



Economic Outlook: A get out of jail free card for 2016

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Chance

Your Central Bank has stimulated growth and the money multiplier, collect 0.5% of GDP



\$500

U.S. Consumer

PLAYERS



SEC
REVIEW

\$500

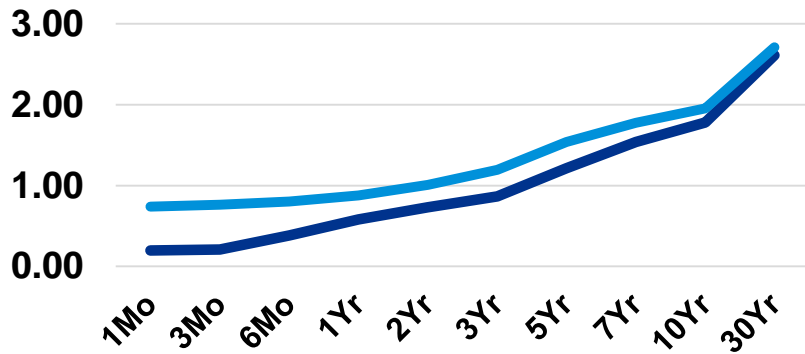
Healthcare



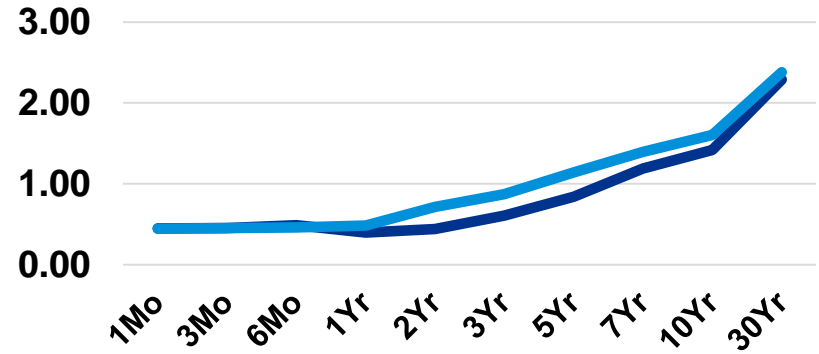
Negative Rates

#Rateslowforlongtime

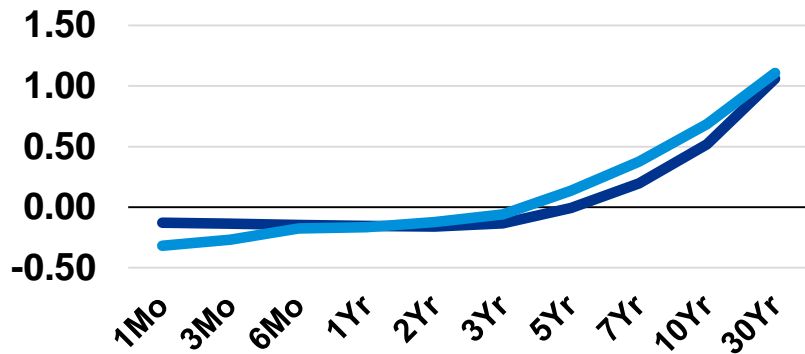
U.S. Curve



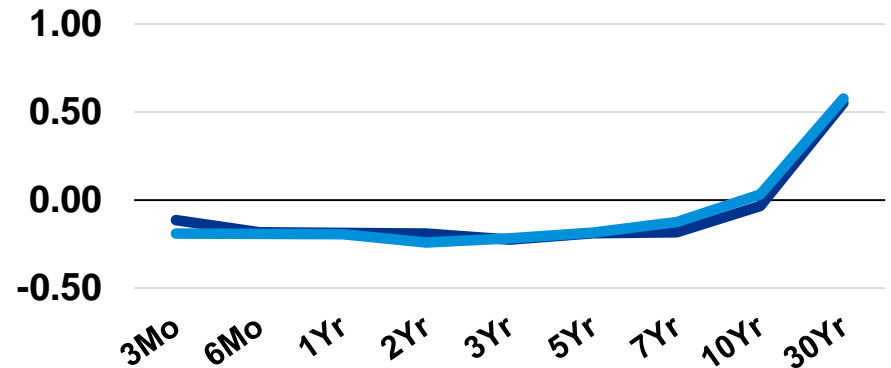
UK Curve



EU Curve



JPY Curve



— Today — 1YR

Source: Bloomberg



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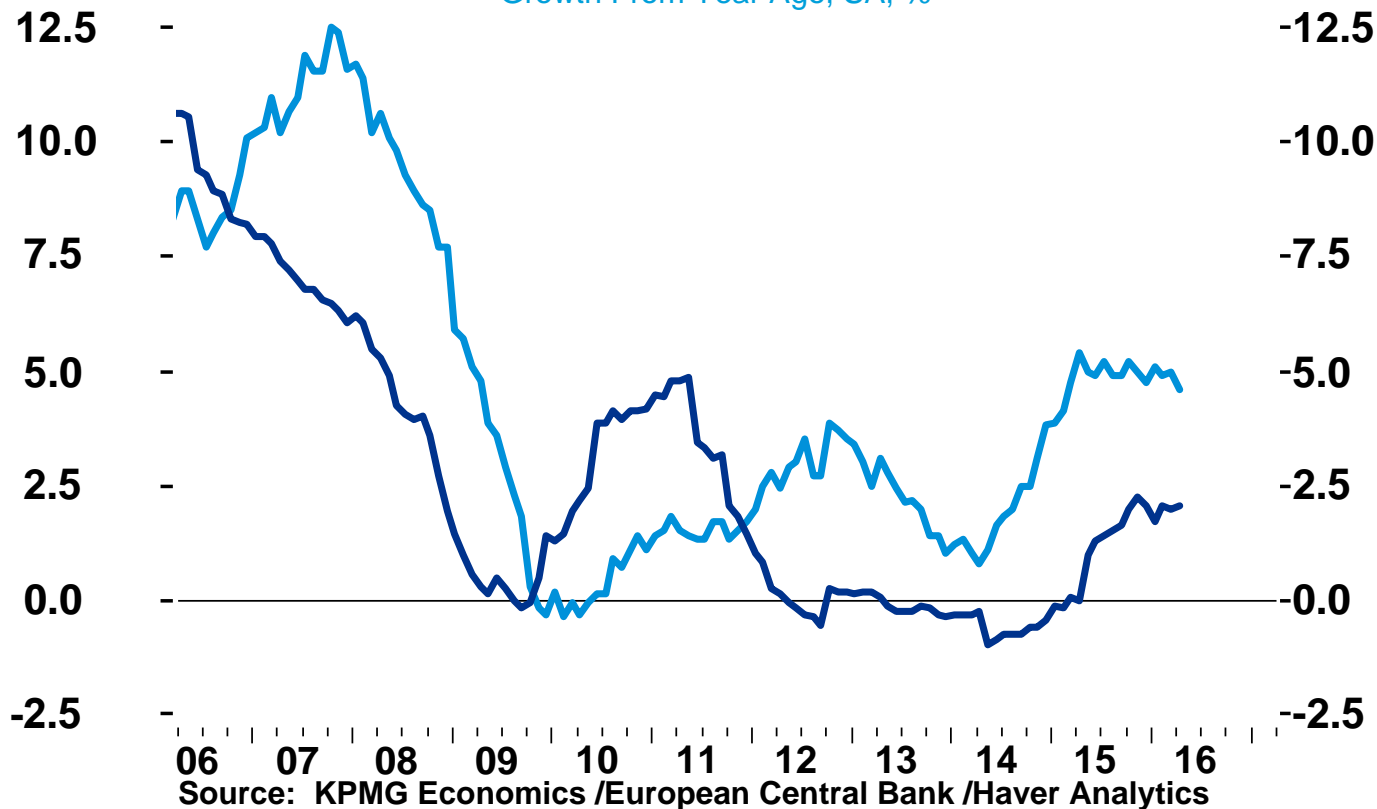
EU credit expanded in response to negative rates

European Union: Loans to Households

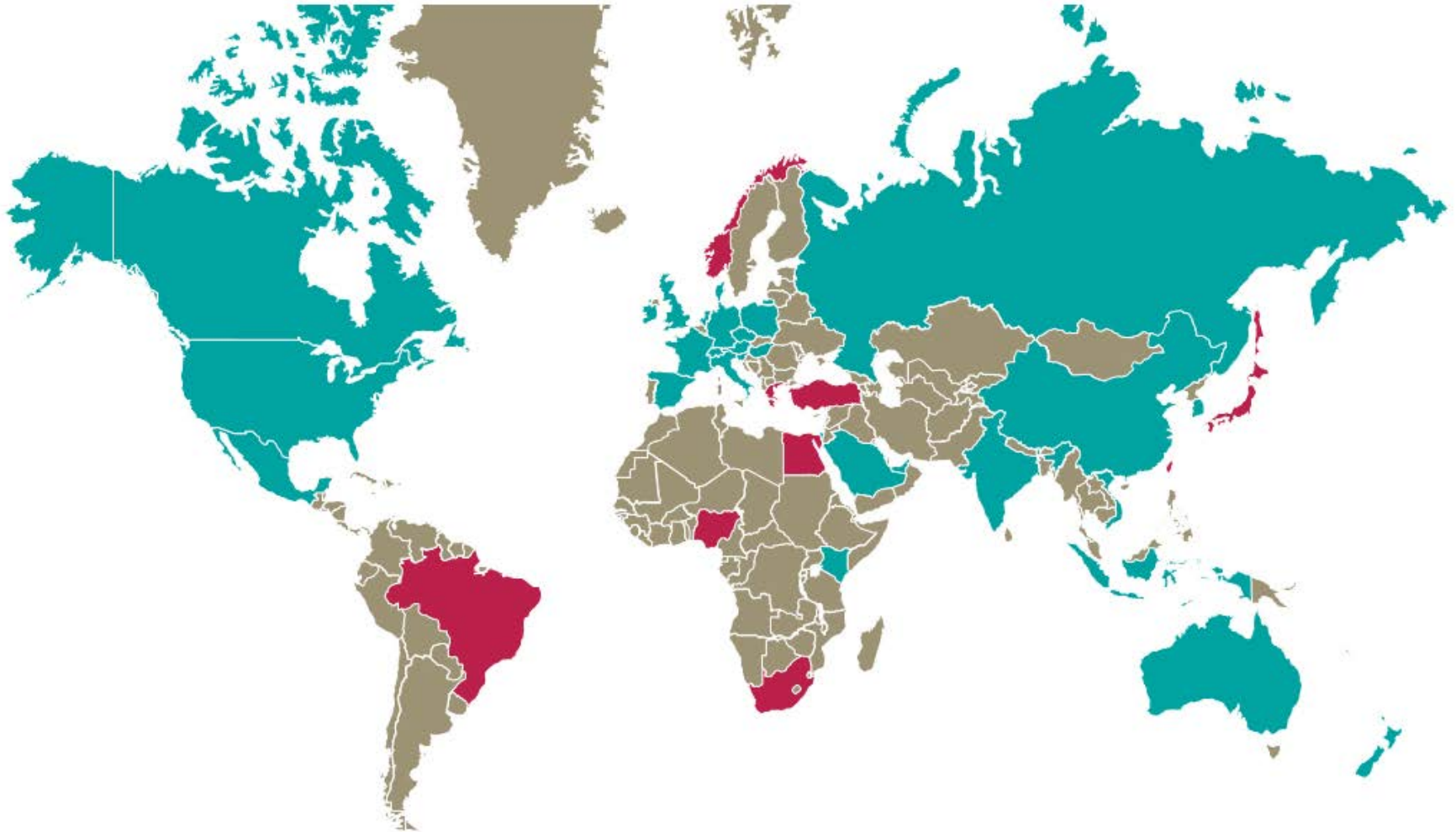
% Change - Year to Year SA, Bil.Euros

European Union: Money Supply

Growth From Year Ago, SA, %



The global economy is seeing some recovery

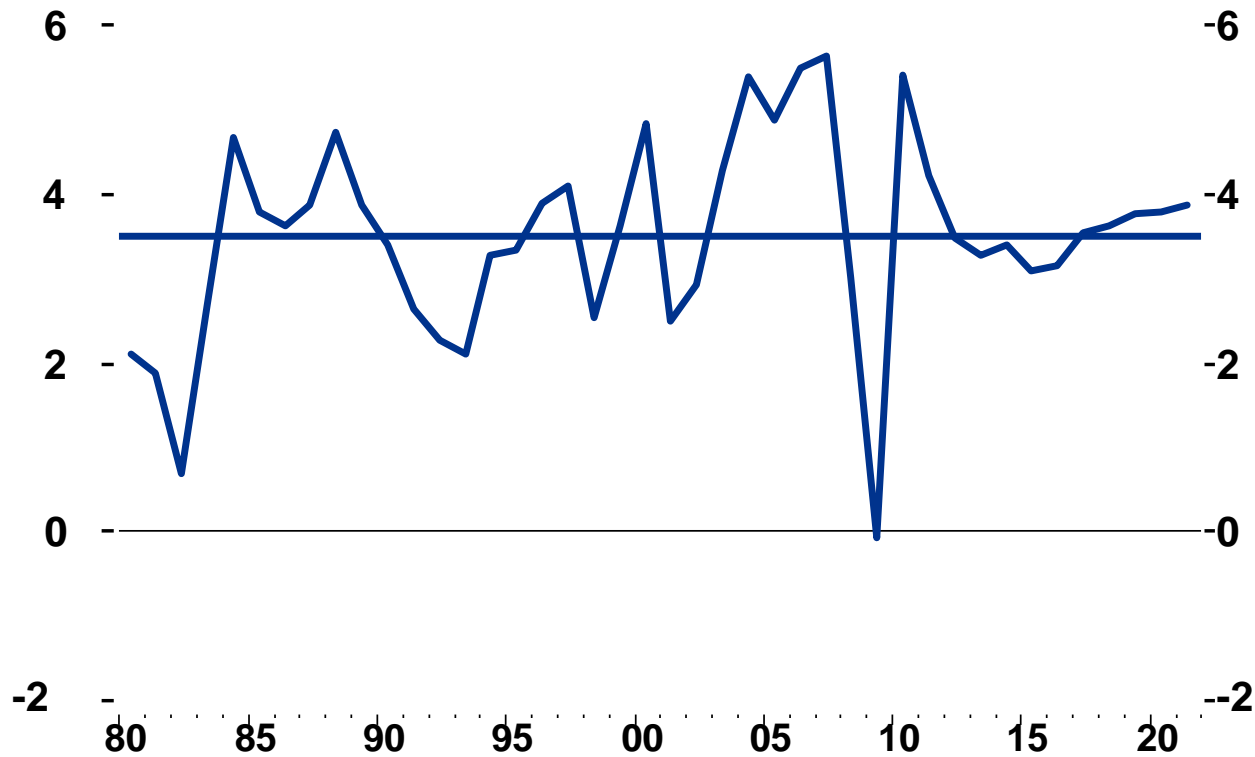


Source: KPMG Economics, Haver Analytics, Markit Economics; Countries in Green have PMI Data above 50 and Countries in Red have PMI Data below 50; Combined PMI (Services + Manufacturing) for all countries with available data.

Manufacturing data only: Australia, Canada, Czech Republic, Denmark, Austria, Greece, Netherlands, Hungary, Indonesia, Israel, Korea, Malaysia, New Zealand, Poland, Switzerland, Taiwan, Turkey, Vietnam

IMF GDP forecasts near long term average

World: Gross Domestic Product, Constant Prices
Ann % Chng



Source: KPMG Economics /International Monetary Fund /Haver Analytics

Unintended consequences?

- **Erosion of Bank Profitability**
- **Pressures on Non-Bank Financial Institutions**
- **Anomalies in the Valuation of Returns and Payment Streams**
- **Effects on Money Market Funds**
- **Excessive Risk Taking**
- **Increased Savings (reduce consumption)**

Erosion of Bank Profitability

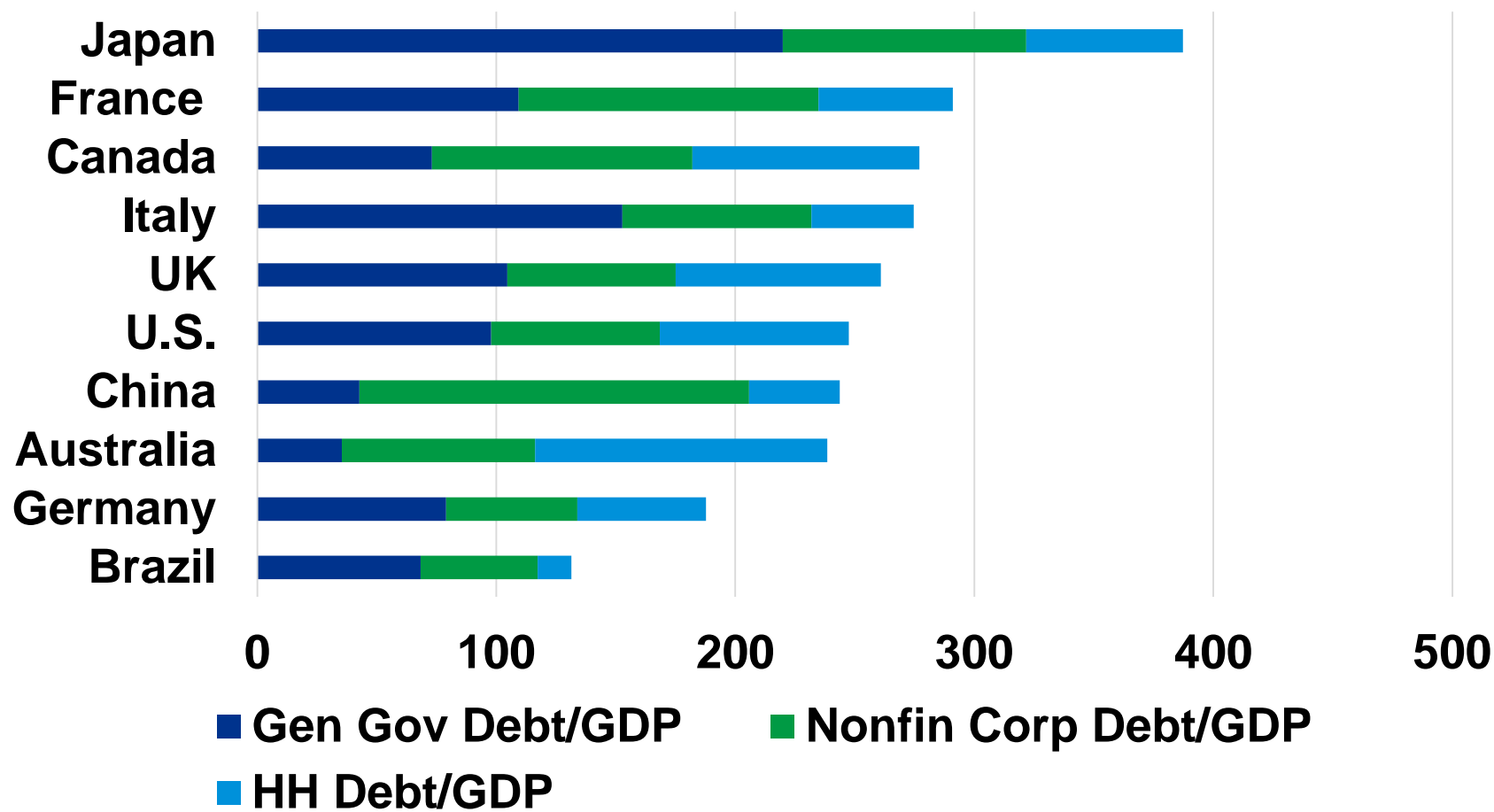
- **Lower Net Interest Margins for those banks that leave excess deposits at the central bank**
- **Reduced profit on standard maturity transformation of funding short-term and lending longer term**
- **Potential Eventual losses on government bond positions**

Pressures on Non-Bank Financial Institutions

- **Inability of Insurance companies to meet obligations**
- **Inability of pensions to meet obligations**
- **Volatility in riskier assets**

Debt increased significantly with low interest rates

Breakdown of Total Debt/GDP



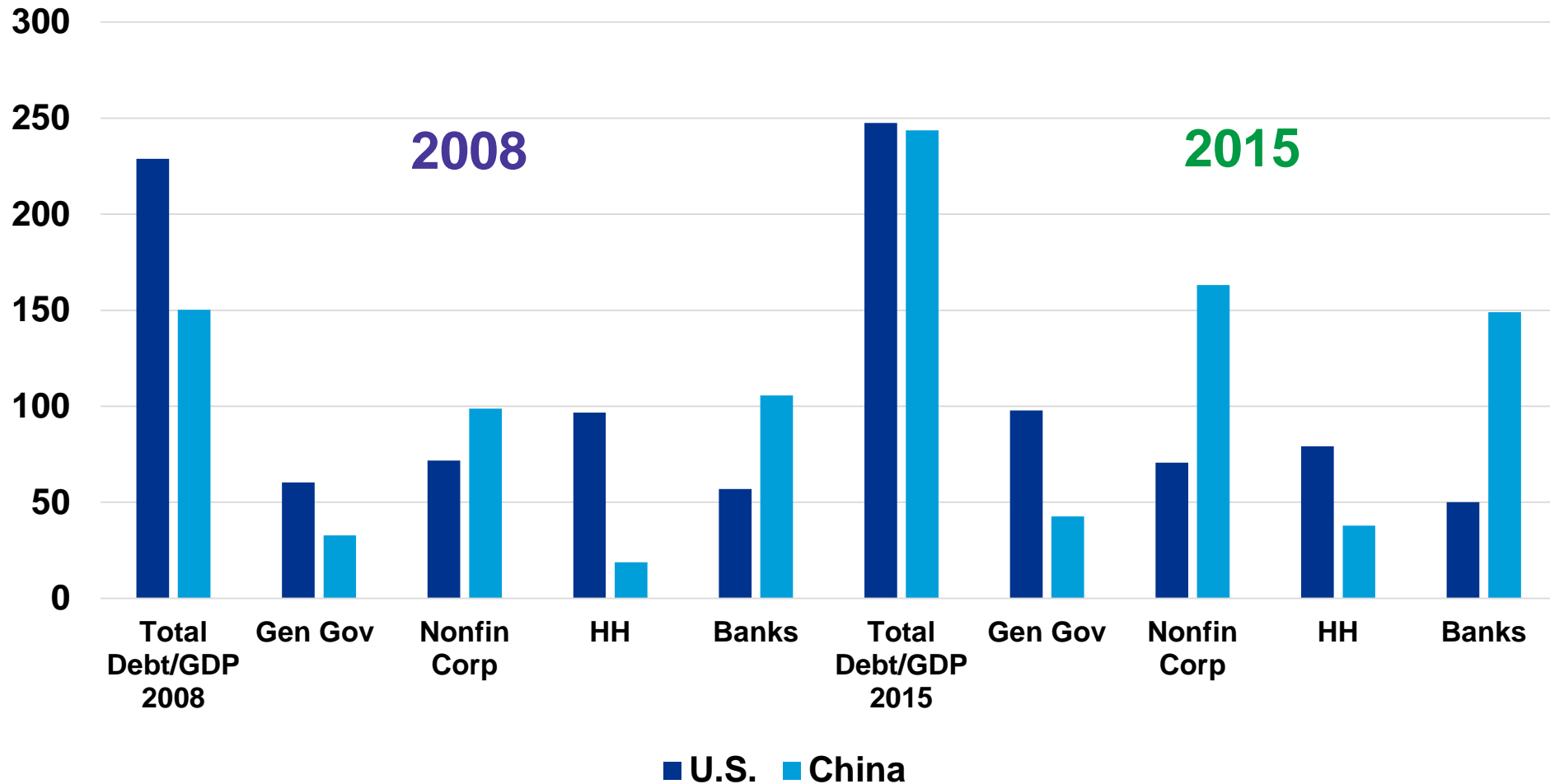
Source: KPMG Economics, BIS



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China Debt

U.S. & China Debt Breakdown 2008 vs 2015



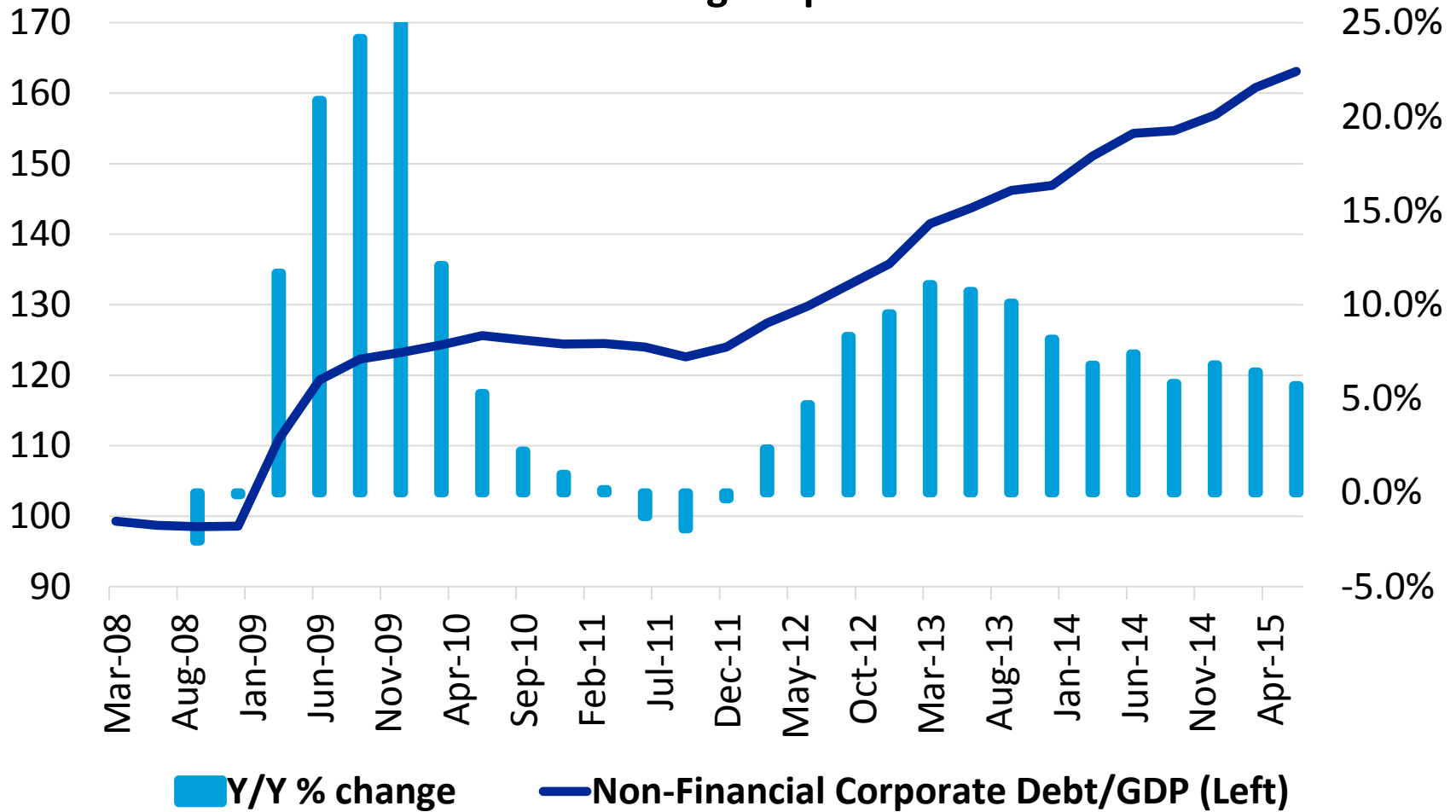
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#ChinaMeetsGravity

China's Growing Corporate Debt



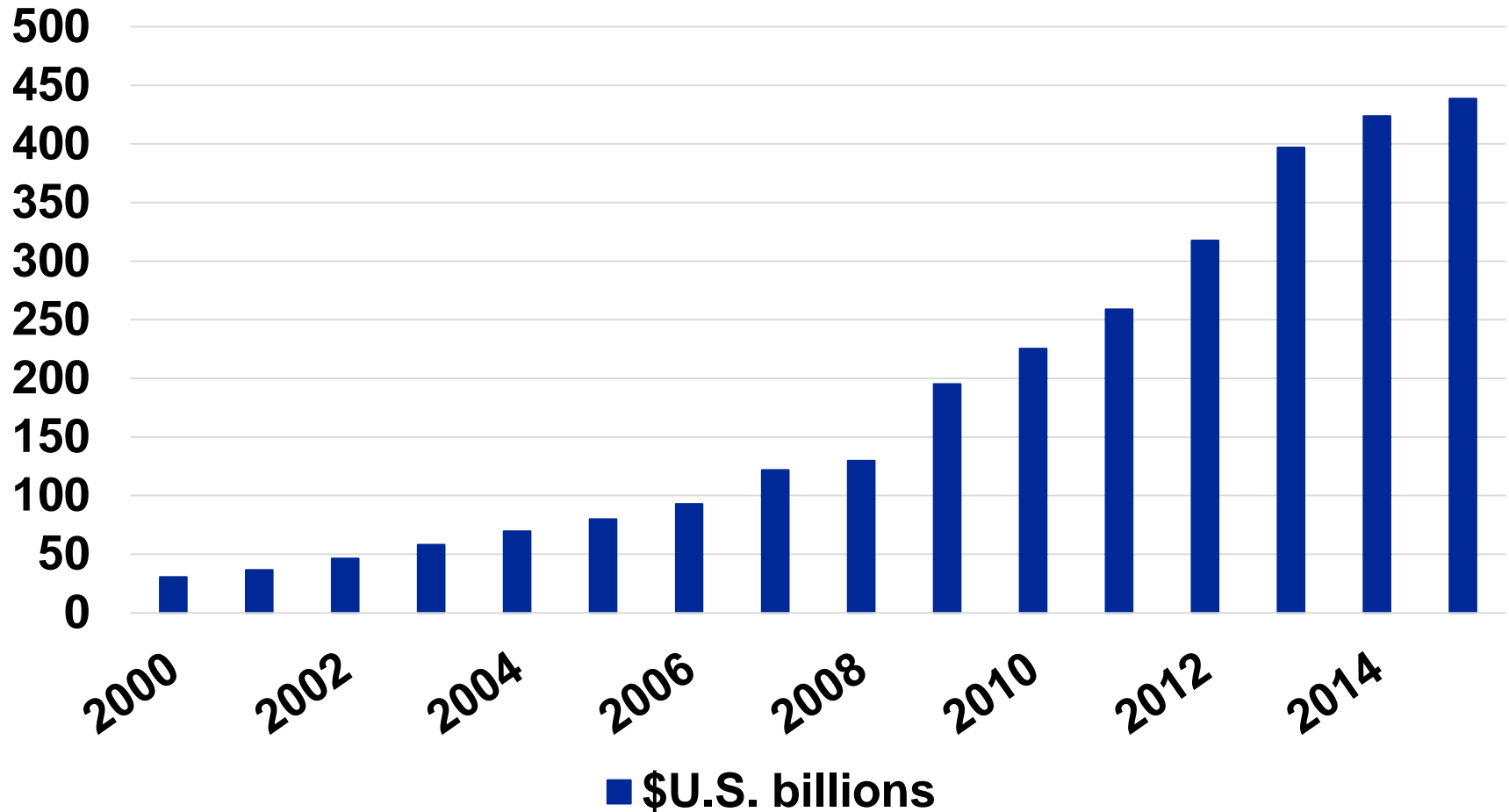
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Leverage amongst oil companies ran amok

Annual Debt Issuance



Source: KPMG Economics, BIS



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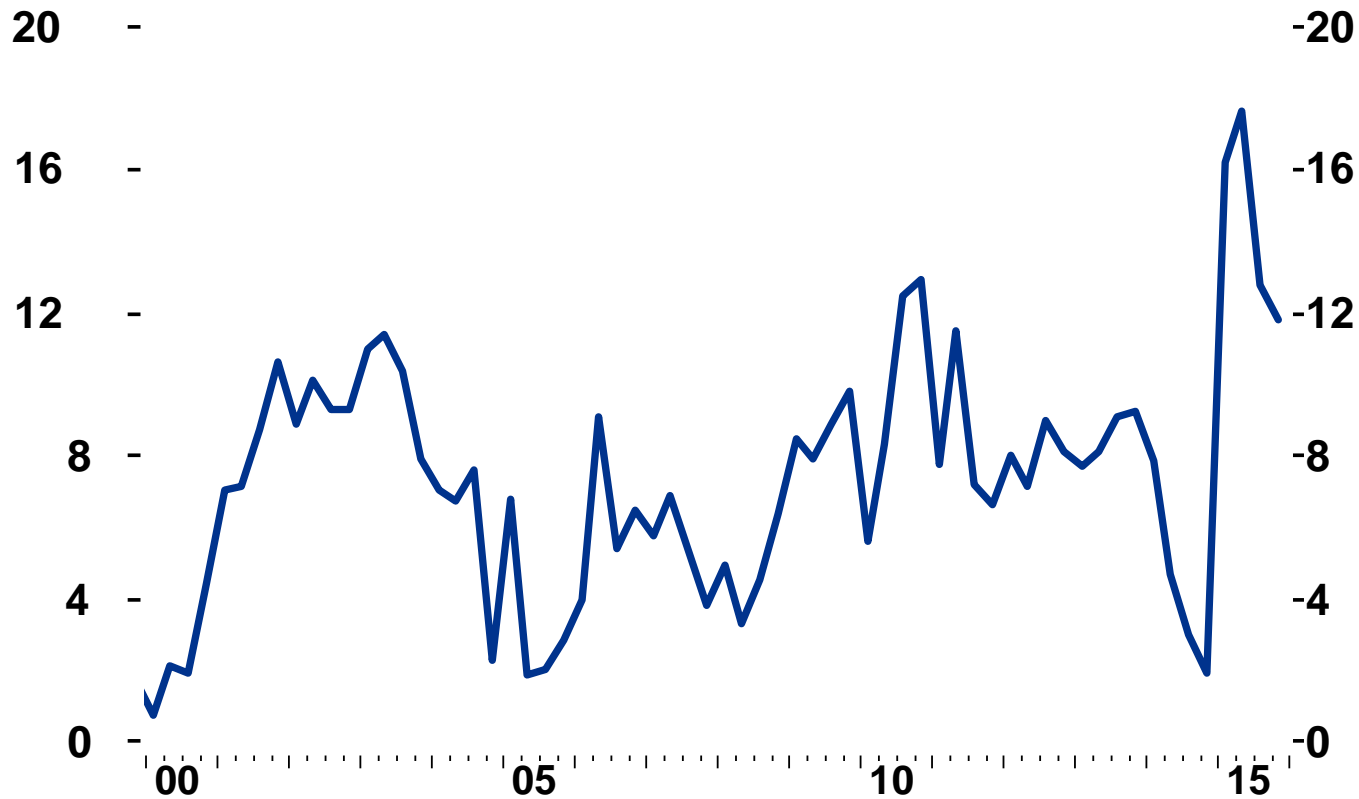
Increased savings?

“People need to invest more today to achieve their desired annual retirement income in the future. For example, a 35-year-old looking to generate \$48,000 per year in retirement income beginning at age 65 would need to invest \$178,000 today in a 5% interest rate environment. In a 2% interest rate environment, however, that individual would need to invest \$563,000 (or 3.2 times as much) to achieve the same outcome in retirement.”

Larry Fink, Blackrock

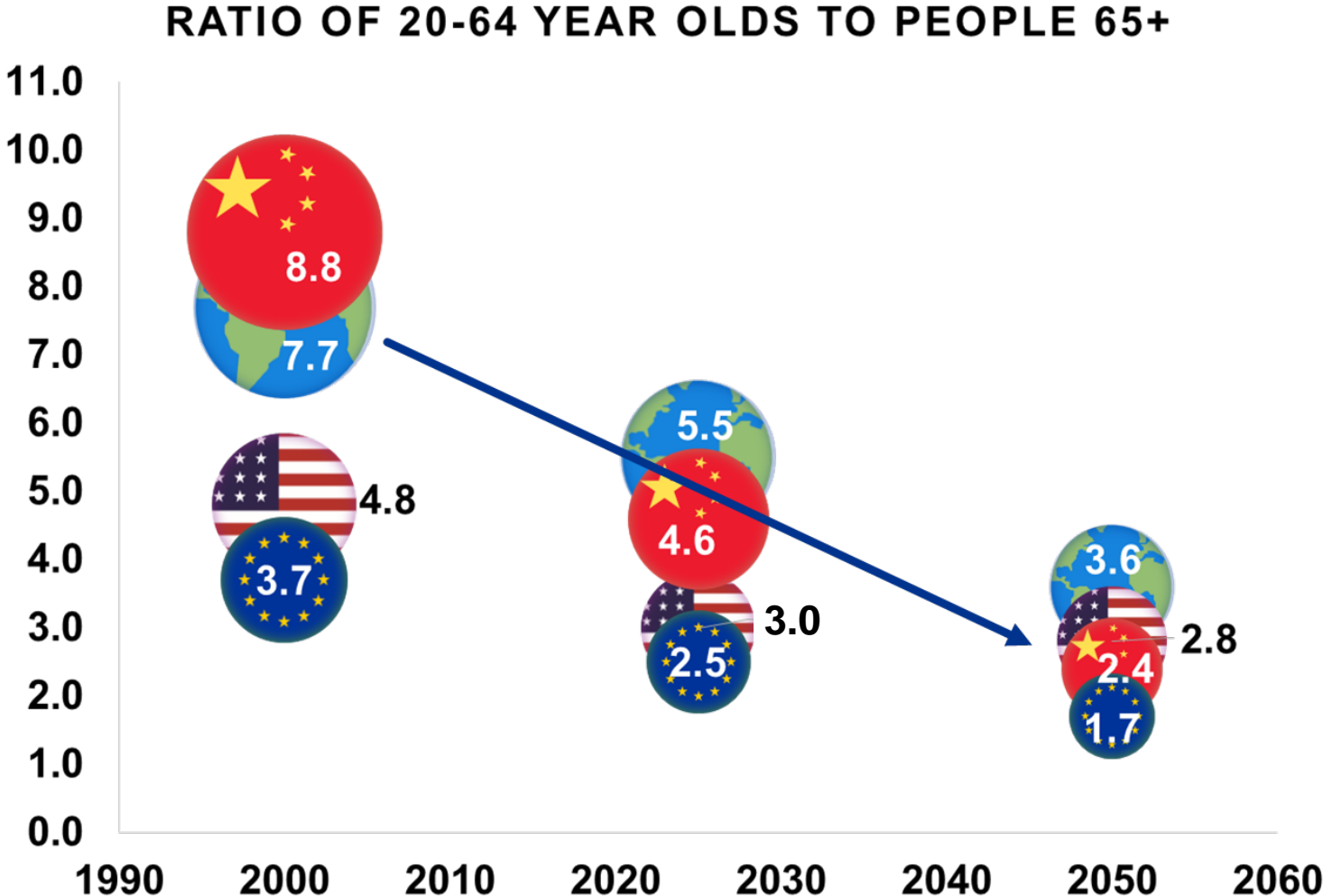
Savings rates naturally fluctuate

Denmark: Gross Savings Rate
SA, %



Source: KPMG Economics /Danmarks Statistik/Haver Analytics

Globally there will be fewer workers to retirees



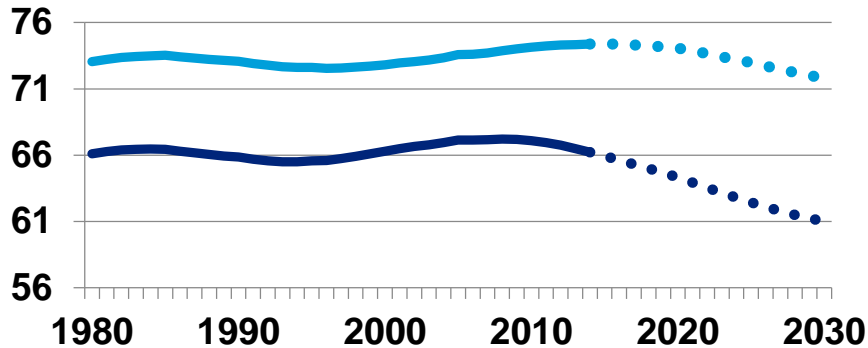
Source: KPMG Economics, Haver Analytics, UN Population Statistics



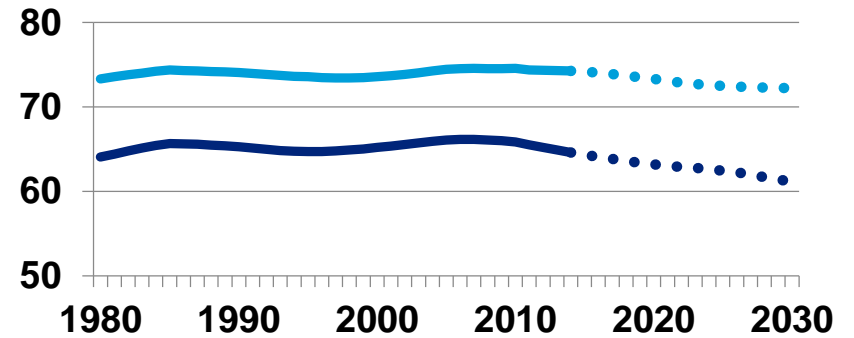
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Raising the retirement age to 74 helps

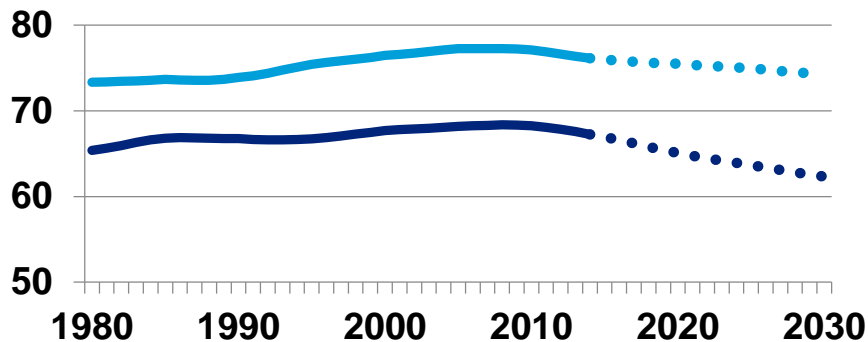
U.S. Working Age Population
(15-74) & (15-64)



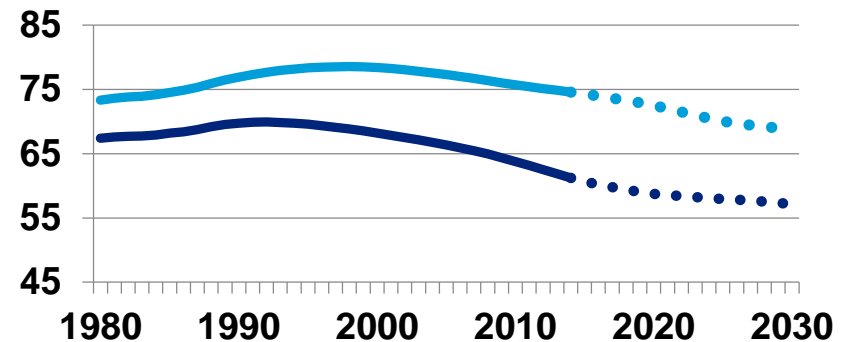
UK Working Age Population
(15-74) & (15-64)



Europe Working Age Population
(15-74) & (15-64)



Japan Working Age Population
(15-74) & (15-64)



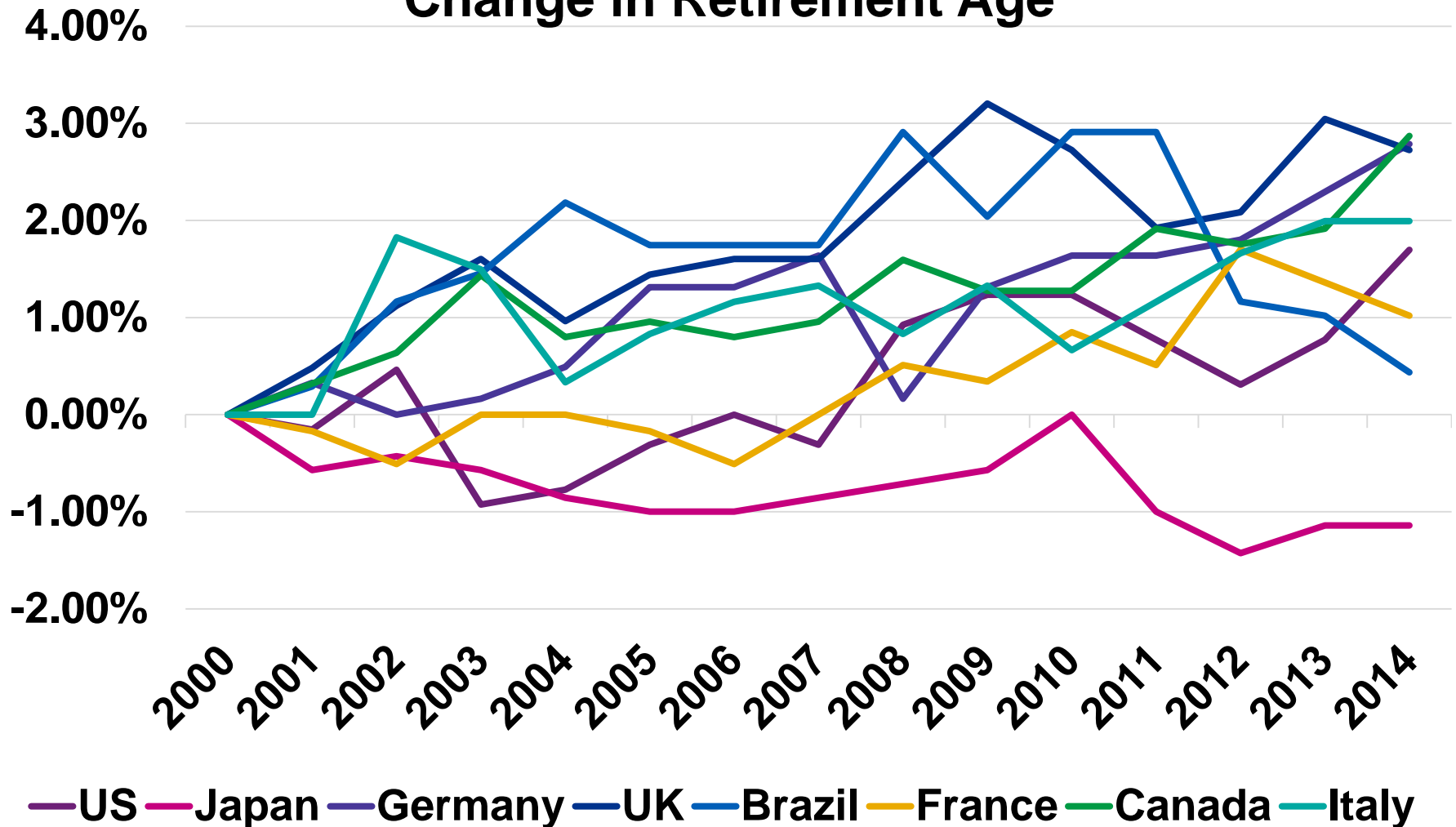
Source: KPMG Economics, Haver analytics, UN Population Statistics



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Retirement age stagnant despite demographics

Change in Retirement Age



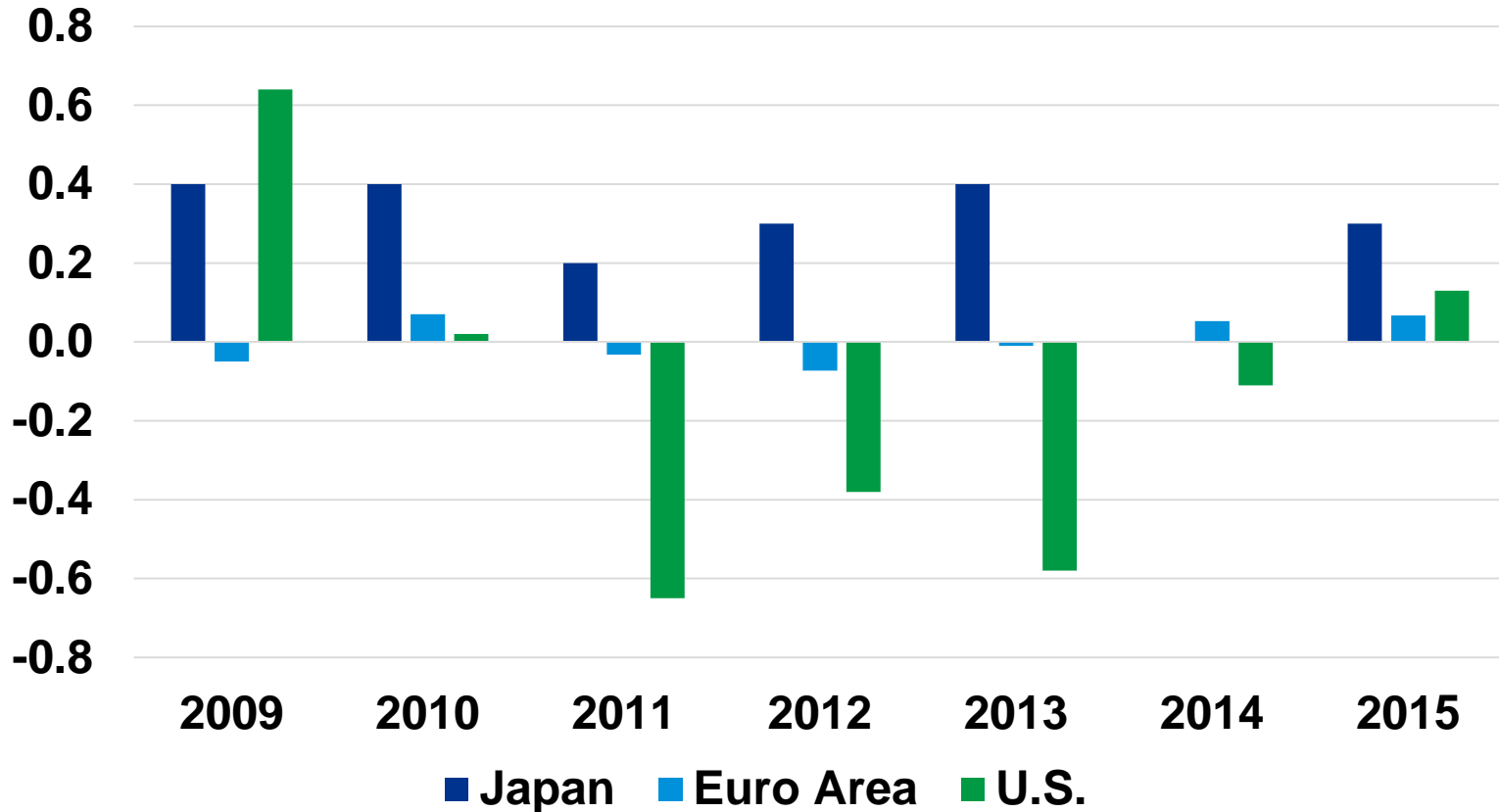
Source: KPMG Economics, UN Population Statistics



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Fiscal Contribution to growth in Japan, EU and U.S.

Fiscal Contributions to GDP (percentage points)

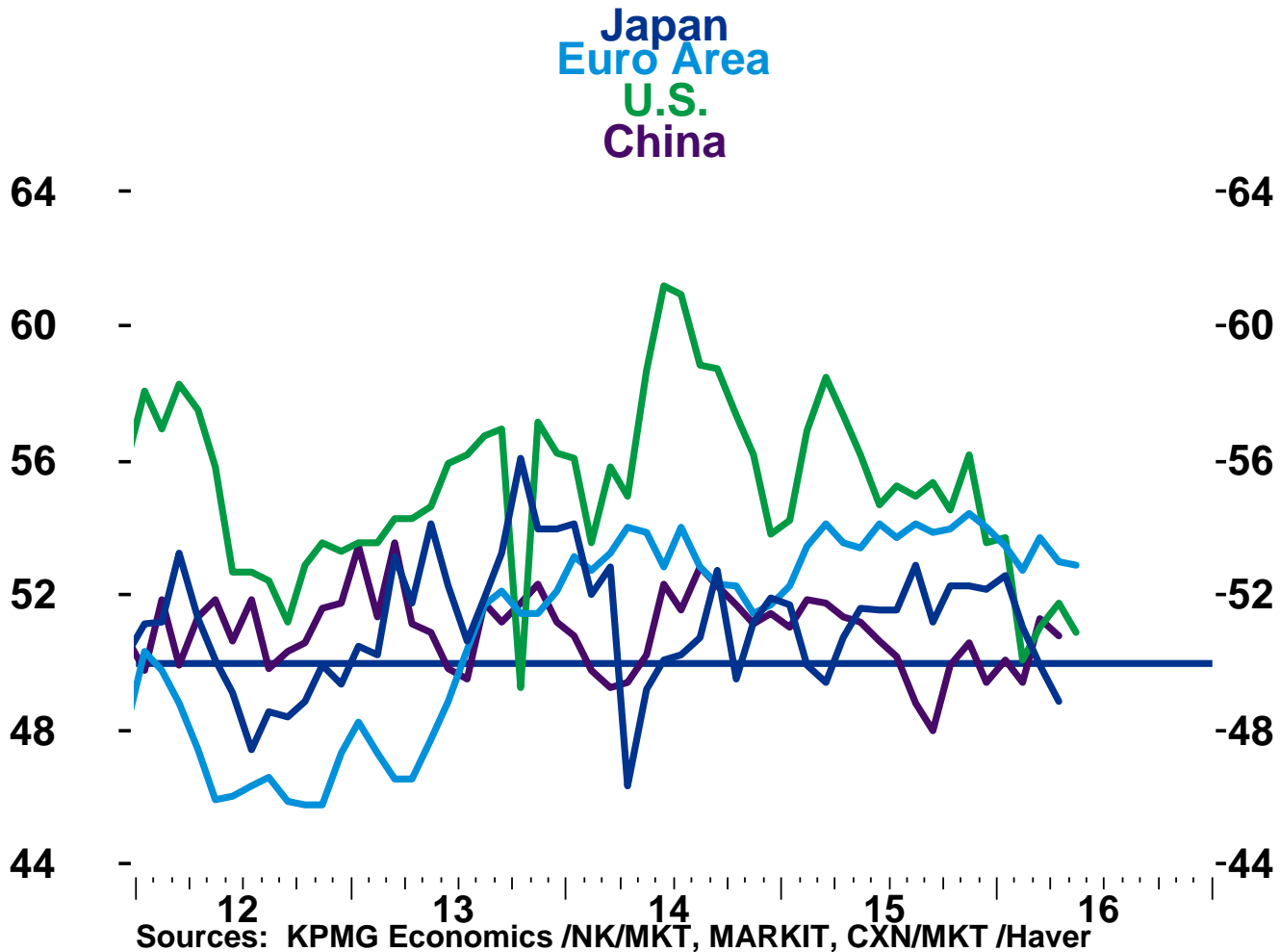


Source: KPMG Economics, Haver Analytics, CAO, Eurostat, BEA

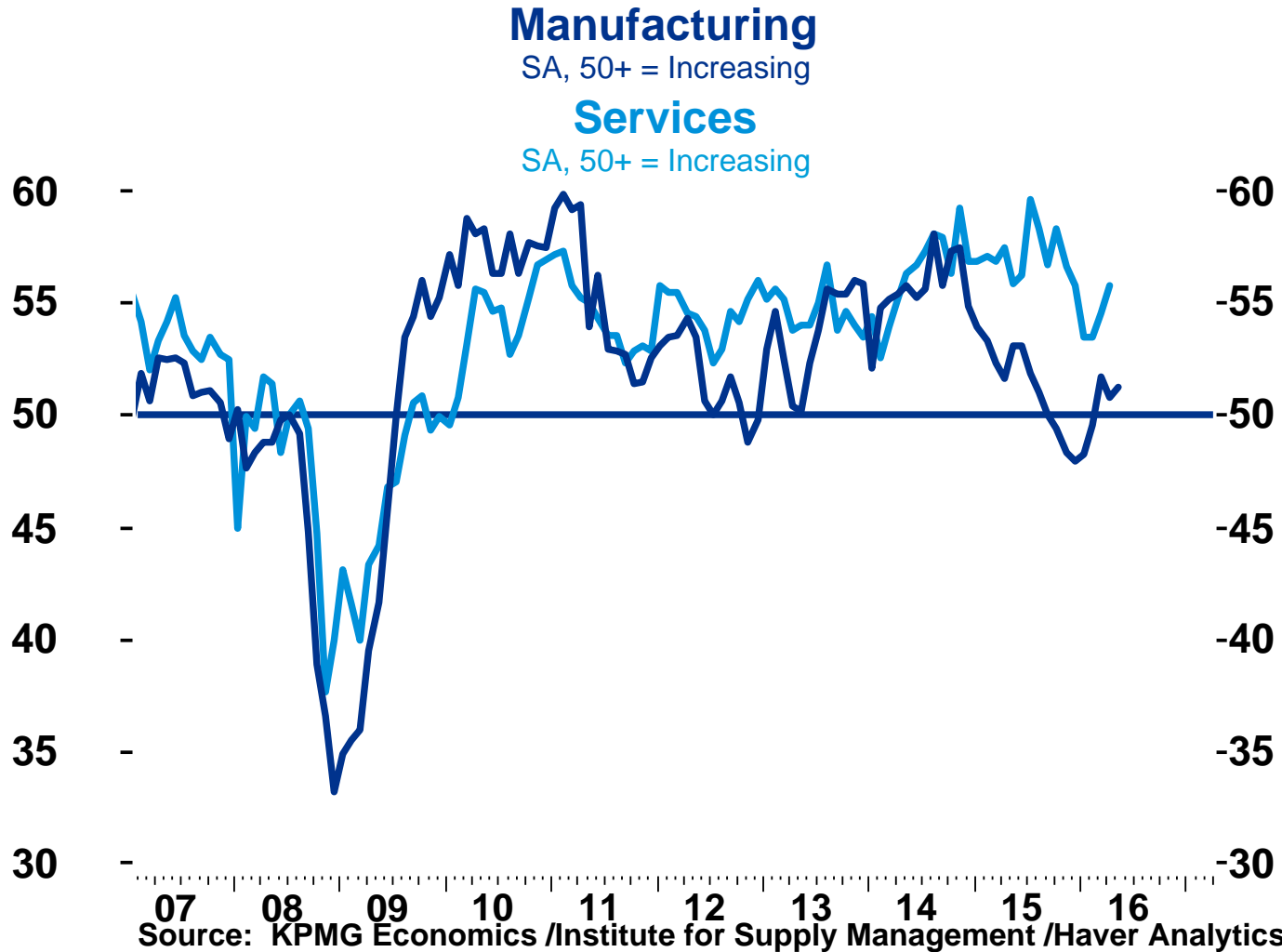


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Japan is the weakest of the large economies

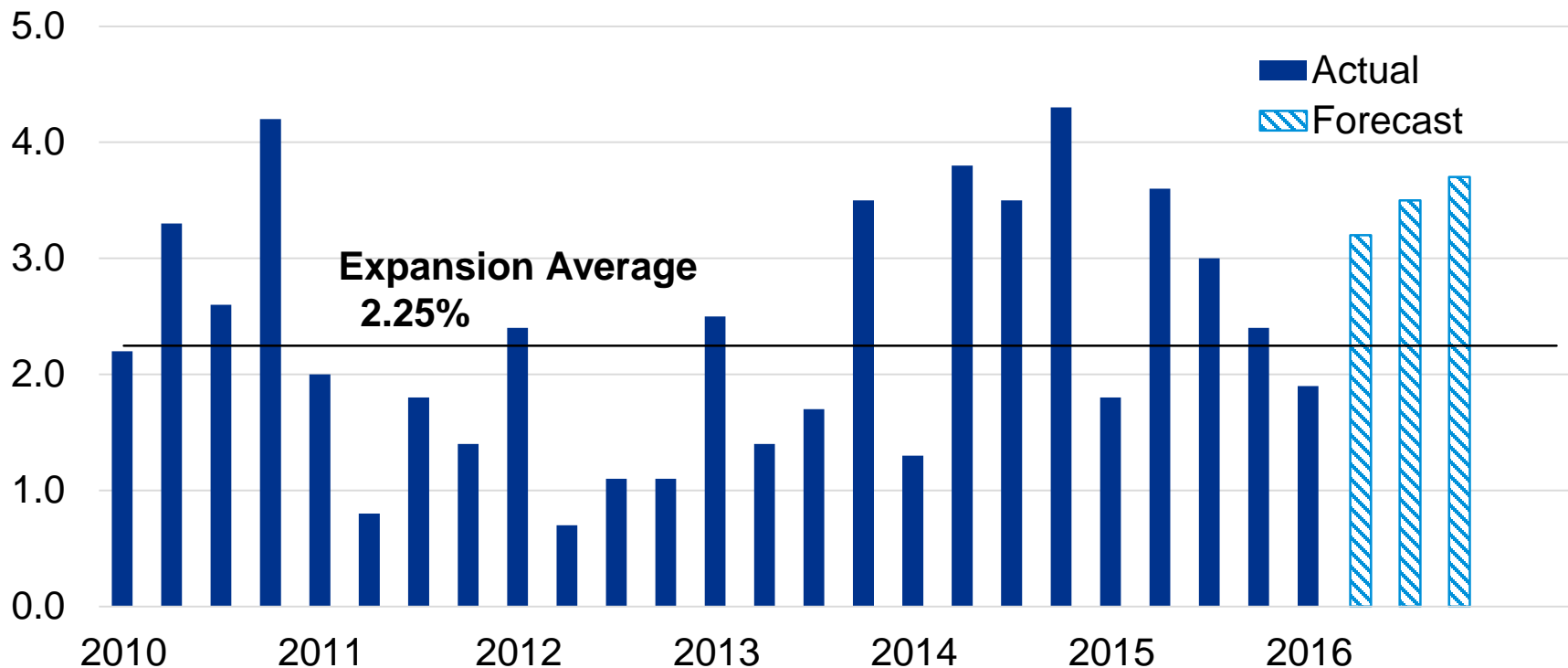


Services still driving growth



Consumers are still the engine of U.S. growth

Real consumer spending, percent change at annual rates

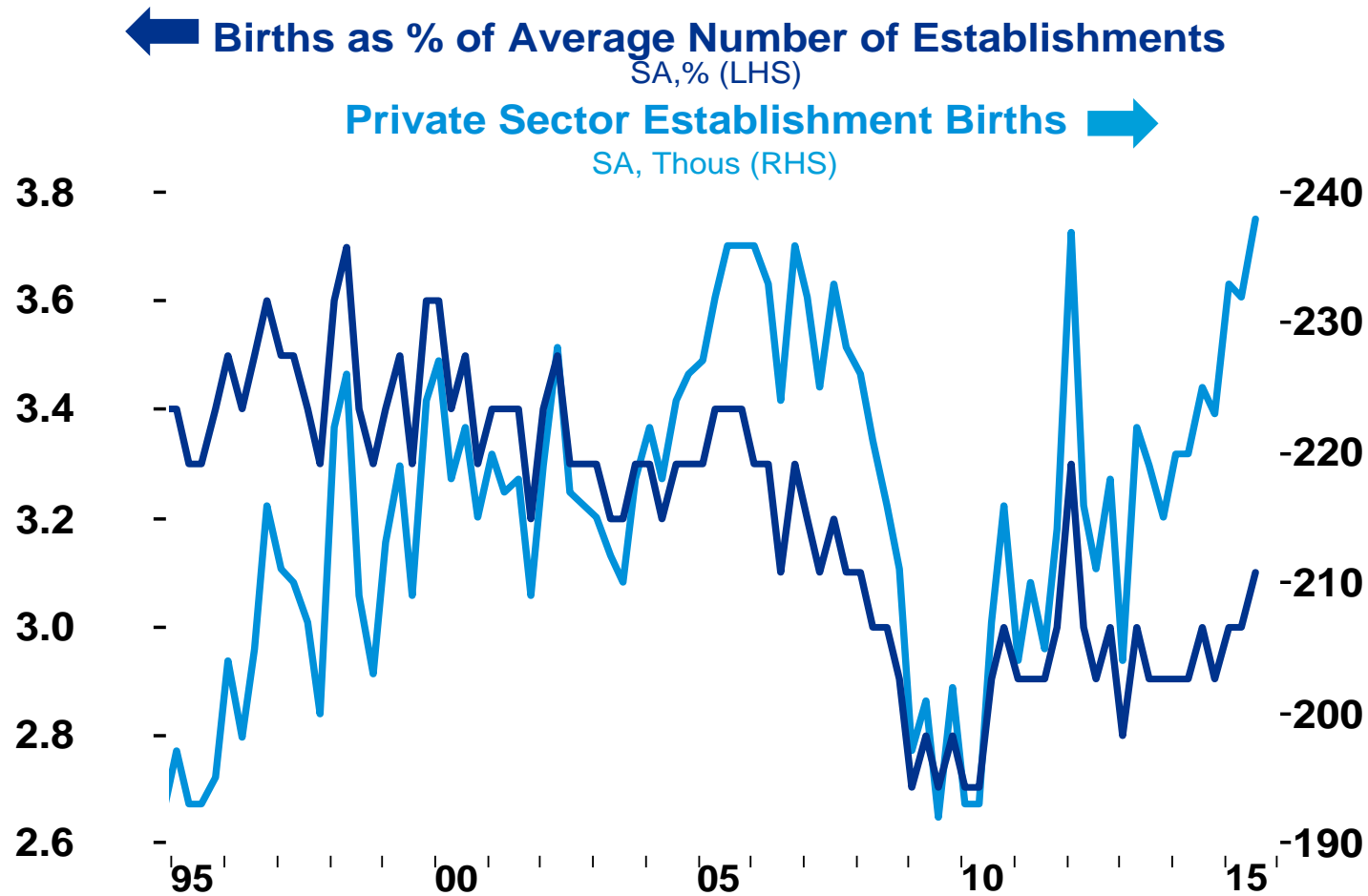


Source: KPMG Economics/Bureau of Economic Analysis/Haver Analytics



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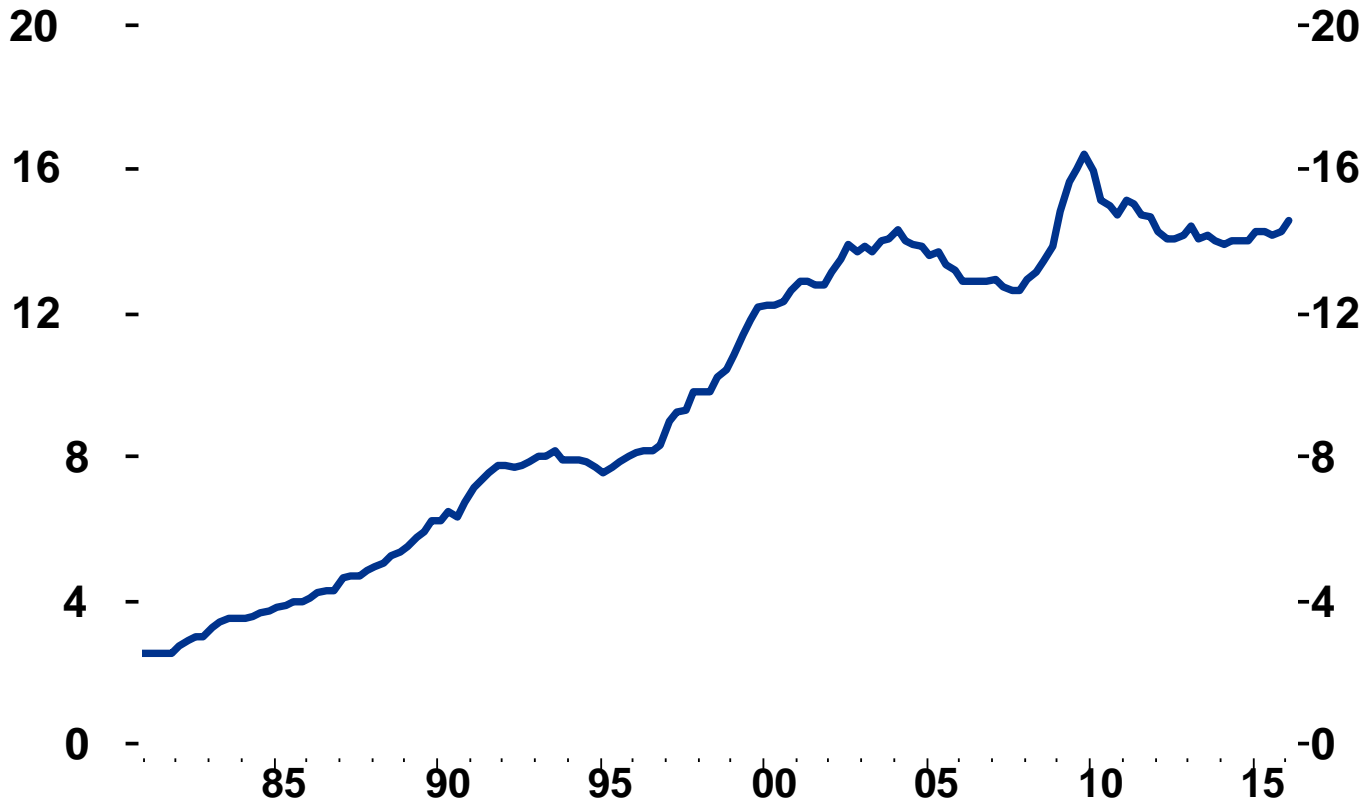
Growth in new firms adds an engine for U.S. growth



Source: KPMG Economics /Bureau of Labor Statistics /Haver Analytics

Software investment sees slight pickup

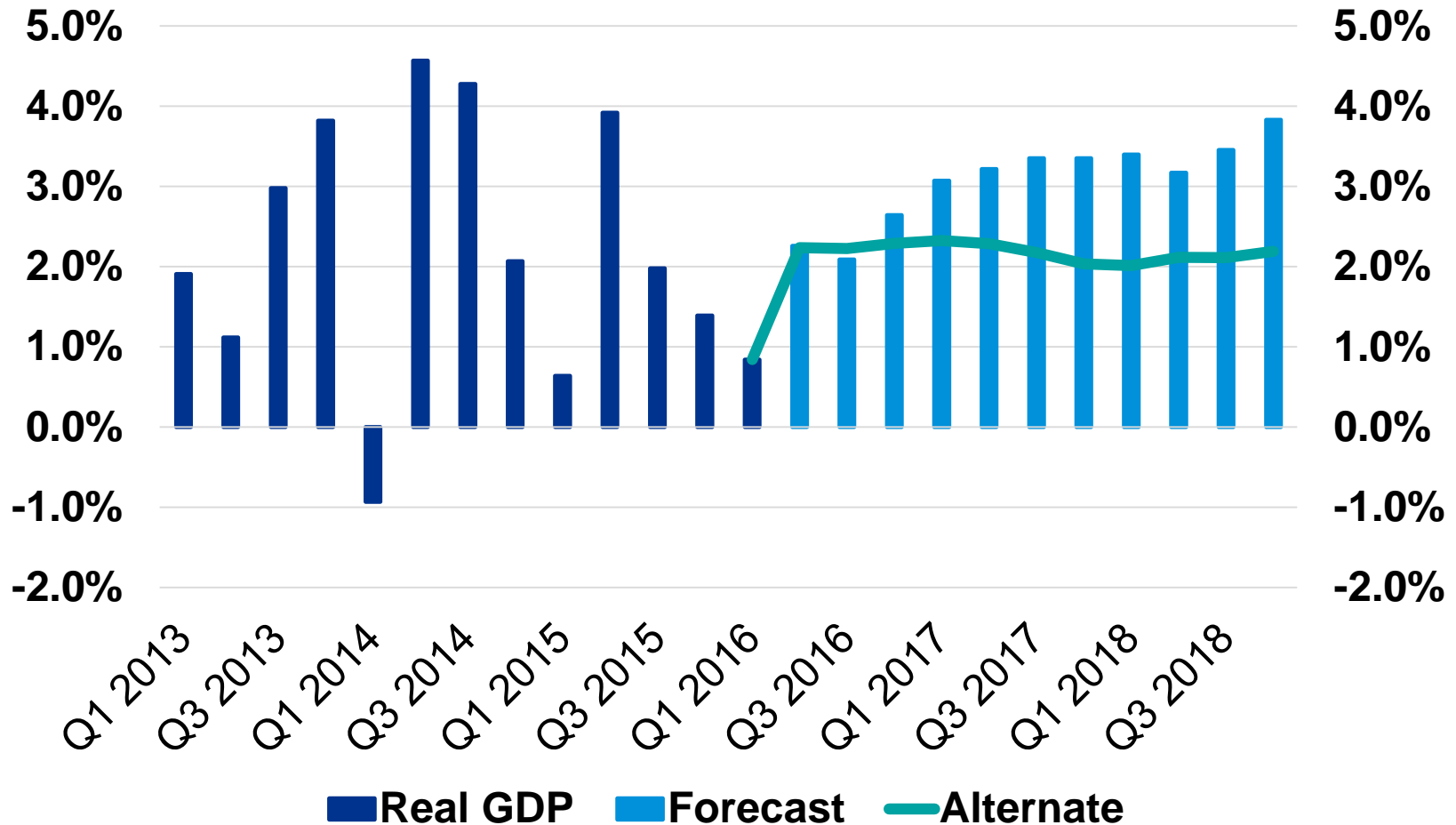
Software as a % of Total Investment



Source: KPMG Economics /Haver Analytics

U.S. GDP scenarios show resilience in the economy

U.S. GDP with Forecast and Alternate Scenario



Source: KPMG Economics, Macroeconomic Advisers, Haver Analytics



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Concluding Thoughts

- **#RatesLowForLongTime**
- **Demographics are Destiny**
- **Tectonic Plate Shifts in Global Supply and Demand**
- **“Flation” dynamics impacted by demographics and debt**
- **Technology and improved matching markets present opportunities**



Thank you



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