

Political risks still simmering



Italy
Lombardy and Veneto voters back autonomous powers for the regions



Spain
Catalonia declares independence but Madrid government takes direct rule. Spain could struggle with loss of Catalonia:

Largest economic region with 19% of GDP¹

Makes up 30.5% of overall budget²



Austria
Far-right Freedom Party (FPÖ) and conservative People's Party (ÖVP) likely to form coalition government



However, political risks are likely to be contained as European Central Bank extends quantitative easing (QE) programme:

QE extended to Sep'18 but monthly purchases scaled back from €60bn to €30bn

Decision to extend QE should continue to support European equities

¹As of 2016, Spanish Institute of National Statistics. ²As of 2014 (latest data), Spanish Ministry of Finance.

Onwards and upwards for global growth but not inflation

IMF forecasts higher global growth:



Eurozone, helped by QE, sees some of the biggest growth surprises



Recovering commodity prices and China resilience supports emerging economies



Wage and price inflation subdued, despite healthy growth



Look out for:

Deflation due to secular stagnation

China credit crisis

Spike in bond yields

(Lack of) wage growth puzzles policymakers

Despite the current low levels of unemployment, wage inflation has not materialised as expected



Potential reasons include:

Workforce globalisation, reduction in trade unionisation, increase in technology

Increasing amount of temporary contracts

Commodity prices and exchange rates

Central banks have controlled inflation well, anchoring expectations



As global growth potentially brings further falls in unemployment, policymakers need to be aware of the changing unemployment/inflation relationship

Source: Schroders, Thomson Datastream, Consensus Economics as at November 2017, SCH20700

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