Significant support from fiscal policy at the moment

Fiscal deficit and unemployment rate

- Fiscal deficit as % of GDP (ls)
- Unemployment rate (rs)

Source: OMB, DB Global Research
Significant support from monetary policy at the moment

**Assumptions:** Fed to purchase monthly $60 bn assets in December 2019; $30 bn between January & March 2020 and $10 bn between April and June 2020 and then hold till December 2020; ECB to purchase EUR 20 bn assets monthly till December 2020; BoE to maintain assets as is through December 2020; BoJ to stealth taper asset purchases such that monthly purchases to become zero by December 2020. All FX forecasts assumed to be the same as November 2019.

**Source:** Fed, ECB, BoJ, BoE, Haver Analytics, DB Global Research
Chicago Fed and St. Louis Fed measures of financial conditions are at all-time lows

- St Louis Financial Stress Index (Above 0 = Above Average Financial Stress) (Is)
- National Financial Conditions Index (+=Tighter Than Avg) (rs)

Financial conditions are extremely supportive for economic growth

Source: FRBSTL, FRBCHI, Haver Analytics, DB Global Research
Economic policy uncertainty disconnected from markets since 2009

Source: PolicyUncertainty.com, Wall Street Journal, Haver Analytics, DB Global Research
Trade war uncertainty has been holding back corporate capex spending

Source: Census, BEA, Haver Analytics, DB Global Research
Banks’ willingness to lend and corporate demand for loans declining despite the Fed turning dovish and cutting rates

**FRB Senior loan officer survey**

- Banks’ willingness to lend consumers
- Banks' reporting stronger demand for C&I loans

Source: FRB, Haver Analytics, DB Global Research
2018 corporate tax cut boosted buybacks

S&P 500 composite

- Blue: Buybacks
- Red: Dividends
- Black: Capital expenditures

Capex used to be double of dividends and buybacks

2018 corporate tax cut boosted dividends and buybacks

Source: S&P, Bloomberg Finance LP, Haver Analytics, DB Global Research
What’s the source of the rally in the stock market since 2009? Buybacks

Cumulative net purchases of US corporate equities

- Households
- Non-financial corporations
- Foreign sector
- Other domestic buyers

Source: FRB, Haver Analytics, DB Global Research

Note: Other domestic institutions includes Property-Casualty Insurance Companies, Life Insurance Companies, Private Pension Funds, Federal government retirement funds and state/local government employment defined benefit retirement funds
US: Consensus expects 2% growth and 2% inflation over the coming 18 months

```
# Economic Forecasts

<table>
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<tr>
<th>Indicator</th>
<th>Q1 19</th>
<th>Q2 19</th>
<th>Q3 19</th>
<th>Q4 19</th>
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<th>Q4 20</th>
<th>Q1 21</th>
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<tbody>
<tr>
<td>Real GDP (YoY%)</td>
<td>2.7</td>
<td>2.3</td>
<td>2.1</td>
<td>2.3</td>
<td>1.9</td>
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<td>Real GDP (QoQ% SAAR)</td>
<td>3.1</td>
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<td>2.1</td>
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<td>1.6</td>
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<td>Consumer Spending</td>
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<td>3.1</td>
<td>1.8</td>
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<td>Government Spending</td>
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<td>1.7</td>
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<td>Private Investment (QoQ% SAAR)</td>
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<td>Exports (QoQ% SAAR)</td>
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<td>Imports (QoQ% SAAR)</td>
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Price Indices

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<tr>
<td>CPI (YoY%)</td>
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<td>2.1</td>
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<td>PCE Price Index (YoY%)</td>
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<td>Core PCE ( YoY% )</td>
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<td>1.7</td>
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<td>1.9</td>
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Interest Rates

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<td>Central Bank Rate (%)</td>
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<td>1.60</td>
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<td>3-Month Rate (%)</td>
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<td>2.32</td>
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<td>1.84</td>
<td>1.78</td>
<td>1.77</td>
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<td>2-Year Note (%)</td>
<td>2.26</td>
<td>1.76</td>
<td>1.62</td>
<td>1.57</td>
<td>1.61</td>
<td>1.61</td>
<td>1.61</td>
<td>1.59</td>
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<td>10-Year Note (%)</td>
<td>2.41</td>
<td>2.01</td>
<td>1.67</td>
<td>1.92</td>
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<td>1.92</td>
<td>1.94</td>
<td>1.96</td>
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Source: Bloomberg Finance LP, DB Global Research

Deutsche Bank Research  Torsten Slok, torsten.slok@db.com  +1 212 250-2155  February 2020
Conclusion: 
Macro implications of trade policies

Backdrop for trade war:
- Strong fiscal expansion
- Easy monetary policy, including in Europe and Japan
- Extremely easy financial conditions

Despite these tailwinds, capex has continued to slow down.

Maybe Fed forward guidance has made policy uncertainty disconnected from financial assets.

But policy uncertainty is still strongly connected with capex

Source: DB Global Research
Torsten Slok, Ph.D.

- Chief Economist, Managing Director
- Deutsche Bank Securities, Inc.

- **Torsten Slok joined Deutsche Bank Securities in the fall of 2005.**
- **Mr. Slok’s Economics team has been top-ranked by Institutional Investor in fixed income and equities since 2010, including #1 in 2019.** Slok currently serves as a member of the Economic Club of New York
- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.
- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis, including in Journal of International Economics, Journal of International Money and Finance, and The Econometric Journal.
Appendix 1
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