# Investing ideas amid the uncertainty

Federated CIOs see opportunities in cash, yield-curve positioning and growth stocks.

Published 08-14-2019

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After an eventful and, from a performance perspective, positive first half, Federated's chief investment officers for global liquidity markets, fixed income and equities see challenges—and opportunities—into fall. All three expect the low-rate environment to continue but don't anticipate a recession and are keeping an eye on potential negative surprises arising out of a possible hard Brexit and the Hong Kong riots. Below they share some key thoughts.

**DEBBIE CUNNINGHAM, GLOBAL LIQUIDITY MARKETS**

We think one word best describes short-term rates at this juncture: "overdone." July's rate cut was not necessarily warranted from an economic data standpoint, but the Fed appears somewhat disjointed as trade and geopolitical events distract from fundamentals. We expect at least one more rate cut this year, probably two, putting the fed funds target range around 1.5-2%.

Nonetheless, we anticipate cash will continue to be viewed as an attractive asset class—we've experienced significant, above industry-trend growth in assets across prime, government and municipal markets this year—for three primary reasons. No. 1, money fund returns tend to be higher and less volatile than longer-term fixed rate securities. No 2, bank deposit rates were slow to move up with Fed rate increases and fast to react on cuts, undermining their competitiveness. And No. 3, in a declining-rate environment, money fund yields tend to lag (average weighted maturities in our portfolios range from 30 to 50 days, for example), making them more attractive by comparison to direct market securities.

**ROBERT OSTROWSKI, GLOBAL FIXED INCOME**

The slowdown effects of the trade war, German manufacturing recession, a likely hard Brexit and the Hong Kong riots—none of which singularly would bring down the U.S. but suggests things could get worse before they get better—led to the Fed pivot. While flatter, the yield curve is still positive on the longer end despite the anchor of more than $15 trillion (!) of negative-yielding sovereign debt spawned by accelerated global easing.

Federated generated significant fixed-income alpha from constructive credit positions and tactical interest-rate moves the first half of the year. Going forward, we think it's more about holding on to as opposed to significantly adding to those gains amid the current volatility. Thus, we are close to neutral on credit with very modest overweights to high yield and emerging markets and expect to remain around neutral on duration. On the yield curve, we are positioned for a steepener that can work either way: a bullish steepener (short rates declining faster than longer rates) if the Fed continues to act aggressively amid global turmoil and/or a worsening slowdown, or a bearish steepener

(rates rising across the curve but faster on the longer end) if growth and inflation pick up. Because rate cuts elsewhere are feeding dollar strength, currency is more idiosyncratic and dependent to some extent on whether the Trump administration seeks to intervene as threatened. What it would/could do isn't clear.

**STEVE AUTH, GLOBAL EQUITIES AND ASSET ALLOCATION**

When we made our 3,100 forecast for the S&P 500 this year toward the end of 2018, the market was at 2,650 and in a downtrend, ultimately hitting 2,351 10 days later. But then as now, we tend to take a longer view and felt that the Fed would pivot (it did), global stimulus would come in waves (it has) and earnings would slow but remain positive (they have). We also thought there'd be a China resolution by now and didn't think bond yields would fall so much (though short of recession, the lower yields strengthen the case for equities).

We have been watching Hong Kong carefully and think President Xi has been getting bad information about the negative impact of the trade war on his country. This is a key reason we have been peeling back our equity overweight in our PRISM® stock-bond model, taking profits on the market's advance as we gradually lowered the equity overweight from 80% of maximum in late winter to 30% currently. We've debated if we should take it to neutral on China volatility and Brexit but believe the market is likely to go considerably higher and above 3,100 longer term, so we don't' want to trade out of a good position. In terms of portfolios, we think investors should stay focused on growth and eventually may wish to consider international, which has been beaten up so much that it arguably has enormous catch-up potential if and when we get through this uncertain trade and Brexit period.

**TAGS**

EQUITY FIXED INCOME LIQUIDITY

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