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Behind the headlines: three stories that might surprise investors in 2020

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1. The Republicans pull a different Trump card

Trump is ousted as the Republican candidate for next year's presidential election. Investors, analysts and political pundits may consider this scenario unlikely, but they are probably the same ones who never imagined Trump as president in the first place – and it can't be ruled out. After all, Trump is embroiled in a damaging and highly visible impeachment process. If Trump wasn't to make the election, then we would likely end up with Democrat Elizabeth Warren running against a more traditional Republican nomination – and markets would have to price this in.

Were this to be the case, the outcome would likely be the appointment of a US administration that governs from the centre. While Warren has views on financial regulation and Wall Street that put her firmly to the left of her party, the US system of checks and balances, and a Senate that is likely to remain in Republican hands, would mean adopting a more moderate stance to secure Congressional approval for many of her policies.

With a new government, we could see a more positive, consensus view on global growth, as well as a U-turn on environmental policy, with the US abandoning its decision to quit the UN 2015 accord on climate change mitigation and laying the ground for the US Treasury to potentially issue its very first green bond, an idea that currently seems inconceivable. In other words, for markets, a move back to the centre would be a return to the norm.

Ultimately, a Trumpless presidential race would in fact benefit markets. Trump's style of governing is completely unpredictable, and he can distort markets overnight with a single Tweet. A more centrist government would help remove some of the risk premium out of asset values, which could have a big impact on valuations globally.

2. The end of easy money

Central banks decide to give up on quantitative easing (QE). One could argue the QE experiment has run out of steam and as the global economy continues to weaken, we could see the introduction of alternative stimulus measures.

The most likely approach in our view would be through fiscal stimulus. It doesn't take a huge leap of imagination to picture one country drawing the line under QE and committing to large-scale spending instead. A government could attempt to fuel the economy through infrastructure and healthcare spending or even the green economy.

Ultimately, when it comes to fighting the next downturn there are few weapons left in the arsenal. The stimulus options are few and far between and we think it's likely that governments and central banks will be forced to experiment with spending their way out of the next global slowdown.

3. Value back in fashion

Tied in closely with the continuing global slowdown and the potential for new stimulus measures is the prospect of a rotation back into value. In fact, we think this rotation could be a major feature of equity markets in 2020. For it to occur, bond yields must rise.

Withdrawing QE would encourage this, as would an expansion in government expenditure. On top of this, QE has been incredibly beneficial for high-growth, momentum stocks such as the FANGs (Facebook, Amazon, Netflix and Google) and newer entrants to this space. Yet it is precisely the business models of these start-ups such as WeWork and Peloton, with their reliance on cheap debt to fuel their expansion, that are beginning to show signs of strain. Once the owners of these assets, who have done well to this point, begin to feel risk rising, any bad news will cause a scramble for the exit. If this takes hold, it will encourage a shift towards the securities that have been unloved up until this point.

This rotation would suit us as we are structurally biased to value when it comes to equities, while defensively positioned overall as we believe the situation will get worse before it gets better. In terms of exposure to bonds, we are keeping an eye on the journey to value and will decrease duration when we feel the time is right.

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