



Navigate the 2024 Midpoint

An Update on Key Economic Trends

July 2024

AGENDA

- Global Economic Outlook
Slow growth and high recession risk
- US Economic Outlook
Easing inflation with high policy uncertainty
- EU Economic Outlook
Unresolved crises, premium on risk management
- China Economic Outlook

2024 will continue to be a watershed year

Underscores the importance of planning and risk management

The certain uncertainties		... and the uncertain uncertainties	
Macroeconomics	Supply chains	Elections	Global geopolitics
Growth vs. caution Expensive basics	Countries competing for nearshoring investment through policy Sustainability requirements	Biggest year in history	Flare-ups everywhere
Slow growth in 2024, set to rebound into 2025 Wages and input cost levels remain high	De-risking ramps up in 2024, but infrastructure and decarbonization out of step with emission requirements	Civil unrest a key concern Politics continues to pressurize supply chains	Global supply chain impacts contained for now US or China domestic crises could alter the trajectory

GLOBAL ECONOMIC OUTLOOK

A year of crossroads

INFLATION PRESSURES EASING, BUT...

...PRICES REMAIN ELEVATED AND PRESSURES ON BUSINESSES AND CONSUMERS PERSIST

SLOWING BUT STABILIZING GROWTH

US RESILIENCY, EU WEAK BUT IMPROVING, CHINA HEADWINDS CONTINUE

DIVERGENT POLICY TURBULENCE

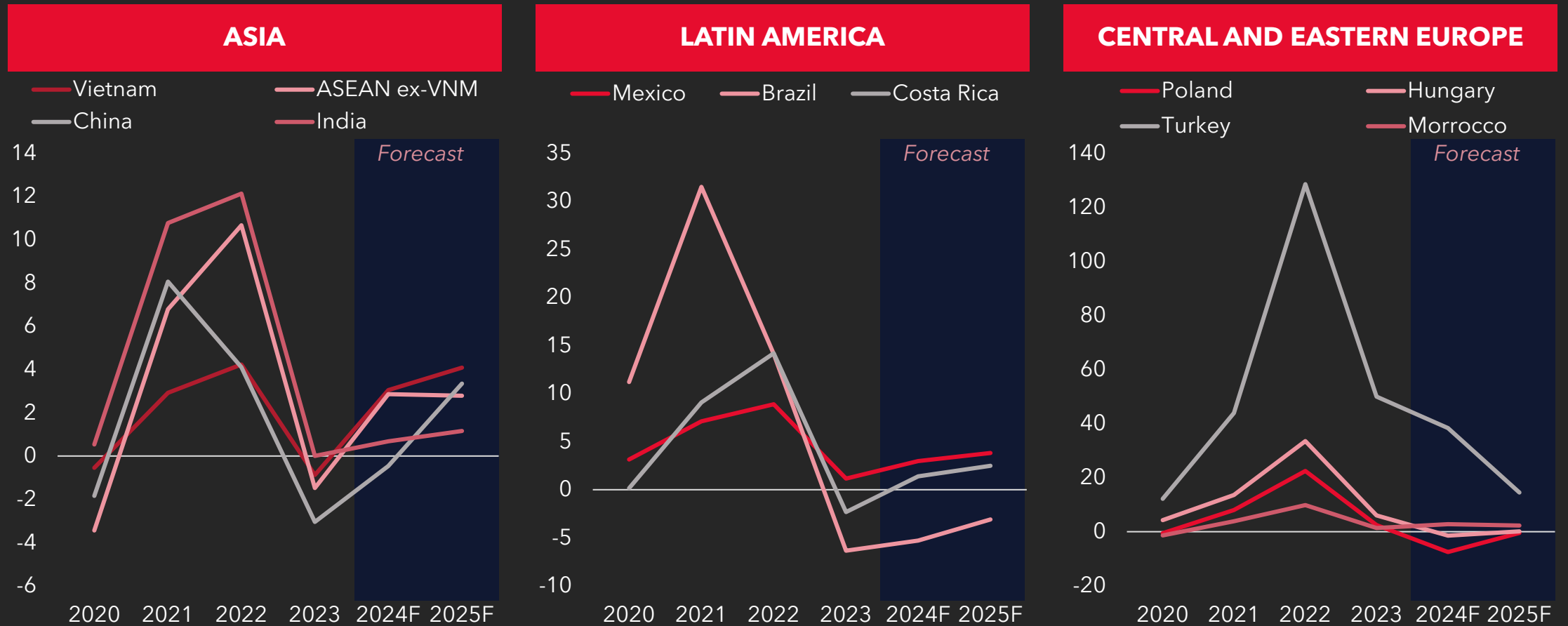
FED, BOE, ECB, BOJ TIMING WILL CAUSE A FX REVERSION

WHAT TO EXPECT IN 2025

**GLOBAL ECONOMY NORMALIZES - GROWTH, INFLATION, RATES
ERA OF POLICYMAKER INFLUENCE STILL PEAKING**

Cost pressures re-building in SE Asia, cooling elsewhere

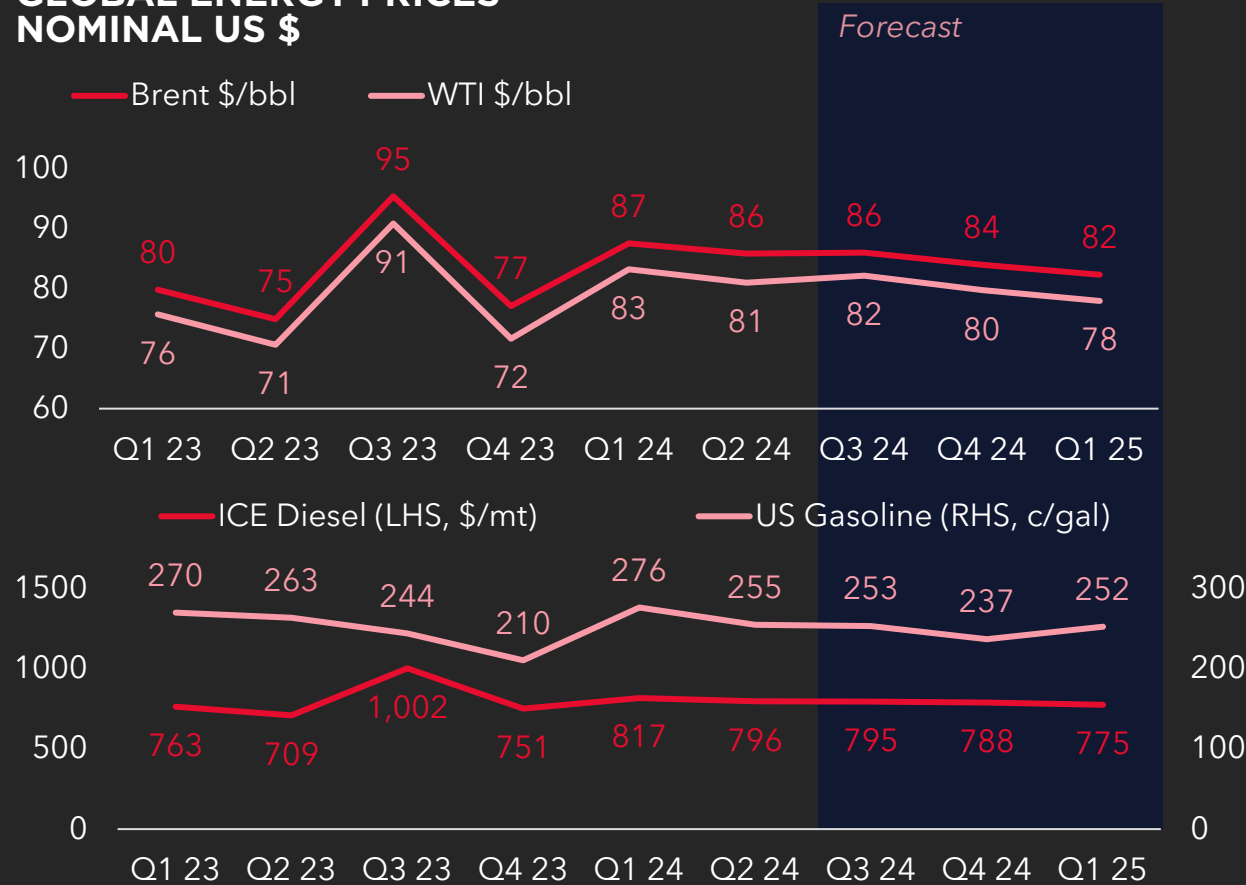
Vietnam, in particular,...



Global oil market balance hinges on OPEC policy

Steady demand growth, geopolitical risks remain low-probability

GLOBAL ENERGY PRICES NOMINAL US \$



KEY POINTS

Overview:

- Crude: Trending to low 80s in 2025
- Products will follow crude prices

Demand:

- Riding tailwinds from jet and petrochem
- EVs still a medium- to long-term risk

Supply:

- OPEC: “gradual” unwind voluntary cuts starting in Q4 – return of 2.5 mmbd by end of 2025; subject to change depending on market balance
- US: up 4% in 2025

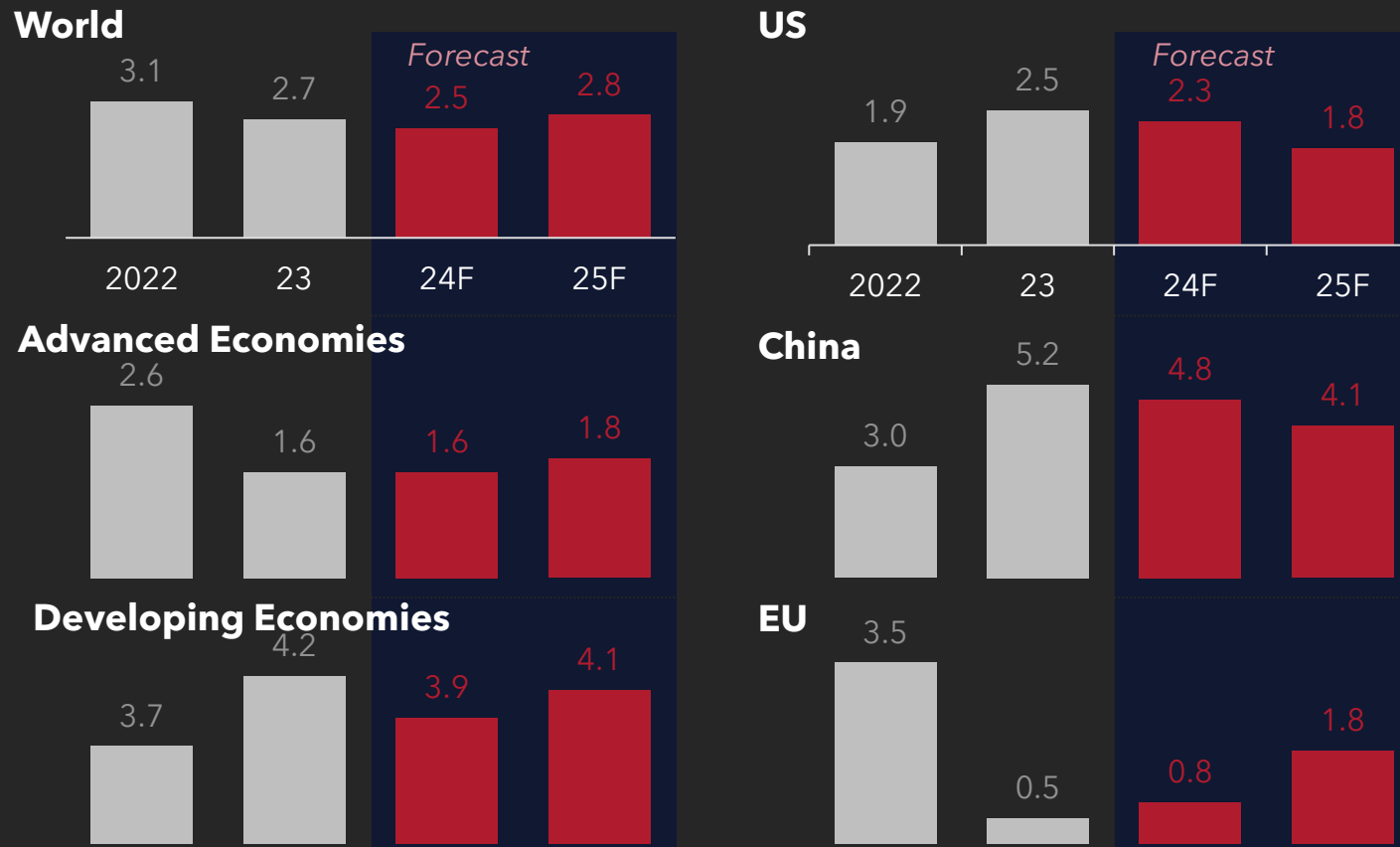
Geopolitics:

- Middle East: high impact low probability
- Russia-Ukraine: infrastructure attacks pose upside price risk
- E&P capital discipline / industry consolidation

Global growth slowing after resilient 2023

US resilience put to the test, China slowing, EU on the brink of recession

GLOBAL GROWTH FORECAST: YOY % CHANGE IN REAL GDP



KEY POINTS

- Global economic growth will be below average for several years
- Key markets will feel weaker domestic demand stemming from high inflation and interest rates, and the recent savings drawdown
 - US: In a soft-landing, risks remain
 - China: Growth is bridled by cyclical headwinds and structural risks; 5% target requires more stimulus
 - EU: Return to slow growth, lack of long-term dynamism

US Outlook Summary

Cleared for landing

SHORT-TERM

- 2023 momentum fading, but only marginally
- Inflation remains stubborn, delaying rate cuts
- Strong USD until Fed begins cutting
- But, lower inflation and interest rates will pave the way for a business capex cycle going into 2025

MEDIUM- TO LONG-TERM

- The US economy remains the most dynamic globally
- Innovation may propel productivity and new growth opportunities
- Fiscal policy is spurring a wave of domestic investment
- But, fiscal deficits could become more challenging (politically, if not economically)

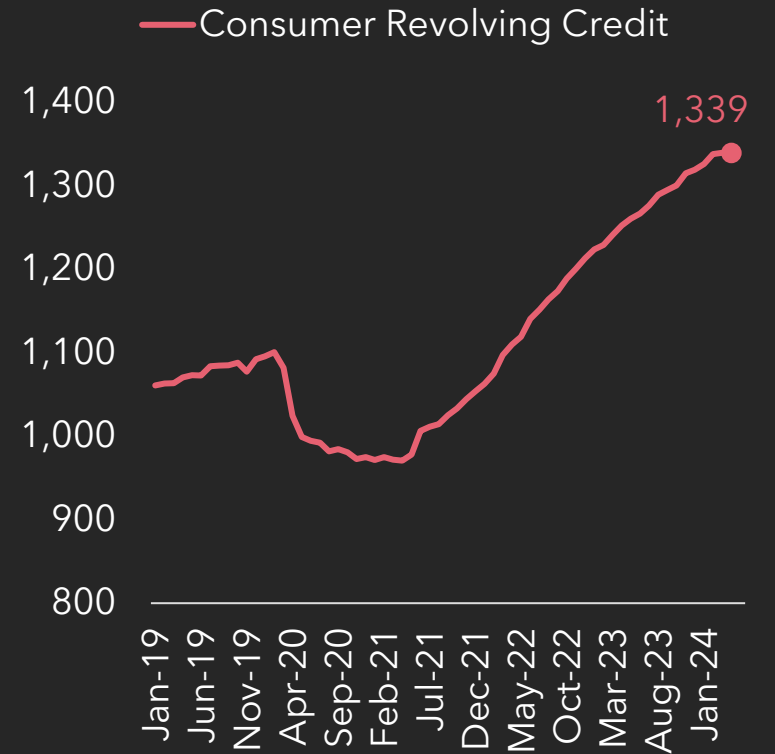
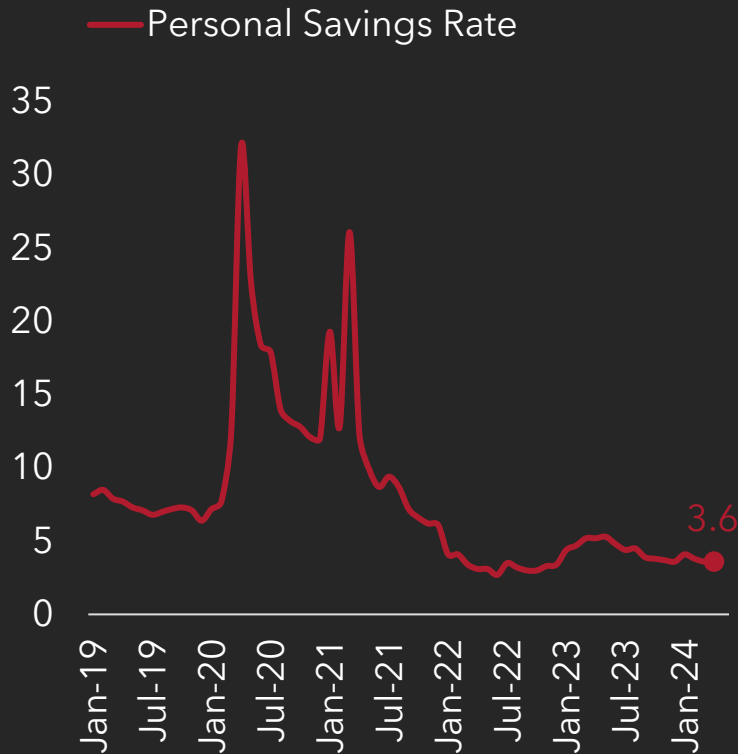
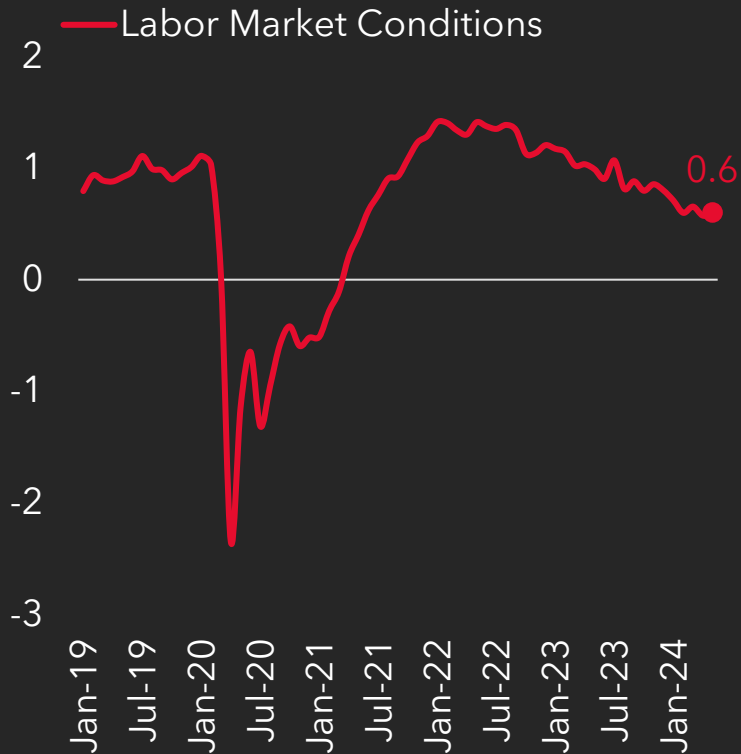
KEY UNCERTAINTIES

- Monetary policy timing and lags
- 2024 election uncertainty and potential for trade war in 2025
- Conflict in the Middle East and impacts on oil prices
- US banking system: flat yield curve, commercial real estate risks for regional banks

Consumer tailwinds from 2023 are fading

Softening labor market, low savings, and high debt point to weaker spending

US CONSUMPTION DRIVERS



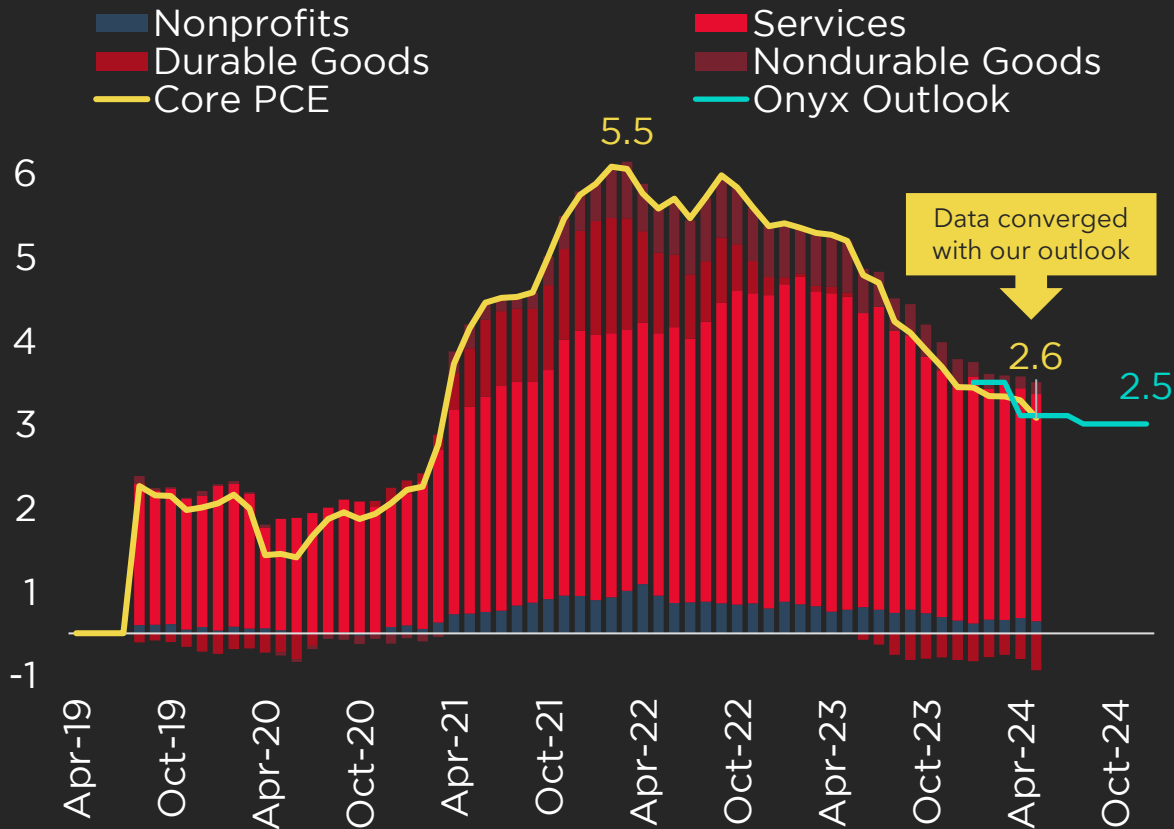
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Lower inflation trend has resumed

“Core PCE” nearing the Fed’s 2% target

THE FED’S KEY MEASURE IS ON TARGET

YOY % CHANGE IN CORE PCE COMPONENTS



PRICE PRESSURES LIKELY TO REMAIN DISINFLATIONARY

INFLATION CHANNEL	TRENDS
Labor Market	<ul style="list-style-type: none"> Unemployment rising marginally Slowing real wage growth
Demand	<ul style="list-style-type: none"> Consumer spending slowing
Expectations	<ul style="list-style-type: none"> Firmly anchored <2.5% Latest consumer survey shows a moderate increase
Money & Credit	<ul style="list-style-type: none"> Money supply shrinking Tight lending standards, contracting loan volume
Energy & Commodities	<ul style="list-style-type: none"> Oil and other commodity price outlooks stable
Import Prices	<ul style="list-style-type: none"> Import prices are down China exporting deflation

Source: Bloomberg, Onyx

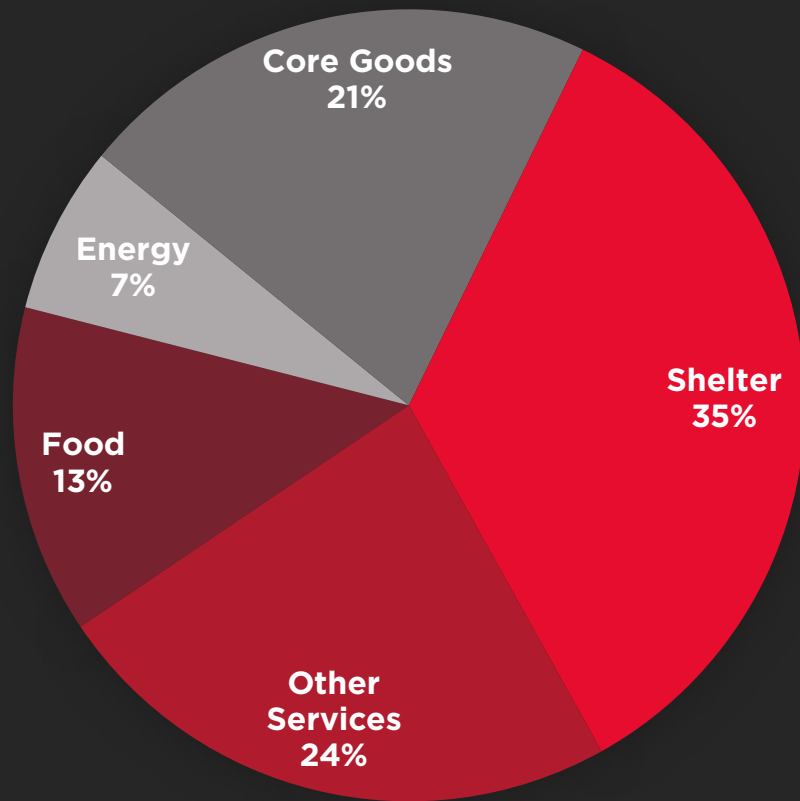
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The Last Chapter: Housing Prices

Housing price inflation in a “catching down” phase

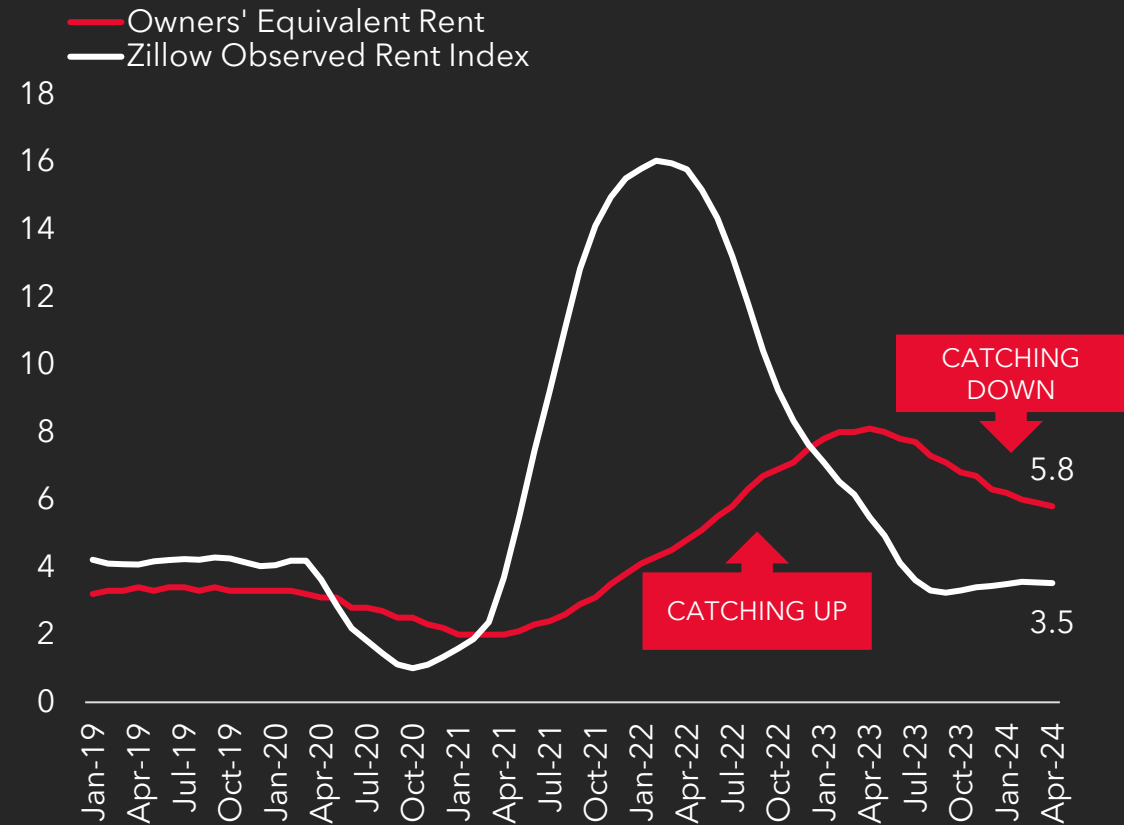
CPI WEIGHTS

PERCENT OF TOTAL INDEX



OER AND MARKET RENTS

YOY % CHANGE



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Higher-for-longer rates

A steady rate normalization starting with two cuts in 2024

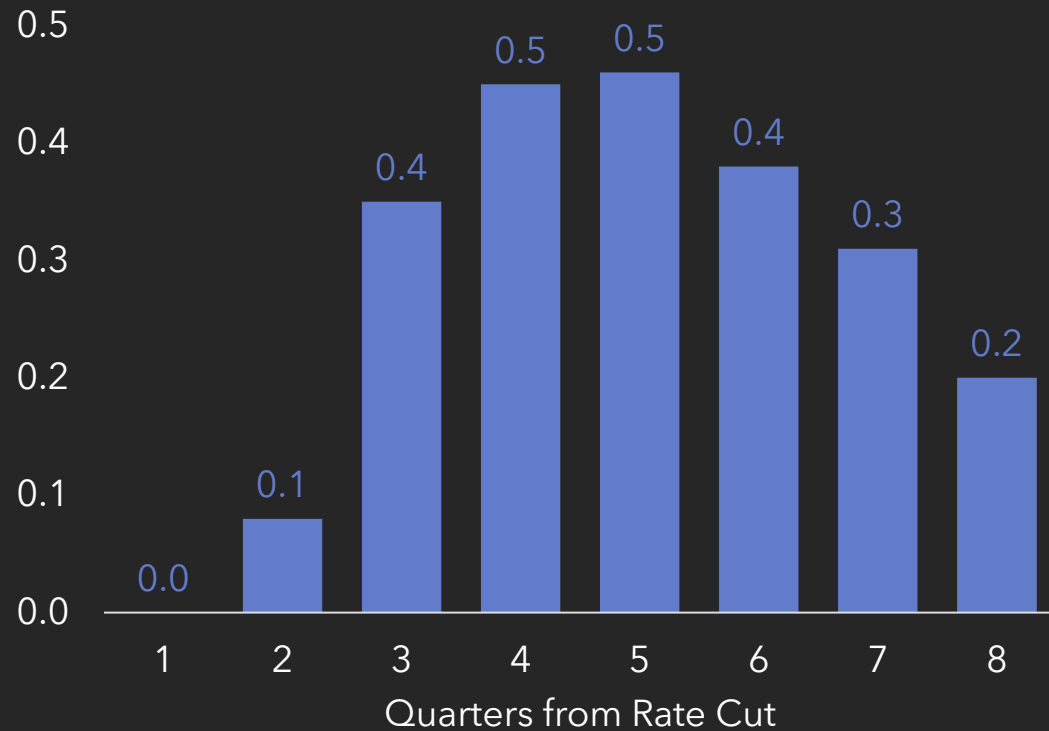
ONYX FORECAST VS. FED OUTLOOK

POLICY QUESTIONS	THE FED (AS OF MAY)	ONYX
1. When will rates cuts start?	Likely December	September
2. How fast will the Fed cut rates?	25 basis points in 2024 (down from 75 bps in March)	50 basis points in 2024
3. What is the long-term neutral rate?	2.75% (up from 2.5% in March)	~3.0% <i>(short-term neutral rate may be closer to 3.5%)</i>
4. When will the Fed return to neutral?	2027	2026

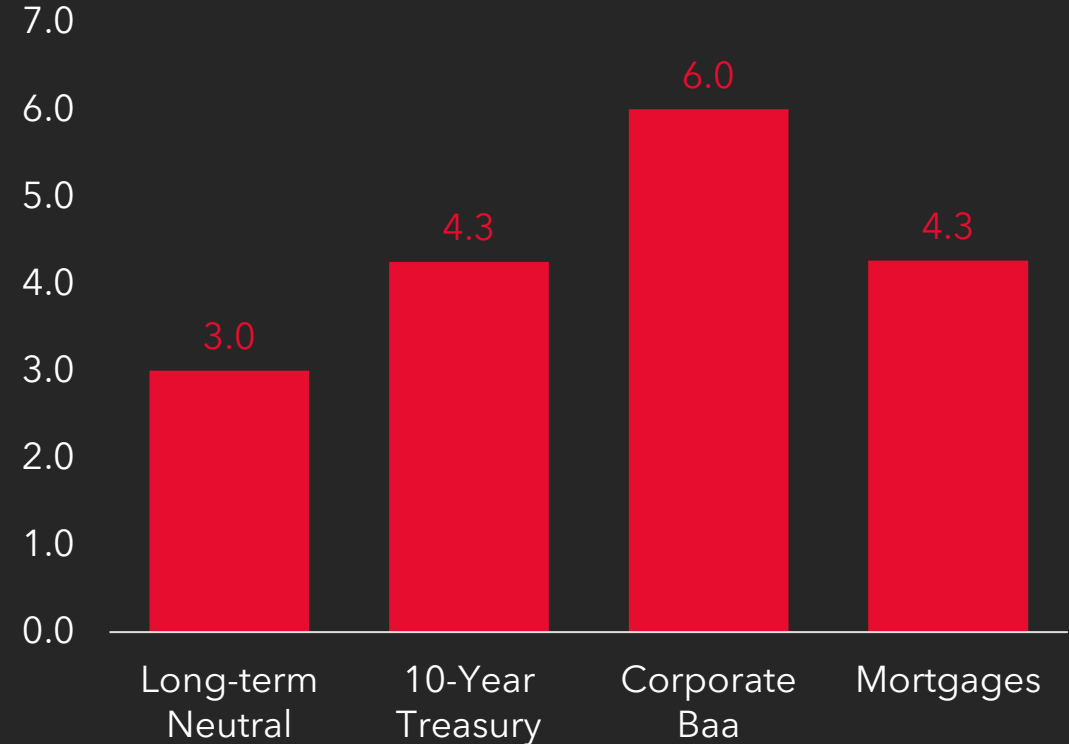
What rate cuts mean for the economy

Cuts will be stimulative, cost of capital will be higher than pre-pandemic

300 BPS IN RATE CUTS STIMULATE NEAR-TERM GROWTH
PERCENTAGE POINT IMPACT TO QUARTERLY GDP GROWTH



COST OF CAPITAL AFTER RATE CUTS
% RATE



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EU Outlook Summary

Any momentum is good momentum

SHORT-TERM

- **5 quarters of no growth** - The effects of the pandemic and war in Ukraine hit Europe harder, longer than the US
- **But the cycle hit a bottom**
- Disinflation and rate cuts will help spur a **gradual recovery in the second half**
- **Real wage growth** will kick-in, providing a jolt to consumer spending

MEDIUM- TO LONG-TERM

- **Structural problems remain**, especially in Germany
- High energy costs have **eroded competitiveness**
- Pro-growth policies **lag the US and China**
- Climate policies taking a backseat due to funding shortfalls

KEY UNCERTAINTIES

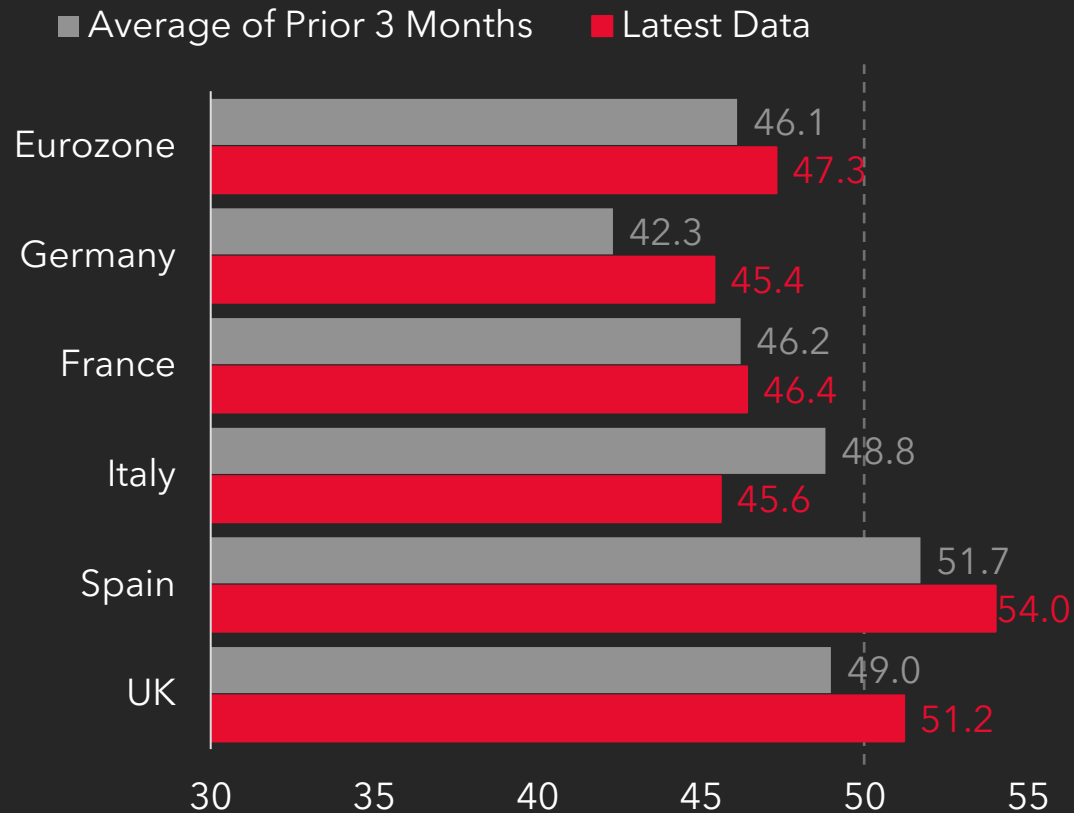
- European elections pose a **threat of rising populism**
- **Geopolitical tensions**: US-driven trade war
- **“Deindustrialization”** amid higher structural cost and shrinking workforce
- **Secular stagnation**

Europe's economy posting modest recover as expected

Disinflationary trends to continue

MANUFACTURING PMI

>50 EXPANSION, <50 CONTRACTION



WEAK END TO 2023 AND START TO 2024

- Eurozone GDP growth rebounded, up 0.3% QoQ in Q1, but only 0.1% on a YoY basis
- Germany's woes continue as GDP contracted -0.9% YoY
- Disinflation is more obvious in Europe than the US,
- Retail sales contracted in Jan and Feb on a YoY basis
- Manufacturing sector was depressed: Industrial Production volume (real) is down -6.4% YoY

H2 REBOUND UNDERWAY

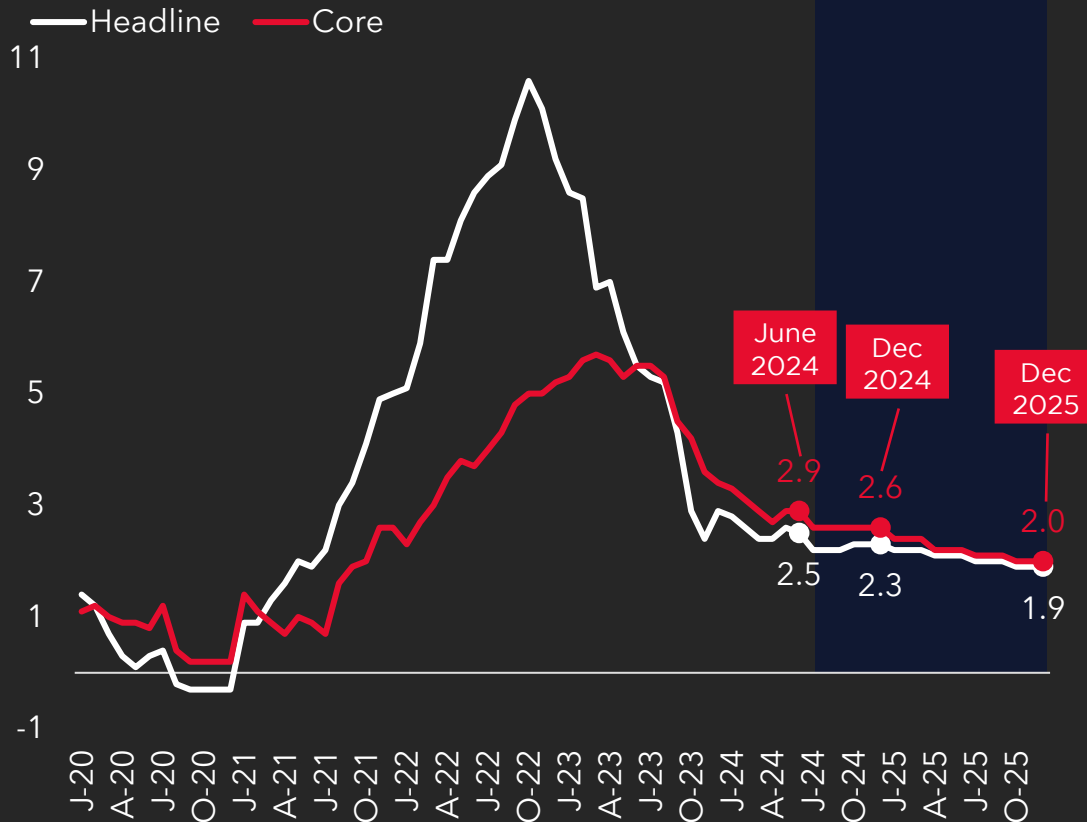
- Declining interest rates, improving real disposable income and returning confidence
- Real Retail Sales recovered +0.3% YoY in May
- Housing construction off the bottom
- But, lending still stagnating

ECB to cut rates by mid-year, -100bps by end of 2024

Inflation will continue to trend down

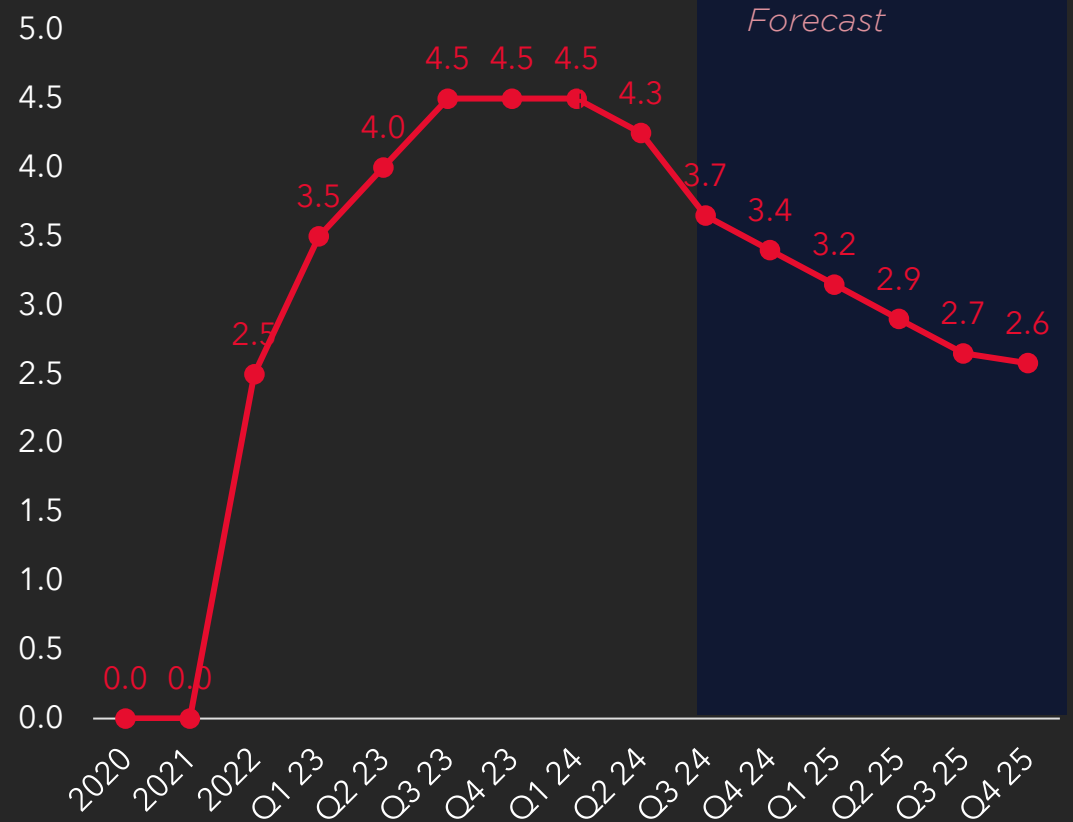
DISINFLATION IS ONGOING

% CPI INFLATION



ECB POLICY RATE

PERCENT (%)



China Outlook Summary

Down but not out

SHORT-TERM

- Short-term growth bump will be short-lived
- Industrial production, fixed investment and retail sales trending positively
- Fiscal stimulus will boost growth without exacerbating local government debt problems
- Rate cuts support larger fiscal deficit
- But more fiscal stimulus is needed to hit the 5% growth target

MEDIUM- TO LONG-TERM

- Property sector deleveraging will be a drag on growth for the next 3 to 5 years
- Structural headwinds to growth potential
 - Slower urbanization
 - Aging population and shrinking workforce
 - Distortive policies with low RoC

KEY UNCERTAINTIES

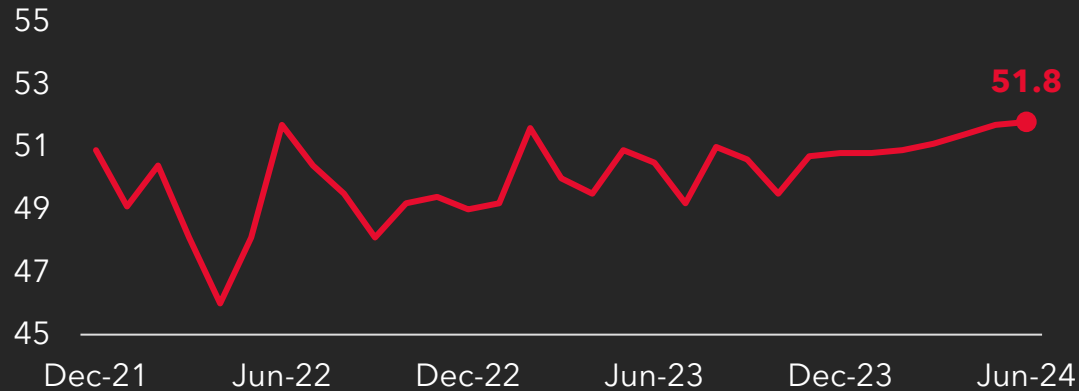
- Property sector contagion: full value chain is 25-30% of GDP
- Deflationary risks rising from supply-side policies and soft demand
- Geopolitical tensions: US-China trade war in 2025
- Transition to consumer-led growth without clear policy support
- Search for productivity growth amid technology decoupling

China's growth trajectory appears to be stabilizing

Early data is opaque, but overall points to slower but steadying growth

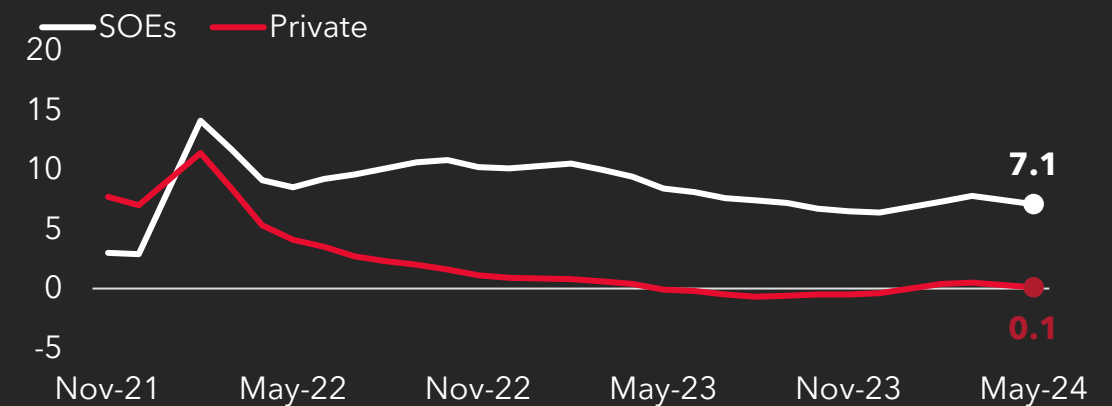
MANUFACTURING TREADING WATER

PMI Manufacturing (<50 = contraction, >50 = expansion)



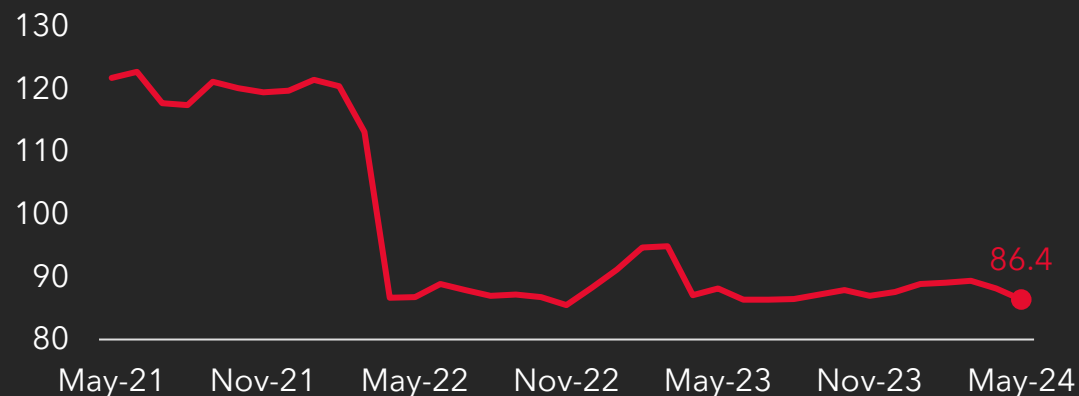
SOEs PROPPING UP CAPEX GROWTH

YTD YoY % Change in Capex by Sector



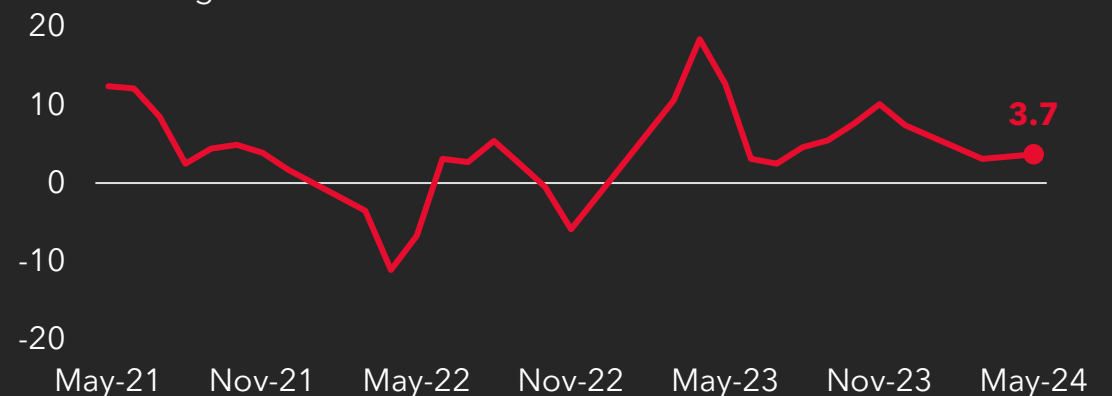
CONFIDENCE LEAVES BY CAVALRY AND COMES BY FOOT

Consumer Confidence Index



RETAIL SALES DECELERATING TO A SUSTAINABLE PATH

YoY % Change

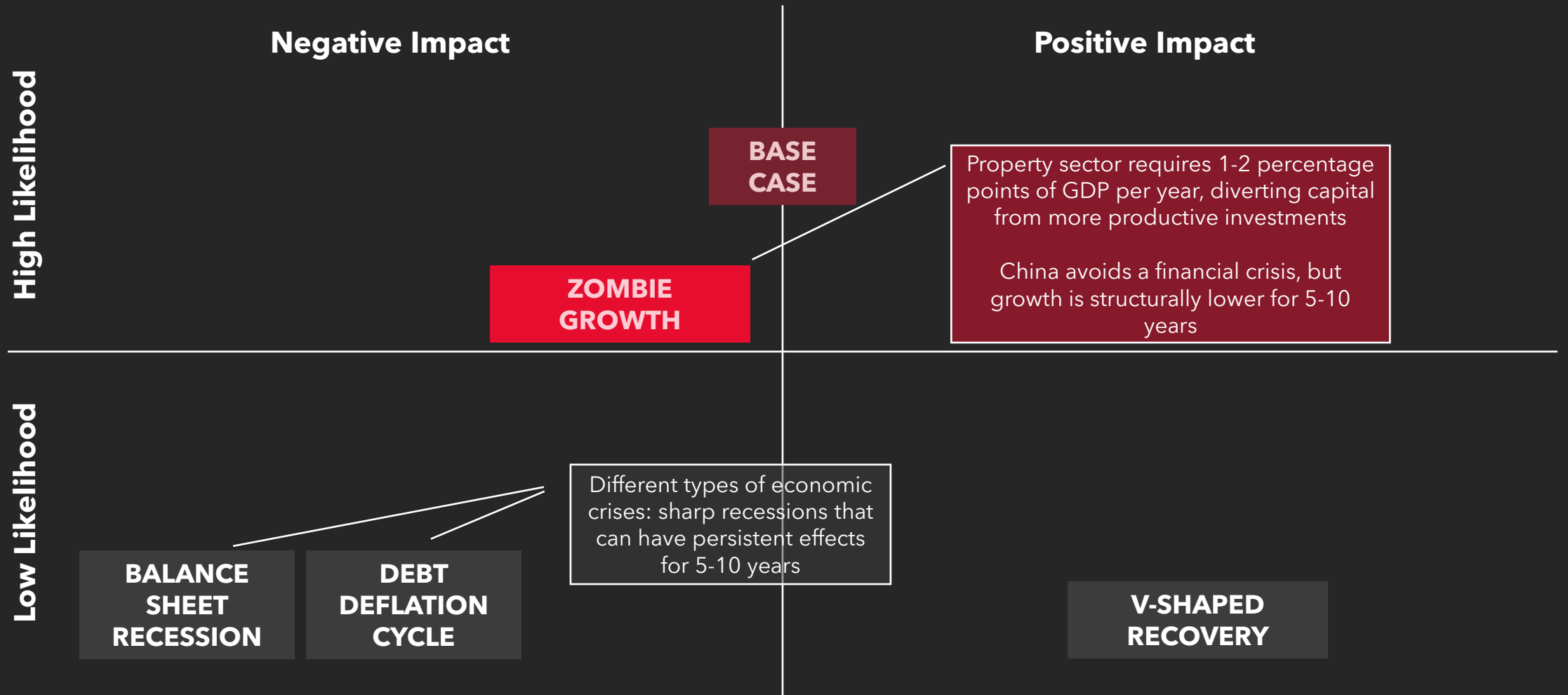


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The most likely downside risk is the one no one is focused on

“Zombie Growth” is plausible given China’s current policy stance



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