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Quarterly Macroeconomic Outlook Update

October 2023

Global Cyclical Update: Much the Same With Some Big Changes Since July

- **Macro Outlook Unfolding Largely in Line With Expectations**
  - Global economy still on track for slightly below-trend cyclical growth
  - Global inflation not yet tamed but moderating in major DMs and EMs
  - Labor markets tight / balance sheets solid / manufacturing troughing but…
    - Composite PMIs middling / consumers cautious
  - Most recent economic data from US and China has beat expectations
- **Major Changes: Rising Bond Yields / Higher Oil Prices / Recent Ominous Geopolitical Events…**
  - Providing much food for thought and tightening financial conditions
  - Initial assessment of latest geopolitical disaster – horrific human tragedy that …
    - Increases tail risks but does not require rewriting of macro script at this juncture

Expected Real GDP Growth			
	Global	DMs	EMs
2022	3.3%	2.6%	3.7%
2023	~~2.6%~~ 2.8%	~~1.1%~~ 1.4%	3.8%
2024	~~2.5%~~ 2.4%	~~0.9%~~ 1.0%	~~3.8%~~ 3.6%

Global Inflation Evolving Backdrop: Two Steps Forward & One Back

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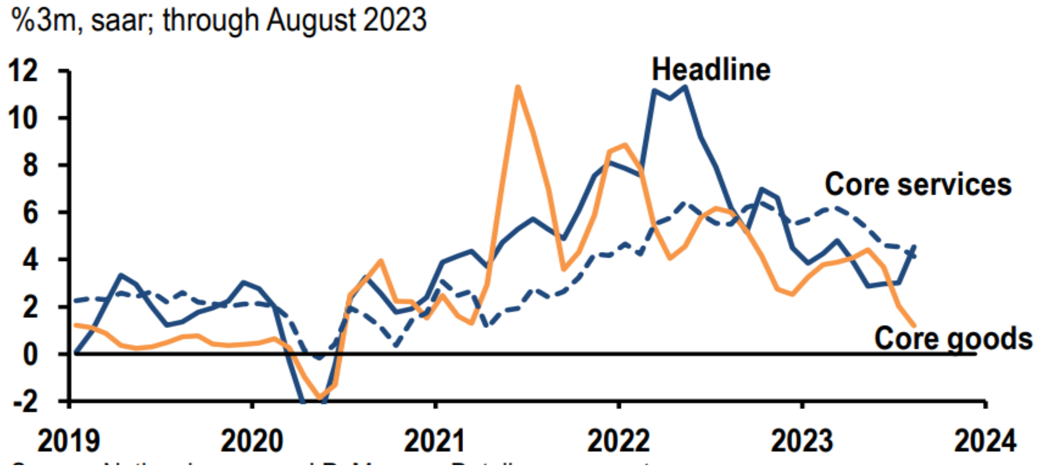
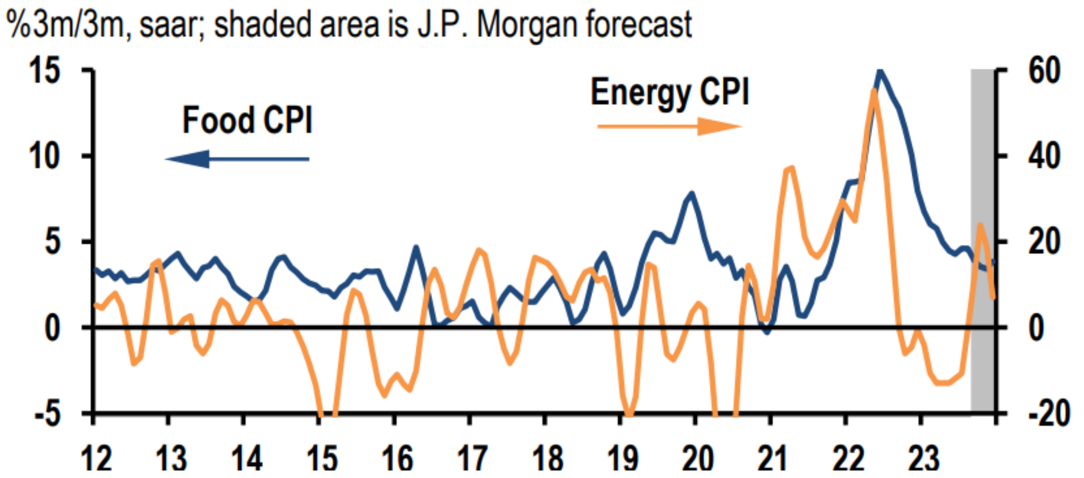
Global Consumer Prices[1]



Source: National Sources, JPM

- Global headline consumer prices increased at 4.5% annualized rate in the 3 months ending in August. Energy responsible for latest uptick
- Core goods inflation benefiting from normalization slowed to 1.2% annual rate[2]
- Services inflation slowing gradually but ~5% rate above central banks comfort zones

Energy and Food CPI



Source: National Sources, JPM

- Sharp rise in oil prices responsible for 3.3% jump in energy CPI over last 3 months
- Energy price pressure concern but not likely to be game changer
- Easing food prices could offset inflationary pressures from high energy prices. Commodity and producer prices point to considerable slowing in food inflation[3]

1. Global consumer prices exclude China and Turkey
2. Industrial firms' selling price expectations close to pre-pandemic level; industrial commodity prices and shipping costs have fully reversed 2021 spike and shortages of inputs largely addressed
3. See charts on page 19 in appendix for further details on oil price scenarios and food prices

Higher Oil Prices Expected Upward Pressure on Headline Inflation

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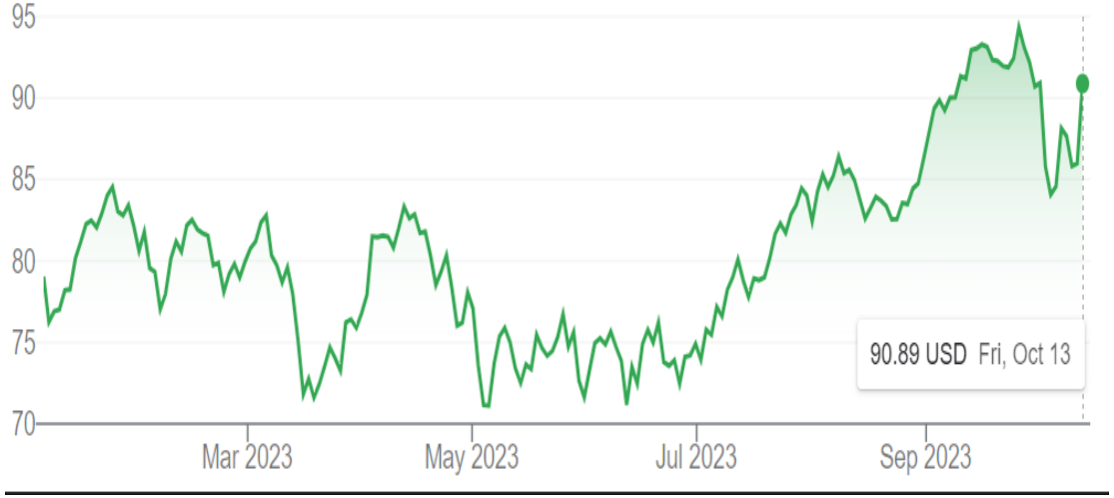
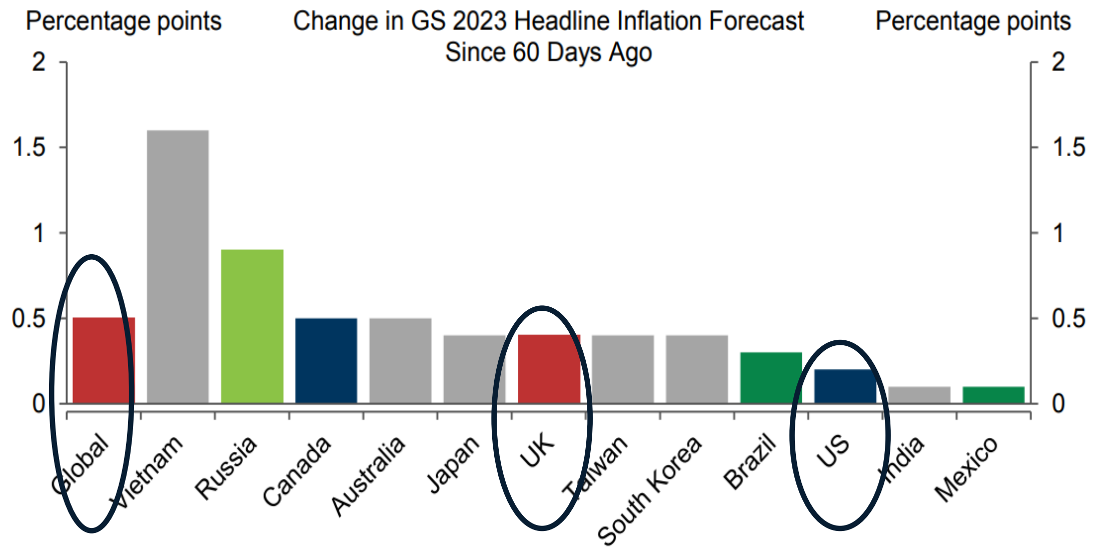
Brent Crude Oil Price(USD/BBL)



Source: NYMEX

Change in Headline Inflation Forecast



Source: GS

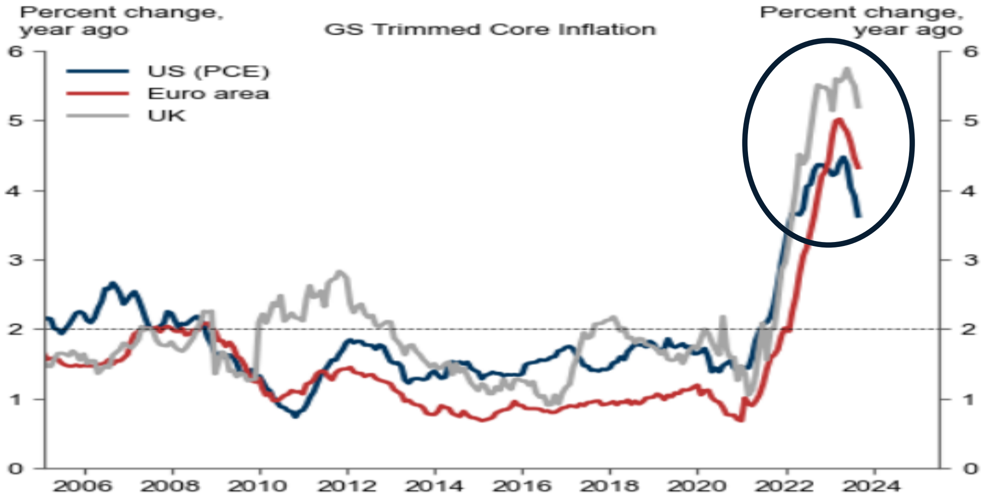
- Brent crude oil has traded in ~$70-$95 BBL range thus far in 2023
- Prior to Hamas's attack principal forecasts that we monitor were in the $85-to-$100 BBL range for '24. Key variables: global growth, OPEC and US shale output
- Post attack GS raised their baseline forecast from $100 to $104 BBL for 2024[1]

- Higher oil prices are lifting forecasts for inflation[2]
- For example, over the past two months GS has raised their forecast for global headline inflation ~50 bps…
- Expected impact varies across countries: UK in line with global average, US below average

1. Key changes in GS '24 oil price forecast: Saudis rescind plan to gradually unwind 1mbl/ production cut and Iran's baseline forecast output reduced by 100K b/d.
2. GS in early October raised their Brent forecast for the next 3 months from $80 to $88 BBL. MS economists note in prior oil supply shocks , a 10% jump in price on average added 35bp to headline for 3 months but just 3bp to core CPI

Major DMs: Core Inflation / Nominal Wage Trends

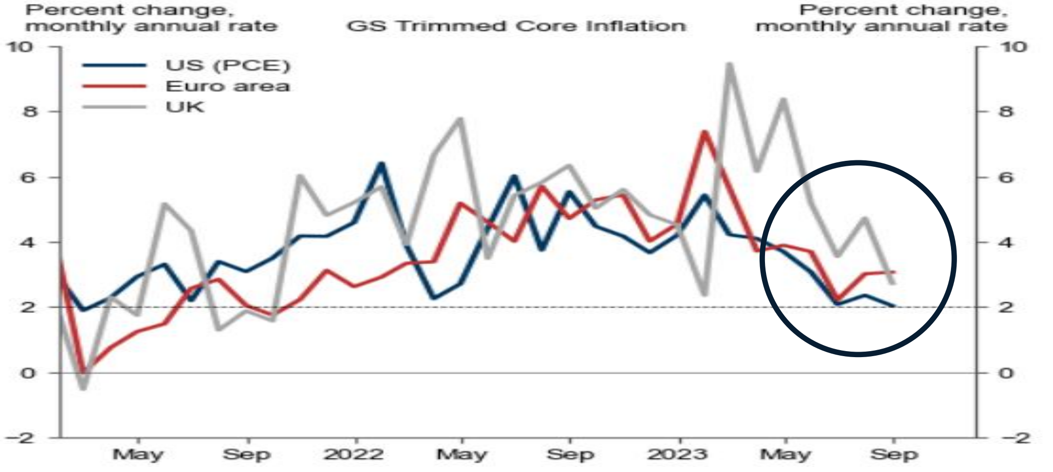
Trimmed Core y/y



Source: Haver, GS

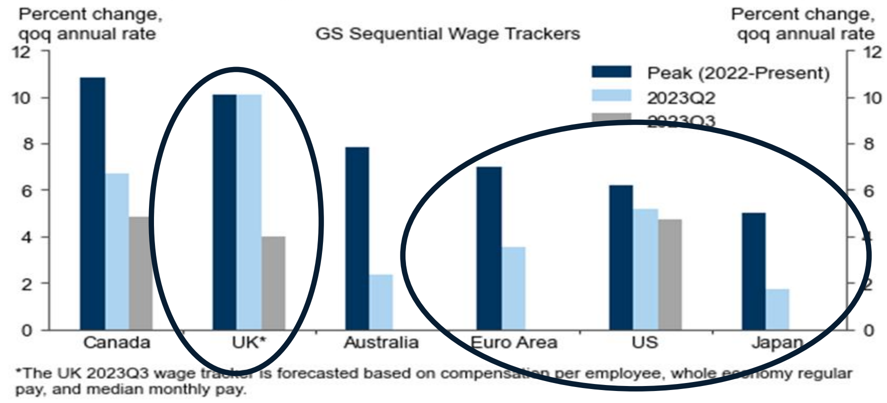
- US, Euro, UK core inflation declining but still too high US[1]
- M/M core slowing, but next few months could be bumpy in US[2]

Trimmed Core m/m



Source: Haver, GS

Wage Tracker



Source: Haver, GS

- Rebalancing of labor markets taming wage growth
- Continuing progress forecast

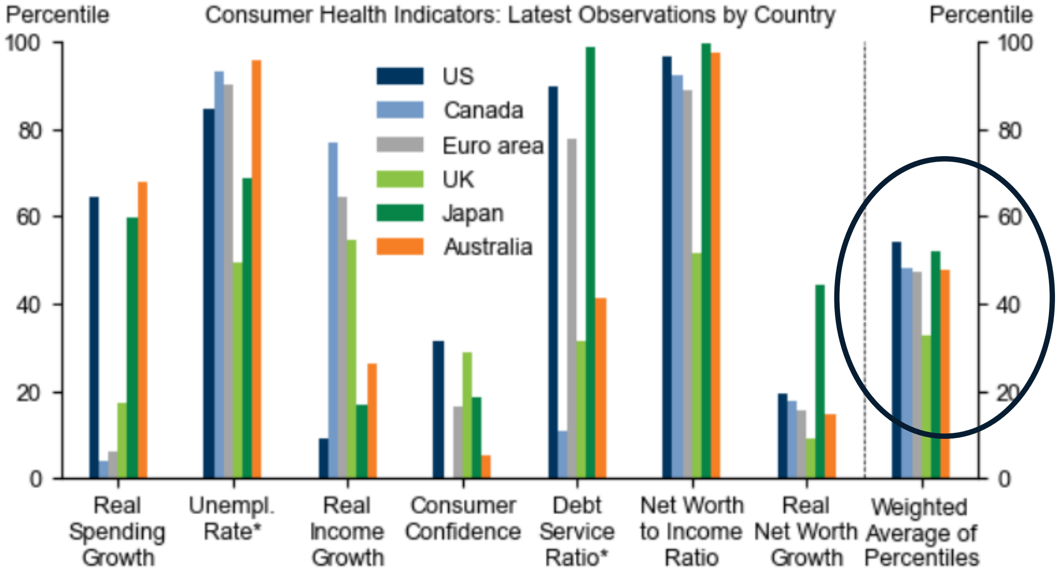
Wage Growth Expected to Moderate

Source: Haver, GS

1. Latest Y/Y core inflation increases: 4.1% (US), 4.5% (Euro area) and 6.2% (UK)
2. US August data last plot on above chart. September US core up 0.32% m/m (~3.7% saar) --highest in 4 moths – long-run trend down but expected to run hotter this fall than in the summer

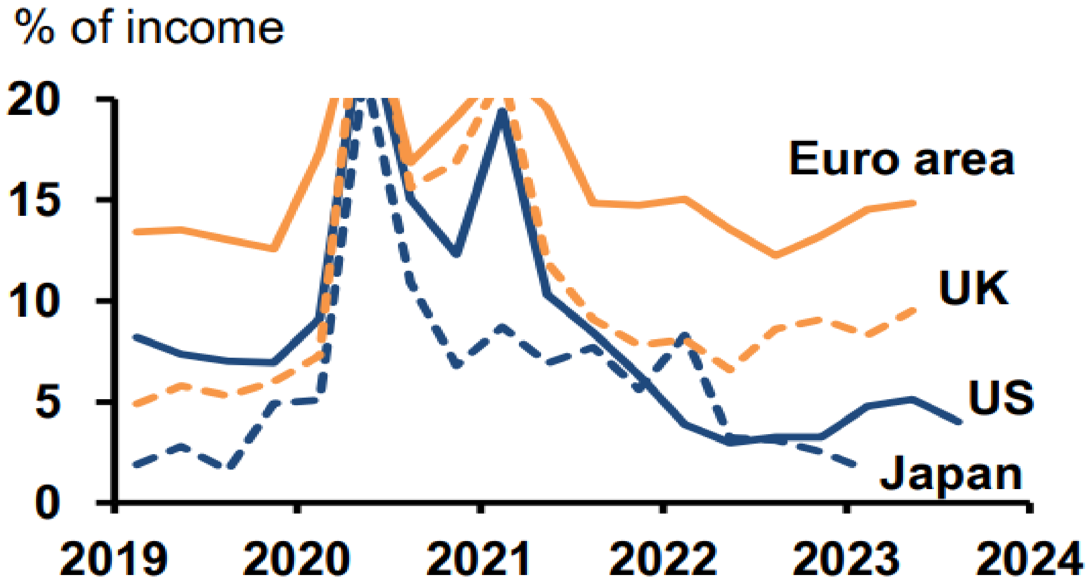
Consumer Fundamentals & High Saving Rates Supportive in Aggregate

G10 Consumer Dashboard[1]



Source: Haver, GS, * percentile inverted

G4 Savings Rates



Source: BER, Eurostat, CAD, ONS

- Consumers continuing to benefit from tight labor markets and strong net worth
- High inflation, however, restraining confidence and real net worth growth
- Overall consumer health above 40th percentile in G10 ex UK

- US consumers supported recent strong spending of by drawing down excess savings[2]
- Euro area and UK consumers to a lesser extent have been more cautious and maintained their savings rates at exceptionally high levels

1. G10 consumer dashboard updated October 11, 2023
2. It might be noted, however, that even though the US consumers have largely drawn down their excess savings, they have strong balances sheets. Household liquid assets have risen $4.4 trillion since Q4 ‘19 and net worth has surged $37.6 trillion.

G4 Real Wages & Incomes Potential Support for Consumer Spending in '24

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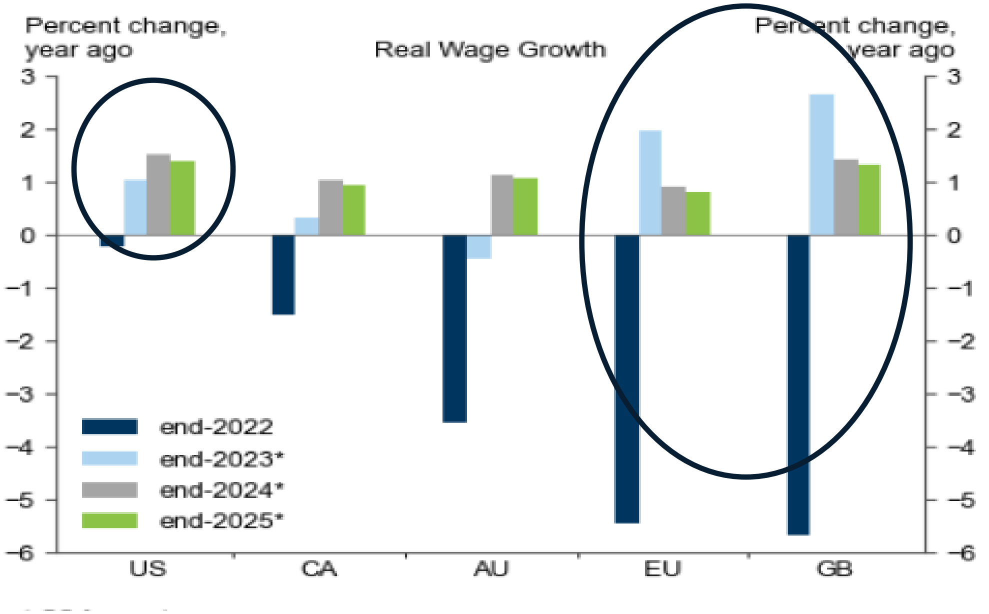
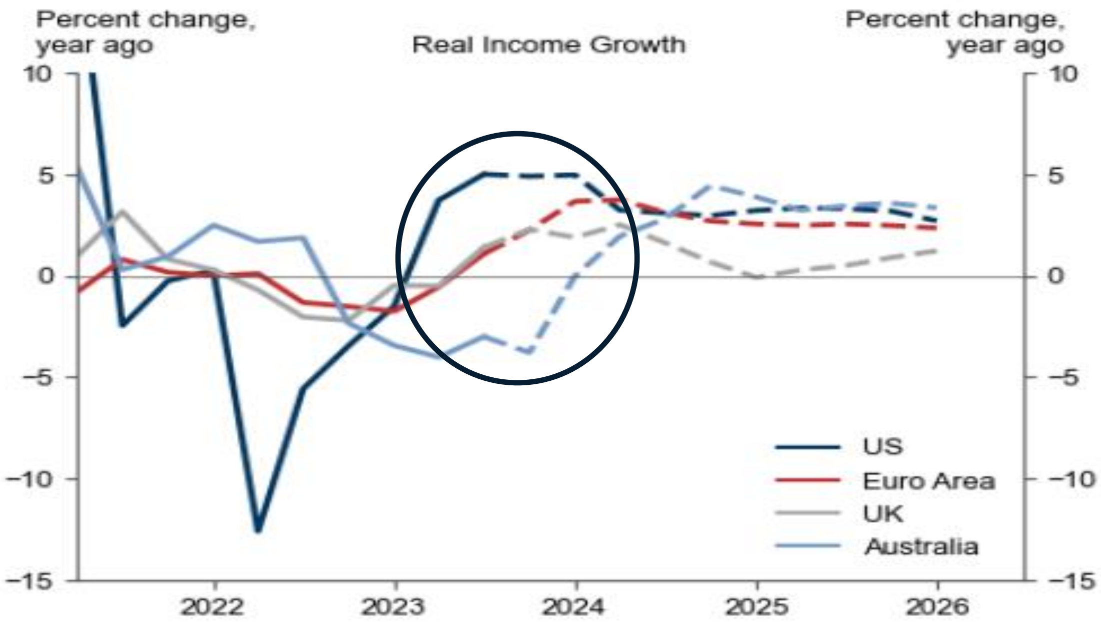
Real Wage Growth



Source: GS

Real Income Growth



Source: GS

- G4 real wage growth has followed a rollercoaster in past two years, particularly in the EU and the UK
- Declining sharply in '22 as inflation surged and partially recovering in '23 as inflation moderated
- Looking ahead expected '24 wage growth and disinflation should pave the way for a pickup in real income growth in the EU (red line) and the UK (light blue line)
- This expected improvement in income growth underpins GS economists relatively sanguine '24 outlook[1]

1. GS economists see a strong consumer a main driver of their above consensus forecast for global growth in 2024 (2.5% GS vs. 2.1% Bloomberg consensus).

Latest PMIs Point to Continuing Modest, Albeit Uneven, Global Growth

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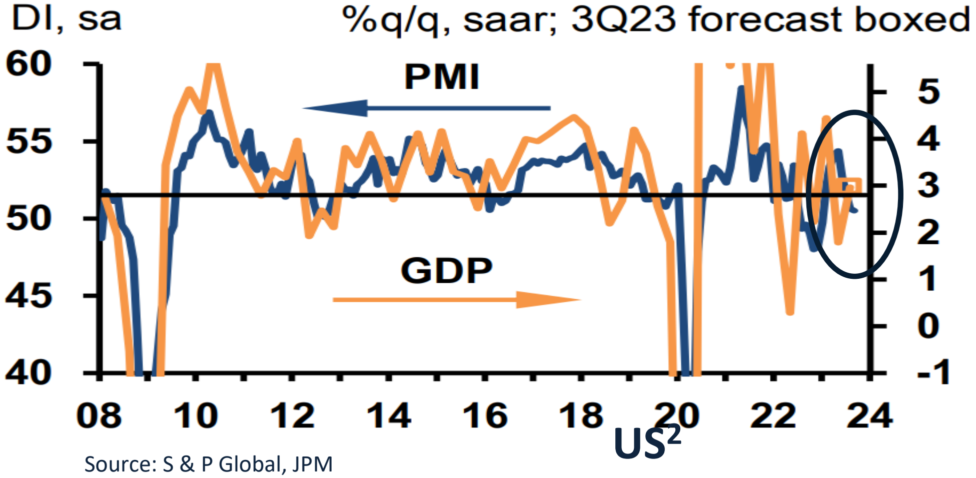
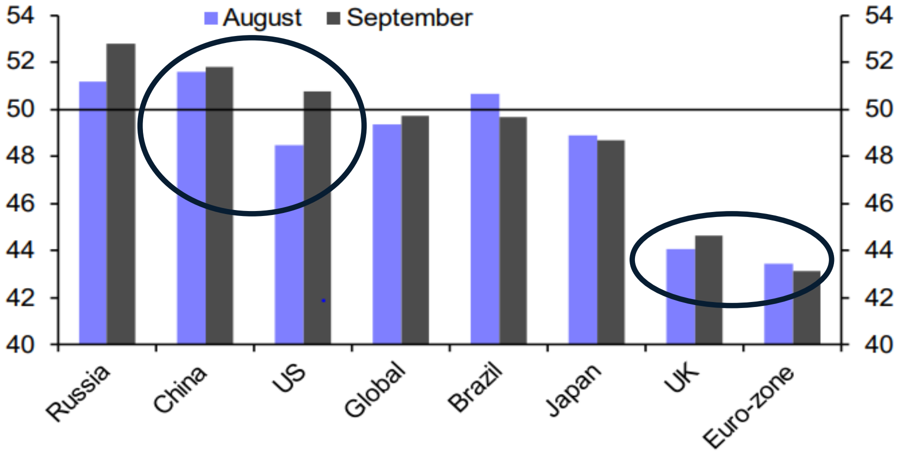
Global All Industry PMI & GDP



Source: S & P Global, JPM

Manufacturing PMI: Major Countries

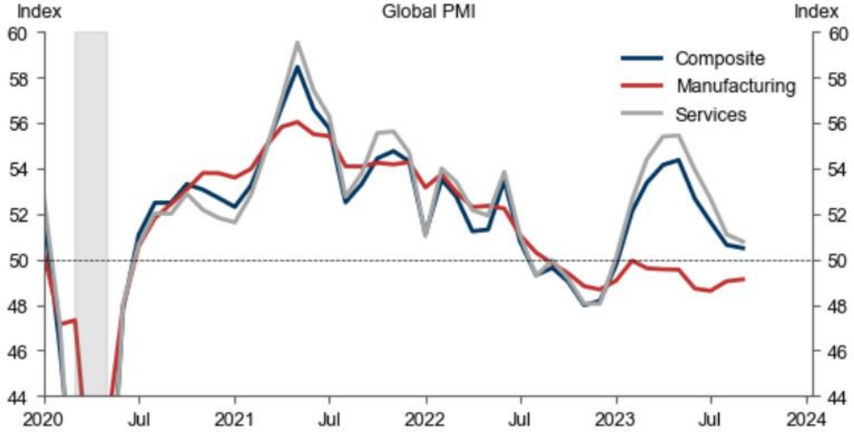


Source: S & P Global, CE

- **Global PMI aligns with JPM's modest global growth expectations[1]**
- **After falling most of '23 mfg. may have troughed**

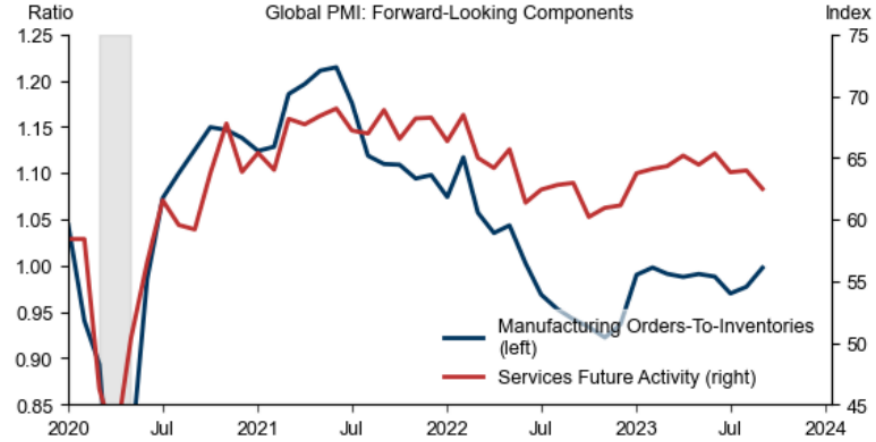
- **Mfg. rising in China and the US but still weak in UK & Euro area**
- **Forward indicators suggest mfg. recovery may have some legs**

Global Composite



Source: S&P Global, GS

Global Forward PMIs



Source: S & P Global, CE

1. JPM forecast 2.6% annual rate of global growth for Q3 of this year.

Major EM Macro Backdrop: Inflation, Current Accounts & Unemployment Improving[1]

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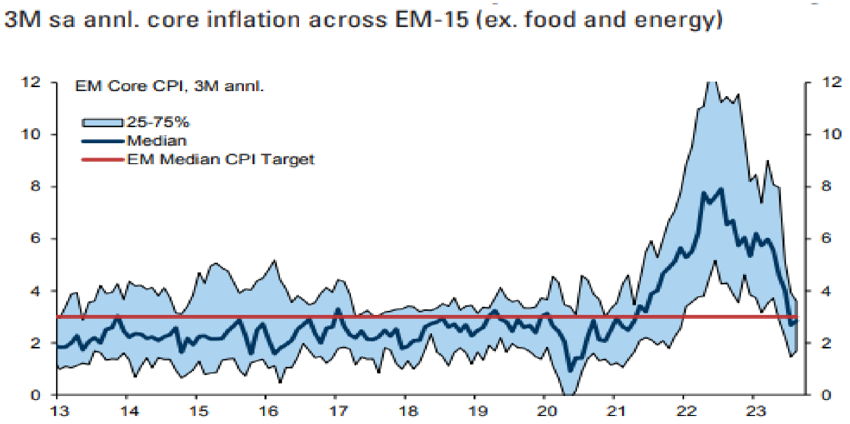
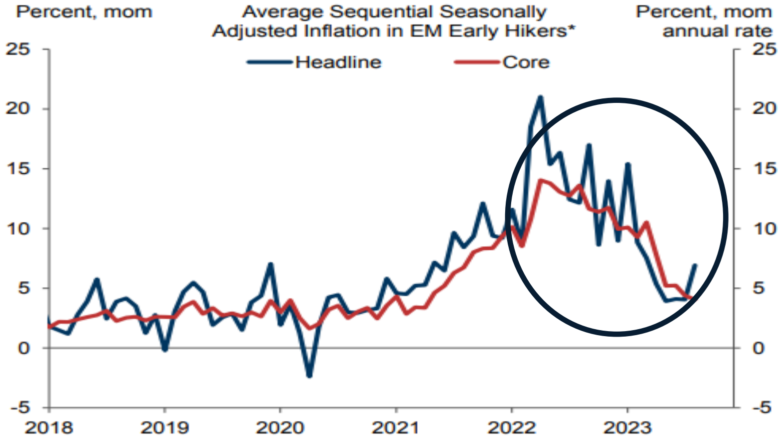
Core Inflation



Source: National Sources, GS

"Early Hikers" Inflation

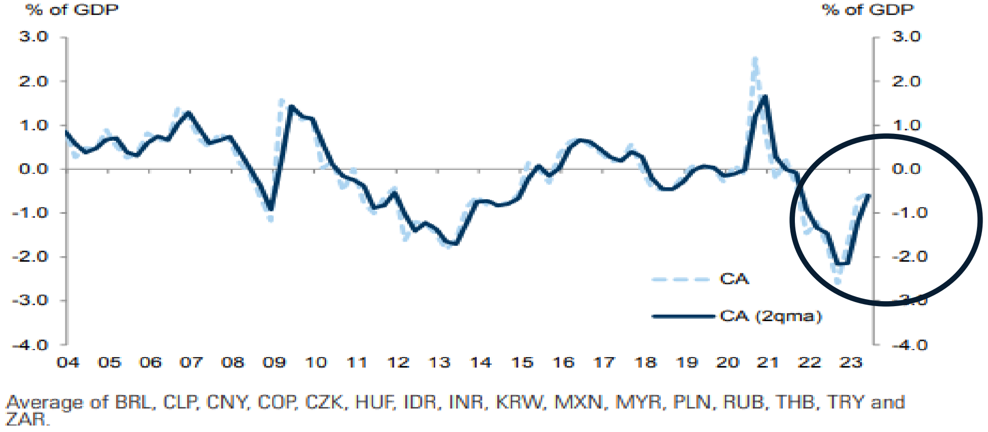


Source: Haver, GS

- EM Core Inflation normalizing back to target
- Current account deficits narrowing

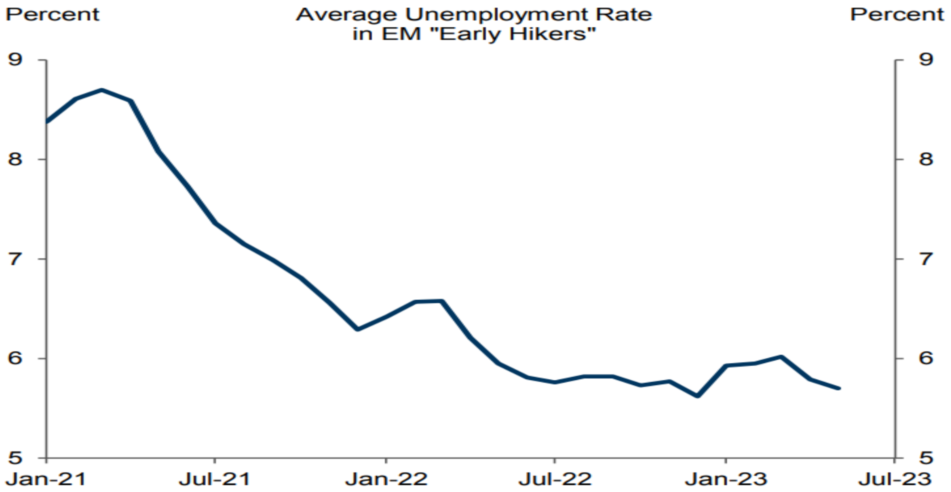
- Early hikers that tightened aggressively now poised to reduce rates
- Interestingly, these EMs have experienced significant declines in unemployment

Current Account Balances



Source: Haver, GS

Early Hikers Unemployment Rates



Source: Haver, GS

1. Major EMs ex China include countries listed on current account balances chart The nine EM early hikers are Latin American and Central European countries including Brazil, Chile, the Czech Republic, Hungary, Mexico, Peru, Poland, and Romania

Current Atypical DM Macroeconomic Backdrop

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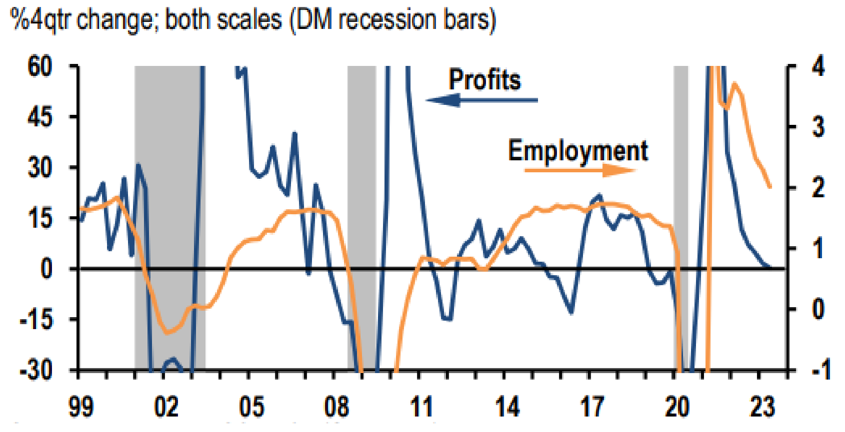
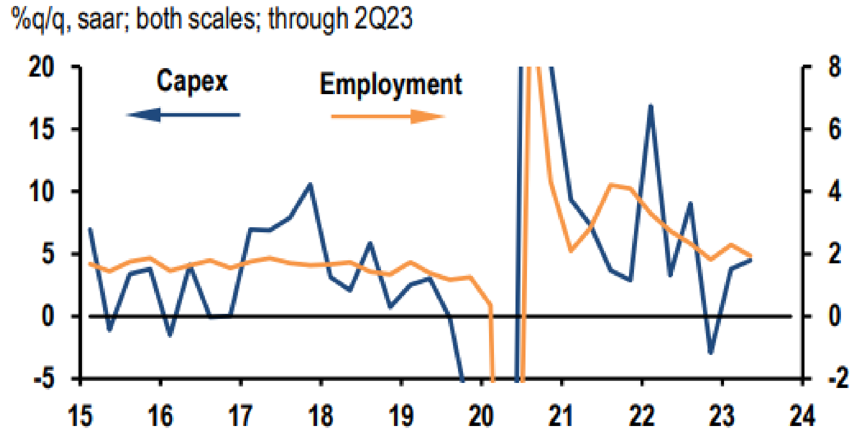
DM Corporate Profits & Job Growth



Source: MSCI, Bloomberg, JPM

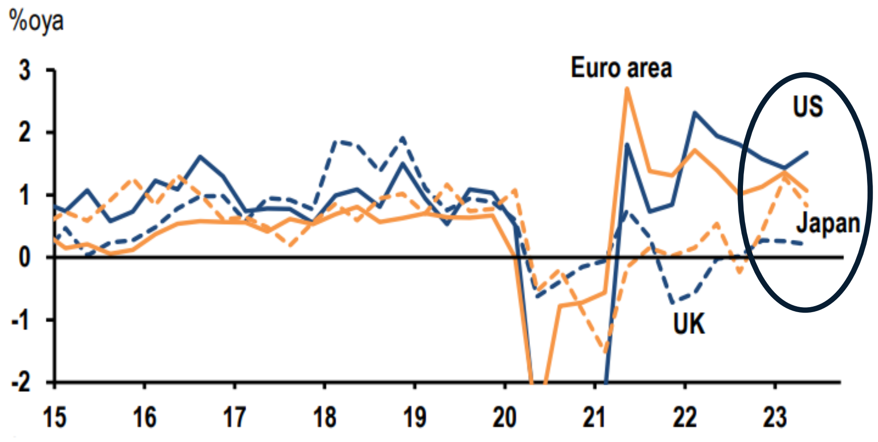
- DM employment & capex providing continuing support, despite stalling profits

DM Capex & Job Growth



Source: JPM

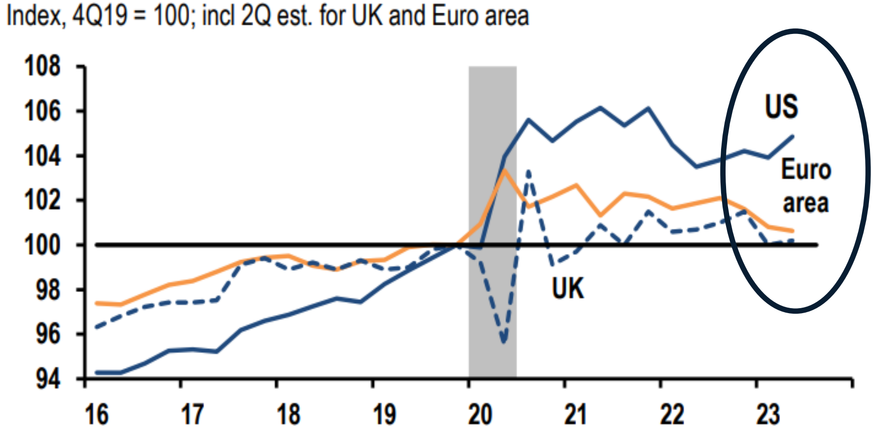
Labor Force Growth



Source: National Sources, JPM

- Labor force and productivity growth (ex. UK) supportive
- Capital spending & productivity trends impressive, particularly in US [1],

Productivity Growth



Source: BLS, ECB, ONS

1. Sustained upward trajectory of intellectual property and R&D are adding more to US GDP growth than at any time in the last 40 years

DM Sovereign Bond Selloff: Thoughts / Representative Views Re Outlook

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- **Surge of Bond Yields Led by ~100 bps rise in 10-year Treasuries Since Mid-July Raising Questions**
  - Speed of adjustment principal concern / current yields near long-run norms[1]
  - Macro data and events can only partially explain recent surge
    - Inflation significantly below recent peaks / central banks' policy rates near or at terminal levels
  - Bond investors reassessing term premiums principal cause

- **Representative Views on Outlook for Sovereign Bond Yields**
  - *Ed Yardeni:* Current fiscal excesses reenergizing bond market vigilantes[2]
    - Unless Biden administration heeds lessons of Clinton-era, bond yields likely to rise further
  - *Barclays:* sell off not excessive / no apparent reversal in near future[3]
    - US term-premiums increase to ~75 bps warranted due to fiscal excesses
    - Italy principal fiscal concern in Europe/UK in relatively favorable position
  - *Goldman*: Bonds oversold estimated current fair value of 10-yr Treasury 4.25%[4]
    - Real yield well above potential growth not sustainable
    - Concerns re increasing deficits and buyers strike "overstated"
    - Expect repricing of US long end to spillover to global bonds
  - *Capital Economics: Bond yields will decline in late '23 & '24 as US joins European counterparts in mild recession*

1. During latter part of 20th century 10-year treasury yield of ~4.8% norm
2. Edward Yardeni, "Bond vigilantes threaten to run Biden out of town", FT, 5 October 2023
3. Barclays, Global Rates Weekly, 6 October 2023
4. Goldman, "Updating Our Rates Forecast", 28 September 2023. Significant portion of increase of US government's deficits over the next few years due to debt servicing which should not be a sizeable fiscal impulse. High risk-free yields should attract buyers. Estimated spillover effects to global yields: 65% to UK and German yields and 30% to Japan's
5. Capital Economics, "How worried should we be about Treasury sell off?" 6 October 2023

Higher DM Sovereign Bond Yields: Follow-up Thoughts

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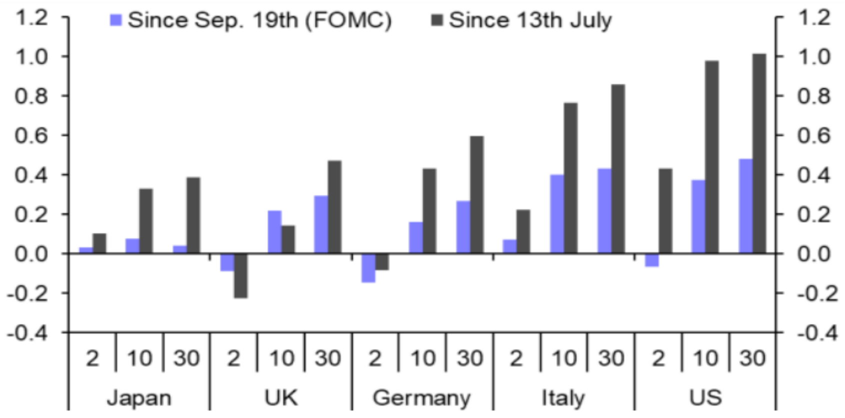
- **Macro Effects Materialize Gradually / Savers' Incomes Receiving Lift**
  - Prevalence of fixed-rate loans diffuses effects on consumer & businesses
    - 90% of US single-family homes financed with fixed-rate mortgages
    - Fixed-rate mortgages dominant in Germany, France, Netherlands and UK
    - Two-thirds of US auto loans locked in at lower rates
    - Overwhelming majority of IG corporate debt fixed at lower rates
  - Higher rates expected to give material lift to US income / expected to add more than 1%-pt to 2024 income growth[1]

- **Base Case: Higher Rates Manageable Macro Headwind but Tail Risk that Bears Watching[2]**
  - Material and broad rise in borrowing costs thus far not generating…
    - Significant stress in global funding or credit markets
  - Global banking system seemingly in position to weather higher rates
    - Credit markets not signaling danger currently
  - Notwithstanding these relatively sanguine factors / credit developments bear watching[3]
    - Paper losses on more opaque part of US banks portfolios currently ~$400 billion
    - Could there be another SVB or black swan lurking in the shadows?

1. Goldman, "The US Consumer: Still Strong in 2024", 5 September 2023. Estimated real income growth in '24 3%, rough two-fifths from higher interest income.
2. Goldman, "The Risks of Higher Rate Regime", 8 October 2023. Tightening financial conditions associated with higher rates imply~-1/2 pp hit to US GDP growth the next year – a meaningful change but too little to threaten a recession
3. Financial Times, "Bond sell-off raises fears of trouble ahead", 6 October 2023.

DM Bond Selloff - cont'd

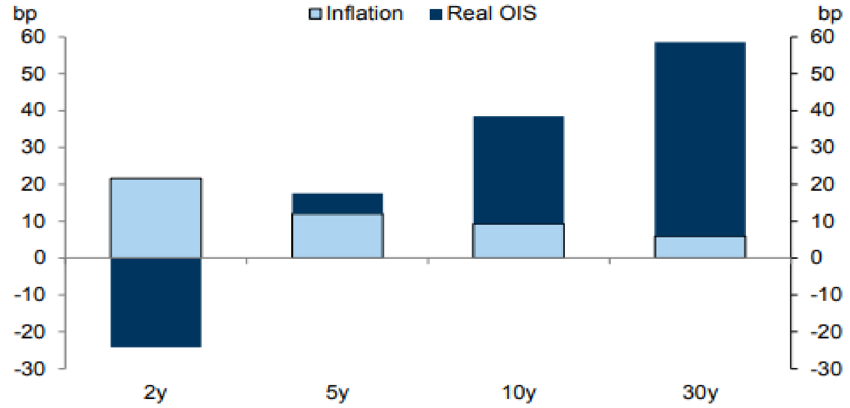
Government Bond Yield Changes (pp)



Source: Refinitiv, CE

- DM 10 & 30-year yields led by US up sharply
- Higher real yields driver of Treasury increases since mid-year

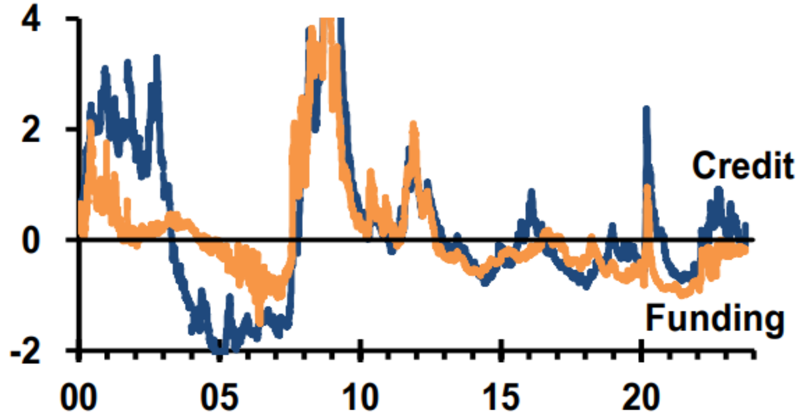
Composition of Recent Treasury Yield Surge



Source: GS

Global OFR Stress Index

Index, 0 = average stress

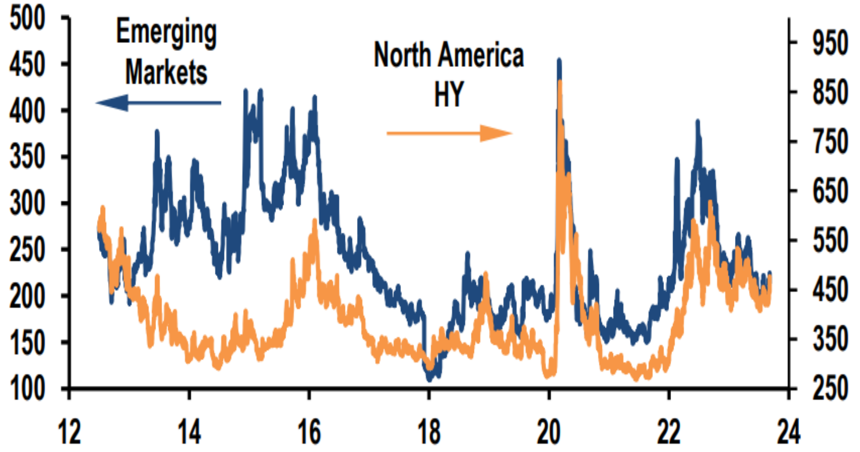


Source: US Treasury

- No sign of financial stress yet from higher rates
- Credit markets not pointing to imminent danger

CDS: High Yield & EM

bps, spread; 5yr on-the-run, both scales



Source: Bloomberg, JPM

Country / Regional Briefs

- **US On Track for Better-Than- Expected 2.2% Growth This Year Key Supports Particularly…**
  - Solid consumer finances and fiscal stimulus[1]still in place but …
  - Financial conditions have tightened, and monetary policy needs to remain restrictive
  - Baseline 2024 forecasts: GDP growth ~1%, core PCE ~2.5%
- **Euro Area: Weak Trade, Low Confidence, Rising Rates Suppressing Growth in '23**
  - Combination of continuing monetary restraint , improving trade and real income growth points to…
  - Modest GDP growth and continuing disinflation in '24
  - Baseline 2024 forecast: GDP growth 0.7%, CPI 2.8%
- **UK: Tightening Monetary Policies Slowing but Not Halting Economic Activity**
  - Core inflation has slowed meaningfully over the last few months
  - Baseline 2024 forecasts: GDP growth 0.5%, CPI 3.0%
- **Japan: Economy Normalizing**
  - Inflation currently ~3% / yield curve control expected to be phased out
  - Baseline 2024 forecasts: GDP growth 1.1%, CPI 2.6%
- **China: Recovering from Q2 Weakness and on Path to Meet This Year's 5% Growth Target**
  - Growth rate, however, expected to moderate somewhat in '24 due to:
    - Property sector weakness, aging demographics and debt problems
  - Baseline 2024 forecasts: GDP growth 4.4%, CPI 1.5%

1. CBO Projected US fiscal deficits::$1.4tr. (5.5% GDP) for'22, $1.6tr (6.0% GDP) for'23 and $1.8tr (6.8% GDP) for '24. GS economists contend boost to growth from a significant portion of the increase in deficits over the next several years will go to debt servicing, which should not translate into a sizable fiscal impulse.
2. Real GDP increased 0.2% m/m in August. REC job report up more than six points in September reversing recent weakness

Country / Regional Outlooks

Major DMs	Estimated GDP Growth			Estimated CPI Increase		
	2022	2023	2024	2022	2023	2024
US	1.9%	2.2%	1.0%	8.0%	4.1%	2.4%
Euro Area	3.4%	0.5%	0.7%	8.4%	5.5%	2.8%
UK	4.3%	0.5%	0.4%	9.1%	7.0%	3.0%
Japan	1.0%	2.0%	1.1%	2.5%	3.2%	2.6%
BRICs						
China	3.0%	5.0%	4.4%	2.0%	0.5%	1.5%
India	6.7%	6.2%	6.2%	6.7%	6.0%	5.0%
Brazil	2.9%	3.2%	1.4%	9.3%	4.8%	4.4%
Russia[1]	(2.1)%	2.0%	1.4%	13.7%	5.0%	5.0%

1. Only limited official economic data available for Russia:, continuing to publish mainstay data — e.g., GDP and CPI — but narrowed scope of available data to hide impact of Western sanctions.

Final Thoughts: Atypical Post-Pandemic Recovery Continuing

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- **Key Supports / Headwinds Discussed in July Still in Place**
  - Imbalances that typically proceed deep/systemic recessions not evident currently
  - Strong labor markets and balance sheets
  - Latest global PMIs: point to moderate below-trend growth/ manufacturing weakness troughing
  - Core inflation still on downward path but above central bank targets /restrictive policies still required

- **Identifiable New Macro Risks & Worrisome Geopolitical Event That have Come to the Fore Since July**
  - Bond markets sudden reassessment of term premiums /yields no longer at historic lows/ financial stress…
  - Limited thus far but large paper losses on bank portfolios & real estate refinancing risks concerns
    - Potential mitigants: Significant income lift from higher rates / prevalence of fixed income loans
  - Latest tensions in Middle East raising crude oil prices / baseline ‘24 forecast now > $100 BBL
    - Possible inflation offsets include lower food prices and easing wage pressures
  - Rising geopolitical tensions human tragedy but not likely to affect global macro-outlook materially …
    - Particularly if conflict does not widen far beyond Israel’s borders

- **Macro Cyclical Outlook Essentially Unchanged: Baseline Forecasts**
  - Global economy expected to expand at below-trend 2.4% rate in 2024 vs. 2.8% this year
  - Inflation continues to moderate / core rates in major DMs expected to be slightly above 2% targets at YE ‘24

Appendix

Oil: High Spare Capacity & Saudi's Long-Run Interests Possible Price Cap

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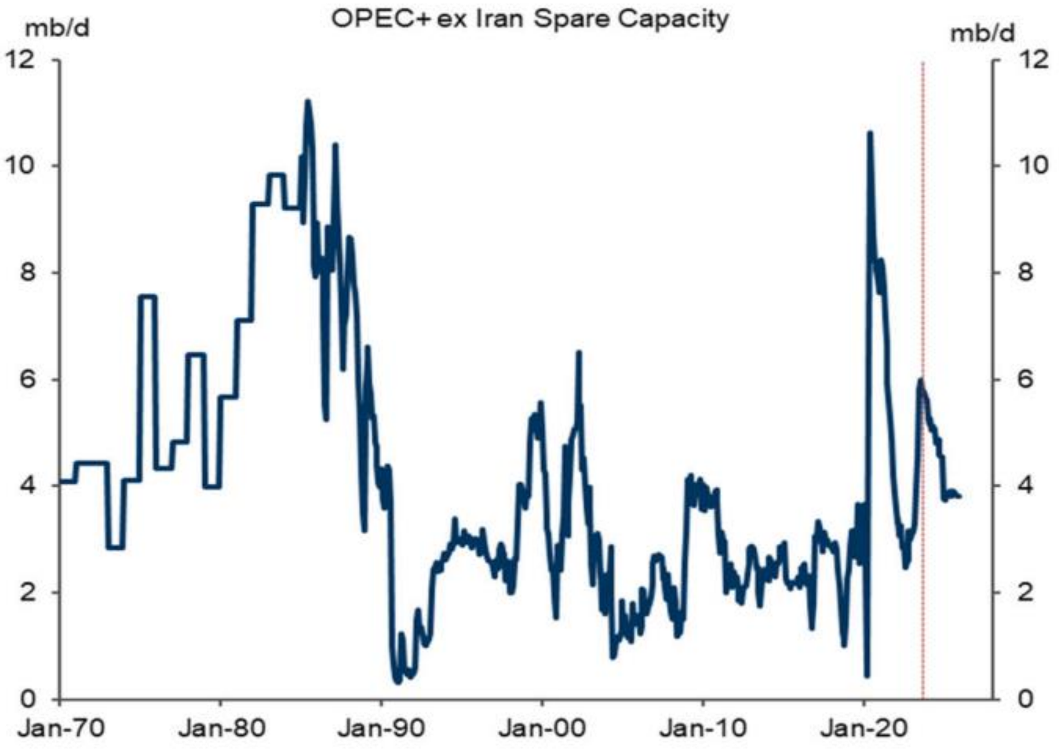
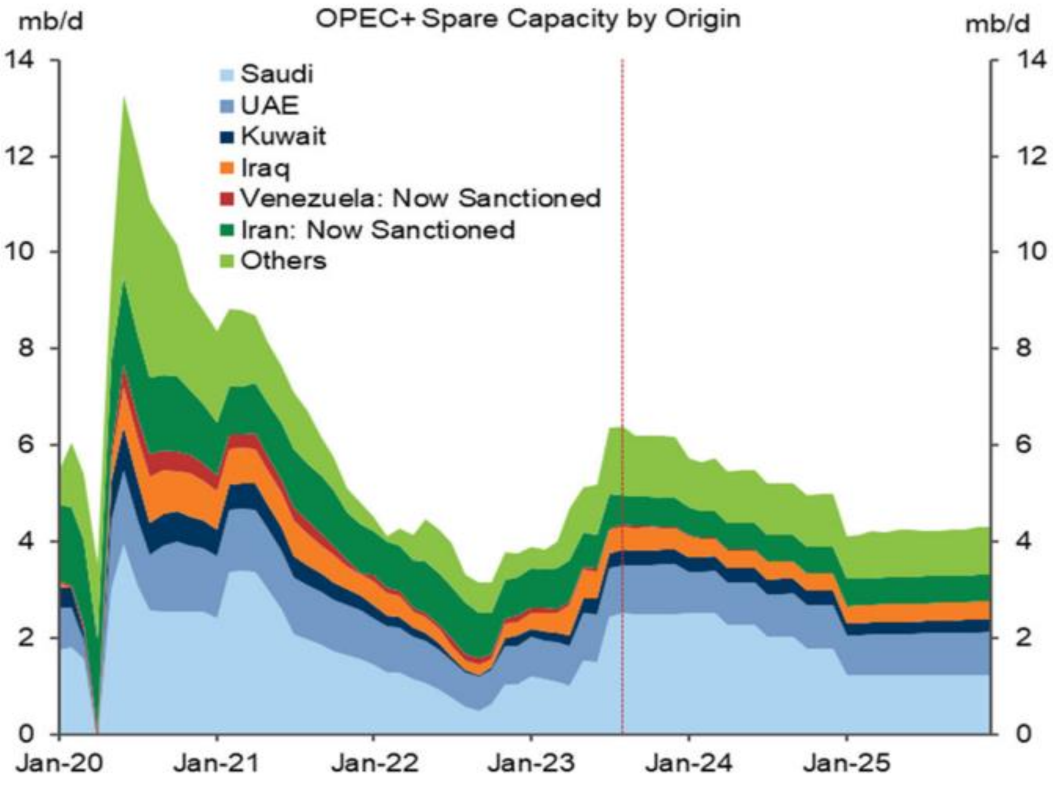
Spare Capacity





Source: IEA, EIA, GS

Oil Prices Scenarios and Food Price Backdrop

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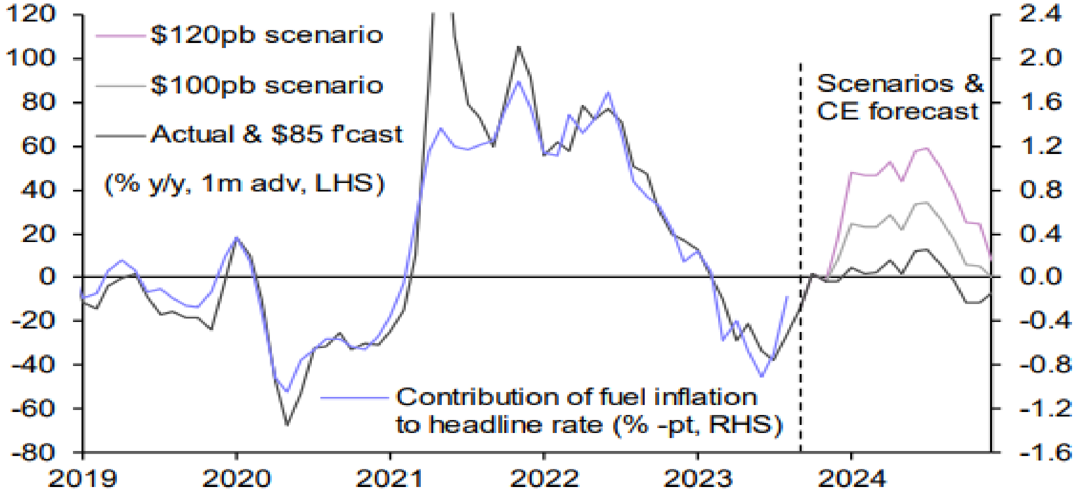
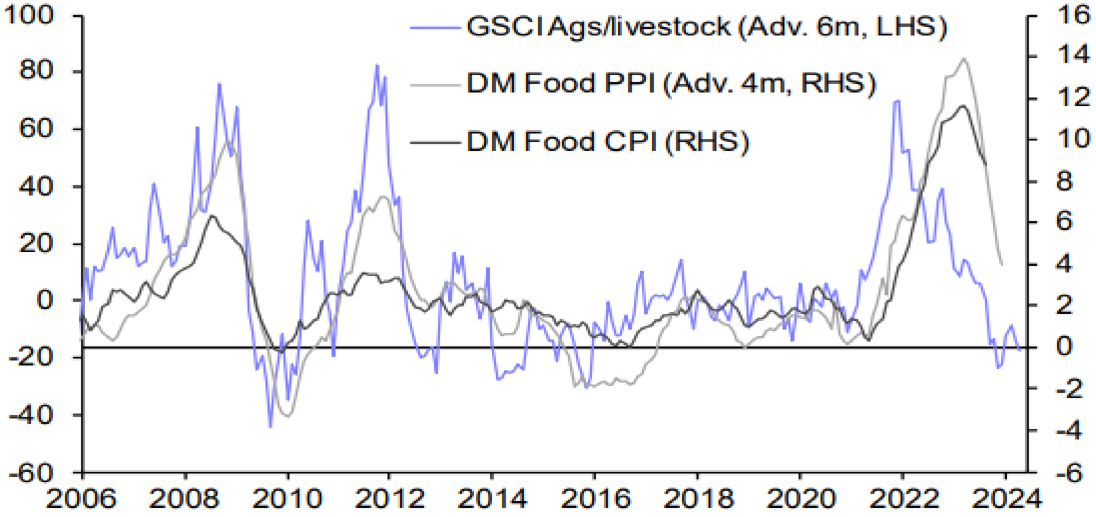
Crude Oil Scenarios: Affect on Headline Inflation



Source: Refinitiv, CE

Commodity, Producer and Consumer Food Prices



Source: Refinitiv, CE

- Estimated contribution of crude oil prices to DM headline inflation : three CE scenarios -
  - (i) $85 BBL oil price: negligible impact on inflation
  - (ii) $100 BBL: ~0.5%-pt hit to major DMs' 2024 inflation
  - (iii) $120 BBL: directly adds ~1%-pt to major DMs' 2024

- Food consumer prices have been essentially flat in recent months, while commodity and producer food prices point to future declines
- CE economists expect low food inflation to knock 1.5%-pts of average DM headline rate by the end of next year

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