

# What's going on?

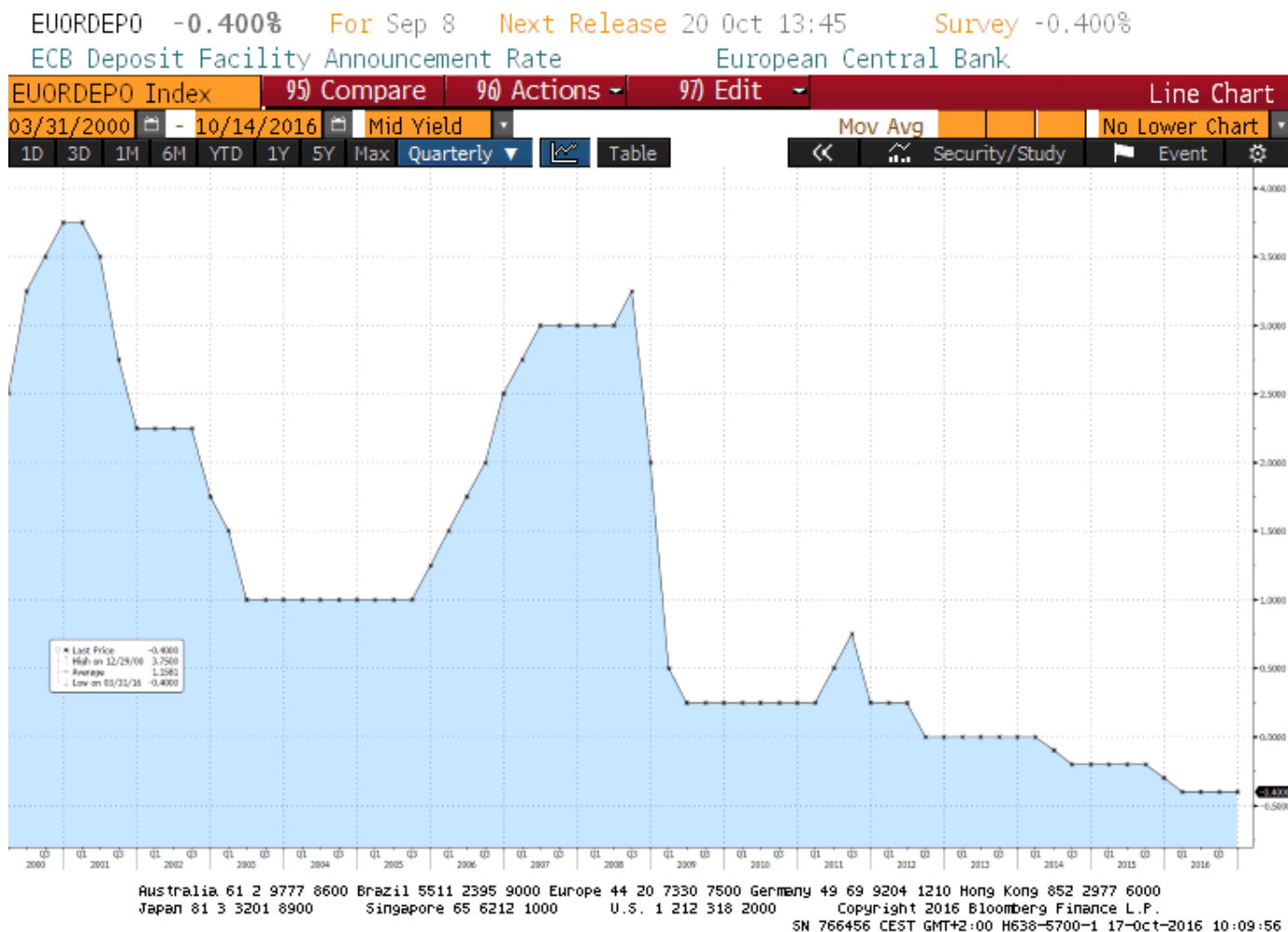
---

## Alessandro Baldin

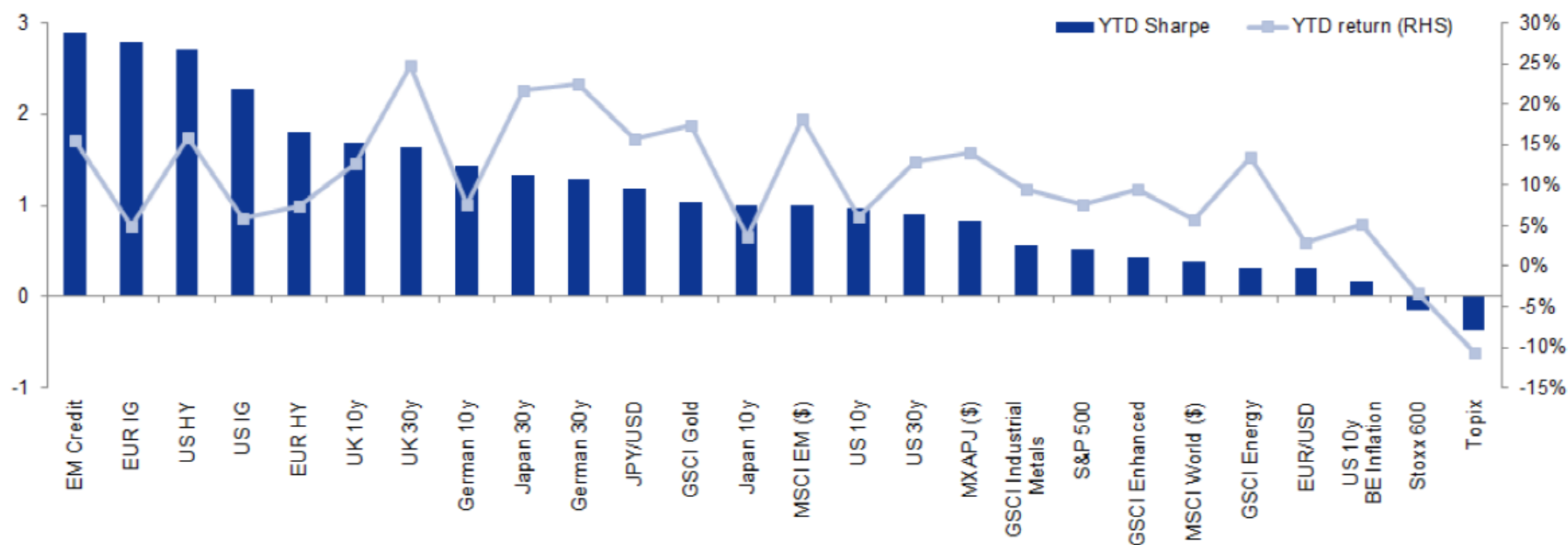
## 2015 global worries...

- Us recession risk
- EM & China slowdown
- Falling commodities prices

# ...And coordinated monetary easing...



## ... Triggering search for yield



Source: Datastream, Goldman Sachs Global Investment Research



# 2016

- US election risk
- European politics (Brexit – Italian referendum- French elections)



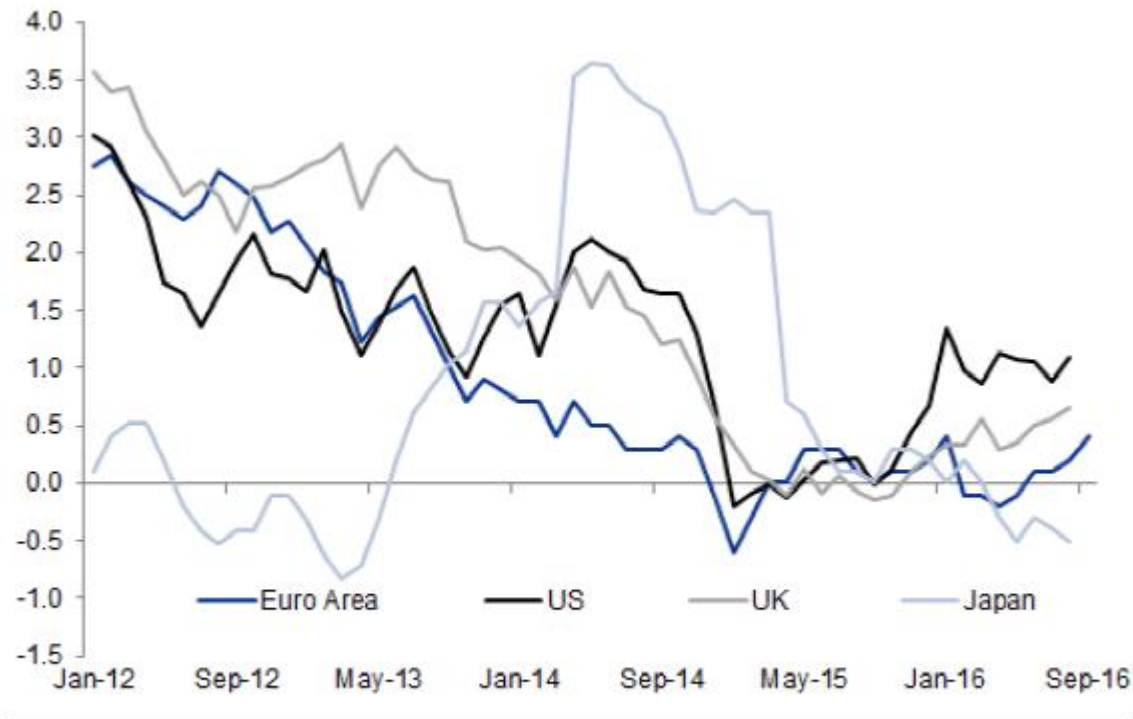
- Markets fear that monetary policy in DM reached a limit
- At the same time both Central Banks (CB) and markets start to recognize that ZIRP (zero interest rate policy) or too low rates could be countereffective for DM economies
- IMF, G20 and DM CB ask for coordinated fiscal policies
- **From monetary to fiscal reflation (JP/Europe/US)**



# Tailwinds from low rates to fade from here...(1/2)



## Tailwinds from low rates to fade from here...(2/2)



Source: Haver Analytics, Goldman Sachs Global Investment Research

## ... Leaving fewer investment opportunities...

HY/IG



Source: Datastream, FRED, Robert Shiller, Moody's, Goldman Sachs Global Investment Research



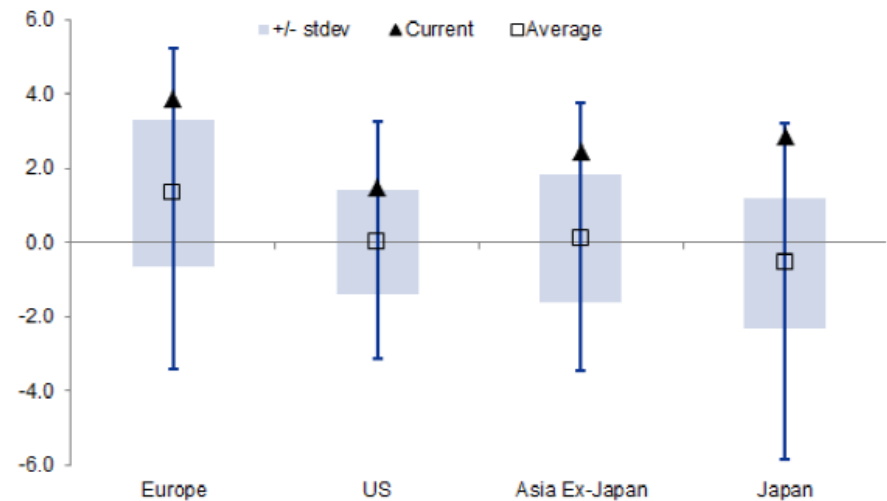
# ...And relatively cheaper equities...

## Equity Risk Premium



Source: Datastream, Goldman Sachs Global Investment Research

## Dividend Yields minus ten year real Yields



Source: Datastream, Haver, Goldman Sachs Global Investment Research

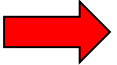
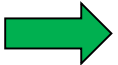
... If...

*...“A reflation scenario with an acceleration of global growth would most likely drive a more various rotation from bonds and credit to equities and could help unlock the high equity risk premium”...*

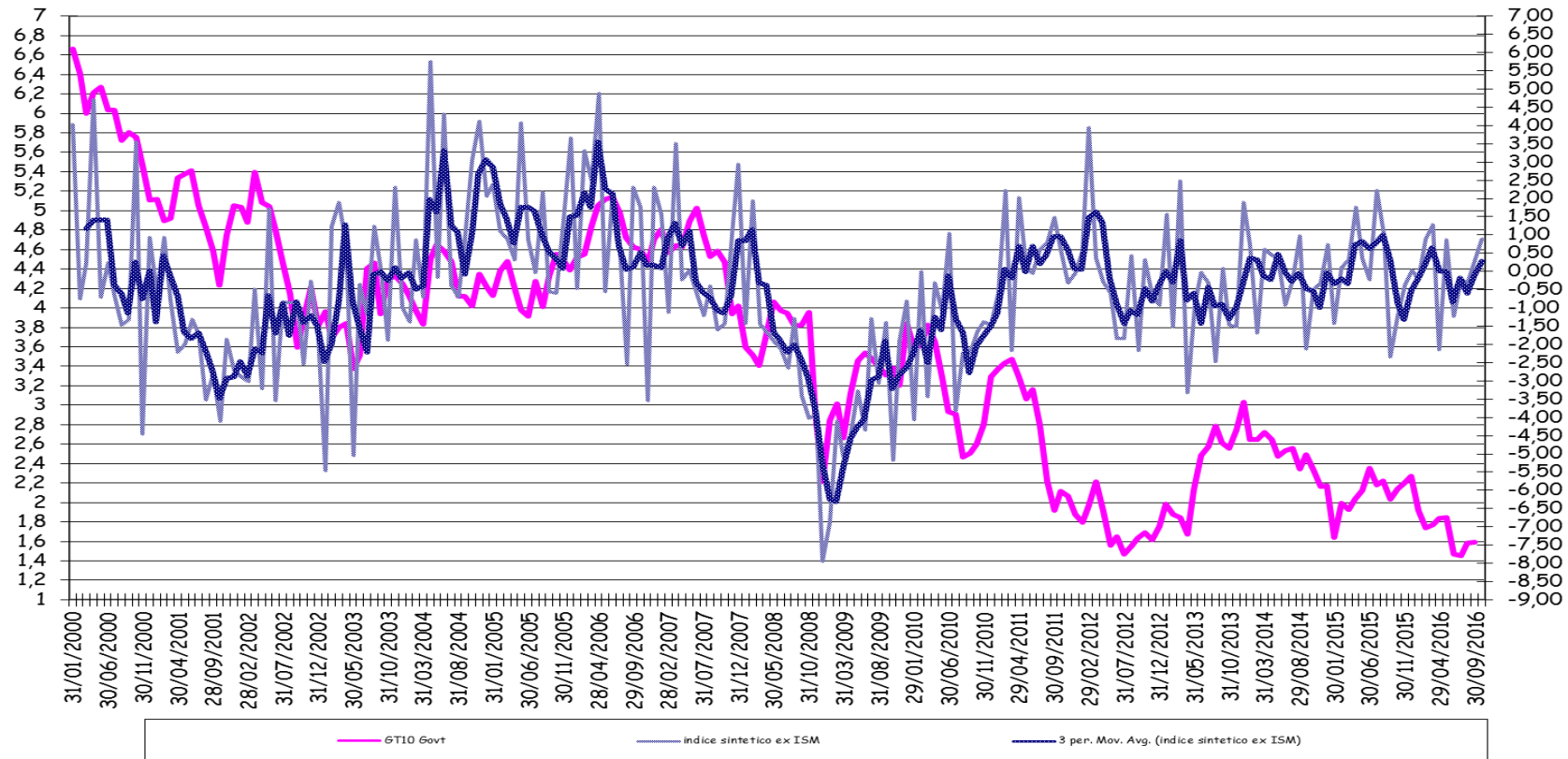
## ...Fed...a dichotomy in market views

- In September they decided to wait a bit more, but a split board made clear that December could be the right time to hike (maybe...): what's next?

The market is split between 2 scenarios:

- Dec 2016 hike is a MISTAKE  2017: recession
  - EM get worse
  - DM inflation goes down again
- Dec 2016 hike is FINE  2017: more global recovery
  - EM continue to recover
  - DM inflation starts to recover

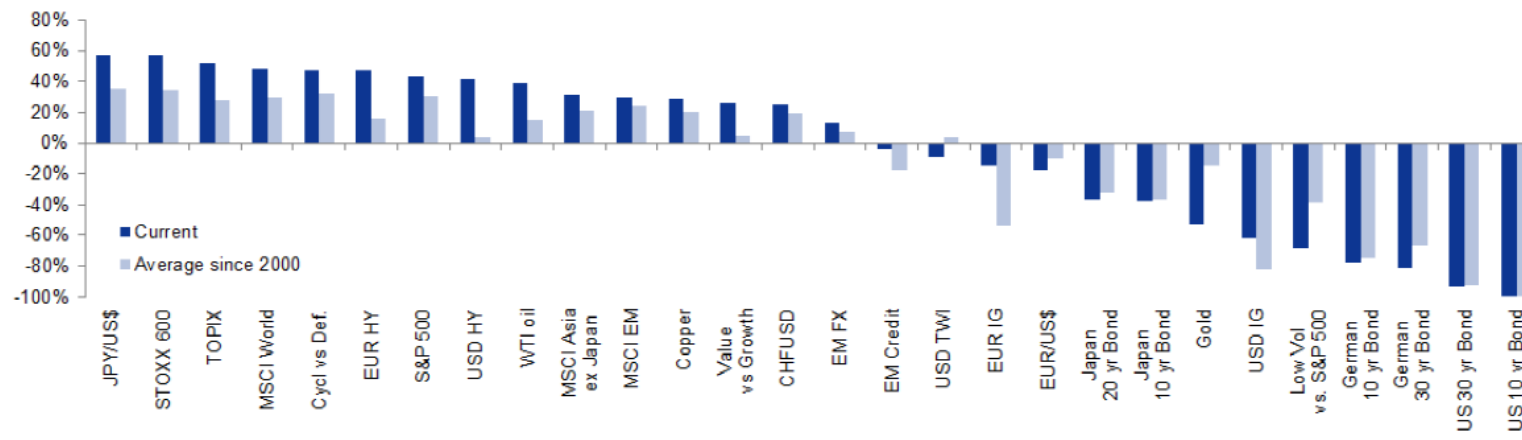
# Azimut proprietary model: economy and us treasury



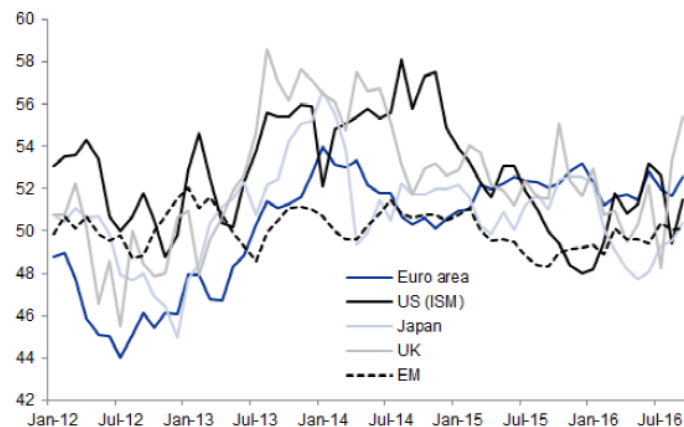
Because of DM QEs, 10yr Us Treasury is trading well below fair value



# Global PMIs and sensitivity



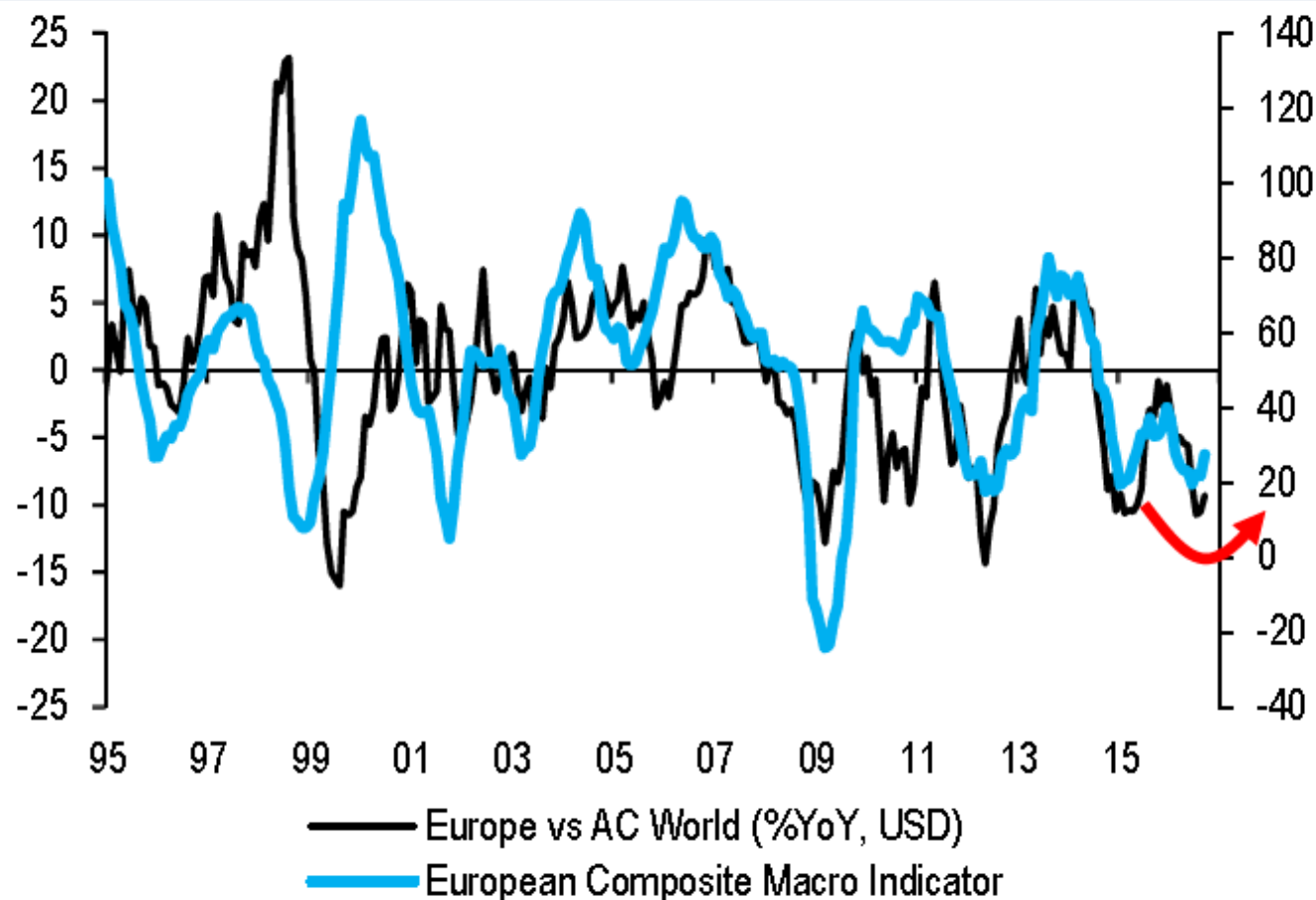
Source: Datastream, Bloomberg, Goldman Sachs Global Investment Research



Source: Markit via Haver, Goldman Sachs Global Investment Research

# Time to look at european equities?

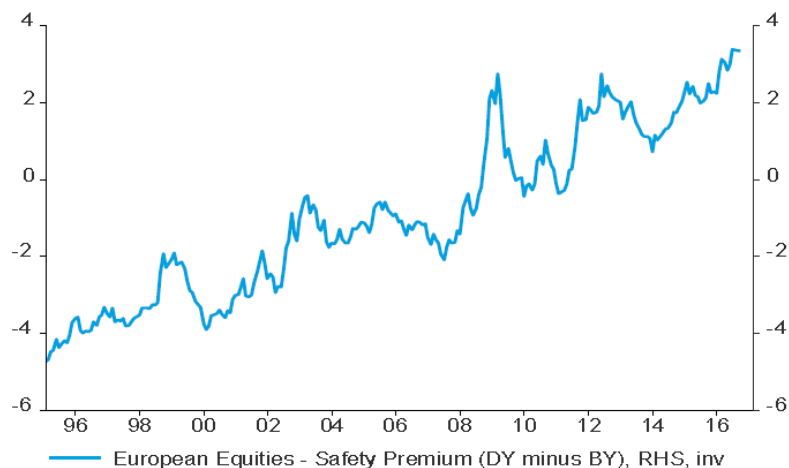
**Chart 3: 'Recovery' should reverse relative losses in European stocks**



Source: BofAML European Quantitative Strategy, Datastream

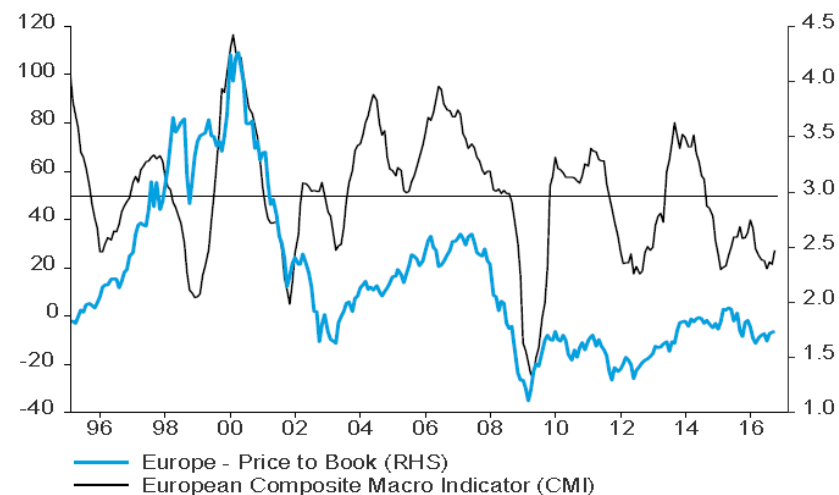
# Time to look at EUROPEAN EQUITIES?

**Chart 37: EU CMI & European Equities “Safe” risk premium**  
(safe premium = Dividend Yield minus Bond Yield)



Source: BofAML European Quantitative Strategy, DataStream

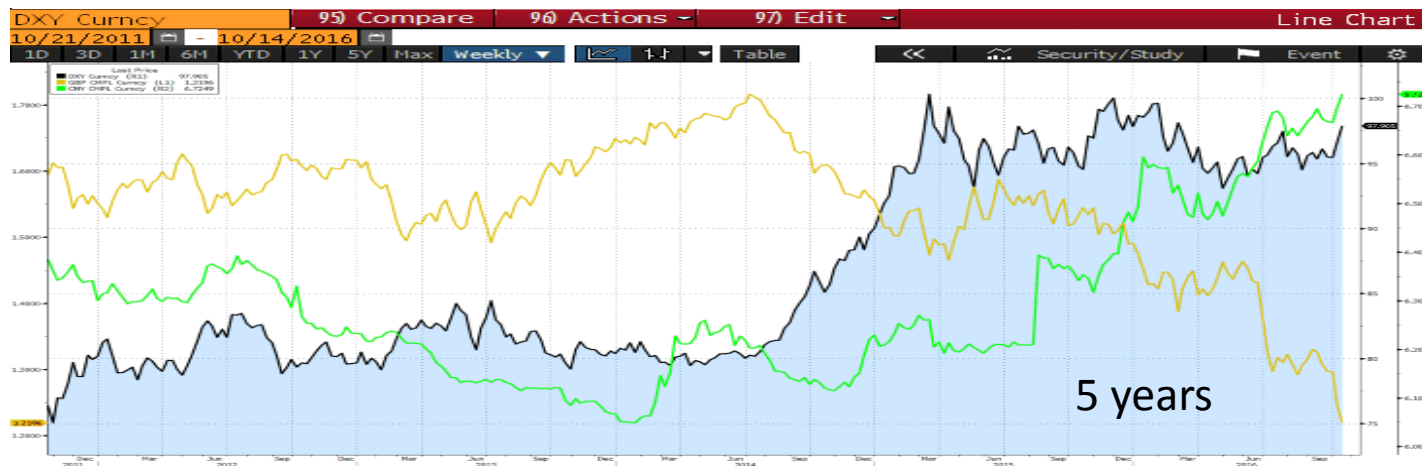
**Chart 41: EU CMI & European Equities Price to Book**



Source: BofAML European Quantitative Strategy, DataStream

# Currencies

## Dollar Index, CNY, GBP...going local?



Dollar index  
GBP  
CNY



Compared to other episodes of high volatility in fx markets (that affected markets across assets), this time it seems that we are going local...  
Food for thoughts...



# Overtime things change...



In 2015 BRL suffered heavily because of poor domestic credibility

In 2016 BRL reversed course

The other side of the coin is that if TRY finds a domestic trigger it might recover as well

# ...World GDP

Global Economics Weekly Calendar

## Summary of Forecasts

		2016E				2017E				Q4/Q4				Annual average			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	14	15	16E	17E	14	15	16E	17E
Global	Real GDP (q/q ann)	2.4	2.2	2.8	2.7	2.9	3.2	3.3	2.8	2.7	2.6	2.5	3.1	2.8	2.8	2.4	2.9
	Inflation (y/y)	2.8	3.0	3.3	3.8	4.2	4.0	3.9	3.8	2.5	2.4	3.8	3.8	2.8	2.1	3.3	4.0
DM	Real GDP (q/q ann)	1.6	1.3	1.7	1.8	1.9	2.2	2.0	2.0	1.8	1.8	1.6	2.0	1.7	2.1	1.5	1.8
	Inflation (y/y)	0.6	0.6	0.8	1.2	1.7	1.5	1.6	1.6	1.0	0.4	1.2	1.6	1.4	0.2	0.8	1.7
US	Real GDP (q/q ann)	0.8	1.4	2.2	2.5	2.4	2.2	2.1	2.1	2.5	1.9	1.7	2.2	2.4	2.6	1.5	2.2
	Inflation (y/y)	1.1	1.1	1.2	1.7	2.2	1.9	2.1	2.4	1.2	0.5	1.7	2.4	1.6	0.1	1.2	2.2
Japan	Real GDP (q/q ann)	2.1	0.7	0.0	0.8	2.0	4.9	2.4	2.8	-0.9	0.8	0.9	3.0	0.0	0.5	0.5	0.6
	Inflation ex. fresh food (y/y)	0.1	-0.3	-0.4	-0.3	-0.1	0.0	0.0	0.0	2.5	0.2	-0.3	0.0	2.7	0.6	-0.3	0.0
Euro Area	Real GDP (q/q ann)	2.1	1.2	1.2	1.2	1.6	1.6	1.6	1.6	1.2	2.0	1.4	1.6	0.9	1.9	1.6	1.5
	Inflation (y/y)	0.0	-0.1	0.3	0.7	1.3	1.1	1.0	0.9	0.2	0.2	0.7	0.9	0.4	0.0	0.2	1.3
UK	Real GDP (q/q ann)	1.7	2.7	0.4	0.8	0.0	0.4	0.4	0.8	3.5	1.7	1.4	0.4	3.1	2.2	1.9	0.5
	Inflation (y/y)	0.4	0.3	0.7	1.2	1.9	2.3	2.1	2.1	0.9	0.1	1.2	2.1	1.5	0.0	0.7	2.1
EM	Real GDP (q/q ann)	3.7	3.6	4.7	4.1	4.7	4.9	5.4	4.1	4.2	3.9	4.1	4.8	4.5	4.1	4.0	4.7
	Inflation (y/y)	6.2	6.9	7.4	7.9	8.2	8.0	7.5	7.2	4.7	5.7	7.9	7.2	5.1	5.0	7.3	7.6
NJA	Real GDP (q/q ann)	5.9	6.0	6.7	4.9	5.8	6.4	7.4	5.0	6.2	5.9	5.9	6.1	6.4	6.0	5.9	6.1
	Inflation (y/y)	2.5	2.4	2.1	2.2	2.4	2.6	2.6	2.5	2.2	2.0	2.2	2.5	3.2	1.9	2.2	2.5
China	Real GDP (q/q ann)	6.5	7.1	6.6	6.6	6.1	7.4	7.4	6.1	7.1	6.8	6.7	6.8	7.3	6.9	6.6	6.8
	Inflation (y/y)	2.2	2.2	1.7	1.8	2.1	2.3	2.2	2.1	1.6	1.5	1.8	2.1	2.0	1.4	2.0	2.2
India	Real GDP (q/q ann)	9.6	5.5	16.6	-0.6	9.0	7.7	16.6	-0.6	6.9	7.5	7.6	8.0	7.2	7.6	7.8	8.0
	Inflation (y/y)	5.3	5.7	5.1	4.6	4.6	4.8	5.0	5.5	4.1	5.3	4.6	5.5	9.9	4.9	5.0	5.2
EEMEA	Real GDP (q/q ann)	-0.7	0.3	0.8	2.7	2.3	2.1	2.1	2.2	1.7	0.6	0.8	2.2	2.1	0.6	1.0	2.2
	Inflation (y/y)	6.7	6.0	5.6	5.5	5.6	5.2	5.1	4.9	7.0	8.7	5.5	4.9	6.2	8.9	5.8	5.5
Russia	Real GDP (q/q ann)	1.2	-1.9	0.8	2.4	1.6	1.6	1.2	1.2	0.0	-3.9	0.6	1.4	0.7	-3.7	-0.4	1.5
	Inflation (y/y)	8.3	7.3	6.8	5.6	5.1	4.6	4.6	4.2	9.6	14.5	5.6	4.2	7.8	15.5	7.1	4.7
Turkey	Real GDP (q/q ann)	2.6	1.2	-0.8	6.6	3.2	3.2	3.2	3.2	3.0	4.7	2.4	3.2	3.0	4.0	3.0	3.2
	Inflation (y/y)	8.6	6.9	8.0	8.0	8.2	7.7	7.4	7.2	8.8	8.2	8.0	7.2	8.9	7.7	7.6	7.3
Lat. America	Real GDP (q/q ann)	-0.5	-2.5	0.7	2.0	2.5	1.5	0.8	2.7	0.3	-1.4	-0.1	1.9	0.6	-0.4	-0.8	1.6
	Inflation (y/y)	20.5	25.4	29.7	32.4	33.4	31.4	29.0	27.3	10.7	17.2	32.4	27.3	10.3	13.6	28.3	29.6
Brazil	Real GDP (q/q ann)	-1.7	-2.3	-0.8	0.0	2.4	0.0	0.4	1.6	-0.7	-5.9	-1.2	1.1	0.1	-3.8	-3.0	0.8
	Inflation (y/y)	10.1	9.1	8.7	7.5	6.6	5.7	5.5	5.7	6.5	10.4	7.5	5.7	6.3	9.0	9.0	6.0
Mexico	Real GDP (q/q ann)	2.0	-0.7	1.4	2.5	3.0	3.0	3.0	3.0	2.6	2.4	1.3	3.0	2.2	2.5	2.2	2.5
	Inflation (y/y)	2.7	2.6	2.8	3.2	3.2	3.3	3.4	3.6	4.2	4.2	3.2	3.6	4.0	2.7	2.7	3.6

Source: Credit Suisse

CREDIT SUISSE

13 October

