



The House View

Macro views



World

- Global growth is slowing but remains positive, and we expect conditions to improve next year. We forecast growth in both 2019 and 2020 at 3.1%
- Growth prospects have lifted over the last month due to progress on trade, positive Brexit developments and easing financial conditions.
- Risks remain that trade developments will linger or intensify, while the final Brexit outcome will depend on the outcome of the UK election on December 12.



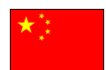
United States

- Economic growth has slowed towards potential, though we have raised our forecasts for this year and next, and now see 2019 growth at 2.3%, before a deceleration to 1.7% in 2020.
- Leading indicators for manufacturing sentiment have rebounded, and no longer point to steep further downside. However, there is some softness evident in the labour market, with jobless claims pointing to potential downside in payrolls growth.
- Federal Reserve easing is feeding through to activity, with home equity loans up, allowing consumers to tap funding.
- The principle risk to our view remains the trade war, on both the upside and the downside.



Eurozone

- The growth downgrade cycle has bottomed out in the Euro Area, and our 2020 growth forecast is at 0.8%.
- Manufacturing sentiment has arrested its decline, especially in Germany. Furthermore, the gap between European new orders and inventories has narrowed sharply, pointing to better growth.
- Uncertainty is elevated, but set to decline. Auto tariffs have not been implemented and Brexit progress is likely after the election.



China

- We anticipate a rebound in Chinese activity over the next few months, and the State Council has signalled policy support for infrastructure. We forecast 2020 growth at 5.9%.
- There are early signs of growth stabilization from the PMI surveys and from actual infrastructure investment, as prior easing filters through into activity.
- Inflation remains a threat, as pork prices are high and rising. This may constrain the PBoC from easing more aggressively in the near-term.
- Positive progress has been made on the trade war, but there is still the risk that talks break down and the confrontation extends beyond trade into financial, technology, security, or other arenas.



Emerging Markets

- We expect emerging economies to grow 4.0% in 2019, down significantly from 2018. We also anticipate a rebound in 2020 to 4.4%, but stimulus is reaching its limit.
- In LatAm, we see growth rising from 0.5% in 2019 to 1.6% in 2020. However, political risks remain key.
- In CEEMA, idiosyncratic factors continue to dominate, although anticipate a rebound in 2020 growth to 2.7%
- In Asia, there are signs of higher activity, but there is limited room for further easing.
- The risks are still skewed to the downside, as US-China trade talks could still resolve negatively and there are idiosyncratic and geopolitical uncertainties in many countries and regions.

Monetary Policy

- **Fed:** Rates on hold for the foreseeable future
- **ECB:** Delivered an easing package last quarter as expected, now rates on hold
- **BoJ:** On hold, no changes in target yields on YCC, possibly well into 2020
- **BoE:** No hike this year, and the policy path is heavily dependent on Brexit
- **PBoC:** Stay conservative, with no easing in near-term

Key downside risks

- **Trade war** – Escalation in US-China trade war, and an extension of tariffs to Europe (auto tariff) would disrupt global trade activity and hit global growth hard
- **Recession** – Prolonged and accelerated weakness in Chinese & European growth & associated global recession / sharp correction in financial markets
- **Geopolitical risks**– Rising tensions between US-Turkey, Iran-Saudi Arabia, or others can spark uncertainty
- **Crash Brexit** – The risks of a no-deal Brexit have receded. Both major parties now support some sort of deal, making the election less risky than otherwise



- Key themes**
- **Global bottoming:** There are signs that the global economy is bottoming out. We now expect an improvement in global growth next year.
 - **Trade war:** There has been a clear moderation in the US-China trade war, though the threat of December tariff hikes lingers and a firm deal has not been concluded.
 - **Brexit:** The election this month will be key, but polls strongly signal that the Conservatives will gain a large majority, which will facilitate the path toward a negotiated Brexit, rather than a no-deal exit.

Market views

- Market sentiment**
- Brexit and trade have moved in positive directions, and there are signs that global growth is bottoming out
 - Monetary easing from central banks is feeding through to the global economy

- Equities**
- Global equities have rallied as better-than-feared earnings have eased recessionary concerns

- Rates**
- We expect further curve-flattening in the US through year-end, supported by seasonal factors and pension demand
 - In Europe and the UK, we maintain our steepening bias

- FX**
- We expect the euro to strengthen against the dollar, although the timing is partly dependent on political developments in the US
 - We also favour the Japanese Yen and the Russian ruble

- Credit**
- Unless there is an unexpectedly strong and sustained rebound in global growth next year, we expect credit spreads to widen next year
 - USD HY will outperform EUR HY, but we are broadly neutral on EUR IG vs. USD IG

- EM**
- Chinese growth should rebound in Q4, though the threat of inflation may constrain more aggressive monetary easing
 - Political risks remain key in Latin America

- Oil**
- We look for oil prices to fall next year, with further downside risks
 - OPEC will leave policy unchanged, with existing supply quotas likely to be extended

Key macro and markets forecasts

	GDP growth (%)			Central Bank policy rate (%)			Key market metrics				
	2018	2019F	2020F		Current	2019F	2020F		Current	Q4-19	Q4-20
Global	3.8	3.1	3.1	US	1.63	1.63	1.63	US 10Y yield (%)	1.83	1.85	
US	2.9	2.3	1.7	Eurozone	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.29	-0.40	
Eurozone	1.9	1.1	0.8	Japan	-0.10	-0.10	-0.10	EUR/USD	1.10	1.10	1.20
Germany	1.5	0.5	1.0	UK	0.75	0.75	0.75	USD/JPY	109	108	100
Japan	0.8	0.8	0.0	China	3.30	3.30	3.00	S&P 500	3141	3250	
UK	1.4	1.2	1.3	India	5.00	5.00	4.75	Gold (USD/oz)	1461	1520	1644
China	6.6	6.2	5.9					Oil WTI (USD/bbl)	56.2	58.0	49.0
								Oil Brent (USD/bbl)	61.6	65.0	53.0

Current prices as of Dec 2, 2019

- Recent publications**
- [The House View: Back on track](#) 2 December 2019
 - [The House View: Shelter from the storm](#) 22 October 2019
 - [The House View: Cushioning downside risks](#) 10 September 2019
 - [The House View: Global monetary medicine on the way](#) 23 July 2019