

2018 Investment Insights: Watch and wait

# The advantage of patience and positioning

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# Two investor themes for 2018

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- 1 Watch for signs of economic change
- 2 Wait patiently, but not passively

# Watch for signs of economic change

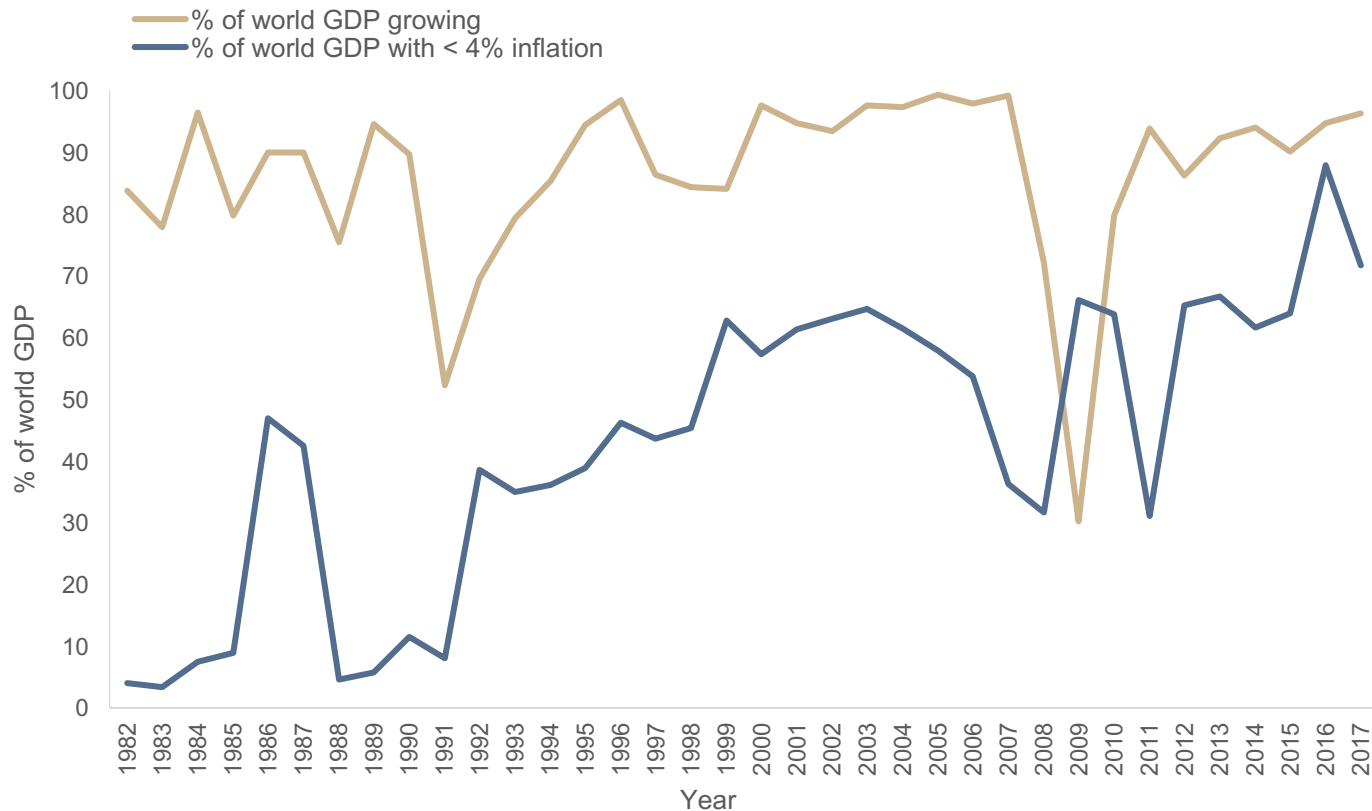
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Theme #1: Watch for signs of economic change

# Low growth and low yields

Interest rates, inflation, and spending are likely to remain low compared with past cycles.

## Global growth with low inflation

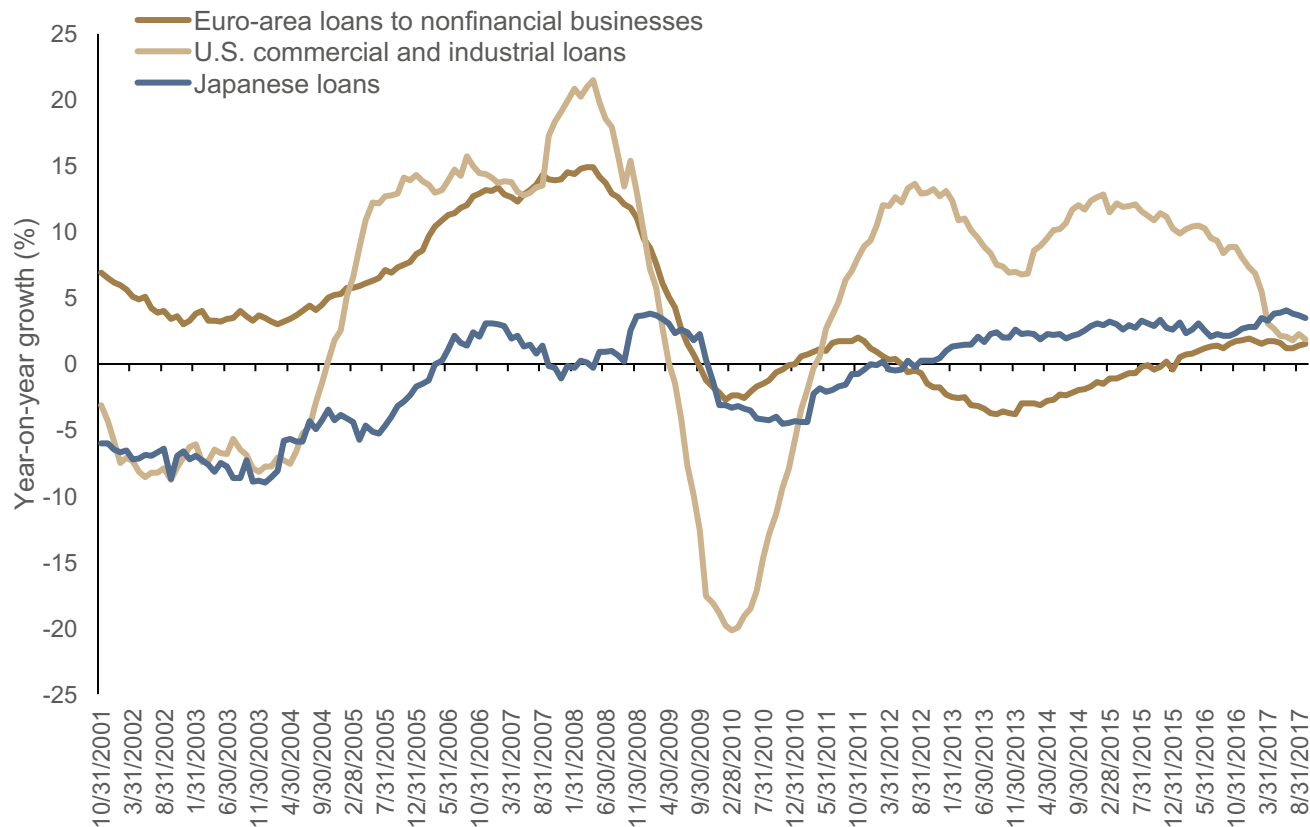


Source: International Monetary Fund. Yearly data from 1982 through 2017.

Theme #1: Watch for signs of economic change

# Bank lending can be a lagging indicator

Business loan growth has slowed in the U.S. but has accelerated in Japan and the eurozone



Sources: Bloomberg and Federal Reserve Bank of St. Louis. European Central Bank euro-area monetary financial institution loans to nonfinancial corporations annual growth rates, total U.S. bank credit of all commercial banks, and Japan average amounts of loans and discounts outstanding at banks. Monthly data from October 31, 2001, through August 31, 2017.

## **Central-bank policy remains on center stage**

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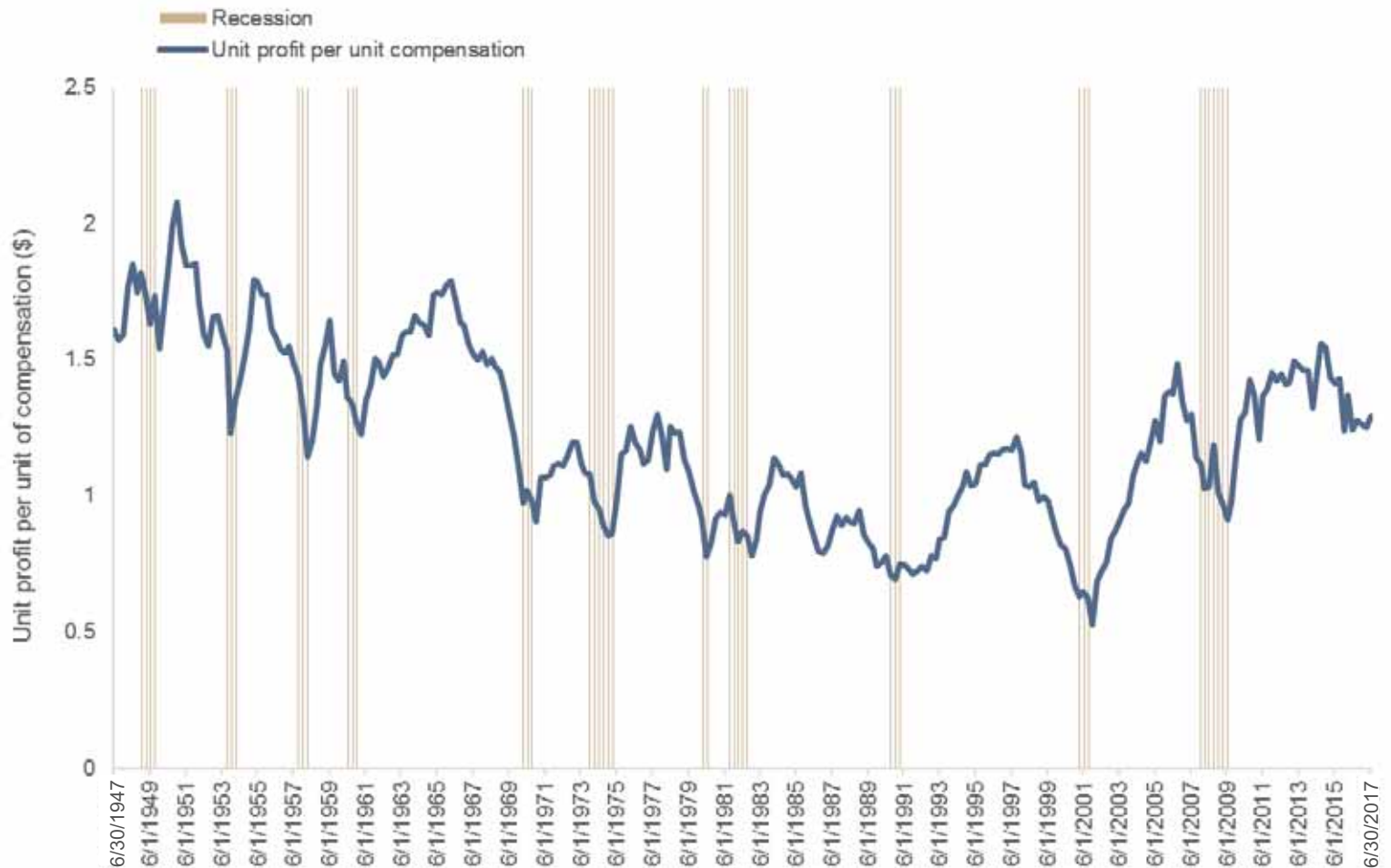
- Central banks have shifted from merely setting policies to communicating their policy intentions.
- The biggest risk is higher wages, which might push the Fed to hike faster.



Theme #1: Watch for signs of economic change

# Wages are growing more quickly than profits

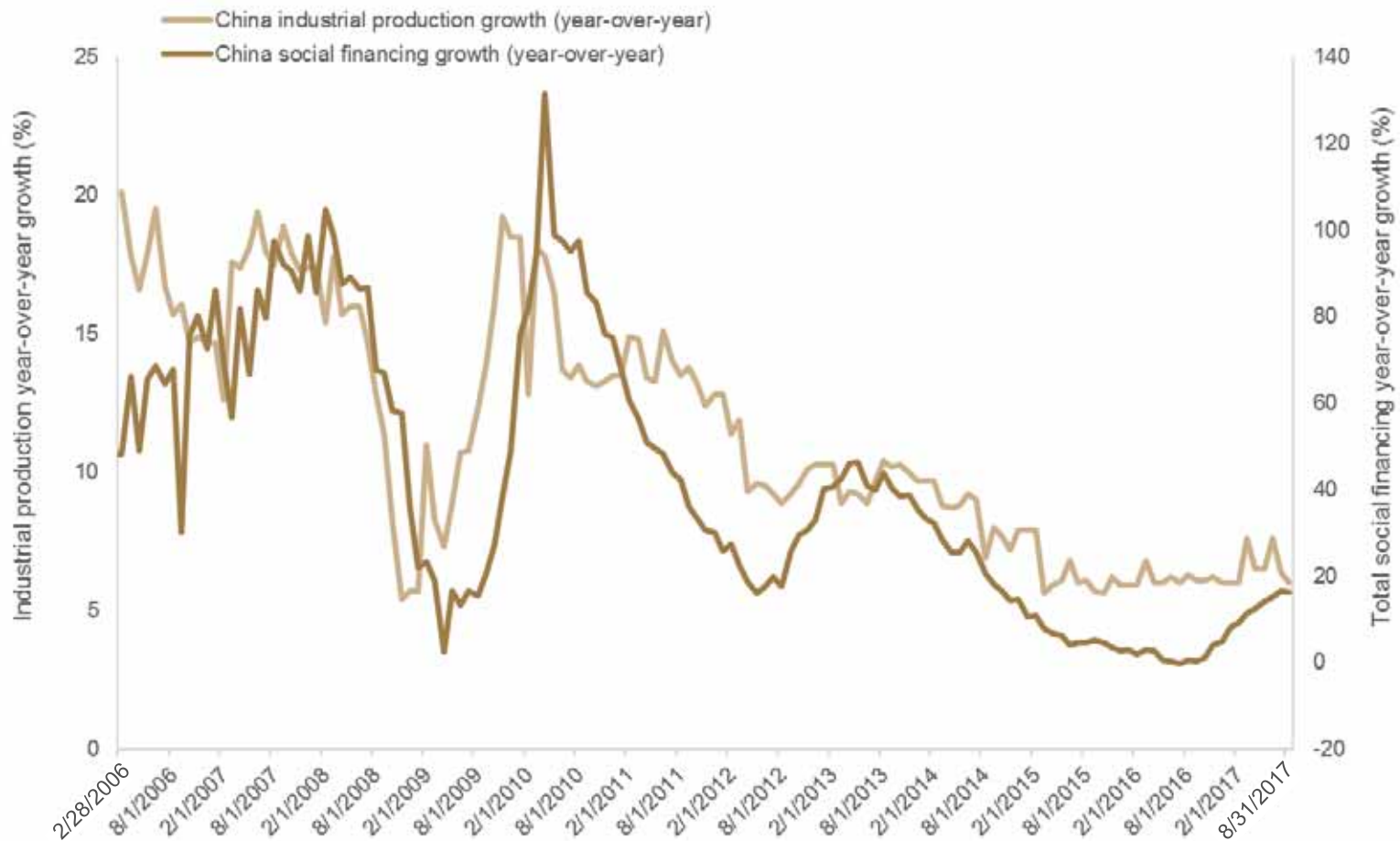
The profit and wage cycle may have turned, but it can take a while for recession to set in



Sources: Bloomberg and Federal Reserve Bank of St. Louis. Data from June 30, 1947, through June 30, 2017.

# China's debt pile

The slowdown in China's debt growth merits watching due to its relationship with economic growth.



Sources: Bloomberg and National Bureau of Statistics of China. Monthly data from February 28, 2006, through August 31, 2017.

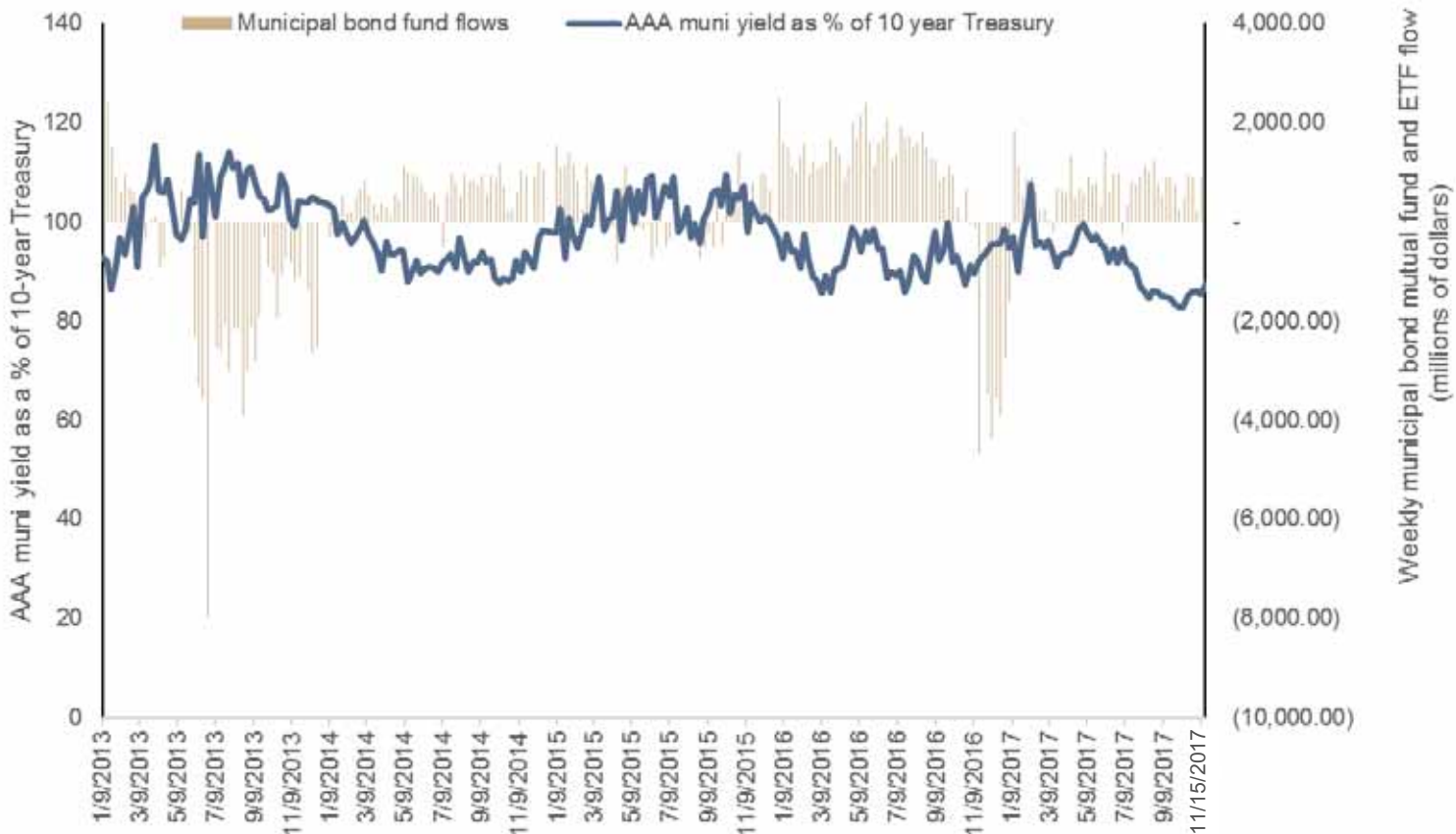
Wait patiently, but not passively

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Theme #2: Wait patiently, but not passively

# Opportunities in the municipal bond market

Municipal bond yields are fair relative to Treasuries, but asset flows into municipal bond funds have been robust.

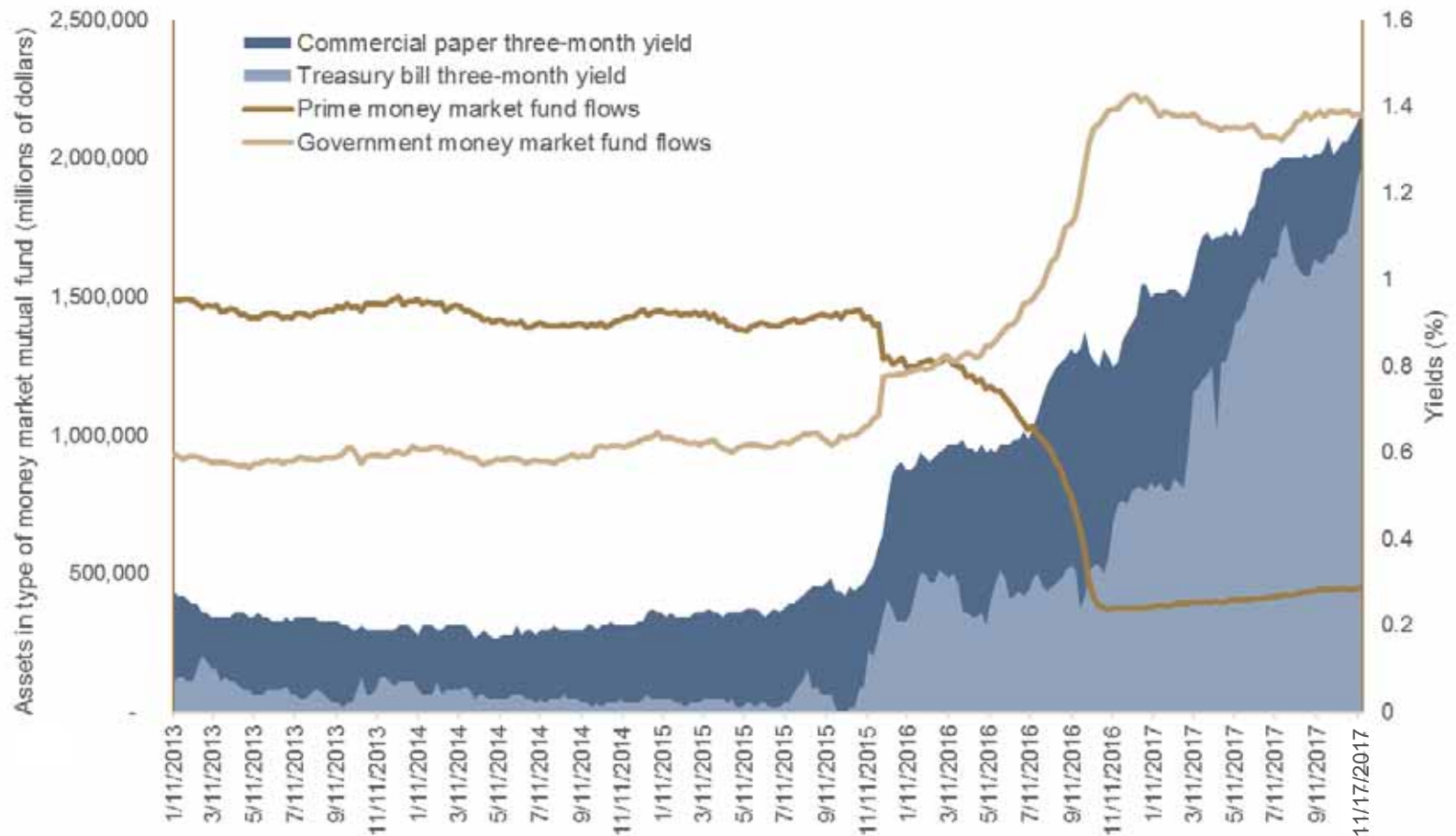


Sources: Bloomberg and Investment Company Institute. Weekly data from January 9, 2013, through November 15, 2017

Theme #2: Wait patiently, but not passively

# Proactive waiting through liquidity

Attractive commercial paper yields help support prime money market fund flows



Sources: Bloomberg and Investment Company Institute. Weekly data from January 11, 2013, through November 17, 2017.

# Key takeaways

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- Watch for specific signs of economic change globally
- Be proactive when waiting and watching for opportunities
- Be data dependent when investing
- Stay diversified and practice patience

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