GLOBAL MACRO LANDSCAPE

Worries Continue to Grow, But Hopes Buoyed by Policy

Guy Bruten Chief Economist—Asia Pacific ex China
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Market Backdrop: What’s The Consensus Narrative?
Worries Continue to Grow, But Hopes Buoyed By Policy Puts

Market pricing and analysts’ views imply a consensus narrative along these lines:

- Risk of recession rising but still not the most likely scenario, thanks to:
  - Monetary easing to support growth (Fed put)
  - China policymakers will do enough to stabilize growth (Xi put)
  - Lower likelihood of material escalation in trade war (Trump re-election put)
- Inflation is dead
- Together, the growth, inflation and policy picture puts a floor under asset prices
Market Backdrop
A Mixed September; But YTD Returns Solid

Global Asset-Price Returns*

Global Equities     EM USD Debt     US High Yield     Global Bonds

- 2016: 8.2%        23.1%        15.6%        15.3%        8.0%
- 2017: 10.2%       10.3%        13.5%        11.2%        6.8%
- 2018: 6.8%        6.3%         0.3%         1.6%         0.7%
- 2019 (Jan–Aug): (8.2)% (4.3)% (1.5)% (0.3)%
- 2019 (Sep): (0.8)%

As of September 30, 2019
*USD terms
Source: Bloomberg
The Macro Cycle
Global Macro Outlook: Key Controversies

As of September 30, 209
Source: AB
Global Macro Outlook: Shifting Probabilities

Heading Into A Protracted Downturn

AB Scenario Probabilities: Old Scenarios

- Central (Muddle Through)
- Downside (Protracted Downturn)

AB Scenario Probabilities: New Scenarios

- Downside (Deep Recession) 10%
- Central (Protracted Downturn) 55%
- Upside (Muddle Through) 35%

As of September 30, 2019
Source: AB
Global Macro Outlook: Forecast Overview

Significant Downward Revisions, Especially To Europe & Japan

AB Global Real GDP Growth Forecast by Vintage*

- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020

Percentage Change

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>(0.4)%</td>
<td>0.3%</td>
<td>0.9%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>1.4%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

AB 2020 Real GDP Forecasts

- China: 6.0% (August 2019), 6.0% (September 2019)
- EM ex Ch: 3.6% (August 2019), 3.5% (September 2019)
- Global: 2.6% (August 2019), 2.3% (September 2019)
- US: 1.8% (August 2019), 1.5% (September 2019)
- DM: 1.4% (August 2019), 0.9% (September 2019)
- Euro: 1.0% (August 2019), 0.3% (September 2019)
- Japan: (0.4)% (August 2019), 0.5% (September 2019)

*World growth based on market exchange rates. Forecast years start in May: i.e. the first forecast for calendar-year 2011 is May 2010 and so on. Except for 2019 which starts in March 2018.

As of September 30, 2019

Source: Bloomberg, Haver and AB
Global Macro Outlook: Roadmap
How Do We Go From “Challenging Environment” to “Protracted Downturn”? 

**Triggers:**
Soaring Uncertainty….
- + Trade ✓
- + Populism ✓
- + Geopolitics ✓
- + Globalisation ✓

**Initial Propagation:**
- + Collapse in Trade Growth ✓
- + Declining Business Confidence ✓
- + Falling Manufacturing Output ✓
- + Rising Inventory Levels ✓

**Response:**
- + Monetary Easing ✓
- + Lower Bond Yields ✓
- + Lower Oil Price ✓
- + Fiscal Boost ✓

**Round 2 Impact:**
- + Spillover to Non-Manufacturing
- + Declines in Capital Spending
- + Labour Market Deterioration
- + Consumer Confidence
- + Consumer Spending

As of September 30, 2019
Source: AB
Global Macro Outlook: It Starts With Manufacturing And Trade

Trade Conflict in Action

World Trade Growth

G7 Manufacturing Output & Final Domestic Demand

As of September 30, 2019
Source: Haver Analytics
Global Macro Outlook: Who’s Most At Risk?
Trade Openness & Policy Flexibility

**Policy Flexibility and Trade Openness**

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade Openness, %</th>
<th>Policy Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>29.3%</td>
<td>High</td>
</tr>
<tr>
<td>Germany</td>
<td>21.1%</td>
<td>High</td>
</tr>
<tr>
<td>Japan</td>
<td>20.7%</td>
<td>High</td>
</tr>
<tr>
<td>EM</td>
<td>19.5%</td>
<td>High</td>
</tr>
<tr>
<td>World</td>
<td>15.6%</td>
<td>Low</td>
</tr>
<tr>
<td>Euro</td>
<td>15.4%</td>
<td>Low</td>
</tr>
<tr>
<td>Italy</td>
<td>15.0%</td>
<td>Low</td>
</tr>
<tr>
<td>DM</td>
<td>14.1%</td>
<td>Low</td>
</tr>
<tr>
<td>US</td>
<td>11.2%</td>
<td>Low</td>
</tr>
<tr>
<td>France</td>
<td>10.0%</td>
<td>Low</td>
</tr>
<tr>
<td>UK</td>
<td>9.0%</td>
<td>Low</td>
</tr>
<tr>
<td>Australia</td>
<td>4.8%</td>
<td>Low</td>
</tr>
</tbody>
</table>

1 Exports plus imports of goods & services as a share of GDP (2018). Euro area countries exclude intra euro area trade. 2AB estimate
As of September 30, 2019
Source: Haver Analytics and AB
Australia’s Cyclical Picture: A Challenging Outlook
Australia Less Globally Exposed, But Has Home-Grown Problems

* Business Conditions, NAB Business Survey
LHS: data through September 2019; RHS: data through August 2019. Source: Thomson Reuters Datastream

* Business Conditions, NAB Business Survey
LHS: data through September 2019; RHS: data through August 2019. Source: Thomson Reuters Datastream
Australia’s Cyclical Picture: A Challenging Outlook
RBA Trying To Get Ahead of the Game – But Is Conventional Easing Enough?

LHS: Inflation data through Q2-2019. Core = average of trimmed mean, weight median and CPI ex Food and Energy. Unemployment rate through August 2019. RHS through 14/10/2019
Source: Thomson Reuters Datastream, Bloomberg
Asia ex Japan: Trade Conflict Continues to Drag
Growth continues to struggle in export-exposed high income economies

*Hong Kong, Singapore, Korea, Taiwan (PPP weighted)
As of September 30, 2019
Source: Datastream, CEIC
Global Macro Outlook: Surprise Indexes Off Their Lows

Manufacturing & Trade Slump Fully Priced?

As of September 30, 2019
Source: Bloomberg
Asia Trade Cycle
Treading Water

Trade data through August 2019; PMI through September 2019
Source: Datastream
Global Macro Outlook: Manufacturing Under Pressure

And It’s Spreading to The US

*At market exchange rates.
As of September 30, 2019
Source: Haver Analytics and Markit
Policy Response is Being Delivered….

Central Banks Are Looking to Counter Global Slowdown

Bank of Japan has bias towards further easing, but question remains what is left in the toolbox

Fed expected to cut rates another 100 basis points over the coming year

ECB rate cuts and more QE in the pipeline, but major doubts over effectiveness

Bank of Canada pauses on raising rates, as it monitors ongoing trade headwinds and a slowing global economy

The PBOC will need to provide additional stimulus to stabilize growth

<table>
<thead>
<tr>
<th>Lower Yields are Also Supportive</th>
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<tbody>
<tr>
<td>10-Year Government Bonds (Percent)</td>
</tr>
</tbody>
</table>

Historical analysis and current forecasts do not guarantee future results.
As of August 30, 2019
Source: Bloomberg Barclays, Central Banks and AB
Global Macro Outlook: Coming Down The Track

Dollar Policy

As of September 30, 2019
Source: Bloomberg
Global Macro Outlook: Coming Down The Track

“It’s high time for fiscal policy to take charge” (Mario Draghi, September 2019)

General Government Budget Balances: 2019E
% of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1.1%</td>
</tr>
<tr>
<td>N'lands</td>
<td>1.0%</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.0%</td>
</tr>
<tr>
<td>Portugal</td>
<td>(0.4)%</td>
</tr>
<tr>
<td>Canada</td>
<td>(0.6)%</td>
</tr>
<tr>
<td>Euro</td>
<td>(1.0)%</td>
</tr>
<tr>
<td>UK</td>
<td>(1.3)%</td>
</tr>
<tr>
<td>Australia</td>
<td>(1.5)%</td>
</tr>
<tr>
<td>Spain</td>
<td>(2.3)%</td>
</tr>
<tr>
<td>Italy</td>
<td>(2.7)%</td>
</tr>
<tr>
<td>Japan</td>
<td>(2.8)%</td>
</tr>
<tr>
<td>France</td>
<td>(3.3)%</td>
</tr>
<tr>
<td>US</td>
<td>(4.6)%</td>
</tr>
</tbody>
</table>

Hypothetical Fiscal “Space”*
% of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>6.4%</td>
</tr>
<tr>
<td>Ireland</td>
<td>5.5%</td>
</tr>
<tr>
<td>N'lands</td>
<td>4.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.1%</td>
</tr>
<tr>
<td>Euro</td>
<td>3.0%</td>
</tr>
<tr>
<td>UK</td>
<td>2.7%</td>
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<td>Canada</td>
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<td>France</td>
<td>1.3%</td>
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<tr>
<td>Australia</td>
<td>1.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.3%</td>
</tr>
<tr>
<td>US</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

*Hypothetical deterioration in the primary budget position that would keep the government debt/GDP ratio stable at current 10-year bond yields. Put differently, the difference between the current primary budget balance and debt-stabilizing primary budget balance at current 10-year bond yields.

As of September 30, 2019
Source: Haver Analytics and IMF
Global Macro Outlook: Heading Into A Protracted Downturn

**Base Case**
- **Growth**: intensifying downturn with no clear end date in sight
- **Inflation**: secular story points to higher inflation but cyclical inflation pressure is down
- **Fiscal Policy**: rising pressure for fiscal response
- **China**: aggressive stimulus helps counter downside growth risks
- **Populism**: a persistent cloud on the investment landscape; set to crystallize (Brexit, trade war, currency war)?

**Central Bank Response**
- **Global**: easing cycle under way; significant doubts over policy effectiveness
- **Fed**: expected to cut rates by another 100 basis points over the coming year
- **ECB**: more rate cuts and QE in the pipeline; even the ECB doubts policy effectiveness
- **BOJ**: biased towards further easing; anything left in the toolbox?
- **PBOC**: additional stimulus still needed to stabilize growth

**Market Implications**
- **Risk Assets**: the outlook has darkened and downside risks dominate; monetary easing to provide near-term support but policy effectiveness uncertain
- **Core Yields**: broken monetary policy to anchor yields close to historic lows
- **USD**: race to the bottom on monetary policy and possible currency war cloud the USD outlook
- **EM Risk**: slower global growth and trade tensions vs. further DM monetary policy stimulus

As of September 30, 2019
Source: AB
Global Macro Cycle: Stuck

- **Growth Rising/Policy Stable**
  - 2017: Risk Assets: ++, Duration: +

- **Growth Weak/Policy Easing**
  - 2016: Risk Assets: +, Duration: ++

- **Growth Slowing/Policy Stable**
  - 2018: Risk Assets: +, Duration: -

- **Growth Stable/Policy Tightening**
  - 2019 Jan: Risk Assets: +/-, Duration: -/-

- **Risk Assets: -/+**
  - 2019/2020: Risk Assets: -/+, Duration: ++

- **Duration: -**
  - 2019:
  - 2020:

Source: AB
Global Macro Outlook: Cyclical & Market Dashboard

Economic Growth
- Trend
  - Recession
  - Boom

Inflation
- Target
  - Deflation
  - Overshooting

Monetary Policy
- No Change
  - Easier
  - Tighter

Risk Assets
- Neutral
  - Negative
  - Positive

Duration
- Neutral
  - Negative
  - Positive

USD
- Neutral
  - Weaker
  - Stronger

As of September 30, 2019
Source: AB
Biography

Guy Bruten
Chief Economist—
Asia Pacific ex China

Guy Bruten joined AllianceBernstein (AB) in 2004 and is a member of the firm’s Global Economic Research team. In that role, he provides macro research coverage for a number of countries in the Asia Pacific region, and is also responsible for conducting thematic research—looking at the impact, for example, of demographic change, the commodity price supercycle and the global surge in populist politics on the outlook for economies and asset prices. Prior to joining AB, Bruten worked in economics and market strategy roles for Macquarie Bank’s Funds Management Group and for SBC Warburg. He started his career in the early 1990s at the Commonwealth Department of the Treasury in Canberra. Bruten holds a BEc from the University of Adelaide and a MEc from the Australian National University. Location: Melbourne
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A short strategy may not always be able to close out a short position on favorable terms. Short sales involve the risk of loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Short selling is a form of leverage. To mitigate leverage risk, a strategy will always hold liquid assets (including its long positions) at least equal to its short position exposure, marked to market daily.

Important Risk Information Related to Investing in Emerging Markets and Foreign Currencies

Investing in emerging-market debt poses risks, including those generally associated with fixed-income investments. Fixed-income securities may lose value due to market fluctuations or changes in interest rates. Longer-maturity bonds are more vulnerable to rising interest rates. A bond issuer’s credit rating may be lowered due to deteriorating financial condition; this may result in losses and potentially default, or failure to meet payment obligations. The default probability is higher in bonds with lower, noninvestment-grade ratings (commonly known as “junk bonds”).

There are other potential risks when investing in emerging-market debt. Non-US securities may be more volatile because of the associated political, regulatory, market and economic uncertainties; these risks can be magnified in emerging-market securities. Emerging-market bonds may also be exposed to fluctuating currency values. If a bond’s currency weakens against the US dollar, this can negatively affect its value when translated back into US-dollar terms.