Warsaw, January 2019

Stable interest rates, slower growth, stock price rebound by the end of the year.

The fund managers of Union Investment TFI have produced the forecasts for 2019.

- The economic peak is over – GDP will continue to grow, but at a slower pace. Poland's GDP will slow down, but the 2019 GDP growth in Poland will still be good, compared to the GDP growth recorded in other parts of the word.
- Our forecasts show that companies resistant to economic cycles, defensive and "value" companies, might attract investors' attention.
- Polish elections, Brexit, global trade wars – these are the risk factors to be considered by investors in 2019.

Global economy

Global business fears global economic slowdown – our forecasts show that capital expenditure cuts will take place at a larger scale, which will be caused by e.g. trade wars or the restrictive monetary policy. We forecast that global economies will grow, but they will not reach their full growth potential. All revised forecasts assume a decline in the GDP growth all over the world.

We expect slight rises in the U.S. The FED policy will be directed at the monitoring of the real economy figures. Following the December increase in interest rates, another upward adjustment should be expected in 2019. On the other hand, we do not forecast any interest rate movements in the European Central Bank – following the end of the quantitative easing (QE) program in December 2018, the ECB should keep the interest rates unchanged until the end of 2019.

Inflation

Housing and transport prices are major inflation components in the U.S., while in Europe these are energy and service prices. Our forecasts show that the CPI is not likely to go beyond the inflation target. We expect that, following the Q1 2019 fall, the headline inflation in the U.S. will pick up to 2.7% in Q4 2019. The bond yield might rise – the yield curve in the U.S. might flatten more or even invert. Two-year bonds in the U.S. might reach the 3.2–3.3% level.

Stocks – slower earnings growth

Stock prices should discount the economic slowdown, but a recovery is possible by the end of the year. Investors will prefer "value" and "non-cyclical" companies. The global decline in the earnings growth rate caused e.g. by the suppressed effects of the tax reform in the U.S. is accompanied by the historically high consumer confidence index (CCI). In Poland, underperformance of small companies will be a surprise. A possible scenario for the Polish market assumes a slight recovery by the end of the year, following the downturns recorded in the first three quarters.

Commodities

The ending economic cycle might increase the demand for gold – investors will want

to secure themselves against the growing inflation and the worse performance of risky assets. However, it needs to be remembered that gold prices are strongly correlated with interest rates that – as announced by the FED – will hike in 2019. We forecast that the crude oil demand will be maintained at a level similar to that recorded in 2018. We expect OPEC to intervene, which will affect the supply side. The average WTI crude oil price in 2019 will stand at USD 60/Barrel. On the other hand, the copper demand and supply will record higher deficit – supported with the absence of investments on the part of production companies, the copper price will increase slightly.

2019 risks – what investors may fear

We expect the escalation of trade wars in which there unfortunately are no winners. The risk factors in Europe may include: the approaching Brexit, as regards which there still are far more questions than clear answers; fears concerning Italy's fiscal policy; and the social resistance to reforms in France.

Poland in 2019 – local predictions

The GDP growth will slow down, interest rates will likely remain unchanged, and the inflation will grow at a slow pace

In 2019, the GDP growth will slow down to 3.9% versus 5% in 2018 – the peak is over, but 2019 will still be a very good year for Poland, particularly compared to other economies. The GDP growth will be stabilized by the condition of the state budget that supports Polish bonds. Our forecasts show that the yield of Polish 10-year bonds will stand at 3.3% at the end of the year. In such circumstances, the Monetary Policy Council will not change interest rates, at least by the end of 2019. The dovish approach of the Council will be supported with the inflation path lower than expected in the past months, and with the lower economic growth rate. We forecast that the 2019 inflation will start with small figures and then slowly pick up and reach 2.6% in December.

Defensive and "non-cyclical" companies may grow more than the market

We think that such companies should record a relatively better performance than the entire market. WIG20 will follow other emerging markets. Funds accumulated in Open Pension Funds hang in the balance (Employee Capital Plans have already been introduced and the government may deal with the matter of Open Pension Funds at the end of 2019). We forecast that WIG20, mWIG40 and sWIG80 will continue to fall in 2019, but we see a chance for them to recover by the end of the year.

Risk of weaker Polish zloty

Our forecasts show a risk of a slight weakening of the Polish currency in 2019. This risk is rather external – capital outflows from emerging markets. Polish bonds should be very stable given the fixed base of foreign investors, the record low deficit, and the already forecasted GDP growth of 3.9%.

Opportunities in corporate bonds

The Polish market of corporate bonds should see several interesting issues in Q1 2019. Following the Q4 2018 standstill, we expect greater activity of issuers in the primary market, and greater corporate bond purchase opportunities in the secondary market.

Pre-election sentiments

Parliamentary elections to be held in the fall continue to pose risk. End of May will see elections to the European Parliament that will be the prediction of the parliamentary elections. Uncertainty regarding the election results will arouse emotions, but we do not expect the sentiments to have a material impact on the valuation of assets in 2019.

2019 investment targets of Union Investment TFI for selected asset classes

Fund	Forecast
UniKorona Dochodowy	2.0–2.6%
UniAktywny Dochodowy	2.0–2.6%
SGB Bankowy	2.0–2.6%
UniOszczędnościowy	2.0–2.4%
UniProfit Plus	2.0–2.4%
UniKorona Obligacje	1.5–2.5%
SGB Dłużny	1.5–2.5%
UniObligacje Aktywny	2.1–2.7%
UniObligacje: Nowa Europa	1.0–4.0%
UniDolar	1.9–2.2%
UniEuro	0.1–0.3%
Stock and mixed funds	The stock component is likely to record a positive trend in H2 2019.
Absolute return funds	1–3 x Risk Free Rate (1.7%)