

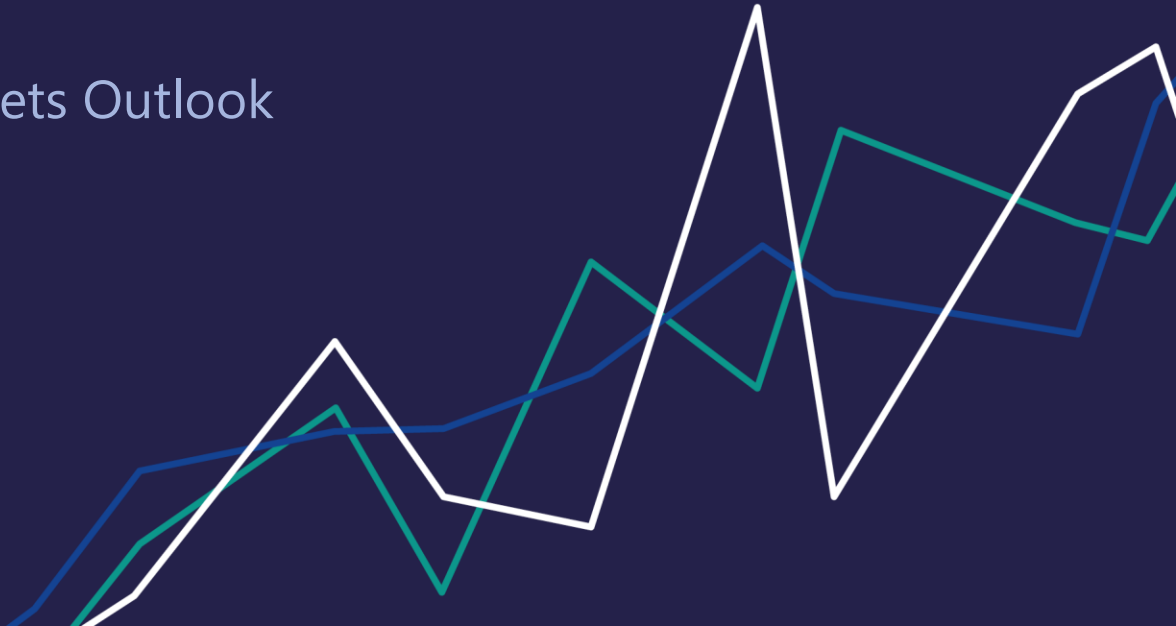
# China Stimulus, US Elections

## 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

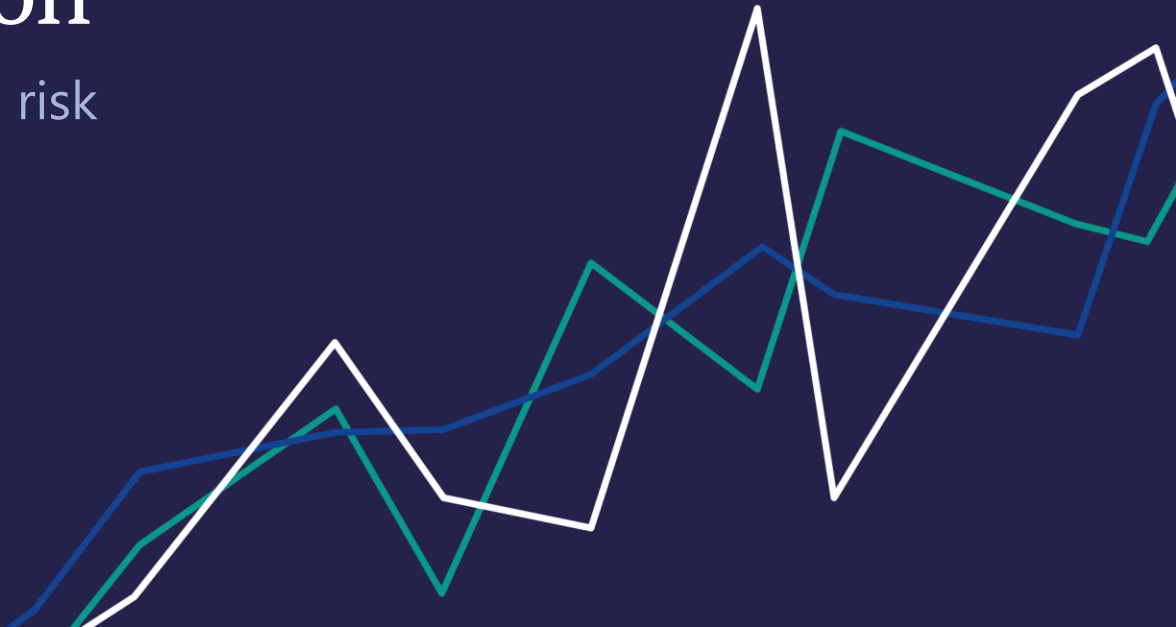
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- Is a soft-landing assured in the US?
- How far will interest rates be cut in this cycle?
- Will policy stimulus spur a lasting recovery in China?
- How might the US election alter the outlook?
- What does this mean for the markets?

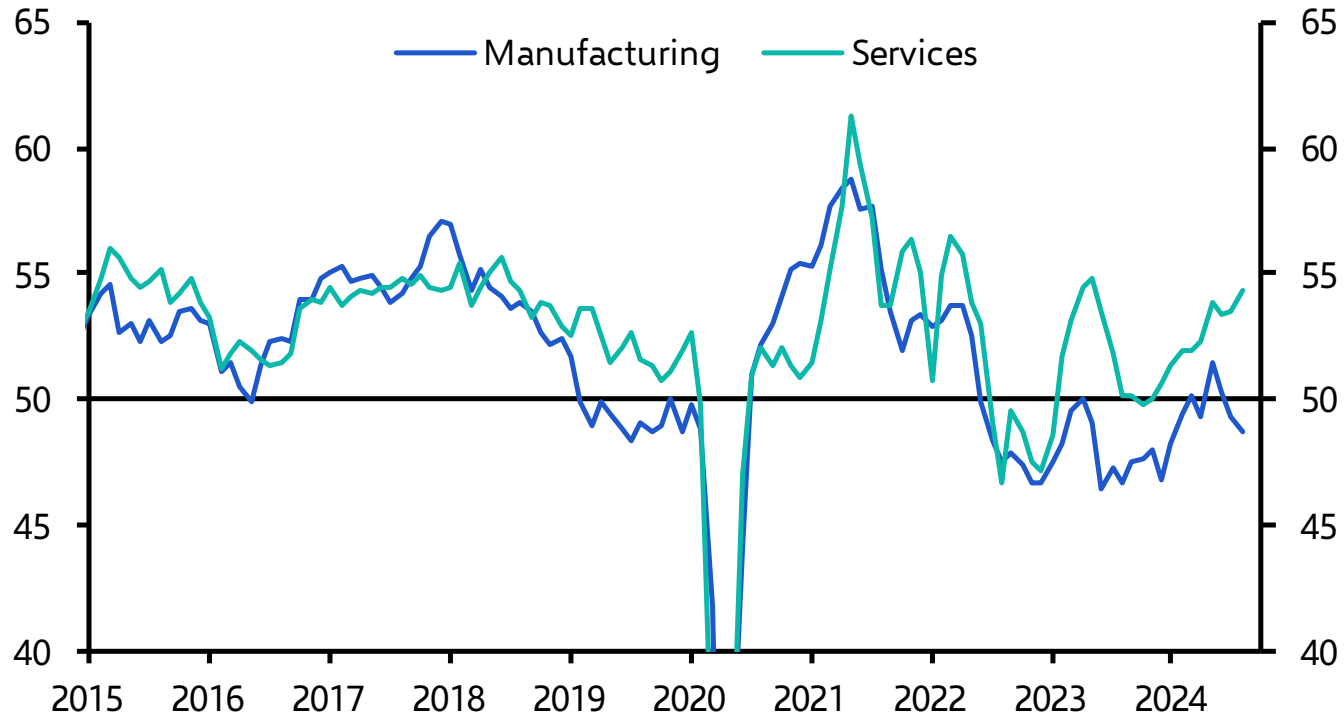
# The Global Economic Outlook & the US Election

Inflation, rates and political risk

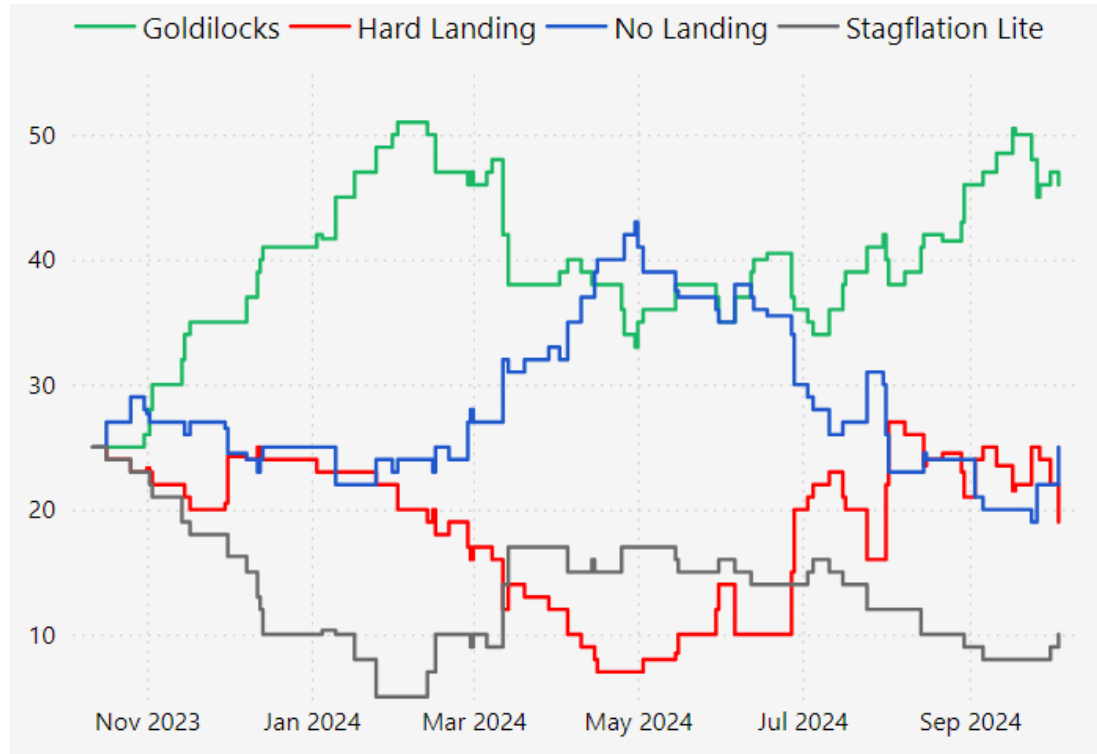
Neil Shearing, Group Chief Economist



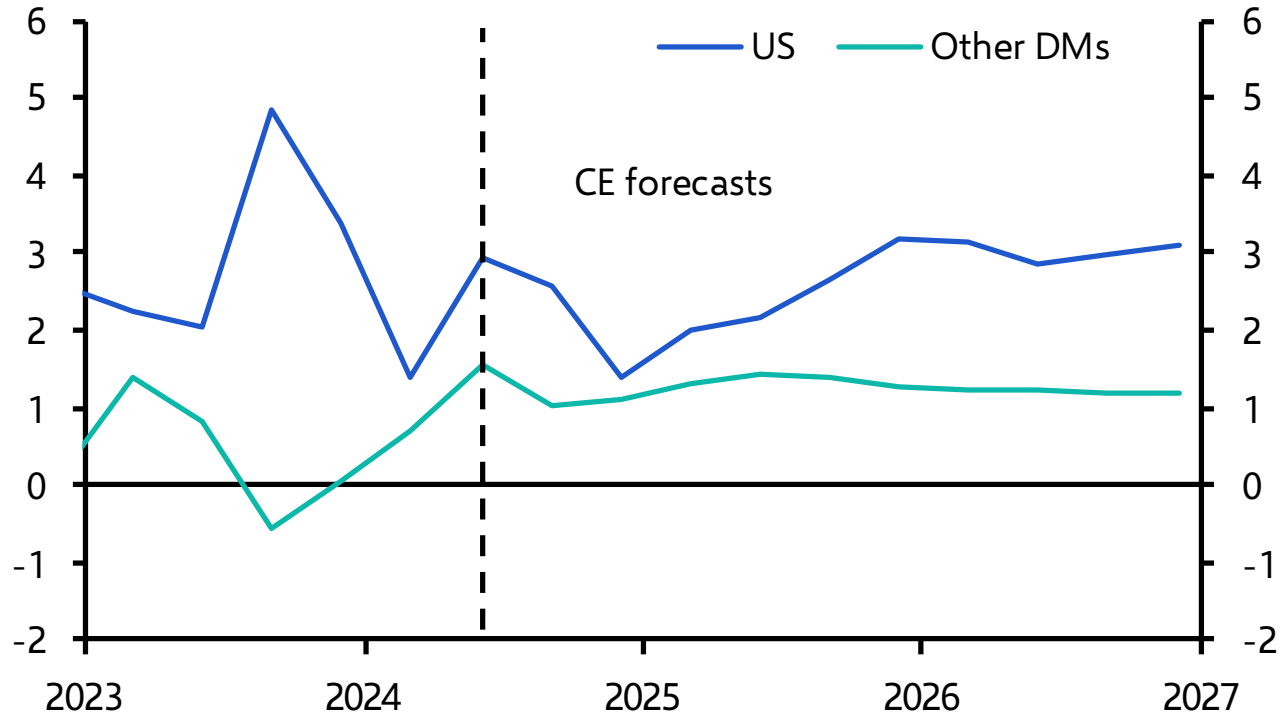
# Global PMI Activity Indicators



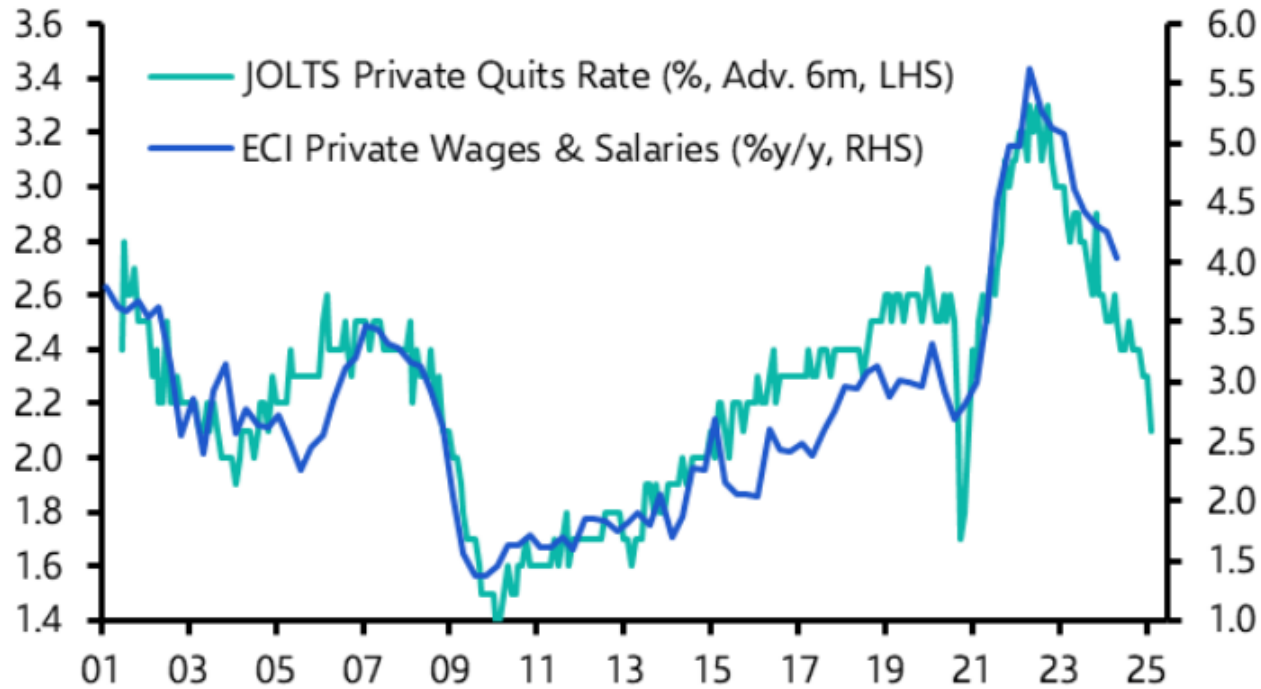
# US Economic Scenarios (% probability)



# GDP (% q/q annualized)



# US Quits Rate and ECI Wages & Salaries



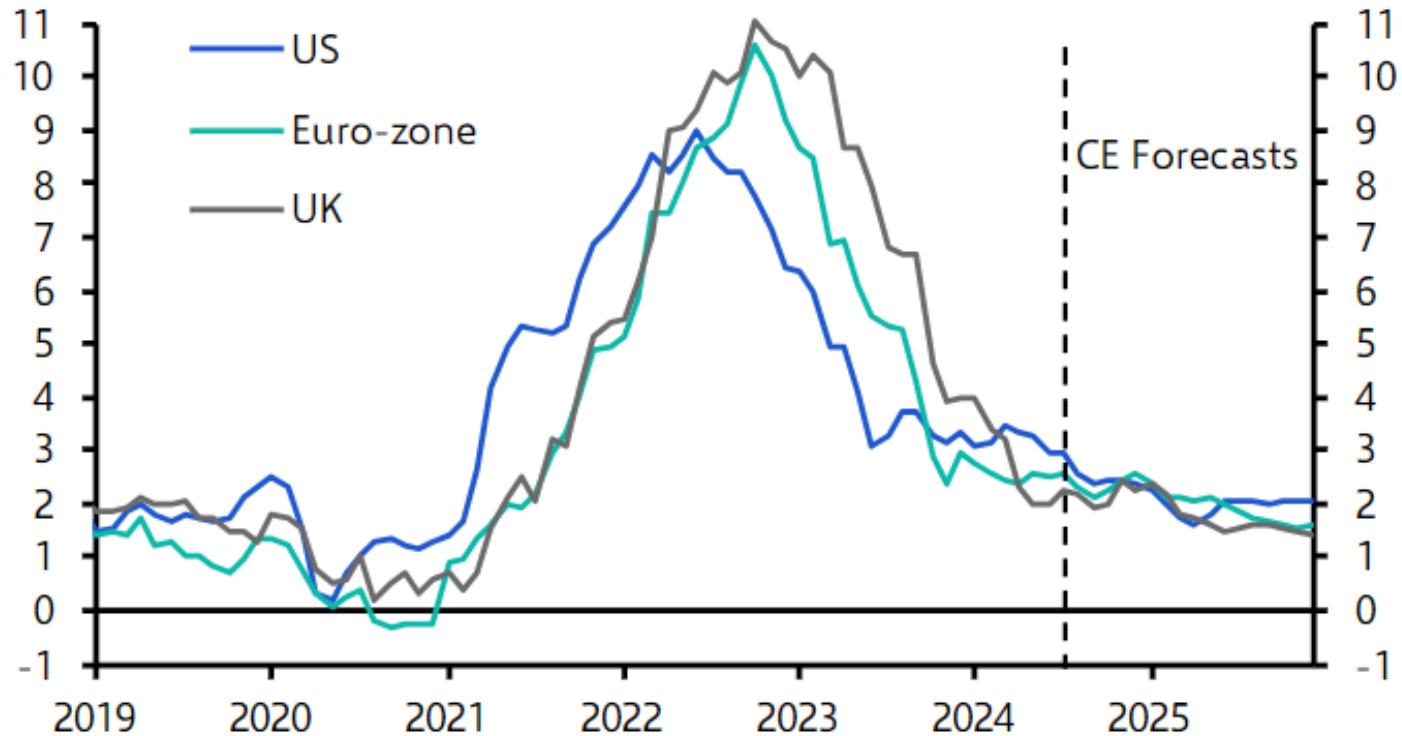
# Risks to our inflation view

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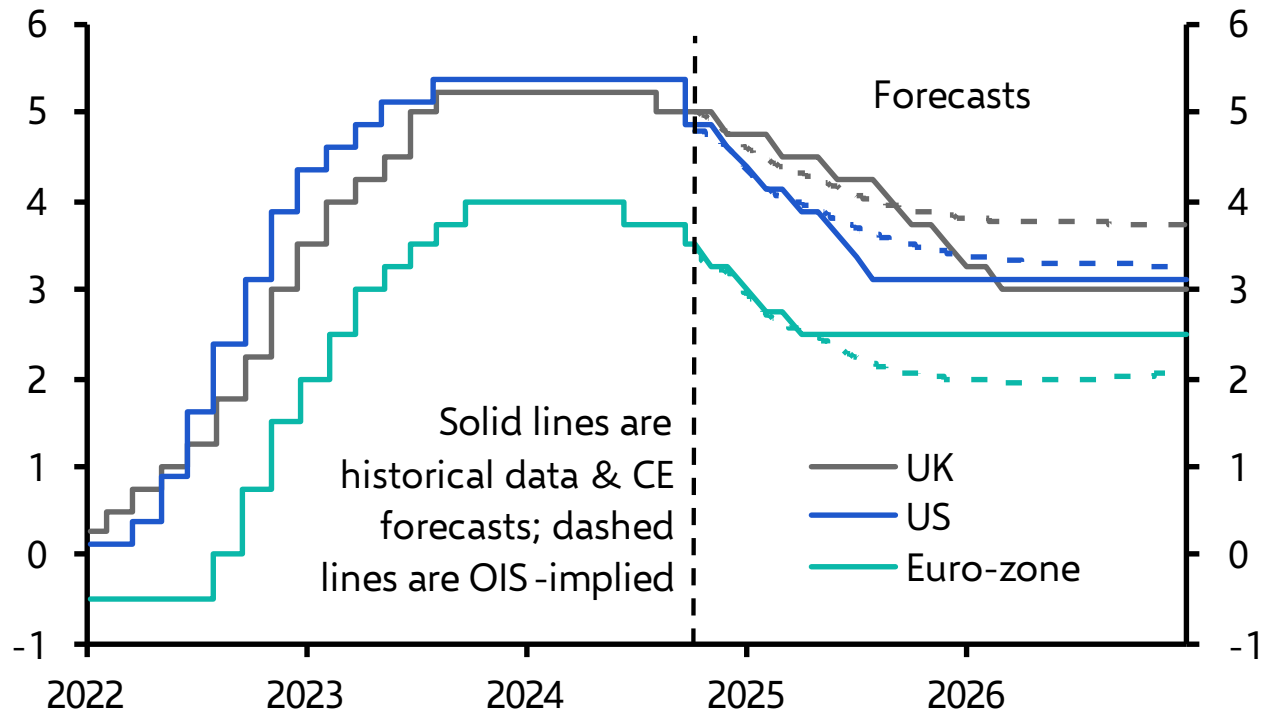
- At our last event we argued that inflation (and interest rate) expectations would fall back. This has happened.
- The moves in oil prices over the past few weeks do not yet pose a significant risk to inflation in 2024-25. (We would get concerned if prices increased to over \$90pb and stay there.)
- 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.



# Headline CPI Inflation (%)



# Policy Interest Rate (%)



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

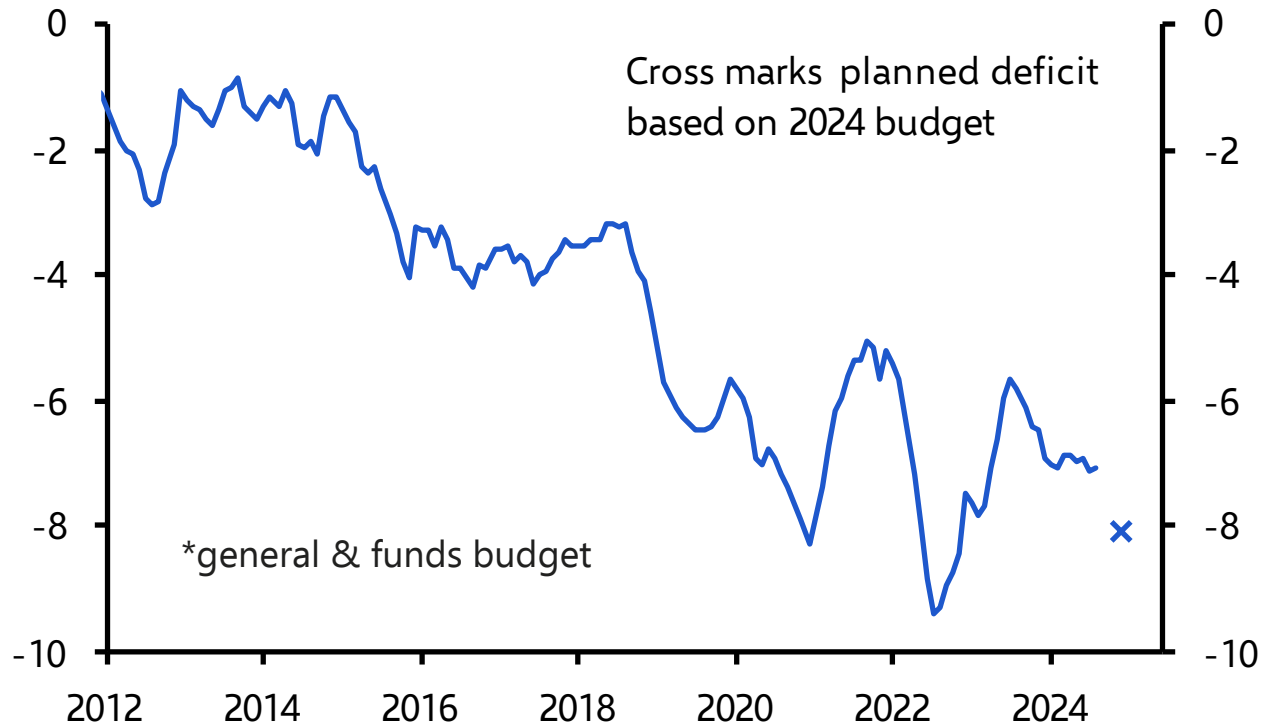


# China Stimulus Recap

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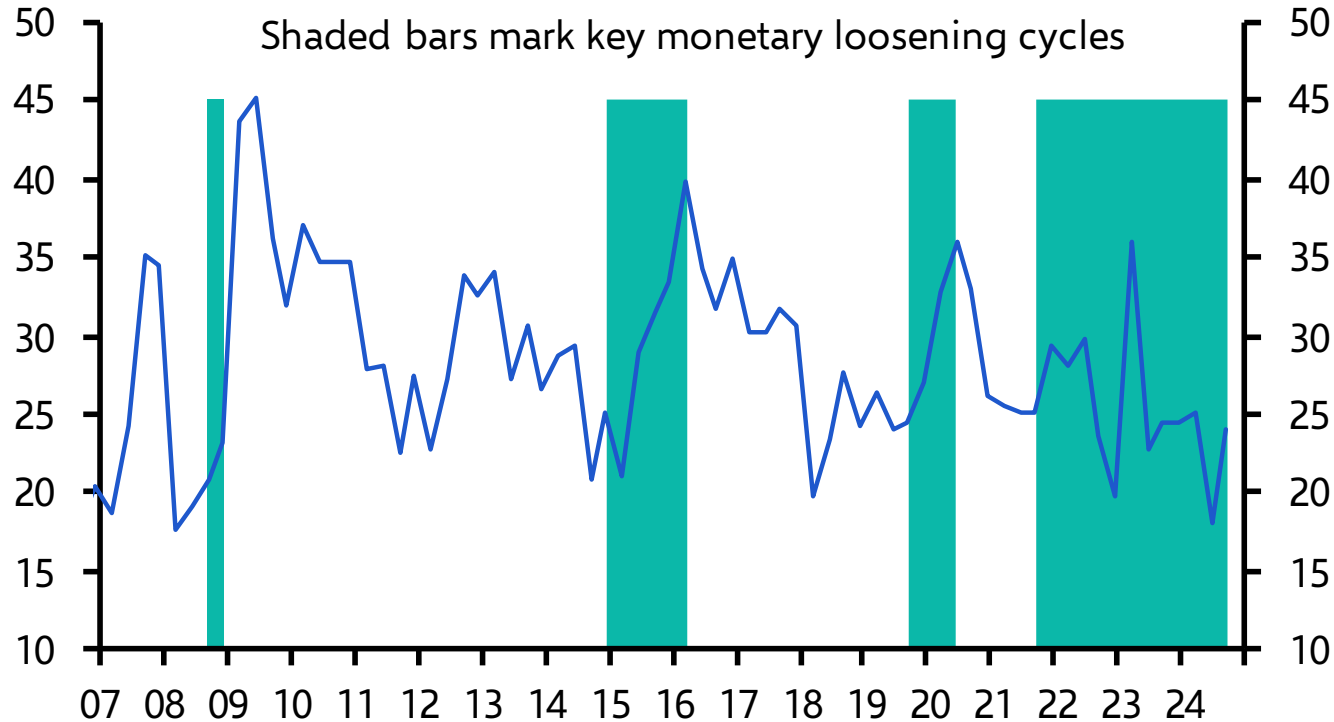
|                 |  |
|-----------------|--|
| <b>Monetary</b> | Cuts to policy rate (7-day rev repo by 20bp),<br>lending and deposit rates (20bp), RRR (50bp)  |
| <b>Property</b> | Cuts to downpayment ratio for 2 <sup>nd</sup> homes (10%-pts) & existing mortgage rates (50bp), more PBOC funds for SOE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

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

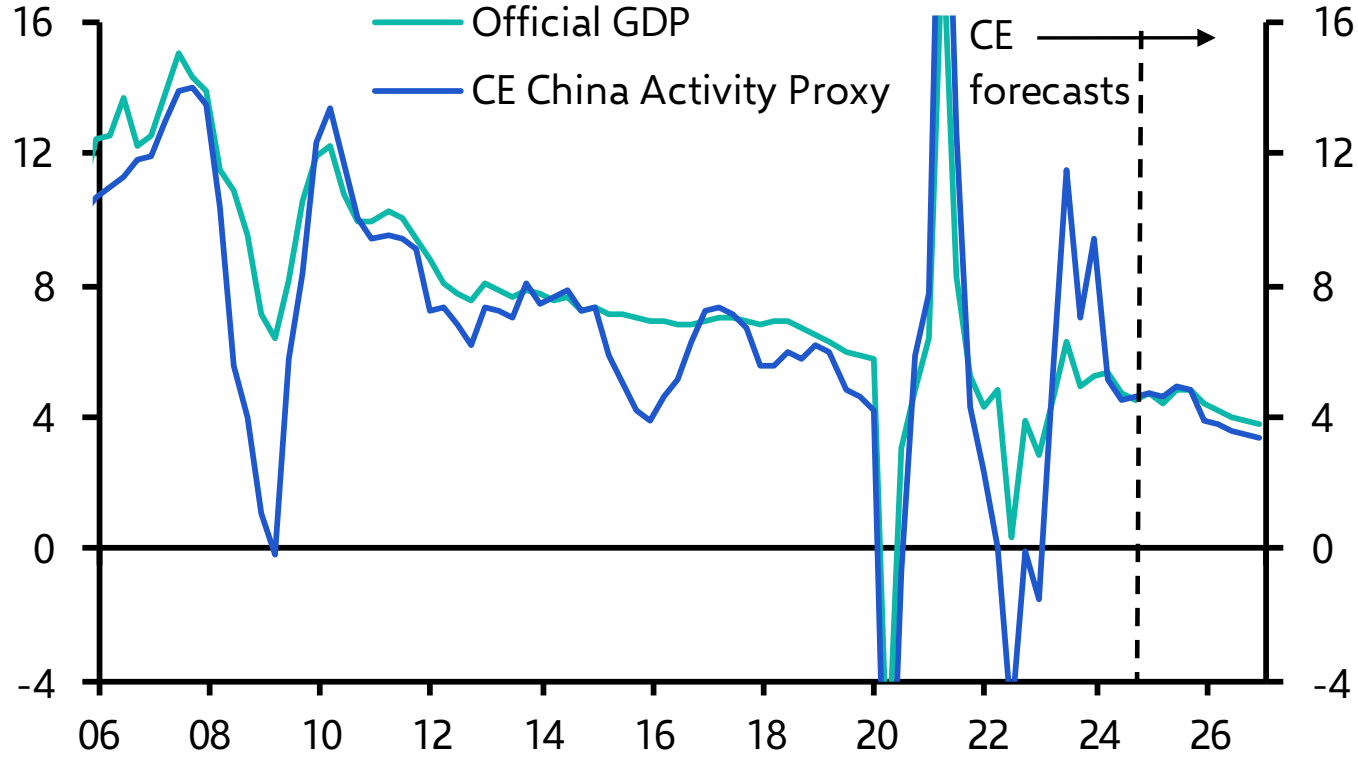




# Net Increase in Broad Credit (% of trend GDP, SA)

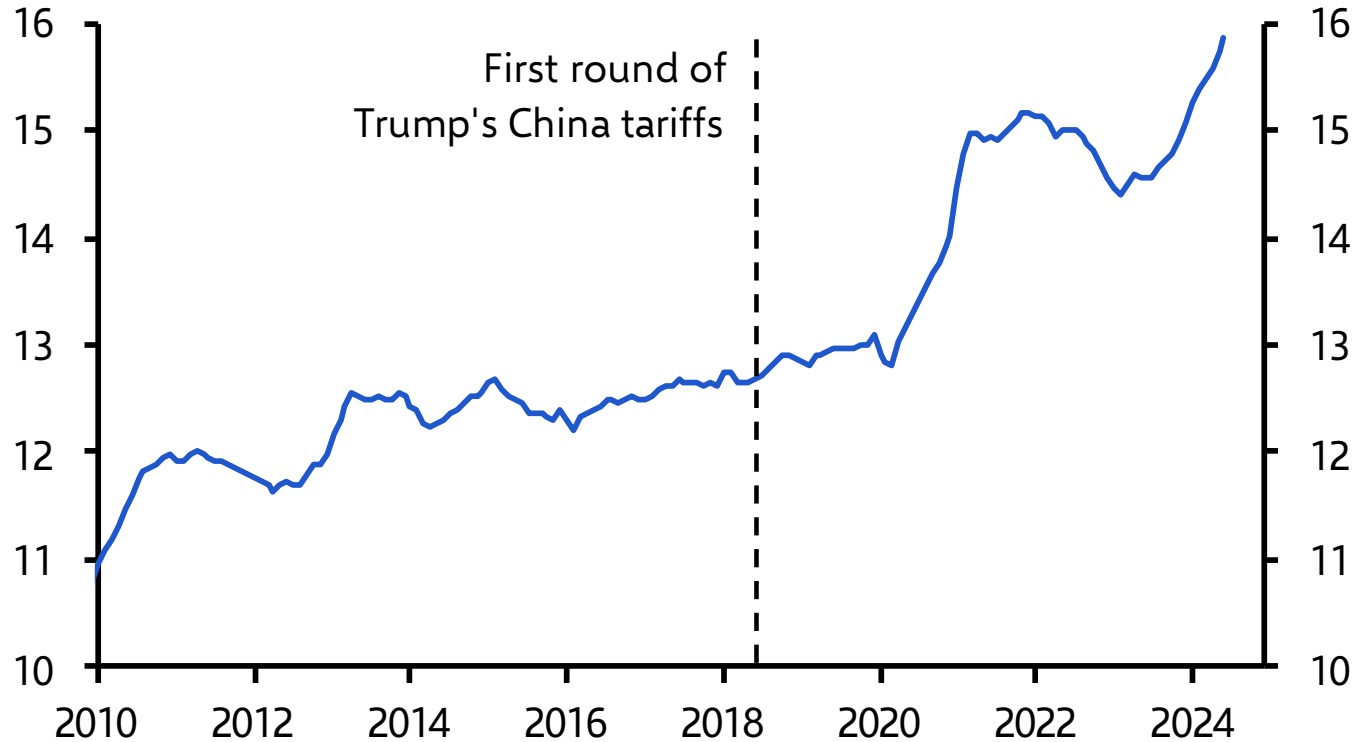


# Official GDP & CE China Activity Proxy (% y/y)



Sources: CEIC, WIND, Capital Economics

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



# The election will alter the path of global fracturing

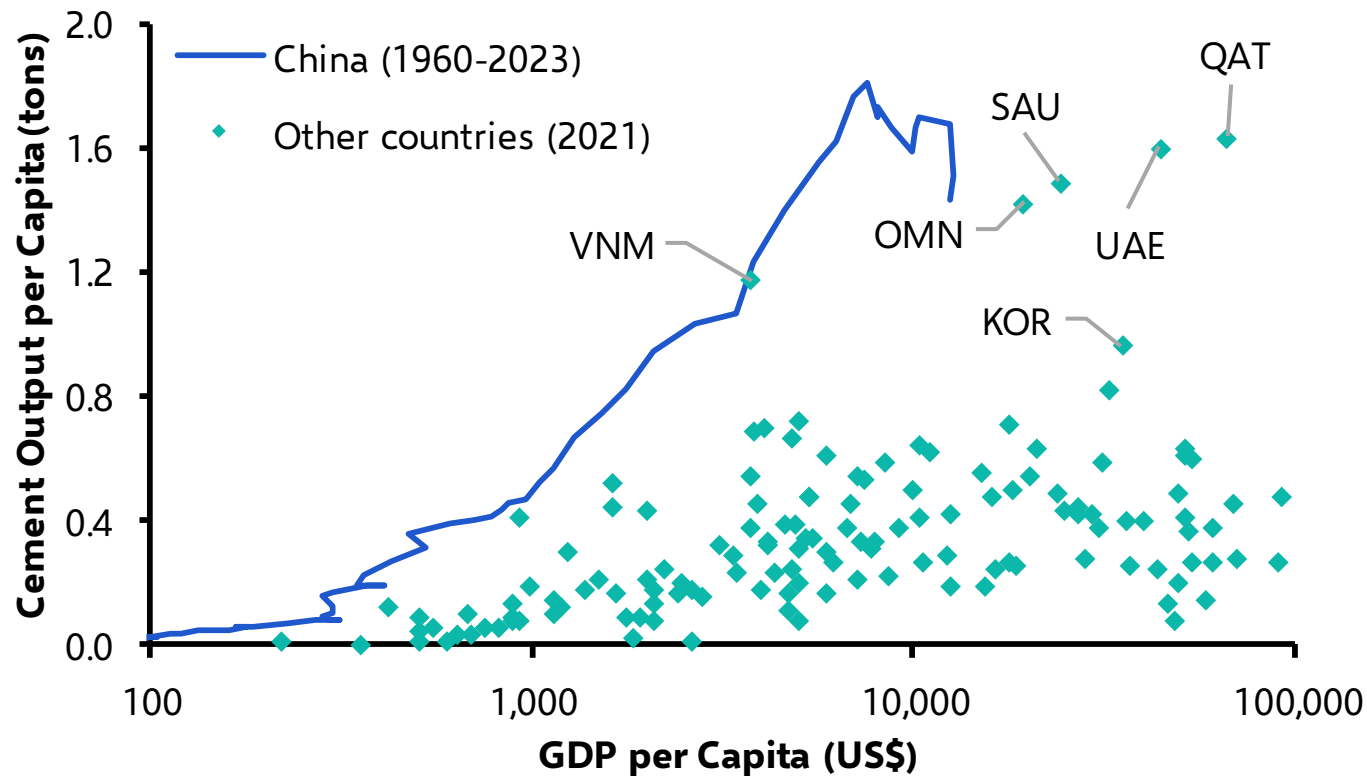
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- US-China fracturing will continue regardless of the election outcome. But the next US president will steer how it plays out:

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

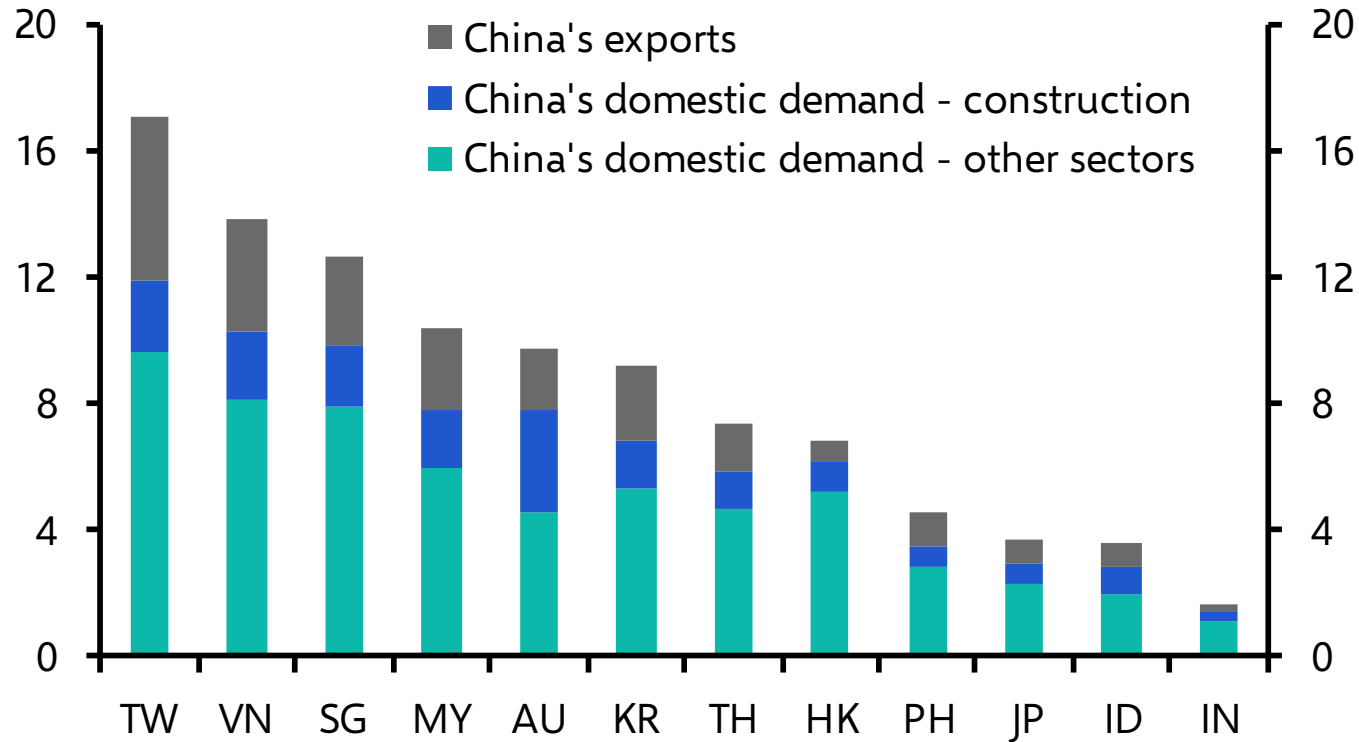
- China wouldn't relish the immediate uncertainty and disruption that Trump would bring.
- But America's strength lies in the size and diversity of its allies. China's relative position could be stronger after four years of Trump.

# Cement Output vs Income Level

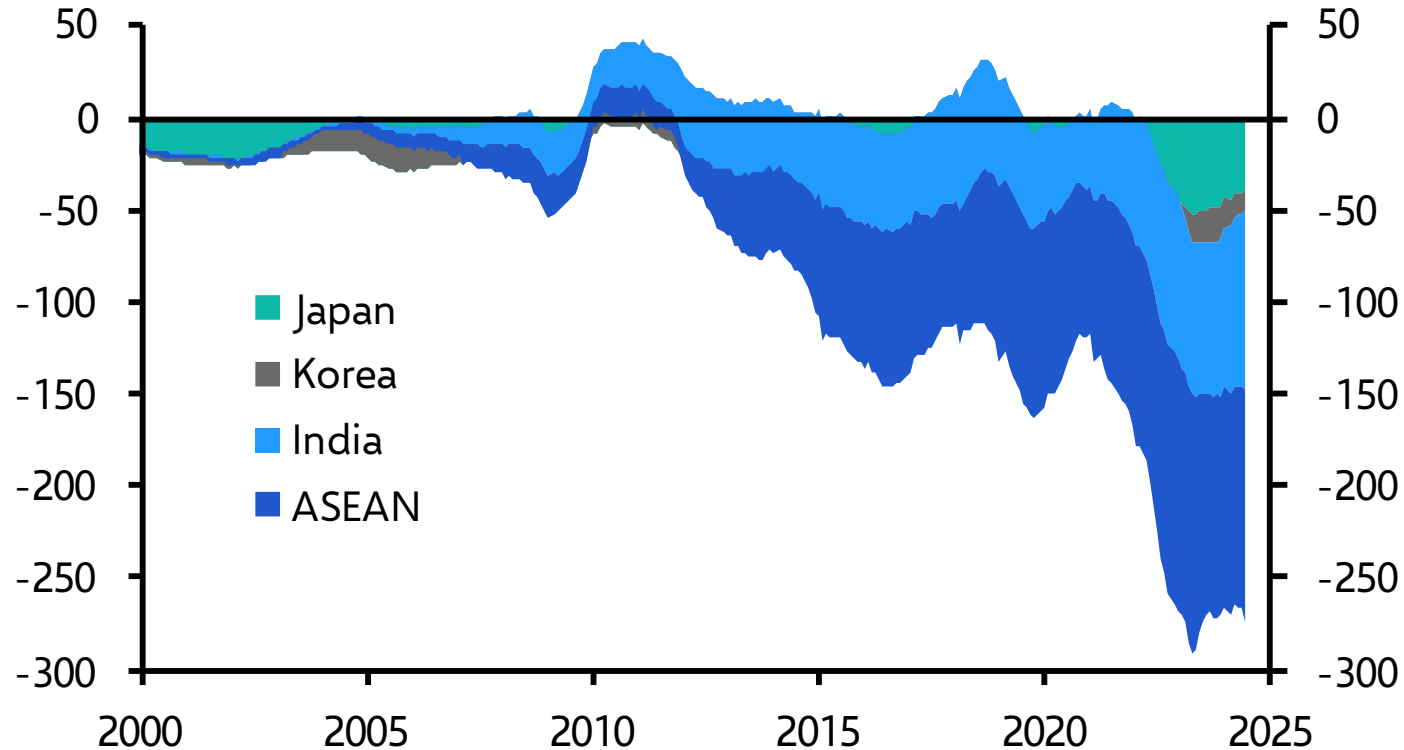


Sources: CEIC, Capital Economics

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



# 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

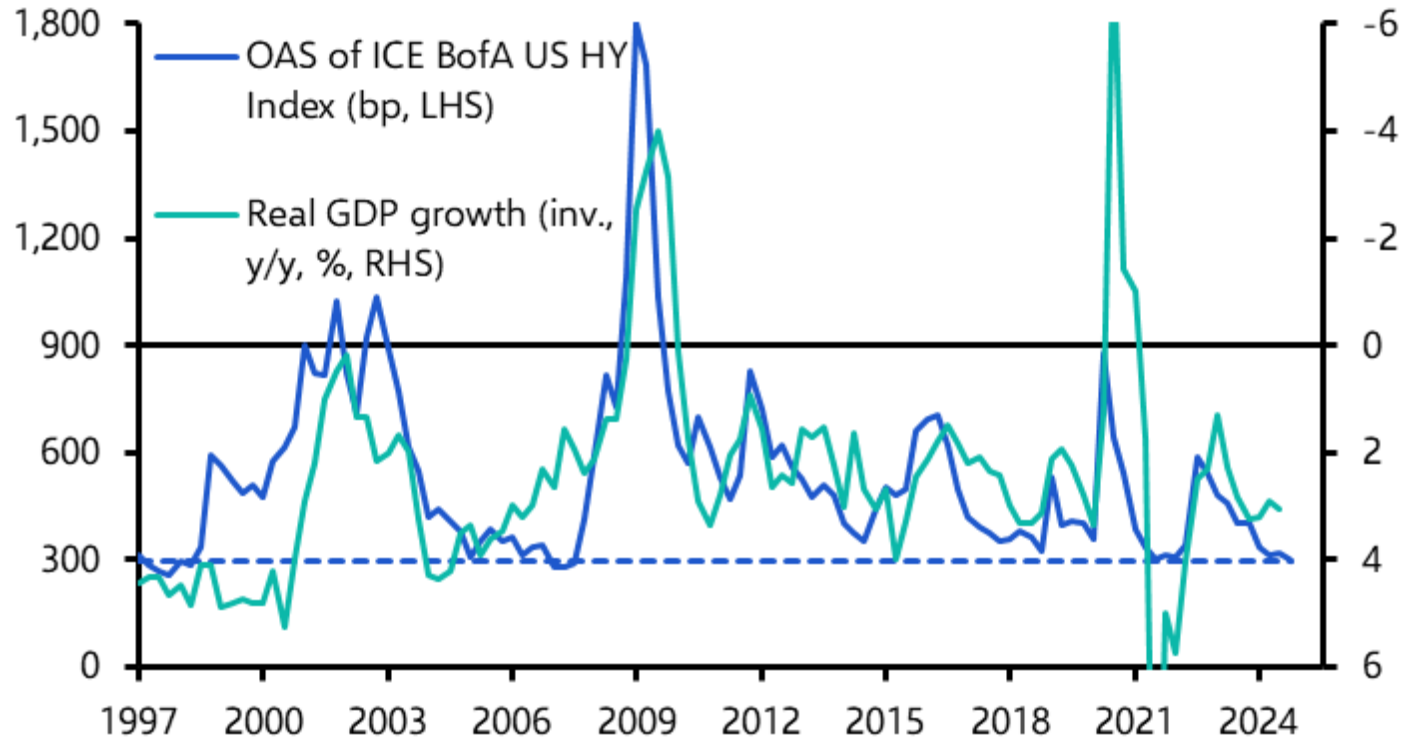


# Key messages on global financial markets

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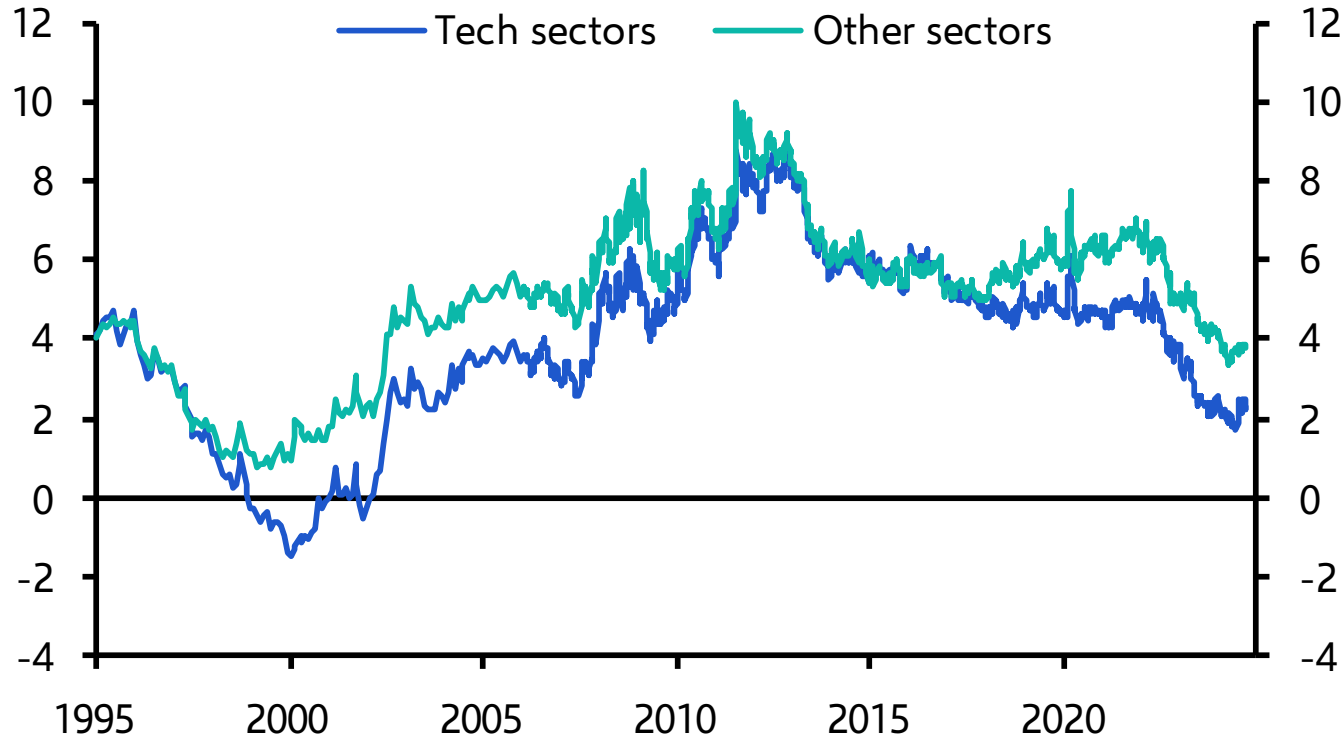
- Global/US markets:
  - Soft landing and rate cuts now look mostly priced in, but still room for AI equity bubble to inflate
  - Clear risks to both “risky” and “safe” assets from different economic scenarios & US election
- China:
  - Obvious effort to lift sentiment, but these haven’t had lasting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

# US High-Yield Credit Spread & GDP Growth



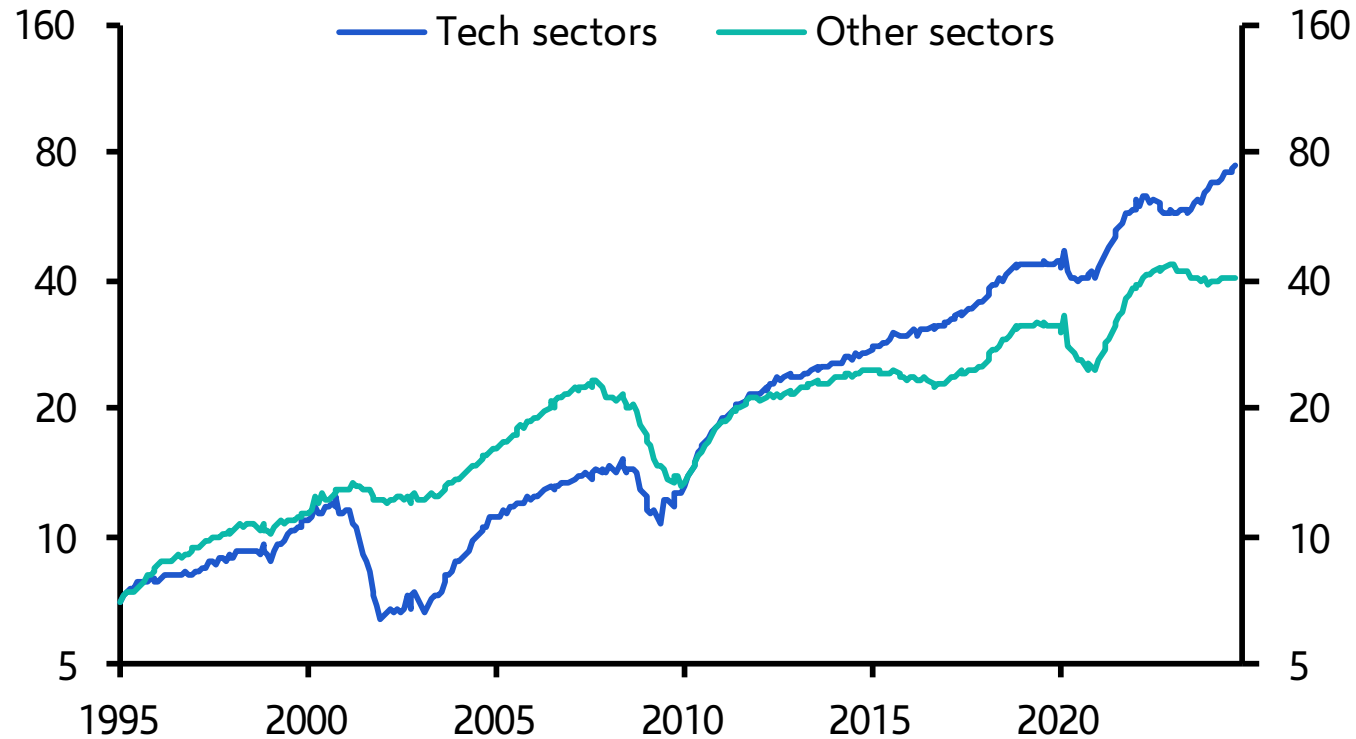
Sources: LSEG Data and Analytics, Capital Economics

# S&P 500 Excess Earnings Yields (pp)



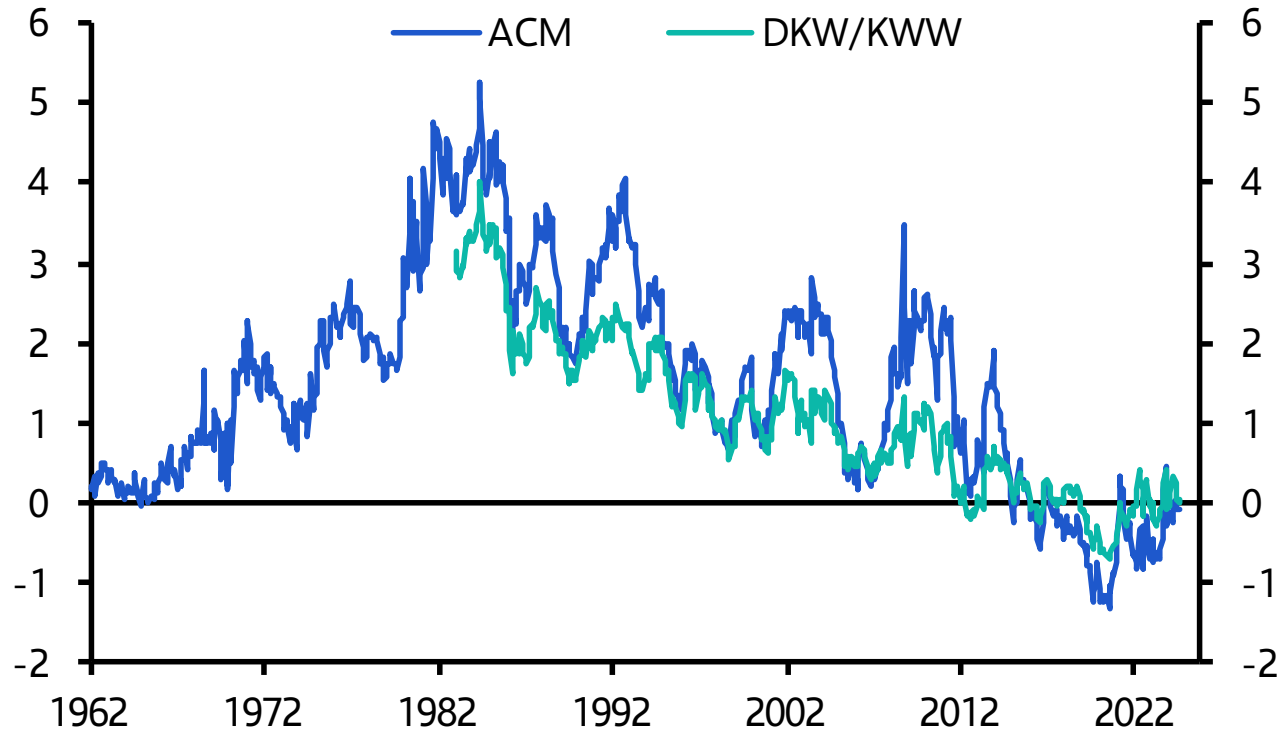
Sources: LSEG Data and Analytics, Capital Economics

# S&P 500 12-Month Trailing EPS



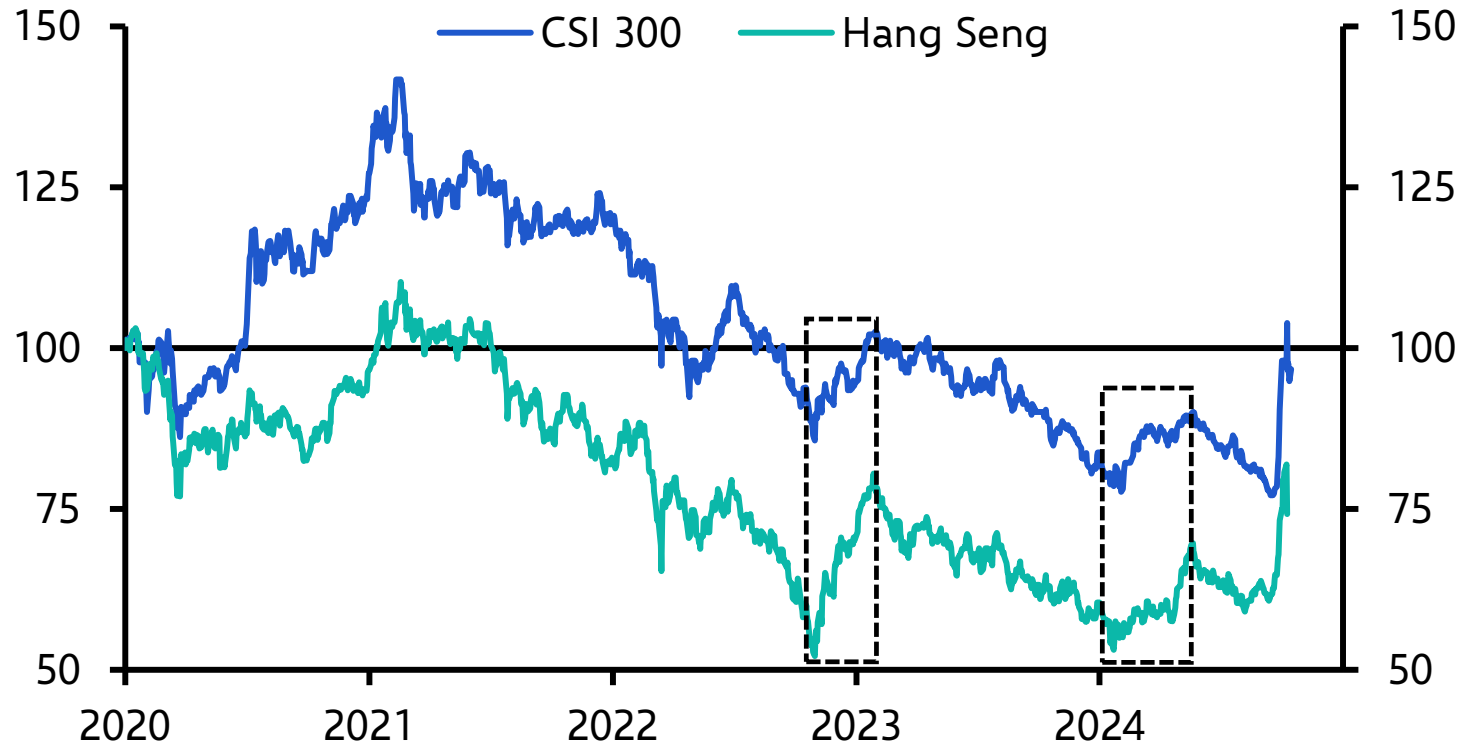
Sources: LSEG Data and Analytics, Capital Economics

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

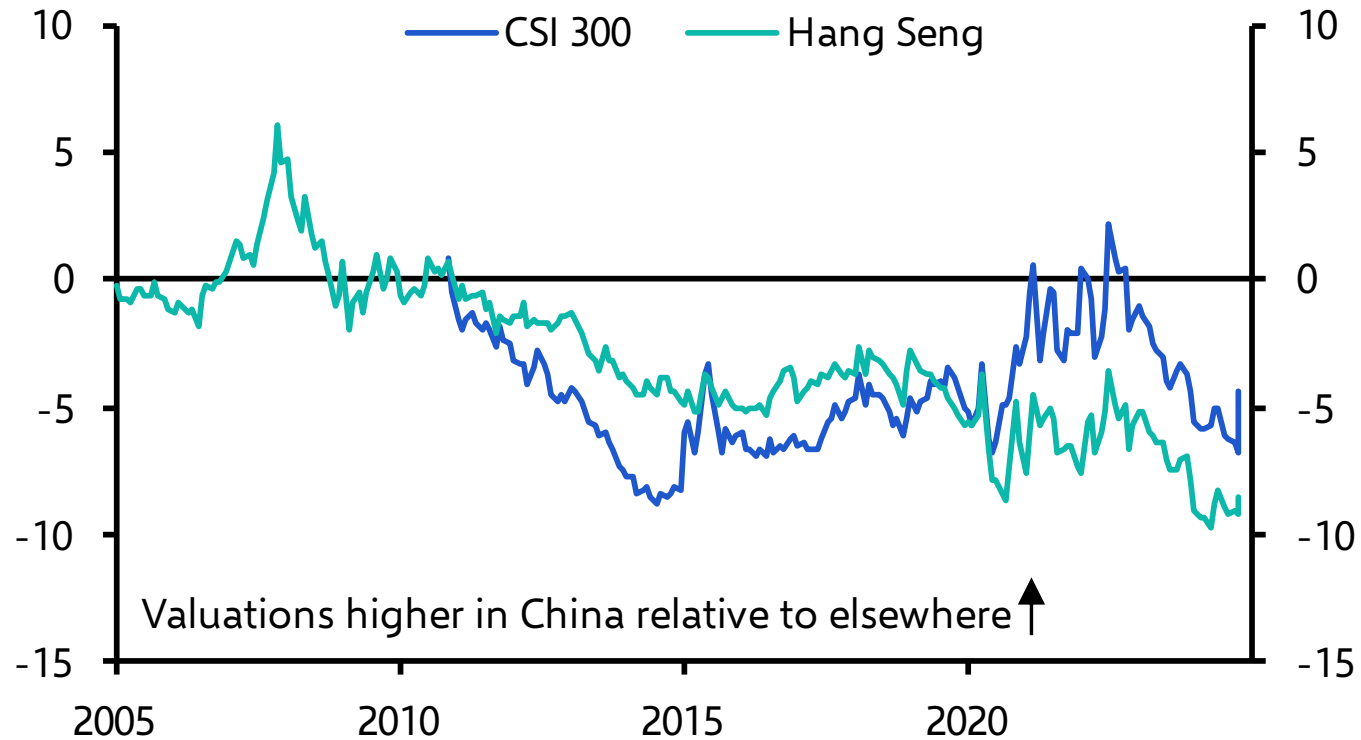


Sources: DKW/KWW, LSEG Data and Analytics, Capital Economics

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

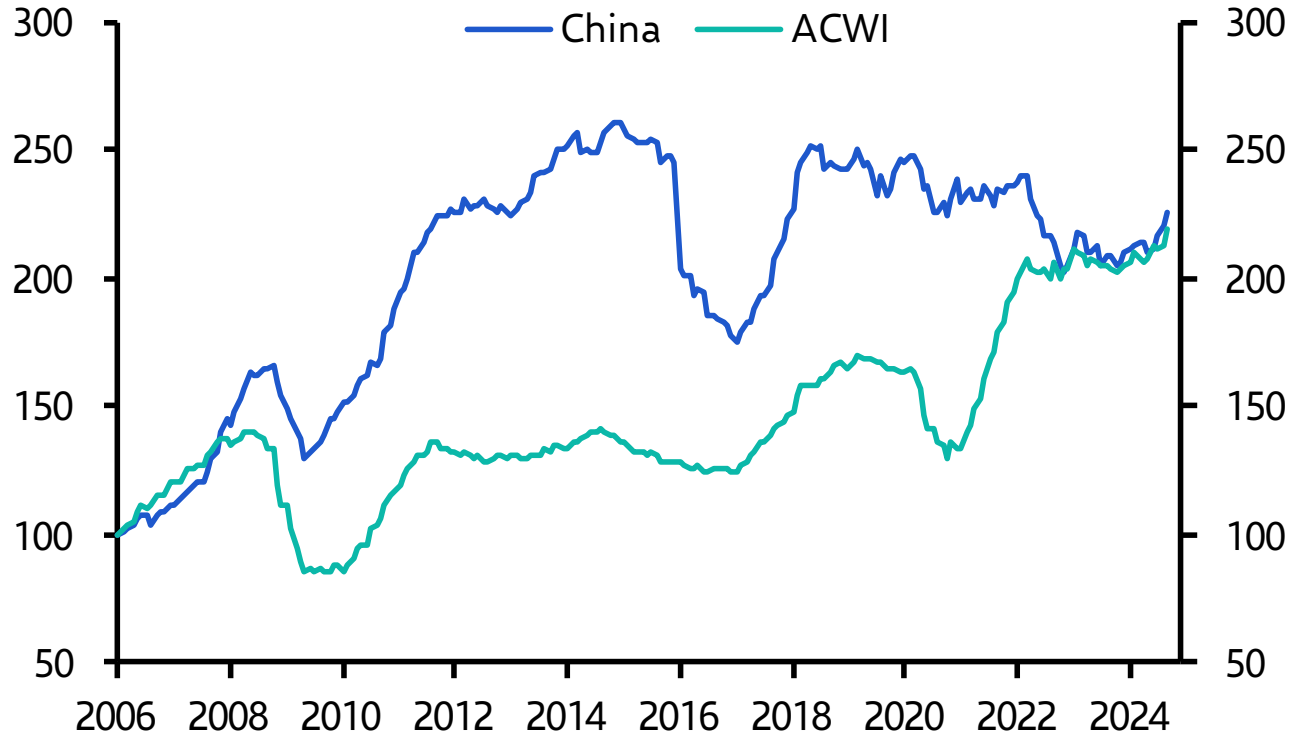


# China's PE Ratios Relative To MSCI ACWI





# MSCI Indices' 12-Month Trailing EPS



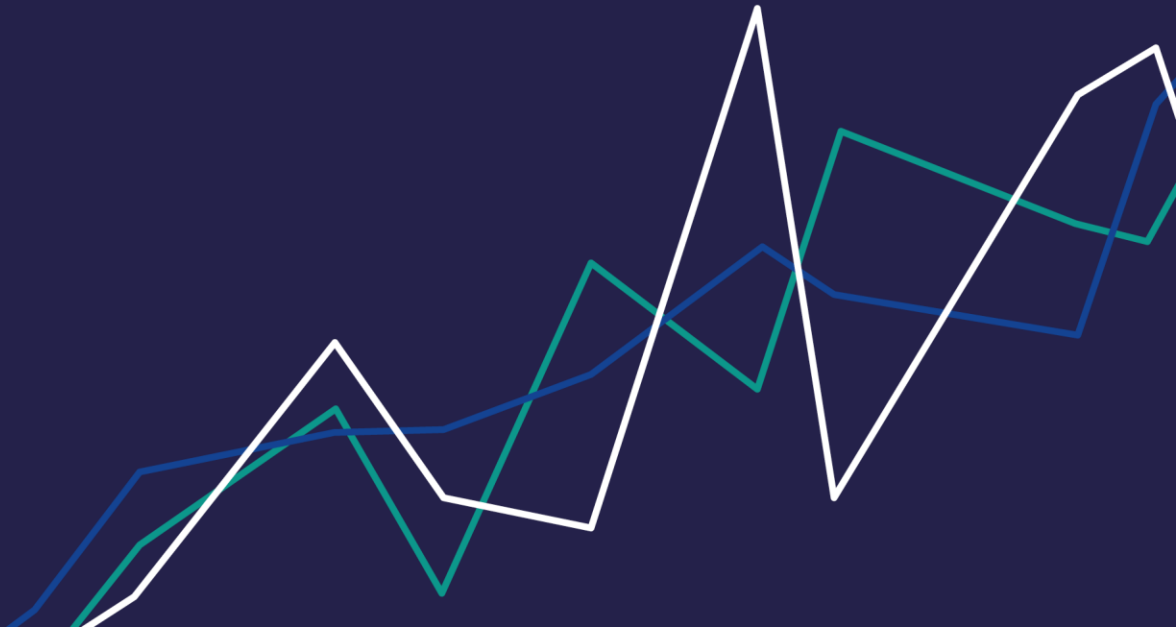
Sources: LSEG Data and Analytics, Capital Economics

# Key messages on global financial markets

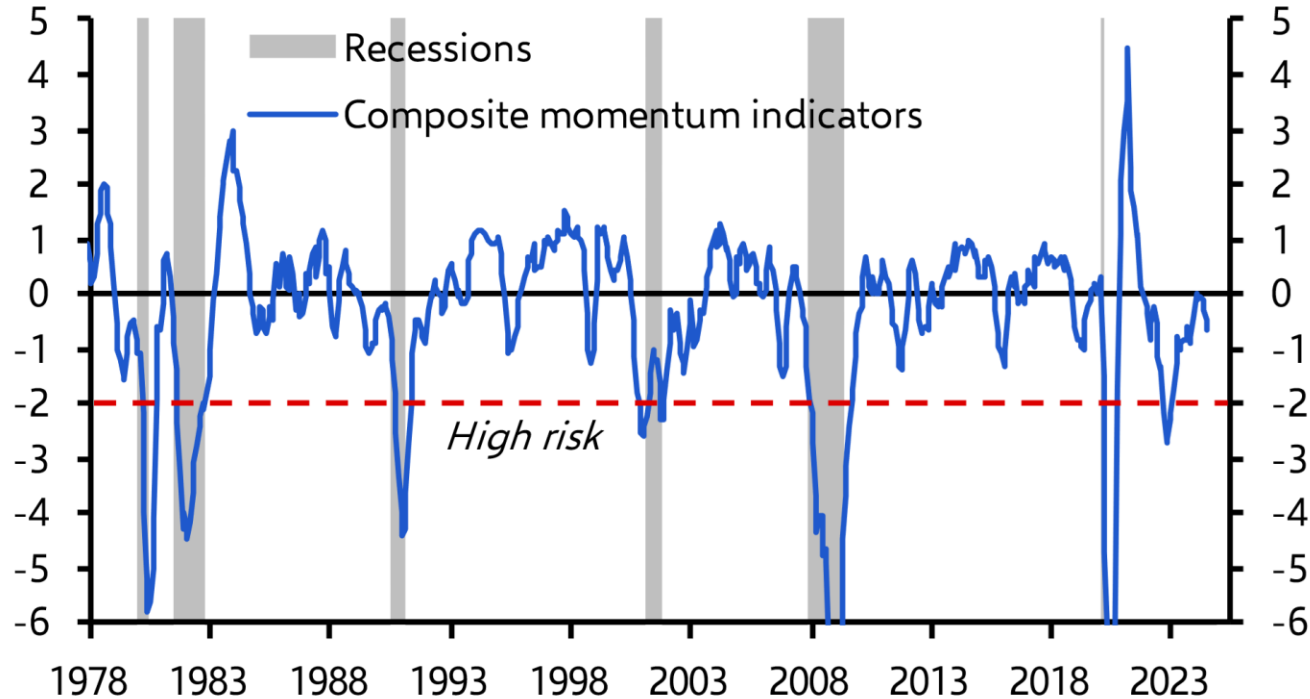
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- Global/US markets:
  - Soft landing and rate cuts now look mostly priced in, but still room for AI equity bubble to inflate
  - Clear risks to both “risky” and “safe” assets from different economic scenarios & US election
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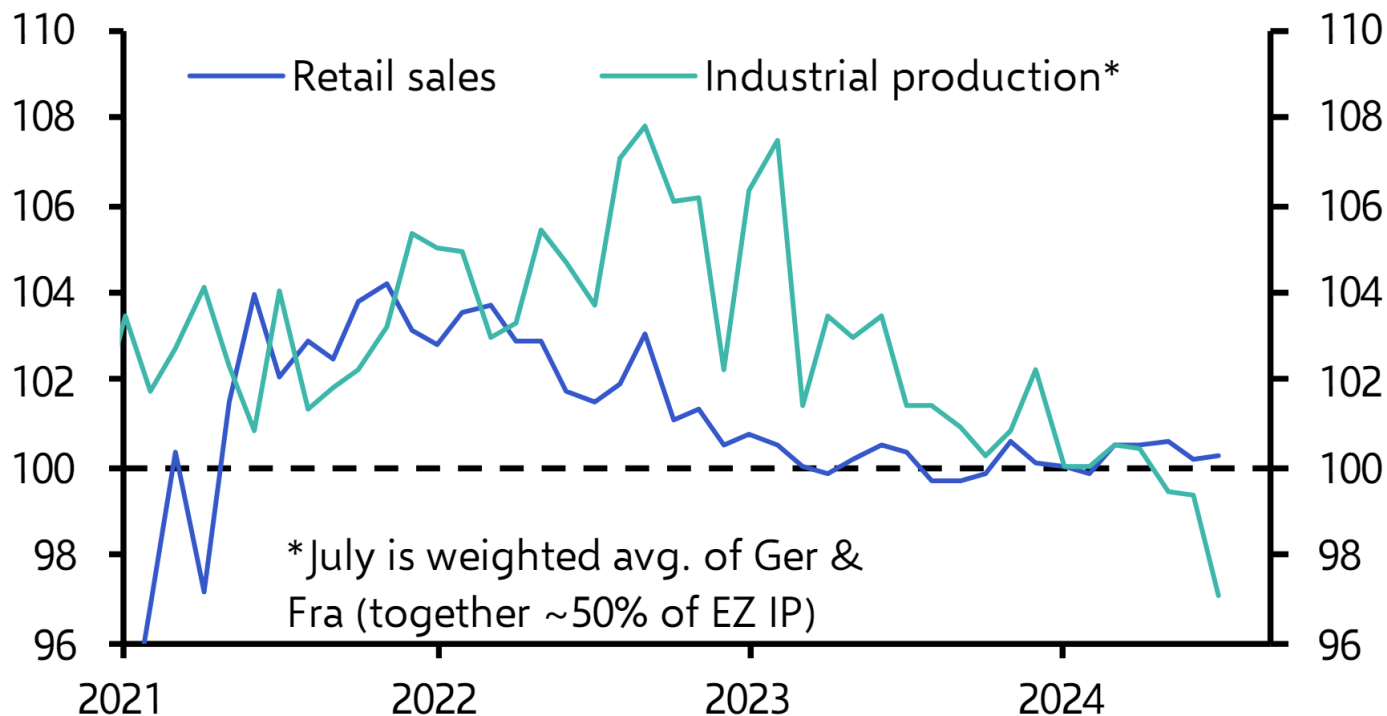
# Appendix



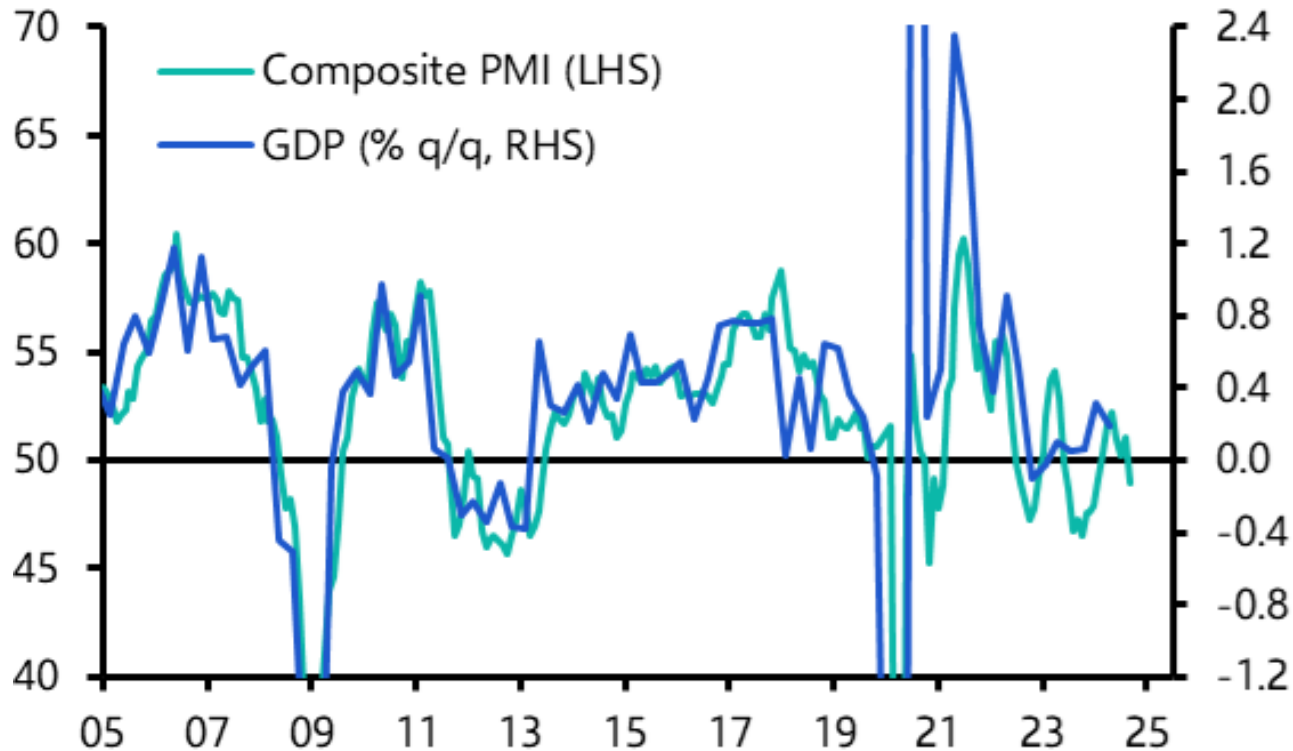
# US Composite Economic Momentum Indicator (Z-Score)



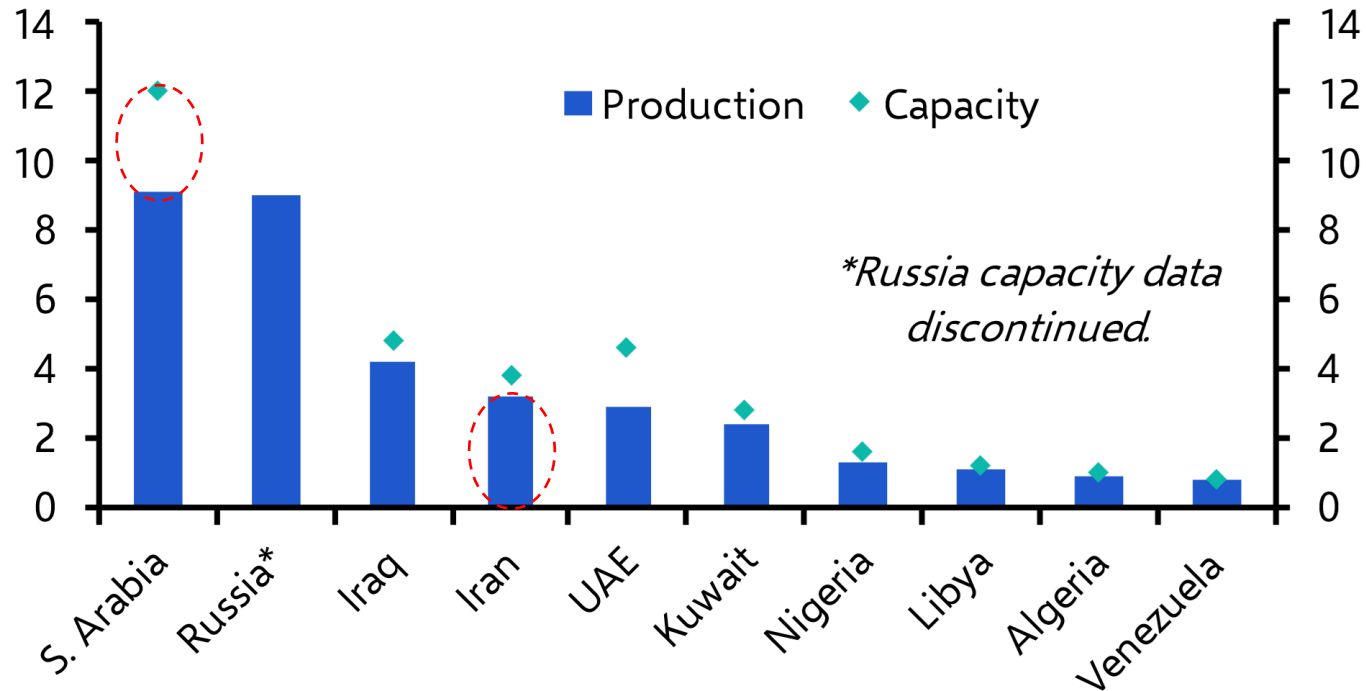
# Euro-zone Retail Sales & Industrial Production (Jan. 2024 = 100)



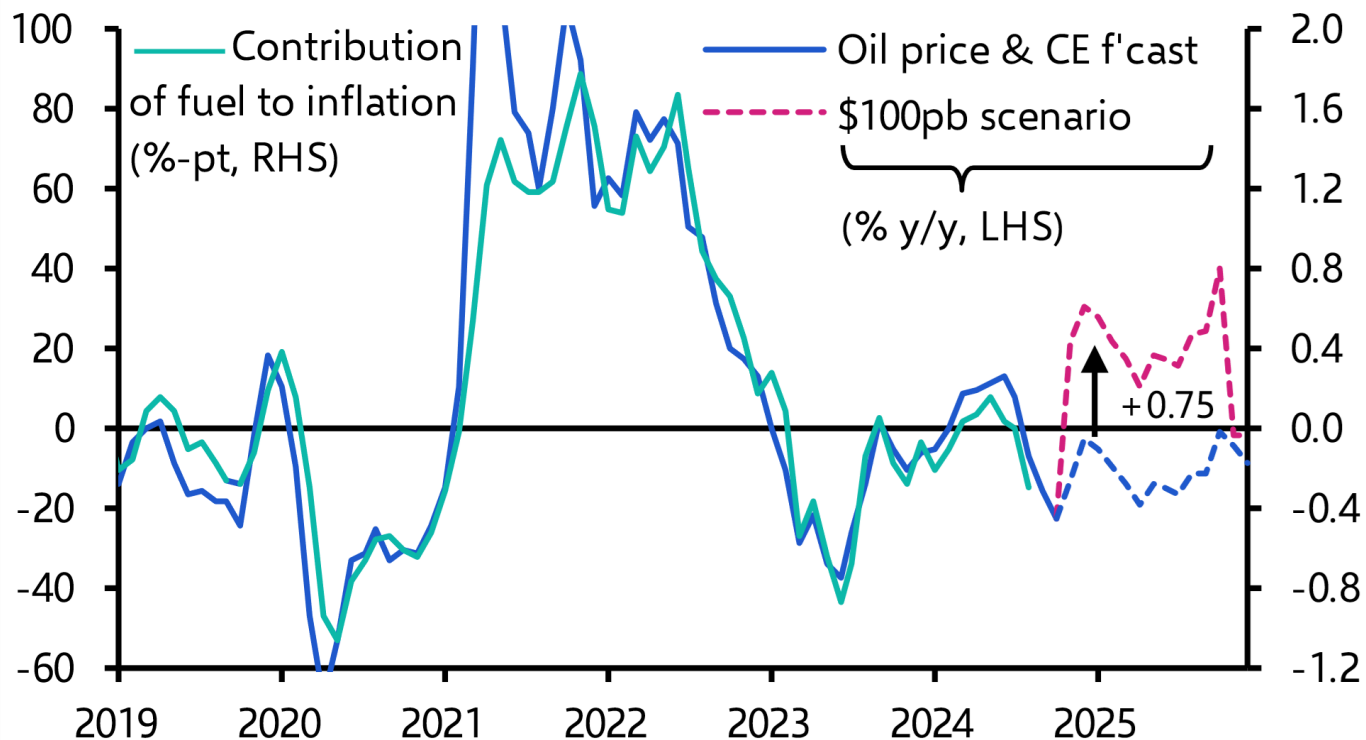
# Euro-zone Composite PMI and GDP



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



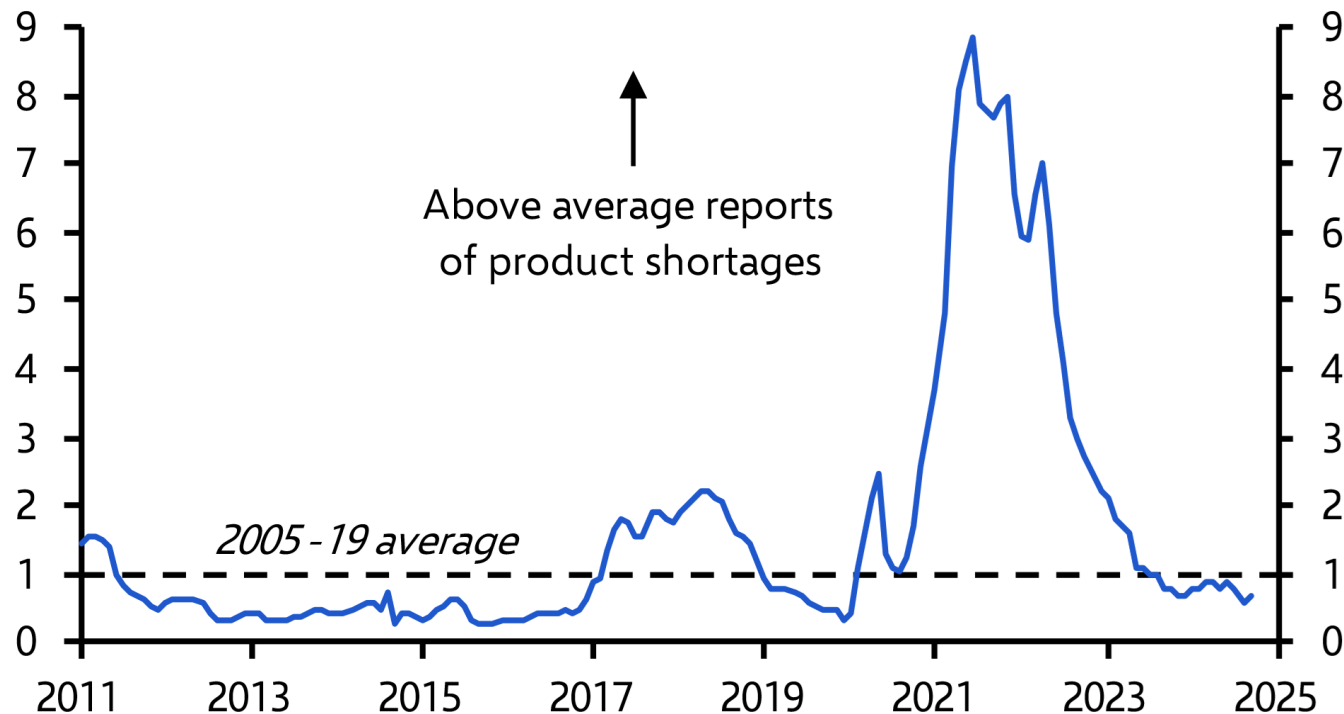
# Oil Price & Fuel Contribution to Headline Inflation in Major DMs



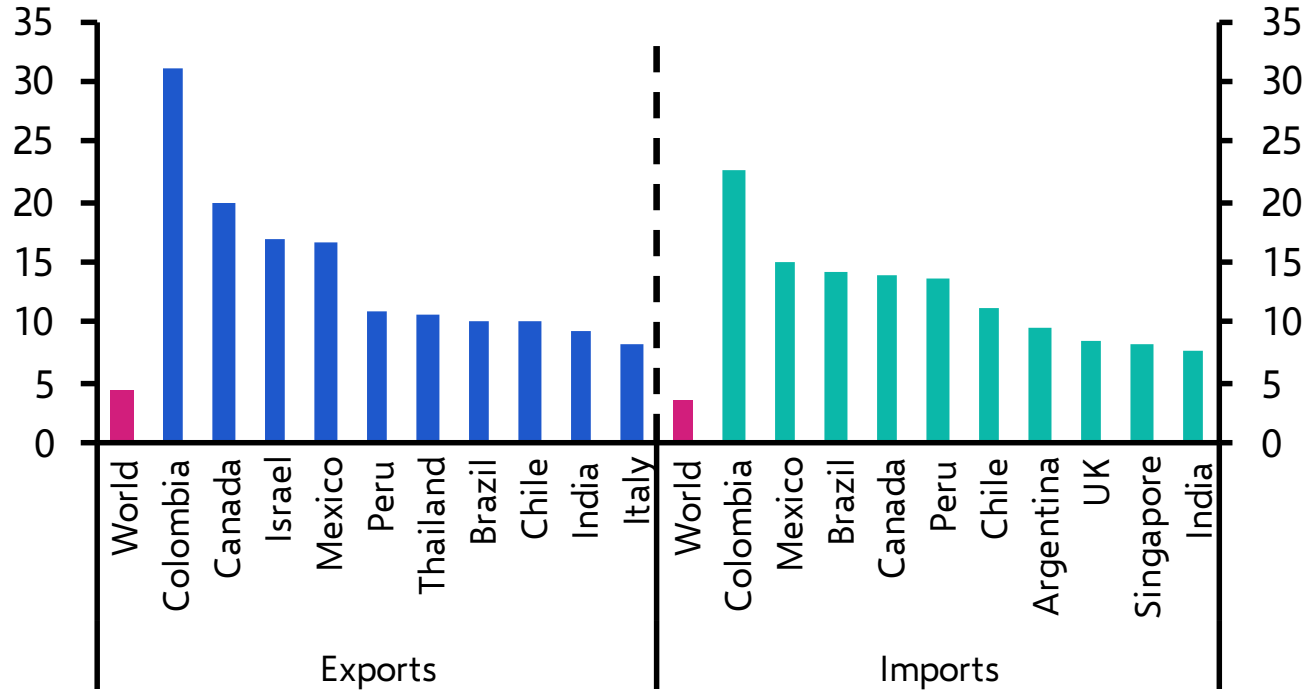
Sources: LSEG Data, Capital Economics



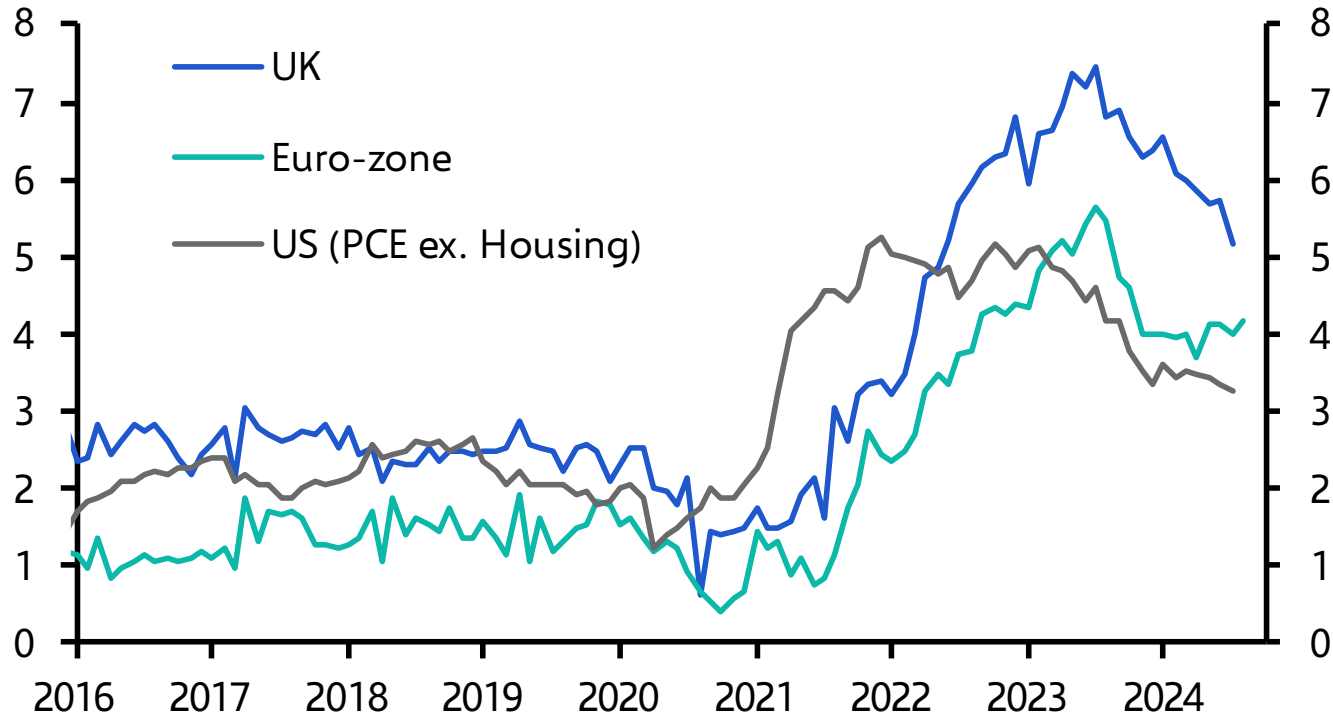
## S&P Global Supply Shortages Indicator (Multiple of 2005-19 avg.)



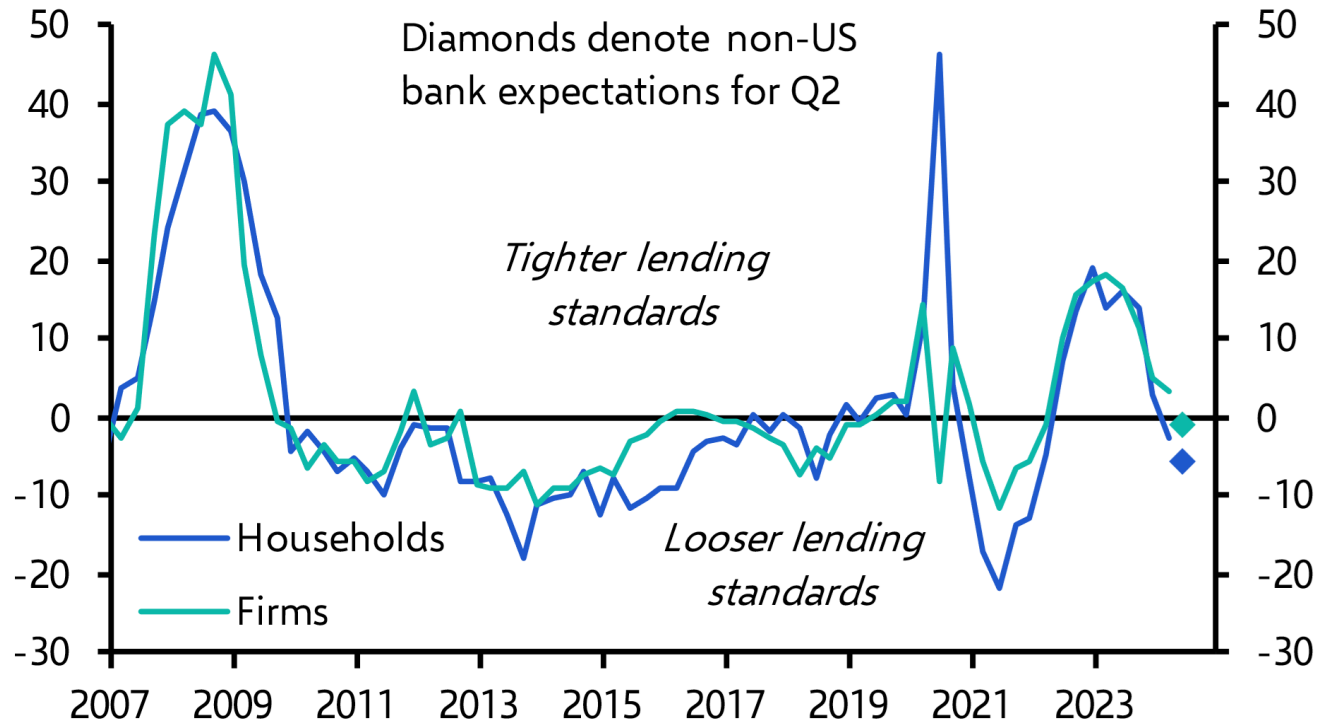
# % of Goods Exports/Imports to/from 30 Biggest US East & Gulf Coast Ports – Top 10 Exposures



# Core Services Inflation (%)



# Net % of Banks Tightening Lending Conditions



Sources: LSEG Data, Capital Economics

# What to expect from a Harris presidency

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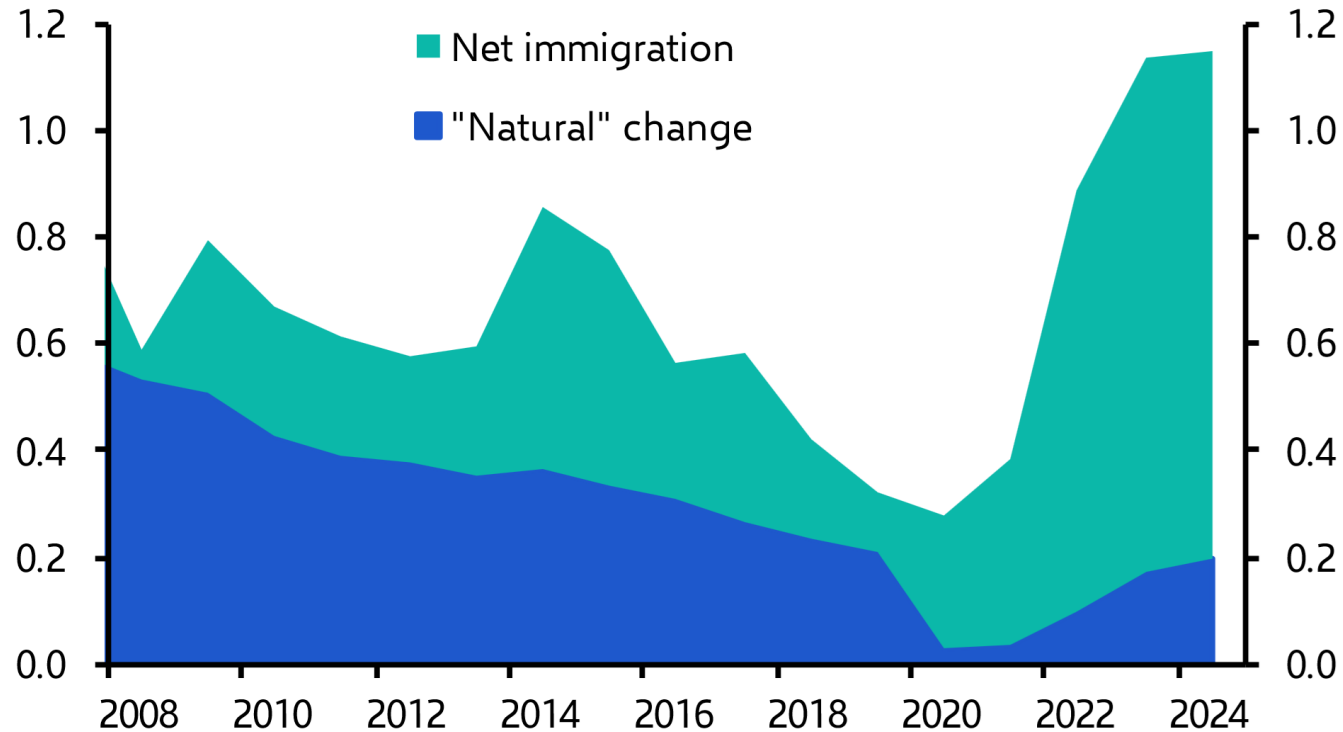
- Tax rates for corporates and high-income earners would be raised, with additional hikes in capital gains and possible wealth taxes too.
- Those tax hikes would be used to pay for increased social spending – including expanded child tax credit, earned income tax credit, etc.
- Harris also supports increased 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)



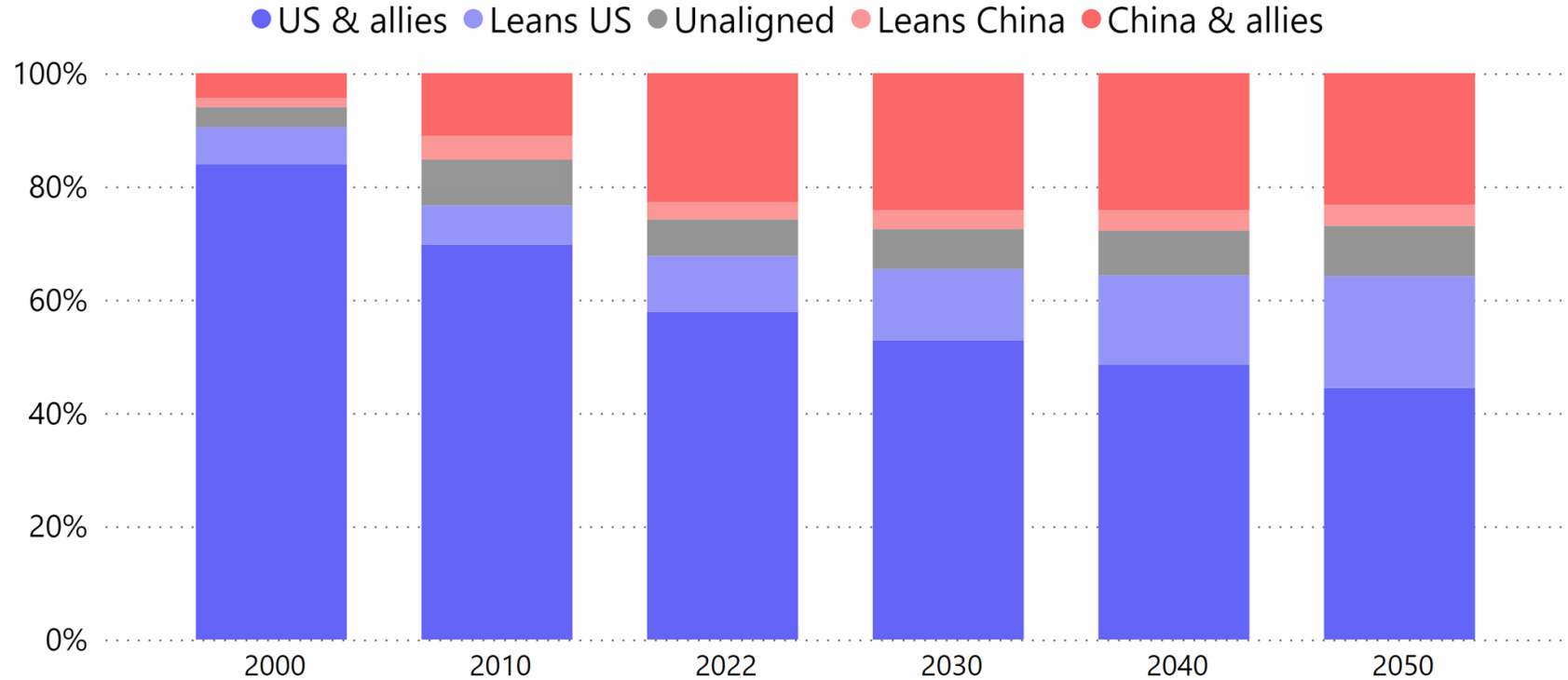
● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



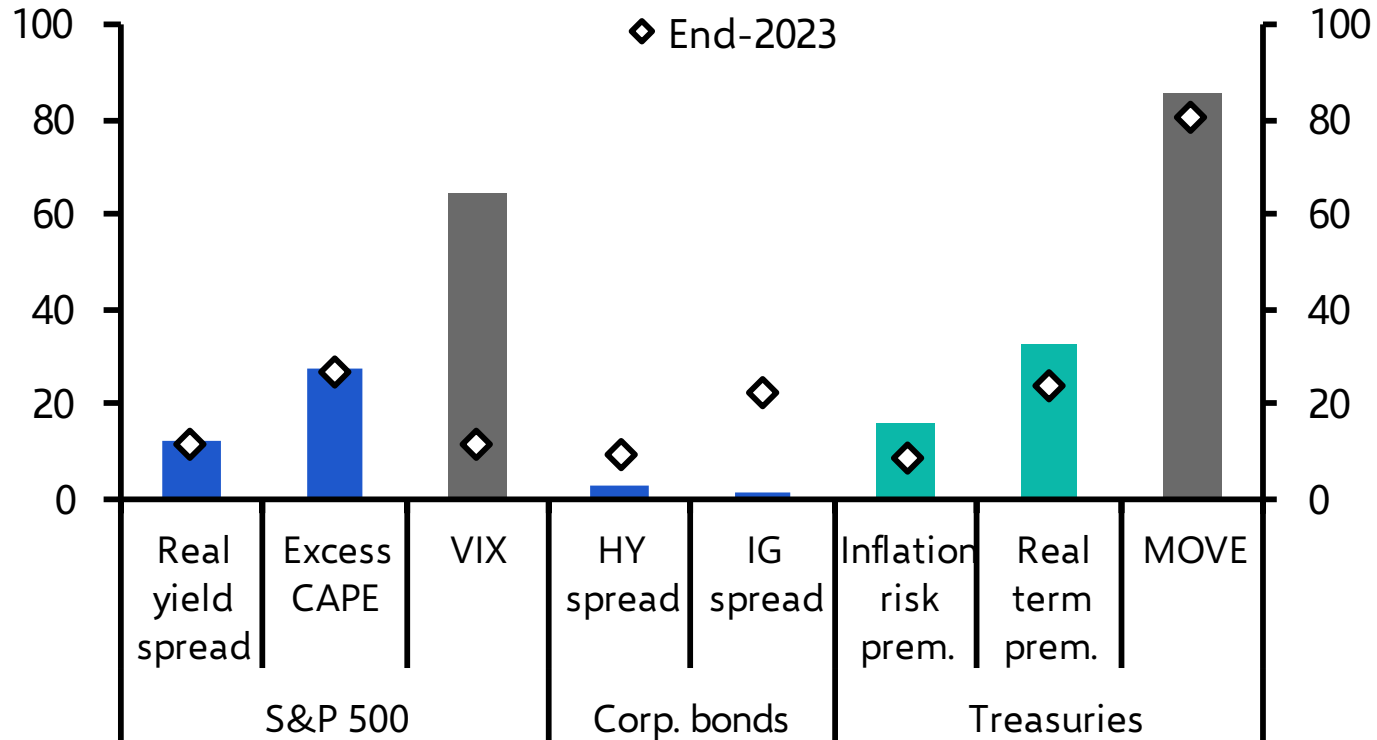
CAPITAL ECONOMICS



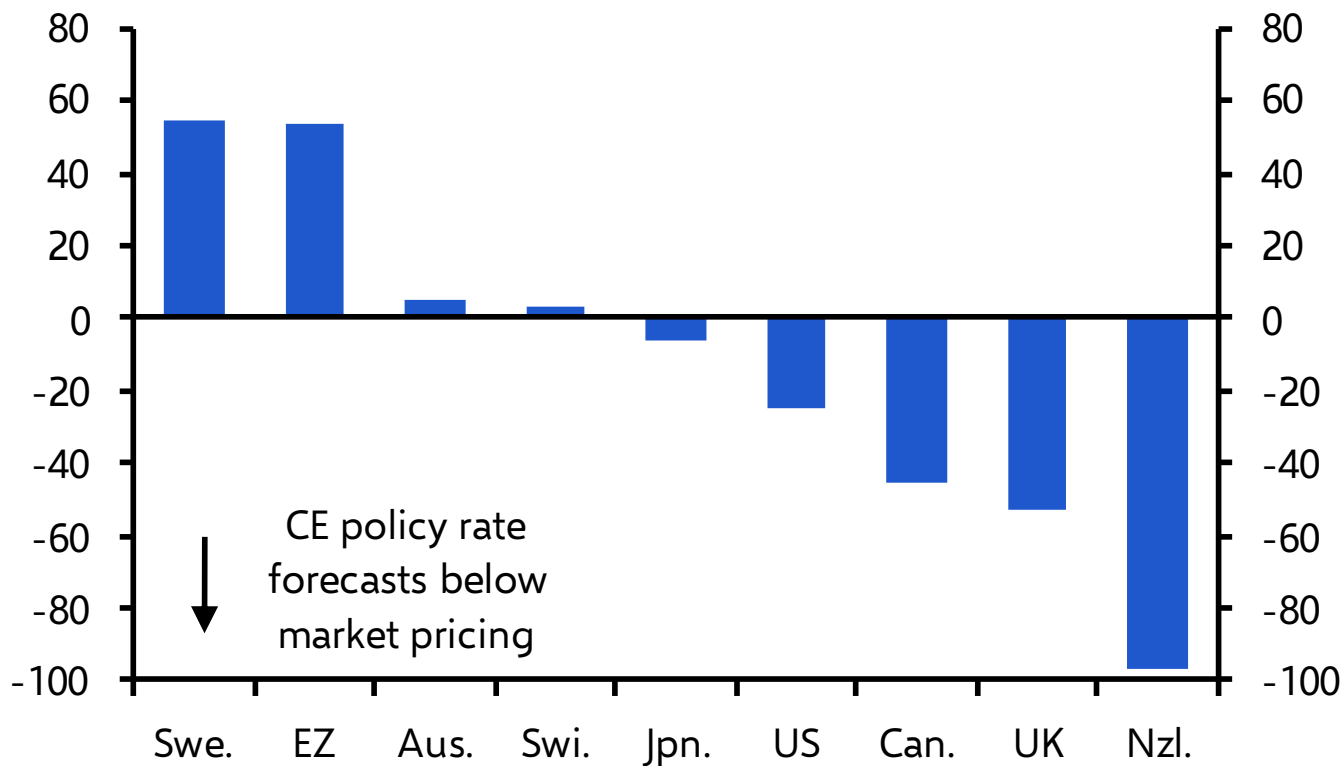
# Share of Global GDP (% , CE projections from 2030)



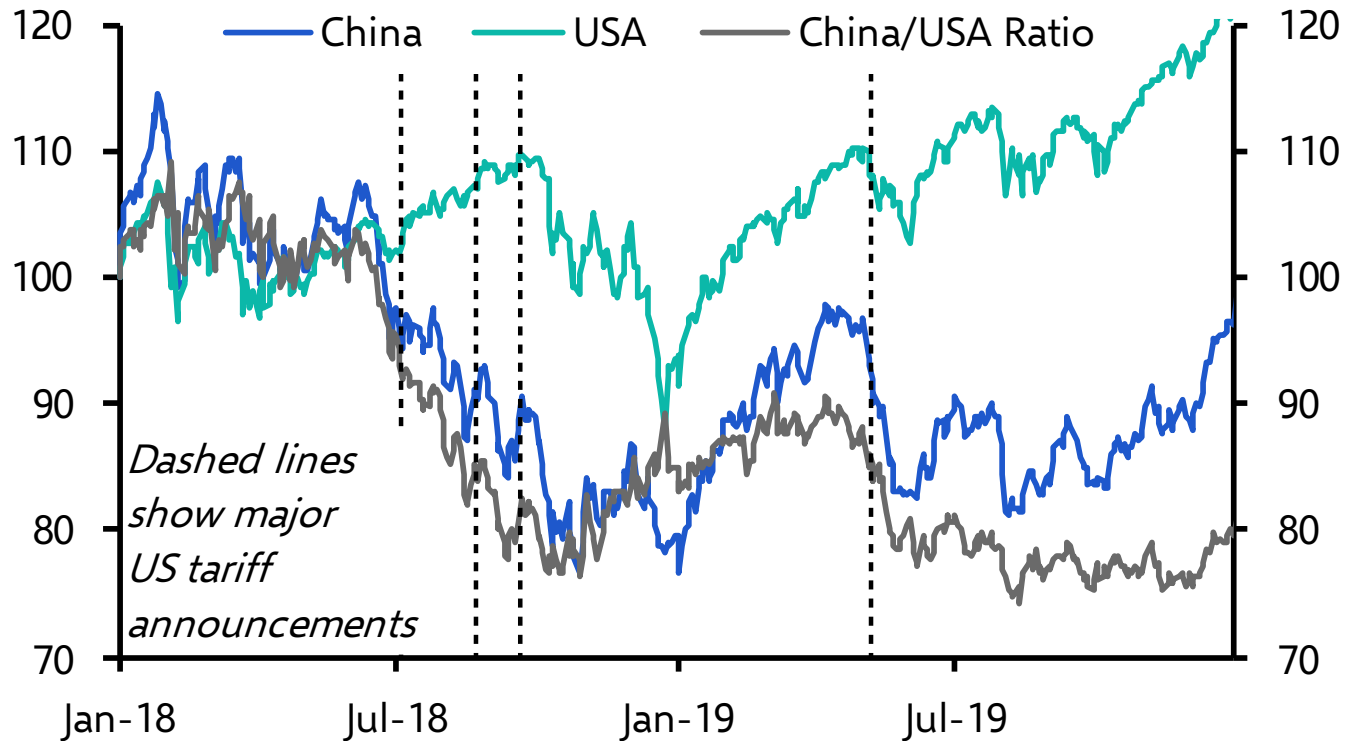
# Risk Premia and Volatility Measures (Percentiles Since 2000)



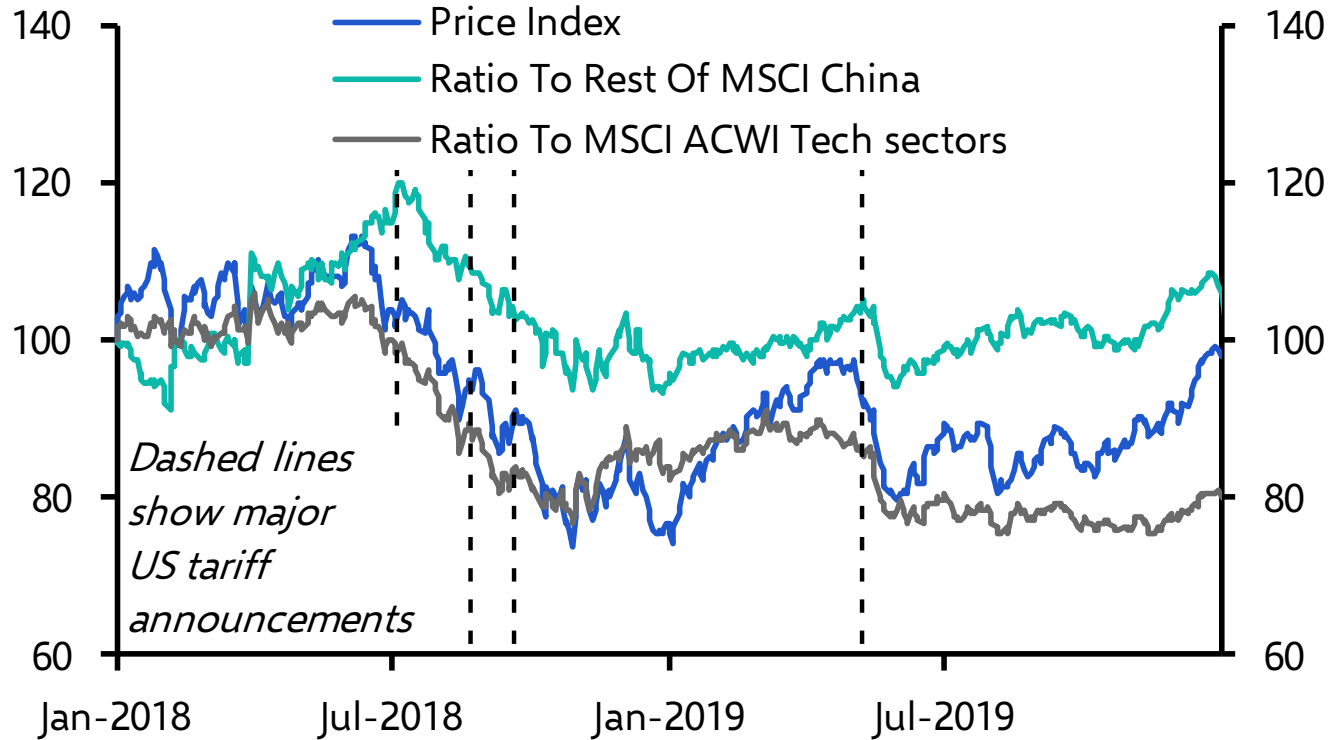
## CE End-2025 Policy Rate Forecasts Less OIS-Implied Rates (bp)



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

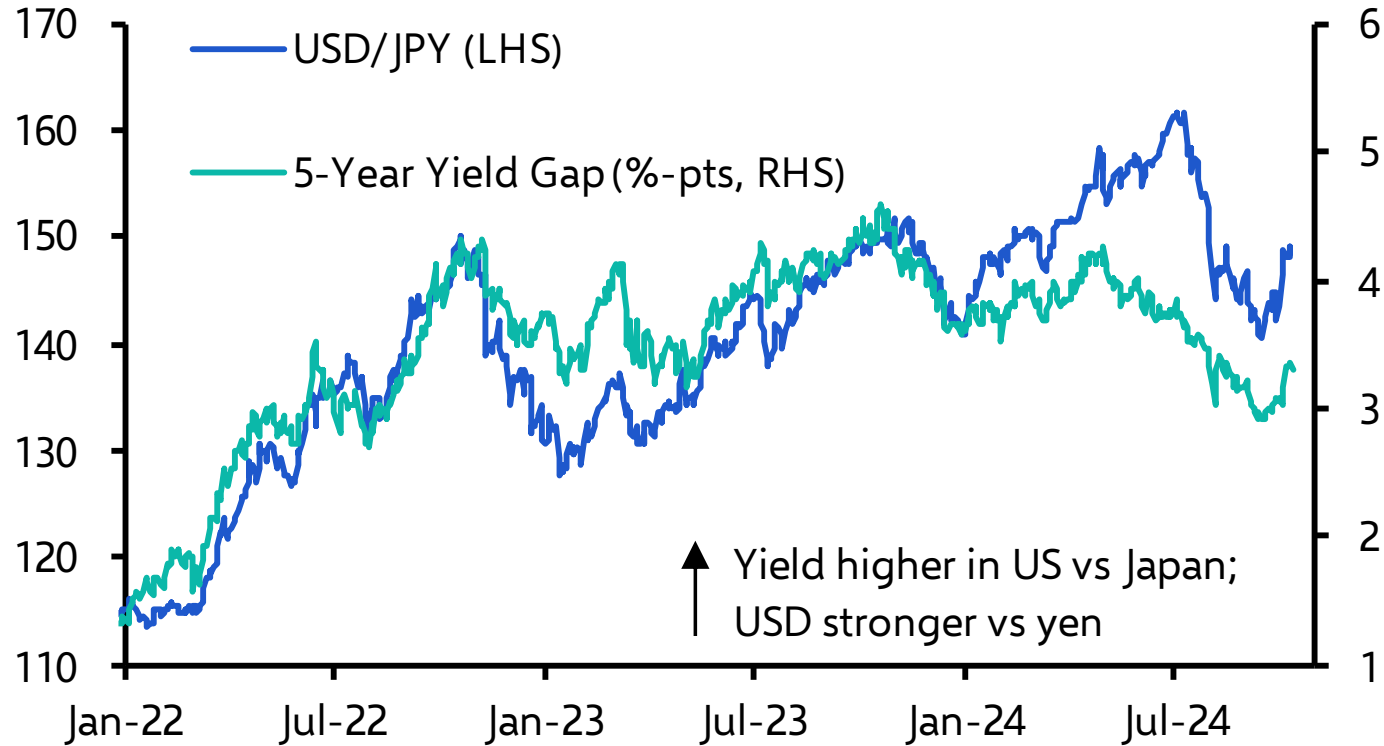


# MSCI China Tech Sectors (1<sup>st</sup> January 2018 = 100)

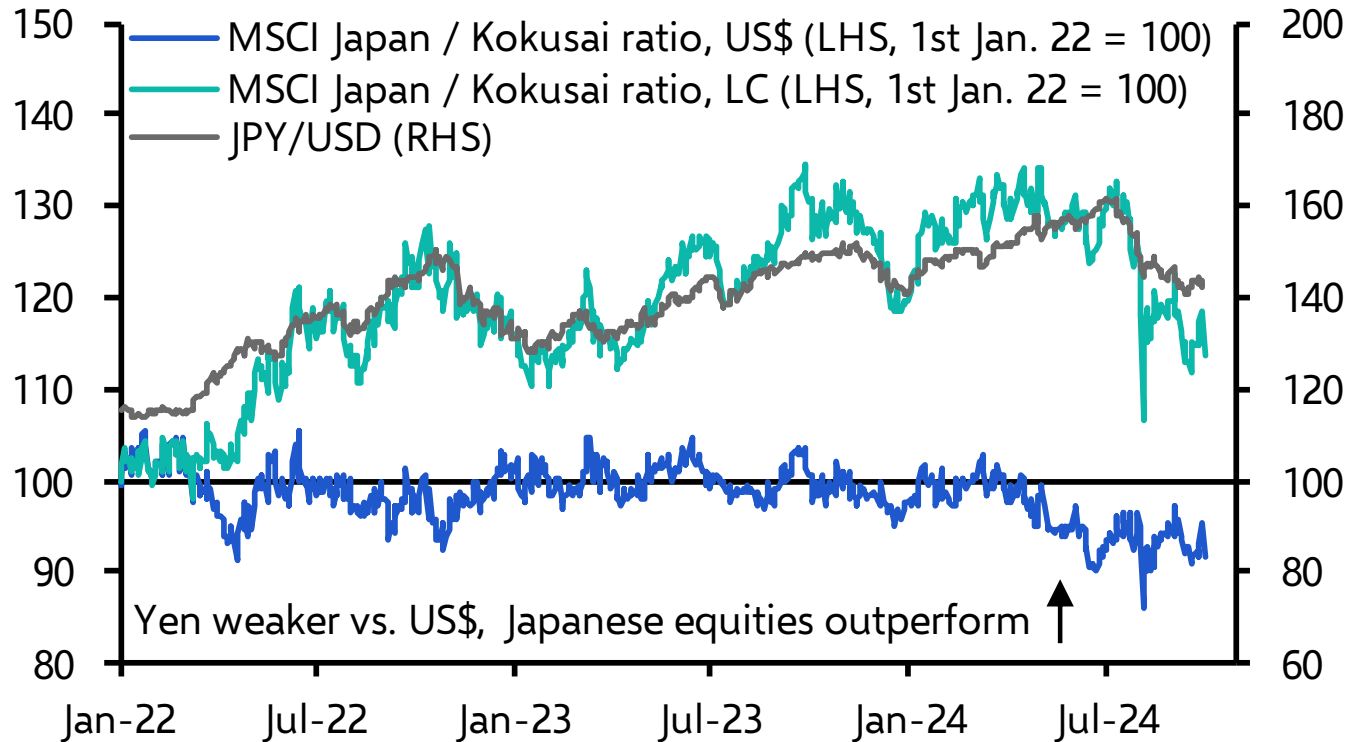


Sources: LSEG Data and Analytics, Capital Economics

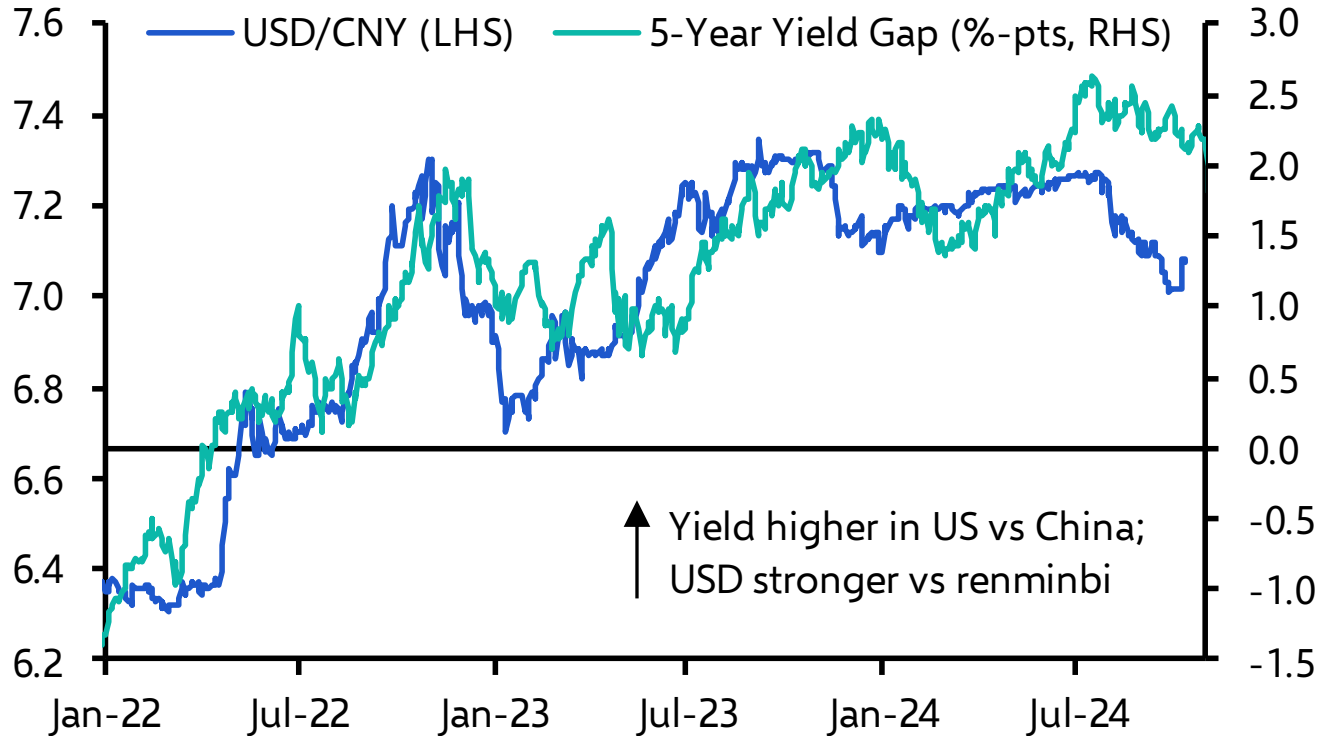
# USD/JPY & US-Japan 5-Year Yield Gap (bp)



# Japanese Equities' Relative Performance & Yen

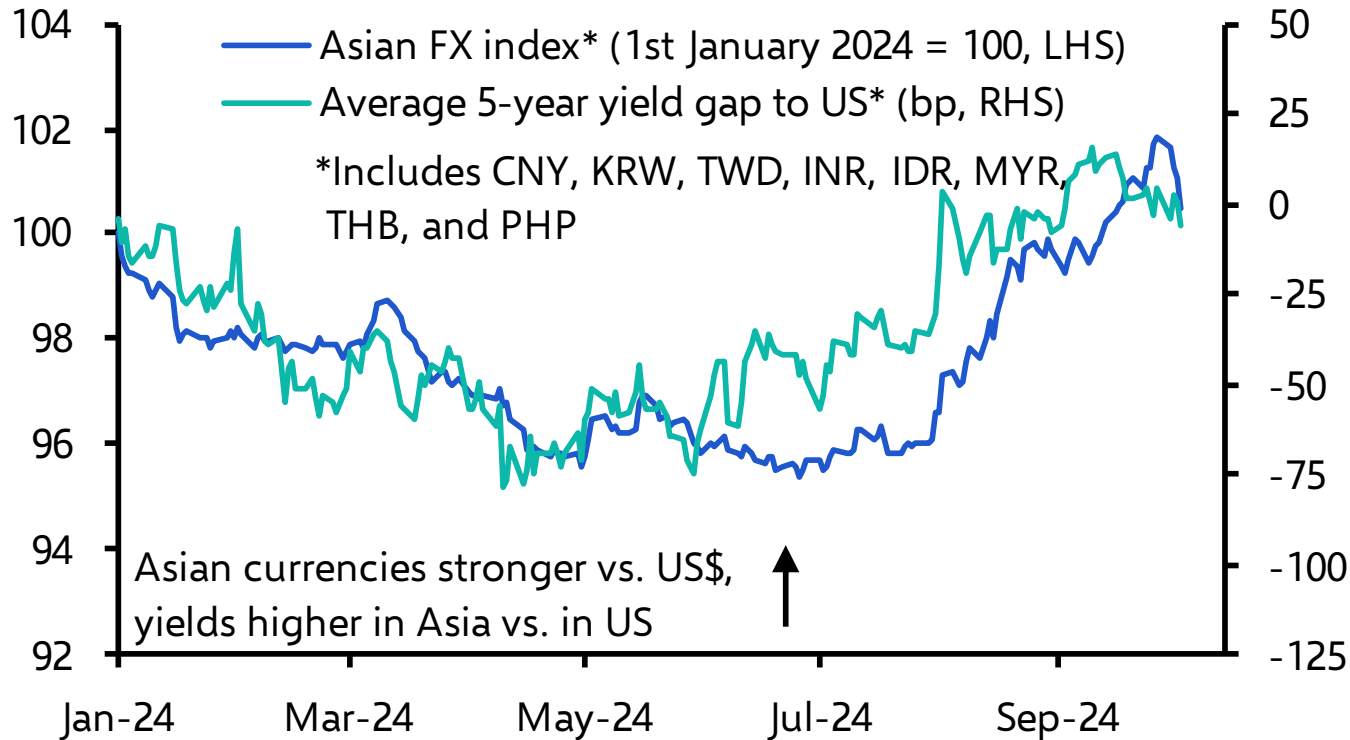


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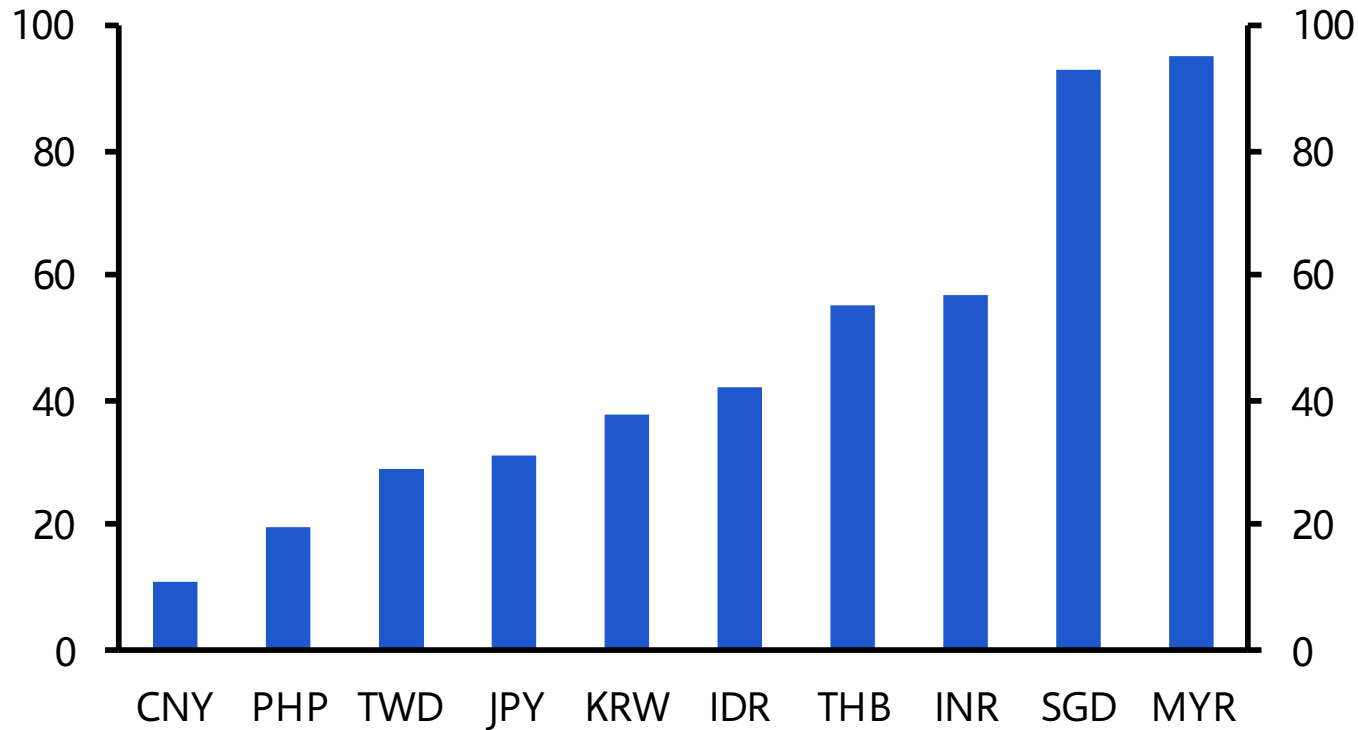




# Asian FX Index & Average Yield Gap To US



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



# 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)

|           | Actual  |      |      |      |        | Forecasts |      |      |       |       |
|-----------|---------|------|------|------|--------|-----------|------|------|-------|-------|
|           | 2015-19 | 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    |

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