Amundi
ASSET MANAGEMENT
東方匯理 資產管理

EXPERT TALK

A "5-minute" walk-through about what's happening in the market 2 August 2018

7 things you need to know in this summer

The current global expansion is set to run until 2020, with above potential growth in most countries in 2018 and 2019. However, the global GDP growth has started to decelerate and Amundi expects it to slow further in 2020. At this stage, the main driving force behind the expansion is domestic demand. Global trade, which lost momentum in 1H18 with uncertainty about tariffs, is not expected to drive growth in 2019.

Against above backdrop, we have summarized seven things you may need to know in this summer:

1. Global economic expansion but with some clouds

While the global outlook continues to point to broad based momentum, the prospect of trade restrictions and counter restrictions threatens to undermine confidence and to impact plans for hiring and investing, thereby dampening medium-term prospects. The downside risks to our global growth scenario have increased.

2. Stronger US growth in 2018 but deceleration in 2019 and 2020

The pro-cyclical US tax policy and the recent approval of a budget providing for nearly $300 billion in additional discretionary spending in fiscal years 2018 and 2019 has generated a stronger than expected upturn in domestic growth in 1H 2018. Optimism remains strong : it had seemed to slacken lately but it remains close to its highs.

Annualized return forecasts (3,5,10 years)

Asset in local currency	3 years	5 Years	10 Years
Equities			
US Equity	5.20%	5.50%	5.80%
Eurozone Equity	7.60%	7.00%	6.60%
Japan Equity	6.10%	6.40%	6.50%
Emerging Market Equity	7.50%	8.50%	8.80%
AC World Equity	6.10%	6.30%	6.40%

Source: Amundi, as of end of June 2018

3. The longest post war economic cycle in the US

The stimulus from corporate tax cuts and increased fiscal spending have lengthened the cycle and led to higher interest rates. There are drivers in place which could allow growth to speed up without causing the economy to overheat: (1) a further cyclical increase in the labour force participation rate (2) a pick-up in productivity growth and (3) the multi-year dollar upcycle continuing to put downward pressure on inflation. The absence of significant imbalances also suggests the cycle will run longer. Having said that, we expect fiscal stimulus to fade by mid-2019 and GDP growth to return to potential hardly above 2%.

4. The Eurozone has decelerated

Growth in the Eurozone has clearly peaked in 2017, but it can nonetheless continue at an above-trend pace. The Eurozone recovery only started in 2013 (well after its US and UK counterparts) and the output gap has only started to become positive. Our central scenario is a continuation of the recovery at an above-potential growth pace (2.1% in 2018, 1.8% in 2019) driven by domestic demand - both household consumption and domestic investment. We expect GDP growth to slow further in 2020.

5. The global output gap is progressively closing. As a result, global inflation is expected to pick up.

This is particularly true for the US, where the economy is reaccelerating, we see inflation pressures building up both on wages, albeit gradually, and on the cost of goods and commodities. After having fallen short of the Fed’s target for 10 years core inflation should return to the 2% target in 2018 and rise to 2.2% in 2019. However even in economies operating at full employment like the US, Germany or Japan, inflation should remain below the level of past cycles.

6. In the Eurozone, signs of upside pressure on core inflation are still to be seen

Core inflation is expected to continue to surprise to the downside, and only modest increases are to come. While headline inflation was pushed higher by oil prices to 2.0% YoY in June, core inflation increased slightly to 1.1% YoY (vs. 0.9% in June). Cyclicals factors should push core inflation upwards, but powerful structural factors will limit the rise. The ECB’s 1.9% core inflation forecast for 2020 (1.6% for 2019) looks ambitious.

Assumption on GDP growth and inflation

Real GDP Growth	2018	2019
US	**2.9%**	**2.7%**
Japan	**1.0%**	**1.2%**
EMU	**2.1%**	**1.8%**
CPI	**2018**	**2019**
US	**2.5%**	**2.2%**
Japan	**0.9%**	**1.3%**
EMU	**1.6%**	**1.6%**

Source: Amundi, as of end of June 2018

7. The focus very much remains on EPS growth

In the US, corporate earnings estimates have enjoyed solid upgrades. Actual and announced buybacks have also continued to surge. This trend made a very sizeable contribution to the strong performance of US earnings per share together with rising profitability and strong economic growth. On global emerging market equity, we expect earnings to remain positive, but below average. Tensions surrounding trade disputes are affecting all regions and particularly Emerging market valuations, which will probably be capped by rising volatility.