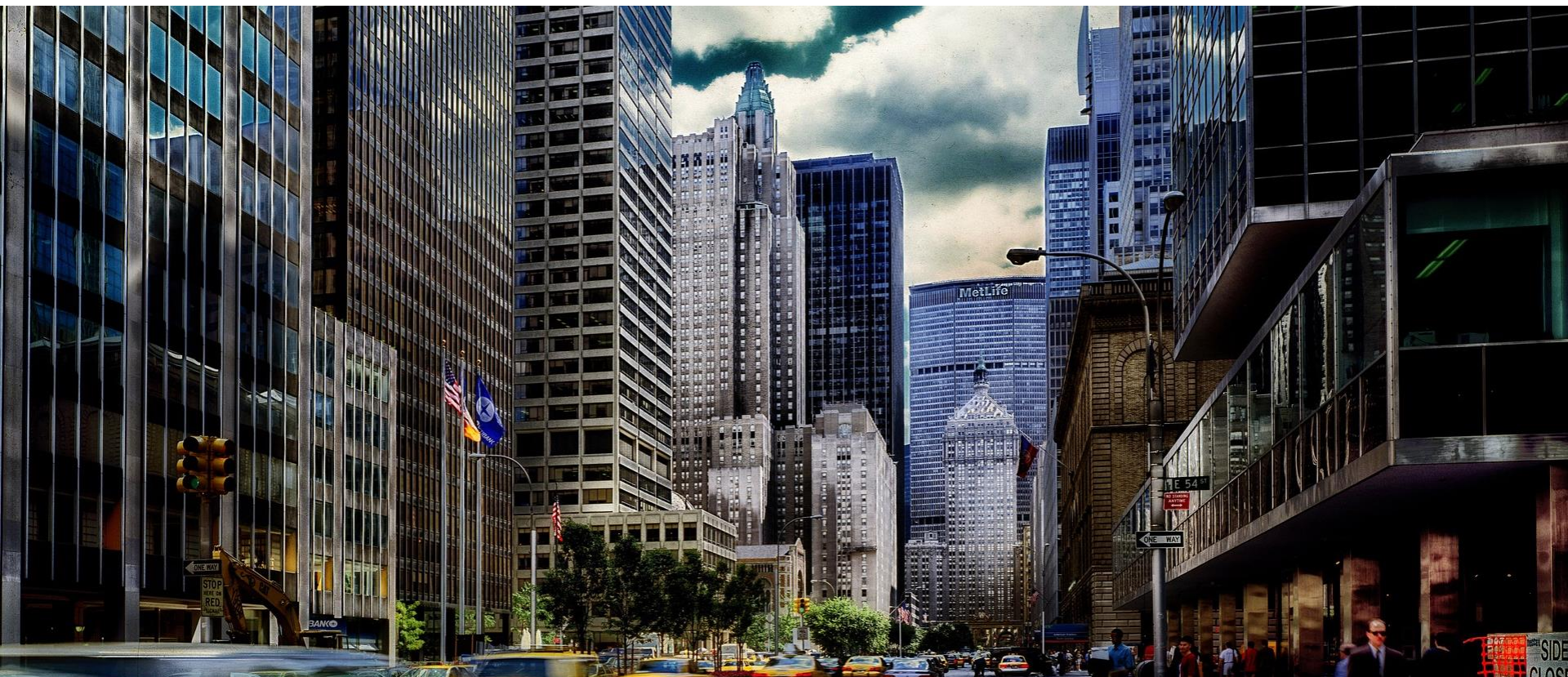




These four slides will make you understand the 2019 US cyclical reversal

March 2018

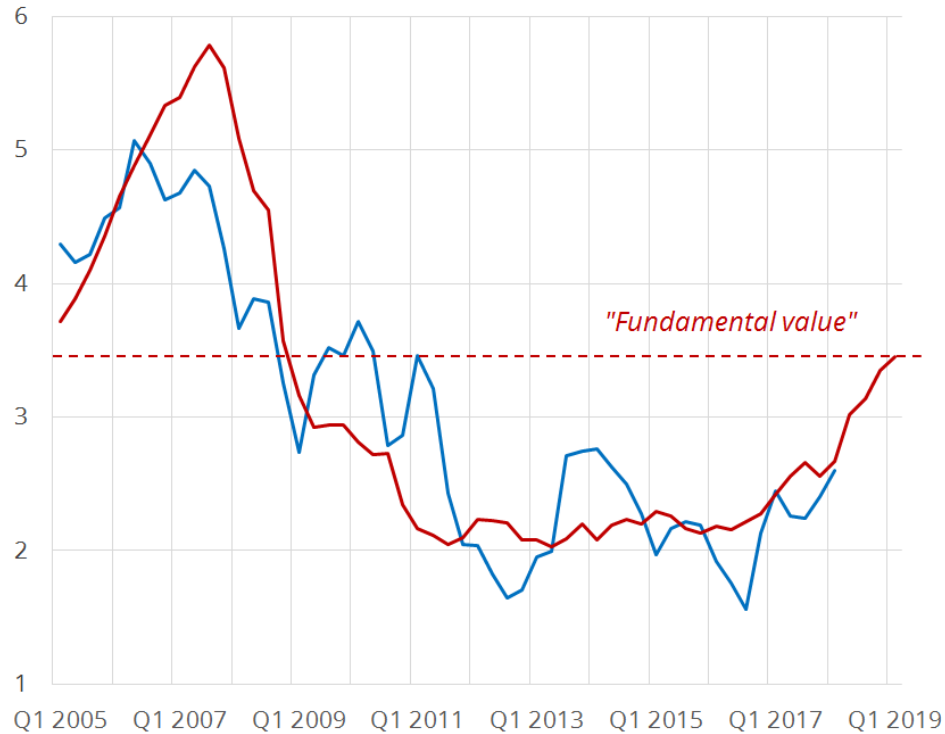


US cycle - Our logic and time sequences

- Late fiscal boost and strong confidence deliver a short term boost despite signs of maturing cycle, with generalized excess valuations on markets and increasing volatility;
- Progressively tightening financial conditions erode the initial positive impact of the fiscal reforms on corporate profits;
- Reversal in US profits would induce a sharp fall in US equity markets and complete the conditions for reversal in demand and production;
- Key elements likely to create a non-linear trigger for cyclical reversal in 2019H1: corporate spreads, capacity utilization, housing market.

US Treasury 10y at around 3.5% would trigger reversal in US profits; This level is foreseen at end-2018 (2.85% on March,19)

US 10-year treasury yield forecast (%)



Sources: Datastream, TAC ECONOMICS

Recent corporate spread deterioration as an early warning signal of economic reversal; not yet enough to be an immediate trigger

US Non Financial Corporate Spread A 7-year



Sources: Datastream, TAC ECONOMICS

Robust growth expected in 2018 but gradual tightening financial conditions would trigger cyclical reversal in 2019H1

US GDP growth scenario (%)

| | 2016 | 2017 | 2018 | 2019 |
|----------------------|------------|------------|------------|------------|
| TAC ECONOMICS | 1.5 | 2.3 | 2.5 | 2.0 |
| Consensus Forecast | 1.5 | 2.3 | 2.8 | 2.4 |
| IMF/WEO | 1.5 | 2.3 | 2.7 | 2.5 |
| FOMC | 1.5 | 2.3 | 2.5 | 2.1 |

Sources: Consensus Forecasts, IMF, FOMC, TAC ECONOMICS

Recent publications on this topic

For more details about our models and explanations, please refer to our publications:

- Hot Topic – Mature Economies “Impact of the forthcoming fiscal boost on the US cyclical path”
 - Part 1: Reversal expected in 2018H2 due to much tighter financial conditions (*published on May 10, 2017*)
 - Part 2: Rise in corporate spreads to be the early warning signal for US equity and cyclical adjustment (*published on May 15, 2017*)
 - Part 3: Cyclical reversal likely to be substantial because of higher aggregate leverage but no systemic shock (*published on May 22, 2017*)
- Quarterly Cyclical Outlook - 2018Q1 (*published on Dec. 22, 2017*)

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