro and weakness against the dollar suggest that dollar strength, rather than EM contagion, is the primary reason for the weakness in EM currencies. This clearly challenges the commonly held belief that emerging market debt is in the midst of a broad based sell-off.

EM local currency bonds returns have lagged those of dollar bond returns for the past seven or eight years. There does seem to be more opportunity and value in the universe of local currency securities, but investors need to be mindful of not getting stuck in situations in which the currency appears to be cheap, but the currency continues to take the adjustment for problems that are not being addressed elsewhere.

Short-term yields have become relatively attractive

Income seekers can now find fertile ground among high-quality bonds

The two-year Treasury out-yields S&P dividends[1]



Past results are not a guarantee of future results. For illustrative purposes only. Investors cannot invest directly in an index. The information provided is intended to highlight issues and not to be comprehensive or to provide advice.

SOURCES: Bloomberg Index Services, Ltd., Thomson Reuters

1. As at 30/11/18.

What a difference a year makes. It was late 2017 when – for the first time in almost a decade – the two-year US Treasury yield rose above the Standard & Poor's 500 Index dividend yield.

Since then, bond income's comeback has gone from strength to strength. By late 2018, the two-year Treasury's yield advantage over the S&P 500 was 1%. Higher quality bonds are now a more compelling option for investors who had looked to equities for income.

And for bond investors, too, this shift offers food for thought. A decade of low interest rates prompted some core bond funds to prioritise boosting income over equity diversification. "Reaching for yield," as this behaviour is known, often entails heavy investment in credit, which tends to be very correlated with equities.

Ultra-low bond yields are in the rearview mirror. Core bond strategies that focus on higher quality bonds and avoid excessive credit risk can offer an attractive complement to income from equities. Balanced funds may appeal to investors who prefer a one-stop shop for equity and bond income.

2019 Outlook

Themes	US equity	European equity	Japan equity	Emerging markets	Global Bonds
	Looking for late-cycle winners.	**Looking for diamonds in the rough.**	**Watching for companies undergoing improvements.**	**Uncovering attractive, long-term opportunities.**	**Upgrading your core bond allocation.**
Key takeaways	With the Fed tightening policy, debt levels elevated and tariffs starting to take a toll on companies, expect more volatility in 2019. Equity valuations remain stretched, so consider tempering return expectations. For a growth orientation, consider companies with long runways and large addressable markets. For a defensive orientation, companies that can avoid dividend cuts are worthy of attention.	As Europe contends with continued political uncertainty, including the UK's departure from the EU, the Italian budget deficit and European Parliamentary Elections, European equity markets continue to trade at a substantial discount to global peers. However, if the global economy remains robust, Europe's internationally orientated companies should continue to benefit. Selectivity will be key in identifying successful potential investment opportunities.	Following recent revisions, Japan's Corporate Governance Code and the stewardship code for institutional investors are now more prescriptive and there are signs that improvements can be self-sustained. These, along with the added pressure from public pension funds on Japanese firms to improve corporate governance practices, could help enhance shareholder returns.	Although we could expect continued volatility in emerging markets (EM) amid increases in US rates, trade tensions and the idiosyncratic issues in various countries, there are a number of reasons to remain positive about the asset class. The global backdrop should remain supportive for the asset class, while the current EM price-to earnings ratio is now at its lowest level since 2015. We believe that there are attractive, long-term opportunities to invest in companies benefiting from technological disruption and secular growth, particularly in Asia.	In a late-cycle economy, consider bonds that can provide relative stability, a measure of income and diversification from equities. While much attention has been paid to interest rate risk, credit risk is also important. Short-term yields have become relatively attractive. Consider upgrading core bond portfolios with strategies that offer solid income and capital preservation, and diversify your sources of income.

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Risk factors you should consider before investing:

- **This material is not intended to provide investment advice or be considered a personal recommendation.**
- **The value of shares and income from them can go down as well as up and you may lose some or all of your initial investment.**
- **Past results are not a guide to future results.**
- **If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease.**
- **Depending on the strategy, risks may be associated with investing in emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.**