CIBC Asset Management

PERSPECTIVES
Global Market Outlook for the one-year period beginning January 1, 2019

IS RELIEF IN SIGHT?

The intensity of the late-2018 market pullback may seem counterintuitive—isn't the world economy still in decent shape? Although the global economy remains in expansion mode, market focus has shifted to deteriorating global liquidity conditions and what this could mean for 2019. We believe that global policy-makers, starting with the U.S. Federal Reserve, will increasingly shift from policy renormalization to policy relief.

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ASSET ALLOCATION OUTLOOK

as at January 1, 2019

	ASSET CLASS	UNDERWEIGHT		NEUTRAL	OVERWEIGHT	
		SIGNIFICANT	MODERATE		MODERATE	SIGNIFICANT
	EQUITY RELATIVE TO FIXED INCOME					
FIXED INCOME	Canadian Money Market					
	Canadian Government Bond					
	Canadian Corporate Bond					
	International Government Bond					
EQUITY	Canadian Equity					
	U.S. Equity					
	International Equity (Developed Markets)					
	Emerging Markets					

CURRENCY (VERSUS U.S. DOLLAR)	UNDERWEIGHT		NEUTRAL	OVERWEIGHT	
	SIGNIFICANT	MODERATE		MODERATE	SIGNIFICANT
Canadian Dollar					
Euro					
Japanese Yen					
British Pound					
Swiss Franc					
Australian Dollar					
Emerging Markets					

HIGHLIGHTS AND KEY THEMES

Fixed Income vs. Equity: With significant corrections in most markets last year, equity valuation has improved. Strictly from a valuation point of view, equities are currently more attractive than government bonds.

Equity: Emerging markets have become more resilient but remain cyclical and higher octane assets. Given attractive valuation, they should be one of the better performing asset classes once market volatility subsides.

Fixed Income: We are lowering our global bond yield forecasts to account for the clouding global macroeconomic picture. Our revised forecast for 10-year sovereign bond yields is 3.00% (U.S.) and 2.40% (Canada) over a twelve-month horizon.

Currencies: The Canadian dollar will remain a fundamentally challenged currency in 2019, limiting its potential upside against the U.S. dollar even once oil prices stabilize and the Fed moves to the sidelines.

	GDP OUTLOOK DIRECTION	INFLATION OUTLOOK DIRECTION	MAIN THEMES	THEME'S IMPORTANCE
U.S.	Down	Up	From Policy Renormalization to Policy Relief	High
Canada	Down	Neutral	BoC moving to the sidelines earlier than generally expected?	Low-Mid
Europe	Down	Neutral	Liquidity tide is turning for the ECB	Mid
China	Down	Neutral	Expecting additional policy relief in 2019	High
Japan	Down	Neutral	Bank of Japan hitting policy limits	Low
World	Down	Neutral	Slowing growth despite policy relief	Low-Mid

EXPECTED RETURNS

Expected returns for the one-year period beginning January 1, 2019.

	IN CANADIAN DOLLARS			IN LOCAL CURRENCY		
	Policy Renormalization	Policy Relief	Global Recession	Policy Renormalization	Policy Relief	Global Recession
Probabilities	**25.0%**	**50.0%**	**25.0%**	**25.0%**	**50.0%**	**25.0%**
Canada Money Market	2.1%	1.8%	1.2%	2.1%	1.8%	1.2%
Canadian Bond	-0.7%	1.0%	5.1%	-0.7%	1.0%	5.1%
Canadian Federal Govt. Bond	-1.7%	0.5%	5.7%	-1.7%	0.5%	5.7%
Canadian Corp. Bond	2.7%	3.0%	3.5%	2.7%	3.0%	3.5%
Canadian RRB	3.5%	2.5%	4.9%	3.5%	2.5%	4.9%
Canadian High Yield	10.5%	7.3%	-1.5%	10.5%	7.3%	-1.5%
International Govt. Bond	-9.6%	-3.8%	10.9%	-3.3%	-1.5%	5.0%
Canada Equity	15.4%	7.3%	-16.6%	15.4%	7.3%	-16.6%
United States Equity	-0.2%	-1.8%	-14.0%	9.0%	2.9%	-17.7%
International Equity	11.8%	6.7%	-15.5%	15.7%	7.4%	-18.9%
Emerging Equity	17.6%	6.5%	-25.3%	19.5%	9.2%	-23.8%

GLOBAL OUTLOOK

From Policy Renormalization to Policy Relief

The year 2018 will go down as particularly painful for global investors, with heavy damage in many asset classes. At first glance, the intensity of the late-in-the-year market pullback may seem counterintuitive—isn't the world economy still in decent shape? True, the global economy remains in expansion mode, but market focus has shifted to deteriorating global liquidity conditions and what this could mean for 2019.

Over the last decade, central banks around the world have deployed colossal efforts to keep the global economy in expansion mode. The last decade can be characterized by a massive and unprecedented expansion of the global monetary base. In retrospect, the whole operation was a success. So much of a success that, moving into the late stages of the business cycle, global central banks had no other option but to embark on policy renormalization. This is the very difficult task now at hand—figuring out just how fast the global liquidity tap can be closed without jeopardizing the global economic expansion. This is obviously easier said than done, with an elevated risk of either draining liquidity too quickly or moving too slowly and allowing the global economy to overheat.

Given the severity of the storm hitting global financial markets, it is clear that global liquidity was drained too quickly in 2018. Looking into the new year, global policy-makers will increasingly shift from policy renormalization to policy relief objectives. The first in line is the U.S. Federal Reserve (Fed). After more than three years of policy renormalization efforts, the Fed is expected to stop hiking rates and end its QT (Quantitative Tightening) policy in 2019, responding to tightening U.S. financial conditions.

Already in easing mode, Chinese authorities are also expected to intensify their policy relief efforts with more proactive fiscal expansion. Spending by both central and local governments is expected to increase to limit the extent of the economic slowdown. China's central bank is expected to provide additional liquidity relief by further decreasing the reserve requirement rate, increasing the size of its medium-term lending facility and ultimately lowering its policy rate.

With the eurozone economy shifting into lower gear, the ECB will also do its best to cushion the downturn. While it has no choice but to put an end to its asset purchase program, it will launch a new TLTRO[1] program to attenuate the contraction in the eurozone's monetary base.

Taken together, these policy efforts should provide market relief. However, navigation conditions for global investors will remain difficult in 2019. The harsh reality is that global liquidity conditions will remain relatively tight because policy renormalization objectives will eventually move back to the top of the agenda. This will limit the amount of liquidity relief that central banks can provide.

REGIONAL OUTLOOK

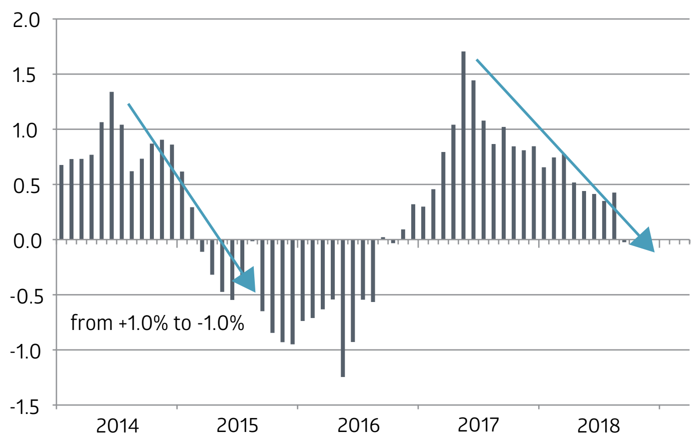
Canada

- The Bank of Canada may be forced to move to the sidelines earlier than generally expected, owing to the pronounced tightening in financial conditions.
- We are working with a below-consensus forecast of +1.5% average real GDP growth for 2019.

The Bank of Canada (BoC) has been in tightening mode for a year and a half, delivering a cumulative policy rate increase of +125 bps (basis points). To be clear, the BoC's objective has been to lift a foot off the economic accelerator, not to hit the brakes. Looking back at 2018, Poloz and his team are probably very happy with the way it worked out. The Canadian economy has shed momentum, with real GDP growth decelerating from +2.7% in early 2018 to +2% at the end of 2018.

ENERGY & CONSTRUCTION: FROM BOOST TO DRAG ON GROWTH

Contribution to y/y GDP growth from construction & energy



Source: Thomson Reuters Datastream, CIBC Asset Management Inc.

For next year, the consensus view calls for a replay of 2018, with good growth prospects and at least two more BoC rate hikes. However, this upbeat assessment is based on the assumption that financial conditions won't tighten too much moving into 2019. In our opinion, this is where the consensus view could be wrong.

Over the last decade, the Canadian private non-financial sector has massively increased its debt load and it's not just Canadian households that are heavily in debt. The debt load of Canadian non-financial corporations now amounts to 114% of GDP, one of the highest ratios in the developed world.

To meet their financing needs, non-financial corporations have not only borrowed much more from Canadian banks, but also issued large quantities of bonds domestically and in the U.S. This means they are vulnerable to rising policy interest rates in Canada as well as tightening credit conditions in Canada and the U.S.

Credit spreads in Canada and the United States started widening in late 2018. At this juncture the tighter credit conditions are not great enough to be a concern. However, if credit conditions continue to tighten in 2019, the hit on Canadian non-financial corporations could be too difficult to manage. The energy sector is particularly at risk as it already has to cope with the plunge in oil prices.

The bottom line is that the Bank of Canada may be forced to move to the sidelines earlier than generally expected, owing to the pronounced tightening in financial conditions. We are working with a below-consensus forecast of +1.5% average real GDP growth for 2019.

United States

- Tightening U.S. financial conditions will force the Fed to the sidelines—both in terms of its interest rate and Quantitative Tightening policies.
- Highly leveraged U.S. nonfinancial corporations are more vulnerable than ever to tightening credit conditions.

Despite a sharply deteriorating global risk environment, the Fed decided to raise its policy rate again in mid-December. The Fed holds a strong conviction that the U.S. economy is heading for a soft rather than hard landing in 2019. The latest growth projections from Fed Board members finds they are betting on a modest growth slowdown in U.S. economic activity—from 3.0%, on average, in 2018 to 2.3% in 2019.

Still wearing rosy-tinted glasses, the Fed plans to move to the sidelines only when its policy rate has reached neutrality (i.e. between 2.75% and 3.0%). However, this is conditional on what happens to U.S. financial conditions. While cumulative rate hikes from U.S. monetary authorities since 2015 have certainly fueled U.S. dollar strength, they've had very little impact on U.S. credit conditions until recently. Late last year, U.S. credit spreads started to widen significantly. If this spills into the new year, this unexpected tightening in U.S. financial conditions could force the Fed to take a dovish turn early in 2019, moving to the sidelines earlier than previously anticipated.

The Fed's QE policy ensured years of ultra-low debt financing costs at the long end of the curve and an artificially boosted demand for corporate bonds. As a result, U.S. nonfinancial corporations massively increased their debt loads over the last decade via corporate bond issuance, both domestically and offshore. U.S. nonfinancial corporations are now more leveraged than ever and the U.S. economy is more vulnerable than ever to a tightening in credit conditions. Our forecast calls for below-consensus average U.S. real GDP growth (2.1%).

A pause in its tightening campaign is not the only Fed policy shift expected to take place in 2019. The Fed has been shrinking its balance sheet at an accelerating pace in 2018, draining U.S. dollar liquidity from the global financial system (i.e. Quantitative Tightening). The Fed now recognizes there is a lot of uncertainty surrounding the long-run size and composition of its balance sheet. In our opinion, it will revise its QT operating framework and stop shrinking its balance sheet in 2019.

Europe

- A projected contraction in the ECB's balance sheet during the forecast horizon means the liquidity tide is turning for the ECB.
- Our forecast calls for below-consensus average real GDP growth in the eurozone (+1.5%) with an elevated risk that Italy will slip back into recession.

Eurozone policy-makers faced a challenging year in 2018. The eurozone economy started the year on solid footing, with real GDP growing at its fastest pace in eight years. However, from that point growth has decelerated and tensions between eurozone countries have intensified. Italy has been and remains the main source of tension, owing to its economic woes and resurfacing fiscal risk. Unfortunately, 2019 is shaping up to pose even greater challenges on the policy front.

Monetary authorities probably face the biggest challenge of all, as they will be ending their quantitative asset purchase program in early 2019—not a trivial development. Since the beginning of QE in 2015, the ECB (European Central Bank) has expanded its monetary base by 124% (from 20% to 40% of GDP), providing a massive monetary boost to the eurozone economy. The adoption of such an unorthodox ultra-accommodative policy stance was largely responsible for the growth reacceleration in the eurozone over the last four years. Shifting QE policy back to neutral is a risky proposition. No monetary boost in 2019 means that eurozone growth will likely slow further. Our forecast calls for below-consensus average real GDP growth (+1.5%), with an elevated risk that Italy will slip back into recession.

It is important to understand that the ECB monetary boost was not just provided via bond purchases (QE), but also through its long-term refinancing programs (TLTROs). In fact, TLTRO lending accounts for a very big chunk (24%) of the ECB's monetary base.

In 2019, euro area banks will be paying back ECB loans, implying a shrinking ECB balance sheet. In other words, the ECB will be ending its QE program just as TLTRO loans mature. In the absence of new TLTRO lending, the eurozone monetary base will shrink considerably. In our view, such a liquidity squeeze would constitute too much of a hit for the eurozone economy to absorb. To cushion the blow, we believe the ECB has no other choice but to launch a new TLTRO program in early 2019. Unfortunately, if delivered as expected this will only attenuate, not eliminate, the contraction in the ECB's balance sheet.

In short, the ECB's liquidity tide is expected to turn during the forecast horizon. This Quantitative Tightening has the potential to precipitate significant negative economic and market impact.

China

Additional policy relief likely in 2019

- Our projection for 2019 real GDP growth for China is 6%. This growth outlook depends on a positive outcome for a medium-term trade agreement between the U.S. and China.

- Our 2019 inflation outlook of 2.1% indicates a mild slowing of inflation, in part due to relief from commodity prices. The inflation environment continues to provide the People's Bank of China with the flexibility to adopt increasingly accommodative policy.

The outlook for 2019 GDP growth is 6%, lower than our 6.6% estimated growth for 2018 and the lowest annual growth rate in over three decades. The slowdown in real GDP expansion is the result of a more challenging trade environment, where net exports are likely to be a drag on growth. Spillover from the U.S.-China trade dispute will likely lead to continued slow credit growth due to more conservative investment decisions from the private sector and tightened access to shadow banking.

Another growing concern for 2019 is the residential property sector. In 2018, this sector recorded strong growth in new construction activity, but slower activity is more likely in the year ahead. This slowdown will be met with more proactive fiscal expansion—both central and local government spending will be deployed to offset the drag. The Chinese government has already announced that it wants to support spending by providing lower personal income taxes and corporate taxes. We also expect a significant increase in special local government bond issuance, which will provide a boost to infrastructure investment.

We expect inflation to grow at 2.1%, a rate below the central bank target and the average CPI print of the past six months. We have decreased our expectations for consumer price inflation, in part due to commodity price relief. As a result, Chinese monetary policy will likely remain loose over the coming year. The central bank will provide additional liquidity relief by further decreasing the reserve requirement rate, increasing the size of its medium-term lending facility and ultimately lowering its policy rate.

MULTI-ASSET STRATEGY OUTLOOK

A cautious strategy stance

While the post-crisis monetary policy easing led to a disappointing, sluggish recovery, financial assets were propelled into a massive bull market. In some ways, normalization will work like a reverse of easing. After years of extremely low interest rates, borrowers have locked in attractive rates by extending the maturity of debt and should be less sensitive to rising interest rates. As such, the current renormalization of monetary policy is expected to have a moderate economic impact. However, implications for financial markets could be more significant, as investors reassess their portfolios and move away from asset classes and strategies that attracted flows during quantitative easing. Widespread geopolitical uncertainties further suggest that capital markets will remain relatively volatile. The past year has provided a good example of this dynamic. The slowdown in the economy will turn out to have been relatively moderate while equity markets have suffered disproportionnaly and volatility has increased.

Global growth is expected to settle slightly above growth potential. We do not see a recession in the next 12 months but as the global cycle unfolds, concerns are rising. For the moment, inflation pressures are diminishing. Policy normalization implies continued upward pressure on bond yields, but the current period of continued economic weakness and market turbulence should limit this rise at the beginning of 2019.

One silver lining to the recent turbulence is an improvement in the valuation of most asset classes—with the exception of developed market (DM) sovereign bonds. Strictly from a valuation point of view, equities are currently more attractive than government bonds. Emerging sovereign bonds and corporate bonds are also becoming more attractive under the assumption of continued growth. However, these valuation advantages may not materialize in the near term until the economic slowdown stabilizes and geopolitical risks recede. The timing of an increased allocation to risky assets is tricky in this volatile environment. However, cautiously building positions could prove rewarding over the long term.

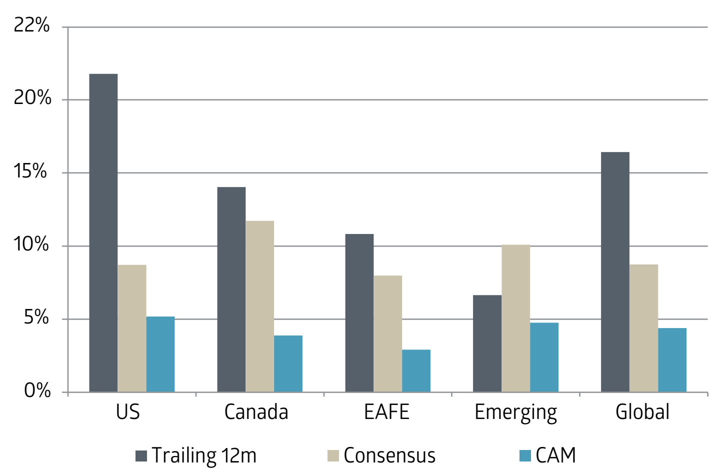
EQUITIES

Improving valuation

With significant corrections in most markets this year, equity valuation has improved. Price corrections occurred despite the fact that global earnings have grown by double digits over the last 12 months. At the beginning of the year, roughly 2/3 of the countries we cover were trading above their historical P/E average; roughly 2/3 are now trading below. For the last few years it was possible to argue that equities were overvalued—the picture is now more nuanced.

The U.S. continues to be the most expensive equity market worldwide. The divergence with emerging equities (EM) has only been slightly reduced, as EM equities have de-rated alongside the U.S., while Canada and EAFE do not look as expensive.

EARNINGS GROWTH FORECAST



Source: Thomson Reuters Datastream, CIBC Asset Management Inc.

EAFE is the region where the de-rating was the most severe. We cannot overstate the fact that valuation functions better as a long-term indicator and is actually a poor timing indicator. However, most of the time buying something cheap makes more sense than buying something expensive.

Earnings should decelerate yet remain robust, as economic growth is expected to remain above potential. Notably, U.S. earnings will decelerate significantly as the one-time tax-cut effect on earnings disappears. Our economic outlook is consistent with mid-single-digit earnings growth.

In addition to slowing growth, emerging markets were hit in 2018 by rising interest rates, a strong U.S. dollar, the U.S.-China trade war and idiosyncratic shocks in countries like Argentina, Turkey and Brazil. These headwinds are expected to fade in 2019. The Fed is expected to pause, which implies limited upside for long-term interest rates and the U.S. dollar. Turbulence in troubled EM countries seems to be contained. Emerging markets have become more resilient over the years but remain cyclical and higher octane assets. Given attractive valuation, they should be one of the better performing asset classes once the dust settles.

FIXED INCOME

Entering a zone of turbulence

The U.S. 10-year Treasury yield moved higher in the first half of the quarter, flirting with our previous 12-month forecast of 3.25% on several occasions. However, from early November until the end of December bond yields entered a zone of turbulence, finishing the year around 2.80%.

Although U.S. domestic forces continued to be generally positive, several data readings from the labour market, the auto industry and the housing market hinted at a softer pace of economic expansion. Combined with weakness in the stock market and a rout in the technology sector in particular, demand increased for U.S. Treasuries.

Outside the U.S., several factors collided to create a bullish bond trend as well. Surprise increases in global oil supply pushed energy prices drastically lower, depressing inflation breakeven rates. Moreover, confusion with regard to the China/U.S. trade deal (or lack thereof) and mounting geopolitical risks in Europe heightened global policy uncertainties. These increasing tensions simmered as global cyclical data tended to disappoint expectations, creating a marked shift in preference for safe-haven assets.

In that environment, the developed world's central bankers had little choice but to start tilting their message slightly to the dovish side. Although the Fed hiked rates by 25 bps at the December 18 FOMC[2] meeting, the governing members decreased the number of anticipated rate hikes in 2019 to two from three. In similar fashion a week earlier, Mario Draghi painted a more subdued picture of the economy compared to previous meetings. The repetition of the terms "continued confidence" and "increasing caution" testified to the ECB's shifting mood.

Going forward, we are lowering our global bond yield forecasts to account for the clouding global macroeconomic picture. Although tightening global financial conditions may force major economies to provide policy relief in the first half of the year, we doubt the boon will be strong enough to create significant reflation. It's unlikely that higher global yields will be sustained in 2019.

From both a qualitative and a quantitative perspective, the fair-value yields for DM bond markets remain higher versus current levels. As a base case scenario, 10-year sovereign bond yields should reach 3.00% and 2.40% in the U.S. and Canada respectively, over a twelve-month horizon.

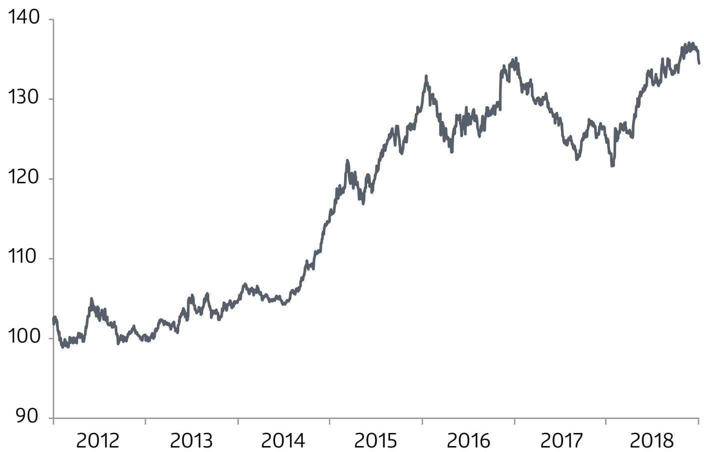
CURRENCY MARKETS

U.S. Dollar

Against all odds, the multi-year U.S. dollar bull market resumed in 2018, pushing it deep into overvalued territory. Based on our valuation metrics, the greenback is now overvalued by more than 10% on a trade-weighted basis, qualifying as one of the most expensive currencies in our trading universe.

A U.S. DOLLAR TREND REVERSAL?

CAM U.S. dollar trade-weighted index



Source: Thomson Reuters Datastream, CIBC Asset Management Inc.

The U.S. dollar has stayed well-supported all year because of the Fed's efforts to drain U.S. dollar liquidity from the global financial system by hiking rates and shrinking the size of its balance sheet. This is all about to change. For one thing, the Fed's policy rate is now close enough to neutral to justify taking a pause on rates. For another, the Fed is slowly but surely realizing that abundant reserves are a good thing and will very likely be putting an end to its QT policy in 2019. These policy changes should allow for the long-awaited U.S. dollar trend reversal to finally materialize in 2019. Having said this, the U.S. dollar's downside will likely be limited in the absence of clear policy shifts in the rest of the world. For other currencies to move decisively higher against the U.S. dollar, monetary authorities in the rest of the developed world must clearly signal the launch of tightening campaigns.

In light of the recent tightening in global financial conditions, this is not likely to happen anytime soon. In the meantime, currency market volatility should stay elevated.

Canadian Dollar

The Canadian dollar ended 2018 on a very sour note. Fueled by the rout in global financial markets and the plunge in oil prices, the Canadian dollar revisited its 2017 cyclical lows. From a valuation standpoint, this puts the Canadian dollar deep in undervalued territory. In the past, this would probably have been sufficient to restore Canada's competitiveness and cushion the big negative terms-of-trade shock hitting Canada via depressed oil prices.

Unfortunately, the story is very different this time around. The Canadian dollar has been deeply undervalued for more than four years with no apparent improvement on the trade front. Case in point: Canada's ex-energy trade deficit is now bigger than ever. The reality is that the recent plunge in oil prices will likely translate into a record current account deficit, implying record U.S. dollar funding needs. In short, the Canadian dollar will remain a fundamentally challenged currency in 2019, limiting its potential upside against the U.S. dollar even once oil prices stabilize and the Fed moves to the sidelines.

Euro

For many market participants, the euro's 2018 performance has been a big disappointment. Off to a very good start over the first four months of the year, the euro lost substantial ground against the greenback in May, grinding lower and lower afterwards. Could 2019 finally be the lift-off year for the eurozone's common currency? While the euro is expected to appreciate against the U.S. dollar, its upside should be limited. Recent compromises made by the Italian government on the budgetary front don't mean that Italian fiscal risk has been eliminated. Growth disappointment lies ahead for the eurozone economies, with the high risk of a recession in Italy. This will make it very difficult for the Italian government to meet its deficit targets in 2019.

Japanese Yen

In 2018, the Japanese yen was one of the few currencies that managed to hold its ground against the U.S. dollar. Given the rout in global financial markets and the yen's safe-haven characteristics, this hardly comes as a surprise. What does come as a surprise is how little ground the Japanese yen has actually gained against the greenback under those conditions. To a large extent, we think this can be explained by relative liquidity conditions. While the contraction in the U.S. monetary base has been deepening, the Japanese monetary base has continued to grow. If we are right that 1) relative Fed-BOJ liquidity conditions now play a key role in determining the USDJPY bilateral exchange rate and 2) the Fed is about to put an end to its balance sheet reduction policy, the yen should behave more like a safe-haven currency in 2019. In light of these developments, the Japanese yen should remain well supported.

COMMODITY INSIGHT

Oil prices had a volatile ride in 2018, reaching highs of over $75/bbl and lows in the $40/bbl range. These wild swings all took place in Q4 and produced one of the largest-ever quarterly declines in oil prices. Ultimately, this resulted in OPEC+ (an extended group which included Russia and others) cutting production by 1.2 MB/D[3]—this took effect on January 1, 2019. The Alberta government also mandated a 0.3 MB/D oil production cut due to lack of pipeline takeaway capacity out of the province, taking further supply off the market. Overall, from a supply standpoint, oil prices should be supported and grind higher from current levels for several reasons.

First, OPEC+ cuts should limit production growth and result in fewer oil barrels exported into the global market. This will be evident once inventories globally start to draw down, sometime toward the end of Q1/19. Second, with the oil futures curve in the low $50 range and corporate budget season upon us, U.S. shale producers are likely to create business plans showing slower growth profiles. This will be done to preserve balance sheet leverage and demonstrate free cash flow—something investors have been asking for. Third, oil prices in the $40 range are simply uneconomic. For many producers, the average breakeven price to cover cash costs, capital spending and dividends is around $50/bbl. Below this price level, companies simply cannot indefinitely sustain an ongoing business and generate an acceptable rate of return. In short, low prices should cure low prices because some producers would simply stop or limit production.

Demand is still a wild card in the oil picture. Agencies such as the IEA[4] forecast oil demand growth at 1.4 MB/D. However, there is concern this figure is headed lower given slower global growth and weaker economic data coming from EM markets such as China. This is important because oil demand growth is largely all coming from China and India. The ongoing U.S./China trade war is another wild card, where a positive resolution would be supportive for oil prices. Going forward, we are tracking the oil futures curves for a possible shift from contango to backwardation, and drawdowns in physical inventories of finished products such as diesel and gasoline.

SIGNPOSTS

Economic indicators that will help us determine if our **Policy Relief** scenario is occurring as expected:

Canadian Signposts

- Employment growth, wage growth
- Housing activity and property prices
- Developments on the USMCA front (new NAFTA)
- Canadian oil price discount to U.S.

U.S. Signposts

- Wage growth
- Labour participation rate
- Trade negotiations
- Excess reserves held at the Fed
- Spread between EFFR[4] and IOER[5] rates
- Core PCE inflation
- Domestic oil production trend (following OPEC agreement)
- New orders

Chinese Signposts

- Housing data
- Inflation
- Trade balance
- Electricity consumption
- GDP growth mix (industrial production vs. retail sales vs. services)
- Lending to households and businesses
- Credit growth (local government bond issuance, bank loans, shadow banking)
- North Korea geopolitical tension

Other Market Signposts

- Excess reserves held at the ECB and at the Bank of Japan
- European inflation
- Brexit negotiations
- U.K. commercial real estate activity
- Italian government coalition
- Global Purchasing Managers' Indices
- Global liquidity (monetary base)
- Global financial conditions

[1] targeted longer-term refinancing operations

[2] Federal Open Market Committee

[3] million barrels/day

[4] International Energy Agency

[5] effective fed funds rate

[6] interest rate on excess reserves