Global Investment Outlook

Q2 2019

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We refresh our 2019 investment themes and take a deep dive on China, because it plays a pivotal role in our views on the global economy, markets and geopolitics. We see a narrow path ahead for risk assets to move higher. Yet rising risks could knock markets off this track. This calls for carefully balancing risk and reward in portfolios.

- **Themes:** We introduce a new investment theme this quarter: *patient policymakers.* The Federal Reserve has pledged to be very patient on its next rate move – and other central banks are indicating policy will remain loose for longer. Combined with a slowing, but still growing global economy, and a perceived reduction in geopolitical risks, we see this providing a positive near-term backdrop for risk assets. The risks to this outlook? A resurgence of recession fears; inflation pressures that force the Fed to resume tightening; or a geopolitical shock – such as a U.S.-Europe trade showdown – that saps risk appetite.
- **China:** Chinese policymakers are easing fiscal and monetary policy. We expect this stimulus to lead to a bottoming out of the economy from the second quarter. This should feed through to global capex spending – and provide a welcome temporary respite from late-cycle worries about slowing global growth. We see potential for a U.S.-China trade deal to address the bilateral trade gap and market access, but caution that U.S.-China tensions, particularly over tech dominance, are likely here to stay.
- **Market views:** We remain risk-on. Yet we acknowledge the recent rally across markets looks fragile and hard to replicate, and believe expectations of Fed policy have become too dovish. This warrants selective risk-taking. Our preferred grounds for equity investing remain the U.S. and emerging markets. We favor quality equities in sectors that can sustain earnings growth in a slowing economy, such as selected health care and tech firms. In bonds, we focus on income and like U.S. Treasuries as portfolio shock absorbers.

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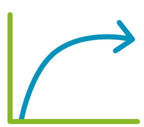
Investment themes

Markets are off to a strong start in 2019. A slowing, but growing global economy and patient policymakers – two of the three key investment themes we detail in the graphics below – are supportive of risk assets. A reduction in perceived geopolitical risk – primarily around U.S.-China trade tensions – has also buoyed market sentiment. ***See page 7*** for details.

The rally in risk assets so far this year can be seen as a snapback from market angst in late 2018 about an imminent economic slowdown and perceptions of overly hawkish Fed policy. The market's growth expectations now look more reasonable to us, and the Fed has made a dovish pivot. Yet we caution against extrapolating recent performance through year-end. The path for risk assets to move higher is narrow – and we see risks that could knock markets off track.

The global economy needs to be strong enough to avoid sparking recessionary fears – and weak enough to keep policymakers on hold. Any decline in U.S. or global growth expectations would likely roil markets, raising the potential for late-cycle selloffs amid rising recession fears. A hawkish shift in monetary policy expectations, such as the Fed resuming its tightening path sooner than expected, could have a similar effect. And any geopolitical shock, such as a rekindling of global trade tensions, could hit sentiment. A recent decline in market volatility suggests investors should be wary of creeping complacency.

Bottom line: The path of least resistance for risk assets may be higher in the short term. Yet we advocate more carefully balancing risk and reward in portfolios, trimming risk exposure in any rallies. Our preferred approach to building portfolio resilience: ample allocations to government bonds, flanked by selective risk-taking in areas such as U.S. and emerging market (EM) equities.



Growth slowdown

We see global growth slowing as the long post-crisis expansion nears its final stage. The U.S. is again poised to outpace its developed peers, underscoring our preference for U.S. assets within the developed world. We expect fiscal and monetary stimulus to drive a Chinese growth turnaround from the second quarter, underpinning global growth. Implication: Stay moderately pro-risk, with a bias for quality.

Patient policymakers

Global monetary policy has taken on a dovish tilt. The Fed has pledged to be very patient in evaluating its next rate move. Other monetary authorities, including the European Central Bank (ECB), are indicating policy will remain easy for some time. And China is loosening credit conditions and fiscal policy. Patient policymakers support EM assets – and a modest steepening of the U.S. yield curve.

Balancing risk and reward

Signs of a more pronounced growth slowdown or new trade disputes could create uncertainty. A rapid rise in asset valuations and plunge in volatility point to creeping market complacency. We favor a selective approach to risk-taking – as well as taking advantage of rallies to dial back exposures to higher-risk assets. We see quality assets, including U.S. Treasuries, as an important source of portfolio resilience.

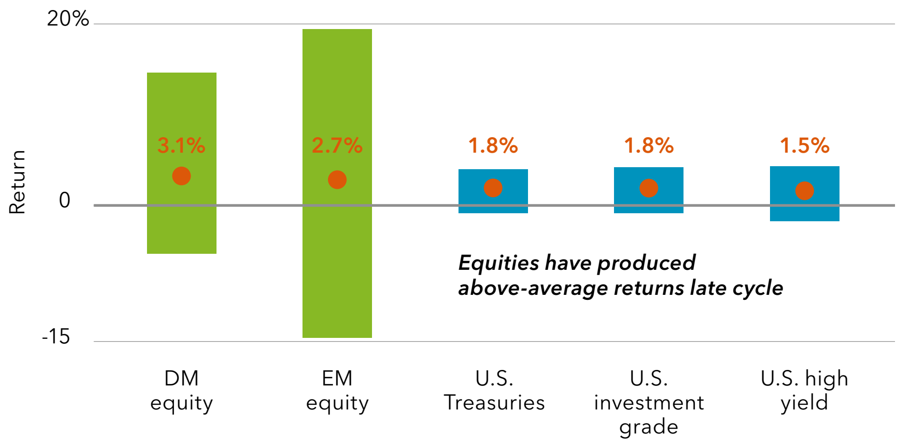
Read our full ***2019 investment outlook*** for details.

Our *growth slowdown* theme is playing out across economic activity and corporate earnings. We see further decelerations in both global gross domestic product (GDP) and earnings growth in the second quarter. Fading fiscal stimulus is set to weigh on U.S. growth. And our ***BlackRock GPS*** points to a moderation in global activity in 2019, albeit with ongoing global expansion.

At the same time, our confidence has increased that the economy can remain in the late-cycle phase, avoiding recession throughout 2019. Why? With U.S. growth moderating, we see little sign of economic overheating or inflationary pressures. Financial imbalances are not yet at stretched levels, and financial conditions are still consistent with an expanding economy. An expected Chinese growth turnaround from this quarter onward should help boost global capital investment (capex) spending. ***See page 5*** for details.

Late-cycle returns

Performance of selected assets during U.S. late-cycle quarters, 1988–2019



The figures shown relate to past performance and are not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Thomson Reuters, March 2019. Notes: We look at asset returns in each quarter since 1988 that fell during a late-cycle period. We identify such periods via a "cluster analysis" that groups together time periods where economic series behaved in similar ways. Variables considered include measures of economic slack, wage and price inflation, the monetary policy stance and the growth of private sector leverage. The dots show mean returns over the time period. The bars show the 10th to 90th percentile range. Indexes used are the MSCI World and Emerging Markets indexes, and the Bloomberg Barclays U.S. Government, U.S. Corporate and U.S. High Yield indexes. Index returns do not reflect any management fees, transaction costs or expenses.

How do markets typically perform in such an environment? We looked at returns in the 28 quarters that fell into "late-cycle" periods since 1988. The result: Global equities produced quarterly returns above the full-cycle average, edging out fixed income. Yet there was wide dispersion around these averages, particularly in EM equities. In fixed income, U.S. Treasuries modestly edged out riskier credit sectors. See the *Late-cycle returns* chart. Equity returns have typically swung into the red in recessions, with U.S. Treasuries outperforming other asset classes, we found. Bottom line: Risk assets can perform well late in the cycle, but beware of volatility. Investors should prepare accordingly and avoid being overextended.

Monetary policy is where we have seen the greatest shift this year. This is reflected in our new *patient policymakers* theme. Markets have swung from pricing in two quarter-percentage-point Fed rate increases in 2019 less than six months ago to factoring in a rate *cut* this year. We still expect the Fed's next rate move to be up rather than down – but not for a while. We see ongoing monetary stimulus in Japan – and the ECB keeping interest rates on hold at least through year-end. Other central banks, including Canada's, are indicating policy is set to remain loose. And China has signaled a move to easier credit and fiscal policies, albeit cautiously. We see this backdrop supporting both equities and bonds. The risk: Much is already in the price after the first-quarter's outsized market moves. The rally looks fragile to us, and believe market expectations of Fed policy have become too dovish.

All of this underscores our call for *balancing risk and reward* in portfolios. We temper our equity view somewhat after recent strength. Our U.S. overweight holds, though valuations are less compelling than at the start of 2019. Chinese stocks have room to go, in our view, but less upside after a brisk rally. Low expectations in Europe mean it wouldn't take much good news to nudge stocks higher, but we see little catalyst for a sustained uptrend. ***See page 9*** for our equity views. In fixed income, we focus on income and quality in credit. We also see a role for government bonds as ballast for equity selloffs. ***See page 8***.

We see scope for the risk rally to persist in the near term, but are wary of market complacency and the potential for volatility.

Focus on China: economy

China is set to be a key turnaround story this year – after having been a drag on global growth since early 2018. Europe and emerging markets in particular took a hit from China's growth slowdown, driven by tightening domestic policy and increasing trade conflict. But the tide looks to be turning. Beijing has started to ease fiscal and monetary policies. And market expectations of easing U.S.-China trade tensions have increased, even as we view the race for supremacy in the tech sector as an enduring theme.

We are increasingly confident that Chinese growth is likely to reaccelerate from the second quarter onward, as the credit impulse (the year-on-year change in credit growth) turns positive and fiscal stimulus gains traction. The turnaround is already visible in the services sector, our new tool for tracking turning points in the Chinese economy shows. Our "months to cyclical dominance" (MCD) indicator tracks how many indicators have crossed the threshold between growth and contraction. China's key services sector passed this turning point in late 2018. See the *Services revival* chart.

Other key sectoral drivers of our MCD, international trade and manufacturing, have yet to show improvement. We see the overall MCD reading (see the chart's inset) picking up in coming months. Recent prints of our China nowcast – a composite of traditional macroeconomic indicators – also point to a stabilization in activity and in sentiment, but not yet a clear bottoming out.

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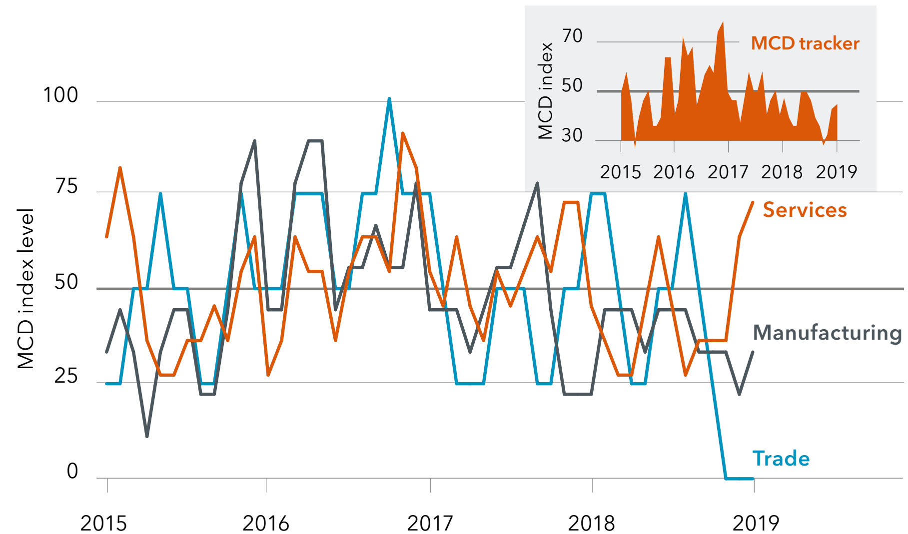
Services revival

BlackRock China economy MCD tracker and its key components, 2015-2019



Sources: BlackRock Investment Institute, March 2019. Notes: The broad MCD index (inset chart) tracks the share of the roughly 30 economic indicators in BlackRock's China nowcast that are improving, based on historical patterns. A reading above 50 indicates a net improvement in economic activity. The line chart details key sectors included in the MCD: services (representing 9 consumer and services indicators), manufacturing (7) and trade (4). Not all sectors are shown.

We see a turnaround in China as likely to lift growth globally, particularly in Asia. China has accounted for around one-third of global growth since 2011, according to our calculations based on IMF data. Yet China's relevance to the global economy may still be underestimated. The under-reporting of consumer services means the Chinese economy may be considerably larger than suggested by official statistics, in our view. Other evidence suggests much wider cyclical swings in China than GDP data would imply. Our nowcast data, for example, show a recent steep decline that looks similar to slumps in 2015 and 2016, despite little fluctuation in reported GDP data.

We see China's growth-friendly policies supporting an economic turnaround from the current quarter onward, boosting global growth.

A key transmission mechanism between Chinese and global growth: developed market (DM) capex. We find a close correlation between swings in our China nowcast and DM capex orders, as shown in the *Joined at the hip* chart. DM capex has become increasingly responsive to Chinese economic activity in recent years, our analysis also shows. A Chinese economic revival could boost global capex, supporting growth and favoring cyclical sectors.

China's shrinking current account balance offers more evidence of its changing impact on the global economy. The current account surplus has been declining since peaking right before the global financial crisis, except for a period of increase in 2015 and 2016. Now it is rapidly approaching a balanced position, and we see it moving into a deficit in coming years as China transitions to a consumer-led growth model. One key market implication: China would no longer add to the global savings glut that has depressed interest rates.

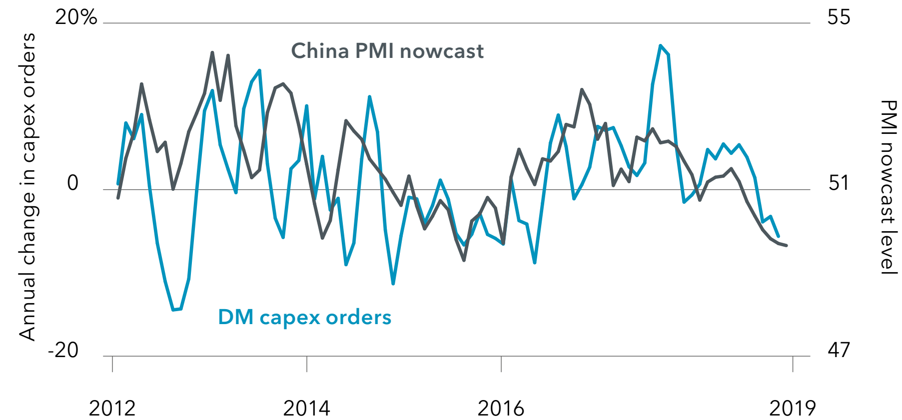
The prospect of China's current account swinging into deficit implies a gradual ebbing of the global savings glut that has helped depress interest rates.

China's financial markets are opening up. Bonds and equities are gaining weight in global indexes, and domestic markets are becoming accessible to foreign investors. Portfolio inflows rose significantly in 2018 and could increase further as global investors rebalance portfolios. See the orange slice in the *Back in black* chart. Increased global allocations to Chinese assets also could reduce demand for U.S. Treasuries. Combined with rising U.S. budget deficits and declining excess global savings, this may put upward pressure on U.S. rates in the long run. A major escalation in U.S.-China trade tensions or a rapid reduction in the trade surplus could create a market perception that China may buy fewer Treasuries – or even sell some holdings. The Fed allowing inflation to temporarily overshoot its objective could also push U.S. rates higher. Offsets include strong investor appetite for yield and China potentially stepping up U.S. Treasury bond purchases if capital inflows put upward pressure on the yuan.

Increased investor appetite for Chinese assets could reduce demand for U.S. Treasuries, pushing yields higher.

Joined at the hip

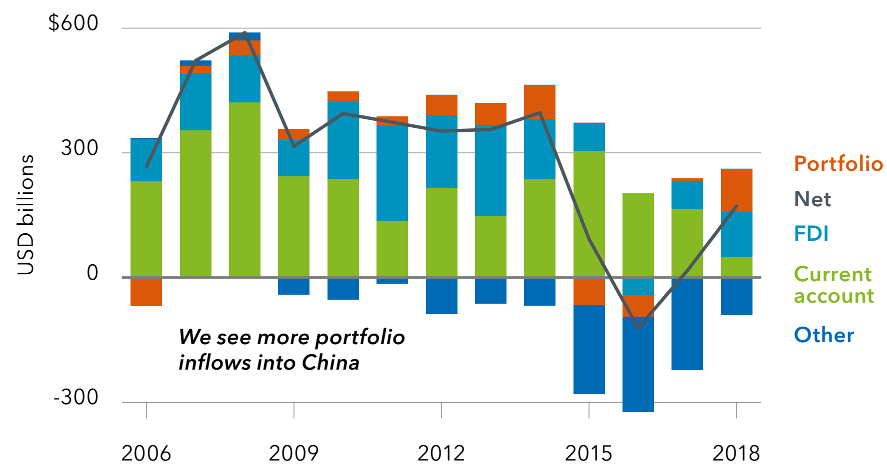
DM capex orders vs. BlackRock China nowcast, 2012–2019



Sources: BlackRock Investment Institute, with data from the U.S. Census Bureau, Germany's Federal Statistical Office (Destatis) and Japan's Ministry of Internal Affairs and Communications, March 2019. Notes: We use the U.S., Japan and Germany to represent developed markets (DMs). The change in DM capex orders is represented by the annualized three-month growth rate of capex orders in the three countries, weighted by their GDPs.

Back in black

China's net balance of payments, 2006–2018



Sources: BlackRock Investment Institute, with data from the People's Bank of China, March 2019. Notes: FDI refers to foreign direct investment. The "other" category consists of "errors and omissions" – or implied flows that are unexplained by official data.

Focus on China: geopolitics

U.S.-China relations have entered a competitive phase that goes well beyond trade disputes. Tensions have broadened to include technological, political, ideological and military dimensions – and we see them as long-lasting. Investors should not confuse any trade truce with a détente in the overall relationship.

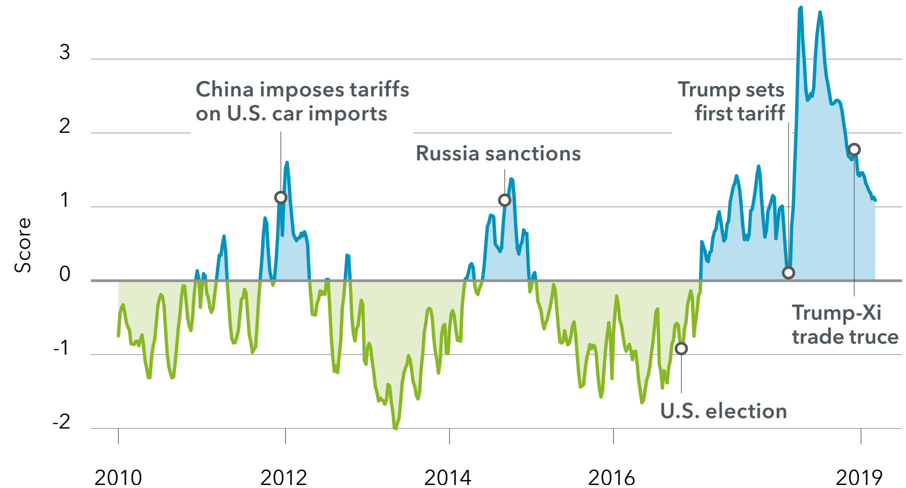
Parallel efforts are underway in the U.S. to meet the China challenge. The most visible is focused on trade, with President Donald Trump intent on addressing the bilateral trade gap. We could see an agreement that includes a Chinese commitment to purchase more U.S. goods, improve access to domestic markets and make some progress on structural issues such as intellectual property protection. Implementation and enforcement will be tough, however, and we see the threat of more trade disputes and U.S. tariffs overhanging markets.

Another effort is centered on technology – and has bipartisan support across the U.S. government. The U.S. and China are competing to dominate the industries of the future. Three issues are at play: economic competitiveness, security and global systems dominance. This is coming to a head in the build-out of fifth-generation cellular networks. See our ***geopolitical risk dashboard***.

We believe investors are too narrowly focused on a U.S.-China trade deal – at the expense of broader trade frictions that merit concern. This is illustrated by a sharp decline in market attention to trade tensions. See the *Caution: complacency rising* chart. This means trade flare-ups are likely to have greater market impact.

Caution: complacency rising

BlackRock Geopolitical Risk Indicator for global trade tensions, 2010–2019



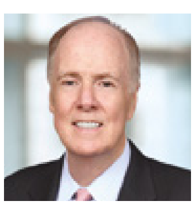
Sources: BlackRock Investment Institute, with data from Thomson Reuters, March 2019. Notes: We identify specific words related to geopolitical risk in general and to our top-10 risks. We then use text analysis to calculate the frequency of their appearance in the Thomson Reuters Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history from 2003 up to that point in time. A score of one means the BGRI level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average.

Ratification of the United States-Mexico-Canada Agreement is far from certain, and we particularly worry about deteriorating trade relations between the U.S. and the European Union (EU). Trump could leverage national security justifications to impose tariffs on auto imports from the EU – if only to gain leverage in broader trade talks. We expect little of the talks but see them as an essential fig leaf to prevent U.S. auto tariffs and EU retaliation.

Acute European risks look to have subsided for now, with the Brexit deadline extended and a blowup over Italy's budget avoided. But we are wary of the lack of a unified economic vision and a possible populist surge in the European Parliament elections in May – against a weak economic backdrop.

We see U.S.-China tensions persisting even after a trade deal – and believe markets are complacent about the risk of a U.S.-EU dispute over auto tariffs.

Authors



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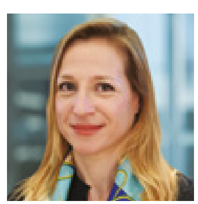

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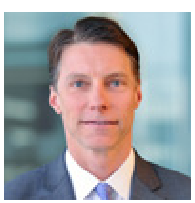
Fixed income

We see income reasserting itself as the key driver of returns in bond markets. Coupon income historically has contributed the lion's share of total returns across global fixed income markets, as the *Income is king* chart shows. The recent decline in yields may have temporarily elevated the role of capital appreciation in generating returns. Price appreciation made up roughly three-quarters of U.S. Treasury returns this year to date, we estimate. We see income, or carry, taking back the reins in the quarters ahead.

We see a slowing, but still growing, global economy lending support to the bond markets. Global inflation pressures remain subdued, and are unlikely to drive changes in global monetary policy in the near term, in our view. The Fed's recent dovish pivot is important: The central bank's pause in policy tightening has eased the pressure from rising short-term rates and a stronger dollar on fixed income assets. The Fed also has said it may allow for modest overshoots above its inflation target. This indicates the pause in monetary tightening could be an extended one. These factors point to potential for a moderate steepening of the U.S. yield curve – and support our preference for two- to five-year maturities, as well as Treasury Inflation-Protected Securities (TIPS).

The traditional inverse relationship between U.S. equity and government bond returns is alive and well. We see the negative correlation being sustained in this late-cycle period, with Treasuries acting as a buffer to any selloffs in risk assets driven by growth scares. Historically low yield levels and peripheral spreads make European fixed income susceptible to political risks as well as any changes in the market's view of dovish ECB policy and weak regional economic growth.

Author



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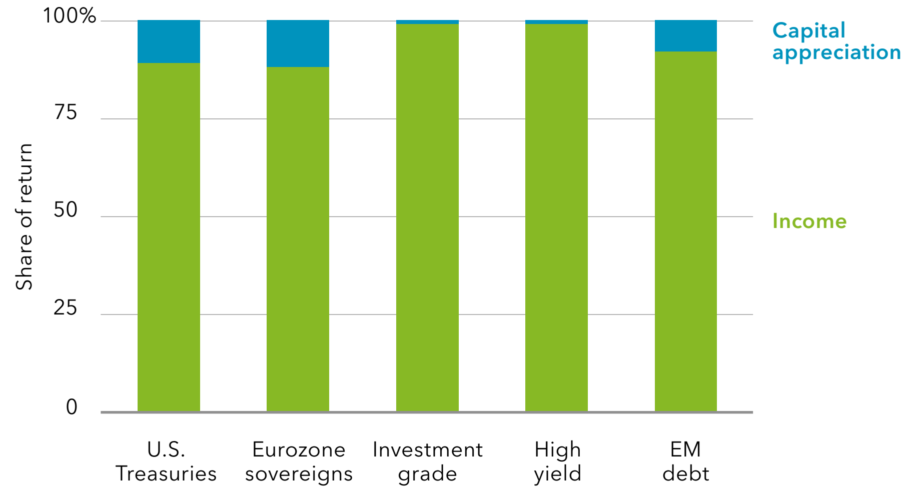
Income is king

Return sources of selected fixed income markets, 2001–2019



The figures shown relate to past performance and are not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Bloomberg, March 2019. Notes: We calculate price (capital appreciation) and income returns across fixed income sectors and show the share each contributes to the sum of these two major return sources. We use the U.S. Treasury, Euro Government, Global Corporate, Global High Yield and EM USD Aggregate Bloomberg Barclays indexes. Smaller return sources such as paydowns (early return of principal) are excluded. Index returns do not reflect management fees, transaction costs or expenses.

We prefer fixed income assets on an outright basis to capture both the underlying Treasury yield and the additional credit spread. We see manageable corporate leverage and declining new issuance supporting U.S. credit. In European credit we prefer high yield bonds. And we expect an improving Chinese economy and U.S. dollar stability to support both hard- and local-currency EM debt. See our latest ***Fixed income strategy*** for granular views.

Currency matters. Hedging costs are high for euro- and yen-based investors, because they need to borrow in higher-yielding dollars. The flat U.S. yield curve also has meant there is little juice left in U.S. fixed income even after wading into longer durations. Conversely, U.S.-dollar-based investors are *paid* to hedge currency exposures, making low-yielding eurozone fixed income attractive.

We see income as the dominant source of returns across bond markets.

Equities

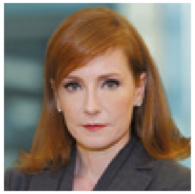
Equity markets face crosscurrents entering the second quarter. An ongoing global economic expansion and supportive monetary policy are positives. Yet equity fundamentals and valuations face bigger hurdles than at the start of 2019.

Global stock valuations opened the year at very attractive levels after 2018 delivered the third-worst year of multiple contraction in three decades. A strong first-quarter rerating suggests there may be limited scope for further multiple expansion in the near term. What about earnings? Downgrades are outnumbering upgrades. This is reflected in the MSCI ACWI's three-month earnings revision ratio hitting its lowest level in three years. Earnings comparisons overall look tougher this year after a strong 2018, and weaker trade activity could challenge global companies. We could see pressure on historically high corporate profit margins, as detailed in our ***Macro and market perspectives***.

We see the combination of weaker earnings revisions, higher prices and low volatility, shown in the *Unsustainable momentum* chart, as unlikely to hold. Ten years after the start of the equity bull market, investors are taking risk chips off the table amid growth, policy and earnings uncertainty. These risks are real – yet we retain our preference for equities. The nuance: Investors might consider rebalancing, locking in profits in some of the strongest performers year-to-date.

What's behind our conviction in equities? Equities have historically performed well in late-cycle periods (***page 4***). Market sentiment and investor positioning in global equities are far from euphoric. Investors have been pulling money from equity funds in 2019, EPFR and ICI flow data show. And the recent decline in bond yields – if sustained – makes equity valuations look more reasonable to us.

Author



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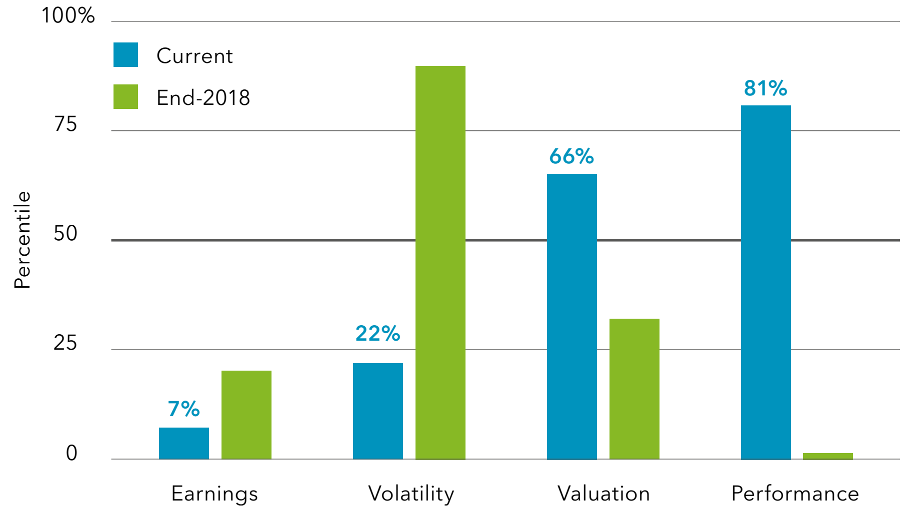
Unsustainable momentum

Key equity metrics today vs. December 2018



The figures shown relate to past performance and are not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Thomson Reuters, MSCI and CBOE, March 2019. Notes: The bars show the percentile rank of each measure from 2009. "Earnings" reflect the earnings revision ratio, the three-month average of the number of earnings upgrades over downgrades. "Valuation" represents the 12-month forward price-to-earnings ratio. "Performance" is the three-month trailing change in the MSCI ACWI. "Volatility" is measured by the VIX index. Index returns do not reflect any management fees, transaction costs or expenses.

Three factors could propel stocks further: 1) stronger-than-expected first-quarter earnings and an improvement in companies' earnings guidance (a possibility but not our core view); 2) fading of trade-related geopolitical risks (beware of complacency); and 3) signs that Chinese policy stimulus is translating into higher consumption and economic activity (our base case).

Our favored regions: U.S. and EM. The U.S. is home to many quality firms – those boasting strong balance sheets and cash flow. Quality remains a key theme amid uncertainty. Two sectors where we are finding it: health care and technology. Our preference for EM reflects solid earnings, stimulus in China, improving liquidity, and greater China A-shares inclusion in the MSCI EM Index.

Stocks remain our favored asset class in a diversified portfolio. Our preferred regions are the U.S. and EM; favored sectors are health care and technology.

Currencies and oil

The U.S. dollar story so far this year has had two sides. Yield differentials have reasserted themselves as a key driver, with the greenback rising against the lower-yielding euro, yen and Swiss franc, but declining against most higher-yielding EM currencies. See the *Yield matters* chart. We see the dollar as range-bound in the near term, with major central banks on hold. This is a backdrop supportive of the "carry trade," in which investors borrow in low-yielding currencies such as the yen and invest in high-yielders – including EM currencies – to capture attractive yield differentials.

The dollar's perceived "safe haven" role is likely to boost the greenback in the event of any return of recession fears or a resurgence in geopolitical risk. Yet its relatively high valuation may limit its upside in the long term. The real effective exchange rate – a key trade-weighted gauge of the dollar's value – is sitting roughly one standard deviation above the 20-year average.

The slowing, but growing, global economy is likely to underpin oil prices after 2018's bear market, in our view. We expect crude oil prices to be range-bound: U.S. producers find it challenging to operate profitably with a sustained U.S. West Texas Intermediate (WTI) crude price below $50 per barrel. And companies are incentivized to ramp up production when this benchmark climbs above $60. A global oversupply has turned into small inventory draws as a result of production cuts by the Organization of the Petroleum Exporting Countries and its allies, and unplanned outages from Venezuela and elsewhere. We see more balanced supply and demand keeping crude prices stable. Capital discipline among U.S. shale companies should also help.

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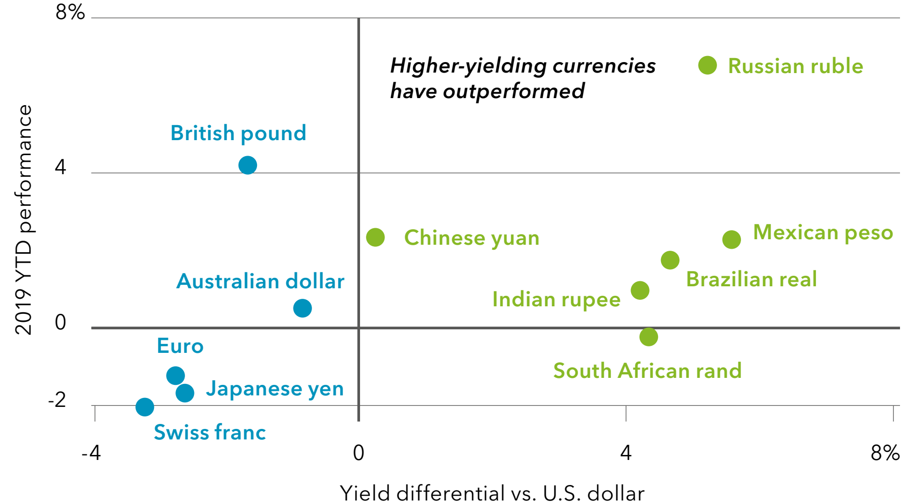
Yield matters

Yield differentials and year-to-date currency performance vs. U.S. dollar



The figures shown relate to past performance and are not a reliable indicator of current or future results.
Sources:BlackRock Investment Institute, with data from Bloomberg and Thomson Reuters, March 2019. Notes: We use two-year government bond yields for each country as of end 2018 as a proxy for currency yields and then calculate the differential with the U.S. two-year yield. The euro's yield is the average two-year government bond yield of Germany, France and Italy. Performance is as of March 18, 2019, and represented by the change in each currency's exchange rate against the dollar. Returns do not reflect any management fees, transaction costs or expenses.

Energy stocks and related corporate bonds have rallied this year alongside rising oil prices and risk appetite. Energy equities still look attractively valued, with the sector recently trading at a near 50% valuation discount to the S&P 500 based on price-to-book ratios – well below the five-year historical average of 36%, according to Thomson Reuters data. Yet we caution against chasing the rally, and stress quality and resilience. Within energy equities, we prefer large-cap majors for their potential to withstand much lower oil prices. We also like midstream companies (transportation and storage) for their strong free cash flow yields and income potential. In credit, we favor U.S. shale companies with quality assets and a focus on generating positive free cash flows.

We see a range-bound U.S. dollar creating a favorable backdrop for EM assets. We prefer quality energy equities and credit.

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Assets in brief

Tactical views on selected assets, April 2019

▲ Overweight — Neutral ▼ Underweight

Asset class		View	Comments
Equities	U.S.	▲	A slowing but still growing economy underlies our positive view. We prefer quality companies with strong balance sheets in a late-cycle environment. Health care and technology are among our favored sectors.
	Europe	▼	Weak economic momentum and political risks are challenges to earnings growth. A value bias makes Europe less attractive without a clear catalyst for value outperformance. We prefer higher-quality, globally oriented firms.
	Japan	—	Cheap valuations are supportive, along with shareholder-friendly corporate behavior, central bank stock buying and political stability. Earnings uncertainty is a key risk.
	EM	▲	Economic reforms and policy stimulus support EM stocks. Improved consumption and economic activity from Chinese stimulus could help offset any trade-related weakness. We see the greatest opportunities in EM Asia.
	Asia ex-Japan	▲	The economic backdrop is encouraging, with near-term resilience in China and solid corporate earnings. We like selected Southeast Asian markets but recognize a worse-than-expected Chinese slowdown or disruptions in global trade would pose risks to the entire region.
Fixed income	U.S. government bonds	—	We are cautious on U.S. Treasury valuations after the recent rally, but still see them as portfolio diversifiers given their negative correlation with equities. We expect a gradual steepening of the yield curve, driven by still-solid U.S. growth, a Fed willing to tolerate inflation overshoots – and a potential shift in the Fed's balance sheet toward shorter-term maturities. This supports two- to five-year maturities and inflation-protected securities.
	U.S. municipal bonds	▲	We see coupon-like returns amid a benign interest rate backdrop and favorable supply-demand dynamics. New issuance is lagging the total amount of debt that is called, refunded or matures. The tax overhaul has made munis' tax-exempt status more attractive in many U.S. states, driving inflows.
	U.S. credit	—	A still-growing economy, reduced macro volatility and a decline in issuance support credit markets. Conservative corporate behavior – including lower mergers and acquisitions volume and a focus on balance sheet strength – also help. We favor BBBs and prefer bonds over loans in high yield.
	European sovereigns	▼	Low yields, European political risks, and the potential for a market reassessment of easy ECB policy or pessimistic euro area growth expectations all make us wary on European sovereigns, particularly peripherals. Yet any further deterioration in U.S.-European trade tensions could push yields lower.
	European credit	▼	"Low for longer" ECB policy should reduce market volatility and support credit as a source of income. European bank balance sheets have improved after years of repair, underpinning fundamentals. Yet valuations are rich after a dramatic rally. We prefer high yield credits, supported by muted issuance and strong inflows.
	EM debt	—	Prospects for a Chinese growth turnaround and a pause in U.S. dollar strength support both local- and hard-currency markets. Valuations are attractive despite the recent rally, with limited issuance adding to positives. Risks include worsening U.S.-China relations and slower global growth.
	Asia fixed income	—	A focus on quality is prudent in credit. We favor investment grade in India, China and parts of the Middle East, and high yield in Indonesia. We are cautious on Chinese government debt despite its inclusion in global indexes from April. We see rising funding needs outstripping foreign inflows.
Other	Commodities and currencies	*	A reversal of recent oversupply is likely to underpin oil prices. Any relaxation in trade tensions could boost industrial metal prices. We are neutral on the U.S. dollar. It has perceived "safe-haven" appeal but gains could be limited by a high valuation and a narrowing growth gap with the rest of the world.

Note: Views are from a U.S. dollar perspective as of April 2019 and are subject to change at any time due to changes in market or economic conditions. *Given the breadth of this category, we do not offer a consolidated view.

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