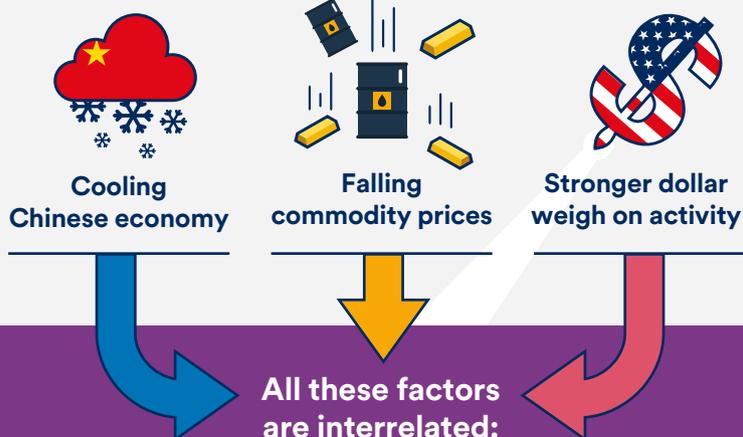


Global

Concerns over slower growth for world economy



- China is a major consumer of commodities whose prices tend to be depressed by periods of dollar strength
- Trade wars could have created a boom and bust as importers front loaded spending to avoid higher tariffs and are now cutting back, hitting commodities

How much of a slowdown?

We expect this slowdown to be temporary unless trade wars undermine business confidence

Capital expenditure orders remain healthy



Source: Thomson Reuters Datastream, Schroders Economics Group, 27 July 2018.

Impact on US consumers?

The combination of trade tariffs and tax cuts likely to bring higher inflation to the US

Europe

UK government sets out proposal for the EU relationship after Brexit:

'Soft' Brexit proposal for manufacturers pushing for free trade deal and frictionless borders

'Hard' Brexit for service sectors – negative for financial services especially investment banks

We see chances of no-deal cliff edge Brexit at 35-40%, but 60-65% chance that UK moves into a transition period from end of March 2019

China

Recent concerns over Chinese renminbi (CNY) dropping 5% in a month
However, concerns overblown as this is unlikely to be start of a currency war, or repeat of 2015

- This fall largely reflects an unwind of earlier strength – the currency is in line with its trade weighted basket
- Devaluation carries sufficient risk that it will only be a weapon of last resort, not first



Source: Schroders as at August 2018

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