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MACROECONOMICS

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THE END IS COMING...

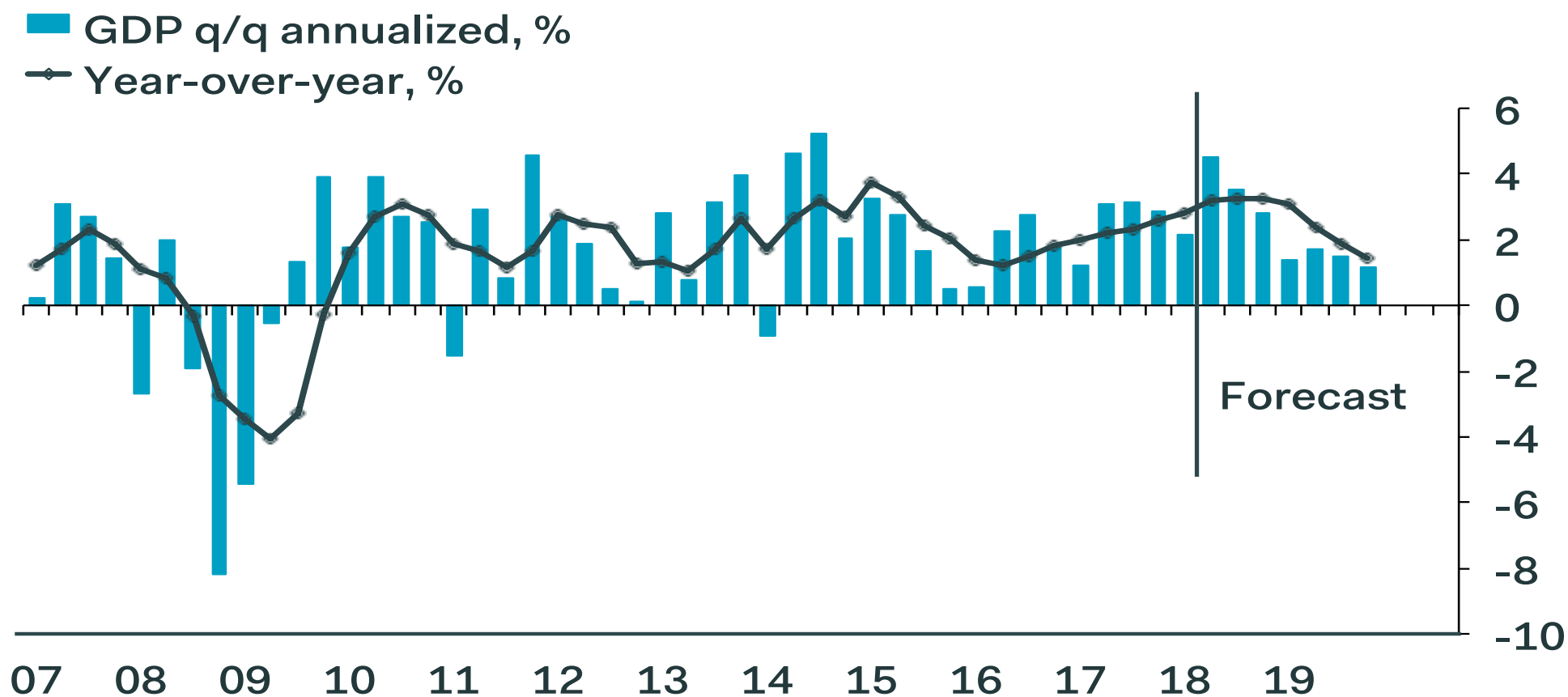
BUT WHEN, HOW, AND WHAT WILL IT LOOK LIKE?

U.S. WEBINAR, 11 JUNE 2018

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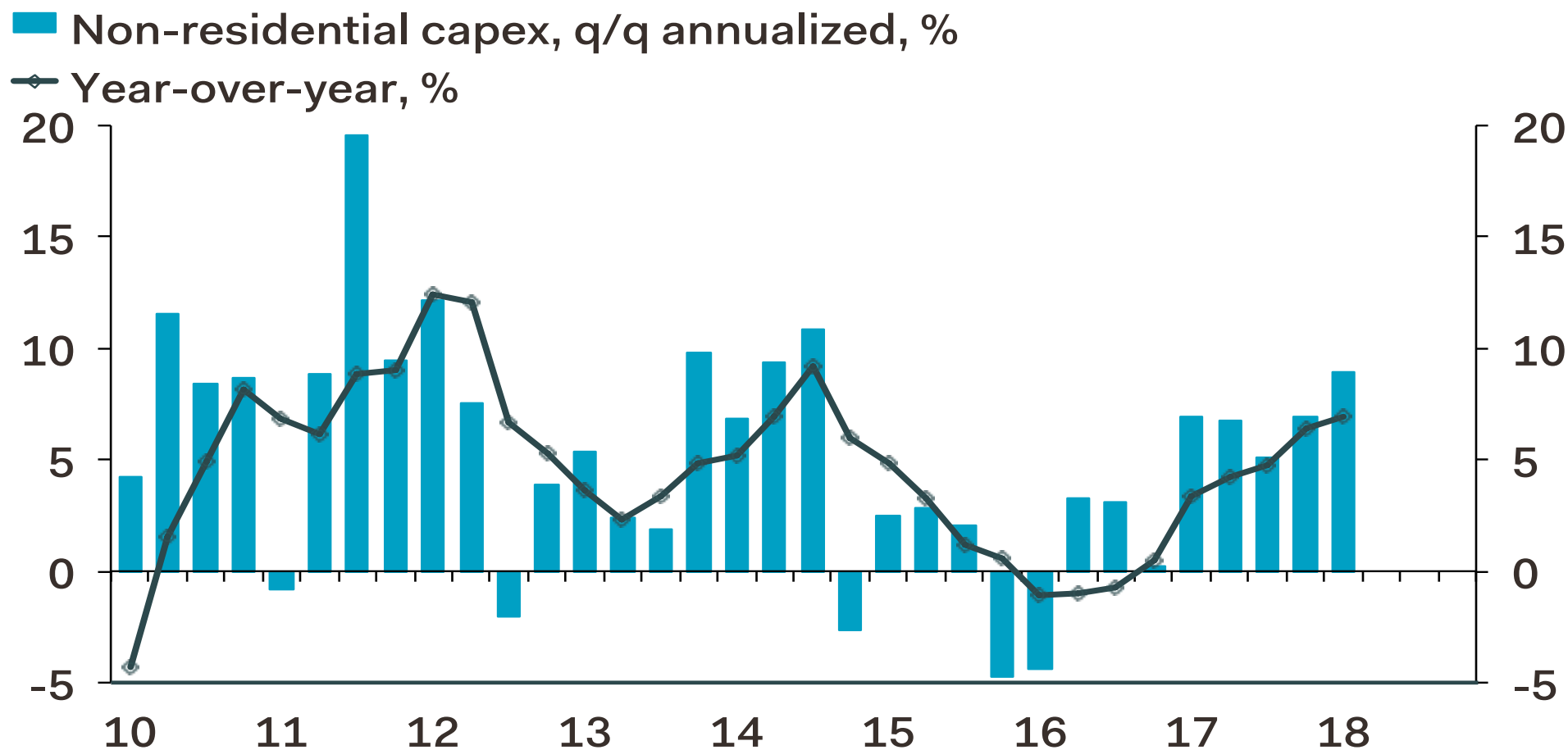


1. RIGHT NOW, THE U.S. ECONOMY IS IN A VERY SWEET SPOT





2. CAPEX IS RECOVERING AFTER THE 2015/16 OIL HIT





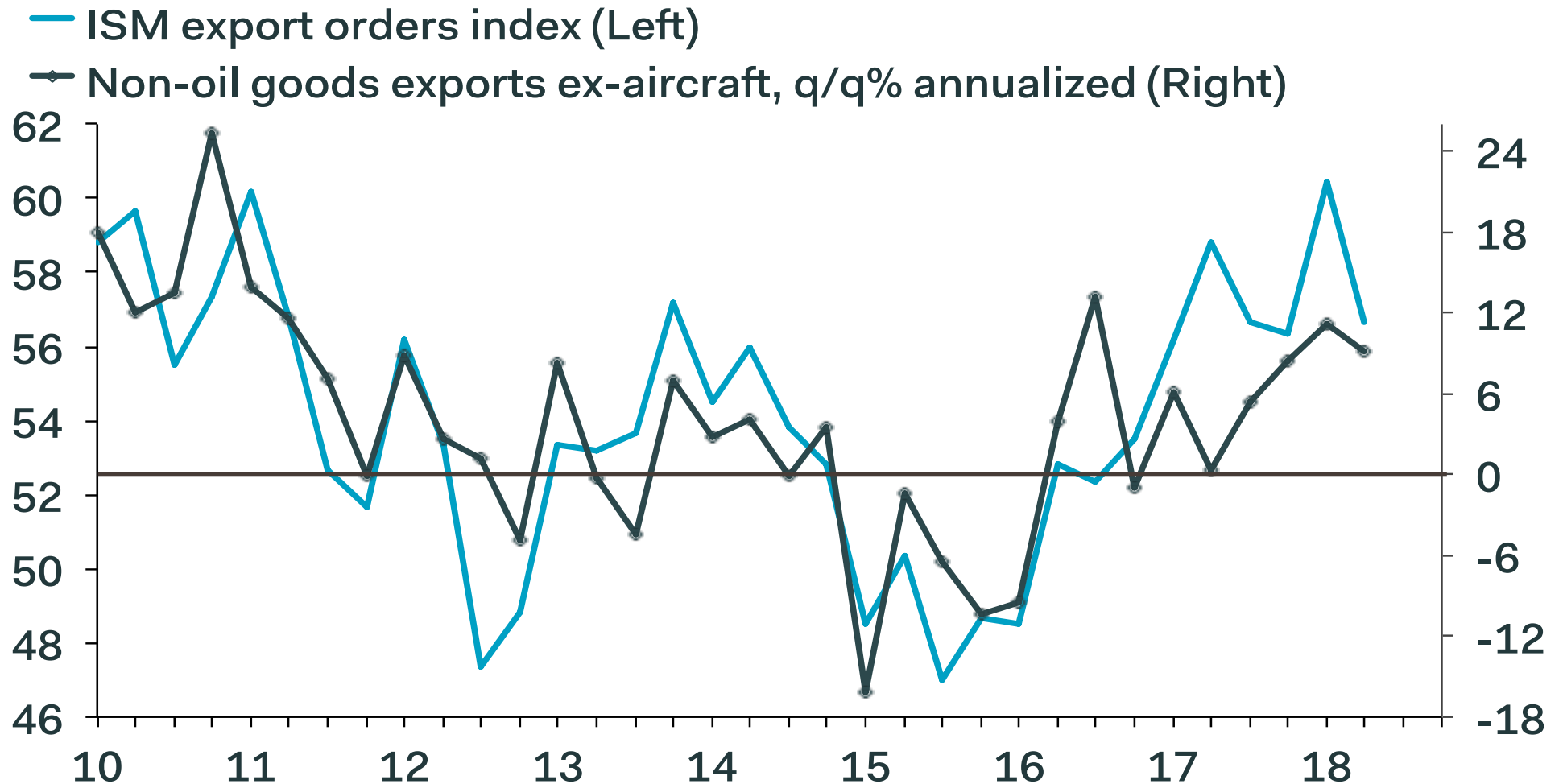
3. CONSUMERS ARE HAPPY, THOUGH CASH-CONSTRAINED

- Consumer expectations index, quarterly average (Left)
- Real consumption, y/y% (Right)



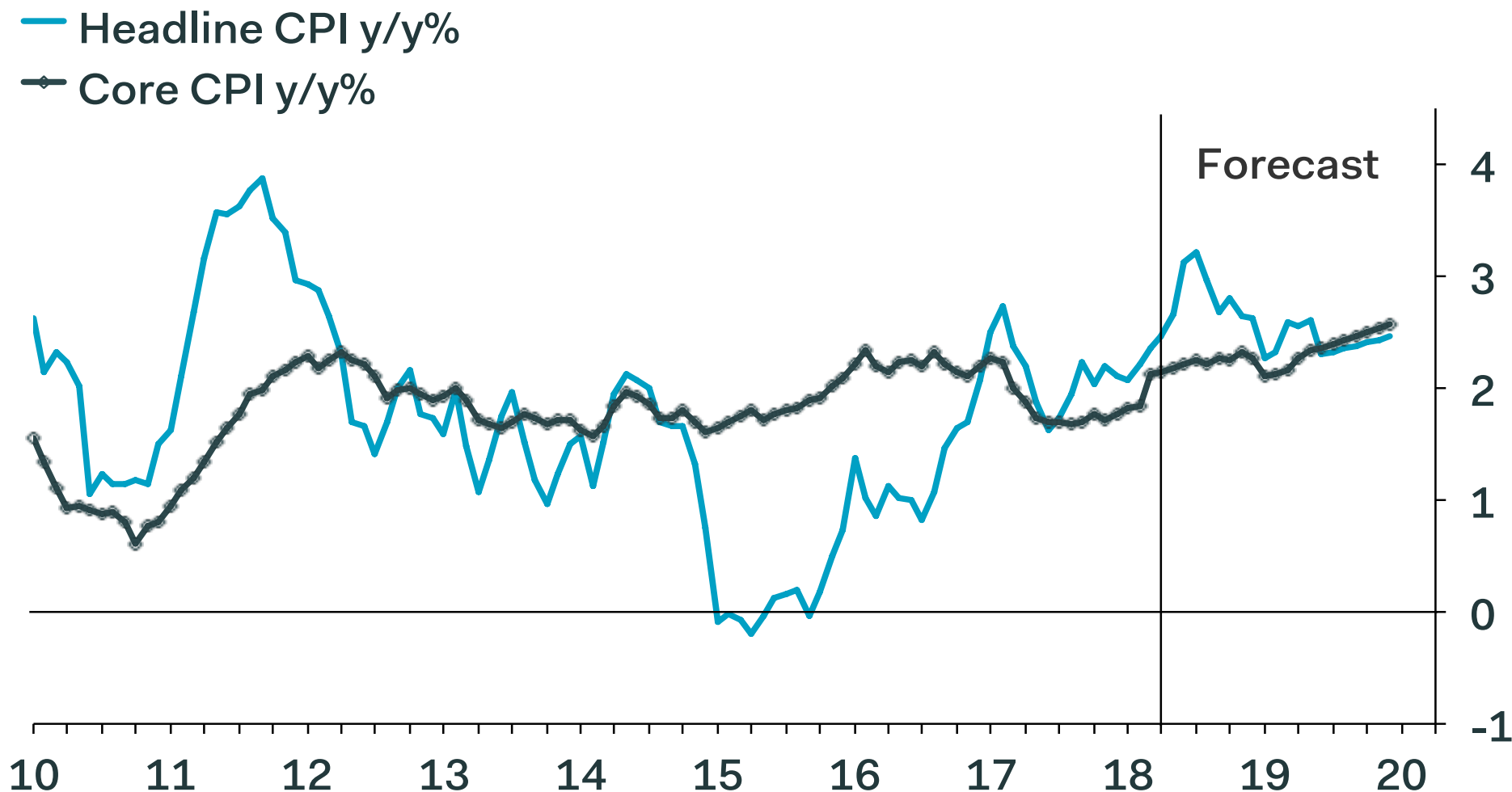


4. EXPORTERS ARE BULLISH, TARIFF NONSENSE NOTWITHSTANDING





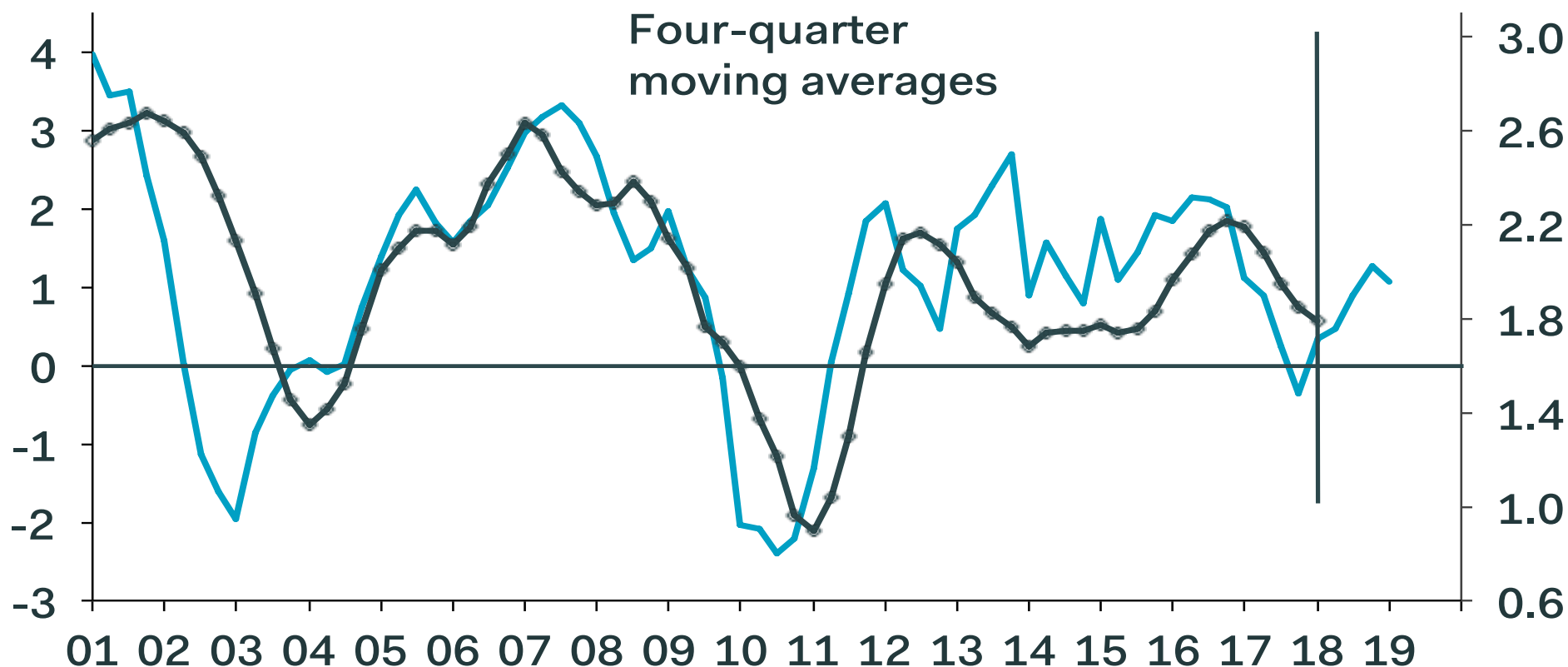
5. INFLATION IS LOW...





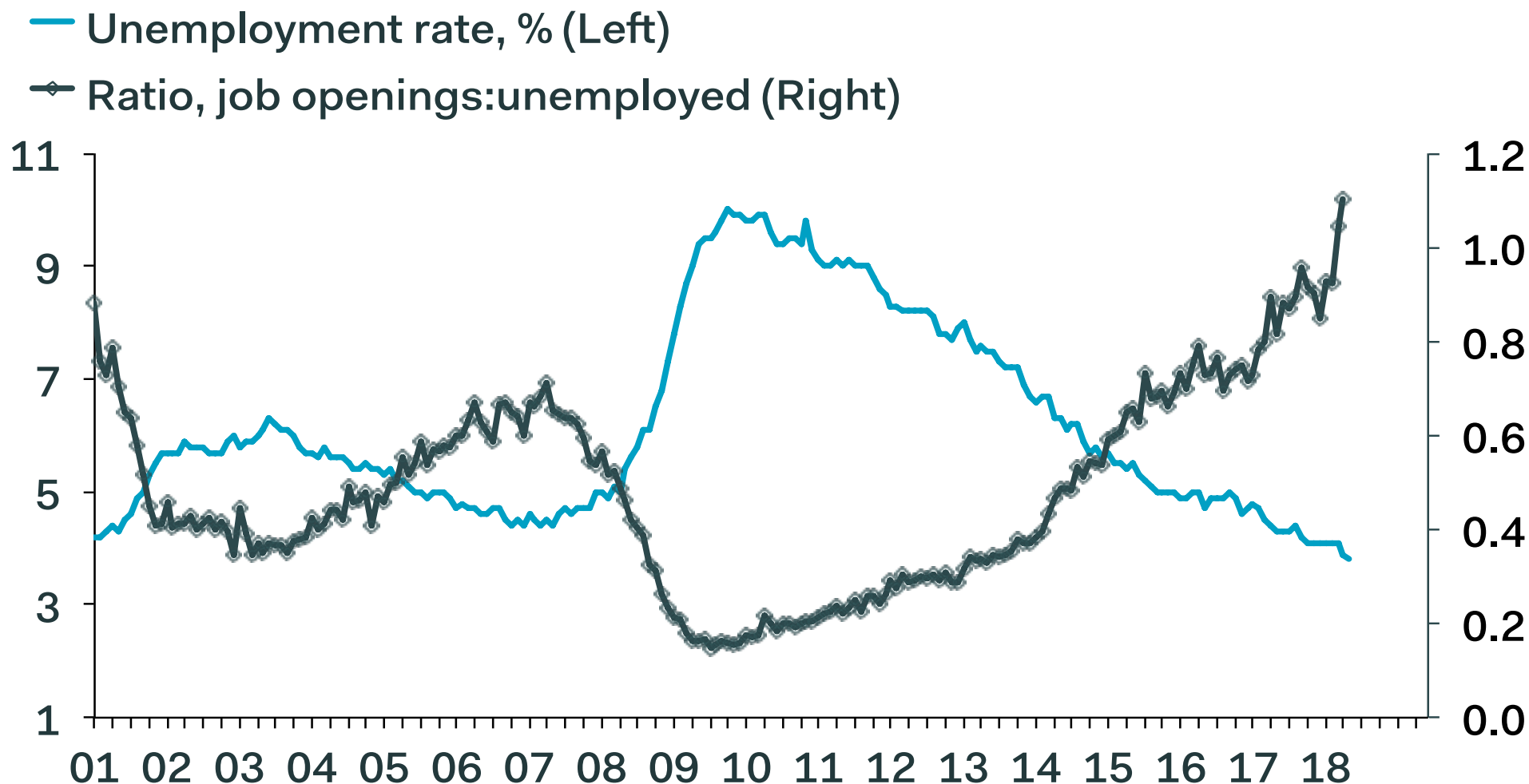
6. ...AND THE NEAR-TERM UPSIDE RISK IS LIMITED

- Unit labor costs, y/y% advanced one quarter (Left)
- Core CPI y/y% (Right)





7. THE CATCH: THE LABOR MARKET IS NOW EXTREMELY TIGHT





8. WAGE GROWTH IS LOW BY PREVIOUS LATE-CYCLE STANDARDS...

- NFIB one or more unfilled job openings, advanced nine months (Left)
- Hourly earnings, y/y% (Right)

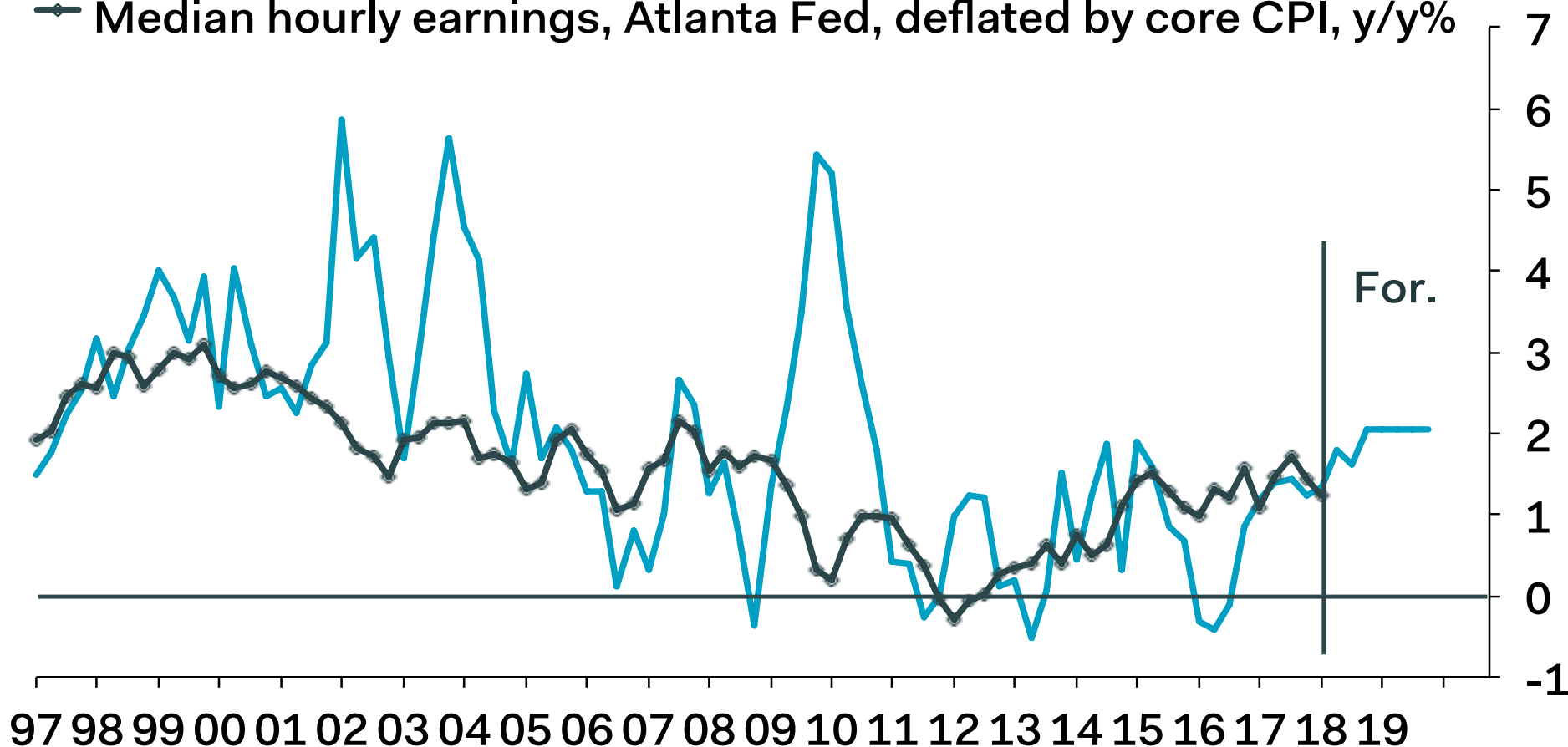




9. ...BUT STRONGER PRODUCTIVITY GROWTH WILL LIFT REAL WAGES

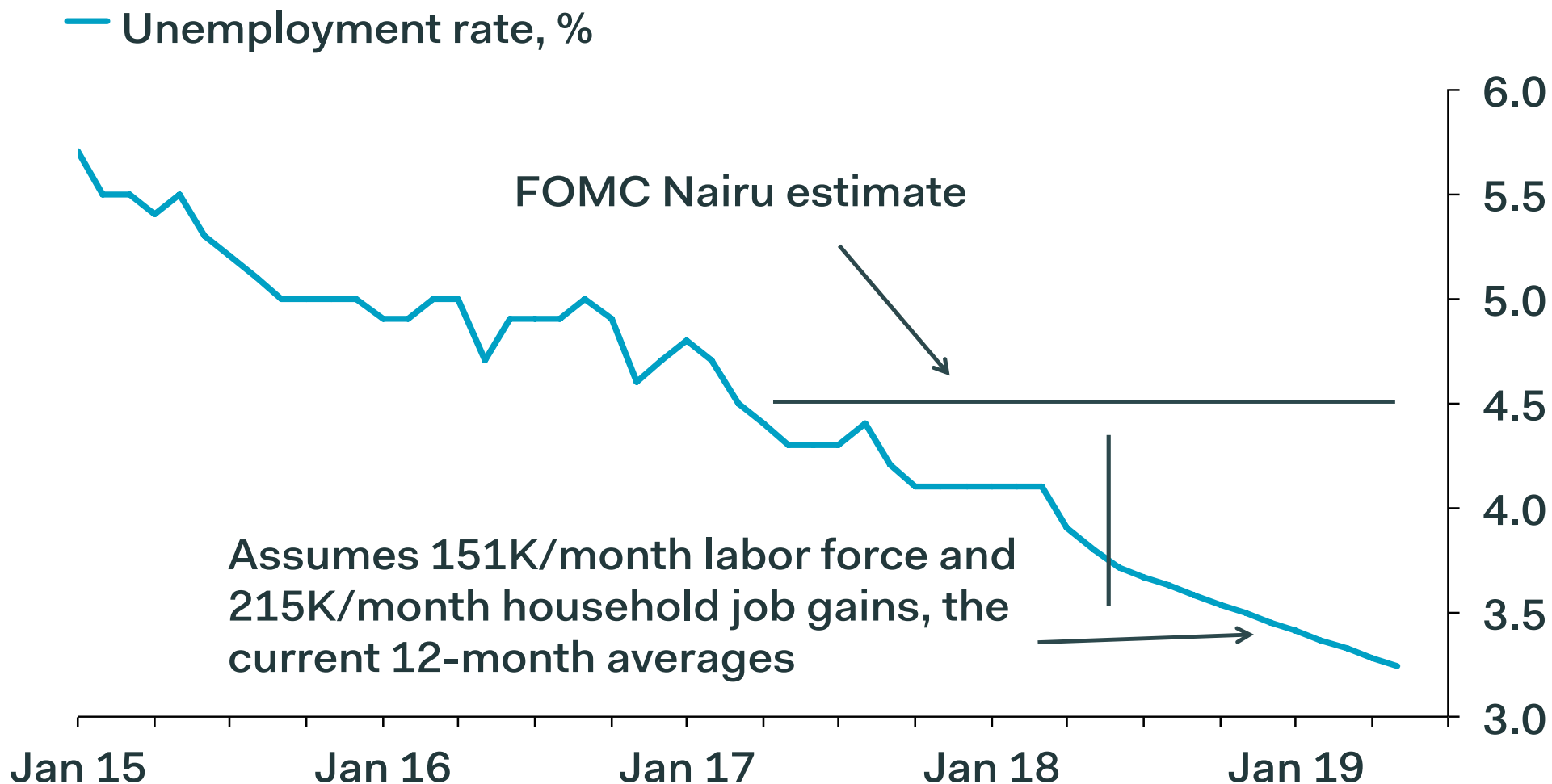
— Nonfarm productivity, y/y%

— Median hourly earnings, Atlanta Fed, deflated by core CPI, y/y%





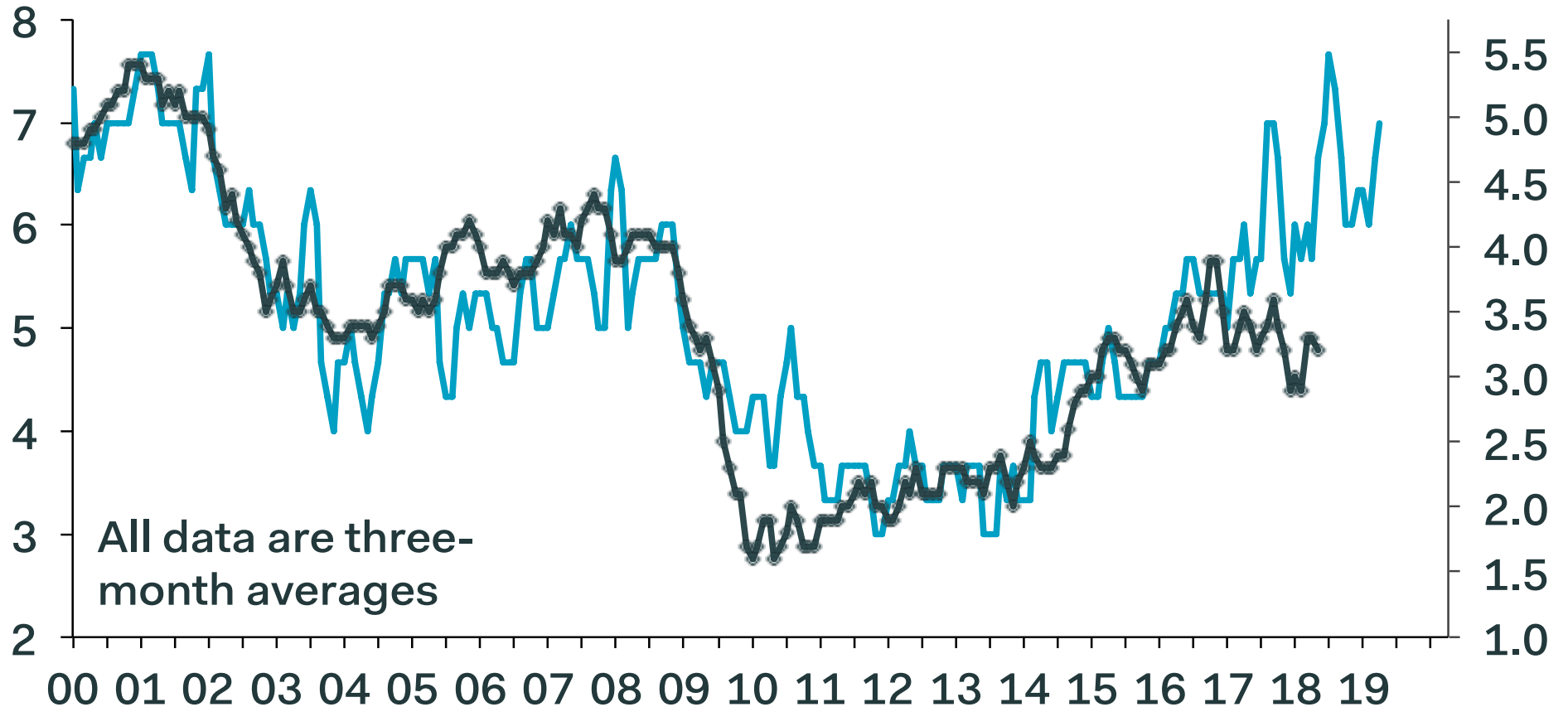
10. SCARCE WORKERS WILL PUSH HARDER FOR INFLATION COMPENSATION





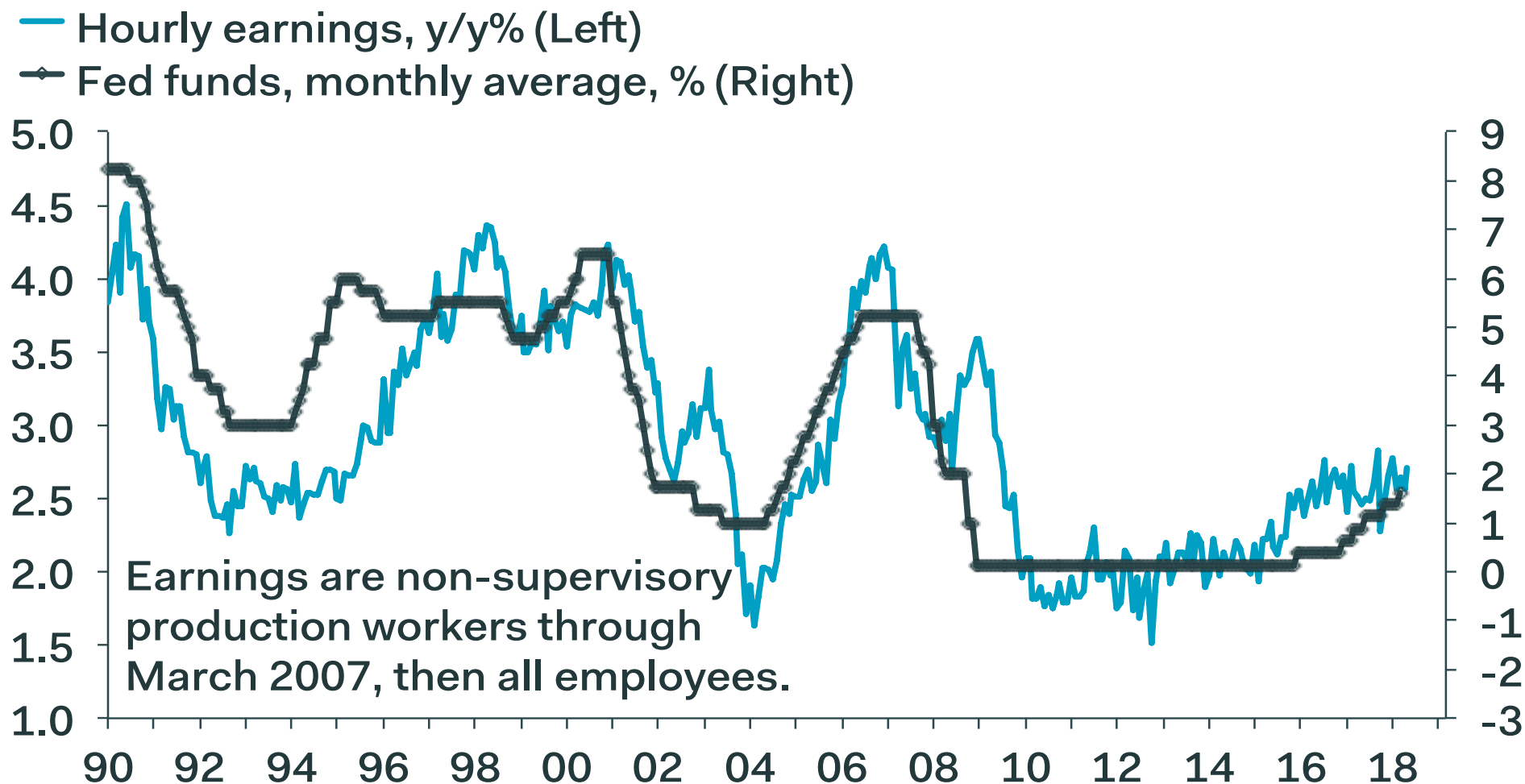
11. EMPLOYERS EXPECT TO HAVE TO PAY MORE

- NFIB firms citing labor costs as main problem, adv. 12 months (Left)
- Atlanta Fed median hourly earnings, y/y% (Right)





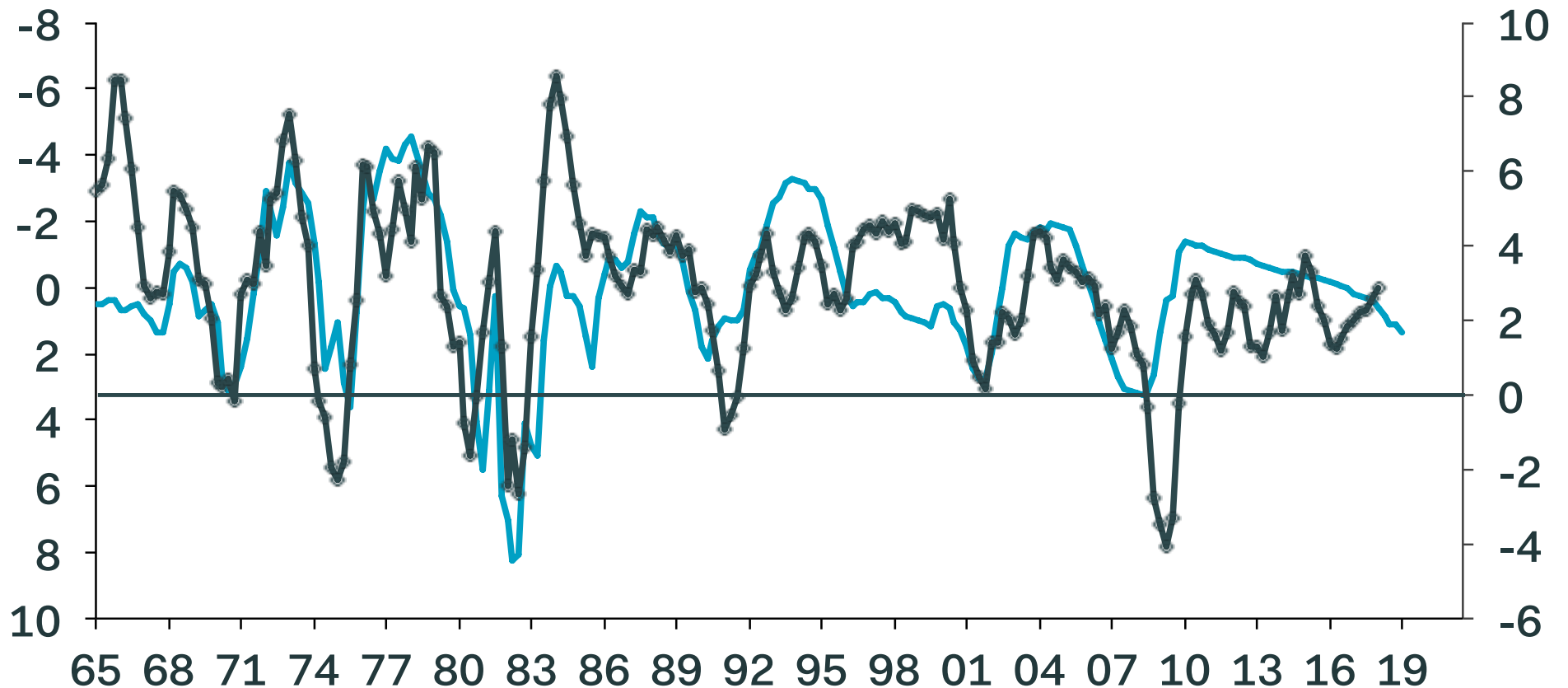
12. THE FED'S TOLERANCE FOR FASTER WAGE GROWTH IS LIMITED...





13. ...THE FED KILLS CYCLES WHEN IT TACKLES RAPID WAGE GROWTH

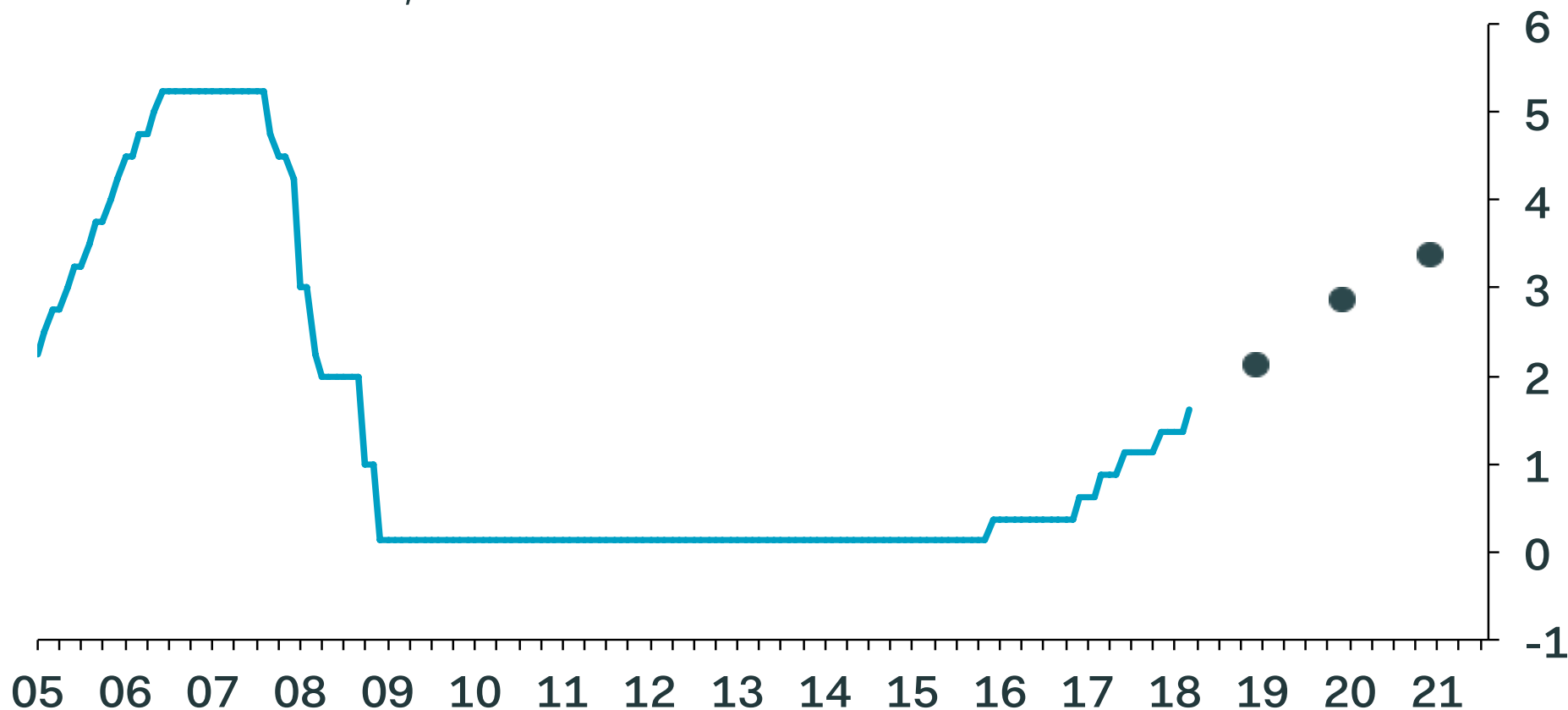
- Fed funds, %, deviation from trend, inverted, advanced 4 qtrs (Left)
- GDP y/y% (Right)





14. THE FED WILL KEEP HIKING

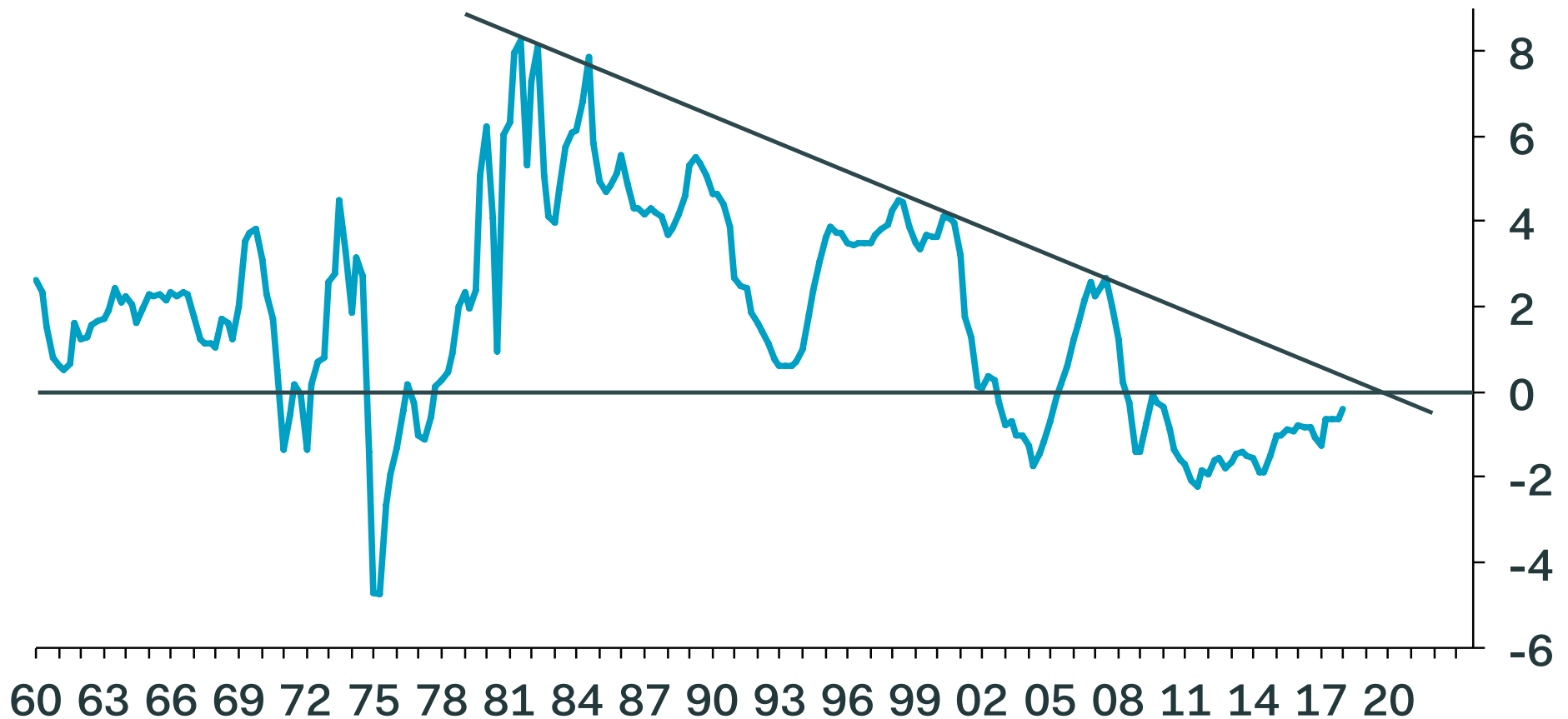
- U.S. Fed funds target rate, %
- Fed forecasts, March 2018





15. PEAKS IN REAL RATES HAVE FALLEN SINCE THE 80S...

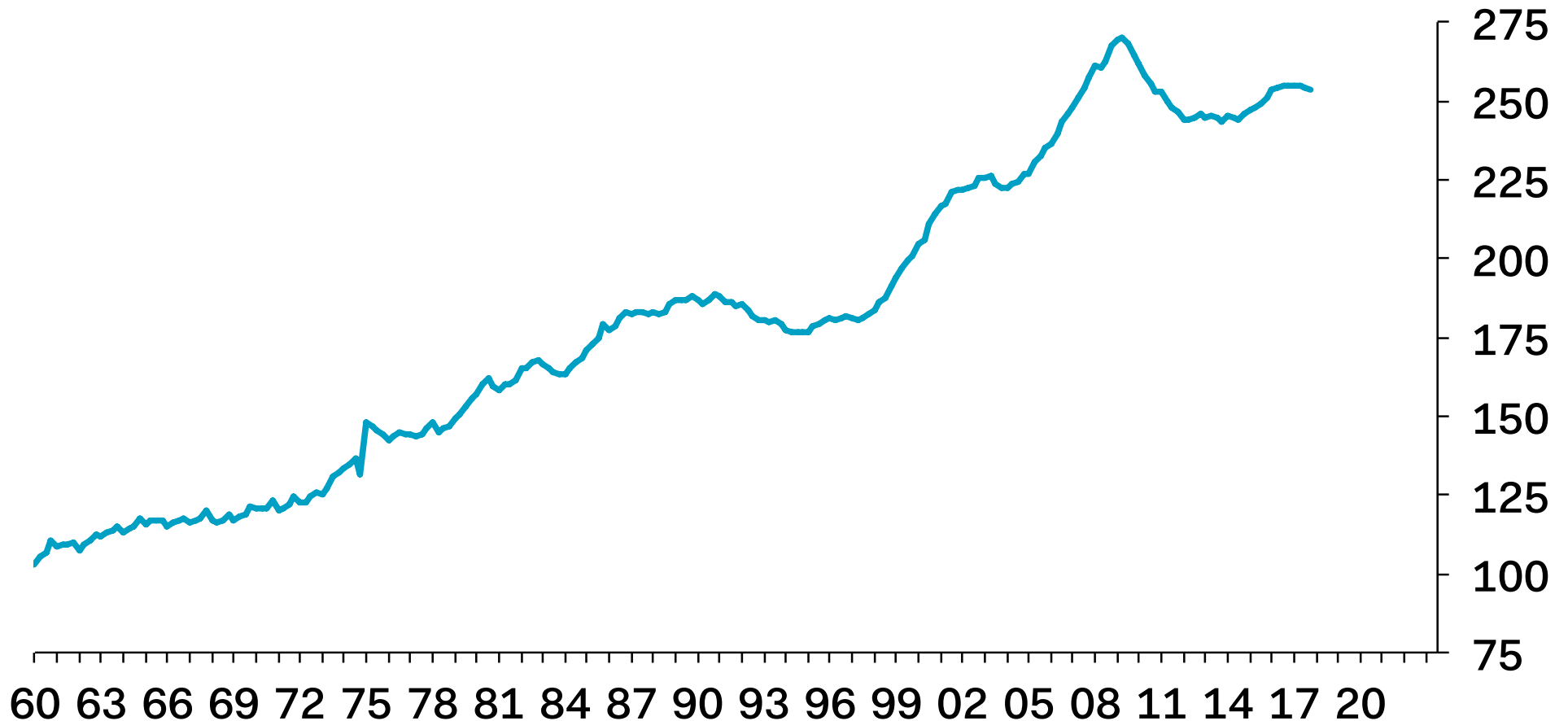
— Fed funds less GDP deflator y/y%, %





16. ... BECAUSE THE PRIVATE SECTOR IS CARRYING MORE DEBT

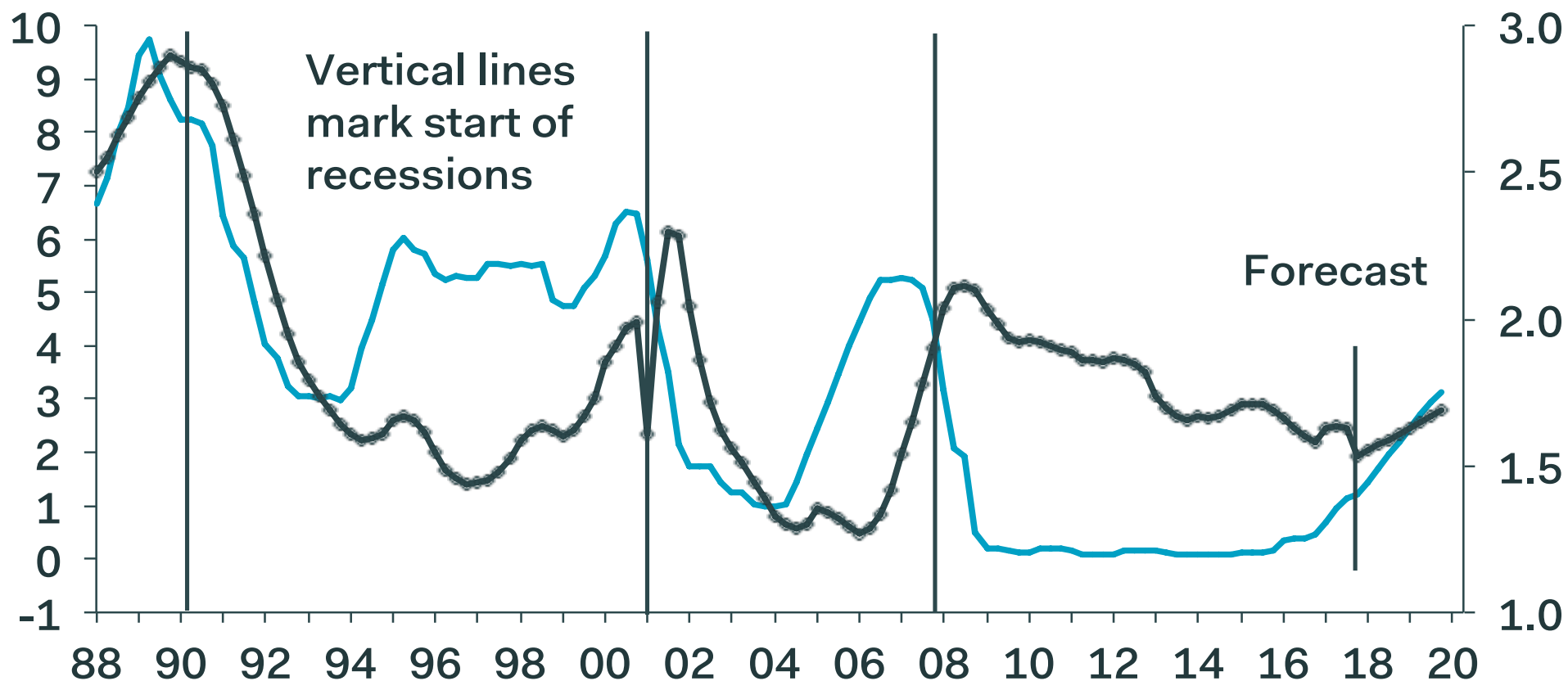
— Total private sector liabilities, % GDP





17. RECESSIONS ARE DEBT SERVICE EVENTS, USUALLY...

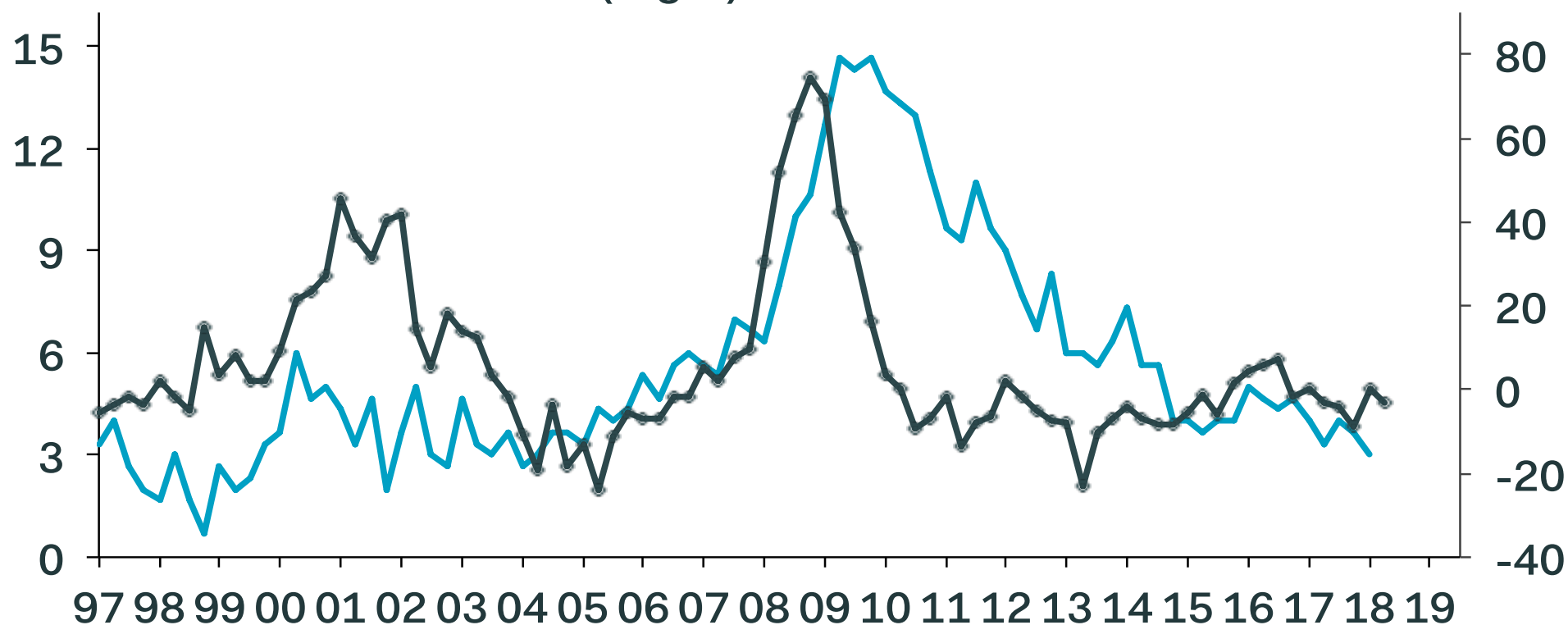
- Fed funds rate, % (Left)
- Net interest paid by non-fin. corporations, % GDP (Right)





18. ...THIS TIME, CREDIT AVAILABILITY WILL BE KEY; NO PROBLEM YET

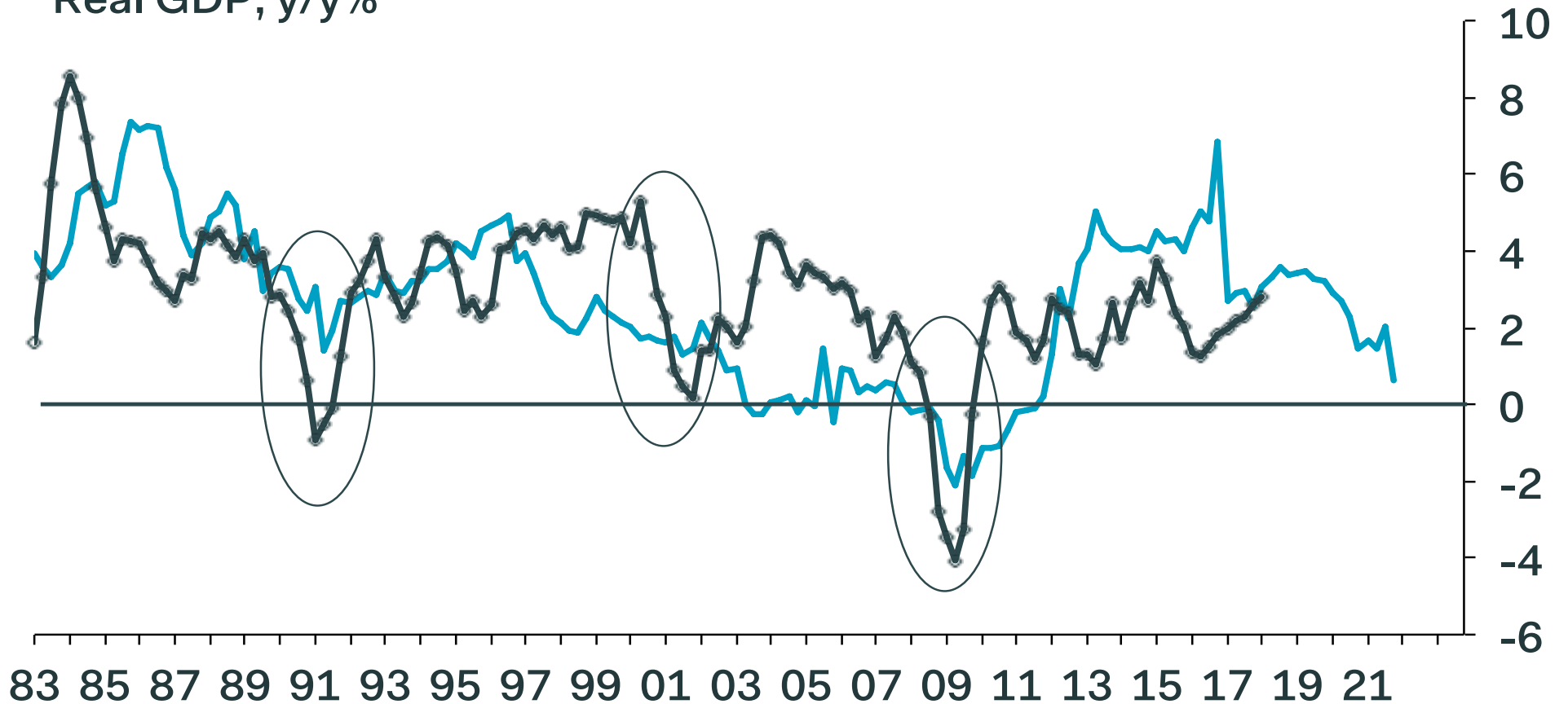
- NFIB, proportion of firms reporting credit harder to get (Left)
- Senior Loan Officer Survey, proportion of banks tightening standards for small firms (Right)





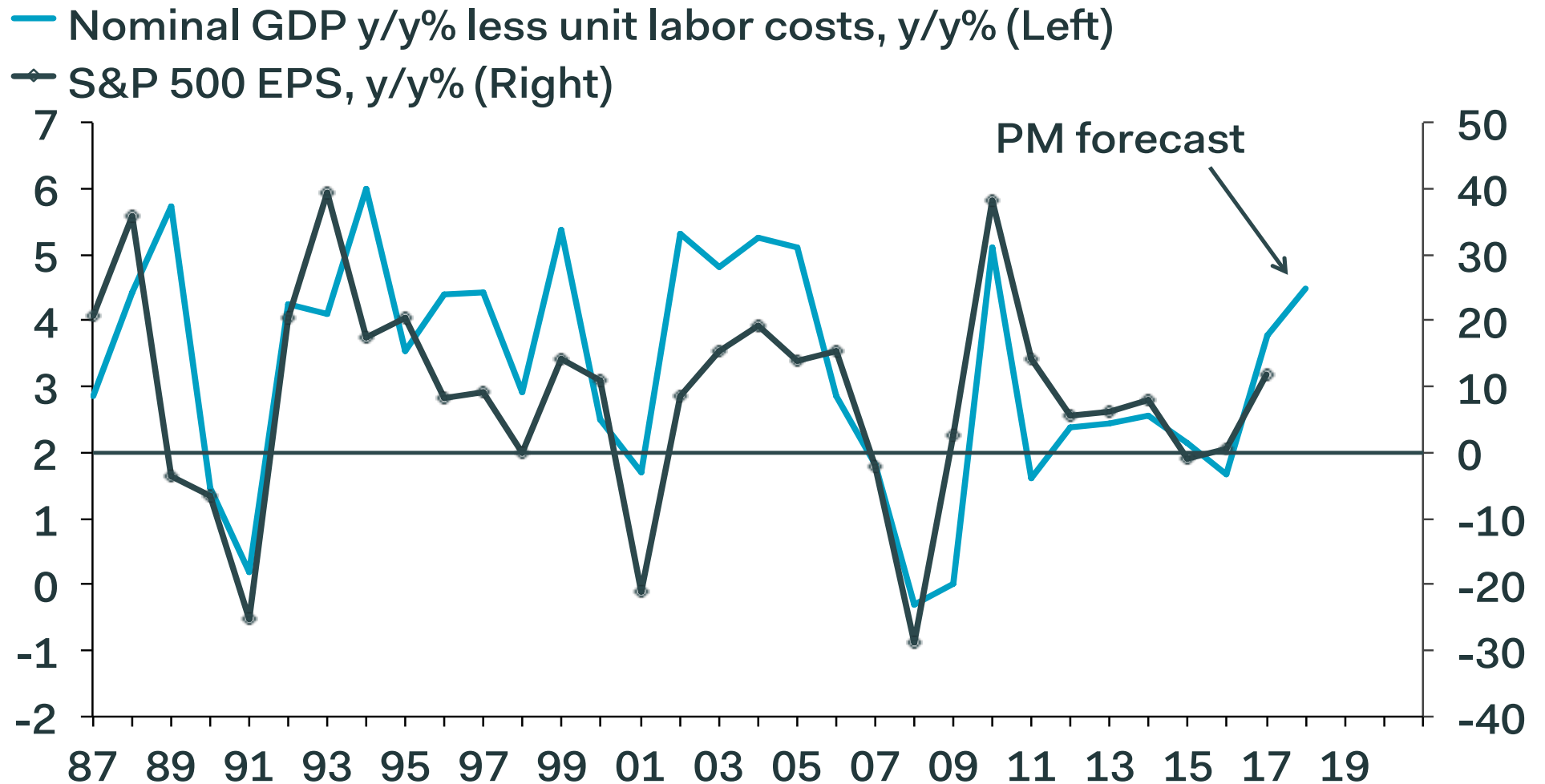
19. THE GOOD NEWS: THE NEXT U.S. RECESSION WON'T BE BAD

- Personal sector's net financial flows, % GDP, advanced 12 quarters
- Real GDP, y/y%





20. IN THE MEANTIME, EARNINGS THIS YEAR WILL BE STRONG





21. SUMMARY

- * **The cyclical upswing is still has legs, but it's not immortal.**
- * **Higher rates and tighter credit will hurt in 2019/20.**
- * **Still room for U.S. earnings to surprise to the upside.**
- * **When U.S. rates are rising, EM investors become very picky.**