

# MACRO PERSPECTIVE

## A change in global growth expectations ?



**Philippe Waechter**  
Chief economist Natixis AM

**F**inancial market fluctuations have intensified recently. This can be seen in both the equity markets and the bond markets, where the abrupt but temporary dip in the U.S. 10-year Treasury yield below 2% is a strong signal for a possible change in policy.

These financial market movements began the day after Janet Yellen's September 17 press conference. She remained vague on the timing of any increase in the Fed's rates, thus creating uncertainty and raising questions about the U.S. central bank's commitment to a swift change in its monetary strategy. According to the chairman of the Federal Reserve, it would not be advisable to act too quickly as long as imbalances remain in the economy. In general, the takeaway from her comments is that it is likely preferable to act a little too late than a little too soon, which explains why she has no interest in setting overly specific objectives for the actual direction of her monetary policy.

Two weeks ago, the meeting of the IMF lent credence to the idea that growth in the global economy would not be as strong as expected. For 2014, this estimate was revised from 3.7% in January to 3.3% in October. This rapid decline can be attributed to the lack of resilience in most major countries, with the exception of the English-speaking countries, and to emerging markets, which are growing at a slower pace than in the past.

These two issues have been a major source of the fluctuations in recent days and weeks.

If the Fed prefers not to act too quickly, despite robust growth, it is because it assigns a non-zero probability to the possibility of more moderate expansion of the global economy and because a more restrictive Fed policy would aggravate this situation.

It is this situation that gives investors pause. They were under the impression that the economy would more or less regain its pre-crisis momentum, with a robust growth rate, a limited inflation rate close to the central banks' targets and, lastly, business cycle management by the central banks. In this scenario, the Fed's interest-rate hike makes sense. It is the first step toward a normalization of the global economy.

However, if the global economy does not display the attributes expected and does not converge toward its pre-crisis profile, the situation becomes more complex. First, because growth will not keep pace with the past rate and, in particular, because it could be slower than expected in the long term.

Looking at the expected growth profile, there are numerous uncertainties in the near future. While English-speaking countries remain fairly robust, questions remain about momentum in other regions of the world.

### **Chinese economy**

Growth in China is slowing because this economy is looking to establish a growth model focused more on its domestic market, which is more dependent on services but also has to correct past imbalances, particularly in real estate. China will no longer be the stand alone leader it was before the crisis, and it will not have the ability to provide sustained impetus for global trade. This will hurt emerging countries but also Europe, including Germany, because much of the growth in its exports comes from its relationship with China.

### **Japanese economy**

Japan has been in recession since the severe negative shock resulting from the increase in the sales tax on April 1. Japan's structural issues have not been resolved and the aging of the population will not allow for a rapid change in direction.

### **Eurozone economy**

In the eurozone, the economy is looking to rally, driven mainly by the ECB, which is doing its utmost to implement a strategy that could generate more robust growth in the long term. But, before seeing any positive effects, some of the imbalances left over from the past need to be corrected. We also see the need for political consolidation accompanied by a more integrated political framework, but that will take time. In the short term, the situation remains murky and the eurozone is unlikely to make a strong, sustainable and robust contribution to global growth.

If the eurozone, China and Japan are not likely to converge toward a higher growth trajectory very quickly, then we may well wonder about the profile of U.S. monetary policy. Is it necessary and desirable for the Fed to raise interest rates fairly quickly? While that may ultimately be logical for the USA, does it not involve taking a risk on the rest of the global economy? An interest-rate hike by the Fed could result in significant capital outflows from emerging countries and could very quickly cause them to weaken.

In other words, is there any urgency to a tightening of U.S. policy?

Probably not, because the rest of the global economy is lagging behind U.S. momentum as each region remains mired in the slow momentum lingering from the past.

In that case, if the Fed postpones its interest-rate hike, valuations of all financial assets would change substantially.

It is conceivable that, in the coming weeks, investors' expectations will alternate between these two states of nature:

- the first is a return to a normalized situation that would be reflected in interest-rate hikes by the U.S. central bank, the idea being that the U.S. economy would have the ability to lift the profile of the global economy in the long term, as it has done in the past;
- the second state of nature is that of slower growth with lower inflation in the long term, including in the USA, and monetary policies that would remain accommodative, including in the USA.

Expectations will fluctuate between these two positions and this will create volatility on the financial markets. The second state of nature was underscored by expectations that were not met at Janet Yellen's mid-September press conference and by the worrying scenario painted by the IMF at its fall meeting. It cannot, however, be ruled out that this is the right scenario as significant imbalances remain and the convergence in China or in the eurozone toward a new growth model will be slow to take root.

*Written on 17/10/2014*

## **Natixis Asset Management**

Limited liability company - Share capital €50,434,604.76

Regulated by AMF under no. GP 90-009 RCS Paris n°329 450 738

Registered Office: 21 quai d'Austerlitz – 75634 Paris Cedex 13 - Tel. +33 1 78 40 80 00

This document is intended for professional clients only.

It may not be used for any purpose other than that for which it was intended and may not be reproduced, disseminated or disclosed to third parties, whether in part or in whole, without prior written consent from Natixis Asset Management. No information contained in this document may be interpreted as being contractual in any way. This document has been produced purely for informational purposes. It consists of a presentation created and prepared by Natixis Asset Management based on sources it considers to be reliable.

Natixis Asset Management reserves the right to modify the information presented in this document at any time without notice, and in particular anything relating to the description of the investment process, which under no circumstances constitutes a commitment from Natixis Asset Management. Natixis Asset Management will not be held liable for any decision taken or not taken on the basis of the information in this document, nor for any use that a third party might make of the information.

Figures mentioned refer to previous years. Past performance does not guarantee future results.

The analyses and opinions referenced herein represent the subjective views of the author(s) as referenced, are as of the date shown and are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material.

This material is provided only to investment service providers or other Professional Clients or Qualified Investors and, when required by local regulation, only at their written request. • In the EU (ex UK) Distributed by NGAM S.A., a Luxembourg management company authorized by the CSSF, or one of its branch offices. NGAM S.A., 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. • In the UK Provided and approved for use by NGAM UK Limited, which is authorized and regulated by the Financial Conduct Authority. • In Switzerland Provided by NGAM, Switzerland Sàrl. • In and from the DIFC Distributed in and from the DIFC financial district to Professional Clients only by NGAM Middle East, a branch of NGAM UK Limited, which is regulated by the DFSA. Office 603 – Level 6, Currency House Tower 2, P.O. Box 118257, DIFC, Dubai, United Arab Emirates. • In Singapore Provided by NGAM Singapore (name registration no. 5310272FD), a division of Absolute Asia Asset Management Limited, to Institutional Investors and Accredited Investors for information only. Absolute Asia Asset Management Limited is authorized by the Monetary Authority of Singapore (Company registration No.199801044D) and holds a Capital Markets Services License to provide investment management services in Singapore. Registered office: 10 Collyer Quay, #14-07/08 Ocean Financial Centre. Singapore 049315. • In Hong Kong Issued by NGAM Hong Kong Limited. • In Taiwan: This material is provided by NGAM Securities Investment Consulting Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C and a business development unit of Natixis Global Asset Management. Registered address: 16F-1, No. 76, Section 2, Tun Hwa South Road, Taipei, Taiwan, Da-An District, 106 (Ruentex Financial Building I), R.O.C., license number 2012 FSC SICE No. 039, Tel. +886 2 2784 5777. • In Japan Provided by Natixis Asset Management Japan Co., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 2-2-3 Uchisaiwaicho, Chiyoda-ku, Tokyo. • In Latin America (outside Mexico) This material is provided by NGAM S.A. • In Mexico This material is provided by NGAM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment advisor and is not regulated by the Comisión Nacional Bancaria y de Valores or any other Mexican authority. This material should not be considered investment advice of any type and does not represent the performance of any regulated financial activities. Any products, services or investments referred to herein are rendered or offered in a jurisdiction other than Mexico. In order to request the products or services mentioned in these materials it will be necessary to contact Natixis Global Asset Management outside Mexican territory.

The above referenced entities are business development units of Natixis Global Asset Management, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. Although Natixis Global Asset Management believes the information provided in this material to be reliable, it does not guarantee the accuracy, adequacy or completeness of such information..

**This document is published by Natixis Asset Management's Communications Department.**