85%

Proportion of 2018 Japanese trades that were automated

Terry Farrow on Global Equity Income

(IA) Global Equity Income: Over three years

	3yr % chg	Rank	Vol monthly	Fund size (£m)	Morningstar rating™
Top 5					
Merian Global Eq Inc (IRL)	48.41	1	3.13	134.52	★★★★★
Schroder Global Equity Income	48.20	2	2.93	326.96	★★★★
Kempen (Lux) Global High Dividend	46.17	3	2.87	273.89	★★★★
JPM Global Equity Income	44.87	4	2.90	80.01	★★★★
Baillie Gifford Global Inc Growth	44.77	5	2.76	525.87	★★★★★
Bottom 5					
Amundi SICAV II Glb Eq Trgt Inc	27.21	34	2.46	6.18	★★
SLI Global Equity Income	26.97	35	2.94	123.61	★★★
Sarasin Global Higher Div	26.37	36	2.20	86.73	
Davy Defensive Equity Income	22.19	37	2.51	16.73	★★
AB Global Equity Inc	20.12	38	2.56	4.14	
SECTOR AVERAGE	35.72		2.90	343.00	

Performances calculated bid to bid, net income re-invested, GBP to 13/04/19. Source: © 2019 Morningstar.

Bull Points

Corporate revenues profits are still growing

Interest rate increases have been halted worldwide

Bear Points

World economy is awash in debt at \$270trn

Corporate profits have peaked while the global economy is slowing

Debt has become the opioid crises of the global economy. A strong recovery by financial markets this year has lulled investors into complacency about the risk of a major correction soon.

Fuelled by modern monetary theory – based on the notion that nations can pile on debt with impunity - the world has been borrowing and spending like no tomorrow. In just over a decade world debt has soared by \$100trn to around \$240trn – equivalent to 270% of GDP.

What started as a short-term fix to prevent the global economy from sliding into a slump in 2008 has turned into a chronic habit the world seems unable to kick. History shows excessive accumulation of debt ultimately ends in tears. With interest rates already low, central banks have little room to re-inflate should conditions deteriorate.

Despite quantitative easing (QE), global growth continues to slow as additional infusions of money have a diminishing impact. Europe is on the verge of tipping into recession, led by Germany. The US has seen a sharp slowdown as the effects of Trump tax cuts wane. Chinese growth is at a multi-year low as it pivots its economy to domestic consumption.

Given weakening fundamentals, equities, led by US technology stocks, look priced for perfection with the S&P 500 index valued at about 18 times prospective earnings. Bond yields also look

Long-term cycle analysis also flags a secular bear market ahead as the third 20-year upwave in the broader 60-year Kondratieff cycle gives way to a downturn. This is already overdue but has been extended by central bank QE policy.

Contrarians may dismiss the concerns on the grounds that US unemployment is near record lows, which should keep consumer demand ticking. New technologies could also continue to support high corporate profit margins.

Investors, however, should prepare for the worst. In equities that means favouring value over growth: utilities and other defensive sectors such as staples offering sustainable above-average income look attractive as do large-cap miners, which are backed by hard assets.

Terry Farrow is a senior chartered investment manager at Charteris