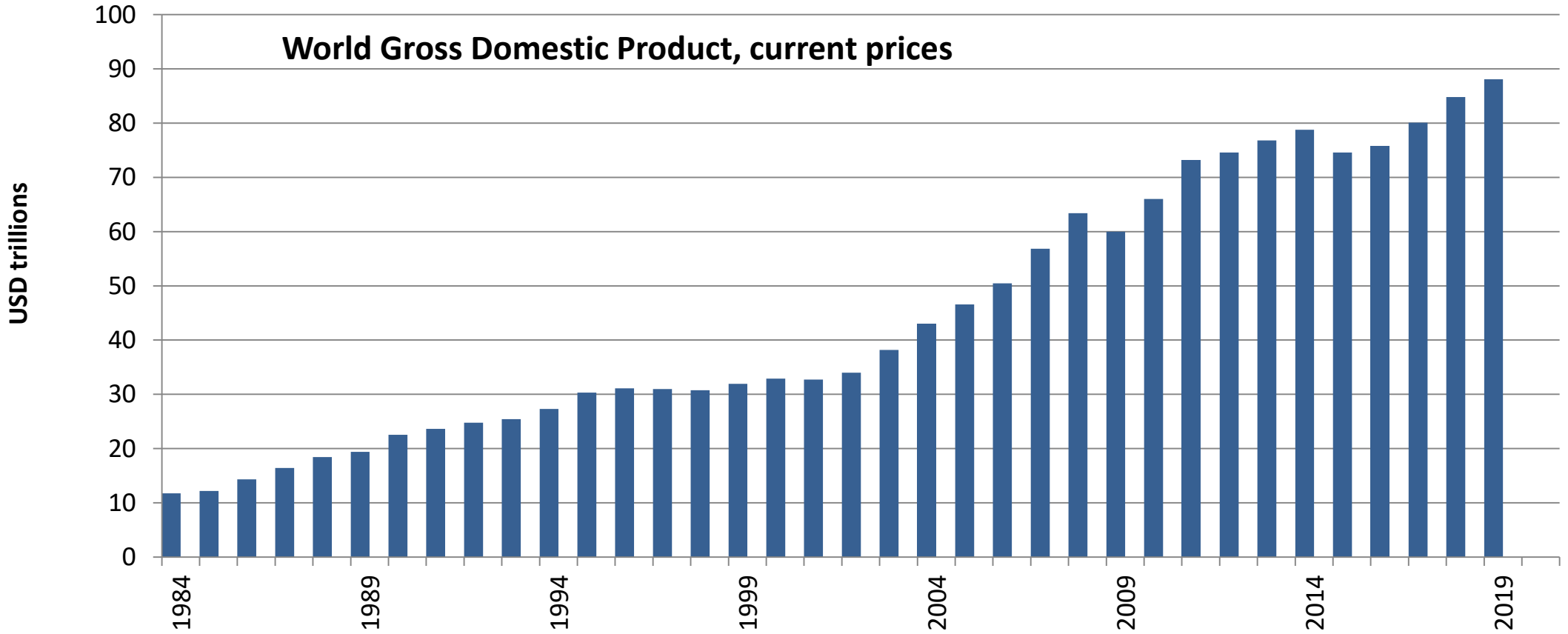
# The economic and financial outlook

Dr Gerard Lyons

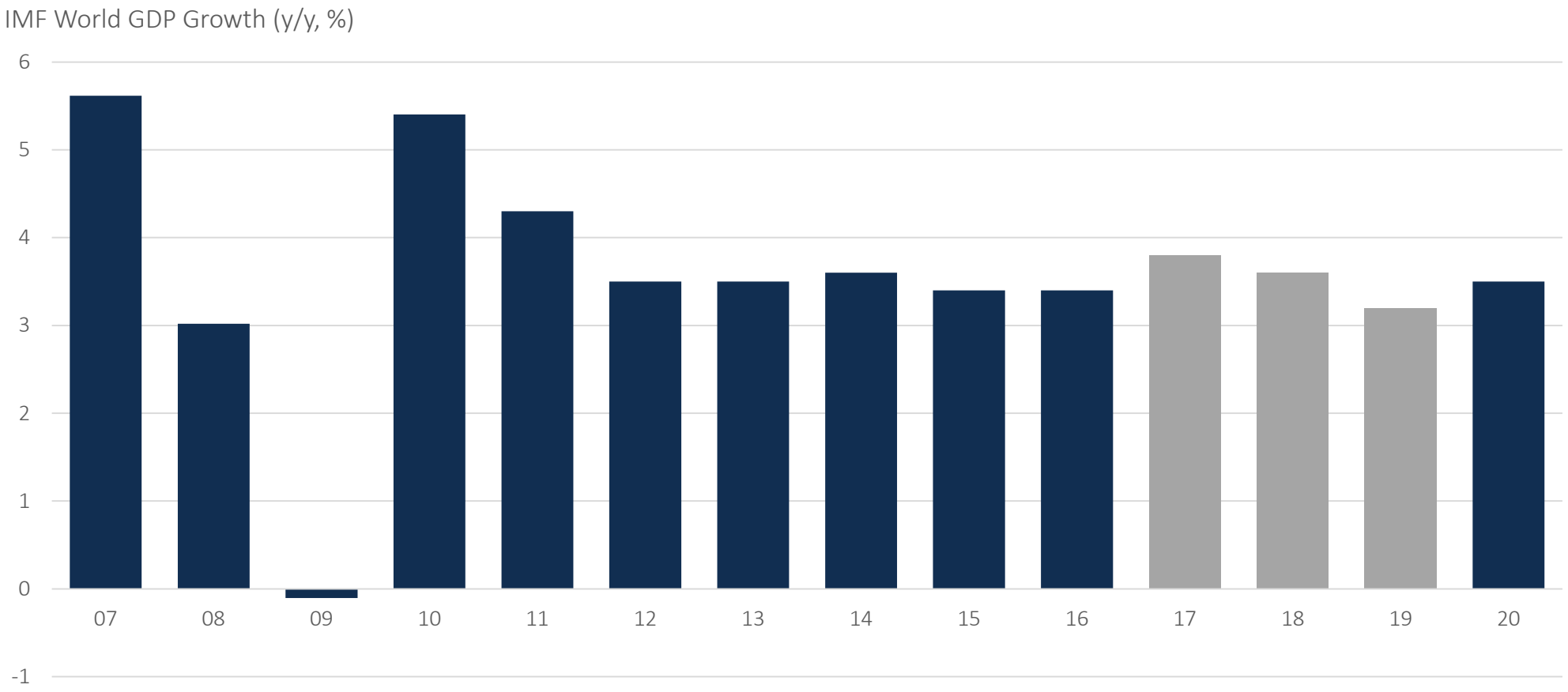
# Uncertainty as the world economy has slowed

# Despite current uncertainty the world economy continues to grow



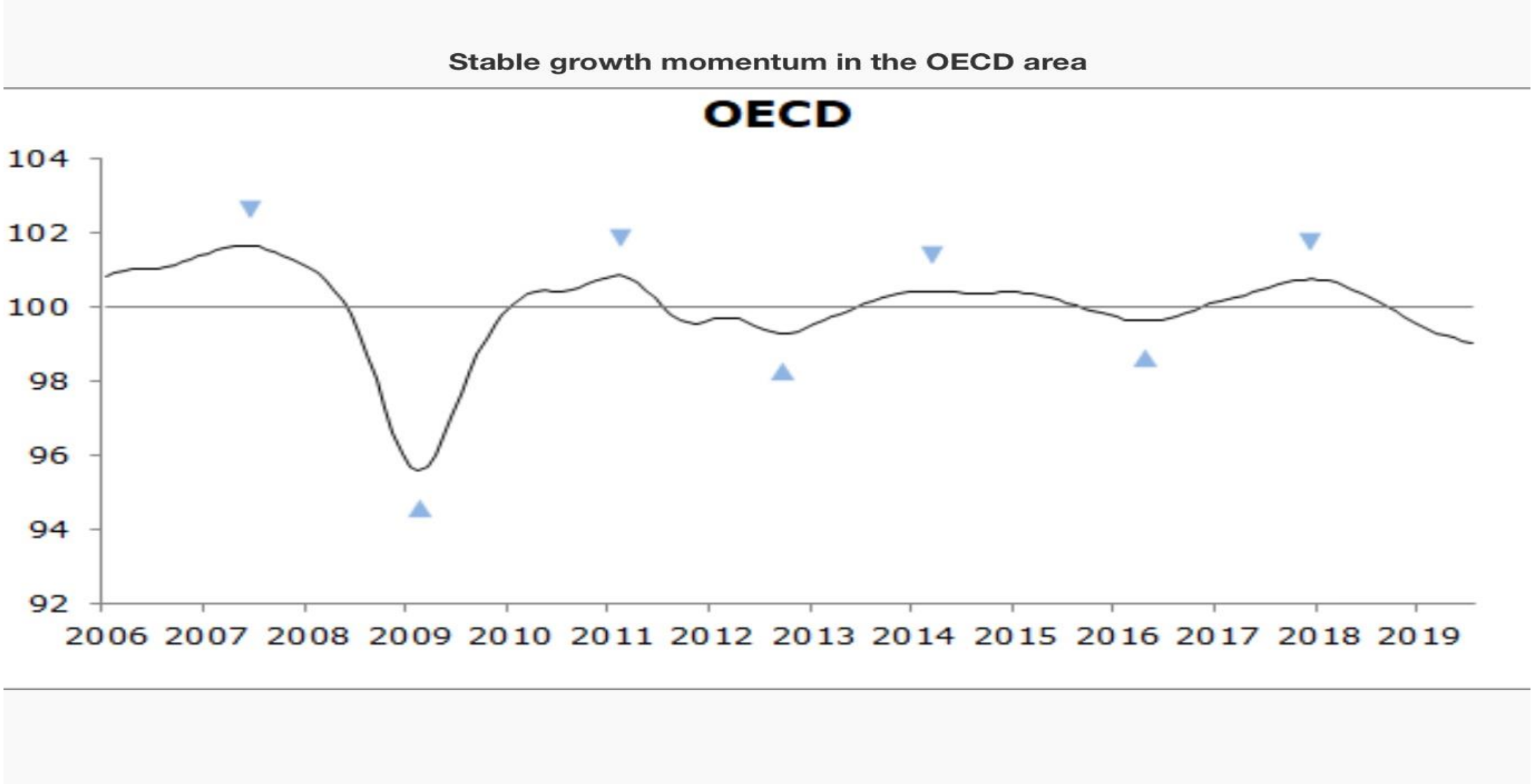

Source: IMF WEO

# Global growth: markets missed upturn in mid-2016 & downturn last year

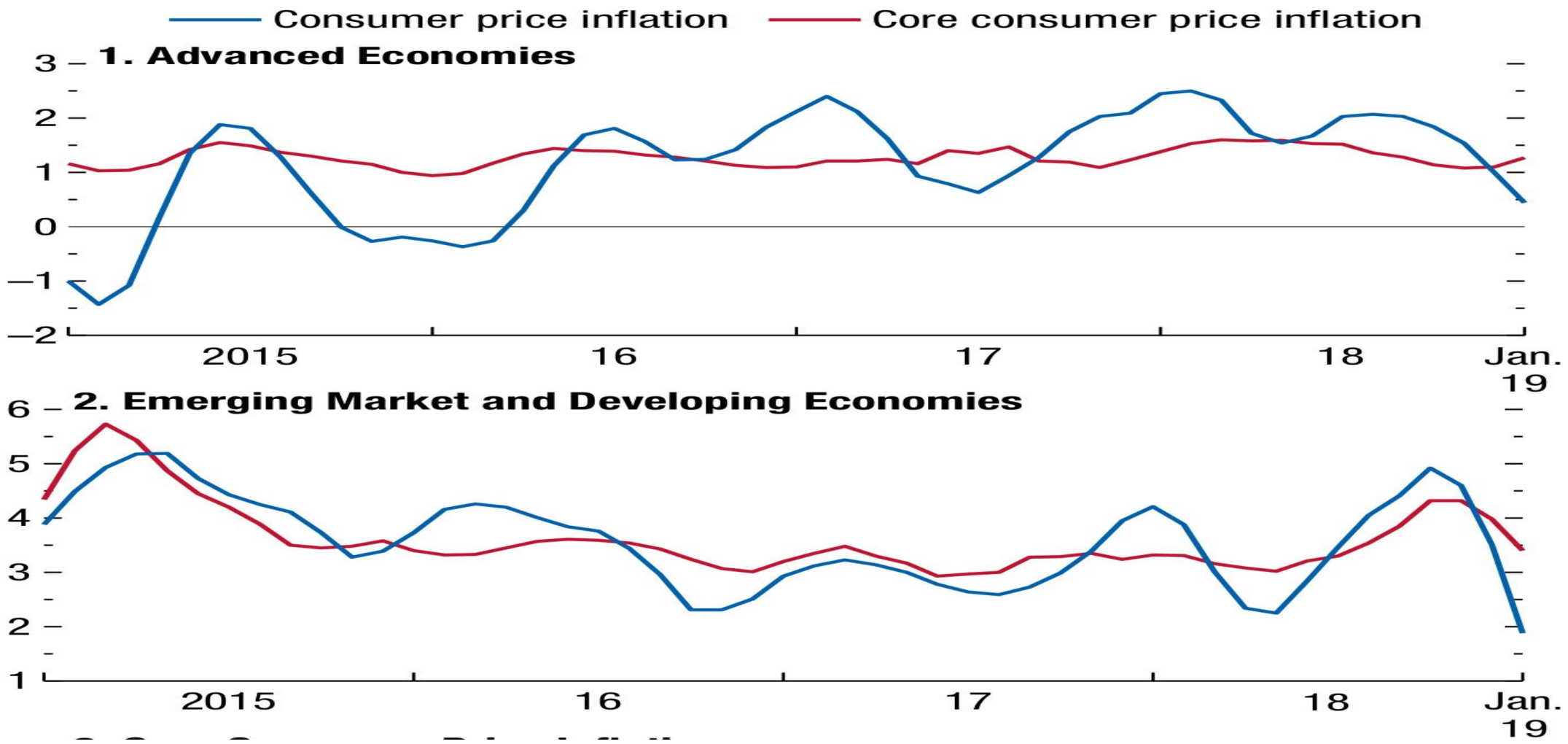



IMF Global Economic Outlook

# OECD economies: lead indicator slowed

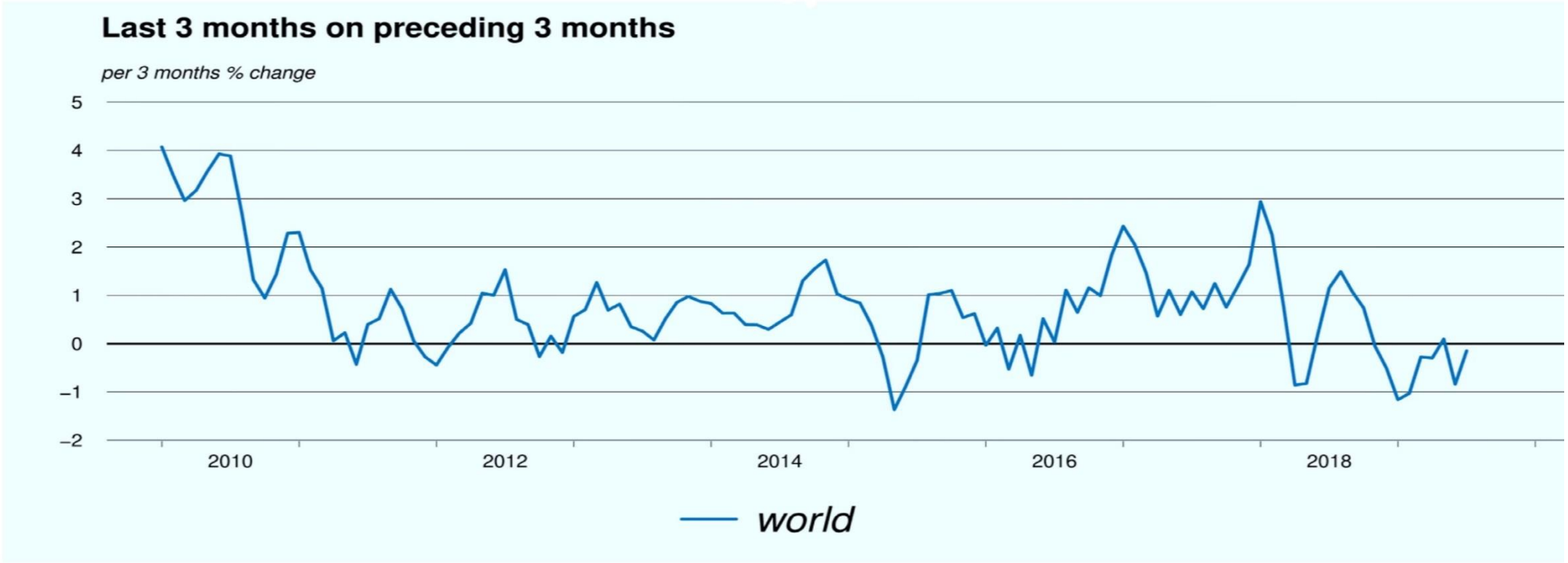


# Since start of the year official forecasts point to low inflation



# Trade tensions have hit centre stage

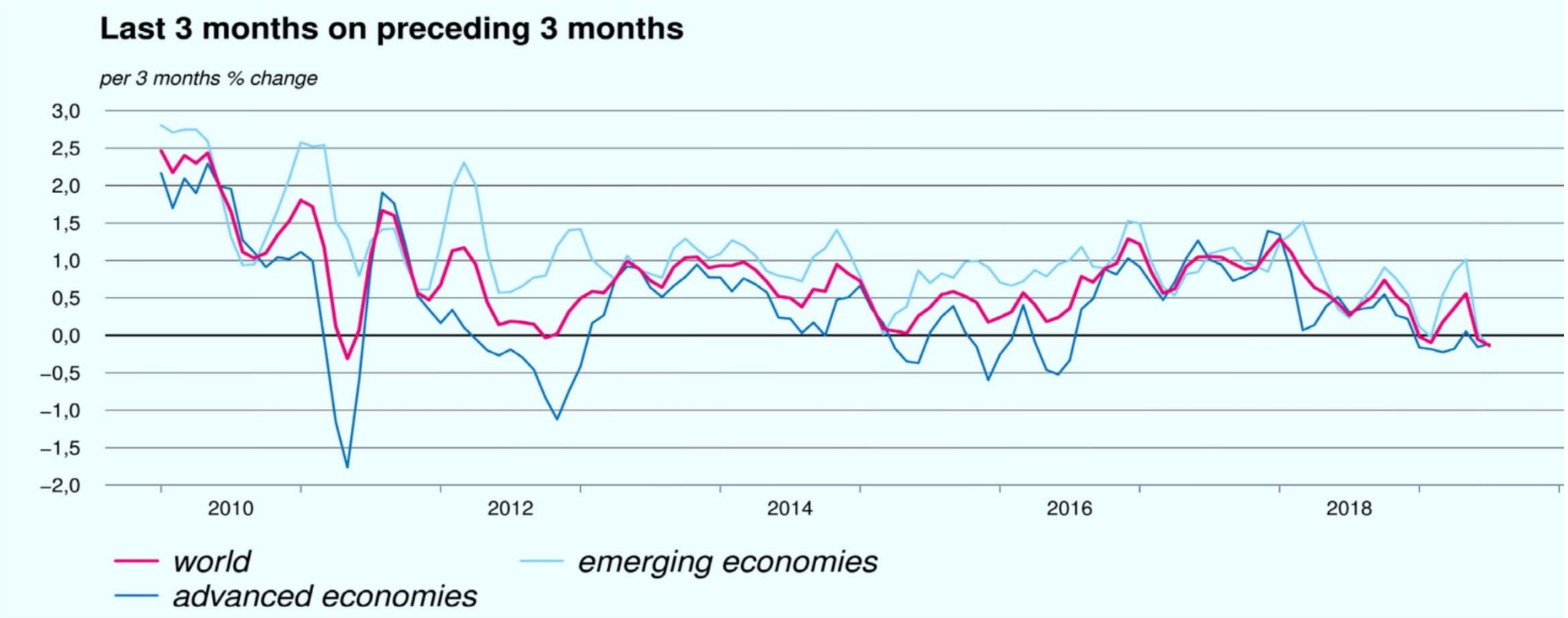
## WORLD MERCHANDISE TRADE VOLUME




World Trade Monitor, CPB, Netherlands

# And global output has slowed

## INDUSTRIAL PRODUCTION VOLUME

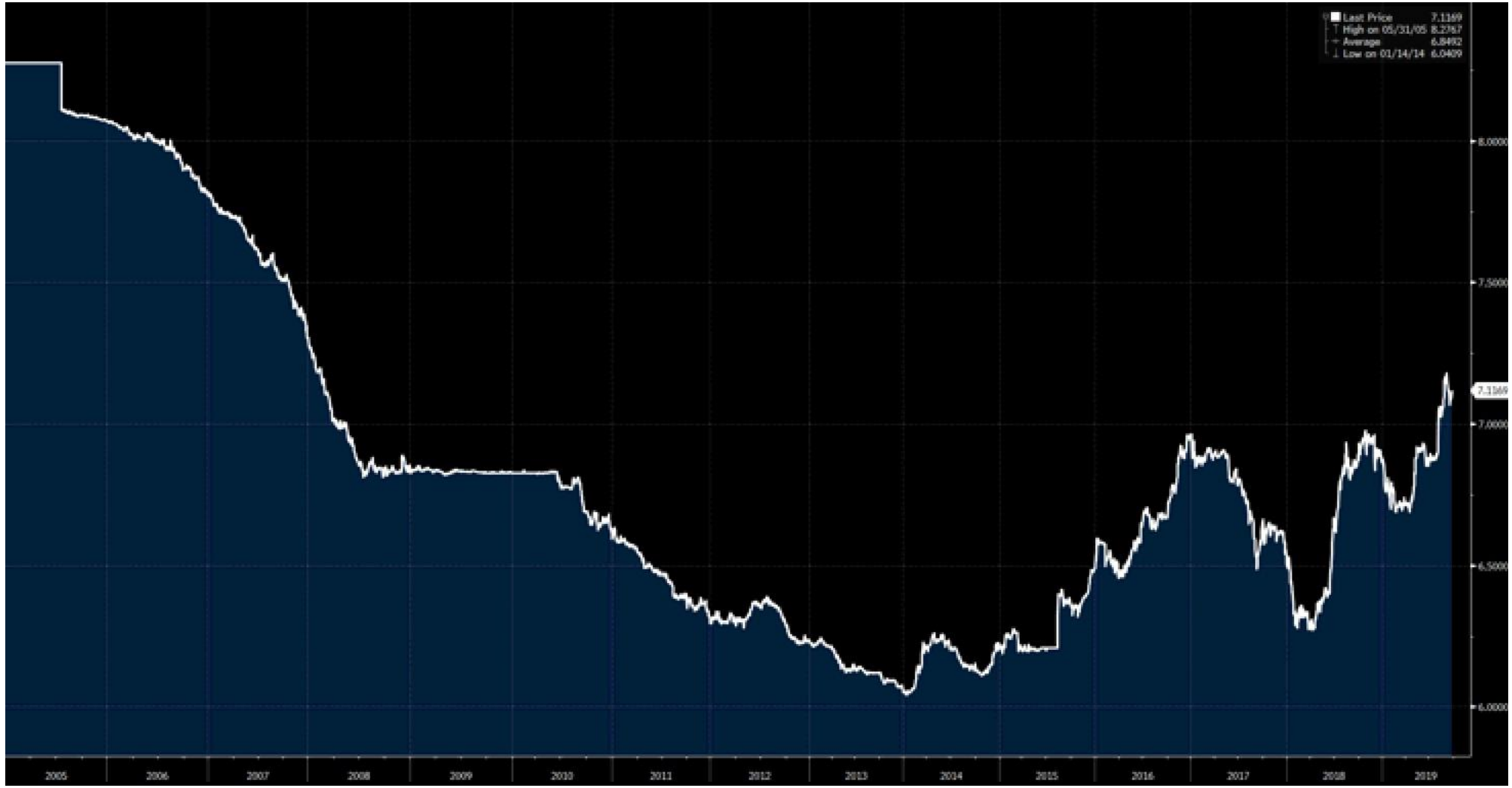



World Trade Monitor, CPB, Netherlands

# German IFO survey highlights current concerns

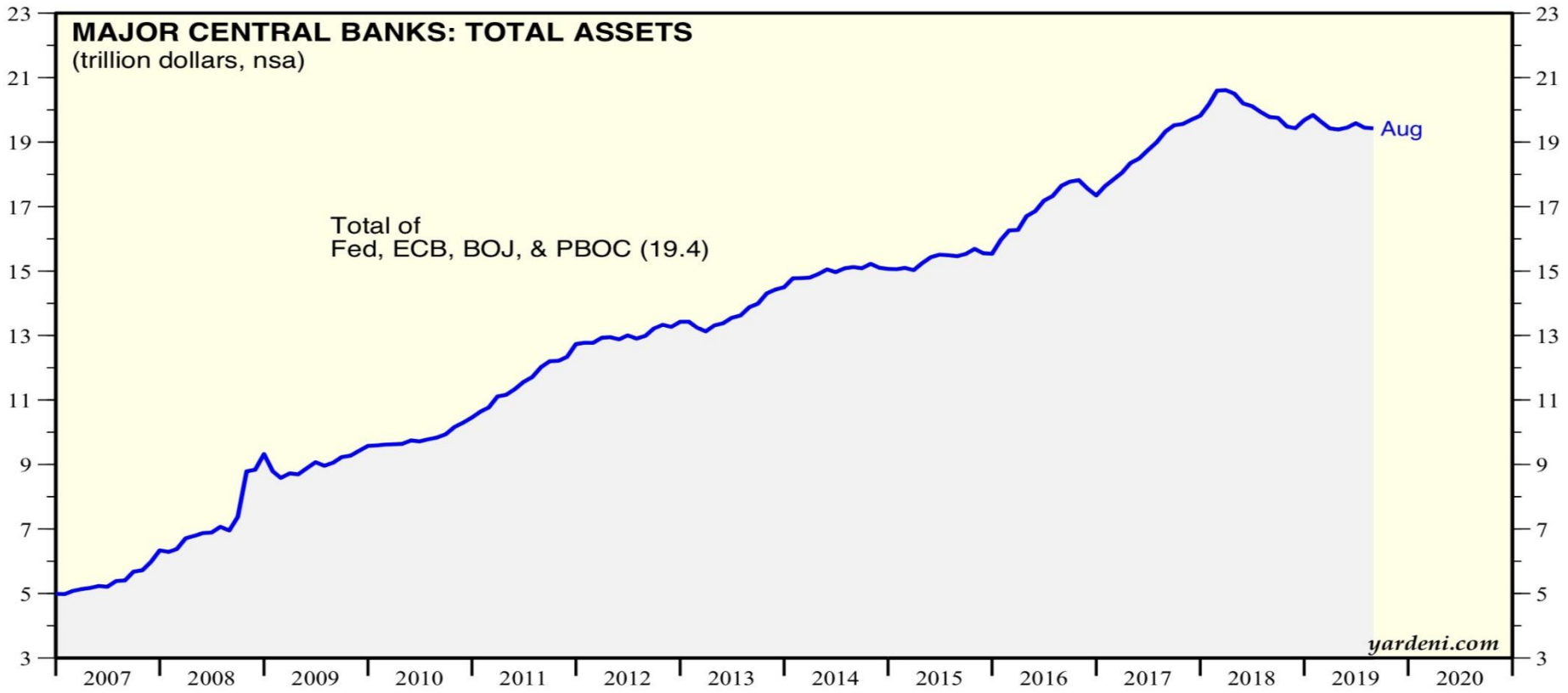

Source: Bloomberg

# And… policy in China  (CNY shown here)



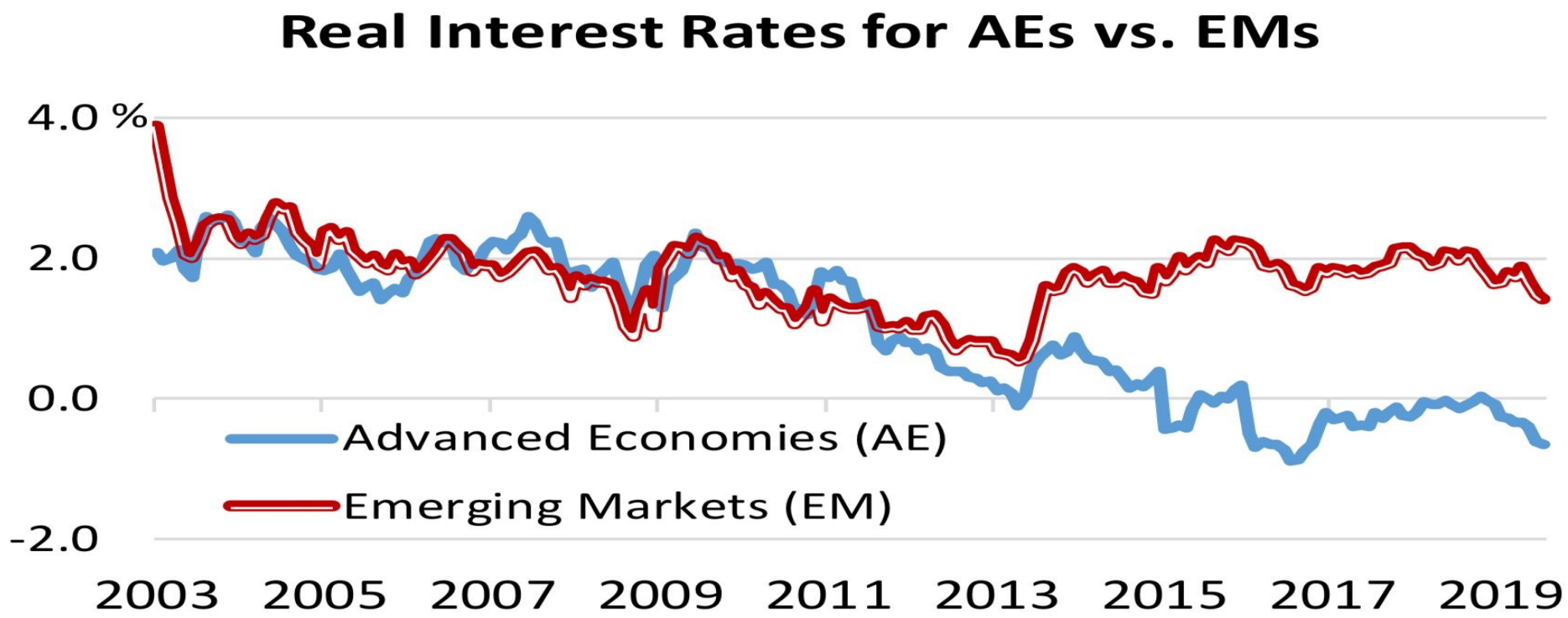
# Policy and markets

# Since 2008 Monetary Policy has been the shock absorber




Source: Haver Analytics.

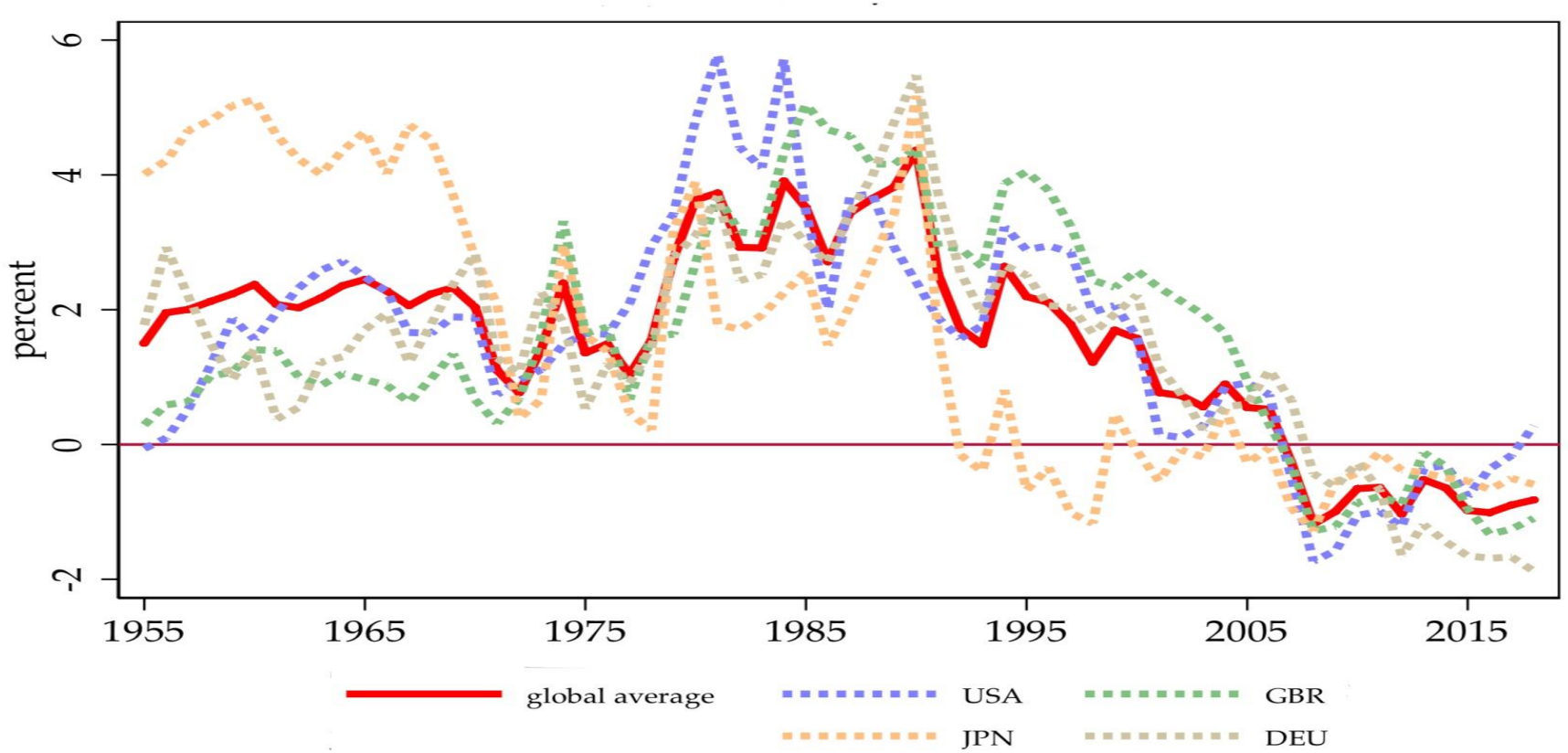
# Interest rates




Real interest rates are GDP-weighted for each country group. Based on Rachel and Smith (2015), with updated data.

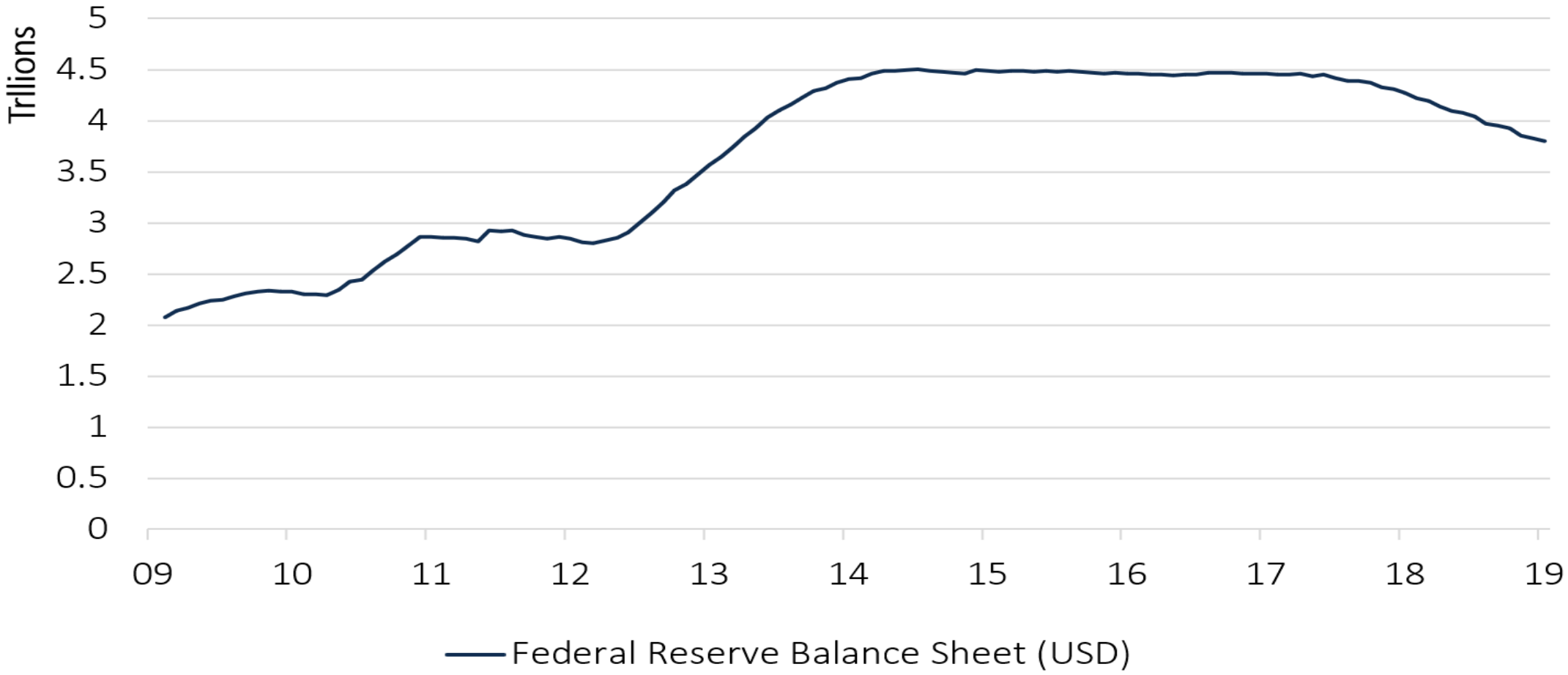
# A low natural rate of interest

## International synchronicity of $r^\star$



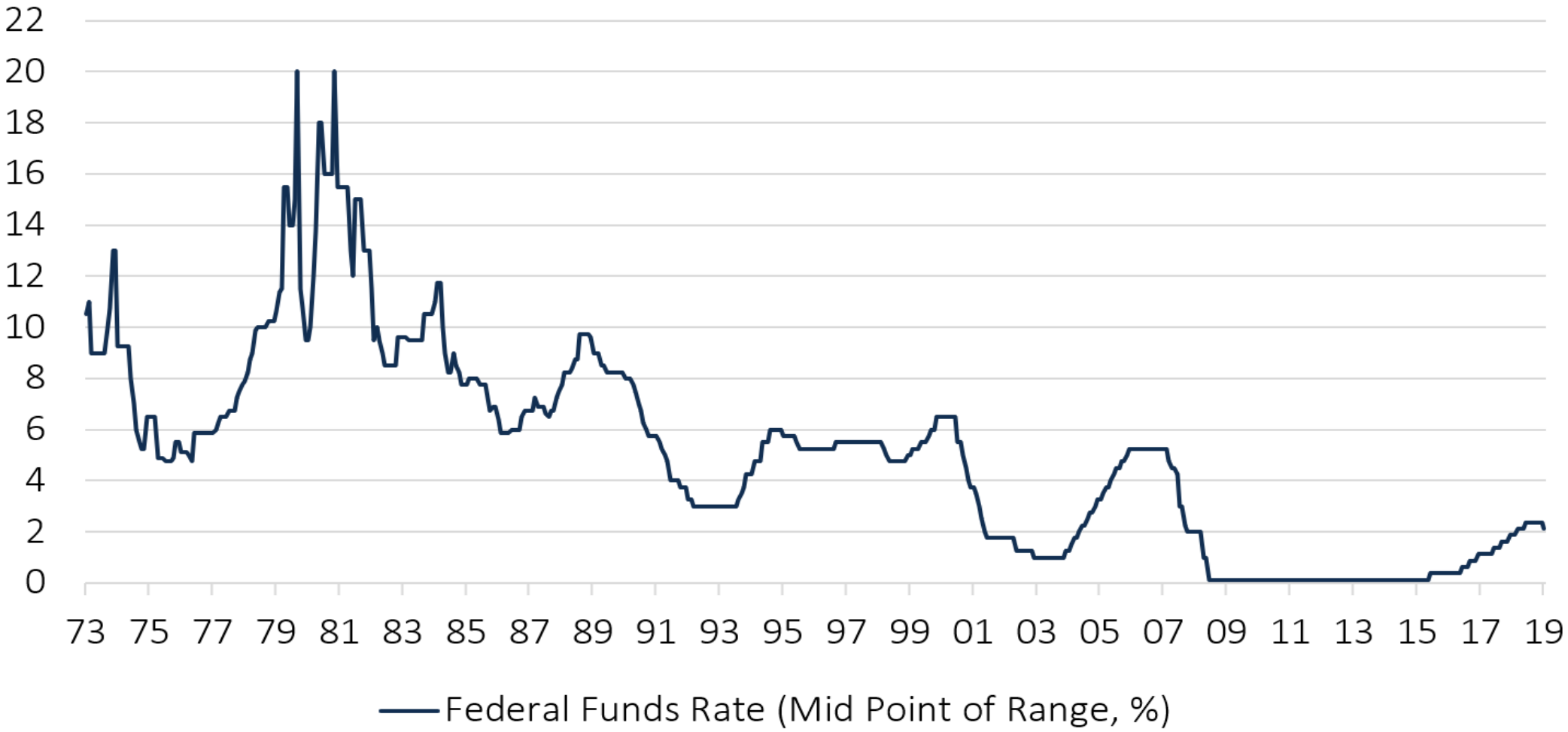

Source: Jackson Hole 2019

# The Fed has used its balance sheet as a major policy tool



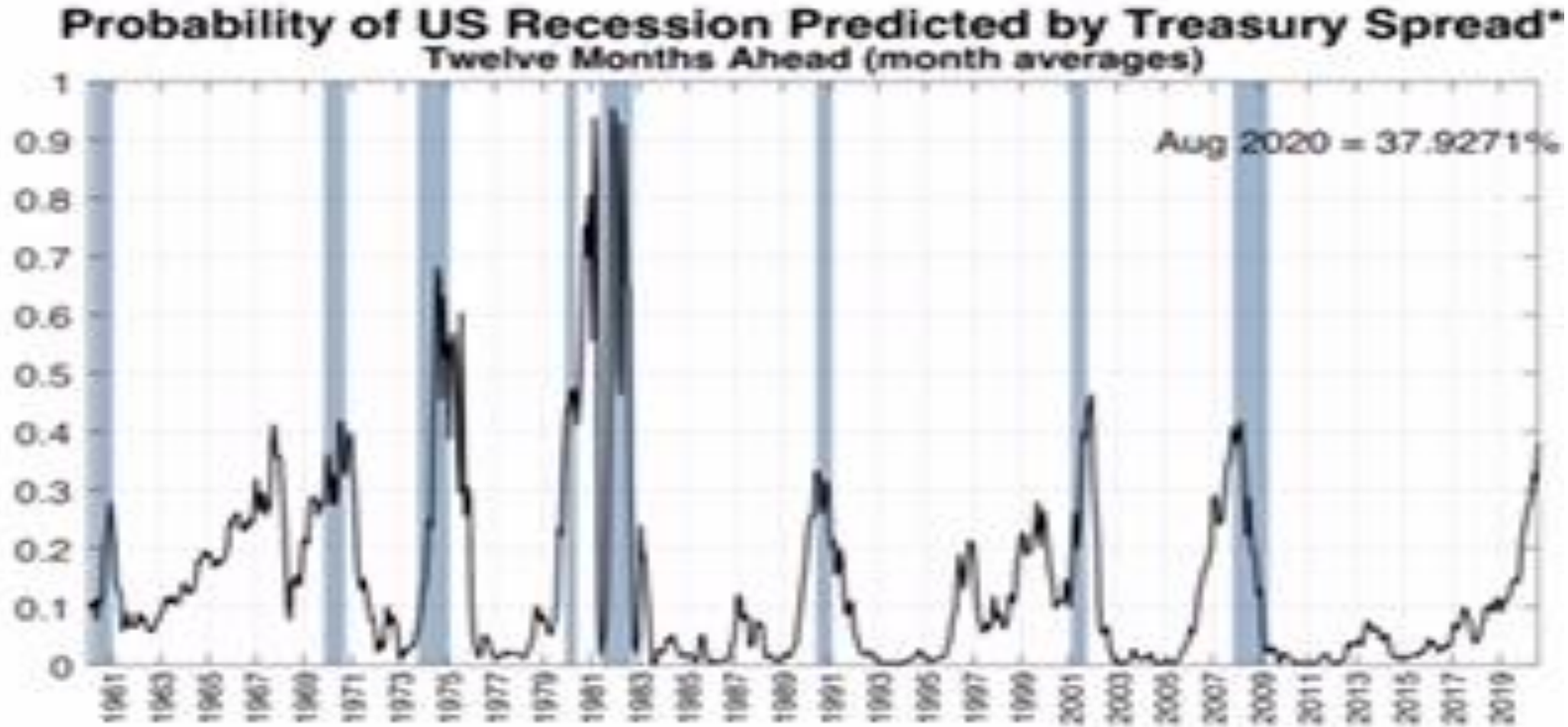

Source: Bloomberg

# Fed easing.. Mid-cycle or downward trend

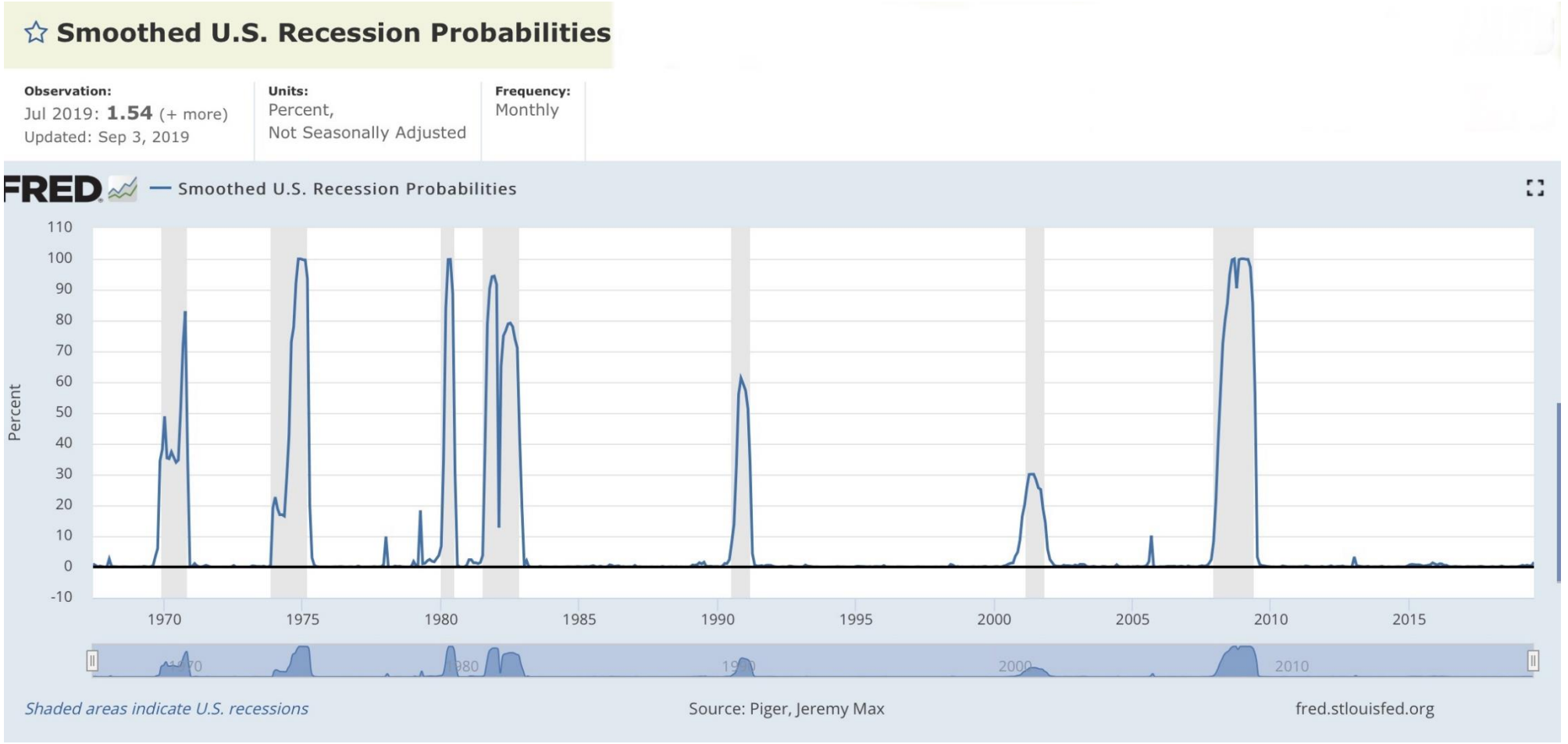



Source: Bloomberg

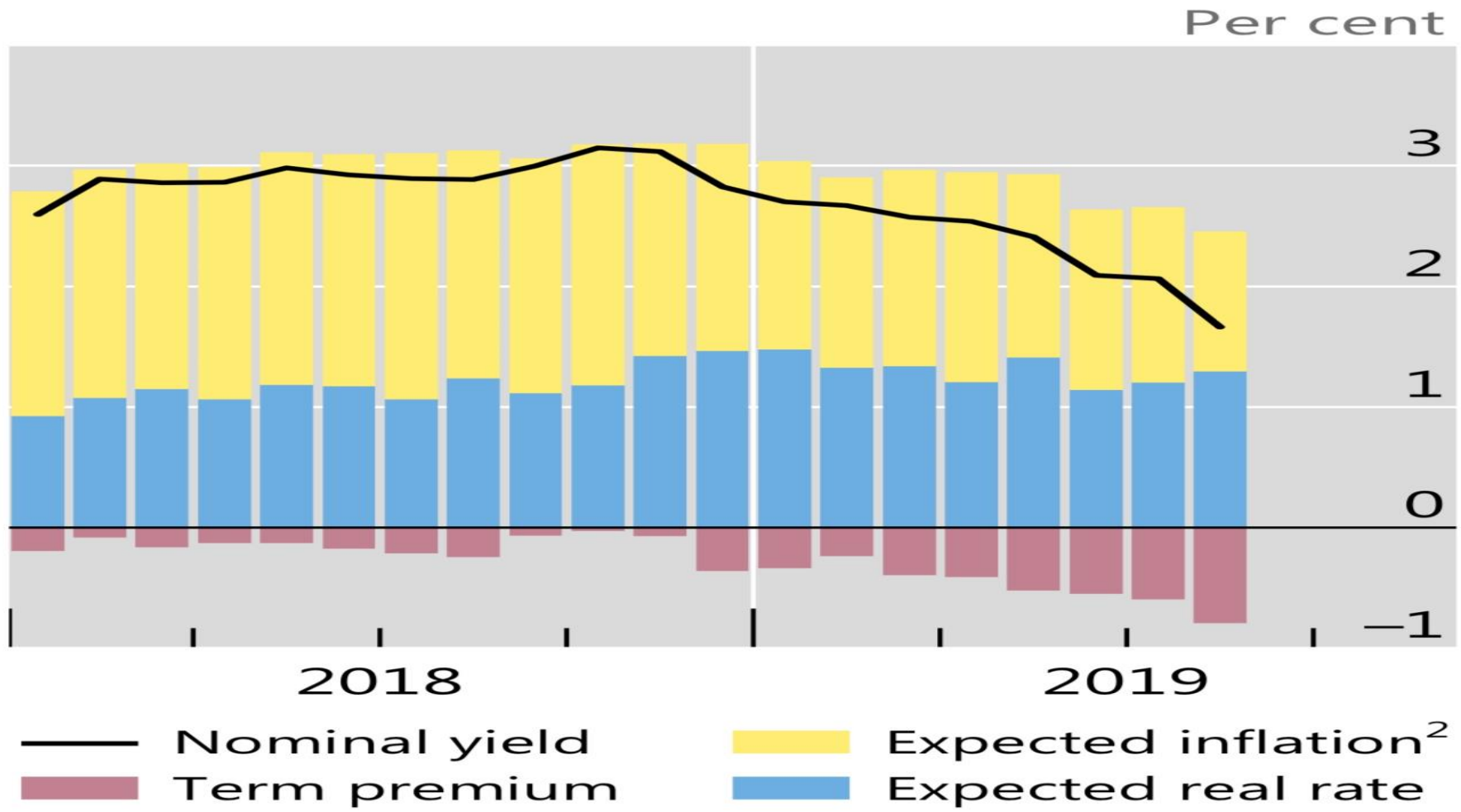
# Markets worried about rising risk of US recession



# But not all measures point the same way

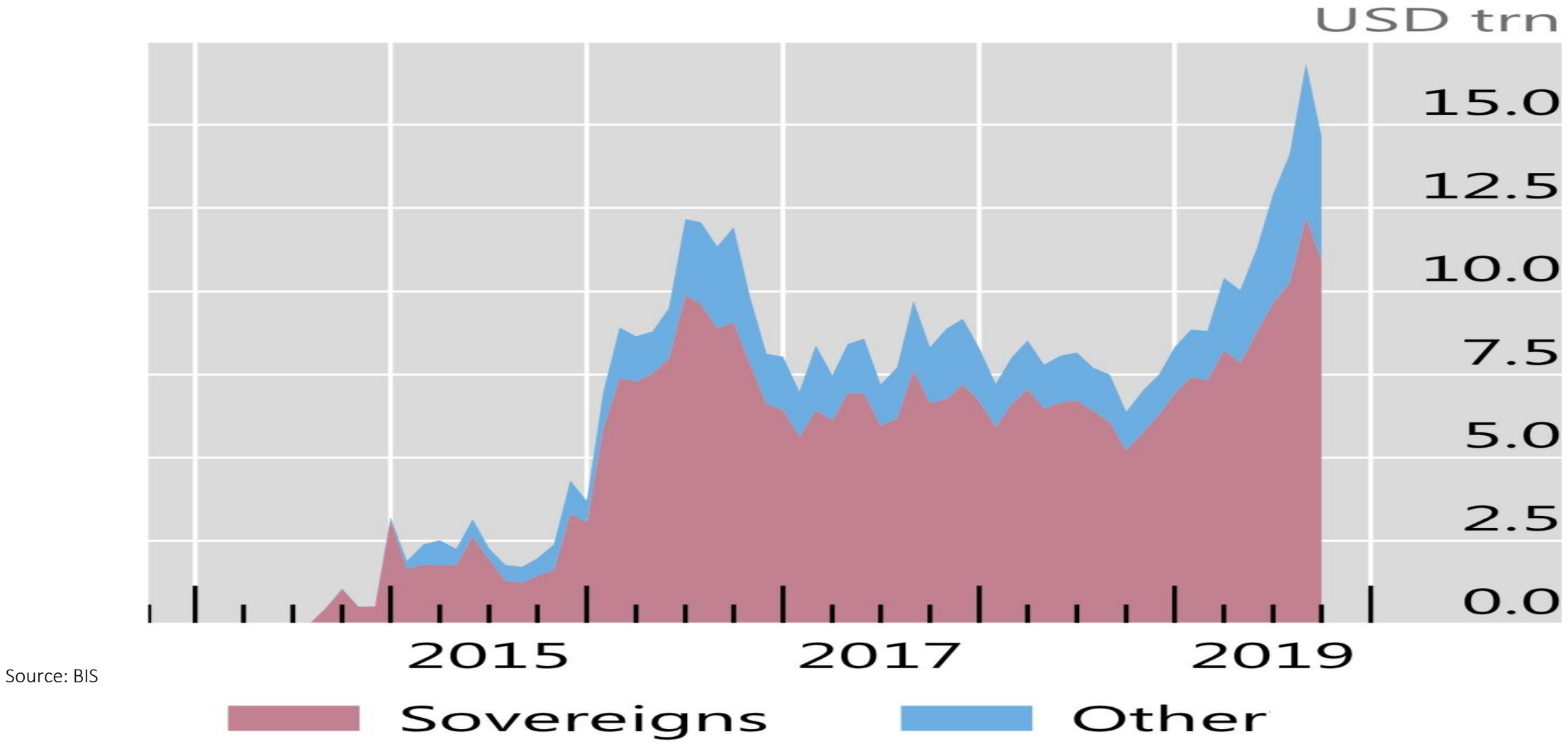


# Fall in term premium and inflation expectations drive yields



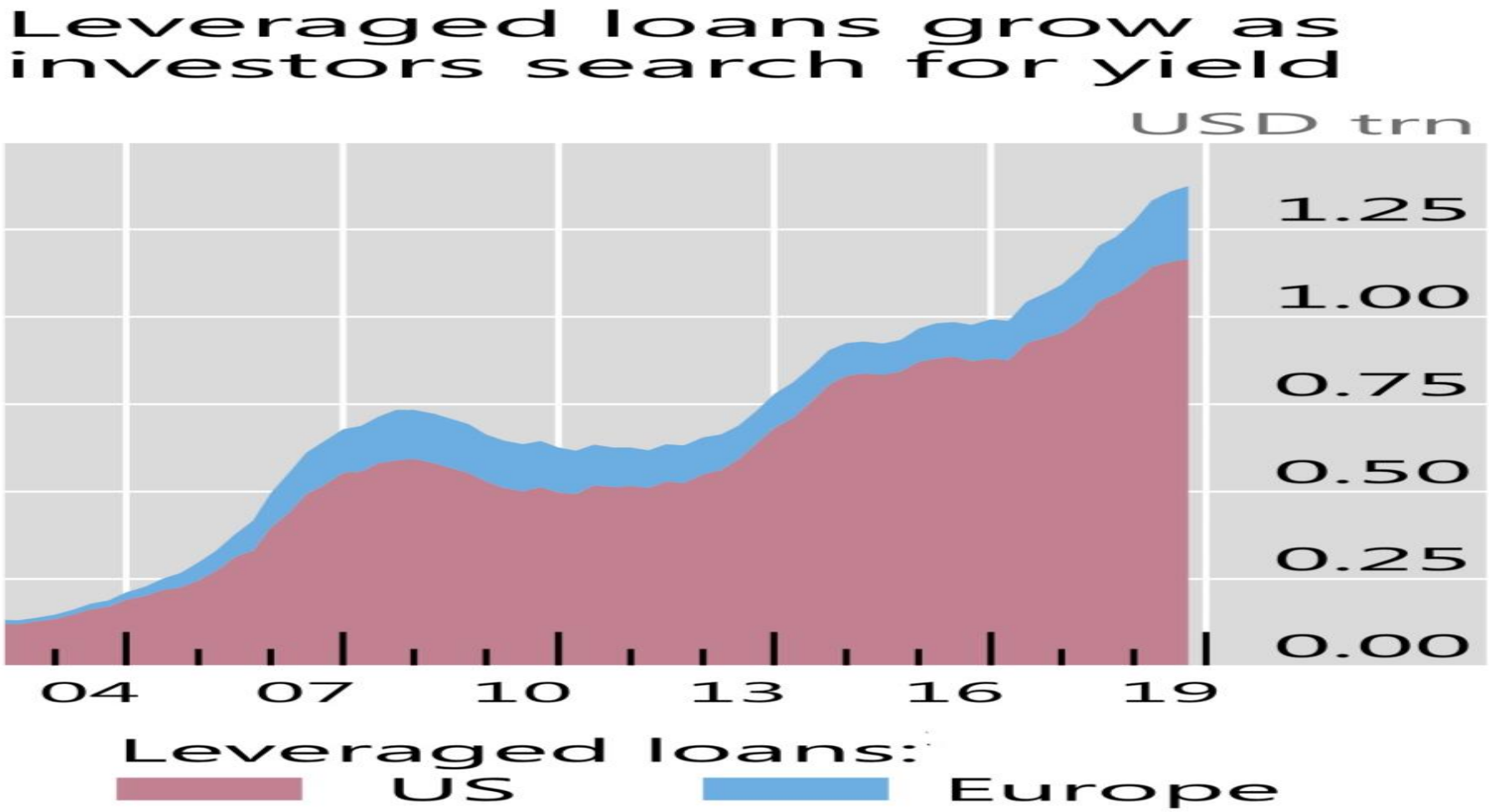

Source: BIS

# Debt yielding in negative territory



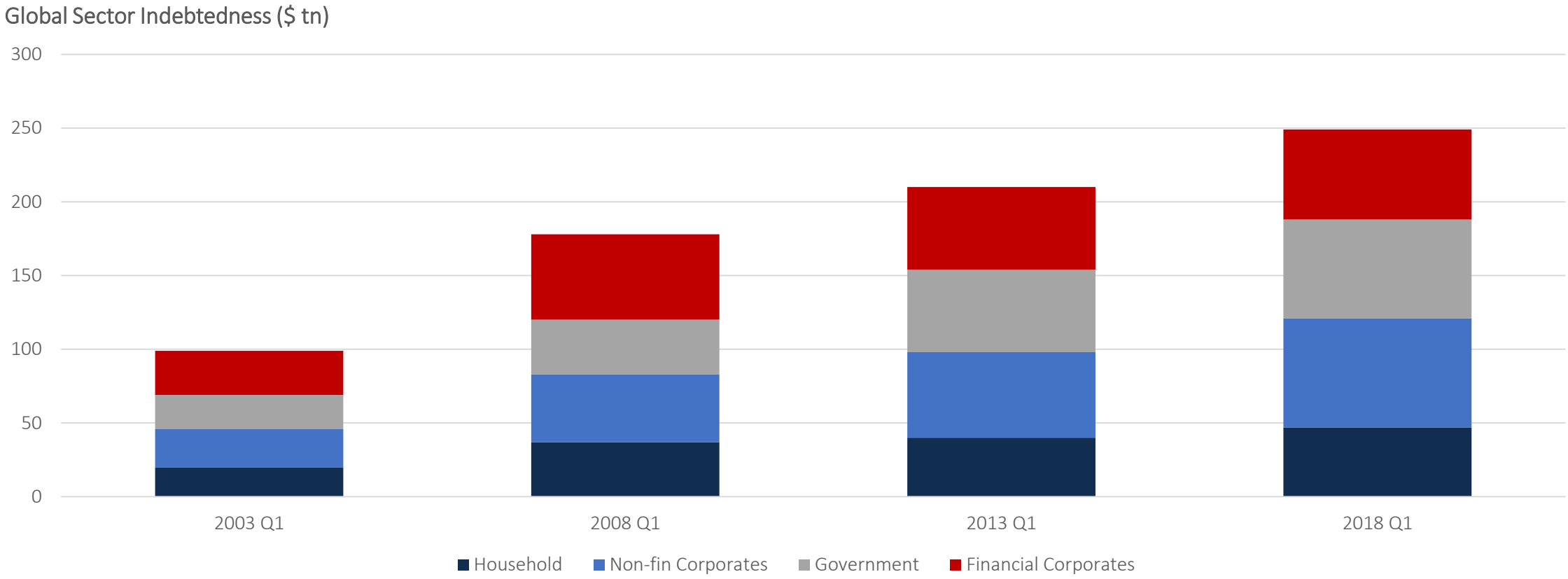

Source: BIS

# Search for yield




Source: BIS

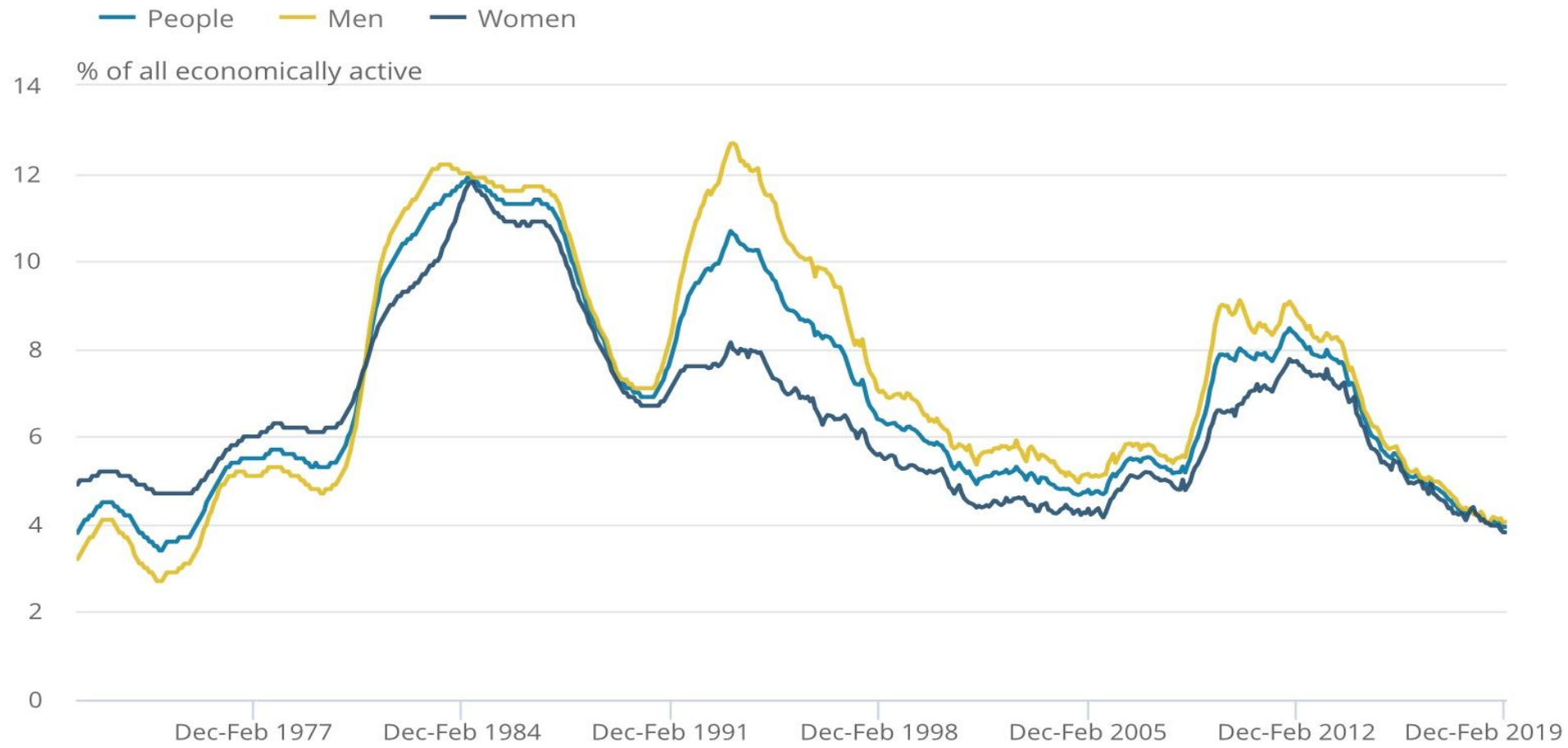
# More focus on Fiscal Policy … but global debt levels high




Source: IIF, BIS

# Plus specific issues such as Brexit … political problem

# Brexit: a political crisis; UK adds 1M jobs since Referendum



# Dollar strength

# Conclusions and implications