Politics continues to be a threat for the euro as we head into 2019, with Brexit negotiations going to the wire, and the risk that the confrontation between the Italian government and the European Commission heads into the 11th hour.

One important twilight concern is the potential for a persistent change in the relationship between equities and bonds. In principle, the shock-absorbing capacity of bonds could disappear as an inflationary mindset takes hold. Instead of reducing portfolio risk, bonds could move with equities and exacerbate the problem. There's limited evidence of this so far, but it's a key risk to monitor in order to avert darkness descending upon multi-asset funds.

We expect the pressure on credit markets to continue. The large weight of relatively low quality issuers are vulnerable as uncertainty over future cashflows builds. However, the significant repricing seen in 2018 now provides a more sensible cushion against deteriorating fundamentals. Consistent with our constructive outlook for emerging market fundamentals, emerging market debt (both hard and local currency) looks increasingly interesting as we approach the end of the US tightening cycle.

Watch out for: Italy. It's the cheapest BBB rated sovereign credit, but has the greatest chance of creating a systemic crisis

Left-field risks: An unprecedented cyber-attack with possible geopolitical consequences

The key dynamic in late cycle is that changes in investors' recession probabilities become more likely. That can be very negative if short-term concerns about proximity to the cliff-edge spike higher. But anything which pushes out expectations for the next recession beyond 2020 would be a hugely positive market catalyst.

Twilight is *typically* the precursor to darkness, but not always. During a Scottish summer, for example, dusk runs straight into dawn the next day. The key to thriving in the twilight zone is to watch out for stumbling blocks and try not to jump at shadows. Both will be important in 2019.

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