MACRO VIEWS

- We expect 2020 global growth to increase to 3.3%, up from 3.1% in 2019.
- Growth prospects have lifted over the last month due to progress on US-China trade, positive Brexit developments and easing financial conditions.
- Key themes as (i) important trade negotiations will continue to take centre-stage in 2020; (ii) geopolitical tensions have risen, particularly surround the Middle East; (iii) US elections are taking place in November.

- We upgraded our growth forecast 1.9% in 2020 relative to our last house view publication in early December, driven primarily by stronger consumer spending in H1.
- Leading indicators for manufacturing sentiment have rebounded, and no longer point to steep further downside. However, capex to stay muted as uncertainties shift from trade to politics ahead of `20 election. Consumer fundamentals remain solid with resilient labour market (near 50-year low in unemployment)
- We expect Federal Reserve to maintain policy on hold this year, before further cuts in 2021.

- We have upgraded our 2020 growth forecast from 0.8% to 1.0%, the first upgrade in over a year.
- The first signs that the big rise in uncertainty that characterized 2019 could be starting to reverse. Trade war and Brexit remain the main threats but we also expect auto sector’s to struggle with CO2 regulations.
- We expect the ECB to remain on hold for 2020 with the risks skewed towards further easing. The ECB strategic review is expected to start in January.

- We forecast GDP growth of 1.0% in 2020, before rising to 1.1% in 2021.
- Overall, we expect the general government’s financial surplus to narrow sharply to just ½% of GDP in 2020 and to vanish in 2021.
- We still expect the GroKo to survive with, at best, cosmetic policy changes in 2020.

- We anticipate growth to slow down in 2020 to 6.1%, with the main drivers being consumption and exports.
- Policy will likely remain supportive in 2020. We expect the augmented fiscal deficit to expand to 9.4% of GDP in 2020 from 8.4% in 2019 and 6.4% in 2018.
- We think the PBoC will likely cut the MLF rate – its key policy rate under the new lending rate framework – by 20bps over the course of 2020. This growth/policy mix will be positive for the RMB exchange rate
- Positive progress has been made on the trade war, but there is still the risk that the US steps up export controls and restrictions on China’s tech sector. Moreover, high CPI inflation constrains policy room.

- We expect emerging economies to rebound 4.5% in 2020, after bottoming at 4.0% in 2019. CEEMEA and LatAm to gradually accelerate as Asia stabilizes
- In LatAm, we see growth rising from 0.6% in 2019 to 1.5% in 2020. Brazil’s recovery key amid diverse trends.
- In CEEMEA, idiosyncratic factors continue to dominate, although we anticipate 2020 growth will accelerate
- In Asia, there are signs of export outlook improvement but risks are up in India.
- The 3 key risks are (i) Geopolitics weigh on oil prices and uncertainty; (ii) Social unrest resurfaces in LatAm; (iii) Core yields move higher and/or dollar strengthens.

- Trade war – Any escalation in the US-China trade war, or an extension of tariffs to Europe would disrupt global growth.
- Geopolitical risks – Rising tensions, particularly around the Middle East, could create further uncertainty.
- Recession – Prolonged and accelerated weakness in Chinese & European growth & associated global recession / sharp correction in financial markets.
- Brexit cliff-edge – After Brexit, the UK will then enter a transition period, due to last until the end of 2020, where the future trading relationship with the EU will be negotiated. There remains the risk that a trade deal is not negotiated in this time, setting up another cliff-edge.
MARKET VIEWS

Market sentiment
- We remain cautious about a number of markets
- In spite of the more positive macro outlook, risks remain from a further escalation of trade tensions, geopolitical risks, or a growth slowdown.

Equities
- A maintenance of the 10-year trend channel of the S&P 500 and our demand-supply framework with lower but still robust buybacks, argue for much stronger US returns in 2020. But we see the already pricing in a strong rebound in macro- and earnings growth back up to the peaks of this cycle, much stronger than we expect.

Rates
- Year-end 2020 target of 1.90% for 10-year US Treasury yields and 0% for 10-year bund yields
- The risks to this yield forecast are tilted to the downside in the US and upside in Europe.
- Our US year-end forecast hides a tortuous path. The US election uncertainty and seasonal effects should put some downside pressure on yields in Q2/Q3 before recovering in Q4 once election uncertainty dissipate.

FX
- End-2020 EUR/USD forecast of 1.20. We generally favour Asian currencies to start the year.
- The weaker dollar forecast is premised on rising political risks in the US later this year as well as a material dovish shift from the Fed following the conclusion of its strategy review.

Credit
- Credit spreads to widen in 2020, mostly in H2
- Unless we see an unexpectedly strong and sustained rebound in global growth this year, we think credit spreads will widen due to a combination of stretched valuations and rising recession risks

Oil
- Our bearish call on oil, based on H1-20 oversupply, is postponed but not cancelled.
- The risk premium in the oil price will be dependent on the extent of conflict between the US and Iran.

Monetary Policy
- ECB: Rates on hold, strategic review due to start in January, concluding by the end of the year.
- BoJ: On hold, no changes in target yield on YCC in 2020.
- BoE: Jan rate cut penciled in, though call remains finely balanced, and the policy path is heavily dependent on Brexit.
- PBoC: The PBoC cut the RRR rate by 50bps for all banks on the first day of 2020 and is unlikely to cut it further this year. However, the PboC will likely cut the MLF rate – its key policy rate under the new lending rate framework – by 20bps over the course of 2020.

Key macro & markets forecasts

<table>
<thead>
<tr>
<th>GDP growth (%)</th>
<th>Central Bank policy rate (%)</th>
<th>Key market metrics</th>
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<tbody>
<tr>
<td></td>
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<td>Current</td>
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<td>Global</td>
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<td>China</td>
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Q1 2020 Macro Events Calendar

<table>
<thead>
<tr>
<th>January</th>
<th>February</th>
<th>March</th>
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</thead>
<tbody>
<tr>
<td>03 US</td>
<td>Iowa Caucuses, start of 2020 primaries</td>
<td>03 US</td>
</tr>
<tr>
<td>23 GE</td>
<td>Hamburg State Election</td>
<td>12 EZ</td>
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<tr>
<td>21 JN</td>
<td>Bank of Japan decision</td>
<td>16 UK</td>
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<tr>
<td>24 IT</td>
<td>World Economic Forum at Davos</td>
<td>18 US</td>
</tr>
<tr>
<td>26 IT</td>
<td>Regional elections in Emilia Romagna &amp; Calabria</td>
<td>19 JN</td>
</tr>
<tr>
<td>23 EZ</td>
<td>ECB Decision</td>
<td>26 UK</td>
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<tr>
<td>29 US</td>
<td>Federal Reserve decision</td>
<td>26-27 EU</td>
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<td>30 UK</td>
<td>Bank of England decision</td>
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<tr>
<td>31 UK</td>
<td>UK scheduled to leave EU</td>
<td></td>
</tr>
</tbody>
</table>

Recent editions of The House View:
- The House View: Gaining Speed, 16 January 2020
- The House View: 2020 Macro events calendar, 16 January 2020
- The House View: Back on track, 2 December 2019
- The House View: Shelter from the storm, 22 October 2019