

Quarterly Macro Insights: April 2016

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This year began with a volatile start, as many capital markets followed oil prices sharply lower. When oil found its footing in mid-February, markets breathed a sigh of relief. Many investors, though pleased at the recovery, are left with the unsettling notion that these short-term market gyrations trace their roots to long-term structural shifts in the world economy.

Central banks remain key players in global financial markets, but despite their best efforts, global growth has stayed stubbornly sluggish. Neither developed nor emerging markets offer an obvious engine for stronger global growth. The world is trying to digest China’s transition to a consumer-led economy and future implications for globalization, trade and living standards. Around the world, increasingly polarized election results and mounting political stresses are a repudiation of the uninspiring post-crisis recovery and the policymakers at the helm.

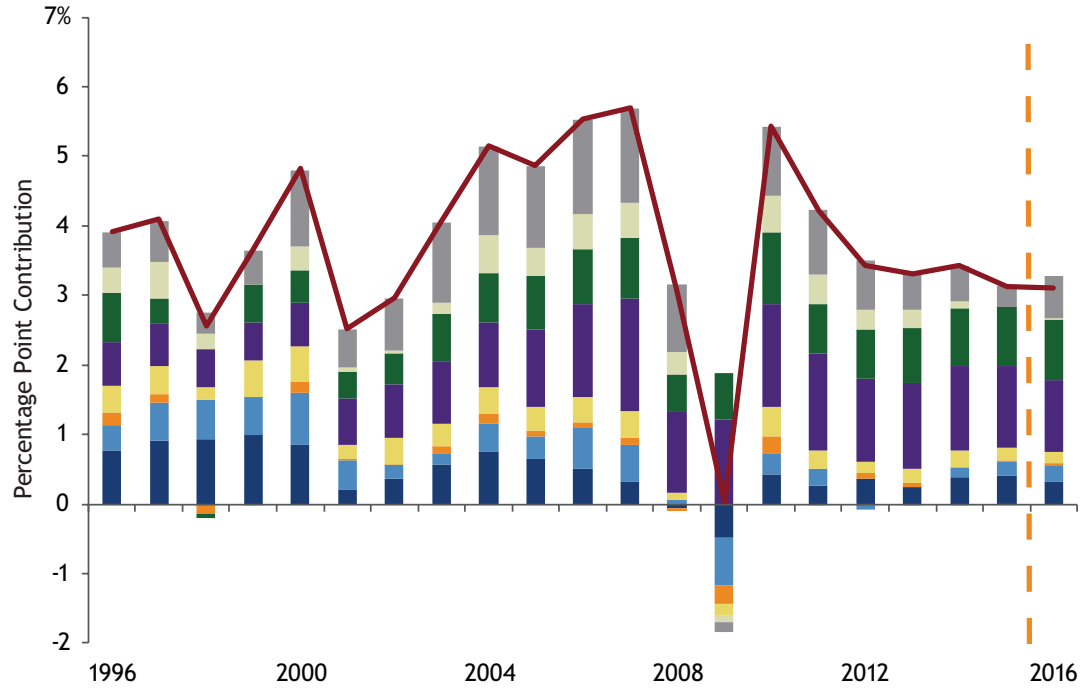
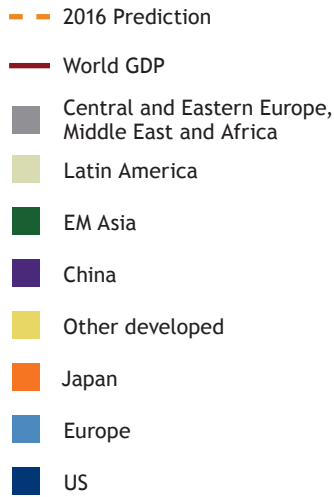
**MACRO THEMES FOR
APRIL 2016**

- 1** Anemic Global Demand:
The World Lacks a Strong & Dynamic Driver
- 2** Central Banks Pushing Against the Limits of
Monetary Policy
- 3** 30-Year Trend of Globalization at Risk



1. Anemic Global Demand: The World Lacks a Strong & Dynamic Driver

WHO IS WILLING TO BORROW AND SPEND?
 Source: Loomis Sayles Macro Strategies and IMF, as of 3/31/2016.



EM DELEVERAGING IS A DRAG ON GROWTH

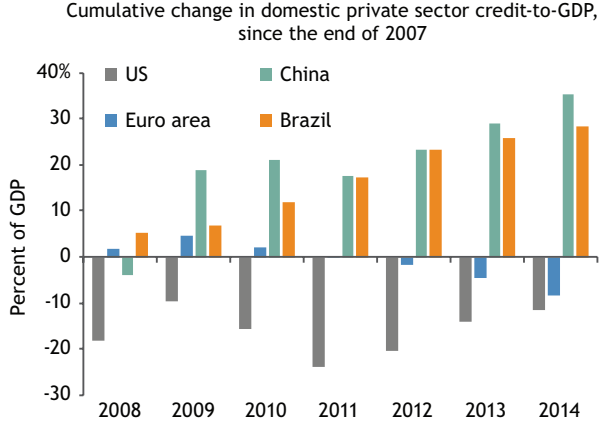
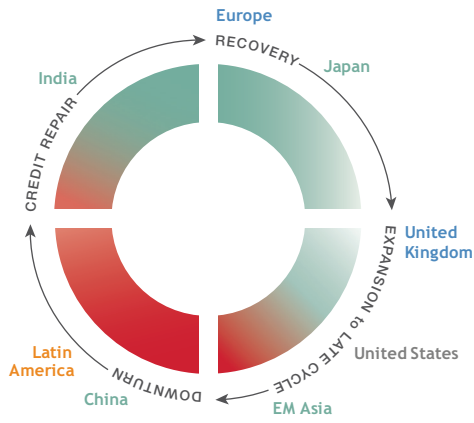
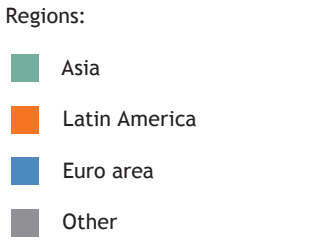


Chart at left: Views as of 12/31/2015. Green shading denotes asset classes the product team expects to appreciate and red shading denotes asset classes the product team expects to depreciate at each point in the economic cycle. This material is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. This reflects the current opinions of the team and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and assumptions.

Chart at right: Bloomberg, World Bank, as of 12/16/2015.

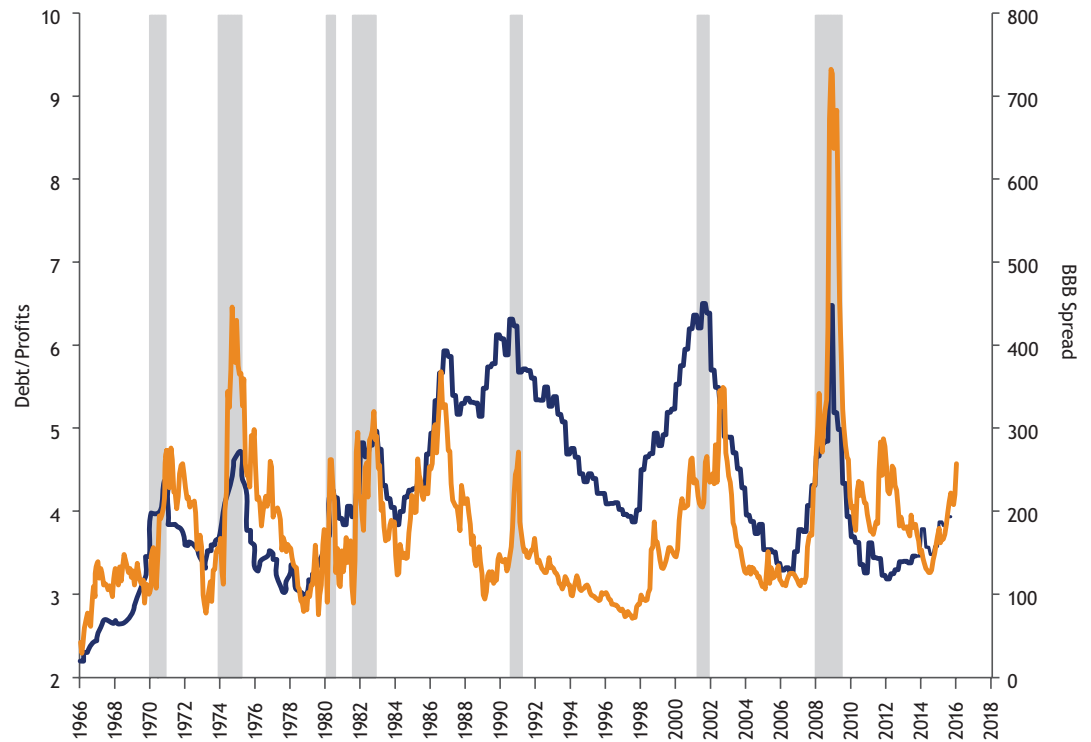
- The global financial crisis forced developed countries to delever, but emerging market (EM) economies binged on the low interest rates produced by unprecedented quantitative easing efforts and stepped up to borrow and spend. Today, the fundamental picture for many EM countries is tougher amid cooling global trade, the commodities super-cycle unwind and tighter US dollar liquidity. The forced deleveraging underway in emerging economies is a drag on global growth. With high global savings, the world economy needs a growth engine to boost demand.



UNITED STATES PROFITS STRUGGLING

Source: Barclays, Moody's, Federal Reserve, Bureau of Labor Statistics, Bureau of Economic Analysis. History through 9/30/2015, BBB Spreads through 1/31/2016. Quarterly data, shaded areas denote National Bureau of Economic Research-designated recessions.

— Debt/Profits (left scale)
— BBB Spread (right scale)



- The US looks best-positioned to fill the void, though the picture isn't perfect. US corporate earnings have been global leaders in recent years, but year-over-year profits are now negative due to the decline in global trade, malaise in the energy and materials sectors, and the strong US dollar. The current US profits recession poses a risk to credit spreads. The US consumer is a prospective growth driver, given improving job and wage growth. But to date, consumers have not picked up the borrowing-and-spending slack.

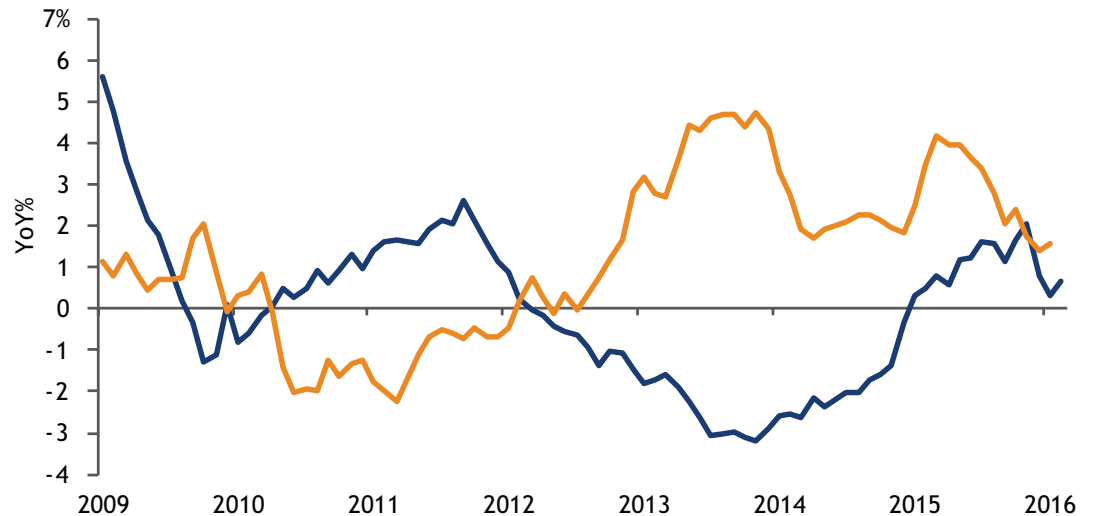


2. Central Banks Pushing Against the Limits of Monetary Policy

DISAPPOINTING CREDIT GROWTH IN MAJOR ECONOMIES

Source: ECB, BoJ, Haver Analytics as of 3/28/2016.

- Japan, private sector credit growth, YoY%
- Euro area, private sector credit growth, YoY%

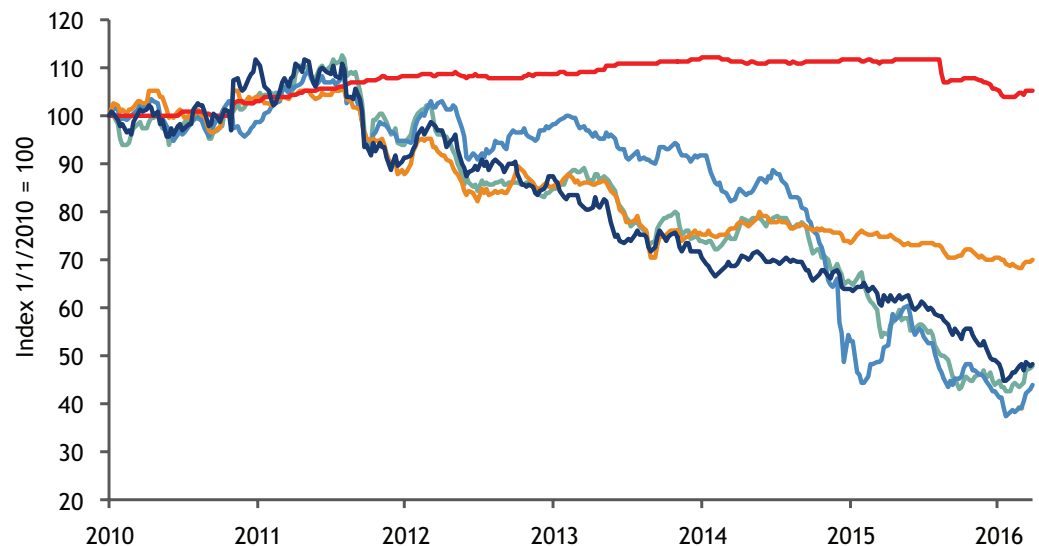


MANY EMs HOPE A WEAKER CURRENCY WILL BOOST GLOBAL COMPETITIVENESS

Versus the dollar, index 1/1/2010 = 100

Source: Thomson Reuters Datastream, data as of 3/25/2016.

- South African rand
- Russian ruble
- Indian rupee
- Chinese yuan
- Brazilian real



- The Bank of Japan (BOJ) and European Central Bank (ECB) have pulled out all the stops—including expanded government bond and private asset purchase programs and negative interest rates—in an effort to hit inflation targets and get growth back on track. While both economies are expanding, inflation remains low and credit growth remains stubbornly sluggish despite ultra-easy monetary policy.
- Some policymakers have sought a weaker exchange rate to help defend or improve price competitiveness relative to peers and, in some cases, to drive up import prices in support of central bank inflation targets. During the last quarter, some signs indicated policymakers were discarding these strategies in favor of measures more directly aimed at domestic activity.

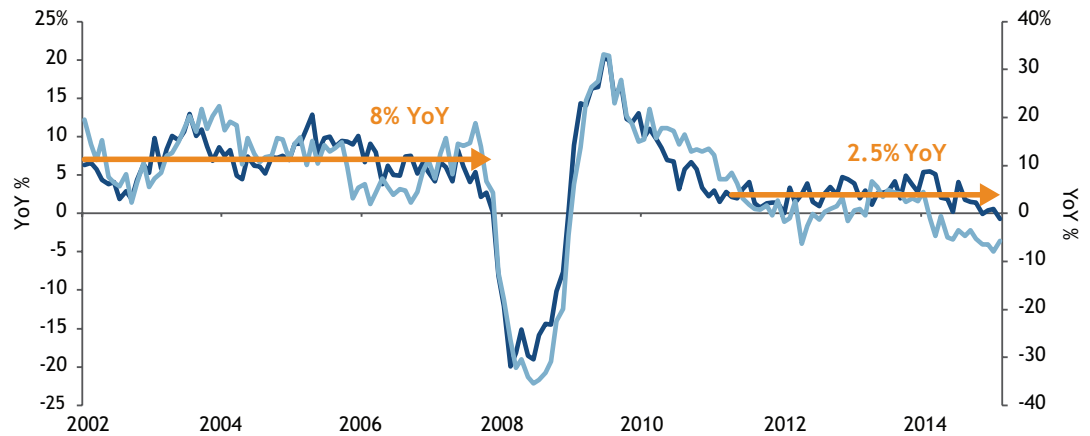


3. 30-Year Trend of Globalization at Risk

WORLD EXPORT VOLUMES HAVE GONE NEGATIVE FOR FIRST TIME SINCE 2009

Source: Thomson Reuters Datastream, CPB, as of 2/16/2016.

— World Export Volume (left scale)
 — US Goods Imports (right scale)



UNITED STATES A RISING OIL PRODUCER

Source: Loomis Sayles and EIA (US Energy Information Administration). Data as of 12/31/2015.

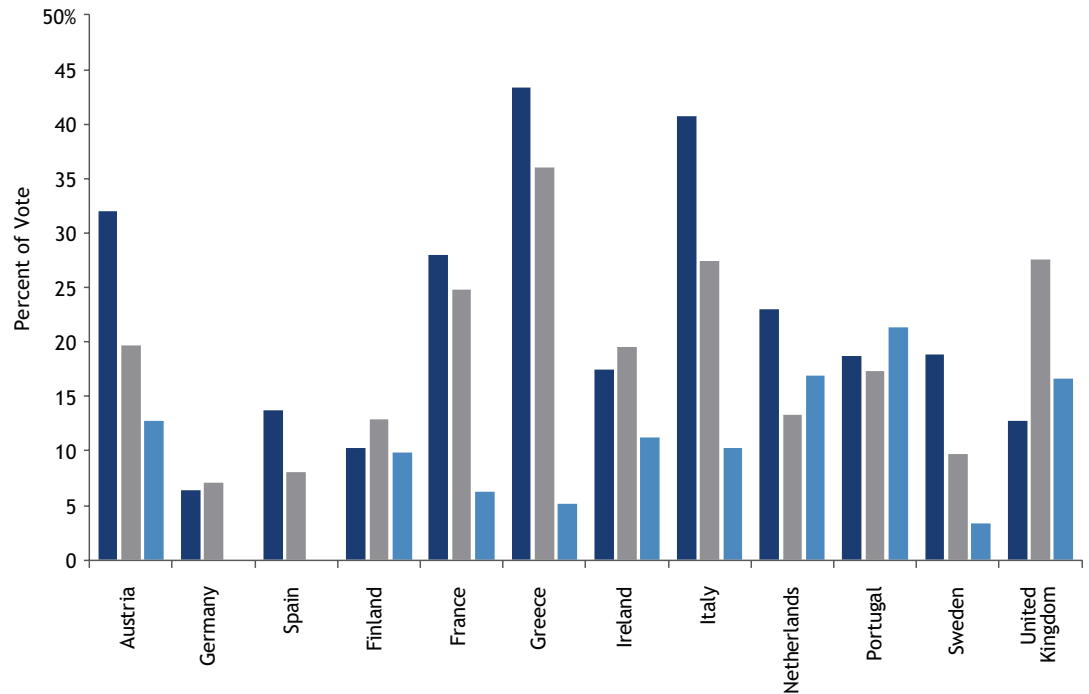
	2014	2015	FORECAST	
	2016	2017		
SUPPLY	93,612	95,812	96,232	95,703
→ OPEC OIL	30,521	31,466	32,300	32,300
IRAN	2,812	2,841	3,100	3,300
OTHER OPEC INCL. NGLs	33,959	35,125	35,850	35,750
→ US Total	12,741	13,546	12,832	12,153
US SHALE	3,912	4,500	4,050	3,726
US OTHER	8,829	9,046	8,782	8,427
Others	44,100	44,300	44,450	44,500
DEMAND	92,433	93,933	95,033	96,133
China	10,622	11,190	11,540	11,890
→ Surplus	1,178	1,879	1,199	-430
SUPPLY/DEMAND		BALANCE DATE		
BASE CASE		1Q17		
LOW SUPPLY CASE (SLOW RISE IN IRAN, LIBYA DEAL FAILS)		4Q16		
HIGH SUPPLY CASE (1 MBPD IRAN, LIBYA BACK TO 1.2 MBPD)		4Q17		

- For much of the last 30 years, globalization has been regarded as an unstoppable force shaping the world economy. But the once unimpeachable global growth paradigm is now showing some faults. Global trade volumes have not regained their pre-crisis levels, China's structural slowdown (and its ripple effects on the world's commodity complex) is unlikely to resolve quickly, and there is no clear growth engine on the horizon.
- The rise of the US as a major oil producer is another disruptive development to the long-running global paradigm. Increasing US oil production unsettled Middle East political dynamics and contributed to severe energy market volatility beginning in 2014. Over the remainder of this year, however, we are optimistic that declining US production can help restore price equilibrium in the oil market.



**RISE OF POPULISM
THREATENS
GLOBALIZATION**
Performance of Extreme
Parties

Source: Polls: Eurasia.
Election results: European
Parliament, as of 12/16/2015.
<http://www.europarl.europa.eu>



- In developed markets, voters disappointed by lackluster economic growth since the global financial crisis are expressing their frustration at the ballot box. More extreme political parties are making headway across many countries with more populist policies that promote an inward focus and de-emphasize commitments to multilateral organizations or free global trade. In some EM countries, economic stresses are sparking investigations of political leaders and driving toward new leadership.

AUTHORS

Disclosure

Past performance is no guarantee of future results.

Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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