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Chris Hyzy
Bank of America
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Operator: All information is as of 5/30/2018 and subject to change based on market movements

Chris Hyzy: Hello, this is Chris Hyzy with the latest CIO market update. Global equity market weakness led by Europe over the last couple of days came on the back of Italy's recent political uncertainty. Italy's president blocked the formation of a government that was deemed to be decidedly against the Euro which increased concerns that Europe's third largest economy would have no coalition through the summer. This comes on the back of weaker economic data across the continent and a potential for a confidence vote later this week in Spain's current government.

The Euro fell and investors sold Italian bonds aggressively while increasing risk aversion by buying US treasuries and German bunds. In the US, the Dow sold off more than 450 points on Tuesday before ending down about 390 with banks leading the selloff. In addition to a shift in European equity investment flows back to the US, capital also sought safety in the US Dollar. A stronger Dollar is one of the larger worries overhanging the emerging markets in the past few months.

Other risk indicators such as high yield spreads and credit default swaps also sharply widened out to levels that would normally beget more aggressive equity weakness than what was actually realized on Tuesday.

This relationship needs a closer eye the longer the Italian political situation remains unclear.

So what's our view on this recent weakness? Global investors are obviously unsettled given the mixture of slower European economic growth, sharp political uncertainty in Italy and potentially Spain which could beget more economic weakness, a continued strong Dollar which could pressure emerging markets further, and now the possibility that the Fed could widen policy actions relative to other central banks such as Europe and Japan.

Although some of this is to be expected in mid to late cycle economic stages, the overlay of additional political uncertainty in Europe has some recent flashbacks akin to the Greek debt crisis not too long ago for some global investors. We do not believe the recent developments in Italy result in a broader sovereign issue in Europe. Yields were almost three times higher in some cases in 2012 and all of the southern periphery of Europe was being questioned, and most importantly, global growth struggled to stay above 1% at that time.

Currently, although Europe has hit a soft patch recently and European banks still have not cleansed their balance sheets of questionable assets, we expect growth to pick back up above 1.25% to 1.5%, and the European Central Bank to remain very accommodative. We also expect US real GDP growth to hover above trend levels at around 2.5% to 3% and Japan and emerging markets to follow despite the stronger Dollar concerns and slightly higher rates. We also expect robust profit growth to continue particularly in the US which should slow down off of the 22% growth in the first quarter, but remain surprisingly strong, around 17% to 18% for the remaining quarters.

$158.00 in earnings for the S&P500 is the expectations for 2018 with consensus about $170.00 in earnings for the S&P for 2019. We still expect two more hikes by the Fed, but remain patient and measured. We don't expect US yields to climb too much from current levels for the remainder of the year given the anchor of lower yields in competitive markets across Europe. Our target still remains around 2.8% to 3.3% for the 10-year treasury yield at the end of the year. We believe a grind higher environment is still in the cards for the second half.

Stability and measured strength in the Dollar is still our view for the back half. We would also maintain an equity overweight relative to strategic manage remarks and relative to fixed income in general. The stock-to-bond ratio is still more favorable towards stocks in both fundamental and technical factors in our view. Our equity preference is still large and small US equities and emerging markets. Despite our expectations of a grind higher in yields, fixed income is still a hedge on equity volatility overall.

Given our view of robust earnings powered by rising capital expenditures and healthy consumer spending being a core reason for equity optimism plus reasonable equity valuations at present and strong buyback expectations, we view market episodes like this as opportunities to add to exposures. Weakness in small caps, emerging markets, technology and financials are areas to consider adding to in a multi-asset portfolio in the coming weeks.

So in summary, the latest growth and political concerns out of Europe are much different than the most recent past, some six years ago, and the global growth picture is substantially stronger now versus back then. Back then, global recession and the survival of the Euro block was a worry versus today which is more about demands of redenomination and whether higher rates slow growth down to lower levels. We expect Italian uncertainty to remain for the summer months and questions to continue to circle around about the effects of interest rate normalization.

We should not dismiss these concerns; they do require close following, and clearly, the sawtooth market pattern has been extended, but eventually we expect the visibility of above-trend global economic growth and sharp US profit growth to attract portfolio flows back to equities in the second half of the year. We view these as the keys to the gates of worry. It maybe taking a break and concerns have picked up recently, but this market uptrend cycle is not over, in our opinion. Keep diversification at a high level and use market weakness where and when appropriate to keep risk budgets in line with long-term goals.

Thank you.

Operator: The views and opinions expressed are those of the Global Wealth and Investment Management Chief Investment Office are subject to change without notice and may differ from views expressed by Bank of America Corporation or its affiliates.

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