

Research &  
Investment  
Strategy



# Peak growth, peak QE, peak complacency?

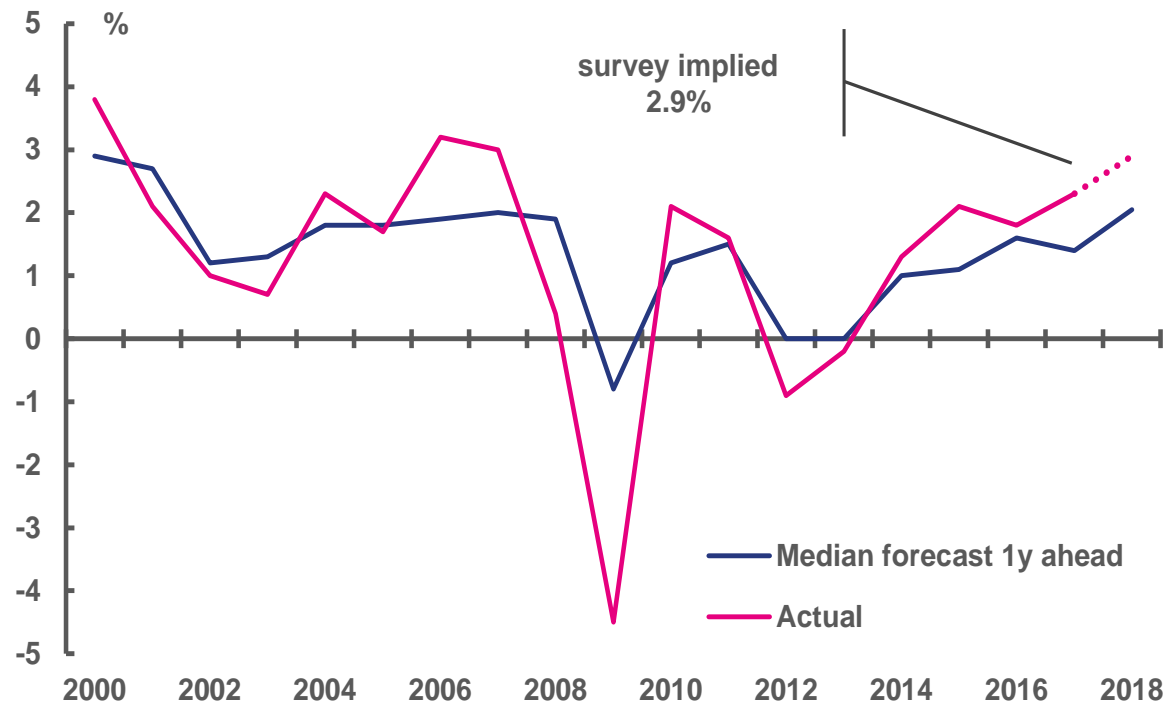
**Maxime Alimi, Head of Investment Strategy**

January 2018

# The global economy is doing great

The economy could grow at nearly 4% in 2018, with accelerations in the US and the euro area

EMU forecasts vs actual growth



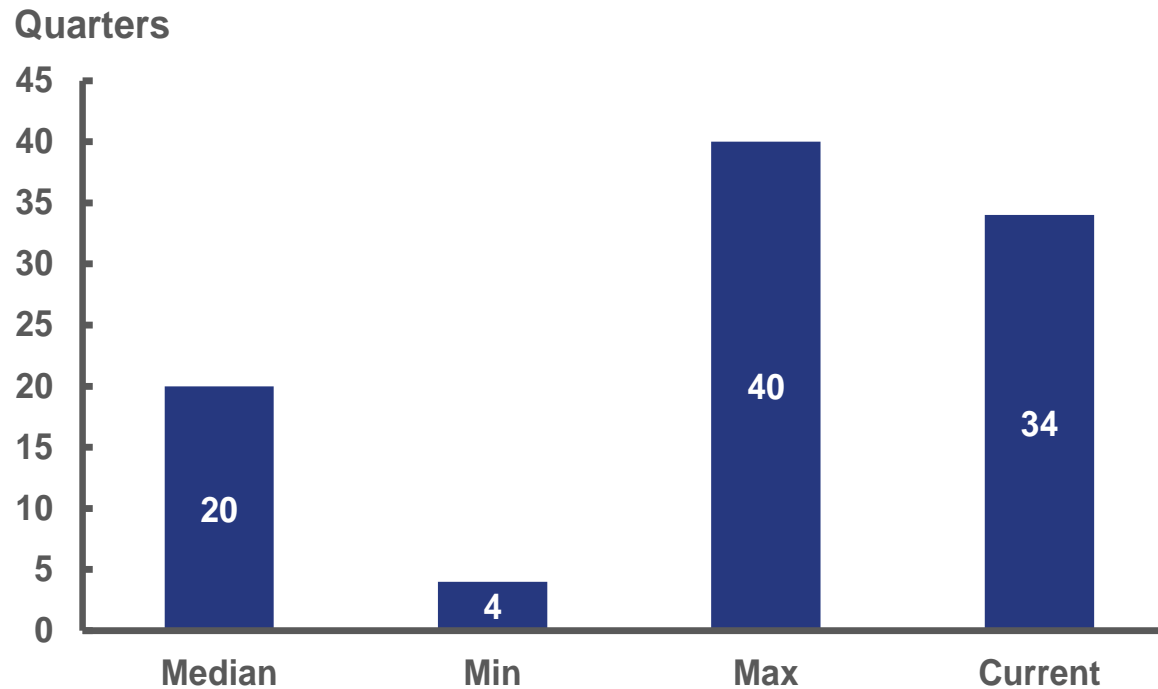
Source: Eurostat, Bloomberg and AXA IM Research

## Economic cycles don't die of old age

The US economy is entering its 9<sup>th</sup> year of expansion ... but economic cycles don't die of old age

The right question: what shock could push the economy away from its natural growth path?

### Duration of US economic expansions since 1950

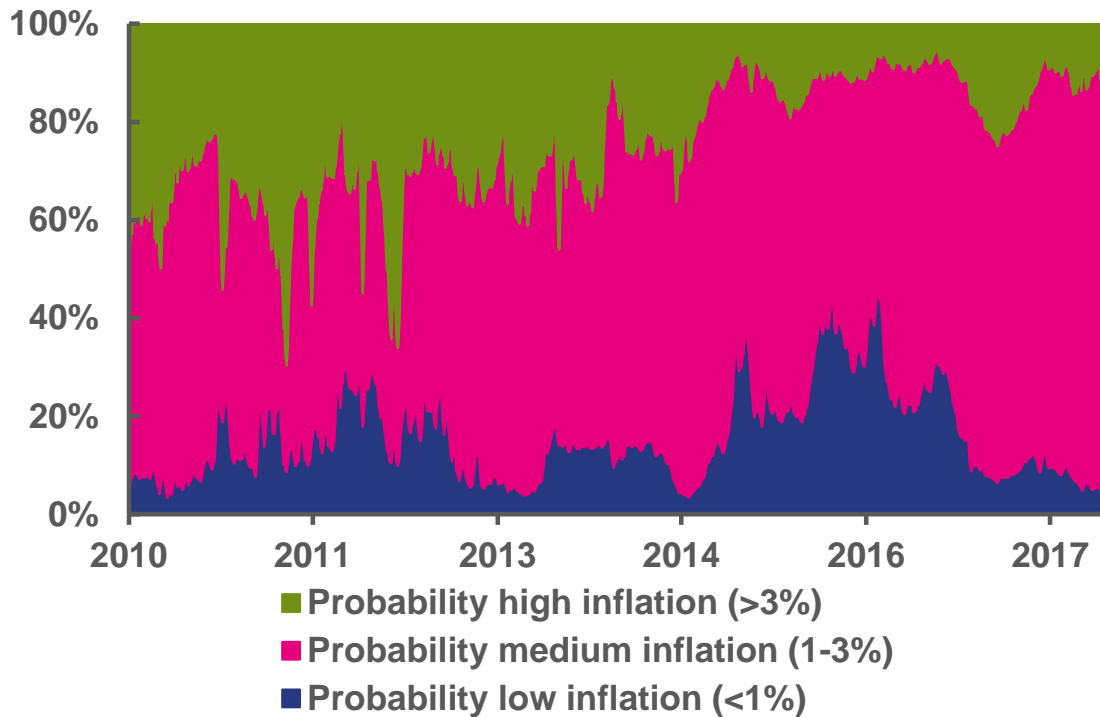


Source: BEA and AXA IM Research

## Sea change in inflation expectations

Even though inflation has not moved much, confidence has risen that it will eventually normalise

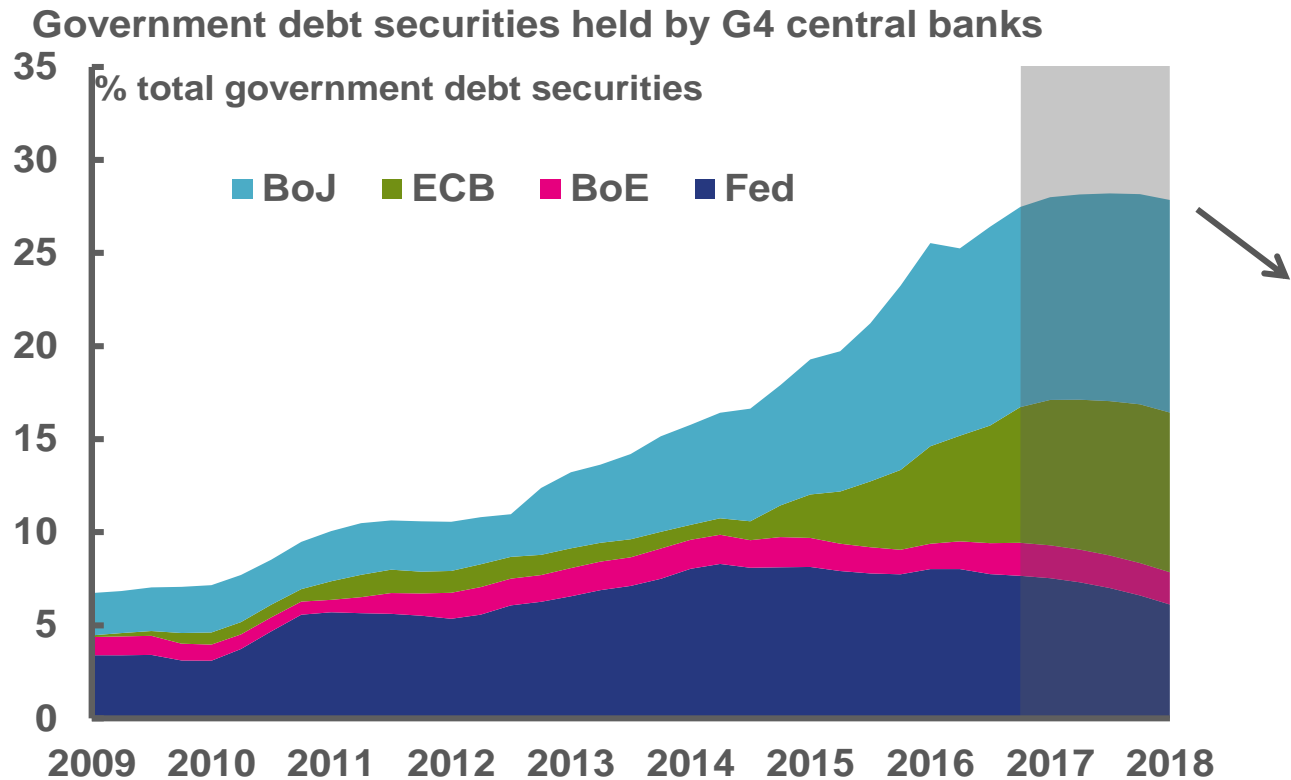
### US 5Y inflation expectations' distribution



Source: Goldman Sachs and AXA IM Research

## QE: it's the stock, stupid!

2017 failed to see interest rates rise. The lesson appears to be that the relevant variable is the global stock of QE, which should peak in 2018



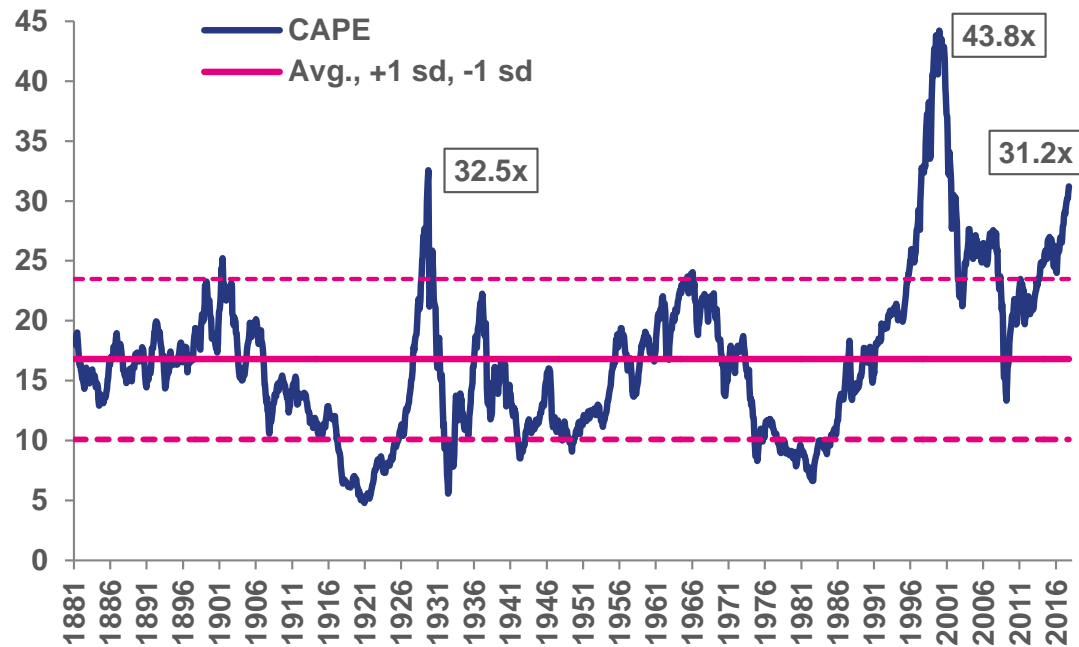
Source: central banks and AXA IM Research

## Believe in soft landings for equity valuations

Standard valuation metrics for equity markets look scary

We see three reasons why a soft landing is possible: i) strong corporate fundamentals, ii) central banks' put, iii) earnings base effects

Cyclically adjusted PE ratio (1881 - 2017)

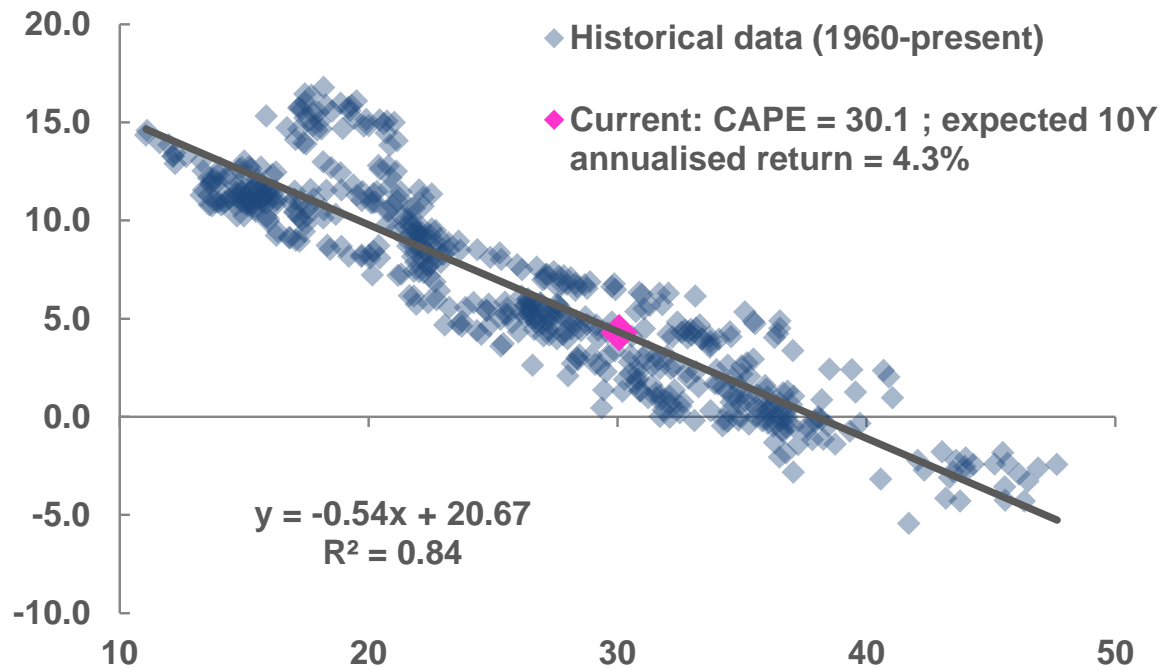


Source: Robert J. Shiller, Datastream,

## High valuations today = low returns tomorrow

Shiller P/E consistent with low but positive returns in coming 10 years

### US cyclically-adjusted P/E and forward returns

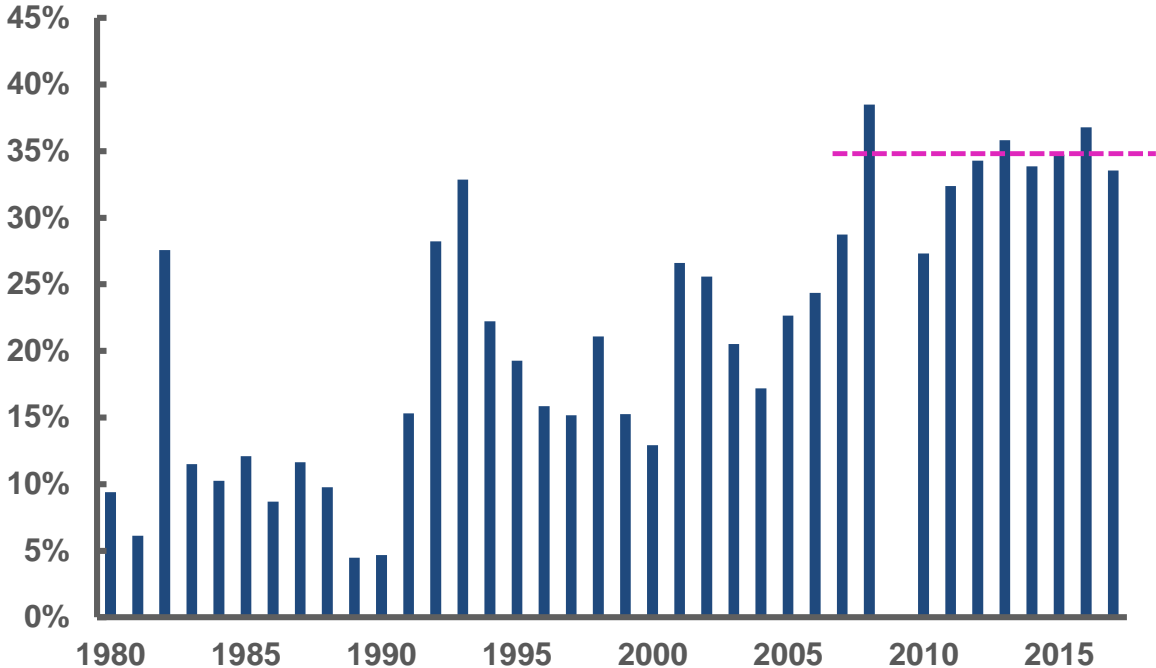


Source: Robert J. Shiller and AXA IM Research

# Macro concentration risk

China has contributed about 35% to global growth since 2007

### China's contribution to global growth



Source: IMF and AXA IM Research

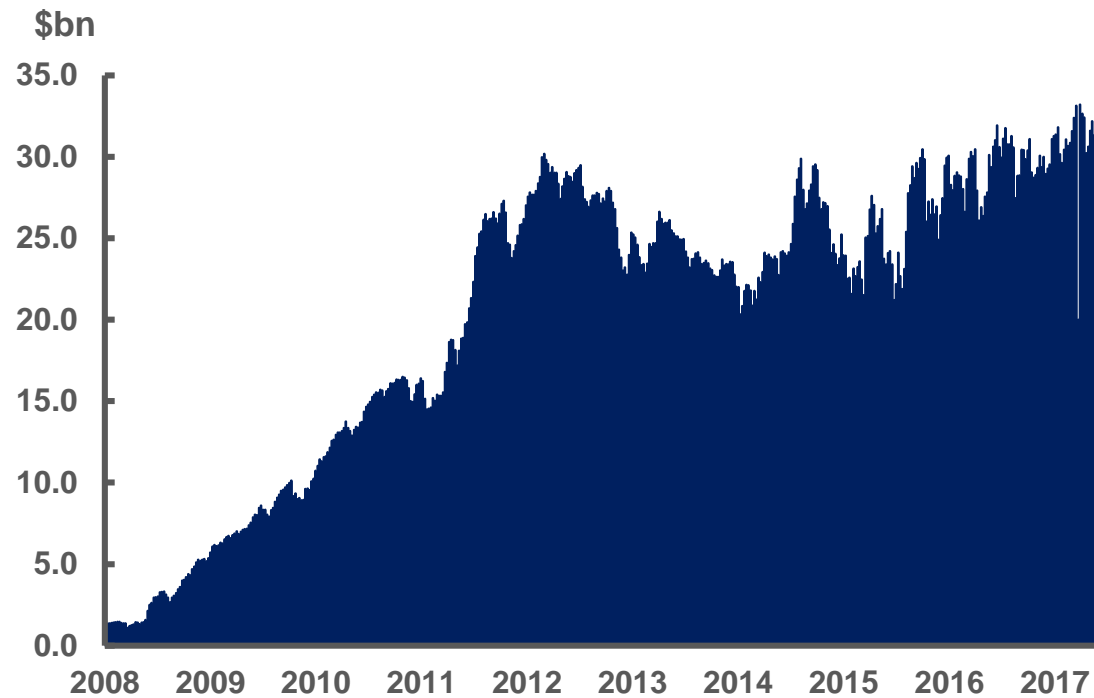


## Financial concentration risk

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ETFs exhibit hidden risks: liquidity mismatches and concentration

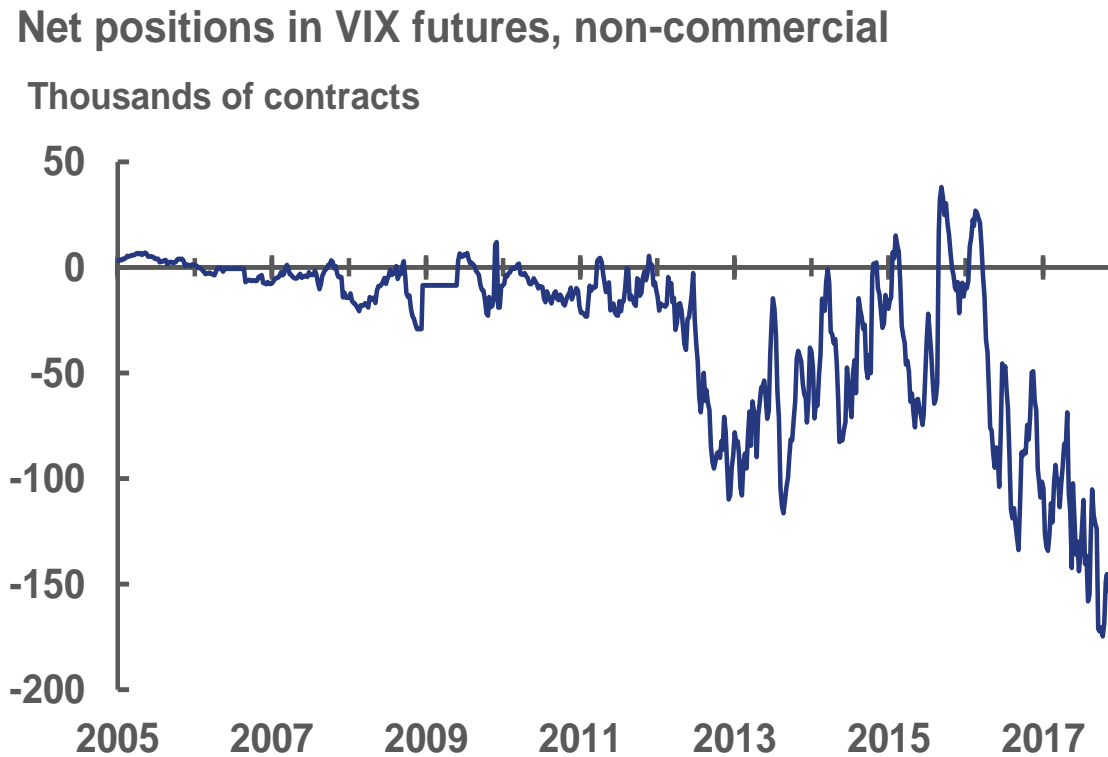
Asset value in top 2 US HY ETFs



Source: Bloomberg and AXA IM Research

## Herding risk

A decade of low interest rates has led everyone to search for yield EVERYWHERE

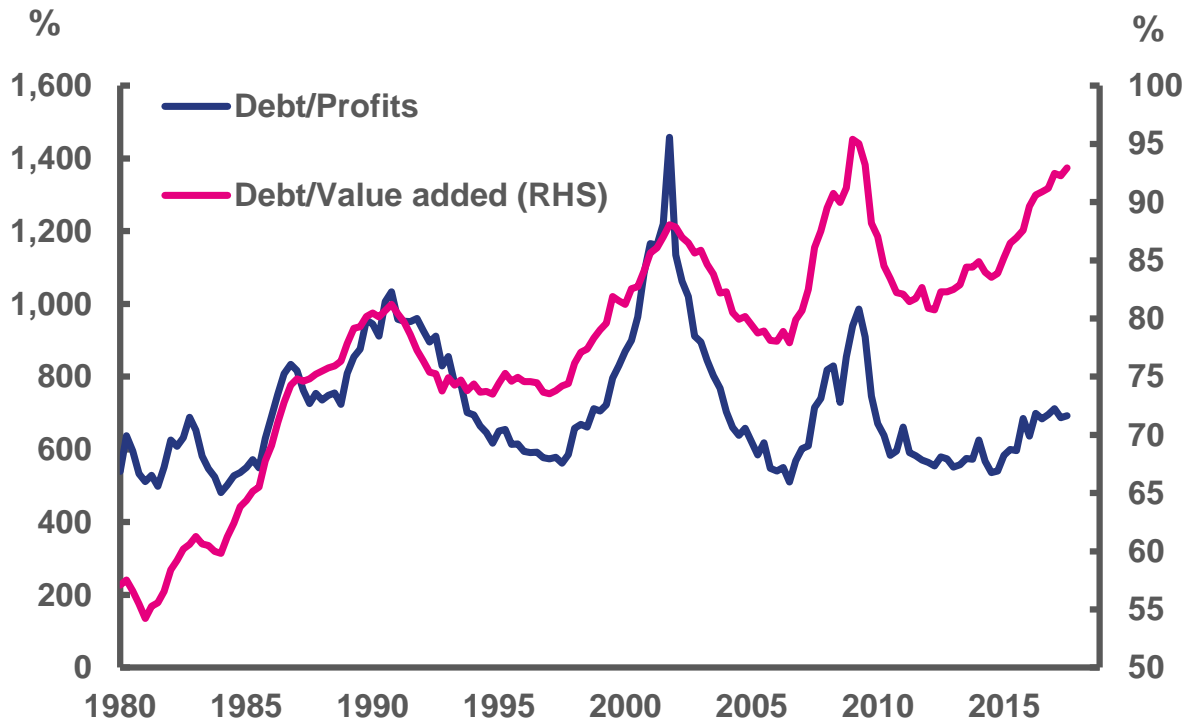


Source: CFTC and AXA IM Research

## Financial optimisation: the great 'debt for equity' swap

Aggressive financial optimisation from US companies has increased vulnerabilities in the credit space

### US nonfinancial corporate debt



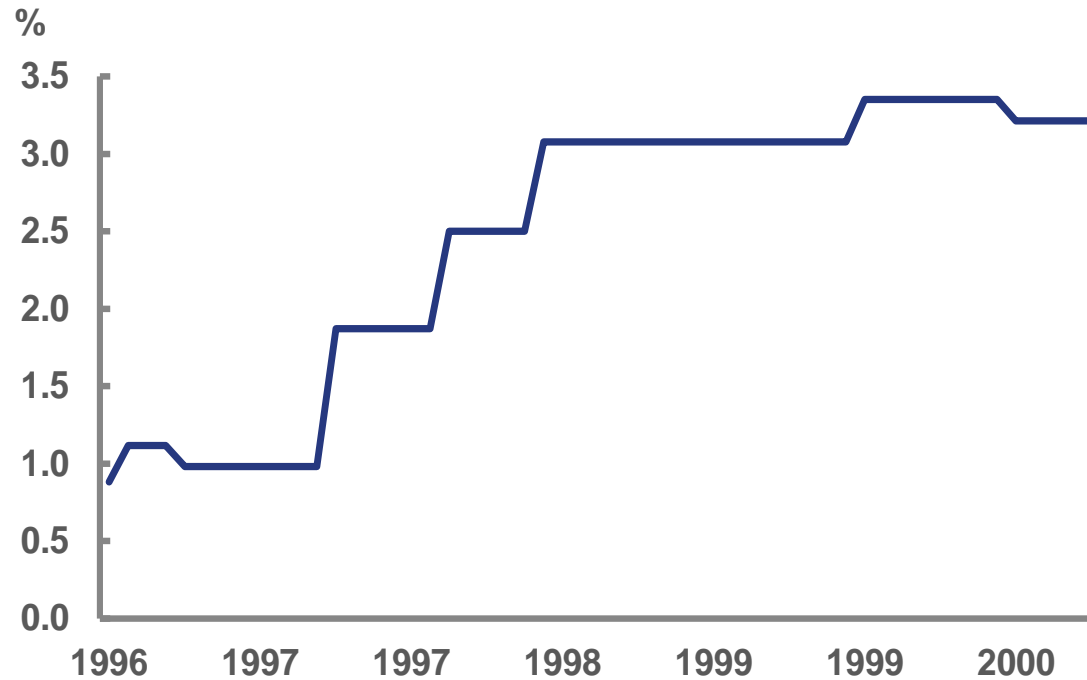
Source: BEA and AXA IM Research

Digital economy: tomorrow augmented

## Productivity, everywhere but in the statistics?

Large productivity mismeasurements have occurred in the past

Successive estimates of US productivity in 1996



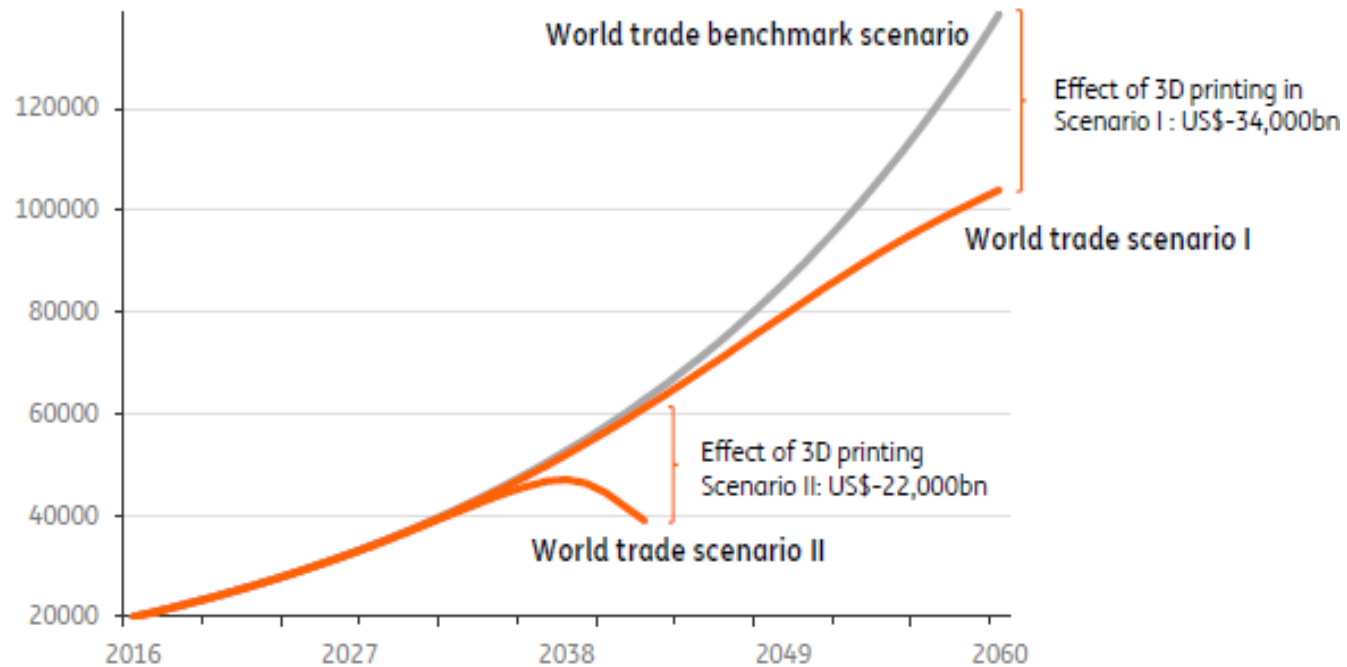
Source: FRED and AXA IM Research

## Digital economy: tomorrow augmented

# Global trade, a thing of the past?

3D printing may prove a game changer for global trade

The digital economy jeopardises the development model of EMs entirely



Source: Oxford Economics, Wohlers report 2017, Unctad, ING

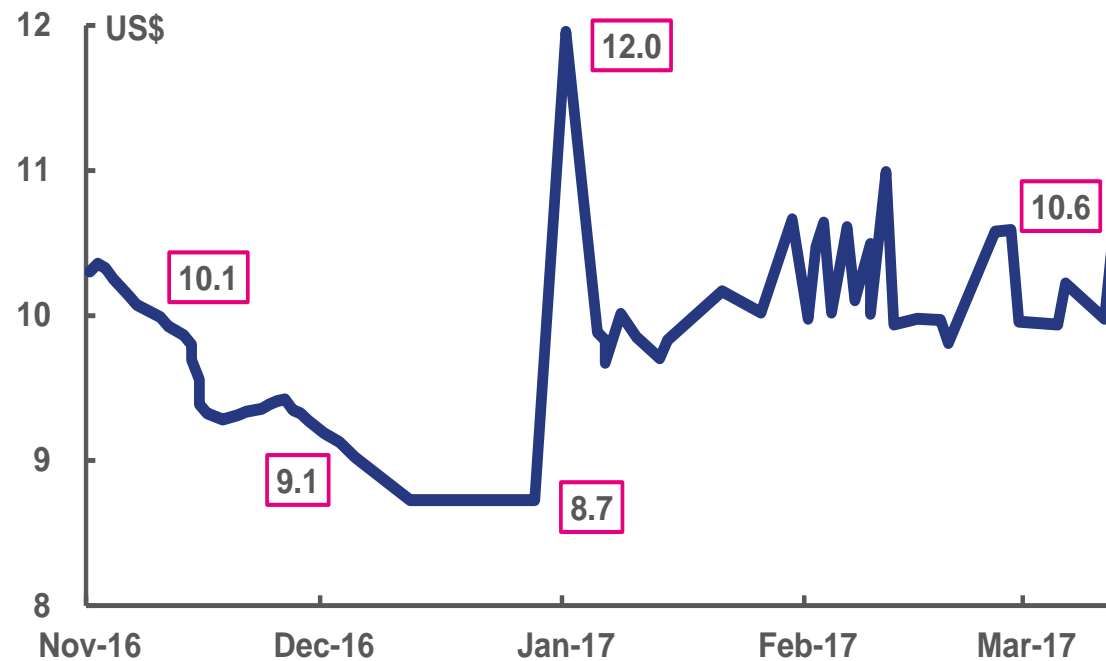
Digital economy: tomorrow augmented

## Algorithmic and personal pricing: the end of inflation as we know it?

AI leads to better but opaque pricing strategies

Personal pricing could imply that inflation no longer has a collective meaning

The cost of a 20-pack of Duracell batteries



Source: Keepa, The Wall Street Journal and AXA IM Research

## Key take-aways

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1. The global economy is experiencing its best year since the financial crisis
2. Watch out for economic optimism morphing into market euphoria
3. We know very little about the market impact of QE exit
4. A decade of low interest rates has created imbalances and vulnerabilities

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