Marketing material

The global economy April 2018

Schroders

US economy: what will trigger an end to the cycle?

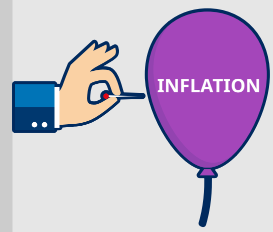
The current expansionary phase is set to become the 2nd longest in history

Length of US expansions from trough to peak (years)

Source: National Bureau of Economic Research (NBER), Schroders Economics Group, 27 March 2018.

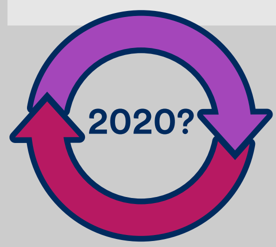
Possible factors that could end expansion:

Companies becoming too highly indebted while consumers cutback spending



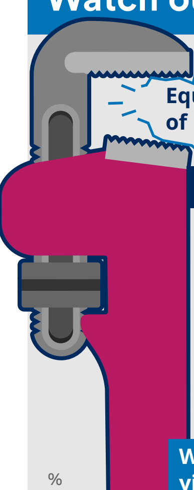
High inflation creating a risk of overtightening monetary policy

China hard landing or trade war



We predict this cycle could end when the economy feels the impact of higher interest rates and the effect of fading fiscal stimulus bites – potentially in 2020

Watch out for rising US Treasury yields

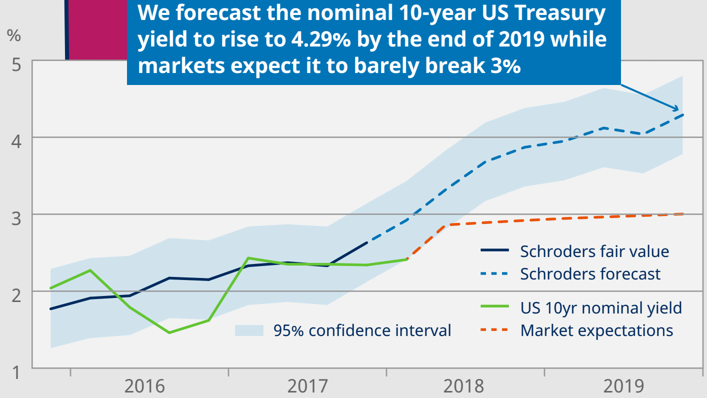


Equity markets have struggled partly due to fears of protectionism but also due to rising bond yields.

Our Schroders US Real Yield Model shows that:

- **Rise in real yield** has been driven by stronger growth and rising real interest rate[1]
- Current real yield is within fair value[2]
- Federal Reserve's shrinking balance sheet is likely to drive higher yields going forward

We forecast the nominal 10-year US Treasury yield to rise to 4.29% by the end of 2019 while markets expect it to barely break 3%



Source: Bloomberg, Schroders Economic Group. 27 March 2018.
[1]Real yield / interest rate = the yield / interest rate you receive allowing for inflation
[2]Fair value = the yield level as calculated by a specific model

China takes a more pragmatic approach

Key takeaways from the 2018 National People's Congress (NPC):

Economic growth of 6.5% for 2018 has been set as an expectation rather than a binding target

Policy changes:

- **Fiscal:** deficit target reduced, but data suggests government spending will remain accommodative
- **Monetary:** targeting "steady growth"of the money supply and potentially looking to control mortgage debt

Liberalisation:

Many sectors are expected to open up to foreign investment while planned closures of loss making state-owned enterprises will continue

Source: Schroders as at April 2018.

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