2020 fixed income outlook

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COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

Looking into 2020 the most important thing on our mind are the companies and industries that can cope with trade volatility the best.

Trade is not something that's going to be resolved overnight, whether it's the US and China trade negotiation, or US and Europe or any other pair. And it's something that is going to be top of mind for all companies as they think about planning their businesses in 2020 and beyond. So those companies that can manage that situation and understand that they can't just hold back all their capital expenditures, but they have to invest cautiously but consistently through the cycle. I think will do the best.

The most common concern we hear is, aren't we late in the credit cycle? Simply because as I look at the calendar, the recession ended in June of 2009 and we're more than 10 years past that date. The truth is we've had many economic mini cycles since then. You've seen that in the European banking system in 2011 and 12. We've seen it in the energy industry in 2015 and 16. And as we look forward, we're seeing it in a lot of industrial focus sectors including automotive, where we're seeing a recession, I would say globally. So as we navigate through this, it's not so much that the National Bureau of Economic Research labeled it a recession. It has to do with where are the industries and sectors that are more vulnerable? If we can navigate around those, I think we'll be in a good position.

I don't think valuations are overly compelling, but I do think we will have opportunities in 2020 where that changes. We've seen that year in and year out, whether it be driven by political volatility or economic volatility. And particularly in this environment where we have so much divergence between the weak economic activity abroad, particularly in the industrial sectors versus the strong service sector behavior in the US and the strong consumer in the US. As those things collide, we're certain to see volatility and I think through that experience we want to be in a position to take advantage of that. So even though yields may not be screaming cheap at the beginning of the year, I think we will have opportunities to profit from changes in the bond market in 2020.

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