



Macro views



World

- After a turbulent winter, there are tentative signs of improvement in the global economy. On the other hand, downside risks are elevated and could yet derail the expansion. Reconciling our optimistic baseline forecast with heightened risks is the key challenge moving forward
- On the bullish side of the ledger, China is showing signs of improvement and the US looks healthy, despite an expected temporary slowdown in first quarter growth. A positive trade deal between the two economies would be a notable boost
- The bigger risk to the global economy comes from Europe, where growth is low and falling. We expect conditions to stabilize this year, but are attentive to the risks. The ECB is unlikely to substantively shift policy in the near-term, leaving the economy fragile and exposed.



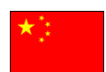
United States

- We have revised down our forecast for first quarter GDP growth to an annualized pace of 1.5%. Nevertheless, we continue to expect growth to remain strong through the rest of the year and for the economy to end 2019 2.3% larger on a Q4/Q4 basis. The labour market continues to strengthen and signal further gains in consumer spending. Tax cuts and fiscal spending acts as tailwinds and are expected to remain supportive through 2020
- Our research suggests that inflationary risks remain. When the labour market is tight, i.e. the unemployment rate is more than one percentage point below its natural rate, the Phillips curve steepens. This means that future drops in unemployment will be more inflationary than prior drops have been in recent years
- The notable downside risks includes – (i) escalation of trade war; (ii) sharp tightening in financial conditions and (iii) slowing China/Euro area growth dragging US growth lower too. On the other hand, there are upside risks if the trade war is resolved productively and if financial conditions ease further.



Eurozone

- Eurozone growth momentum is slowing rapidly. We forecast full year growth of 0.9%, with Germany and Italy both set to lag at 0.5% and 0.3% growth, respectively. For the euro area as a whole, that means growth will be right around its trend level
- Weak external demand is a key drag, compounded by concerns of cracks appearing in domestic resilience –weakening job and capex indicators. German manufacturing is in contraction
- However, there are signs of stabilization. Our SIREN momentum and surprise indexes both rebounded over the last month, along with some of the latest hard data (e.g. German retail sales, French consumer spending) and survey indicators (e.g. euro area aggregate PMI rising again)
- Risks are mainly on the downside –“No deal” Brexit, trade war escalation (auto tariffs by US), or a debt event in Italy could tip euro area economy into recession



China

- After a modest slowdown in real GDP growth last year, we anticipate further economic deceleration and forecast growth at 6.1% in Q1 and 5.9% in Q2. The official PMI printed in contraction territory for its third consecutive month
- However, financial conditions have eased recently, helping credit growth to pick up. Total social financing grew at its fastest monthly pace on record in January, though it moderated back in February as Lunar New Year effects weighed on the data
- We expect some degree of policy easing this year. The fiscal deficit announcement was slightly wider than we expected at 2.8% of GDP, with a bigger-than-anticipated tax cut. There are risks that fiscal deficit does revert to being a drag on growth, especially if the property market cools as we expect.
- On the monetary front, we expect a few more interest rate cuts this year as policy continues to ease slightly.



Emerging Markets

- EM is being pressured by the twin effects of softer domestic demand simultaneous headwinds from external sources. We still envision growth to be relatively healthy at 4.5% for emerging markets in aggregate, with a big rebound in Brazil partially offsetting a slowdown in China, India, and other major developed markets.
- This makes us neutral on emerging markets for now, though we remain constructive over the medium term. The risks are for mostly external, if growth slows more sharply in China, the US, and/or Europe
- Asia growth momentum has slowed the most and focus will be on China and export oriented economies (Singapore, Taiwan etc). In LatAm, outlook for Brazil and Mexico looks marginally positive while Argentina is expected to continue to contract. In CEEMEA, countries face idiosyncratic risks: Turkey (CBT action), South Africa (fiscal issues and possible rating d/g) and Russia (sanctions risk). Also, election in several EM economies (India, Turkey, South Africa, Argentina, Indonesia etc.) could be a source of economic boost



- Monetary Policy**
- **Fed:** Expect one hike in September & one hike in 2020
 - **ECB:** No policy rate tightening until end 2020
 - **BoJ:** On hold, no changes in target yields on YCC, possibly well into 2020
 - **BoE:** One hike penciled in for August 2019
 - **PBoC:** Two more reserve requirement ratio cuts (100bps each) in 2019. Two cuts in benchmark lending rate, 25bps each in Q2 and Q3
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- Key downside risks**
- **Recession:** Sharp slowdown in Chinese and European growth & associated recession/correction in financial markets could subtract 1-1.5 % point from global growth
 - **Trade war:** Significant escalation of trade conflict & an extension to Europe (auto tariff) will also hit growth hard
 - **Crash Brexit:** Hard Brexit would be painful for UK and Europe in particular, causing cumulative GDP loss of ~4% and 1% respectively over 2019-2020
 - **European politics:** European parliament elections, German elections, and Italian debt sustainability will all present risks this year
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- Key themes**
- **Brexit:** Brexit process is heading into final stage with meaningful vote scheduled on 12th March. Our baseline view remains a deal while indicative probability of 'no deal' Brexit is low at 5%
 - **Trade war:** Recent US-China trade talks signals optimism, but there is no breakthrough yet. A positive result could present upside risks to trade and growth.
 - **EU/German Politics:** Anti-establishment parties will gain seats in upcoming elections, potentially undermining effective economic policymaking and exacerbating the difficulty of choosing the next EC President

Market views

- Market sentiment**
- **Higher risks:** Fundamentals are still strong but growth is slowing in Europe and China, and episodes of higher volatility will become more common moving forward
- Equities**
- **Bullish US equities.** While earnings are slowing, the market is pricing for an overly steep slowdown
 - **Neutral European equities.** The recent rebound has taken them back to fair value
- Rates**
- **Strategically bearish.** The market is still underpricing the magnitude of likely Fed rate hikes, especially given our forecasts for inflation to gradually rise throughout the year
 - In Europe, the fall in bond yields reflects overly pessimistic views on the economic outlook
- FX**
- **We expect the dollar to depreciate this year due to an unfavourable flow backdrop.** In addition, US political risks will become more relevant as the 2020 presidential election campaign accelerates this year
 - **Bullish euro.** We still expect flows to stabilize, the current account surplus to stay high, and the ECB to move forward with gradual, albeit delayed, monetary tightening
 - **Lean Bullish yen.** The balance of risks for the yen are skewed toward strength versus the dollar
- Credit**
- **Structurally wider, but expect near term relief rally.** Anticipate positive excess returns this year
- EM**
- The growth outlook has softened, making risks for emerging market currencies skewed to the downside
 - Fundamentals argue for lower interest rates and supported credit
- Oil**
- We see some scope for Brent crude prices to rise in the near term, but to ultimately end the year near their current levels

Key macro and markets forecasts

	GDP growth (%)			Central Bank policy rate (%)			Key market metrics				
	2018	2019F	2020F		Current	2019F	2020F	Current	Q2-19	Q4-19	
Global	3.8	3.4	3.5	US	2.38	2.63	2.88	US 10Y yield (%)	2.60	2.95	2.90
US	2.9	2.5	2.1	Eurozone	-0.40	-0.40	-0.25	EUR 10Y yield (%)	0.06	0.20	0.40
Eurozone	1.8	0.9	1.3	Japan	-0.10	-0.10	-0.10	EUR/USD	1.13	1.18	1.25
Germany	1.4	0.5	1.4	UK	0.75	1.00	1.50	USD/JPY	111	104	100
Japan	0.8	0.4	0.2	China	1.50	1.50	1.50	S&P 500	2792	3075	3250
UK	1.4	1.5	1.3	India	6.25	5.75	5.75	Stoxx 600	373	350	345
China	6.6	6.1	6.0					Gold (USD/oz)	1302	1230	1230
								Oil WTI (USD/bbl)	56.9	54.0	56.0
								Oil Brent (USD/bbl)	66.9	63.0	65.0

Current prices as of Mar 12, 2019

- Recent publications**
- [The House View – Spring in sight?](#), 12 March 2019
 - [The House View – At the crossroads](#), 7 February 2019
 - [The House View – 2019 Outlook: Growth to plateau, but not collapse](#), 19-December-2018
 - [The House View – US keeping solid global growth alive](#), 15-November 2018