Standard Life

Key issues for investors in 2018

An outlook on worldwide markets

For financial advisers only

As we start a new year, investors turn their attention to what 2018 might have in store. Andrew Milligan, Head of Global Strategy at Standard Life Investments, shares his thoughts on some of the key issues that investors will have to keep an eye on over the next twelve months. The letters 'V' and 'P' are important.

Valuations

Most of the world's equity markets have enjoyed a very good year, particularly US and technology stocks, although admittedly the UK has been somewhat weaker. With this in mind, many investors are now asking if valuations are too expensive for equities to make further progress in 2018. This will be largely dependent on our 'P' for profits.

Profits

This is the real driver of further progress in markets. Currently, expectations for profits in 2018 are tilted towards the lower end of the scale but a further stream of good company news could support investor confidence. Of course any major disappointment could cause a sharp reassessment of risk by investors – remember that 'V' for valuations!

Velocity

The world economy picked up speed at the end of 2017 and a number of indicators are looking positive for 2018, including lower unemployment and higher investment. The actions of central bankers will be key to continuing this trend.

After a decade of providing extraordinary support to their economies, the world's major central banks have started to reduce this stimulus. Interest rates have risen in the US and UK, and quantitative easing is being withdrawn by the European Central Bank and the US Federal Reserve.

Encouragingly, it appears central banks are committed to this being a gradual process. If this remains the case, it should allow markets a period of adaptation.

Politics

In the last 18 months, a variety of political shocks have worried investors, including Brexit, Trump and North Korea, to name just a few. Looking ahead, there are still numerous issues to give investors cause for concern. In Italy, March elections will be another test of anti-EU sentiment, while Catalonia continues to be an issue within Spain. Any populist shock would undoubtedly be a setback for the EU after what has been a relatively trouble free 2017.

And in Washington, uncertainty hangs over the future of trade deals like NAFTA, as President Trump seeks to renegotiate deals he views as unfavourable to the US. Developments in the Middle East and in Brexit negotiations will also have to be monitored closely.

Volatility

2017 was a year of steady performance in equities. There were 13 successive 'up' months for the US market, setting a 90-year record. However, given the current environment, 2018 looks set to be different and more difficult. Even a return to normal levels of volatility might come as a surprise to some investors. On that basis, diversification remains as important as ever.

Investors should consider a diverse allocation to global equities, high-yielding bonds and some areas of commercial real estate, while perhaps holding on to cash to invest as and when buying opportunities appear.

For an in-depth look at what's happening in global markets, read the
Aberdeen Standard Investments Global Outlook January 2018

The views expressed in this blog should not be regarded as financial advice. The value of investments can go down as well as up and may be worth less than was invested.

Information is based on our understanding in January 2018.

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