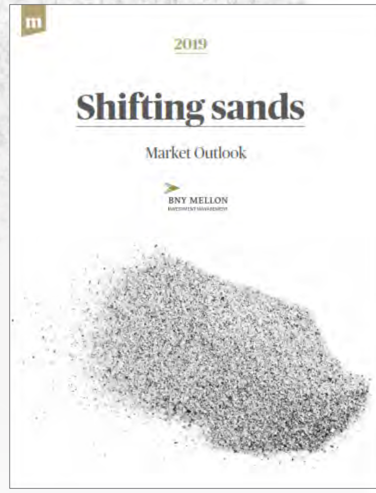
BNY MELLON

THE 2018 DEPOSITARY RECEIPT

# Market Review

# 2019: A Global Outlook

**Excerpt from "Shifting sands: Market Outlook" BNY Mellon Investment Management**




Inflation, trade wars and euro debt are among the potential headwinds for the world's economy in 2019, but that doesn't mean the overall global picture is necessarily a negative one.

If 2017 was the year of synchronized global growth, 2018 was the year the global environment diverged as the U.S. powered ahead while the rest of the world stumbled. Ten years into a record-length recovery and attendant bull market in the U.S., the divergence between the strong U.S. economy and the rest of the world, along with a determined Federal Reserve (Fed), ultimately roiled global equity markets from Beijing to London to New York.

As we look to the investment environment in 2019, we believe the global picture will remain relatively benign. Global growth is still positive for the developed economies, even if the pace of increase for most countries is slower than in 2017 and 2018. While China and Europe will likely slow further, the U.S. will likely remain the consumer of last resort, powering the global economy. Several emerging markets such as Turkey and Argentina have experienced weakening external funding vulnerabilities, but there has been no contagion to other emerging economies and pockets of strength persist.

Global inflation expectations are well anchored in the developed economies, lessening the chance of inflation spikes. While the Fed will likely tighten at least twice in 2019, we, like the market, are skeptical of a third rate hike in 2019. In addition, lower average employment across the G7 is not leading to corresponding wage gains and rising inflation, as the Phillips curve appears to be flat[1].

## We do not foresee a spike in long rates, leaving markets with a constructive backdrop.

As a result, we do not foresee a spike in long rates, leaving markets with a constructive backdrop. We also believe that the European Central Bank (ECB) may choose to push out its first rate hike since the financial crisis into late 2019 or even early 2020. The U.S. dollar could creep higher in 2019, but any Fed pause or Brexit clarity in Brussels would put a halt to its march. Under these expectations, we believe the worldwide market sell-off in 2018 presents an opportunity in risk assets in 2019, and bonds will remain negatively correlated with equities, allowing standard multi-asset portfolios to perform. While risk assets may not appreciate as steadily as in the recent past, the firm global backdrop will likely support asset prices.

Despite this, we believe that greater market volatility is in store for 2019 as the risks to this constructive scenario come from trade tensions, global tightening of financial conditions, and fears about debt sustainability and banking stability in Italy.

The U.S. trade conflict with China has yet to be resolved. The Trump administration, while it started with a focus on trade deficits, is honing in on China's forced technology transfer, surveillance of foreign businesses, and President Xi's plans for China 2025, a direct threat to U.S. technological domination. These issues are unlikely to be solved quickly. The U.S., as a relatively closed economy, can presumably withstand this pressure in the aggregate particularly as growth remains strong, but the Chinese economy will feel the pain. As worldwide trade contracts, Europe and emerging markets will be affected as their growth is more dependent on global demand.

Further, 2019 will mark the end of monetary global easing by the developed markets' central banks and the beginning of quantitative tightening. (The U.S. has already rolled off ~U.S.$400bn of Treasury and mortgage-backed security assets through the end of November and is currently at a U.S. $50bn per month pace[2].) Japan remains committed to extraordinary monetary policy, but Europe marked the end of its Asset Purchase Program, the monthly net purchasing of public and private sector securities, at the end of 2018.

Finally, the Euro area remains vulnerable to risks in the financial sector and we note that the European banks still own the sovereign debt of their home countries. Italian banks are the most exposed to their own national debt but exposure is high for Spanish and Portuguese banks as well.

1 The Phillips curve is an economic concept developed by A. W. Phillips stating that inflation and unemployment have a stable and inverse relationship. The theory claims that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment. *Source:* Investopedia, December 13, 2018.

2 U.S. Federal Reserve, as of November 30, 2018.

# Depositary Receipt Market At-A-Glance[1]

**156.5** billion DRs traded, valued at **$4.2** trillion

**$15B** raised through **49** DR offerings

**57** new sponsored DR programs created

**44** new unsponsored DR programs created

**3,049** total DR programs in existence

> "Market volatility in the equity markets in 2018 led to a record 156.5 billion DRs being traded, further demonstrating how the DR product remains an important instrument for investors looking to invest internationally."
>
> — Christopher Kearns
> *CEO, BNY Mellon Depositary Receipts*

# Depositary Receipt Ownership[2]

| Geographic Region | Institutional Holders | DR AUM (USD, BN) | DR AUM (YoY Change) |
|---|---|---|---|
| North America | 3,102 | $729 | 2% |
| Europe, Middle East & Africa | 1,540 | $216 | 0% |
| Asia Pacific | 508 | $69 | -2% |
| Latin America | 144 | $6 | 29% |
| **Total** | **5,294** | **$1,020** | **1%** |

| Top 10 Institutional DR Holders | Number of DR Holdings | DR AUM (USD, BN) | % DR AUM in EMEA | % DR AUM in APAC | % DR AUM in LATAM |
|---|---|---|---|---|---|
| Fisher Investments | 186 | $28 | 57% | 35% | 8% |
| Capital World Investors (U.S.) | 70 | $26 | 60% | 29% | 12% |
| The Vanguard Group | 192 | $24 | 22% | 67% | 11% |
| BlackRock Fund Advisors | 362 | $23 | 23% | 71% | 7% |
| Baillie Gifford & Company | 67 | $22 | 6% | 90% | 5% |
| Fidelity Management & Research Company | 202 | $22 | 61% | 29% | 10% |
| T. Rowe Price Associates | 92 | $22 | 33% | 60% | 6% |
| Dodge & Cox | 24 | $18 | 79% | 10% | 11% |
| Capital Research Global Investors (U.S.) | 62 | $17 | 42% | 32% | 25% |
| Wellington Management Company | 163 | $15 | 60% | 32% | 8% |

1 BNY Mellon and other depositary bank websites, as of December 31, 2018.
2 Ipreo, information from public filings as of December 31, 2018.

# Global Depositary Receipt Trading Activity[3]

## Europe, Middle East & Africa

### Regional Trading Activity

| | |
|---|---|
| 61 | Volume Traded (BN) |
| $1,348 | Value Traded (BN) |
| +6% | Value Traded (YoY Change) |

### Top 5 Sectors by DR Value Traded (BN)

| | |
|---|---|
| Pharmaceuticals & Biotechnology | $340 |
| Oil & Gas Producers | $224 |
| Technology Hardware & Equipment | $107 |
| Banks | $96 |
| Mining | $87 |

## Latin America

### Regional Trading Activity

| | |
|---|---|
| 44 | Volume Traded (BN) |
| $508 | Value Traded (BN) |
| +13% | Value Traded (YoY Change) |

### Top 5 Sectors by DR Value Traded (BN)

| | |
|---|---|
| Oil & Gas Producers | $118 |
| Industrial Metals & Mining | $111 |
| Banks | $96 |
| Beverages | $48 |
| Mobile Telecommunications | $18 |

3 BNY Mellon and other depositary bank websites as of December 31, 2018.

## Asia Pacific

### Regional Trading Activity

| | |
|---|---|
| **51** | Volume Traded (BN) |
| **$2,348** | Value Traded (BN) |
| **+46%** | Value Traded (YoY Change) |

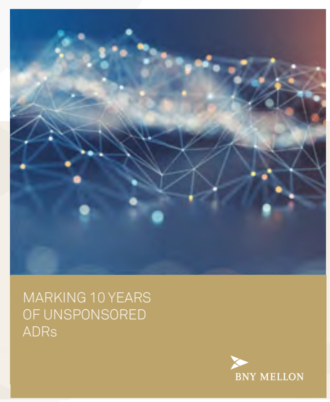
### Top 5 Sectors by DR Value Traded (BN)

| | |
|---|---|
| General Retailers | $1,149 |
| Software & Computer Services | $616 |
| Technology Hardware & Equipment | $107 |
| Travel & Leisure | $94 |
| Media | $59 |

## BNY Mellon Depositary Receipts

### Marking 10 Years of Growth in Unsponsored DRs

In October 2008, the U.S. SEC amended requirements that simplified the establishment of programs that issue ADRs that trade over-the-counter for certain non-U.S.-listed companies. These changes also had the effect of allowing depositary banks to significantly expand the number of unsponsored ADR programs available to investors.




### BNYMellon.com/Newsroom

**BNY Mellon to Offer MSCI ESG Research to Its Depositary Receipt Clients**

**Televisa Tunes in to Investor Needs**

**BNY Mellon Crafts Innovative Debt-To-Equity Program For Oi Telecom In Largest-Ever Latin America Debt Restructuring**

**Slovenian State-Owned Bank NLB Appoints BNY Mellon Depositary in Groundbreaking Slovenian GDR Program to Trade on the LSE**

**BNY Mellon Appointed to Upgrade Suzano Depositary Receipts Program to NYSE Listing**

**BNY Mellon Appointed as Depositary Bank for Tencent Music Entertainment American Depositary Receipt Program**

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**All figures represented in US Dollars**

**The rounding of numbers in tables provided throughout this report may cause sums of subsidiary numbers to vary from the total.**

**Disclosure related to "Shifting sands: Market Outlook" BNY Mellon Investment Management**

All investments involve risk including loss of principal.

Governmental policies in China and changes in those policies could adversely affect the value of any investments in China. The Chinese government continues to exercise substantial control over the economy through regulations and state ownership and foreign investment in the securities of issuers in China is restricted or controlled to varying degrees.

Electric Vehicle manufacturing is at a nascent stage, and companies involved with the development of the vehicles and their associated parts/power sources, may be significantly affected by changes in market demand, obsolescence of technology and related legislation.

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Charts are provided for illustrative purposes and are not indicative of the past or future performance of any Dreyfus product.

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