Nucleus Wealth

BEWARE THE GROWTH SCARE
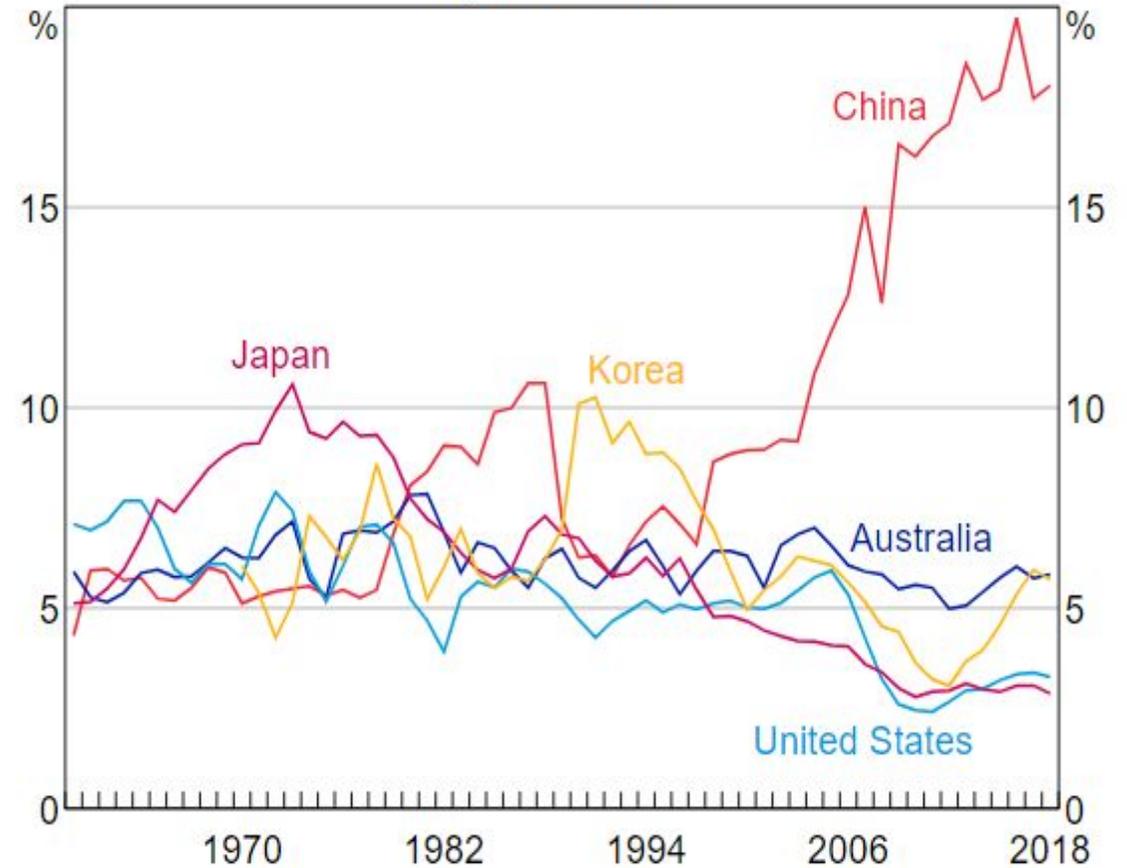
Agenda: Fear the Growth Scare!

- This is a risk scenario, not a base case

- China

- US

- Offsets

- Assets

Fear the Growth Scare! China

- Rebalancing glidepath to slower growth.

- Falling credit growth.

- Regulatory clamps on property, tech, education.

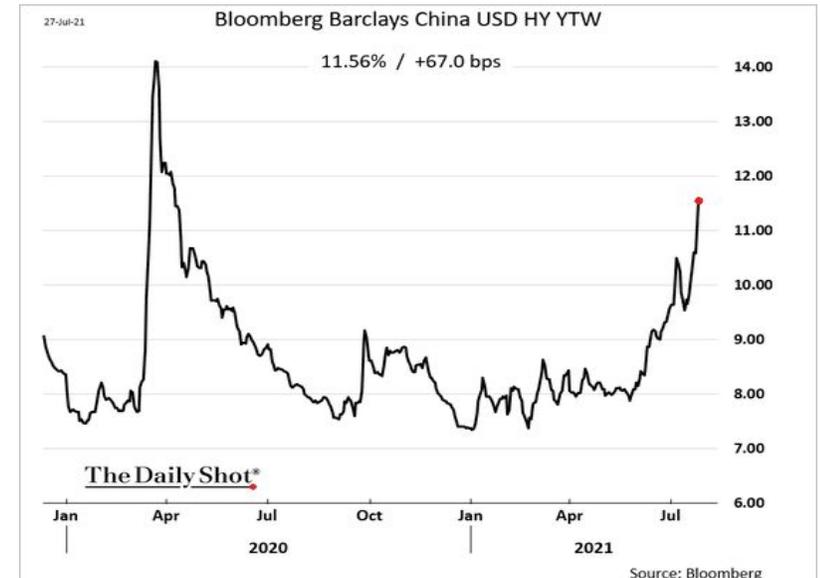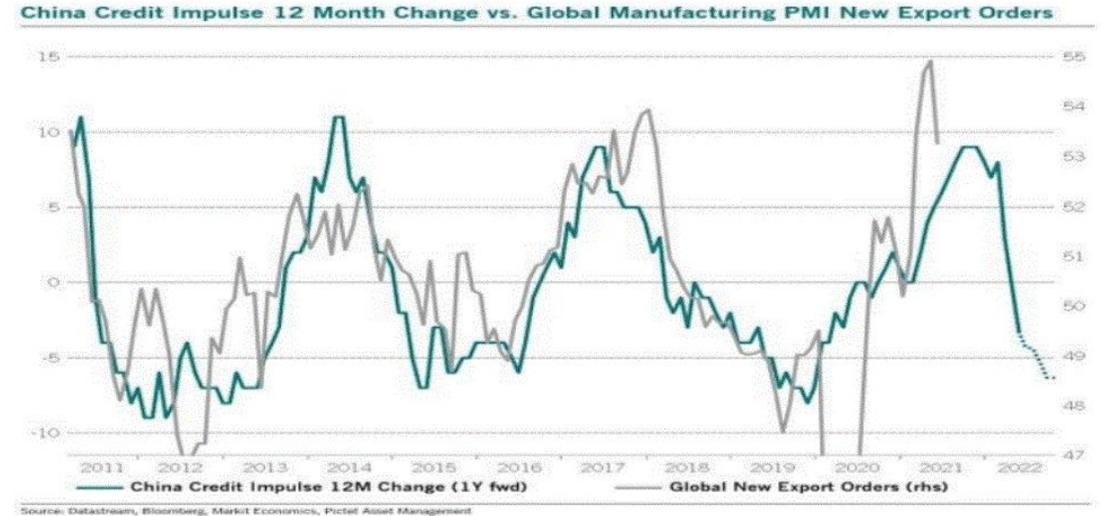**Residential Gross Fixed Capital Formation**
Proportion of GDP

Sources: CEIC Data; NBS; OECD; RBA
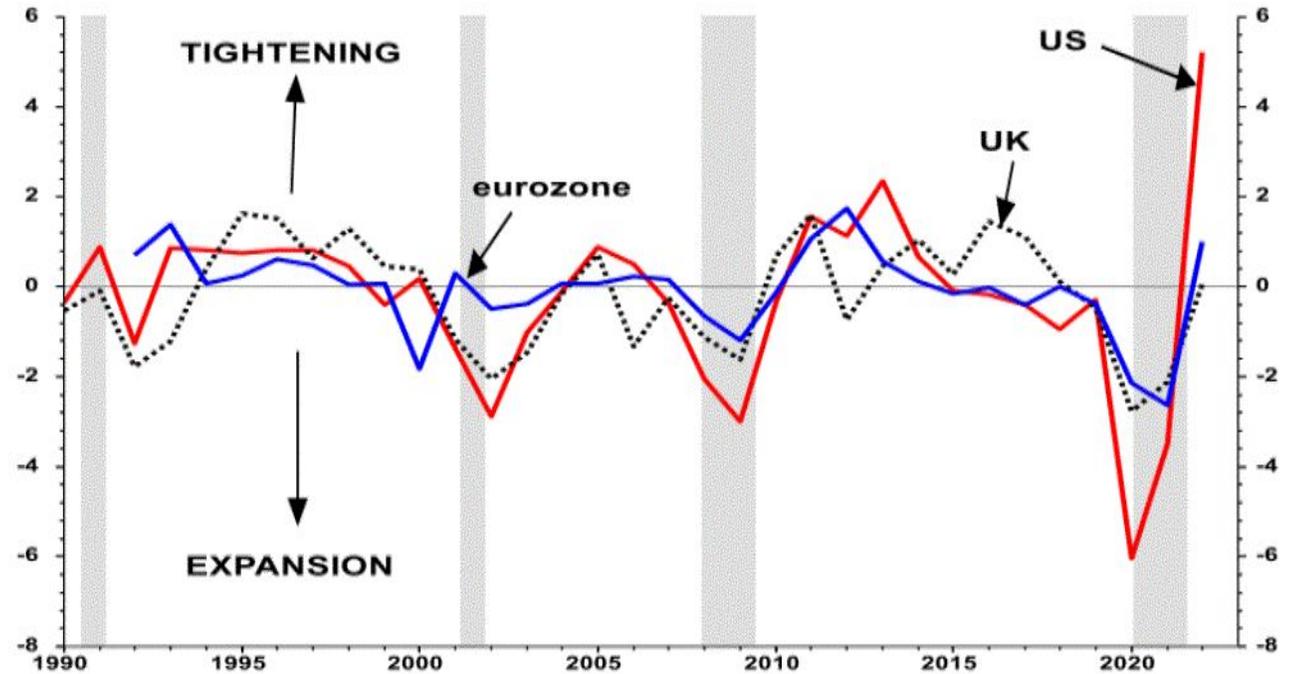
China: Credit and stress

- Three red lines.

- Local government infrastructure.

- Evergrande.

- Tech, property, education stocks

  reminiscent of 2015.

China Credit Impulse 12 Month Change vs. Global Manufacturing PMI New Export Orders

China Credit Impulse 12M Change (1Y fwd) — Global New Export Orders (rhs)

Source: Datastream, Bloomberg, Markit Economics, Pictet Asset Management

27-Jul-21   Bloomberg Barclays China USD HY YTW

11.56% / +67.0 bps

The Daily Shot®

Jan   Apr   Jul   Oct   Jan   Apr   Jul

2020   2021

Source: Bloomberg

US: Fiscal cliff and cautious consumers

- US reopening boom fading.

- Fiscal cliff ahead.

- Growth airpocket as infrastructure boost takes time.

- Fading inventory cycle.

- Consumer cautious amid virus.

The CHANGE in the underlying cyclically adjusted fiscal deficit is a MASSIVE headwind for the US

Source: Datastream

Offsets

- European reopening boom.

- Some EMs too.

- Chinese policymakers trying (but will fail).

- Fed patient and coming Biden boom.

Assets

- CNY and AUD down.

- EMs and commodities down.

- All made worse by taper and rising DXY.

- Bond curve keeps flattening promoting duration and defensives over cyclicals and value.

- Base case bumble through but big risk of China/EM contagion into DM stocks.

Viewer question of the week:

How likely is a growth scare?

Drop your answers in the comments

More from Nucleus Wealth:

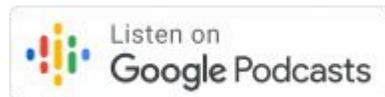**Content: Nucleuswealth.com/content**

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