

**Global: Will trade wars end the economic cycle?**

**Heading for a prolonged dispute**

Neither US nor China is willing to back down



- On its own, the trade war should not derail the economic cycle, and would need to escalate beyond US and China to have significant effect on global growth
- However, combined with impact of tighter monetary policy and fading fiscal stimulus, trade wars may weigh on growth in 2019 and end US expansion in 2020
- If the US dollar weakens, this may offset the negative impact on emerging market equities

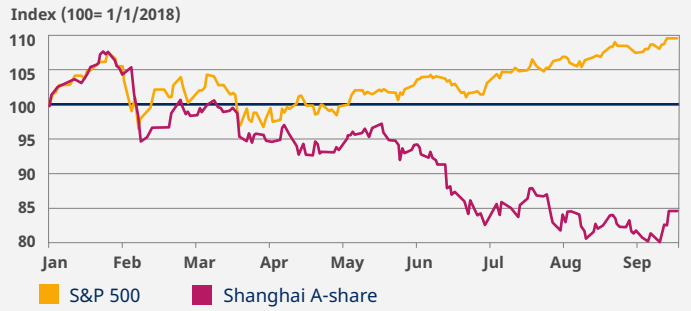
**Winner?**

If all trade between the two nations becomes subject to tariffs, **US is likely to win**

(%) GDP affected if tariff imposed on all goods:



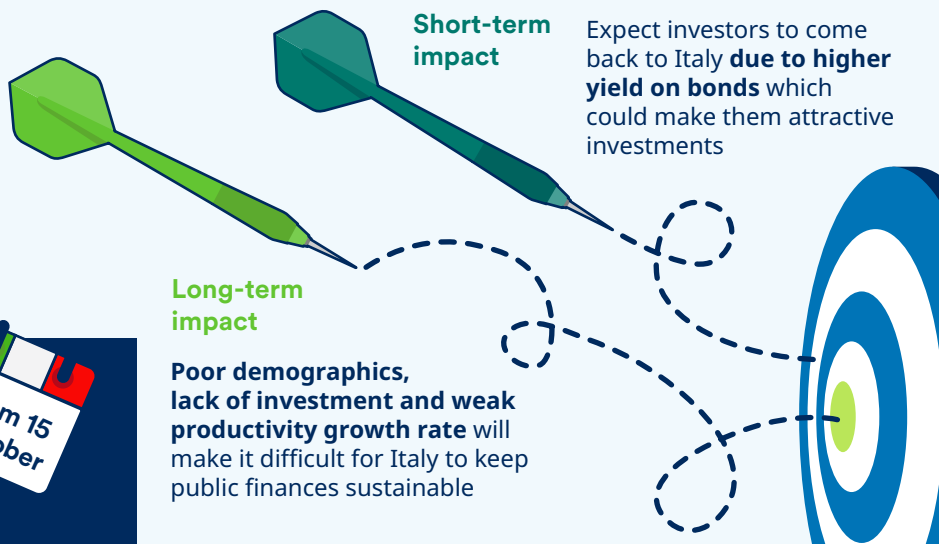
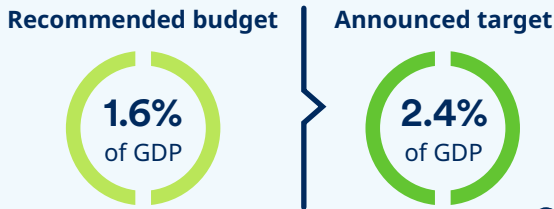
**Stock markets also suggest that the US is winning the trade war**



Source: Thomson Reuters Datastream, Schroders Economics Group, 24 September 2018

**Italy: Highly indebted government remains a concern for investors**

**2019 budget target unveiled on 27 September**



**European Commission (EC) to assess budget**

EC likely to instruct Italy to lower target, but has little power to force them to comply



2% inflation target

**Japan: Hidden slack in unemployment may keep lid on wages**

**Bank of Japan (BoJ) policy slightly tightened**

BoJ more concerned about side-effects of ultra loose monetary policy and may gradually withdraw monetary stimulus despite failure in progress towards 2% inflation target

- Strong wage data and low unemployment rate suggests tight labour market
- However, hidden slack in female participation rate along with entrenched cultural factors should keep the lid on wage growth in long run

Unemployment at a 25-year low, at 2.5%

Source: Schroders as at October 2018

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