

# U.S. & Global Economic Outlook

## S.C. International Trade Conference

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## Presentation Overview

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# U.S. Economic & Interest Rate Update

# The Fed's Dual Mandate - Employment & Inflation

## Employment

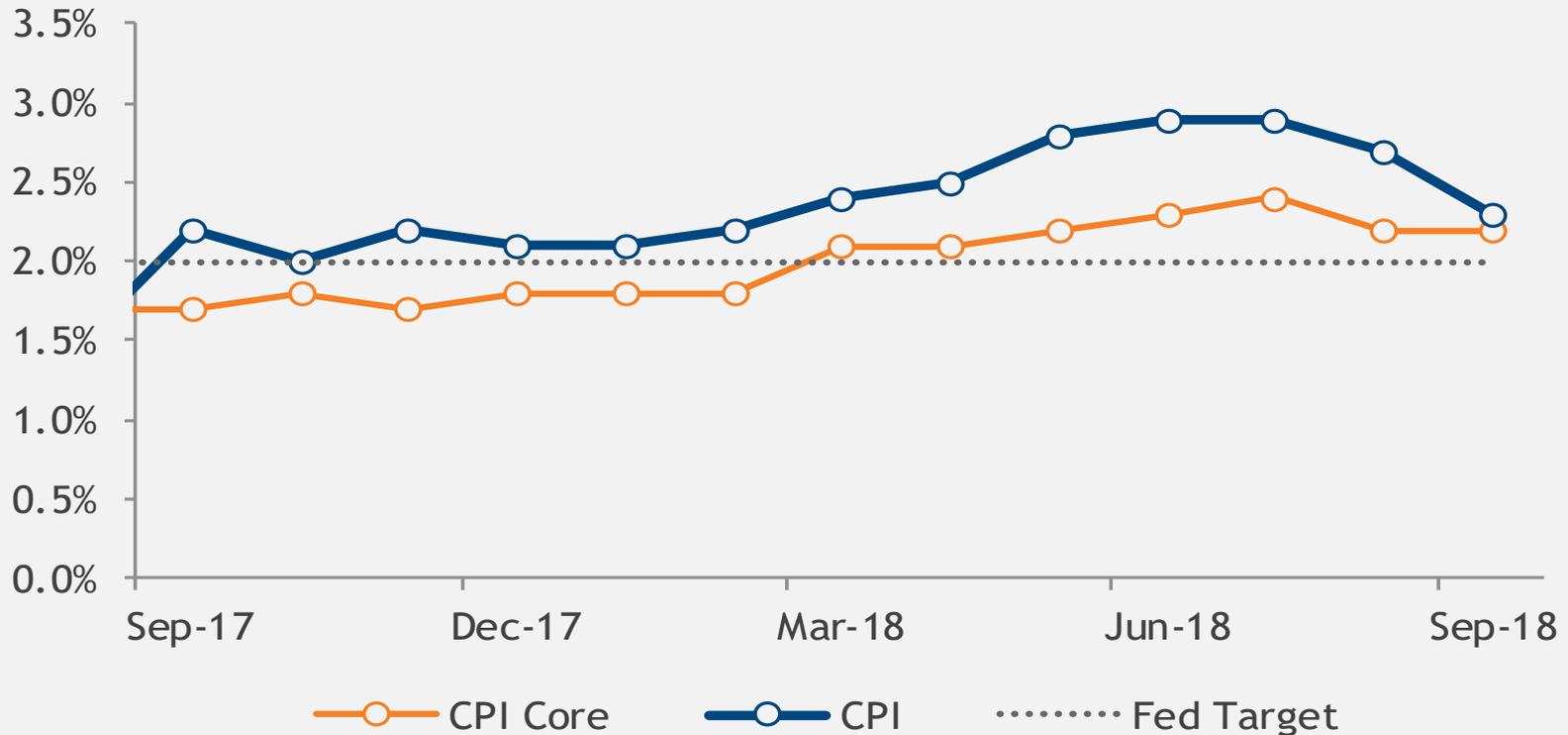
Unemployment hit 3.7% in September, a low that has not been seen since 1969



# The Fed's Dual Mandate - Employment & Inflation

## Inflation

Inflation momentum has finally picked up. Above-target inflation will encourage the Fed to continue to raise rates



# Recent Fed Commentary

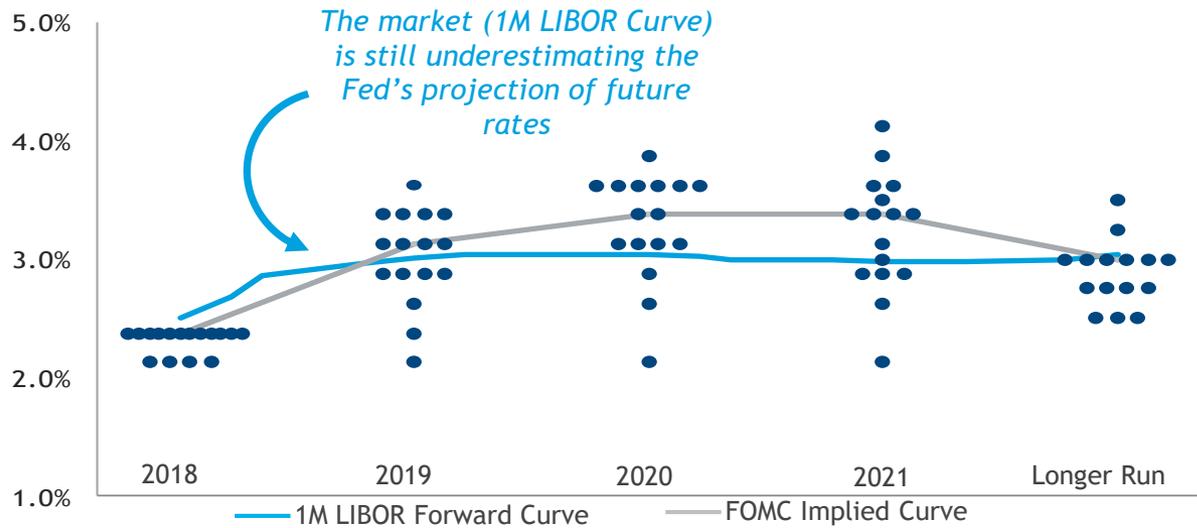
## As market participants expected, the FOMC hiked rates at the September meeting

- As widely expected, the Fed raised the target Fed Funds rate by +25bps to a range of 2.00% - 2.25% at the September 2018 Fed Meeting
- The Fed “Dot Plot” now indicates one more (four total) hikes in 2018, three hikes in 2019, and one in 2020
- Fed Chair, Jay Powell, mentioned that press conferences would be held every meeting starting in January, but cited that having twice as many press conferences does not signal anything
- Recent data showed August consumer prices (PCE) rose 2.2% year/year. If inflation persists, that would encourage the Fed to continue to hike as well as pressure longer-term yields higher

Fed Chairman - Jerome Powell

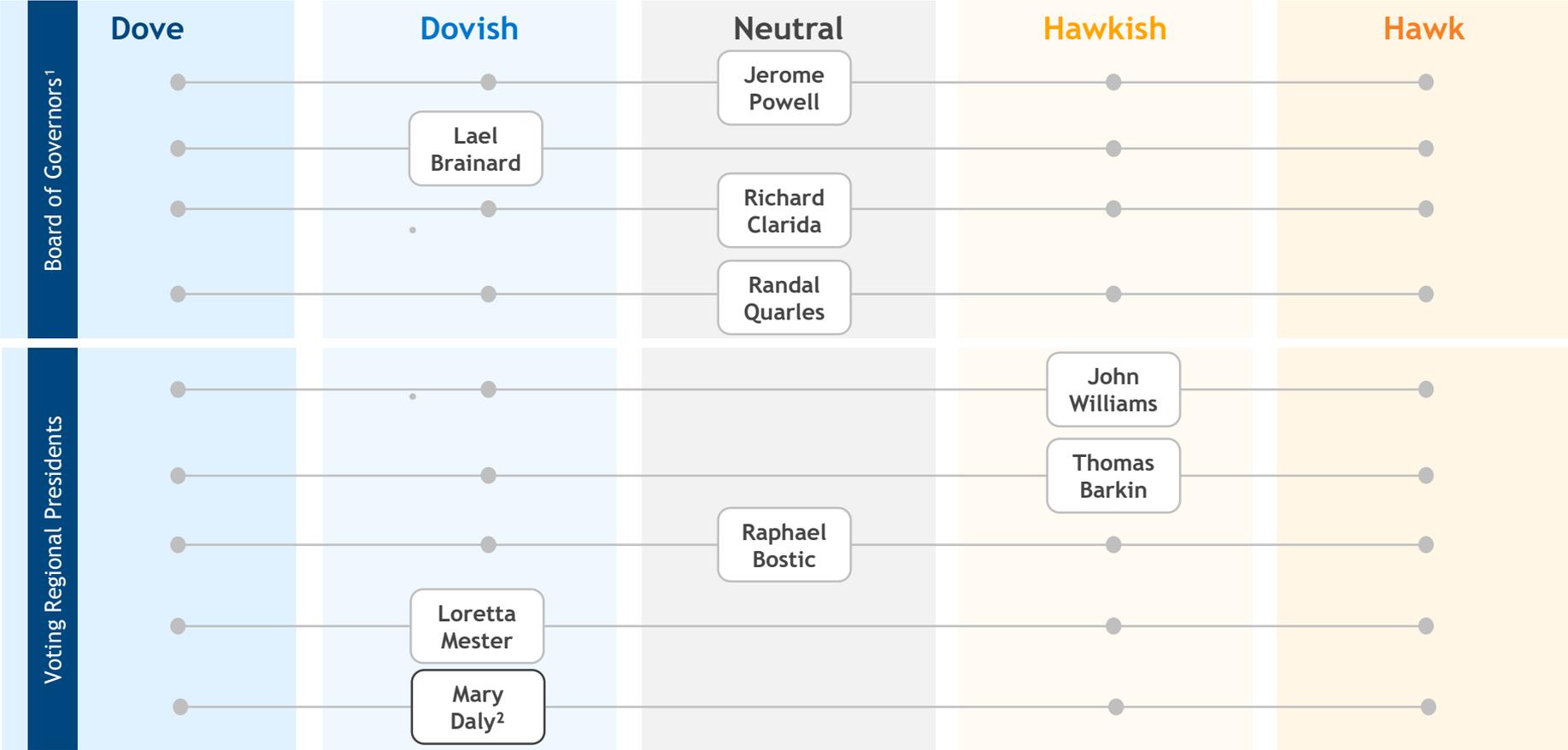


## Projected Fed Funds Rate by FOMC Members



# Current FOMC Participants' Policy Inclinations

The recent appointment of Mary Daly to the San Francisco Federal Reserve Bank could rebalance the recently Hawkish policy-making board, and potentially impact the final two meetings of 2018

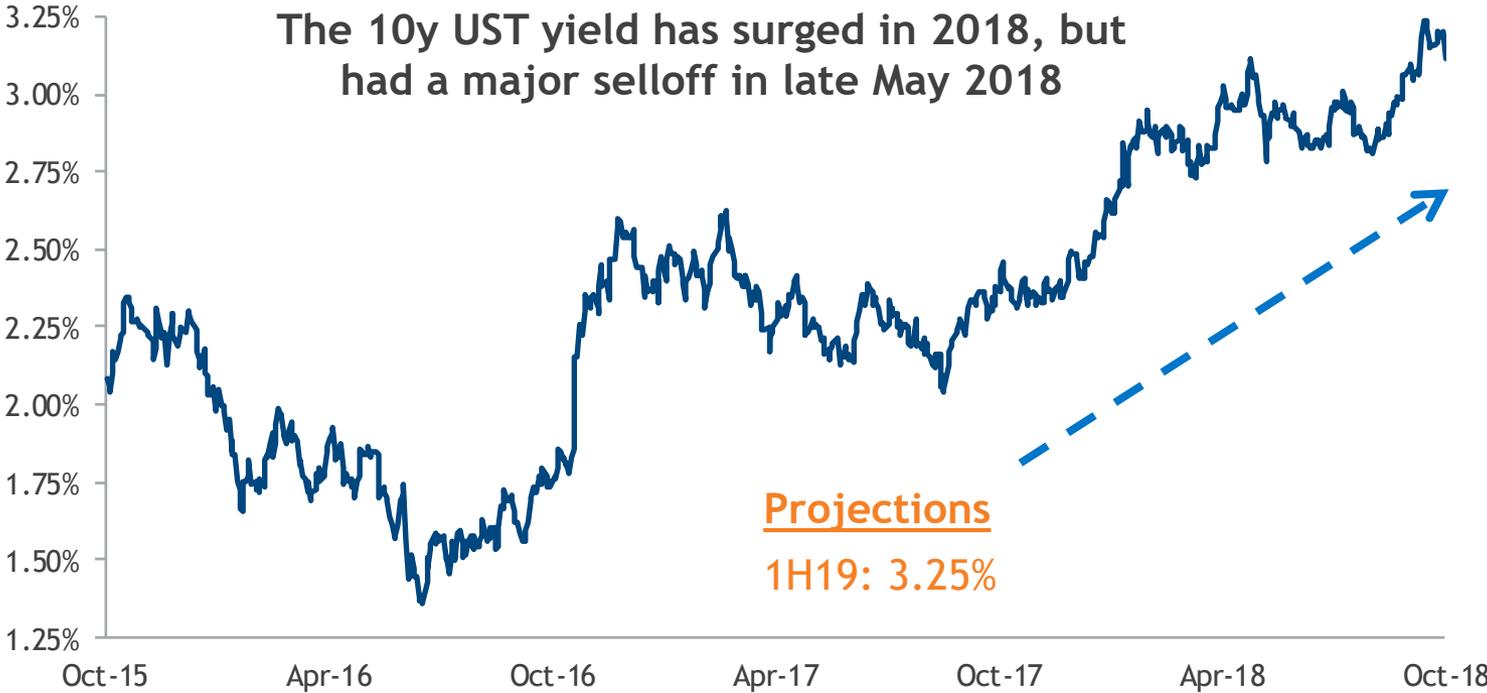


“Both household spending and business investment are expanding briskly, and the overall growth outlook remains favorable. Fiscal policy is boosting the economy, ongoing job gains are raising incomes and confidence, and overall financial conditions remain accommodative.”

Source: Bloomberg; Federal Reserve. Policy Stance subjective based on STRH views. 1) Richard Clarida and Michelle Bowman, confirmation pending; 2) Mary Daly was selected to lead the San Francisco Federal Reserve Bank, effective October 1st, 2018

# Current 10yr Rate Environment

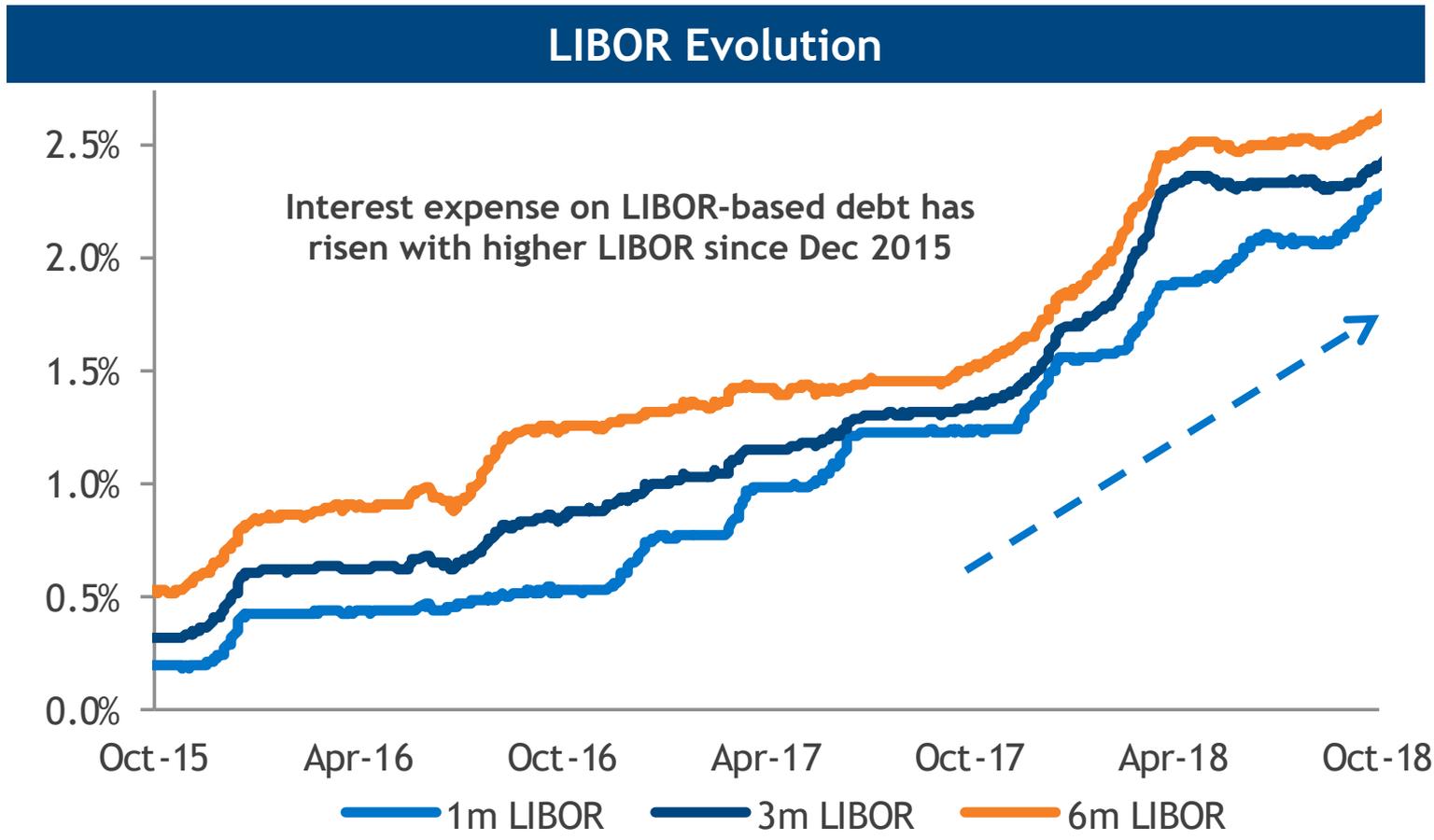
## 10y Treasury Yield



# Historical 10yr Rates



# Current Movement in Libor



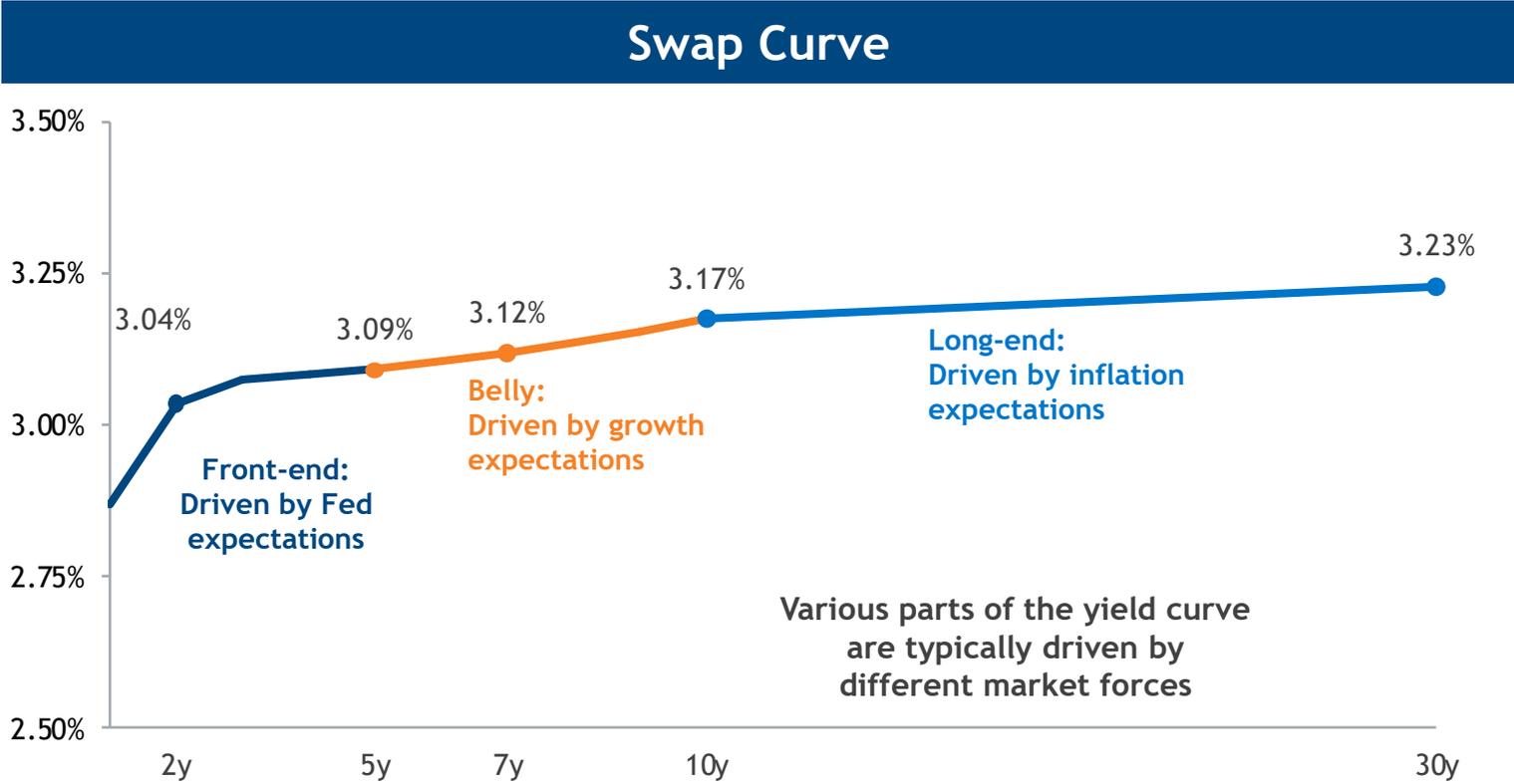
# Historical Libor Rates

## 1-month LIBOR since Inception (December 1984)



# Current Interest Rate Environment - The Yield Curve

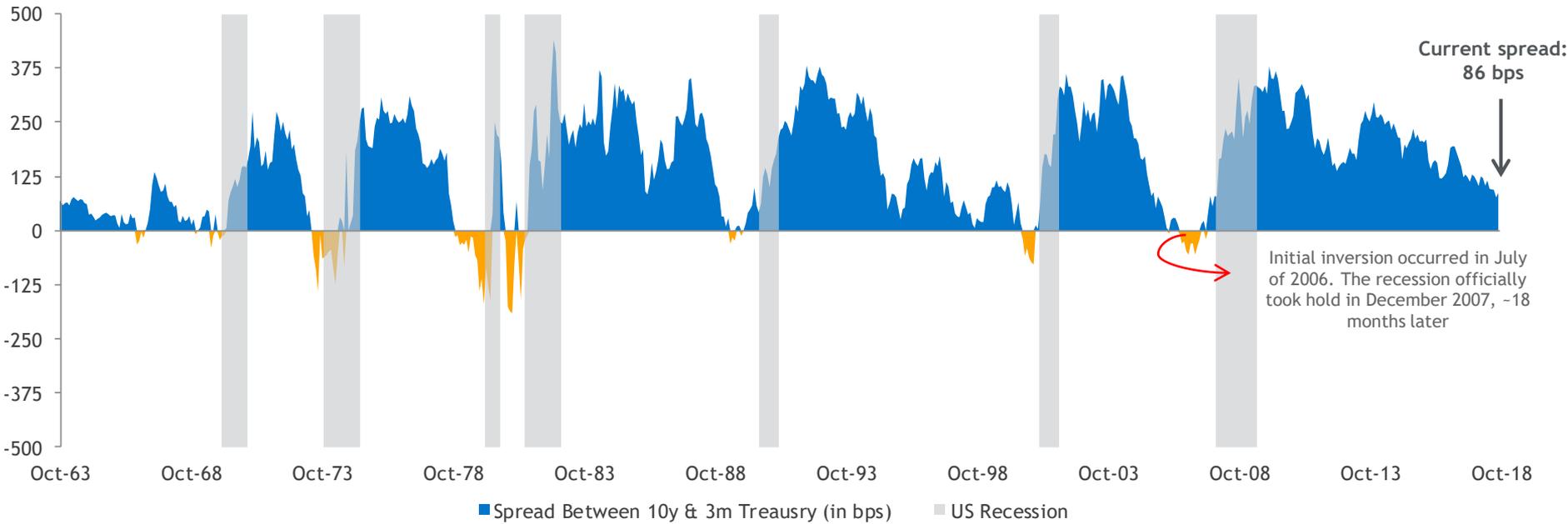
Historically low rates and a flat yield curve are driving many floating-rate borrowers to consider floating-to-fixed swaps as a hedge against rising LIBOR



# Yield Curve Shape as a Leading Indicator of Recession

The yield curve has been flattening steadily since November 2016, which is of particular interest as many market participants view an inverted yield curve as the single best leading indicator of upcoming recession

Historical	Forecasting
<ul style="list-style-type: none"> <li>The spread between the yield on the 10y Treasury and the 3m T-Bill has historically produced the most robust predictive results over time</li> <li>With the exception of one false positive in 1966, an inverted yield curve has predicted every US recession since the 1960's</li> </ul>	<ul style="list-style-type: none"> <li>The average time from the first inversion of the curve to the onset of recession is just over 1 year, with a range of approximately 6-18 months</li> <li>A model published by the New York Fed that uses curve shape to forecast economic activity is currently predicting only a 13% chance of recession in the next 12 months</li> </ul>



# Import Tariffs - China vs. U.S.

## What Has Happened?

- After the US announced an import tariff on steel and aluminum, China retaliated with its own import tariffs, setting off a series of tariff announcements between the two countries
- President Trump says he wants to reduce the trade deficit with China from its 2017 level of -\$375B down to -\$100B
- Trade negotiations have hit a stand still in recent months as both countries continue to impose tariffs on one another
- President Trump and Chinese President Xi Jinping are expected to meet at the G20 summit next month in Argentina

## Recent Time Line of Events

March 9

US imposes 25% import tariff on steel and 10% on aluminum. Tariffs covering \$50B of goods

April 2

China retaliates by imposing a 25% tariff on US pork, aluminum and 15% on fruits, nuts and wine. Covers \$50B of goods

September 17

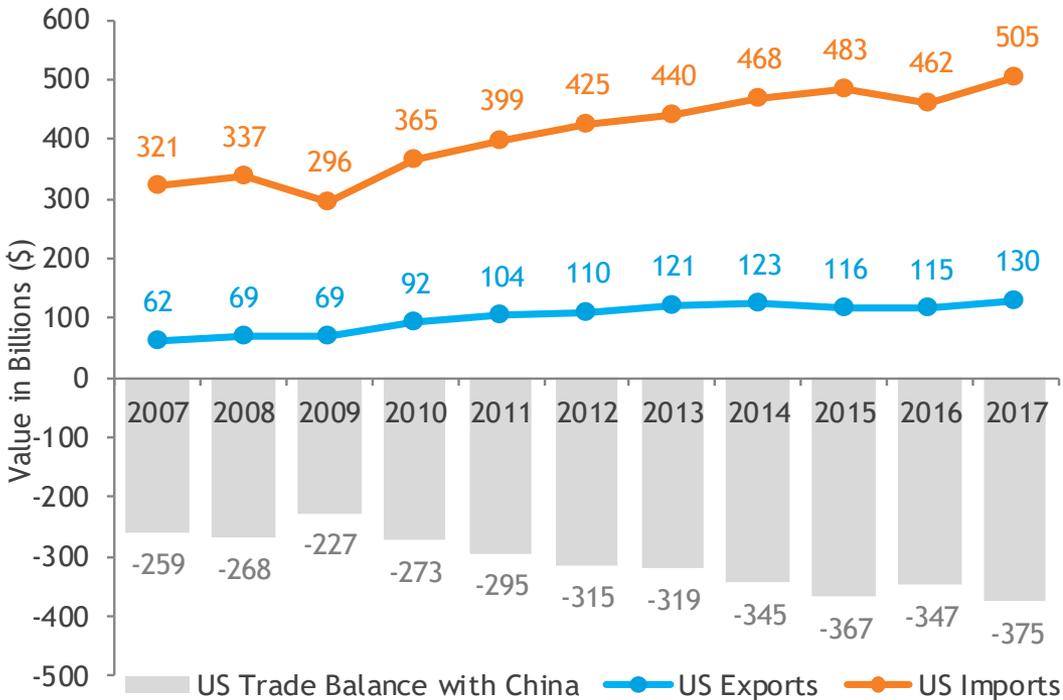
US announces 10% tariff on \$200B of Chinese goods, which increase to 25% effective January 2019

September 18

China announces retaliation on \$60B of U.S. goods, spanning 1,600 different products. 5% initial duty on these goods

# Import Tariffs - China vs. U.S.

The US trade deficit with China has been negative since 1985



US Top Five Exports to China (Bn)



"We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the U.S."  
 - US President Donald Trump



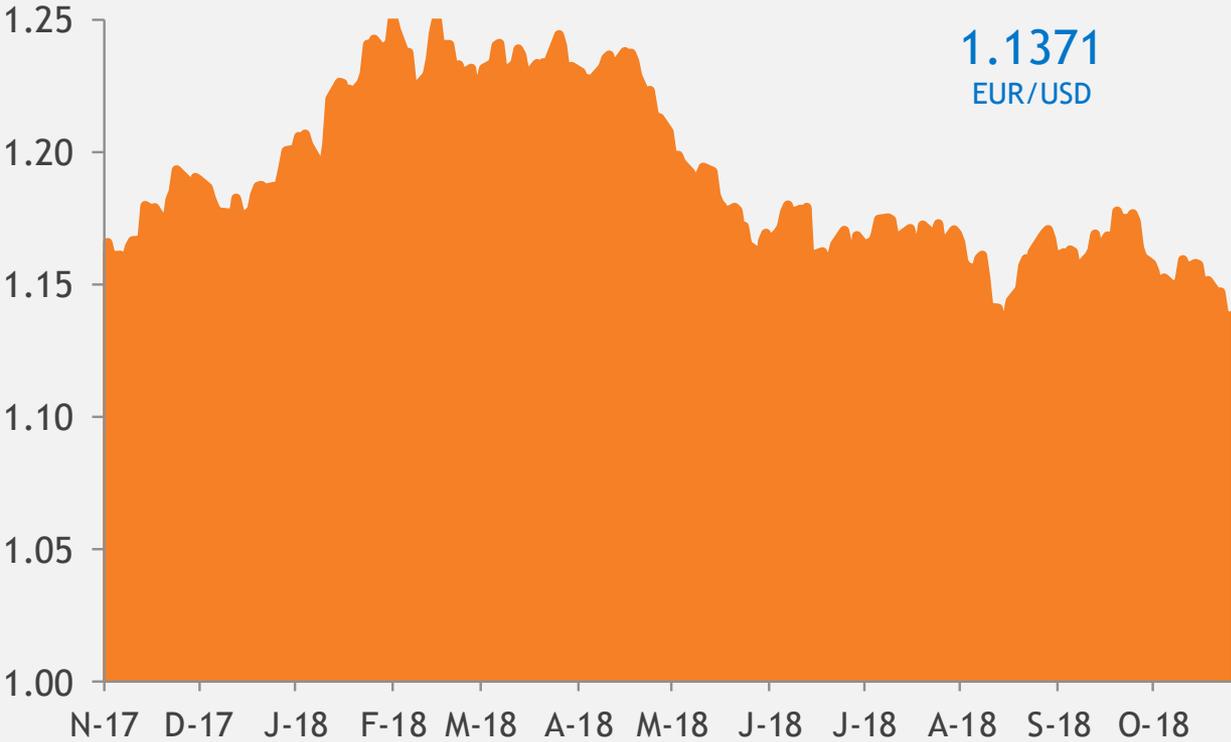
"No one should expect us to swallow bitter fruit that is harmful to our sovereignty, security or development interests"  
 - China President Xi Jinping

# Currency Market Update

# Foreign Currency Update

## Euro

- The euro came under pressure over the past few months after the Fed moved toward four rate hikes while the ECB seemed dovish in their latest statement
- The recent revelation of a few European banks exposure to Turkish foreign loans and a sharp deterioration in the lira has pushed EUR lower

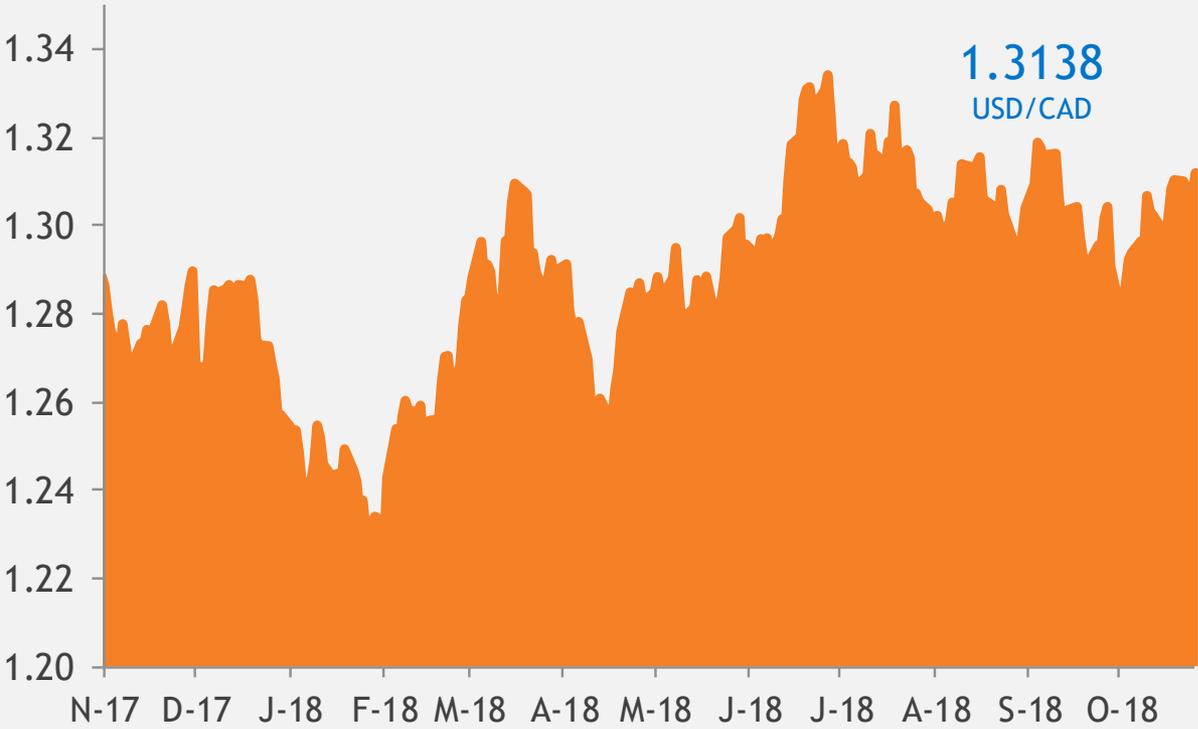


1.1371  
EUR/USD

# Foreign Currency Update

## Canadian Dollar

- The Bank of Canada has continued to hike interest rates. A third hike is projected for 2018 - bringing the total to 5 hikes during the current cycle
- NAFTA's replacement, "the United States-Mexico-Canada Agreement" was reached in late-September, following months of back and forth negotiation

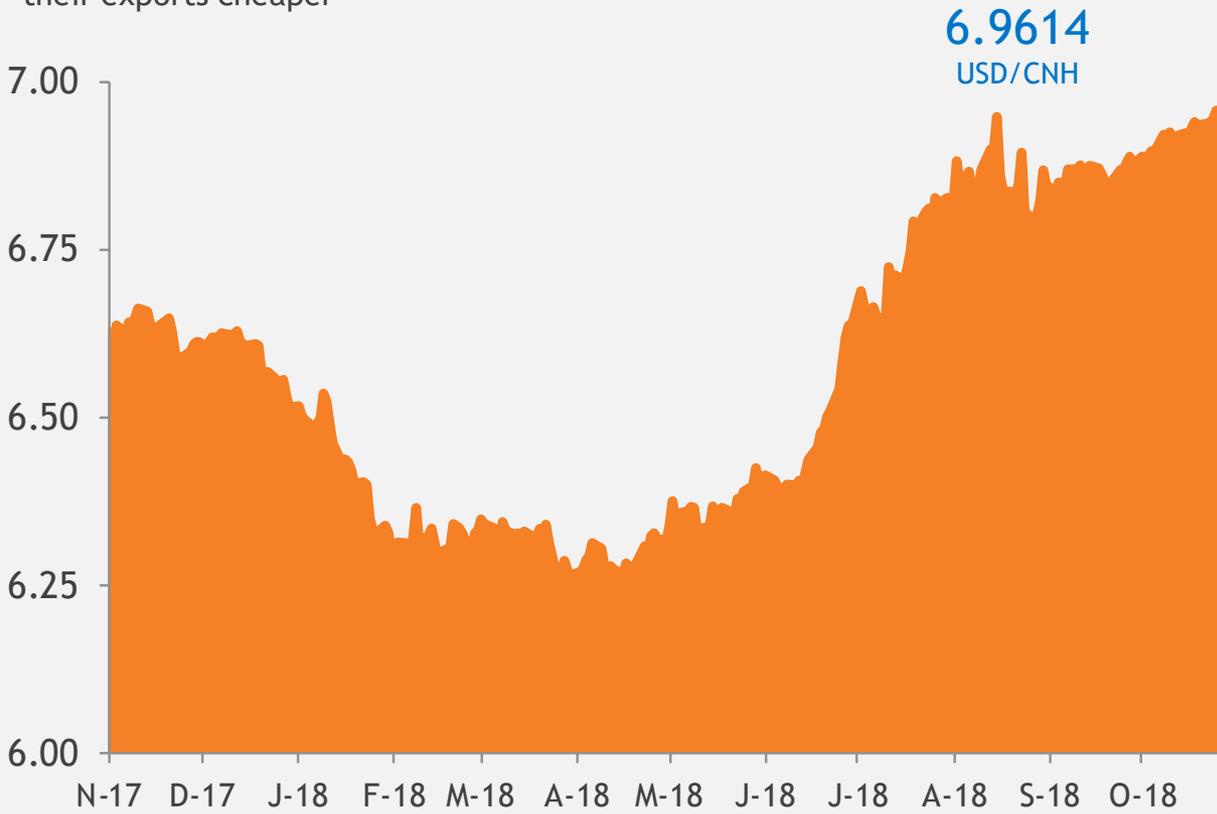


Source: Bloomberg, data as of October 2018  
19 www.suntrustrh.com

# Foreign Currency Update

## Chinese Reminbi (Yuan)

- The Chinese currency has come under pressure over the past 6 months following weak economic data and continued trade tensions with the U.S.
- President Trump has accused China of manipulating their currency in order to keep their exports cheaper

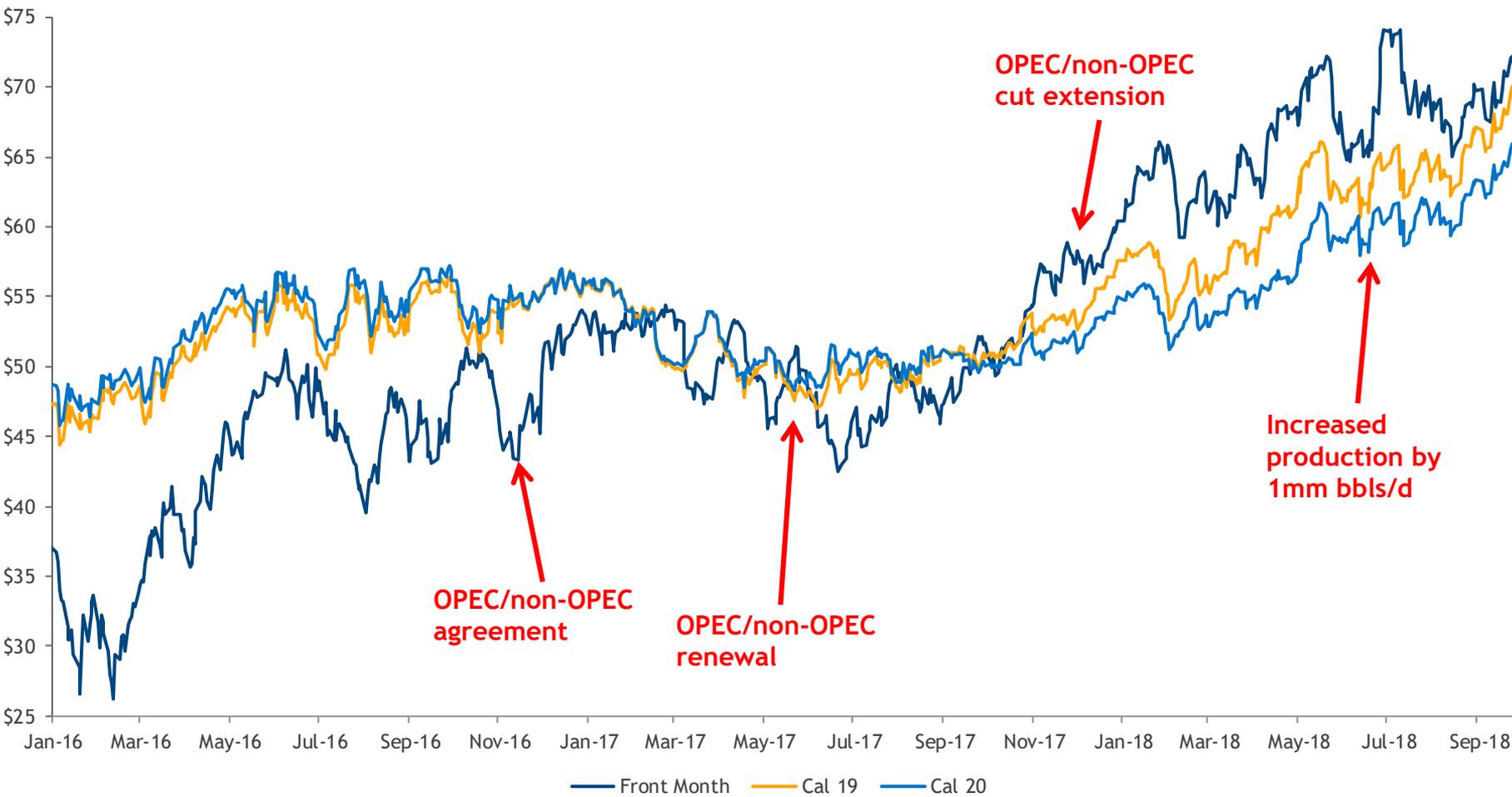


6.9614  
USD/CNH

Source: Bloomberg, data as of October 2018  
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# Commodity Market Update

# West Texas Intermediate (WTI) Crude Historical Prices



	Front Month	Cal 19	Cal 20
WTI Crude	\$74.34	\$72.89	\$69.08

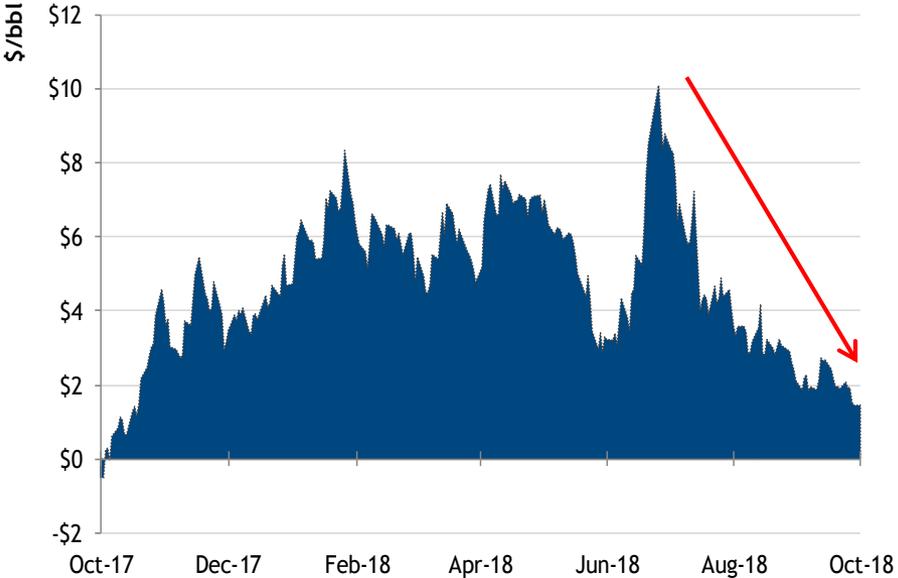
Source: Bloomberg; Data as of October 2018  
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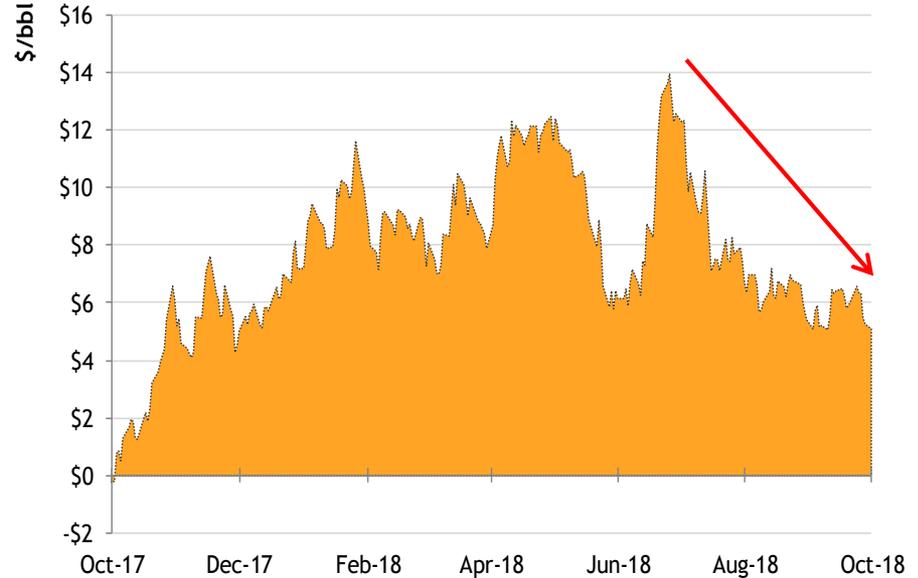
# WTI Backwardation Declining

- We've seen an uptick in WTI hedging activity as backwardation declines
- Some producers don't like "locking in a loss" in a backwardated curve
- On July 3<sup>rd</sup>, the curve reached its most backwardated point in the last four years
- Since then, roughly ~\$8/bbl of backwardation has vanished

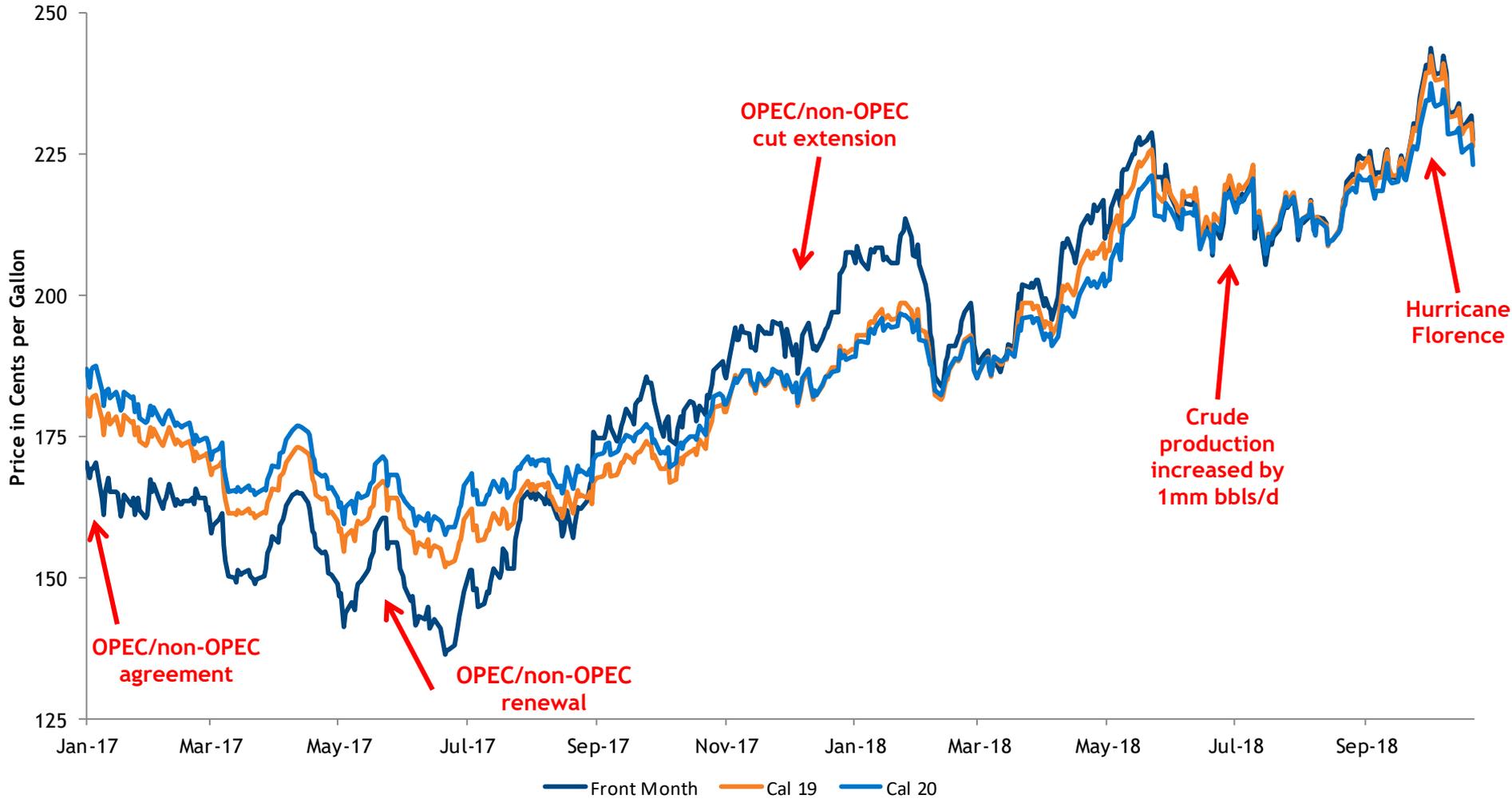
Backwardation: (WTI Front month - Cal 19)



Backwardation: (WTI Front month - Cal 20)



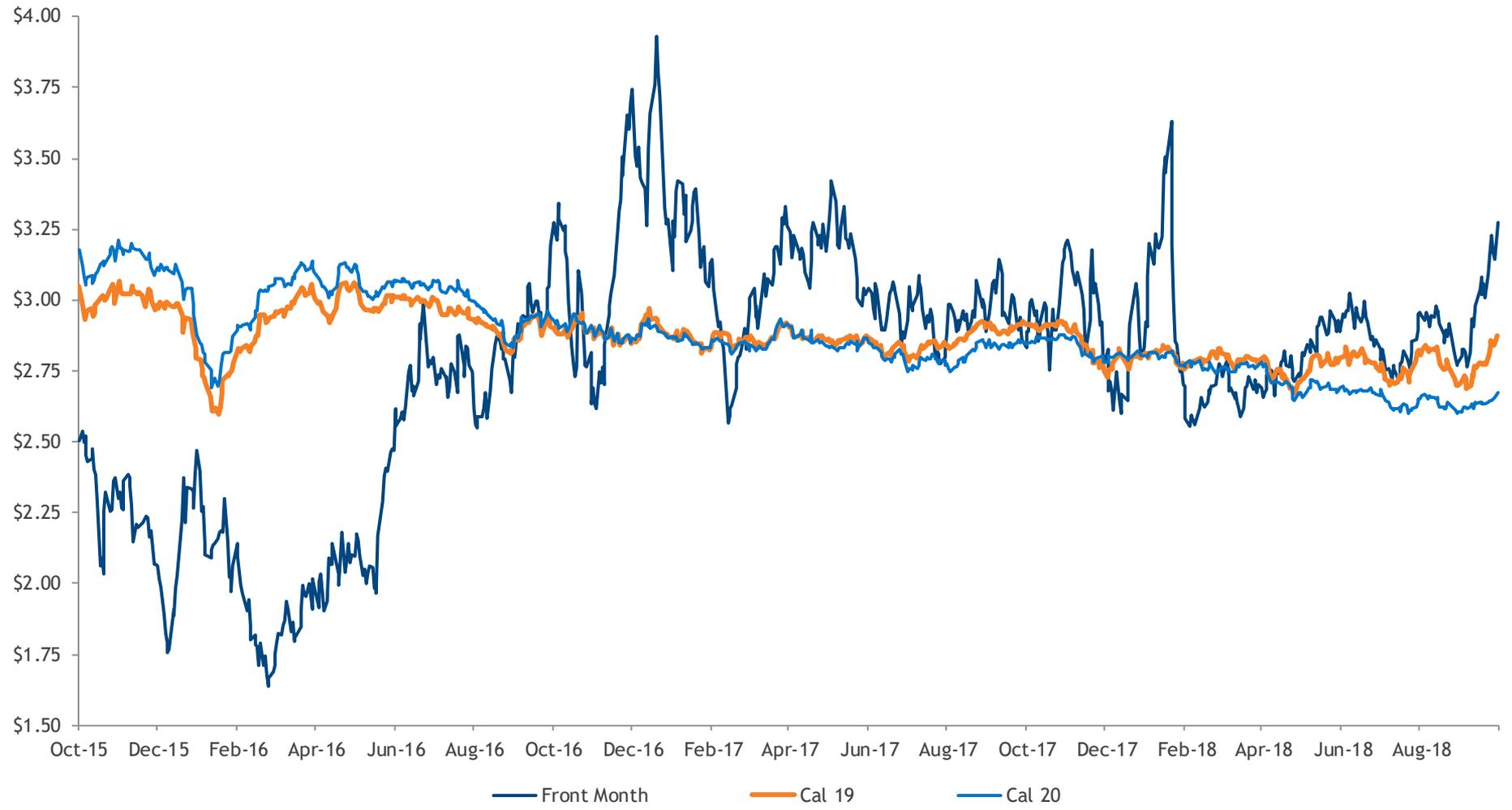
# Diesel Historical Prices



	Front Month	Cal 19	Cal 20
Diesel (Cents per Gal.)	227.58	226.33	223.01

Source: Bloomberg; Data as of 10.23.18  
24 www.suntrustrh.com

# Natural Gas Historical Prices



	Front Month	Cal 19	Cal 20
<b>NYMEX Natural Gas</b>	\$3.27	\$2.87	\$2.67

Source: Bloomberg; Data as of 10.8.18  
 25 www.suntrustrh.com



## Concluding Comments

# What's Next for the Global Economies & Overall Business Outlook

## Possible Market Rewards

- Lower Corporate Tax Rates
- Strong GDP Growth continues (*3.5% in Q3*)
- Deregulation or limits of certain policies provides advantages for various industries: Financial Services, Energy, etc
- Stronger U.S. manufacturing
- New Trade Agreements with Euro-zone, Mexico, and Canada
- Equity prices on rise: U.S. Wealth Impact

## Possible Market Risks

- Rate hikes by the Fed continue. How does the market adapt to a tightening Monetary Policy?
- Inflation on the rise. Commodity prices up
- Trade & tariff stalemate with China. How does this play out?
- Recent stock market correction
- Strong USD could impact U.S. multinationals
- Geopolitical concerns in various hotspots

## Q & A