AVIVA INVESTORS LOWERS EXPECTATIONS FOR ECONOMIC GROWTH AND RISK ASSET RETURNS

- **Equities position downgraded to neutral due to low growth expectations**
- **Credit preferred in risk assets, specifically high yield and emerging markets**
- **Modest preference to Government bonds as an important diversifier**
- **US remains preferred equity market, balanced by an underweight to emerging markets**

Aviva Investors, the global asset management arm of Aviva plc (‘Aviva’), believes that any early reversal of the recent growth slowdown is unlikely and inflation pressures will remain weak. In this environment, returns on risk assets, such as equities, are likely to be more challenged. The renewed easing bias of major central banks should provide some comfort to investors.

The outlook for global growth has deteriorated over the past three months, largely due to ongoing trade tensions which have hurt business sentiment, particularly in manufacturing and export sectors. Although hostilities between China and the US have eased somewhat following the June G20 meeting, the dispute has not been resolved and could erupt again at any time.

World growth is likely to slow to around three per cent in 2019 and 2020. This is a little below the estimated trend pace, so will further ease any demand strains on capacity limits and prevent inflation rising much, if at all, over the next few years. We believe that recession will be avoided for now but think that the major risks, such as trade policy, are to the downside.

The combination of slower growth and muted inflation pressure means that major central banks have, rightly, adopted an easing bias. Growth worries are expected to weigh on risk asset returns, while the looser monetary policy stance will provide some support, justifying a relatively cautious stance on asset allocation.

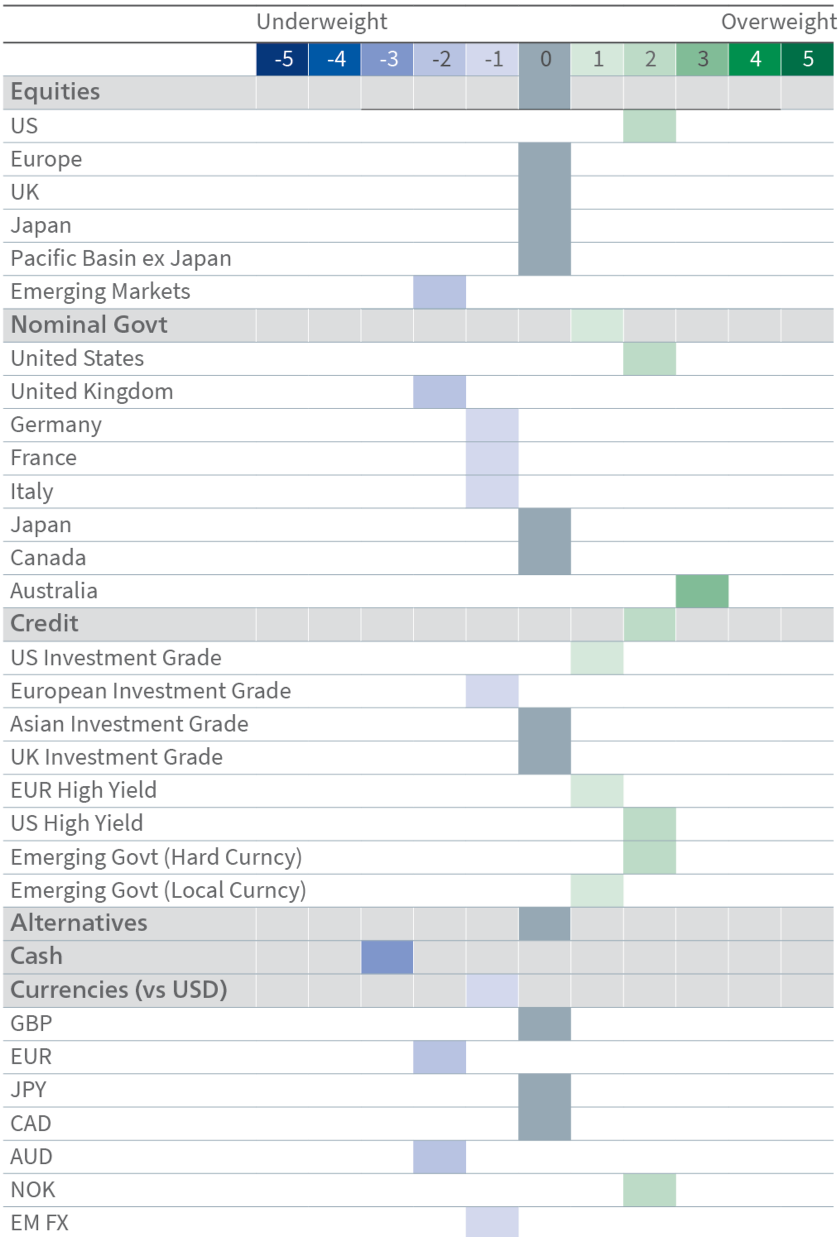
Michael Grady, Head of Investment Strategy and Chief Economist at Aviva Investors, said:

“Growth concerns mean downside risk for equity returns. As a house, our current equity allocation is neutral, favouring the US over emerging markets. We expect recession to be avoided, so a nasty default cycle is unlikely, and as a result, credit should perform reasonably well.

"More dovish central bank action will help boost duration where we have a modest overweight, while the overall environment should be supportive for carry strategies. We expect the dollar to remain reasonably well supported."

The full document can be read at: https://www.avivainvestors.com/en-gb/views/house-view/

Model portfolio asset allocation:



Source: Aviva Investors, as at 24 June 2019
The weights in the Asset Allocation table only apply to a model portfolio without mandate constraints and take into account the output from the House View.

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NOTES TO EDITORS

IMPORTANT INFORMATION:

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AVIVA INVESTORS

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