

Global: Will trade wars end the economic cycle?

Heading for a prolonged dispute

Neither US nor China is willing to back down



- On its own, the trade war should not derail the economic cycle, and would need to escalate beyond US and China to have significant effect on global growth
- However, combined with impact of tighter monetary policy and fading fiscal stimulus, trade wars may weigh on growth in 2019 and end US expansion in 2020
- If the US dollar weakens, this may offset the negative impact on emerging market equities

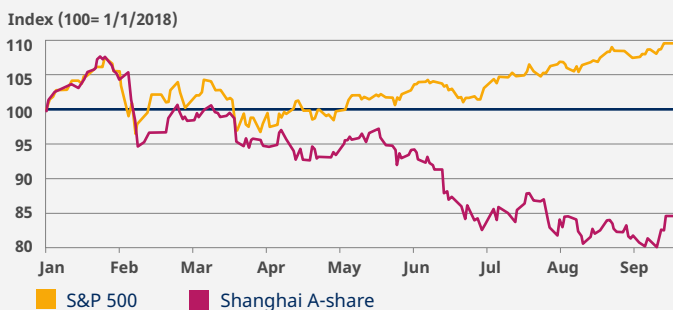
Winner?

If all trade between the two nations becomes subject to tariffs, **US is likely to win**

(%) GDP affected if tariff imposed on all goods:



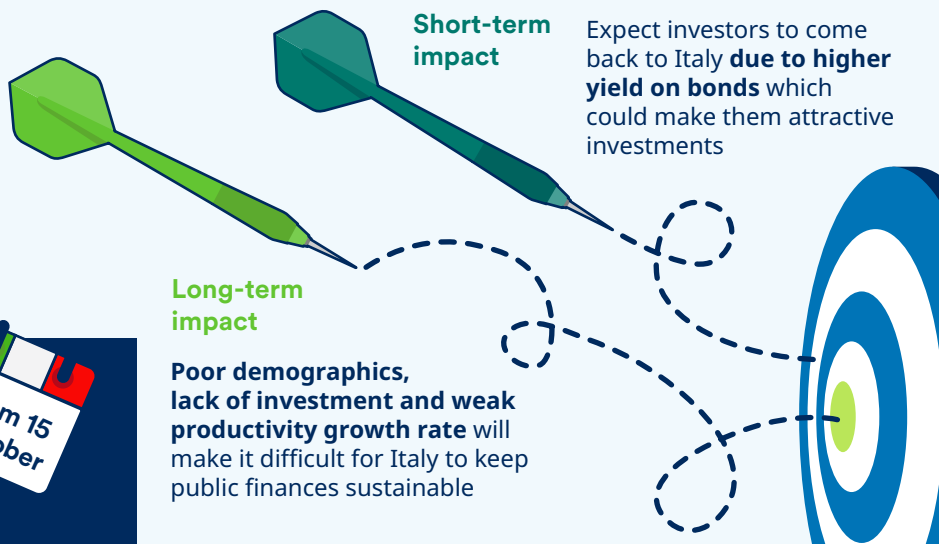
Stock markets also suggest that the US is winning the trade war



Source: Thomson Reuters Datastream, Schroders Economics Group, 24 September 2018

Italy: Highly indebted government remains a concern for investors

2019 budget deficit target unveiled on 27 September



European Commission (EC) to assess budget

EC likely to instruct Italy to lower target, but has little power to force them to comply



2% inflation target

Japan: Hidden slack in unemployment may keep lid on wages

Bank of Japan (BoJ) policy slightly tightened

- Strong wage data and low unemployment rate suggests tight labour market
- However, hidden slack in female participation rate along with entrenched cultural factors should keep the lid on wage growth in long run

BoJ more concerned about side-effects of ultra loose monetary policy and may gradually withdraw monetary stimulus despite failure in progress towards 2% inflation target

Unemployment at a 25-year low, at 2.5%

Source: Schroders as at October 2018

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