

# MACRO AND MARKET OUTLOOK 2017

## THE TIMES THEY ARE A CHANGING

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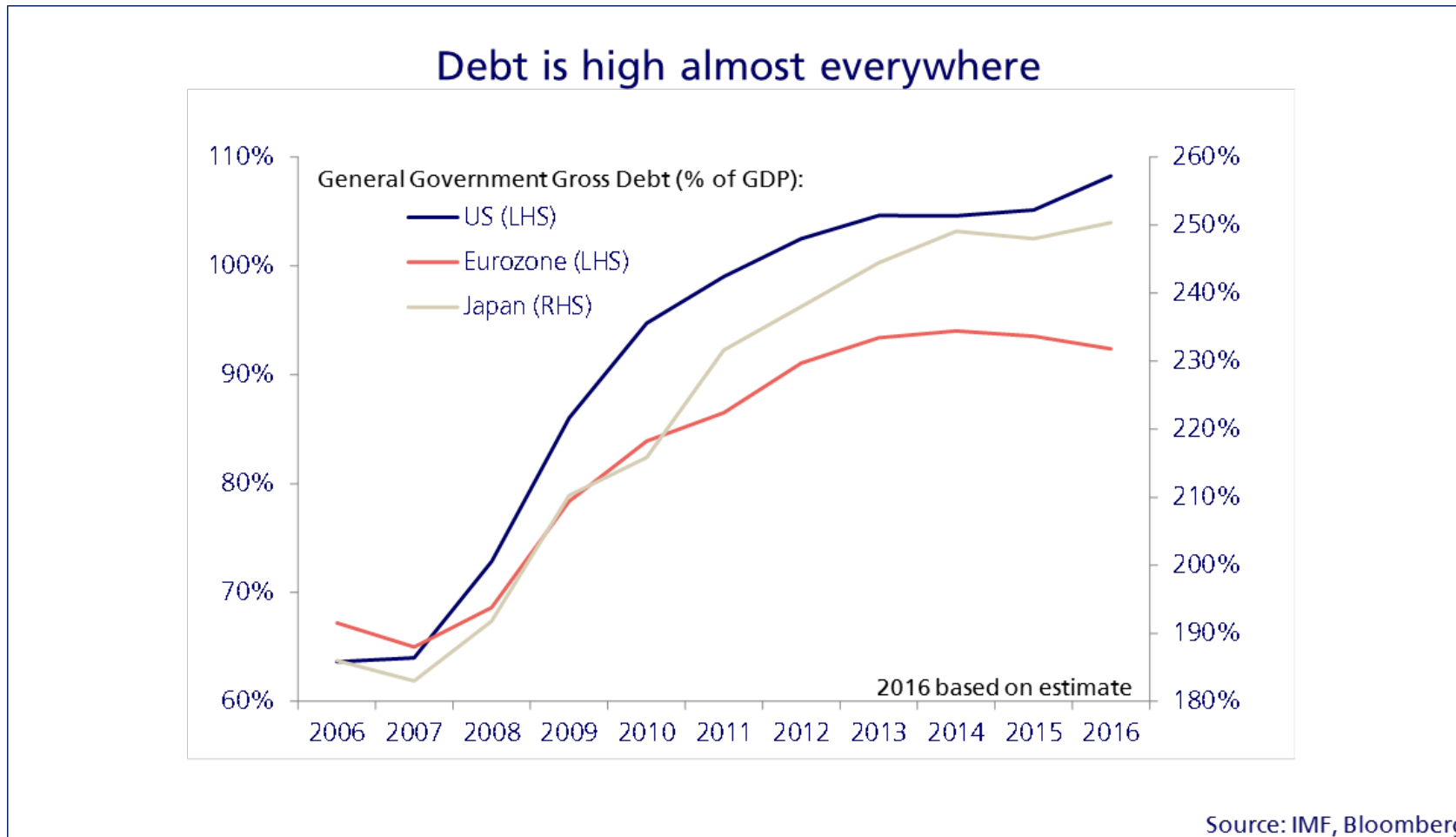
# Outlook

2016 marked a watershed for central banks and political movements

- Global growth will rise only modestly, with conditions remaining fragile
- The underestimated threat posed by European banks must be addressed
- High debt levels will contain rate appreciation
- Risk assets are likely to see further gains on a better earnings outlook
- Market volatility is predicted to be high

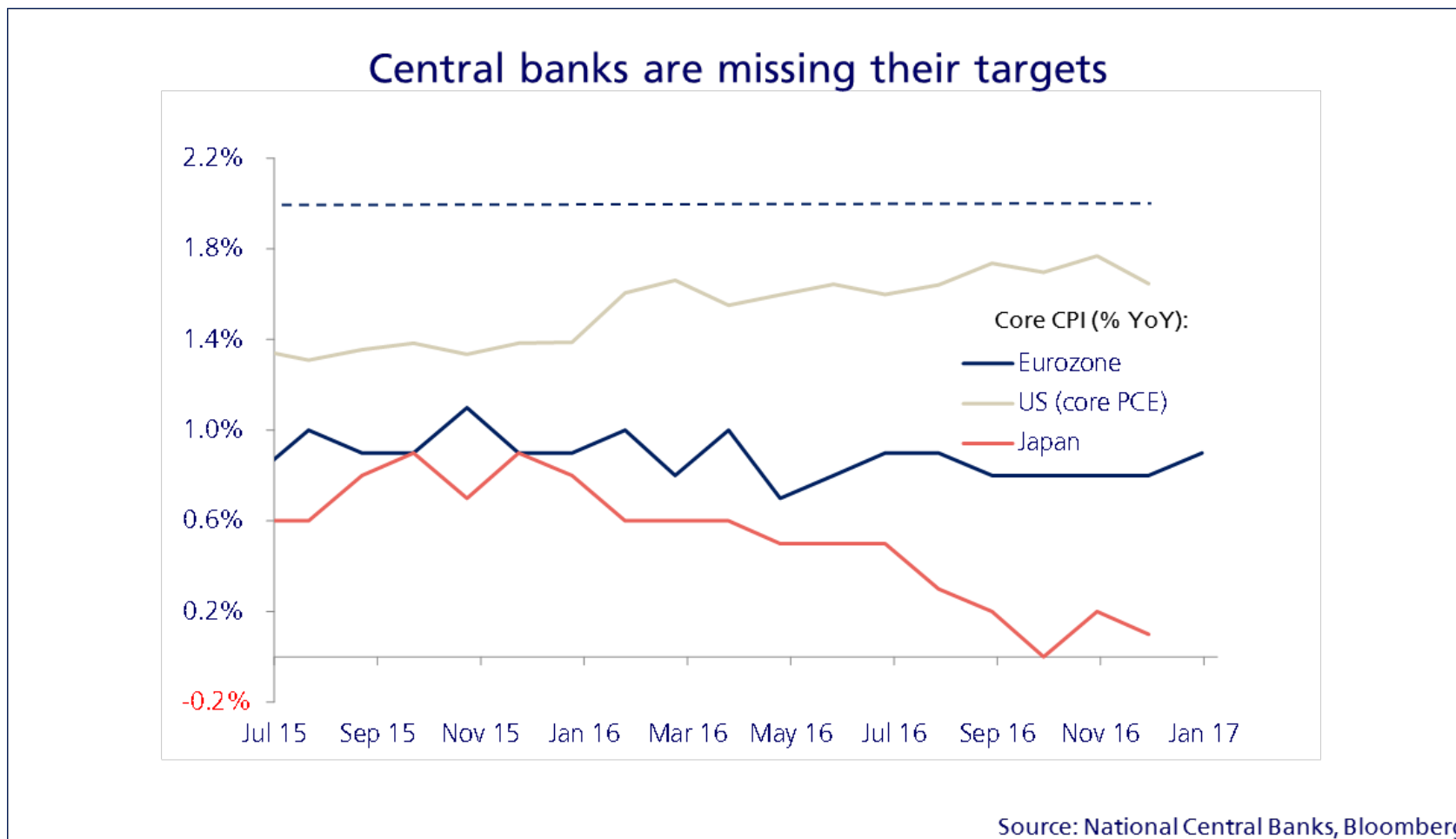
# Despite recovery, debt has been rising, not falling

Balance sheet recessions take time - a lot of time - to resolve



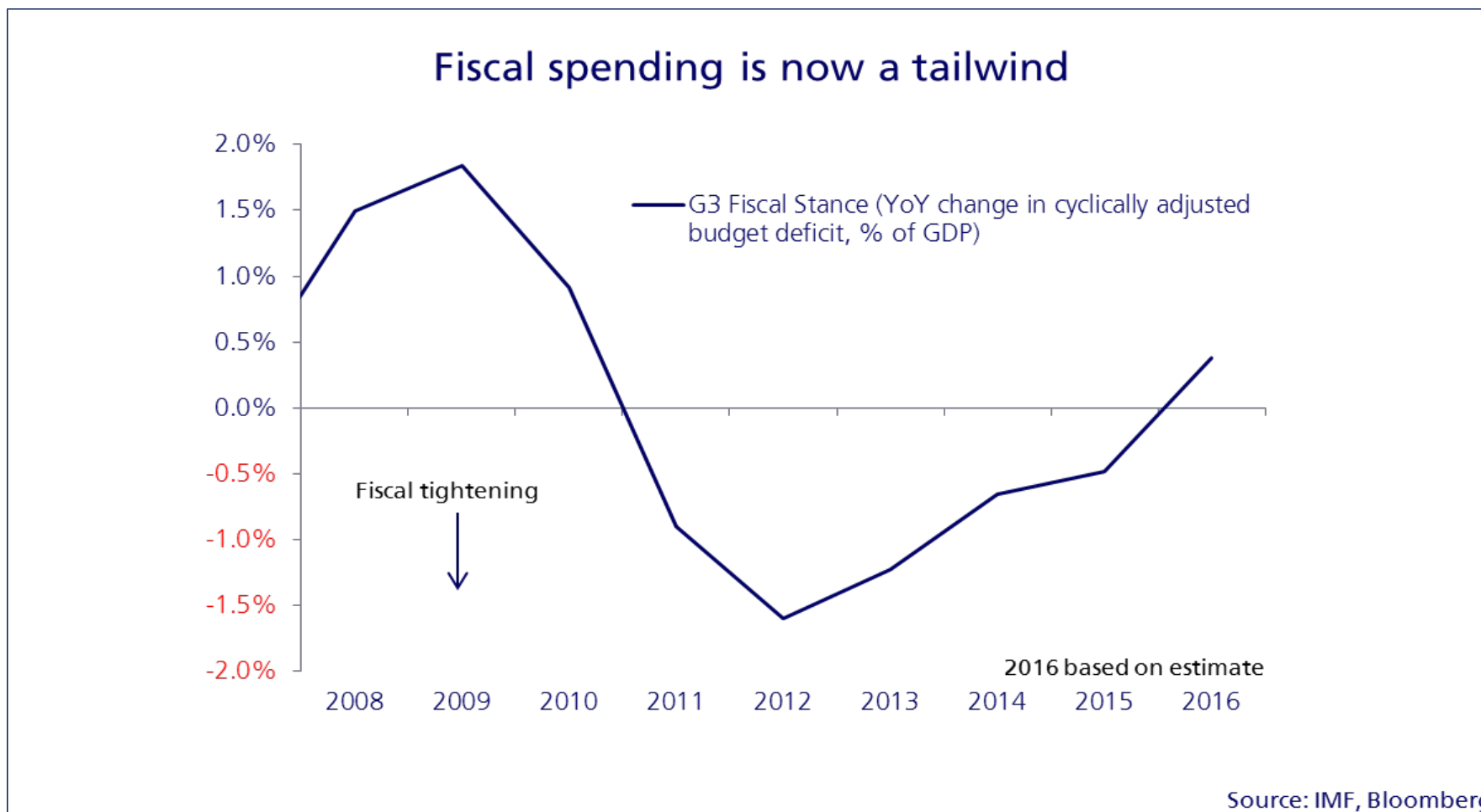
# Inflation is weak almost everywhere

Low inflation reflects the failure of policy to boost demand



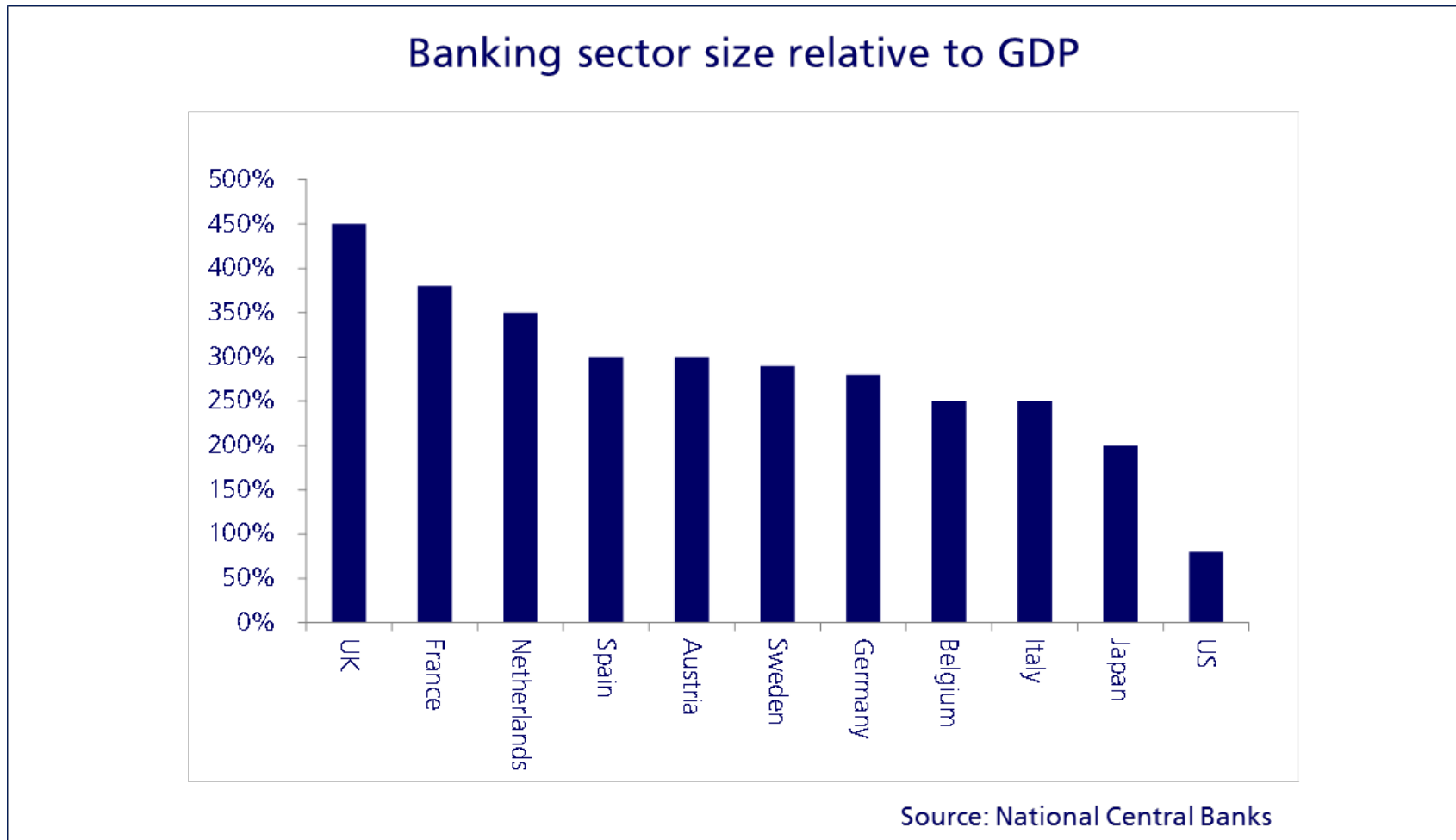
# Fiscal initiatives are no longer taboo...

...but long term debt sustainability remains unresolved



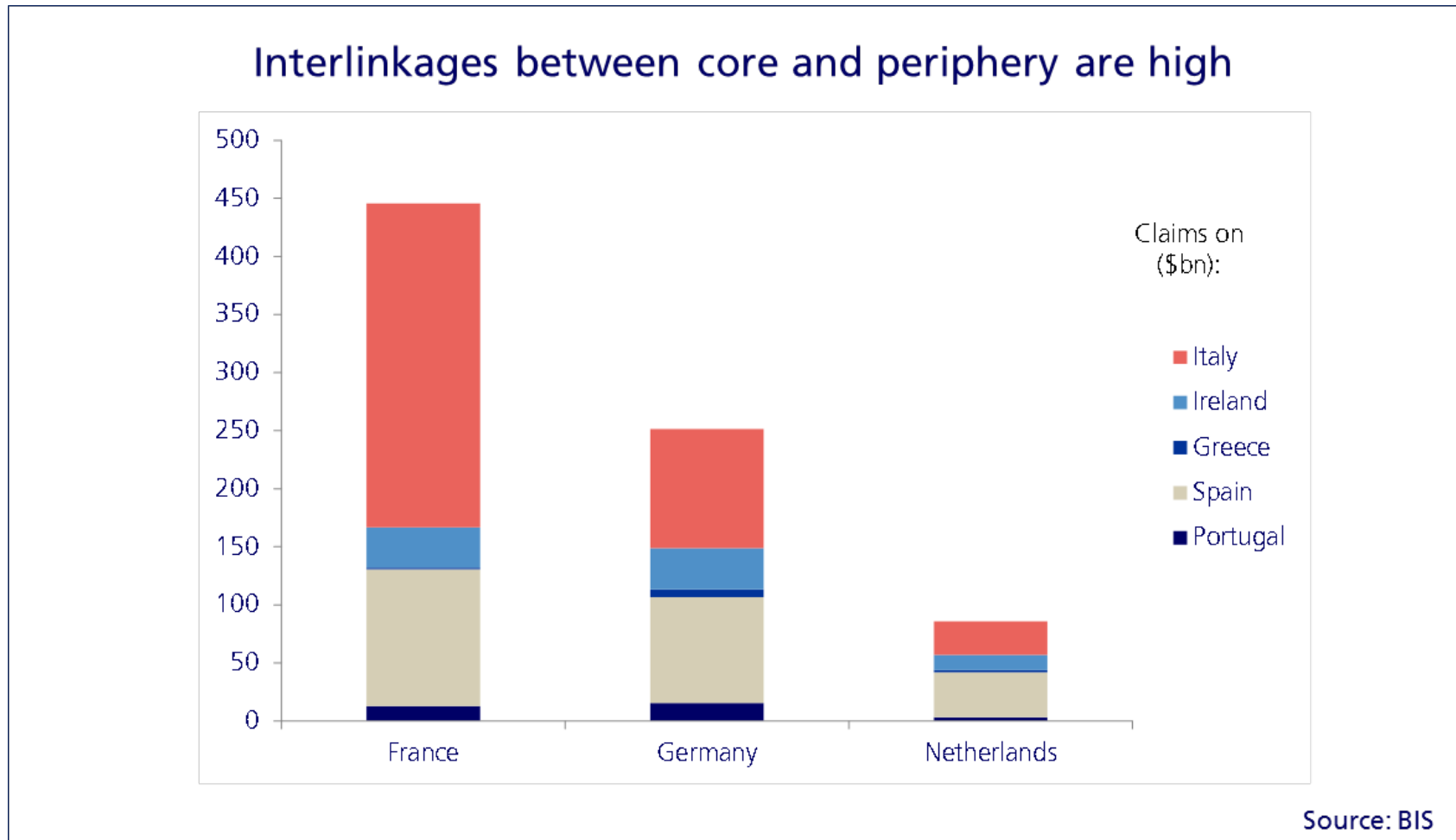
# European banks pose a significant risk

US banks were relatively small coming into 2007



# Banks are still heavily interlinked

This is a systemic problem



# Recovery is underway in the global economy

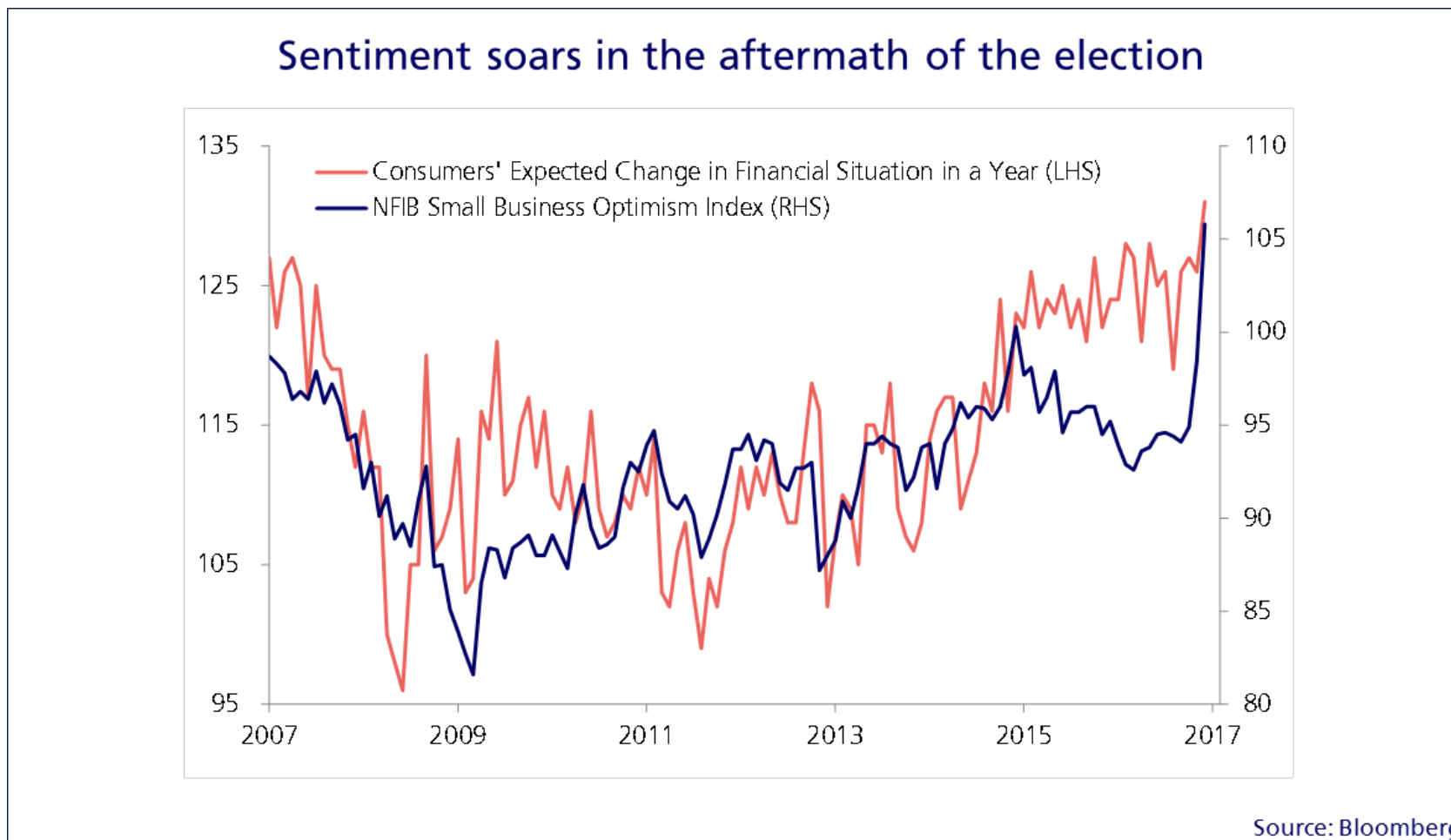
Economic prospects are at the mercy of politics, however





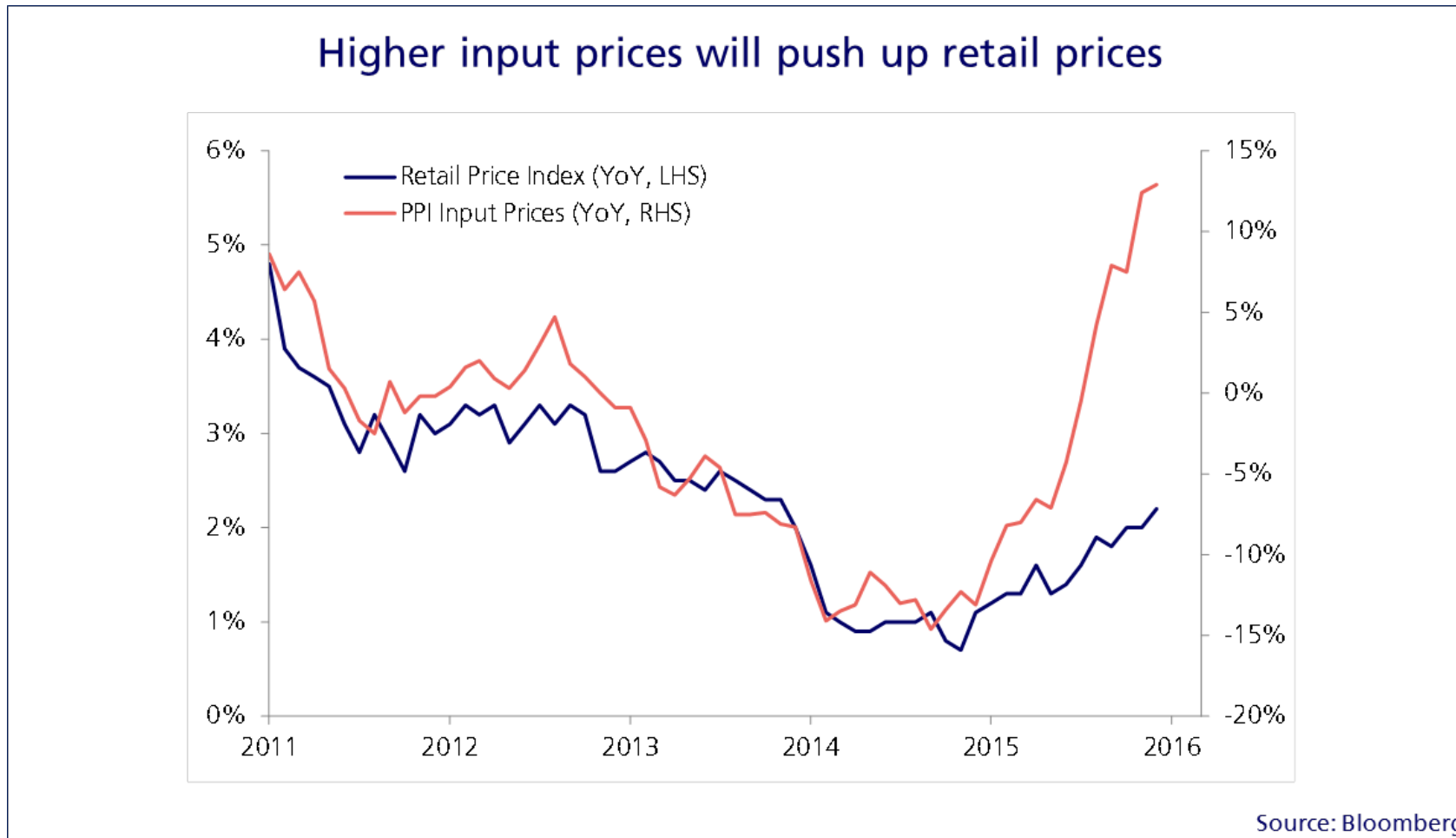
# The US economy enters 2017 on a solid footing

Households remain upbeat and investment is expected to pick up



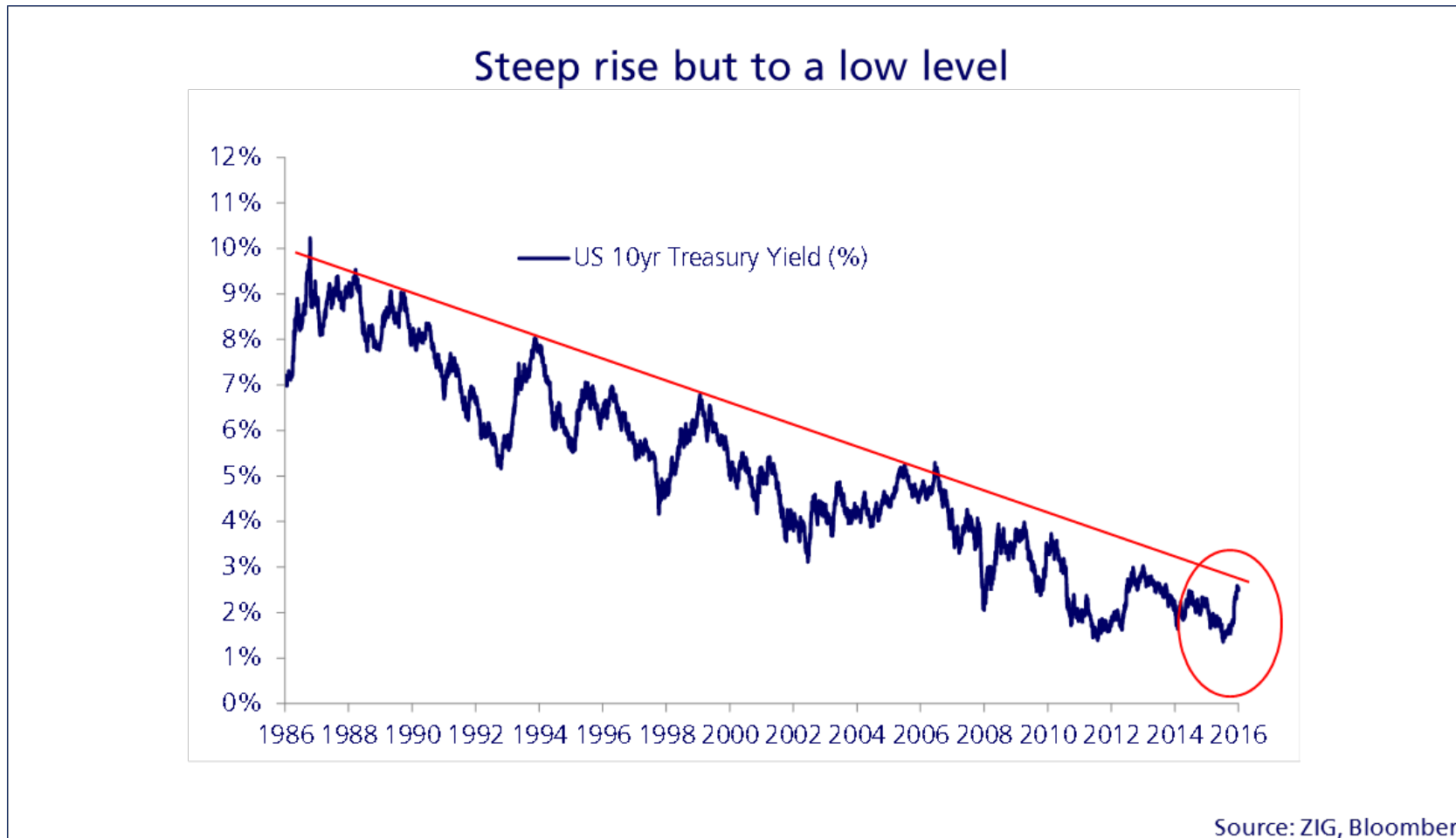
# Economic growth in the UK expected to weaken

## Rising inflation will be a headwind for household spending



# Too early to call for an end to the bond bull market

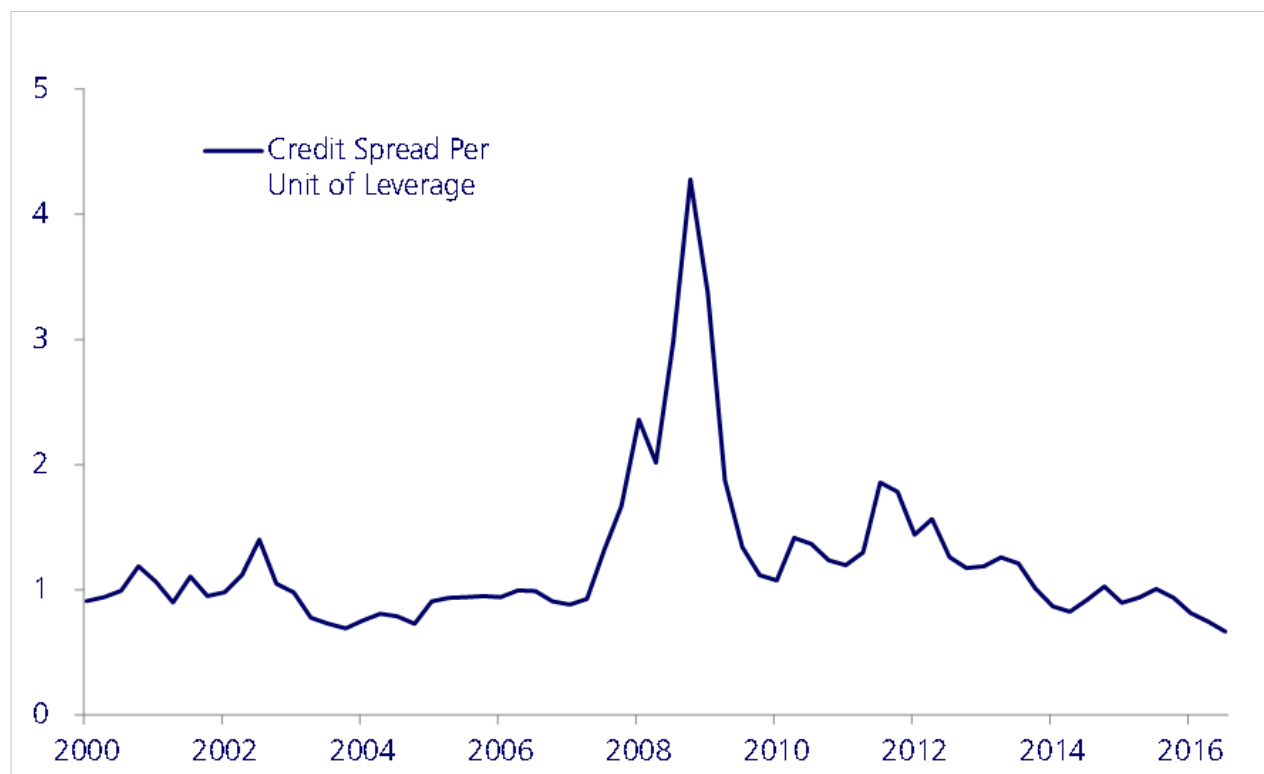
High debt, a strong dollar, and global vulnerabilities will cap yields



# Credit faces a challenging environment

The cycle is mature and spreads are tight

Risk/reward has deteriorated as leverage has increased

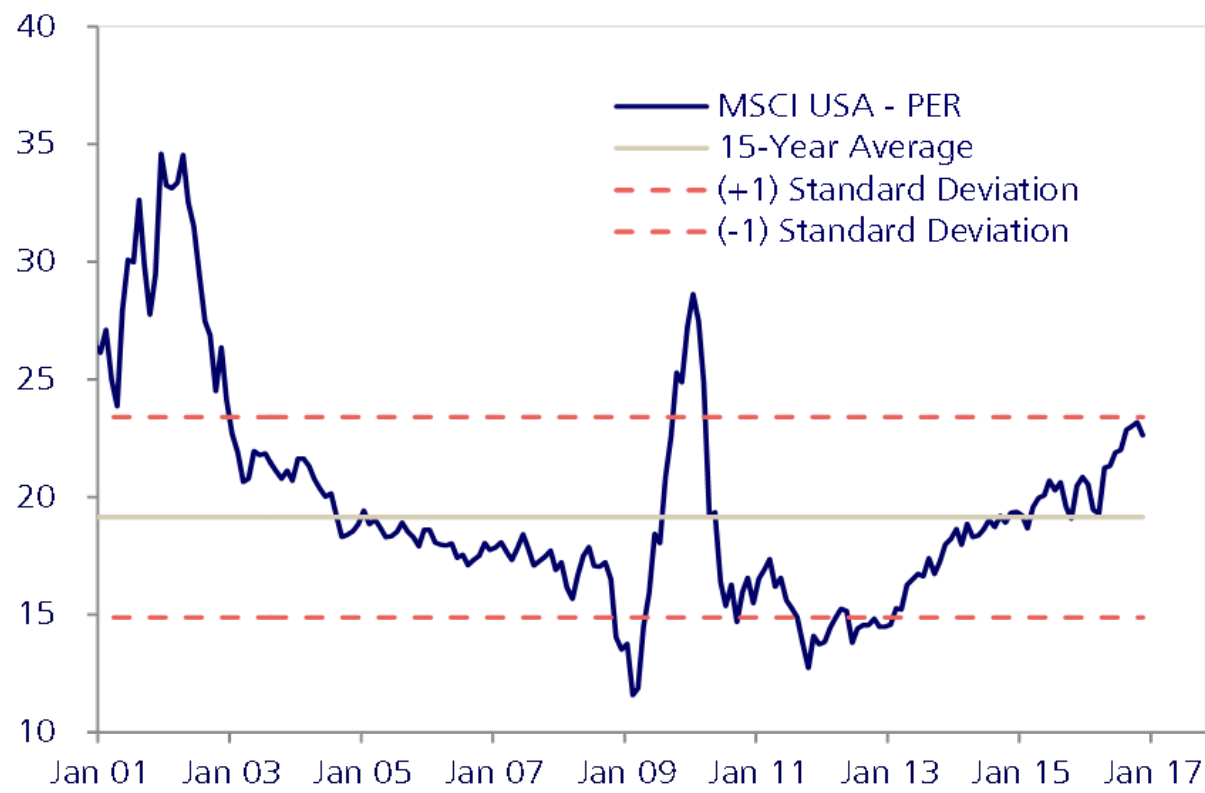


Source: ZIG, Bloomberg

# Equity fundamentals to matter once again

Stocks are rich and need earnings growth to keep the bull running

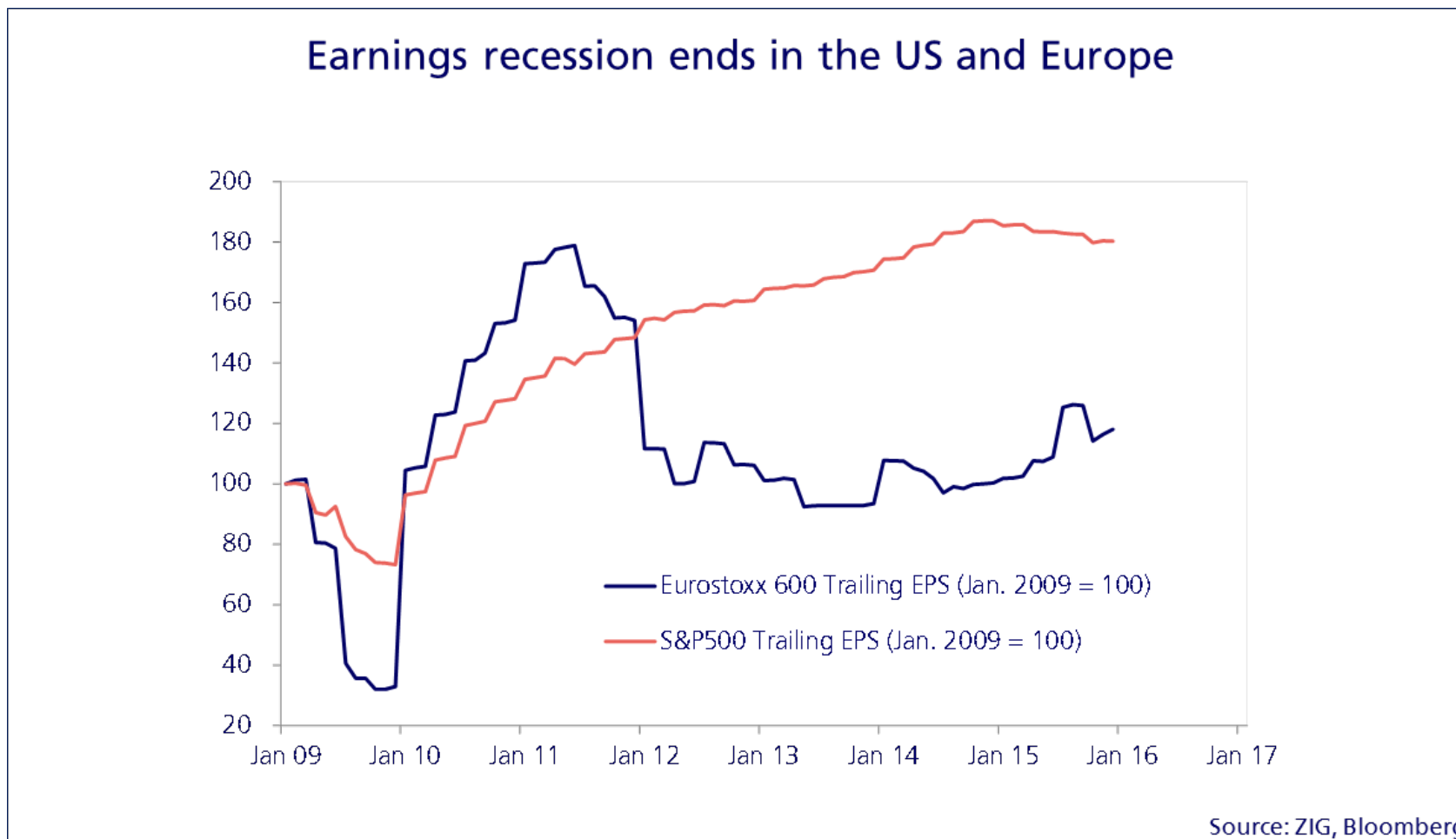
Shift from liquidity to earnings as principle driver is often turbulent



Source: ZIG, Bloomberg

# Earnings are picking up in the US & Europe

But on an absolute basis earnings are still depressed in Europe



# Summary

- The path to normalisation continues with broad-based, but fragile growth
- Fundamental problem of high debt and low inflation still to be addressed
- Bond yields expected to move only modestly higher in choppy trading
- Risk assets supported by improving earnings, but European banks pose a risk
- Volatility will be elevated for most asset classes