



Global Cyclical Outlook: The Cycle Matures

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by Team

of AllianceBernstein

GLOBAL CYCLICAL OUTLOOK JULY 2018

Firm global economic growth should continue in 2018, moderating somewhat in 2019. The Federal Reserve will continue to tighten monetary policy, and the European Central Bank should become less accommodative next year.

Inflation risk has increased, with long-term structural factors pointing to a higher level of inflation in the years ahead. Among the key risks we're monitoring are the prospects of a US-led trade war and uncertainty in European politics.

ECONOMIC GROWTH





WEAKER



STRONGER

OUTLOOK

- + Firm growth, modestly above trend, should continue in 2018; the soft start is more noise than signal
- + Some moderation is likely in 2019 as the cycle matures and financial conditions tighten

KEY FORECAST RISKS

- + US-led trade war
- + European politics
- + Market-driven tightening of financial conditions

INFLATION



LOWER

HIGHER

OUTLOOK

- + Sharp inflation acceleration is

KEY FORECAST RISKS

- + Can we trust the Phillips curve?

unlikely this year, but risks have risen as capacity constraints bite

- + Structural and cyclical factors point to an increase in underlying inflation pressures

+ Uncertain labor-market slack

+ Oil prices

MONETARY POLICY



OUTLOOK

- + Fed tightening to continue: fed funds rate expected to be 2.38% at the end of 2018 and 3.38% at the end of 2019
- + European Central Bank to end quantitative easing this year and raise the refinancing rate to 0.25% by the end of 2019
- + Bank of Japan set to stay the course

KEY FORECAST RISKS

- + Market-driven tightening of financial conditions would lessen the need for policy action
- + European politics

Source: AllianceBernstein

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