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Wermuth's
Investment Outlook

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Deceptively calm global markets

by Dieter Wermuth*

1. **Investors have a problem: nothing is obviously cheap these days. They are aware that, as always, higher yield is mostly a compensation for higher risk.**

2. As they look around, they see that high-grade bonds yield very little in real terms, that credit spreads over sovereigns are almost as tight as before the crisis, that rich-country equities had a good run in recent years and are now consolidating as corporate earnings growth is slowing, that emerging market equities suffer from reduced GDP projections, that commodities are still relatively expensive – especially crude where supply is high - , that US and British real estate prices are beginning to look bubbly again, and that foreign exchange markets have gone to sleep, judging by their record-low volatility.

3. **The global environment is unusually stable, apart from the events in Ukraine. History tells us that stability will not last.** After all, we are living in a world of floating exchange rates, instant information and largely liberalized trade and capital flows. Expectations and market prices can change very quickly. The question is which of the asset markets is wrongly priced and when the adjustment will come.

4. **Game changers** can be the eventual tightening of US monetary policies; signs that the euro area is indeed on the road to deflation, perhaps in response to a new weakening of aggregate demand or a big appreciation of the euro; a banking crisis in China caused by a real estate crash or a steep increase of banks' non-performing loans in general; an all-out trade war with Russia, including strict capital controls; or a decline of the oil price in the order of 50 per cent.

5. **On the other hand, it is unlikely that the euro crisis will flare up again, that stock markets in the wealthy countries of the OECD area will collapse, that the world economy is about to overheat, or that the global income distribution - which is presently tilted in favor of capital and the highly-skilled – will be reversed.**

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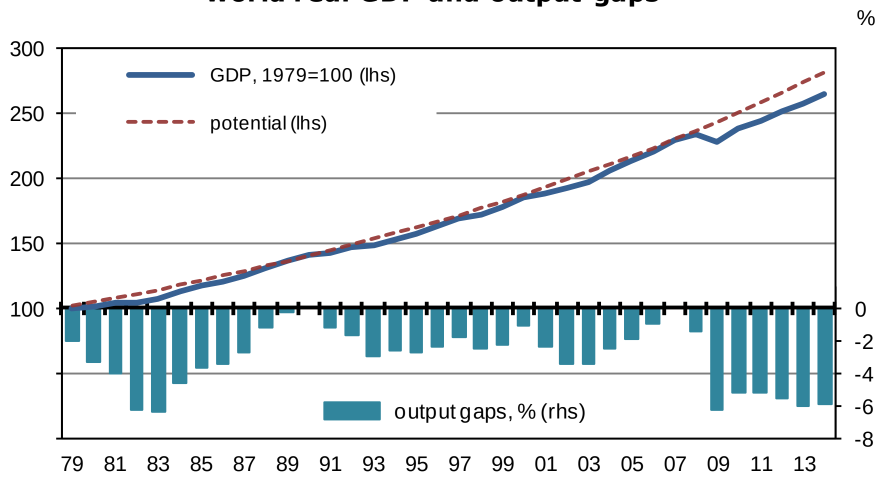
everywhere, a lot of slack

6. **The world's real GDP will exceed its 2013 average** by 3½ per cent if purchasing power parity weights are used, **and by about 3 per cent on the basis of actual exchange rates** (which give the rich but less dynamic countries a larger weight). Gone are the heady days before the financial crisis when global growth rates were 1 to 2 percentage points higher than today. The real GDP of emerging economies grows two times faster than that of OECD countries, but no longer three or four times.

world real GDP and output gaps*)



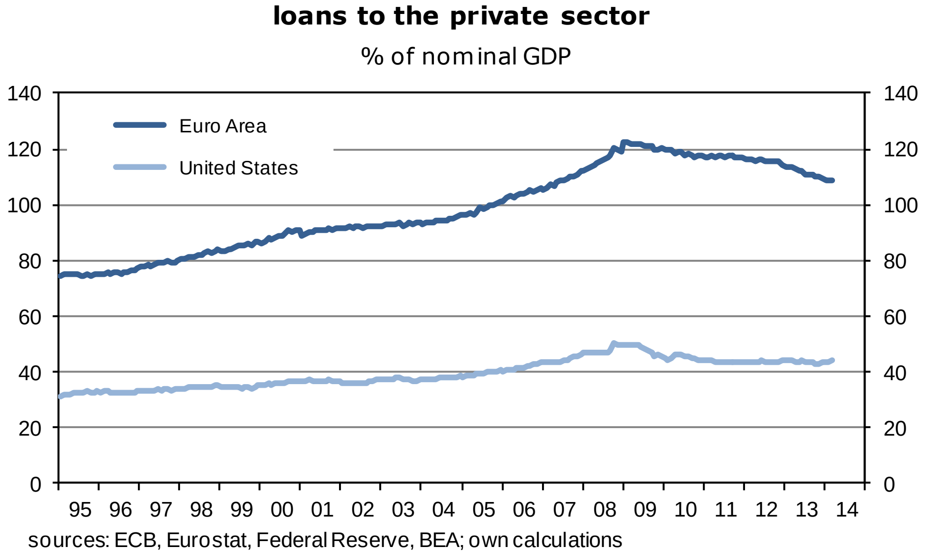
*) at market exchange rates; slope of trendline: 2.9% pa

sources: International Monetary Fund; own calculations

7. After two years of recession, **the economy of the euro area is expanding again in 2014. Even though the likely 1 ½ per cent growth rate of real GDP is modest by historical standards**, it is the swing that counts in terms of the contribution to global growth this year. Unusually, Western Europe – including the UK and Scandinavia - is presently the main driver of the world economy. Growth in the Asia / Pacific region, in Latin America and in much of Eastern Europe (Russia, Turkey!) is fast but slowing, while the US and Canada are chugging along at robust rates, somewhat faster than in the past two years.

8. **Full employment is still a long way off in the rich countries**: **in the euro area**, the unemployment rate remains near 12 per cent; youth unemployment is about two times higher. **In the US and in Japan** low unemployment rates do not fool anybody: because many people have given up looking for a job, employment ratios are still near historic lows (which ceteris paribus lowers unemployment rates). Job creation continues to disappoint as demand growth is not strong enough to meaningfully reduce economic slack.

9. **Deleveraging by households, banks and sovereigns is not yet over, almost seven years after the beginning of the financial crisis.** Especially in the euro area, debt-to-GDP ratios are still quite high, not only in the private sector (see chart). With the main exception of Germany, most governments in the currency union are still trying to reduce their debt and improve their credit-worthiness.



10. **Since output gaps are so large it is not easy for firms to raise prices.** Marginal costs of production are mostly very low which means it is possible to increase profits by just producing more and improving capacity utilization – even if selling prices stay the same or fall. Productivity gains are typically larger than wage inflation in the presence of significant idle production facilities – which in general is still the case today.

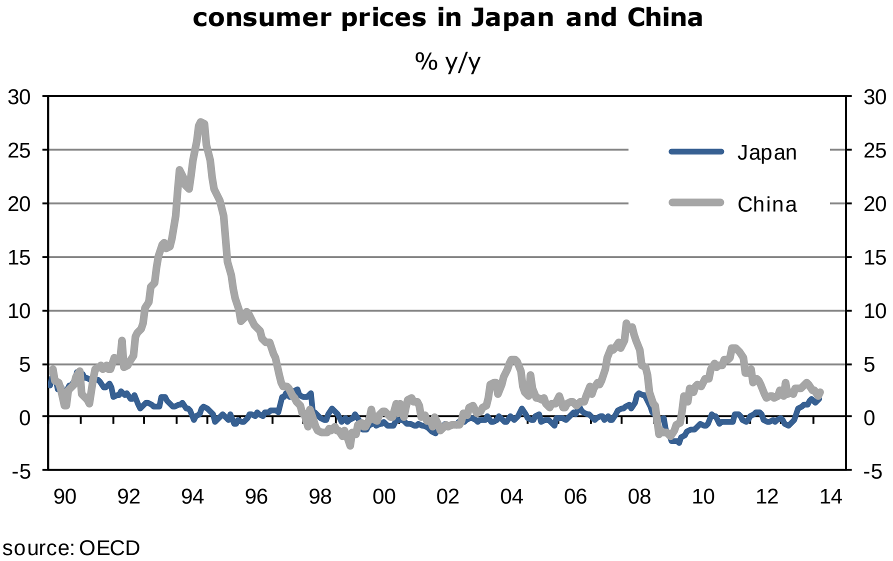
11. In Germany, for instance, industrial producer prices are down 0.8 per cent from one year ago, but even so corporate earnings of listed companies are expected to rise by about one third this year compared to 2013 (according to the consensus on Bloomberg). This keeps consumer price inflation in check, just as import prices; these continue to be under strong downward pressure.

12. **Large output gaps and intensive price competition are a global phenomenon** at this point. Between March 2013 and March 2014, Germany's import prices have fallen by no less than 3.3 per cent; in the other large countries of the euro area the decline has probably been similar. Even in the US where real GDP growth had averaged 2.2 per cent since 2010 and is heading for 3 per cent in 2014, import prices have fallen for almost two years.

deflation still a major risk, even in Japan

13. **For the European Central Bank, more than for the other major central banks, deflation is a serious risk in such an environment**. Year-on-year CPI has arrived at 0.7 per cent in April and could easily go lower. **The Fed** may be relatively relaxed, though, given that both CPI and PPI are about 1 ½ per cent year-on-year while wage inflation holds steady at slightly above 2 per cent, were it not for the fact that it actually focuses **on headline and core PCE deflators (Personal Consumption Expenditures); the latest readings of these were 1.1 and 1.2 per cent year-on-year and thus far below target.**

14. **Tokyo's consumer prices, meanwhile, rose 2.9 per cent y/y in April**, the biggest jump since 1992, pumped up by a sales-tax increase and a year of unprecedented stimulus from the Bank of Japan. **Chances are that the almost-20-year deflation nightmare is finally over, but market participants are not yet convinced**, going by the 0.6 per cent yield of 10-year government bonds and 10-year inflation expectations of 1.35 per cent as derived from Japan's inflation-linked bonds. The country's large banks are not yet home safe, it seems. The price-to-book ratio of market leader Mitsubishi UFJ Financial Group, for instance, is at a depressed 0.65 which suggests there are still plenty of problems on the asset side of its balance sheet; the (trailing) p/e ratio is at a similarly depressed 7.2.

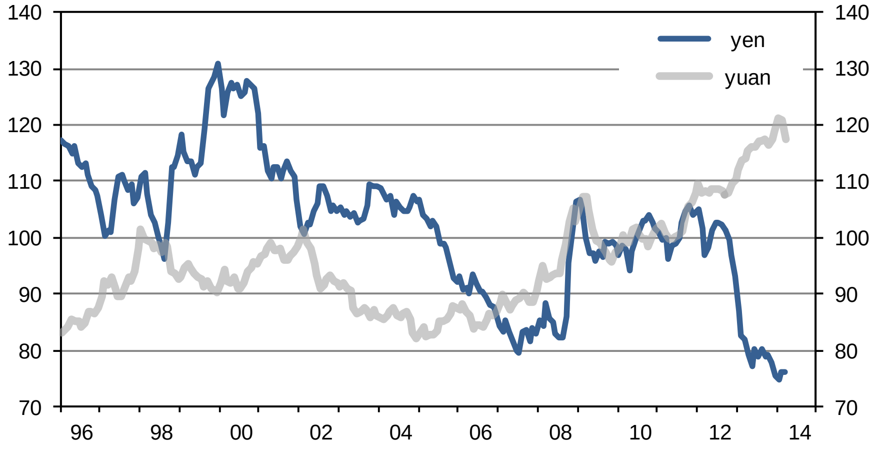


15. The Abe government and the Bank of Japan are warned by previous experience (1997) that giving up expansionary policies too early risks pushing the economy back into a deflation/recession spiral. Policy makers are not only prepared to accept inflation rates well above 2 per cent for quite some while, they see them correctly as an important means to speed up deleveraging, ie, clean up the balance sheets of borrowers. Inflation is what borrowers need to get rid of their (real) debt. The yen has more or less moved sideways against the euro since last December, but compared to the last low of July 24, 2012 it has depreciated by no less than a third, from 94.3 yen per euro to 140.3 today.

16. **The steep decline of the exchange rate - not only against the euro** - has been a major reason why Japanese imports have become very expensive and now exceed exports by a large margin. The new deficit in the balance of trade is eating into what had been an almost structural surplus of the balance on current account; for decades it had been one of the world's largest. On present trends, the surplus will be gone in a year.

real exchange rates

2010=100

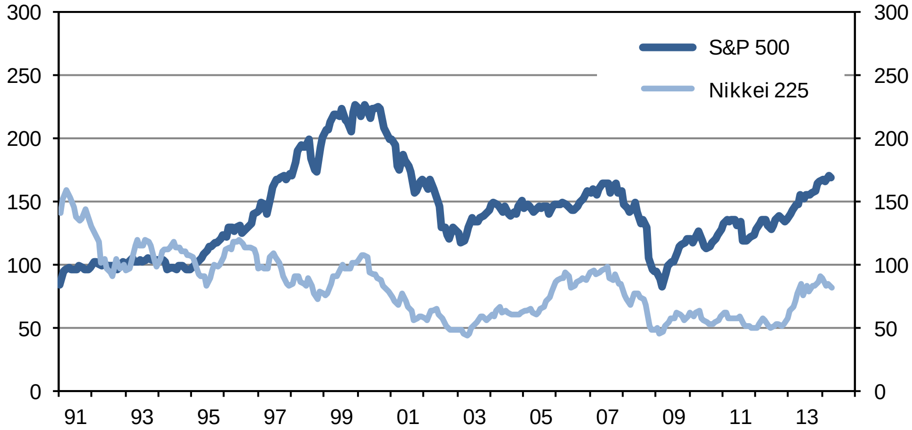


source: Bank for International Settlements

17. We are witnessing the working of the so-called **J-curve effect**: following the depreciation, (dollar-denominated commodity) imports rise while the improvement of the country's international price competitiveness and thus exports (of sophisticated consumer and capital goods) follows with a considerable time lag. I do not expect that Japan's price advantage will be eroded by a meaningful acceleration of domestic inflation – suggesting that the country's foreign balances are bound to swing around again in a year or two. Market participants seem to agree and have stopped to bet against the yen. I would do the same.

stock markets*)

1995Q1=100



*) performance of stock indices relative to nominal GDP

sources: ESRI, Eurostat, ECB, BEA; own calculations

18. The Japanese stock market has moved sideways for a year now. It seems to take a break after the rally that followed the announcements of "Abenomics", the expansionary policies aimed at overcoming deflation. **The Nikkei 225 is quite cheap**: the earnings yield is 6.3 per cent while the real riskless bond yield is -1.0 per cent – which translates into a very generous risk premium of 7.3 points. Profits are well supported by the competitive yen exchange rate.

Japanese stocks are a buy. **I also expect the yen to strengthen** as the predictably positive effects of its real depreciation will show up in large current account surpluses, not right now but in about two years or so. Swings in the balance on current account are, for me, the best predictors of exchange rates.

ECB will continue to pursue extremely easy policies

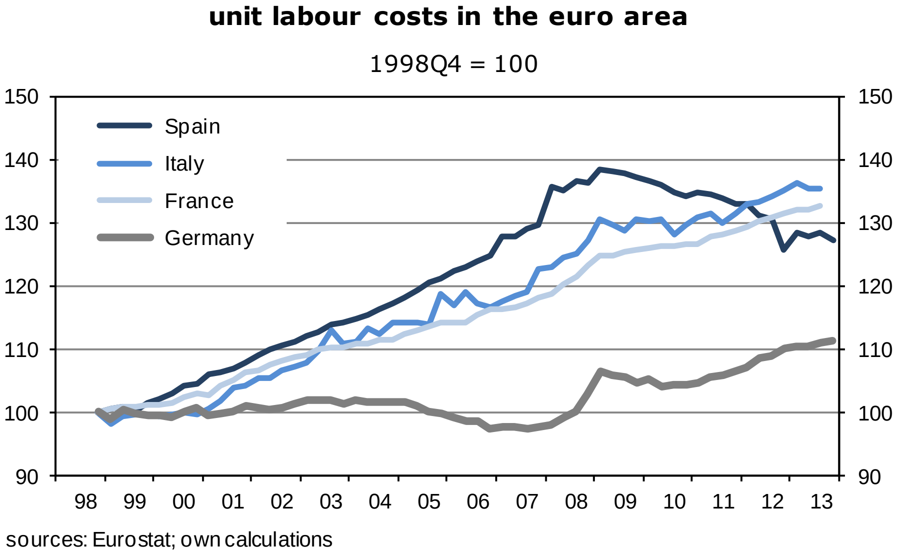
19. **Fighting deflation in the euro area is not a straightforward matter.** Mario Draghi's famous remarks of July 26, 2012 had stabilized the bond markets by dispelling doubts that the euro might eventually fail, but they also caused an appreciation of the euro and thus contributed to the decline of inflation rates. He had said: "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." The power of this statement propelled the euro from $1.21 to $1.38 today (+14%) – which had a deflationary effect -, while the yields of government bonds issued by countries in the periphery of the euro area came down dramatically (and thus reduced their debt service faster than expected). In the 10-year range, yields declined from 27.6 to 6.0% in Greece, or from 7.3 to 2.9% in Spain.

20. German bond yields had actually increased over this period, from 1.3 to 1.46%. **For investors there was no need to focus on safe haven assets anymore as euro area policy makers seem determined to bail out struggling sovereign debtors.** The conditions regarding fiscal and structural reforms that had to be met to get the necessary support were mostly in the long-term interest of the countries asking for help in any case and could thus be plausibly explained to the public. Giving up the euro would have been an even bigger policy shock.

21. **In the meantime, progress toward a euro area banking union is palpable**. From November, the ECB will be in charge of supervising the 130 most important credit institutions of the currency union. They account for about 85 per cent of all banking assets of the currency union. It's called SSM, the Single Supervisory Mechanism. National supervisors will in effect report to Frankfurt. This follows a comprehensive asset quality review (AQR) of these banks. It has been outsourced to the American consulting firm Oliver Wyman and will be completed this fall. There has also been a small step in the direction of a single resolution mechanism (SRM). Many open issues remain but member countries are determined to provide the euro with the **robust institutional framework that is needed to assure long-term financial stability.**

22. By now, trust in the euro is so strong that yield spreads between the various national bond markets are almost back to where they were before the financial crisis. It is not quite as dangerous as it looks because inflation in the former crisis countries is now lower, rather than higher than in Germany; in real terms, differences in yields are therefore wider than in 2007. **Since it is not possible to depreciate inside a currency union, low wage settlements and productivity gains, mostly from shedding excess labor, have brought about "internal devaluations", ie, lower inflation rates than in Germany and other northern countries**. This process is likely to persist for some more years – and thus stabilize the euro. Very high unemployment rates in the south will keep wage inflation in check. And wages are usually

the main driver of overall inflation. It is somewhat disquieting, though, that France and Italy, the second and third largest economies of the euro area, have not been overly ambitious in this respect (see the following chart).



23. Greece and Portugal are experiencing outright deflation in terms of consumer price inflation (CPI), Ireland's and Spain's inflation rates are positive but close to zero, while France's and Italy's fluctuate around 0.5 per cent: so Germany's April rate of 1.3 per cent is almost an outlier. It reflects the fact that the economy is doing quite well (going by the modest standards of the country); its 2014 real GDP could exceed last year's average by 2½ per cent, even 3 per cent is a possibility.

Germany is now the locomotive of the euro area economy

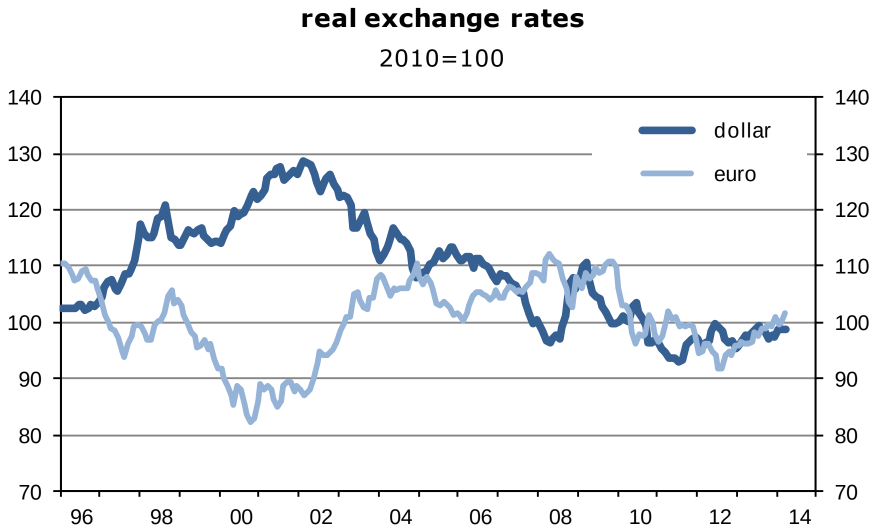
24. The country had been spared most of the fall-out from exploding property and equity bubbles that had affected other rich countries – there weren't any bubbles. **The problem was that in the years before the financial crisis several of its large banks** – HypoReal Estate, Commerzbank, some Landesbanks – **had desperately been looking for higher yields and had loaded up on what turned out to be low-quality assets. They had to be rescued at taxpayers' expense.** This in turn had driven up government debt from 65.2 to 82.4 per cent of GDP between 2007 and 2010. Surprisingly, the public had fully accepted the pro-cyclical fiscal policies that were adopted and the slow growth rates of output that followed. To get back to "normal" debt levels, even if it implied very restrictive policies, was seen as a legitimate strategy. For most Germans, debt is something bad, especially government debt.

25. What made these policies acceptable was probably the fact that **employment was doing exceedingly well right through the deep recession** of 2008/2009 and the near-stagnation of 2012 and 2013. There was a setback of 0.4 per cent during the recession - when real GDP declined by 6.6 per cent from peak to bottom (Q1 '08 to Q2 '09). But in the five years since then it has expanded at a seasonally adjusted annualized rate of no less than 1 per cent (to

April 2014) and is now 4.3 per cent higher (at 42.1m) than in October 2008, the previous peak. It was relatively easy to find jobs. The unemployment rate has fallen from 8.3 per cent in late 2009 to 6.7 per cent this April.

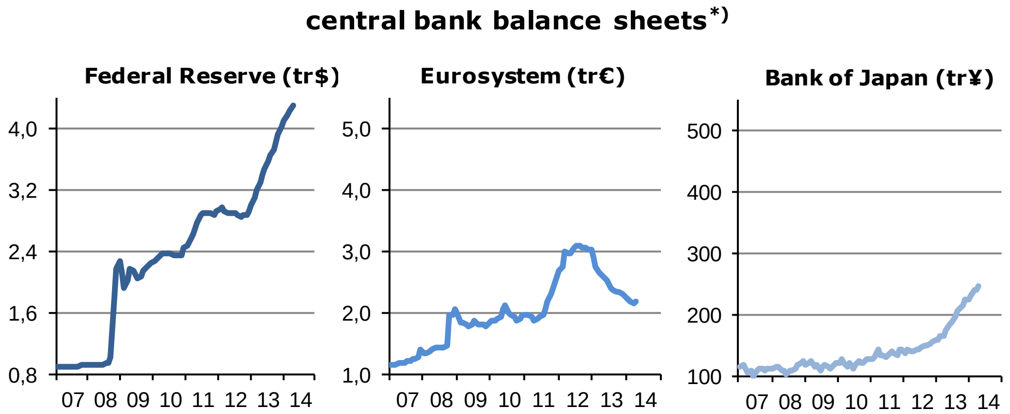
26. Employers had stuck to their work forces in the deepest post-war recession because they were obviously convinced that Germany had only a cyclical, not a structural problem. International competitiveness had greatly improved in the years after the introduction of the euro. As can be seen in the chart following paragraph 22, cost and price advantages are now shrinking but they remain significant. **Policy makers are strongly opposed to the notion that Germany, as a creditor country, could help to speed up the deleveraging process in the periphery of the currency union – and thus clear the road to faster growth - by pursuing expansionary fiscal policies.** They have no second thoughts about the rationale of running a public sector surplus the second year in a row.

27. The burden is – and should be, in German eyes - fully on the debtor countries. These have adopted, or were forced to adopt, **pro-cyclical strategies, following the German model. This is the main reason why the aggregated 2014 growth rate of the euro area will at best be 1½ per cent, after two years of recession, why unemployment remains stubbornly close to 12 per cent, why the output gap does not close, why deflation is a serious risk and why the euro area balance on current account shows a huge, and rising, surplus.**



source: Bank for International Settlements

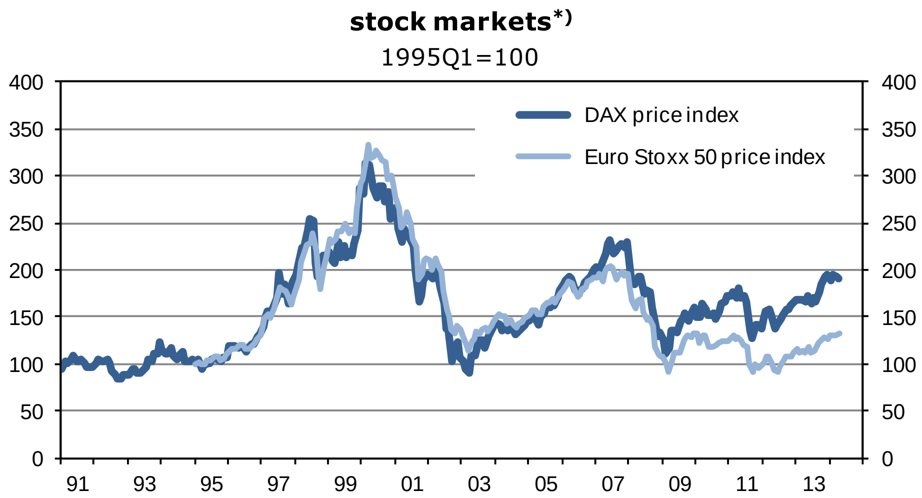
28. If nothing else interferes, or if the situation in the US turns out to be even more favorable in terms of FX fundamentals, **the euro will probably continue to appreciate against the dollar, no matter what Mario Draghi may say.** The euro area spends and lives far below its means. Add to this that the balance sheet of the ECB has been shrinking for two years and one has the ingredients for a strong demand for euros and a tight supply.



*) total assets

sources: Fedral Reserve, ECB, Bank of Japan

29. Are euro area assets cheap or expensive at this point? **It is likely that residential property prices will continue to fall in the region as a whole.** There are obviously significant differences between those countries where real estate bubbles have popped, such as Spain, Ireland, Greece and Portugal, but also Italy and the Netherlands, and, on the other side, Germany where property inflation had been very subdued all along. Deleveraging, ie, debt reduction takes a long time, so **I expect that property prices in the periphery will remain under pressure and rise in Germany**. France seems to recover fairly briskly from the residential property crash of 2008. As to commercial property prices, the ECB reports that they have been rather soft for a while – vacancy rates seem to be high. Low mortgage rates have the side effect that supply has outpaced demand in the sector.



*) performance of stock indices relative to nominal GDP

sources: Deutsche Bundesbank, ECB, Eurostat; own calculations

30. **European equities are cheap by at least two yardsticks**: the average **risk premium** of the stocks in the Euro Stoxx 50 index (which compares the earnings yield of these stocks with the real yield of long-term "riskless" bonds) is a rich 6.25 points; this is on the basis of earnings expected in 2014. A risk premium of 4 to 5 is considered to be normal. Corporate

profits are rising quickly as a result of the strengthening of the economy and large productivity gains (as output rises without a similar increase of inputs). In addition, the **dividend yield** of the index is presently no less than 3.5 per cent and thus considerably higher than long-term government bond yields in Europe – for the main countries these are between 1.47 per cent (Germany) and 3 per cent (Italy and Spain).

31. Comparing stock indices with the development of nominal GDP, as in the graph above, suggests a more skeptical view, though. The recovery from the 2008/2009 crash has come a long way in Germany – the bubbly 2007 high of the index-to-GDP ratio is only about 19 per cent away. **After the crash of 2008/2009, the DAX index has performed much better than the euro area index, a sign that Germany's stock market has been regarded as a safe haven. This is not the case any longer**. The markets of the periphery, including Italy, but also France have been lagging and are probably better value at this point – the regionally more diversified Euro Stoxx 50 price index is still about one third below the 2007 high. In Germany, the upside potential is fairly limited; a new rally is less likely than a period of consolidation. Sell in May .... But in the other countries, the catching-up process will probably continue in response to the flow of reassuring news about the euro.

private sector deleveraging has come a long way in the U.S.

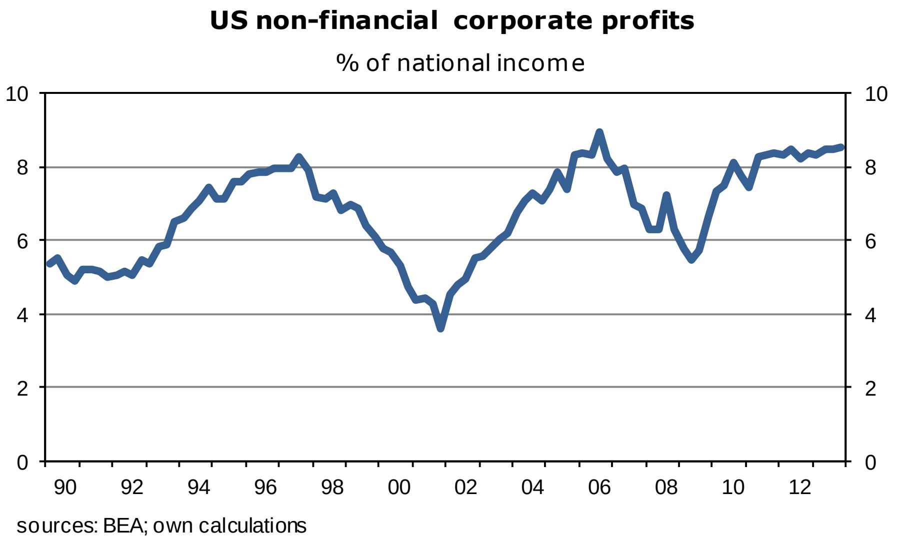
32. The economy of the United States expands on a broad basis and the memory of the financial crisis begins to fade. On the labor market, not all is well, but **employment is increasing rapidly, at a rate of 1.7 per cent over the past twelve months to April**. Similar growth rates are expected for the rest of the year and for 2015. Even Germany's strong performance pales in comparison. Yet, the total number of payrolls is just about to reach the previous high of January 2008 (138.4m). The labor force participation rate remains depressed – it was 67.3 per cent in April 2000 and is now only 62.8; the trend is still down. Even though the Fed is reducing the pace of money printing, it keeps its foot on the accelerator. Inflation risks are small, and employment remains about 10m below where it should be.

33. The deleveraging of America's private sector is almost completed, it seems. It has helped that **banks play a much smaller role in supplying credit to the private sector than in the euro area** (see chart after paragraph 9 above), and that the **US Treasury, in close cooperation with the Fed, had forced banks, investment banks and "government sponsored enterprises" (GSE) such as Fannie Mae and Freddie Mac to close down, let themselves be taken over or be nationalized.** Gross general government debt shot up from 72.8 per cent of GDP in 2008 to about 105 per cent this year, to a higher level than in the euro area. According to the IMF it will stay there at least through 2019! (see page 192 of the April 2014 World Economic Outlook).

34. The EU Commission has recently predicted that the US government's net lending, ie, its budget deficit, will be in the order of 5 per cent of GDP this year and next. In other words**, US policy makers gave a damn about public sector deficits as long as the private sector became financially sound again**. Debt was shifted from the private to the public sector. It is an obvious advantage, especially in comparison to the euro area, to have a strong Treasury

that can do such things. Incidentally, financial investors were not scared by these deficit spending policies. They didn't consider them as reckless and accept that 10-year Treasuries yield only 2.63% and thus just about 1¼% in real terms.

35. **Relative to national income US corporate profits have been strong in recent years. They are close to record levels** (see chart below)**.** This does not necessarily mean that their share cannot rise even more. As in all OECD countries, open borders, transparent world markets (the internet!) and an intensified international division of labor keep wage inflation in check. Real wages are rising much slower than national output. So who gets the difference? It's obviously the owners of business (and the highly skilled).



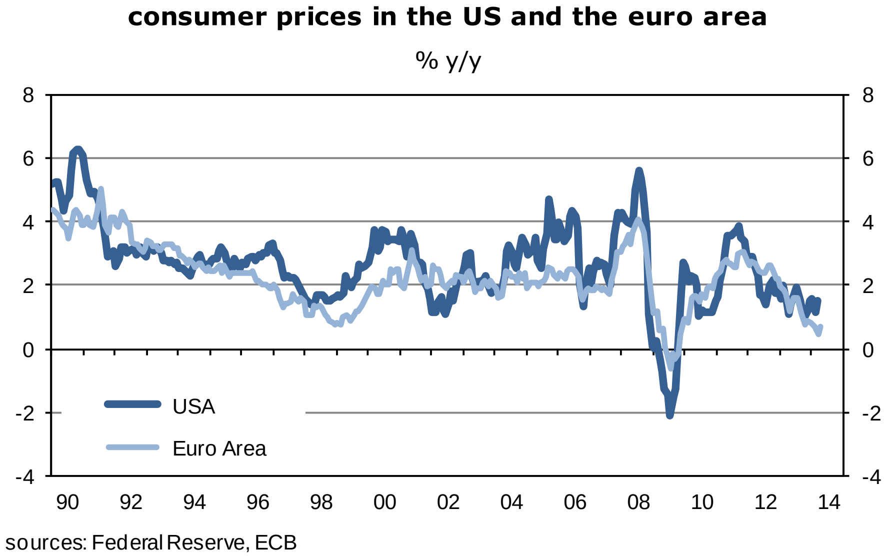
36. **Another factor is monetary policies. Often overlooked, these have distributional effects. If real policy rates and therefore money market rates are negative, as today and in the foreseeable future, borrowers benefit, savers suffer.** This is called financial repression. Since the state is the largest net borrower (not only in America!), expansionary Fed policies are in fact reducing the debt service of the government, at the expense of the holders of that debt, to a large extent foreign central banks and sovereign wealth funds. Buyers of new homes are also subsidized by everyone who is a net saver. This is one reason why the US housing market has been taking off again. This does not exactly look like an optimal allocation of scarce resources.

37. The average **risk premium of the stocks in the S&P 500** - on the basis of expected per-share-earnings in 2014 - is 4.8 percentage points (1 divided by the p/e ratio of 15.9 = 6.3%, minus the real riskless bond yield of 1.5%), and just 4.3 on the basis of trailing profits. The numbers are rather low from a historic perspective. This suggests to keep hands off US equities. Robert Shiller of Yale who uses cyclical averages for his earnings-per-share calculations, ie, looks at the past 10 years or so, comes to an even more bearish conclusion: the risk premium based on this approach is barely higher than 3! Another argument against an imminent US stock market rally: recall that over the past five years and two months since

the last low, the S&P 500 has gained no less than 22 per cent a year. Time for a break, isn't it? Have a look at the chart after paragraph 17.

38. **US housing is getting expensive quickly again**. Since the post-crisis low in February 2012, the S&P/Case-Shiller Composite-20 Home Price Index has increased 11.1% per annum and is well on its way to the pre-crisis peak of April 2006; the difference has shrunk to 18.1%. Deleveraging of household debt seems to be over; it had been a very fast and thorough process. The secret is that in the US mortgage debt is easier to eliminate via foreclosures than in Europe. Borrowers' debt in relation to the original value of their houses was, and is, frequently more than 100% - so when house prices fell by an average of 33.6% from peak to trough and job losses mounted during the severe recession, home owners quickly defaulted, handed the keys to their banks and walked away, just to start a happy life somewhere else. In the final analysis, the state and therefore the general public via the GSEs – the banks' re-insurers – had assumed their debt.

39. **A so-called Yellen put has de facto been established by now**, as the Greenspan and Bernanke puts before: the Fed underwrites asset markets once again. It means that the central bank encourages investors to increase borrowing for the purchase of assets such as stocks and real estate, but also of goods and services. It is like in the German saying of letting the devil chase away the "beelzebub" (the Satan) - or to jump from the frying pan into the fire. In the casino the strategy is known as doubling up after a loss. It is not clear where it will all end, but in the near-term, the results are quite pleasant: inflation is under control, growth is brisk and the jobs market has begun to boom.



40. One impression I get, though, is that **monetary policies are less important and effective than they are made up by market participants and much of academia**. In spite of vastly different growth rates of base money and very different institutional set-ups, especially with regard to whether central banks are independent or not, or how transparent their policies are, the results are all more or less the same. Why is inflation so low in all OECD countries,

and even in China? It could be that the Great Moderation of which central bankers are so proud is nothing but the result of the opening up of markets everywhere in the world plus technical progress of all sorts. The countries which are doing well have robust supply side structures such as a good education system, a fair income distribution, high savings rates, free media and the rule of law. It may not even matter whether governments have low or high budget deficits, or large or small government sectors, just look at Japan, the US or the UK and compare the economic performance of these countries with that of thrifty Germany. Not much difference, especially on a per-capita basis. Monetary policy differences play a negligible role in all of this.

China's growth continues to edge downwards

41. The country's weight in the world economy continues to increase rapidly, if not as rapidly as before. Its **nominal GDP at actual exchange rates will be about $10tr this year, or 13 per cent of global GDP,** as forecast by the IMF. For comparison, the US will be at about $17.5tr and the euro area at $14.0tr. In purchasing power parity terms, China's share in the world economy had been 15.4% in 2013, while the US was at 19.3% and the euro area at 13.1%. On present trends, China will be Number One by the end of the decade, no matter which yardstick is used. Population-wise, the country is twice as big as the US and the euro area combined.

42. **So it matters a lot for markets in the rest of the world how its economy is doing.** The consensus forecast for real GDP growth in 2014 calls for a year-on-year increase of 7.2%. The annual average in the 18 years to 2011 had been no less than 10.3% - so 7.2% almost feels like a recession. It is one reason why the Chinese authorities are trying to weaken the external value of the currency (see chart after paragraph 16). Against the dollar, the yuan has fallen from 6.04 in mid-January to 6.23 today. It had appreciated more or less steadily from 8.28 per dollar over the previous 8 ½ years. I think the recent weakness of the exchange rate is rather artificial. The country's fundamentals are just too sound.

43. **Fixed investment is still about 45% of GDP. The present shift of demand toward consumption will necessarily reduce the speed at which potential GDP is growing, but growth will be more balanced than before and less prone to asset price bubbles, credit problems and crashes in real estate and infrastructure investments, or bank failures.** The state has the means, via the government-controlled banking sector, to bail out any entity that needs to be bailed out. International reserve assets stood at almost $4tr at the end of March, one third of the world total. And they keep rising as the balance on current account surplus remains huge at a likely 1.7 per cent of GDP this year. Inflation is 2½%, the 2014 government budget balance probably -2.2 per cent of GDP. Real long-term bond yields are positive but still quite low compared to the pace of productivity gains which I estimate to be about 6 per cent this year. Conditions for real capital spending remain excellent from this perspective.

44. **Chinese stocks (in Shanghai) are still near the lows reached after the Lehman crisis in the fall of 2008 and thus no less than 65 per cent below the peak of October 2007**. It proves

that a strongly growing economy is no guarantee that equities will do well. The fall-out from the 2007/2008 crash can still be felt. The p/e ratio on a trailing basis is a modest 9.8, while the dividend yield is 3.0% and thus in real terms just about in positive territory. Earnings this year are expected to exceed last year's by roughly 20 per cent. China remains the most promising country for financial investors, but also one of the most opaque and difficult ones. **Hong Kong remains a proxy for the mainland and the nearest thing to a Chinese safe haven**. Its market has also consolidated for a long time and is almost as cheap as Shanghai; the dividend yield is higher.

commodities are still fairly expensive

45. There is **no risk that we are heading for a new commodity boom**, in spite of more than ample liquidity, solid growth of world output and negative real interest rates in the money markets of the main countries. Commodities are no longer a hedge against inflation. If investors are afraid of deflation they have to look for other assets. Were it not for the crises in Ukraine and Syria and the looming conflict between Israel and Iran, I would expect prices to be somewhat, perhaps even significantly lower than today, especially those of gold and crude oil.

46. After all, the global output gap remains wide as the world's real GDP will expand not at a faster rate than its historic trend. Most importantly, the **Chinese capital spending boom is cooling which means that the demand for industrial metals and hydrocarbon fuels is cooling as well.** Swings in China's demand remain the key determinant for most commodities. Since a genuine Chinese recession is unlikely, in the sense of negative GDP growth rates, the bottom will not fall from under the markets. Look for a slightly declining trend.