blythe financial

Blythe Financial
11 Myrtle Street
Douglas
Isle of Man
IM1 1ED

T: +44 (0) 1624 619180
F: +44 (0) 1624 619185
E: enquiries@blythefinancial.com

# 2016 – Boom? Bust? Or more of the same?

At this time of year it is common to make some predictions about what might happen over the coming months, as though the arbitrary notch on a calendar marks the passing of what went before and points to the promise of what awaits.

The reality of course is that what was happening in the world on 31st December continues in the same way on 1st January. That notch on the calendar does however give the opportunity to pause and think what might happen.

In my best case scenario we will see GDP growth firmly take hold in the global economy leading to improving demand from both consumers and businesses, increasing output and continued declines in unemployment. This in turn will improve corporate earnings and lead to stocks generally looking like good value.

Such a scenario would see equity markets performing well and justifiably passing previous record highs, which would contrast well with January 2015 when the markets unjustifiably surpassed previous highs and ultimately lead to the corrections over summer and autumn.

This scenario would also infer that interest rate rises would become increasingly widespread in those regions that have already tightened monetary policy and a reduction or complete abandonment of Quantitative Easing in the other regions. As noted in previous posts this presents a difficult situation for bond investors but on the whole is something that is necessary to "normalise" (whatever that means) the state of affairs.

This would infer that inflation would again be an issue to consider and increasingly so if OPEC eventually decides to significantly limit oil supply thereby raising the price of oil.

This would be supportive of commodity prices and all so called "risk assets"

My worst case scenario will see the tentative GDP growth peter out on the back of weak demand and uncertainty due to any number of factors (Greece, Isis, Ukraine, UK exit from Europe etc..) leading to more of what we have had for the past 7 years – sluggish markets, dithering policy in interest rates and QE, fear of anything that changes. This would be poor for equity performance and another year like 2015 would not be a surprise. Risk assets generally would be stagnant although bond investors might be cheered by those conditions but, in reality that would be cold comfort.

I do not however see a market crash and recession happening anytime soon – as the saying goes "never say never" but there would have to be some remarkably bad news to turn the market and the global economy back down that path.

The probability is that we will be somewhere between the two with a slow emergence still being felt although as an optimist I hope that good momentum breeds further momentum and some acceleration may start to appear.

In summary, my view is that all things being equal 2016 should be an improving year but it will be slow progress. Some consistency in good news should become self-sustaining but similar trends in bad news will hold back any recovery / growth.

Equity markets should provide some positive returns and other risk assets should also have supportive moves. The bond market will be a difficult place but for the right reasons and policy makers will follow a path back to trend in terms of interest rate policy.

As ever we remain vigilant to unforeseen issues emerging that change the course of our expectations but in doing so we still hope that our best case scenario will be the one that prevails.

Our Investment Committee will as usual be monitoring events and changes and be making recommendations to our clients as and when appropriate to either protect portfolios from danger or take advantage of opportunities that may arise – look out for our regular updates over the coming year.

Happy New Year!

If you have any questions or would like some advice from one of our Chartered Financial Planners then please feel free to call us on 01624 619180 or email at enquiries@blythefinancial.com