UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

Micro Focus International plc

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How to invest in 2020 (and through to 2030)

A few themes were constants across many of the big investment banks in their outlooks for 2020: caution, safety in dividends, potential volatility from binary political events such as the US election, plus a hope that the UK economic outlook will become clearer.

Goldman Sachs says "markets will need to learn to fly on their own" without the support from central banks, after a year when central bank easing helped the S&P 500 to its best performance in six years.

Overall 2020 investment vision
A boost to global markets will be higher economic growth in most regions, says Goldman Sachs, predicting that after two years of slowing global growth, there will be a modest pick-up to 3.4% in 2020 from 3.1% in this past year.

The UK is seen as one of the regions where sequential growth will pick up most, if there is a reversal of the Brexit drag and Boris Johnson's government is able to loosen the purse strings.

HSBC says economic growth is "most likely to muddle along, suggesting that a global recession and V-shaped recovery is unlikely to materialize. Such a scenario paints a relatively lacklustre picture for equities".

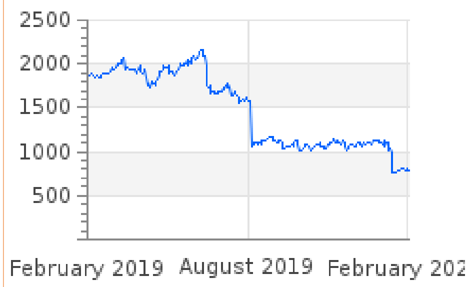
With some 'binary' events on the horizon, markets are "likely have to price the extremes of the events as we get closer", which will lead to heightened volatility and large whip-saws in prices, meaning HSBC recommends that investors should be "nimble, looking for opportunities to 'buy the dip' and 'sell the rally'".

These events with binary outcomes will create heightened levels of "two-way uncertainty", agreed UBS, leading its strategists to be pretty cautious overall, seeing global growth as likely to "remain muted" and so clients are recommended to invest where there is less exposure to political outcomes.

"Within equities, we recommend opting for quality and dividends in a late-cycle, low-yield world," UBS said.

Price:	789.7
Market Cap:	£2.63 billion

1 Year Share Price Graph



Share Information

Code:		MCRO
Listing:		LSE
52 week	**High**	**Low**
	2174.5	**731.7**
Sector:		**Software & services**
Website:		**www.microfocus.com**

Company Synopsis:
Micro Focus provides innovative software that allows companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk.

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Equity investments
Indeed, while there is some caution, there are always opportunities spied for potential gains.

Even HSBC's view that there is a "sense of complacency" and that equities are "past their prime", based on valuations having driven the majority of returns in the past year, strategists still see plenty of investment opportunities.

"We would argue that the market isn't appropriately pricing in the economic slowdown given the recent disconnect with performance and earnings revisions," HSBC said, leading it to seek investments in companies with low scope for downgrades but still generating high-single-digit earnings growth.

Where? This sweet spot "is really only likely to be achieved in emerging markets", the bank said, with the EM tech sector set to spur the earnings recovery and China and Brazil seen as the best options.

European shares are viewed by HSBC as being the most exposed to earnings downgrades, given the financial sector's structural issues and various cyclical headwinds.

In a more protectionist world, the recommendation is to diversify globally, choosing domestic and consumer-focused companies "that are likely to provide more reliable returns than those exposed to trade and business spending, which remain dependent on favourable political outcomes to drive performance".

Credit Suisse analysts still see stocks as offering an "attractive return advantage over low-yielding bonds", with the preferred sector being tech, but financials also "attractive".

Deutsche Bank sees equity valuations going into 2020 as "stretched" and even the perception that there is a lack of alternatives "will not be enough" to drive valuations much higher.

However, companies offering single-digit corporate earnings growth "should provide some support" and Deutsche sees further gains in equities indices as "likely over the course of the year", with potential upward jolts coming from the resolution of trade concerns.

Dividends and the hunt for yield
From an investor's perspective, Deutsche Bank also likes dividends "both as a return contributor and as a cash flow generator", with equity yields higher than bond yields in many developed markets to "justify the higher risk associated with equities".

The German bank's chief investment officer said that with low or negative yields likely to remain a reality, he urges investors to "not assume that they can simply sit this out, and wait for higher yields", encouraging investors to "keep an open mind on sources of yield", with emerging markets suggested as a source for bond investors.

Investors should focus on companies paying genuinely sustainable dividends, DB says, "those that can be paid from income and without threatening a company's balance sheet", which "could be a way of coping with the low yields world" and see more people "turn from a saver into an investor".

Amid low interest rates, HSBC agrees that the ongoing "global hunt for yield and a need for safety" will continue — and should support prices of dividend-paying companies.

"Even when adjusted for the underlying volatility of equities, dividend yields are looking increasingly attractive," said HSBC's strategists.

Among European stocks, HSBC recommends investors "take a defensive tilt in their portfolios" but also suggests looking for select areas for cyclical exposure, with 'overweight' stances on utilities, telecoms, consumer staples, consumer discretionary and IT, balanced out by 'underweight' stances on financials, materials, industrials and health care.

Individual stocks
UBS strategists, working with individual sector analysts, highlighted the key 'buy'-rated stocks among the cheapest stocks identified by the bank's quant team.

But only one London-listed name was thrown out by the machine: Micro Focus International plc (LON:MCRO).

Over at RBC Capital Markets, Weir Group (LON:WEIR) and Diageo PLC (LON:DGE) were the only two FTSE names among analysts 30 top 'global ideas'.

While Weir has been seen as an oil & gas engineer, mining is now the key driver of profit and RBC forecasts robust growth for the industry out to 2023 and sees Weir as "one of the best". A price target has been set at 1,800p versus current levels of around 1,550p.

Diageo is doing "pretty much everything right in its pursuit of becoming a 'reliable compounder of growth' in our view" and the Guinness maker is given a 3,500p price target by RBC versus current levels of around 3,110p.

Of all RBC's top tips, the biggest potential gains are seen at Uber Technologies Inc (NYSE:UBER), where there are "four routes to profitability" and the price target of US$64 is more than double current levels, followed by Gilead Sciences Inc (NASDAQ:GILD), a pharma group specialising in HIV and hepatitis C with "multi-blockbuster potential" for its new inflammatory diseases drug.

At Jefferies, the mining analysts have Anglo American plc (LON:AAL) as their top pick for 2020, citing the company's "leverage to a cyclical recovery in commodities, its organic growth in copper, its capital return, and its inexpensive valuation".

Commodity prices are seen as being fuelled by "recent signs of life in Chinese demand, low inventories and major supply constraints", with Anglo "well positioned to benefit" from the upside and given a target price of 2,600p.

Oil giant BP PLC (LON:BP.) was also highlighted as one where "we think investor perception lags an improved reality".

Other investments: US stocks, commodities, the dollar As the focus increasingly turns to the US presidential election in the latter half of 2020, a switch in governments has historically been followed by underperformance from the S&P 500.
The market is also worried about biggest downside risks from a victory by lefty Democrats Elizabeth Warren or Bernie Sanders.

"If such an outcome were to materialize, it could end the recent outperformance of US equities versus the rest of the world," said HSBC, though it currently remains 'overweight' on the US in general.

Other predictions with big implications for some stocks, UBS sees gold outperforming more cyclical commodities, plus a weakening of the US dollar.

Gold is predicted to appreciate but at a slower pace than the near-20% in 2019, the Swiss bank said: "Muted economic growth and now lower interest rates reduce the opportunity cost of holding gold, which does not offer a yield. Political uncertainty could send safe-haven flows into gold. And since gold is priced in USD, a weaker dollar would in turn push gold prices higher."

The greenback will receive much less support from the helpful factors from recent years; with US growth and interest rates "closer to those elsewhere in the world, and uncertainty ahead of the US election and the waning effect of tariffs suggest a weaker greenback is likely".

RBC's global stock picks included several Wall Street names, including Salesforce.com (NYSE:CRM), Visa Inc (NYSE:V) and Alibaba (NYSE:BABA), as well as Canada's Constellation Software Inc (TSE:CSU).

Looking to the decade ahead

As we come to the end of the decade, some analysts are looking further into the coming '20s.

"Over the next decade," says UBS, "we expect working-age populations in high-income countries to shrink, deglobalization to gain momentum, and a less favorable political backdrop for high-income individuals to emerge."

Investors planning for the long-term should anticipate "lower returns and higher volatility" for most financial assets than in the past decade, while those targeting a given level of return "may need to increase their holdings of equities or accept lower returns".

It's difficult to plan 10-years ahead, but "growth" and "sustainability" seem fairly safe themes to go for.

"We see opportunity in companies that enable and benefit from digital transformation and genetic therapies, and in those alleviating water scarcity," UBS elaborates.

"By shifting toward sustainability-focused investments, we think investors will be better positioned to benefit from what are likely to be the most significant trends over the next decade," it adds