GLOBAL ECONOMIC OVERVIEW

"Slower Doesn't Mean Done"

We see domestic and global growth slowing as the protracted expansion enters the final innings of an extra innings economy. The US economy has been the driver of what matters most to worldwide equity markets, expanding earnings!

Going forward, the U.S. economy will become a headwind rather than a tailwind to continued global economic expansion. This change is driven by a multitude of economic and geopolitical developments.

As most of the news reading public is aware, the uncertainty surrounding our economy is championed by the tech trade war or more succinctly, the intellectual property debate between the U.S and China.

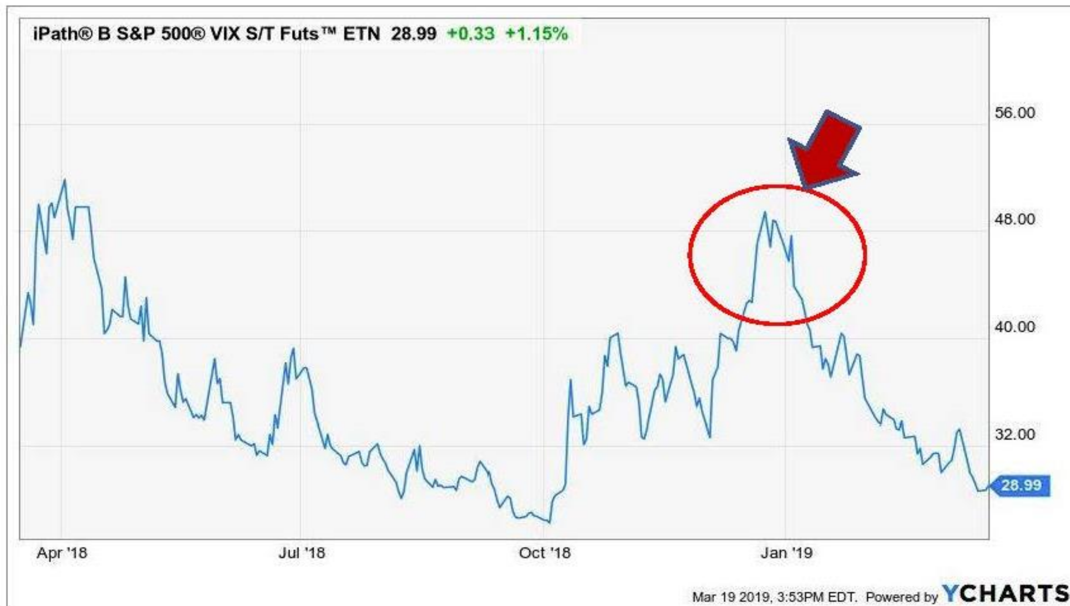
Adding to the uncertainty, strained financial conditions (i.e. elevated interest rates), compressed margins and tighter labor markets are contributing to the U.S. slowdown. Further clouding the markets clarity is the uncertainty surrounding monetary policy. Corporate business plans and their resultant capital expenditures (CAPX) have deteriorated while trade activity and business sentiment have both faded.

Overall, the reduced U.S. fiscal contribution should be mildly dilutive considering enhanced government stimulus in China and Europe.

Although both domestic and global growth are slowing with minimal inflation, it is important to highlight that underlying inflationary pressures still vary across regions, reflecting contrasting macro fundamentals and differing levels of capacity utilization in the world's major economies. We expect developed market central banks to continue adopting a strategy of gradual normalization regarding interest rates, while being sensitive to macro-economic developments.

Therefore, thoughtful increases in interest rates will now be linked with a measured unwind of global and domestic net asset purchases. This formula indicates a clear shift from Quantitative Easing to Quantitative Tightening.

Exhibit 1, S&P 500 Volatility Index (VIX) Source: YCharts



Overall, we see the risk of a U.S. recession as minimal in 2019, but as we extend into 2020 the probability of a mild recession increases. We believe the forward looking equity markets are pricing in an overly pessimistic future igniting **volatility** (see chart above) that continues to cloud a more positive economic environment.

From the Desk of the YCM Investment Policy Committee

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