

Macro Outlook & Future of U.S.-China Relation

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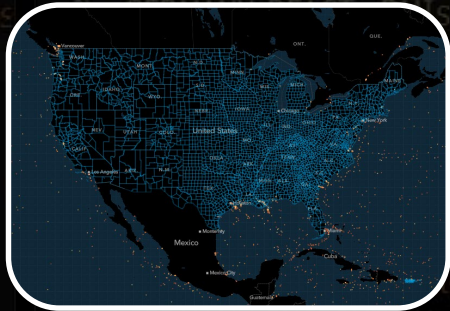
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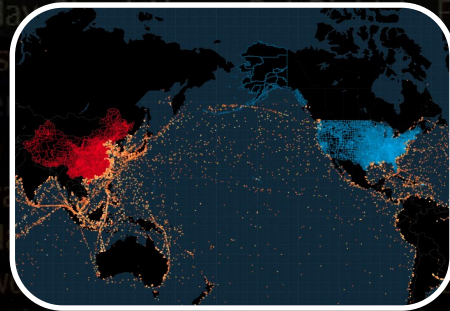
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U.S. Recession, Boon or Stagnation?



The Future of U.S.-China Relations



China's Future

DEFINING THE TRUMP RALLY (ATTACK OF THE WASHING MACHINES)



U.S.

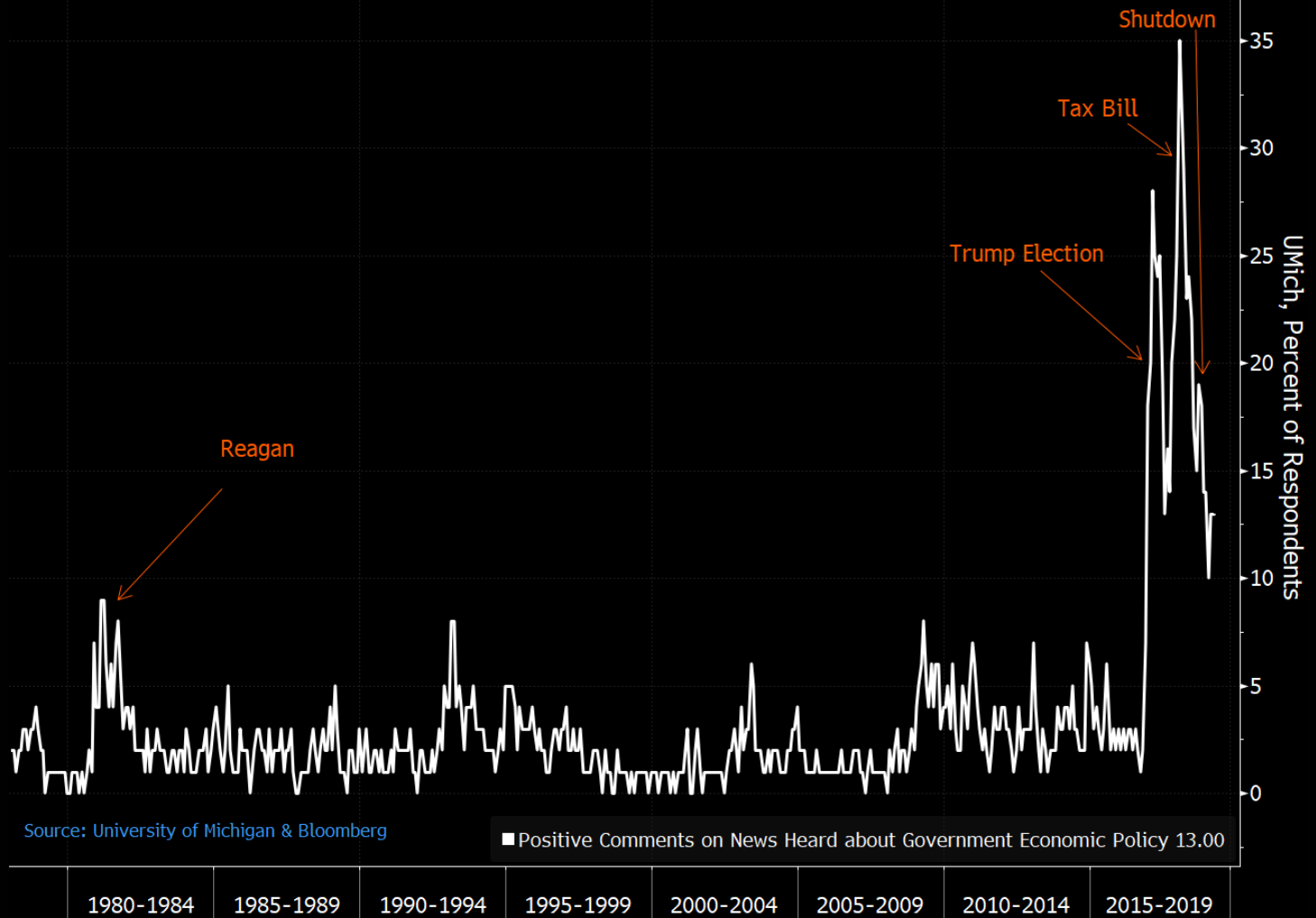


TRUMP ADMINISTRATION SUCCESS (& CURRENT RISK)



U.S.

Percent of UMich Respondents Making Favorable Comments on News Heard About Government Economic Policy



Source: University of Michigan & Bloomberg

■ Positive Comments on News Heard about Government Economic Policy 13.00

ANIMAL SPIRITS COULD BE SLAYED BY RETURN OF UNCERTAINTY



U.S.

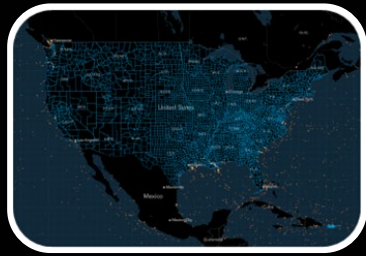


SENTIMENT NOT AS SUPPORTIVE FOR GROWTH

Animal Spirits May Be Headed Toward Hibernation

Bloomberg Economic Surprise Indexes (Survey-Based vs. Hard Economic Data)

■ Economic Surprise Index (Excluding Survey Data) ■ Economic Surprise Index (Survey Data Only)



U.S.



Source: Bloomberg

.HARDSURP F Index (Eco Surprise Index (ex Survey) Eco Surprise w/o Survey Daily

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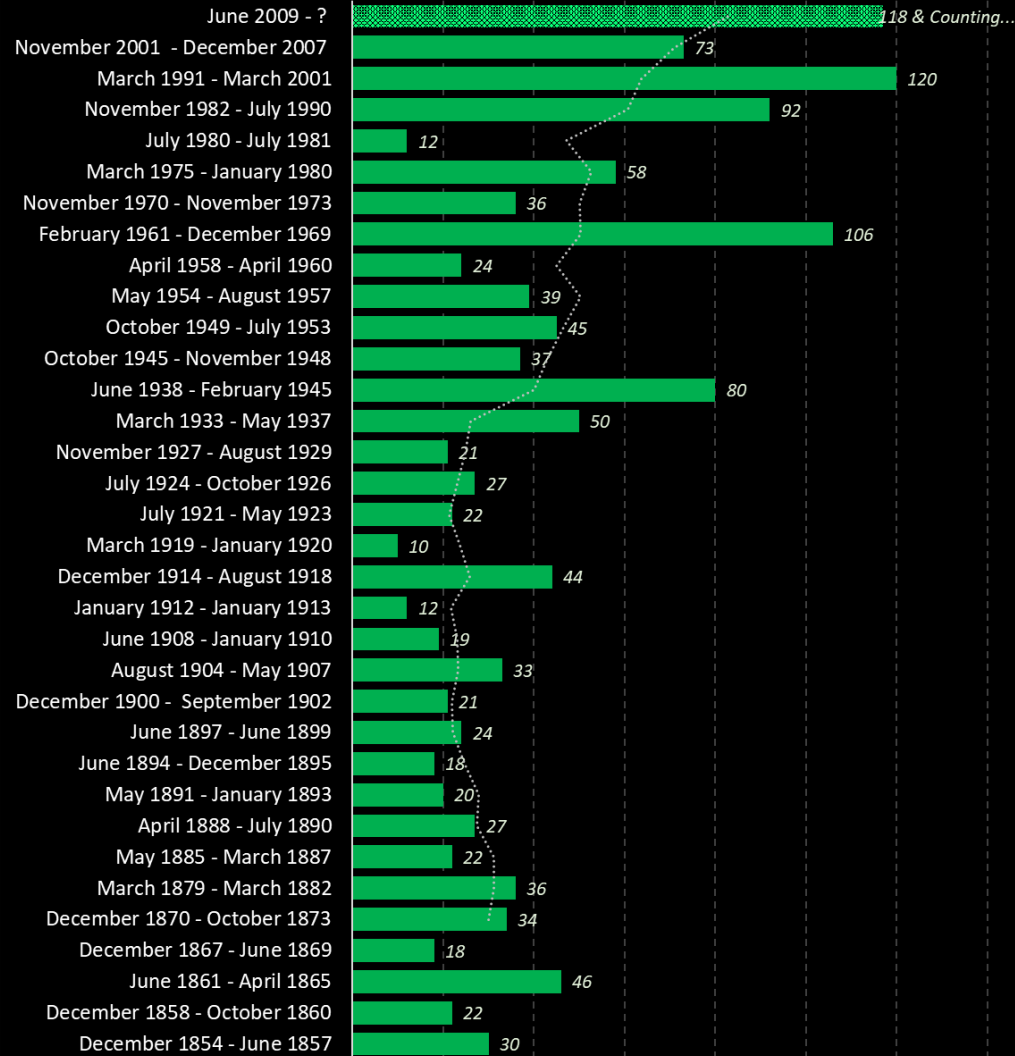
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IS THE U.S. AT RISK FOR RECESSION?



U.S.

Length of U.S. Economic Expansions (in Months)



Source: NBER

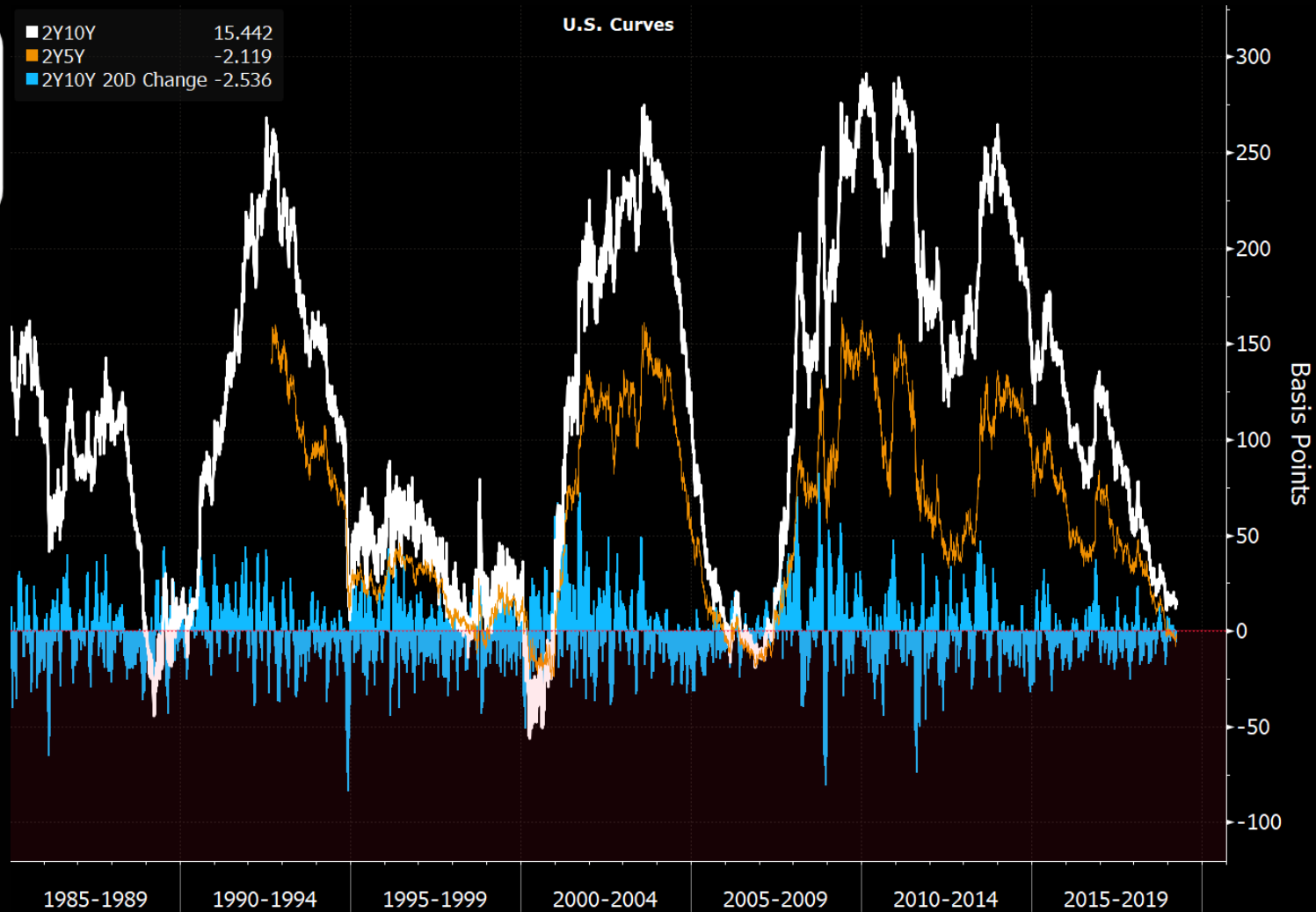
YIELD CURVE POTENTIALLY A WARNING SIGN



U.S.

■ 2Y10Y	15.442
■ 2Y5Y	-2.119
■ 2Y10Y 20D Change	-2.536

U.S. Curves

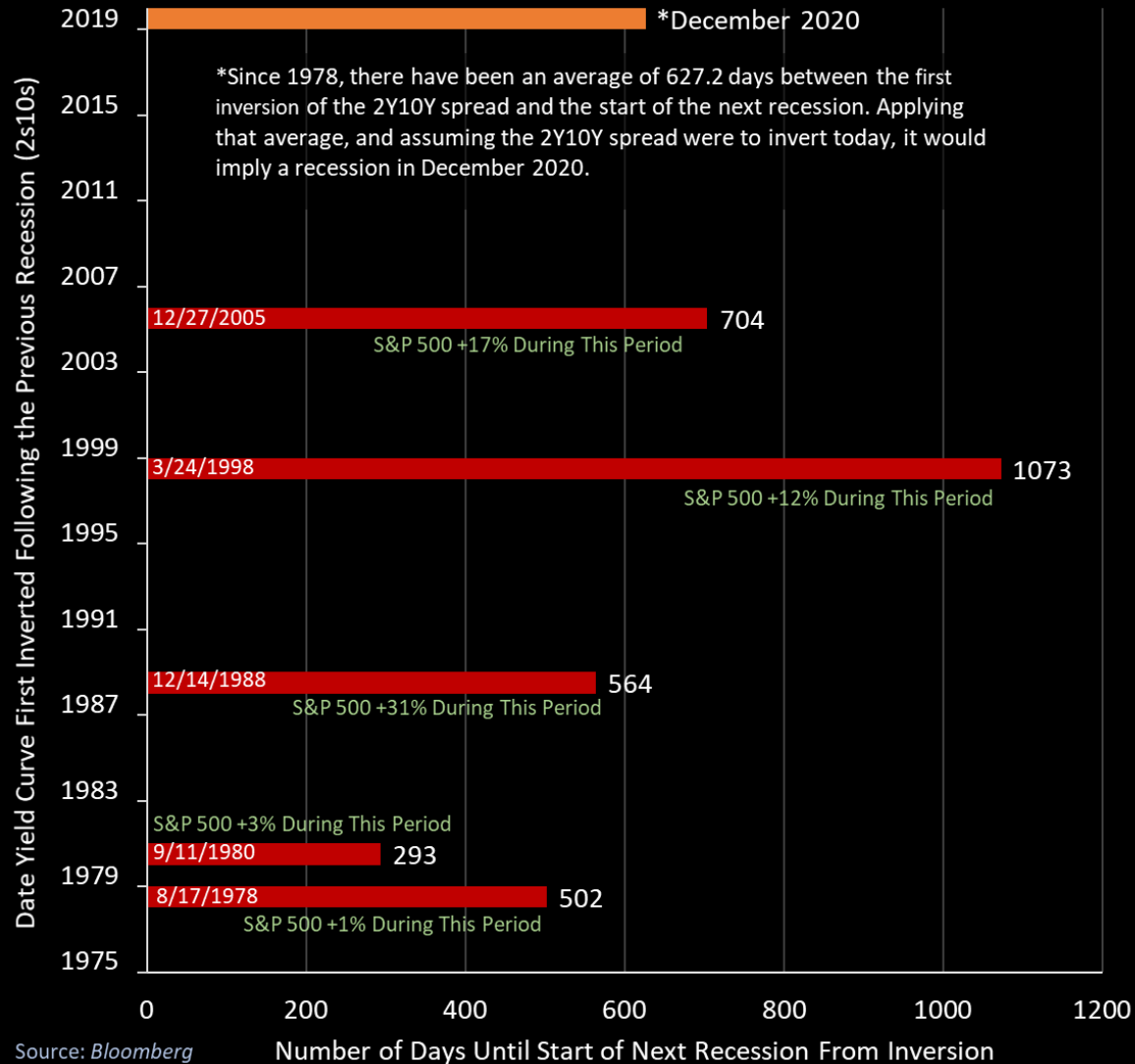


BUT, RECESSION STILL NOT A BIG RISK IN NEAR-TERM

Number of Days Between First Inversion of 2s10s at the Close & Start of the Next Recession



U.S.

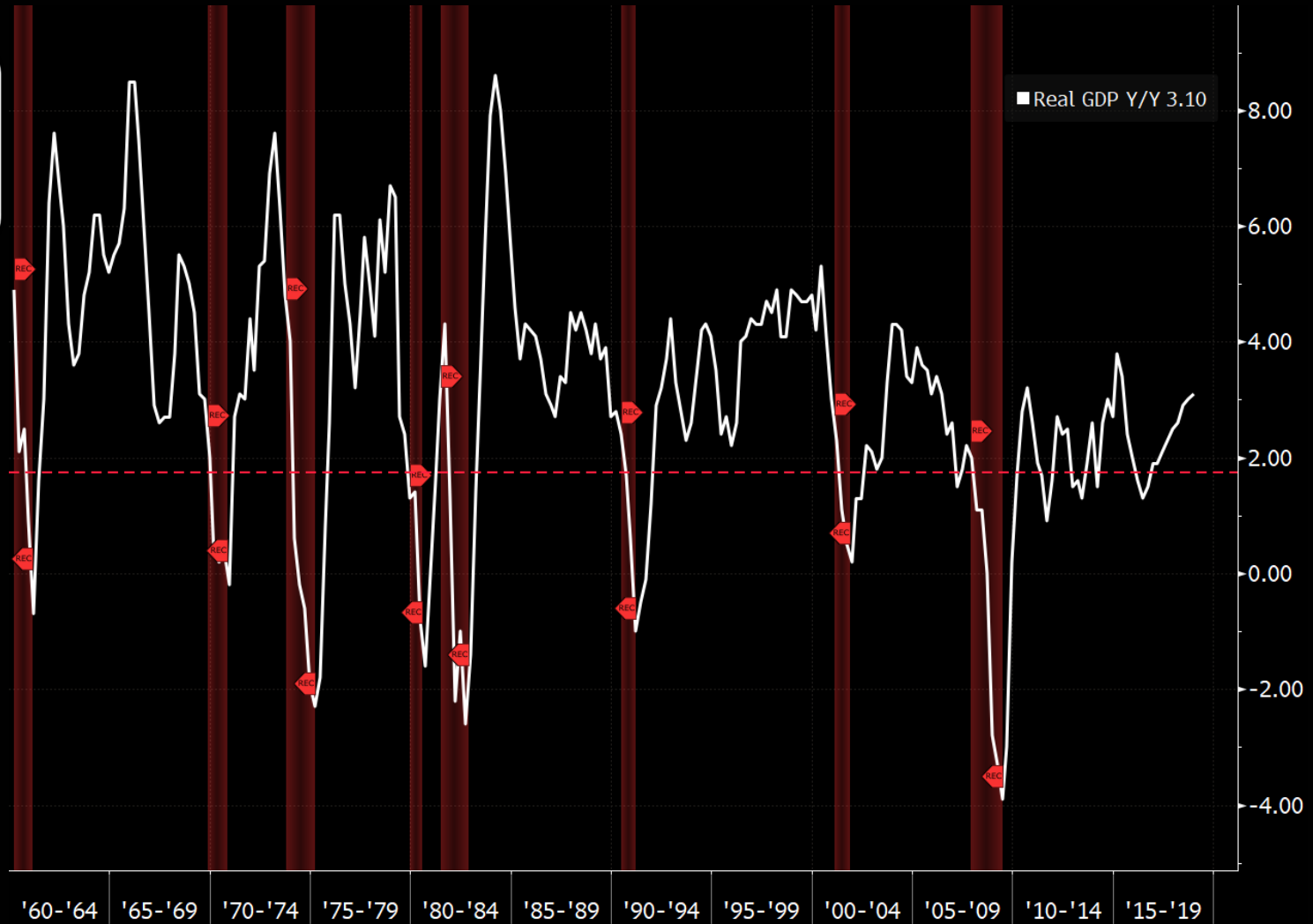


Source: Bloomberg

ECONOMY NOT AT IMMEDIATE RISK OF RECESSION



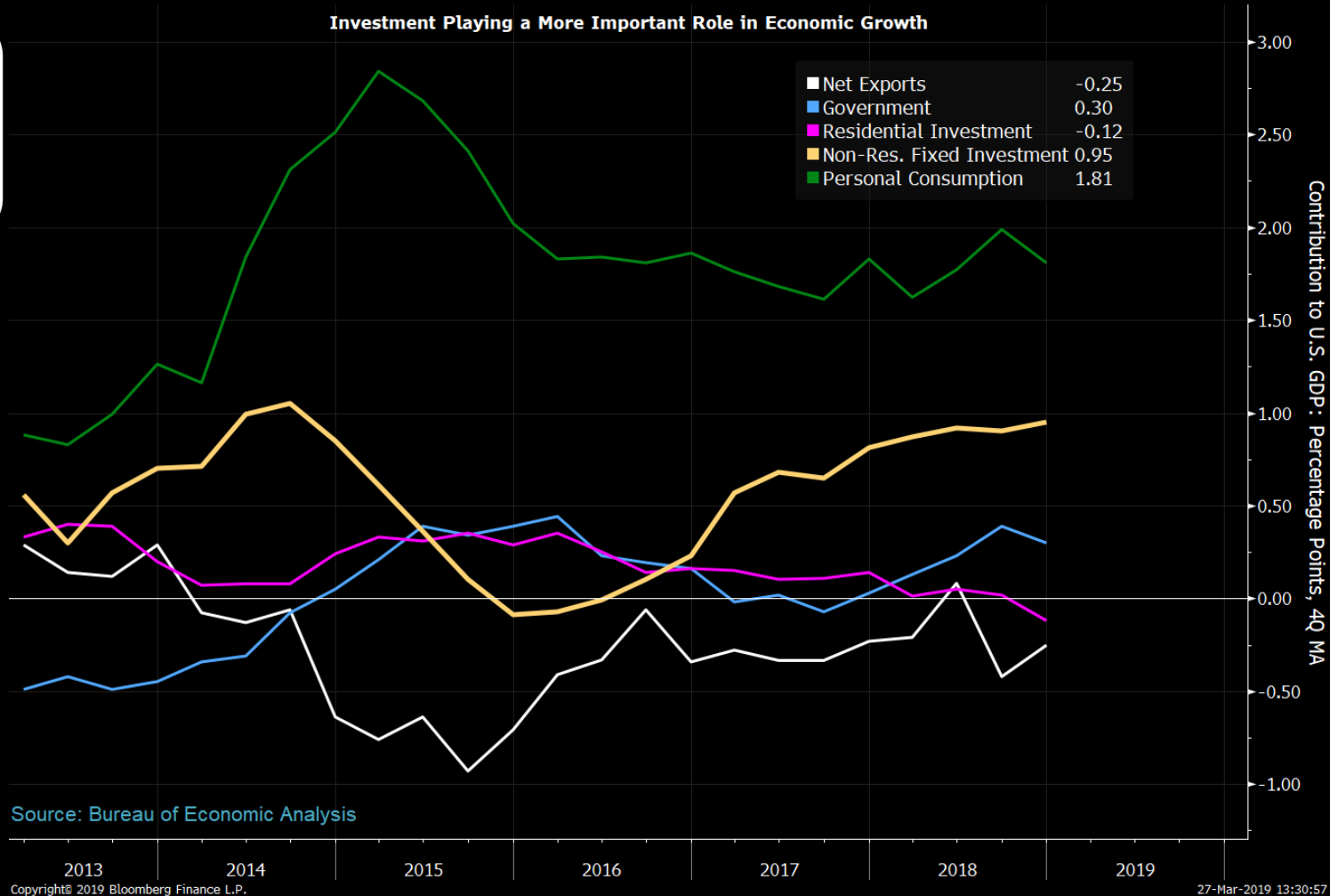
U.S.



GROWTH HAS LEGS BUT WILL SLOW



U.S.

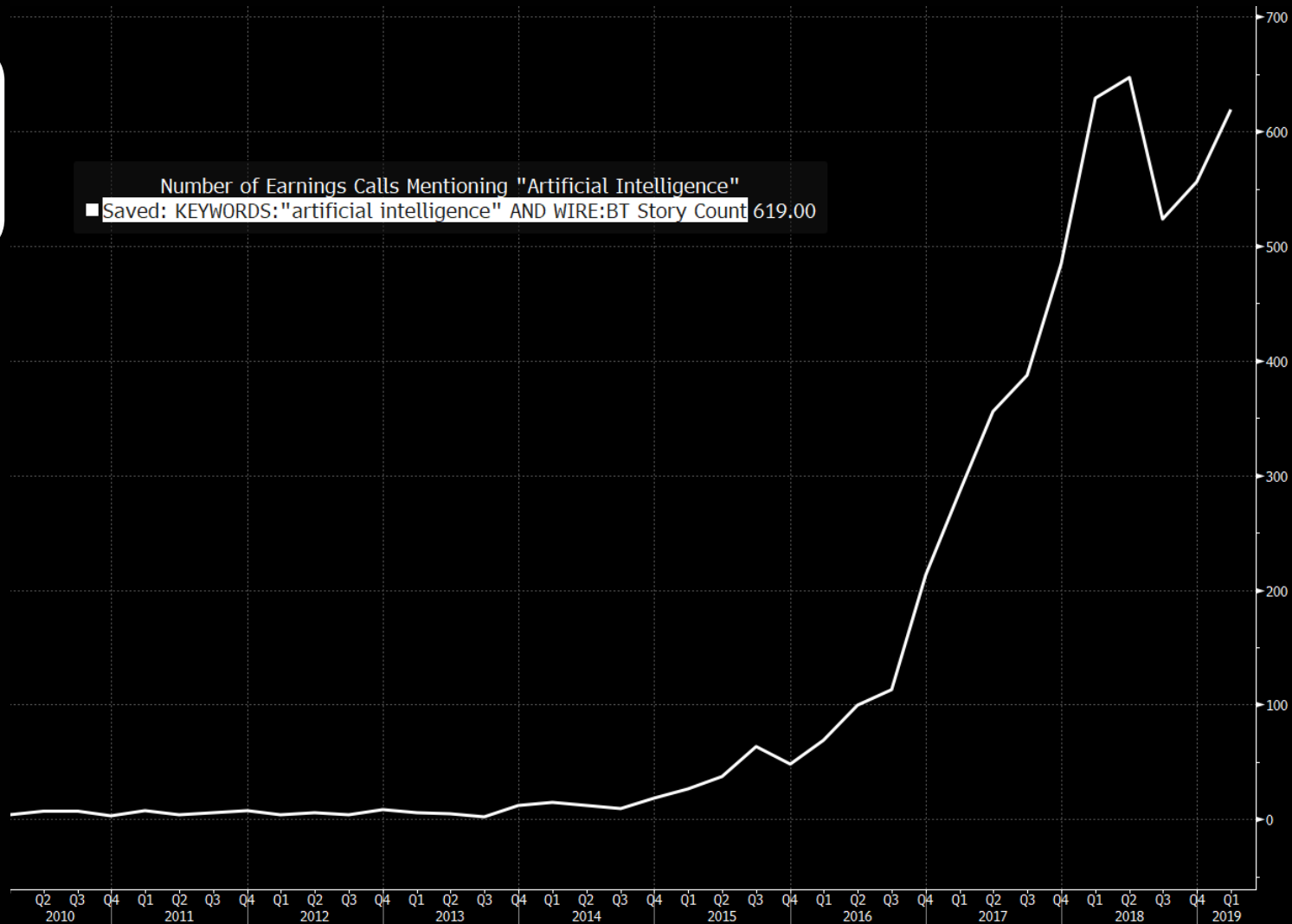


PROOF IS IN THE EARNINGS CALLS

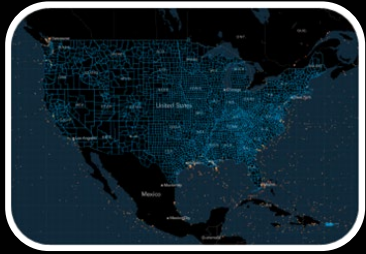


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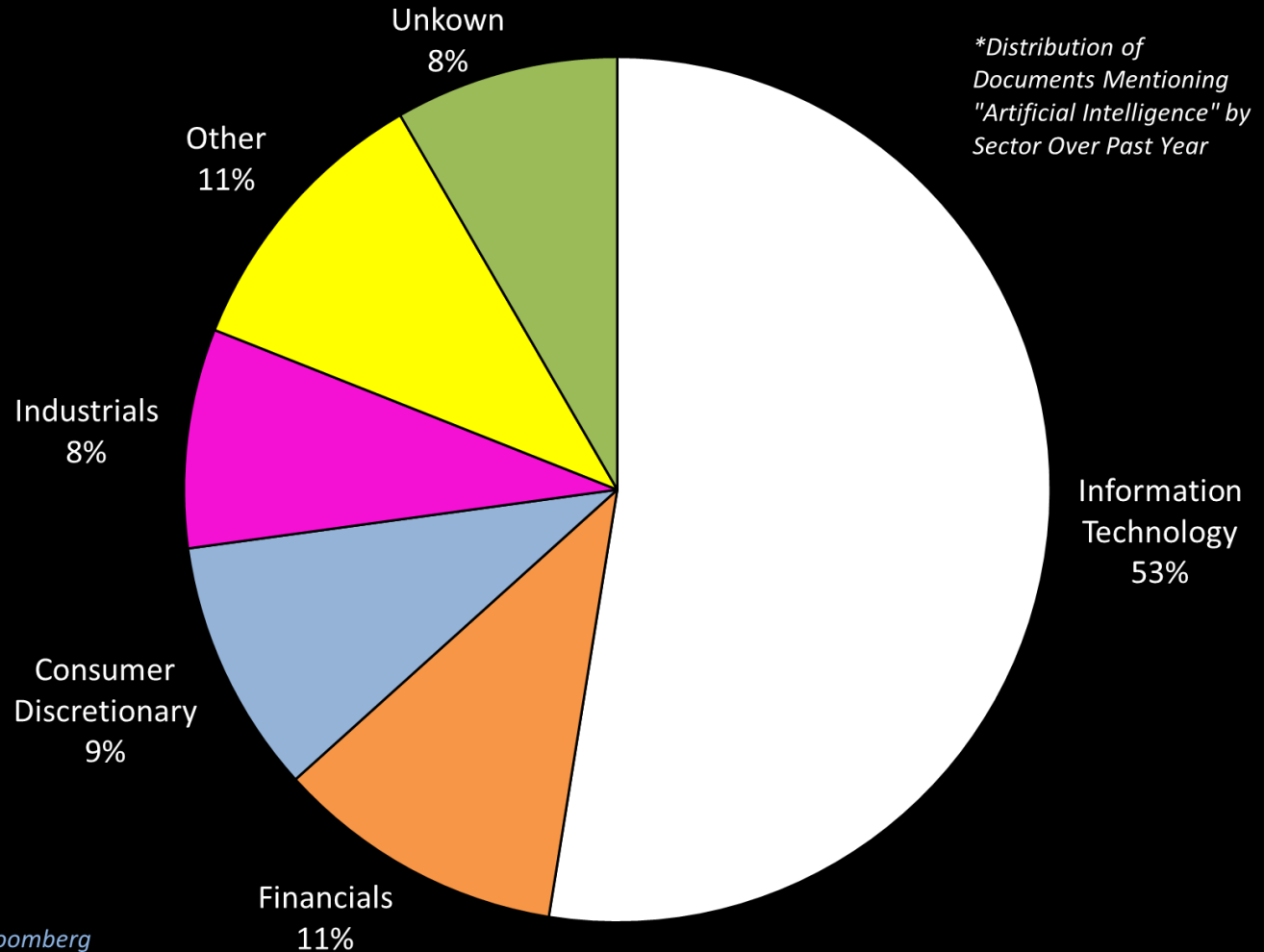
Number of Earnings Calls Mentioning "Artificial Intelligence"
■ Saved: KEYWORDS:"artificial intelligence" AND WIRE:BT Story Count 619.00



TALK OF "AI" NOT ISOLATED TO TECH COMPANIES

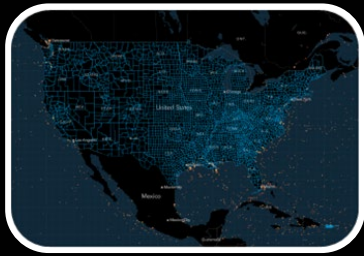


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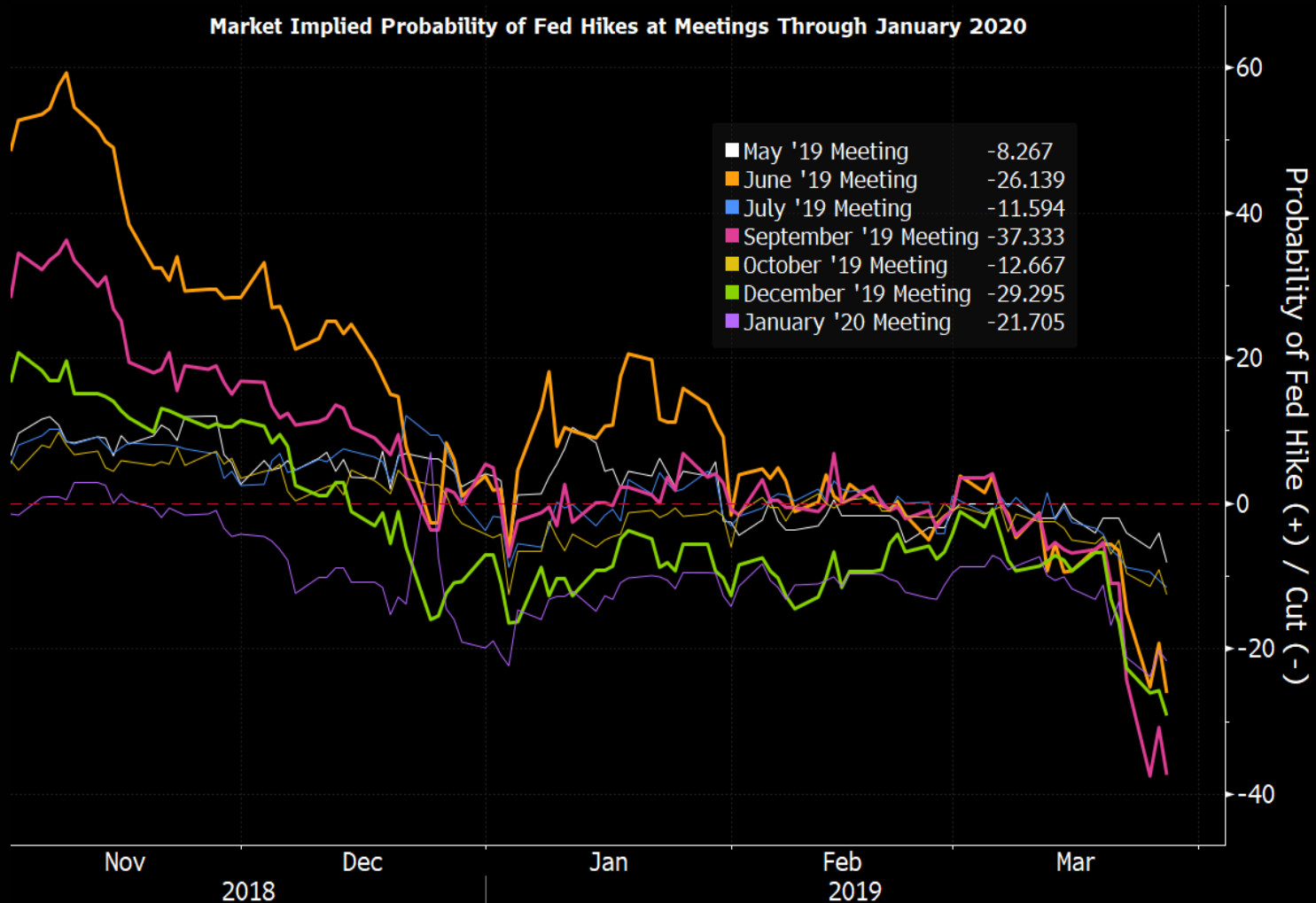
Source: Bloomberg

FROM HIKE TO CUT (MARKET EXPECTATIONS)



U.S.

Market Implied Probability of Fed Hikes at Meetings Through January 2020



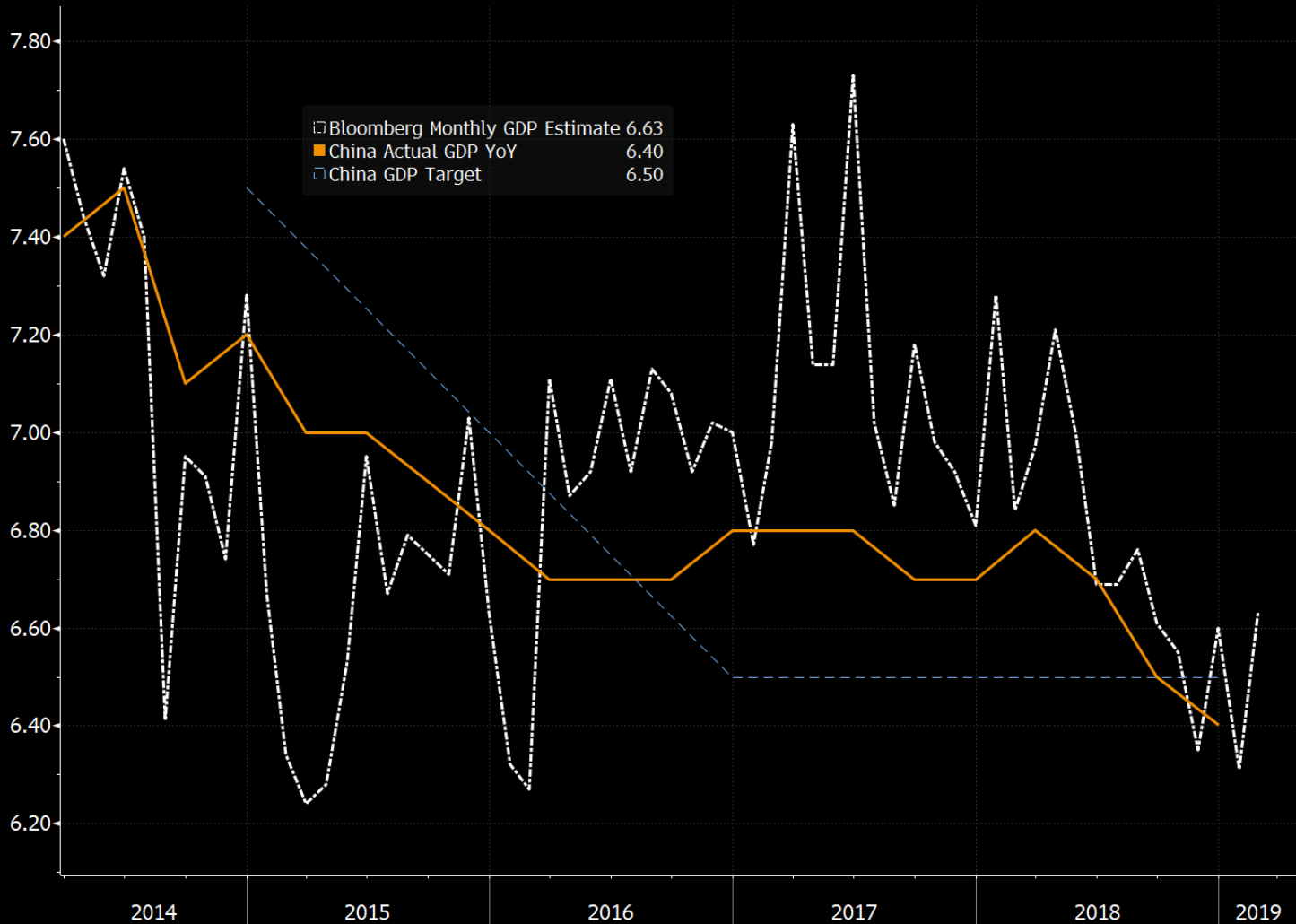
FUTURE OF U.S. CHINA RELATIONS

- U.S.-China relations will not normalize
- Worsening economic conditions making both sides more willing to compromise
- Trade deficits are not at the center of the debate, it is intellectual property rights and more direct access to China's economy
- Major choke point remains the enforcement mechanisms (arbitration, retaliatory tariffs, etc...)
- Outcome of President Trump's Hanoi summit with North Korea making negotiations more complex
- A deal is much more likely than no deal and a Mar a Lago summit date would likely signify that a deal has been reached

CHINA'S SLOWDOWN WAS NOT TRADE-WAR DRIVEN



China



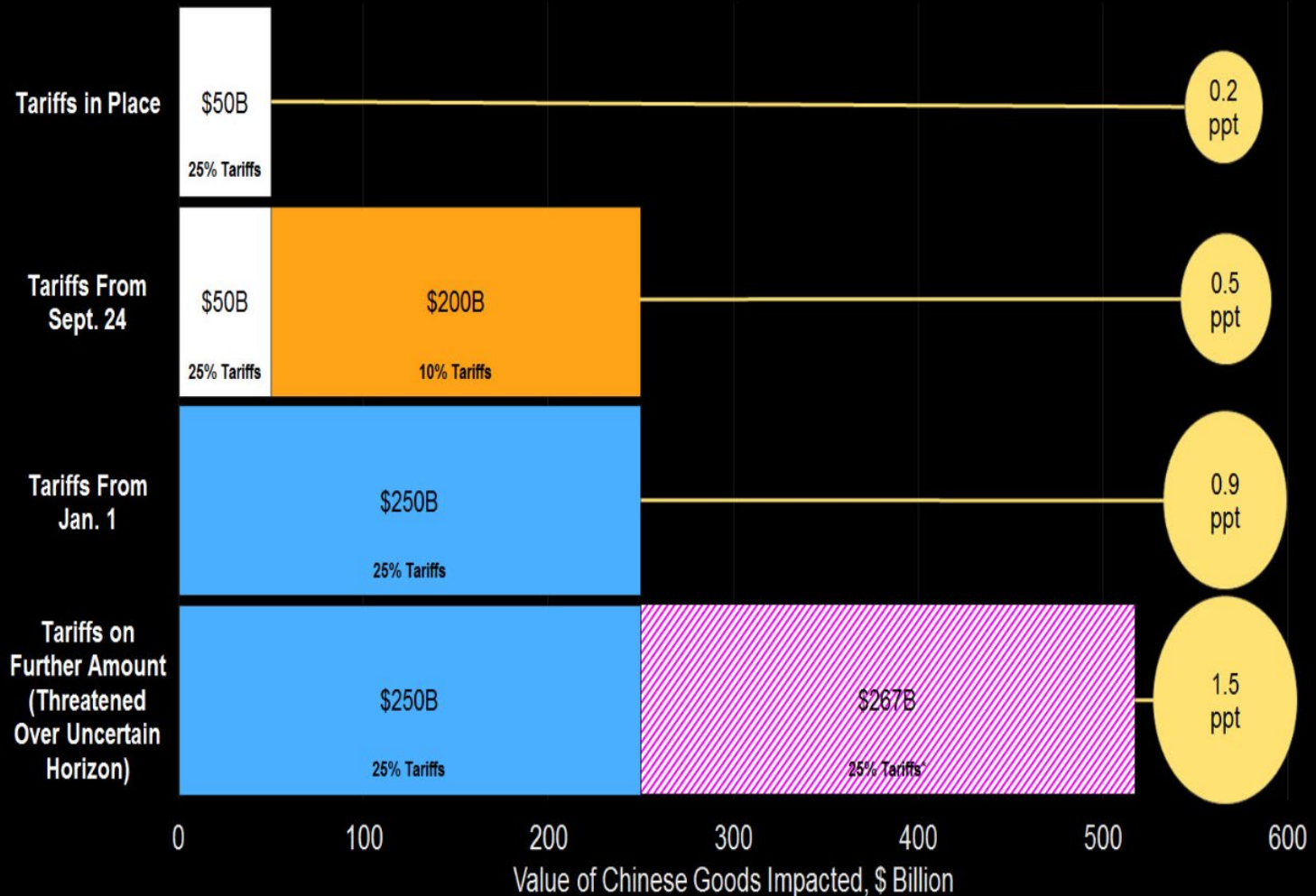
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BUT, AN ESCALATION WOULD'N'T COME WITHOUT COSTS



China

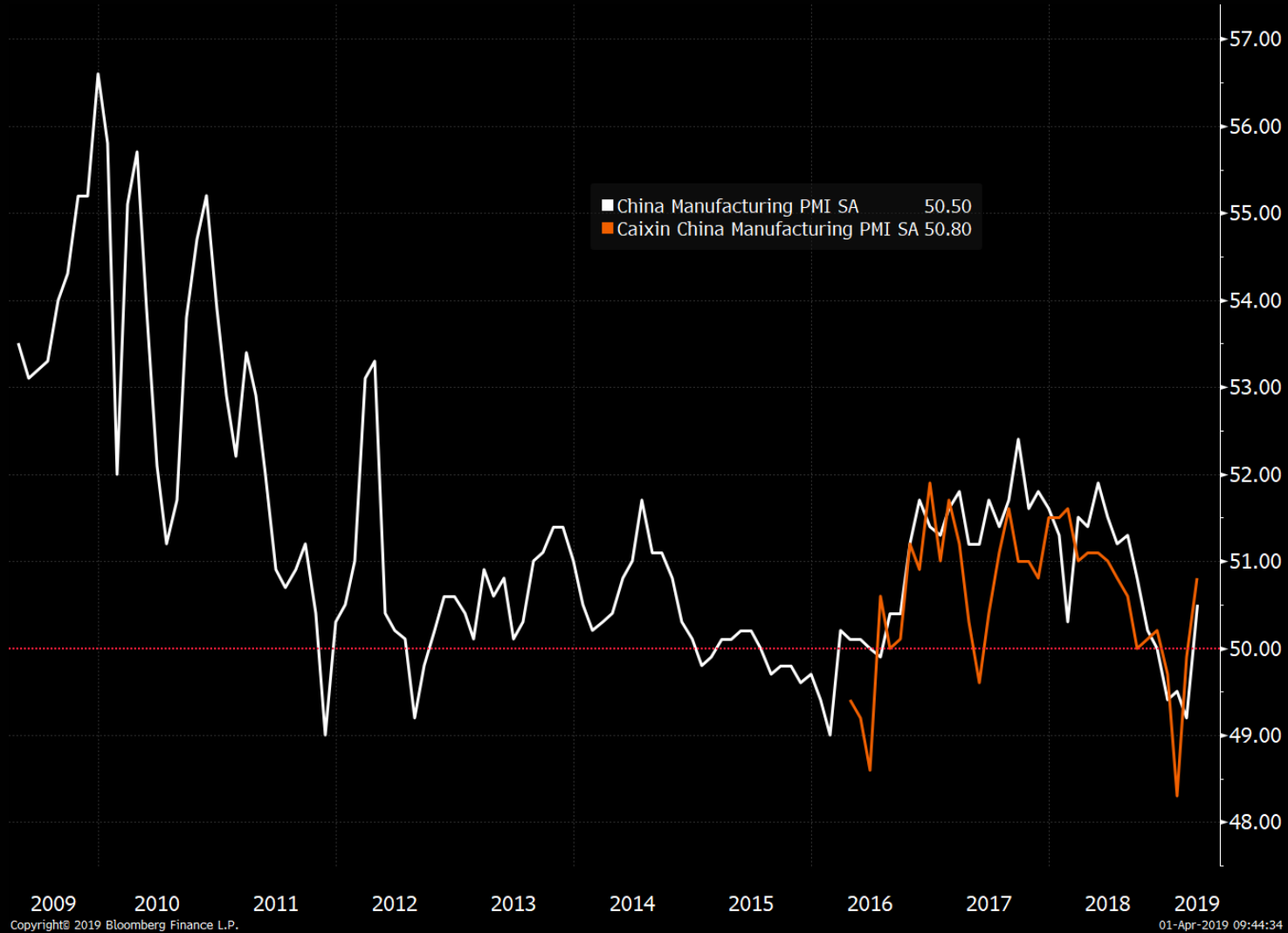


Source: Bloomberg Economics; *Assumed tariff level; Bubbles show cumulative impact on annual growth

CHINA'S ECONOMY REACHING A TURNING POINT



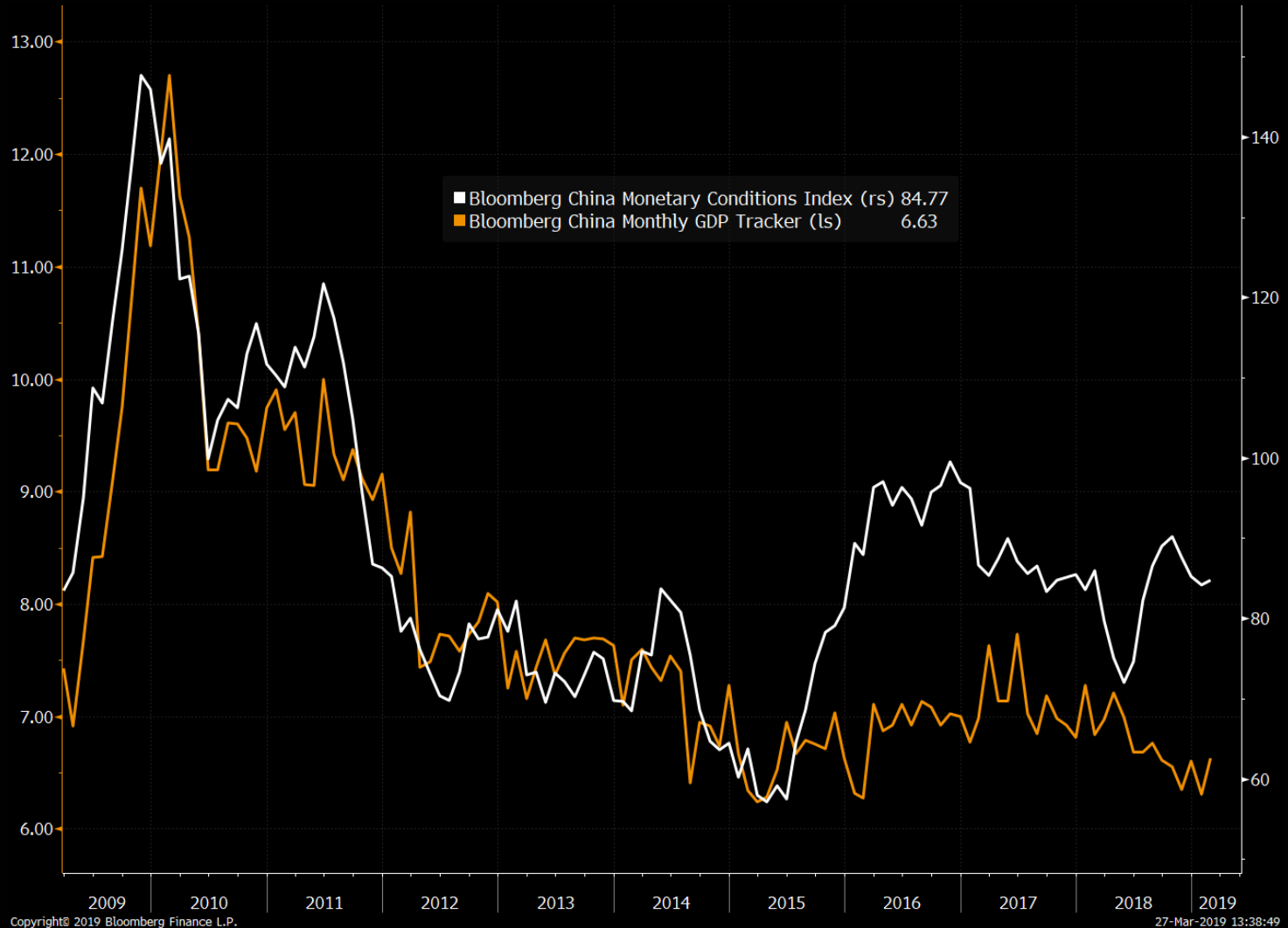
China



DELEVERAGING PROCESS A "SUCCESS" FOR NOW...



China



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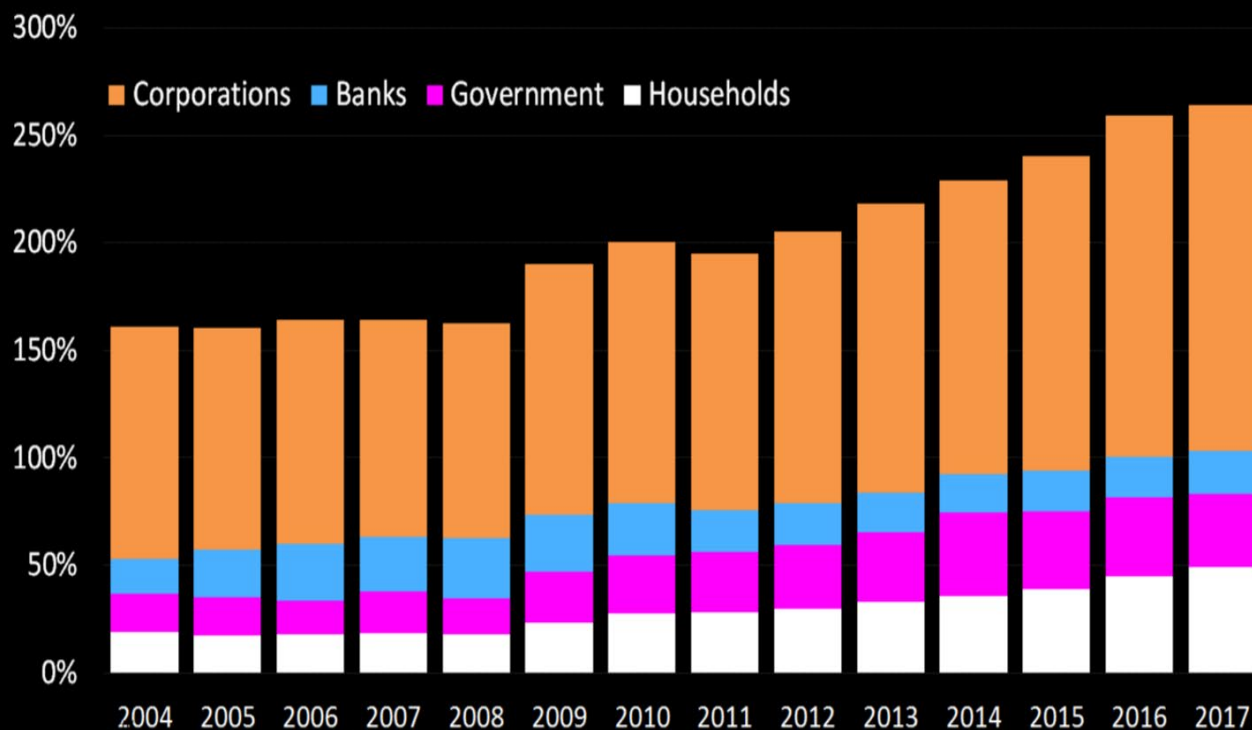
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IN REALITY, THEY ARE KICKING THE CAN



Debt to GDP by Sector

China



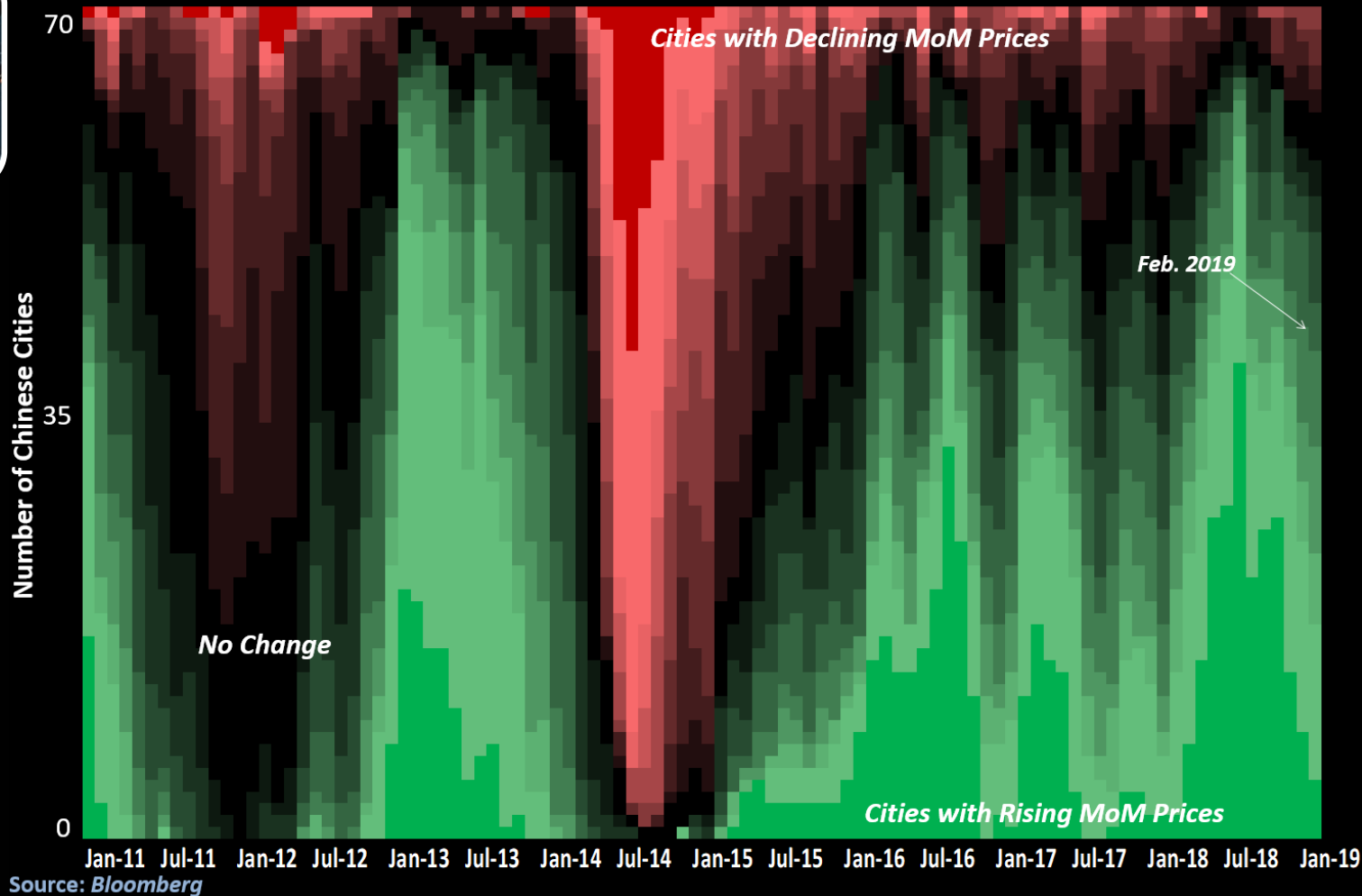
Source: Bloomberg Economics; The figures for 2017 are estimates.

SLOWING PROPERTY SECTOR WILL WEIGH ON GROWTH



China

China Home Prices Rose in 57 of 70 Cities in February

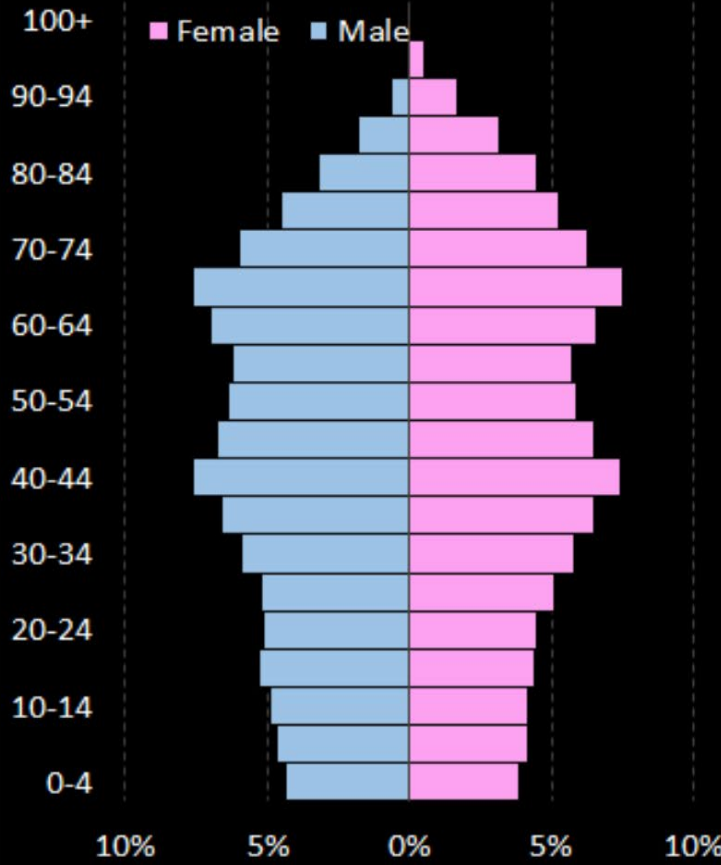


WORRY ABOUT CHINA'S DEMOGRAPHIC SITUATION

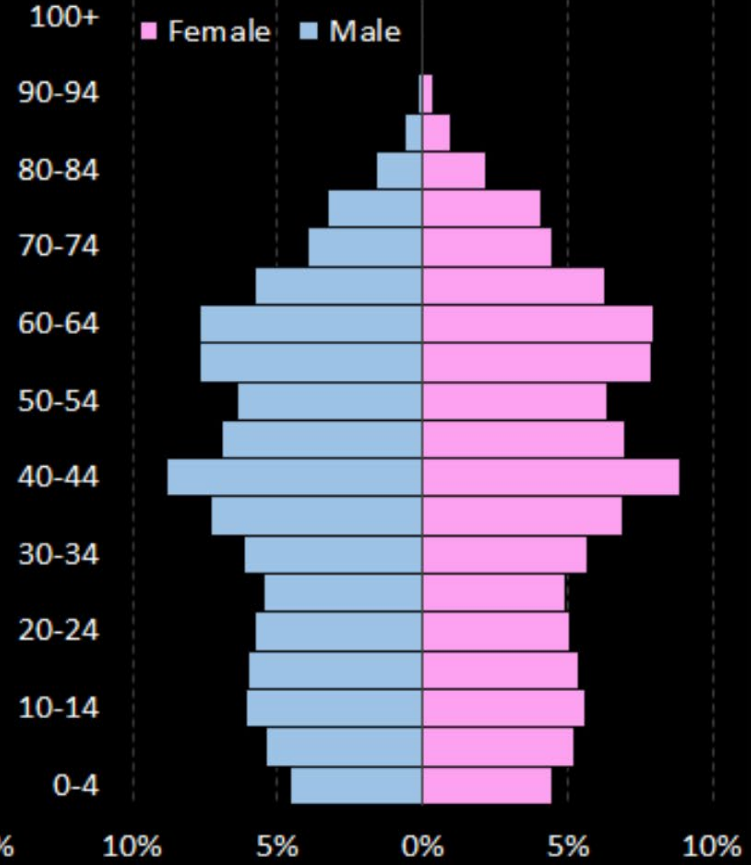


China

Japan's Population Pyramid 2015



China's Population Pyramid 2030

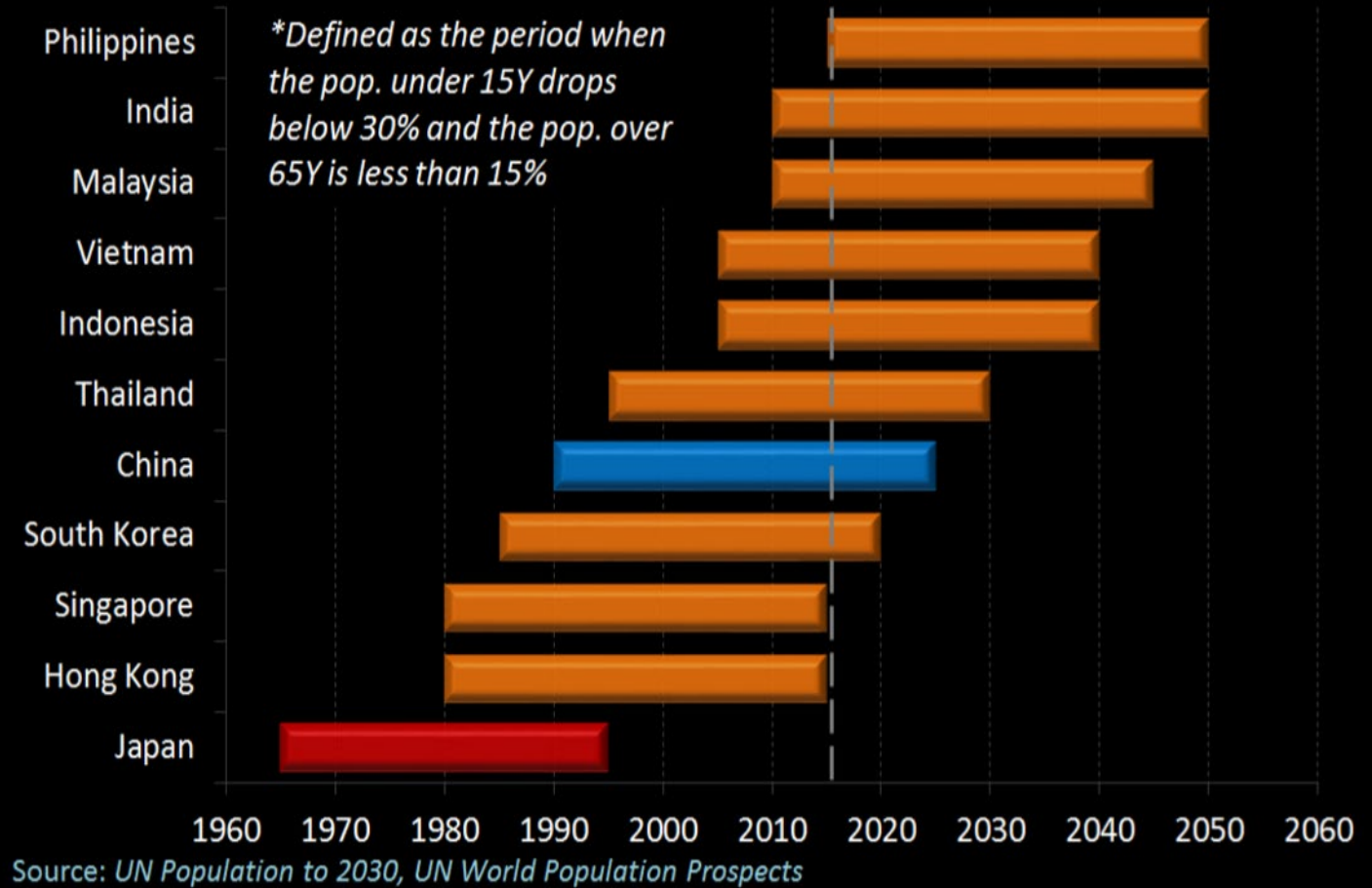


Source: U.S. Census Bureau

DEMOGRAPHICS ARE BETTER FOR OTHER PARTS OF ASIA



China



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