

1 US government shutdown

What happened

DEC 2018
22 The Democrats rejected a **USD 5.7 billion** US-Mexico border wall funding plan by US President Donald Trump.

Trump retaliated by refusing to approve a wider spending bill, forcing a **government shutdown.**

This led to the closure of a quarter of the federal government, leaving **800,000** employees unpaid.

Jan 2019
25 Trump reached a **temporary deal** with Congress to reopen the government until **15 February**.



Views & Implications

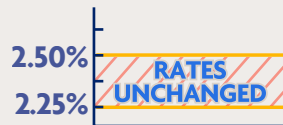
- The 35-day shutdown is estimated to have cost the US economy USD 11 billion, of which USD 3 billion is permanently lost. This is relatively small compared to the US nominal GDP of USD 19.5 trillion in 2017.
- We keep to our US GDP growth forecast of 2.9% in 2018, and 2.0% in 2019.

2 A dovish Fed

What happened



KEY OUTCOMES



The Fed kept the **rates unchanged**, but the tone was **increasingly dovish**.

The central bank pledged to be **patient** and more **data-dependent**.



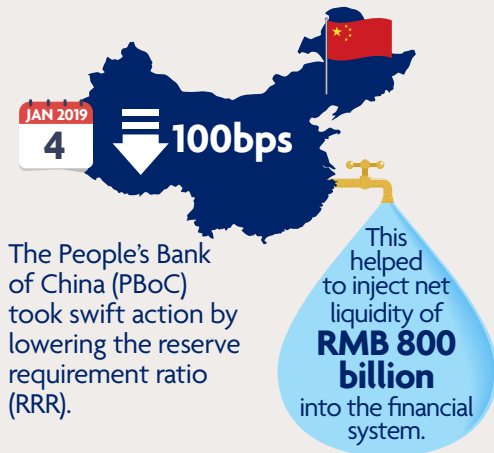
The Fed's balance sheet normalisation process may be **completed sooner than expected**, leaving the central bank with a **larger balance sheet** than previously estimated.

Views & Implications

- The Fed could take longer pauses between rate hikes. We expect the Fed to hike rates twice in 2019 – once in June and once more in December. However, the possibility of a second rate hike has reduced due to a slowing global economy.
- The patient tone reinforces our positive views on the EUR and AUD.
- The USD's strength against EM currencies could be capped. This will remove one of the key headwinds for EM equities.

3 Additional measures to support China's economy

RRR cut



Taxes and fees cut for manufacturers



Tax reduction for SMEs



Views & Implications

- Chinese policy makers are taking proactive steps to sustain economic growth.
- We anticipate another two broad-based 100bps RRR cuts in 2019 – one in Q2 and another in Q3. The Chinese government has the political will and resources to stimulate the economy should there be further signs of weakening.
- China equities offer an attractive risk-reward trade off as negative sentiments have been reflected in current prices.

4 Brexit uncertainty persists

What happened



KEY OUTCOME

The UK Parliament **voted against** Theresa May's Brexit deal.



Theresa May **survived** the subsequent **no-confidence vote**.



UK Parliament **voted down** a proposal to **delay Brexit**.

Views & Implications

- The risks are high for UK equities and the GBP. Theresa May has little room to negotiate a new deal that can be accepted by the UK Parliament and the EU. This uncertainty is likely to persist over the next few weeks.
- There is also a possibility of contagion to European equities and the EUR if both sides fail to reach an agreement.
- Investors may consider re-allocating to other high-conviction calls such as Emerging Market equities and Global Healthcare, which are less likely to be impacted by a no-deal Brexit.



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