

## Q1 2016

Economic and asset allocation views covering Q1 2016. This includes our 2015 review, three strategy questions for 2016 and a research note on the Federal Reserve's (Fed) rate hike.

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Schroders Economics Team

### **Don't blame the Fed**

Risk assets started the final quarter of 2015 well with a significant rally in global equities in October; however, by mid-November the move had lost momentum and the markets reversed tack into the end of the year.

The New Year has started in the same vein, with equities losing ground.

It would be easy to blame the increase in Fed funds rate for this move, but the historic decision by the US central bank to add a quarter of a point to rates on December 16th should have been seen as confirmation that the economic recovery was well established and hence a positive for markets.

Instead, it would seem that concerns about global growth and China have returned to the fore.

Uncertainty about the Chinese exchange rate in particular is vexing investors who fear another round of the currency wars.

There will be no rapid resolution to these issues and we expect the Chinese economy will struggle to regain momentum until the authorities tackle the structural issues weighing on growth.

However, as can be seen from our economic views, we do expect the world economy to grow in 2016.

### **Global recession tail risk**

Global monetary policy remains loose even after the Fed move and fiscal policy will also add to demand in the US and Eurozone. Meanwhile the latest fall in commodity prices, although bad news for producers, will give a further fillip to consumer spending.

Global recession is still a tail risk rather than the baseline view.

Nonetheless, the environment remains difficult for investors who must assess the effect of Fed tightening, the China slowdown, potential currency wars and a strong dollar on markets.

In particular the lack of solid corporate profits growth in the US is a challenge to equities which tend to de-rate during Fed tightening cycles.

Along with valuation concerns these cyclical concerns have led us to a more neutral stance on equities, having been positive for much of the past five years.

For more on this and asset allocation, see inside where we also review 2015 and look in more detail at the key questions for the coming year.

# **Read the full report**

## **Schroders Global Market Perspective - Q1 2016 31 | 775 kb**

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