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Macquarie Investment Management releases 2018 Global Investment Outlook: Global equities and sectors within real assets poised to shine in 2018

PHILADELPHIA, December 4, 2017 — Macquarie Investment Management issued its *2018 Global Investment Outlook*, suggesting that there are many asset classes globally worth investor consideration such as global equities and real assets. The outlook, titled *The Way Forward*, provides an in-depth perspective across equities, fixed income, and alternatives and real assets.

"As we close the chapter on 2017 and look forward to next year, many areas of the global investment landscape show promise," said Shawn Lytle, president of Delaware Funds℠ by Macquarie and deputy global head of Macquarie Investment Management. "We believe the hallmark of 2018 will be careful security selection and high-conviction investment decisions."

Following are highlights of the firm's outlooks for specific asset classes:

Global equities

While mitigating factors and risks exist for 2018, such as excessive debt and historically high valuations, Macquarie believes there are reasons for a range of relatively optimistic outlooks from the US to Asian economies. While Macquarie's teams maintain autonomous views and investment processes, John Leonard, global chair of equities for Macquarie Investment Management, who governs the firm's 12 equities boutiques, sees the following themes across the diverse equity teams' current market perspectives:

- In the US, signs of real wage growth, an upturn in capital spending, and resulting improvements in productivity are all potential positives, while passage of tax reform could add another year or two to the current expansion.
- Macquarie sees greater overall potential in developed equity markets outside the US, such as in Europe where fundamentals and valuations are attractive – for example in France, where reforms are driving real economic change.
- Australian equities are facing some headwinds, from energy costs to threats of online retailing, but China's influence remains positive.
- In Asian equity markets, China's evolving growth and innovation goals remain a key catalyst while Japan's structural reforms are driving real gross domestic product (GDP) growth and equity market prospects remain promising.
- Global risks include excessive indebtedness in the government and corporate sectors; sub-par economic growth; political dysfunction; unintended central bank effects; and rising geopolitical conflicts.

According to Leonard, "Investors get a 2% dividend yield. Add in 1% for stock buybacks and another percentage point for modest inflation and then another point or so for GDP growth, and you're looking at a strong argument for base-rate returns on the S&P 500® Index that approach mid-single digits which is in line with our expectations."

Global fixed income

In 2018, Macquarie anticipates steady fixed income markets on the back of global economic momentum, with structural forces continuing to exert a cap on inflation and interest rates. The firm expects a muddle-along kind of year for bond prices, where recession risk is low but upside is contained.

“The Federal Reserve has raised rates a few times and signalled the start of unwinding its balance sheet, while other Central Banks continued with Quantitative Easing and negative interest rate settings, notably Europe and Japan,” said Brett Lewthwaite, global co-head of fixed income for Macquarie Investment Management. “While there has been a subtle shift by Central Banks, when I look around the world collectively, things haven’t changed that much from where we were a year ago. Central Banks continue to be a primary influence in fixed income markets. And if something flares up in 2018 or 2019 that might destabilize economies, it still seems likely that Central Banks would step in to contain the event.”

Key expectations:

- While it’s reasonable to expect positive returns in 2018, Macquarie sees a year when bonds will likely move forward in muddling fashion.
- Although growth appears healthy, Macquarie forecasts rates to remain range-bound, with the 10-year US Treasury rate likely to stay between 2.0% and 2.6%.
- Macquarie believes structural forces limiting inflation should continue to exert their current power.
- Policy makers have narrow options for next steps and their decisions are likely to be predictable.
- Investors are likely to continue to chase yield.

“We are at the point in the cycle – or will be very soon – where investors might benefit from including some high-quality, long-duration assets as a source of balance in their portfolios,” said Roger Early, global co-head of fixed income for Macquarie Investment Management. “Duration is not the enemy. In fact, we don’t expect rates to rise materially. That may be the contrarian view and, to be sure, if you’re building a one-asset portfolio, we wouldn’t suggest that it consist totally of high-quality, long-duration bonds.”

Real assets

The coming year looks compelling in infrastructure, even as investors continue to await US policy outcomes. Macquarie believes forces such as mobile technology and the rising global use of liquefied natural gas – where US output is often helping meet global demand – are creating fertile ground for investors. Though it’s hard to say when a government-financed infrastructure program may materialize in the US, many investors appear poised to sign on to funding well-conceived projects, and the health of the global economy appears very positive for infrastructure capital investments.

The past year has also created significant opportunities in real estate. Many global markets rallied higher in 2017 with the continued support of central bank policies. A result is certain real estate markets with stretched valuations but healthy fundamentals that bear watching.

Meanwhile, disruptions in commercial real estate related to the evolving retail landscape have cascading effects that can present opportunities to active investors.

To view the complete *2018 Global Investment Outlooks*, visit: https://www.delawarefunds.com/outlooks-pr

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About Macquarie Investment Management

Macquarie Investment Management is a global asset manager with offices throughout the US, Europe, Asia, and Australia. As active managers, we prioritize autonomy and accountability at the team level in pursuit of opportunities that matter for clients. Our conviction-based, long-term approach has led institutional and individual clients to entrust us to manage $US246 billion in assets as of Sept. 30, 2017. Macquarie Investment Management is a division of Macquarie Asset Management, a global asset manager with $US361 billion in assets under management as of Sept. 30, 2017.

Investing involves risk including the possible loss of principal.

The views expressed represent the Manager's assessment of the market environment as of the date indicated and should not be considered a recommendation to buy, hold, or sell any security, and should not be relied on as research or investment advice.

Duration measures a bond's sensitivity to interest rates by indicating the approximate percentage of change in a bond or bond fund's price given a 1% change in interest rates.

The **S&P 500 Index** measures the performance of 500 mostly large-cap stocks weighted by market value, and is often used to represent performance of the US stock market.

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