20/20 vision.

Markets this year will be driven more by politics and fundamentals.

It's that time of the year again: when intelligent and experienced investors and economists – and the ext. team – predict what's going to happen over the next 12 months. This coming year is a tough one to predict. The health of financial markets and economies around the world will likely be severely impacted by political uncertainty in North America and abroad.

Trade tensions that never seem to end, the unexpected rise of populism in the West, ongoing mixed messages from equity and bond markets, and the upcoming U.S. election in November – these are the issues that send jitters up the spine of even the most stoic investors globally. Keep reading to find out how we think 2020 will play out.

Mixed messages have led to investor uncertainty. We think that uncertainty will fade in 2020.

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United States.

This year's election is a big one. For many of us, it's the biggest in our lifetime. One thing we know in advance is that no matter which way it goes, this election is certainly going to upset a lot of people.

Equity markets will get more volatile as the year progresses. Stocks will go up every time something positive happens for President Trump, and they will fall every time something negative happens. While stock market fortunes are currently uncomfortably tied to the Oval Office, the outcome of the election will be pivotal to the direction of the markets, both U.S. and global.

Down, down, down into a never-ending cycle. The U.S. Federal Reserve Board (Fed) is going to keep lowering interest rates. 2019 marked the eleventh year of this bull market cycle, and likely the strongest economic run that most of us have experienced to date. And yet the Fed lowered rates. As the economic situation gets more tenuous and investor anxiety elevates, there's simply no argument for steady or rising interest rates.

Social media and politics: a match made in Hades. We're not going to predict the winner of November's election, but we know the role tech companies play is going to be debated for a long, long time. The problem is this: if you have a friend who shares something on social media, you're more likely to believe it and it's likely to impact your overall opinion. Unfortunately, a lot of what people share on social media is completely fabricated. People say they don't fall for it, but they obviously do.

Student loans and Medicare are up for grabs. Depending on who gets the Democratic nod and who then wins the election, there could be a dramatic overhaul of the student loan environment – and the companies that profit off of these loans – as well as the health care industry – especially Big Pharma.

Inflation! Dum dum dum. If all things remain equal, inflation is going to pick up in 2020 after a lacklustre 2019 – and consumer spending is going to take a hit. If this was pre-2008, we'd say it is obvious how this will impact interest rates. But that world is long gone, and webs of complex economic relationships are now the norm.

Canada.

Canada is a story of two pipes: oil and weed. Neither had a very good 2019, and if both struggle in 2020, it will be the result of poor leadership.

BoC may go low. The Bank of Canada (BoC) held its central interest rate steady in 2019, despite the fact that many other central banks around the globe eased policies for their respective economies. While the Canadian economy remains relatively healthy, recent signs of weakness out of the U.S. and global economies could have the BoC rethinking its 1.75% central interest rate as "appropriate" in 2020.

Where's the pipeline, eh? Perhaps a name change to the Federal Government Pipeline may be more appropriate. Now owned by the Canadian government, the minority Liberals appear to be committed to building (and selling) the Trans Mountain Pipeline. Although environmental issues remain a concern, the pipeline appears to be much needed by an energy industry that is hurting right now.

All that glitters might be gold. With the global economy seemingly on edge and stocks at all-time highs, is there a safe-haven asset out there that will help investors sleep easier at night? The answer could be gold. The price of gold surged in 2019, and this may continue in 2020. Threats of a global recession and the potential pullback in equity markets may have investors scouring for a pound of the precious metal.

Debt catches up. Canadians have been spending at a frenzied pace over the past couple of years, almost single-handedly driving economic growth. However, spending has slowed recently, and this could be a sign that all the debt they have accumulated is catching up. Household debt remains at historically high levels and may add further stress to already tapped-out Canadians.

More like can't-abis. Legalization, the introduction of cannabis derivatives, retail store uncertainty and CannTrust made it an interesting year for the cannabis industry. And, it was a volatile year for cannabis investors too. For an industry that is still in its infancy, expect more of the same in 2020, as potential hiccups and pot holes get sorted out.

Europe.

Europe's economy has been struggling. That's likely going to continue in 2020. The question is how much it will struggle. Will European equity markets tumble? Will sovereign debt challenges rear their ugly heads?

Perhaps doomed from the start. The U.K.'s exit from the European Union has been delayed until January 2020. U.K. officials just can't seem to agree on an adequate deal, continually forcing the exit to be delayed. It's hard to imagine that Brexit will actually occur in January. Prime Minister Boris Johnson has called a snap election to build the political leverage he needs. But even with a majority in parliament, a new Brexit deal would be far from certain. Is it possible that Brexit will be abandoned altogether? It's starting to seem like it.

Manufacturing problems. Trade tensions between the U.S. and China have had a big impact on the global economy. The impact on Europe is no different, as that region's manufacturing sector has taken a hit. An expected down-turn in the global economy could push European manufacturing even lower, and possibly spill over into the services sector.

Goodbye Mario, hello Christine. Mario Draghi is officially gone as the head of the European Central Bank (ECB). Despite slow growth, weak inflation and some criticism, Mr. Draghi did take steps to support for the European economy. Now, Christine Lagarde takes over. Ms. Lagarde will be called on to bring a unifying message and strategy from the ECB, and will also be pressuring governments across Europe to help bolster the European economy.

Tech companies on the outs. Europe has not been shy about dropping the hammer on tech companies, especially Silicon Valley behemoths. From antitrust issues to paying taxes, the European Commission has not had a constructive relationship with tech companies. Interestingly, the U.S. government is now trying to catch up to Europe in response to various privacy issues. It is hard to imagine the EU's relationship with tech companies will improve anytime soon.

Populist sentiment on the rise. There has been a massive rise of the populist movement in Europe. And they've made inroads into the European Parliament. Some of the ideas of the populist movement are sure to gain additional traction across Europe in 2020.

Emerging Markets.

Is it just us or has emerging markets equity performance simply become an amplified version of developed markets? The demographics supporting the emerging markets story are incomparable, but they still seem very dependent on the strength of developed economies.

China's economic growth won't rebound. While the theme of our 2020 market outlook is clarity, China might be the exception to the rule as ambiguous economic data is released throughout the year and a trade agreement with the U.S. remains tenuous.

Russia's military in action. Russia is again active in the Middle East. The world will be watching to see if this involvement in the Middle East has an impact on the country's equity markets.

Weak oil prices mean weak emerging markets equities. Russia's economy will be dramatically impacted if oil prices drop in response to the long-anticipated recession. But Russia certainly won't be the only nation affected by weak energy prices. We can even think of some developed market economies that will be dramatically hit (ahem, Canada).

Argentina to default on its debt. You don't need a crystal ball to call this one. They've done it before, and the new government will likely do it again, leaving bondholders in the lurch. But who's to blame? Fool me once, shame on you. Fool me twice, shame on me.

Unrest on the rise. First Venezuela and then Bolivia and Chile, countries across South America are experiencing civil unrest. While the reasons change from nation to nation, this unrest has added to the overall sense of unease that's spreading around the world.

Fixed income.

Interest rates are going down and yields are dropping even further. And with the inverted yield curve, bond markets are telling us to run for the hills. It's an odd situation – we all seem to be waiting for a recession to hit. Certainly it will come in 2020, right?

Negative yields on the rise. Germany, France, Japan and others are experiencing negative yields on government bonds. How much lower can they go? A confluence of factors has forced some yields into negative territory: central banks with sub-zero key interest rates, slowing global economic conditions and investor uncertainty. Expect this to continue into 2020. Investors are willing to take less to achieve the security of liquidity. Concerns abound, and there aren't any signs these negative yields will reverse anytime soon.

"Lower for longer" than we thought. We all thought the "lower for longer" reference to central interest rates was slowly evaporating. It appears we were wrong. The Fed and other central banks lowered their central interest rates in 2019, multiple times in some cases. Expect more of the same in 2020. Even if a U.S.-China trade agreement is reached, there are various cracks and risks in the global economy that may keep the slowdown going. More monetary easing may be the answer, but how low can we possibly go?

Curve inverts, fear and uncertainty ensue. It was a wild year for government yield curves around the world. We saw key sections of the yield curve invert in countries like the U.S. and Canada. By historical standards, the question is really just: when will the recession hit? Nobody knows for sure, but we can be (pretty) sure of one thing, it is on the way. Let's hope for a soft landing and quick recovery.

Final thoughts on 2020.

Without a doubt, 2020 will be a year full of surprises. What can we say with any degree of certainty? Politics – from Brexit to the U.S. election and beyond – will have a far greater impact on financial markets than fundamentals. This creates a challenging environment for investors in the short term, especially for those who decide to make a call on – and come out on the right side of – upcoming events.

Contact us for more perspectives.

We are a full-service financial marketing agency that brings together agency creativity and deep industry knowledge to grow your firm's business. Contact us today at 1.844.243.1830 or info@ext-marketing.com to find out how.

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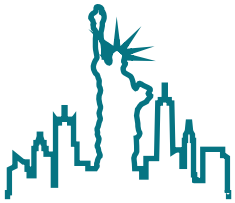

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