

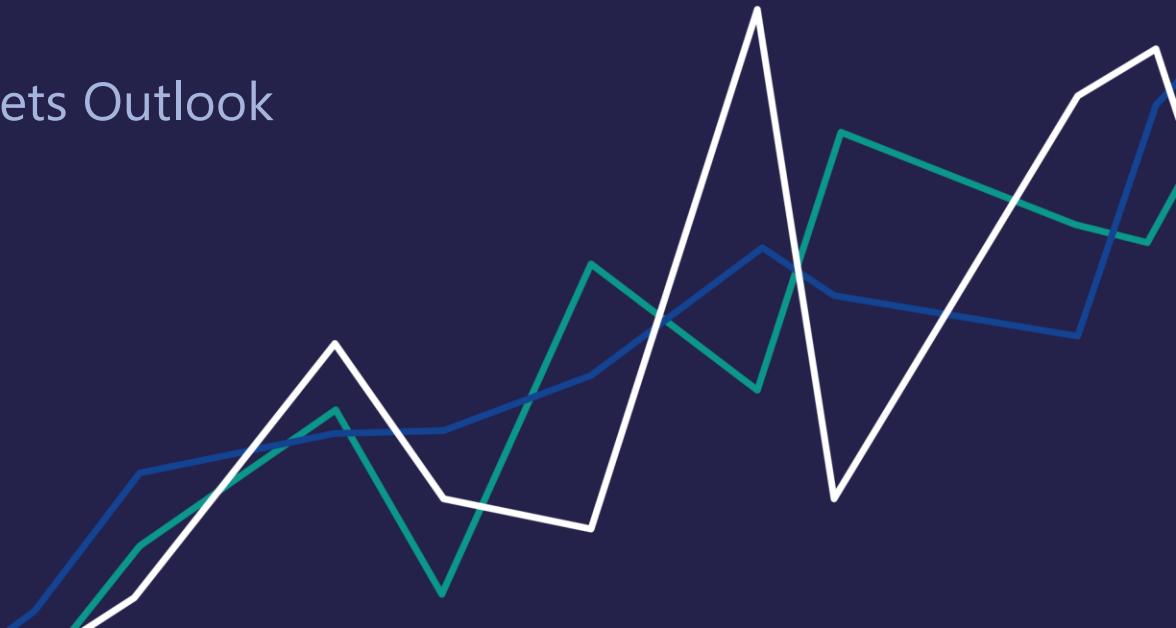
# China Stimulus, US Elections

## Global Economic and Markets Outlook

Neil Shearing, Group Chief Economist

Julian Evans-Pritchard, Head of China Economics

Thomas Mathews, Head of Markets, Asia Pacific



# Agenda

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- Is a soft-landing assured in the US?
- How far will interest rates be cut in this cycle?
- Will policy stimulus spur a lasting recovery in China?
- How might the US election alter the outlook?
- What does this mean for the markets?

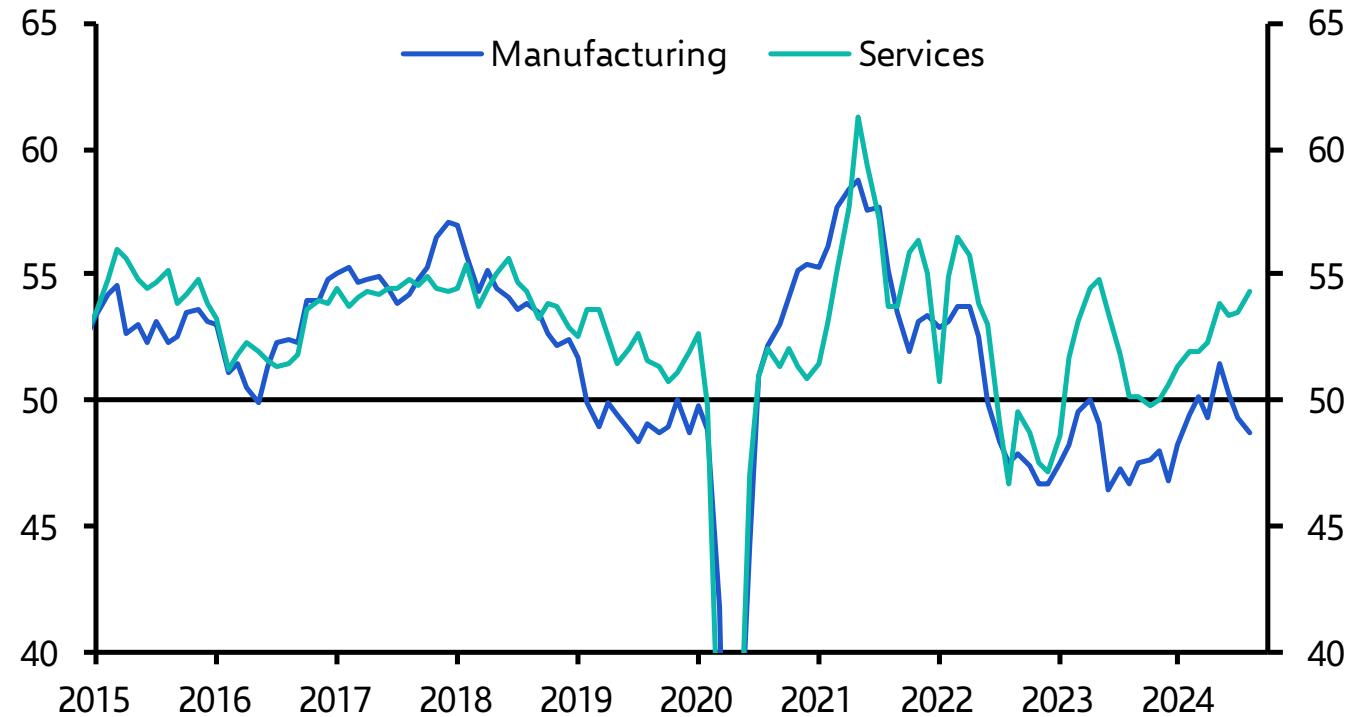
# The Global Economic Outlook & the US Election

Inflation, rates and political risk

Neil Shearing, Group Chief Economist

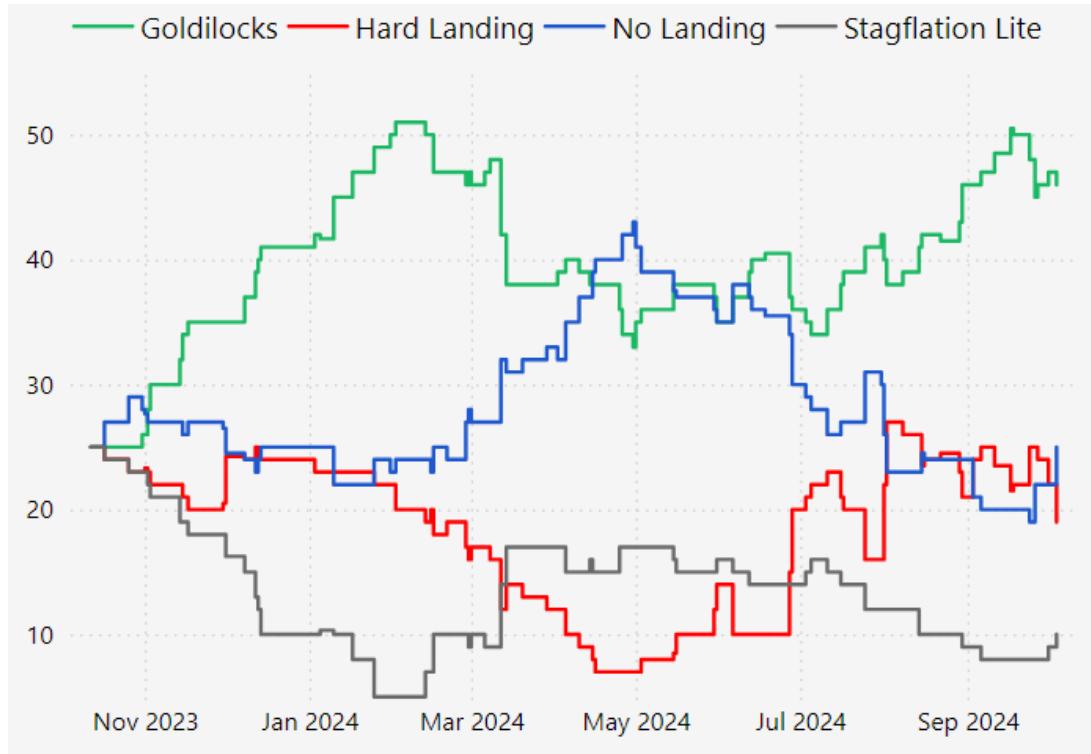


# Global PMI Activity Indicators

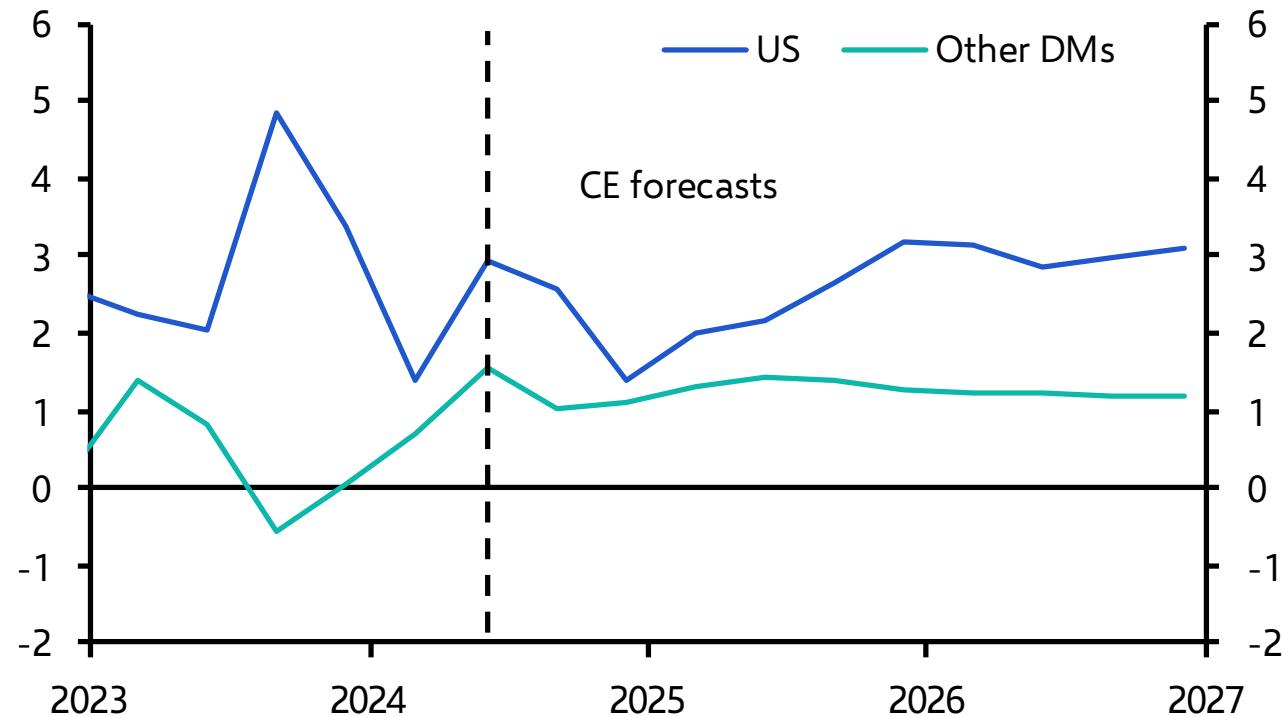


Sources: LSEG Data, Capital Economics

# US Economic Scenarios (% probability)

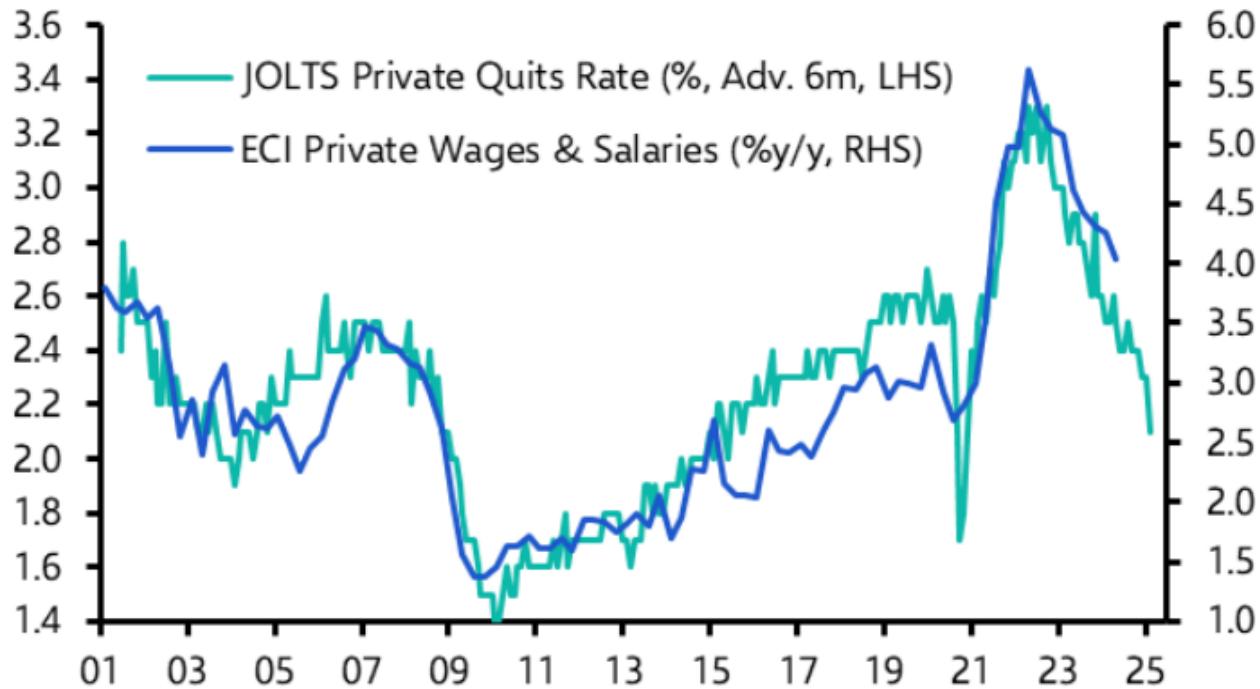


# GDP (% q/q annualized)



Sources: LSEG Data, Capital Economics

# US Quits Rate and ECI Wages & Salaries



Sources: LSEG Data, Capital Economics

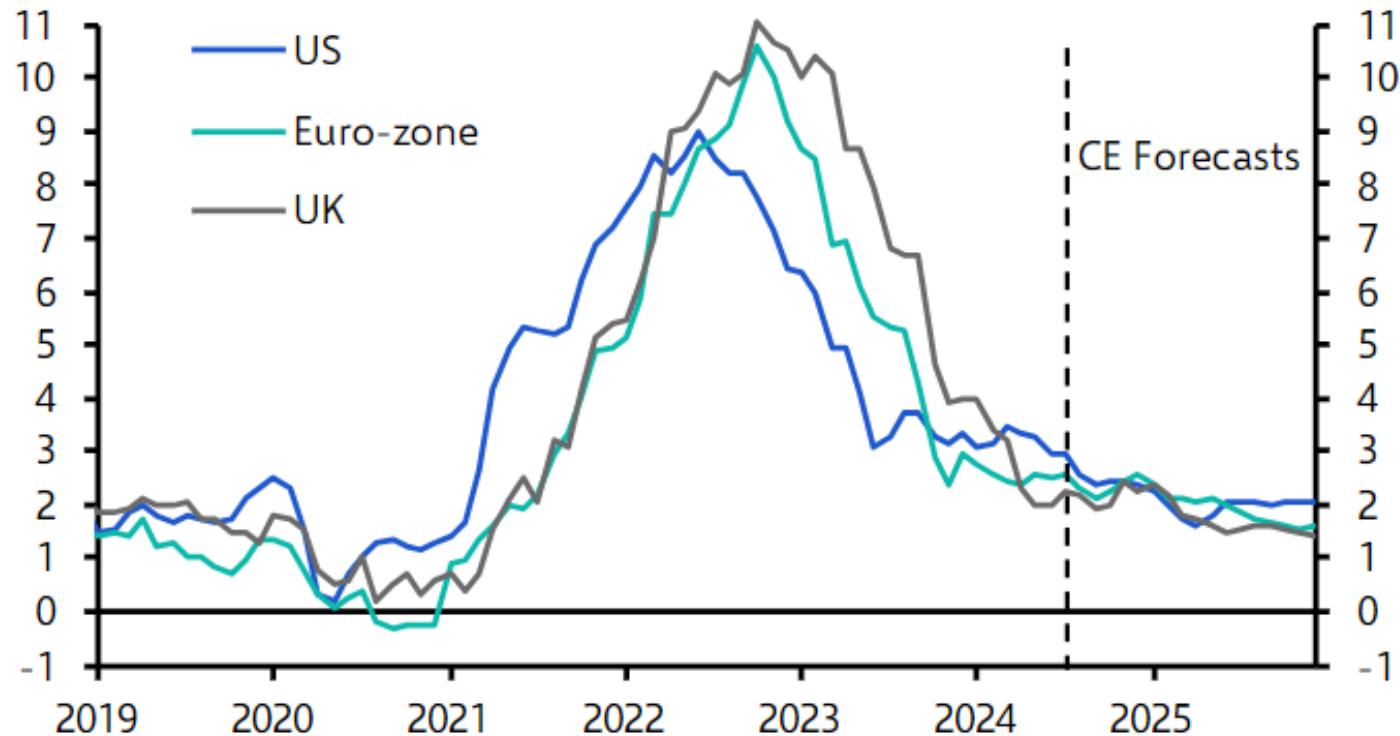
# Risks to our inflation view

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- At our last event we argued that inflation (and interest rate) expectations would fall back. This has happened.
- The moves in oil prices over the past few weeks do not yet pose a significant risk to inflation in 2024-25. (We would get concerned if prices increased to over \$90pb and stay there.)
- A Trump victory would pose upside risks to inflation (more on this later.)
- This aside, the biggest risk to inflation in the US is that wage growth does not fall inline with leading indicators.

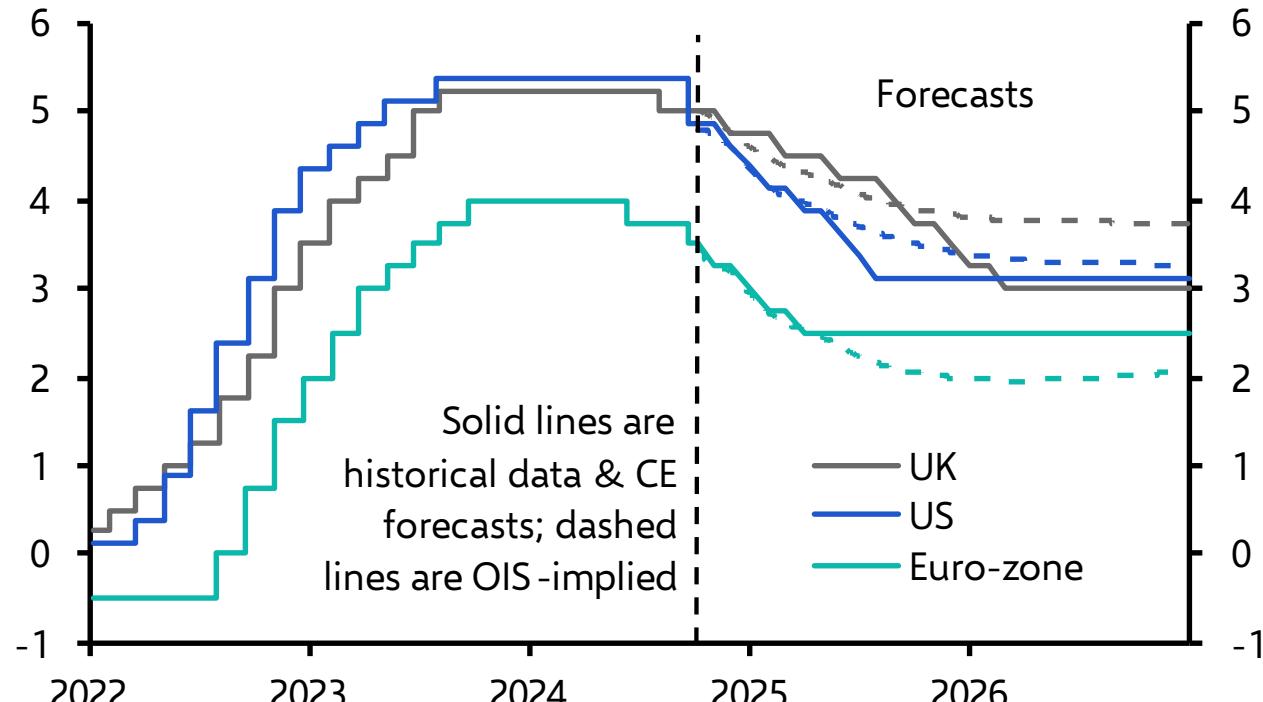
Source: Capital Economics

# Headline CPI Inflation (%)



Sources: LSEG Data, Capital Economics

# Policy Interest Rate (%)



Solid lines are  
historical data & CE  
forecasts; dashed  
lines are OIS -implied

— UK  
— US  
— Euro-zone

OIS curves updated 8<sup>th</sup> October.

Sources: LSEG Data, Capital Economics

# The US election

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- A Harris victory would mean business as usual
- A Trump victory would mean:
  - higher tariffs;
  - tighter rules on immigration and the potential removal of undocumented workers; and
  - tax cuts, particularly for corporates.
- While many of Trump's proposed policies are likely to be diluted in practice, the common thread is that they would push up inflation.

# Trump: Rhetoric vs. Reality

	Rhetoric	Reality
<b>GDP</b>	-1.5%	-0.8%
<b>Price Level</b>	+2.3%	+1.2%
<b>Fed Response</b>	+100-125bps	+50bps

Rhetoric: policies fully enacted on day one

Reality: policies partially enacted by Q1 2026.

Effects shown through to mid-2026

# Conclusions

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- A soft landing in the US remains our base case. In contrast, Europe's economy will continue to struggle.
- Inflation will fall back to target everywhere, although upside risks have increased in recent months.
- Fed Funds to fall to 3.00-3.25% by end-25. The big shift in bond markets over the past week means that this view is now largely priced in by investors.
- A Trump victory would probably mean slower growth/higher inflation but proposed measures likely to be diluted in office.

# Is China's stimulus enough?

Cyclical support, structural headwinds

Julian Evans-Pritchard, Head of China Economics

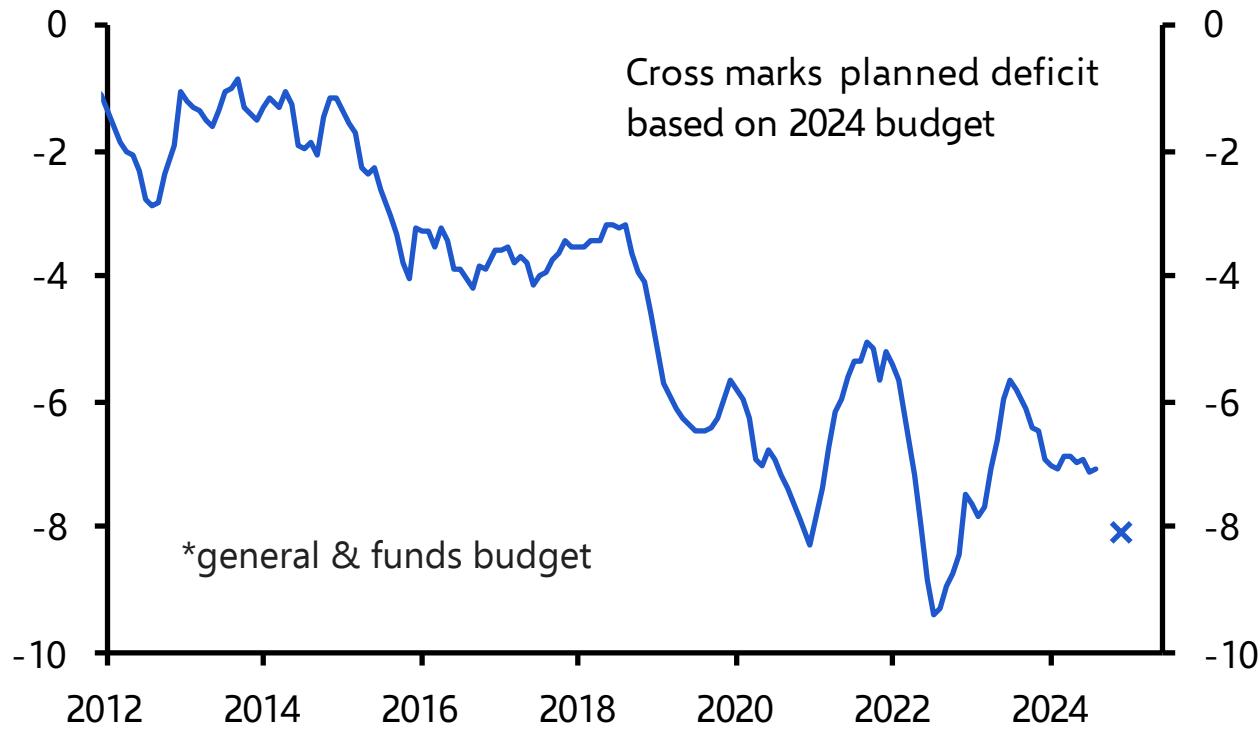


# China Stimulus Recap

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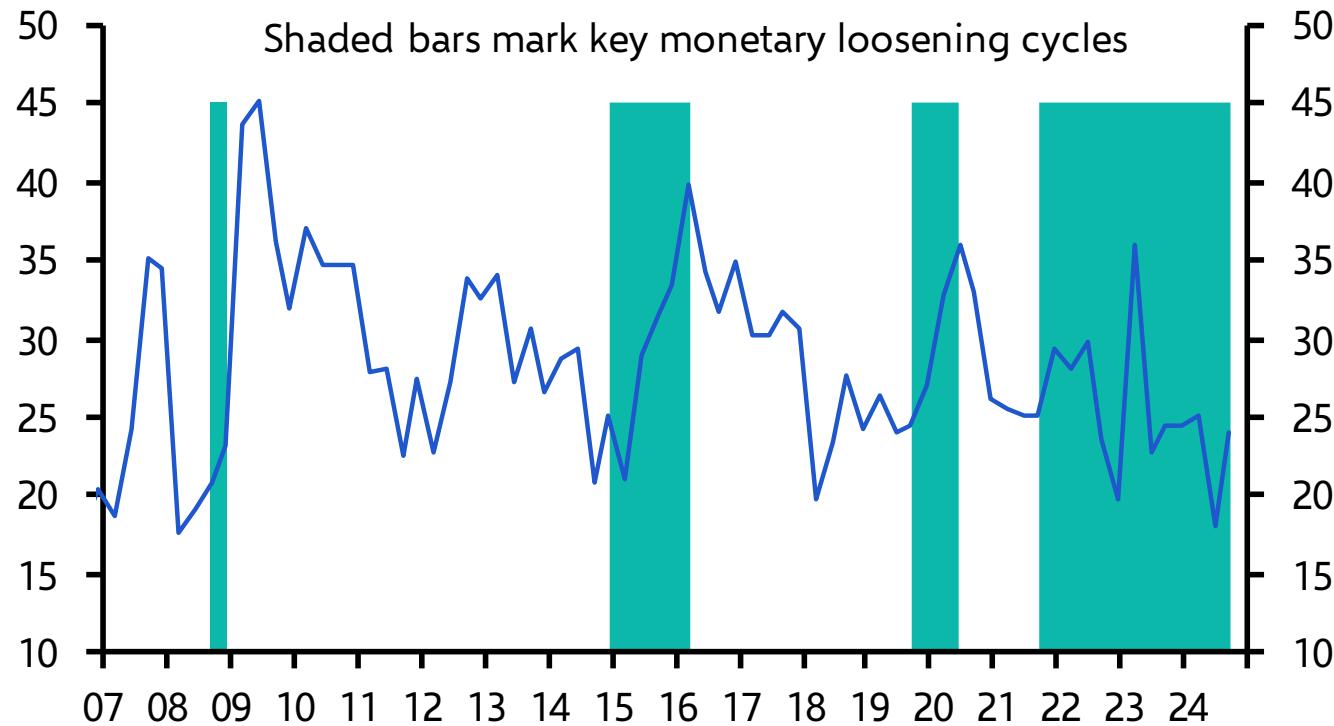
<b>Monetary</b>	Cuts to policy rate (7-day rev repo by 20bp), lending and deposit rates (20bp), RRR (50bp)
<b>Property</b>	Cuts to downpayment ratio for 2 <sup>nd</sup> homes (10%-pts) & existing mortgage rates (50bp), more PBOC funds for SOE home purchases
<b>Equities</b>	PBOC loans for share buybacks (RMB300bn), swaps to back equity purchases (RMB500bn)
<b>Fiscal</b>	RMB2.3trn in unused funds to be spent in Q4 Budget deficit to be increased next year
<b>Plus</b>	Debt swaps to tackle local government debt Capital injection for state banks

# Budget Balance\* (% of trend GDP, 12mma)



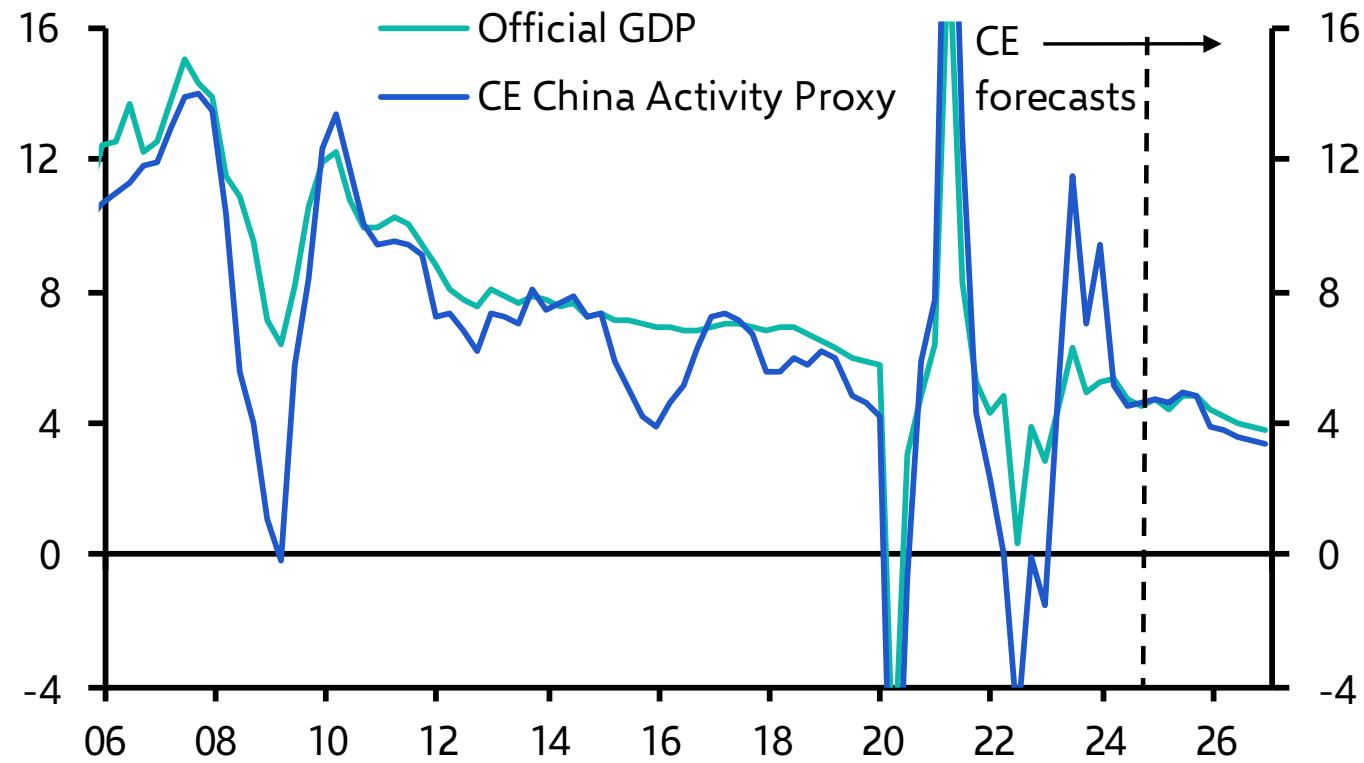
Sources: CEIC, Capital Economics

# Net Increase in Broad Credit (% of trend GDP, SA)



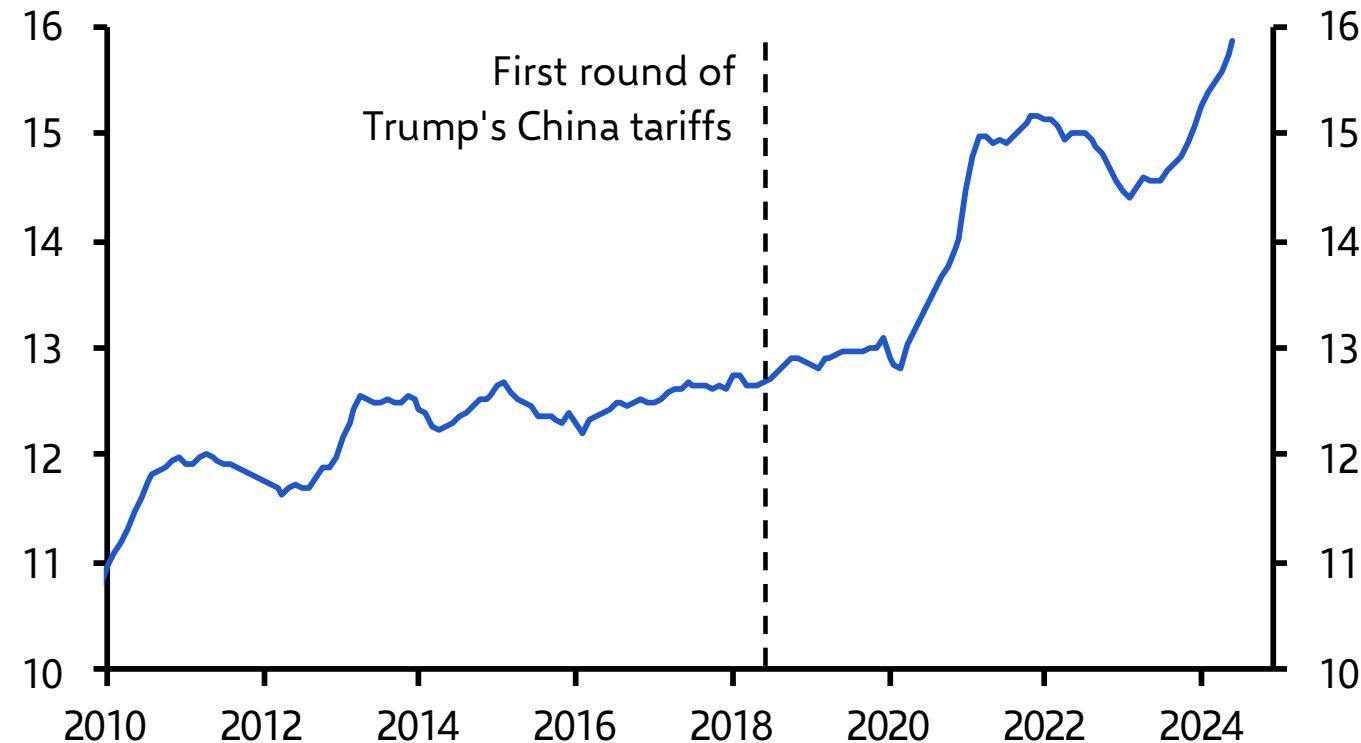
Sources: CEIC, Capital Economics

# Official GDP & CE China Activity Proxy (% y/y)



Sources: CEIC, WIND, Capital Economics

# China's Share of Global Goods Export Volumes (%, 12m ave.)



Sources: CEIC, CPB, Capital Economics

# The election will alter the path of global fracturing

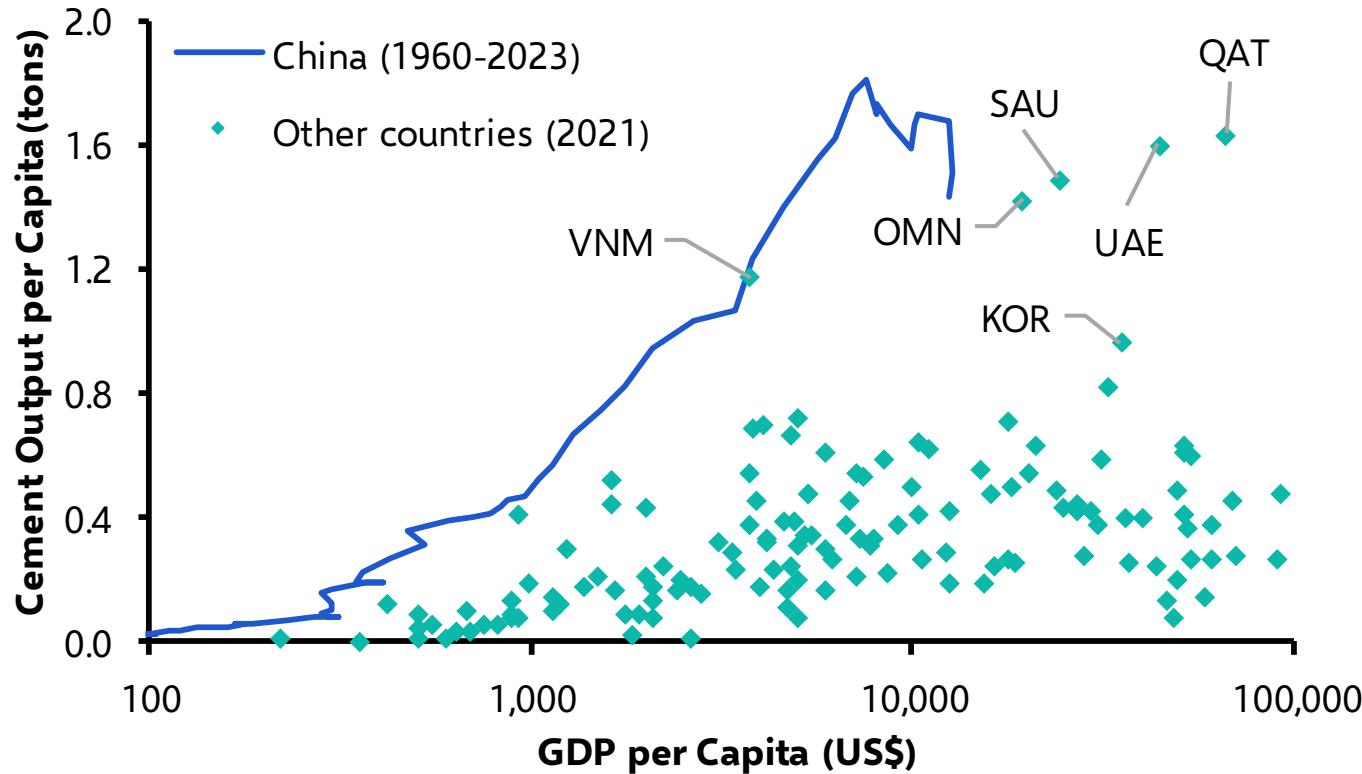
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- US-China fracturing will continue regardless of the election outcome. But the next US president will steer how it plays out:

	Harris	Trump
Trade	Tech controls on China	Tariffs on China & US allies
Multilateralism	Alliances	Unilateralism
Approach	Predictability/Status Quo	Uncertainty/Disruption

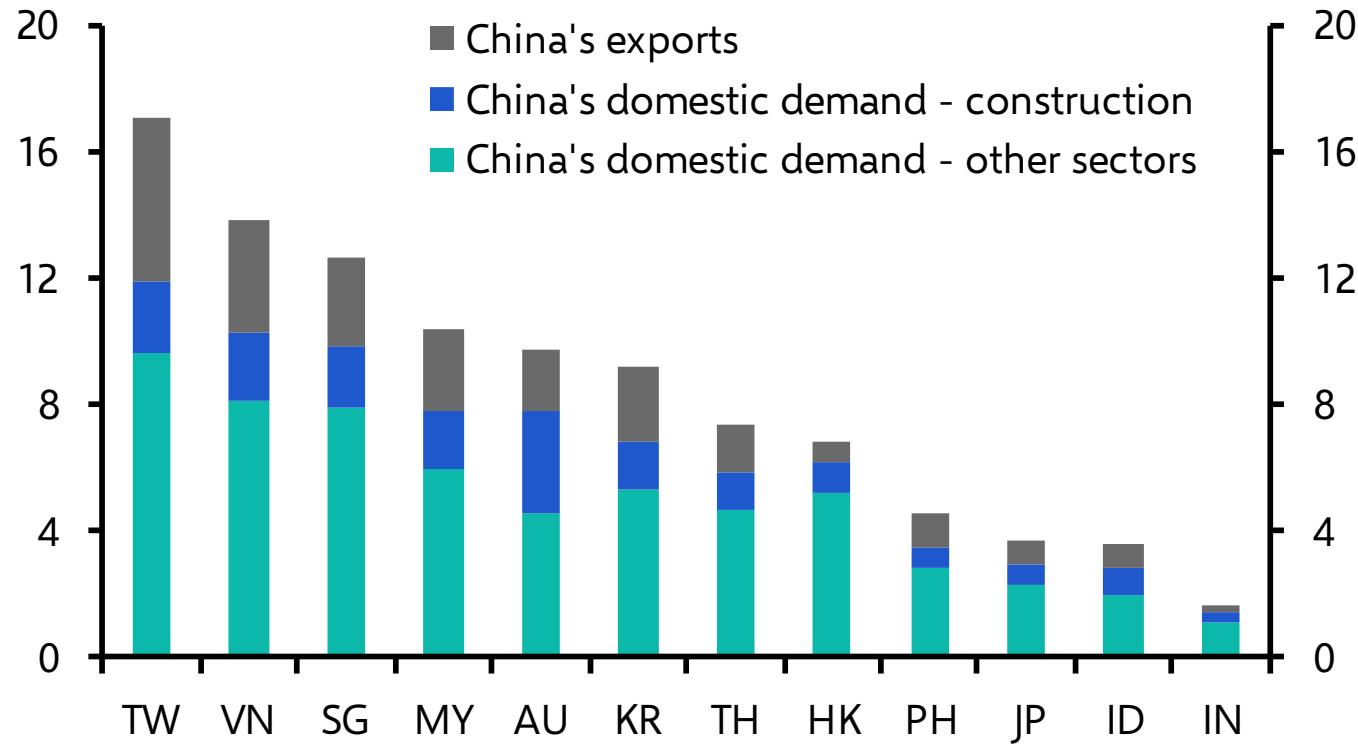
- China wouldn't relish the immediate uncertainty and disruption that Trump would bring.
- But America's strength lies in the size and diversity of its allies. China's relative position could be stronger after four years of Trump.

# Cement Output vs Income Level



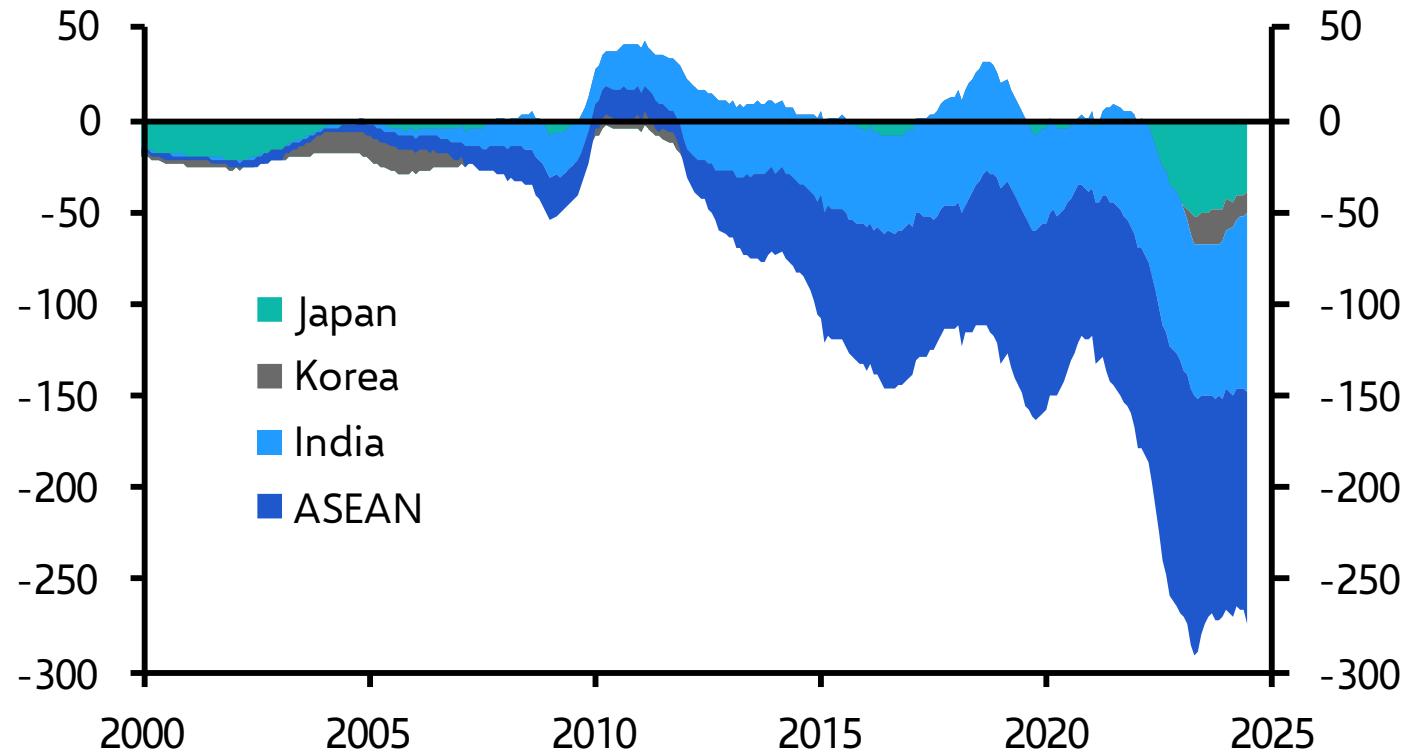
Sources: CEIC, Capital Economics

# Share of Asian Economies' GDP linked to China (%, 2020)



Sources: OECD, Capital Economics

# Asian Trade Balances with China (\$bn, 12m sum)



Sources: CEIC, Capital Economics

# Key Points on China

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- Stimulus won't deliver a sustained rebound in growth.
- Further trade action by the US likely to take the shine off China's export boom.
- Construction downturn has further to run over the medium-term.
- Most Asian economies depend less on Chinese demand than they used to. But they are still caught in the crossfire of US-China competition.

# Global Markets Outlook

Soft landings, AI bubbles and China's equity rebound

Thomas Mathews, Head of Markets, Asia Pacific

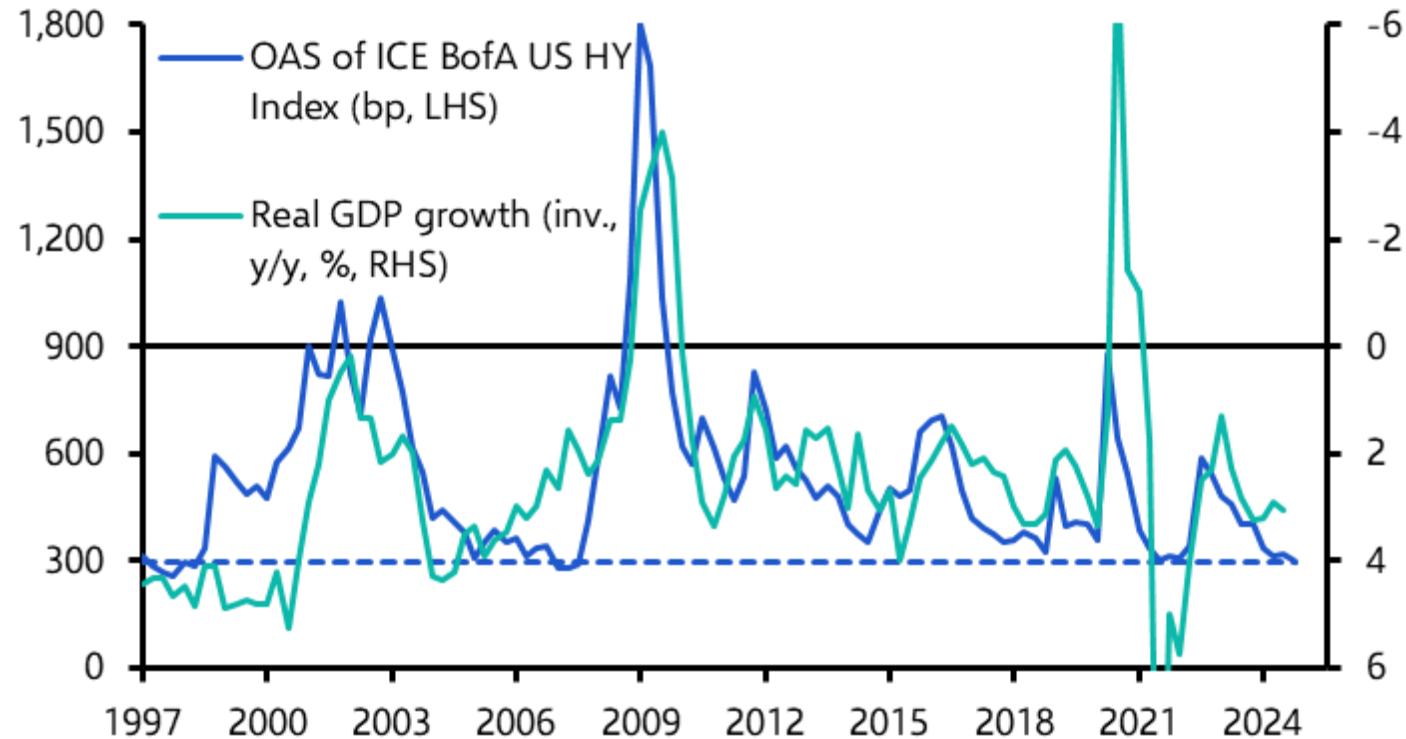


# Key messages on global financial markets

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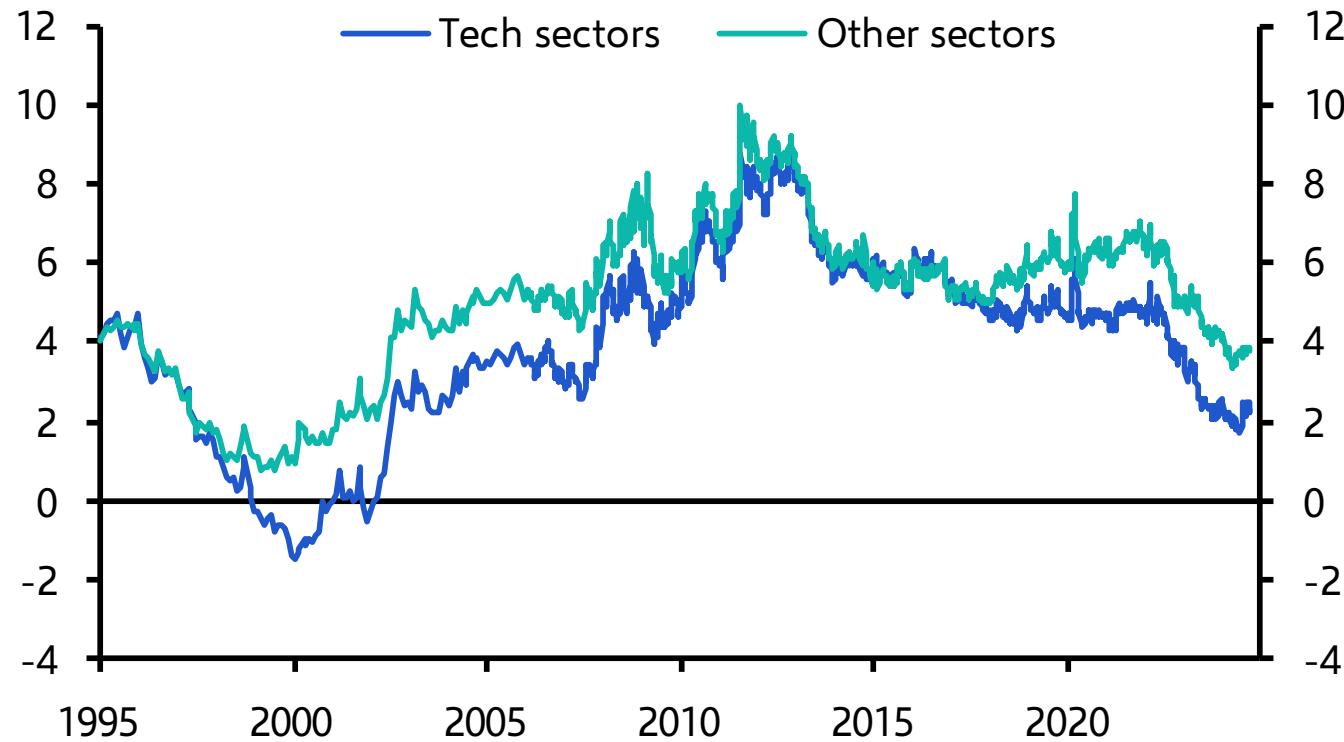
- Global/US markets:
  - Soft landing and rate cuts now look mostly priced in, but still room for AI equity bubble to inflate
  - Clear risks to both “risky” and “safe” assets from different economic scenarios & US election
- China:
  - Obvious effort to lift sentiment, but these haven’t had lasting success in the past
  - Long-term equity outlook is poor regardless

# US High-Yield Credit Spread & GDP Growth



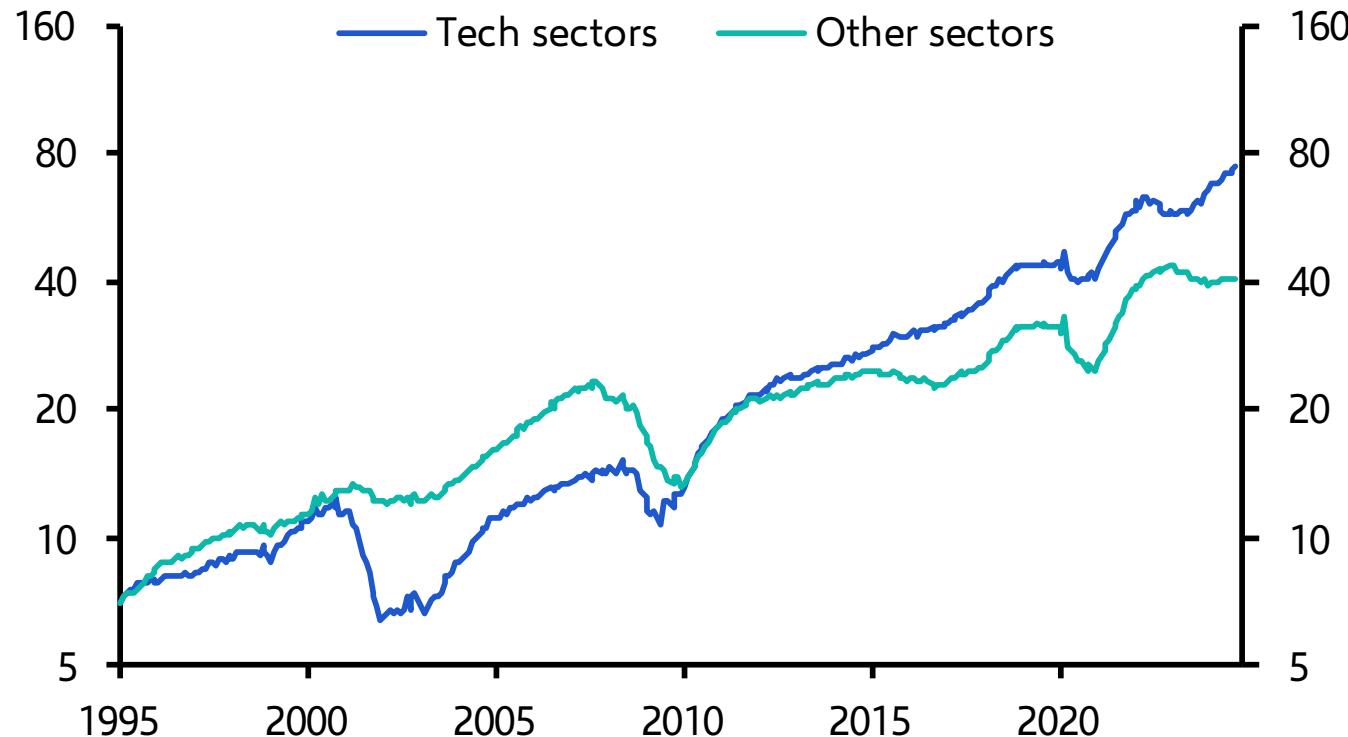
Sources: LSEG Data and Analytics, Capital Economics

# S&P 500 Excess Earnings Yields (pp)



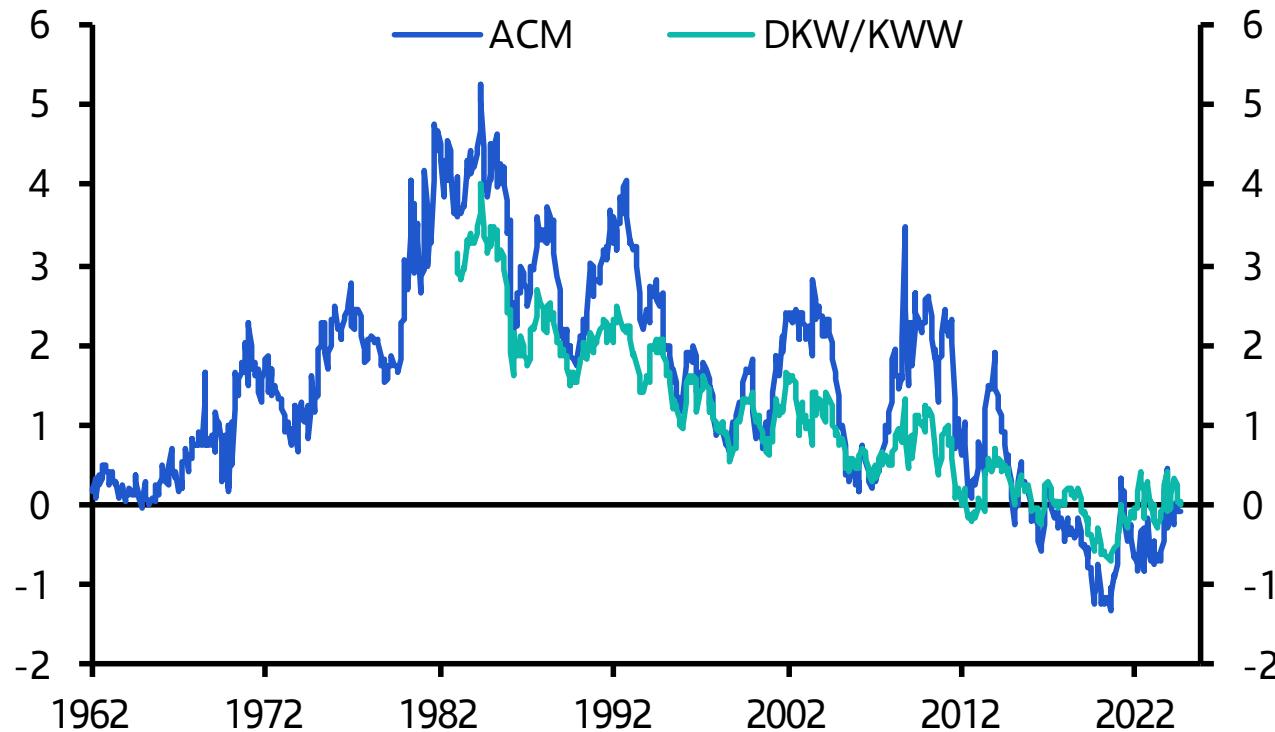
Sources: LSEG Data and Analytics, Capital Economics

# S&P 500 12-Month Trailing EPS



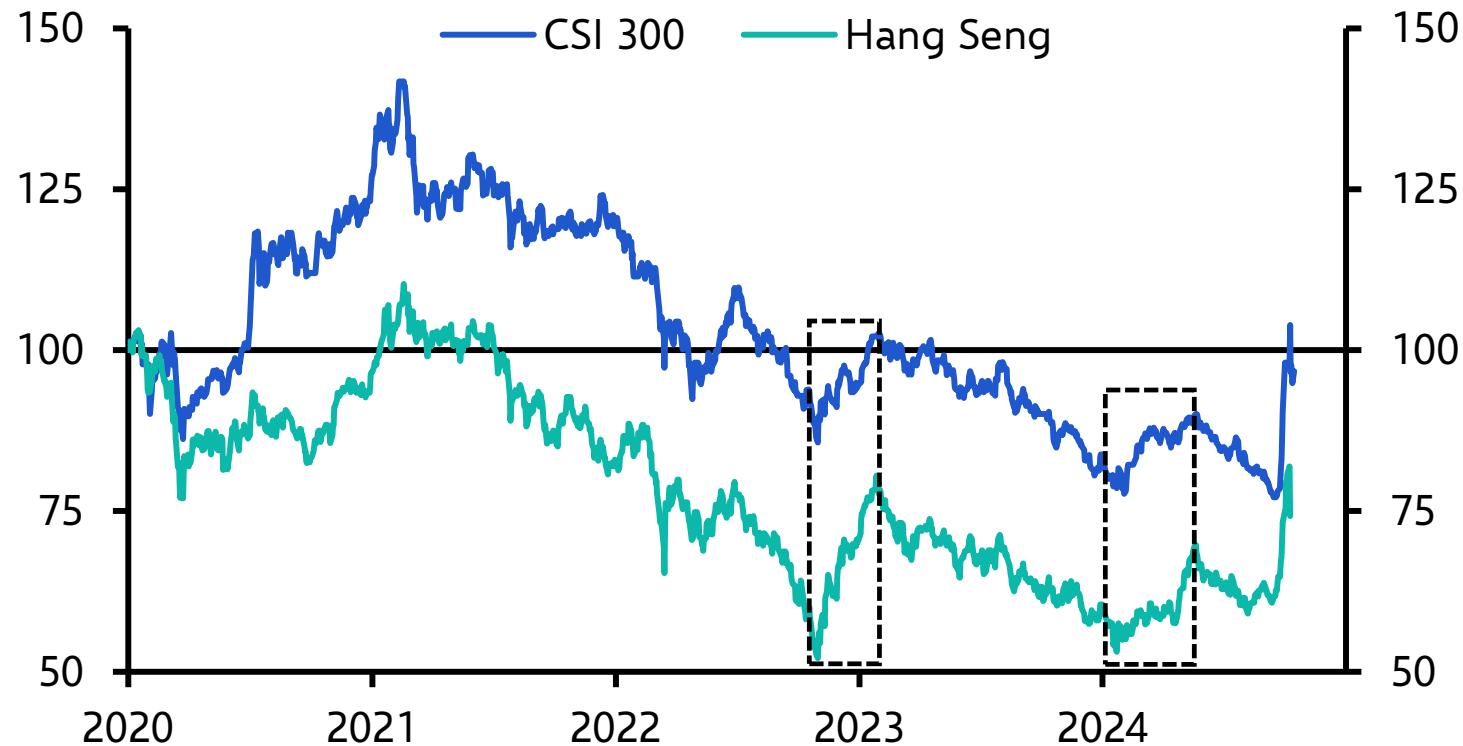
Sources: LSEG Data and Analytics, Capital Economics

# 10-Year US Treasury Term Premium Estimates (pp)



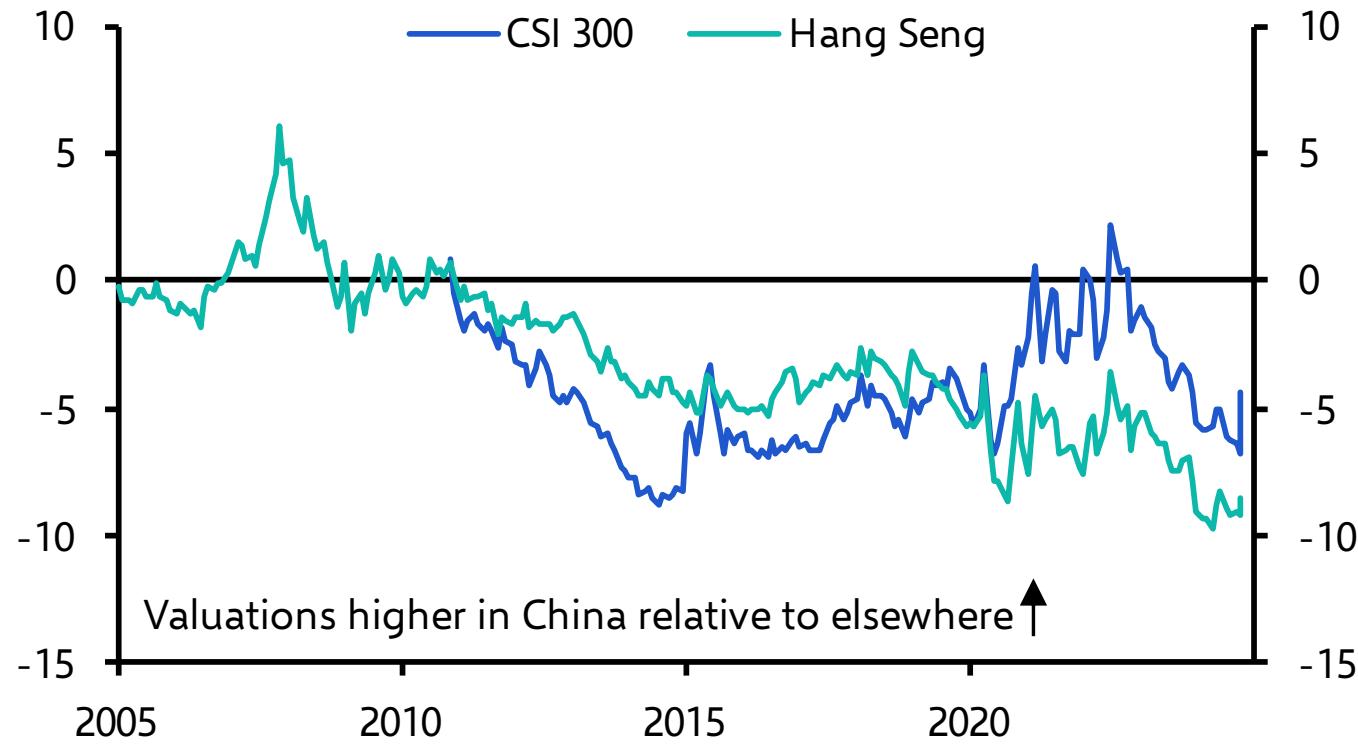
Sources: DKW/KWW, LSEG Data and Analytics, Capital Economics

# China's Equity Indices (1<sup>st</sup> January 2020 = 100)



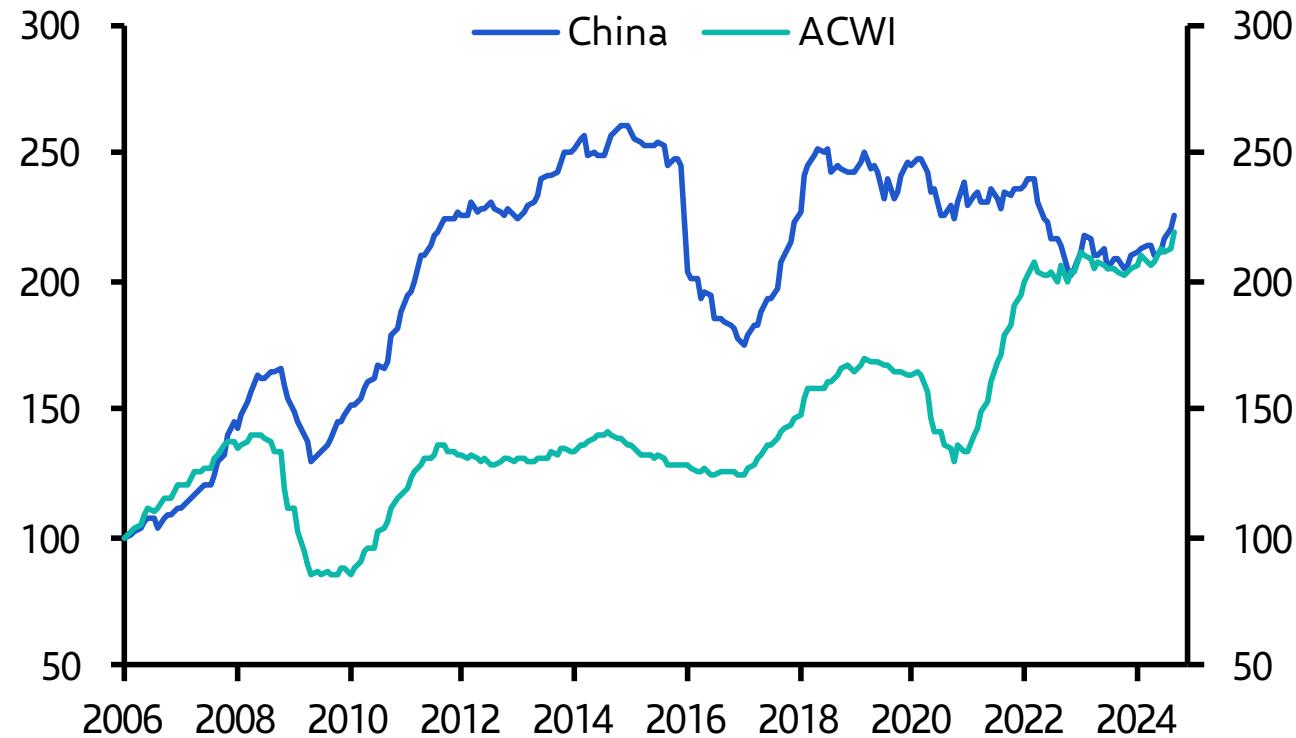
Sources: LSEG Data and Analytics, Capital Economics

# China's PE Ratios Relative To MSCI ACWI



Sources: LSEG Data and Analytics, Capital Economics

# MSCI Indices' 12-Month Trailing EPS



Sources: LSEG Data and Analytics, Capital Economics

# Key messages on global financial markets

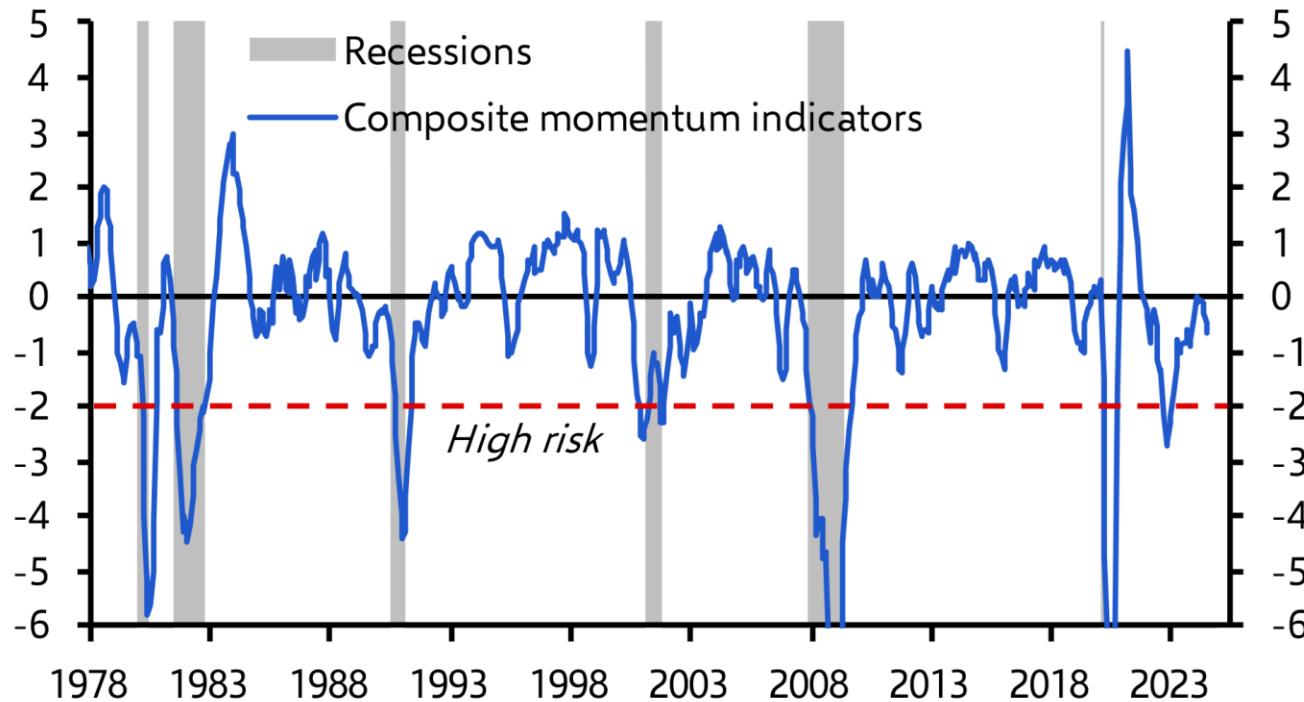
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- China:
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# Appendix

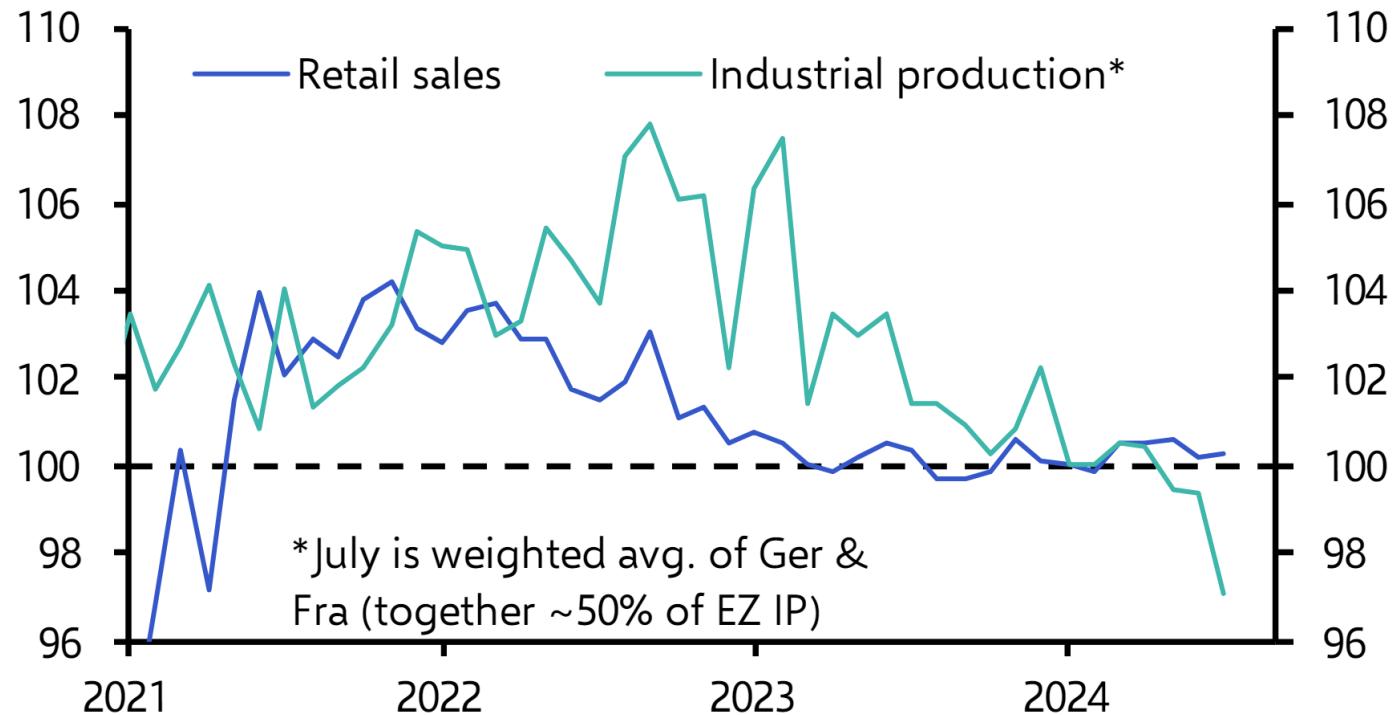


# US Composite Economic Momentum Indicator (Z-Score)



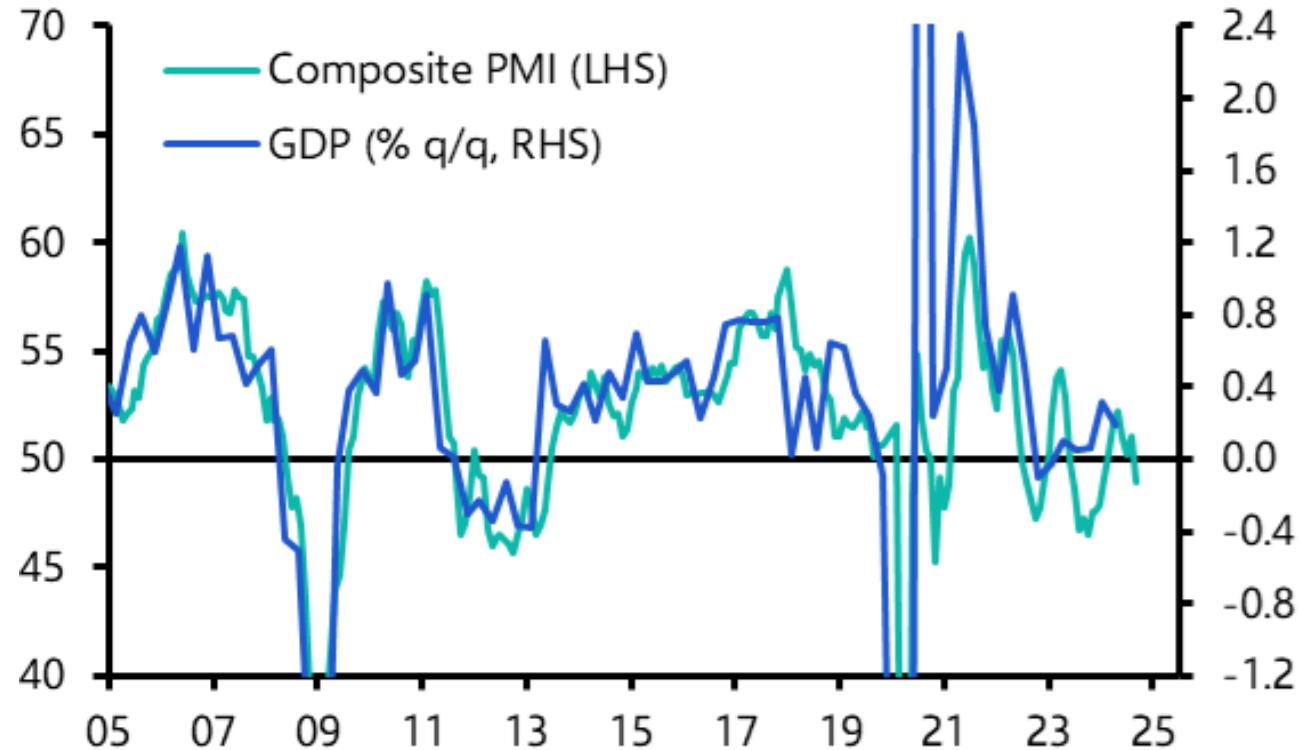
Sources: LSEG Data, Capital Economics

# Euro-zone Retail Sales & Industrial Production (Jan. 2024 = 100)



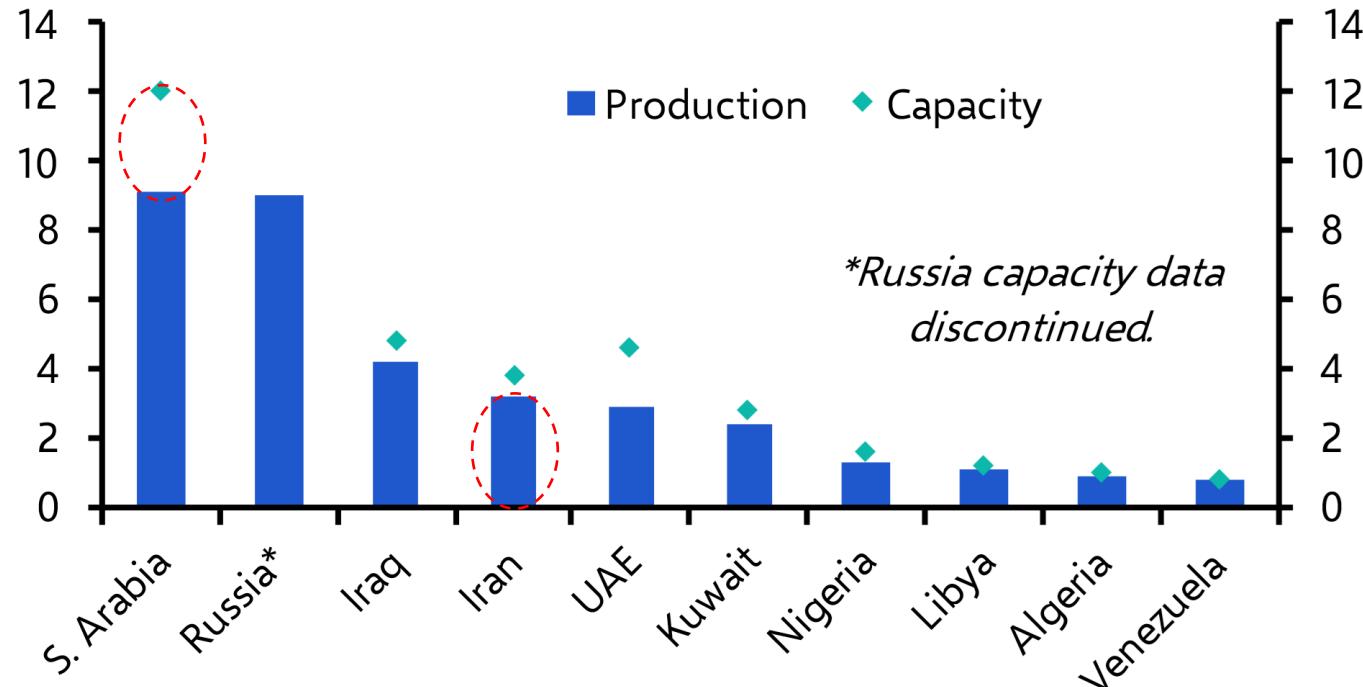
Sources: LSEG Data, Capital Economics

# Euro-zone Composite PMI and GDP



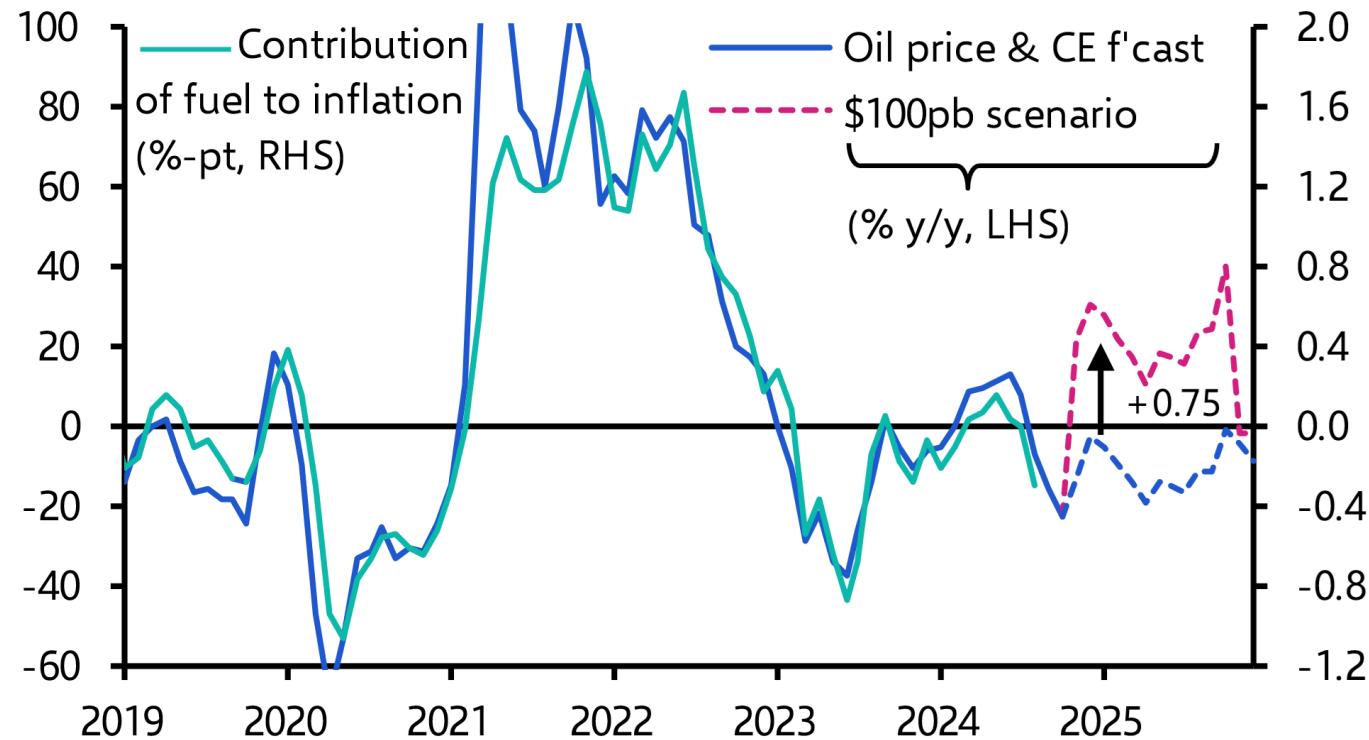
Sources: LSEG Data, Capital Economics

# July 2024 Crude Oil Production vs. Capacity (Mn. BpD)



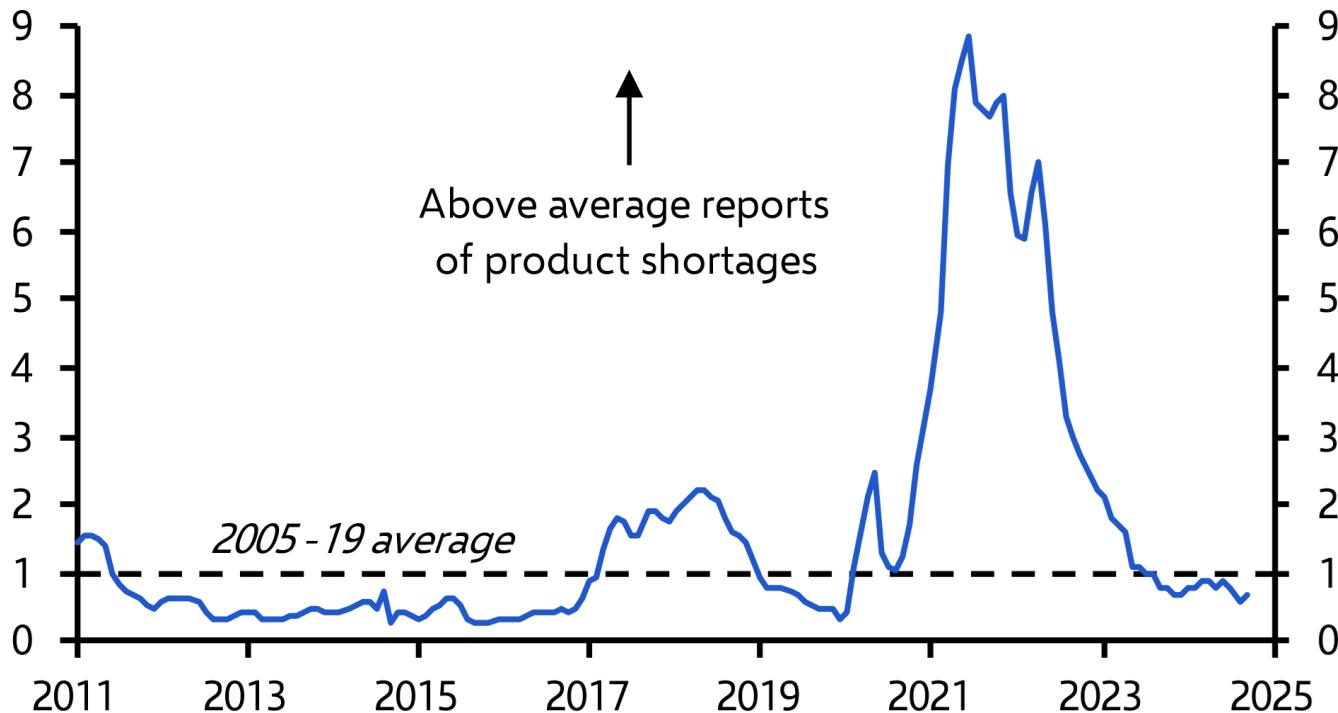
Sources: LSEG Data, Capital Economics

# Oil Price & Fuel Contribution to Headline Inflation in Major DMs



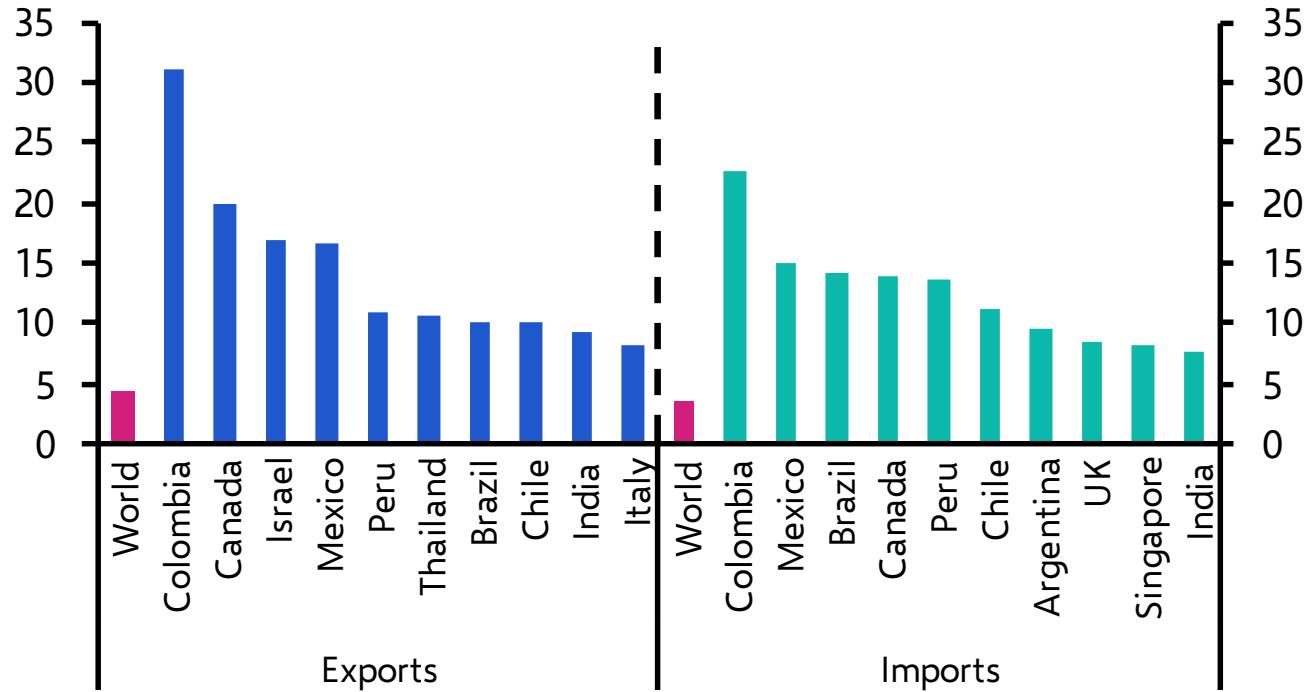
Sources: LSEG Data, Capital Economics

# S&P Global Supply Shortages Indicator (Multiple of 2005-19 avg.)



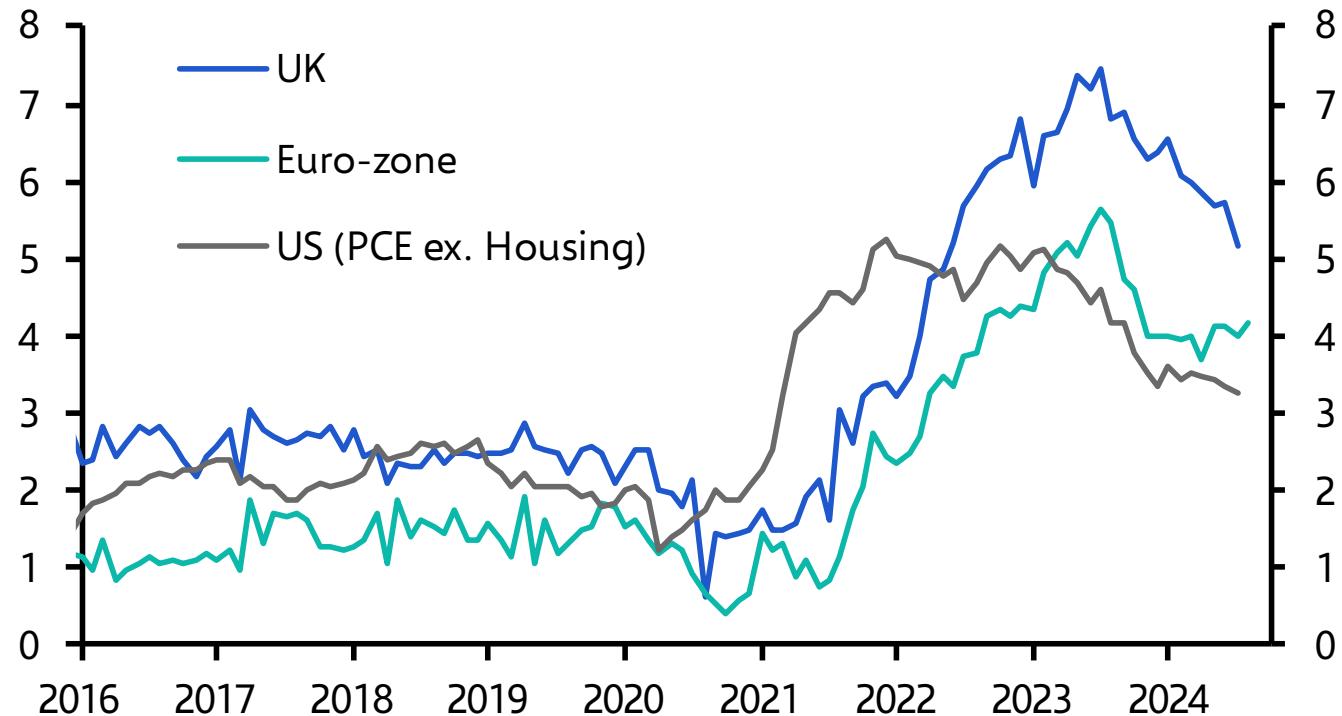
Sources: LSEG Data, Capital Economics

# % of Goods Exports/Imports to/from 30 Biggest US East & Gulf Coast Ports – Top 10 Exposures



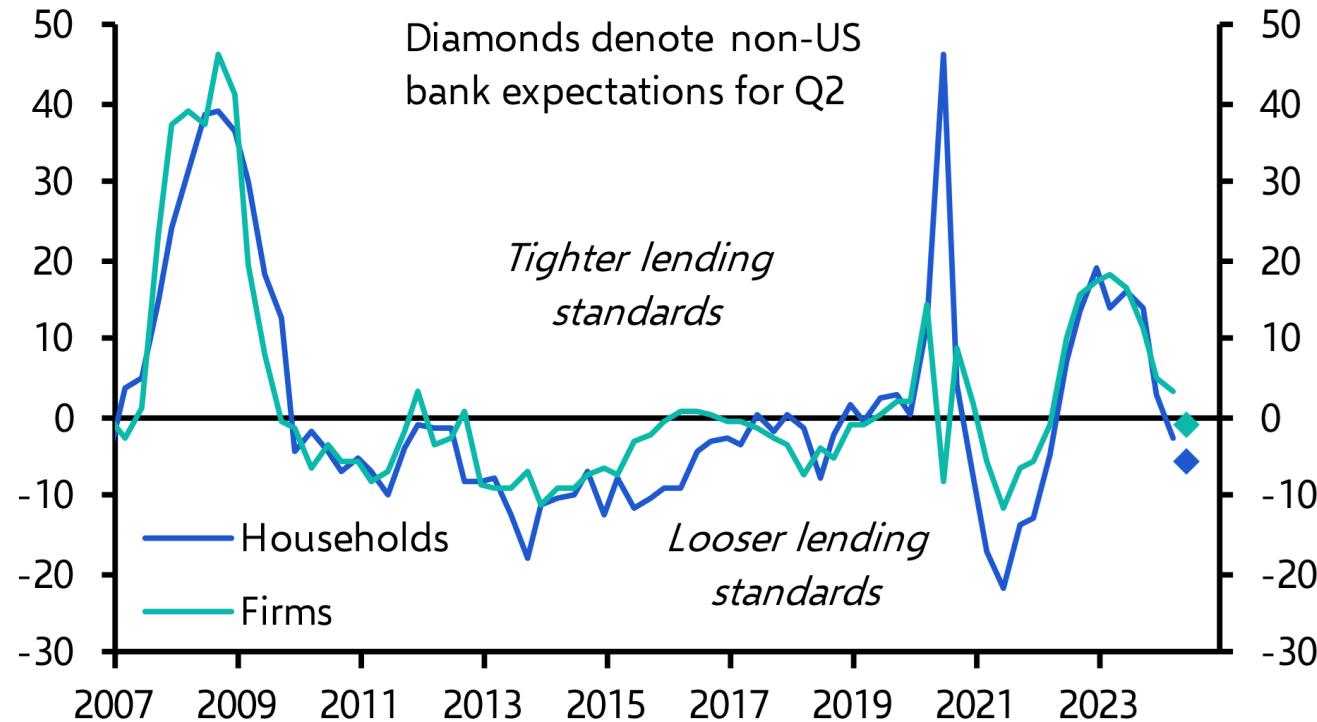
Sources: LSEG Data, Capital Economics

# Core Services Inflation (%)



Sources: LSEG Data, Capital Economics

# Net % of Banks Tightening Lending Conditions



Sources: LSEG Data, Capital Economics

# What to expect from a Harris presidency

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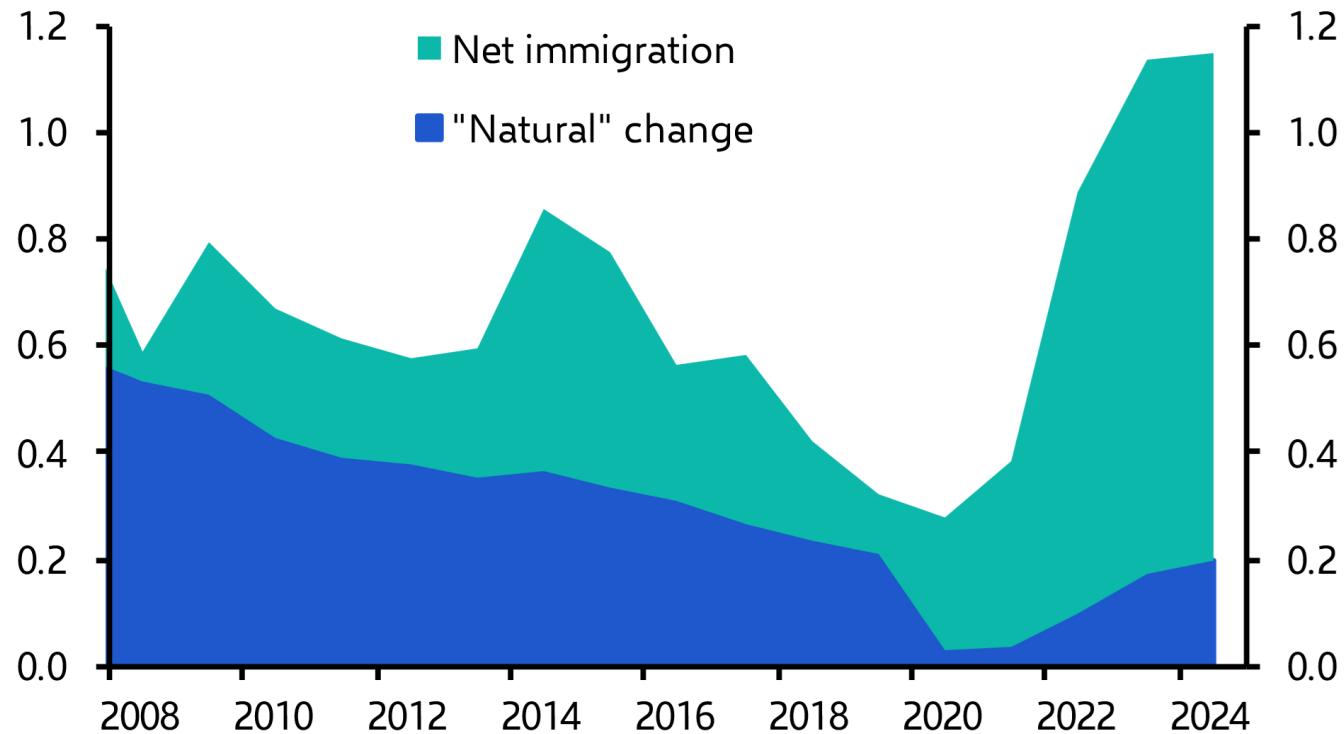
- Tax rates for corporates and high-income earners would be raised, with additional hikes in capital gains and possible wealth taxes too.
- Those tax hikes would be used to pay for increased social spending – including expanded child tax credit, earned income tax credit, etc.
- Harris also supports increased anti-trust powers and measures to crack-down on alleged “price-gouging” by grocery stores. Congress unlikely to support this agenda.
- Fracturing of global economy to continue, but lower risk to coherence of US-aligned bloc and to EMs benefiting from friendshoring.

# What to expect from a Trump presidency

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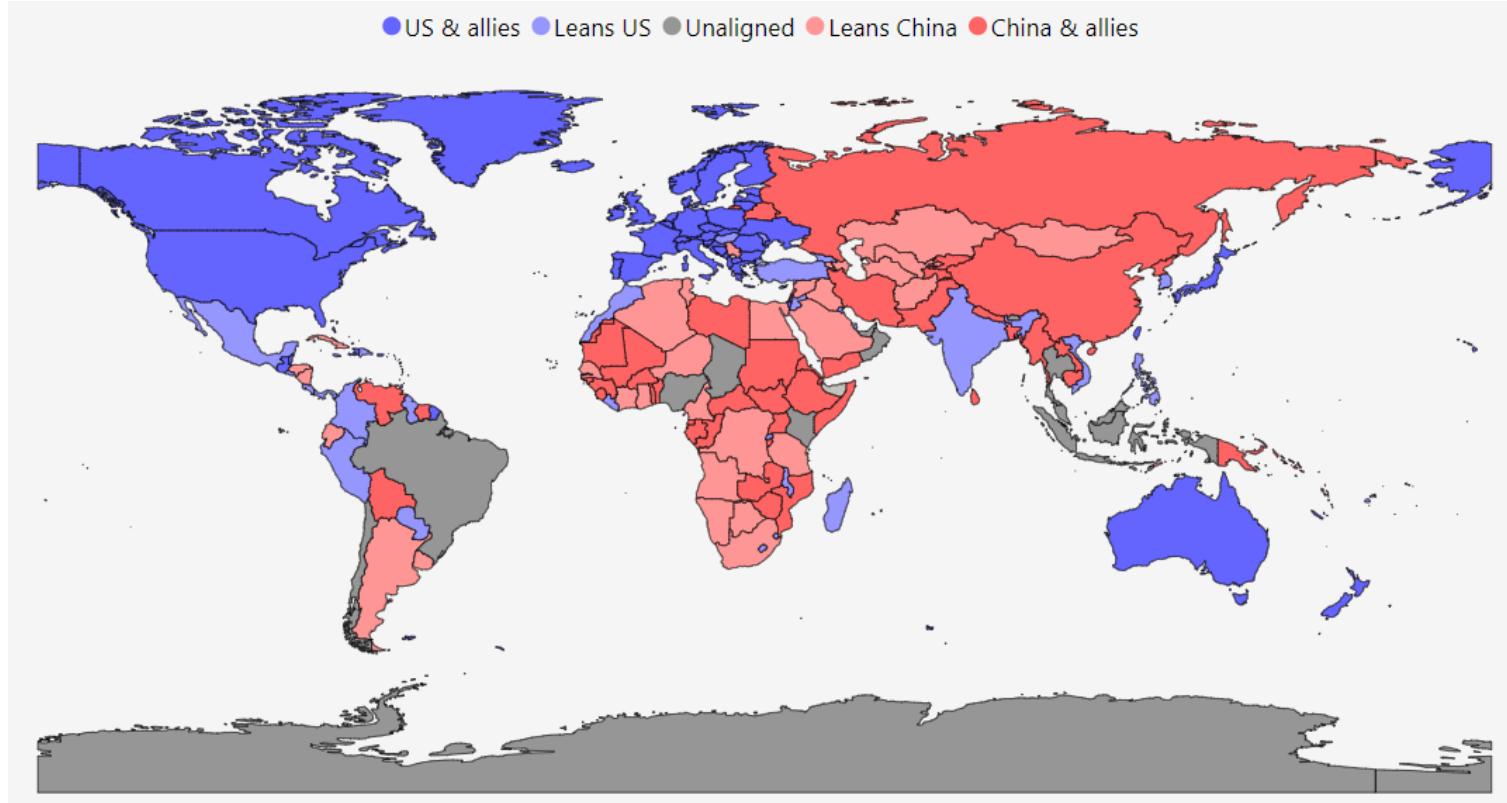
- **Trade** – Trump advocates a universal 10% tariff on all imports plus 60% tariff on all China imports. (Would there be a USMCA carve-out?)
- **Immigration** – New limits on immigration & possible mass deportations. (Would this get bogged down in the courts?)
- **Fiscal** – Full extension of 2017 Trump tax cuts plus possibility of additional cuts to corporation tax. But there is now less room for large-scale tax cuts/fiscal stimulus compared to first Trump administration.
- **International Relations** – A return to isolationism. Trump could withdraw from NATO, WTO, or USMCA. Could also close Mexico border.

# Contributions to Annual US Population Growth (%-pts)



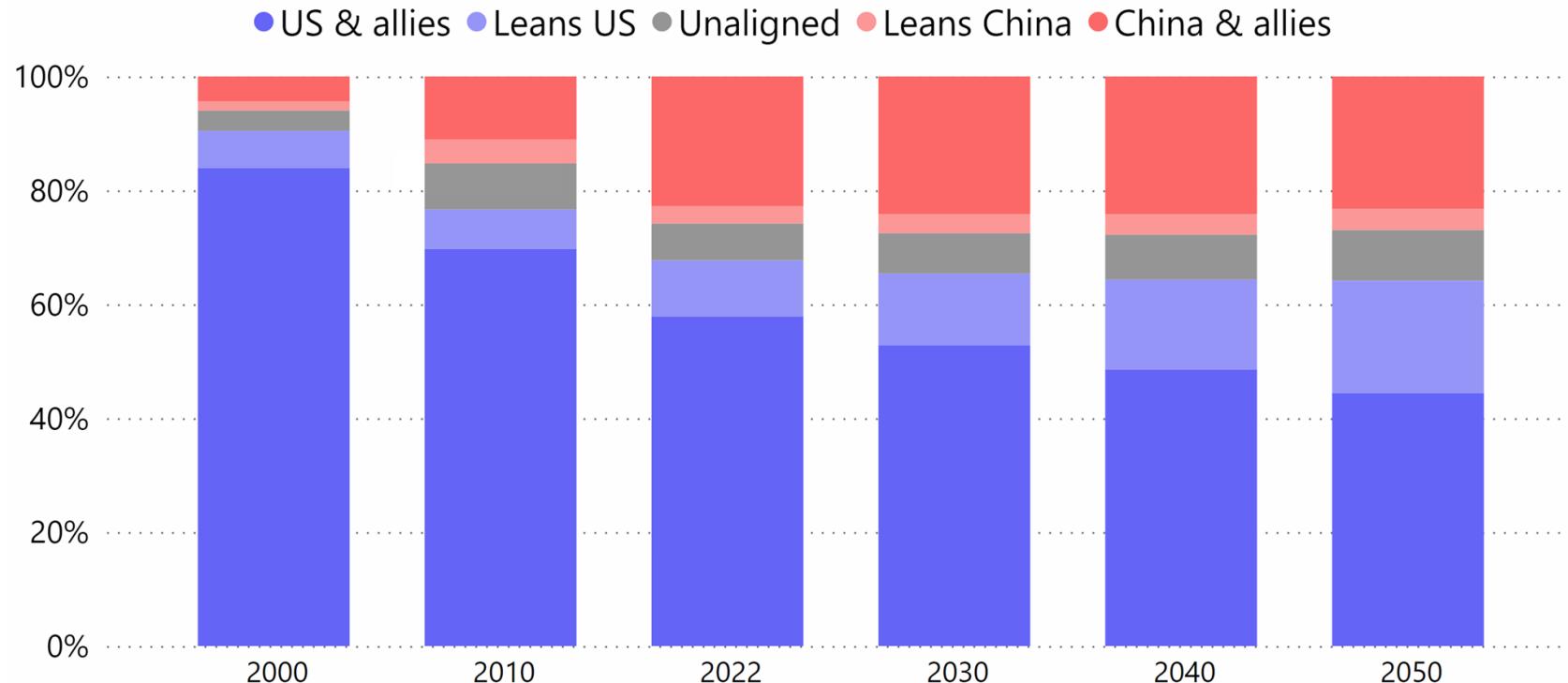
Source: CBO

# Current Global Alignment towards the US and China



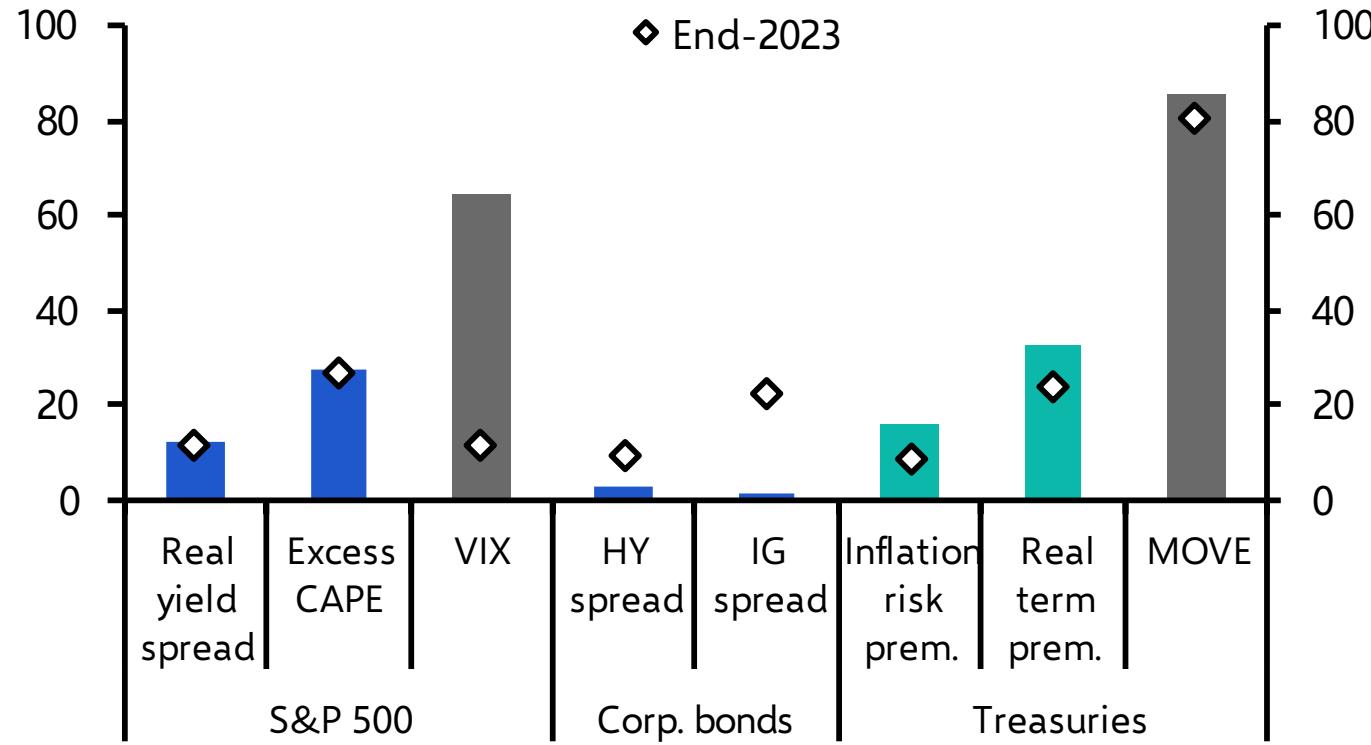
Source: Capital Economics

# Share of Global GDP (%, CE projections from 2030)



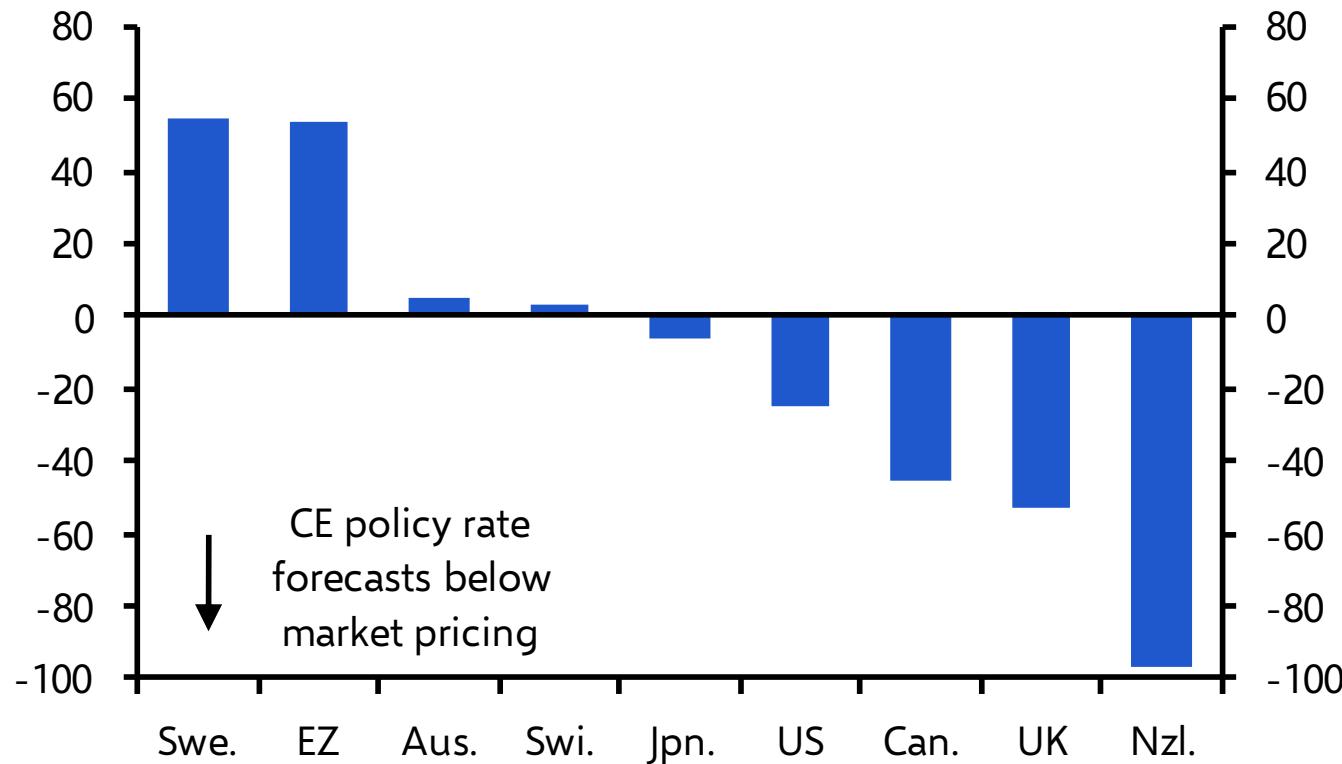
Source: CEIC, Capital Economics

# Risk Premia and Volatility Measures (Percentiles Since 2000)



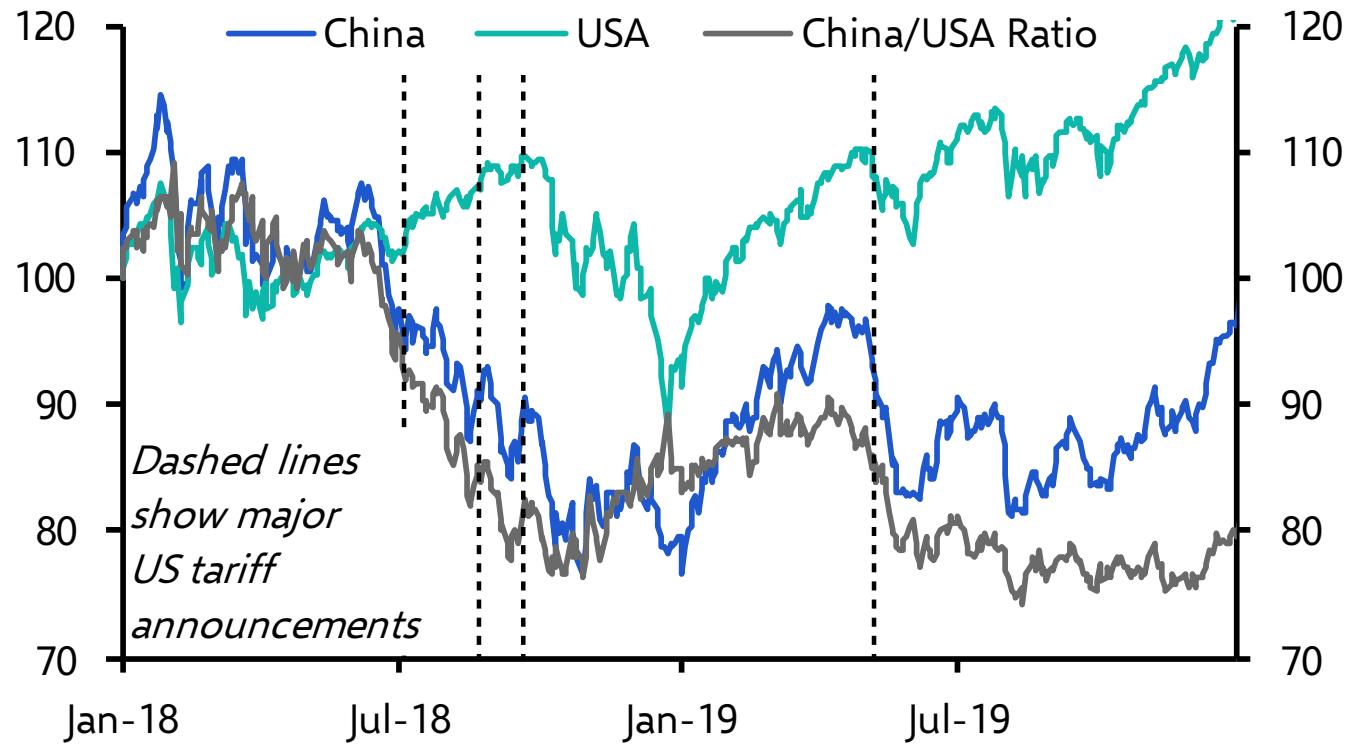
Sources: LSEG Data and Analytics, Capital Economics

# CE End-2025 Policy Rate Forecasts Less OIS-Implied Rates (bp)



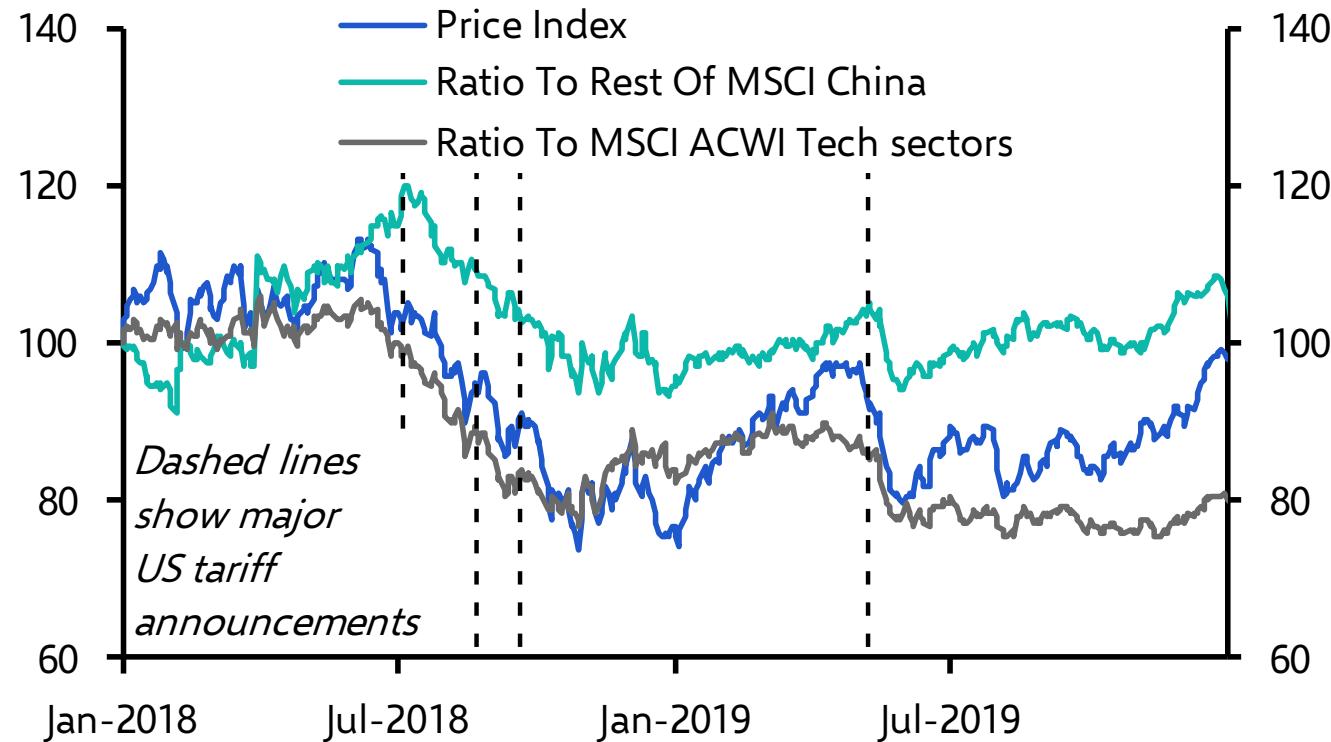
Sources: LSEG Data and Analytics, Capital Economics

# MSCI Indices (1<sup>st</sup> January 2018 = 100)



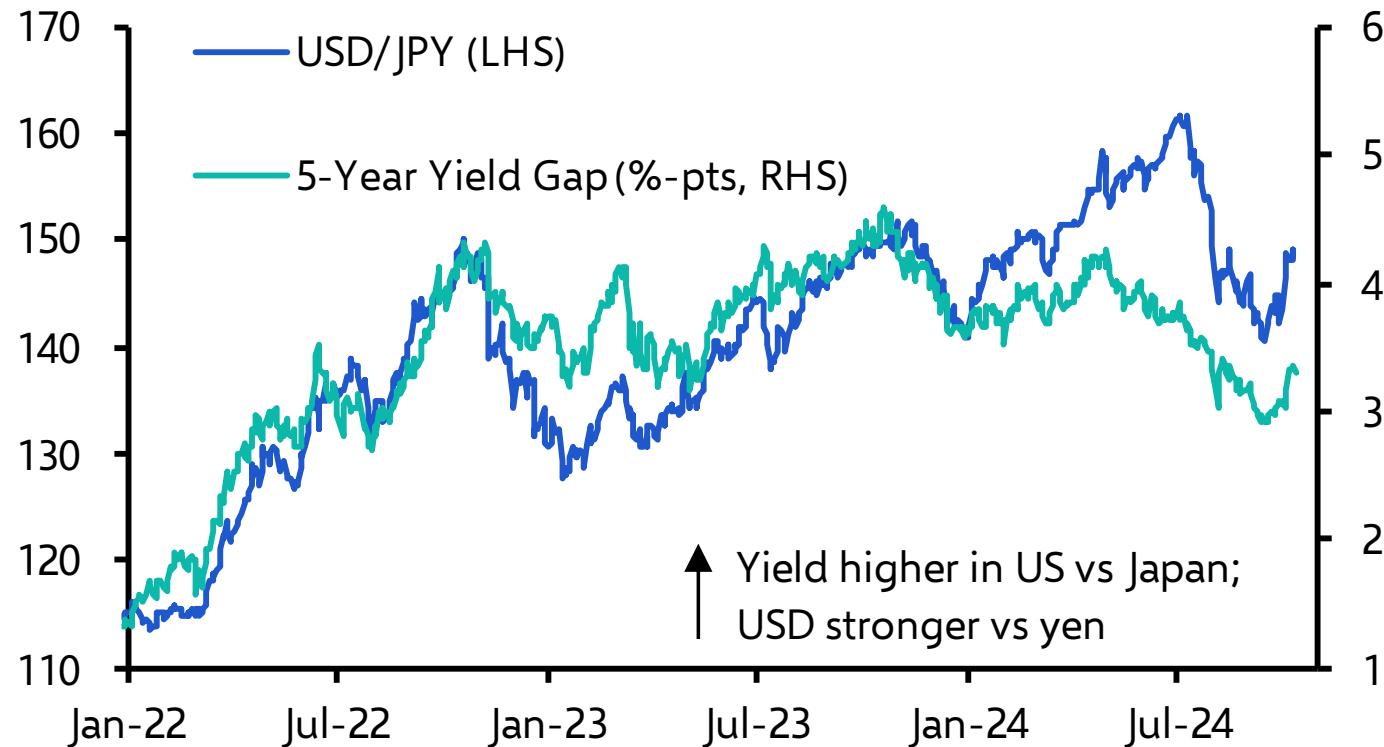
Sources: LSEG Data and Analytics, Capital Economics

## MSCI China Tech Sectors (1<sup>st</sup> January 2018 = 100)



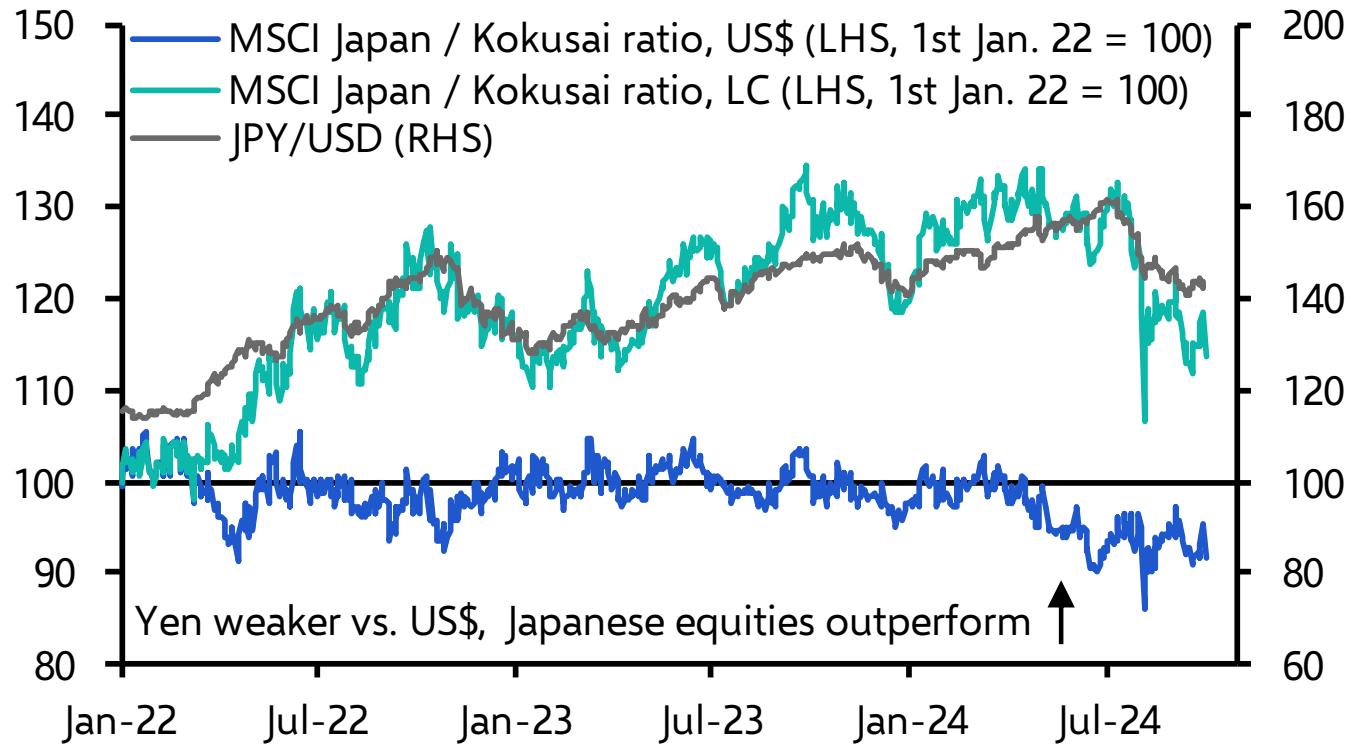
Sources: LSEG Data and Analytics, Capital Economics

# USD/JPY & US-Japan 5-Year Yield Gap (bp)



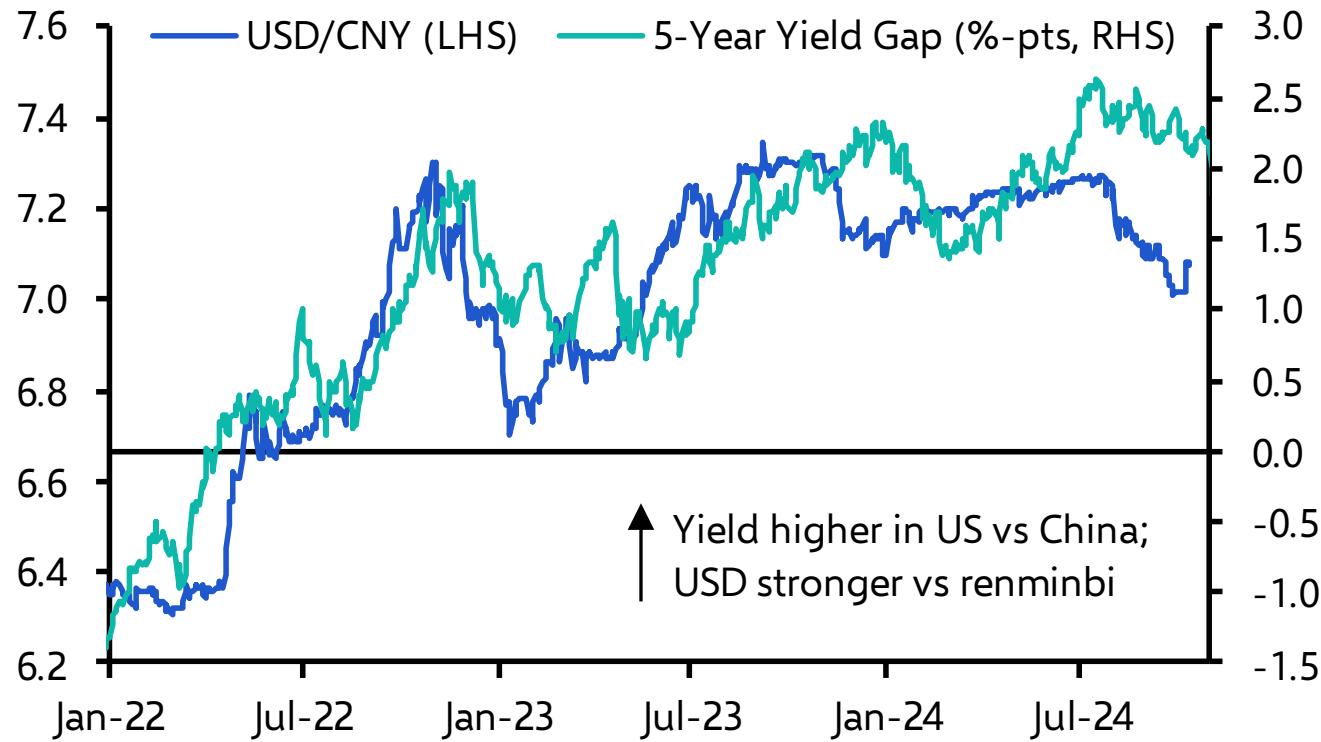
Sources: LSEG Data and Analytics, Capital Economics

# Japanese Equities' Relative Performance & Yen



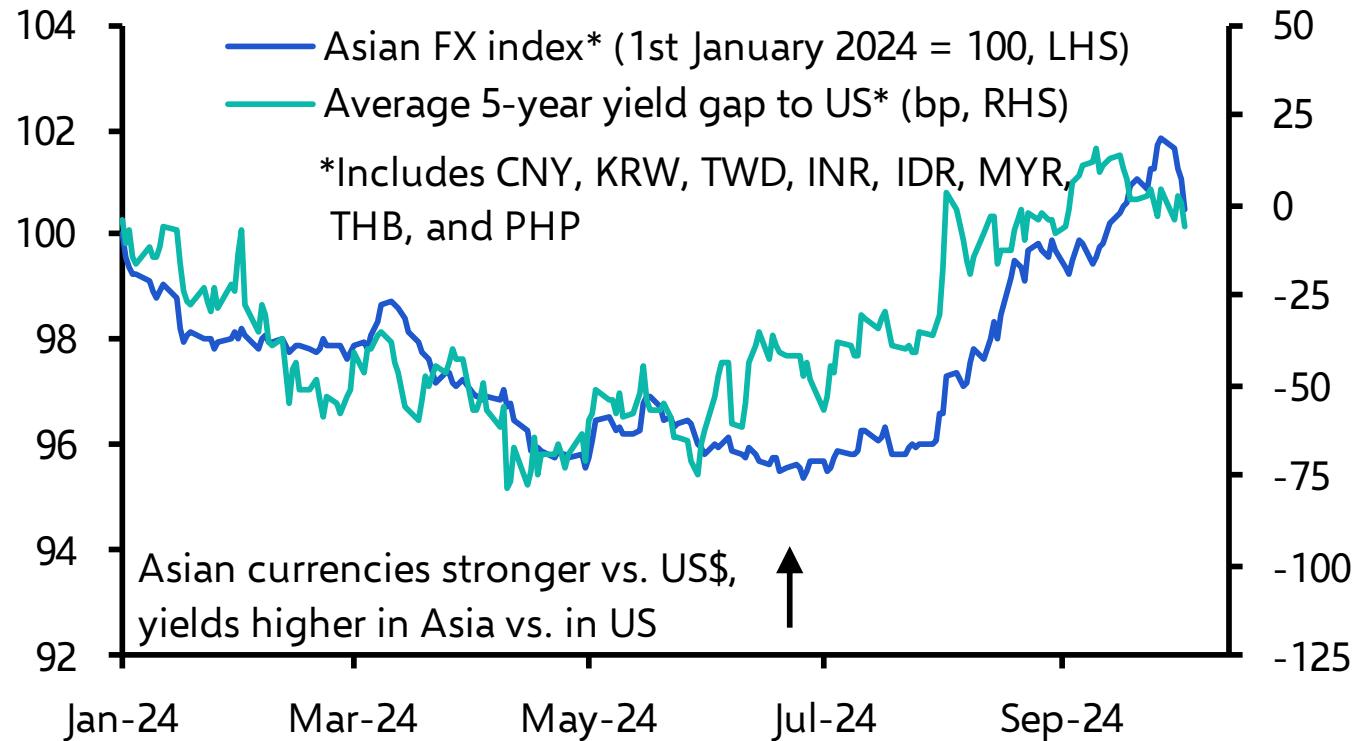
Sources: LSEG Data and Analytics, Capital Economics

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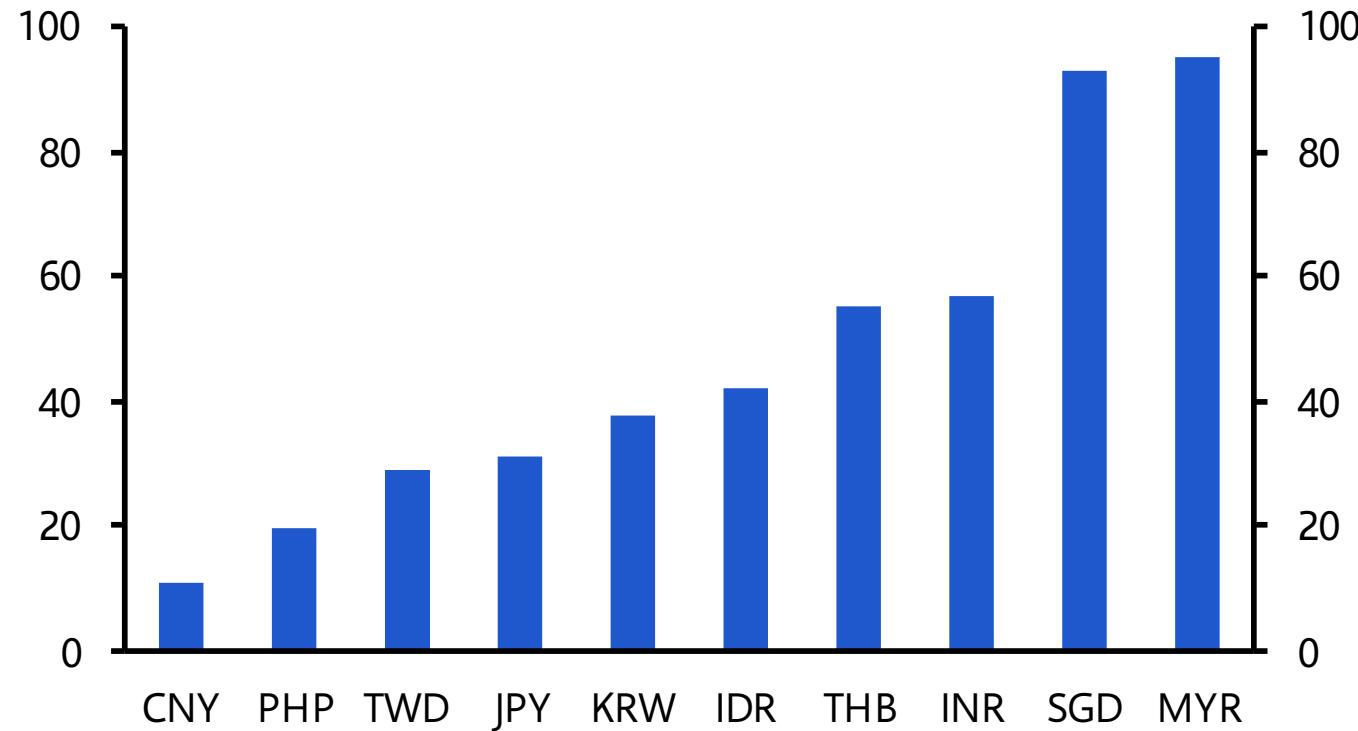
Sources: LSEG Data and Analytics, Capital Economics

# Asian FX Index & Average Yield Gap To US



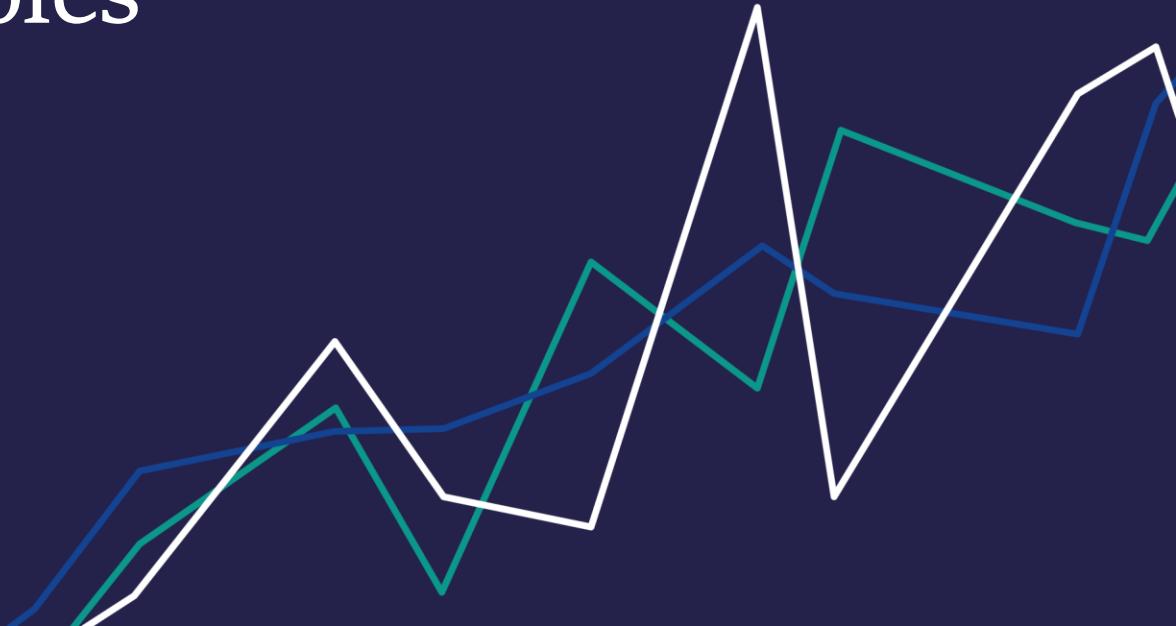
Sources: LSEG Data and Analytics, Capital Economics

# Real Effective Exchange Rates (% Of 5-Year Average)



Sources: LSEG Data and Analytics, Capital Economics

# CE Forecast Tables



# GDP (% y/y)

	Actual					Forecasts				
	2015-19	2021	2022	2023	Latest	2024	2025	2026	2030s	2040s
World	3.2	7.1	2.0	3.8	3.5	3.3	3.2	3.2	2.8	2.5
US	2.5	5.8	1.9	2.5	3.1	2.7	2.0	3.0	2.6	2.1
Euro-zone	2.0	6.2	3.4	0.5	0.6	0.7	1.0	1.0	1.0	0.9
UK	2.0	8.7	4.3	0.1	0.9	1.2	1.5	1.5	2.0	1.8
Japan	0.8	2.8	1.1	1.7	-1.0	-0.2	0.8	0.5	0.5	0.5
China (off.)	6.7	8.4	3.0	5.2	4.7	4.8	4.3	3.8	1.9	1.6
China (CE)	5.0	11.2	-3.7	8.0	5.2	4.8	4.0	3.5	1.9	1.6
Other EMs	3.6	6.7	3.9	3.9	4.4	4.1	4.0	4.1	3.7	3.2

# CPI (% y/y)

	2015-19	Actual				Forecasts				
		2021	2022	2023	Latest	2024	2025	2026	2030s	2040s
World	2.7	3.5	6.9	5.1	3.3	3.5	2.9	2.5	2.8	2.8
US	1.5	4.7	8.0	4.1	2.5	2.8	1.8	2.1	2.3	2.3
Euro-zone	1.0	2.6	8.4	5.4	2.6	2.4	1.6	1.5	2.0	2.0
UK	1.5	2.6	9.1	7.3	2.2	2.6	2.3	1.9	2.0	2.0
Japan	0.5	-0.2	2.5	3.3	2.7	2.6	1.8	1.0	2.0	2.0
China	2.0	0.9	2.0	0.2	0.6	0.5	0.5	0.5	1.0	1.0
Other EMs	4.3	4.9	8.4	7.3	4.8	5.5	4.0	3.8	3.9	3.7

# Policy Rates (%)

	Actual					Forecasts				
	2015-19	2021	2022	2023	Latest	2024	2025	2026	2030s	2040s
US	1.30	0.13	4.38	5.38	5.10	4.38	3.13	3.13	3.90	3.50
Euro-zone	-0.40	-0.50	2.00	4.00	3.75	3.25	2.50	2.50	2.90	2.50
UK	0.55	0.25	3.50	5.25	5.00	4.75	3.25	3.00	3.40	3.00
Japan	-0.06	-0.10	-0.10	-0.10	0.25	0.50	0.50	0.50	2.00	2.00
China	2.41	2.20	2.00	1.80	1.70	1.60	1.40	1.20	0.78	0.50
India	6.13	4.00	6.25	6.50	6.50	6.25	5.50	5.50	4.78	4.28
Brazil	9.20	9.25	13.75	11.75	10.50	10.50	9.50	9.00	6.40	7.10
Russia	8.55	8.50	7.50	16.00	18.00	18.00	12.00	10.00	5.50	5.25

# Equity Market Forecasts

End period	Latest	2024	2025	2026
S&P 500 (US)	5,815	6,000	7,000	6,300
EURO STOXX (Euro zone)	515	520	580	550
TOPIX (Japan)	2,706	2,800	3,000	2,850
FTSE 100 (UK)	8,254	8,600	9,200	9,200
MSCI China	71	75	65	60
MSCI EM Asia	1,122	1,170	1,190	1,080
MSCI EM Latin America	94,285	98,000	107,000	99,000
MSCI EM EMEA	542	575	615	555

*\*MSCI indices are in local currencies*

# Local-Currency 10-Year Government Bond Yield Forecasts (%)

End period	Latest	2024	2025	2026
US	4.07	4.00	4.00	3.75
Germany	2.27	2.25	2.25	2.00
Japan	0.95	1.00	1.00	1.00
UK	4.23	4.00	3.50	3.25
China	2.15	2.20	2.00	1.90
Korea	3.08	2.75	2.75	2.75
Taiwan	1.54	1.50	1.50	1.50
India	6.78	6.75	6.75	7.00

# FX Forecasts

End period	Latest	2024	2025	2026
DXY US Dollar Index	103	102	98	98
EUR/USD	1.09	1.10	1.15	1.15
USD/JPY	149	145	135	130
GBP/USD	1.31	1.32	1.30	1.30
USD/CNY	7.08	7.10	7.00	6.80
USD/KRW	1,358	1,350	1,250	1,225
USD/TWD	32	32	30	30
USD/INR	84	83	82	82

## EUROPE – LONDON

### **Capital Economics Ltd**

5th Floor, 100 Victoria Street  
Cardinal Place  
London  
SW1E 5JL

**Telephone:** +44 (0)20 7823 5000

Capital Economics Ltd. is registered in England,  
Registration No. 2484735. VAT No. GB 198 2919 50.

## NORTH AMERICA – NEW YORK

### **Capital Economics (USA) Inc**

C/O Capital Economics (N.A.) Ltd  
77 Bloor Street West, Suite 600  
Toronto, ON  
M5S 1M2

**Telephone:** +1 416 413 0428

Capital Economics (USA) Inc. is registered in the State of Delaware,  
1209 Orange Street, Wilmington, New Castle, Delaware 19801,  
Registration No. 150368300

## NORTH AMERICA – TORONTO

### **Capital Economics (N.A.) Ltd**

Suite 600, 77 Bloor Street West  
Toronto, ON  
M5S 1M2

**Telephone:** +1 416 413 0428

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## ASIA – SINGAPORE

### **Capital Economics (Asia) Pte. Ltd**

05-01/02, CapitaGreen  
138 Market Street  
Singapore, 048946

**Telephone:** +65 6595 5190

The Asian office, Capital Economics (Asia) Pte. Ltd, is a wholly-owned subsidiary of Capital Economics Ltd. Registered in Singapore, Registration No. 200909395K.

**Subscription enquiries:** [sales@capitaleconomics.com](mailto:sales@capitaleconomics.com) • **Consultancy:** [commissioned.projects@capitaleconomics.com](mailto:commissioned.projects@capitaleconomics.com)

**Recruitment enquiries:** [business@capitaleconomics.com](mailto:business@capitaleconomics.com) • **General enquiries:** [support@capitaleconomics.com](mailto:support@capitaleconomics.com)

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