

Financials: Recession, rates, energy, and China

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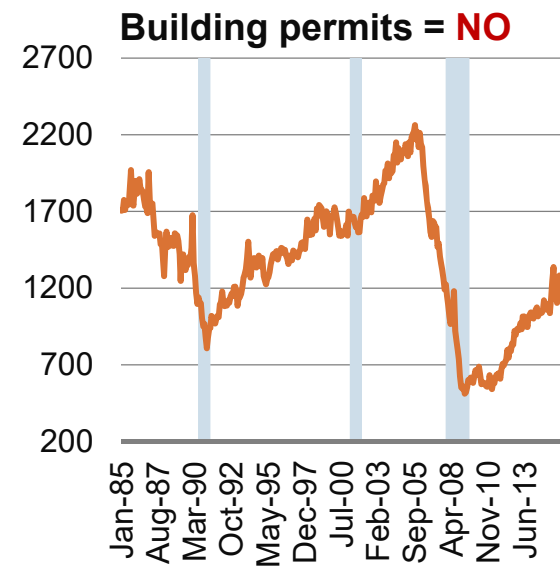
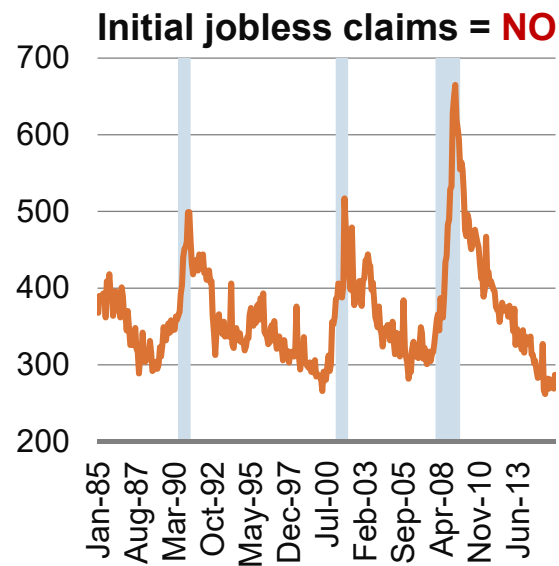
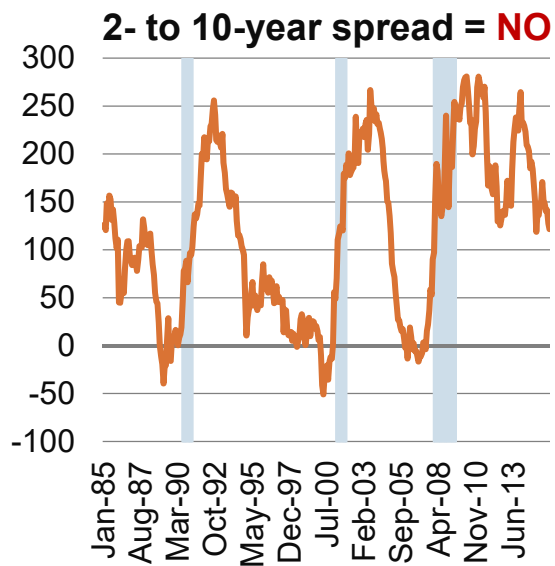
Jacquelyne J. Cavanaugh
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Risk of U.S. recession?

While the data is mixed, most of the traditional indicators do not point to a U.S. recession

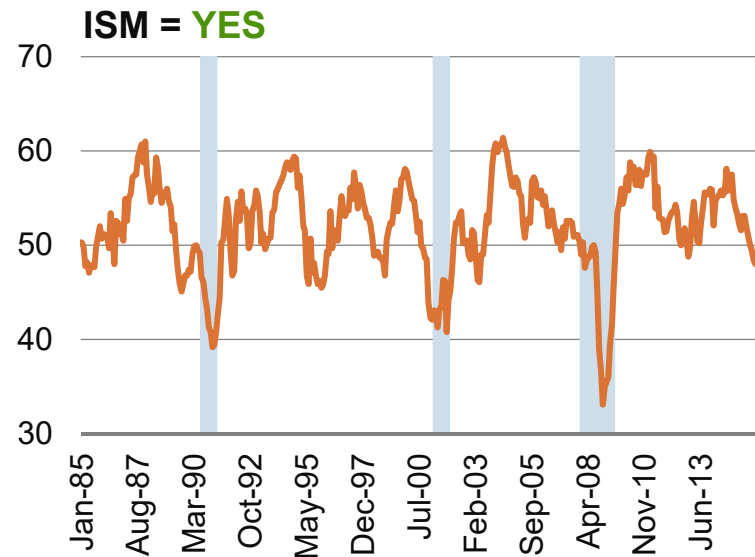
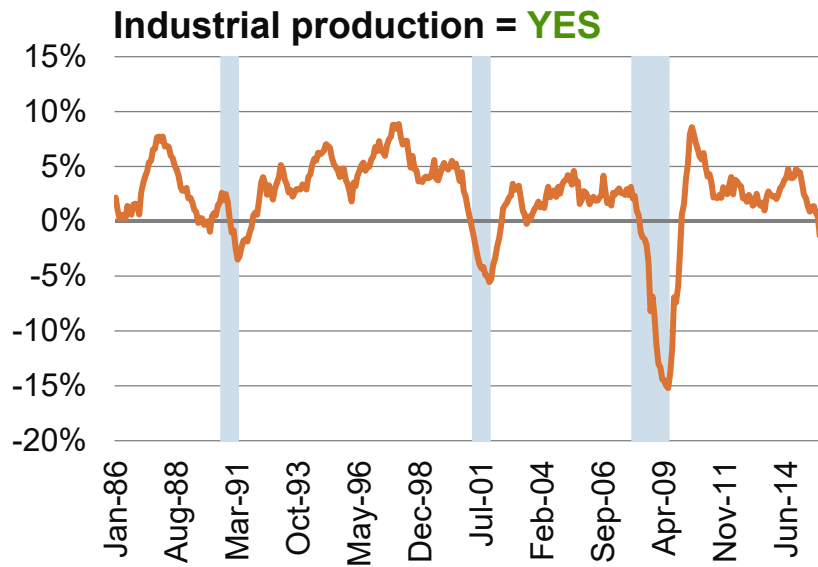


Source: Bloomberg

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Risk of U.S. recession?

The most troubling data points are industrial indicators, but at roughly 7% of GDP, an industrial recession does not necessarily mean a U.S. recession

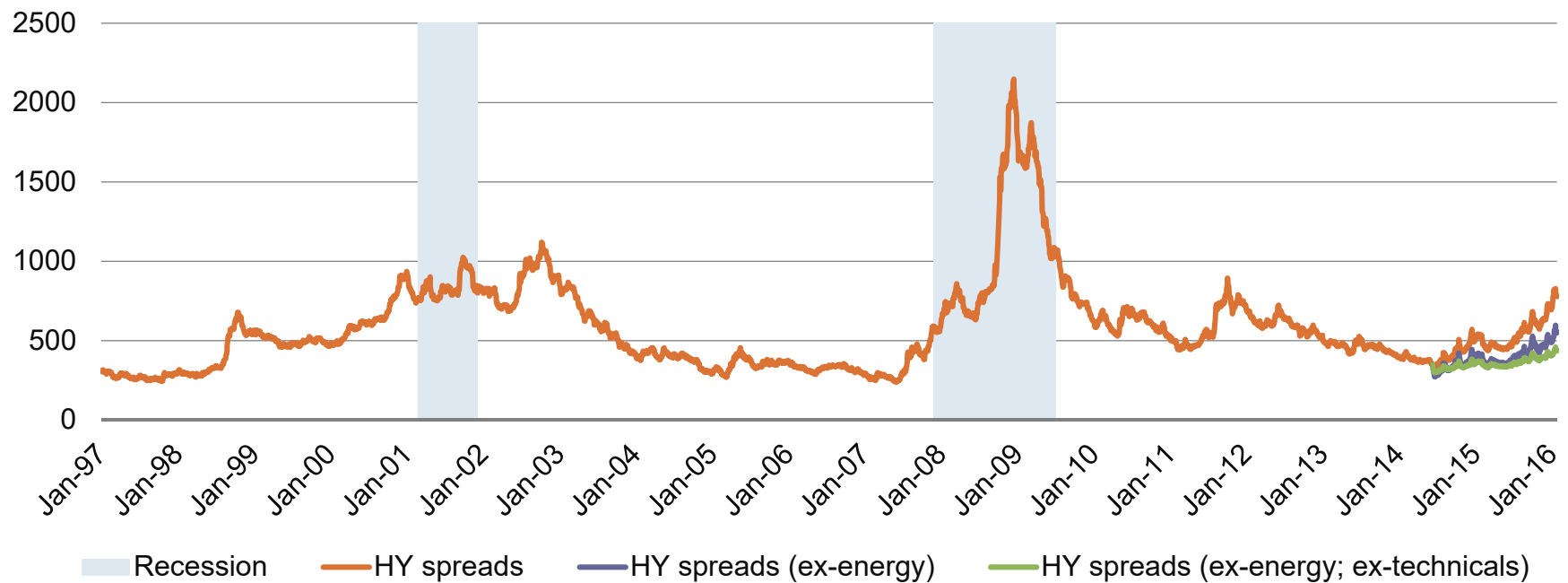


Source: Bloomberg.

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High yield spreads = most challenging data

Impacted by energy and liquidity

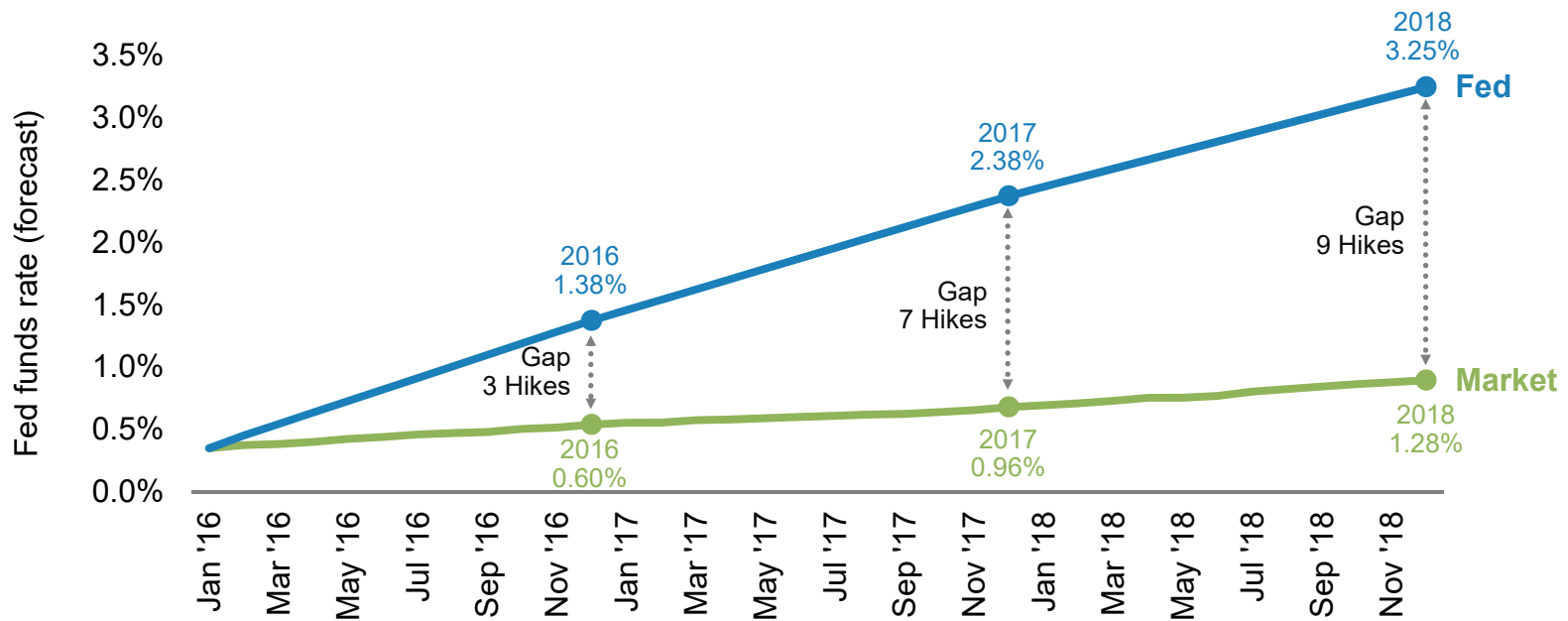


Source: Bloomberg.

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U.S. rate outlook

Following one 25-basis-point rate hike in December, there is a growing divergence between Fed expectations and market expectations

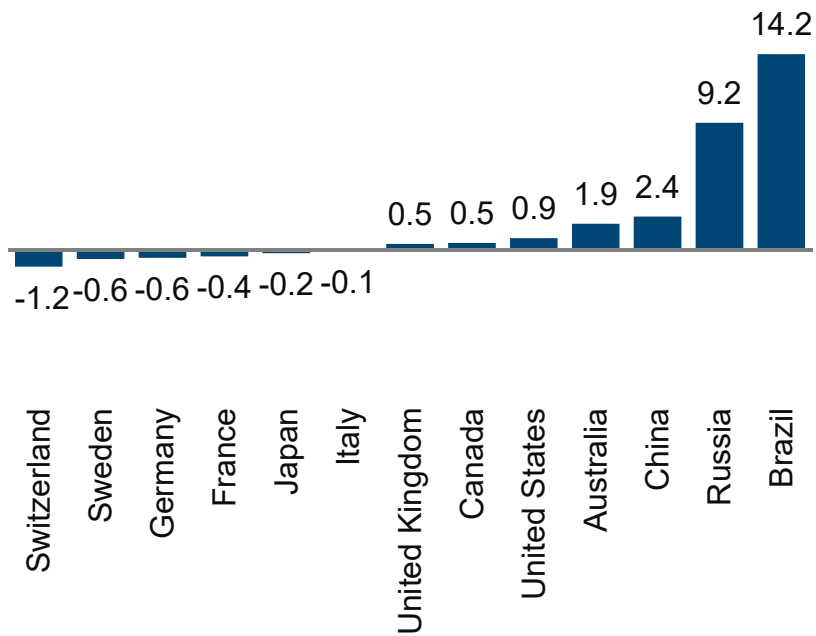


Sources: Bloomberg; Federal Reserve.

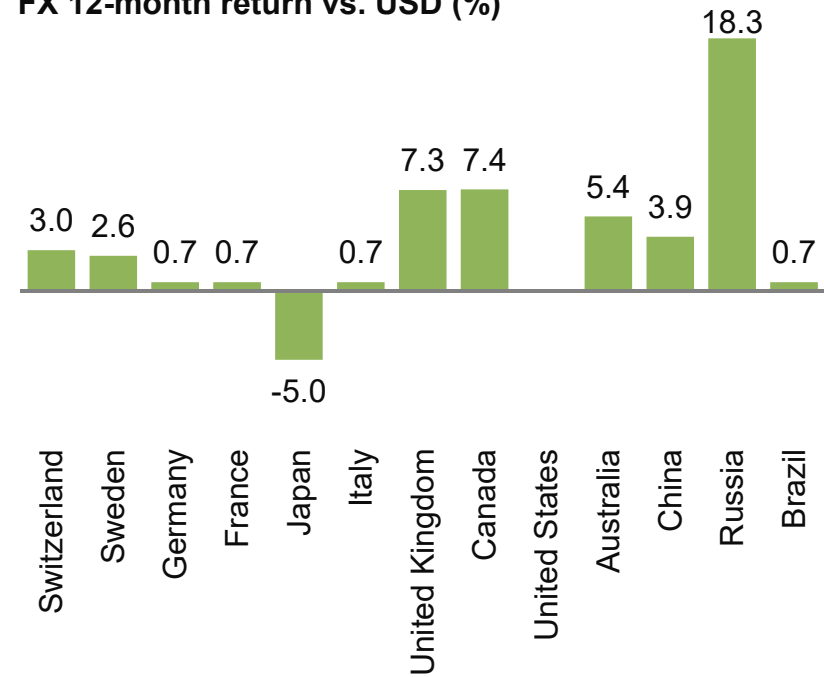
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Meanwhile, the rest of the developed world is going in the other direction

Sovereign 2-year yields (%)



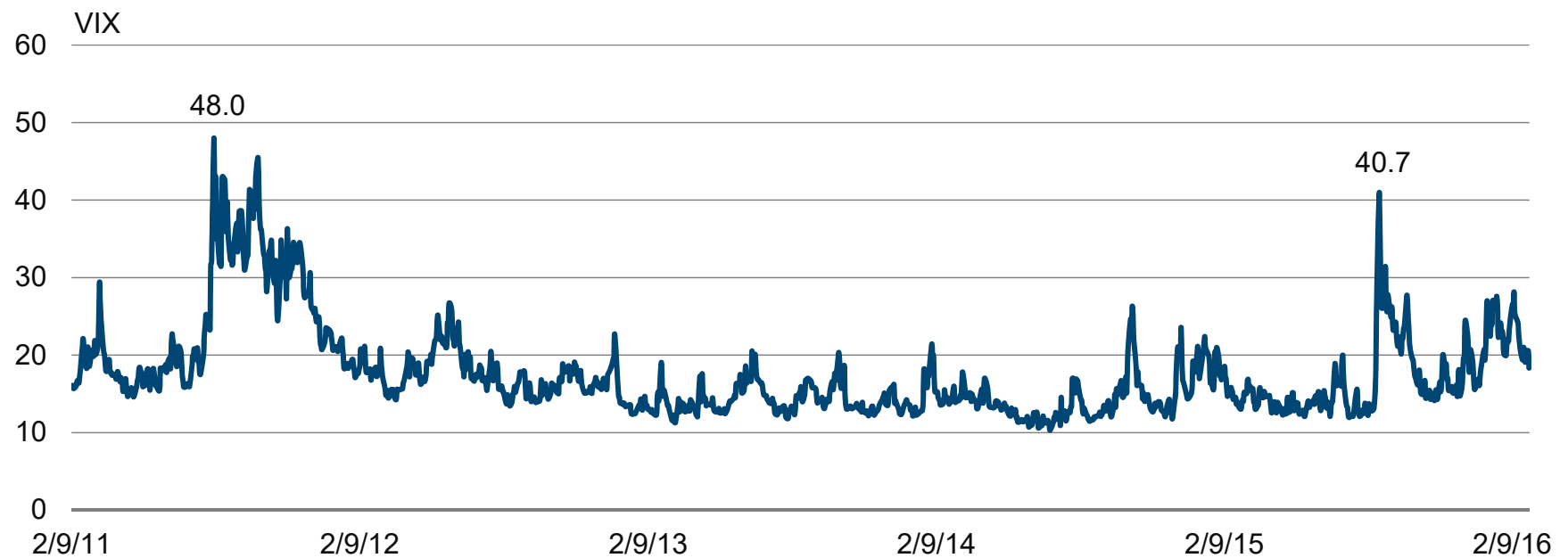
FX 12-month return vs. USD (%)



Source: Bloomberg, as of 3/4/16.

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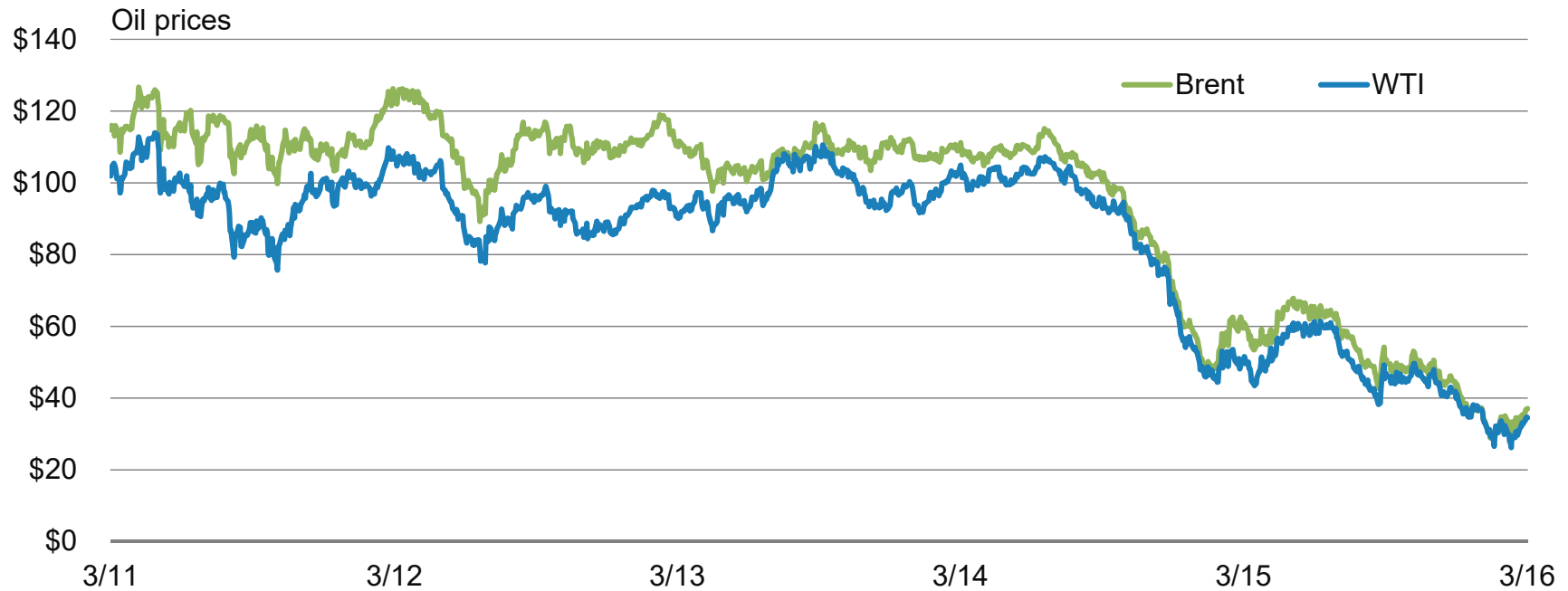
Mixed data is creating asset-class volatility ...



Source: Bloomberg.

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... and pressure on energy

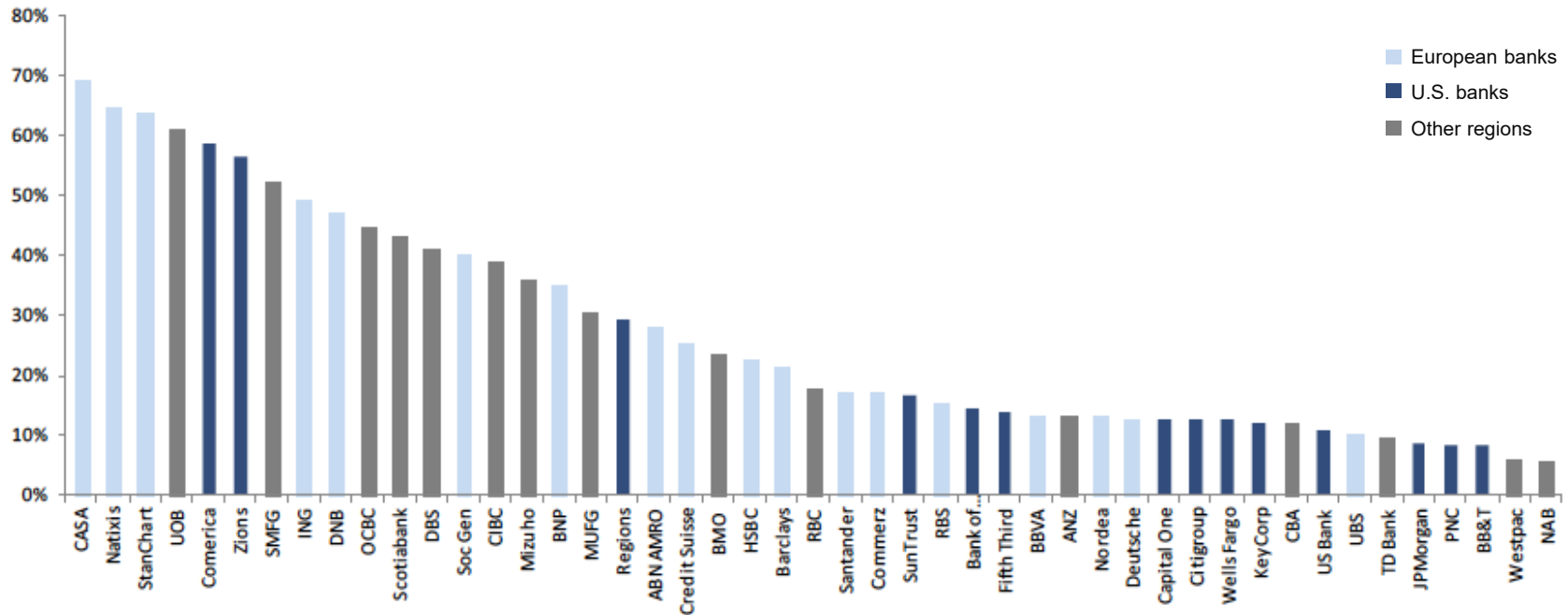


Source: Bloomberg.

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Energy exposure = tough but manageable

Oil and gas lending exposure for global banks, expressed as a % of tangible book

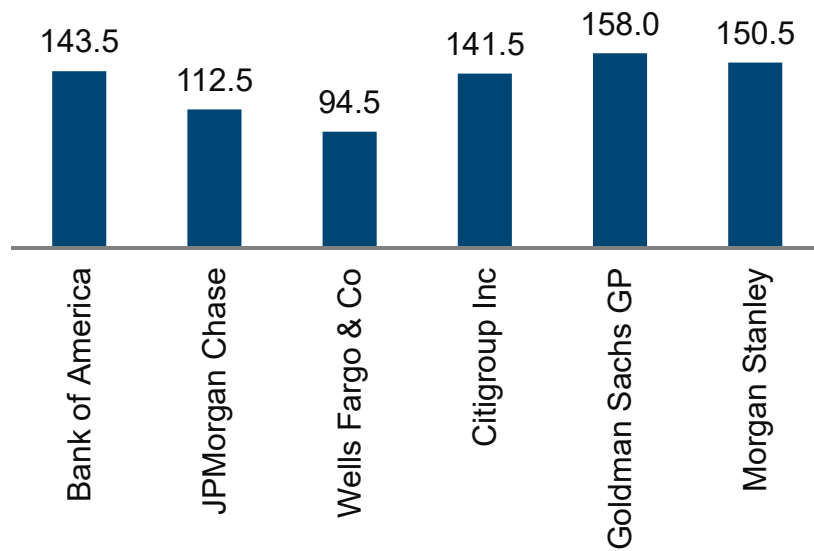


Source: Autonomous, as of 12/31/15.

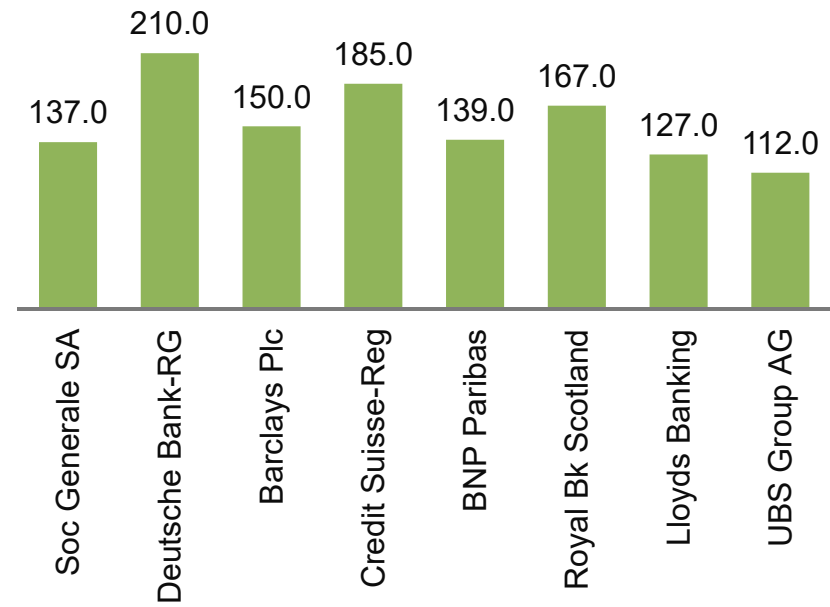
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CDS spreads

10-year CDS spreads of major U.S. banks



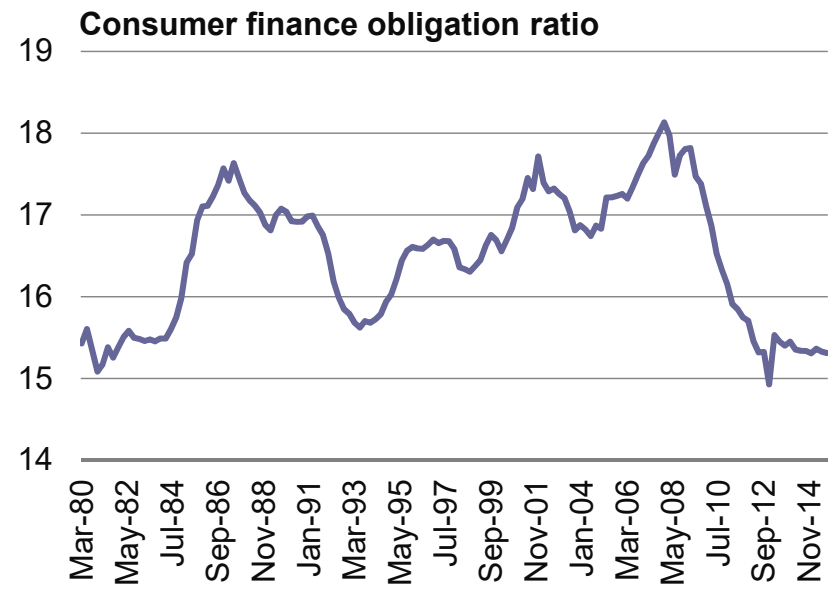
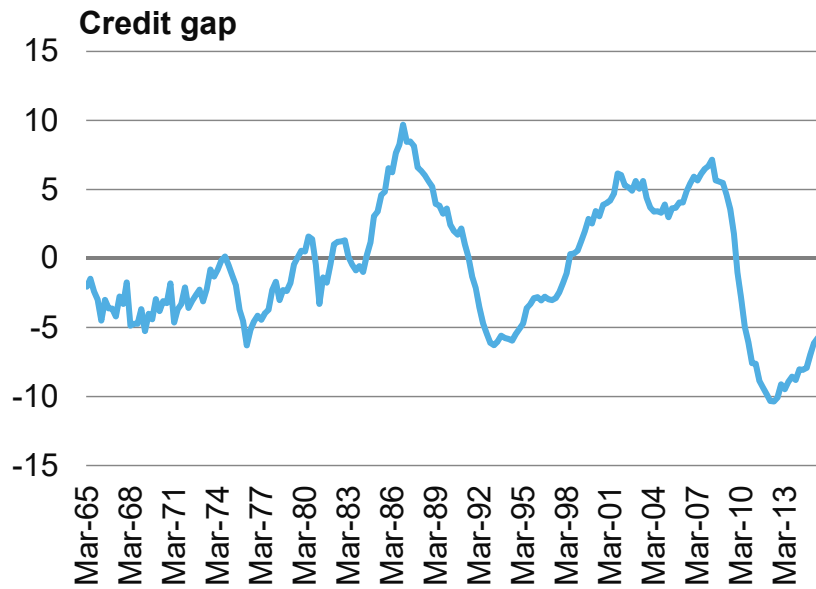
10-year CDS spreads of major European banks



Source: Bloomberg, as of 3/2/16.

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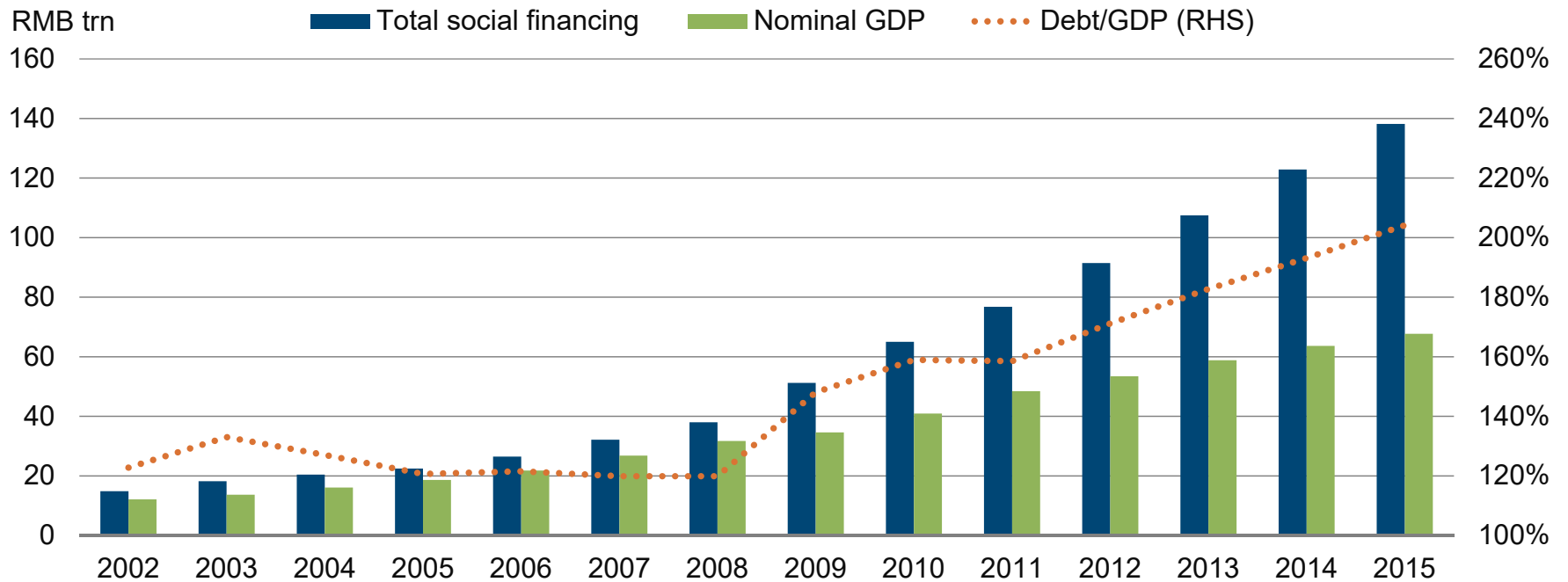
Worst case: Not all recessions are the GFC



Source: Federal Reserve.

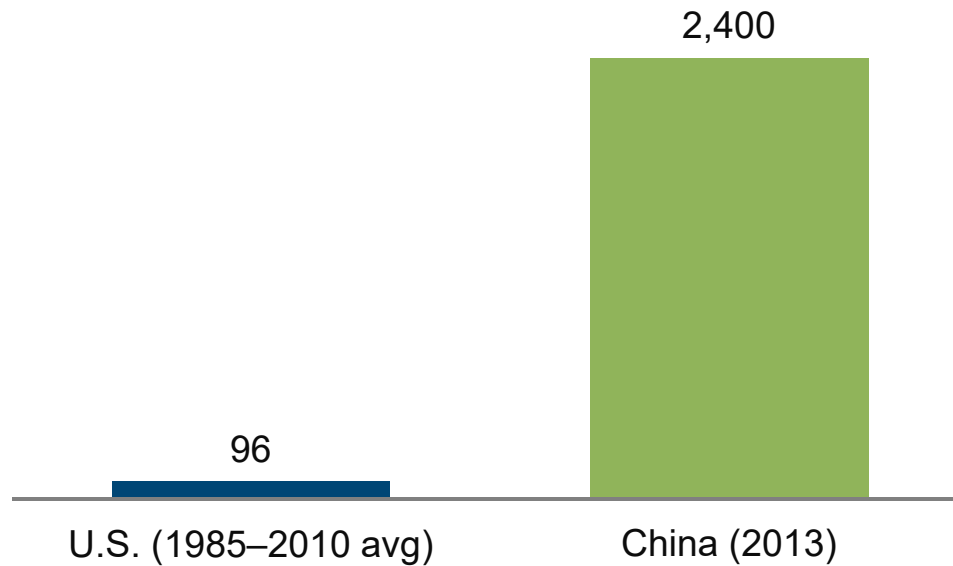
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China credit/GDP



Sources: CEIC, Bloomberg, as of 12/31/15.
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China vs. U.S. cement consumption in millions of tons



Source: Emerging Advisors Group.
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Financials positioning



Overweight

- U.S.
- UK/Ireland
- Mexico
- Asset gatherers
- Financial technology



Underweight

- Emerging markets
- Asia/China/Hong Kong
- Continental Europe
- Canada/Australia
- SIFI banks
- NIM-related plays

Frequently asked questions

1. Should we break up the big banks?
2. Does the Fed have better economic insight than the market?
3. Will the UK leave the eurozone?
4. When will it be time to reinvest in emerging markets?
5. What is going on with oil, and will it come back?
6. Why aren't we seeing more inflation pressure?
7. What does a Trump or a Clinton presidency mean for banks and financials?
8. Are they going to make any asset managers non-bank SIFIs?
9. What does the DOL/Fiduciary rule mean for the industry?



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