PICTET WEALTH MANAGEMENT
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GLOBAL INDICATORS

WORLD REAL GDP GROWTH REVISED DOWN TO 3.3% IN 2019

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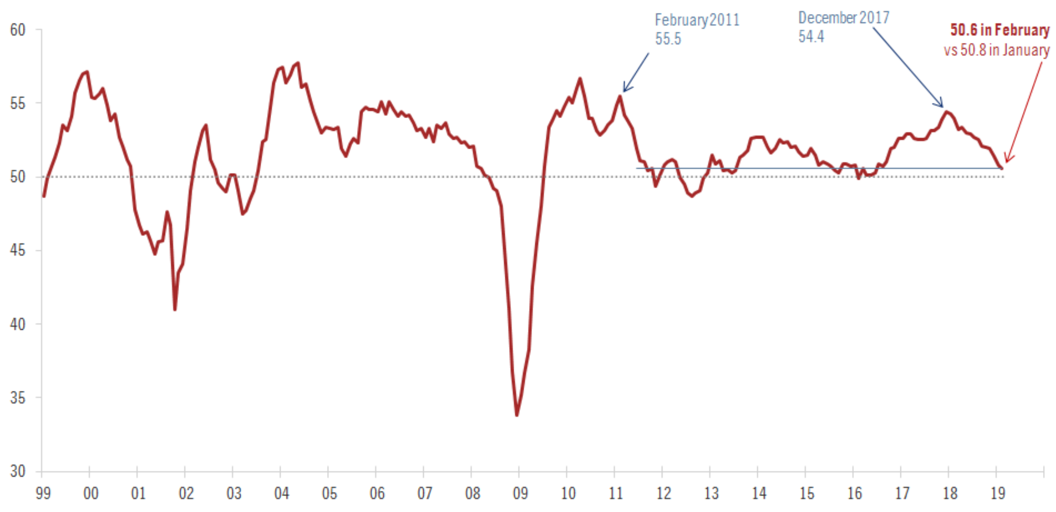
SUMMARY

- After recent downward revisions to our US and euro area GDP forecasts, the world real GDP growth forecast for 2019 has now been revised from 3.5% to 3.3%.
- Global manufacturing sentiment declined further in February. All regions deteriorated with the exception of emerging economies, where sentiment recorded a small rebound.
- Deterioration in sentiment is progressively translating into a marked downturn in hard data. International trade contracted for the second month in a row at the end of the year, caused by a collapse in Asian trade. It is difficult not to see this as a direct consequence of the US-China trade dispute.
- However, some rosy touches remain in this bleak picture. Our international trade leading indicator continues to point to slow but positive growth in the months ahead. Early releases of trade data of the leading exporting economies tend to confirm a rebound after the recent contraction.
- Moreover, global financial conditions have been relaxed after the contraction recorded at the end of last year. Their close relationship with the PMI and the world GDP suggests a rebound in sentiment in the following months and that a global recession could be avoided this year.
- All in all, it appears of paramount importance to see some progress in trade negotiations in order to spurn the risk of global recession.

World sentiment declined further in February

The world manufacturing purchasing manager index (PMI) declined from 50.8 in January to 50.6 in February. This is the tenth deterioration in a row. If we exclude the temporary rebound in April 2018, sentiment has declined steadily since December 2017.

WORLD: PURCHASING MANAGER INDEX - MANUFACTURING



Source: Pictet WM - AA&MR, Markit Economics, Thomson Reuters

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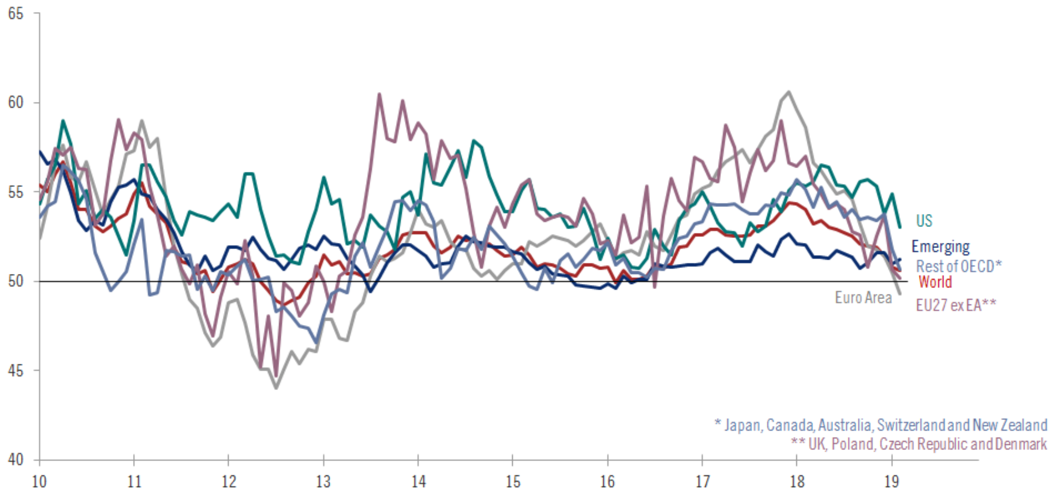
Global sentiment in manufacturing deteriorated everywhere, with the noticeable exception of emerging economies, where it bounced back from 51.0 in January to 51.2 in February.

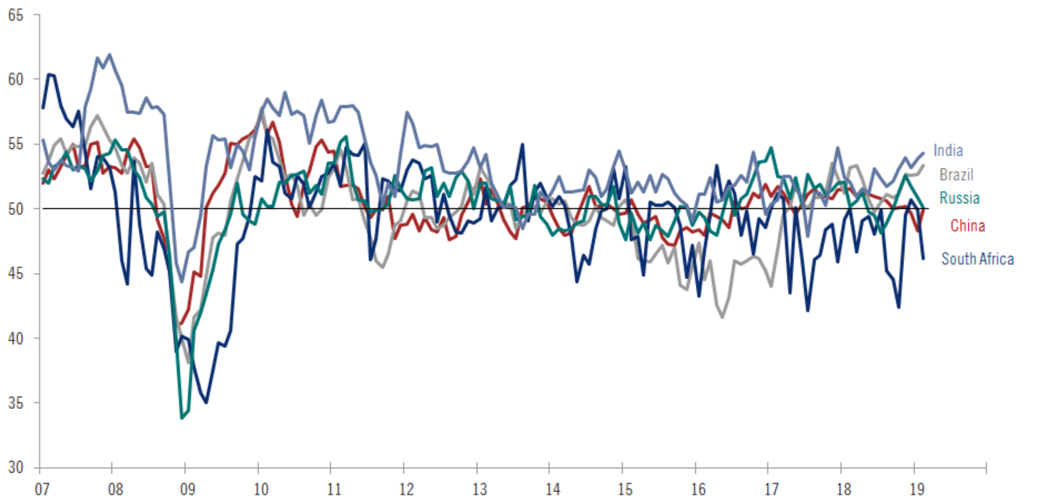
WORLD: PURCHASING MANAGER INDEX - MANUFACTURING



Source: Pictet WM - AA&MR, Markit Economics, Thomson Reuters

Among the biggest emerging economies, sentiment bounced in India, Brazil and China. After February's rebound, Chinese manufacturing sentiment ended at 49.9 – very close to the ridge between expansion and contraction territory.

BRICS: PURCHASING MANAGER INDEX - MANUFACTURING



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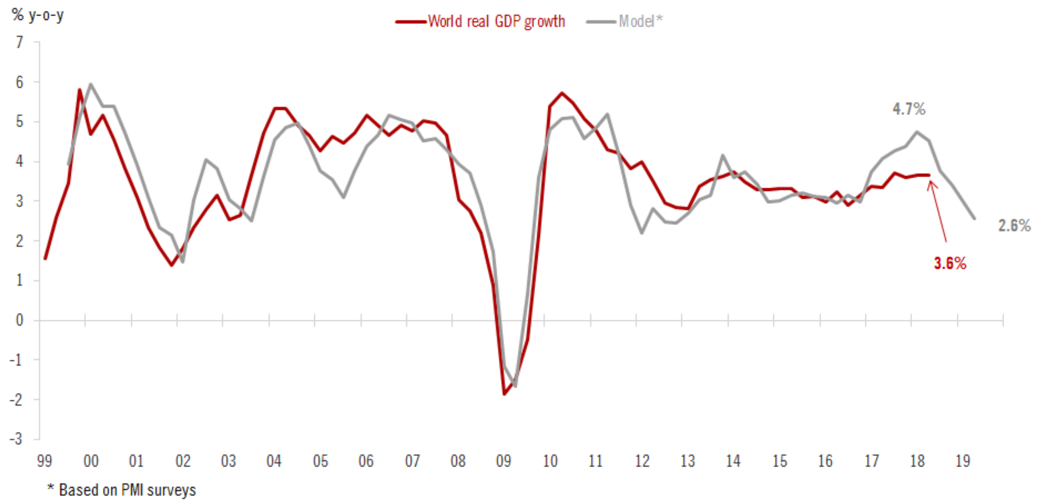
Steady PMI deterioration continues to weigh on our leading indicator. It suggests that world real GDP growth could slow to 2.6% year-on-year (y-o-y) in mid-2019, revealing a risk of global recession this year, given that world growth below 2.5% y-o-y is generally considered a global recession.

WORLD: REAL GDP GROWTH

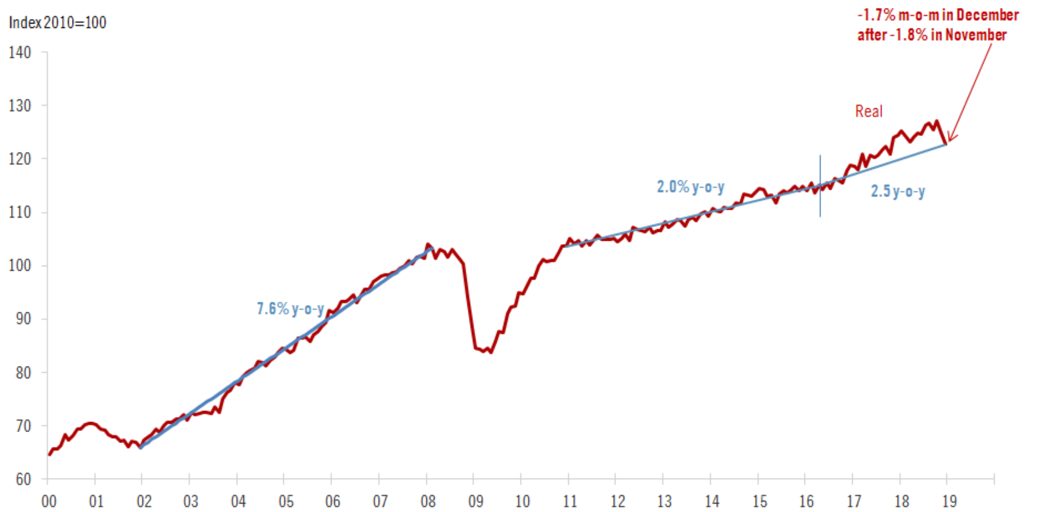


Source: Pictet WM - AA&MR, IMF, Markit Economics, Thomson Reuters

Marked contraction in international trade

Hard data were also gloomy. World trade contracted for the second month in a row last December (-1.7% month-on-month (m-o-m) after -1.8% m-o-m in November). The underlying trend has now fallen to 2.5% y-o-y (after having reached 5.5% in early 2018), very close to the pedestrian 2.0% trend recorded in the period just after the Global Financial Crisis.

WORLD TRADE: EXPORTS + IMPORTS (IN REAL TERMS)



Source: Pictet WM - AA&MR, CPB Netherlands Bureau for Economic Policy Analysis, Thomson Reuters

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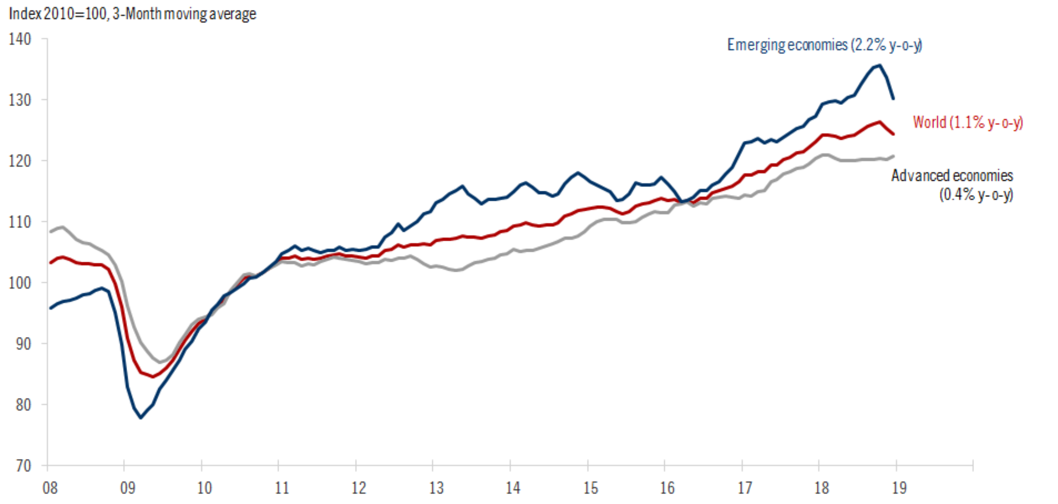
The culprit of the downturn in international trade was again emerging economies, in particular those in Asia, where trade deteriorated from 9.8% y-o-y (three-month moving average) to 2.3% in just two months.

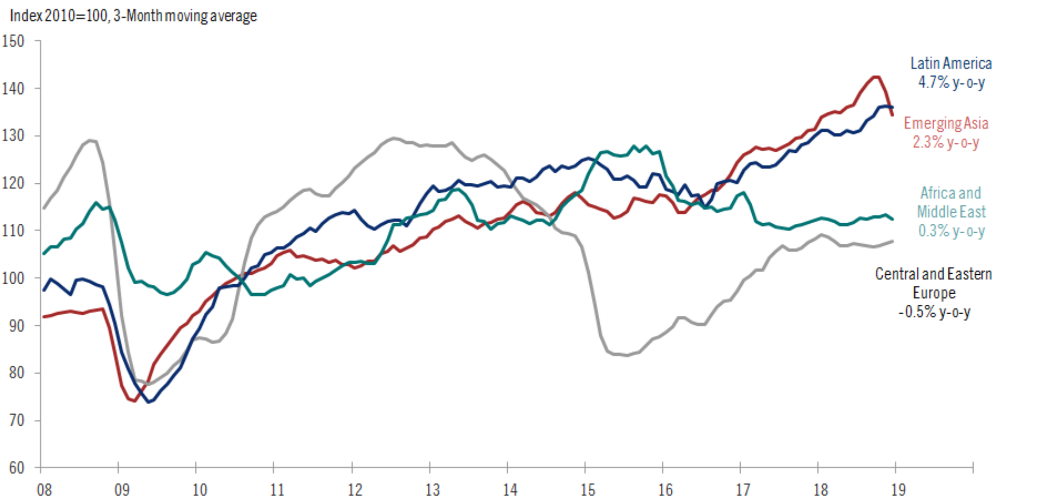
WORLD: IMPORTS (IN REAL TERMS)



Source: Pictet WM - AA&MR, CPB Netherlands Bureau for Economic Policy Analysis, Thomson Reuters

It is difficult not to see this as a direct consequence of the US-China trade dispute. Therefore, progress in the negotiations remain key for the fate of the world economy in 2019.

WORLD: IMPORTS (IN REAL TERMS)



Source: Pictet WM - AA&MR, CPB Netherlands Bureau for Economic Policy Analysis, Thomson Reuters

However, a ray of hope remains, as our leading indicator for international trade continues to point to a marked slowdown but not a contraction. Accordingly, the recent contraction in trade should prove to be only temporary.

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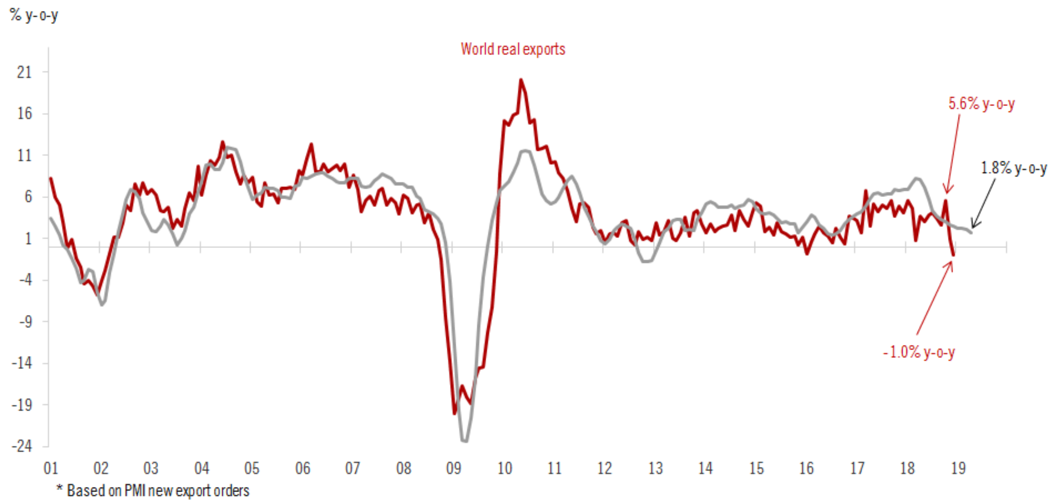
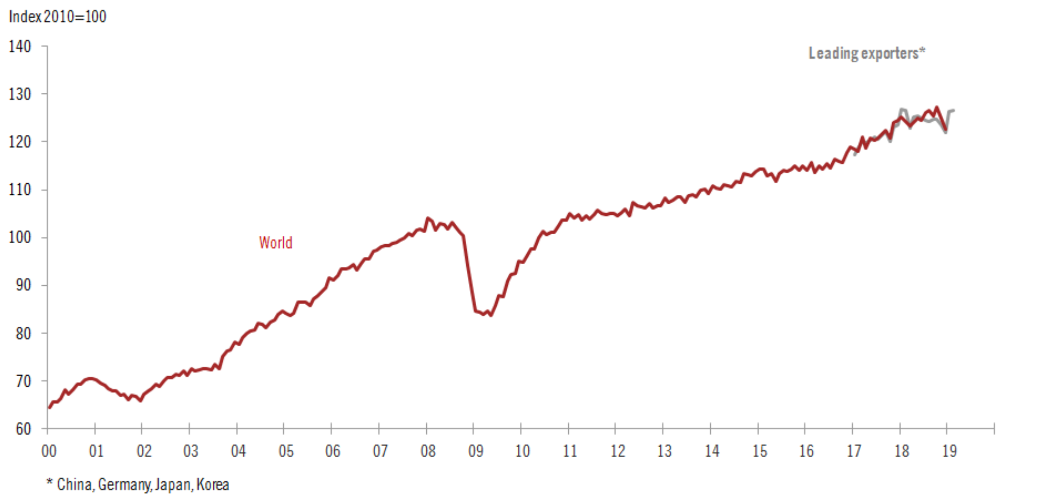
WORLD: INTERNATIONAL TRADE



Source: Pictet WM - AA&MR, CPB Netherlands Bureau for Economic Policy Analysis, Markit Economics, Thomson Reuters

Moreover, early releases of trade data of some of the leading exporting economies suggest that world trade could bounce back in the months ahead, after its recent weakness.

WORLD TRADE: EXPORTS + IMPORTS (IN REAL TERMS)



Source: Pictet WM - AA&MR, CPB Netherlands Bureau for Economic Policy Analysis, Thomson Reuters

Relaxed financial conditions should support economic activity

Tighter financial conditions at the end of last year have been followed by a rapid relaxation in 2019. This development follows the recent change in stance by both the

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Federal Reserve and European Central Bank. This is a good omen, as it could support sentiment and ultimately activity in the months ahead.

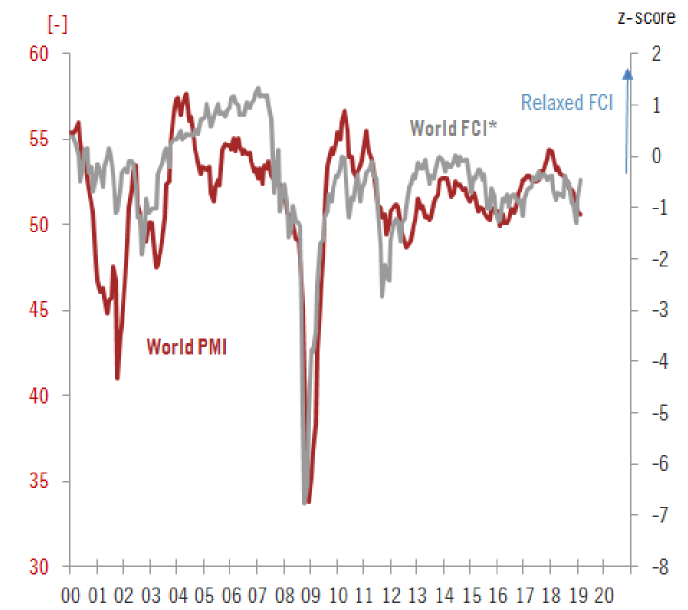
WORLD: FINANCIAL CONDITIONS INDEX

* Based on US, euro area, Japan, UK, China (from 2006) Bloomberg's Financial Conditions Indexes, encompassing 52% of world economy

Source: PWM - AA&MR, Bloomberg

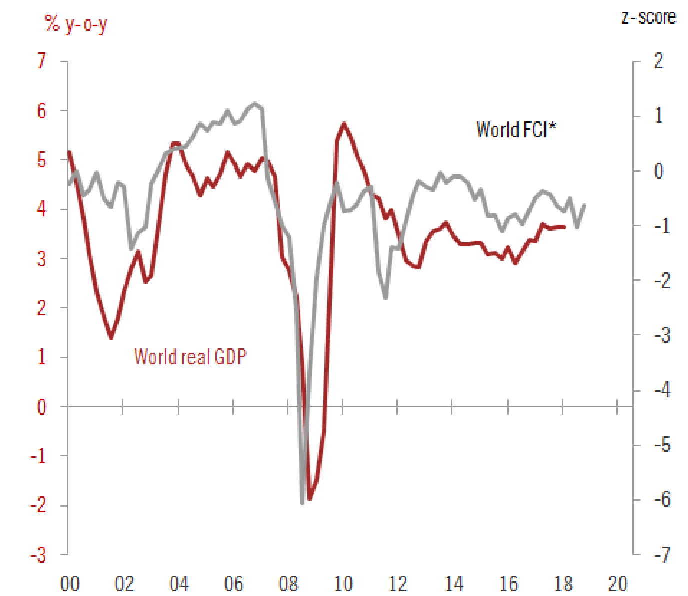
The close relationship between the global financial conditions index (FCI) and PMI, tends to support the idea that global manufacturing could bounce after the protracted period of weakness.

WORLD FCI AND PMI



* Based on US, euro area, Japan, UK, China (from 2006) Bloomberg's Financial Conditions Indexes, encompassing 52% of world economy

WORLD FCI AND REAL GDP GROWTH



* Based on US, euro area, Japan, UK, China (from 2006) Bloomberg's Financial Conditions Indexes, encompassing 52% of world economy

Source: PWM - AA&MR, Bloomberg, Markit Economics, IMF

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Moreover, it also suggests that world real GDP growth could move sideways in the quarters ahead, meaning a global recession would be avoided this year.

World real GDP growth forecast revised down

Seeing indicators move in opposing direction is typical of these periods of transition. Some are pointing towards recession, while others appear less severe. Therefore, the fate of the world economy in 2019 seems to be suspended by at least a few threads. That the US-China dispute has taken a heavy toll appears obvious, not only in terms of sentiment, but now also in hard data. The world economy is clearly in a self-fulfilling prophecy regime, where sentiment deterioration leads to adverse outcomes. At this point, it is of paramount importance to see progress in trade negotiations in order to avoid a further global slowdown that flirts with a global recession.

In the meantime, as our US and euro area GDP forecasts have been recently revised down, the world GDP forecast for 2019 has been revised from 3.5% to 3.3% - compared to 3.5% for the IMF and 3.3% for the OECD.

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