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Outlook 2017: Global Economy to pick up

Gerold Permoser



In our annual press conference I have presented the most relevant topics for the investment year 2017. The most relevant ones are: stronger expected global growth, an increase in inflation and elevated event risks due to political reasons.

Emerging markets as economic pillar in 2017

We expect global economic growth to increase in 2017. For the first time in years, the emerging markets will assume the role as growth engine again. This forecast is supported by the likelihood of further interest rate cuts, the recovery of the commodity markets, and more attractive exchange rates for many local currencies.

Slight increase of inflation on a global scale

After years of budget consolidation programmes of various politicians, fiscal policy in 2017 is likely to become more expansive again. Donald Trump won his election campaign as the first republican with an expansionary fiscal programme. In Europe the criticism on the austerity policies and the increasing imbalances of income and wealth could lead to similar trends.

For inflation also relevant: the output gap closed on a global scale. Furthermore, unemployment rates are falling and commodity prices are significantly up. Overall deflation is no issue at the moment – on the contrary: market participants expect a slight increase of inflation globally.

Elevated event risk due to elections in big euro economies

During the course of the year the difficult political situation might trigger more significant fluctuations on the markets. In addition to the scheduled elections in Germany, France, and the Netherlands, we also cannot rule out snap elections in Spain and Italy.

Bond markets: positive outlook for high-yield bonds

The main momentum on the bond markets should be coming from corporate bonds with speculative rating from the Eurozone and the USA due to the predicted economic growth. The spreads should compensate for the interest rate risk. Also, the fundamentals in the US corporate sector have improved. Within the bond segment, our assessment of euro government bonds remains negative, given that the risk of interest rate increases is bigger than the chance of yield declines.

Equity markets: Trumponomics burdening Latin America

In spite of the political risks in the euro region, we envisage a positive development on the European equity markets. Economic growth should pick up again, and export-oriented companies should benefit from the weaker euro. The British equity market is the exception to the rule, as it might be affected by the consequences of Brexit. The outlook is also on the negative side for the Latin American equity markets: After a strong rebound in 2016, their upward potential is now very limited. In addition, we also expect negative effects from the policies of the new US government.

IT companies benefiting from strong US dollar

As far as sectors are concerned, we expect a positive development especially in the IT sector. IT companies are the winners of reflation: their valuations are attractive, they have strong profit growth, and they benefit from the strong US dollar. Consumer discretionary goods look attractive as well; we expect positive consumer sentiment, and the sector excels in terms of high profitability and robust growth. The assessment of consumer staples, on the other hand, is currently negative. Valuations in the sector are high, and it is also highly correlated to the interest rates, which could be rising over the year. In view of the low interest rates, many investors keep their focus on dividends.

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Gerold Permoser has been Chief Investment Officer at Erste Asset Management since early April 2013.

He is responsible for all asset management activities and investment strategies for all investment funds held by the Erste Asset Management Group in Austria, Germany, Croatia, Romania, Slovakia, the Czech Republic, and Hungary. Before joining the company, he served this function at Macquarie Investment Management Austria KAG. Permoser has gathered experience in investments since 1997.

He began his career as a fixed-income analyst at the Creditanstalt in Vienna. He moved to asset management at Innovest KAG in 2000. He made significant contributions in the investment field there and advanced to CIO (director of asset allocation and research). Gerold Permoser studied at the University of Innsbruck and is a CFA charter holder. He offers training at the University of Vienna and at various post-graduate institutions for analysts and portfolio managers (i.e., at VÖIG, the Association of Austrian Investment Fund Companies).