2018 Economic Forecast

10 Things to Know About the Global Economy

January 3, 2018
“Whenever you find yourself on the side of the majority, it is time to pause and reflect…”

Mark Twain

“Stock prices have reached what looks like a permanently high plateau. I don’t feel there will be soon, if ever, a 50 or 60 point break from present levels, such as Bears have predicted. I expect to see the stock market a good deal higher within a few months”

Irving Fisher, Yale Economist, October 17, 1929

“America is now in the eighth year of prosperity as commercially defined. The former great periods of prosperity in America averaged eleven years. On this basis we now have three more years to go before the tailspin”

Stuart Chase, NY Herald Tribune, November 1, 1929

“History doesn't repeat itself, but it does rhyme…”

Mark Twain
One: Synchronized Global Growth Catalyzed By Global Central Banks

Chart 2
Longest stretch of synchronized global growth so far this cycle

As of 31 August 2017
Source: Bloomberg, MSCI

The Global Synchronized Recovery Is Lifting Earnings Estimates
Next 12 Months Earnings Growth - MSCI Regional Indices (Y/Y % change)

YRI GLOBAL GROWTH BAROMETER (on S&P 500 basis) & S&P 500

Source(s): seeitmarket.com, @TopDownCharts.com, Yardeni.com

Morgan Creek
Capital Management
Despite Tightening Rhetoric, Global Monetary Policy Still Incredibly Loose

Monetary Policy – Still a Low-Rate World

Recovering from record low yields

Source(s): Neuberger Berman
Contrary to the rapid global expansion rhetoric, real GDP growth is moderate.

Global Growth is Moderating But Still Positive

PROJECTED GDP GROWTH RATES

Source(s): Neuberger Berman

Two: Global Manufacturing Recovery Been One Of Strongest On Record

Global PMIs

Global PMI Figures

Developed Markets

Emerging Markets

Developed Markets

Emerging Markets

Global Manufacturing Summary

Most Recent Data

Current Reading

6 M Avg

12 M Avg

Source(s): Neuberger Berman, Strategas
Global PMIs Highest Since 2011, Only One Country (South Africa) Below 50

Source(s): seekingalpha.com, JPMorgan, timemoney.com

A synchronised global upswing took hold, as shown by the purchasing managers’ index. This fuelled hopes that the world economy has escaped from secular stagnation.

Sources: ISM; Haver Analytics
Europe Accelerating Off Low Base, U.S. & EM PMI Rates May Have Peaked
Three: Despite $Trillions of CB Liquidity, U.S. Recovery Well Below Average

WITH HELP & TIME, WE’RE GETTING BACK TO AVERAGE!

Source(s): Strategas
Oil Price Collapse May Have Extended U.S. Economic Cycle Like In 1980’s
U.S. GDP Increasingly More Reliant On Personal Consumption Expenditures

Source(s): AdvisorPerspectives.com
Inflation Stubbornly Below Fed 2% Target, PCE Well Below CPI, Skews Data
When Adjust Real GDP For Population Growth, Past Decade Barely Positive

This chart illustrates the differences between real GDP YoY and Real per-Capita GDP YoY.

Source(s): AdvisorPerspectives.com
When Savings Rate Collapses, Signals Much Lower GDP Growth Ahead

Since 1930 the regression coefficient indicates that a 1% drop in the personal saving rate in the current and prior three years will lower the real GDP growth rate by a substantial 0.65%. Considering that the present 3.6% saving rate is lower than all of the initial starting points of economic contractions since 1900, the outlook for ebullient growth is problematic particularly in the context of slow and diminishing income growth.

Source(s): Hoisington Capital Management
Four: U.S. Economic Data Appear To Be Approaching Peak Inflection Point

US Leading Indicators

- ECRI Weekly Leading Index (1992=100, 4-wk)
- Conference Board LEI (2010=100)

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Conference Board and Economic Cycle Research Institute (ECRI).

Citigroup Economic Surprise Index

Source: Citigroup.
Unemployment Rate At Levels Where Recessions Begin, Job Growth Fading

Civilian Unemployment Rate: 16 yr +
SA, %

All Employees: Total Nonfarm
Change - Period to Period SA, Thous

Source(s): Bureau of Labor Statistics/Haver Analytics

Source(s): Strategas
Consumer Confidence At Levels That Precede Recessions, Rolling Over…

Source(s): AdvisorPerspectives.com
Business Optimism Extremely High Due To Expectations For Tax Cuts

NFIB: Small Business Optimism Index

CEO Economic Outlook Survey Diffusion Index

Source(s): Strategas

Source: National Federation of Independent Business/Haver Analytics

Source: Business Roundtable/Haver Analytics
Housing Was Fading Before Hurricane Rebuilding Bump, Tax Bill Negative

New 1-Family Houses Sold: United States
SAAR, Thous

Existing 1-Family Home Sales: United States
SAAR, Thous

Source: Census Bureau/Haver Analytics
Source: National Association of Realtors/Haver Analytics

Source(s): Strategas
Increasing Evidence That #2000Redux Thesis Might Apply In 2018

The last time the world looked anything like this was in 2000. The parallels continue to hold up.

Source(s): GMI
U.S. Economic Indicators Closely Following Path Of 2000 to 2002 Period

Source(s): GMI
Possible That Rates May Not Rise As Much As Some People Expecting…

Source(s): GMI
Govt Revenues Declining Toward Recession Levels, Now We Cut Taxes?

Source(s): Yardeni.com, scottgrannis.blogspot.com
# Gann Financial Time Table & Benner Cycle Point To 2019 For Next Crisis

## W.D. Gann's Financial Time Table

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<thead>
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<th>Year</th>
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<th>Price</th>
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## Extended and Adjusted

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### Source(s)
- Time-Price-Research.com
Five: Central Bank Financial Repression Keeping Lid On Global Bond Rates

Source(s): Strategas
The Trend Is Your Friend Until It Ends...Secular Lows In Yields Likely Ahead

2.44% IS KEY YEAR-END LEVEL FOR 10-YEAR YIELDS

“OK, we won a game yesterday. If we win today, it’s called two in a row. And if we win again tomorrow, it’s called a winning streak... It has happened before!”

Major League, 1989

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Source(s): Strategas

2.44% is the key level for 12/31/17.
Six: Dollar Tends To Peak When Fed Actually Raises Rates, Not After
King Dollar Appears To Have Peaked After 1st Fed Hike, Just As Expected

Source(s): MarketWatch.com, NeubergerBerman.com
Seven: ECB Stimulus Has Been Extreme, Averted Crisis, Challenges Remain

Macroeconomic Statistics for Eurozone

ECB BALANCE SHEET

INFLATION

UNEMPLOYMENT RATE

Even as the U.S. business cycle matures, EA GDP reminds us that area is earlier in the cycle.

EA: Still long on optimism & short on real progress.

Source(s): Neuberger Berman, Strategas
European Growth Recovering, But Sentiment Exceeds Actual Expansion

**Europe Benefitting From Consumption and Improving Labour Market**

- **EUROZONE REAL GDP GROWTH YOY (%)**
  - Eurozone Real GDP Growth (QoQ % SAAR)
  - Moving Average (Last 4 Quarters)

- **CONSUMER CONFIDENCE AND SENTIMENT**
  - Eurozone Consumer Confidence (LHS)
  - Eurozone Consumer Sentiment (RHS)

- **MANUFACTURING AND SERVICES PMI**
  - Eurozone Manufacturing PMI (LHS)
  - Eurozone Services PMI (RHS)

- **UNEMPLOYMENT RATE AND RETAIL SALES**
  - Eurozone Unemployment Rate (% LHS)
  - Eurozone Retail Sales, 6-Month Avg. (% RHS)

*Source(s): Neuberger Berman*
Euro Strength Presents Unique Challenges Based On Current Accounts

**European Country Adjustments – Current Account**

**EURO ZONE CURRENT ACCOUNT BALANCES**

Source: International Monetary Fund April 2017.

Source(s): Neuberger Berman

**Euro**

European HY Trading Below UST? Would You Pay Italian Govt To Borrow?
Eight: Abenomics Appears To Have Awakened Animal Spirits In Japan

Momentum Building in Japan Amidst Stimulus and Improving Confidence

Source(s): Neuberger Berman

Sources: As of May 30, 2017 Bloomberg
Abenomics Spurred Solid GDP Recovery In Japan Strong, EPS Best In DM

JAPAN REMAINS THE WORLD'S 3RD LARGEST ECONOMY & HAS GROWN FOR 7 CONSECUTIVE QUARTERS,

Japan Real Gross Domestic Product (SAAR, Q/Q Pct.)

-1.0%  2.1%  2.0%  0.9%  1.6%  1.0%  2.6%  1.4%

4Q'15  1Q'16  2Q'16  3Q'16  4Q'16  1Q'17  2Q'17  3Q'17

EARNINGS ALSO CONTINUE TO ACCELERATE BUT 4Q EXPECTED TO SLOW ALbeit FROM A TORRID PACE

Nikkei 225 Trailing 12 Month Y/Y Earnings Growth
(Source: Bloomberg)

-4.4%  -16.1%  -18.6%  -5.2%  26.8%  39.6%  50.9%  41.6%

1Q'16  2Q'16  3Q'16  4Q'16  1Q'17  2Q'17  3Q'17  4Q'17 Est.

Prospects for Japan’s Economic Growth

JAPAN TANKAN BIZ SENTIMENT HIGHEST SINCE 2006!

Source(s): Strategas
Kuroda-San Has Pedal To Metal At BOJ, Massive Money Supply Expansion

Source(s): Neuberger Berman

From Near Surplus in 2006 Back to Big Deficits Today…
Nine: China Saved The World (Again), Economic Indicators Very Strong

Source(s): Yardeni.com, Strategas, @DAVIDINGLESTV
China $1 Trillion Stimulus Boosted Global Growth (Again), Now Receding...

China Stimulus Indicators

CHINA: EFFORTS TO REIN IN HOUSING ARE WORKING

New Residential Buildings Prices (YoY%)

Source(s): @TopdownCharts @JP_OB, Strategas
Emerging Market Growth & Valuation Setting Up A Decade Of Dominance

The next big thing is going to be emerging markets (again). Most have spent over a decade correcting...

EM equities would rise to the top of the trend channel, which has been in place since 1957...

Source(s): GMI, Strategas
EM Lending Conditions Back In Easing Zone, Best Liquidity Since 2013

Emerging bank lending conditions survey

EM bank lending conditions survey & real investment spending

Source(s): PKZweifel

Source: Pictet Asset Management, IIF

*Source: Pictet Asset Management, IIF, CBIC, Datastream
Ten: Debt Fueled Bubble Has Created A World Of Pure Imagination
A Trillion Here, A Trillion There, Pretty Soon We’re Talking Real Money...

Source(s): @ttmygh
All This Debt & All I Got To Show For It Was This Lousy Growth…
Then Suddenly It Hit Me What Was Going On, Like A Ton Of Gold Bricks…
Never Been Better Time To #GetReal, Buy Hard Assets & Sell Paper Assets

Source(s): @ttmygh
CRB Index Bounced Hard Off June Gann Turn Date, Lots Of Headroom

When looking at the return data over a decade, recent move barely registers.
Many Have Called Bitcoin A Bubble (Over & Over), Pattern Did Look Similar

Source(s): Coindesk.com, marketpredict.com
We Thought Internet Of Money More Likely Getting Warmed Up For Assault

Source(s): OfTwominds.com, @woonomics
Over Bitcoin History No Shortage Of Challenges, Price Following Parabola
Bitcoin (Crypto) Is Just Getting Warmed Up, Early Majority Now Emerging

We are entering the frenzy phase of crypto

Source(s): @cburniske, @sharkybit

HODLers Doubled In 3 Mos

90%
10%
Diversification Benefits: Small Bitcoin Allocation Has Big Portfolio Impact

Think you’re diversified?
Got cryptocurrencies in your portfolio?

Hypothetical Simulated Portfolio Performance: Trading 12 Months

*Source(s): @RVPub, @GrayscaleInvest, Strategas*
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