

Rosenberg Equities Global Factor Views

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Macroeconomic and equity market backdrop

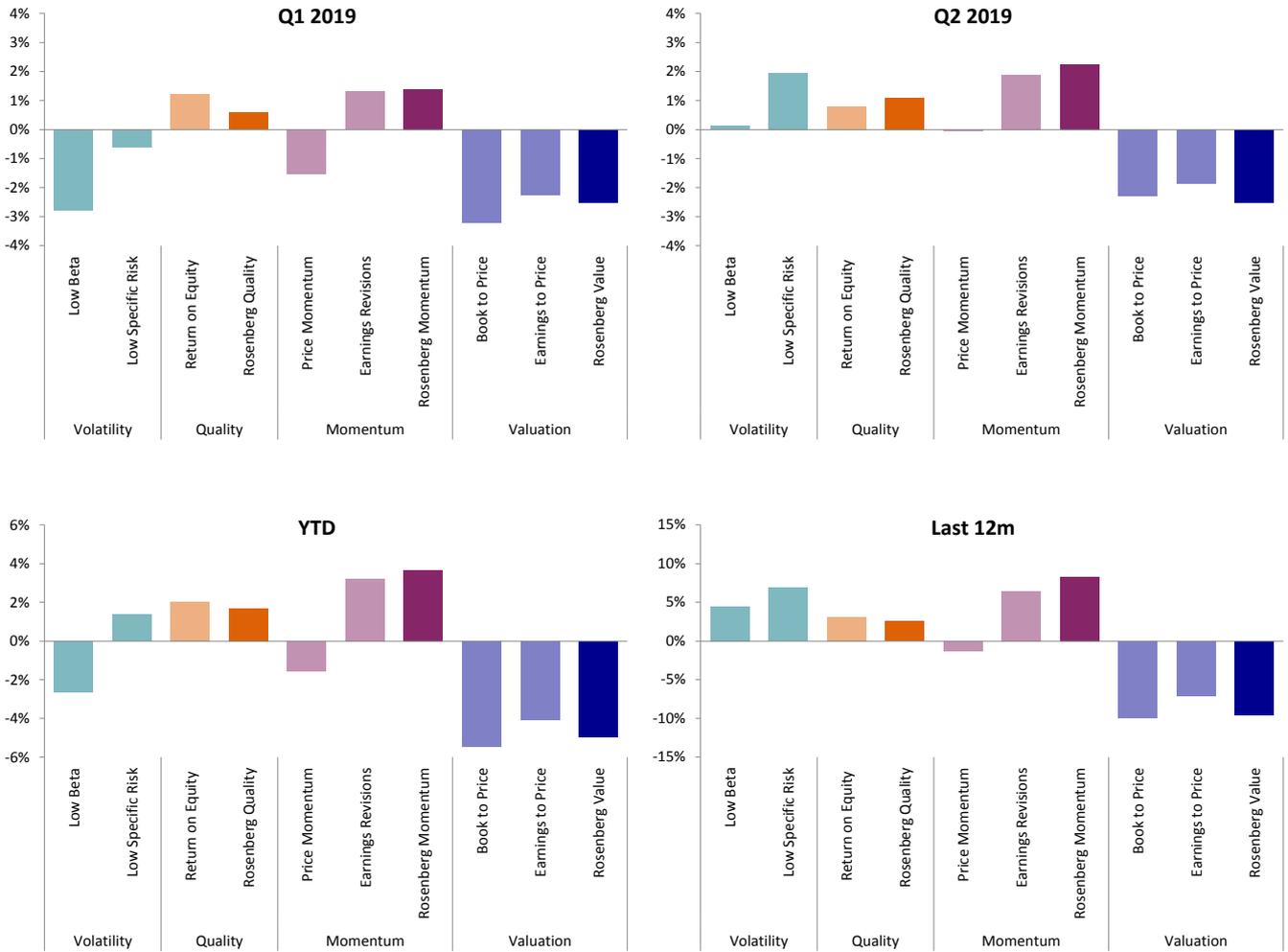
- The global economy continues to deliver modest growth on the back of a resilient US. Elsewhere, macroeconomic data has been disappointing, with the Eurozone, UK and China all showing signs of weakness. Looking ahead, the key threat to growth for both the US and the rest of the world would be an escalation of trade tensions.
- Trade-related macro uncertainty has led to a wave of dovish commentary from major central banks. We now expect the US Federal Reserve to deliver two rate cuts this year and the European Central Bank to cut its deposit rate in September on the back of persistent weakness in the Eurozone. In the absence of a major negative trade shock, our view is that policy stimulus should support economic growth into 2020.
- We expect equities to deliver low single-digit earnings growth on the back of soft top line growth. However recent margin pressures, driven by rising labour costs, may ease if macro conditions continue to weaken.
- Market valuations are now trading close to their long-term average; however, this masks a higher-than-normal gap between the most expensive and cheapest stocks in the market.

Factor outlook

Quality	Against a demanding backdrop for earnings, Quality should perform well as investors favour companies with a proven track record of sustaining profitability and delivering stable earnings growth.
Positive	
Low Volatility	While Low Volatility should benefit from lower interest rate expectations, we maintain a neutral outlook because some Low Volatility equity has become expensive. We would advocate an active approach to help mitigate this valuation concern. In a scenario where trade tensions escalate, the defensive attributes of Low Volatility will likely become a highly sought-after safe haven.
Neutral	
Value	Although Value is often challenged late in the cycle, it is currently oversold and cheap by historical standards. Valuation dispersion is also elevated, meaning there is increased opportunity to identify undervalued stocks. Value could outperform if the conditions that have fuelled the recent dominance of Momentum/Growth subside.
Neutral	
Momentum	While Momentum has the potential to change quickly, we expect it to be challenged as tepid earnings growth and uncertainty over US trade policy result in bouts of market volatility.
Negative	

Source: Rosenberg Equities, 30 June 2019. The views expressed above are as of the date of this document. No guarantee or warranty is made regarding the outlook above. Investors should not base their investment decisions on the commentary provided and should consult their advisers before doing so.

Factor Returns



Source: Rosenberg Equities. Factor returns to 30 June 2019 (as calculated on 11 July 2019). The charts show univariate factor returns based on the MSCI World Index universe and are square root of market cap weighted and net of market returns. Factors shown are simple risk factors and Rosenberg Equities' proprietary factors: Rosenberg Quality (combines proprietary measures of Earnings Sustainability and forecasted change in Earnings Sustainability); Rosenberg Value (combines proprietary valuation and earnings forecast models as well as a machine learning 'value trap' model); and, Rosenberg Momentum (combines price momentum with analyst revisions and a natural language processing news sentiment measure). The bar charts are for illustrative purposes only and are not based on actual portfolio returns. Rosenberg proprietary factors are individually available as investment strategies; however the factor returns shown should not be used to extrapolate performance of Rosenberg strategies. Past performance is not a guide to future performance.

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G201907-1861