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6 THEMES TO GUIDE INVESTORS FOR THE NEXT 5 YEARS

TRADE CONFLICTS, SLOW GROWTH AND POLITICS AMONG THE MOST LIKELY TO RATTLE MARKETS

Recent strong risk asset returns, paired with sharply lower global interest rates, represent an atypical investing environment. Investors have been working through a mash-up of slowing growth, muted inflation and easier monetary/regulatory policy — all wrapped in rising political uncertainty and on-again/off-again trade tensions. Against this backdrop, six key themes have emerged for our [five-year outlook](#).

#1 GLOBAL GROWTH RESTRUCTURING

The global economy must evolve as political and technological developments spur the world to step back from a more optimal framework for global trade.

What this means for investors: Slow economic growth and the risk of recession will accompany this restructuring, although eventually the global economy will emerge stronger and better suited to this new world. Growth is likely to be slower over the next five years than the past five years (Exhibit 1). Market volatility is likely to increase in response to negative economic data. Investors should prepare for equity returns below long-term historical averages.

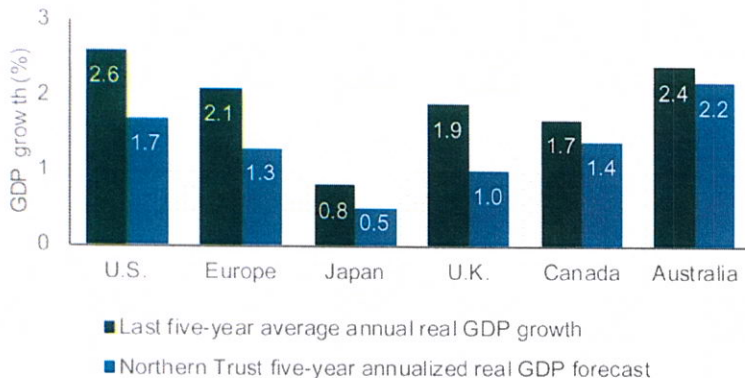


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For more on how these investment themes may affect your portfolios, [download the Capital Market Assumptions Five-Year Outlook](#).

EXHIBIT 1: SLOW GROWTH EXPECTED TO CONTINUE

Our growth expectations call for a continuation of the "muddle through" environment.



SOURCE: Northern Trust Global Asset Allocation, Bloomberg. Data from 3/31/2014 to 3/31/2019.



Conflict between the U.S. and China — a focal point of Global Growth Restructuring — will produce a cascade of political, economic and market changes.

1.3%

**NORTHERN TRUST'S FIVE-YEAR
ANNUALIZED REAL GDP FORECAST
FOR EUROPE**

#2 IRRECONCILABLE DIFFERENCES

Conflict between the U.S. and China — a focal point of Global Growth Restructuring — will produce a cascade of political, economic and market changes.

What this means for investors: As the two countries zigzag between economic armistice and war, never achieving peace, market volatility is likely to spike. Investors need to be aware of whether other countries align with the U.S. or with China.

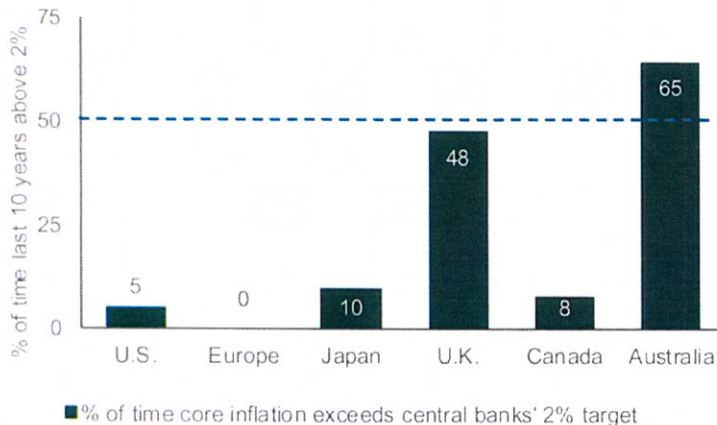
#3 STUCKFLATION 4.0

Muted growth in global demand and timid policy responses suggest Stuckflation — now a theme for four consecutive years — is here to stay. Most major central banks continue to miss their 2% inflation targets (Exhibit 2).

What this means for investors: Low interest rates and flat yield curves will continue to make it difficult to find investments with attractive yields. We anticipate that disappointment with inflation rates will eventually lead to a coordinated policy response.

EXHIBIT 2: A 2% INFLATION CEILING, NOT A 2% TARGET

A 2% inflation target means spending 50% of the time above that level. This has not been the case.



SOURCE: Northern Trust Global Asset Allocation, Bloomberg. Data from 5/31/2009 to 5/31/2019. All regions use core Consumer Price Index except for the U.S. which uses core personal consumption expenditures. Australia data is calculated quarterly using a trimmed mean core Consumer Price Index.

#4 EXECUTIVE POWER PLAY

Populist leaders continue to grab political power in exchange for pro-growth policies that have supported the long-running equity bull market. Looking ahead, leaders are at risk of overplaying their hands.

What this means for investors: Voter enthusiasm for these leaders may decline once economic growth slows, and investors should be ready for market volatility. Truly strong leaders will balance the populist movement with sensible economic policy. The risk is that they don't devote enough energy to good economic policy.

#5 MONETARY MAKEOVER

The persistently low inflation that accompanies Stuckflation has stripped central bankers of their purpose.

What this means for investors: Central banks will reluctantly take unprecedented moves. Still, investors can't look to central banks to boost inflation and global economic demand. This task is the responsibility of fiscal and broader economic policy—controlled by politicians. As a result, economies and investors may be more vulnerable to political developments.



Truly strong leaders will balance the populist movement with sensible economic policy. The risk is that they don't devote enough energy to good economic policy.

10%

AMOUNT OF TIME IN PAST 10 YEARS THAT JAPAN'S INFLATION HAS BEEN ABOVE THE 2% CENTRAL BANK TARGET LEVEL

#6 STAKING OUT CLIMATE RISK

The impact of climate risk regulation will build slowly and sporadically as the world tries to reconcile growing carbon emissions with Paris Agreement commitments.

What this means for investors: Investment categories with direct exposure to transition risk — created by higher fuel standards, updated building codes, and clean energy and other requirements — require special attention. However, these risks will vary greatly by country, and transition risk can be reversed when confronted by political backlash. In some cases, this already has happened. Investors should consider industry risk on a country-specific basis.

SOUND LIKE FUN?

So low growth, low yields and political volatility. It might not sound like fun to be an investor over the next five years. But we always confront uncertainty even in the best of times. As we see it now, positive breakthrough prospects are evenly matched with dire scenarios. Our outlook falls in between, which should result in decent risk asset performance and subdued fixed income returns during the next five years.

LEARN MORE FROM JIM MCDONALD

[Register](#) for the September 18 webinar *The Next 5 Years: What Investors Can Expect*, featuring Jim and Chief Investment Officer Bob Browne, CFA.



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