



Global Outlook: Cyclical positives, structural negatives

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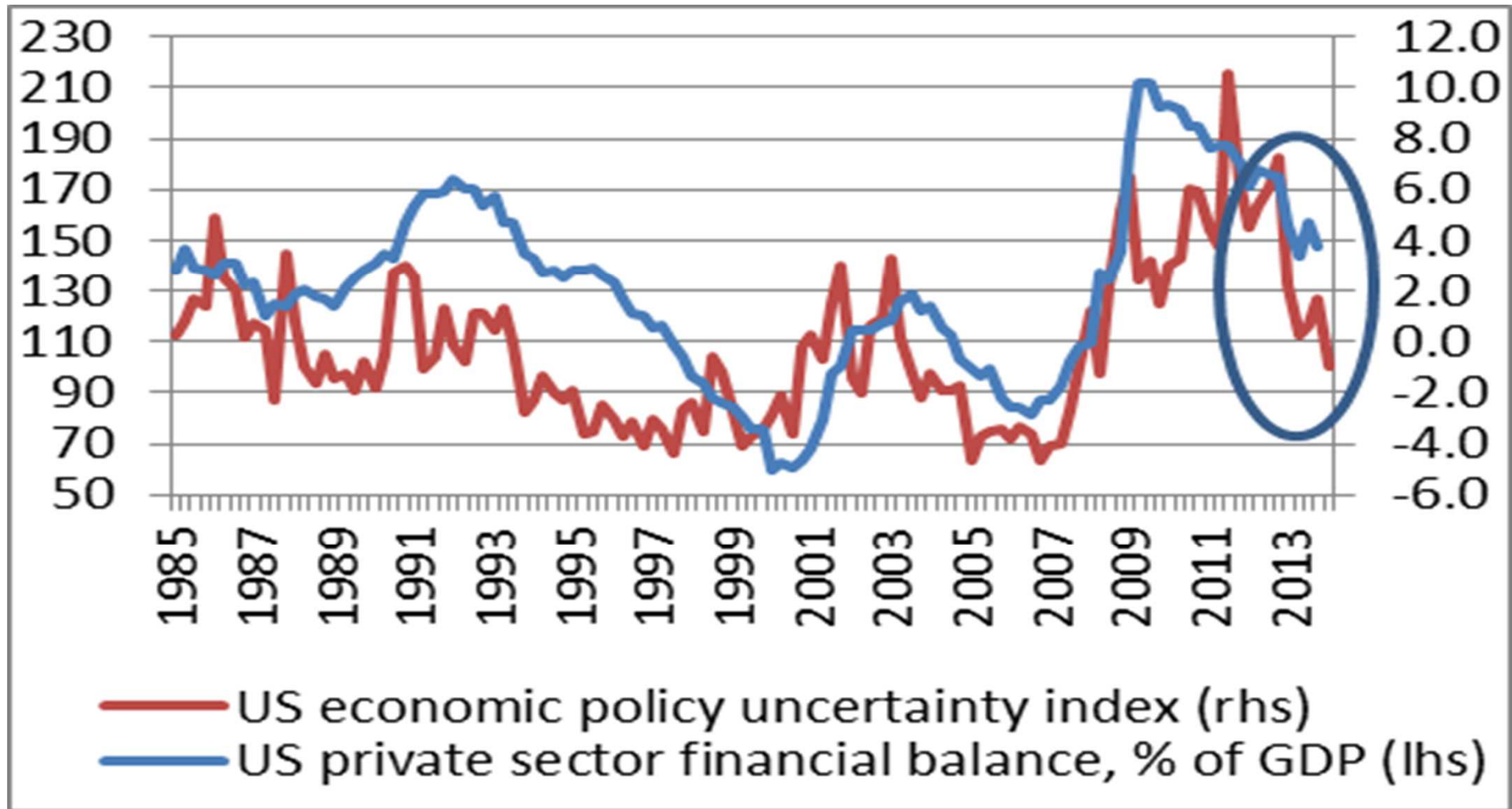
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Small cyclical positives amidst lingering structural negatives

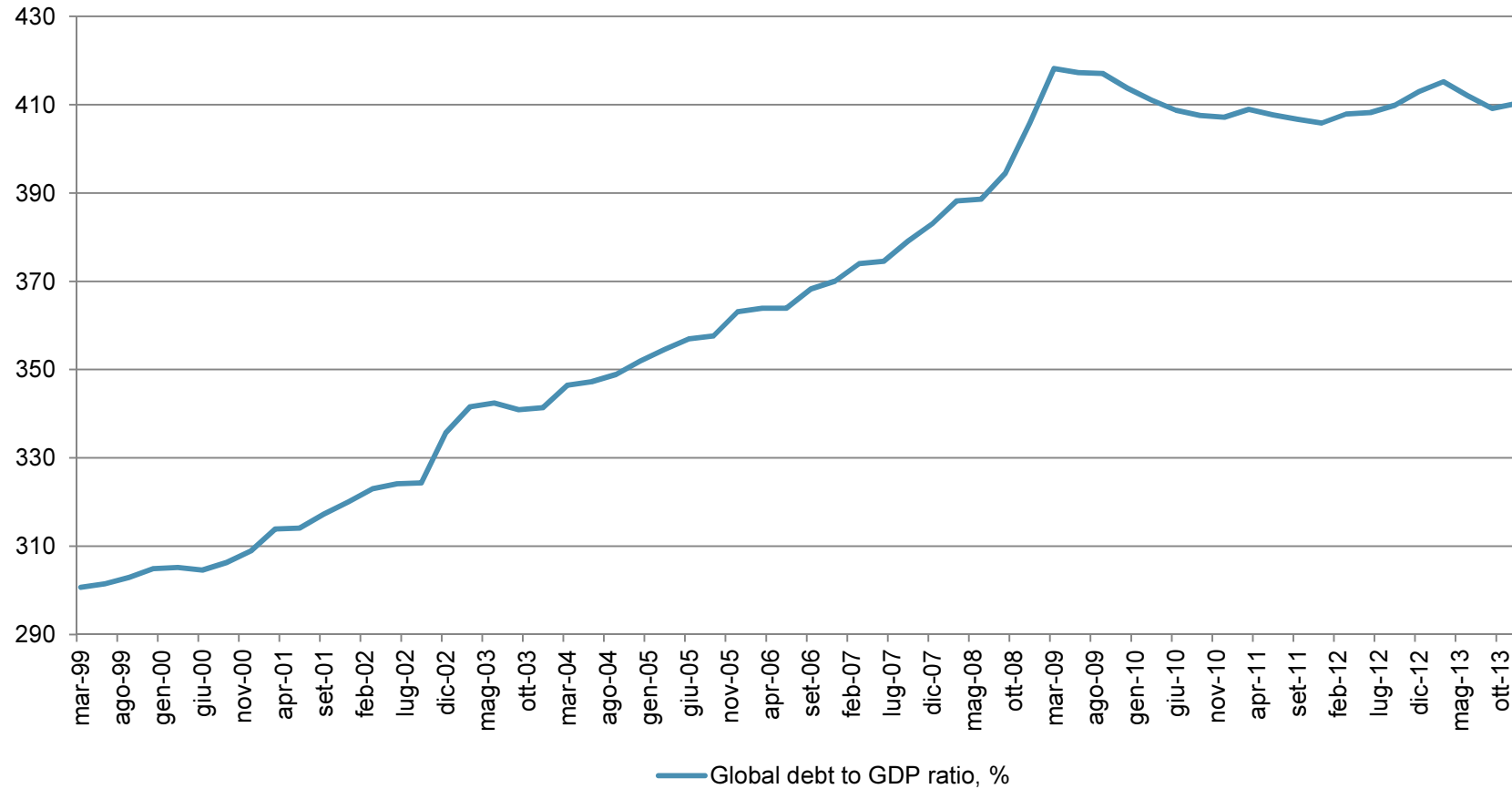
- Ebbing uncertainty about the macroeconomic and policy environment ought to elicit slightly firmer growth in the US and Europe in the year ahead. For the same reason, capex prospects in many developed economies are brightening a little.
- But concerns about China are warranted for perhaps familiar reasons concerning its debt and housing-related imbalances. Geopolitical instability, the unintended consequences of the Fed's tapering campaign alongside structural changes in the world economy are additional concerns for emerging economies.
- Ageing demographics, the consequences of still-high debt levels, alongside China's inevitable re-balancing will almost certainly weigh on global growth outcomes in the coming years. Combined with the influence of new technologies global inflation outcomes seem apt to remain highly restrained as well.
- Still-decent corporate profitability, an ultra-low inflation environment, loose monetary policy, and ebbing uncertainty about the outlook should remain a nice cocktail for DM equities for the time being. Sub-par global growth and sub-target inflation in the meantime should continue to hold US bond yields at very low levels.

Ebbing uncertainty ought to drive down private savings



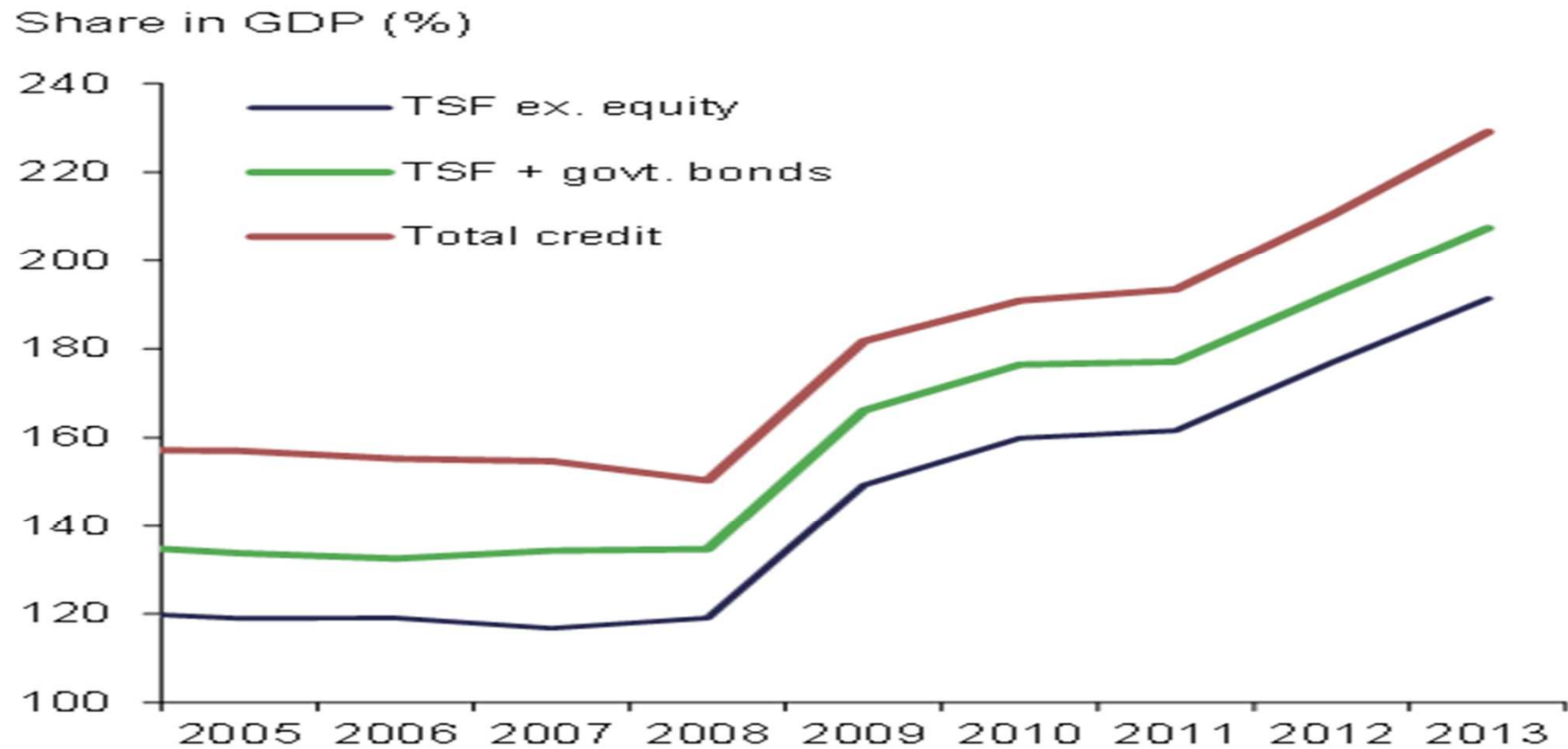
Source: UBS/OEF calculations/www.policyuncertainty.com. The US economic policy uncertainty index is made up of 3 components. The first quantifies newspaper coverage of economic uncertainty. A second component reflects the number of tax code provisions set to expire in future years. The third component uses disagreement among economic forecasters as a proxy for uncertainty.

But there has been no meaningful global deleveraging yet



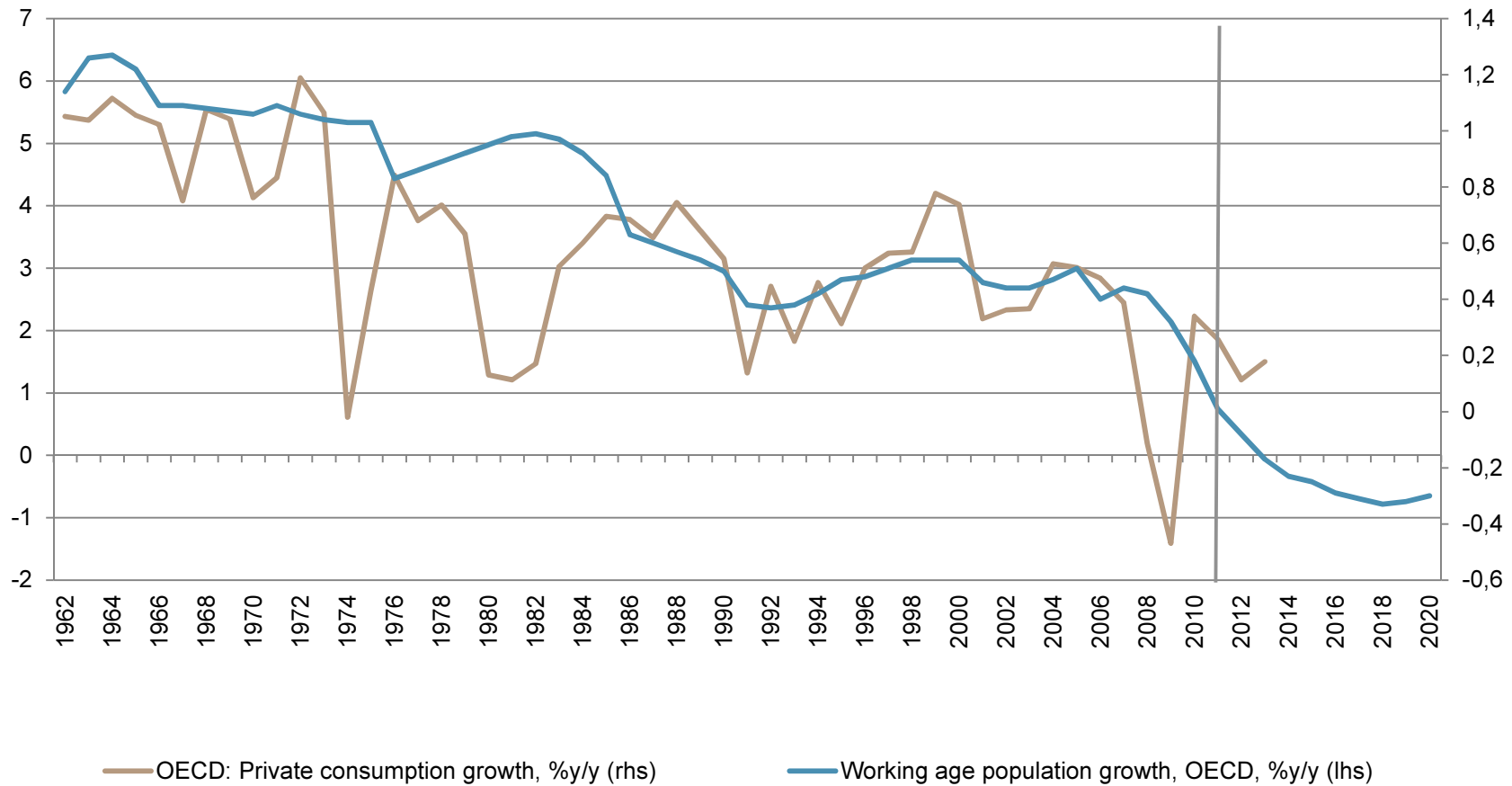
Source: UBS/OEF.

China's credit growth needs to slow down



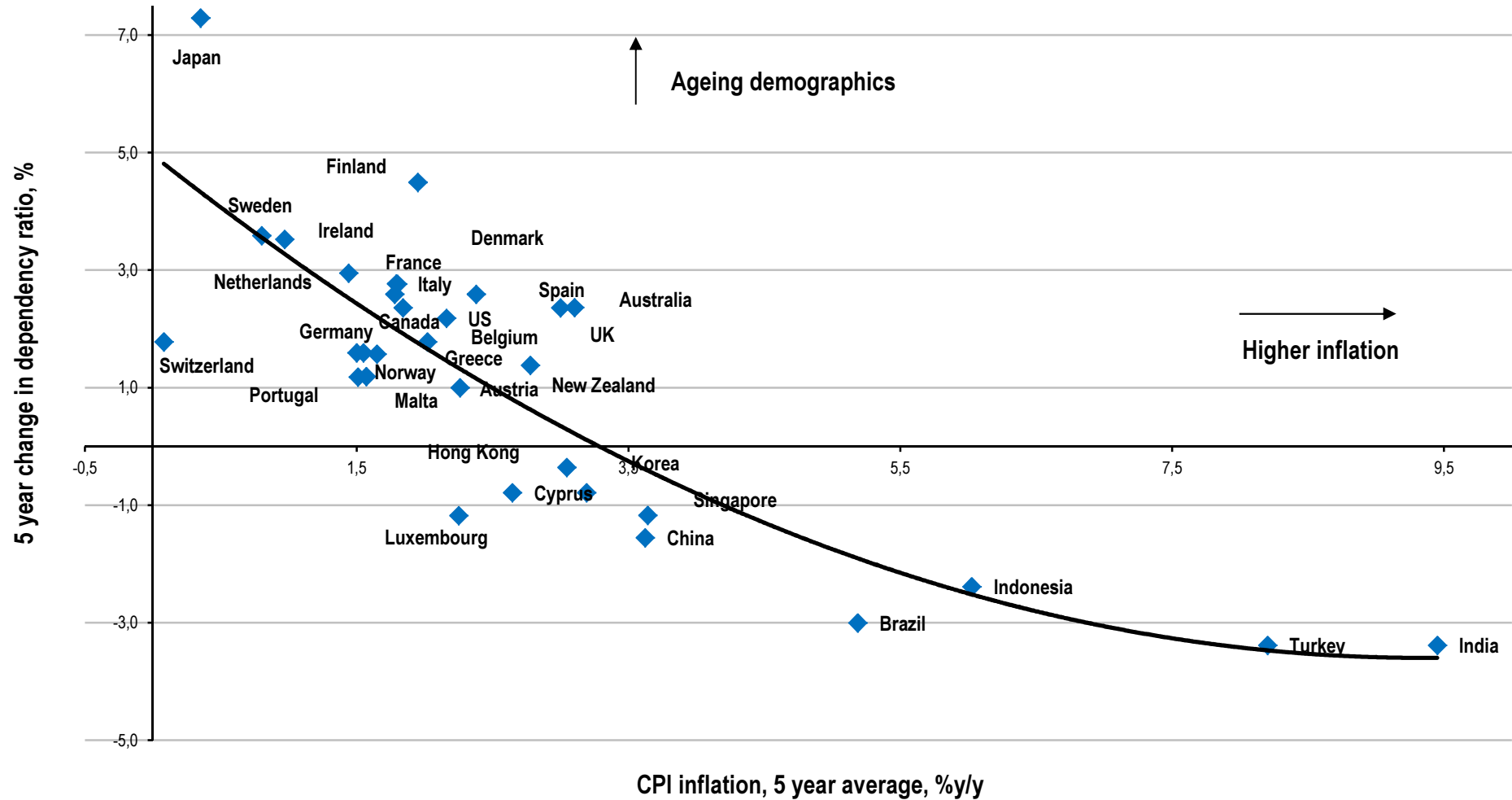
Source: CEIC/Wind/UBS estimates

Ageing populations are not good news for consumption growth



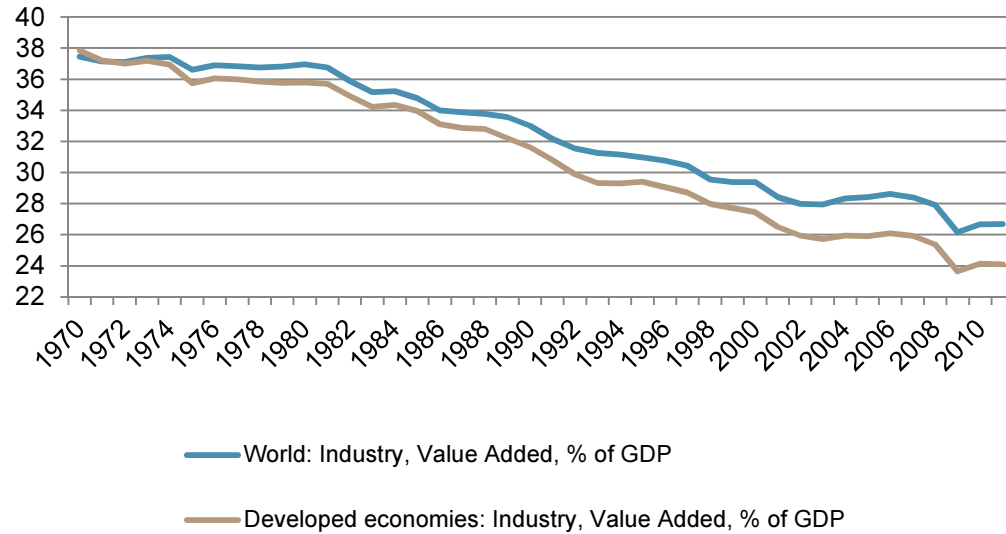
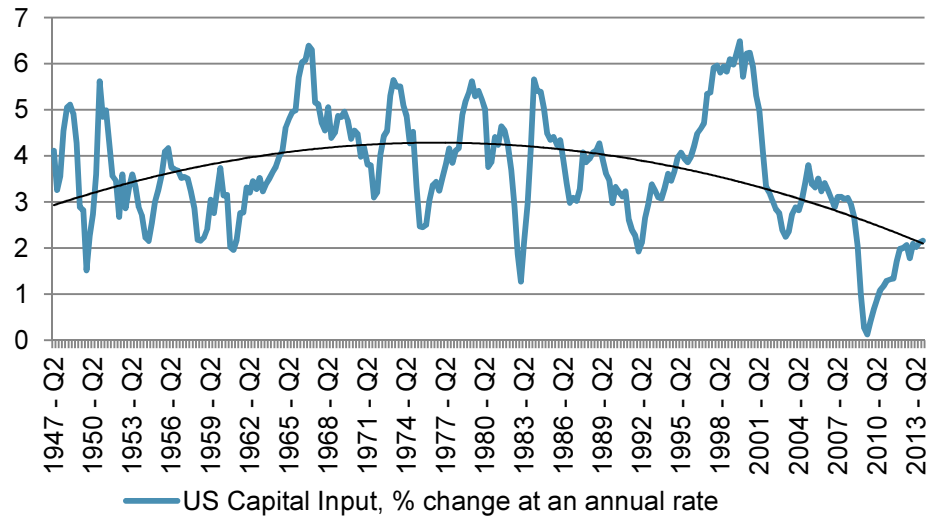
Source: UBS/OEF.

Ageing demographics will restrain consumer price inflation



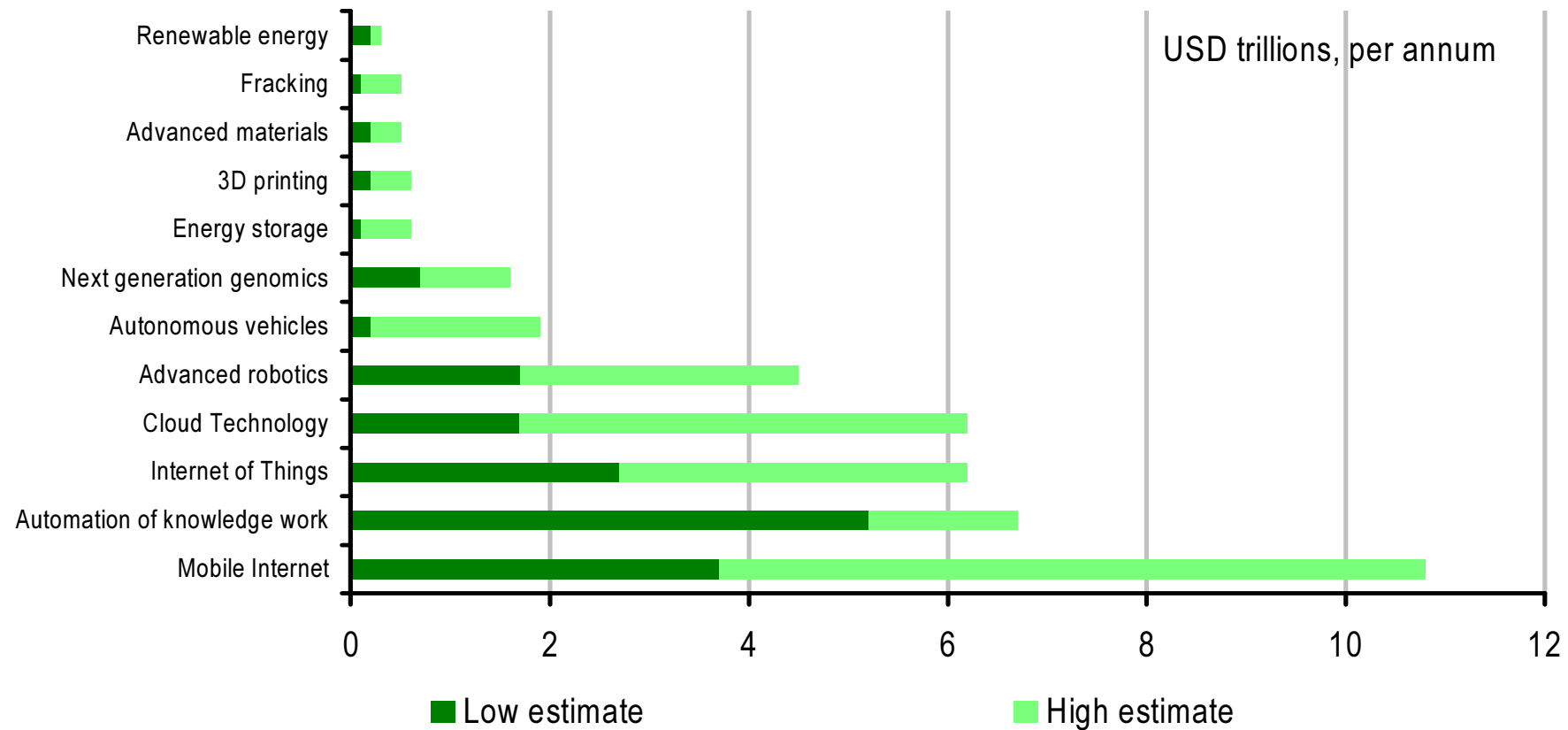
Source: UNCTAD/Haver/UBS

A less capital-intensive and lighter world economy



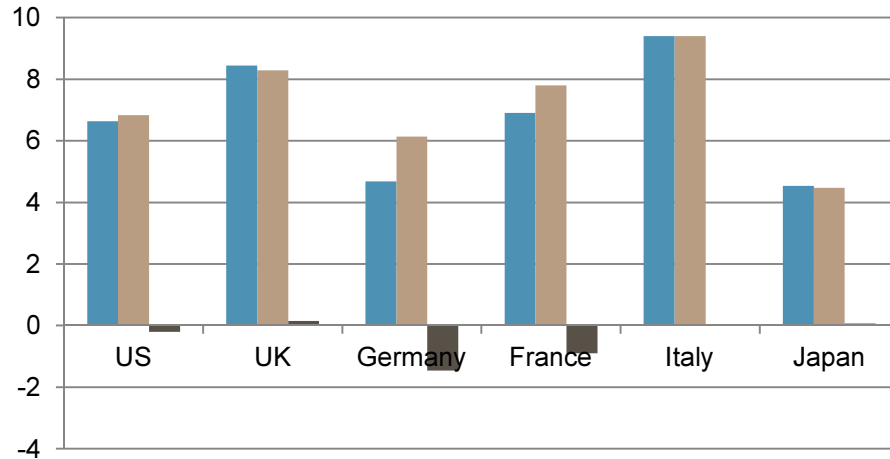
Source: UBS/OEF.

And some intriguing technological innovations

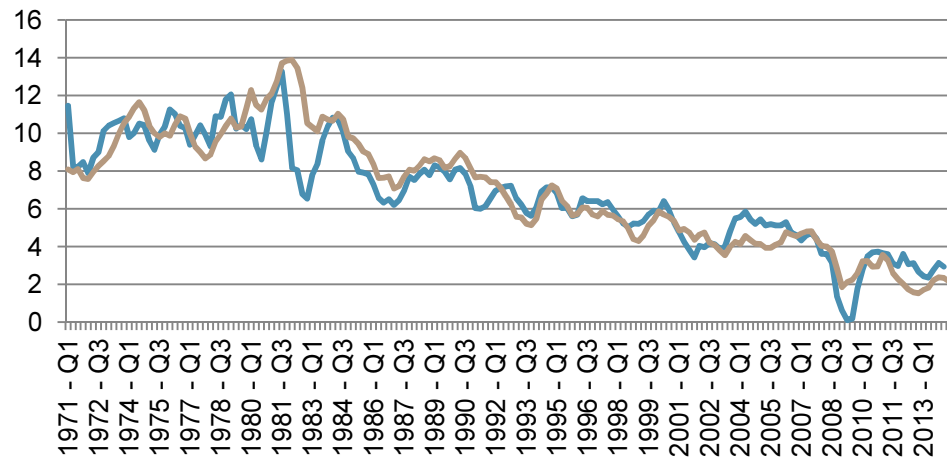


Source: McKinsey Global Institute Analysis. See 'Disruptive technologies: Advances that will transform life, business, and the global economy', May 2013

Low long-term interest rates are here to stay



■ Average nominal GDP growth
■ Average 10 year bond yield, %
■ Average nominal growth less nominal yield



— Average G4 nominal GDP growth, % — Average G4 10 year yield, %

Source: UBS/OEF.

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Source: UBS. Rating allocations are as of 31 March 2014.

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