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Portfolio Construction Forum
Economic Scenarios

AUGUST **2023**

Bullish, Bearish, and Neutral Scenarios: Navigating the Next Three Years

1. Bullish Scenario: Embracing Optimism

In a bullish scenario, we see a positive outlook for the economy and market. The key factors that contribute to this optimistic view include:

1. Economic Growth: The economy is expected to experience robust growth, surpassing previous estimates. Factors such as increased government spending, strong consumer demand, and technological advancements contribute to this positive trajectory.
2. Productivity Gains: One of the driving forces behind the bullish scenario is the potential for significant productivity gains. Technological innovations, such as artificial intelligence and automation, have the potential to revolutionize various industries and drive efficiency and growth.
3. Fiscal Stimulus: Governments around the world continue to implement fiscal stimulus measures to support economic recovery. These measures, combined with accommodative monetary policies, create a favourable environment for businesses and investors.
4. Increased Competition: The introduction of stronger competition policies fosters a more dynamic and vibrant economy. By preventing monopolistic practices and promoting fair competition, productivity and innovation can flourish, benefiting both businesses and consumers.

However, it is important to remain cautious and monitor potential risks, such as inflationary pressures and the need for central banks to adjust their policies accordingly.

2. Bearish Scenario: Navigating Uncertainty

In a bearish scenario, we anticipate a more challenging economic and market environment. The following factors contribute to this negative outlook:

1. Disinflationary Pressures: There is a risk of prolonged disinflation or even deflation in certain regions. Factors such as weak consumer demand, excess capacity, and global economic headwinds can create a deflationary environment, impacting economic growth and investment returns.
2. Tightening Financial Conditions: As central banks respond to potential inflationary pressures, there is a risk of over-tightening monetary policy. This tightening could result in a credit crunch, particularly in the banking sector, which could have adverse effects on the real economy.
3. Geopolitical Uncertainty: Geopolitical tensions, trade disputes, and protectionist measures can disrupt global supply chains and increase costs for businesses. These uncertainties can hinder economic growth and market stability.
4. Government Debt Burden: The significant increase in government debt levels, coupled with the need to address fiscal imbalances, poses risks to long-term economic stability. Higher debt levels can lead to higher interest rates and reduced fiscal space for future investments.

Navigating the bearish scenario requires careful risk management, diversified portfolios, and an emphasis on defensive strategies. It is crucial to stay informed, monitor market conditions, and adapt investment strategies accordingly.

3. Neutral Scenario: Muddling Through

In a neutral scenario, we anticipate a moderate economic and market environment with no significant disruptions or major shifts. The key features of this scenario include:

1. Moderate Economic Growth: Economic growth remains steady but not exceptionally strong. Factors such as stable consumer spending, moderate inflation, and cautious business investment contribute to this balanced outlook.
2. Interest Rate Stability: Central banks maintain a cautious approach to monetary policy, keeping interest rates relatively stable. This stability provides a supportive environment for businesses and investors, allowing for long-term planning and investment decisions.
3. Market Volatility: While overall market volatility may be relatively low, periodic fluctuations and short-term uncertainties may arise. These fluctuations can present opportunities for astute investors to capitalize on market dislocations and identify undervalued assets.
4. Policy Coordination: Governments and central banks work in tandem to address economic challenges and maintain stability. Coordinated fiscal and monetary policies create a balanced approach to support economic growth and mitigate risks.

In a neutral scenario, it is essential to adopt a diversified investment approach, focusing on a mix of defensive and growth-oriented assets. Staying informed about market developments and maintaining a long-term perspective are key to navigating this environment successfully.

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Conclusion

While the bullish scenario offers optimism and growth opportunities, the bearish scenario reminds us of potential risks and challenges that may require careful navigation and adaptability. Meanwhile, the neutral scenario provides a balanced outlook that relies on collaboration amongst policy makers as well as astute decision-making in order to steering through a narrow path towards a soft landing.

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