FIXED INCOME

A Fixed Income View of 2020: Separating Sentiment from Fact

December 16, 2019

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Investors could be in for a bumpy year ahead, according to Franklin Templeton Fixed Income CIO Sonal Desai**.** She emphasizes the importance of separating the facts from the headlines, but also thinks it's a good time to look to "de-risk" portfolios to some extent, while still remaining invested.

> "Expectations need to be recalibrated in the sense that we are in a world where fixed income rates are incredibly low, implying expensive valuations, and it is unrealistic to expect to generate the types of returns people have become accustomed to without taking on additional risk and volatility." – Sonal Desai

Here are some highlights of Desai's commentary in our 2020 Global Investment Outlook.

- With so much noise in financial markets and in the media, we believe it's more important than ever for fixed income investors to focus on the hard data rather than the headlines, and to carefully assess the significant divergence between sentiment indexes and real economic activity.
- Despite persistent trade uncertainty and a contentious political environment, the US economy remains on a steady footing. Consumer spending, which accounts for two-thirds of US economic output, has powered ahead, supported by a strong labor market and healthy household balance sheets.
- Our outlook for the eurozone remains subdued, as economic activity has moderated after four years of growth well above potential. We do not, however, see an additional sharp contraction of the eurozone economy. The contraction of Germany's manufacturing sector has attracted a lot of attention, but this has been heavily influenced by a temporary slump in car production. Moreover, and perhaps most importantly, we would note that the eurozone has never been the main engine of global growth.
- We believe the extremely loose monetary policy of major central banks has exacerbated market distortions, making fixed income assets perceived as safe havens exceedingly expensive and pushing more and more investors toward riskier and less liquid assets. Against this background, heightened political and policy uncertainty sets the stage for higher volatility.

Watch the video below for additional insights.

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