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THE BEAR AWAKES

Content

- The end is nigh
- Inflation is not an issue
- Chinese growth is an issue
- European growth is an issue
- US growth is the big unknown
- Australian Housing is an issue

David Llewellyn Smith
Tim Fuller
Damien Klassen



Inflation

Australia Core Inflation



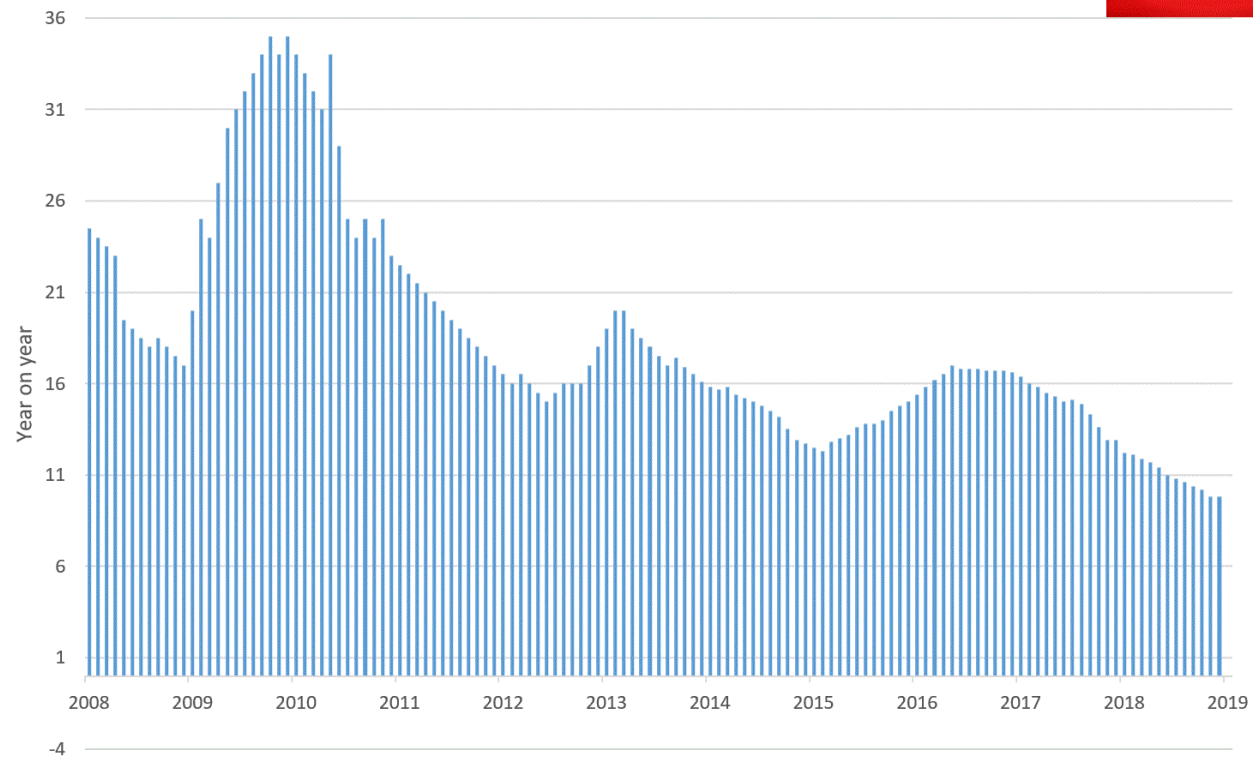
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China

China broad credit (TSF + bonds)

MACRO
BUSINESS



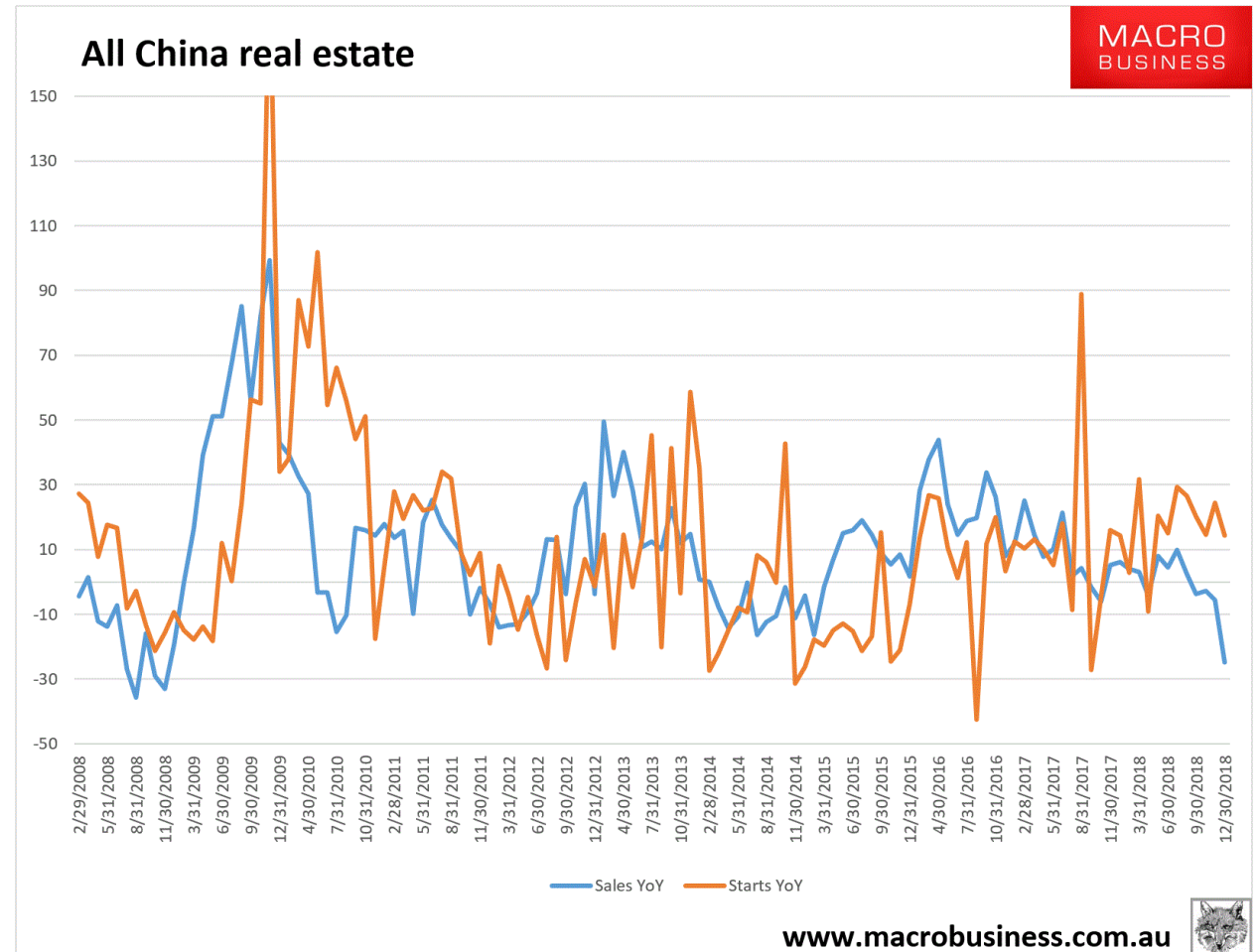
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China



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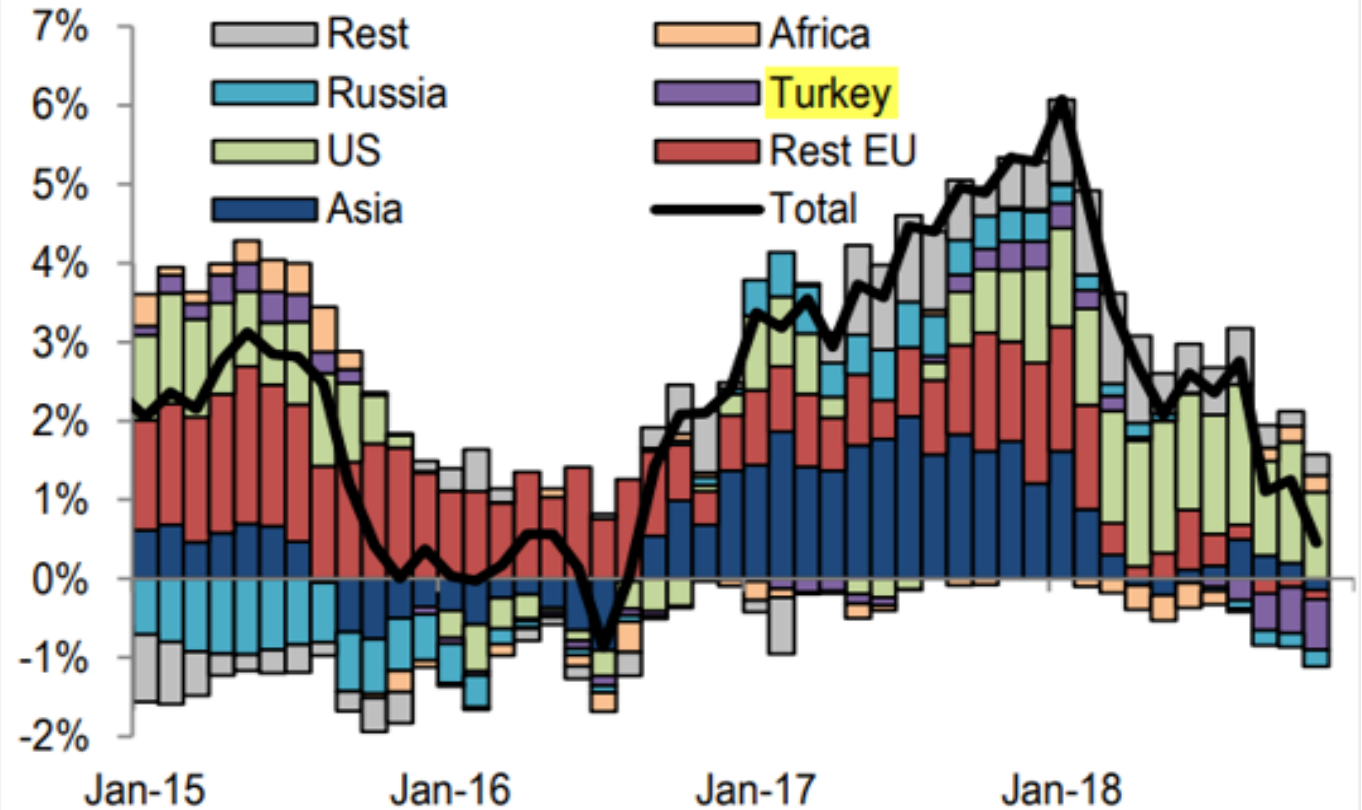


Europe

Figure 4: Weaker exports a key driver of slowdown in euro area growth

Posted on
WSJ: The Daily Shot

Regional and country contributions to real euro area export growth (pp) ^{28 Jan 2019}
@SoberLook



Source: Eurostat, Credit Suisse

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US

Chart 5: A fiscal cliff in 2020, especially if Congress doesn't pass additional spending

Posted on
WSJ.com Daily Shot
05-Jul-2018

US: Fiscal stimulus set to boost growth

Real GDP growth, %



Source: Oxford Economics

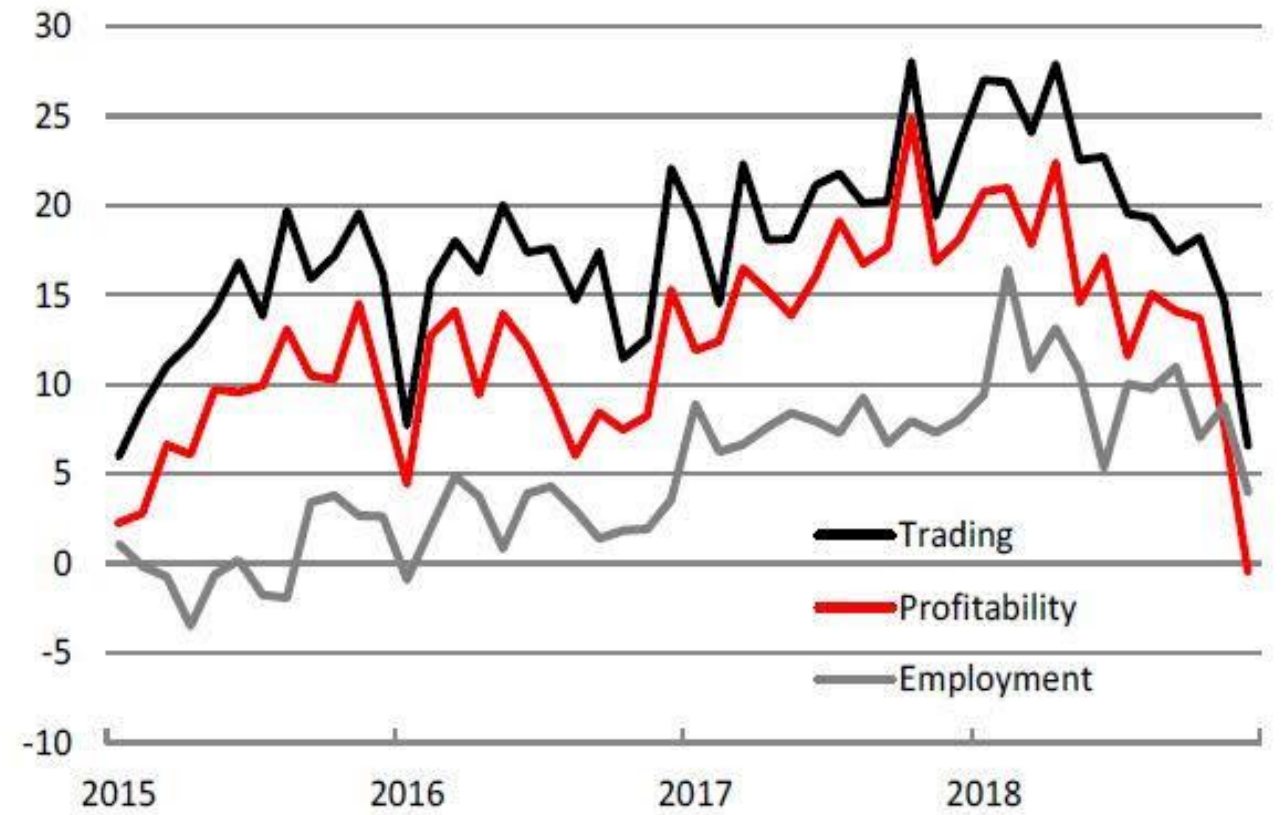
BBA, 2018 = Bipartisan Budget Act of 2018
TCJA, 2017 = Tax Cuts and Jobs Act of 2017
*Fiscal Cliff if Congress doesn't extend BBA spending

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Australia

CHART 3: BUSINESS CONDITIONS COMPONENTS (NET BAL)



David Llewellyn Smith
Tim Fuller
Damien Klassen



Outlook

Bull / Bear

		BASE CASE					BULL CASE					BEAR CASE				
		Bonds			Equities		Bonds			Equities		Bonds			Equities	
		Cash	2y	10y	Aust	Int	Cash	2y	10y	Aust	Int	Cash	2y	10y	Aust	Int
OUTPUT																
Total Return	2019	2%	3%	7%	-11%	-2%	2%	2%	0%	11%	11%	2%	4%	8%	-26%	0%
	2020	1%	2%	2%	-14%	1%	2%	2%	2%	5%	10%	1%	2%	4%	-24%	-22%
	2021	1%	1%	-2%	4%	-3%	2%	2%	-1%	-5%	-5%	1%	0%	-3%	-15%	5%
	2022	2%	1%	-3%	16%	5%	3%	2%	-2%	3%	-8%	1%	1%	-2%	6%	19%
	2023	2%	1%	-1%	19%	9%	3%	2%	0%	20%	2%	2%	0%	-2%	24%	2%

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Investment Implications

- Unlikely to be all positive or all negative
- Bull cases seem less likely
- Need protection
- Australian stocks not looking good – expensive, low growth, greater risks
- Bonds a good chance to outperform again

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