
Forecast from Morgan Stanley: Slightly bullish

By Editor Test Wed, Aug 29, 2012

Sellers of risk protection might not take comfort in its expectation of low rates until 2014, however.

Morgan Stanley Smith Barney's Global Investment Committee has released a cautiously positive economic and financial outlook this month, at least from the viewpoint of risk sellers. It expects further monetary easing by the Fed and the European Central Bank to "support risk-asset markets and eventually the global real economy." Sellers of risk protection might not take comfort in its expectation of low rates until 2014.

On various asset classes, MSSB said its position is:

- Overweight: Investment grade and emerging market bonds and managed futures, emerging market equities, and US region equities. Within US equities: large caps, growth.
- Market weight: Total equities; commodities, short-duration and high yield bonds.
- Underweight: Cash, developed-country sovereign debt, developed market equities, inflation-linked securities and global real estate investment trusts.

On economies, the position is:

- We expect global growth to remain positive this year and next, despite the fact that Europe is in recession and growth is slowing in the U.S. and most emerging market economies.
- Globally, we expect core inflation to abate; fundamentals and policy options in emerging market economies are generally more robust than they are in the developed market economies.

On profits:

- Expect a softening of 52-week forward earnings per share. The S&P 500 forward earnings figure remains below \$111, down from nearly \$112 in early summer.
- Forward earnings per share for global equities has dropped under \$28 from more than \$30 last summer.

On interest rates:

- In developed markets, central-bank policy rates are likely to remain low at least into 2014.
- The Federal Reserve will probably embark on a third round of Quantitative Ease.
- The European Central Bank will further support EU sovereign debt markets and major European banks.
- Emerging market central banks have begun easing to offset slower growth.

On currencies:

- In the short-term, we expect US-dollar strength versus the euro will persist in the short-term.
- Longer term, major developed market currencies will likely decline against several emerging market

currencies.

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