LPL RESEARCH
WEEKLY ECONOMIC COMMENTARY

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GLOBAL GROWTH EXPECTED TO CONTINUE IN 2018

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KEY TAKEAWAYS

Global economic growth was stronger than expected in 2017, and we anticipate moderate acceleration in 2018.

We expect developed markets to see continued strength in 2018, with the potential for emerging markets to experience the fastest growth.

Our forecast is for 3.7% global GDP growth in 2018.

Global economic growth exceeded expectations in 2017, and we expect another strong year in 2018. The Citi Global Economic Surprise Index, which was well above zero for most of the second half of 2017, signaled that global economic data was exceeding expectations [Figure 1]. Drivers of strong global performance in 2017 included steady growth in the United States, better-than-expected economic data in Europe, continued positive performance from Japan, and stabilization in China following several years of deceleration.

We expect the global economy to expand at a rate of 3.7% in 2018, measured by gross domestic product (GDP). Monetary policy has been a major driver of growth in the developed world in recent years, but with global central banks starting to rein in stimulus measures, fiscal policy may become a bigger factor. We expect employment growth, and the continued consumption growth it should enable, to continue to be supportive for the global economy in 2018. Business spending, which has been lackluster during most of the expansion, may also make a comeback, potentially adding to growth.

1 GLOBAL GROWTH EXCEEDED EXPECTATIONS FOR MOST OF 2017

Source: LPL Research, Bloomberg 01/11/18

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The Citigroup Economic Surprise Index (CESI) measures the variation in the gap between the expectations and the real economic data.

Please see the *Outlook 2018: Return of the Business Cycle* publication for additional descriptions and disclosures.

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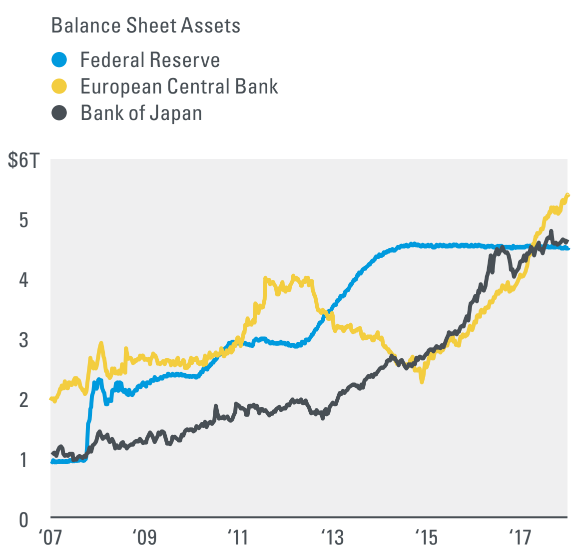
DEVELOPED MARKET STRENGTH MAY CONTINUE

As communicated in our updated forecast to our *Outlook 2018*, we expect U.S. growth to come in between 2.75%–3.0% GDP in 2018 (an increase from our previous target of 2.5% based on the potential impact of tax reform), as fiscal support, a pickup in business spending, and support for consumer spending from a strong labor market potentially combine to produce solid growth.

For international developed markets (excluding the United States) we continue to expect growth of approximately 1.8%, supported by rising global demand and the potential for further business-friendly reforms. Most developed nations are earlier in the economic cycle than the United States, and monetary support in the form of low interest rates and quantitative easing (QE) is still a factor in Europe and Japan, which is clear from the continual increase in central bank balance sheet assets [Figure 2]. We believe that global

2 GLOBAL CENTRAL BANK BALANCE SHEET GROWTH MAY SLOW IN 2018



Source: LPL Research, Bloomberg, Federal Reserve, European Central Bank, Bank of Japan 01/11/18

Past performance is no guarantee of future results.

QE may continue to fade in 2018, but market expectations for rate hikes from the European Central Bank (ECB) or Bank of Japan (BOJ) in 2018 are low.

The ECB is scheduled to end its current bond purchases of 30 billion euros per month in September 2018, though it has left the door open to extend purchases (potentially at a reduced level) if economic conditions warrant. We expect the recent pickup in growth to continue in the Eurozone, but low inflation, along with factors such as a surge in nationalism in Europe and ongoing Brexit negotiations, may mean monetary support is removed more slowly than would otherwise be expected.

Japan has also experienced steady growth recently, with the country experiencing seven straight quarters of positive GDP growth. The BOJ made a change to slightly slow purchases of long-term bonds in their QE program last week, stoking rumors that a meaningful reduction in overall purchases may be on the horizon. However, given the small magnitude of the change and the fact that Japan's inflation readings are still well below its 2.0% target, we believe that this move was more of an operational adjustment and do not anticipate any major moves from the BOJ in the near term, especially before BOJ President Kuroda's term expires in April (we expect he will be reappointed).

STABILITY IN CHINA MAY BENEFIT EMERGING MARKETS

For emerging market (EM) economies, we expect growth of 4.8% in 2018, driven by advantageous demographics, stable commodity prices, and accelerating early-cycle growth. Strong GDP readings in India and a potential acceleration in Latin American growth may help offset slowing, though stable, growth in China. We expect GDP growth of 6.5% in 2018 (versus 6.8% in 2017) in China, driven by increases in both industrial production and retail sales as the country continues transitioning toward a more service-oriented economy. The positive environment for EM economies should help generate continued earnings growth, which along with reasonable valuations relative to developed nations, are a driver of our positive view on EM equitites (more on our emerging market equities views here).

CONCLUSION

2017 was a solid year for global economic growth, and we are optimistic that 2018 may deliver additional modest acceleration. The Federal Reserve has started down the path of policy normalization in the United States by raising interest rates and slowly reducing the size of its balance sheet. Europe and Japan are earlier than the United States in their economic cycles, but started to hit their stride in 2017, and we expect a continuation in 2018. The ECB may continue on a path of gradually reducing monetary accommodation moving forward, though the BOJ may take longer to cut its QE purchases; but ultimately, the trend of reducing monetary accommodation appears likely to continue in 2018. These conditions should allow fiscal policy and (currently solid) business fundamentals to have a larger impact on markets. ■

DEFINITIONS

Quantitative easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

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