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Cyclical Outlook for Global Economy

January 2024

Global Economy More Resistant Than Expected in 2023

- **Aggregate 2023 World Growth Exceeded Expectations By Wide Margin**
  - Current 3.2% estimate 1.5%pt > year-ago consensus / 1%pt > SECOR's outlook

- **Potential-Negative Shocks More Muted Than Expected**
  - DM & EM economies coped surprisingly well with significant rate increases[1]
    - Strong balance sheets and locked-in, fixed-rate mortgages & bond yields cushioned effects
  - Banking crisis in US and Europe in spring short-lived and contained
  - Oil prices remained subdued, despite resurgence of Middle East tensions[2]

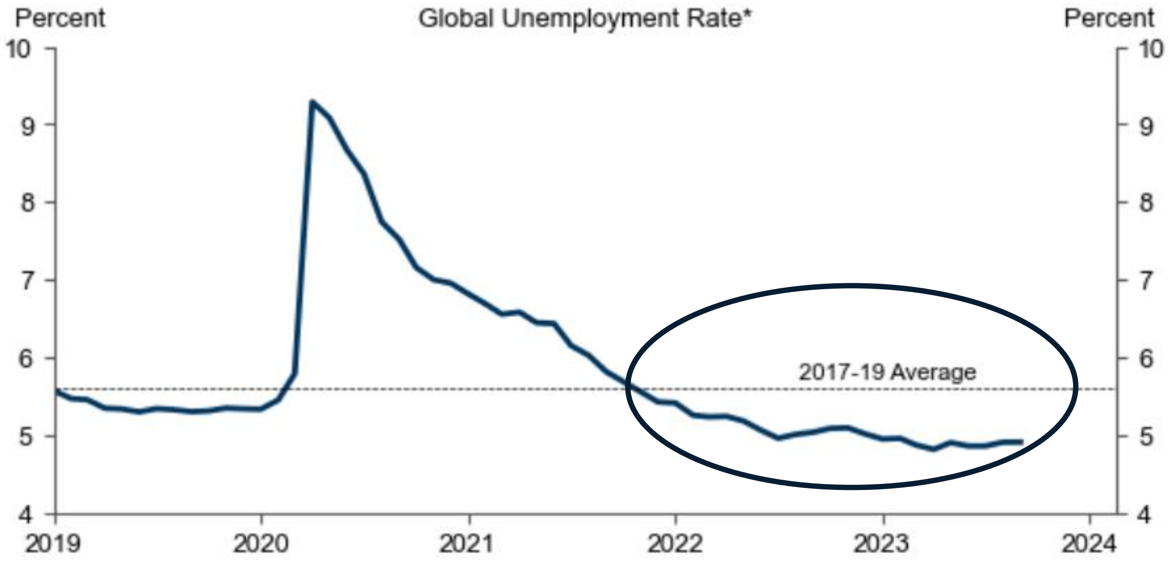
- **Positive Underpinnings of Global Resilience Include:**
  - Robust post-pandemic labor markets supported by recovering service sector
  - Disinflation: normalizing supply chains & declining / moderating energy prices[3]
  - Strong fiscal stimulus, particularly in the US[4]

- **Considerable Divergence Among Countries/ Regions Embedded in Global Aggregate[5]**

1. 384 bp of global tightening over 2022-23 period sharply increased borrowing costs. Short and longer-term rates rise significantly more than implied by a year ago market pricing.
2. Year ago, analysis were forecasting Brent would surge to $100 per barrel but prices declined 10% and ended year at $78 per barrel
3. Global energy CPI declined ~3% in '23 after surging ~50%% in '22, while food price inflation slowed from 11% in '22 to ~5% in '23.
4. Federal budget deficit as % of GDP rose > 3%pt., adjusting for the accounting of student loan debt. US government including federal, state & local spending ~20% of spending rose 5%
5. Positive '23 GDP growth surprises vs. year ago forecasts — US 2.5% vs. 0.8%, UK 0.4% vs. (0.7%), Brazil 3% vs.1%, Russia 3.3% vs. (2.0%)

Strong Labor Market / Disinflation Key Contributors to '23 Resilience

Global Unemployment[1]



Source: Haver, GS

- Unemployment in major countries in 2022-23 edged down to ½ pp below pre-pandemic level - led by recovery in services
- Year-ago forecasts assumed higher interest rates would lift unemployment rates[2]

Sharp Drop in Core Inflation[3]

Source: Haver, GS

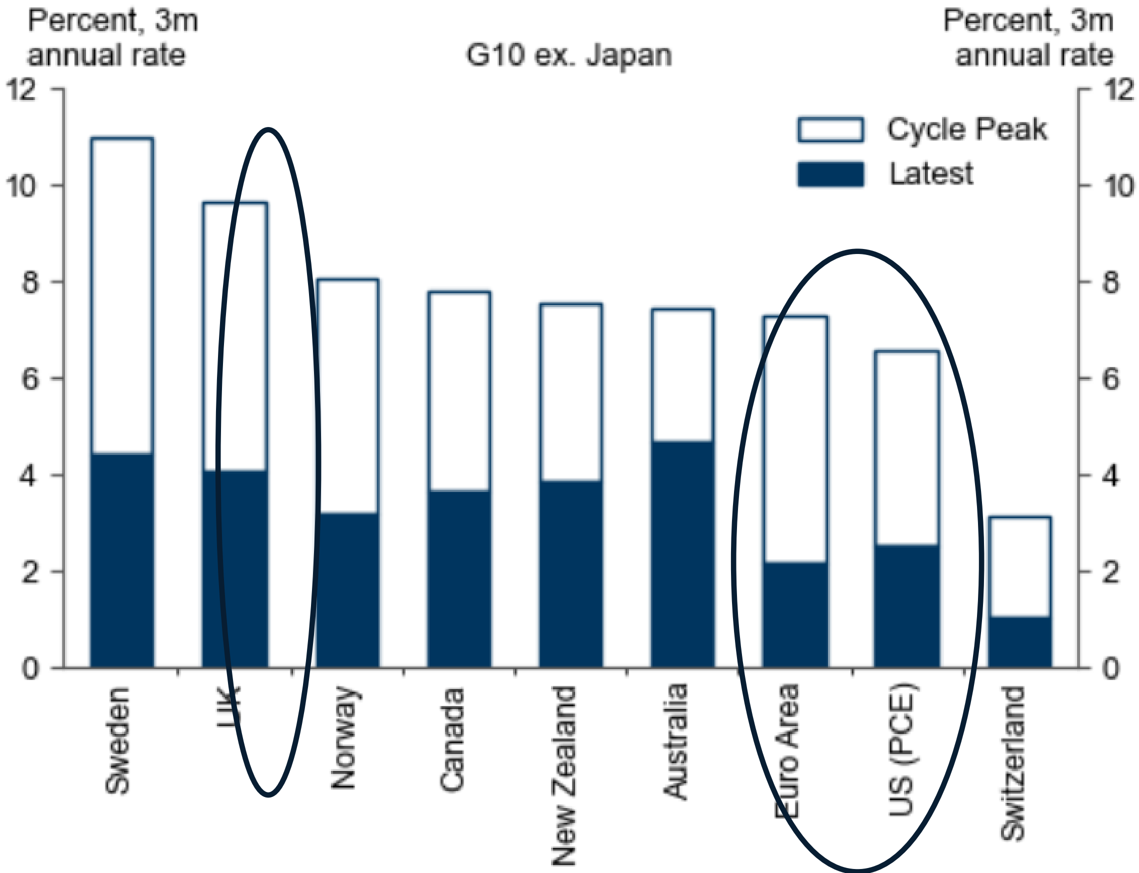
- Sharp drop in core inflation in '23 for countries that experienced a post-COVID surge
- Three-month annual rate (ar) for G10 countries and major EMs in Latin America and Europe dropped from 6% peak in '22 to ~3% at YE '23

1. GDP- weighted average for all countries in GS coverage, excluding countries with low-data quality (Sub-Saharan Africa) and macro shocks (e.g., Ukraine, Russia)
2. Year-ago forecasts assumed higher rates would raise unemployment rates — e.g., year ago forecasts for U.S. unemployment rate: consensus 4.9%, Fed 4.6%, Summers 6%. 3.7% actual YE '23 rate
3. GDP weighted G10 (11 major industrial countries ex. Japan) plus EM early hikers: e.g., Brazil, Mexico, Poland, Hungary.

Sharp Drop in Core Inflation Widespread[1]

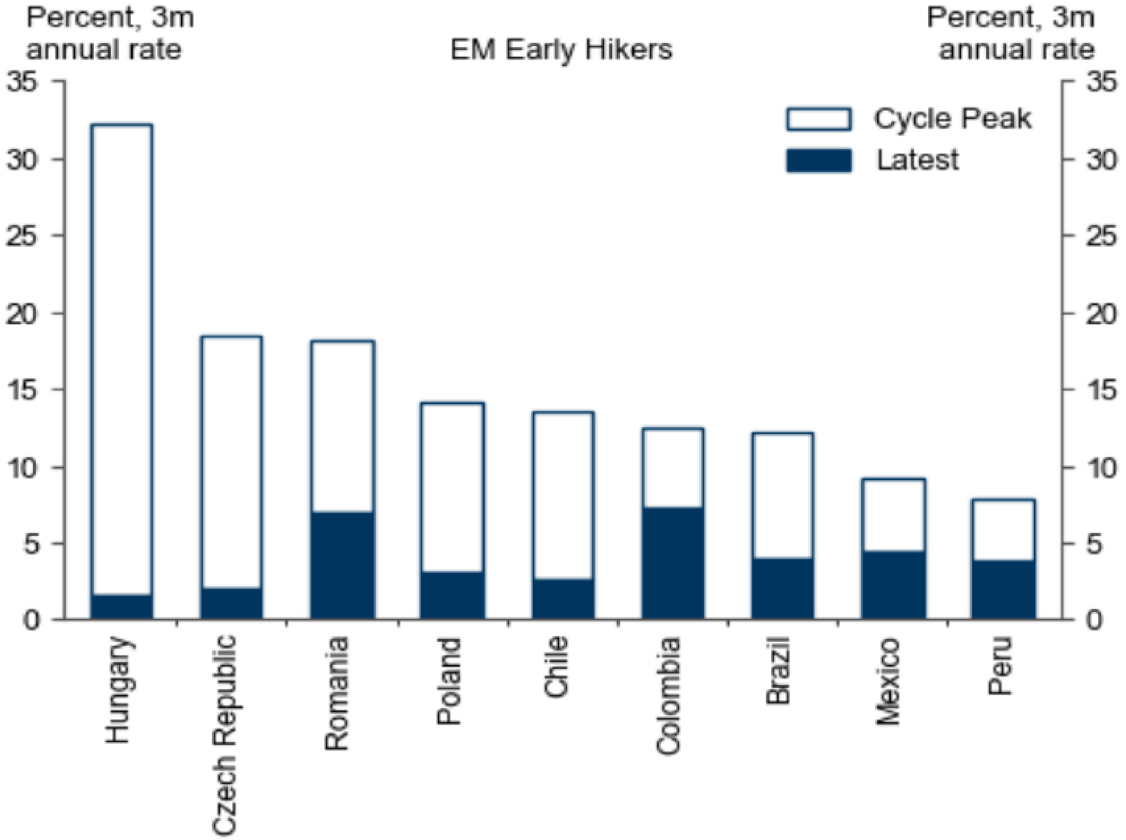
Sequential Core Inflation: Meaningful Decline from Cyclical Peak[1]

G10 Industrial DMs ex Japan



Source: Haver, GS

EM Early Hikers



Source: Haver, GS

1. Charts published in GS 2024 Global Macro Outlook: The Hard Part Is Over, 8 November 2023

Global Inflation Backdrop[1]

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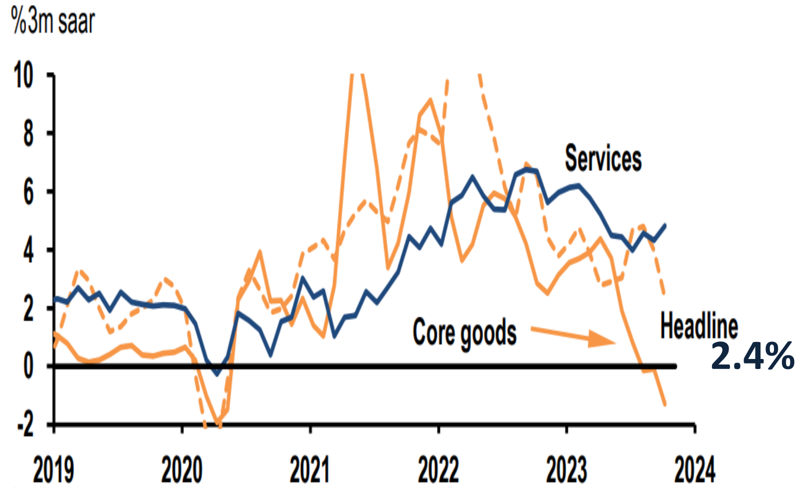
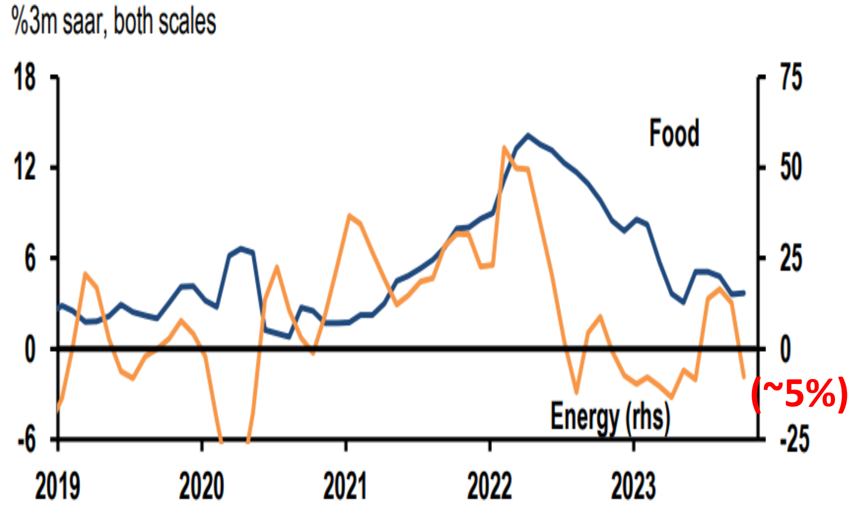
Global Headline CPI



Source: JPM

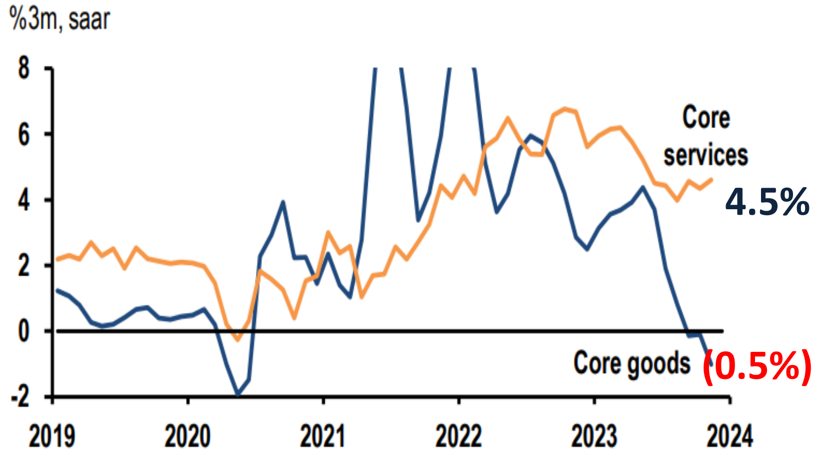
- **Headline inflation slowed to 2.4% ar in 3-months ending November**
- **Declining core goods and energy prices key contributors to slowing**

Global Energy & Food CPI



Source: JPM

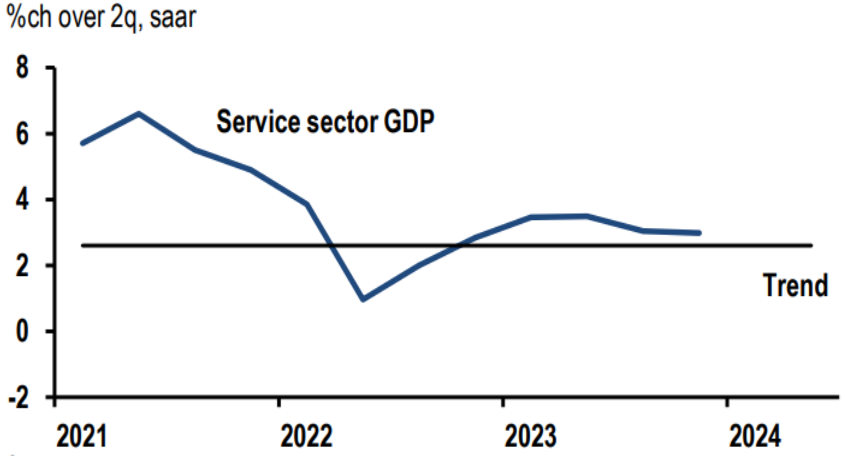
Global Core Services & Goods CPI



Source: National sources, JPM

- **Core CPI rose at ~3% ar as services CPI rose at 4.5% ar & goods CPI edged down 0.5% in the latest period**
- **Above-trend growth & tight labor markets underpin sticky services CPI**

Global Services GDP



Source: National sources, JPM

1. Global charts on this page exclude China and Turkey

2024 Representative Inflation Scenarios / Downside Risk

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- **Sanguine Scenario: Core Inflation Falls Back to 2% - 2.5% by YE[1]**
  - Improvement in supply-demand balance in goods sector largely complete…
    - But impact on core goods disinflation still unfolding
  - Shelter inflation expected to fall further across DM economies[2]
  - Jobs-workers gap — job opening minus unemployed workers — trending down
  - Sharp fall in headline inflation and generally contained inflation expectations…
    - Expected to foster slowing in wage growth

- **Less Sanguine Scenario: Core Inflation Stalls @ 3% in 1st H Before Edging Down to ~2.5% by YE[3]**
  - Downward pressure on core goods prices abating
    - After falling sharply in ‘23 / supply chain pressure no longer easing and starting to reverse
  - Strong demand for services and tight labor markets…
    - Expected to keep service price inflation near current pace[4]

- **Commodity Prices -- Particularly Oil -- Biggest Identifiable 2024 Inflation Risk**
  - Current disruptions: Red Sea attacks / drought affecting Panama canal …
    - Only having minimal impact on supplies and prices thus far[5]
  - Escalation that blocks traffic in the Strait of Hormuz tail risk with potentially severe consequences[6]

1. GS: “Macro Outlook 2024: The Hard Part Is Over”, November 2023
2. Size of impact smaller in Euro area and UK--Unlike US owner-occupied housing not included in key inflation measures
3. JPM: “Not so fast: Global core CPI to rise 3% in 1H24”, January 2024
4. JPM economists forecast global core goods CPI to edge up to 0.8% rate in 1st H of year and core services to edge down from 4.5% rate to 4%, resulting core inflation at 3% rate 1st Half of year
5. JPM economists: if current disruptions sustained for year, they would add 0.5%-pt to core goods CPI. GS economists: full reduction of Red Sea oil flows would raise oil prices $3-4/bbl. and add 0.1pp to headline inflation
6. Oil prices could spike 20% or more and national gas by as much as 370%. Nearly 20% of global oil and LNG supplies flow through strait

2024 Representative Inflation Scenarios – cont'd

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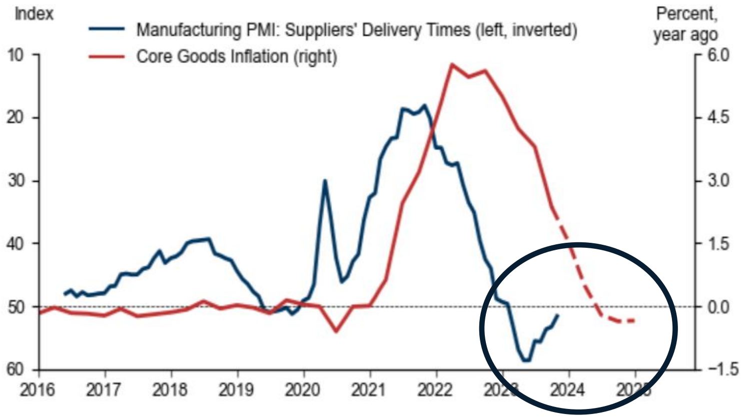
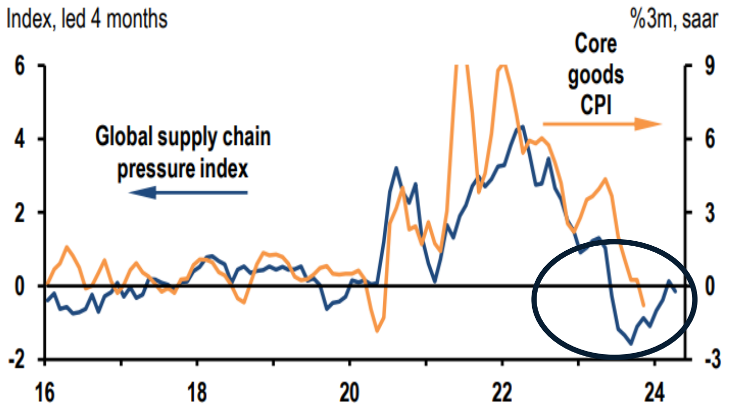
Delivery Times & Core Goods CPI[1]



Source: Haver, GS

Supply Pressures & Core Goods CPI[2]



Source: FRBNY, National Sources, JPM

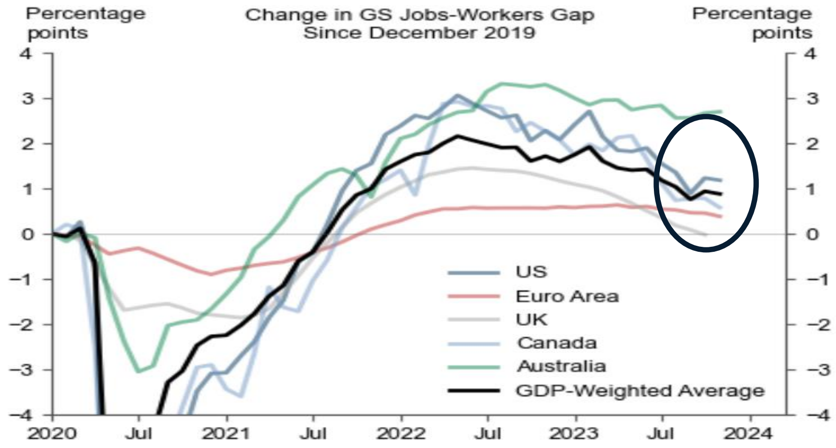
Sanguine Scenario

- Based on historical lags, core goods disinflation has further to go
- Narrowing jobs-workers gap can slow wage growth without raising unemployment

Less Sanguine Scenario

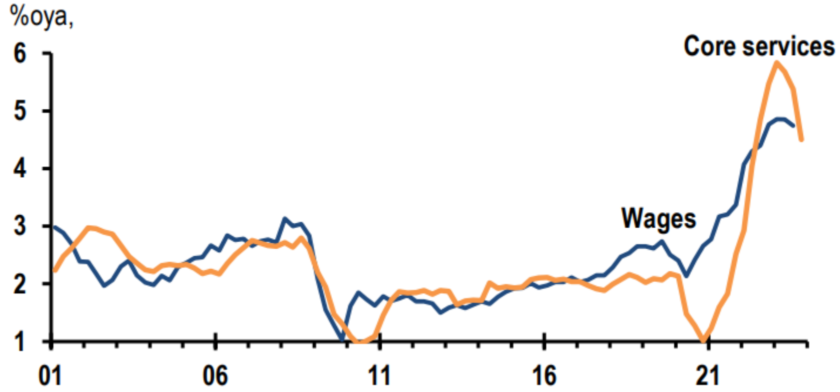
- Rising shipping costs will put upward pressure on core goods prices
- Tight labor markets will keep upward pressure on services prices

Jobs – Workers Gap



Source: Haver, GS

Core Services CPI & Wages

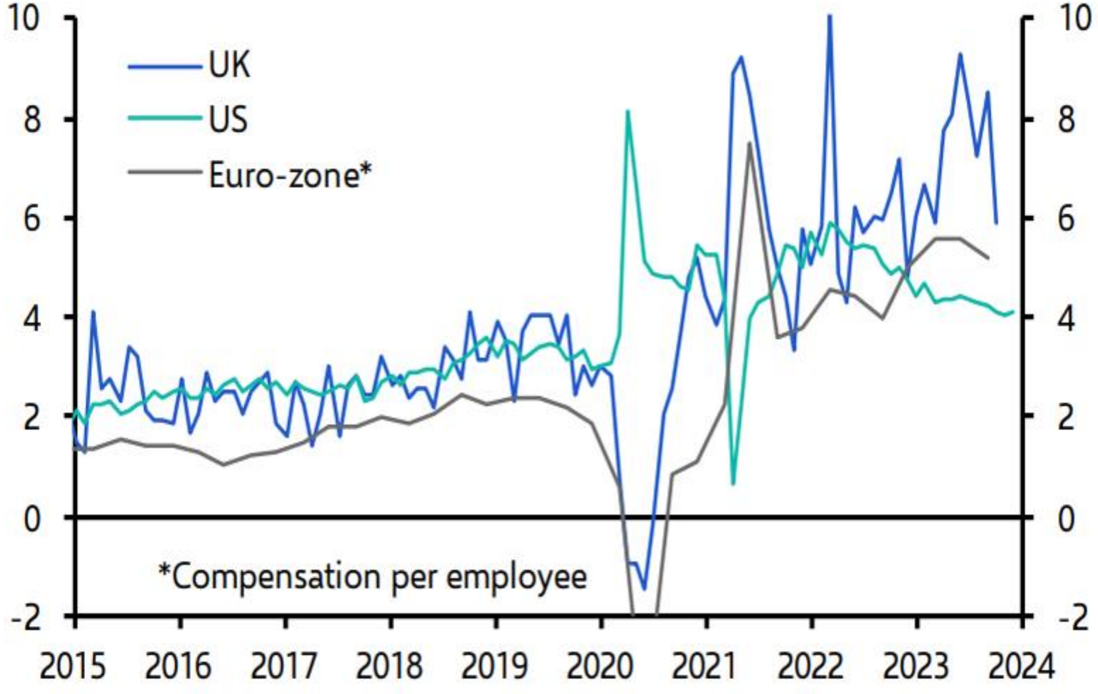


Source: National Sources, JPM

1. Delivery times and core goods prices inflation GDP weighted average of US, Euro Area, UK, Canada, and Australia dashed line BDP forecast 2
2. JPM economist estimate shipping costs disruptions could add 0.3%-pt. to global CPI in 1st H of this year if recent cost increases persist.

2024 Inflation Outlook Backdrop – cont'd

Wages (% y/y)

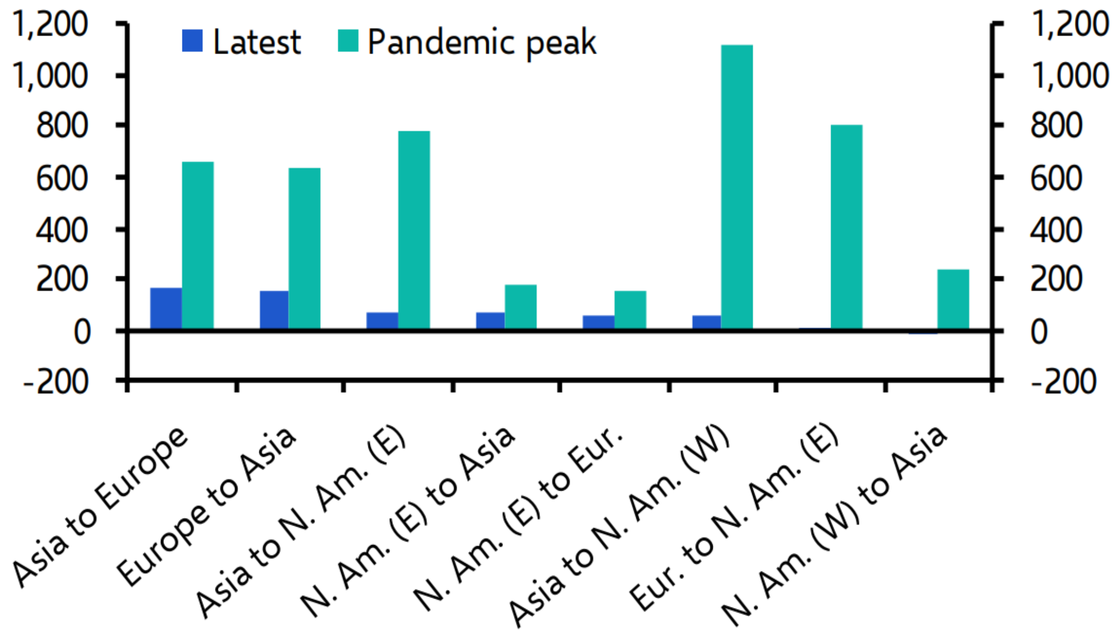


Source: Refinitiv, CE

- Pace of wage increases moderating to varying degrees in US, UK, and Euro zone…
- But still above rates of increase consistent with central banks' 2% target

Spot Container Freight Rates

% Difference from End – 2023 Level



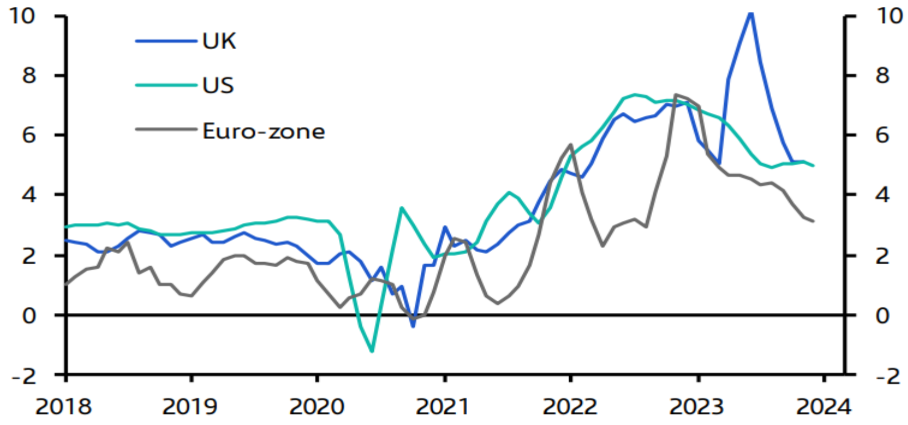
Source: Refinitiv, CE

- Shipping costs have jumped thus far in 2024[1] but…
- They have not risen to anywhere their pandemic highs

1. CE Global Economics Chat Pack 11 January 2024

Inflation Debate: Latest Data Cited As Cause for Concern/Potential Mitigants

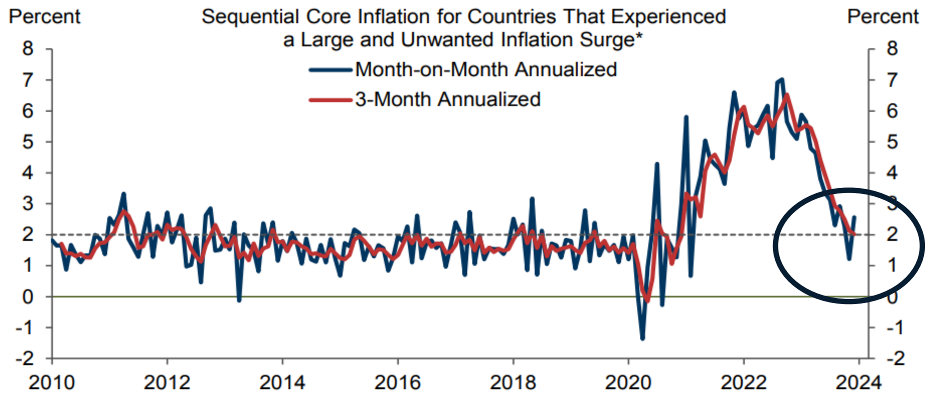
Core Services Inflation (% 3m AR)



Source: Refinitiv, CE

- Core services CPI in major DMs still above 2% target
- Global core inflation's 2.6% ar in Dec. possible concern

Global Core Inflation Decembers Jump



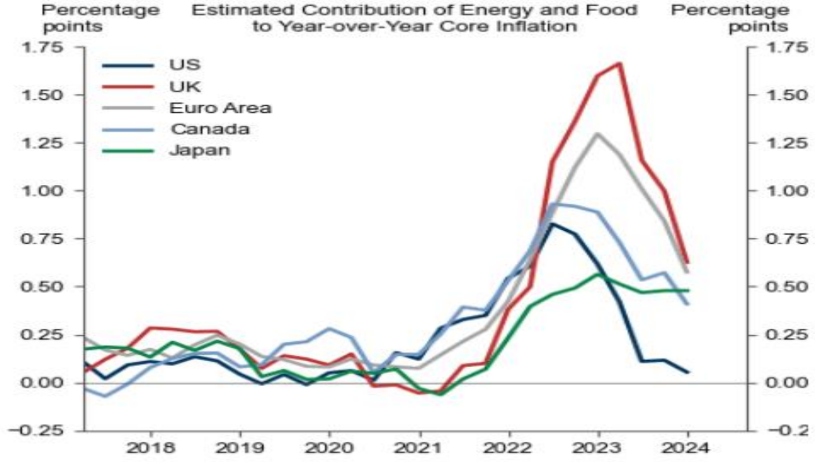
Source: Haver, GS (see chart 3 note)

Supply Improvements[1]

Source: S & P Global, Haver, GS

- Supply fixes account for large share of recent global inflation progress
- Energy and food prices important contributors

Impact of Falling Commodity Prices



Source: Haver, GS

1. PMTs and core goods inflation GDP weighted average of US (PCE), Euro area, UK, and Australia. Dashed line GS forecast.
2. GS economists: Recent global inflation progress supported by VAR analysis of US and Euro area inflation

Consumer Fundamentals & High Saving Rates Supportive in Aggregate

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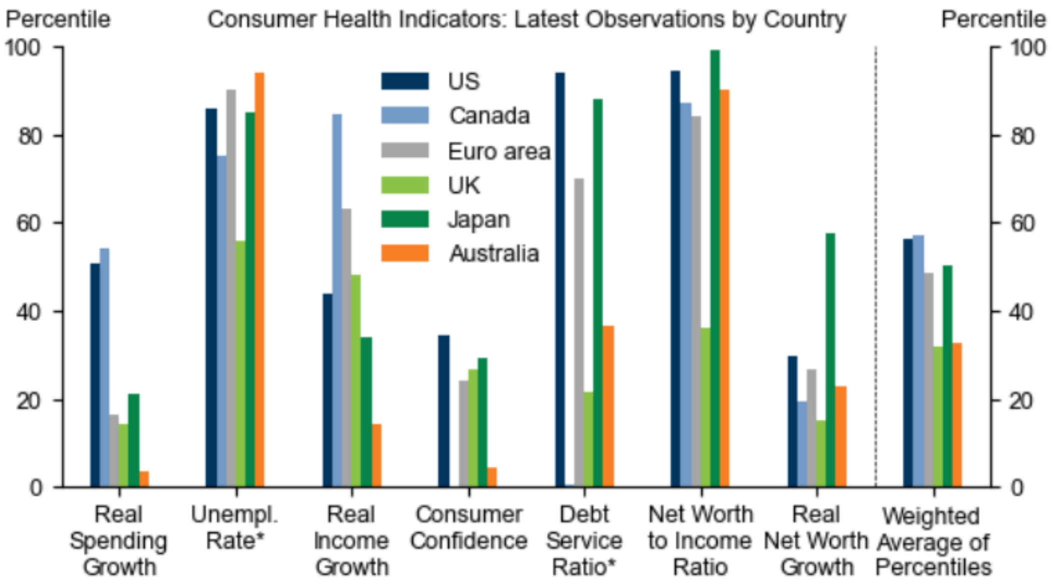
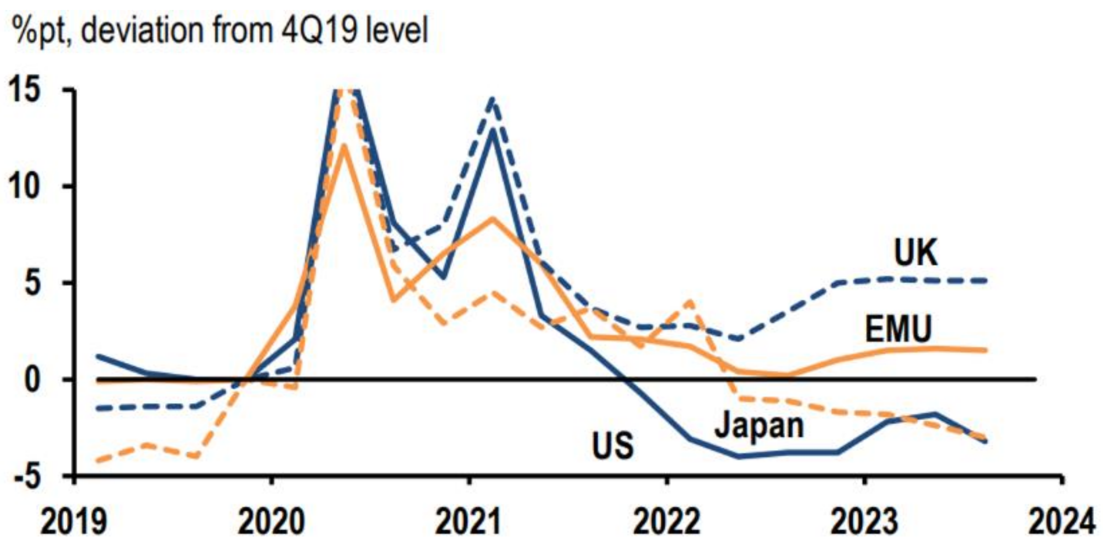
G10 Consumer Dashboard[1]



Source: Haver, GS, * percentile inverted

G4 Savings Rates



Source: National Sources, JPM

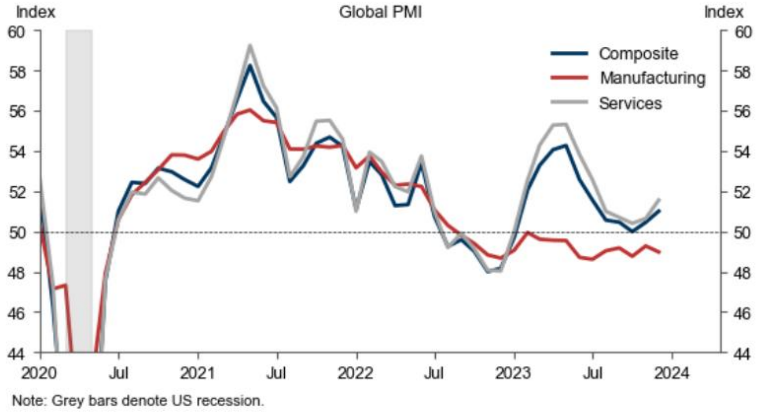
- Consumers continuing to benefit from tight labor markets and strong net worth
- High inflation still restraining confidence and real net worth growth, but real income growth is recovering
- Overall consumer health near or above 50th percentile in G10 ex UK and Australia

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

1. G10 consumer dashboard updated January 17, 2024
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.

PMIs Point to Continuing Expansion But Manufacturing Still Subdued

Global PMI



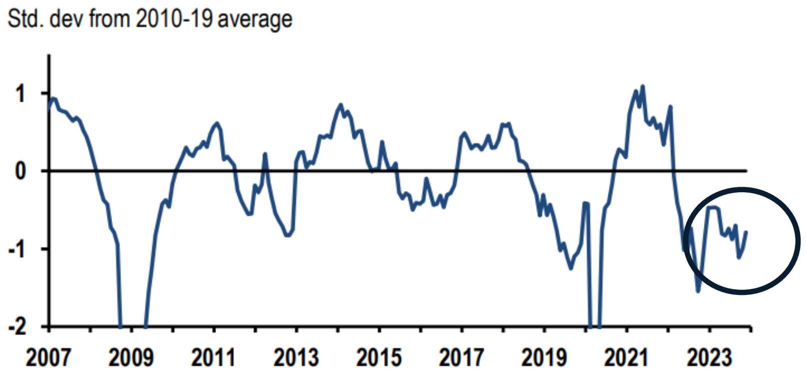
Source: S & P Global, GS

- **Global composite PMI driven by services consistent with 2.5% growth**
- **Forward indicators point to strong services and weak manufacturing**

Forward PMIs

Source: S & P Global, GS

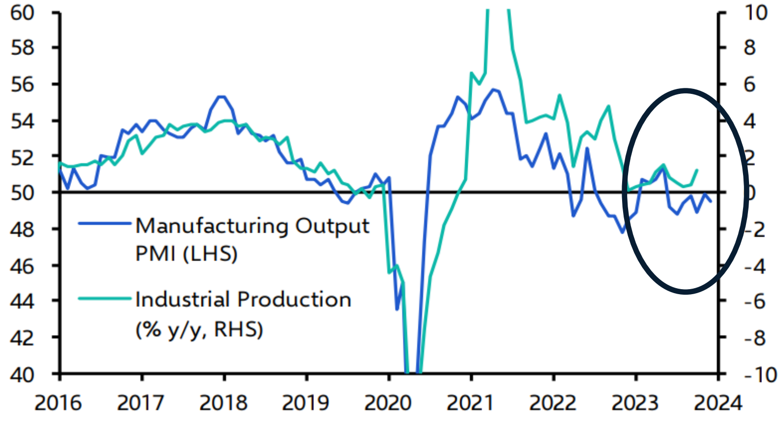
Global MEI Index



Source: S & P Global, JPM

- **MEI --manufacturing expectations index --depressed but up from recent low**
- **Industrial production (IP) holding up better than surveys imply, although still weak**

Global IP & Manufacturing PMI



Source: S & P Global, Refinitiv

Manufacturing Output Sluggish Outside China

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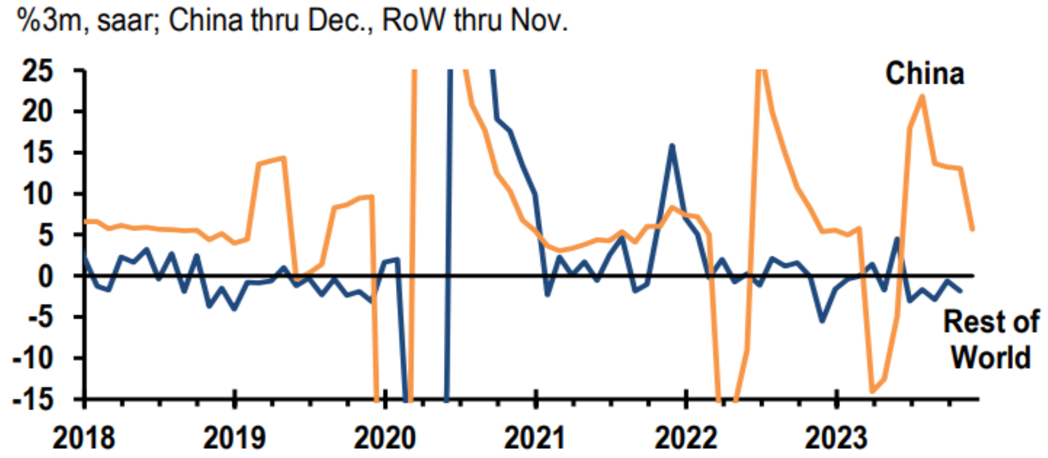
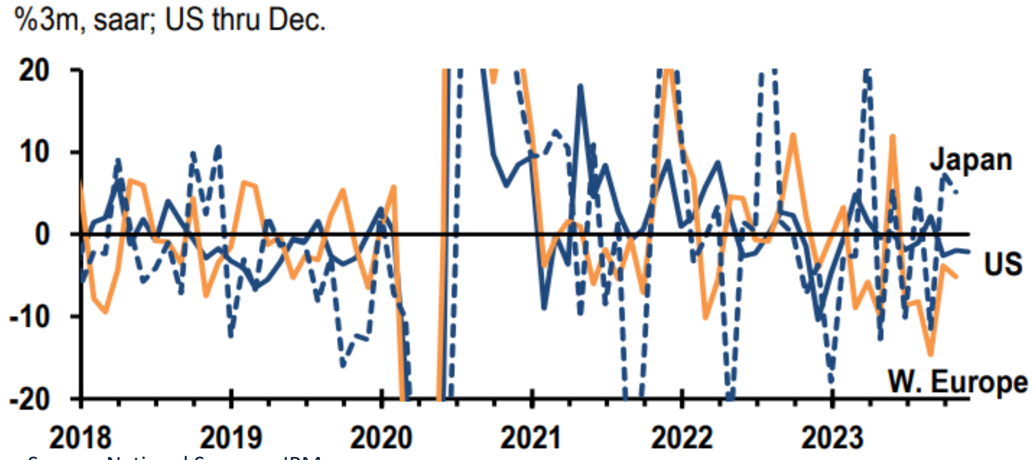
Global Manufacturing Output



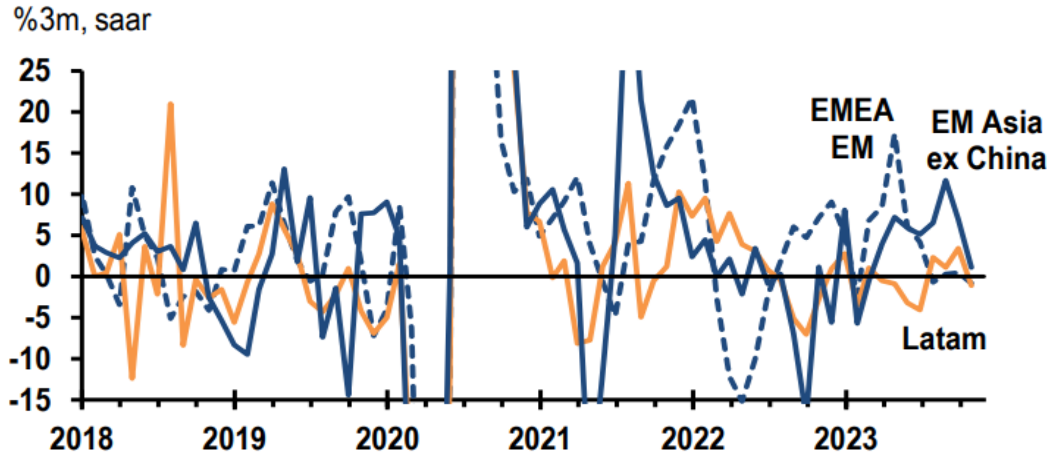
Source: National Sources, JPM

DM Regions Manufacturing Output



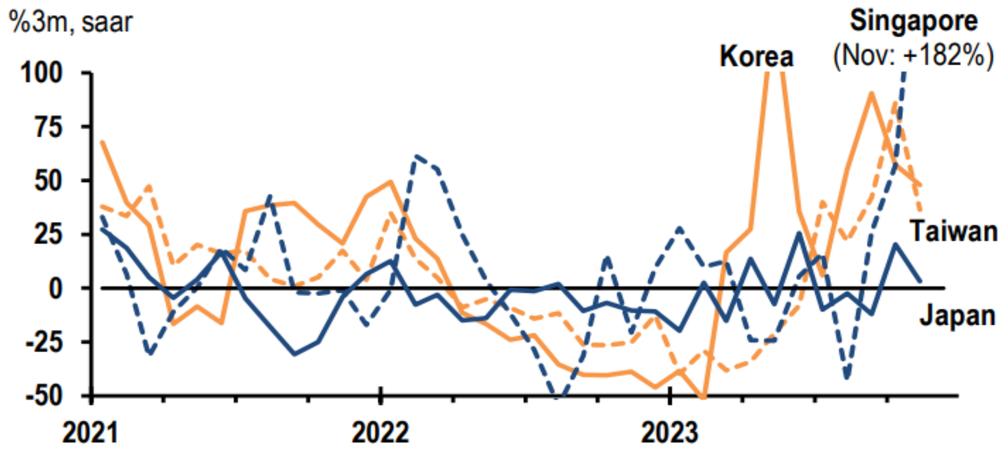
Source: National Sources, JPM

EM Regions Manufacturing Output



Source: National Sources, JPM

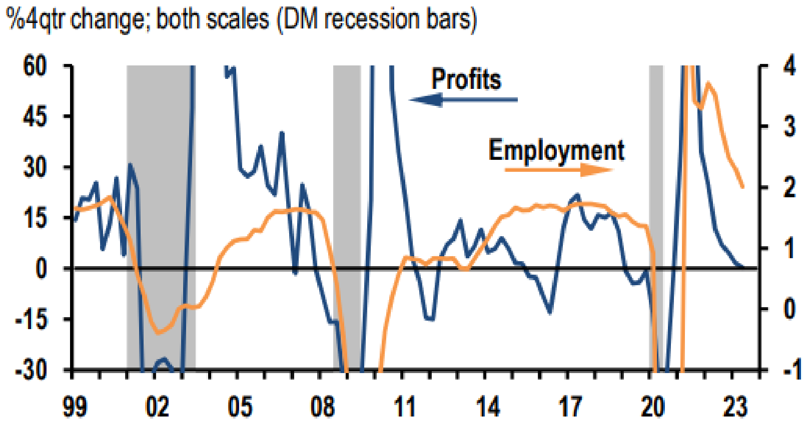
Asia ex Mainland China Tech Output



Source: EDB, KOSTAT, MoEA, NSD

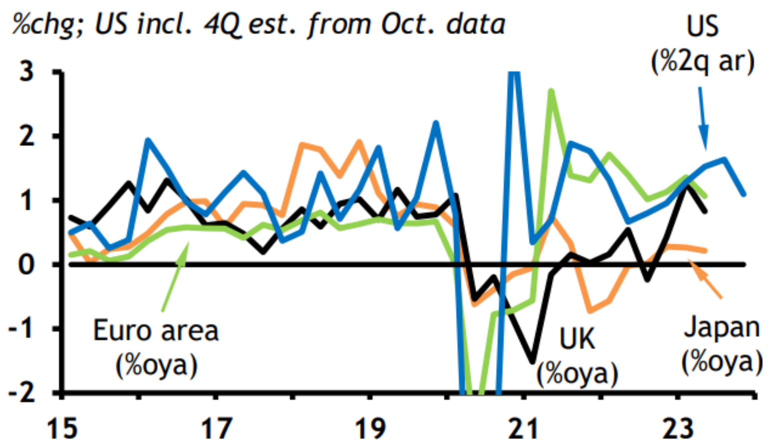
Current Atypical DM Macroeconomic Backdrop

DM Corporate Profits & Job Growth



Source: MSCI, Bloomberg, JPM

Labor Force Growth

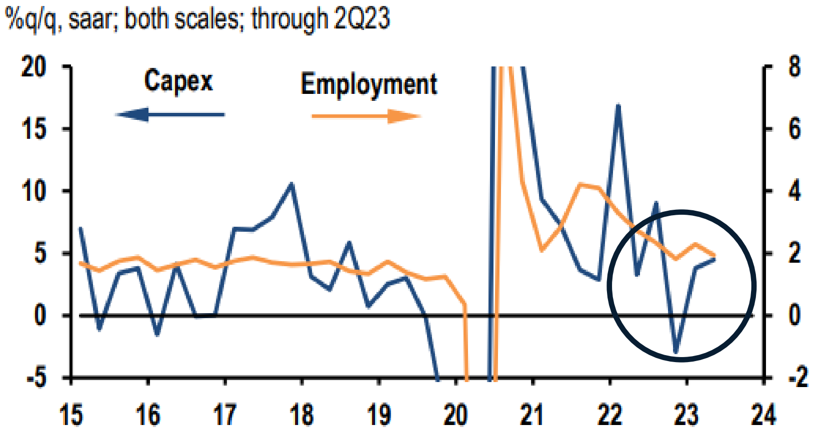


Source: National Sources, JPM

- DM employment & capex providing continuing support…
- Despite stalling profits

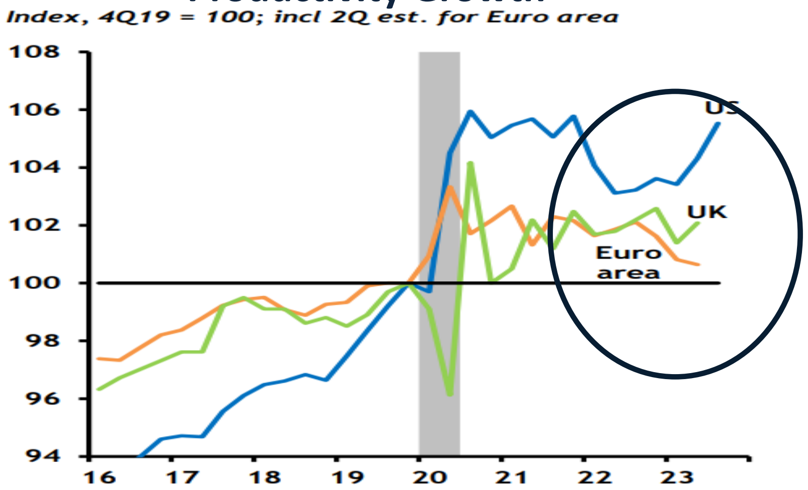
- Labor force and productivity growth supportive
- Productivity trends impressive in US particularly[1],

DM Capex & Job Growth



Source: JPM

Productivity Growth



Source: BLS, ECB, ONS, JPM

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

2024 Cyclical Baseline Forecasts for Major DMs

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- **US: Growth Rate Expected to Moderate to 1.8% in ’24, Down From Sizzling 2.5% ‘23 Pace**
  - Expectations for continuing near-trend growth well supported
    - Consumers and business still in strong financial positions
    - Labor market tight / real disposable income expected to grow ~2.8%
    - Inflation expected to remain contained, barring severe escalation of ME conflicts/Fiscal impulse roughly steady
  - Last year’s surprisingly strong growth not likely to be sustained however
    - Moderation visible is recent employment data[1/] Sticky service CPI suggest path to 2% inflation could be bumpy
    - Consumers and businesses coping with higher interest rates but some manageable strains emerging[2]
    - Investment boost from CHIPS and Inflation Reduction Acts diminishing

- **Euro area: Improvement From 2nd H 23 Weakness Expected But Forecast ‘24 Growth Rate Still Subdued**
  - 2023 was a mixed year for Euro area’s economy
    - Initially economy showed surprising resilience despite energy crisis but weakened in the 2nd H due to…
    - Tightening financial conditions, subdued confidence, weak global industrial activity
  - Factors in place for gradual recovery from ‘23 weakness in place / disinflation, rising real disposable income
    - Although tight-labor markets support wages, extra compensation for exceptionally high inflation expected to fade
    - ECB likely to be more supportive given moderating inflation / Better prepared than yr. ago to address energy crisis[3]

1. Job growth averaged 165K in Q4 2023, the weakest quarter of the expansion.
2. Consumer delinquencies, default rates & corporate bankruptcies rising. Recent increases from extremely depressed levels. With bond yields falling sharply in past few months, the worst for corporate bankruptcies may be over
3. Average storage levels currently high, higher LNG imports and lower demand.

2024 Cyclical Baseline Forecasts for Major DMs – cont'd

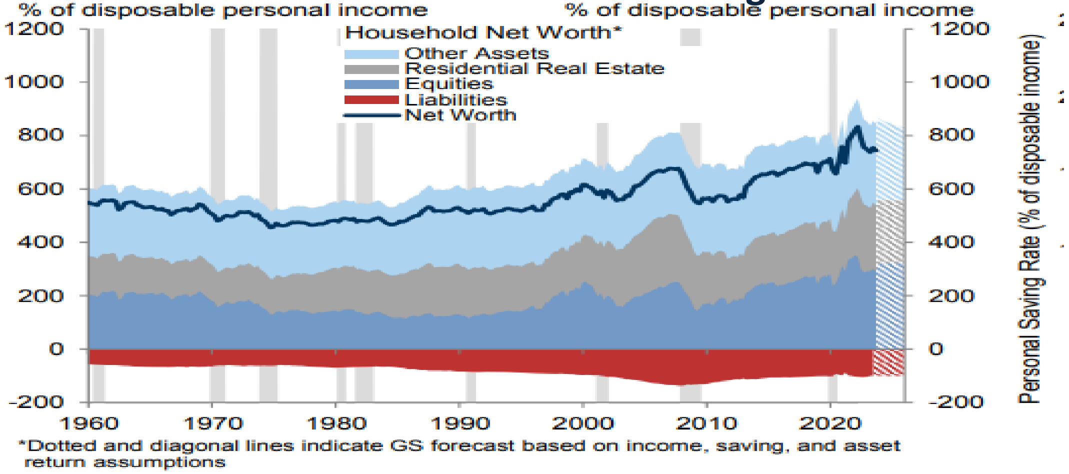
- **UK: Modest 0.4% Below-Trend Growth Projected for 2024**
  - Increasing parallels with Euro area and US outlooks / Latest data suggest UK inflation and wages no longer significant outlier
    - Core inflation down from 9% last spring to 4.9% in December /Labor market rebalancing rapidly
  - Real disposable income growth and lower rates supportive[4], while supply-side constraints and fiscal policy point to moderation
    - Mini budget debacle constraining fiscal options

- **Japan: Growth In Line With Potential / 2.8% Inflation Expected**
  - 1% forecast growth below '23 pace --- which was buoyed reopening boost --- supported by…
    - Rising wages, a one-off tax refund, and increasing Capex underpinned by solid corporate earnings
      - Base pay increase of ~2.5% expected in *shunto* spring negotiations
      - BoJ expected to increase YCC reference rate and terminate NIRP (negative interest rate policy)[5]

4. Loan default rates may rise as year progresses but prospect of interest rate cuts later in year should be a mitigating factor
5. Economic outlook, Barclays Research, 16 November 2023

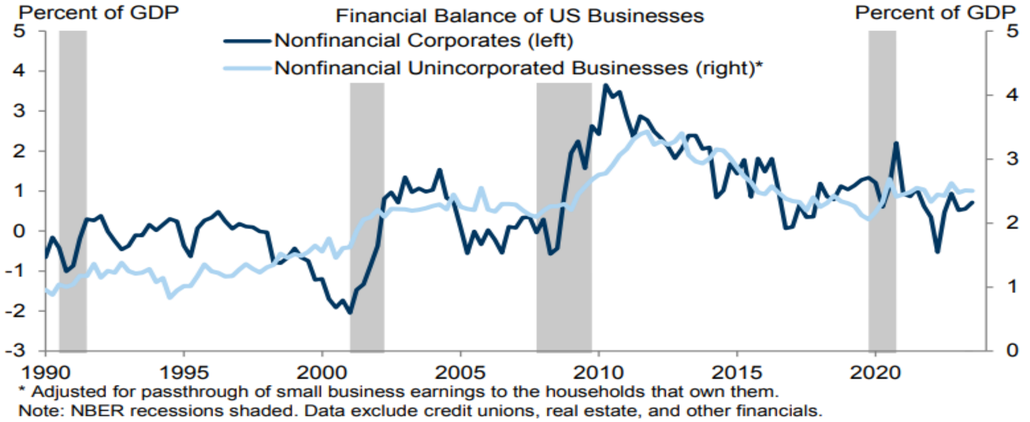
US Charts

Real Household Net Worth Strong



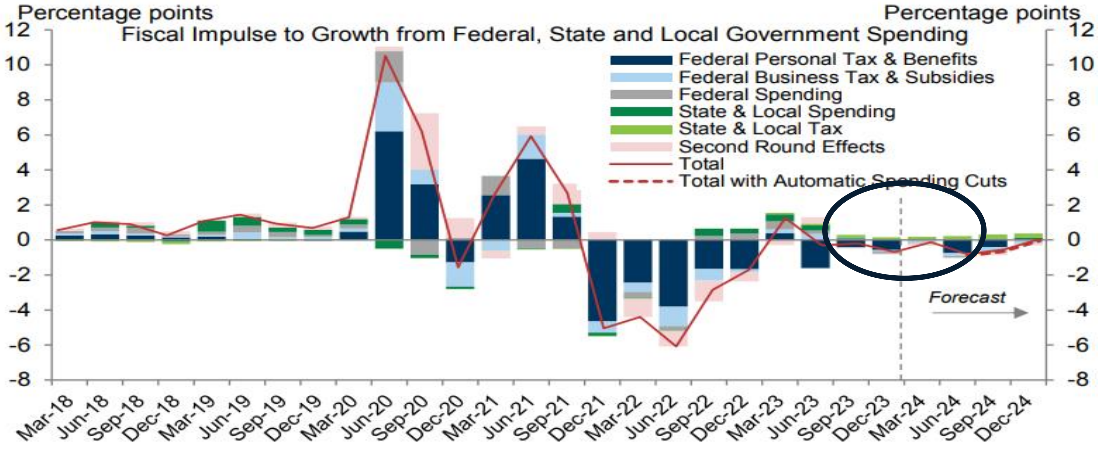
Source: Fed, Department of Commerce

US Business Finances Still Sound



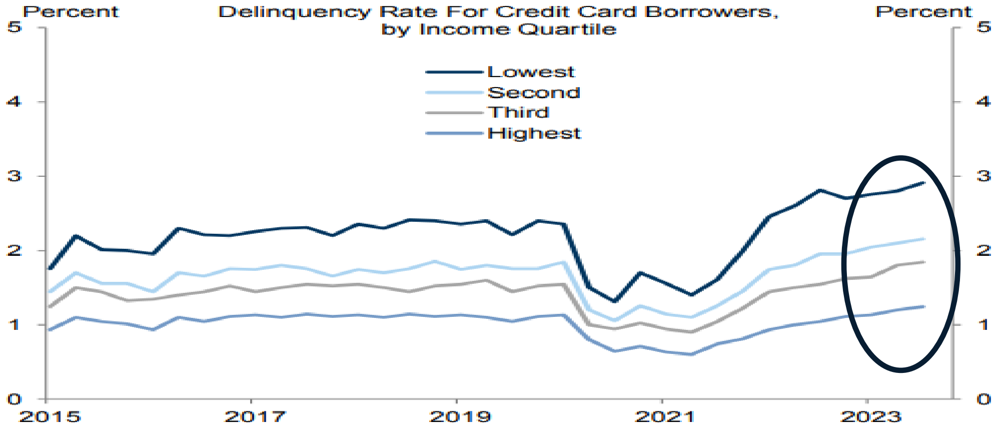
Source: Fed, Department of Commerce

Fiscal Impulse About Flat in '24



Source: Various gov't agencies, GS

Credit Delinquencies Largely Normalizing[1]



Source: Fed, GS

1. Some concerns, however, re consumers in lowest income quartile

Euro Area / UK Charts

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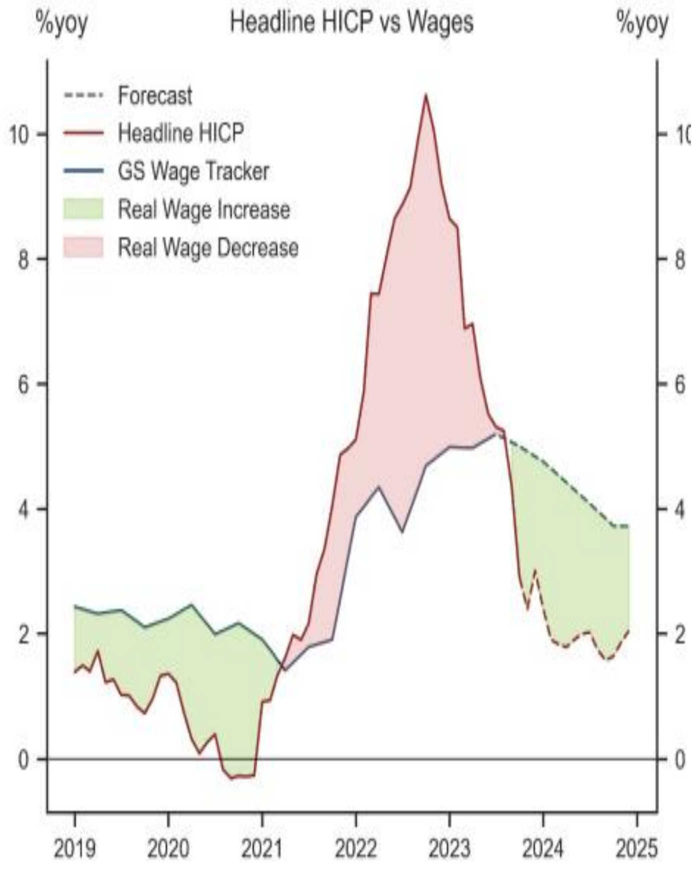
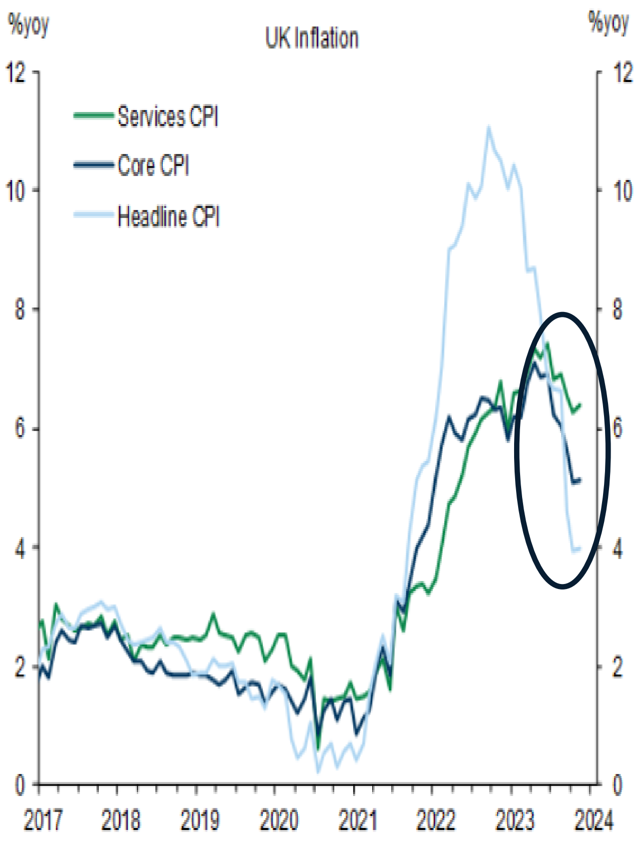
Euro Area Real Wages



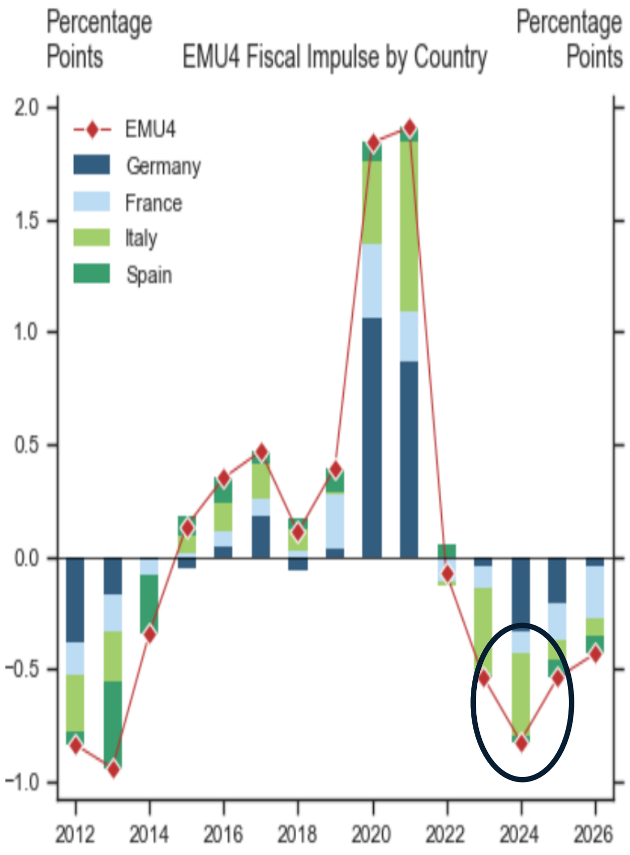
Source: Haver, GS

UK Inflation[1]



Source: Haver, GS

Euro Area Fiscal Policy



Source: Haver, GS

1. UK — uptick inflation in December attributed to season components — e.g., accommodations and airfares
2. GS economists estimate that UK fiscal drag be largely unchanged in '24 @ ~ -0.3%

EM Resilience in 2023 Remarkable, Despite 500 bps of Rate Hikes

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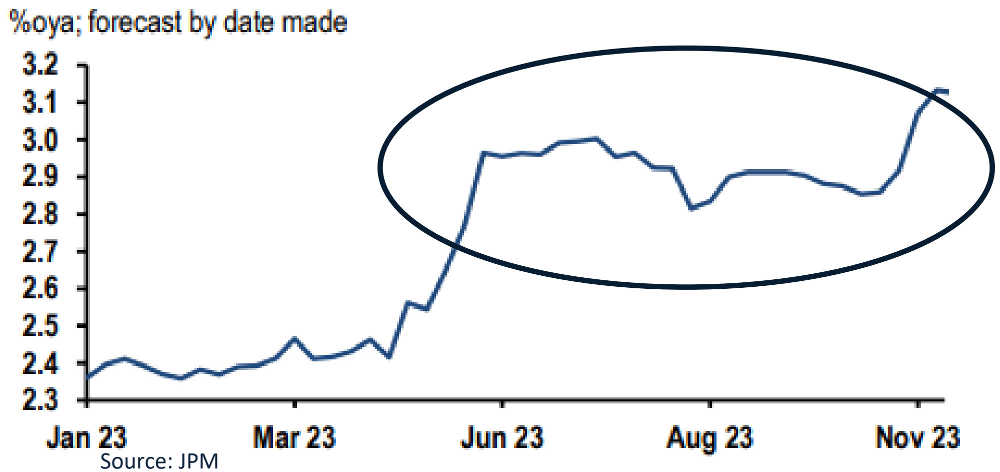
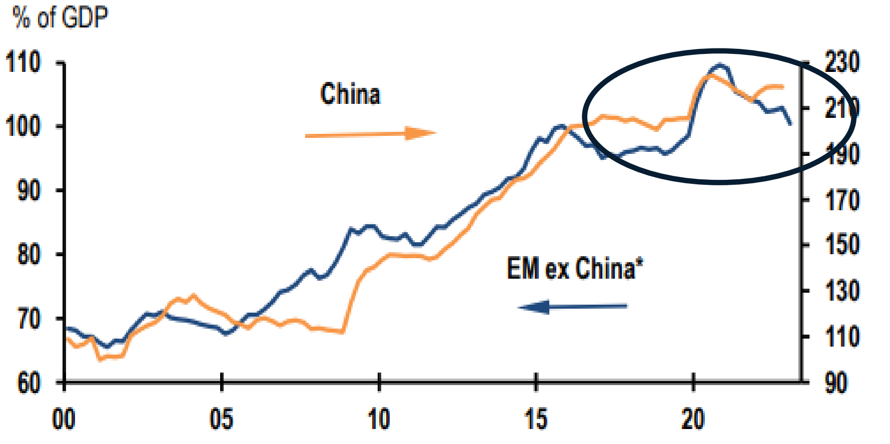
Rising EMX[1] 23 GDP Growth Forecasts



Source: JPM

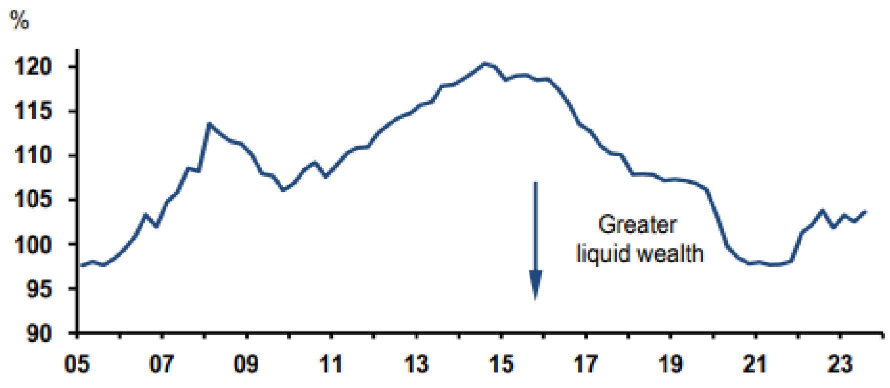
- Forecast growth'23 raised from 2.3% to 3.1% during year
- EMX credit broadly stable since 2016; no signs of over-heating that often leads hiking cycles

EM[2] Private Sector Credit



Source: BIS, JPM

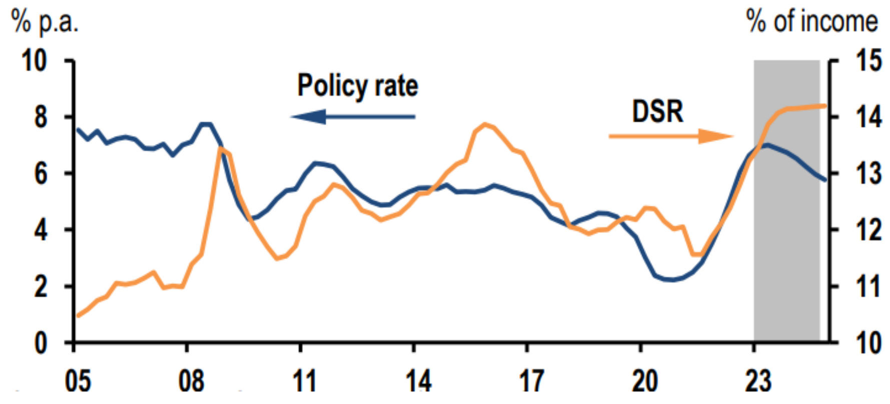
EMX Loan to Deposit Ratio



Source: JPM, Haver Analytics

- EMX has been de-levering since 2013 Temper Tantrum
- DSR (debt service ratio) increase since '20 manageable due to high savings & low leverage

EMX Policy Rate & DRS



Source: BIS, Haver, JPM

1. EMX excludes China, Russia, and Turkey
2. EM excludes Russia and Turkey

EM Capital Flows & Current Account Also Passing Resiliency Test

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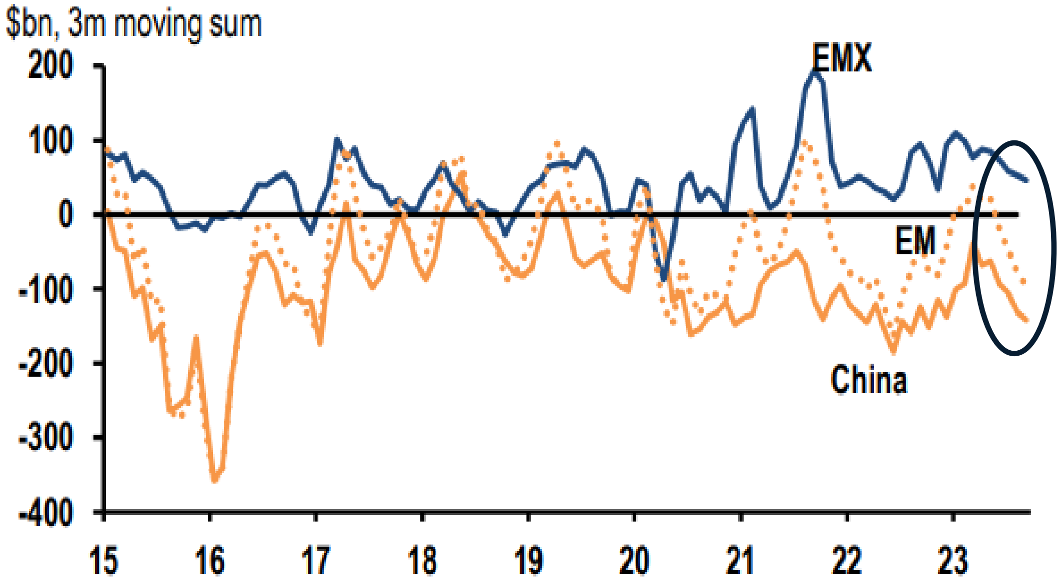
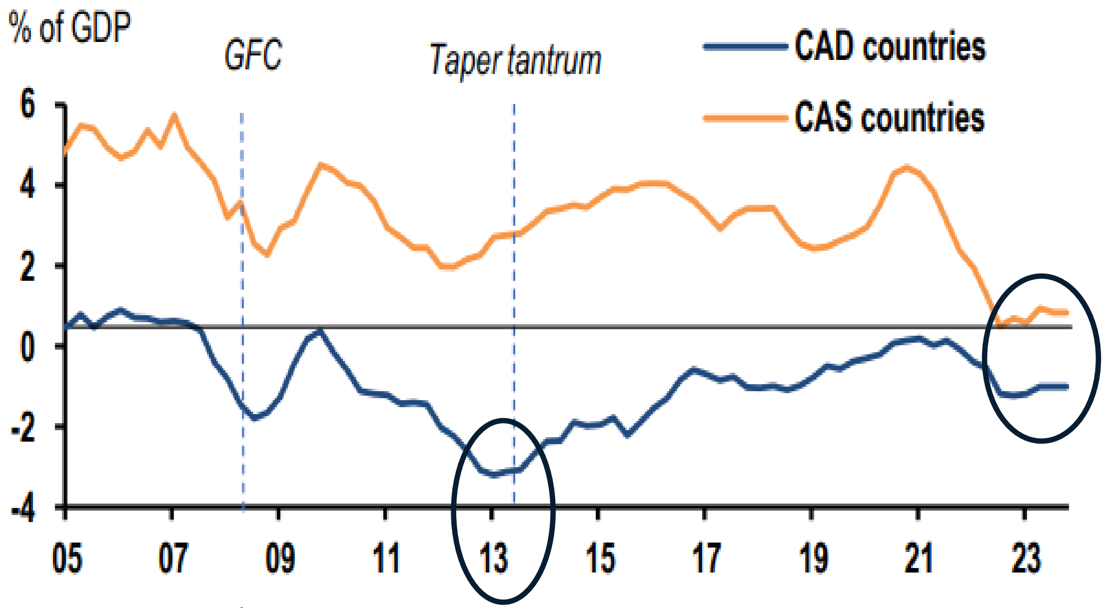
EM Net Capital Flows



Source: Haver, JPM

- EM ex China net capital flows still solid in '23 despite strong USD and higher rates…
- Net inflows still positive and little changed from 2022

EM Basic Balances[1]



Source: National Sources, JPM

- Current balances remain broadly constrained[2]
- Deficits for **CAD** — the traditional deficit countries — such as previous "fragile five"[3] --are at half their pre-temper tantrum levels on average. In contrast, CAS — traditional surplus countries -- still have positive, albeit narrower net surpluses

1. Current account plus FDI
2. No major EM ex Chile is currently running a CAD > 3% GDP, a key vulnerability marker
3. Brazil, South Africa, India, Indonesia and Turkey

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

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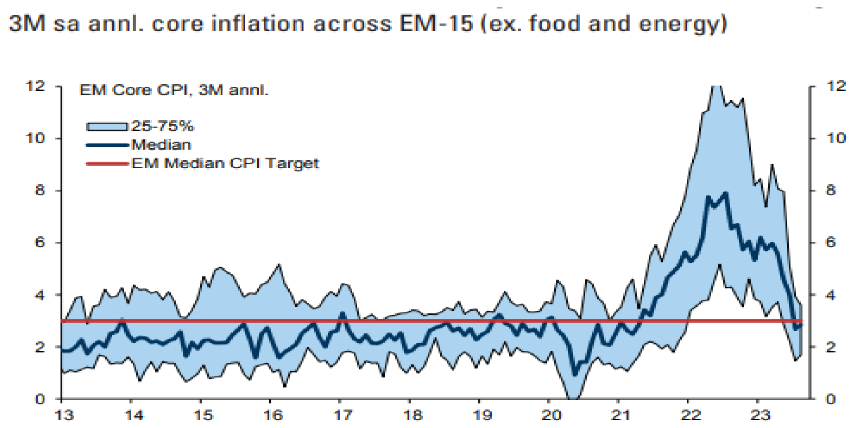
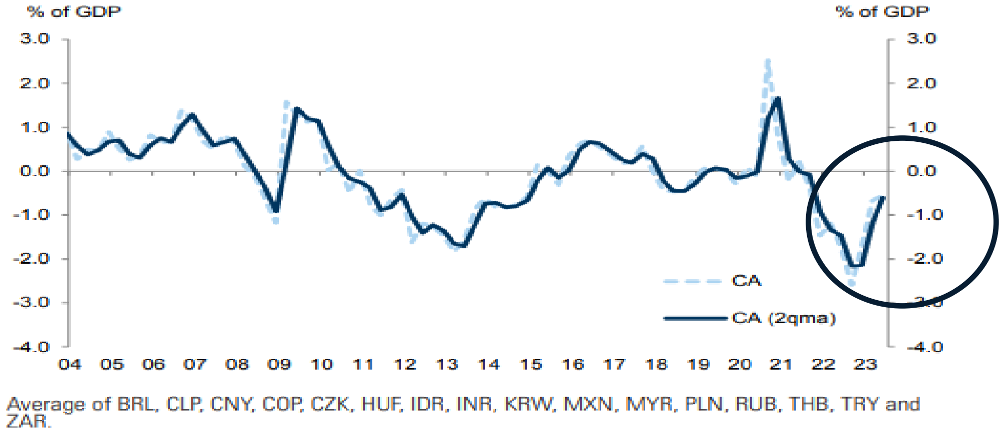
EM -15 Core Inflation



Source: National Sources, GS

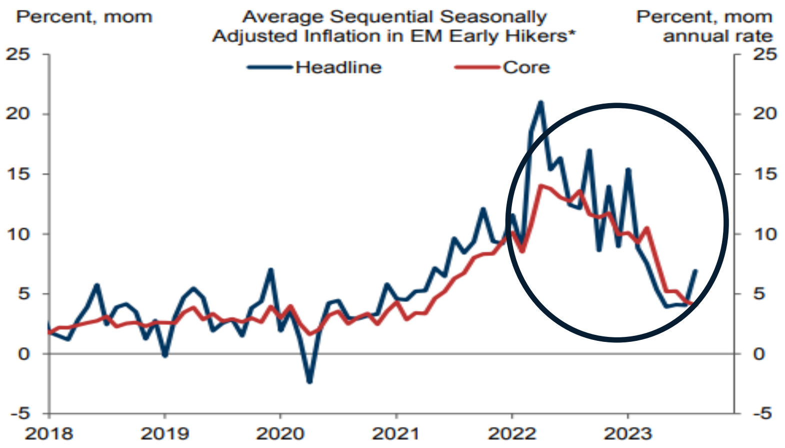
- EM Core Inflation normalizing back to target
- Current account deficits narrowing

EM Current Account Balances



Source: Haver, GS

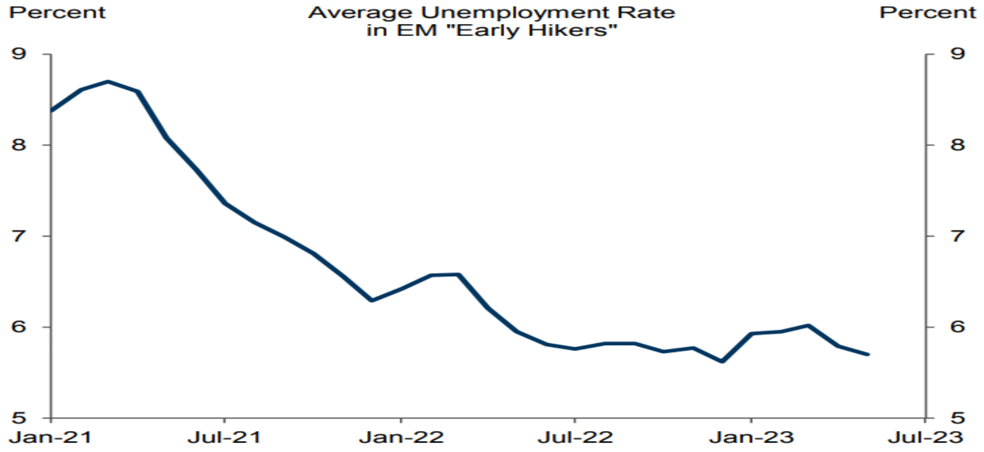
"Early Hikers" Inflation



Source: Haver, GS

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

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 excerpt from October quarterly.

China's 2024 Outlook: Growth Approaching Presumed 5% Target, Despite Headwinds

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- **Well-Known, Significant Headwinds Include**:
  - Property sector's persistent drag on growth
  - Repressed consumer and business confidence –
  - Structural growth constraints: demographics, deleveraging, and "de-risking"[1]

- **Potential Mitigants In Place Include:**
  - Consumers in relatively strong financial position --incomes growing faster than nominal GDP, high savings
  - Central government well positioned to stimulate growth[2] and government trying to rebuild confidence
  - Increasing strength of new industries: EVs, batteries & renewable energy– partial offset to property drag

- **Representative Views on Potential Property Crisis and Deflation Risk[3]**
  - *Imminent debt crisis low probability due largely to implicit government protection*
    - Swaps and restructurings can mitigate liquidity stress but long-term fundamental resolution not yet on horizon
  - *Inflation expected to remain low but recent deflation one-off*
    - Imbalance between domestic supply and consumption ongoing constraint on inflation
    - Recent deflationary episode due to global energy prices and domestic pork prices[4]

1. EU's anti-subsidy investigation re China's EV exports and US restrictions on access to advanced chips.
2. Local government constrained but central government — debt - to – GDP ratio < 50% — and PBOC have latitude for stimulus
3. Primary sources: JPM's "China: Debt Problem…" December 2023 and "Ten Questions About China…", January 2024.
4. JPM economists: pork supplies have stabilized and pork prices, in turn, are expected to stabilize at current low levels

Country / Regional Outlooks

Major DMs	Estimated GDP Growth			Estimated CPI Increase		
	2022	2023	2024	2022	2023	2024
US	1.9%	2.5%	1.8%	8.0%	4.0%	2.4%
Euro Area	3.4%	0.5%	0.5%	8.4%	5.4%	2.4%
UK	4.3%	0.4%	0.3%	9.1%	7.4%	2.5%
Japan	1.0%	2.0%	1.0%	2.5%	3.3%	2.8%
BRICs						
China	3.0%	5.2%	4.7%	2.0%	0.3%	1.0%
India	6.7%	6.5%	6.3%	6.7%	5.6%	4.8%
Brazil	2.9%	3.0%	1.7%	9.3%	4.6%	4.3%
Russia[1]	(2.1)%	3.3%	1.8%	13.7%	5.9%	6.3%

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.

Pulling It All Together: “Bent But Not Broken” Depiction Still Applies

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- **Global Growth Expected to Be Slightly Below Trend in 2024**
  - Inflation: Disinflationary trajectory likely to persist, even though pace of progress may slow
  - Monetary policy likely to be less restrictive, while fiscal policy is expected to be tad less stimulative ex China
  - Services sectors still appear strong but manufacturing sluggish
  - DM prospects satisfactory overall / Europe expected to replicate lackluster ‘23 performance
  - China no longer global engine of growth but EMs in aggregate poised to outperform DMs

- **Geopolitics Virtual Mess and Downside Tail Risk But…**
  - Traditional macro-crisis bellwethers– surging oil prices, severe supply disruptions — not flashing red signals currently

Expected Real GDP Growth			
	Global	DMs	EMs
2022	3.3%	2.6%	3.7%
2023	3.2%	1.7%	4.2%
2024	2.8%	1.3%	3.8%

Closing Random Thoughts

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- **Monetary Policy: Contrasting Views on "Long and Variable Lags"**
  - GS economists contend *lags short* in current cycle — principal effects of US monetary restraint…
    - Largely transmitted via weakness in financial conditions in first-three quarters of 2022
  - Citi economists, in contrast, attribute their below- consensus 2024 global outlook to the...
    - "Stringent monetary medicine central banks administered … and weaker consumer services demand"

- **Record Sovereign Debt Levels Appear Manageable Over Cyclical Horizon**
  - Day of reckoning for major DMs — e.g., US & Italy — probably well beyond 2024
    - Inflation expectations contained / private savings adequate…
    - Barring serious policy mistakes – such as Truss's mini budget – only limited pressure on rates expected[1]

- **Generative AI Will Give Meaningful Lift to GDP Growth in Decade Ahead**
  - Too early to attribute recent strength in US productivity growth to AI
    - Broad-based adoption for business applications probably 3-years ahead
  - Advent of Generative AI coming at critical time in economic history
    - Potential to more than offset forces expected to slow growth: demographics, de-risking, green transition

1. GS baseline scenario: current US Treasury supply-demand outlook implies upward pressure of 55-65 bps on medium-term yields over 10 years

Closing Random Thoughts – cont'd

- **US Presidential Election: Preliminary Thoughts on Possible Macro Implications**[1]
  - Views of most likely presidential candidates appear aligned on some key issues
    - Neither willing to address looming entitlement financial problems / both hawkish vs. China
  - Important differences, however, re tax, regulatory, and tariff policies
    - **Taxes**: Trump expected to push to renew his 2017 tax cuts which expire next year
      - Biden expected to scale them back and eliminate provisions that seemingly favor the rich
    - **Regulations:** Trump would reverse many of Biden's regulatory initiatives
    - **Tariffs:** Trump's proposed 10% across-the-board tariffs, if enacted, could have …
      - Material implications for inflation, retaliation, and revenue

1. We may know as soon as this week whether Trump will be Republican nominee. Based on current polls Trump and Biden will be their party's nominees, observations re Biden & Trump are limited to potential macro issues.

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Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

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The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

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