

# Global Macro Economic Factors

The picture of a slowing global economy and spiraling USA debt

High Level Discussion Document – *Positioning Corporate Strategy*

30<sup>th</sup> July 2019

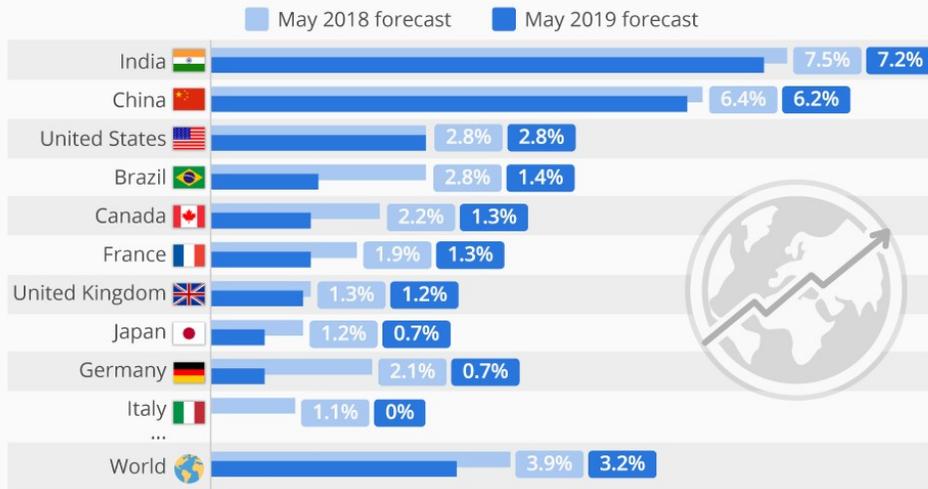


# Global Growth Forecasts

OECD & IMF are both forecasting a widespread slowdown of both country and overall global growth rate

## OECD Slashes Growth Forecast for 2019

Estimated real GDP growth in the world's largest economies in 2019\*



Impacting the global picture at present continue to be entrenched destabilisers such as “Trade Wars” and Brexit

These are being added to now, however, by India’s lower domestic demand and growing “unrest” issues such as the Hong Kong protests which have a real potential to impact this major global business hub

## Global Growth Forecast Remains Subdued

IMF growth projections for the global economy as of July 2019



Anticipated slowdown is across the board – including North America, Latin America, Europe and Emerging Asian nations

The pickup in 2020 has been described as “fragile” and based largely on assumptions that the current issues overhanging markets will completely or partially resolve

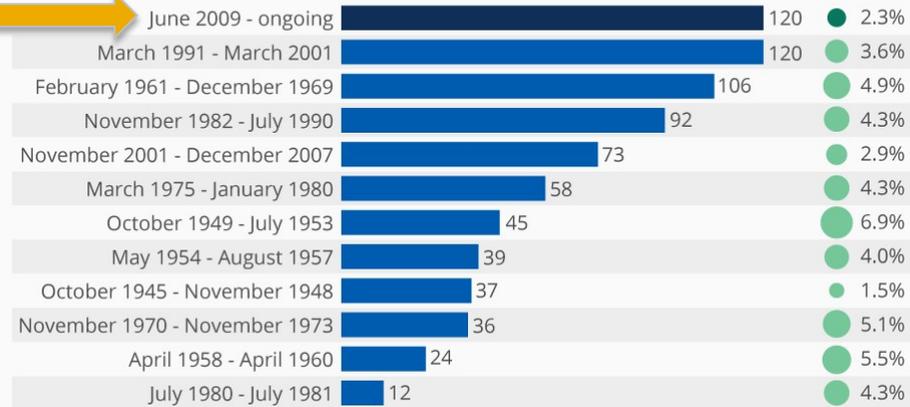
# Will Cutting Interest Rates Prolong Expansion ?

Despite GDP Growth ‘oscillating’ the current expansion in the USA is the longest since World War II

## Current Expansion to Become the Longest Ever

Length of economic expansions in the United States since World War II\*

■ Length in months    ● Annual real GDP growth

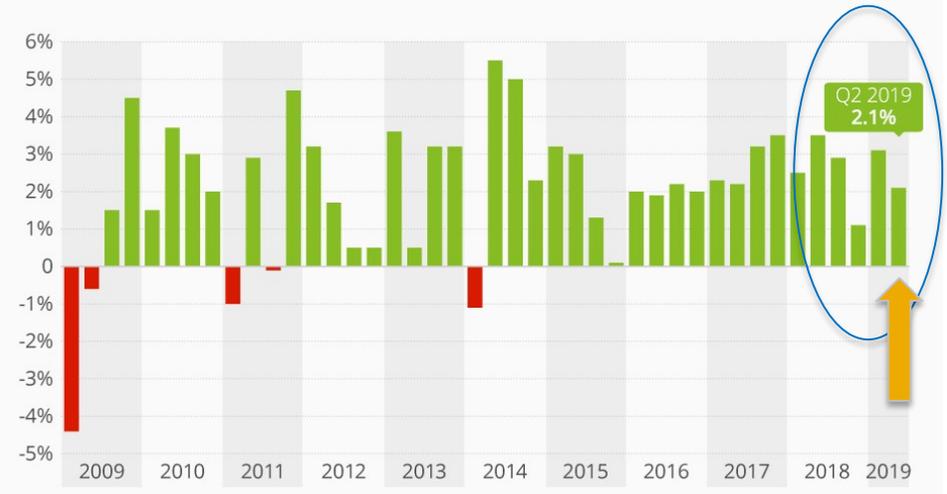


The USA expansion, driven by economic stimulation, has continued for over 10 years

Historically cutting interest rates was taken as the leading indicator that corporate growth would in turn slow, dividends potentially contract and valuations fall

## U.S. GDP Growth Slows to 2.1% in Second Quarter

Quarterly real GDP growth in the United States since 2009\*



Whilst the USA numbers move around, the bigger question remains on just how much economic activity has truly resulted from the spiraling debt / economic stimulation that has been injected

What would this picture look like without that stimulation ?

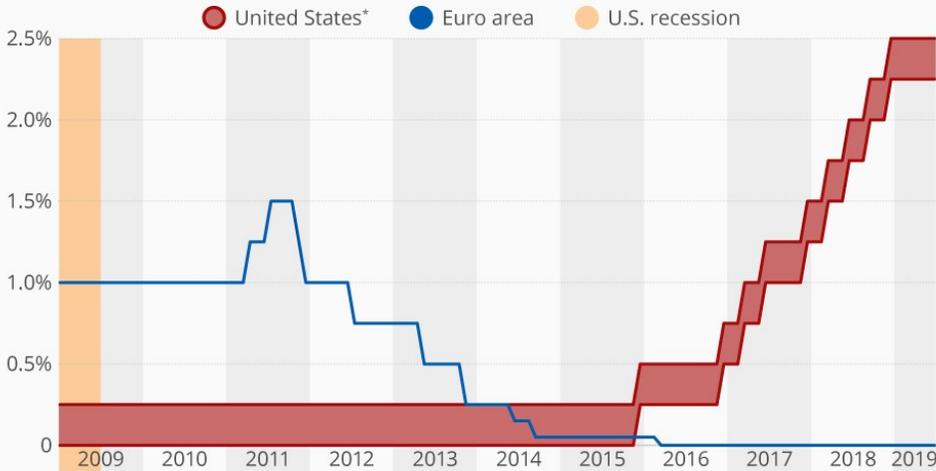
# US Monetary Policy Set To Change ?

Expectation of a .25% Rate Cut Near Term – Being The First Since The Global Financial Crisis

## USA vs Euro Zone

### Ready For a Rate Cut?

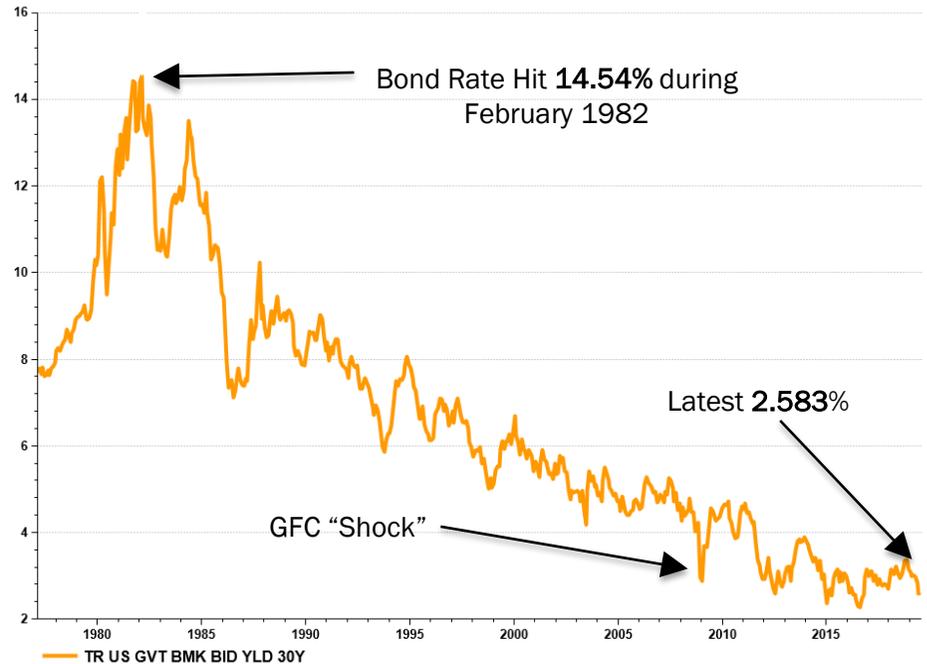
U.S. federal funds rate vs. the ECB's interest rate for main refinancing operations



Whilst the USA has undertaken a number of small interest rate rises since the GFC, against the historic picture very little increase has resulted in a “stall” where fresh interest rate cuts are being considered

The picture in Europe remains sobering

## US 30 Year Bond Rates



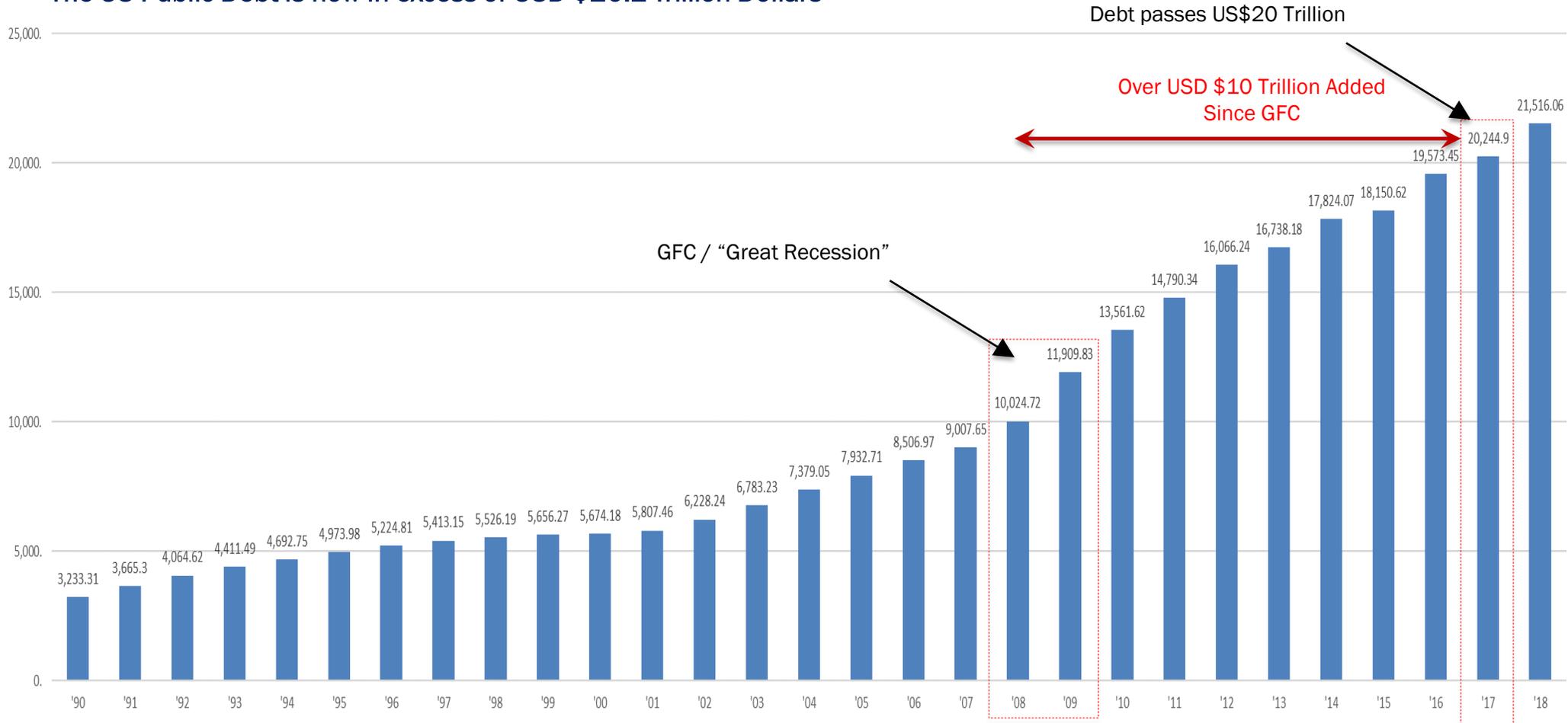
Source: Refinitiv Datastream / Falton Consulting

Observing the US 30 Year Bond provides perspective on just how low interest rates are against a historic context

As such economic recovery since the GFC has been tepid at best, when the level of “stimulation” into economies is factored in. With the material increase in overall Public Debt in the USA over a 10 year period a much higher level of real economic growth arguably should have been achieved

# US Public Debt - The Price Of “Stimulation” ?

The US Public Debt is now in excess of USD \$20.1 Trillion Dollars



- US Government Shutdowns only avoided at present by continued raising of the “Debt Ceiling”
- Questionable how this level of debt will ever be able to be repaid. Impact of Tariff Wars exacerbates potential for repayment. Economic activity slows. Debt continues to increase. Government “Balance Sheet” becomes ever increasingly brittle

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