ACG Atlanta Consulting Group

Symposium Overview

In early January, the Atlanta Consulting Group invites a select group of investment managers, across a wide range of disciplines, to take part in a series of meetings to discuss their views on the markets. Our annual symposium is an effort to help us evaluate the capital markets across different asset classes, geographies and investment disciplines. Our goal is to incorporate their thought leadership into our process as we navigate 2017 and beyond.

2017 Participant List

Dr. Sonal Desai	Director of Research	Franklin Templeton
Tom Fahey	Senior Global Macro Strategist	Loomis Sayles
Kent Hogshire	Global Asset Allocation Director	Blackrock
John Ivanac	Director	Blackrock
Nanette Abuhoff Jacobson	Global Investment Strategist	Wellington
Michael Kass	Portfolio Manager	Baron Funds
James LaTorre	Portfolio Manager	Northern Cross
Chris Lvoff	Managing Director	Goldman Sachs
Ashish Tiwari	Executive Vice President	PIMCO

Key Takeaways / Consensus Views

- Inflation (and inflation expectations) look to be on the rise due to a tight labor market and other factors
- The current U.S. economic cycle is long vs. history, but has the potential to be extended by new policy initiatives
- There is increasing concern around the volatility associated with the possibility of a regime shift from the secular stagnation we have seen lately to a more normal period of cyclical growth
- Equities still offer a compelling alternative to other asset classes, but it is increasingly difficult to view them as a single asset class when there is so much variation by geography and sector
- Fixed income returns will be under pressure. Investors should look to non-traditional diversifiers

Notable Quotes

Politics

- "We will see a huge fight between parties (and within parties) over Trump's tax proposals" - BlackRock
- "Government policies tend to cause idiosyncratic impact on individual industries. The markets in 2017 should be less momentum driven, and more dependent upon sector and stock selection" – Goldman Sachs
- "Political parties that may have historically been viewed as extreme are gaining popularity throughout the world" – BlackRock
- "U.S. trade policy is a big risk to the outlook for 2017" – Loomis Sayles
- "Europe faces a heavy anti-establishment election calendar that could disrupt markets" - Wellington
- "The global consequences of the Brexit are fairly limited" – Franklin Templeton

Macro / Economic

- "There are lots of question on the growth side, but on the inflation side, things look skewed to the upside" - PIMCO
- "Chances of 'fat tail' outcome in 2017 (positive or negative) is much higher because of uncertainty" - PIMCO
- "China does not seem to be falling apart, but keep an eye on capital flows coming out of China"[i] – Northern Cross
- "Approximately 40% of Mexican exports are made up of U.S. content, so there will likely be a large contingent in the U.S. who do not like the idea of large tariffs" – Northern Cross
- "The stars are perfectly aligned for inflation to pick up in the U.S." – Franklin Templeton
- "Monetary policy is overly loose and behind the curve" – Franklin Templeton
- "This is the most dovish Fed we've seen since the 1950s/1960s" – Franklin Templeton
- "Our 2017 outlook is more neutral to pessimistic" – Goldman Sachs
- "Inflationary pressures and a pickup in global growth will likely put the secular stagnation narrative under more pressure" – Goldman Sachs
- "We expect the global expansion to widen out in 2017 beyond just the U.S. The result could be the most synchronized recovery we have seen since 2010" – Goldman Sachs
- "We see credit spreads and oil prices as range bound in 2017" – Goldman Sachs
- "There is an opportunity for cyclical value and profit margin recovery in Europe" – BlackRock
- "One of the biggest causes for the slow growth environment is that people in their 60s, who have most of the capital, are past their peak levels of consumption" – BlackRock

Equities

- “The current expectation is for 7-8% S&P 500 earnings growth in 2017. The Trump tax plan has the potential to boost that growth to 17-18% growth. In that scenario, S&P 500 earnings could go from $120 in 2016 to $145 next year.” – Loomis Sayles
- “Rotate out of bond-like equities into cyclical equities, including industrials, financials and energy” - Wellington
- “Valuations look high, but the U.S. equity risk premium is near average levels” – PIMCO
- “There are so many differences between emerging market countries that it is hard to think of them as a single asset class” – Franklin Templeton
- “The rise in interest rate provides near term pressures, but we prefer emerging markets (ex-China) over developed markets” – Goldman Sachs
- “We favor Japanese and European equities over U.S. and broad emerging markets” – BlackRock
- “If the U.S. continues on a hiking cycle, it causes stress to the Chinese currency. But, we do not see a hard landing for China” – BlackRock
- “Trump ‘s biggest impact on emerging markets is to widen the range of possible outcomes” - Baron
- “At some point the global economy could be held hostage by a rising U.S. Dollar and rising inflation” - Baron

Fixed Income

- “We expect most fixed income funds to lose money in 2017” – Franklin Templeton
- “We expect two rate hikes in 2017. The risk is the Fed hikes faster” – Loomis Sayles
- “A confidence boost from a small rate rise outweighs negative effects from the actual rate increase” – Northern Cross
- “Improving US growth justifies higher interest rates” – Wellington
- “Expect U.S. Treasuries to continue to sell-off in 2017. The 10-year Treasury could reach 4.0% in 2017 if a lot of Trump’s initiatives are passed” – Franklin Templeton
- “Wall Street is very bullish on high yield heading into 2017, but they might be too optimistic” – PIMCO
- “Bank loans look attractive based on fundamentals and the current rate environment” - Wellington
- “Embrace some non-traditional diversifiers in your fixed income allocation” – PIMCO

Currency

- “The U.S. Dollar currently looks 10-15% overvalued, but currencies have a tendency to overshoot and the current situation is textbook for a strong Dollar” – Loomis Sayles
- “Emerging markets currencies are historically quite undervalued” – Franklin Templeton
- “The Mexican Peso has declined 50% below the IMF’s fair value estimate. The market has more than priced in large tariffs” – Franklin Templeton

Alternatives / Other

- “Hedge fund returns have been muted as QE has suppressed global equity and credit market dispersion” - BlackRock
- “In alternatives, niche managers offer attractive opportunities with less price competition” – BlackRock
- “Gold could do well as a hedge against debt monetization” - BlackRock
- “Private equity now has dry powder in excess of $1 trillion” – BlackRock
- “Private credit is one of the most exciting areas in the alternatives space” – BlackRock

Key Risks / Potential Black Swans

- Sharp move to higher interest rates / liquidity issues
- Trade wars / Currency volatility
- Further EU disintegration / Hard landing in China
- Increasing global populism / Increased protectionism
- Geopolitical surprise / Terrorism

The Annual ACG Symposium was held January 9th, 10th and 12th, 2017

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