US: Consensus expects 2% growth and 2% inflation over the coming 18 months.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Q4 18</th>
<th>Q1 19</th>
<th>Q2 19</th>
<th>Q3 19</th>
<th>Q4 19</th>
<th>Q1 20</th>
<th>Q2 20</th>
<th>Q3 20</th>
<th>Q4 20</th>
<th>Q1 21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (YoY%)</td>
<td>2.5</td>
<td>2.7</td>
<td>2.3</td>
<td>2.0</td>
<td>2.2</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Real GDP (QoQ% SAAR)</td>
<td>1.1</td>
<td>3.1</td>
<td>2.0</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Consumer Spending</td>
<td>1.4</td>
<td>1.1</td>
<td>4.6</td>
<td>2.8</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Government Spending</td>
<td>-0.4</td>
<td>2.9</td>
<td>4.8</td>
<td>1.4</td>
<td>1.6</td>
<td>1.5</td>
<td>1.6</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Private Investment</td>
<td>3.0</td>
<td>6.2</td>
<td>-6.3</td>
<td>1.1</td>
<td>1.4</td>
<td>1.5</td>
<td>1.6</td>
<td>2.1</td>
<td>2.3</td>
<td>2.3</td>
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<tr>
<td>Exports (QoQ% SAAR)</td>
<td>1.5</td>
<td>4.1</td>
<td>-5.7</td>
<td>1.5</td>
<td>2.0</td>
<td>2.0</td>
<td>1.8</td>
<td>2.0</td>
<td>2.2</td>
<td>2.5</td>
</tr>
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<td>Imports (QoQ% SAAR)</td>
<td>3.5</td>
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<td>2.5</td>
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<td>2.0</td>
<td>2.1</td>
<td>2.5</td>
<td>2.5</td>
<td>3.0</td>
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<tr>
<td>Industrial Production (YoY%)</td>
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<td></td>
<td></td>
<td>1.5</td>
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<td>Price Indices</td>
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<tr>
<td>CPI (YoY%)</td>
<td>2.2</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
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<tr>
<td>PCE Price Index (YoY%)</td>
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<td>Core PCE (yoy%)</td>
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</tbody>
</table>

Source: Bloomberg Finance LP, DB Global Research
Germany: Consensus expects slow growth in the near term and then acceleration in 2020H2

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Q4 18</th>
<th>Q1 19</th>
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<tr>
<td>Real GDP (QoQ%)</td>
<td>0.2</td>
<td>0.4</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
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<td>0.5</td>
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<td>Private Consumption...</td>
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<tr>
<td>Government Spending...</td>
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<td>1.9</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
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<td>1.3</td>
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<td>4.3</td>
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<td>2.2</td>
<td>1.4</td>
<td>0.2</td>
<td>0.8</td>
<td>1.3</td>
<td>1.8</td>
<td>2.0</td>
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<tr>
<td>Exports (yoy%)</td>
<td>-0.1</td>
<td>2.1</td>
<td>0.1</td>
<td>0.6</td>
<td>0.5</td>
<td>-1.1</td>
<td>1.3</td>
<td>1.7</td>
<td>2.2</td>
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<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance LP, DB Global Research
Risks to the outlook

1. Trade war
2. Weak growth in Europe, China, and Japan
3. Positive effects of corporate tax cuts fading
4. Are we late cycle?
Risk #1
Quantifying the macro impact of the trade war
ISM composite pointing to sharp slowdown in September

Source: BEA, Bloomberg Finance LP, DB Global Research

Deutsche Bank Research  Torsten Slok, torsten.slok@db.com  +1 212 250-2155  October 2019
Downside risks to capex

**NFIB: Percent of firms planning capital expenditures next 3 to 6 Months (ls)**

**Chg y/y, Real pvt nonresidential fixed investment in equipments (rs)**

3 month MA

Source: NFIB, BEA, Haver Analytics, DB Global Research
Trade war uncertainty also dragging down the service sector

Source: ISM, Haver Analytics, DB Global Research
Positive effects of corporate tax cut offset by negative effects of trade war

Core capital goods shipments
Non-residential business fixed investment

Corporate tax cut begins

Source: Census, BEA, Haver Analytics, DB Global Research
Risk #2:
Growth is weak in Europe, China, and Japan
Germany particularly weak

Source: ISM, Markit, Haver Analytics, DB Global Research
Risk #3:
Positive effects of corporate tax cuts beginning to fade
Capex used to be much higher than dividends and buybacks

Capex used to be double of dividends and buybacks.

2018 corporate tax cut boosted dividends and buybacks.
Late-cycle worries:
Corporate profits coming down as a share of GDP

Source: BEA, Haver Analytics, DB Global Research
Risk #4: Are we late cycle?
Late-cycle worries: Delinquency rates moving higher

Note: Composite consumer loans consists of eight loan types: personal, automobile direct & indirect, mobile homes, recreational vehicles, marine financing loans, property improvement and home equity and second mortgage loans.

Source: BLS, ABA, Haver Analytics, DB Global Research
Consumers have less appetite for buying durable goods
This is a classic sign that we are late cycle

Source: BLS, UMichigan, Haver Analytics, DB Global Research
Late-cycle worries:
Consumers more optimistic about today than about the future

Source: Conference Board, Haver Analytics, DB Global Research

Conference Board confidence consumer expectations minus present situation

Normally a warning sign when consumers are much more optimistic about today than about the future
Investment implications/Markets
**Investment implications summarized**

<table>
<thead>
<tr>
<th>Fed outlook</th>
<th>US growth is slowing. Trade war, fading positive effects of tax cuts, slowing global growth, and late-cycle headwinds weighing on the US economic outlook and justifies Fed cuts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond markets</td>
<td>Trade war, slowing growth, and late-cycle headwinds weighing on long rates. Fundamental forces driving long rates are 1) US inflation, 2) Treasury supply, and 3) global QE, 4) Hedging costs, and 5) Europe and China outlook.</td>
</tr>
<tr>
<td>Credit</td>
<td>Dovish central banks and negative interest rates without a US recession is bull case for US credit. Global QE and lower hedging costs means more demand for US credit from abroad. But more Treasury supply pulls dollars out of risky assets, especially IG. Sharper economic slowdown because of trade war is a risk to corporate default rates.</td>
</tr>
<tr>
<td>Stock markets</td>
<td>Trade war, slowing global growth, and emerging election uncertainty are downside risks to equities</td>
</tr>
<tr>
<td>FX</td>
<td>EURUSD 1.13 and USDJPY 105 by end-2019.</td>
</tr>
<tr>
<td>Commodities</td>
<td>Slowing growth and peak global growth are downside risks to commodities, in particular energy.</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>Speed of US growth slowdown is risk to EM. But dovish Fed and ECB helpful for EM.</td>
</tr>
</tbody>
</table>

Source: DB Global Research
Torsten Slok, Ph.D.

- Chief Economist, Managing Director
- Deutsche Bank Securities, Inc.

- Mr. Slok’s Economics team has been top-ranked by Institutional Investor in fixed income and equities since 2010, including #1 in 2019. Slok currently serves as a member of the Economic Club of New York.

- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.

- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis, including in Journal of International Economics, Journal of International Money and Finance, and The Econometric Journal.
Appendix 1
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