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Market Outlook – Does China Matter?



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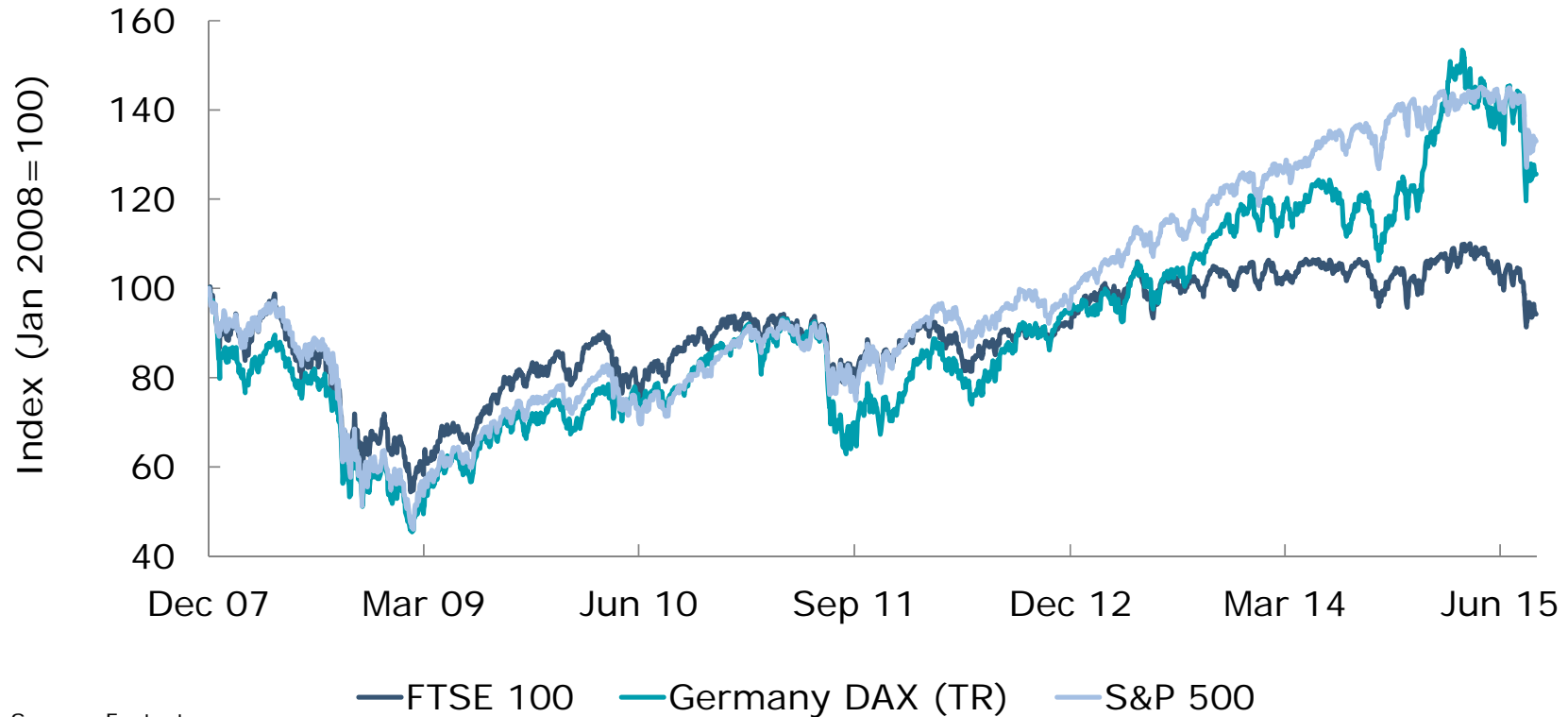
Agenda

- What's happening in markets?
- Focus on China – Does it matter?
- The Fed – Will they or won't they?
- A desynchronized global economy
- A view on markets

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Equity market performances



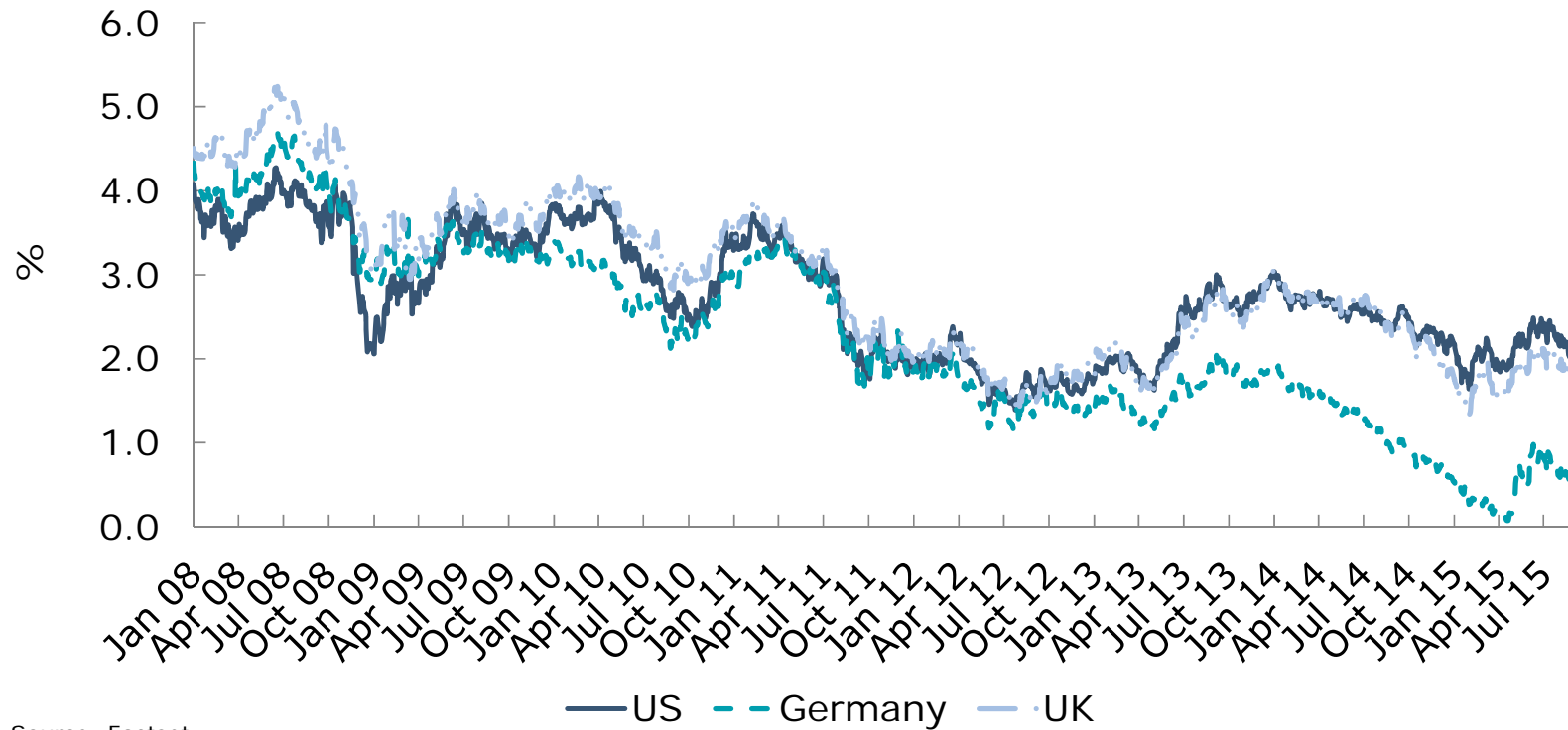
Source: Factset



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Bond Markets

Developed market yield levels



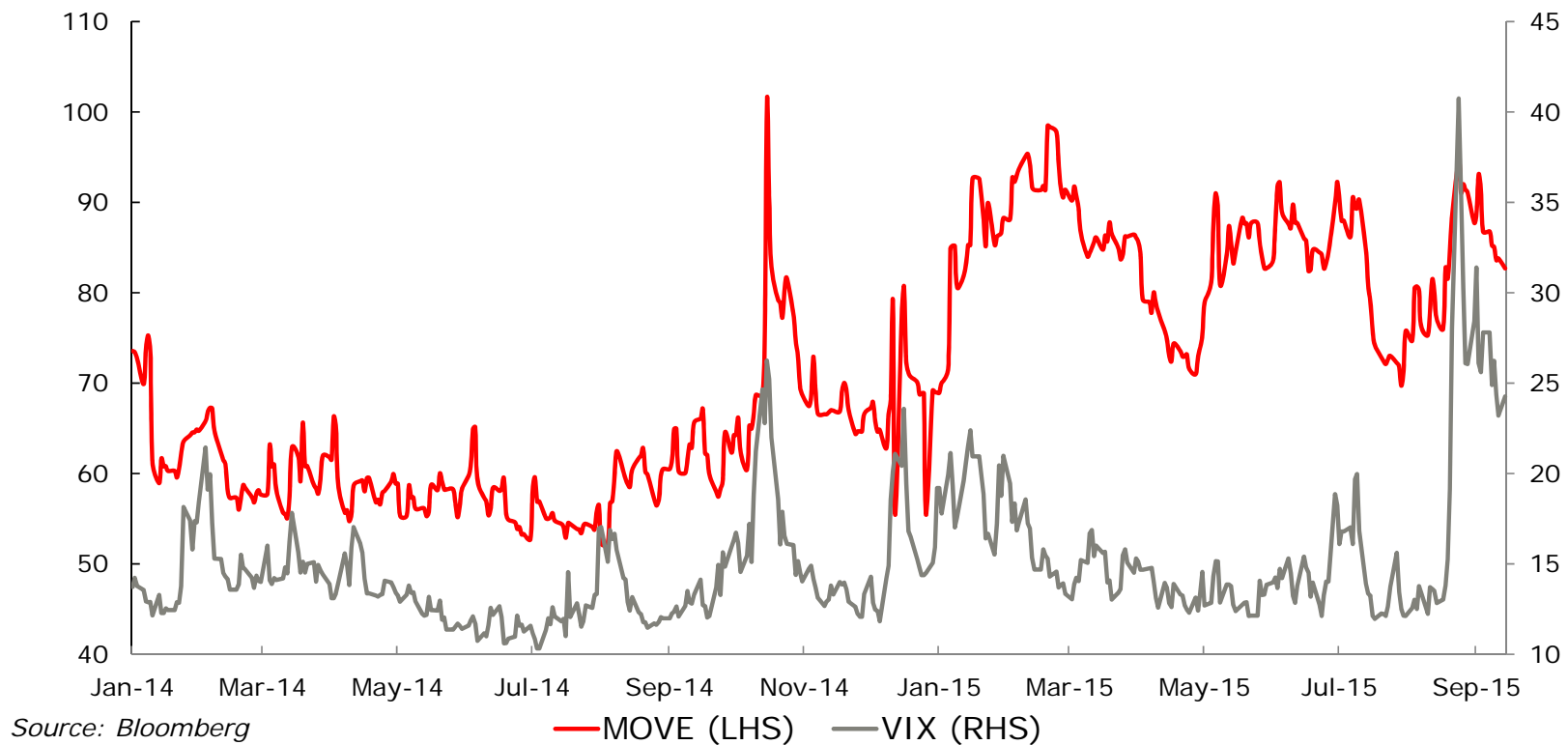
Source: Factset





Volatility

Equity & bond market volatility indicators





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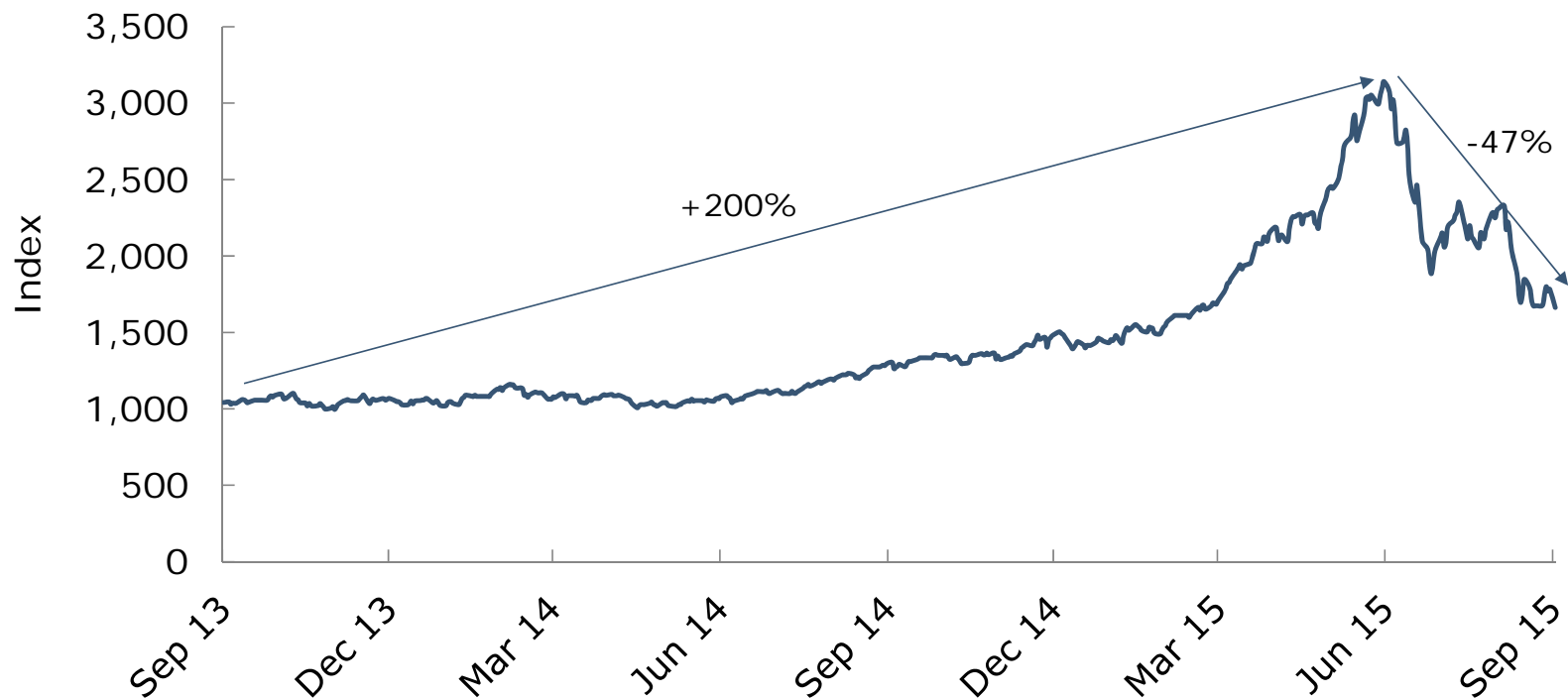
China

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iapf Chinese equities in context

Shenzhen Index of Chinese shares



Source: Factset



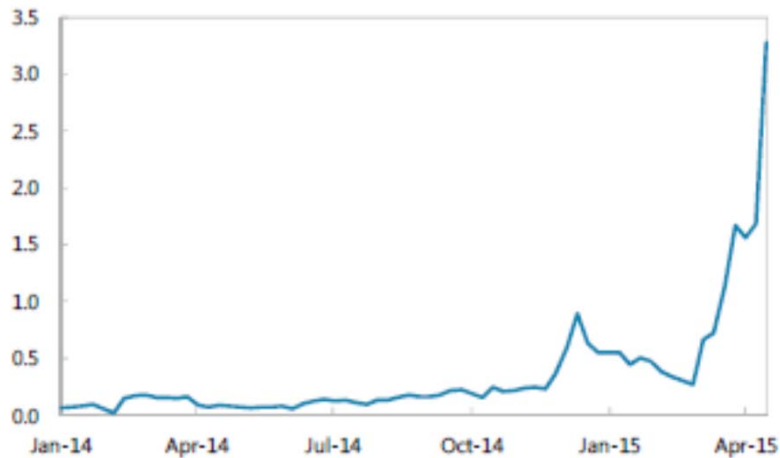


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Chinese Poker

New Stock trading Accounts Opened Each Week

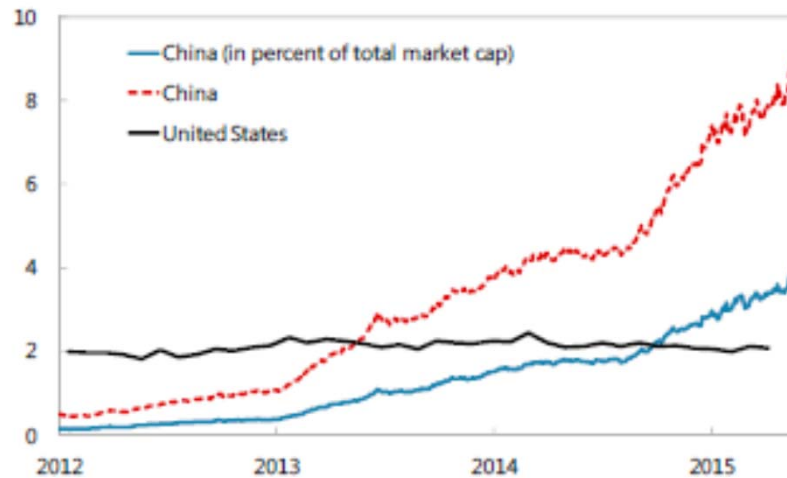
(In millions of accounts)



Source: CDCC.

Equity Margin Balances

(In percent of free-float market capitalization) ^{1/}



^{1/} Tradable market cap for Shanghai and Shenzhen.

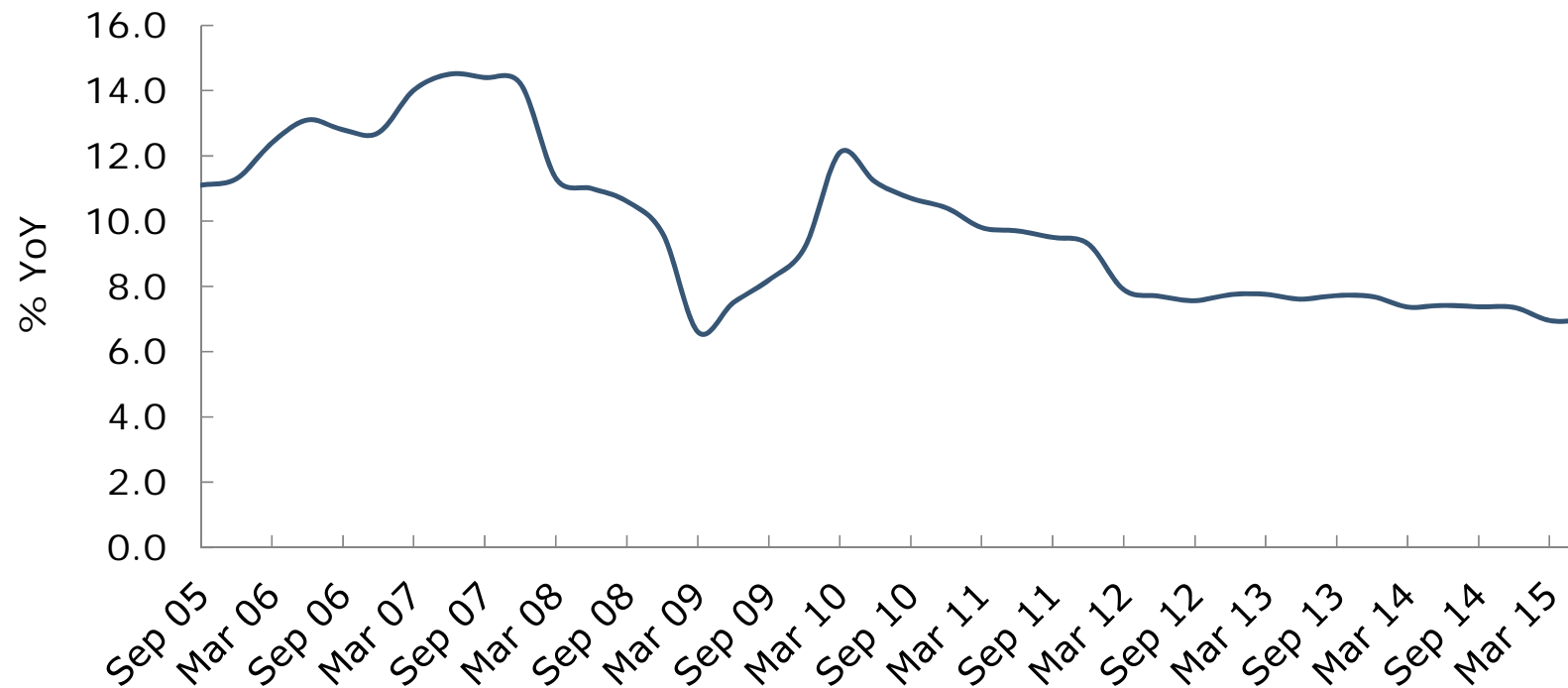
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Source: IMF



Unbelievable?

Chinese GDP growth



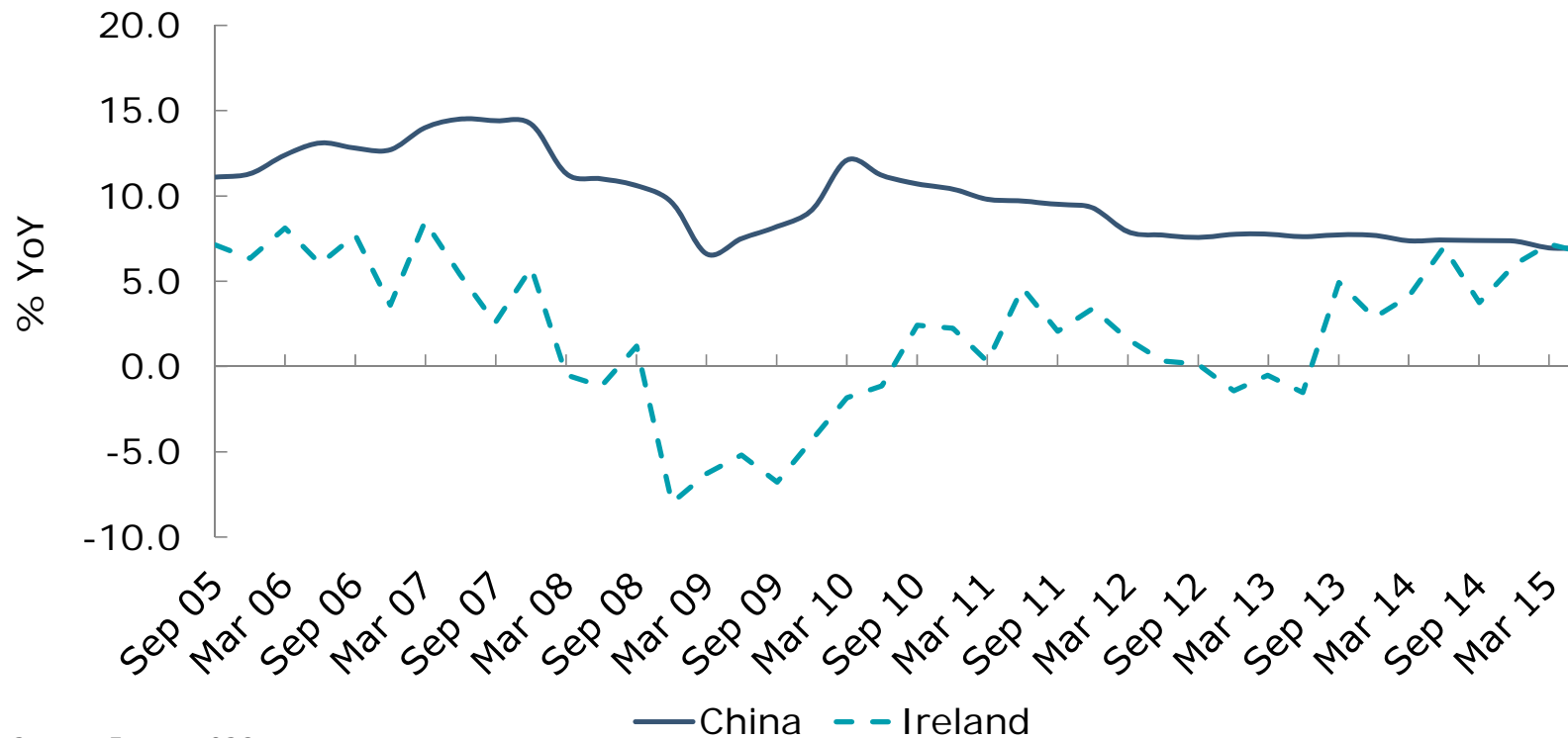
Source: Factset



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China versus Ireland

Chinese GDP growth versus Irish GDP growth



Source: Factset, CSO





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Trust me!

“The focus for the month of September will be strengthening economic propaganda and . . . promoting the discourse on China’s bright economic future and the superiority of China’s system,”

Source: Financial Times

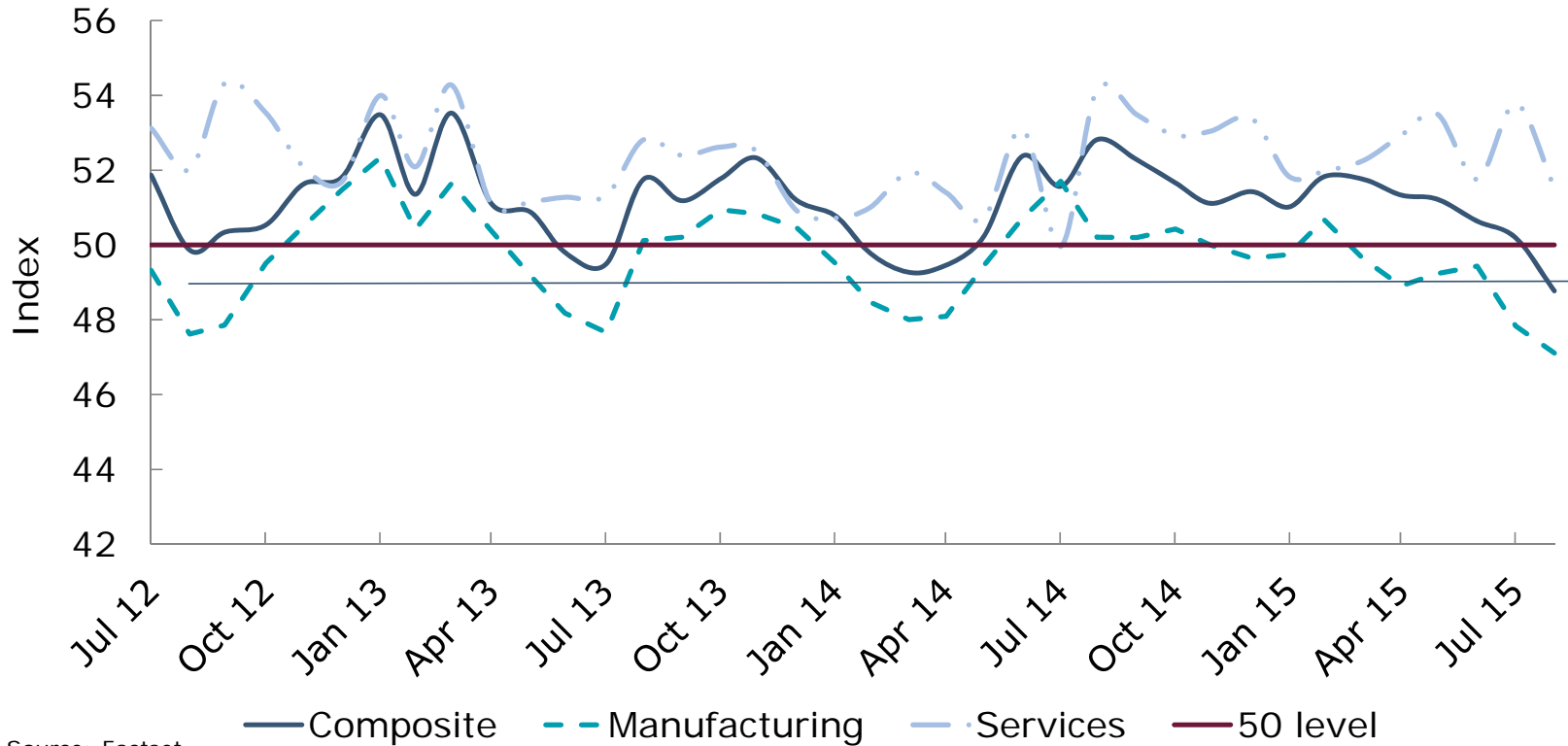
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Activity certainly slowing

Chinese PMI



Source: Factset



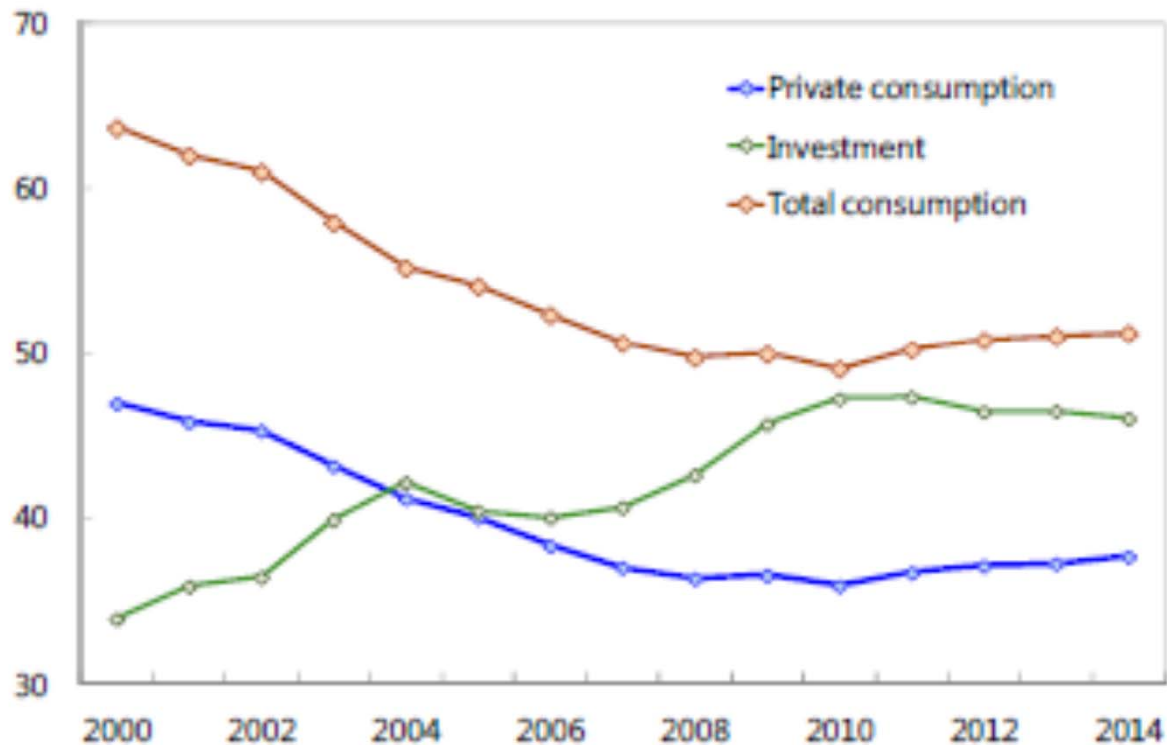


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Rebalancing required...

GDP Expenditure Components

(In percent of GDP)



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Source: IMF

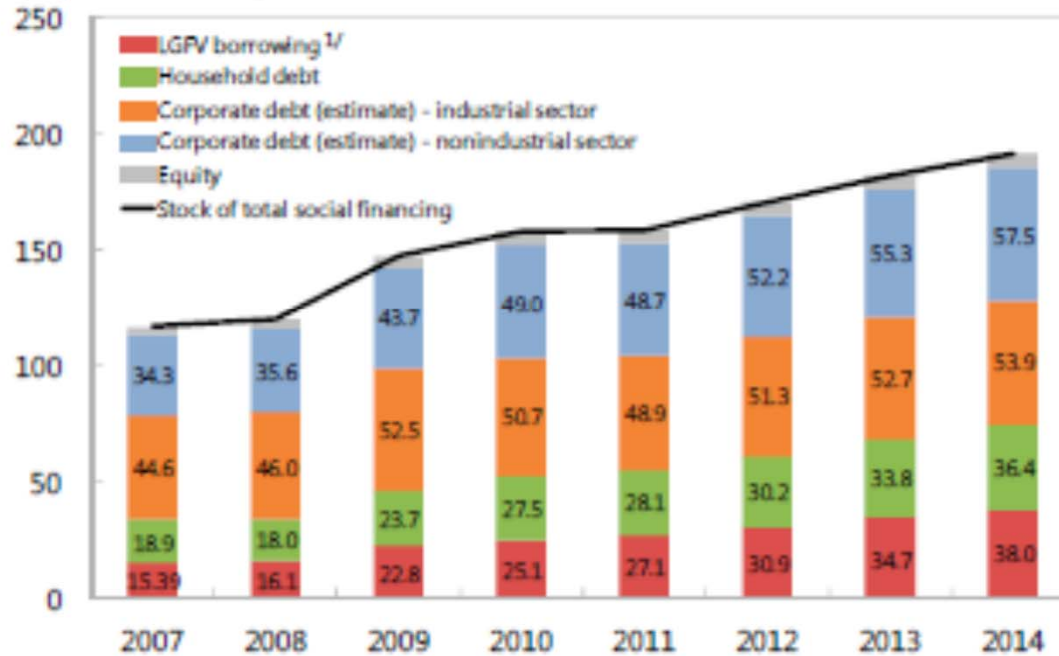
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...after a credit boom...

Total Credit by Sectors

(In percent of GDP)

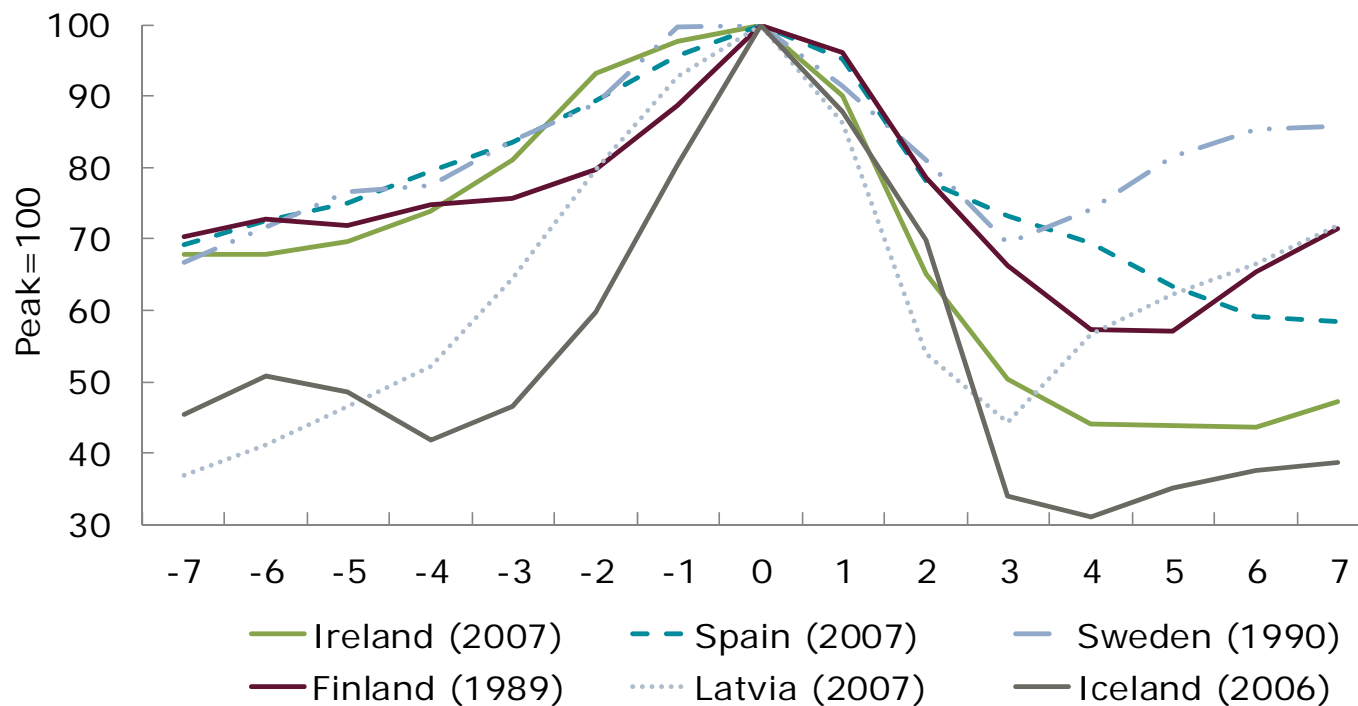


1/ Includes all local government debt except local government bonds.



iapf...which don't often end well

Investment activity - Collapses & recoveries



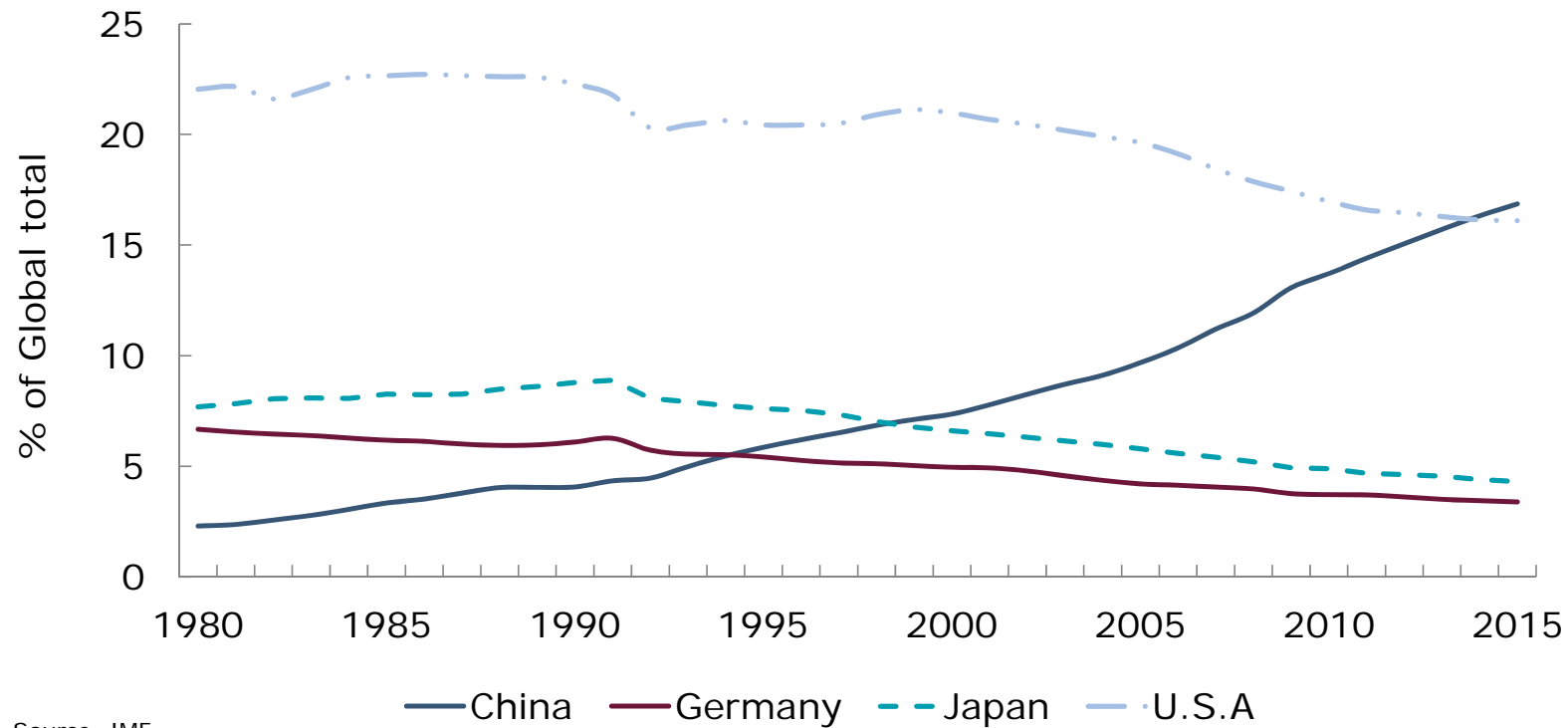
Source: AMECO, Goodbody estimates



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China matters

% of total global GDP



Source: IMF





What if?

Output loss* from a hard landing in China



Source: Gauvin & Rebillard (May 2015)

*relative to a baseline scenario



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US Rate Hikes – Will they or won't they?

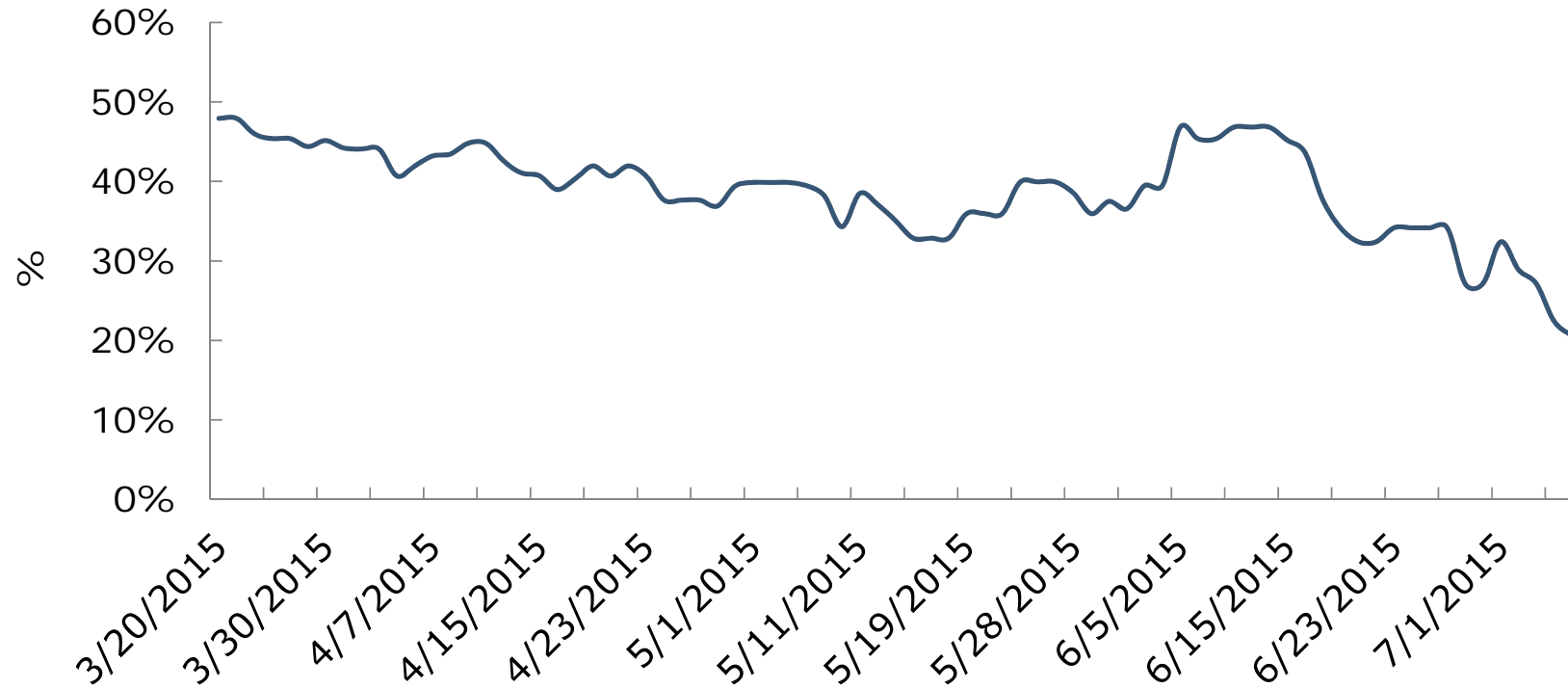
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Rate hike unlikely today...

Probability of rate hike at today's meeting



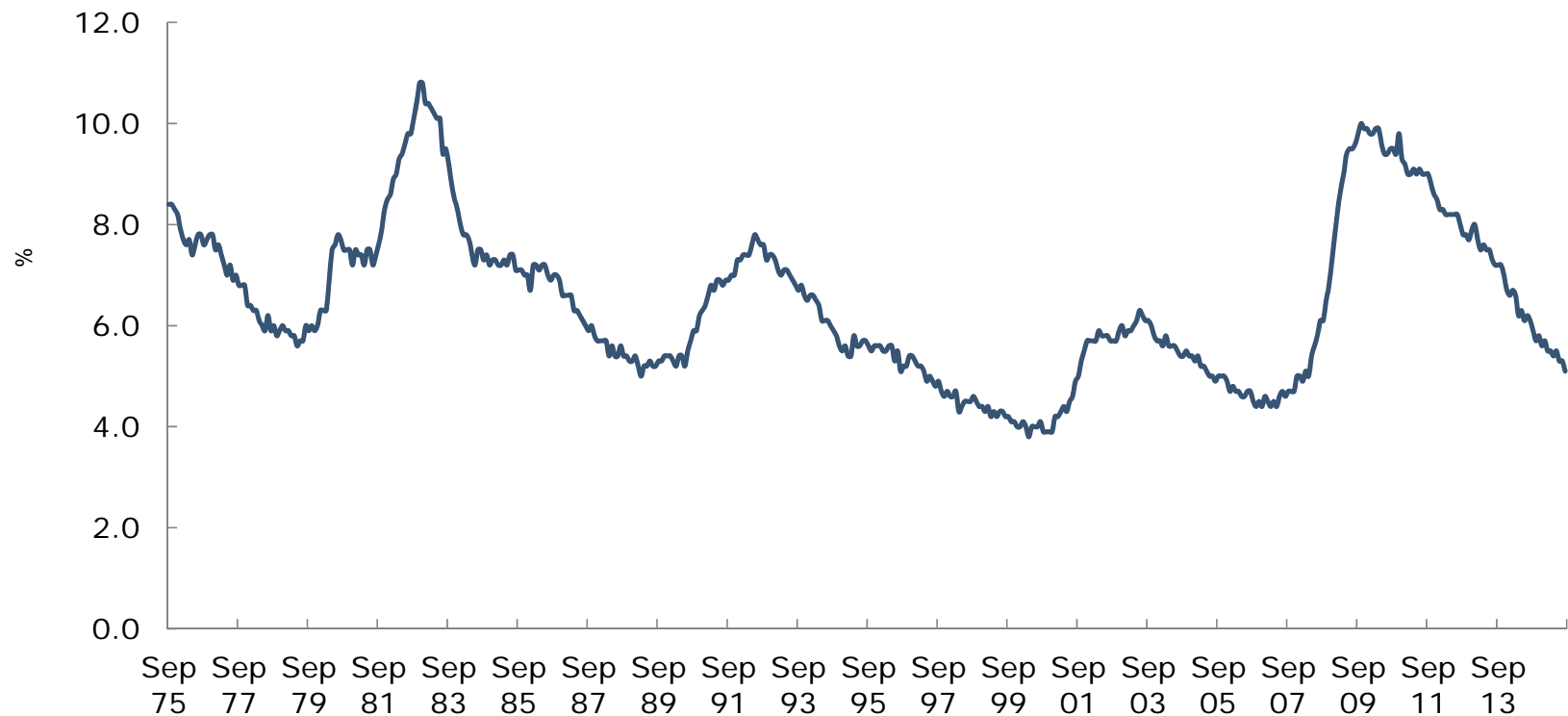
Source: Bloomberg





iapf. despite strong domestic economy

US unemployment rate



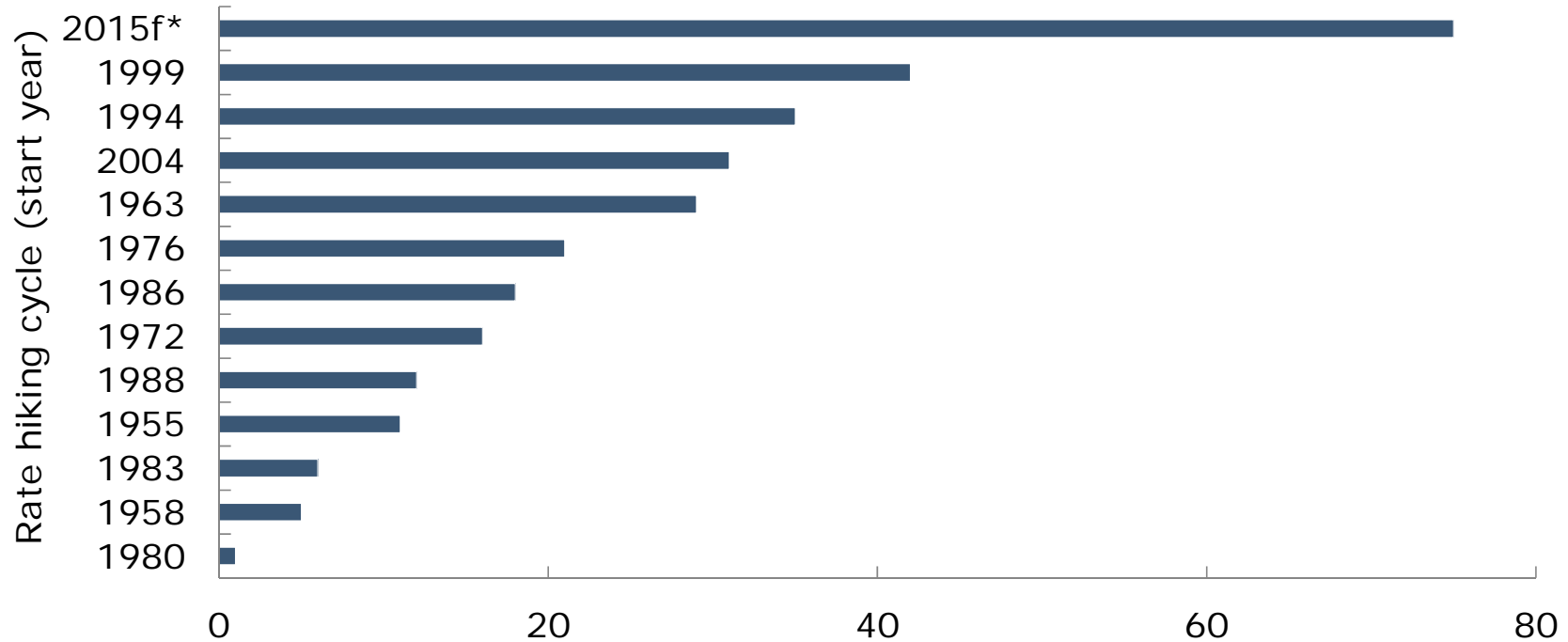
Source: Factset





It's been a while

Months from economic recovery to first rate hike



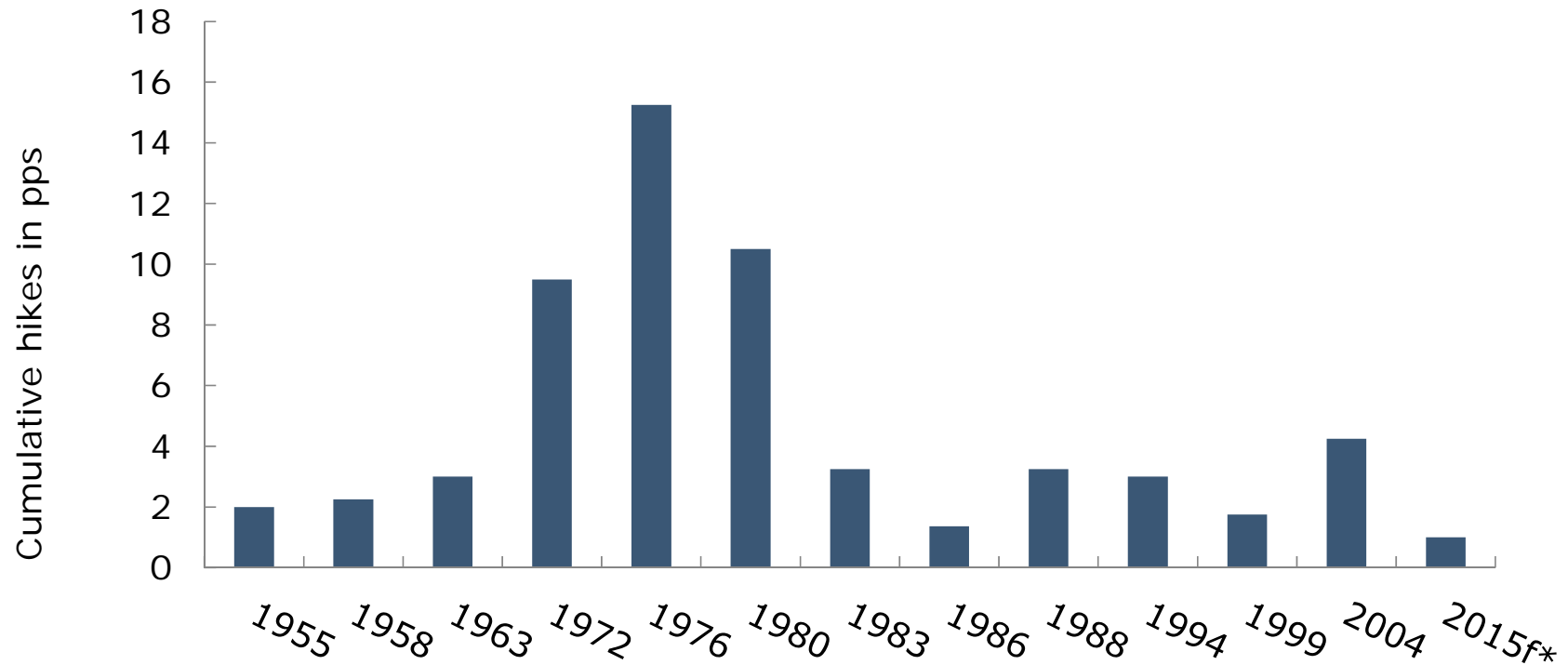
Source: NBER, Federal Reserve, Goodbody



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Shallow tightening cycle priced

Market is pricing in 100bps of tightening over the next 2 years



Source: Federal Reserve, Bloomberg

*2015 forecast is based market pricing 2 years from now





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Market impact of rate hike

Market Impact of first rate hike						
Cycle	6 months before			6 months after		
	Equities	10Y Yield change	BBB spreads (bp change)	Equities	10Y Yield change	BBB spreads (bp change)
1955	19.71%	0.32	-29	9.04%	0.13	-3
1958	14.43%	0.78	-59	16.63%	0.23	-25
1963	5.83%	0.21	-26	11.07%	0.14	-16
1972	7.57%	-0.18	-28	4.64%	0.39	-63
1976	2.64%	-0.97	23	-5.42%	0.41	-97
1980	6.04%	-1.00	71	4.84%	2.5	42
1983	17.91%	-0.30	-120	1.68%	1.44	-67
1986	1.59%	-0.51	-16	21.88%	1.16	-66
1988	-19.16%	-1.06	25	4.81%	0.42	-13
1994	4.74%	0.07	-1	-2.43%	1.18	-1
1999	11.43%	1.16	-19	6.68%	0.58	-14
2004	2.81%	0.33	-16	6.37%	-0.35	-8
Average	6.30%	-0.10	-16	6.65%	0.69	-28

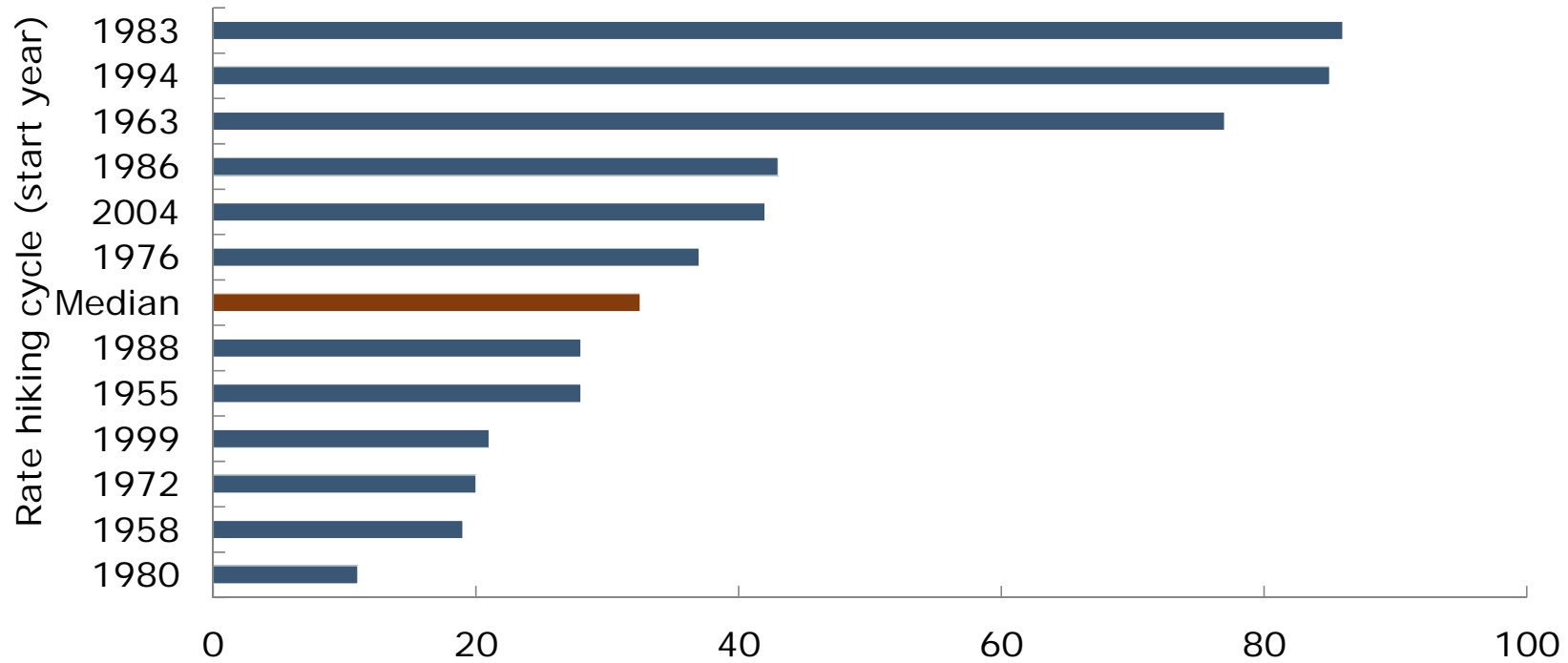
Source: Deutsche, Goodbody





Thinking ahead

Months to recession following first rate hike

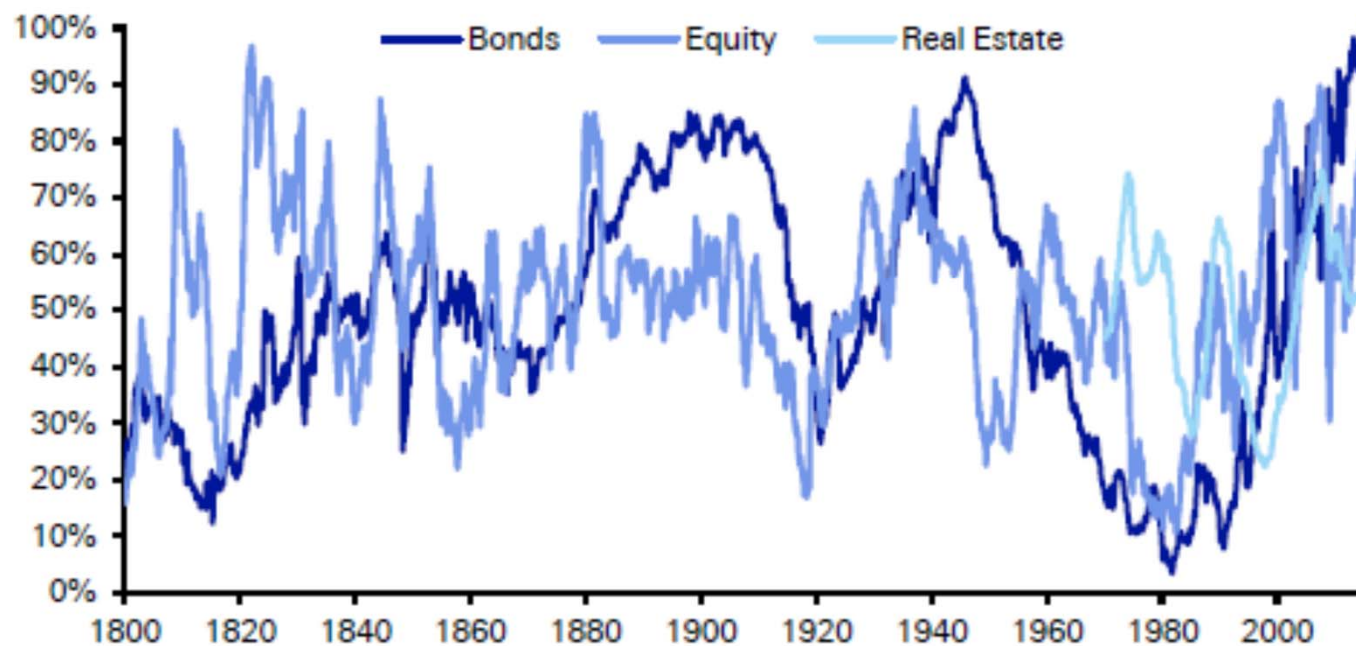


Source: Federal Reserve



Peak valuations?

Figure 29: Average Percentile Valuations for 15 DM Countries' Bond (Nominal Yields), Equity & Housing vs. History

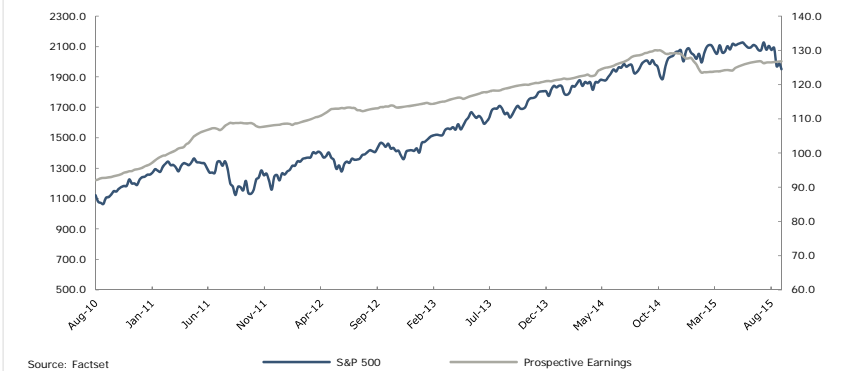


Source: Deutsche Bank, GFD

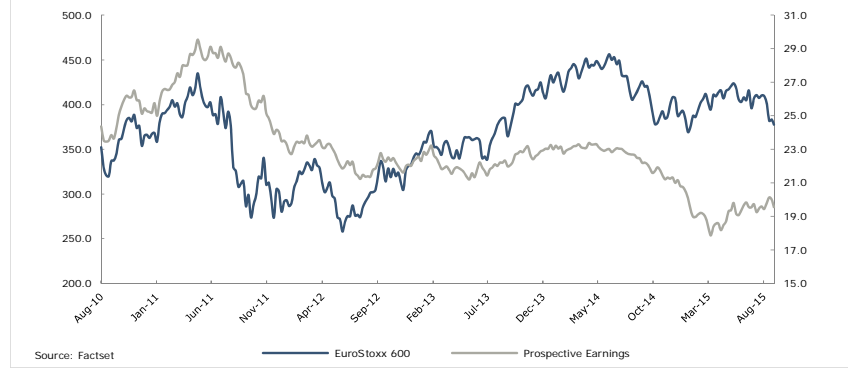


iapf Different stages of the cycle

US Earnings



Euro area earnings





Conclusions

- China concerns will trigger further global growth downgrades
- Developed markets have not yet seen the benefit of lower energy prices feed through
- Financial linkages more important than economic to DM
- Valuation metrics & financial suggest bond markets are vulnerable
- Some developing economies will soon become interesting
- Favour Europe over US in DM