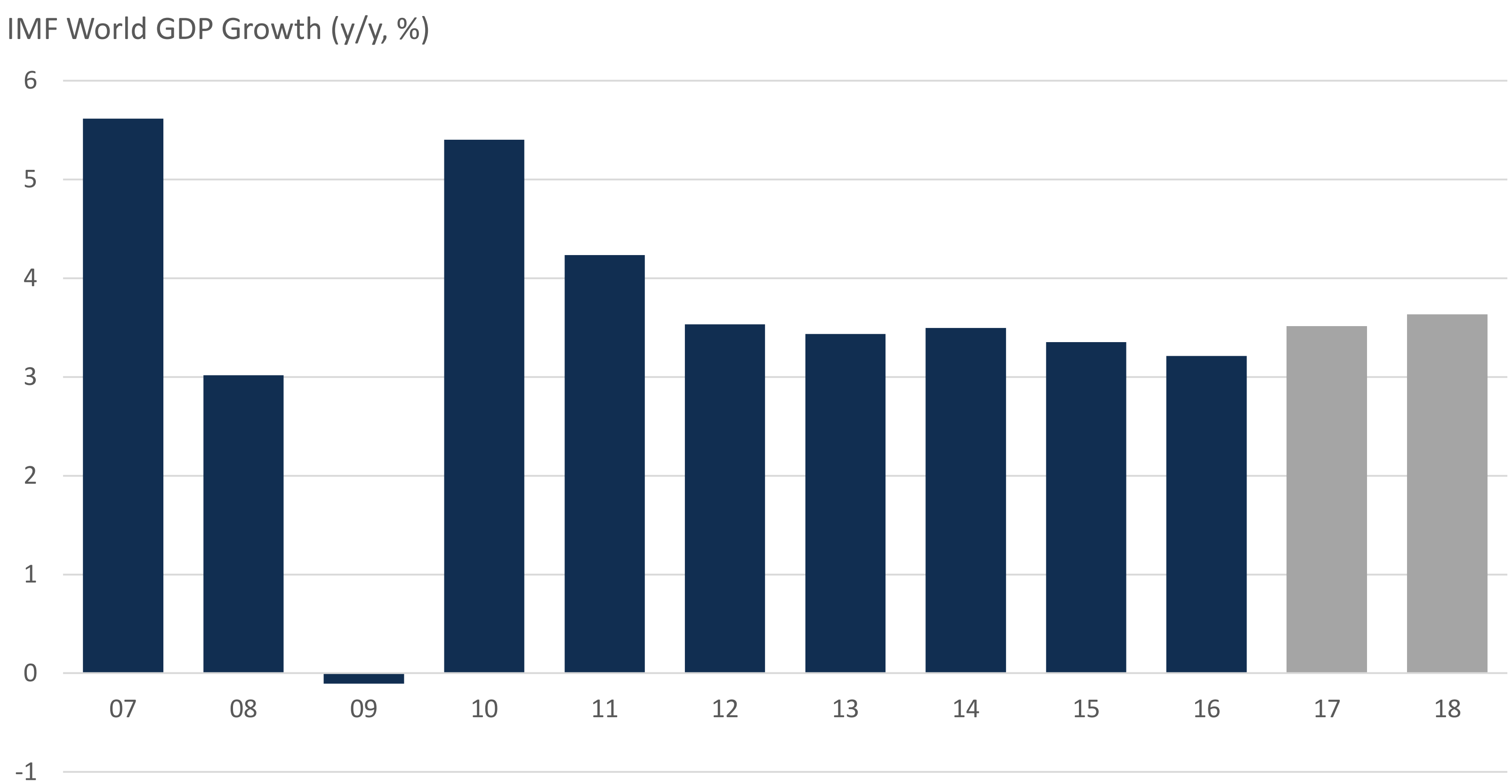
Economic and Financial Outlook

Gerard Lyons

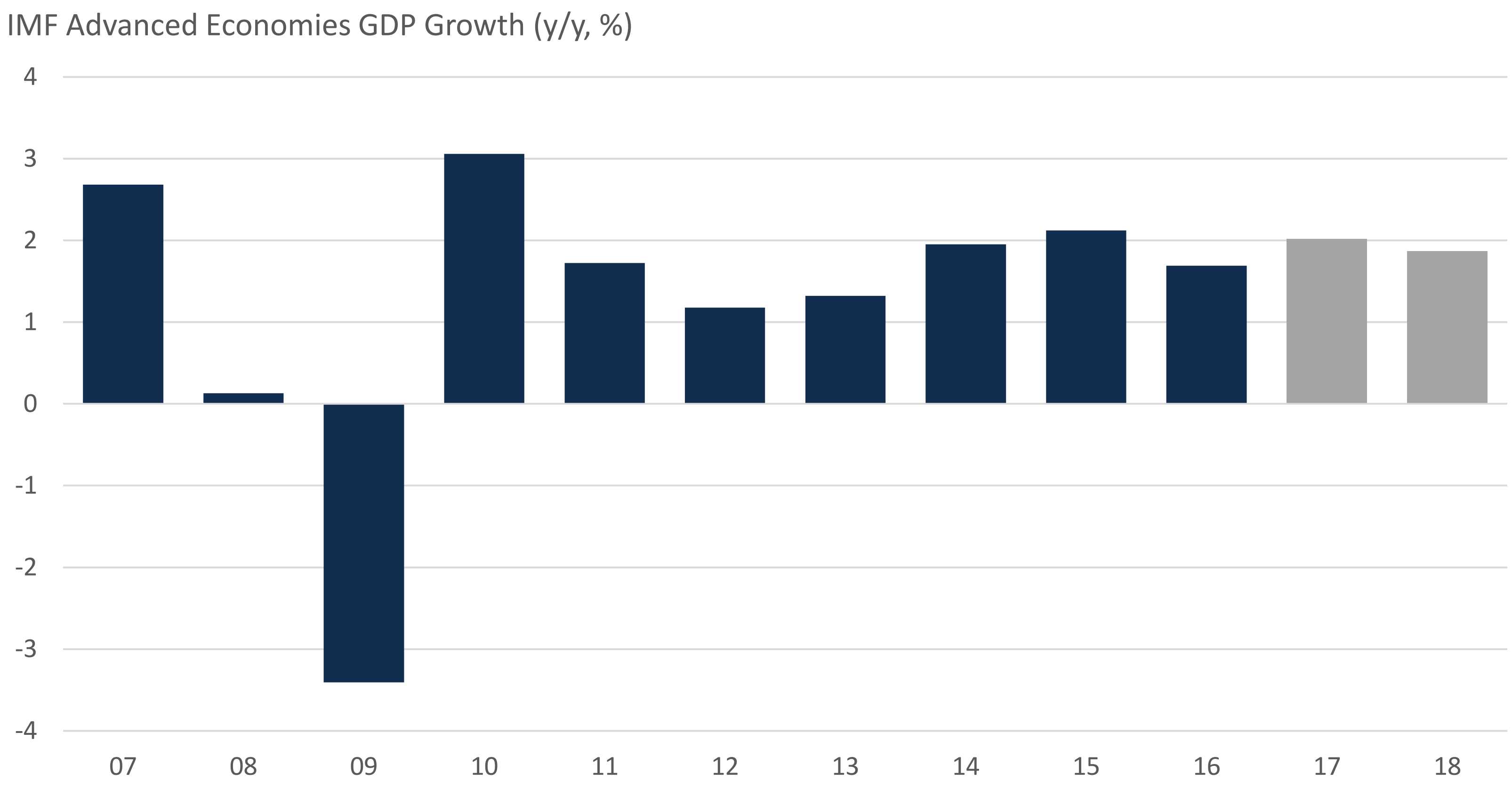
September 2017

Economic Normalisation

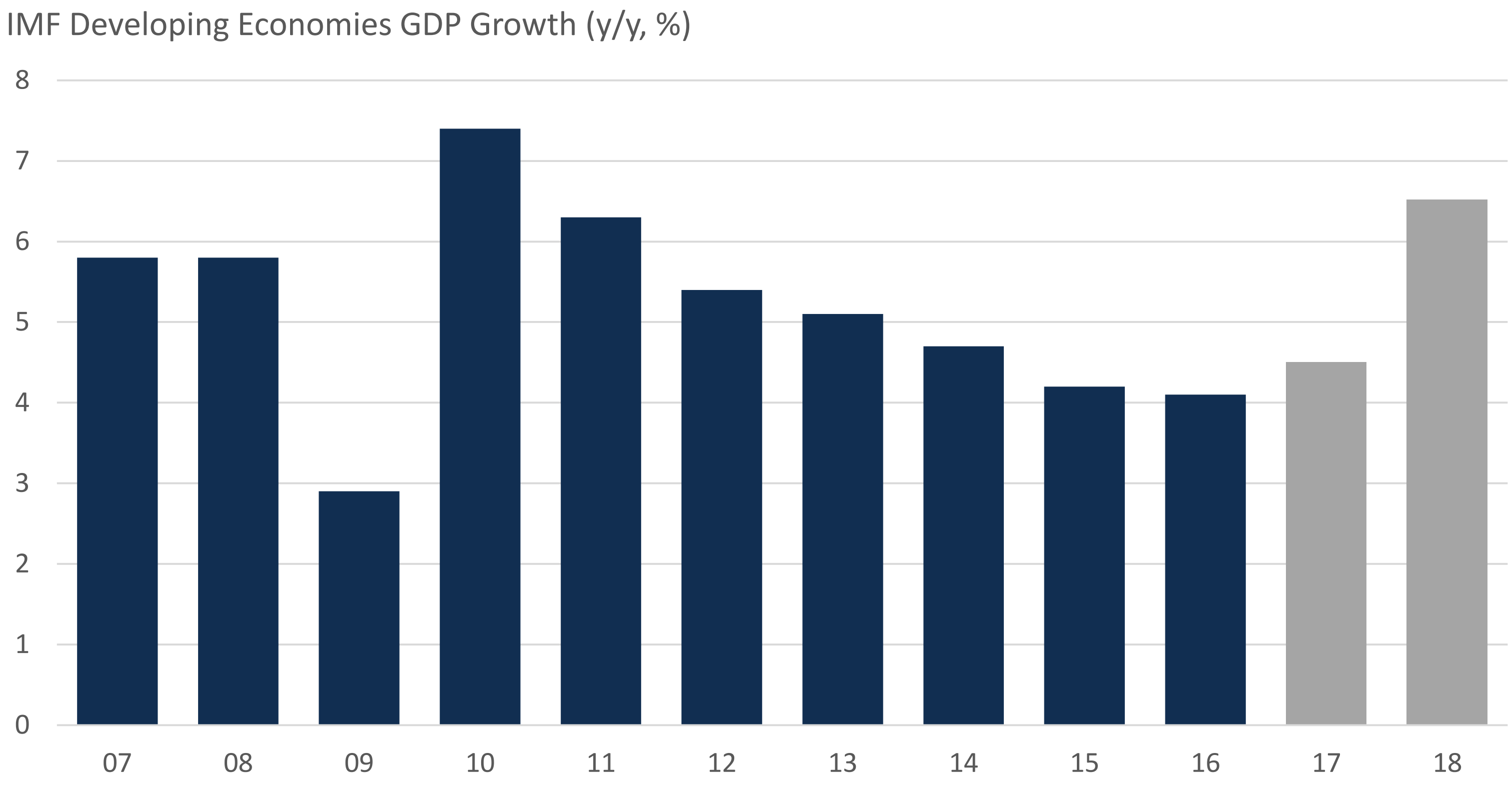
World Economy Seeing Stronger Growth



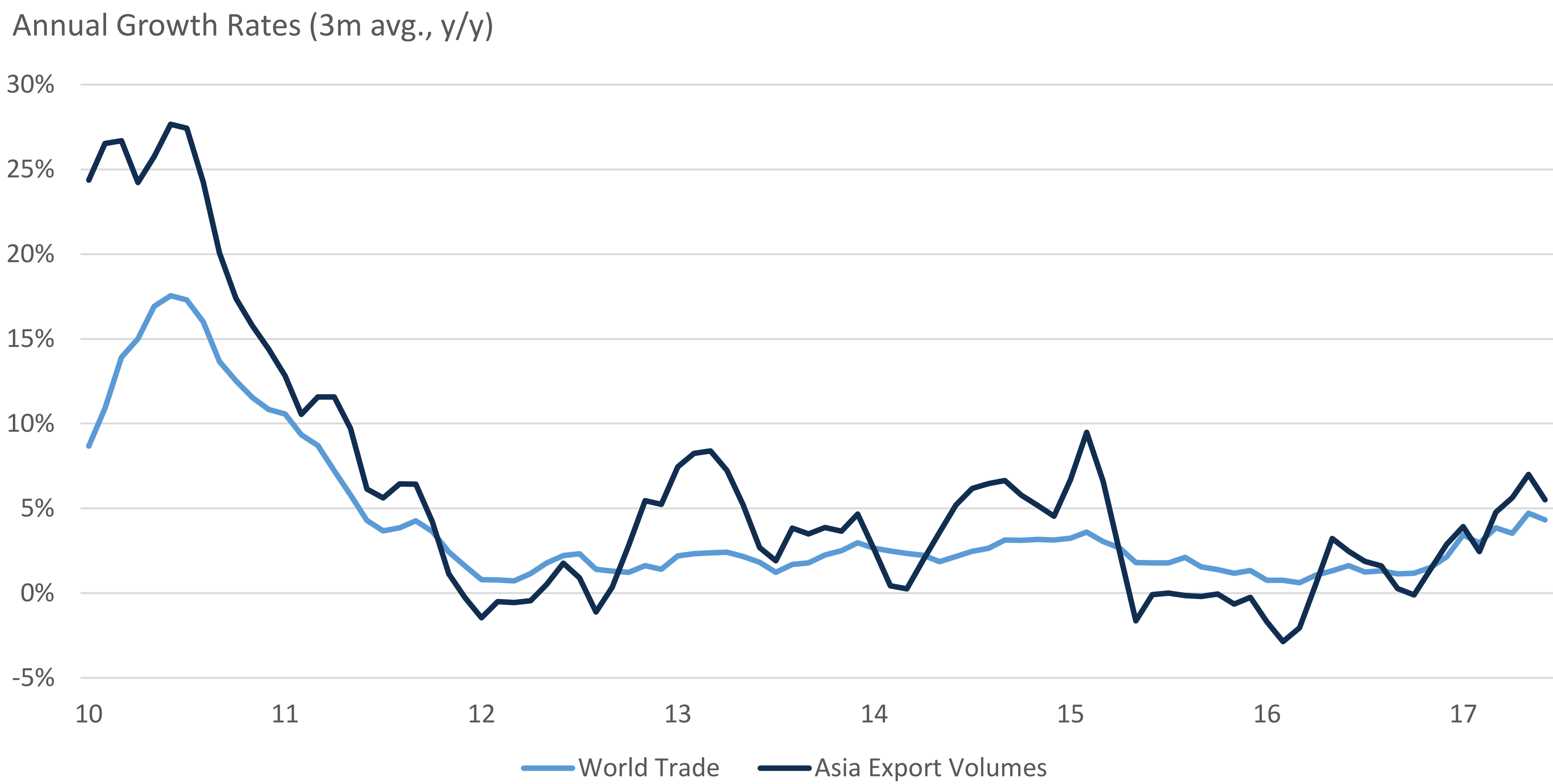
Advanced Economies Modest but Improving



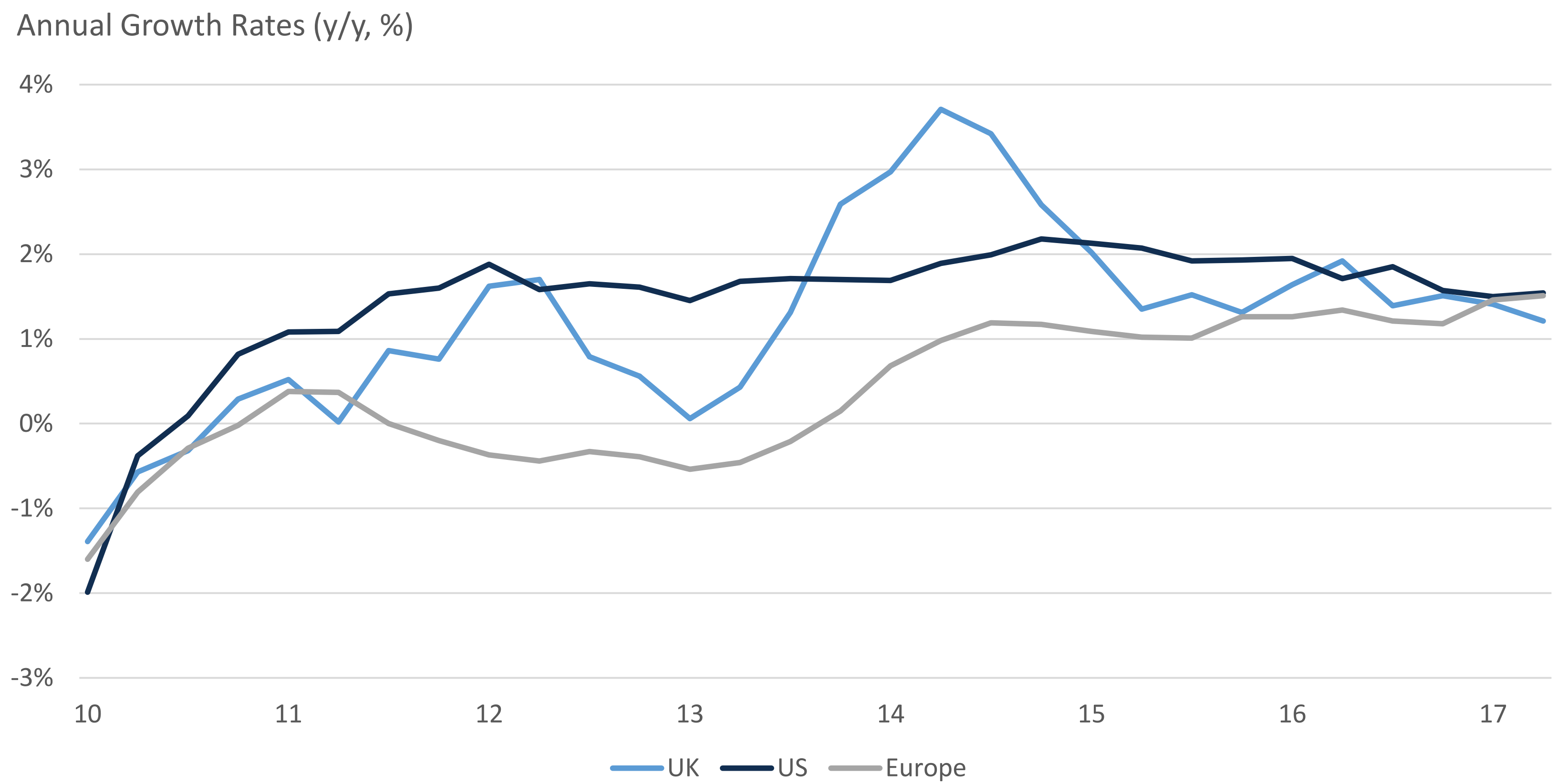
Growth in emerging economies recovering



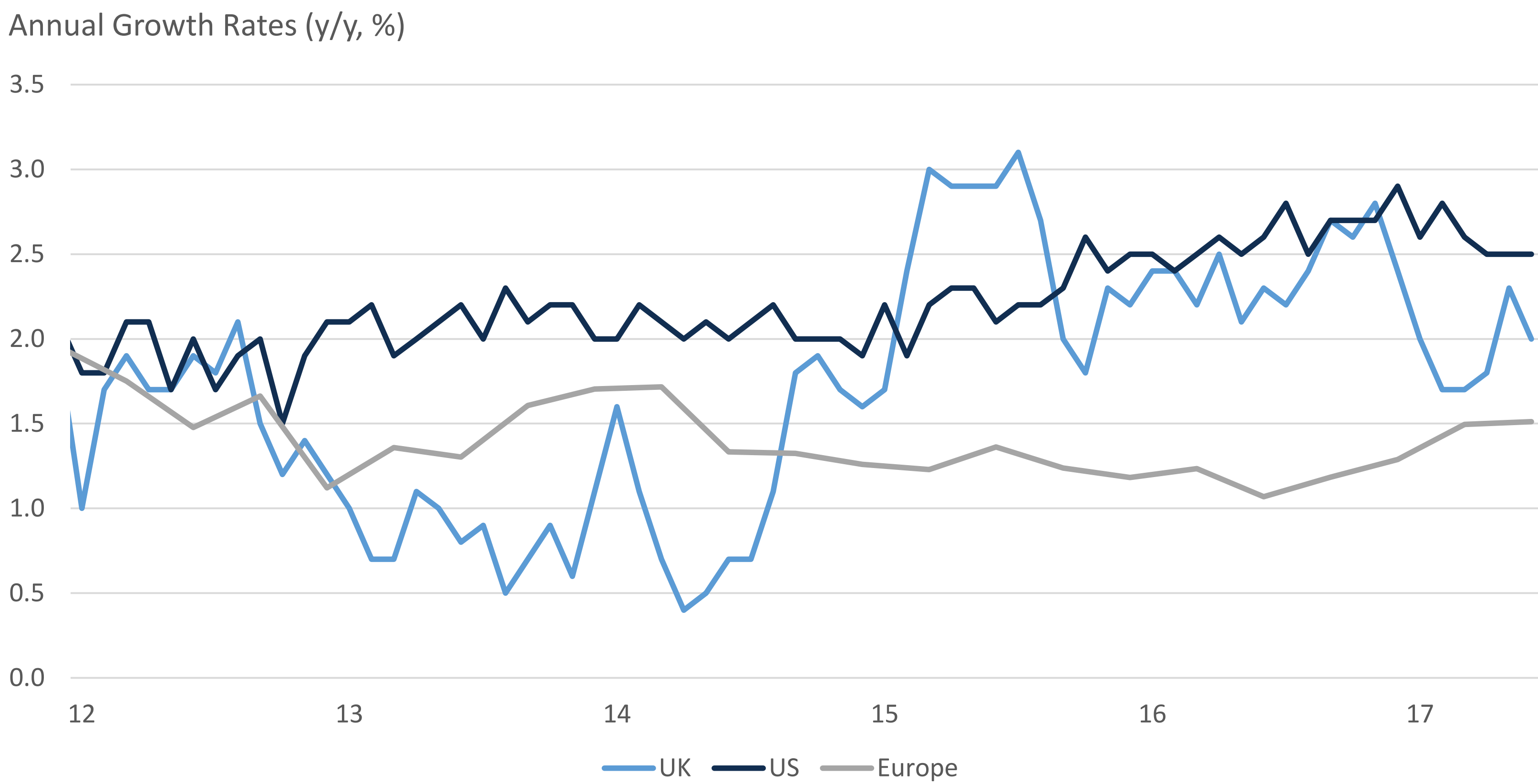
Global Trade Has Turned the Corner



Employment Gains are Robust in the West

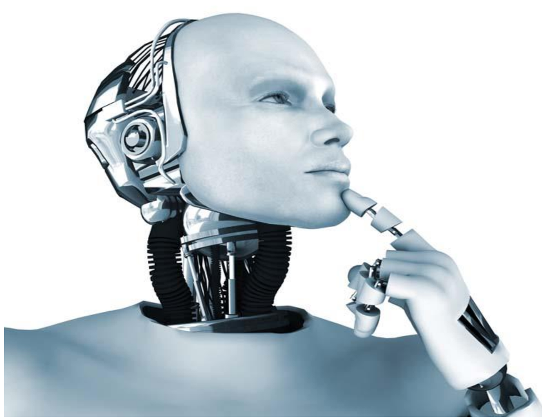


Hypernormalisation: Wages Vary and Disappoint

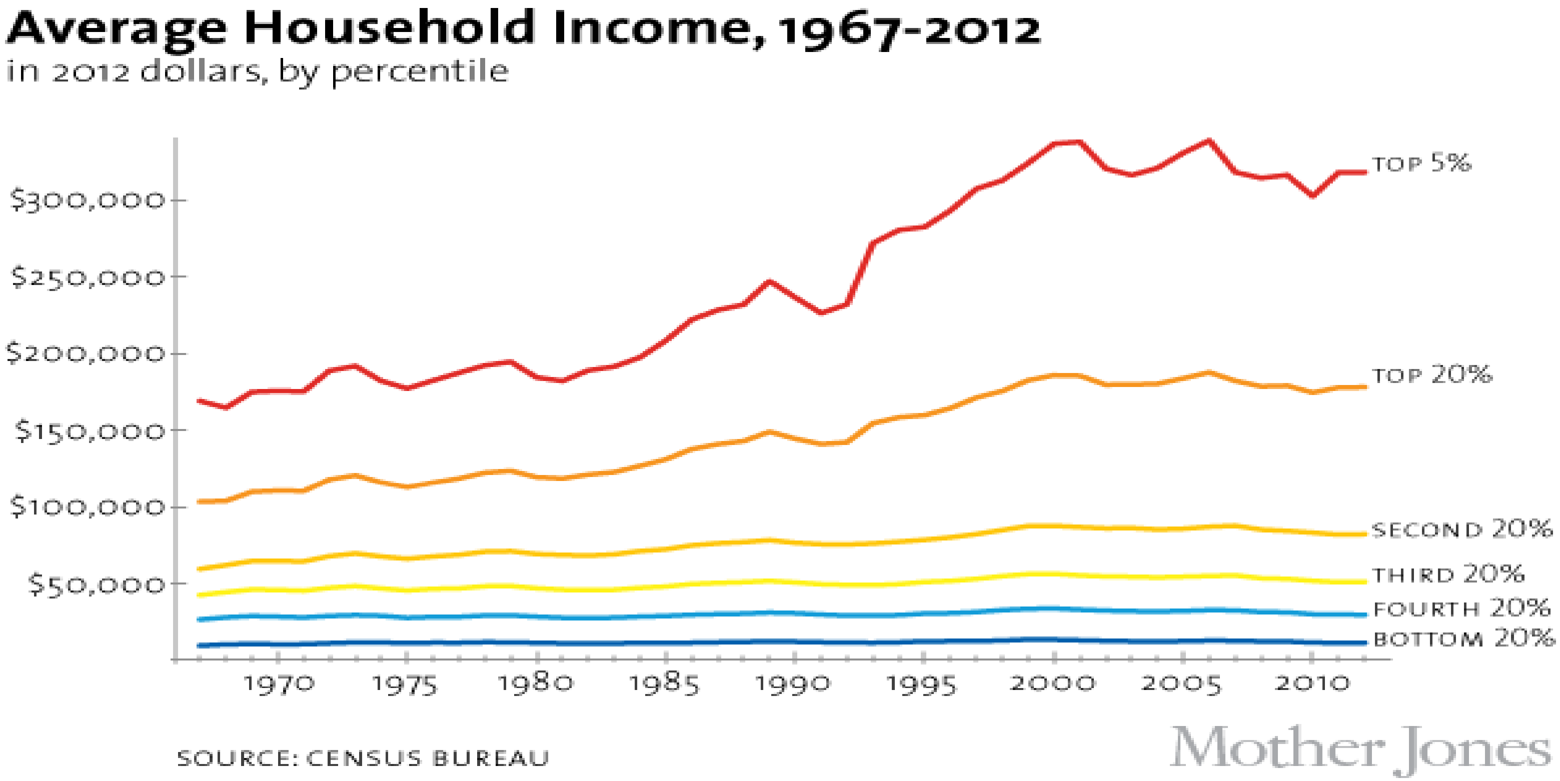


Structural pressures supressing wages

Structural downward pressure on wages &costs

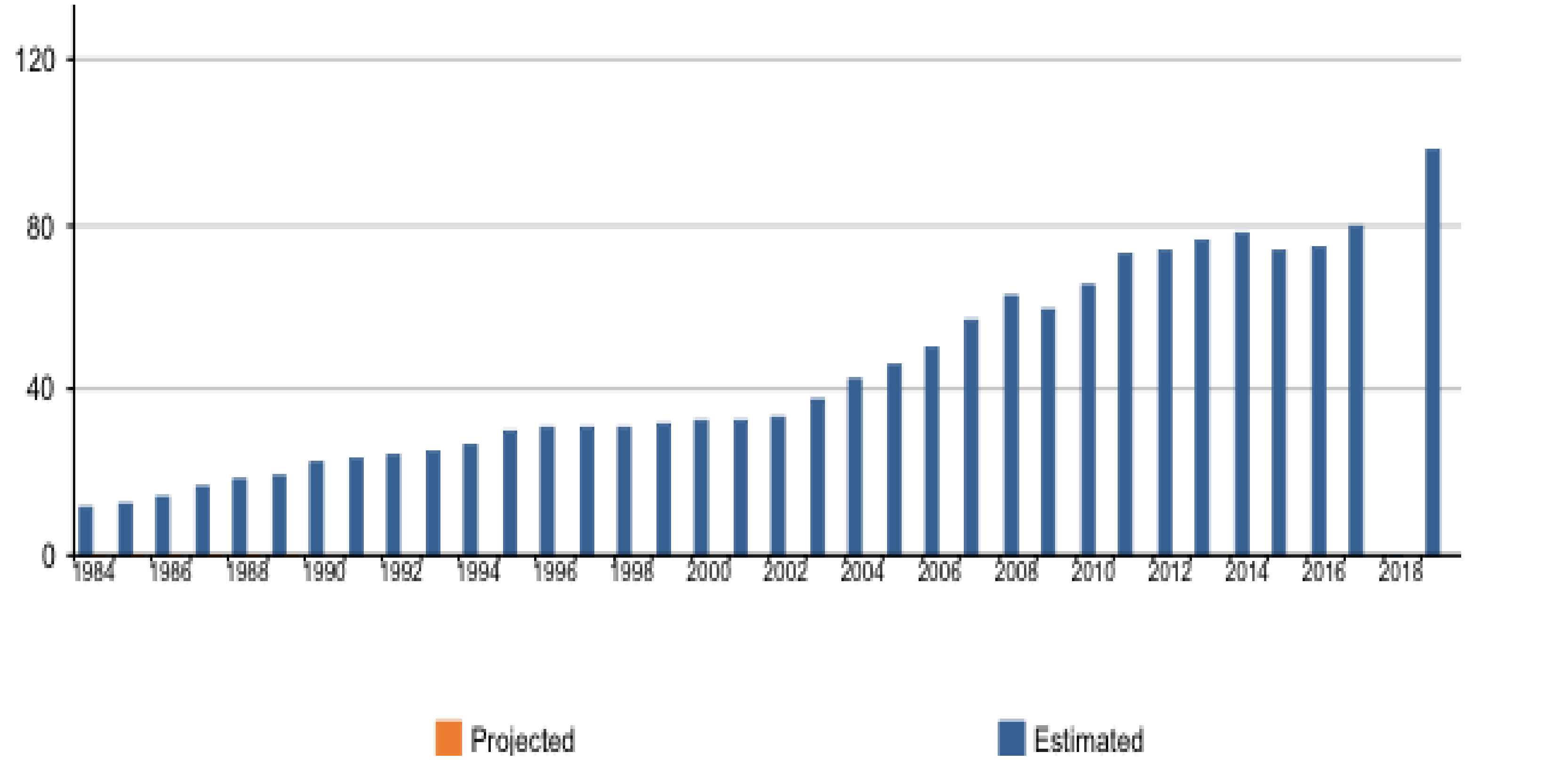


Populism: diverging income growth (US)

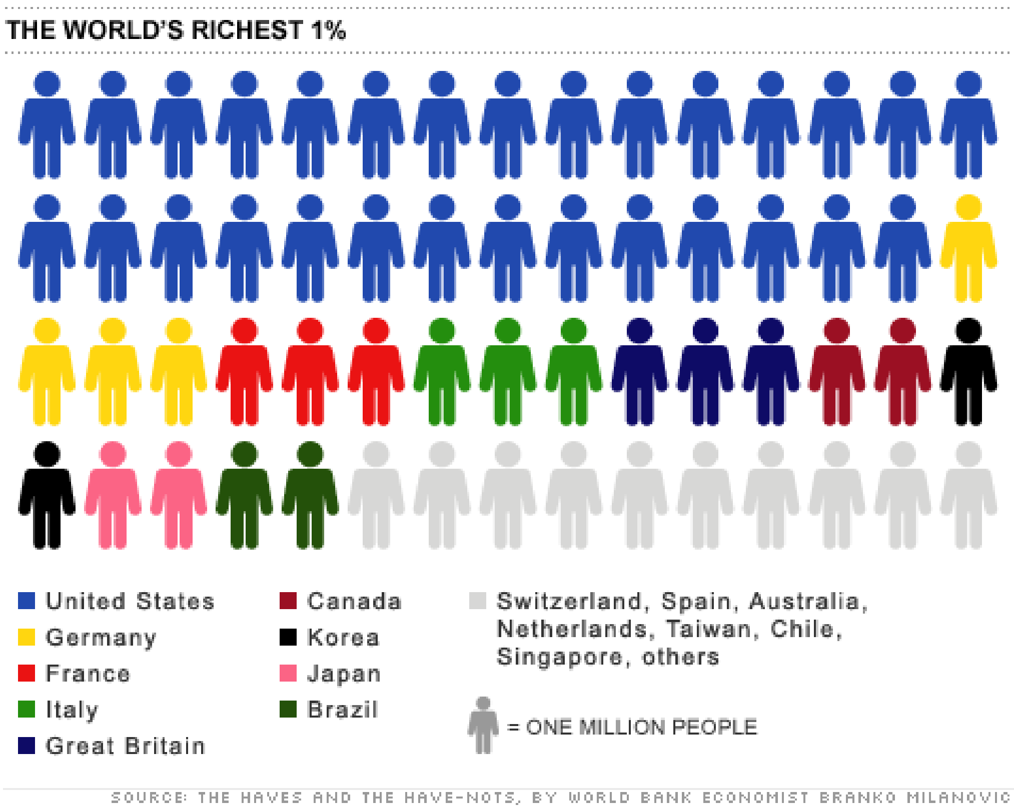


Think of the world in terms of an economic cake

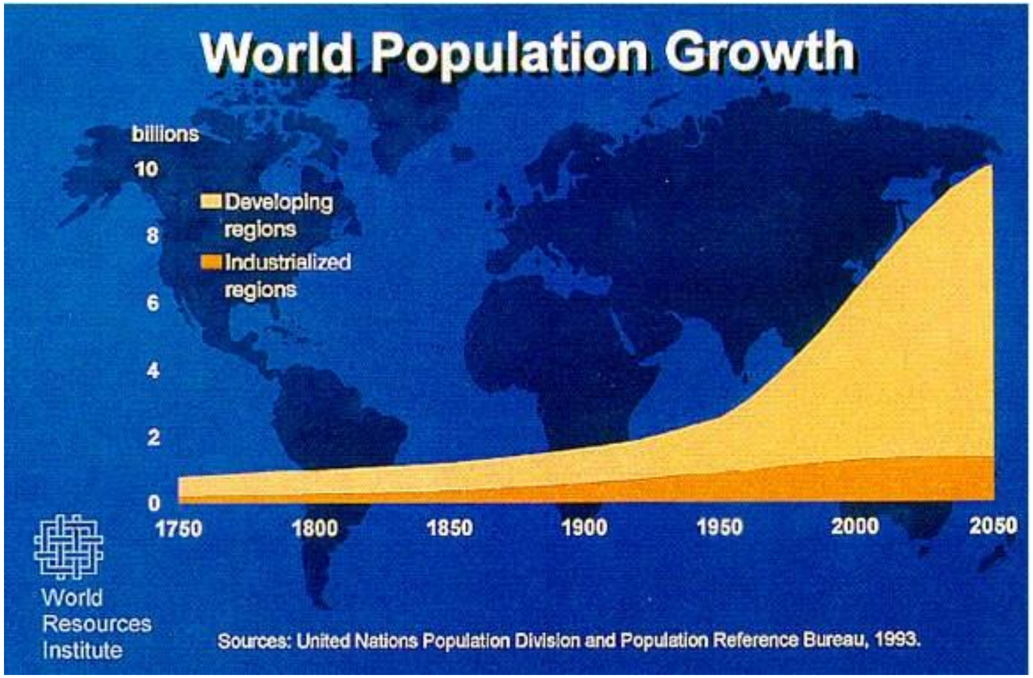
And it is getting bigger



But where are the gains going



Perspiration: more people



Innovation and globalisation

Urbanisation: a powerful influence

Inspiration and the new industrial revolution

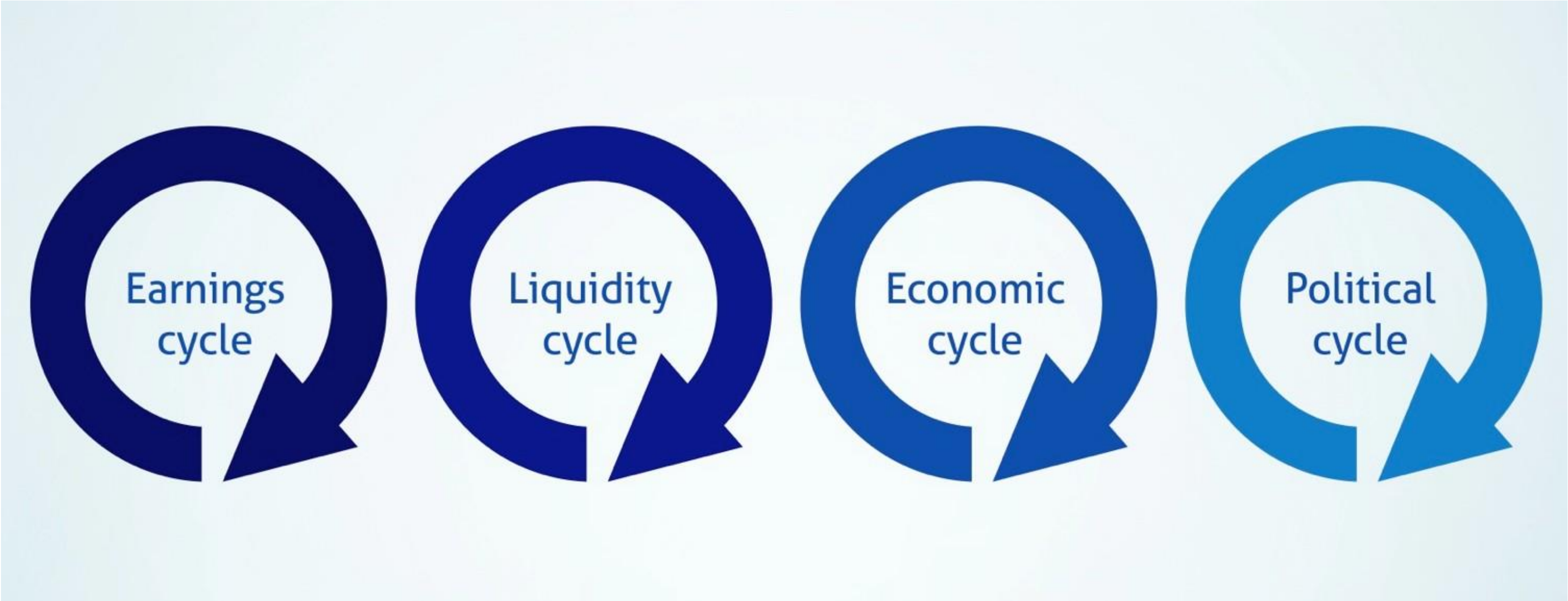
- 1st UK 1780-1850
- 2nd USA, Germany, Russia, Late 19th Century
- 3rd USA & West, Second half 20th Century
- 4th Globally, last quarter century

Phenomenal change:

- Genomics, Life sciences, Stem cell research
- Artificial intelligence, Robotics
- Green revolution
- Cleantech, Biotech, Nanotech, FinTech, Tech!
- Ability to produce customised goods in remote places using digital technology & 3D printing
- Even areas such as waste
- Enhanced connectivity
- ………………….……..Supply creates its own demand

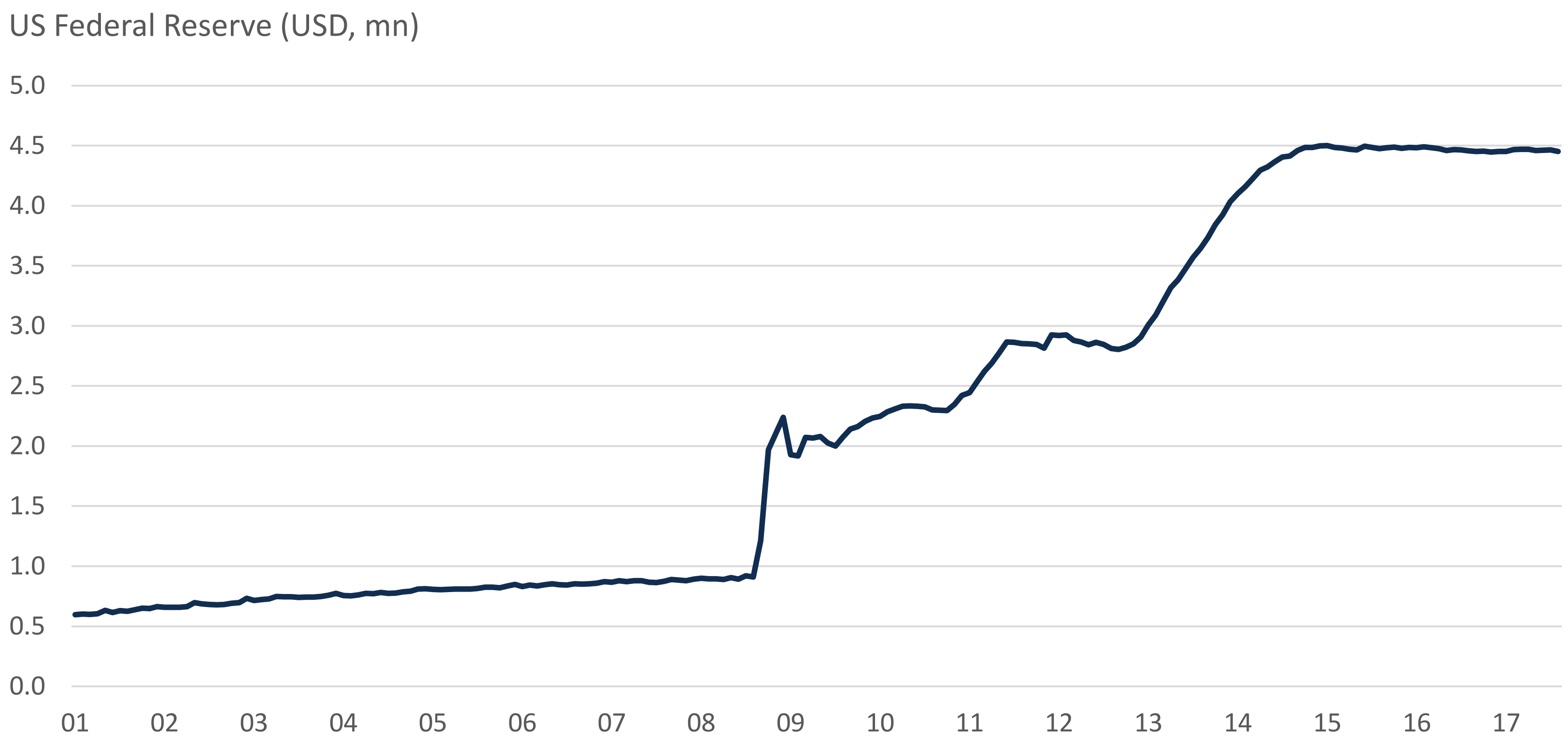
Policy Normalisation

Changing nature of cycles

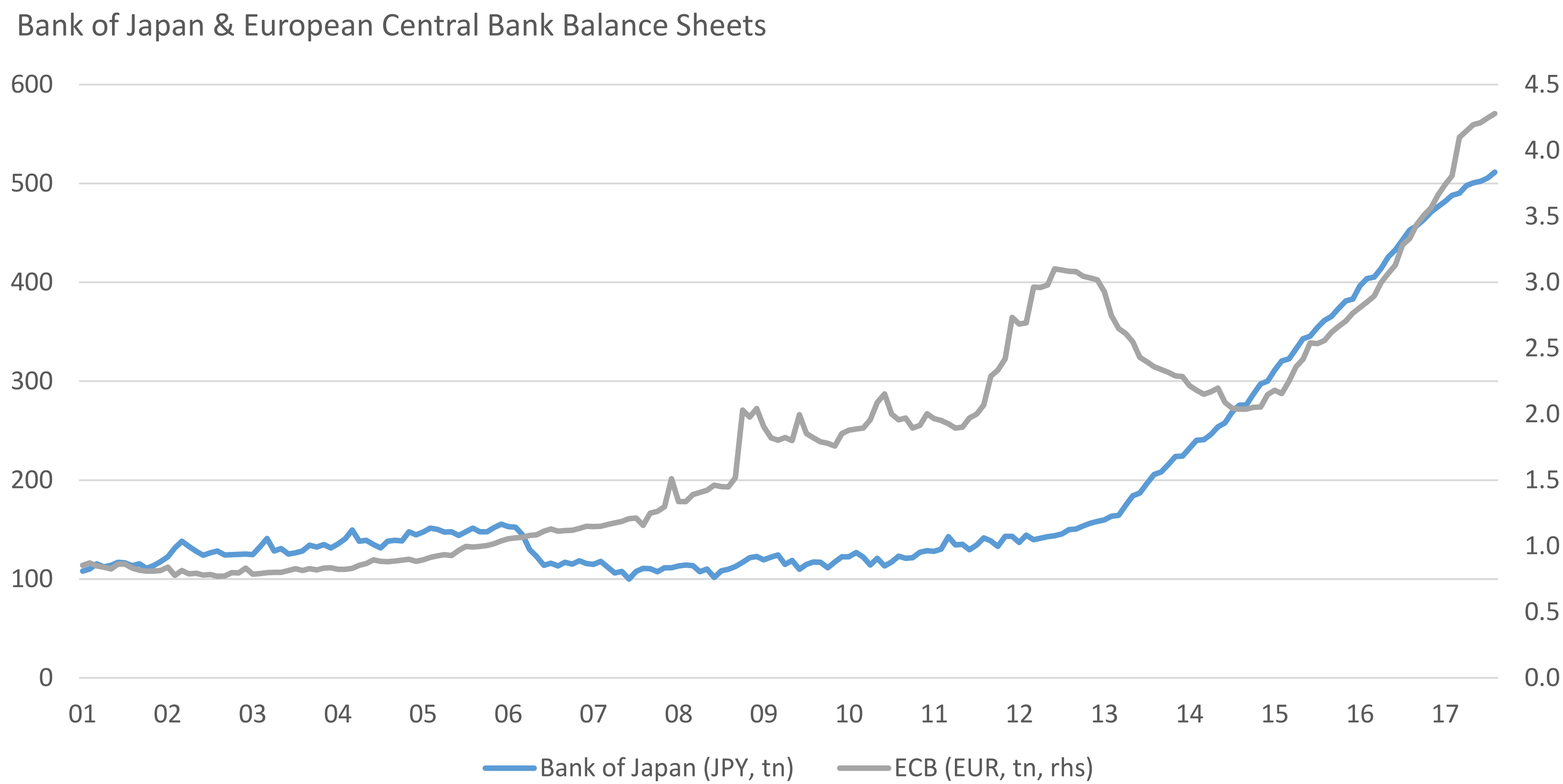


Central banks: shock absorber

The Fed’s Balance Sheet to Shrink Soon



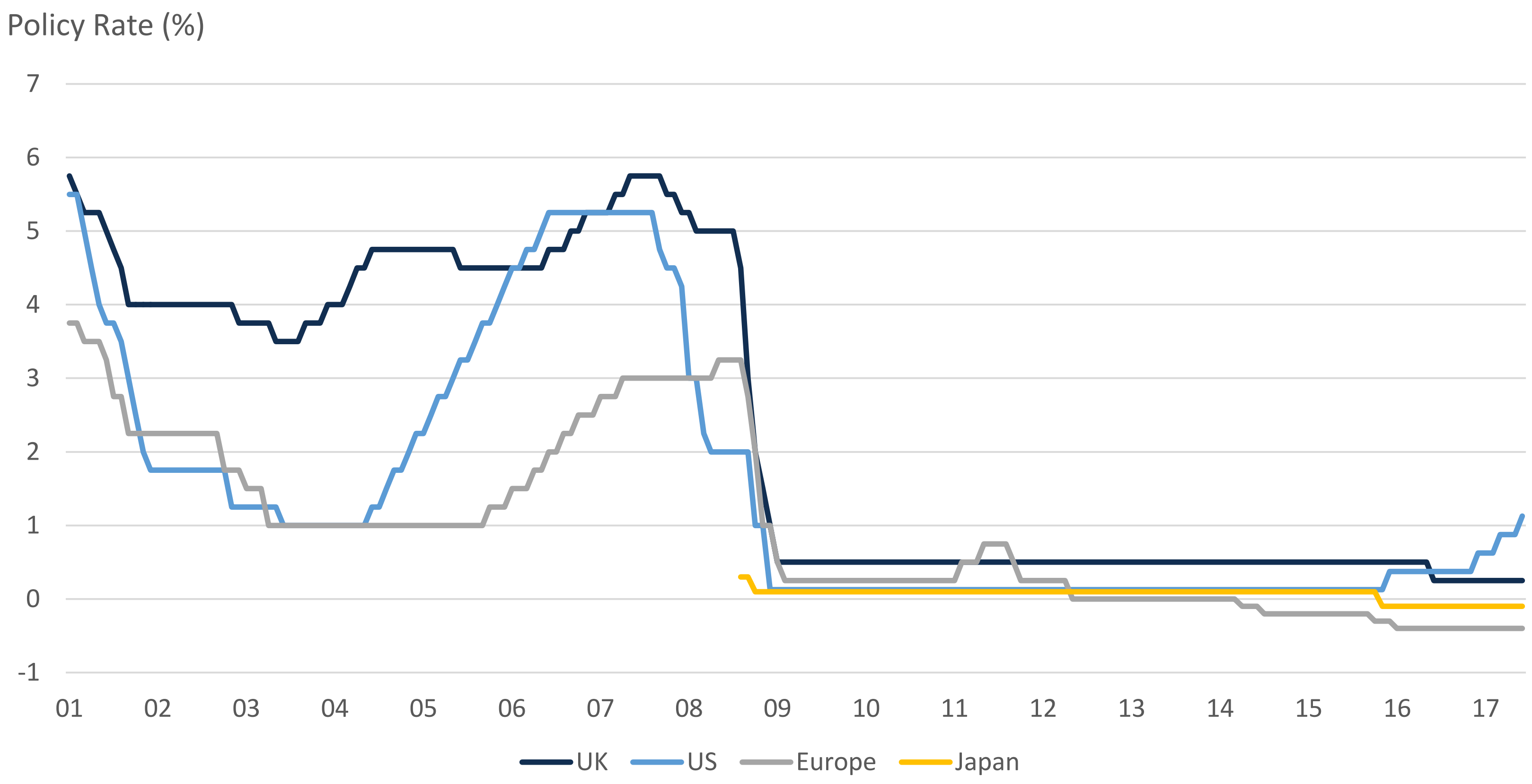
…but ECB and BoJ have continued to Print



Are interest rates too low?

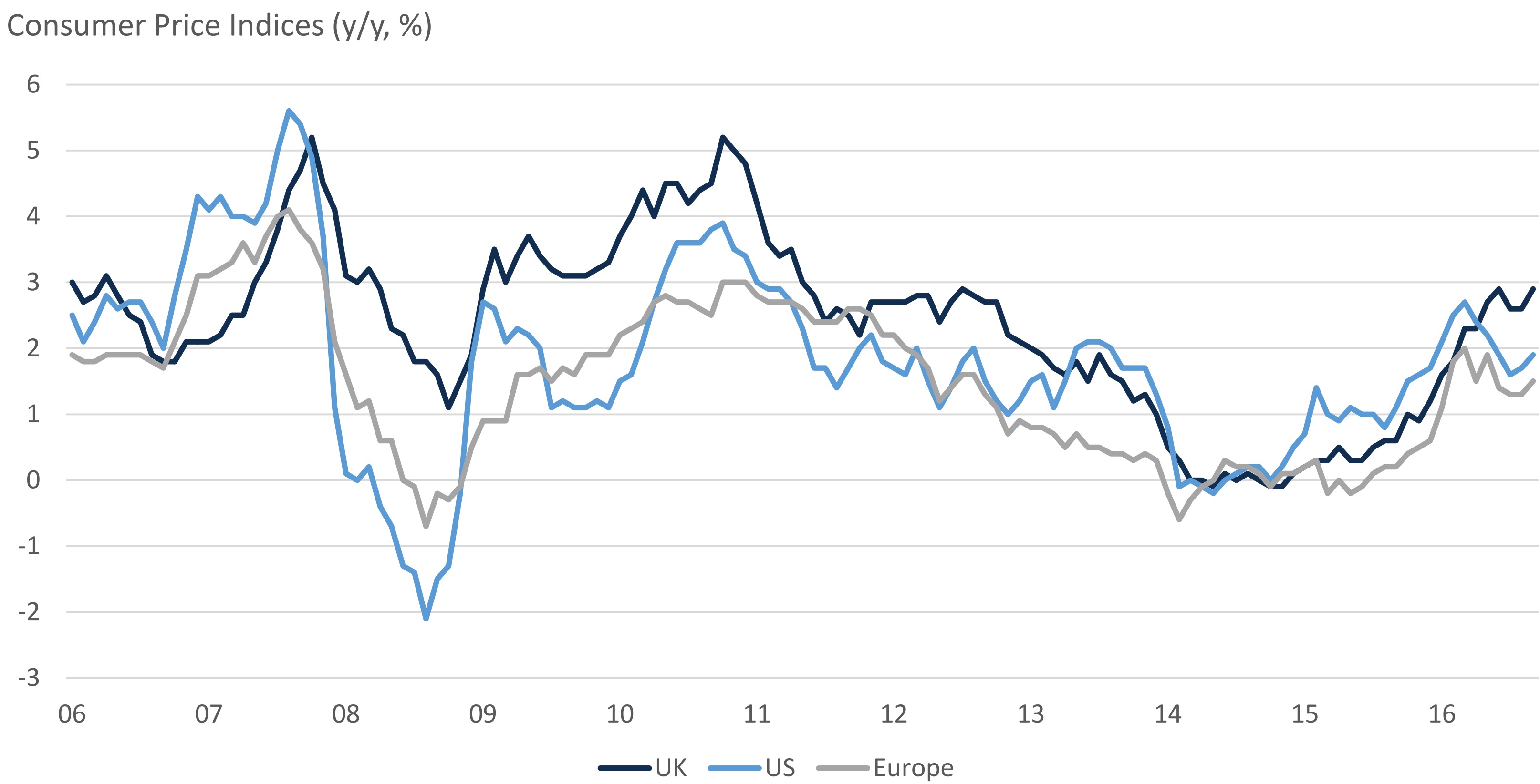
- What constitutes a risk free asset?
- Are markets pricing properly for risk?
- Can markets and economies cope with tightening and are they vulnerable to shocks ?

Central Banks to Normalise Rates at their Own Pace

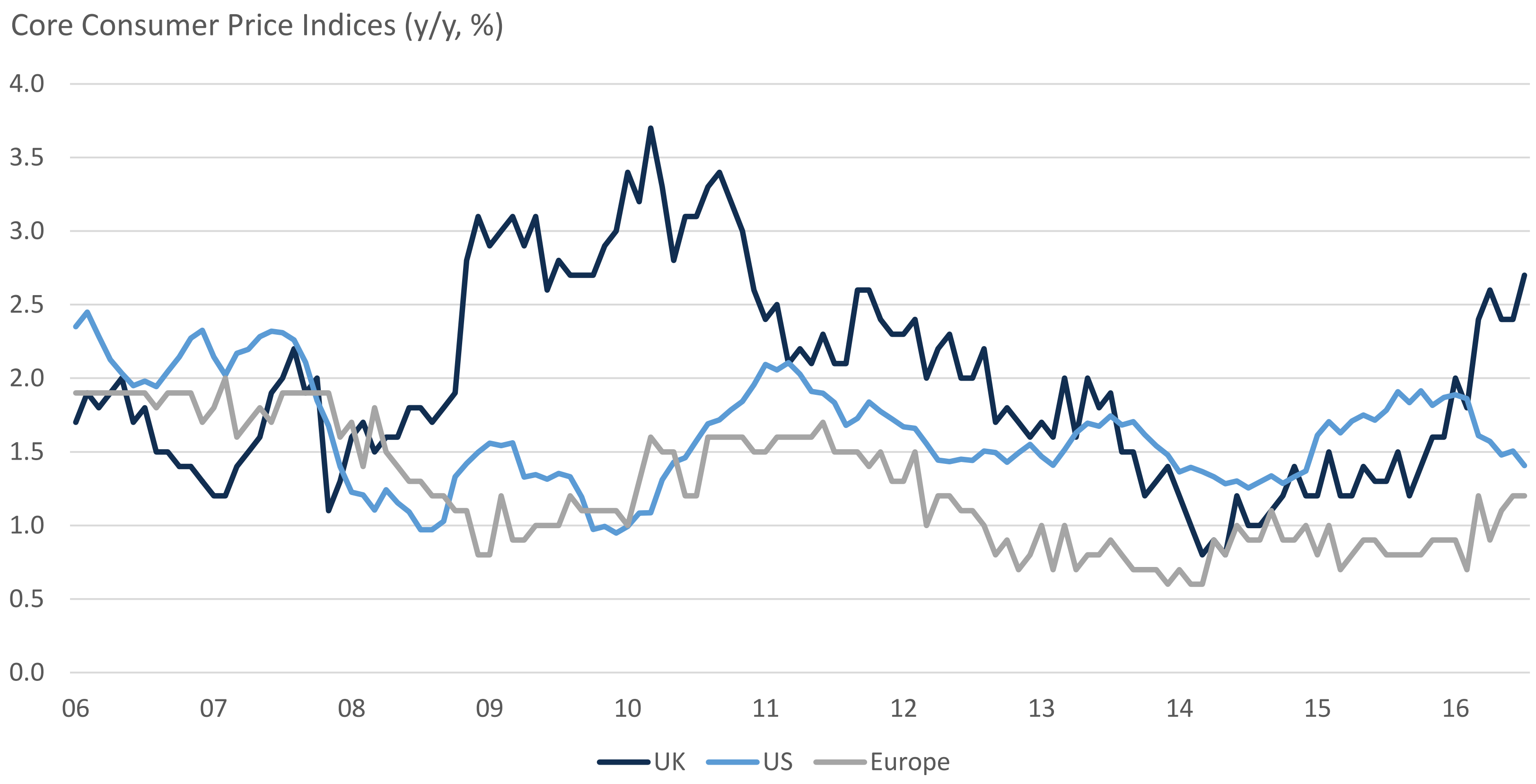


UK Inflation to Peak Soon

Hard to Sustain High Headline Inflation in the West

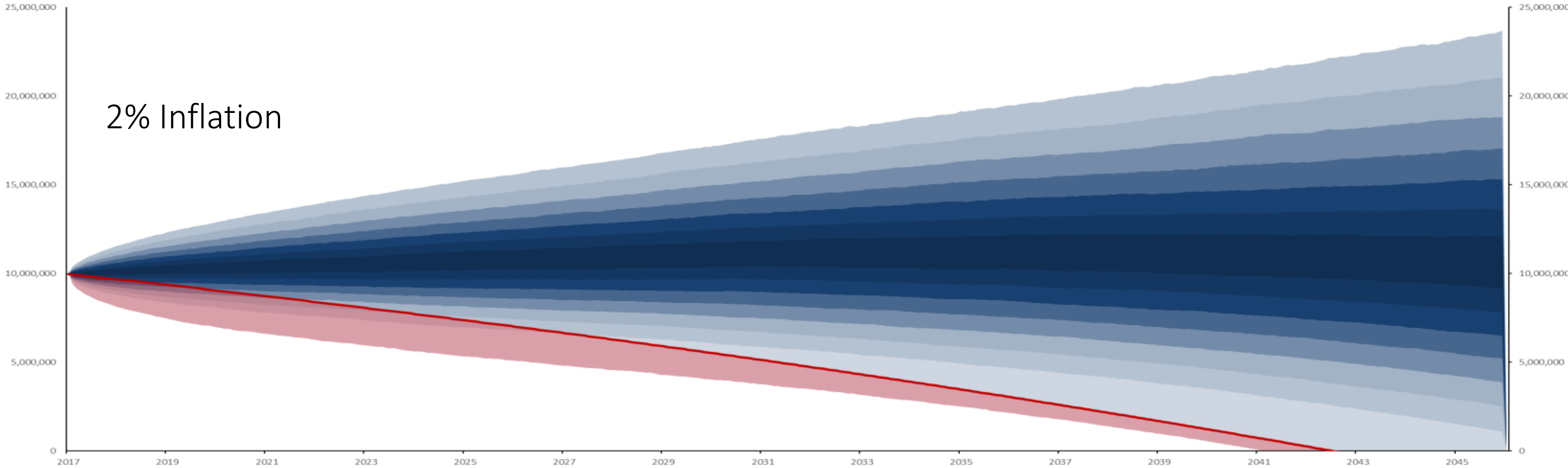


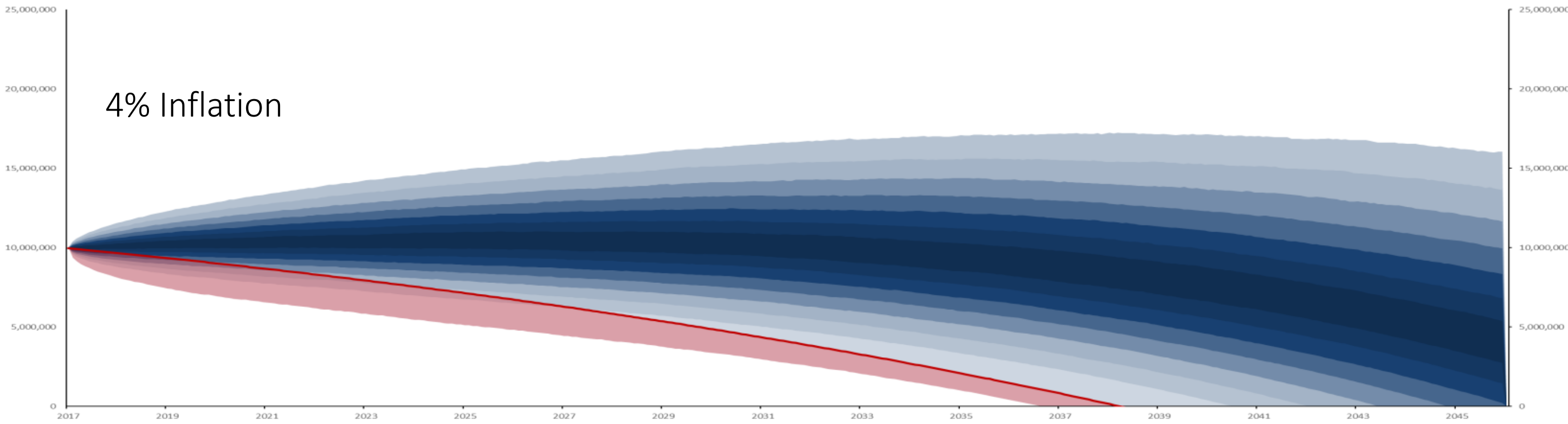
Core Inflation Needs Close Monitoring



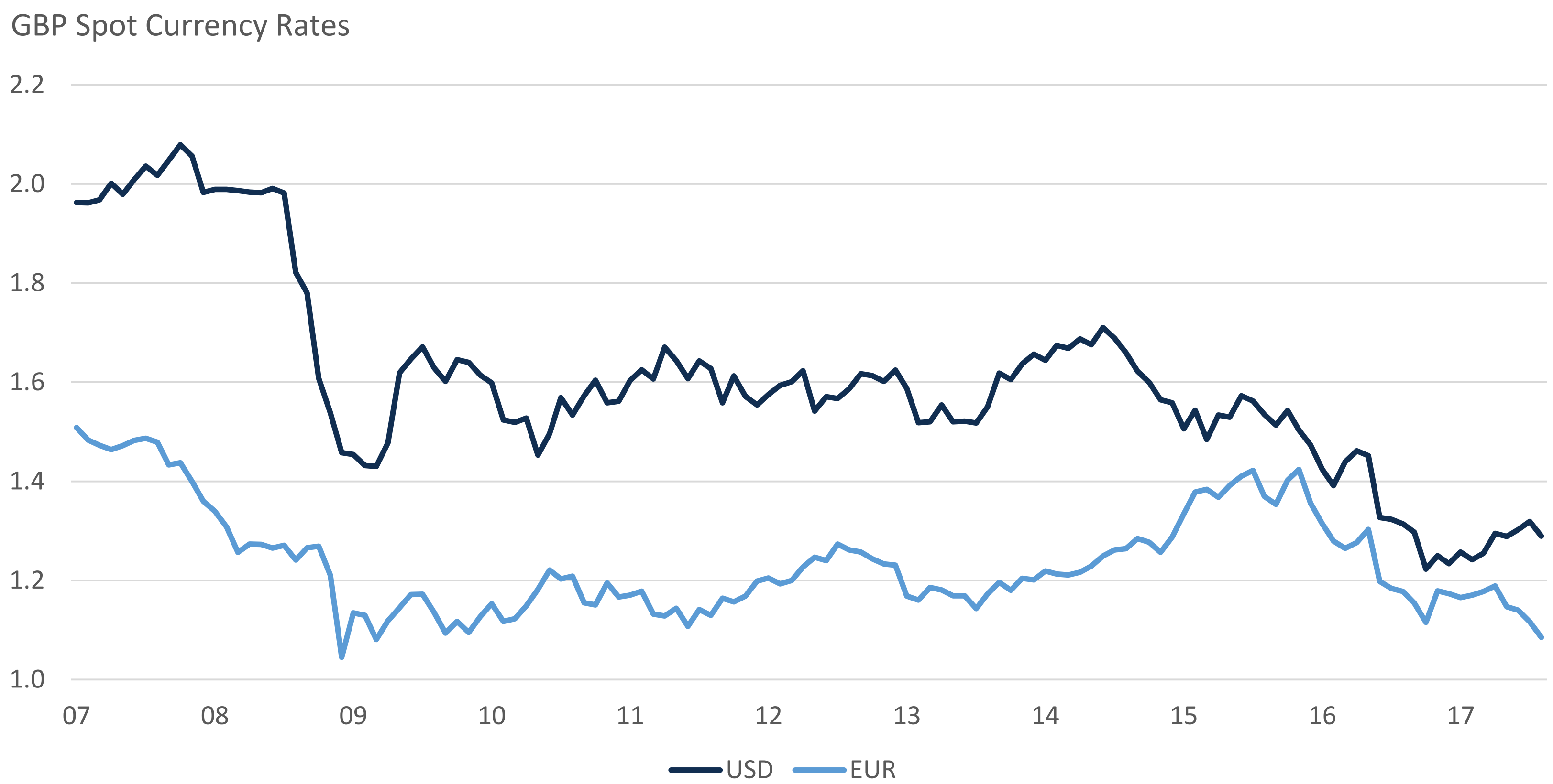
The Portfolio Impact of Higher Inflation

£10m Initial Portfolio with £240,000 withdrawals each year eroded by…

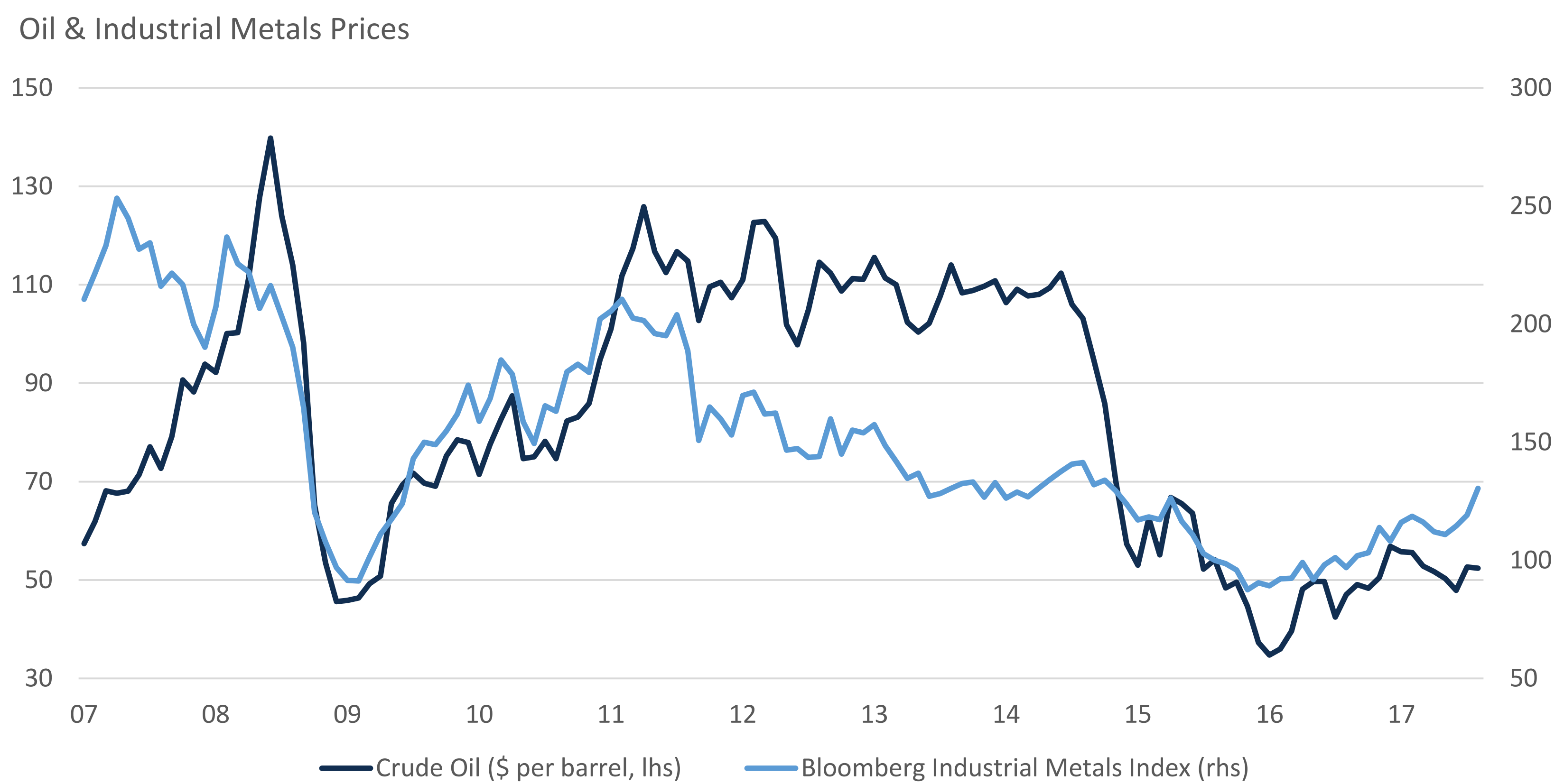




Sterling Adjusts to Competitive Territory

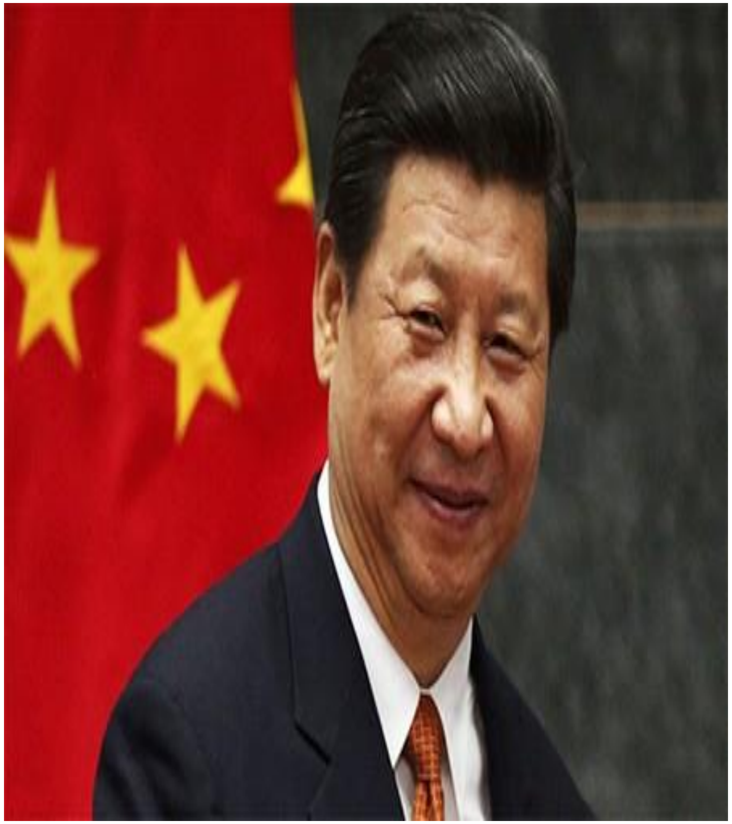


Beware external cost prices: Commodity Prices



Big issues:
Global geopolitics and Brexit

The G2 relationship



Asia hotspot – North Korea & China Seas

Asia hotspot – North Korea &China Seas

China's Belt Road Initiative: huge implications

Some issues will not go away

Clean Brexit

- Domestic Economic Agenda
  - Innovation
  - Investment
  - Infrastructure
  - Address productivity & regional divide
- Global opportunities
  - 85% of world economy outside EU
  - 4th Industrial Revolution
- Relationship with EU
  - T-tab
  - Outside SM & CU
  - No race to the bottom

[illegible]wealth.com